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London Pensions Fund Authority
Responsible Investment Policy 2019

October 2019

Contents

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1. LPFA Board Vision, 11 September 2019

As a pension fund, we are stewards of the future. Primarily 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, our society and therefore our members' future.

We take this broader responsibility seriously, as a commitment to future a and to the shape of today's world.

Consequently, 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.

2. Introduction

This policy defines the commitment of London Pensions Fund Authority, (the Fund) to Responsible Investment ('RI'). Its purpose is to set out the approach that the Fund aims to follow in integrating environmental, social and governance ('ESG') issues into all of its investments. LPFA is a long-term investor that wishes to deliver a sustainable pension fund for all stakeholders. It is therefore in the best long-term interest of our members and employers - and as such part of our fiduciary duty - to take ESG issues seriously and consistently into consideration as well as integrate them in all future investment decisions.

LPFA has considered the guidance provided in the Ministry of Housing Communities and Local Government ('MHCLG') paper 'Local Government Pension Scheme: Investment Reform and Criteria and Guidance' in the establishing of this policy. This is consistent with the LGPS Management and Investment of Funds Regulations (2016) and the Fund's fiduciary duty to act in the best long-term interest of our members. The Policy reflects the Fund's Investment Strategy Statement and our approach to complying with the UK Stewardship Code.

2.1 Beliefs and guiding principles

With the Board's Vision in mind, we have considered what our main values and principles are, and what it is we require from those that engage or work with us. During our deliberations we have concluded some fundamental beliefs and guiding principles around our Responsible Investment.

To this end, we set out below our RI beliefs and the guiding principles which will underpin our Responsible Investment approach.

a) We will apply **long-term thinking** to deliver **long-term sustainable returns**.

b) We will invest into **well-governed assets** to obtain such **sustainable returns**.

c) We will use an **evidence-based**, long-term investment appraisal to inform **decision-making** in the implementation of RI principles.

d) A **long-term horizon** requires that the Board consider the impacts of its actions on **future generations** alongside the emergence of new risks in the future.

2.2 Beliefs

a) Investments which exploit the environment or otherwise give rise to risk arising from poor or unsustainable business practices are not consistent with the longer-term investment goals of the Fund.

b) The ability of asset owners to effect change in corporate practices and behaviours can be most readily achieved through constructive dialogue and engagement with decision makers, backed by the support of like-minded investors.

c) Investments that display strong and effective corporate governance are expected to be associated with the superior management of exposure to environmental and social risks and opportunities.

d) 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.

e) ESG issues can be dynamic and it is therefore necessary for investment as well as ongoing monitoring processes to be sufficiently flexible to accommodate changing or emergent risks and opportunities.

f) We will always retain the right to disinvest from certain companies or sectors in the event that appropriate approaches to addressing our 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.

2.3 Guiding principles

We have considered a number of ESG areas in our deliberations on Responsible Investment, including the themes encapsulated by the UN Sustainable Development Goals as set out below.

Having considered and debated many of the issues which matter to us as responsible asset owners, we now set out the principles that we aspire to uphold through our investment approach.

2.4 Responsible investment principles

The Fund's RI principles translate our above stated beliefs and guiding principles into Responsible Investment practices, with the goal to deliver a sustainable return on all our investments. Our RI principles inform the stewardship arrangements we have agreed with the Local Pensions Partnership (LPP) as our provider of pension administration and investment management services.

Our key Responsible Investment (RI) principles are:

a) Manage ongoing material ESG risks effectively to support the Fund's requirement of protecting sustainable returns;

b) Apply a robust investment approach to effective stewardship,

c) Make responsible investment a core requirement in our skills, knowledge and advice,

d) Seek to innovate, demonstrate best practice and promote RI leadership and best practice,

e) Achieve improvements in ESG through effective partnerships that have robust oversight, and

f) Share ideas and best practice to achieve wider and more valuable RI and ESG outcomes.

The implementation of LPFA's RI policy is through the activities of Local Pensions Partnership Investments Ltd (LPPI), an FCA regulated investment Manager responsible for 100% of the Fund's assets which are managed within pooled arrangements.

The partnership was set up by the LPFA and Lancashire County Council in 2016 for the purpose of achieving economies of scale, greater internal resource and superior investment opportunities. The partnership brings the benefit of scale and expert resources beyond that which would be available to the Fund alone. This facilitates lower costs and a broader opportunity set which together facilitate improved net returns. Pooled vehicles are used wherever appropriate. Where assets are not physically pooled the management is typically pooled.

3. RI implementation

LPFA works with LPPI to develop appropriate approaches and processes for meeting the Fund's requirements and ensuring LPPI as well as any additional managers, to which LPPI delegated investment responsibilities, deliver in line with these in both the selection of investments and the ongoing oversight of them.

ESG integration and the active use of ownership influence are integral to the investment management services provided by LPPI, which are delivered in accordance with an LPPI Responsible Investment 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.

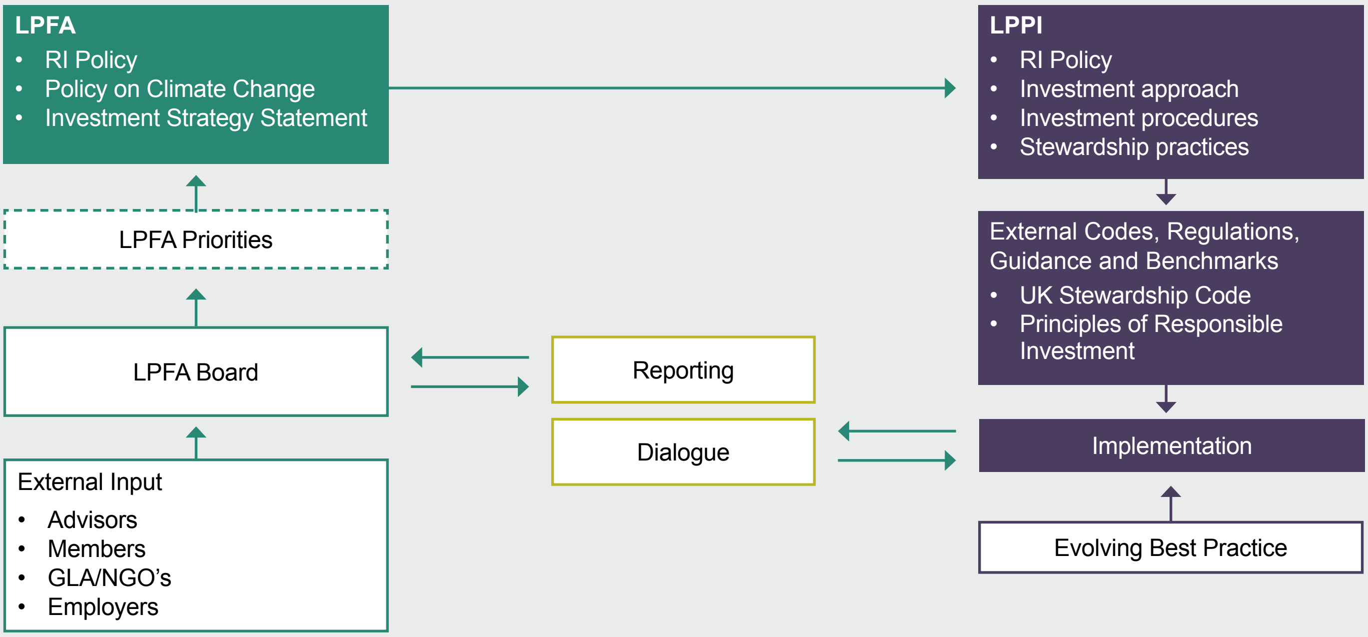
In line with LPFA's requirement for a prudent approach which applies care, skill and diligence, LPPI procedures ensure ESG issues

- are routinely considered as part of the investment analysis
- incorporated into the due diligence leading to investment selection
- continue to be monitored and reviewed as part of the active ownership of assets under management.

The approach to incorporating ESG factors is to identify and assess the type and materiality of relevant issues on a case by case basis, whilst taking account of global norms. Additionally, ESG factors are considered in order to clarify the context that risks and returns operate within and to assist the evaluation of investment risks and opportunities.

LPFA has identified climate change as a long-term material financial risk with the potential to impact all asset classes within the portfolio over time. The Fund has developed a Policy on Climate Change which sets out expectations of LPPI in relation to how the risks and opportunities arising from Climate Change will be identified, monitored and managed.

Figure 1: Communication and Monitoring of RI Priorities
The following diagram explains how LPFA's RI Policy informs LPPI's approach to RI.



The Fund's expectations for active ownership as part of LPPI's stewardship can be divided into three distinct areas: voting globally, engagement through partnerships and shareholder litigation. This section briefly outlines the Fund's processes for each.

The routes for exercising ownership influence vary across asset types. A range of activities are undertaken on the Fund's behalf by LPPI, including direct representation on company boards, presence on investor & advisory committees and participation in partnerships and collaborations with other investors. The most direct form of ownership influence in the case of listed equities comes through shareholder voting and engagement.

3.1 Voting globally

The Fund does not directly hold shares in listed companies, but through investments managed by LPPI, it has indirect ownership interests in listed companies across the globe.

Where practical, the Fund expects the right to vote at company meetings will be exercised in all markets in which it invests. The Fund will monitor LPPI's voting records and expects an appropriately critical approach to company proposals.

To ensure the effective and consistent use of voting rights 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 sustainable voting guidelines and LPPI's Shareholder Voting Policy. This promotes risk mitigation and long-term shareholder value creation by supporting responsible global corporate governance practices. The policy and guidelines are reviewed on an annual basis to reflect emerging issues and trends.

3.2 Engagement through partnerships

The Fund seeks to use various engagement platforms to maximise its influence as an active owner and prioritises collaboration with other like-minded investors. Where possible and practical to do so, LPFA will work with the other Funds to maximise the collective effectiveness and influence of LGPS assets as a whole. The Fund's primary engagement partner is the Local Authority Pension Fund Forum (LAPFF) of which LPFA is a long-term member.

LAPFF is a leading collaborative shareholder engagement group encompassing local authority pension funds from across the country. The Fund is an active participant in LAPFF's engagement programs. Membership of LAPFF provides the Fund with:

a) independent research and advice on the ESG risks of companies to inform further stakeholder engagement;

b) advice on the governance practices of companies;

c) a forum to engage with companies to improve governance practices; and

d) proxy voting advice on high-priority issues for annual general meetings.

In collaboration with other like-minded investors, notably other UK pension funds, LPFA may engage with public policy makers, regulators, trade bodies, and other actors in the financial markets to further the aim of promoting sustainable growth. The Fund considers which initiatives it will support and which organisations it will join on a case-by-case basis. Examples include the Pensions and Lifetime Savings Association (PLSA) and the Institutional Investor Group on Climate Change (IIGCC).

3.3 Shareholder litigation

Shareholder litigation forms part of the Fund's approach to holding investee companies to account for proven wrongdoing, usually as part of a class action.

Monitoring arrangements are in place through services overseen by LPPI to ensure shareholder litigation cases in which the Fund may have an interest are known about and evaluated appropriately, claims are filed in a timely way and progress is monitored and followed up with Claims Administrators.

Monitoring activity includes cases arising from shares held by the pooled fund of listed equities LPFA has invested in since November 2016 (managed by LPPI) and shares held directly by LPFA before this point (legacy holdings). Litigation can arise sometime after shares have been sold and monitoring new cases and referring to historic records to establish rights of ownership is an ongoing task.

3. Communication and transparency of monitoring

The Fund aims to be transparent about its processes and accountable for its performance on Responsible Investment through good communication. This will be achieved through the following approach:

a) The Fund will publish its Investment Strategy Statement on its website in line with the scheme regulations.

b) The Fund will closely monitor LPPI's implementation of its RI policy.

c) The Fund will consider and respond to feedback from stakeholders in relation to issues of concern.

d) The Fund will publish its RI policy on its website.

e) This RI policy will be kept under review on an ongoing basis and consulted on at least every three years.

f) The Fund will review voting and engagement activity undertaken on its behalf on an annual basis.

g) The Fund will ensure it receives reports on shareholding voting and that records are publicly available for scrutiny.

h) The Fund will ensure that its decision makers are properly trained and kept abreast of ESG issues in order to make informed decisions.

i) The Fund will undertake a fundamental review of any specific ESG issues identified by the Board to be of potentially material impact.

j) Decisions relating to the setting of the Fund's RI policy will be explained.

Appendix 1 – Definitions

Responsible Investment

The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and active ownership practices in the belief that these factors can have an impact on financial performance. The Fund also supports the PRI's definition of Responsible Investment which can be found here: https://www.unpri.org/about/the-six-principles

ESG

Environmental, social and governance factors which may impact on company performance and therefore investment returns. ESG factors encompass a broad range of issues for consideration alongside traditional financial factors when assessing investments. No definitive list of ESG issues exists since considerations are sector and context sensitive, however some general examples include resource management, environmental stewardship and pollution prevention, resilience to climate change impacts, employee management practices, product integrity, executive compensation, board diversity and the independence of oversight and audit functions.

Governance

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

Active ownership

Refers to the responsibility of the Fund (as an asset owner) to monitor investee companies and to engage with them as appropriate on matters of concern, either directly or via its fund managers. Active ownership also recognizes the importance of engaging with regulatory bodies and other market players to give support to broader policy conditions that promote long term sustainable growth.

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