REDINGTON

Hackney

RESPONSIBLE INVESTMENT WORKING GROUP UPDATE

26 March 2024

Private and Confidential

RESPONSIBLE INVESTMENT WORKING GROUP (RIWG) – OVERVIEW

RIWG approval date	20 September 2023
1st RIWG meeting date	6 March 2024
Future RIWG meeting dates	• May 2024 • September 2024 • November 2024
Members	6 Committee members supported by Fund officer and advisers
Role	To increase its capacity for the consideration of responsible investment issues, the London Borough of Hackney has created a responsible investment working group. The Group will consider responsible investment issues and take forward development work in relation to the Fund's RI policy, climate change and stewardship activities and will make recommendations to the Committee.
Terms of reference	I. Oversee the development of the Fund's ESG strategy; II. To review and consider changes to the Fund's RI policy; III. To monitor progress on climate targets and initiatives; IV. To consider and develop reporting in respect of TCFD; V. To support the Fund's stewardship and engagement activities (UK's Stewardship Code 2020); VI. To monitor regulatory and wider ESG developments and the implications for the Fund.

FINANCIAL MARKETS LAW COMMITTEE PAPER: PENSION FUND TRUSTEES AND FIDUCIARY DUTIES

Background

- The Financial Markets Law Committee ("FMLC"); a grouping of senior individuals from the legal industry, aims to eliminate uncertainties in the law related to financial markets.
- In February 2024, the FMLC published a paper on pension fund trustees and fiduciary duties, developed by a working group chaired by High Court judge Sir Robin Knowles. This was in response to a Government request.
- The paper aims to remove legal uncertainty associated with trustees' fiduciary obligations. By doing so, it clarifies how trustees may appropriately incorporate climate change and broader sustainability considerations into their investment decision-making.
- While not strictly applicable in the LGPS space, it provides helpful indications as to expectations of LGPS decision-makers. It provides a new frame for understanding what are reasonable decisions to take.

What is the key message?

- Importantly, the paper moves away from the Law Commission's distinction between "financial" and "non-financial" factors, which has previously hindered some pension funds from incorporating ESG risks into their investment approaches.
- The guidance clarifies that decision-makers can, and should, incorporate climate change and broader sustainability issues into investment decisions. By viewing sustainability matters through a financial lens – essentially in terms of investment risks and returns – pension funds can (and perhaps should) incorporate them into investment decision-making.
- The paper notes that the uncertainties surrounding the future impacts of climate change (and other sustainability issues) mean that it may not be possible to reduce its impact on risk and return to numerical values. That doesn't mean they can be ignored: instead, pension funds should be open to applying, and responding to, a narrative understanding of risk.
- This shift in understanding should empower more pension funds to include climate change and broader sustainability issues in their investment decision-making.

Key takeaways

- The FMLC has released guidance clarifying pension scheme trustees' fiduciary duties with respect to climate change and sustainability in investment decision-making. While not strictly applicable, the guidance provides a useful indication of appropriate approaches in the LGPS space as well.
- The guidance clarifies that pension funds can, and perhaps should, incorporate climate change and broader sustainability issues into their investment decision-making as part of fulfilling their fiduciary duties – but should do so through the frame of investment risk and return.

ECONOMIC ACTIVITY OF PUBLIC BODIES (OVERSEAS MATTERS) BILL (OTHERWISE KNOWN AS THE BOYCOTTS, DIVESTMENTS & SANCTIONS BILL)

Background

In 2016, the Department for Communities and Local Government introduced guidance (part of the wider LGPS Investment guidance which also covered investment pooling) for the local government pension scheme to state it should not use pension policies "to pursue boycotts, divestment and sanctions against foreign nations", other than where formal UK government measures such as sanctions are in place.

However, following a legal challenge the boycotts, divestment and sanctions clauses were removed in 2017 and despite high profile court cases to try to allow for the reinstatement of these elements of guidance the Supreme Court found the government had acted unlawfully on the basis that the Secretary of State exceeded his powers.

What does the Bill aim to do?

The Bill currently making its way through the House of Lords is expected to become law. As introduced, the Bill intends to prevent "public bodies when making decisions about procurement and investment from considering a country or territory of origin or other territorial considerations in a way that indicates political or moral disapproval of a foreign state". Such boycotts or divestments and any such actions could result in investigations or fines.

The government states the Bill aims to stop councils and other publicly funded bodies from "pursuing their own foreign policy agendas." In particular, it cites concerns that campaigns in universities and local authorities on investment decisions relating to certain countries "lead to community tensions, and, in the case of Israel, a rise in antisemitism". Much of the debate on this issue has focused on suggested boycotts of Israel and Israeli settlements in the occupied Palestinian territories.

The Bill does not prevent public bodies from complying with formal UK sanctions, embargoes, and restrictions. The Bill also gives the government the power to make regulations to exempt certain countries or territories from the restrictions and both Russia and Belarus would be exempt immediately.

Key takeaways

- The intention is to ban LGPS administering authorities from making investment decisions influenced by political or moral decisions with regard to a foreign state unless part of formal government policy.

STEWARDSHIP CODE REQUIREMENTS

UK STEWARDSHIP CODE 2020: OVERVIEW

What is the UK Stewardship Code 2020?

The Code sets out the expectations of responsibilities for investors and asset owners described in 12 principles which need to be evidenced on an 'apply and explain' basis.

Signing up to the code is *voluntary* and meeting its expectations is one indicator of effective stewardship.

What is the aim of the code?

The UK Stewardship Code 2020 seeks to set high stewardship standards for asset managers, asset owners (including pension schemes), and for the service providers that support them.

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries

How to become a signatory of the code

Organisations must submit a Stewardship Report to the Financial Reporting Council demonstrating how they have applied the Code's Principles in the last 12 months

The FRC will assess the report and if it meets the reporting expectations, **the organisation will be listed as a signatory to the Code**

Once listed, organisations **must annually report** to remain signatories

Report details

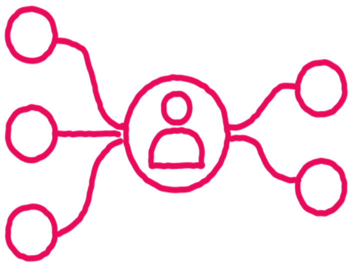
The report should be comprehensive; however, it must be fair, balanced and understandable with clear examples of success, as well as reflections on any failures and the corresponding lessons learned.

Reports must be reviewed and approved by the applicant's governing body, and signed by the chair, chief executive or chief investment officer.

WHAT ARE THE BENEFITS FROM BEING SIGNATORIES?

The Code has a focus on activities and outcomes of stewardship, rather than the existence of policies. Becoming a signatory is a resource-heavy commitment, and **it may be likely to drive meaningful change.**

Would clearly evidence alignment with **industry best practice** in stewardship and engagement across asset classes.



The Code’s emphasis on outcomes-focused reporting should materially **increase impactful disclosures across the industry**.

BROADER RI WORK PROGRAMME

Activity	Suggested Timing
Net Zero Climate Interim Target setting agree for 2030	March 2023
Focused Responsible Investment Survey to identify and capture Fund's responsible investment beliefs and develop key engagement themes	August 2023
Feedback from survey; consideration of Stewardship Code requirements; Establishment of RIWG Terms of Reference agreed – September Pensions Committee	20 September 2023
Stewardship Training	15 January 2024
RIWG: RIWG work programme; Stewardship Code introduction to gap analysis; engagement framework and divestment approach	6 March 2024
Gap analysis of Stewardship Code requirements; and regular stewardship reporting to Pensions Committee; consideration of enhancements to current approach	March – May 2024
March Pensions Committee – RIWG update	26 March 2024
Capturing current stewardship work, drafting Stewardship Code submission	June 2024
Draft outline Stewardship Code for consideration by Pensions Committee	June 2024
Finalisation of Stewardship Code and approval by Pensions Committee	September 2024
Stewardship Code reporting and application	October 2024
FRC notification of acceptance of submission or rationale for rejection	January 2025
Ongoing stewardship activities reported to Pensions Committee quarterly	2025/2026
Annual review and approval of Stewardship Code submission by Pensions Committee to maintain signatory status	September 2025 and annually thereafter

STEWARDSHIP GAP ANALYSIS - OVERVIEW

STEWARDSHIP CODE – PRINCIPLES

The principles provide a helpful guide for adopting effective stewardship practices. We split the twelve principles into three groups below:

1. **Policy foundations** – ensuring the right policies and governance processes are in place to facilitate good stewardship – **'WHO?'**;
2. **Integration** – integrating stewardship policies into the investment process, including regular assessment of asset managers/service providers – **'HOW?'**;
3. **Engagement delivery**– how engagement is put into practice, and the resultant change that has been achieved – **'WHAT?'**.

		Substantive Requirements	**Hackney's progress**
1	**Purpose, beliefs, strategy and culture enable stewardship**	More depth of cultural expectation, requires detail of investment beliefs	
2	**Governance, resources and incentives support stewardship**	Senior management buy-in, link of governance and process with effective stewardship, details of resourcing and structure	
3	**Conflicts: policy and application to stewardship**	Disclosure of instances of stewardship-specific actual or potential conflict	
5	**Regularly review policies and assess effectiveness**	Extends need for self-review and assessment; reporting to be fair, balanced and understandable	
6	**Take account of client/beneficiary needs, communicate activities and outcomes**	Required to specific time-horizon for investment approach; greater focus on outcomes	
7	**Stewardship integrated into investment decisions**	Details of integration approach and resources; refer to climate change; disclose differences between funds, asset classes and geographies	
8	**Monitor service providers**	How quality of service providers is regularly assessed; better delivery sought over time	
9	**Engagement**	Disclose how engagements are prioritised, outline precise objectives of engagement and outcomes	
10	**Collaborative engagement**	Disclose method(s) of collaboration, examples of collective engagement and outcomes	
11	**Escalation**	Disclose how engagements are prioritised, outline precise objectives of engagement and outcomes	
12	**Exercise rights (voting)**	Voting and use of proxy advisers, including monitoring and oversight	
4	**Respond to market-wide and systemic risk, promote positive system**	Identify and respond to market and systemic risk; how to work with other investors or industry initiatives to address	

PRINCIPLE 1: PURPOSE, STRATEGY AND CULTURE

PRINCIPLE ONE: PURPOSE, STRATEGY AND CULTURE

1	Purpose, beliefs, strategy and culture enable stewardship	More depth of cultural expectation, requires detail of investment beliefs	

Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society

Purpose	Reporting Expectations	Details	RAG
Context	Provide the purpose of the organisation and outline of culture, values, business model and strategy	A clear purpose, investment beliefs, culture, values and strategy to provide context for disclosures throughout the report	
Activity	Explain the investment belief i.e. what factors matter for desired investment outcome and why	What factors matter for desired investment outcome and why. (If investment beliefs are set out elsewhere, summarise them before providing a link or reference)	
Outcome	How purpose and investment beliefs have guided stewardship, investment strategy and decision making	Identify examples of activity or decisions taken, with reference to the purpose and investment beliefs	
Outcome	Assess how effective the Fund has been in serving the best interests of clients and beneficiaries	Expectation of a discussion on impacts on the economy, environment and society	

ENGAGEMENT FRAMEWORK

ACTION PLAN FOR BECOMING AN ENGAGEMENT LEADER

Getting started

Review existing fund managers' engagement coverage and quality

Update engagement policy covering governance, resourcing, priorities, and escalation (including exclusions)

Begin implementing

Monitor and assess fund manager delivery of outcomes-focused engagements based on key themes and priorities

Join industry groups and collaborations

Show best practice

Engage with fund managers on their delivery of engagement and voting

Set own voting policy and expectations

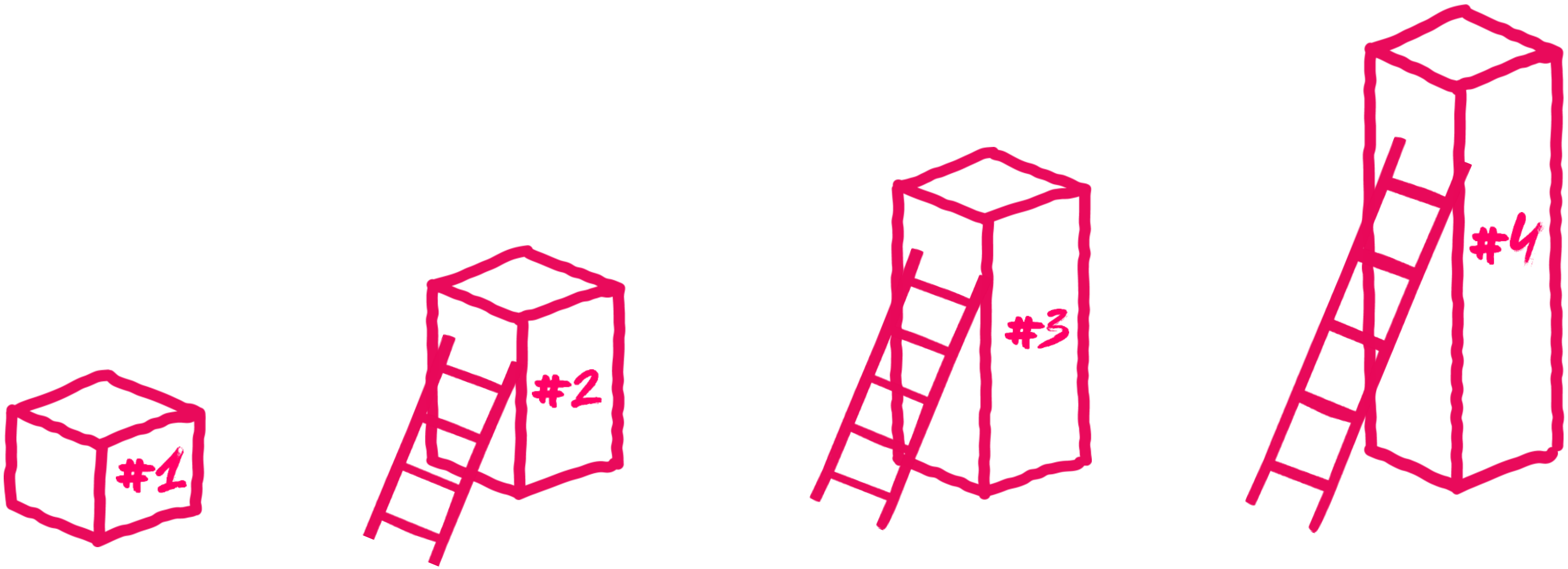
Partake in collaborative initiatives

Engagement Leader

Create a public engagement plan and escalation approach

Lead collaborative engagements

LB Hackney survey indicated the Fund is keen to be at the forefront of best practice



COMPONENTS OF EFFECTIVE STEWARDSHIP

Stewardship delivery: components

Public Policy	Individual Engagement	Escalated Engagement	Collective Engagement	Considered Voting
principle 4 Stewardship Code	principle 9 Stewardship Code	principle 10 Stewardship Code	principle 11 Stewardship Code	principle 12 Stewardship Code

Individual engagement examples include:

- Letter writing
- Private/public engagement
- Housekeeping engagement

Common escalation tools include:

- Shareholder resolution
- Public statement
- Collective action

Collective engagement examples include:

- Collaborating campaigns
- Group meetings
- Concert party

WHAT DOES GOOD STEWARDSHIP LOOK LIKE?

- Whilst most commonly associated with listed equity, stewardship should be practised across all asset classes:

Physical Listed Equity	Fixed Income	Private Markets
• Investors can use position to influence what activities companies engage in and how they behave and operate. • Investors can – and increasingly are expected to – exercise their ownership (e.g. voting) rights to communicate their views to a company and input into key decisions.	• Investors are important stakeholders with influence over issuers and clearly defined legal rights. • For corporate fixed income investors, contact with the issuer is often with the company CFO or treasurer. • For sovereign debt investors, the engagement process might involve meeting with several agencies outside of government officials. • Escalation strategies may involve choosing to avoid new debt issues, underweighting or divesting.	• Private markets investors are in a unique position when it comes to stewardship. • These investors can use this direct form of influence to meet their stewardship obligations. • Private equity investors might help portfolio companies improve their environmental management systems and processes • Real estate investors could seek best practice in building efficiency and safety standards.

WHAT ARE THE DIFFERENT OPERATING MODELS?

Hold managers to account more fully

Assessing managers on their stewardship activity on the fund's behalf, and challenging them to do better.

Advantages

- Fully tailored to fund portfolio.
- Keeps stewardship tied to investment function.

Disadvantages

- Needs resourcing (Redington could assist).

LGPS funds/pools applying approach:

BRUNEL Pension Partnership

LOTHIAN PENSION FUND

Hire outsourced engagement service

Appointing a stewardship overlay provider to deliver stewardship (engagement, and perhaps also voting) across all assets.

Advantages

- Readily available off-the-shelf service.
- Gives engagement scale and skill.

Disadvantages

- Separates stewardship from the investment function.
- Not fully tailored to fund portfolio.

LGPS funds/pools applying approach:

London CIV

BORDER TO COAST PENSIONS PARTNERSHIP

Build in-house engagement team

Developing an internal resource which itself engages directly with companies (and other assets) in which the fund invests.

Advantages

- Gives fund full control of activity.
- Delivers actions tailored to fund portfolio.

Disadvantages

- Does not match with fund model of limited executive resource.
- Misses benefits of scale offered by both alternatives.

LGPS funds/pools applying approach:

West Yorkshire Pension Fund

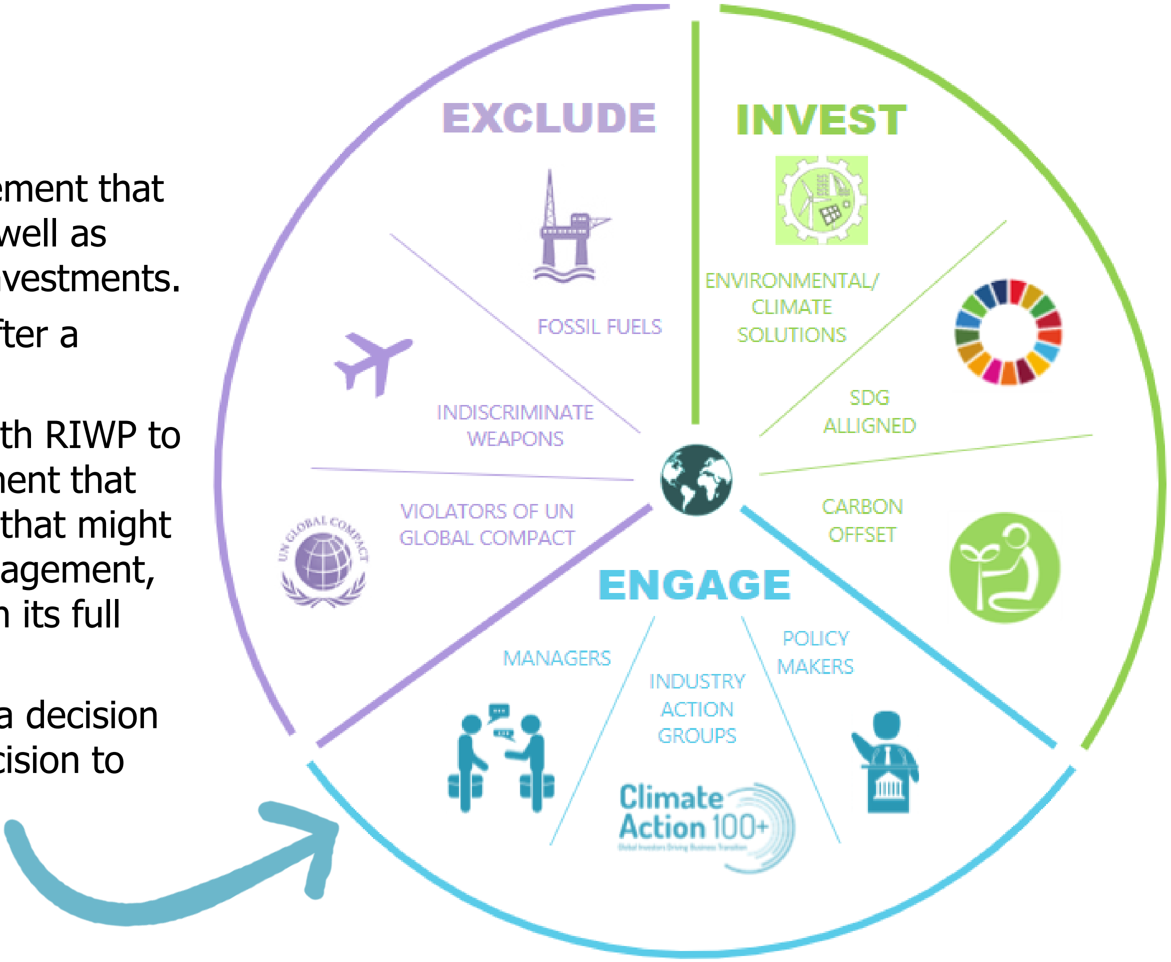
Strathclyde Pension Fund

ENGAGEMENT FRAMEWORK
RESPONSIBLE INVESTMENT: LEVERS FOR ACTION

There are three main levers to reflect an asset owner's Responsible Investment aims: Invest, Engage, Exclude. These are set out in this diagram, together with some examples of relevant actions in each category:

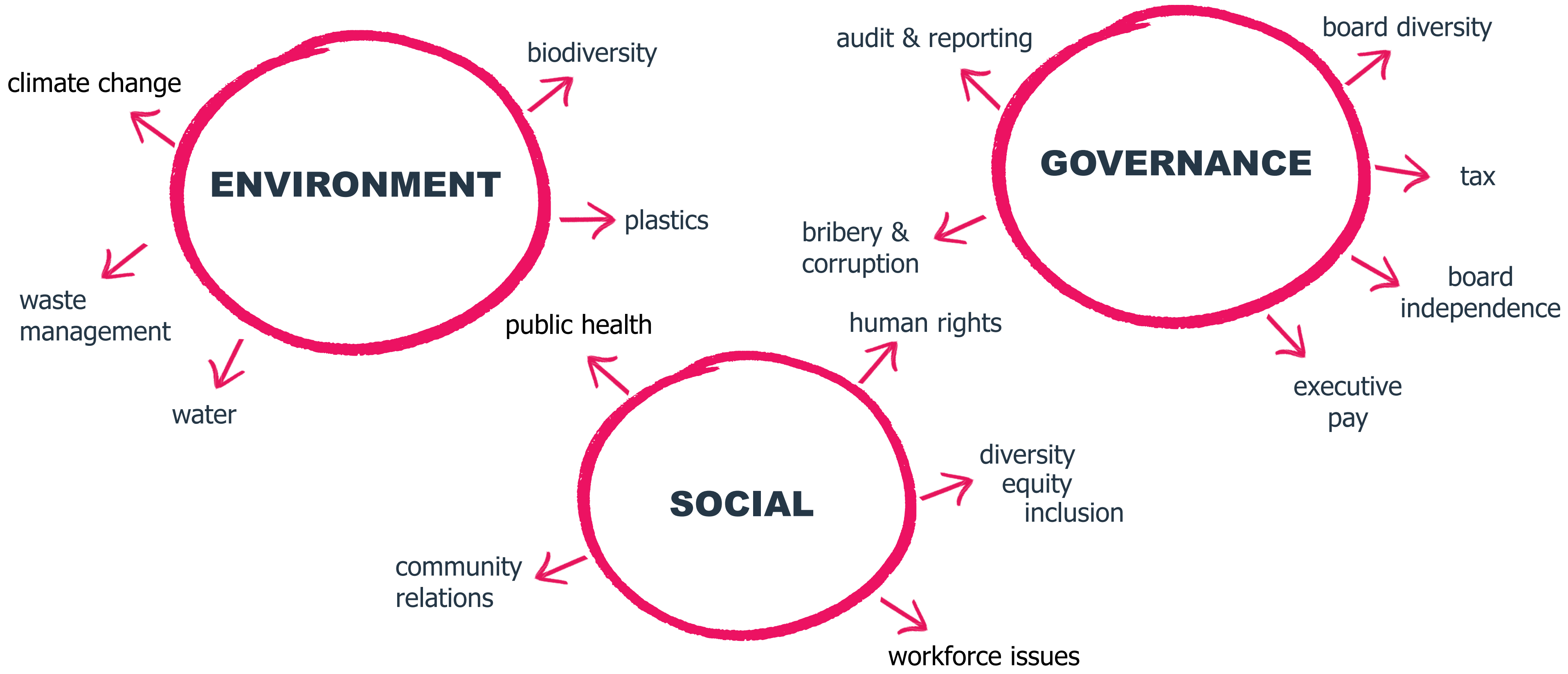
Pulling the "Engagement" lever:

- Committee members are generally in agreement that the Fund should focus on engagement, as well as working with other investors to influence investments.
- Exclusion should be considered, but only after a timeframe of at least two years.
- Given this preference, work is underway with RIWP to outline the range mechanisms for engagement that the Fund might deploy, and considerations that might apply when deciding either to enter an engagement, or whether an existing engagement has run its full course and should not be pursued further.
- That decision might be followed simply by a decision to step back from engagement, or by a decision to divest from the company in question.



A SPECTRUM OF IMPLEMENTABLE STEWARDSHIP THEMES

- Stewardship themes can be a powerful tool for giving focus to the Fund's stewardship efforts. In guidance for private sector schemes, the DWP suggests trustees choose themes based on a range of factors including trustees' investment beliefs, an assessment of risks to which the fund is exposed, and members' and beneficiaries' best interests.
- Stewardship themes can be used:
  - (1) as a frame for reporting of activity; and
  - (2) to focus on issues that matter to the scheme and on which manager delivery can be assessed, and so as a basis to hold managers to account where expectations are not met.



RESPONSIBLE INVESTMENT AND THE DEFENCE INDUSTRY: INITIAL CONSIDERATIONS

How can it be responsible to invest in tools of death

It's called the defence industry for a reason: look at Ukraine

There is mass destruction of civilian areas

All weapons exports are approved by the government

Main parameters for considering defence industry

Products

- Perspectives vary depending on the nature of the weaponry, with particular attention to forms of indiscriminate weaponry such as:
  - Cluster munitions, anti-personnel landmines
  - Biological, chemical, white phosphorous
  - Depleted uranium, nuclear
- Some perceive all products from the whole defence sector as problematic.

Zone of operation

- Perspectives vary depending on the geography within which weapons are deployed:
  - Invasion of sovereign nation (e.g. Ukraine/Russia)
  - Deployment in occupied territories (e.g. Israel/Gaza, Morocco/ Western Sahara)
  - Civil war (e.g. Sudan, Ethiopia, Myanmar)
- Some are troubled by proactive defence/deterrent.

Key takeaways

- Using the lens of investment risk and return allows the exercise of judgement as to whether to exclude some companies, and where to draw the line.
- Taking a view at different levels (of both product and zone of operation) will have very different consequences for investment risk and return.
- Hackney already has some exclusions in place, in relation to the most indiscriminate weaponry, where there are global treaties to which UK is a party.

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2023 – INVESTMENT MARKETING & INNOVATION AWARDS – **CONTENT MARKETING CAMPAIGN OF THE YEAR**

2023 – EUROPEAN PENSIONS – **EUROPEAN PENSIONS CONSULTANCY OF THE YEAR**

2022 – FINANCIAL NEWS – **INVESTMENT CONSULTANT OF THE YEAR 2022**

2022 – FINANCIAL TIMES – **TRAILBLAZING COMPANY OF THE YEAR - DIVERSITY IN FINANCE**

2021 – FINANCIAL NEWS – **INVESTMENT CONSULTANT OF THE YEAR**

2021 – PIPA AWARDS – **INVESTMENT CONSULTANT OF THE YEAR**

2021 – CORPORATE ADVISER – **BEST DC INVESTMENT ADVISER**

2021 – PENSIONS FOR PURPOSE – **BEST BLOG CONTENT**

2020 – PROFESSIONAL PENSIONS UK PENSIONS AWARDS – **DC INNOVATION OF THE YEAR**

2017 – PENSION INSIGHT DC AWARDS – **BEST INNOVATION IN DC**

2017 – EUROPEAN PENSIONS AWARDS – **RISK MANAGEMENT FIRM OF THE YEAR**

2017 – FINANCIAL NEWS AWARDS FOR EXCELLENCE – **INVESTMENT CONSULTANT OF THE YEAR**

2016 – LONDON STOCK EXCHANGE – **1000 COMPANIES TO INSPIRE BRITAIN**

2016 – EUROPEAN PENSIONS AWARDS – **CONSULTANCY OF THE YEAR**

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