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Item 6 - Appendix 1

London Borough of Hackney Pension Fund

Responsible Investment – Fund Manager Policies and Alignment

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Introduction

Purpose and addressee

- This paper, which is addressed to the Pensions Committee ("Committee") of the London Borough of Hackney Pension Fund ("the Fund"), discusses the RI policies of the Fund's Fund Managers and their alignment with the Fund's beliefs.
- This note should not be released or otherwise disclosed to any third party without our prior written consent except as required by law or regulatory obligation. We cannot be held liable for any loss incurred by a third party relying on this report without such permission.

Background

- The areas of Environmental, Social and Governance ('ESG') and Responsible Investment ('RI') within the investment of LGPS assets (and wider pensions and investment in general) has been experiencing increasing scrutiny over the past few years.
- The Committee are committed to being a responsible investor and have undertaken an in-depth strategy review which took into account the Fund's climate objectives and considered their ESG and RI beliefs, SDG objectives, monitoring and implementation over the past couple of years.
- A key part of achieving this is understanding the RI policies of the Fund Managers employed by the Fund and ensuring they align to the Fund's beliefs.
- This way, the Fund can ensure its policies and beliefs are being implemented effectively.

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Summary of the Fund, LCIV and BlackRock Investment and RI beliefs, Climate Policies and Voting and Engagement policies

Investment Beliefs

Hackney Pension Fund	LCIV	Blackrock Passive Investing
Fund Specific 1. Clear and well-defined objectives and understanding of potential risks are essential to achieve future success. 2. Contributions and investment strategy should not be considered in isolation. A balance of stable contributions and taking an appropriate level of risk is desirable. Portfolio Management Beliefs 1. Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection 2. Equities are expected to generate superior long-term returns and thus the Committee is happy to hold a high allocation to equities until the funding position improves. 3. Fees and costs matter and value for money needs to be optimised. 4. Inclusion of passive management allows low cost access to assets and can help reduce volatility in performance. 5. Active management can add value but is not guaranteed. 6. Alternative asset class investments provide diversification, reduces volatility and improves risk-return characteristics. 7. Choice of benchmark index matters for the appropriateness of the Fund 8. Currency risk should be mitigated where practical ESG beliefs 1. ESG issues can have a material impact on returns and effective management of these risks can enhance long term outcomes. The committee will monitor Managers performance in these matters. 2. Responsible investing is relevant to the performance of the entire Fund across asset classes 3. The Committee believe that the UN SDG's highlight key areas for RI investing considerations and will aim to invest in line with these goals. 4. Engagement with managers, and through them with investee companies, can have a material impact on progress towards the chosen goals as well as on investment performance.	1. Long term investing gets better risk adjusted returns 2. Opportunities are maximised when the right level of risk (with robust risk management and mitigation) for the right level of return is taken. 3. Responsible investment mitigates financial risks and maximises opportunity. 4. Diversification improves returns and reduces risk 5. Cost such as management/fund structuring /implementation costs should be managed. 6. Using objectives, knowledge and research is critical in investment decisions 7. Transparency and accountability build client trust. 8. Innovation and strong leadership support sustainable returns. 9. Collective approach to investment improves returns and reduces risks.	BlackRock understands that passive strategy outcomes are best achieved by adopting a discipled approach to managing: 1. Returns – consistently in line with the benchmark 2. Risk – management process which seeks to optimise tracking outcomes. 3. Transaction costs - which is considered in all investment decisions to minimise costs. BlackRock don't look to simply buy and hold assets that make up an index but rather consider every aspect of trading to capitalise on all the available opportunities within predetermined risk and cost limits. BlackRock believe in using "full replication" and "optimisation" techniques to construct their portfolios. With full replication, the portfolios exposure and weight to each security is identical to that of the benchmark to ensure close tracking is achieved. By holding the same weight, the portfolio is self-rebalancing which helps minimise trade and transaction costs. When unable to fully replicate a benchmark due to illiquidity constraints, high transaction costs and unavailable markets, BlackRock believe their optimisation approach is suitable for replicating an index. This approach is based on BlackRock's risk model which aims to create a portfolio with the same risk characteristics as the index.

RI Policy

Hackney Pension Fund	LCIV	Blackrock Passive Investing
The Committee does not have a policy yet however are expected to develop a detailed policy in H2 2021. As part of the 2017 valuation, the Committee adopted RI related policies in their strategy as set out below: • The Fund's ISS states that the Fund aims to reduce its carbon exposure by 50% over the coming 2 valuation cycles and expects the managers of each mandate to take ESG considerations into their investment analysis. • The Committees investment beliefs recognise that ESG risks and opportunities are material to investment returns and believe the UN SDG's are a good set of standards for the Fund to target.	LCIV look to use clients' own policies when developing their RI beliefs. Their policy believes that integrating RI can mitigate financial risk and maximise opportunity over the long term. Beliefs include: 1. LCIV accept and exercise the responsibilities of ownership of all the assets managed. 2. Communication and engagement are integral to responsible investment. 3. Suppliers are held to account over how they exercise ownership rights. 4. Any conflicts regarding exercising ownership rights will be communicated through engagements. 5. Disinvestments related to ESG issues can be exercised on a case by case basis when considering all the facts. Amongst LCIV's guiding principles an array of ESG matters are considered with the managers such as humans rights, slavery, cluster munitions, rule of law, equality, corporate governance, sustainability, climate change and fossil fuel risk.	BlackRock's believe that a company's management of ESG factors can have a material impact on its long-term financial performance and that portfolios with investment processes which integrate sustainability and climate related considerations will help provide better risk adjusted returns over the long term. BlackRock actively integrates ESG metrics into their investment and risk management process across all asset classes and portfolio styles including index tracking strategies. Index strategies are managed with a focus on minimizing the performance tracking difference versus an underlying index whereby the composition of the index is the responsibility of the index provider. Index strategies that have sustainability objectives explicitly outlined in their investment guidelines are rules-based and deliver cost-efficient exposure to companies with ESG characteristics. The index may look to avoid certain issuers, gain exposure to issuers with better ESG ratings or themes or look to create positive impact. ESG is built into BlackRock investment process through: 1. Engagement with index providers – to determine a suitable index benchmark that meet client ESG requirements. 2. Transparency and reporting - includes methodology and keys ESG characteristics and metrics 3. Investment stewardship activities

Climate Policy

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<tr><th>Hackney Pension Fund</th><th>LCIV</th><th>Blackrock Passive Investing</th></tr>
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<td>The Committee considers that significant exposure to fossil fuel reserves poses a material financial risk.

Given this, the Committee has approved a target to:
• Reduce the Fund’s relative exposure to future emissions from fossil fuel reserves by 50% over 2 valuation cycles (6 years)

• Measure the reduction relative to the Fund’s position as at July 2016 and adjusted for Assets Under Management (£AUM)

The target will be periodically reviewed.

The Committee considers exposure to carbon risk in the context of its role in asset allocation and investment strategy setting.

Consideration has therefore been given in setting the Fund’s Investment Strategy to how this objective can be achieved within a pooled investment structure and the Committee, having taken professional advice, will work with the London CIV to ensure that suitable strategies are made available.</td>
<td>LCIV recognise climate change presents systemic risks which have multiple consequences (both physical and economic) which will subsequentially impact investment return.

Climate considerations are integrated in all mandates and LCIV look to provide portfolios with better climate risk profiles than their benchmarks.

LCIV plan to have set an established net zero carbon target by November 2021.

Support cross sectional efforts to reduce supply chain and product related emissions.

LCIV assess managers climate change risks and processes (using due diligence questionnaires and continuous monitoring) as well as seek improvements across the industry through engagements.

Their approach follows 3 steps
1 Integration – embedding RI into investment decision making
2. Engagement – demonstrating active ownership by engaging with companies, managers, peers and participants.
3 Disclosure – provide transparent reporting to clients disclosing:
• All assets not aligned to TCFD and SASB requirements.
• Climate performance of managers.
• Climate metrics.
• Annual stewardship and engagement.</td>
<td>Sustainability is a key component to BR’s investment approach, and they believe that climate risk is a key consideration for this.

BlackRock Investment Stewardship team expects that companies have clear policies and action plans to manage climate risk and to realize opportunities presented by the global energy transition.

They expect companies to articulate how they are aligned to the scenario that global warming is limited to 2° C as per global aspirations to reach net zero GHG emissions by 2050.

BlackRock assess a company’s approach to climate change by:
• What actions boards/management are taking to tackle climate change risks and opportunities and specifically how companies are allocating their capital in relations to this.
• Companies assessment for changes in demand for goods or services due to climate change.
• Assessment of company’s emissions baseline and whether targets are aligned with net zero GHG by 2050
• Whether stress testing in used to assess future climate change risks as well as the impact of policies (i.e. carbon taxes etc)
• What sustainable solutions or opportunities are companies taking advantage of (if any)
• Are companies monitoring the regulatory landscape and participating in policy discussions.</td>
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Voting and Engagement

Hackney Pension Fund	LCIV	Blackrock Passive Investing
The Committee will engage with its Investment Managers or the London CIV to address specific areas of carbon risk. The Committee expects its investment managers to integrate financially material ESG factors into their investment analysis and decision making and may engage with managers and the London CIV to ensure that the strategies it invests in remain appropriate for its needs. The Committee does not currently use and exclusion policy in respect of specific sectors or companies.	LCIV are a signatory to both the UK Stewardship Code and the UN PRI and thus follow best practises with regards to stewardship including that of voting and engaging with all assets under management. The LCIV takes a collaborative approach to engagement on themes which directly impact “People”, “Planet” and “Governance” with engagements with managers held on a quarterly basis. Milestones for changes are set and the success of outcomes following engagement are monitored. LCIV believe positive changes can be driven in companies rather than just excluding a specific sector from mandates. However, some mandates utilise an exclusion criterion (e.g. LCIV Sustainable Equity Exclusion Fund). In 2020, 424 engagement meetings were held, and 9,647 votes cast on management proposals.	As part of BlackRock’s stewardship role they communicate their views to companies through constructive engagements on ESG topics and seek to understand how these topics are approached by a company’s board and management. BlackRock often discuss how climate policies are integrated into a company’s strategy and whether short, medium, and long-term targets have been set. BlackRock also looks to ensure that sufficient members of the board are fluent in risks and opportunities associated with climate risk and that progress is being made in the following 3 areas: 1. Mitigating risk 2. Capitalizing on efficiencies 3. Innovation and opportunity (i.e. ability to produce viable solutions to address ongoing changes) Through engagement, BlackRock are able to understand a company’s current approach and communicate their own views with the aim of protecting client’s long-term economic interests. BlackRock also vote at shareholder meetings to ensure companies are held accountable when they fall short of expectations.

Summary of LCIV and BlackRock culture, signatory lists, mandate design and reporting

Culture and signatory lists

	LCIV	Blackrock Passive Investing
Culture	LCIV's investment policies indicate that RI factors are an import part of their investment decision process. They look to take active ownership and responsibility in ensuring that mandates are managed in alignment with their own and their client RI beliefs. LCIV believe that training staff on such issues is important and have made RI a core focus of their staff development programme with 10% of staff now holders of the CFA ESG certificate. In addition, the LCIV contributes and collaborates in a range of initiatives covering a number of responsible investment activities. Initiatives to date include: Asset Owner Diversity Charter, ClimateAction 100+, Cost Transparency Initiative, Pension for Purpose.	Regarding RI matters, BlackRock believe in the importance of owning their Stewardship responsibilities and ensuring investors interests are prioritised. Their Stewardship programme (which consists of a team of 63 personnel) focusses on long term goals given the majority of their clients are: 1. Saving for the long term 2. Select index equity investments instead of active, suggesting a preference to longer term investment horizons. Each year BlackRock review and set engagement priorities on issues they consider to be on the top of mind for companies and clients and shareholders. In addition to being a member of the UNPRI and UK stewardship code, BlackRock have shown their commitment to tackling RI matter by committing to many other initiatives some of which include: Stewardship Disclosure Framework, UKSIF, The Investor Forum, Carbon Disclosure Project, Task Force on Climate Related Financial Disclosures (TCFD).
Stewardship code/UNPRI signatories	• Signatory to UNPRI • Signatory to UK Stewardship Code	• Signatory to UNPRI • Signatory to UK Stewardship Code

Mandate design and reporting

	LCIV	Blackrock Passive Investing
ESG/RI in mandate design	RI integration forms the first step of LCIVs investment strategy. At manager selection stage, an ESG questionnaire, tailored to the asset class and fund structure is prepared to assess manager suitability and its existing position on responsible investment. A proprietary manager monitoring programme is then used based on five criteria; responsible investment integration, engagement and stewardship, company culture and governance, disclosure and momentum. Managers are reviewed at least quarterly to assess how they have integrated and engaged on ESG matters with holdings, as well as how the organisation is managed at a corporate level. LCIV follows a consistent 5 step RI risk and opportunity management system across all mandates: 1. Identify global drivers including macro risks, policy and regulation as well as stakeholder priorities. 2. Assess company drivers unique to London CIV including asset specific risk, client priorities, current holdings and investments as well as where there are opportunities to influence. 3. Recognise social materiality in terms of which issues will have the biggest impact globally. 4. Calculate financial materiality and biggest impact on returns. 5. Respond reactively to unforeseen events after a specific and significant incident. Where an issue is prioritised based on our exposure and the probability of a successful outcome.	When designing passive mandates, BlackRock initially establishes a suitable index with ESG considerations integrated into its composition. This is done by establishing a minimum core set of exclusions (often working with institutional clients to determine these) and then working with index providers to determine a custom index which specifically meets client needs. As passive funds are designed to track an index, BlackRock would typically look at an existing available benchmark and then work of the existing design to construct a new index taking ESG factors into consideration (i.e. construct a new benchmark with use of a parent index). Once the benchmark index has been established the portfolio can constructed such that it tracks the same composition. Following creation, BlackRock engages with the index providers to ensure the indices meet optimal design and that client requirements are met.
ESG/RI reporting	Quarterly the LCIV provide investment reports on each of their mandates including a section discussing ESG related topics. Topics discussed are: • Summary of key industry initiatives • Summary of quarterly engagement activity • Voting summary • Climate impact assessment – measuring the mandates carbon footprint and fossil fuel exposure using specified metrics (in line with TCFD standards) • Attribution analysis of performance vs benchmark as a result of ESG stock selection • Summary of fossil fuel exposures and top contributors to fossil fuel revenues.	BlackRock aim to be as transparent as possible with investors by providing clients with the following report: • Annual and quarterly stewardship report • Annual and quarterly voting records/statistics • Public disclosure of engagement activity • Factsheets providing ESG metrics such as rating, carbon footprint and alignment with the UN Sustainable Development Goals • Sustainability-related characteristics of all strategies.