

Responsible Investment Policy

London Borough of Bexley Pension Fund

The purpose of this policy is to set out our Responsible Investment beliefs and principles, and to detail the approach we are taking to fulfil our commitments. The effective date of this policy is September 2021.

Introduction

The Bexley Council (the "Council") in its capacity as Administering Authority has responsibility to manage the London Borough of Bexley Pension Fund (the "Fund") and has delegated to us, the Pensions Committee (the "Committee") all the powers and duties of the Council in relation to its functions and authority. We are therefore responsible for making all investment decisions regarding the Fund.

Our fiduciary duty is to act in the best financial interest of members of the Fund and ensure that the Fund's objective, as set out in the Investment Strategy Statement, is met. We therefore aim to seek the best investment return to meet the funding objective subject to an appropriate level of risk and liquidity.

We seek to fulfil our statutory duty which requires us to consider responsible investment in our investment strategy and in all asset classes.

We define Responsible Investment ("RI") as the integration and consideration of environmental, social and governance ("ESG") issues into both investment processes and ownership practices.

We recognise that, as a long-term investor, we should incorporate ESG risks into our investment decision making process as the value of investments may be negatively impacted if these risks are not understood or evaluated properly. When referring to ESG issues, we consider financially material considerations (including climate change).

In developing the Fund's approach to RI, we seek to understand and manage ESG considerations to which the Fund is exposed, to the extent that these may impact on the portfolio or overall strategy.

This policy sets out the Committee's beliefs and approach to RI, including actions taken on behalf of Fund members and other stakeholders which aim to capitalise on ESG opportunities and to protect the Fund from ESG-related risks.

Our beliefs

We have discussed and agreed consensus beliefs relating to RI. These beliefs and principles form the basis of our policy and are set out below.

- The Fund is a long-term investor and seeks to deliver long-term sustainable returns. We believe there is an opportunity to positively impact investment performance by taking decisions with a long-term outlook and recognising the significance of ESG risks.
- We recognise that ESG considerations are relevant to the setting of investment objectives, ongoing monitoring, and assessment of future risks. We believe that the identification and management of ESG risks that may be financially material is part of our fiduciary duty to members.
- We believe that investments that have a positive social impact will generate better risk-adjusted returns. Similarly, companies that are poorly governed are more likely to underperform, and consequently we expect our investment managers to engage with companies where necessary for the long-term enhancement of financial and social value.
- Specifically, we believe that climate change is a material ESG factor that poses a potential financial risk over the Fund's investment time horizon. We recognise that, as institutional investors, we have the ability and duty to support the transition to a low carbon economy.
- We believe that we have a responsibility to encourage our investment managers to exercise stewardship and active ownership responsibilities effectively (such as use of proxy voting rights and undertaking active engagement with investee companies). This includes using our influence as asset owners to encourage positive behaviour from the London CIV and our other investment managers.
- In addition to the primary objective of acting in the best financial interests of the Fund's members, we believe we have a duty to consider the wider environmental and social impacts of investments. We believe that we should generally avoid investing in the most harmful companies and sectors.
- We recognise that our members may have an interest in how RI is reflected through the Fund's investment strategy. We will publish this policy and incorporate our RI policies and approach into the way that we engage and communicate with members.

Our RI approach

We take the important steps and procedures below in order to ensure our investment strategy is aligned with our beliefs and principles toward responsible investment.

Committee decision making

We aim to integrate consideration of ESG issues throughout all aspects of our investment decision making process, including setting investment strategy and monitoring the Fund's investment managers. We are supported in these aims through regular and ongoing input from, and engagement with, our investment advisers and the London CIV.

We do not apply personal, ethical or moral judgments when making investment decisions, and instead remain focused on the primary objective of acting in the best financial interests of the Fund's members. We consider the availability, suitability and depth of conviction in an idea or strategy prior to investing and will take into account the expected cost versus potential benefit from a member perspective in line with our fiduciary duty.

We undertake training on RI at least triennially to understand how ESG factors, including climate change, could impact the Fund's assets and liabilities, and members' retirement outcomes.

ESG risk monitoring and assessment

Our processes to monitor and assess ESG-related risks and opportunities include the following:

- Our investment advisers monitor the Fund's managers on an ongoing basis. Where available, this includes assigning an 'ESG rating' to equity and fixed income managers which reflects the quality of and commitment to ESG integration. We monitor ESG ratings of the Fund's managers where available on a quarterly basis.
- We recognise that the market is rapidly evolving. We ask our investment advisers to highlight appropriate opportunities to invest in responsible investment strategies and will give due consideration to any proposals.
- At least as part of each formal triennial investment strategy review we will specifically consider RI issues, including the merits of strategies which not only seek to generate positive financial returns, but also deliver a wider positive impact on society.
- We include ESG-related risks, including climate change, on the Fund's risk register as part of ongoing risk assessment and monitoring.
- The Fund will carry out analysis on the carbon intensity of the assets **on an annual basis** and consider climate change scenario analysis **at least triennially** to review the potential risks and consider mitigating action as required.
- We expect our asset managers to understand our RI beliefs and requirements. We provide our Policy to advisers and asset managers **at least triennially** and ask them to confirm their adherence.
- In the event that any asset manager or service provider does not meet any of the expectations listed in this policy, the Officers will engage with the respective stakeholders to encourage improvements in processes, transparency or activity as required.

Expectations and monitoring of investment managers

- As part of our delegated responsibilities, we expect the Fund's investment managers to take account of financially material ESG considerations (including climate change) in the selection, retention and realisation of investments. While we do not expect all our investment managers to explicitly take into account non-financial ESG considerations, we do expect full transparency on these matters in order to facilitate a full understanding of the Fund's investments.
- The majority of the Fund's assets are managed by the London CIV. We will continue reviewing its RI policy and engaging with the CIV to ensure that its strategies and beliefs are still aligned with ours.
- We, with the support from our investment advisers, carry out an annual review of the ESG profile of the Funds. The use of third-party data from MSCI, self-reported manager data from the PRI alongside commentary from the adviser, support the Committee in identifying areas of potential ESG risk and engagement opportunities.
- We expect investment managers to comply with the UK Stewardship Code Principles and expect them to be a signatory to the 2020 UK Stewardship Code and to the Principles for Responsible Investment (PRI).

Implementation

- We expect the Fund's investment managers to provide their RI policy, including details of their approach to stewardship, how they integrate ESG into their investment decision making process and approach to non-financial factors. When we look to appoint a new manager, we request and consider this information as part of the selection process. We review responses with support and input from the Fund's investment adviser.

Stewardship – voting and engagement

We recognise the importance of our role as a steward of capital. We believe in using our influence, where possible, to promote the highest standards of governance and corporate responsibility in the underlying companies in which the Fund's investments reside. We recognise that ultimately this protects the financial interests of the Fund and its beneficiaries.

We expect the Fund's investment managers to use their influence as major institutional investors to carry out our rights and duties as a shareholder including voting, along with – where relevant and appropriate – engaging with underlying investee companies.

The Committee sees itself as an active shareholder and seeks to exercise its rights (including voting rights) to promote and support good corporate governance principles which in turn will feed through into good investment performance. The Fund is a member of the Local Authority Pension Fund Forum ("LAPFF") and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners. Voting carried out by the London CIV is delegated to the external manager and monitored on a quarterly basis and expected to be in line with the LAPFF directions.

We expect the London Collective Investment Vehicle (LCIV) through which the Fund now invests new funds to take an active approach to voting and engagement and we will monitor its delivery of this.

We request details on an annual basis of how the Fund's other investment managers are undertaking voting and engagement activity.

Where possible, voting information should include details of voting actions and rationale with relevance to the Fund, in particular where: votes were cast against management; votes against management generally were significant and votes were abstained.

Similarly, engagement activity disclosures should be of relevance to the Fund's investments and include information on the rationale and outcome of engagement activity.

We review the stewardship activities on an annual basis with input from the Fund's investment adviser and will engage with managers as required.

Initiatives and industry collaboration

We recognise that collaboration and support of initiatives is a powerful tool to influence behaviour.

Members of the Committee, including the Chairman, are members of Aon's Responsible Investment Network which provides access to regular updates including:

- Responsible investment market innovations and developments
- Topical roadshows, events and training sessions
- Research and focus group discussions of key issues surrounding sustainable finance and RI.

We expect the Fund's investment managers to consider collaboration with others, as permitted by relevant legal and regulatory codes, where collaboration is likely to be the most effective mechanism for encouraging positive change at investee companies/issuers.

We expect our investment advisers to keep us informed of relevant global and industry initiatives and may consider participating in opportunities where there is appropriate alignment with our beliefs and principles.

Evolving our approach

We acknowledge that the Fund's approach to RI will need to continually evolve, due to both the changing landscape with respect to ESG issues and broader industry developments.

We are committed to making ongoing improvements to our approach and the processes that underpin the delivery of this policy. We are focused on making sure that it remains relevant and appropriate for our members.

Disclosure and reporting

We believe transparency is important. In support of this belief, we are making this policy available to members and welcome any feedback. This policy supplements additional

disclosures and information available as part of our Investment Strategy Statement (available at www.bexley.gov.uk).

We will formally review this policy at least every three years as part of each formal triennial investment strategy review or as required in response to changing regulations or broader governance issues.