

Royal Borough of Kingston Pension Fund

Responsible Investment Policy

(Approved by the Pension Panel - 21 September 2022)



THE ROYAL BOROUGH OF
KINGSTON
UPON THAMES

RB Kingston Pension Fund Responsible Investment Policy

Purpose

The purpose of this policy is to document the agreed Responsible Investment policy applicable to the Royal Borough of Kingston Pension Fund (the “Fund”) which informs the Fund’s Investment Strategy. The Pension Fund Panel (“the Panel”) is responsible for formulating and implementing the Fund’s Investment Strategy. This policy will be kept under review and will be updated periodically.

Scope

This document sets out the beliefs and principles of the RB Kingston Pension Fund Panel's approach to Responsible Investment, alongside the ways in which these can be implemented, monitored, and communicated to relevant stakeholders. It is important to note that not every principle will necessarily be applicable to all types of investment in the same way, and therefore it may not be possible to apply the same practices across the entire portfolio consistently.

Aims and objectives

This Responsible Investment Policy complements the Fund’s Investment Strategy Statement (ISS) which is a statutory requirement of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The policy explains the Fund’s approach to the oversight and monitoring of the Fund’s activities from a Responsible Investment and Stewardship perspective.

Responsible Investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions to better manage risk and to generate sustainable, long-term returns. Stewardship is the responsible allocation and management of capital to create sustainable value for beneficiaries, the economy and society.

The aims and objectives of RB Kingston Pension Fund RI policy are to:

- Reduce the likelihood that ESG issues and Climate Risk will negatively impact asset values and returns;
- Inform stakeholders on the action RBK Pension Fund is taking to address and manage ESG and Climate Risk issues.

Responsible Investment Beliefs

The Fund is a long-term investor, with liabilities stretching out for decades to come, and seeks to deliver long-term sustainable returns. The Fund believes there is an

opportunity to generate better expected returns by making decisions with a long-term outlook.

- The Fund will express this belief to their appointed investment managers (including its investment pool, London CIV) and expects that investment decisions made on behalf of the Fund have primary regard for long-term sustainability alongside tactical factors.
- In appointing and monitoring the Fund's appointed investment managers, the Fund will consider long-term performance track records and will seek explanation and attribution from the Fund's managers regarding long-term out- or under-performance, to better understand the drivers and sustainability of this.

The Fund recognises sustainability considerations are relevant to the setting of investment objectives, ongoing monitoring, and assessment of future risks. The identification and management of Environmental, Social and Governance ("ESG") risks that may be financially material is consistent with our fiduciary duty to scheme members.

- The Fund expects that its appointed fund managers will provide evidence on an annual basis of the assessment, presence, and materiality of ESG issues across their respective portfolios. This should include how the assessment impacts on the investment thesis of relevant assets.
- The Fund will seek to integrate ESG issues throughout the investment decision-making process, from setting investment strategy to monitoring the Fund's investment managers.
- The Fund will seek a view from its appointed investment adviser regarding the capabilities of any prospective or incumbent investment managers with regard to the integration of ESG matters throughout the investment process and continue to monitor the position during its investment holding period.
- The Fund will seek advice from its appointed investment adviser regarding any changes to its investment strategy and will consider how ESG matters and the Fund's identified priorities and beliefs may influence this.
- The Fund believes that ESG opportunities may be found in Impact Funds investing in companies whose profits are derived from providing solutions to some of the World's more serious environmental, sustainability, demographic and social challenges e.g. cleaner products and processes, renewable energy, health, nutrition, sustainable agriculture, shelter, clean water and sanitation etc. Where successful, such companies might be expected to exhibit above average long-term growth characteristics.
- The Fund believes that having a diverse and inclusive workforce and governance structures leads to better outcomes for businesses and organisations. The Fund expects all its stakeholders and in particular suppliers, contractors, fund managers/consultants to include Diversity and

Inclusion as key aspects of running their business and will ask for policies and evidence of their approach.

- The Fund will also look to capture and monitor ESG policies and practices from its wider supplier base.
- The Fund believes that engagement is an important component of being a responsible asset owner and will work with its Fund managers (including London CIV) and collaboratively with other assets on engaging to deliver positive change. The Fund will only consider divestment as a last resort once all avenues of engagement have been undertaken and shown not to be effective.

The Panel's beliefs and principles relating to the SDGs and wider Responsible Investment perspectives form the basis of the Fund's approach.

Climate Change

Considering the implications of, and seeking to mitigate, climate change related risks as well as take advantage of opportunities is consistent with the Fund's fiduciary duty and is fundamental to the ability to continue to generate long-term sustainable returns within the Fund's investment portfolio. Accordingly, the Fund recognises that climate change is one of the material ESG factors that pose a potential financial risk over the Fund's investment timescale.

- The Fund will communicate its view of the importance of climate change as a key risk to the Fund's appointed investment managers (including London CIV). The Panel will also communicate its view that there is the potential for investment opportunities to arise as a result of the transition to a low-carbon economy.
- The Fund expects its appointed investment managers (including London CIV) to provide evidence of their consideration of climate change as a factor which affects portfolio construction on an ongoing basis.
- The Panel expects that its appointed investment managers (including London CIV) will actively support the transition to a low-carbon economy by supporting low-carbon energy investment, resolutions regarding carbon target reduction, and corporate disclosures in line with the Taskforce for Climate-related Financial Disclosures ("TCFD") framework.
- The Fund will communicate to its appointed fund managers its belief that corporate disclosures under the TCFD framework assist in understanding carbon exposure across the production and supply chain, and expects that they will support motions to introduce TCFD reporting.

The Fund recognises that exposure to fossil fuel investments is one component of overall exposure to climate change risks and acknowledges the importance of considering climate change risk holistically.

- The Fund will undertake climate risk analysis across the Fund's portfolio to establish the Fund's exposure over time to climate risk.
- The Fund will seek to adopt and report on the recommendations of TCFD within a 12 month period of it becoming a requirement from the Government.
- The Fund will set an ambition to achieve net zero by 2050.

UN Social Development Goals (SDGs)

The Sustainable Development Goals ("SDGs") are a global framework adopted by all United Nations member states, which serves to address global challenges of social, economic and environmental sustainability.

The Fund has identified a number of SDGs as relevant to the Fund, and supportive of the Fund's responsible investment ambitions. The core principle underpinning the Fund's agreed approach is the desire for the Fund to be a long-term, sustainable investor. The following SDGs have been selected as the Fund's priorities:

- SDG 3 – Good Health and Wellbeing – the recent COVID-19 pandemic reinforces the need for communities to invest in the health and wellbeing of their populations.
- SDG 7 – Energy – intrinsically linked to climate change and to biodiversity, the Panel agree that the energy sector is transforming to meet the needs of a low-carbon world: as such, there is an opportunity to support this transition.
- SDG 8 – Economic Growth – economic growth can lead to positive investment opportunities along with an opportunity to reduce inequalities and poverty. This has both local and global relevance.
- SDG 9 – Infrastructure – participating in infrastructure development is an opportunity to improve economic connections and assist in reducing inequalities. Strong local infrastructure is fundamental to the Fund's local community, and there are global opportunities which connect to investment for a low-carbon future.
- SDG 10 - Reduced Inequalities - reducing inequality, and ensuring no-one is left behind, are integral to achieving the sustainable development goals. It is not sufficient for countries to record positive economic growth: the resultant benefits and opportunities must be available to all, regardless of gender, ethnicity or any other characteristic. The Fund takes a proactive approach to human rights and diversity and inclusion across all aspects of the Fund's business.
- SDG 11 - Sustainable Cities and Communities - The Fund supports the ambition of making cities inclusive, safe, resilient and sustainable and will consider opportunities to invest in such themes (including the levelling up

agenda) in accordance with the Fund's wider objectives of being able to deliver sustainable financial returns to meet its pension promises.

- SDG 13 – Climate Action – this is reflected as an overarching theme relevant to the Fund and has a dedicated section within the responsible investment policy.

The Fund notes that there is both local and global relevance to the SDGs, and that it is important to be mindful of the context in which investment opportunities are selected and the necessity of balancing the risk, return, and diversification characteristics of any decisions made.

The Fund will communicate the agreed priority SDGs to its appointed fund managers (including London CIV), and will request that they have regard for, and provide evidence of having considered, the SDGs in their selection, retention, and realisation of underlying investments.

Stewardship - Voting & Engagement

The Fund recognises the importance of responsible and active ownership and has a duty to exercise its stewardship and active ownership responsibilities (such as use of proxy voting rights and encouraging its appointed investment managers to actively engage with investee companies) effectively by using its influence as a long-term investor to encourage positive behaviour.

- The Fund supports the Local Authority Pension Fund Forum ("LAPFF") stance regarding engagement with investee companies, rather than divestment from certain sectors. The Panel considers that pursuing an engagement-led approach is consistent with its fiduciary duty to members, and allows the Fund, through the actions of its appointed investment managers, to be an active participant in encouraging the companies in which it invests to transform and adapt to meet the needs of a changing world, including supporting the transition to a low carbon economy.
- In the first instance, the Fund expects its appointed fund managers (including London CIV) will use engagement tools to improve standards and long-term sustainability characteristics of investee companies. Where this proves unsuccessful, the Fund would support a decision to divest. The Fund will communicate its beliefs to its appointed fund managers and expects that they will provide evidence of their engagement activity, including case studies, on an annual basis.
- Besides exclusions made purely on the basis of investment characteristics (i.e., investment in sectors which, in the view of the appointed investment managers, do not have a sustainable future or attractive potential), the Fund do not support maintaining an 'exclusions list' of sectors or stocks, and will avoid selecting investment managers which make exclusionary decisions based on ethical or moral principles.

- The Fund will monitor the stewardship activity of its appointed fund managers (including London CIV) and expects that they will highlight examples of thematic voting (for example, on matters such as climate change, human rights, and strong standards of corporate governance) and outcomes.
- In the event that voting rights are not used, the Fund will ask that their appointed fund managers explain why this is the case.
- The Fund will request details from their appointed fund managers (including London CIV) regarding how voting decisions are made (e.g. whether based on recommendations of proxy voting agencies), and seek explanation of voting activity which conflicts with the Panel's agreed priorities (e.g. where votes are cast against introduction of TCFD, formal carbon target reductions, best practice in corporate governance standards; etc).

The Fund believes that collaboration via the London CIV gives rise to stewardship and engagement opportunities, as does the Fund's continued membership of LAPFF as well as broader collaboration with other investors.

- The Fund will engage with the London CIV regarding prioritisation of engagement themes, and use collective weight of institutional capital to impress upon their appointed investment managers the importance of these.
- The Fund will continue to participate in LAPFF to actively shape their agenda and priorities on stewardship matters.
- The Fund may consider joining other investment industry collaboration initiatives in future to work with other investors to achieve greater traction on sustainability issues.

Transparency, Disclosure and Reporting

The Fund believes that reporting – both from its appointed investment managers, and from the Fund to its members and the wider public – is an important aspect of their Responsible Investment approach.

- The Fund will publish its Responsible Investment Policy and keep under regular review.
- The Fund believes regular monitoring and reporting of actions and progress is important, given that this is closely linked to good governance and transparency.
- As the Panel continues to discuss and refine their approach to Responsible Investment, their approach to reporting and disclosure will develop.

Memberships & Affiliations

The Fund believes that it will improve its effectiveness by acting collectively with other like minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

Further Information

If you require further information about anything in or related to this Policy, please contact:

rbkpensioninvestments@sutton.gov.uk

Glossary

ESG Factors: Environmental, social and corporate governance factors which could impact company performance and therefore investment returns. Examples include (but are not limited to) climate change, workforce issues, remuneration, independence of the board and auditors, board composition and diversity.

Ethical Investment: An approach seeking a moral or ethical return, potentially ahead of financial return.

Governance: The process and principles by which a company or organisation undertakes its business. For the Fund, governance includes how it undertakes both its operational and investment responsibilities on behalf of its members.

Pensions Board: The role of the Pensions Board is to assist in the good governance of the scheme through the monitoring of Fund performance and adherence to statutory duties. The Pensions Board is not a decision-making body, nor does it hold a scrutiny function; its role is to assist in the compliance with scheme rules.

Pensions Panel: Body established by the Royal Borough of Kingston Council (the administering authority) in charge of the management of the administration of benefits and strategic management of the Fund, including Fund assets.

Socially Responsible/Social Impact Investments: Investments that deliver social impact as well as a financial return are often described as “social investments”. The Fund considers opportunities in social investments alongside other opportunities and will assess their relative merits on fundamental grounds and with reference to suitability of fit for the Fund.

Responsible Investment: The integration of financially material environmental, social and corporate governance (“ESG”) factors into investment processes both before and after the investment decision.

Stewardship: We define the concept of stewardship the same as the Financial Reporting Council (FRC), the organisation that oversees the UK Stewardship Code: “Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. The UK Stewardship Code (2020) sets high standards for asset owners and asset managers, and for service providers that support them”.