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London Pensions Fund Authority
Responsible Investment Policy 2023

October 2023

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London Pensions Fund Authority Responsible Investment Policy 2023

About us

We are a £7.7 billion[1] pension fund with c.98,000 members as of 31 March 2023. Our main purpose is to ensure that members are paid their pensions when they retire and to manage costs for employers.

Our members work – or have worked – for organisations that make up so much of London's cultural, educational, and administrative life: From schools to museums, from art centres to government bodies and from universities to housing associations.

The LPFA set the direction of the Fund and are ultimately responsible for running it. Our asset manager, Local Pensions Partnership Investments (LPPI) invests our Fund's assets on our behalf. As well as being our asset manager, LPPI are the asset manager for two other Local Government Pension Scheme (LGPS) Funds, Royal County of Berkshire Pension Fund and Lancashire County Council Pension Fund. We invest in LPPI's range of pooled funds together with those other Funds.

A vital part of setting the direction of the Fund is being clear about our position on investing responsibly. We are committed to being a long-term responsible investor and this policy defines our commitment to Responsible Investment (RI). Its purpose is to set out the approach that we take in integrating environmental, social and governance (ESG) issues into all our investments. We aim to deliver a sustainable pension fund for all stakeholders, so it is in the best long-term interest of our members and employers – and is our fiduciary duty – to consider ESG issues seriously and consistently and integrate them into our investment decisions.

Investing responsibly is, above all, about managing the risks and opportunities facing our Fund. This is highlighted in our vision.

Our vision

"As a pension fund, we are stewards of our members' financial future, ensuring robust pension provision. Furthermore, how our members' funds are invested also impacts the future of our economy, our environment and our society.

We take this broader responsibility seriously, so we regularly look at the major environmental and social issues facing the world and work to ensure we are positively influencing them.

Our ongoing major focus is on the climate emergency and how we can invest member funds to mitigate the financial risk from climate change, influencing the broader economy via our engagement opportunities and clearly communicating both our approach and our progress".

What is RI?

It's important to define what we mean by RI.

RI involves considering ESG issues when making investment decisions and influencing the behaviour of companies, assets or asset managers. This is known as active ownership – or stewardship – and it complements traditional financial analysis and portfolio construction techniques.

RI is an investment approach which recognises the significance of the long-term health and stability of the market as a whole and includes:

- the integration of material ESG factors within investment analysis and decision-making
- the active use of ownership rights to protect and enhance shareholder value over the long term. This is mainly done though voting and engagement.

The objective of RI is to decrease investment risk and improve risk-adjusted returns. Responsible Investment principles are at the foundation of our approach to stewardship and underpin our fiduciary duty to our beneficiaries (see appendices on page 9).

1 https://www.lpfa.org.uk/library/our-performance/annual-reports

Our RI beliefs

Our RI beliefs set the tone for how we approach RI and why. Our RI beliefs form the backdrop for our priorities, which in turn set the agenda for our RI strategy as an institutional investor.

Our RI beliefs are set out below.

1. ESG factors can have a direct financial impact on the value and sustainability of individual investments and an influence on long-term investment goals of the Fund.
2. We believe that by addressing ESG risks and opportunities collaboratively with other stakeholders we are:
   - Contributing to an improved economic future both locally and globally
   - Contributing to improved prospects for our beneficiaries' quality of life
   - Playing a visible role in advocating for positive change in our society.
3. Transparency of information, processes and decisions are essential to ensuring that informed judgements can be made by all stakeholders and that appropriate parties can be held to account.
4. ESG issues can be dynamic, so it is necessary for investment and monitoring processes to be sufficiently flexible to accommodate changing or emergent risks and opportunities.
5. Asset owners should act in the long-term financial interests of beneficiaries through active use of ownership powers.
6. Robustly and effectively governed assets are expected to be associated with superior management of exposure to environmental and social risks and opportunities.
7. Asset owners are free to retain the right to disinvest from or exclude certain companies or sectors if approaches to addressing their concerns prove unsuccessful and it is determined that an investment is no longer aligned with the interests of the Fund or issues pose a material risk.

About our investments

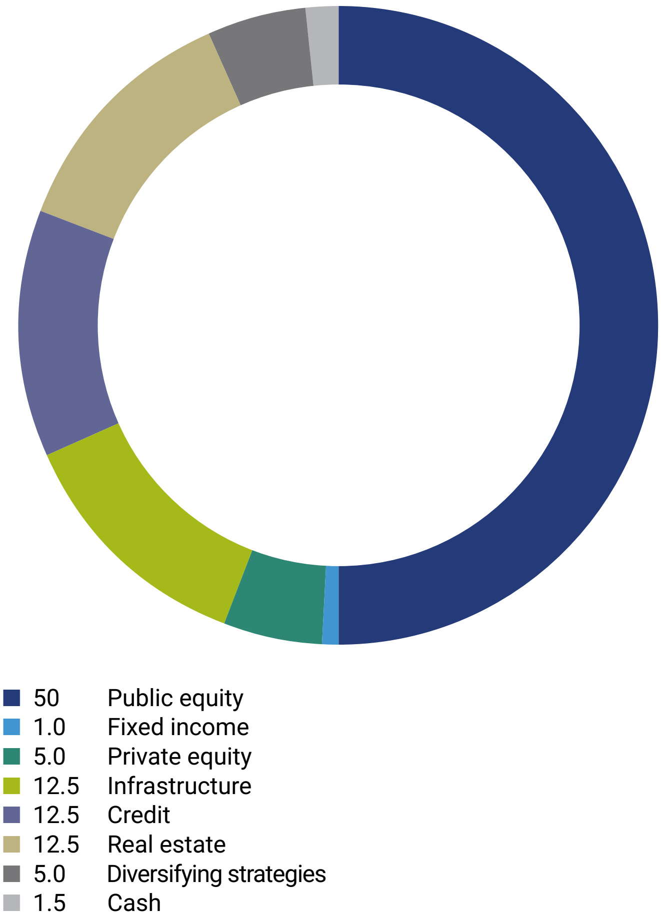
We are invested across a range of asset classes and we seek to invest responsibly across all of them. How we manage the risks and opportunities will vary from one asset class to another.

The relevance of an ESG issue on one of our investments– and the impact that our investment has on the wider world - is influenced by the type of asset it is and the investment context. For example, a company operating in regions known for corruption will be higher risk than a company operating in areas with a stronger rule of law.

Also, the material relevance of ESG issues (in terms of their external impact upon our investments as well as the nature of the impact of our investments upon the wider world) is in part determined by asset class as well as the investment context. It's also true that the way in which we influence the behaviours of our investments will vary according to the asset class and the investment context. For example, investing in public equities allows us to vote at company meetings and hold company management to account. This is not the case with our investments in Real Estate or Infrastructure.

The shape of our asset allocation influences how we define our RI priorities and how we implement them.

Strategic Asset Allocation (SAA) % – 31 March 2023



Half our Fund is in public equity. This gives us the greatest opportunity to be an active owner, influencing the behaviours of the companies in which we invest. However, we also have large allocations to infrastructure, real estate and private equity. In these areas, we may be invested for much longer, ownership may be more direct (for example, a seat on a Board) and there may be very different ESG issues to consider.

How we invest responsibly

Governance of RI

The development and implementation of our RI policy sits within the framework set out in our Constitutional Document. Responsibility for setting all investment policy-related matters rests with the Board.

The Board appoints an Investment Committee (IC), which has delegated powers to review and recommend to the Board any changes to our policies relating to RI and climate change. It periodically reviews the implementation of any such policies, including voting activity, to ensure compatibility with our policies and, where necessary, make representations to LPPI on specific voting matters. It also oversees performance against our agreed RI commitments.

Officers of the Fund attend meetings of the IC. Our CEO and other Principal Offices, a well as our Auditor, may attend any meetings at their discretion.

In its deliberations on RI-related issues, including the review and recommendation of any changes to RI policy, the IC draws upon input, guidance and support from Officers. The Committee is supported by a dedicated RI Manager, the Funding and Investments Director and the CEO. It also receives input from external professional advisors as may be appointed from time to time for the purpose, as well as from LPPI.

Our Climate Change Policy compliments our RI Policy and is subject to the same governance structures. All policies can be found on our website.

How we use ESG

Through LPPI, we comply with and follow the principles of both the UK Stewardship Code (2012) and the UN-backed Principles of Responsible Investment. We are also a member of the Occupational Pensions Stewardship Council (OPSC), the Institutional Investors Group on Climate Change (IIGCC), and the Local Authority Pension Fund Forum (LAPFF).

We have identified climate change as a long-term material financial risk with the potential to impact all asset classes within our portfolio. Our policy on climate change sets out expectations of LPPI in relation to how the risks and opportunities arising from climate change will be identified, monitored and managed.

ESG integration and the active use of ownership influence are central to the investment management services provided by LPPI and they also have their own RI policy. It is an LPPI RI belief that ESG factors are relevant at every stage in the investment cycle - within investment strategy, investment selection and within the stewardship of assets in ownership. As part of a prudent approach which applies care, skill and diligence, LPPI procedures ensure that ESG issues are considered as part of the investment analysis. They are incorporated into the due diligence leading to investment selection and continue to be monitored and reviewed as part of the active ownership of assets under management.

The approach to incorporating ESG factors is to establish the type and materiality of relevant issues on a case by case basis, whilst taking account of global norms, rather than to apply artificial exclusions through negative screening. ESG factors are considered over the time horizon within which specific investments are likely to be held, to clarify the context that risks and returns operate within and assist the evaluation of investment risks and opportunities.

Our predominant concern is to invest the Fund on the basis of financial risk and return having considered a full range of factors contributing to financial risk including both those detailed above and relevant social factors to the extent these indirectly or directly impact on financial risk and return.

Where appropriate, we may ask that LPPI take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the Fund.

Being an active owner

We recognise that encouraging the highest standards of corporate governance and promoting corporate responsibility by investee companies protects the financial interests of pension fund members. Our commitment to actively exercising the ownership rights attached to our investments reflects our conviction that responsible asset owners should maintain oversight of the way in which the enterprises they invest in are managed and how their activities impact upon customers, clients, employees, stakeholders and wider society.

The routes for exercising ownership influence vary across asset types and a range of activities are undertaken on our behalf by LPPI, including direct representation on company boards, presence on investor & advisory committees and participation in partnerships and collaborations with other investors. In the case of listed equities, the most direct form of ownership influence comes through shareholder voting and engagement. In private markets, ownership influence may be exercised through managers and direct board representation needs.

Voting

In most cases, we hold no direct ownership of shares of companies. However, through the investments managed by LPPI, we have indirect ownership interests in listed companies across the globe (See our Transparency dashboard[2] on our website for more information). To ensure effective and consistent use of the voting rights attached to these assets, LPPI works with an external provider of governance and proxy voting services. Voting is undertaken centrally rather than being delegated to individual managers and is in line with the LPPI Shareholder Voting Policy. This policy promotes risk mitigation and long-term shareholder value creation by supporting responsible global corporate governance practices. The policy is reviewed and updated on an annual basis to reflect emerging issues and trends. A quarterly report on voting activity is available from the LPP website.

Engagement

Our approach to engagement recognises the importance of working in partnership to magnify our voice and maximise the influence of investors as owners. We know that to gain the attention of companies, we need to join with other investors sharing similar concerns. We do this through:

- Membership of representative bodies including the LAPFF and PLSA
- Giving support to shareholder resolutions where these reflect concerns which are shared and represent our interests
- Joining wider lobbying activities when appropriate opportunities arise.

Through LPPI, we comply with the UK Stewardship Code (2020). A statement of compliance which explains the arrangements which support its commitment to each of the seven principles (see page 3) is displayed on LPPI's website.

2 https://www.lpfa.org.uk/our-investments/transparency-dashboard

Our RI priorities

Our RI priorities consist of several themes (see page 7) which are environmental, social or governance in nature. We organise these themes by reference to four pillars: Climate Change, Natural Capital, Just Transition and Strong Governance. In most cases, the themes are relevant to more than one pillar, but may be most strongly associated with one over the others.

The four pillars

The four pillars of our RI priorities are set out below. We explain how and why they are important to us as an institutional investor.

1. Climate change

- Renewable energy solutions and distribution

As is set out in our Investment Strategy Statement, we have identified climate change as a long-term material financial risk with the potential to impact all asset classes within our portfolio. Intergovernmental institutions state that climate change will have significant physical and economic impacts on many different aspects of human activity.

Climate change is a systemic issue which affects all asset types and sectors. It will impact the portfolio returns, asset valuations and asset allocation processes of our Fund across our diversified, global portfolio.

Climate change will also provide new investment opportunities. For example, the Intergovernmental Panel on Climate Change[1] forecast that new public and private investment in energy will need to grow to around U$2.4 trillion annually to 2035 – representing around 2.5% of the global Gross Domestic Product.

Climate change also introduces new risks. The World Economic Forum's 2023 Global Risks Report (GRR)[2] identified two climate risks as the top two biggest risks over the next ten-year time frame: failure to mitigate climate change and failure of climate change adaptation.

2. Natural capital

- Pollution and the Circular Economy

Nature and climate are two sides of the same coin. Climate change is a key driver of biodiversity loss, while deforestation accounts for 11% of global greenhouse gas emissions. Nature has the potential to provide one third of the necessary solutions and further build systemic resilience to adverse climate impacts. There is a growing pressure upon public authorities to adopt a mandate to require the financial sector including funds like ours to align our activities with biodiversity goals, to halt and reverse nature loss, and to contribute to nature-based solutions to climate change. The GRR identifies biodiversity loss and ecosystem collapse as the fastest emerging risk of the next 10 years. Coupled with the issue of natural resource crises, the question of natural capital is prominent alongside the core climate risk issues, as the 2021 Dasgupta Review on "The Economics of Biodiversity"[3] (Dasgupta Review) also underlines that it is both finite and vital to our economic and social well-being.

Responding to the challenge of natural resource constraints and the impact of degradation of biodiversity will become a very important dynamic in the global economy over the next decade, in addition to their close relationship to the challenge of climate change.

1 https://www.un.org/en/climatechange/reports?gclid=EAIaIQobChMIg9vLgqObgwMVFENBAh1-AgYtEAAYASAAEgJBZ_D_BwE

2 World Economic Forum, *"The Global Risks Report 2023 18th Edition"*, January 2023, https://www.weforum.org/publications/global-risks-report-2023/

3 Dasgupta, P. (2021), *"The Economics of Biodiversity: The Dasgupta Review"*, (London: HM Treasury), www.gov.uk/official-documents

3. Just transition

- Fair pay
- Diversity, equity and Inclusion

Addressing and adapting to climate change means transforming the way we work. To do so effectively means significant social change. The impact of those changes must be inclusive to ensure the real-world change that is needed and to maximise their positive financial impact.

The industrial revolution, which the transition to renewable energy and sustainable business practices generally demands, will bring social challenges which need careful management. Whether it be workforce re-training and education for a renewable energy world, providing fair access to renewable energy and associated technologies, maintaining appropriate incentives and rewards or equitable treatment of people affected by climate impact and climate change mitigation, the variety of considerations is vast.

In a post-COVID-19 world, we have a keener awareness of the relationship between public health and economic success. The GRR[4] highlights health as a vital ingredient for future economic resilience.

Across our Fund, we have a greater investment exposure to social risks than environmental risks, so for us the execution of a 'just transition' is just as important as the energy transition itself. Social cohesion is a prominent global economic risk both in the short and medium-term, both directly in terms of economic productivity and indirectly in terms of its impact upon the ability to implement vital public policy to address the significant global challenges we face.

4. Good governance

- Accountability & oversight
- Cybersecurity & responsible technology development

Long-term sustainability demands robust management. Good management requires transparency, accountability, honesty and authenticity to succeed. Therefore, strong governance is vital to tackling the environmental and social dynamics which present both risk and opportunity to us as investors.

Our ability to use our influence as responsible owners to effect positive change depends upon good governance. In terms of our own investments, transparency and accountability enables a constructive dialogue to effect positive change management. In turn, democratic, open and accountable institutions facilitate a better functioning market within which investors and companies operate.

For an investor like us, governance pervades every aspect of responsible ownership and therefore is a fundamental aspect of responsible investment.

4 World Economic Forum, *"The Global Risks Report 2023 18th Edition"*, January 2023, https://www.weforum.org/publications/global-risks-report-2023/

The six RI themes

The following themes set the scene for defining broad objectives. Our RI Strategy will elaborate on measures, baselines and targets which work towards these objectives. The themes are frequently inter-linked, sometimes co-dependent and may relate to multiple pillars. They represent the most prominent global risks and opportunities with which we are presented across our portfolio and which also reflect the interests of our members.

1. Renewable energy solutions and distribution

Objective: To support the development and distribution of renewable energy solutions.

Renewable energy solutions sit at the heart of the global effort to mitigate climate change. Investment in the production and distribution networks to increase availability, accessibility and use of renewable energy is vital if we are to move away from reliance on fossil fuels in time to maintain Paris Alignment.

A reduction in greenhouse gas emissions requires new technologies to produce renewable energy, as well as for the adaptation of existing industrial processes away from energy reliance upon fossil fuels. The development of new technologies demands investment in research and development, bringing with it responsible research techniques and investment in the technologies themselves for them to thrive and succeed.

A favourable public policy environment is also a vital ingredient to what are often large-scale infrastructure projects, and investors must be aware of the policy related risks and opportunities to evaluate where to deploy capital and/or influence to maximise investment return.

2. Pollution and the circular economy

Objective: To encourage action to reduce pollution and increase circularity in the economic activities of our investments.

The Dasgupta Review underlined the intrinsic link between natural resources and the global economy. The current trend of biodiversity loss represents significant threats to economic stability, bringing with it the prospect of irreversible tipping points in the deterioration of the natural worlds ability to support our demands upon it. A circular economy is a model of production and consumption, designed to decouple economic growth from the consumption of finite resources by eliminating waste, circulating products and materials and regenerating nature.

In particular, the elimination of waste positively impacts through the reduction of pollution of the natural environment and the implementation of circularity in the economy enhances efficiency. Understanding what natural resource efficiency means from a practical point of view (from monitoring and reporting through to identifying and taking meaningful action) is a critical part of developing and maintaining a sustainable economy. Economic activity therefore must prioritise efficiency of use of the valuable natural resources we reply upon, for energy, food and materials alike.

It is vital that our economic activity evolves and develops to not only minimise loss of biodiversity (through over-exploitation of renewable as well as non-renewable resources), but to look to actively replenish it. This implies companies changing their behaviours towards giving back to the natural world upon which they rely as well as minimising destruction of existing natural capital, both in developed and the developing economies.

3. Fair pay

Objective: To promote better practices of pay for workers and management across our investments.

Fair pay has two aspects.

Firstly, the link between income inequality – the gap in income and wealth between the very affluent and the rest of society – and negative social and economic sustainability through reduced economic growth and increased political instability. This can mean negative impact on long term portfolio performance, changes in the risk and opportunity profile for investors and destabilisation of the social and financial systems within which investors operate. This aspect relates to diversity, equity and inclusion (DEI), as fair pay can be a vital component of underpinning DEI within an organisation.

Secondly, robustly linking strategic sustainability priorities and the structure of executive incentive pay is a key component of setting the right conditions for achieving RI objectives.

4. Diversity, equity and inclusion

Objective: To promote the importance of DEI across our investments.

Strong DEI within a company can positively affect decision-making, levels of employee engagement, reputation amongst stakeholders, innovation and access to untapped markets. There are also significant risks in failing to improve or ignoring DEI, not least in the employment market where competition for talent means companies with better DEI standards are at an advantage.

Diversity within companies brings different perspectives and can reduce ‘groupthink’, which can help to strengthen decision-making. This cognitive diversity can lead to solving problems faster, strengthened risk management, more accurate predictions and increased innovation. Companies with a diverse outlook also often attract more customer interest.

In the context of a just transition, DEI also takes on a particular significance. To optimise the economic opportunity of a successful transition to a low carbon economy, it is important to ensure equity and inclusion considerations are taken into account to promote equal access to renewable energy and emissions reduction technologies.

5. Accountability and oversight

Objective: To encourage standards of oversight and accountability in all our investments.

Transparency and reporting by investee companies and investment managers are critical to investors' ability to hold management to account for the things which are important to us. The themes of our policy rely on the ability to oversee and hold to account companies and engage our managers across all asset classes.

It is therefore important that we promote high standards of corporate governance at companies in which we invest to protect our ability to use our ownership rights to facilitate positive change. It is also important that we promote high standards of accountability of our managers in public and private assets, to optimise working towards our objectives.

Likewise, there is opportunity to collaborate with others to promote high standards of accountability and oversight through the mechanisms of the wider regulatory environment within which we operate.

6. Cybersecurity and responsible technology developments

Objective: To encourage our investments to identify and manage risks and opportunities relating to cybersecurity and responsible technology developments.

Cybersecurity is one of the major risks faced by the global economy, as identified in the GRR[5]. As we increasingly rely on new technologies for our day to day lives, the security of new information technology tools becomes ever more important to the functioning of our economy, our prosperity and the protection of investment value.

In addition, the investment and security risks posed by cyber-attack also become more acute.

At the same time, responsible deployment of new technology also becomes an increasingly important consideration in the information economy to mitigate inequality and to protect consumers as a part of ensuring a just transition. As we see an increase in the use of artificial intelligence, the question of responsible use of technology becomes ever more critical.

5 World Economic Forum, *"The Global Risks Report 2023 18th Edition"*, January 2023, https://www.weforum.org/publications/global-risks-report-2023/

Implementing our RI Strategy

Our RI Strategy document sets out how we go about acting upon the priorities set out in this RI Policy. It outlines the processes and mechanisms we put in place to ensure we can demonstrate what we are doing in practice in relation to our priorities. Full details can be found on our website.

Appendices

Regulatory context

As an LGPS fund, we are subject to the [LGPS Investment Regulations 2016] (The LGPS Regulations). These require us to produce an Investment Strategy Statement which must include our "policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-election, retention and realisation of investments", as well as our policy on "the exercise of the rights (including voting rights) attaching to investments".

Fiduciary Responsibility

The Statutory Guidance for the LGPS Regulations sets out that "those responsible for making investment decisions must comply with general legal principles governing the administration of scheme investments" and "The law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise".

The 2021 Freshfields Report[6] highlighted the Financial Reporting Council's Stewardship Code (Stewardship Code) as legally significant in outlining expectations in terms of fiduciary responsibility for including ESG considerations in the investment process. The Stewardship Code links the concepts of belief and purpose to explaining how stewardship serves the best interests of beneficiaries. It also clarifies that ESG considerations may be considered financially material, provided there is a genuine connection between the Asset Owner's investment goal and the sustainability factor it is taking into account.

The principle of considering any factors that are financially material to the performance of our investments also underlines that our investment-related decisions, including the setting of the investment policy framework within which investments are made, must remain independent of local, national or international or inter-governmental public policy priorities.

6 Freshfields Bruckhaus Deringer LLP, *"A Legal Framework for Impact: Sustainability Impact in Investor Decision-making"*, David Rouch and Juliane Hilf, July 2021. https://www.freshfields.com/en-gb/our-thinking/campaigns/a-legal-framework-for-impact/