

Royal Borough of Kingston Upon Thames Pension Fund Responsible Investment Policy

Purpose

The purpose of this paper is to document the agreed Responsible Investment policy applicable to 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.

Why has this document been produced?

The Panel recognises the importance and relevance of responsible investment practices to the Fund. As a long-term investor, the Fund is exposed to a range of financially material risks and opportunities which may crystallise over its time horizon. A number of these relate to Environmental, Social, and Governance ("ESG") matters across its investment portfolio.

The Panel also recognises that there is a non-financial dimension to investment decision-making; that is, the wider impact of implementing investment decisions is of relevance in determining the way in which the Fund invests. As such, the Panel will seek to identify areas in which there is a positive non-financial impact arising from investment opportunities and implementation.

In addition, the Panel recognises growing regulatory focus and emphasis on the need to demonstrate and articulate the ways in which long-term sustainability, active ownership, and risk monitoring and mitigation is integrated into Fund-level investment decision making and choices.

Scope of policy

This document sets out the beliefs and principles of the 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.



Priority Sustainable Development Goals and Responsible Investment Beliefs

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

Through this process, a number of the SDGs have been identified as both relevant to the Fund, and investable. The Panel's beliefs and principles relating to the SDGs and wider Responsible Investment perspectives form the basis of the Fund's approach. The core principle underpinning the Panel's agreed approach is the desire for the Fund to be a long-term, sustainable investor.

Agreed priority Sustainable Development Goals

The Panel note that the SDGs are inherently interconnected, and in particular agree that SDG 13 – Climate Action – should be reflected as an overarching theme relevant to the Fund. The following additional SDGs have been selected as the Panel's priorities:

SDG 3 – Good Health and Wellbeing – the current 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 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 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 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 Panel 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 Panel will communicate the agreed priority SDGs to its appointed fund managers, 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.

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

- The Panel will express this belief to their appointed investment managers 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 Panel will consider long-term performance track records. The Panel 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 Panel recognises that 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 our members.

- The Panel 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 Panel will seek to integrate ESG issues throughout the investment decision-making process, from setting investment strategy to monitoring the Fund's investment managers.
- The Panel 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.



- The Panel will take advice from its appointed investment adviser regarding any changes to its investment strategy and will consider how ESG matters and the Panel's identified priorities and beliefs may influence this.

Climate-related beliefs

Kingston Council has declared a climate emergency. Considering the implications of, and seeking to mitigate, climate change related risks is consistent with the Panel'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 Panel recognises that climate change is one of the material ESG factors that pose a potential financial risk over the Fund's investment timescale.

- The Panel will communicate its view of the importance of climate change as a key risk to the Fund's appointed investment managers. 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 Panel expects that its appointed investment managers will 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 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 Panel 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 Panel will consider undertaking carbon footprint analysis across the Fund's portfolio to establish the Fund's exposure over time to carbon risk.
- The Panel 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.

Active ownership and engagement beliefs



The Panel 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 Panel 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 Panel expects that its appointed fund managers will use engagement tools to improve standards and long-term sustainability characteristics of investee companies. Where this proves unsuccessful, the Panel supports the decision to divest. The Panel 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 Panel 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 Panel will monitor the stewardship activity of its appointed fund managers 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 Panel will ask that their appointed fund managers explain why this is the case.
- The Panel will request details from their appointed fund managers 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 Panel agrees that collaboration via the London CIV (London Collective Investment Vehicle) gives rise to stewardship and engagement opportunities, as does the Fund's continued membership of LAPFF.

- The Panel 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 Panel will continue to participate in LAPFF to actively shape their agenda and priorities on stewardship matters.
- The Panel may consider joining other investment industry collaboration initiatives in future to work with other investors to achieve greater traction on sustainability issues.

Transparency: monitoring, disclosure and reporting

The Panel agrees 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 Panel agrees it will publish its Responsible Investment Policy.
- The Panel believes that regular monitoring and reporting of actions and progress is important, given that this is closely linked to good governance and transparency.
- The Panel agrees that, at this stage, they will not set and publish formal carbon reduction targets. This stance will be reviewed over time. However, if and when carbon footprint analysis of the Fund is produced, the Panel will seek to make the results public.
- As the Panel continue to discuss and refine their approach to Responsible Investment, their approach to reporting and disclosure will develop.