London Borough of Newham Pension Fund

Environmental, Social and Governance (ESG) Investment Policy

March 2023

The Law Commission published its report on the Fiduciary Duties of Investment intermediaries on 1 July 2014. The report concluded that *"the primary purpose of the investment power given to pension trustees is to secure the best realistic return over the long-term, given the need to control for risks"*.

The objective of the Pension Committee can be distilled into two elements:

- paying the pensions of today, and;
- protecting the pensions of the future.

This ESG policy links today to the future by combining the objectives above with the fiduciary responsibility of the Pension Committee.

We believe that ESG should be embedded within the Fund's investment strategy. It is worth recapping on what we mean by an investment strategy. At its most simple it can be thought of as the allocation of the Fund's resources to different asset classes in order to generate a long-term investment return.

When setting or reviewing their investment strategy, the Committee determines **why** they have chosen to hold a particular asset. The focus of the ongoing monitoring of the strategy is then to justify **why they continue to hold** that asset.

ESG issues are relevant in both of these categories, as is the process of remaining engaged with the Fund's underlying investment managers in this area.

This document sets out the Committee's Policy in full.

Contents

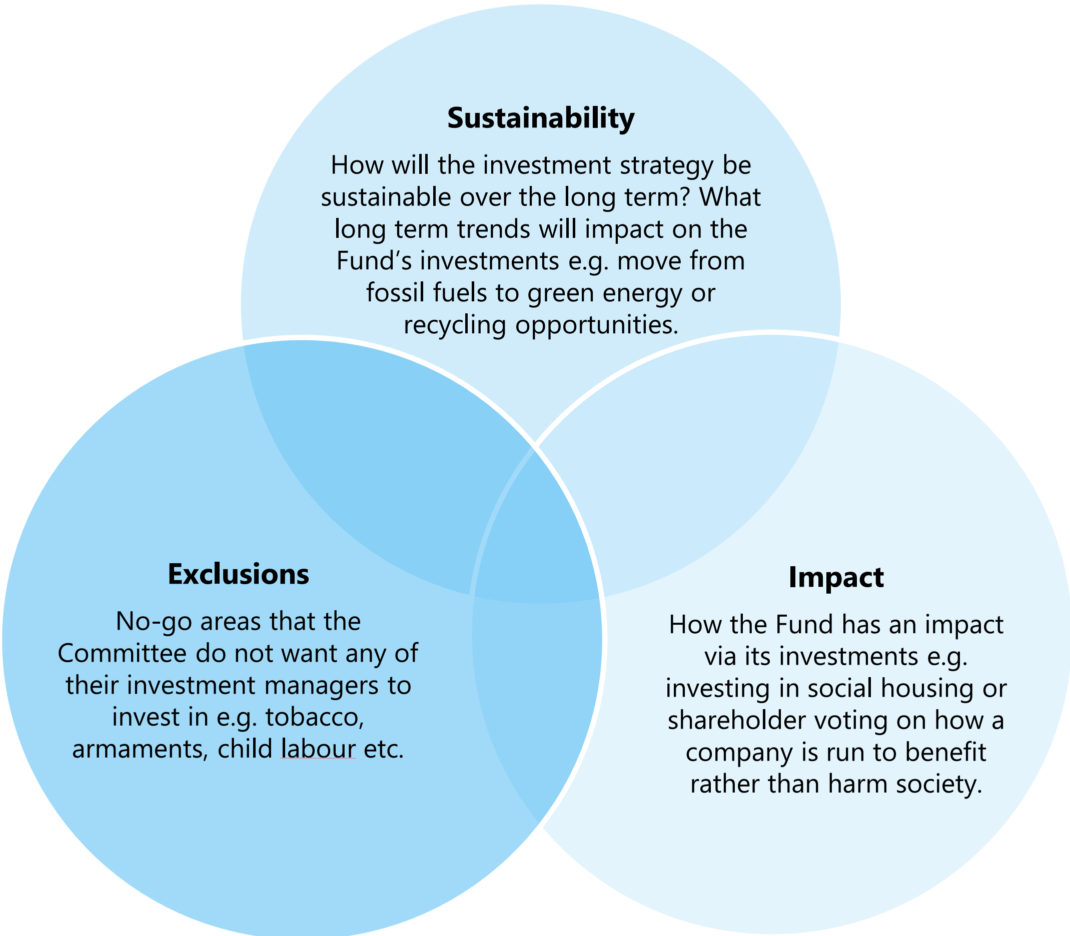
Introduction

This Policy has been developed and set by the Pension Committee ("the Committee") of the London Borough of Newham Pension Fund ("the Fund") based on the belief that investment decisions should reflect environmental, social and governance considerations. This builds on the policy agreed on 26 February 2020 and updated on 21 May 2021.

This ESG Investment Policy applies to all applicable investments held by the Fund. However, the Committee recognises that there are practical difficulties (such as availability of suitable funds) that will act as an obstacle to the Policy being implemented in full at this time, without incurring material costs or having a likely negative impact on the investments' performance.

The Committee are committed to the long-term aims of this Policy. In the short-term they will apply the Policy pragmatically, as much as possible and continue to monitor opportunities in the investment industry such that they can apply the Policy more fully as time passes.

The diagram below shows the way that the Committee consider ESG issues within this Policy.



The Financial Reporting Council has published the 2020 UK Stewardship Code. This defines stewardship as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society".

The Committee has adopted this definition of stewardship, and seeks to apply these principles within the assets that it holds.

The Committee is keen to be a progressive Local Authority when it comes to ESG issues and this is reflected in both the focus they have placed to date on ESG related issues, resulting in their current low exposure to fossil fuels, and the future focussed nature of this Policy. Following the recent consultation by the Department for Levelling Up, Housing and Communities, the Fund anticipates reporting under the Taskforce for Climate-related Financial Disclosures (TCFD).

The Committee will share this Policy with the Fund's investment managers to encourage engagement and alignment and to highlight any areas of difference which can then be challenged. The Committee view this engagement process as helping identify developments that may help facilitate a more complete implementation of the Policy over time.

The appendices to this policy document provide further background on the external influences on the policy. They also expand on what is meant by financial and non-financial factors referred to within the policy document.

The Committee has identified the factors which they believe to be financial and non-financial in this Policy. In many cases investment decisions will often have a mixture of motivations. However, where the Committee considers that there is a financially positive rationale for taking a factor into account, it is identified in this policy as being a financial factor, notwithstanding that an additional non-financial motivation could also be identified. Where a factor is purely non-financial (i.e. there is not a strong case to take it into account as a financially positive factor), the Committee have aimed to quantify the impact of this factor to ensure that their decisions relating to this factor would at least not involve a risk of significant financial detriment to the Fund. The policy also sets out, in relation to non-financial factors, why the Committee consider that it should be taken into account in accordance with the views that the Committee consider the Fund's members are likely to hold.

Ethical Investing

This document contains the Committee's full ESG policy. Where the Committee wishes to impose ethical constraints on the investment policy these will also be reflected in this policy document.

BARNETT WADDINGHAM
beyond the expected

Community Wealth Building

As, further discussed in the Impact section of this report, the Committee provides opportunities for their investment managers, and other professional firms associated with the Fund, to volunteer their time and knowledge to help with the financial education of population the London Borough of Newham. The Committee recognises the importance of these firms having Corporate Social Responsibility programs.

Examples of this include:

- Financial Education Forum – A forum to provide young adults from the London Borough of Newham with financial education and information on employment opportunities in finance.
- Climate Change Risk Forum – Building on the Council and Committee's view on climate risk, a forum on climate change risk and its financial implications. This too will be focussed on helping young adults understand the financial and other implications of climate risk, and how it can be managed.

The forums mentioned above were due to take place in 2020. These were postponed due to the COVID pandemic. The Committee notes the disruption caused by covid in relation to these activities and intends to create these opportunities for engagement when the timing becomes appropriate. It remains within the Committee's Business Plan.

Applicable Assets and Investments

The Committee will apply this Policy to the investments within the Fund but recognises that for some asset classes, ESG considerations cannot and need not be taken into account. The main asset classes that the Fund invests in are set out below with details of whether or not the Policy applies to them. By acknowledging which asset classes can be ignored when implementing the Policy, the Committee can focus on applying the Policy to the asset classes where they can have the most impact.

Category	Asset Class	ESG Policy Applicable?
Equities	Public Equity	Yes
	Private Equity	Yes
Alternatives	Infrastructure	Yes
	Agriculture	Yes
Property	Commercial Property	Yes
	Social Housing	Yes
Credit	Public Credit	Yes
	Private Credit	Yes
	Government Bonds	No – The Fund only invests in UK government bonds and the UK government does not have human rights violations (which would be an ESG concern relating to government bonds). In addition, the Net Zero Investment Framework Implementation Guide[1] states that "investors may exclude domestic [government bond] issuance held for liability matching purposes" in assessing their climate impact. Other overseas government bonds are treated as public credit and therefore the ESG policy is applicable to these.
Protection	Equity Protection	No – achieved via contracts with banks
	Currency Hedging	No – achieved via contracts with banks
Cash	Cash	No

[1] https://www.parisalignedinvestment.org/media/2021/03/PAII-Net-Zero-Investment-Framework_Implementation-Guide.pdf

Market Enforced Limitations / Constraints

This Policy is designed to take account of the ESG investment aspirations of the Committee. However, the Committee recognises that there are certain limitations and constraints that mean that the policy cannot be implemented fully at this time. The key limitations and constraints have been identified and noted where relevant.

Sustainability

The Sustainability section of this Policy comprises of how the Committee is committed to the sustainability of its investments in the long term. It documents the trends which the Committee think will impact on the Fund's investments and how the Committee will incorporate these trends within its investments.

The tables below is intended to be a living document and will be updated when new trends are identified.

Financial Factors

Trend	Committee View	Impact on Investments	Timeframe
Fossil Fuels to Green Energy	The Committee have recognised this trend within the fund by: • Moving their passive equity portfolio to a Paris Aligned Benchmark, which will exclude fossil fuel companies. • Investing in infrastructure and agriculture funds which support green energy production. • Following lobbying of the London CIV, switched their Global Bond Fund holding into a more ESG focussed version. • Impressing on their investment managers the need to consider a Just Transition	Moderate positive impact on return Lower volatility	Immediate
Increasing need for affordable housing	The Committee have invested in a fund providing social and affordable housing, managed by Cheyne Capital.	Low	Immediate
Risk of tobacco litigation and decline of smoking	The Committee have excluded tobacco manufacturing companies from their directly held assets. The Committee have shown their support of tobacco exclusions by becoming the first LGPS signatory of the Tobacco Free Portfolios pledge.	Low	Immediate

Trend	Committee View	Impact on Investments	Timeframe
	TOBACCO FREE PORTFOLIOS		

Non-Financial Factors

Trend	Committee View	Impact on Investments	Timeframe
Equality, diversity and gender	It is in the asset owners' interests that investee companies are employing the best people for the job regardless of their race, gender etc and the way to measure the company's progress in this regard is by carrying out annual equality monitoring. It is also important that companies' most senior executives have been selected on merit and, as stated by the Financial Reporting Council's Corporate Governance Code, that the board has a wide diversity of talent. This is also in furtherance of the Davies Review 2011 into low representation of women on boards, which recommended that companies should aim for 25% representation by 2015.		
Living wage and contracts	Growth in productivity is in the shareholders' interests and this is a serious issue in the UK. Studies show that greater productivity comes from a workforce that is paid fairly.		
UN Global Compact standards	It is in shareholders' interests that directors fulfil their duties under Section 172 of the Companies Act 2006 by conforming to international conventions		

Trend	Committee View	Impact on Investments	Timeframe
	that protect people's rights to freedom of association within their own company and within the supply chain. Failure to do so may cause reputational damage, labour unrest and a fall in share value.		
Labour ethics and modern slavery	Section 172 of the Companies Act 2006 imposes a duty upon a director to promote the success of the company having regard to, among other factors, the interests of the company's employees and the desirability of the company maintaining a reputation for high standards of business conduct. This is also in furtherance of Principles One to Five of the UN Global Compact. The persistence of labour rights violations in supply chains is a pressing issue. Four 'core' ILO Conventions entail an absolute prohibition on forced labour and child labour.		

Market Enforced Limitations / Constraints

Where the Committee accesses assets via pooled funds, the ability to exclude or adjust the asset allocation on the basis of non-financial factors is limited. However the Committee has, and will continue to, sought to engage with the Fund's investment managers to encourage them to influence the underlying companies that they invest in on behalf of the Fund. The Committee also engages regularly with the London CIV to share its views on the themes noted above in an attempt to influence the funds that the London CIV provides.
The Committee will provide feedback to their investment managers on the activities carried out and will continue to highlight their participation in LAPFF and the voting guidance it provides managers with.

The Committee notes the developments within the London CIV in relation to ESG and its use of Hermes EOS to assist with the implementation of its ESG engagement/voting policies.

Exclusions

Where the Fund invests in a pooled fund, individual investors, such as the Fund, have no direct influence on the investments within the fund. The benefits of investing in a pooled fund may include access to illiquid asset classes through liquid investments or exposure to a more diversified range of underlying assets in a cost effective way. As per the MHCLG draft LGPS statutory guidance on asset pooling[2], "all administering authorities must pool their assets in order to deliver the benefits of scale and collaboration".

When investing in pooled funds, the Committee recognises that the exclusions may not be able to be applied in full. However, the Committee will seek to appoint pooled fund investment managers whose policies align with this Policy where possible so as to minimise indirect investment in companies that fall within the exclusions of this Policy wherever there is scope for this requirement to be accommodated.

Financial Factors

The Committee considers that there is a financial rationale for seeking to exclude certain types of investments from the Fund where it is possible to do so. Such exclusions may be for reasons of enhancing risk adjusted returns or reducing financial risks to the Fund.

Where possible, the Committee seeks to exclude the following types of investments on financial grounds:

- Fossil fuel companies.
- Companies that generate over half of their income from tobacco products.

Non-Financial Factors

The Committee believes that certain types of investments (non-financial factors) should be excluded from its direct investments. These are:

- Companies with significant involvement in the manufacture and production of controversial weapons which are defined follows:
    - Companies involved in the core weapons system, or components/services of the core weapons system, considered tailor-made and essential for the lethal use of the weapon.
    - Companies is involved in the production, maintenance/service, sale/trade, or research and development of the core weapons system.

[2] https://www.lgpsboard.org/images/Other/Draft_guidance_on_pooling-consultation.pdf

Controversial weapons manufacturers are predominantly domiciled in emerging markets and China in particular. In many jurisdictions they are illegal to invest in and we consider that the Fund's members would generally not want the Fund invested in these companies.

When considering these exclusions the Committee has looked at historic returns including and excluding these factors and is comfortable that they do not represent a worsening of the outlook for expected returns nor add material additional volatility. Therefore, the Committee believes that their exclusion would not involve a risk of significant financial detriment.

Market Enforced Limitations / Constraints

The Fund has incorporated LGIM's Future World Funds and Paris Aligned Equity Index Funds into the Strategic Asset Allocation. These funds meet many of the Committees requirements for a low-carbon, ESG focused equity index. Capital is allocated, within market sectors, to companies according to their ESG score and LGIM uses their voting to help raise the importance of such matters.

Impact

The Impact section of this Policy sets out how the Fund has an impact on ESG considerations via the investments it holds. Examples of this are how the equities that the Fund holds are voted and any special investments which are taken on to positively impact the environment or social causes.

In addition, the Committee engages with the investment managers of the Fund on their **Corporate Social Responsibility** policies and encourages the managers to engage with the London Borough of Newham when volunteering. When possible, the Committee will provide opportunities for their investment managers to volunteer their time and knowledge to help with the financial education of the population of the Borough in this regard.

Financial Factors

Renewable Infrastructure

When making investments in infrastructure for growth and income, the Committee acknowledged the opportunity from changing energy usage and decided to make an investment in funds that held renewable energy assets as a result.

Social Housing

Over the couple of years leading up to 2020, the Committee had been exploring the opportunities to supplement its existing commitments to infrastructure by investing in local infrastructure projects. Whilst it was recognised that this would bring social impact, the rationale for doing so was driven by the return opportunity that it created.

The development in East London has brought with it commercial infrastructure opportunities and simultaneously increased demand for social infrastructure investment. Since 2020, the focus of the Pensions Committee has been to establish ways in which the Newham Pension Fund can benefit from the opportunities arising in social and affordable housing.

The Council of the London Borough of Newham have a stated intention to increase the supply of housing within the Borough. The Committee is mindful that it would be preferable if the investment programme it undertakes in relation to housing complements the approach being taken by the Council from a practical standpoint to avoid increasing costs associated with the Council's own development programme.

The Pensions Committee is also aware of its responsibility to ensure risk within the Fund is managed. Within the housing context this would be done through diversification. Consequently, diversification will be sought in terms of both the number and type of units used, as well as the location within London of the housing invested in. This latter point reflects the differing land costs across London, and the wider country, and the impact this has on the returns and viability of investments.

The Fund has now implemented an investment in social and affordable housing through an investment in a fund managed by Cheyne Capital.

Voting Policy

The Fund is a member of Local Authority Pension Fund Forum (LAPFF). LAPFF influences, where possible, the way in which assets are voted on. The Committee has a view that voting in line with LAPFF's guidance will have a positive impact on the companies it invests in over the long term along with positive benefits for the economy, the environment and society.

The Committee supplements the work done by LAPFF by agreeing their own voting policy, set out here. Whilst the Committee recognises that the influence it can have on the voting policies of its investment managers can be somewhat limited, it believes that by having clear expectations on voting reflected in this policy and sharing this policy with its investment managers, it can have a greater influence on the voting behaviour of its investment managers. The Committee's voting policy also provides a framework to measure the alignment of its investment managers' voting practices with the views of the Committee.

The list below sets out the Committee's views on various issues that can be reflected in the investment managers' voting and engagement with investee companies. The Committee recognises that constructive engagement with investee companies is vital not only for the investment managers' to share their views and understand the investee company's business, but also so that the investee company understands the reason behind any vote against management, board member or function or any vote in favour of a shareholder resolution. Similarly, having reviewed the engagement and voting activity of their investment managers the Committee will provide feedback to them along with indications of how those processes and practices will be monitored in future. In addition to being seen as a key way of establishing a well-functioning financial market, the Committee also recognise that as asset owners, they have responsibilities in relation to engagement and voting.

Voting in this way is seen as a form of escalation where engagement has not reached a satisfactory conclusion.

- **Climate change** – investee companies should work towards limiting or reversing climate change by making efforts to reduce carbon emissions and transition to a low carbon economy
- **Just Transition** – investee companies should connect their action on climate change with inclusive development pathways driving a 'just transition' for workers and communities as the world's economy responds to climate change

- **Pay inequality** – investee companies should provide a fair distribution of pay
- **Gender diversity** – investee companies should have (or be actively working towards) balanced gender representation in their organisation, throughout the workforce, including at the board level
- **Health** – investee companies should promote healthy lives and wellbeing for all stakeholders
- **Multicultural diversity** - investee companies should have (or be actively working towards) diverse ethnic and cultural composition of their organisation, throughout the workforce, including at the board level
- **Biodiversity and ecology** – where relevant, investee companies should promote biodiversity, conservation and nature-based solutions to allow nature and people to flourish
- **Packaging, waste and the circular economy** - where relevant, investee companies should aim to limit and reduce waste and make efforts to reduce their environmental impact, including considering the recyclability and re-use of their products
- **Sustainable land use** – investee companies should have (or be actively working towards) adequate policies and programmes designed to protect biodiversity and address community concerns on land use
- **Tax avoidance** – investee companies should pay fair levels of tax
- **Workplace safety and standards** – investee companies should have (or be actively working towards) policies and programmes designed to protect their workers and those in their supply chain

Market Enforced Limitations / Constraints

The Committee no longer holds any equities directly. The previous segregated mandate with Longview having been transferred into a fund within LCIV that is managed by Longview and in a similar manner to the previous holdings This will mean that the Committee will have less influence on the voting of its active equity holdings. However, the Committee will work with the London CIV to try to influence their voting and engagement policy, noting the role that Hermes EOS play in that regard.

The Committee are aware that imposing a voting policy on a pooled equity fund can be more difficult than on a segregated mandate due to the investment manager's needs to reflect the best interests of all of their unitholders. They are working with their pooled equity managers to influence their voting policy.

Despite these practical constraints the Committee will provide their investment managers with feedback on the activities they are undertaking.

Monitoring and Governing the Policy

In order to give effect to its commitment to this Policy, the Committee will:

- Publish this Policy on its website. In doing so this will be available to members and beneficiaries of the Fund.
- Share this Policy with the Fund's investment managers to encourage alignment and highlight any areas of difference which can then be challenged.
- Review this Policy annually to ensure it remains relevant and modify the Policy if necessary.
- Monitor the Fund's investment managers for adherence to the Policy annually.
- Provide the investment managers with feedback on their engagement and voting activities.
- Encourage their investment managers to take part in industry wide initiatives aimed at improving ESG generally and promoting the benefit of a well-functioning financial system.
- Take the Policy into consideration when investing in a new product or investment manager.
- Monitor the investment landscape for new products or innovations which could be used by the Fund to enable better adherence to the Policy.

Appendix I - External agencies associated with the Policy

UN Principles for Responsible Investment (PRI)

The UN established 6 Principles for Responsible Investment for investment managers in 2006. The principles are set out in the Appendix.

The Committee expect the investment managers of relevant assets within the Fund to adhere to the UN PRI and will monitor the rating of the managers against these Principles.

When making new investment manager appointments the Committee will seek to appoint managers who adhere to the UN PRI.

2020 UK Stewardship Code

The 2020 UK Stewardship Code was established by the UK Financial Reporting Council (FRC). The Financial Conduct Authority (FCA) supports the UK Stewardship Code by requiring any authorised investment manager to "disclose the nature of its commitment to the Code". If a manager does not feel it applies to them for any reason, they are required to explain why not.

The principles of the UK Stewardship Code are set out in the Appendix II.

The Committee expect the investment managers of relevant asset classes within the Fund to be signatories of the UN Stewardship Code and will monitor managers' signatory status.

Where the asset class and geographical location are appropriate, the Committee expect managers to adhere to the 2020 UK Stewardship Code.

SRD II – Shareholder Directive Code II

The Committee expects the investment managers to engage with the companies in which it is invested and to publish an engagement policy and disclose annually how the main elements of their investment strategy contribute to the medium to long-term performance of their assets.

Local Authority Pension Fund Forum (LAPFF)

The Fund is a member of LAPFF. LAPFF's aim is to maximise their influence as shareholders, while promoting corporate social responsibility and high standards of governance among companies in which they invest. The LAPFF comprises of UK public funds which engage as a united front with investee companies on issues such as climate change, child labour and breaches of best practice including the UK Code on Corporate Governance. Executive remuneration is an important governance issue for LAPFF and is focused on the subject of incorporating non-financial performance metrics into long term reward.

The LAPFF provides ad hoc briefings on companies where contentious votes are due or there are serious corporate governance failings or concerns. Where these relate to companies within the Fund's portfolio, these concerns are raised with the relevant fund manager and appropriate action is taken. Where LAPFF issue a voting direction on a particular issue, fund managers will be expected to comply with this or explain any deviance.

Institutional Investors Group on Climate Change (IIGCC)

The Fund pursues engagement with companies through membership of the IIGCC, one of the core objectives of which is to engage in dialogue on environmental issues.

Appendix II – Key points of UNPRI and 2020 UK Stewardship Code

UN Principles for Responsible Investment

1. Incorporate ESG issues into investment analysis and decision-making processes.
2. Be active owners and incorporate ESG issues into ownership policies and practices.
3. Seek appropriate disclosure on ESG issues by the entities in which they invest.
4. Promote acceptance and implementation of the Principles within the investment industry.
5. Work together to enhance their effectiveness in implementing the Principles.
6. Report on their activities and progress towards implementing the Principles.

2020 UK Stewardship Code Principles

1. 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.
2. Signatories' governance, resources and incentives support stewardship.
3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.
4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
5. Signatories review their policies, assure their processes and assess the effectiveness of their activities.
6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8. Signatories monitor and hold to account managers and/or service providers.
9. Signatories engage with issuers to maintain or enhance the value of assets.

10. Signatories, where necessary, participate in collaborative engagement to influence issuers.
11. Signatories, where necessary, escalate stewardship activities to influence issuers.
12. Signatories actively exercise their rights and responsibilities.

Appendix III - Financial and Non-Financial Factors

In 2014, the Law Commission made clear that private sector pension trustees' fiduciary duty is to take account of financially material considerations, whatever their source. Where ESG considerations are financially material, decision makers should take account of them. The Law Commission went on to say that this applies in exactly the same way as other risks in pension scheme investment, for example interest rate risk, liquidity risk, market risk, political and counterparty risk.

According to the Law Commission, when making an investment decision based on a non-financial consideration, private sector trustees have a duty to **ensure that the decision would not involve a risk of significant financial detriment to the fund and that it would be reasonable to assume that the scheme members agree with that decision**. A related provision may be found in LGPS statutory guidance which contemplates that an LGPS investment may similarly be influenced by wider social, ethical or environmental considerations, so long as that does not risk material financial detriment to the fund. So for example, an administering authority may take account of social housing needs (but only if an investment in such stands up as an investment in its own right) or may choose to take into account the public health implications of an investment (but only if the result of such consideration is the replacement of these investments with assets producing a similar return).

In practice, investment decisions will often have a mixture of motivations and therefore a clear non-financial motivation (separate from the financial motivations for an investment decision) may be difficult to identify. However, for the purpose of this guidance **non-financial factors are those which influence investment decisions and are primarily motivated by considerations other than financial**, This is taken to mean any decision to disinvest or invest for which the primary motivation excludes consideration of the potential financial outcome.