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Pensions Committee

Date: **WEDNESDAY, 30 MARCH 2022**

Time: **5.00 PM**

Venue: **COMMITTEE ROOM 5 - CIVIC CENTRE, HIGH STREET, UXBRIDGE**

Meeting Details: Members of the Public and Media are welcome to attend.

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To Members of the Committee:

Martin Goddard (Chairman)
Duncan Flynn (Vice-Chairman)
John Morse (Opposition Lead)
John Hensley
Raju Sansarpuri

Published: Tuesday, 22 March 2022

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Agenda

CHAIRMAN'S ANNOUNCEMENTS

PART I - Members, Public and Press

PART II - Members Only

That the reports in Part 2 of this agenda be declared not for publication because they involve the disclosure of information in accordance with Section 100(A) and Part 1 of Schedule 12 (A) to the Local Government Act 1972 (as amended), in that they contain exempt information and that the public interest in withholding the information outweighs the public interest in disclosing it.

Minutes

PENSIONS COMMITTEE

01 December 2021

Meeting held in Committee Room 6 - Civic Centre High Street, Uxbridge

	Committee Members Present: Councillors Martin Goddard (Chairman) Tony Eginton Duncan Flynn (Vice-Chairman) John Hensley John Morse (Opposition Lead) **LBH Officers Present:** Paul Whaymand, Corporate Director of Finance James Lake, Head of Finance – Statutory Accounting & Pension Fund Yvonne Thompson-Hoyte, Interim Pension Fund Manager Steve Clarke, Democratic Services Officer **Also Present:** Roger Hackett, Pensions Board Member Tony Noakes, Pensions Board Member Anil Mehta, Pension Board Member David O'Hara, Isio Andrew Singh, Isio Clare Scott, Independent Adviser Andy Lowe, Hampshire County Council
3.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* Apologies for absence had been received from Councillor Raju Sansarpuri with Councillor Tony Eginton substituting.
4.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* Councillors Tony Eginton and John Hensley declared non-pecuniary interests in all agenda items as retired members of the Local Government Pension Scheme. Both Councillors remained in the meeting during discussion of all items.
5.	**MINUTES OF THE MEETINGS DATED 28 SEPTEMBER 2021** *(Agenda Item 3)* **RESOLVED: That the minutes of the meeting dated 28 September 2021 be agreed as an accurate record.**
6.	**TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE** *(Agenda Item 4)*

	It was confirmed that items 1 - 9 were marked Part I and would be considered in public and items 10 – 12 were marked Part II and would be considered in private.
7.	**ADMINISTRATION REPORT** *(Agenda Item 5)* James Lake, Head of Finance – Statutory Accounting and Pension Fund, introduced the item highlighting that, at the time of the meeting, administration services had been with Hampshire County Council (HCC) for two months. In that time, it was noted that the service delivered had been positive and at the time of the meeting, member sign up to the new online portal had reached over 52% of the previous administrator's closing figure. It was also specifically highlighted that HCC had achieved 100% across all key performance indicators (KPI's) in their first set of indicators. Members were encouraged by the administration report and commended officers at both Hillingdon and HCC for their work on the successful transition of administration services. By way of clarification, the Committee were also informed that each year a data quality score was required to be submitted to the Pensions Regulator; this year, both the common and conditional scores were significantly down on previous years. This was attributed to the Data Analysis Reporting Tool (DART) used by HCC. The tool was more thorough than that used by the previous administrators and looked at more areas, as a result it detected more errors. A planned data cleansing project was to be developed and implemented throughout 2022 which was expected to improve the next year's data quality score. The Committee noted that there was an extensive programme of data cleansing ahead and sought some brief information on the project and expected timetables. Andy Lowe, of HCC, informed Members that HCC 's own common and conditional data quality scores were at 96% and that the Committee could expect to see Hillingdon's scores move towards HCC's levels going forward; although it was understood that a timescale for Hillingdon's scores to reach that of HCC's would be difficult to predict. Officers confirmed that they did not expect to see any concerns raised by the Pensions Regulator based on Hillingdon's 2021 data quality scores due to the use of the DART and it was reinforced that the regulator would be encouraged to see the 2022 scores moving in a positive direction, which was expected. Members were also informed that the historical work handed to HCC from the previous administrators, including work around unprocessed leavers, would be handled by a separate team to the day-to-day administration services provided by HCC. Data analysis work would begin in January 2022 and would inform the priority actions for the data cleansing project throughout 2022. It was also noted that a representative from HCC would be happy to attend future Pensions Committee meetings in person where this was requested. The Committee noted that a small number of glitches had occurred on the first pay run under HCC in October and sought clarification that no such glitches had occurred in the November pay run. HCC confirmed that the minor glitches in the first pay run were quickly resolved and no such glitches had occurred in November's pay run. Members noted that the administration report provided by HCC was comprehensive and the summary of correspondence provided was highlighted as being particularly useful for Members. **RESOLVED: That the Pensions Committee noted the administration report.**
8.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE – PART I** *(Agenda Item 6)*

	James Lake, Head of Finance – Statutory Accounting and Pension Fund, introduced the report positively highlighting that the value of the Pension Fund grew over the quarter to £1.234B and, as at the time of the meeting, stood at £1.267B. However, it was noted that with the impact of inflation, liabilities grew at a higher rate, meaning the funding position for the quarter had reduced slightly from 90.5% to 90%. Performance over the quarter was also positive and long-term returns were ahead of the requisite 4% return. Responding to a query on the level of equities investment, advisors confirmed that there were no major concerns around Hillingdon's current position with regard to allocation to equities. Equities had performed strongly in recent years, but it was noted that a risk to equities would be inflation; how quickly interest rates rose going forward would be driven by rises in inflation. The advisors deemed that for the time being, allocations to equities were appropriate for Hillingdon's relatively low-risk investment strategy; Members noted that the low-risk strategy had been working in Hillingdon's favour. Commenting on the encouraging trend of the shrinking deficit, Members noted that the deficit recovery had been sustained over the last few years although it was highlighted that any increase in inflation would be likely to put pressure on those improvements. **RESOLVED That the Pensions Committee:** **1) Noted the funding and performance update; and** **2) Noted the updates on implementation of the investment strategy.**
9.	**PENSIONS DASHBOARD** *(Agenda Item 7)* James Lake, Head of Finance – Statutory Accounting and Pension Fund, introduced the report informing the Committee of the government backed initiative aiming to enable individuals to access all of their pension information securely, online, and in one place through a Pensions Dashboard. Members were informed that this was a regulatory requirement, and all pension schemes would need to participate. Hampshire County Council's software provider were working on an interface to achieve what was required and officers highlighted that further technical guidance would be issued over the winter, with development and testing throughout 2022, and the onboarding of data to take place in 2023. Members commented that the initiative represented more regulatory burden but recognised the need for obligation. **RESOLVED That the Pensions Committee noted the progress of the Pensions Dashboard Programme and the regulatory requirement for the Hillingdon Pension Fund to participate in the programme.**
10.	**RISK REGISTER REPORT** *(Agenda Item 8)* James Lake, Head of Finance – Statutory Accounting and Pension Fund, informed Members that Pen 07, relating to the potential disruption of administration services whilst transitioning to Hampshire County Council, had been removed as the transition had completed. Further to this it was noted that once a track record had been obtained of being with Hampshire, it was hoped that Pen 06, relating to the performance of the administrator, could be reduced. It was also noted that Pen 04, relating to inflation, would be kept under review but remained static for this quarter.

	With regard to the overall reduction in the rating of Pen 11, relating to the threat of COVID-19 on business continuity, the Committee sought assurance that the emergence of new COVID-19 variants would not have an impact on this risk. It was highlighted that the systems enabling large amounts of staff to work from home had been in place for almost two years and, should a work from home order be given, the Council's workforce could transition reliably and efficiently. It was also noted that similar systems were in place for the administrators at Hampshire. The Committee commented on Pen 04, relating to inflation, with regard to the medium-term risk to the Fund being driven by the nature of the liabilities. Advisors noted that inflation protection had been discussed for a while with regard to the asset allocation and the Fund had been building up some protection against inflation over the last few years. However, concerns would raise if inflation increases were to turn into a longer-term scenario. **RESOLVED That the Pensions Committee considered the Risk Register in terms of the approach, the specific risks identified, and the measures being taken to mitigate those current risks.**
11.	**WORK PROGRAMME AND TRAINING LOG** *(Agenda Item 9)* James Lake, Head of Finance – Statutory Accounting and Pension Fund, introduced the report noting that the proposed Committee dates for the 2022/23 municipal year were to be formally ratified by the Council in early 2022. Members were informed that, in addition to the regular work of the Committee, 2022/23 would focus on the actuarial variation, new regulations, the data cleansing project and increasing the Committee's Environmental, Social and Governance (ESG) work through the Task Force on Climate-Related Financial Disclosures (TCFD). The Committee were also informed that, going forward, the Pensions Committee Training Log would be included with this item as it was likely to become a regulatory requirement for Committee Members to undertake training. Members noted that the Pensions Board Members had been producing training logs for some time and agreed that it was right that the Committee Members were now to do the same. It was also highlighted and agreed that substitute Pensions Committee Members should also be required to produce up to date training logs. **RESOLVED That the Pensions Committee:** **1) Noted the dates for Pensions Committee meetings;** **2) Made suggestions for future agenda items, working practices and / or reviews; and** **3) Agreed to, along with substitute Members of the Committee, complete the mandatory training requirement.**
12.	**RESPONSIBLE INVESTMENT UPDATE** *(Agenda Item 10)* *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).*

13.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE - PART II UPDATE** *(Agenda Item 11)* *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).*
14.	**CUSTODIAN CONTRACT EXTENSION** *(Agenda Item 12)* *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).*
	The meeting, which commenced at 5.00 pm, closed at 6.30 pm.

These are the minutes of the above meeting. For more information on any of the resolutions please contact Steve Clarke on 01895 250693. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

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ADMINISTRATION REPORT

Committee	Pensions Committee
Officer Reporting	James Lake, Finance
Papers with this report	1. Hampshire Pensions Services Partnership Report

HEADLINES

Pensions administration services are provided by Hampshire County Council (HCC) under a new section 101 agreement.

The attached report provides an update of HCC's performance as at February 2022.

Historic Key Performance Indicators show 100% against all indicators, each month since October 2021 inception.

It should be noted that in January 2022, HCC reattained 'Customer Service Excellence' full accreditation.

Preparatory work has begun on the triennial valuation, with test data being supplied by HCC to the actuary. The actuary will work with HCC to ensure data integrity and accuracy and early feedback is positive. Work will take place during 22/23 with progress and results reported back to Committee.

RECOMMENDATIONS

That the Pensions Committee note the administration update.

FINANCIAL IMPLICATIONS

Financial implications have been included in the body of the report

LEGAL IMPLICATIONS

The legal implications are in the body of the report.

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HAMPSHIRE PENSION SERVICES

Monthly administration report

FEBRUARY 2022

HILLINGDON
LONDON

Working in partnership with

Contents

1. Summary

1.1. The purpose of this report is to update the London Borough of Hillingdon with the current position of their local government pension scheme membership; performance against service level agreements and to provide other important and current information about the administration of the London Borough of Hillingdon Local Government Pension Fund.

2. Background

2.1. Hampshire Pension Services administer the Local Government Pension Scheme (LGPS) on behalf of the London Borough of Hillingdon (LBH) with effect from 27 September 2021.

2.2. Hampshire Pension Services also administer the LGPS for Hampshire County Council, West Sussex County Council and Westminster City Council; the Fire Pension Schemes for both West Sussex and Hampshire, and the Police Pension Schemes for Hampshire.

3. Membership

3.1. The table below details the number of members against status for each of the Local Government pension schemes and is correct as of the date this report was prepared.

Scheme	Active*	Deferred	Pensioner	Preserved Refunds**	Total
Local Government	12,574	7,747	7,680	884	**28,885**

*The active membership includes 3,855 historic leavers which are to be processed.

**The preserved refund members are included for completeness but are not counted for the purposes of reporting membership to the Pensions Regulator and DLUHC (previously MHCLG).

4. Administration performance

4.1. Hampshire Pension Services' performance against agreed service level agreements for key processes are monitored monthly. They are calculated based on the number of working days taken to complete the process and are adjusted for time that we are unable to proceed, due to requiring input from the member or third party.

4.2. The table below shows performance from 1st February 2022 to 28th February 2022; the performance target for all cases is 15 days (except Deferred Benefits which is 30 days, and Rejoiners which is 20 days).

Time to Complete

Type of Case	0-5 days	6-10 days	11-15 days	16-20 days	21-30 days	31-40 days	Total	% completed on time	*Total Cases (previous month)*	*% completed on time (previous month)*
Active Retirement	2	0	1	0	0	0	3	100.00%	*14*	*100.00%*
Deferred Retirement	5	3	13	0	0	0	21	100.00%	*19*	*100.00%*
Estimates	5	8	33	0	0	0	46	100.00%	*37*	*100.00%*
Deferred Benefits	4	1	2	4	25	0	36	100.00%	*85*	*100.00%*
Transfers In & Out	0	0	2	0	0	0	2	100.00%	*8*	*100.00%*
Divorce	0	0	0	0	0	0	0	100.00%	*2*	*100.00%*
Refunds	2	1	0	0	0	0	3	100.00%	*7*	*100.00%*
Rejoiners	0	0	0	1	0	0	1	100.00%	*10*	*100.00%*
Interfunds	9	9	23	0	0	0	41	100.00%	*14*	*100.00%*
Death Benefits	8	0	5	0	0	0	13	100.00%	*20*	*100.00%*
GRAND TOTAL	**35**	**22**	**79**	**5**	**25**	**0**	**166**	**100.00%**	***216***	***100.00%***

4.3. The table below shows outstanding work as of 28th February 2022. The time outstanding reflects the time from date of receipt of the initiating request, and includes time whilst cases are on hold pending further information.

4.4. Those cases which currently exceed the agreed service level agreement are on hold waiting for information from the member, their employer or another party and the time taken to process will be adjusted once the work has been completed.

4.5. These cases do not include the inherited outstanding leavers which are discussed in section 6 below.

Time Outstanding								
Type of Case	0-5 days	6-10 days	11-15 days	16-20 days	21-30 days	31+ days	Total	*Total Outstanding (previous month)*
Active Retirement	3	4	0	0	0	0	7	*6*
Deferred Retirement	6	2	0	1	0	0	9	*12*
Estimates*	37	33	24	1	3	0	98	*130*
Deferred Benefits	25	10	18	12	33	0	98	*80*
Transfers In & Out	1	0	0	0	0	0	1	*4*
Divorce	0	0	0	0	0	0	0	*1*
Refunds	2	1	0	0	0	0	3	*29*
Rejoiners	0	1	1	1	1	0	4	*5*
Interfunds	7	10	1	1	1	0	20	*20*
Death Benefits	7	4	17	3	2	0	33	*30*
GRAND TOTAL	**88**	**65**	**61**	**19**	**40**	**0**	**273**	*317*

*Estimates include all 'quote' calculations for retirement, transfers, divorce, and refunds.

5. Unprocessed historic casework

5.1. As mentioned in section 3 above, the LBH dataset contains 3,855 historic unprocessed leavers. All of the dates of leaving for these members are prior to August 2021.

5.2. Of the 217 cases which have been prioritised – because they transferred to us as deferred members without an authorised deferred benefit calculation – the team have worked through 171 calculations, and 29 of these have needed additional work, including queries to employers regarding service or pay information.

6. Call and email volumes

6.1. Up to 28th February 2022, we received 207 calls from members of the LBH LGPS who had a general query about their pension – this does not include those who are calling for Member Portal support.

6.2. The total number of calls for all schemes we administer, received into the Pension Customer Support Team (PCST) were 4,791 and 94 of these were abandoned. Abandoned calls are caused by the member ending the call before we can answer, and in some cases, this can be because they have heard one of our automatic messages asking them to visit our website or Portal.

6.3. Our call reporting software does not allow us to report which of our 'abandoned' calls were LBH members, but based on the number of abandoned calls above, we answered 97.45% of all calls received.

6.4. PCST also monitor and handle all of the emails received from members into our main pensions inbox – not including those which have been passed to other teams to process, PCST responded to 143 LBH member emails.

7. Online services

Member Portal

7.1. Active, Deferred and Pensioner members of LBH LGPS have the ability to register for our Member Portal and update their personal details, death grant nominations, and bank details; securely view annual benefit statements, payslips and P60s; and run online estimates for voluntary retirements over age 55.

7.2. The table below shows the total number of current registrations for each status as of 28th February 2022.

Status	Registrations to date	% of total membership	Registrations to 31/01/2022	% of total membership
Active	3,059	24.32%	2,921	23.20%
Deferred	1,204	15.54%	1,139	14.72%
Pensioner	1,011	13.13%	872	11.37%
TOTAL	**5,274**	**18.84%**	**4,932**	**17.62%**

7.3. PCST handled 1,677 calls in February, from members of all schemes we administer, who were specifically asking for Member Portal support. We have seen a continued increase in member portal queries in February due to a communication issued to West Sussex pensioners to encourage them to register.

7.4. The table below is the last position of member portal stats from Surrey County Council.

Status	Registrations to date	% of total membership
Active	4,201	36.06%
Deferred	2,638	32.63%
Pensioner	1,616	21.32%
TOTAL	**8,455**	**30.95%**

Employer Hub

7.5. As of 28th February 2022, there are 119 LBH employers signed up to the Employer Hub, and 225 individual users with access.

8. McCloud

8.1. The deadline for McCloud data returns covering the period 1 April 2014 to 31 March 2021 was 31 January 2022.

8.2. We have received 57 of 124 completed service/break data sets from Hillingdon employers; initial data checks have been completed and queries sent to 48 employers.

8.3. A reminder was sent to employers in January 2022 and for any that are outstanding when we request the next data set for the period 1 April 2021 to 31 March 2022 – this will be in early March and the deadline will be set as 30th June 2022.

8.4. We have agreed with Civica to take a copy of all of our existing service history records, before any of the McCloud data returns are uploaded – therefore both sets of service will be stored in UPM so we can highlight any major discrepancies when processing remedy cases.

8.5. Considering the Employer Services team are now focussing on the 2022 annual returns and Valuation, we plan on starting the upload of McCloud data in August 2022.

9. 2022 End of Year timetable

9.1. We have agreed the timeline for the 2022 year end and the production of benefit statements. The table below details the key milestones for each step of the year end process.

Completed By	Task
15/03/2022	2021 Pensions Increase to be applied to all pensions in payment.
31/03/2022	Annual Return requests and templates sent to Employers.
March/April	Online employer annual return workshops
30/04/2022	Annual return deadline for Employers
06/05/2022	2022 Pensions increase applied to all deferred benefit members.

Completed By	Task
30/06/2022	Employer Services to complete upload of Annual Returns (AR); assuming all data received from, and queries answered by employers.
30/06/2022	CARE pension revaluation for Active members (to be run per employer, subsequent to AR upload)
15/07/2022	Valuation extracts to be provided to Fund Actuary
29/07/2022	Supplementary Pensions Increase calculated and paid.
31/07/2022	All Deferred Benefit Statements (DBS) to be produced.
31/08/2022	LG Active Benefit Statements (ABS) to be produced.
05/10/2022	Pensions Savings Statements sent – will be produced by employer as ABS have been completed
31/10/2022	E-comms sent to members with benefit statement available on Member Portal

9.2. **Pensions increase –** this is in progress for pensioner members and on schedule to be completed in time for April's payroll. Once this has been completed for pensioner members, we will then move on to applying the increase to deferred members.

9.3. **Valuation** - Following the submission of 2021 valuation data provided in January 2022, Hymans have now provided a report with their findings on data and work to prioritise prior to the 2022 Fund Valuation. The report on data looks positive and we are confident that we will be able to clear most critical errors in advance of the 2022 submission – the exception to this is for historic leaver work, where more clarification on the priority order for Employers is required, as it will not be possible to clear all leavers for the 88 employers identified as having 20% or more of their actives to be processed as leavers.

10. Pensions Dashboard Programme (PDP)

10.1. On 28th February the consultation for the Pensions Dashboard regulations was published – responses must be submitted by 13th March 2022, and we are in the process of finalising our response which will be shared with all Partners.

10.2. We have attended all four of the webinars which were presented by the DWP and PDP, and have noted the following key points which will inform our response to the consultation;

- The latest staging date for Public Service Pension schemes is April 2024 and is dependent on the active and deferred membership numbers as of 31st March 2021.

- Only Active and Deferred members are ‘in scope’ – Preserved Refunds and Pensioners are not currently included in the proposed regulations.

- Pension Benefit (referred to as Value) data published to Dashboard users must have been calculated in the last 12 months.

- Data for new joiners to the pension scheme must be available on the Dashboard within 3 months of their start date.

- If Value data is not immediately available, the scheme administrator has 10 days to calculate pension benefits and provide the data to the Pensions Dashboard.

10.3. We have also attended Civica’s first Pensions Dashboard working group – on 23rd February – and have asked them to prepare an indicative cost to engage them as our Integrated Service Provider (ISP) which is required to allow the upload of data to the Pensions Dashboard.

11. Customer Service Excellence (CSE)

11.1. As confirmed in last month’s report, we received full reaccreditation for CSE in January, and the final report has since been shared with us and is attached in Appendix 1.

12. Audit

12.1. Work continues on the Pensions, Payroll and Benefit Calculations Audit and we are expecting an update in March.

12.2. A draft audit plan for 2022/2023 has been circulated internally which we anticipate will be finalised and included in the next monthly report.

13. 2022 Software Development

13.1. The first stage of our development roadmap is to implement the online identification and verification (ID & V) process, which will support our Life Certificate/Proof of Existence process in particular this year.

13.2. We have engaged with the third party company – GB Group – who provide the ID & V service, which will work alongside UPM and our Member Portal.

13.3. Our target completion date for this work is 31st May 2022 and following this, letters will be sent to all Overseas pensioners asking them to use the Member Portal to prove their existence – we will still be accepting the paper Life Certificate forms, as we are aware that some pensioners may not have the technology to use the online ID & V service.

14. Scheme legislation updates

14.1. Legislation updates that have been received during February 2022 for the Local Government Pension Scheme, are detailed in Appendix 2, including any actions that Hampshire Pension Services have taken.

15. Employer and Member Communications

15.1. **Employer communications** – In February we issued a Stop Press to promote the Annual returns workshops.

15.2. For Hillingdon employers specifically we ran 5 discretion workshops to raise the awareness and understanding of the requirement for Scheme Employers to have a published discretions policy, as well as the implications of not holding one. HPS will look to engage further with Scheme Employers towards the end of 2022. We had 21 attendees representing 15 Hillingdon employers.

15.3. **Member communications** – There were no bulk member communications issued in February.

15.4. **Pensioner Newsletters –** HPS has shared a draft of the pensioner newsletter with LBH and they have since provided feedback on this which has been taken into consideration for the final version. Pensioner newsletters will be published/issued in April at the same time as P60's are generated.

16. Quality Assurance

16.1. **Data Protection Breaches** – We have not identified any data protection breaches in February 2022.

16.2. **Data Subject Access Requests (DSAR)** – we have noticed an increase in these across all schemes and for Hillingdon in particular we have received one request in February, but we are continuing to monitor this due to concerns that these requests may become a complaint or claim against the pension fund regarding previous transfers out.

17. Compliments and Complaints

17.1. In February 2022 we received one complaint from a member of the LBH LGPS. This was in relation to a member being unhappy with timescales for retirement, further detail can be found in Appendix 3.

17.2. We did not receive any compliments from members of the LBH LGPS in February.

HAMPSHIRE PENSION SERVICES

INVESTMENT STRATEGY and FUND MANAGER PERFORMANCE (Part I)

Committee	Pensions Committee
Officer Reporting	James Lake, Finance Babatunde Adekoya, Finance
Papers with this report	Hymans Robertson Funding Update

HEADLINES

The Actuary's estimate of the funding position as of 31 December 2021 shows an estimated deficit of £159m, equivalent to a funding level of 89% (Sep21 £137m/90%). These metrics still represent an improvement on the 2019 formal actuarial valuation. Investment returns have been strong since last valuation but the outlook for future investment returns is slightly less positive with increased inflation expectations and following the Russian invasion of Ukraine.

The overall investment return of the Fund was +4.53% over the quarter which was 0.33% behind the benchmark. Performance over longer-term periods (3 and 5 years) was 8.81% and 6.40% per annum, showing underperformance of 1.50% and 1.19% per annum compared to the benchmark.

The Fund's asset allocation remains close to the target investment strategy with the exception of Infrastructure which is yet to be drawn and funded by DGF/Absolute Return. There is also a circa 2% under allocation to MAC.

More information on implementation of investment strategy and the Fund's investment managers are included in Part II of this report.

RECOMMENDATIONS

That the Pensions Committee:

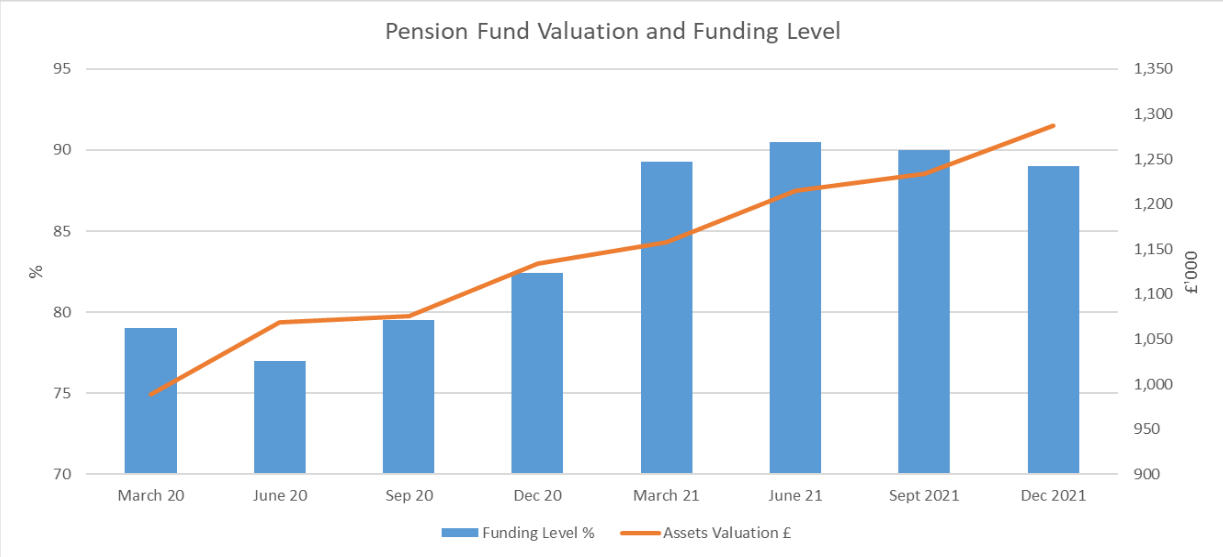
1. **Note the Fund funding and performance update;**
2. **Note the updates on implementation of the investment strategy; and,**
3. **Note exposure to Russia and Ukraine.**

SUPPORTING INFORMATION

1. Funding Update

At the last formal valuation as of March 2019, the Fund assets were £1,067m and the liabilities were £1,228m. This represented a deficit of £161m and equated to a funding level of 87%.

Hymans Robertson have carried out an interim funding update to illustrate an estimated funding position on 31 December 2021. Their report is attached as an appendix to this paper, and it shows an estimated deficit of £159m, equivalent to a funding level of 89%.



Fund returns have been strong since the previous formal valuation, although the outlook for future investment returns has worsened slightly. Combining these key factors, the funding level is estimated to have increased by around 2% compared to 31 March 2019.

During 2022/23, the Actuary will undertake a formal actuarial valuation based on the Fund status on 31 March 2022. Any necessary changes to employer contribution rates will be effective from April 2023.

2. Fund Performance

Over the last quarter to 31 December 2021, the Fund returned 4.53%, underperforming the benchmark return by 0.33%. The Fund value increased over the quarter by £53m, to £1,287m.

Period of measurement	**Fund Return %**	**Benchmark %**	**Arithmetic Excess**
Quarter	4.53	4.86	-0.33
1 Year	13.84	13.36	0.48
3 Year	8.81	10.31	-1.50
5 Year	6.40	7.58	-1.18
Since Inception (09/1995)	7.02	7.11	-0.09

Highlights of the investment managers' relative performance are as follows:

- The AEW UK Property Fund posted a total return of +4.41%, which was marginally behind the IPD UK PPFI AI Balanced Funds Index. Rolling one-year returns continue to see double digit gains, with the mandate returning +20.78% versus +19.17% for the IPD Index. AEW are slightly behind the three-year period returning 6.17% against the benchmark of 6.21%. This translates as -0.04% relative underperformance. Since the fund's inception date of July 2014, the fund return is 9.36%, leading to a relative outperformance of approximately 1.17% when compared to the IPD figure of 8.10%.
- The absolute return strategies employed by London CIV Ruffer translated into a 144-basis point outperformance of the 3-mth Sterling LIBOR target. The investment is now above the benchmark over all longer-term periods. This is seen in a three-year return of 9.87% versus 0.56%, then similarly for the since inception period (May 2010) figures of 5.89% versus 0.76% per annum, which translates as a relative return of over 5%.
- In the latest quarter JP Morgan posted a decrease in assets of -0.01% leading to an underperformance of -0.76% when compared to the 0.75% target for the 3 Month LIBOR +3% p.a. Then with positive results in two of the last four quarters, the one-year return of +1.61% is in positive territory but is behind of the 3.08% target by 1.42%. Over three years they post returns ahead of the benchmark with figures of 5.96% vs 3.56%. Since the mandate was funded, their return of 3.98% is just ahead of the target return of 3.64% on an annualised basis.
- The Permira Credit Fund saw an increase of 1.2% over the fourth quarter of 2021, this was ahead of the 3 Month LIBOR +4% p.a. target of 1.00%. The fund has outperformed in the last six quarters and is ahead of target, leading to an outperformance of 0.84%, created from figures of 4.96% against 4.08%. Since the start of December 2014 when the fund incepted, the fund posts a return of 7.08% against the benchmark of 4.60%,

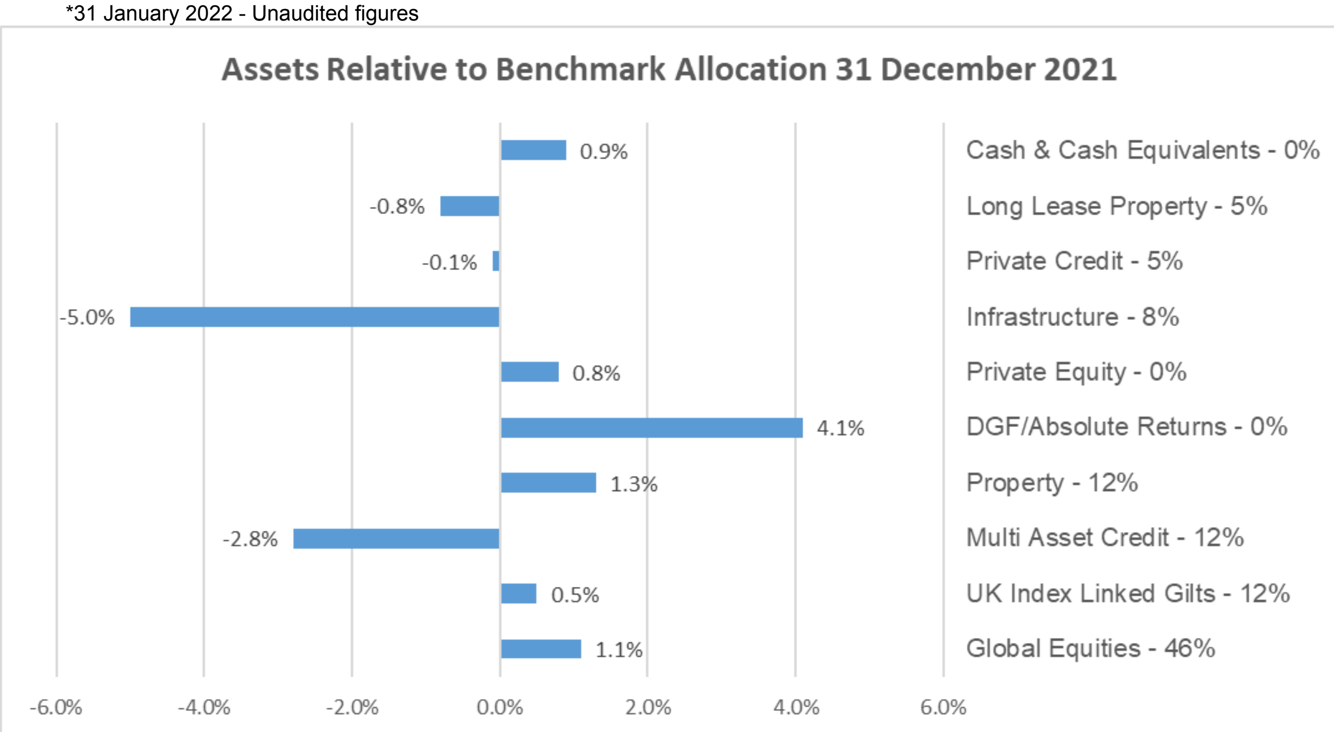
NB: Information from Northern Trust Quarterly performance report

3. Asset Allocation

The current asset allocation, the key strategic tool for the Committee, is in the table below.

Current Asset Allocation by Asset Class						
ASSET CLASS	Market Value As at 01 April 2021	Actual Asset Allocation As At 01 April 2021	Market Value As at 31 December 2021	Actual Asset Allocation As at 31 December 2021	Benchmark Allocation As at 31 December 2021	Market Value As at 28 February 2022
	£'000	%	£'000	%	%	£'000
Global Equities	537,066	46	605,509	47	46	558,463
UK Index Linked Gilts	144,920	13	161,179	13	24	156,458
Multi Asset Credit	116,580	10	118,817	9		115,148
Property	139,177	12	170,831	13	12	169,959
DGF/Absolute Returns	50,833	4	52,210	4	0	54,012
Private Equity	12,499	1	9,892	1	0	9,284
Infrastructure	33,403	3	39,124	3	8	45,835
Private Credit	59,208	5	63,211	5	5	60,824
Long Lease Property	49,749	4	54,491	4	5	55,629
Cash & Cash Equivalents	15,254	1	11,466	1	0	12,262
Totals	**1,158,689**	**100.00**	**1,286,730**	**100.00**	**100**	**1,237,874**

*31 January 2022 - Unaudited figures



Highlights of transactions during the quarter under review:

- Total drawdown of £4.3m was called by the London CIV Infrastructure fund and £21.3m by LCIV Private Debt Fund in the period under review.
- During the quarter, distributions received totalled £1.3m from Permira private debt, $4m & Eur264k from Private Equity and $1.2m & Eur583k from Macquarie Infrastructure.

Undrawn commitments on 31 December 2021 are as follows:
- £3.2m (8%) awaiting drawdown on Private Credit.
- £33.9m (62%) to London CIV Infrastructure Fund. These funds are currently held in the LCIV Ruffer Absolute Return Fund.
- £3m in for the AEW Urban Renewal property fund.
- LCIV Private Debt £49m.

4. Investment Managers

The assets of the Fund are invested across 11 different Fund Managers and 13 portfolios in a range of passive and active mandates, including a mix of liquid and illiquid allocations to reflect the Fund's long-term horizon.

Current Asset Allocation by Manager		**Market Value As at 31 December 2021**	**Actual Asset Allocation**	**Market Value As at 28 February 2022**
FUND MANAGER	**ASSET CLASS**	**£'000**	**%**	**£'000**
LGIM	Global Equities	316,108	24.57	295,709
LGIM	Future World	223,985	17.41	207,301
LCIV - BALLIE GIFFORD	Global Equities	65,416	5.08	55,453
LGIM	UK Index Linked Gilts	161,179	12.53	156,458
JP MORGAN	Multi Asset Credit	118,817	9.23	115,148
UBS PROPERTY	Property	91,435	7.11	92,892
AEW	Property	80,049	6.22	80,897
LCIV - RUFFER	DGF/Absolute Returns	52,210	4.06	54,012
ADAMS STREET	Private Equity	6,386	0.50	6,287
LGT	Private Equity	3,506	0.27	2,997
LCIV - STEPSTONE	Infrastructure	21,459	1.67	27,768
MACQUARIE	Infrastructure	17,665	1.37	18,067
M&G	Private Credit	1,991	0.15	1,851
LCIV	Private Credit	22,475	1.75	22,475
PERMIRA	Private Credit	38,745	3.01	36,498
LGIM	LPI Property	54,491	4.23	55,629
Non-Custody	Cash & Cash Equivalents	10,813	0.84	8,432
		1,286,730	**100**	**1,237,874**

5. Russia & Ukraine Exposure

At the start of the crisis the Fund has an allocation of £803k (0.06%) in Russia and £440k (0.04%) in Ukraine across four managers including LGIM (Equity Index Funds), JP Morgan (MAC Fund), LGT (Private Equity) and LCIV Global Alpha Paris Aligned (Active Equity). All fund managers concerned have confirmed they are monitoring the situation and applying their own risk mitigation and investment protocols. It is understood that the LCIV Global Alpha Paris Aligned managed to sell an element of its Russian holdings before markets closed.

Due to market restrictions no trading activity can currently take place however managers are constantly appraising the situation to ensure they are fully aware and compliant with guidance.

In addition, on the 9 March 2022 the Fund received a communication from the Secretary of State for Levelling Up, Housing and Communities asking it to consider its investments in Russia. To this end each relevant manager was contacted to put on record the Fund's desire for divestment of the Russian holdings where practicable and possible. It was also noted that ultimately it would be the manager's decision, however it was right to make a representation to convey the Fund's thoughts in this matter.

6. Market and Investment/Economic outlook (Dec21 provided by London CIV)

The last 12 months has seen remarkable performance from Equities returning 17.5% after three double digit returning years and up over 70% since the lows of the Covid-19 Outbreak. Emerging Markets (-6.3%) and Japan Equities (+7.5%) were the laggards with U.S. equities (+24.4%) the clear leading market. Bonds have been disappointing seeing a -2.2% return. Broadly private market assets have been recovering and multi-asset funds have seen positive returns in the last 12 months. Listed proxies for property and private equity have outperformed the equity market.

Bond markets have suffered in the recent environment mostly due to rising interest rates and inflation. Credit has managed to outperform government bonds through low default rates and lower duration / interest rate sensitivity. Emerging market equities have suffered from rising rates, strength in the US$ and the specific issues in China which makes up 30% of the MSCI Emerging Market Index. China has seen GDP growth slow to a multiyear low of 4% in Q4 driven by Covid-19 lock downs, the crack down on technology companies and credit problems in the real estate sector. In response to this slowing, China has bucked the global trend and recently cut interest rates.

Style performance trends have reversed in 2021 with value and quality outperforming, growth and momentum underperforming. The Energy sector has done very well recently. Energy was the best performing sector in the MSCI sector indices last year.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report.

During 2022/23, the Actuary will undertake a formal actuarial valuation based on the Fund status on 31 March 2022. Any necessary changes to employer contribution rates will be effective from April 2023.

LEGAL IMPLICATIONS

There are no legal implications in the report.

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London Borough of Hillingdon Pension Fund

Funding and risk report as at 31 December 2021

HEADLINE

Funding Level Table

31 December 2021	Ongoing Funding
Assets	£1,287m
Liabilities	£1,446m
Surplus/(deficit)	(£159m)
Funding level	89.0%

Summary

This funding update is provided to illustrate the estimated development of the funding position from 31 March 2019 to 30 December 2021, for the London Borough of Hillingdon Pension Fund ("the Fund").

At the last formal valuation, the Fund assets were £1,067m and the liabilities were £1,228m. This represented a deficit of £161m and equated to a funding level of 87%.

Fund returns have been strong since the previous formal valuation, although the outlook for future investment returns has worsened and inflation expectations have increased slightly. Combining these key factors, the funding level at 31 December 2021 is estimated to have increased by around 2% compared to 31 March 2019.

Craig Alexander FFA

Reliances and limitations

This report was commissioned by and is addressed to the London Borough of Hillingdon in their capacity as the Administering Authority and is provided to assist in monitoring certain funding and investment metrics. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. **Decisions should not be taken based on the information herein without written advice from your consultant.** Neither I nor Hymans Robertson LLP accept any liability to any other party unless we have expressly accepted such liability in writing.

The method and assumptions used to calculate the updated funding position are consistent with those disclosed in the documents associated with the last formal actuarial valuation as at 31 March 2019, although the financial assumptions have been updated to reflect known changes in market conditions. The calculations contain approximations and the accuracy of this type of funding update declines with time from the valuation; differences between the position shown in this report and the position which a new valuation would show can be significant. It is not possible to assess its accuracy without carrying out a full actuarial valuation. This update complies with Technical Actuarial Standard 100.

London Borough of Hillingdon Pension Fund | Strategy and Risk Management dashboard

HEADLINE

Funding Level Table

31 December 2021	Ongoing Funding
Assets	£1,287m
Liabilities	£1,446m
Surplus/(deficit)	(£159m)
Funding level	89.0%

Analysis of Surplus Table

Surplus/(deficit)	£m
Surplus/(deficit) as at 31/03/2019	(161)
Contributions (less benefits accruing)	0
Interest on surplus/(deficit)	(2)
Excess return on assets	185
Change in inflation & expected future investment return	(182)
Surplus/(deficit) as at 31/12/2021	(159)

Market Indicators Table

	31 March 2019	31 December 2021
Market yields (p.a.)		
Fixed interest gilts	1.49%	1.09%
Index-linked gilts	-1.81%	-2.28%
Implied inflation	3.36%	3.45%
AA corporate bond yield	2.36%	1.89%
Price Index		
FTSE All Share	3,978	4,208
FTSE 100	7,279	7,385
Expected future investment return (p.a.)		
20yr annualised return on Fund's asset portfolio*	4.0%	3.6%

*There is at least a 74% likelihood of the Fund's investments achieving a return of at least 3.6% p.a. over the next 20 years

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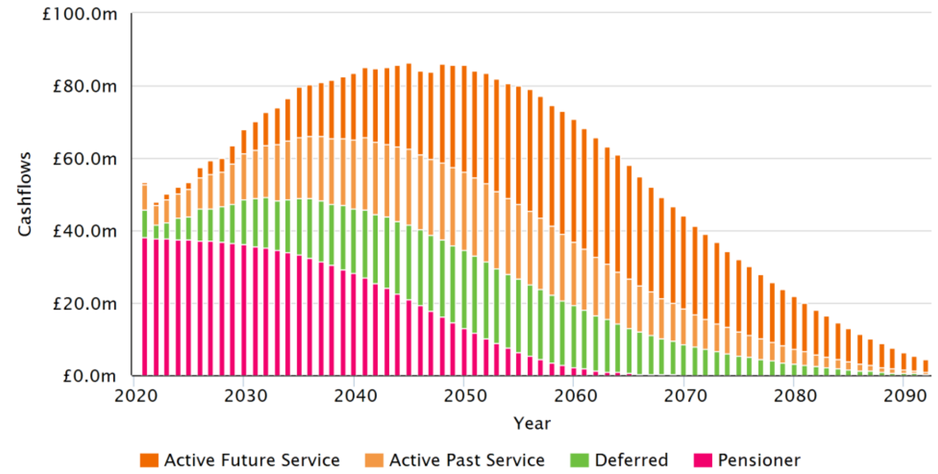
Funding Level Progression Chart

Funding Level Progression Chart

Projected Cashflows Chart



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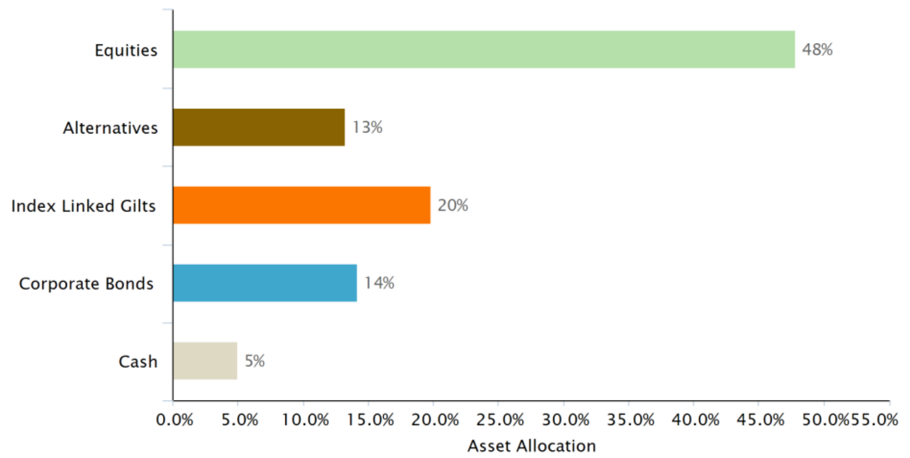
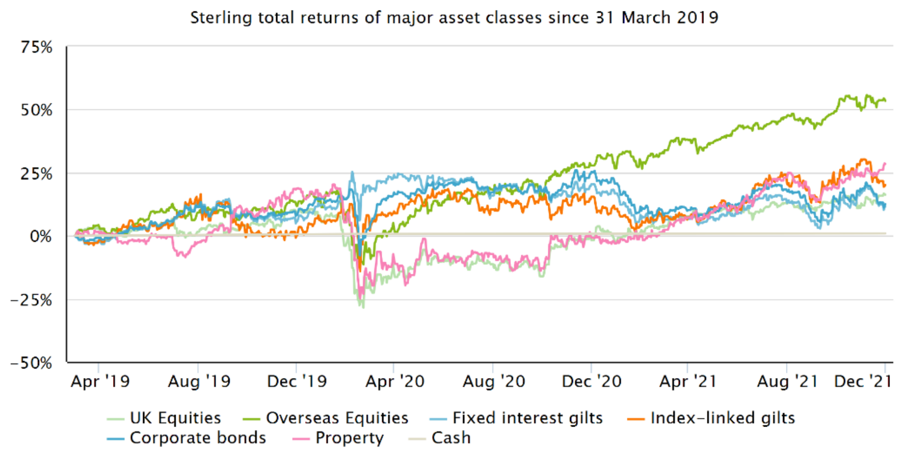
Asset Allocation Chart



Index Return Chart



Sensitivity Matrix

Sensitivity Matrix as at 31 December 2021 for Ongoing funding basis (£m)

Shift in equity level (using FTSE 100 levels as proxy)

Shift in expected future investment return (% p.a.)	5,169 -30%	5,908 -20%	6,646 - 10%	7,385	8,123 + 10%	8,861 + 20%	9,600 + 30%
+0.6	(285)	(206)	(128)	(49)	29	108	187
+0.4	(319)	(241)	(162)	(83)	(5)	74	152
+0.2	(356)	(277)	(199)	(120)	(41)	37	116
0.0	(395)	(317)	(238)	(159)	(81)	(2)	77
-0.2	(437)	(359)	(280)	(201)	(123)	(44)	34
-0.4	(483)	(404)	(325)	(247)	(168)	(89)	(11)
-0.6	(531)	(452)	(374)	(295)	(217)	(138)	(59)

less than 50% | 50% - 85% | 85% - 95% | 95% - 100% | 100% - 105% | 105% - 115% | greater than 115%

RESPONSIBLE INVESTMENTS UPDATE

Committee	Pensions Committee
Officer Reporting	James Lake, Finance Babatunde Adekoya, Finance
Papers with this report	Stewardship Code Report

HEADLINES

Environmental, Social, and Governance (ESG) refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business. These criteria help to better determine the future financial performance of companies (return and risk).

The purpose of this report is to provide information on how managers entrusted with investing the Pension Fund assets are implementing their ESG policies and demonstrate their commitment to ensuring it is a cogent part of their investment process.

In addition, the report details the progress on the UK Stewardship Code project, next steps in terms of TCFD reporting and other relevant updates.

RECOMMENDATIONS

That the Pensions Committee:

1. **Approve the UK Stewardship Code Report for submission;**
2. **Note the TCFD and next steps;**
3. **Note the fund managers' ESG activities and compliance efforts;**
4. **Note the update on the Boycotts, Divestment and Sanctions Bill; and,**
5. **Note the update Israel and the Occupied Palestinian Territories.**

SUPPORTING INFORMATION

Progress Update

The Stewardship Code project has progressed in accordance with the project timeline and the draft report is attached for review and approval.

The report covers the Code's required principles for asset owners and covers:

1. Purpose, strategy & culture
2. Governance, resources & incentives
3. Conflicts of interest

4. Promoting well-functioning markets
5. Review & assurance
6. Client & beneficiary needs
7. Stewardship, investment & ESG integration
8. Monitoring managers &service providers
9. Engagement
10. Collaboration
11. Escalation
12. Exercising rights and responsibilities

Following Committee approval, formal submission will be made to the Financial Reporting Council (FRC) ahead of the 30th April 2022 deadline.

Reports submitted to the FRC are read in full and assessed against the principles and reporting expectations of the Code in a way that is proportionate to the organisation's size and type. This assessment is then reviewed and discussed among FRC staff to ensure it is fair and appropriate. A sample of reports reflecting a range of applicants are reviewed by the FRC's panel of independent advisors to ensure consistency.

Both successful and unsuccessful applicants are provided a summary of where their reporting met expectations and where improvement is required when re-applying to the Code.

Unsuccessful applicants may address the feedback and re-apply in a future reporting window. This would be October 2022 for Hillingdon.

Once the applicant has been accepted as a Code signatory and the report is approved by the FRC, the report will be a public document. The signatory must also make it available on their website within one month of being notified by the FRC.

ESG initiatives and collaboration - TCFD

At September 2021 meeting, Members agreed to collaborate with the Task Force on Climate-Related Financial Disclosures (TCFD). The Fund has completed the sign-up process which shows their support.

Consultation is due mid-2022 on how the LGPS should adopt and report on TCFD, however scoping work will be carried out in the meantime to prepare for implementation following any regulatory guidance.

The Fund will wait to receive the outcome of the consultation and issuance of guidance before taking any formal next steps.

Boycotts, Divestment and Sanctions Bill

In April 2020 the Supreme Court handed down its judgment in the case of R (on the application of Palestine Solidarity Campaign Ltd and another) (Appellants) v Secretary of State for Housing, Communities and Local Government (Respondent) which was originally heard on 20th November 2019. The court found in favour of the appellants and would appear to take the position that the Government has the power to direct authorities on the approach they take to investment decisions, but not the investments they make.

At the time SAB welcomed the clarity brought by the judgment of the Supreme Court and advised that: in seeking to restrict the outcome as well as the considerations taken account of by an LGPS administering authority when developing its responsible investment policy, the government has been judged to have overstepped its powers. It is the Board’s view that Responsible Investment policy decisions belong at the local level reflecting: the need to pay pensions both now and in the future; local democratic accountability and the views of scheme members; and that outcomes of policy developments should not be subject to restrictions based on unrelated matters.

In May 2021 the government’s legislative programme was laid out and includes a Boycotts, Divestment and Sanctions Bill, the purpose of which will be to stop public bodies from taking a different approach to UK Government sanctions and foreign relations, and will cover purchasing, procurement, and investment decisions.

In February 2022, after failing to defend previous LGPS investment guidance in the Supreme Court the government undertook to bring it before Parliament through legislation. The Boycotts, Divestment and Sanctions (BDS) Bill was announced in the Queen’s speech for this Parliament. Although no timetable for the Bill is available it was expected to be the primary measure to bring about the restrictions in the original guidance plus other measures to restrict expenditure and procurement decisions made by public bodies.

Current position - It is currently understood that it is for LGPS funds to make prudent divestment decisions based on an assessment of the financial consequence of a number of matters, including those relating to Environmental, Social and Governance (ESG) factors. Where such decisions are based on non-financial factors LGPS funds should follow the Law Commission’s direction that any financial impact should not be significant and that the decision would likely be supported by scheme members.

PSPJO Bill - In advance of the BDS Bill Robert Jenrick MP raised, at second reading in the Commons, the possibility of amending the Public Service Pensions Service and Judicial Officers (PSPJO) Bill to include a power for the Secretary of State to make guidance in this area. Support from government was not forthcoming in terms of its own amendment, however he subsequently tabled an amendment (listed as NC1) which was debated on 22nd February at report stage.

Following the debate, the government changed its stance to support the amendment, which was passed. On the same day (22nd February) the Bill passed its third reading and will now return to the Lords for consideration of amendments prior to royal assent.

The Amendment NC1 - Guidance to public service pension scheme managers on investment decisions and the Public Service Pensions Act 2013 is amended accordingly.

This new clause would enable the Secretary of State to issue guidance to those authorities that administer public sector pension schemes, including the local government pension scheme, that they may not make investment decisions that conflict with the UK's foreign and defence policy

Effect of the amendment - The amendment would alter the Public Service Pensions Act (PSPA) 2013 including the giving of guidance or directions by the responsible authority to the scheme manager including guidance or directions on investment decisions which it is not proper for the scheme manager to make in light of UK foreign and defence policy.

Next steps - The above changes to the PSPA 2013 will not occur until the PSPJO Bill gains royal assent which is expected sometime in March. Prior to it gaining assent the Bill will return to the Lords for consideration of amendments at which time the amendment may be subject to further debate.

Guidance under this provision, should it be forthcoming, would be expected to be drafted under Investment Regulation 7. (*7.(1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State)*

Such guidance would also be expected to be subject to a period of consultation which would provide an opportunity for interested parties to comment on its potential impact. Furthermore, as this will be guidance and not primary legislation further legal action cannot be ruled out. Although the courts could this time be assured it was the intention of Parliament to provide a power to the Secretary of State in this area, a challenge could still be made on the grounds that the guidance was seen to go beyond that intention.

Israel and the Occupied Palestinian Territories

In November 2021, a UN special rapporteur on the situation of human rights in the Palestinian territory, wrote to LGPS funds asking them to review and divest from companies linked to Israel 'settlement economy'.

This issue has previously been considered by Pensions Committee with all relevant fund managers asked to comment on their related investments. Based on the evidence and guidance provided it was concluded that the Fund would continue to act in the best fiduciary interests of its members.

It has now been reported that a legal group of UK Lawyers for Israel has argued that the letter from the UN special rapporteur contained inaccuracies around existence of the "settlement economy", and that advising on investment decisions was outside his remit.

Chief executive of UKLFI advised the letter contains serious misrepresentations and any investment decision influenced by this intervention, supposedly in his capacity as a rapporteur of the UNHRC, will be challengeable on the basis of error of law, taking into account irrelevant considerations, failure to act with due skill, care and diligence, and breach of fiduciary duties.

SAB advised they are taking advice and considering the letter ahead of the next meeting of the Scheme Advisory Board.

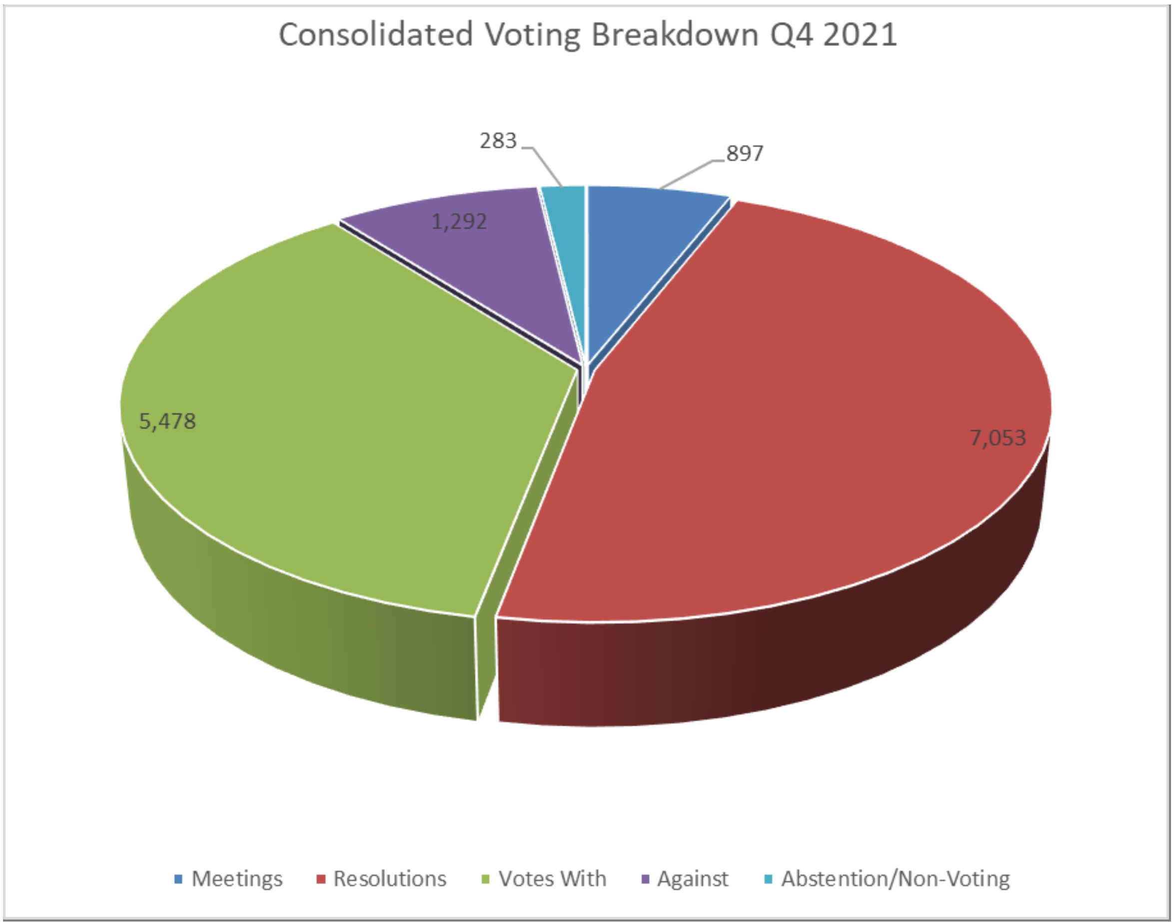
Voting and Engagement

Fund managers carry out proxy voting on the Pension Fund's behalf. Below is a breakdown of voting statistics by LGIM, and London CIV (Ruffer and Baillie Gifford).

	Fund Managers Voting Breakdown Q4, 2021				
LCIV	**Meetings**	**Resolutions**	**Votes With**	**Against**	**Abstention/Non -Voting**
Dec-21					
LCIV - Ruffer	7	60	60	0	0
LCIV - Baillie Gifford	14	196	64	11	121
	21	**256**	**124**	**11**	**121**
%			**48.44**	**4.30**	**47.27**
LGIM	**Meetings**	**Resolutions**	**Votes With**	**Against**	**Abstention**
Dec-21	876	6,797	5,354	1,281	162
	876	**6,797**	**5,354**	**1,281**	**162**
%			**78.77**	**18.85**	**2.38**

The volume of meetings attended, and resolutions voted on by all the fund managers shown above encapsulate their commitment to ESG issues and demonstrates alignment of their stewardship activities with their own investment beliefs, policies, and guidelines. Through this approach, they seek to be active owners on behalf of their clients, by encouraging good governance and a high standard of corporate practices.

The voting breakdown above indicates LGIM have voted against proposed management resolutions on 19% of voting opportunities and supported resolutions on about 79%of occasions. Both LCIV portfolios combined, backed various management resolutions on 49% of voting opportunities and about 4% against the resolutions proposed by company managements. Abstentions totalled 47% and 2% for LCIV and LGIM respectively.



The chart above provides a consolidated overview of voting pattern by all fund managers shown in the table above.

Engagement
ESG factors play an increasingly important role in determining the performance of certain assets. Pension Fund asset managers, as part of their ESG commitments undertake various engagement activities in their holistic approach in making investment decisions. These activities aim to affect changes within invested companies where it is deemed necessary or to complement existing practices.

LGIM

Holding boards to account
To be successful, companies need to have people at the helm who are well equipped to create resilient long-term growth. By voting and engaging directly with companies, LGIM encourage management to control risks while seeking to benefit from emerging opportunities. They aim to safeguard and enhance clients' assets by engaging with companies and holding management to account for their decisions. Voting is an important tool in this process, and one which is used extensively.

Creating sustainable value
LGIM believe it is in the interest of all stakeholders for companies to build sustainable business models that are also beneficial to society. They work to ensure companies are well-positioned for sustainable growth, and to prevent market behaviour that destroys long-term value. Their investment process includes an assessment of how well companies incorporate relevant ESG factors into their everyday thinking. The manager engages directly and collaboratively with companies to highlight key challenges and opportunities, and support strategies that can deliver long-term success.

Promoting market resilience
As a long-term investor for clients, it is essential that markets are able to generate sustainable value. In doing so, LGIM believe companies should become more resilient to change and therefore seek to benefit the whole market. They use their influence and scale to ensure that issues impacting the value of clients' investments are recognised and appropriately managed. This includes working with key policymakers, such as governments and regulators, and collaborating with asset owners to bring about positive change.

Environment

Climate Impact Pledge – launch of the 5th engagement cycle
In October, LGIM launched the fifth engagement cycle of the Climate Impact Pledge, their flagship climate engagement programme. From apparel and airlines to technology companies and utilities, they analyse and directly engage with around 60 companies in 15 climate-critical sectors on their strategic approach to climate change, and to what extent they are aligning their businesses with the constraints and opportunities of a net-zero transition.

The programme targets companies that are large and influential in their respective sectors, but which are not yet meeting 'best practice' expectations. These are companies which could have a significant positive trickle-down effect across their industries and value chains by setting and pursuing ambitious net-zero targets.

Case Study

BHP - Climate Transition Plan
BHP, one of the world's largest mining companies, had put its climate transition plan to a shareholder vote for the first time in its history – a trend expected to gather pace across the extractives sector in the coming years. When assessing such plans, among other factors, LGIM look closely at how aligned the emissions reduction targets are to 'Paris' goals and whether the milestones set are credible and pragmatic. While it was noted BHP has made a substantial progress in its environmental footprint, the manager opposed its climate transition plan as it was deemed to be insufficient and fall short of the level of ambition required to support a net zero pathway.

Social

Ethnicity campaign
In September 2020, LGIM launched their ethnicity engagement campaign and voting strategy, where it committed to engaging with the largest US and UK companies with no ethnic diversity on the board, with a commitment to taking action on a lack of improvement by placing a negative vote at their 2022 AGM. LGIM wrote to 79 companies across the S&P500 and FTSE 100 indices to alert them of their expectations, and to the potential voting action they would take. In October 2021, the manager re-visited the board's ethnic representation of the companies in these indices, with the intention of writing to those who were still in breach of its expectations of one person of diverse ethnicity on the board.

This review resulted in LGIM writing to 37 companies in total, meaning that the target list has almost halved compared to the previous year, demonstrating decent progress. On initial study of the data, it was discovered that in 2021, they wrote to 10 US and 12 UK companies which have been persistent laggards – falling short of their expectations in both 2020 and 2021 – which means that they have not improved the ethnic diversity of their boards over the last 18 months. In Q1 2022 LGIM will be taking a more granular look at the data to understand in more detail any trends and improvements. LGIM voting commitment is steadfast, and from January 2022 they shall be voting against the board chair of UK companies and the Chair of the Nomination Committee of US companies with no ethnic diversity on the board.

Social responsibility for social media
In early 2019, the Social Media Collaborative Engagement of 104 global investors was established, representing approximately £7 trillion AUM, in response to the live streaming of the Christchurch terror attack on 15 March 2019 on Meta1, Alphabet and Twitter. It was believed that these companies betrayed their users' trust, breached their duty of care, and severely damaged their social licence to operate.

The purpose of the collaboration was to engage these three social media companies with a single focus: to strengthen controls to prevent the livestreaming and dissemination of objectionable content.

What action did the collaboration take?
The first action was to speak out publicly on the Collaboration's intention to engage the identified social media companies – Meta, Alphabet, Twitter – on this issue. This decision was taken to indicate clear dissatisfaction with the companies who showed a lack of accountability. Engagement letters were sent to the chairs of the boards of each of the three companies and engagement meetings were held to discuss their responses.

The identified companies assured the collaboration that they were making changes to strengthen controls to avoid a similar situation in future. However, none of the companies agreed for a board member to meet the collaboration, and it was felt that there wasn't enough commitment from the companies on the issue.

Therefore, the collaboration published an open letter distributed via global press, calling for:

- clear lines of governance and accountability to ensure social media platforms cannot be used to promote objectionable content; and
- sufficient resources dedicated to combatting the live streaming and spread of objectionable material across the platforms.

Additionally, during 2020 and 2021, LGIM voted in favour of various shareholder proposals at all three companies that focused on human rights issues, such as expertise at board level and further disclosures.

What are the results?

- In late 2020, Meta informed the collaboration that it had strengthened its Audit & Risk Oversight Committee charter to explicitly include a focus on the sharing of content that violate its policies.
- Meta also made a commitment to prevent such abuse, not just to mitigate it; and
- all the company platforms have moved to strengthen controls to prevent the live streaming and distribution of objectionable content.

Governance

Filing of shareholder proposals
LGIM have once again filed a shareholder resolution requesting that an S&P pharmaceutical company appoint an independent chair, thereby splitting its currently combined chair and CEO role. They engaged with the company since filing the shareholder proposal and will continue to monitor the situation to consider whether to maintain the proposal or withdraw it.

Cardinal Health
In May 2021, LGIM America co-filed a shareholder resolution, together with other investor colleagues within The Investors for Opioid Accountability (IOPA), asking the company to publish annually an in-depth report disclosing its direct and indirect lobbying activities and expenditures, as well as its policies and procedures governing such activities (a ‘Political Contributions and Activities Report’).

Following engagements with the company, the board agreed to expand its Political Contributions and Activities Report to include all disclosures relating to state lobbying expenses exceeding US$25,000; payments to trade associations and other organisations (including to those that draft and support model legislation); and the approach the company will take when a trade association of which it is a member takes a position which differs from the company’s corporate position.

Following the engagement, LGIM, together with the other co-filing investors, withdrew the shareholder proposal. This is a concrete example of using a shareholder proposal as an engagement tool and demonstrates the positive impact of engagement.

FINANCIAL IMPLICATIONS

ESG initiatives circa £95,000 for 22/23.

LEGAL IMPLICATIONS

Legal implications are included in the report.

London Borough of Hillingdon Pension Fund

UK Stewardship Report 2020

HILLINGDON
LONDON

www.hillingdon.gov.uk

Contents

BACKGROUND AND INTRODUCTION: THE UK STEWARDSHIP CODE 2020

The Financial Reporting Council

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting. The FRC promotes high standards of corporate governance and stewardship through the UK Corporate Governance Code and UK Stewardship Code.

The UK Stewardship Code

Stewardship is 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 (FRC).

The FRC published the first UK Stewardship Code (the Code) in 2010 with an aim to enhance the long-term returns to shareholders via improvements in the quality and quantity of engagement between investors and companies. The Code defined stewardship as the promotion of long-term success of companies in such a way that the ultimate providers of capital also prosper.

The Code was revised in 2012, and in 2016 the FRC began to formally assess these statements, with signatories classified as Tier 1 or Tier 2 depending on the quality of the statements. The London Borough of Hillingdon Pension Fund is currently a Tier 2 signatory to the 2012 Code.

The U.K. Stewardship Code 2020

In January 2020, the FRC released a revised UK Stewardship Code, updated from the 2012 iteration, which is much broader in scope. The 2020 code shifts the emphasis from stewardship policies and procedures to an increased focus on activities and outcomes. It also requires the consideration of systemic issues such as climate change, and the consideration of stewardship activities across broader asset classes, and not just listed UK listed equities. The updated code also requires more frequent and extensive reporting.

The Code comprises a set of 'apply and explain' principles for asset managers and asset owners, and a separate set of principles for service providers. The Code does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy. A copy of the Code can be seen at: https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code_Dec-19-Final-Corrected.pdf

The Code is based on the belief that asset owners cannot delegate their responsibility and are accountable for effective stewardship. The increased stewardship onus on asset owners is also in line with the spirit of the latest

Department of Work & Pensions (DWP) consultation in October 2021 on enhancing stewardship activities in statement of investment principles or investment strategy statemenets. Stewardship activities include investment decision-making, monitoring assets and service providers, engaging with issuers, and holding them to account on material issues, collaborating with others, and exercising rights and responsibilities. Signatories to the updated code are expected to use the resources, rights and influence available to them to exercise stewardship, no matter how capital is invested.

Principles for Asset Owners and Asset Managers

The Code requires asset owners and asset managers to comply with 12 principles, disclose on their actions and outcomes against these each year, and requires up to date evidence of activity in relation to these. This reflects the FRC's intention that the Code will be a basis for differentiating true stewardship best practice. The FRC will evaluate submission reports against an assessment framework and those meeting the reporting expectations will be listed as signatories to the Code.

The Code's 12 principles are stated below:

Category	Principle
Purpose and Governance	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.
Investment Approach	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.

Engagement	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.
Exercising rights & responsibilities	12. Signatories actively exercise their rights and responsibilities.

In this report, we set out The London Borough of Hillingdon Pension Fund's (the Fund's) alignment to the Code and how the Fund has undertaken to apply the twelve principles applicable to asset owners.

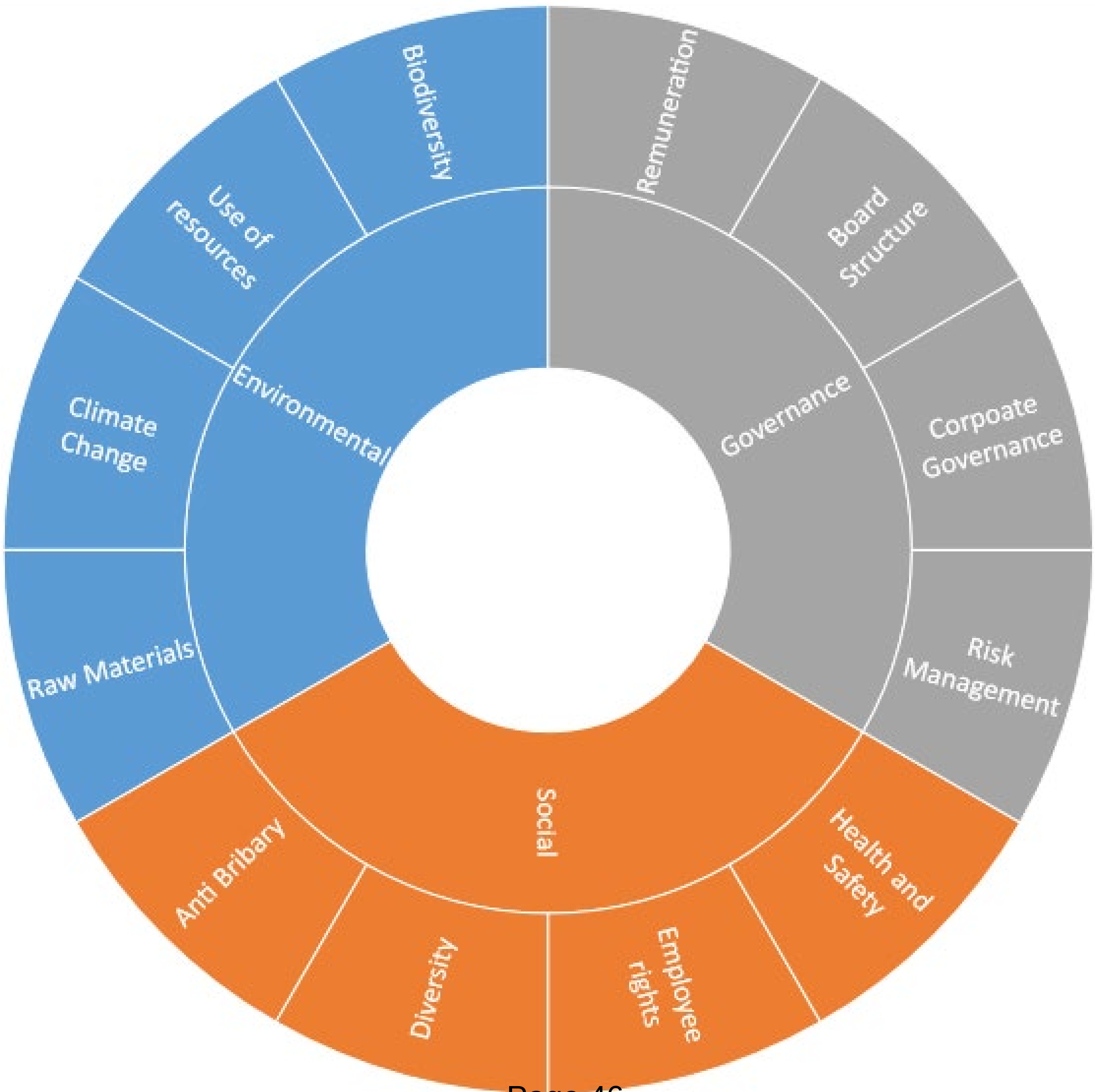
DEFINITIONS

Responsible Investment (RI)
The term Responsible Investment means the integration of Environmental, Social and corporate Governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance.

Environmental
Environmental considerations could include among other factors, energy usage, waste disposal, raw materials sourcing, carbon emissions, water usage and recycling processes.

Social
Social considerations could include among other factors, diversity, treatment of minorities, opportunities for women, employee rights, charitable activities, community work, use of agency workers and social infrastructure.

Governance
Governance considerations could include among other factors, composition of boards, external trustees, available share classes, interaction with shareholders, remuneration and voters' rights.



PURPOSE AND GOVERNANCE

PRINCIPLE 1: PURPOSE, STRATEGY, & CULTURE

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.

Context

Purpose and business model

The London Borough of Hillingdon Council (the Council) is the Administrating Authority for the London Borough of Hillingdon Pension Fund and administers the Local Government Pension Scheme (LGPS) on behalf of participating employers. The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the UK. The authority to administer the Fund on behalf of the Council is delegated to the Council's Local Pensions Board and Pensions Committee (the Committee).

The Fund is committed to being a long-term steward of the assets in which it invests to protect and enhance the value of the Fund over the long-term and act in the best financial interests of its members. In so doing, the Committee will take into account all financial risks, including Environmental, Social and Governance (ESG) considerations, into account. The Committee has a fiduciary responsibility for the determination and oversight of investment policies and the conduct of those policies. The Committee works closely with officers, external advisers and the Local Pensions Board in meeting its obligations in this respect. The Local Pensions Board has an oversight role to assist the administering authority in securing compliance with regulations and policies that apply to the Fund. The Fund is a separate entity to the Council, and the Committee has sole authority over the Fund.

The Fund's primary purpose is to pay its members pensions as they fall due, with the primary objective to have sufficient assets over the long-term to meet all the pension liabilities, with consideration of returns, risk, liquidity, and ESG factors when making all investment and asset allocation decisions. It serves more than 28,800 members and has investment assets of over £1.2 billion.

The conditions of the LGPS Regulations set out the benefits payable to members of the Fund. The benefits are guaranteed for those members and are therefore not reliant on investment performance or employer contributions, although investment returns will help pay benefits, there is no guarantee. The regulations that govern the benefits and investments are available at:

LGPS Regulations and Guidance (lgpsregs.org)

Culture and values

The Fund puts the interests of its members first and at the heart of everything it does. As a responsible investor the Fund aims to have a positive impact on Environmental, Social and Governance issues. To ensure the Fund's financial stability, it maintains a solid and prudent approach to financial management that has delivered its success to date and which is vital going forward. The Fund will demonstrate good governance by being transparent and at the forefront of good practice within the LGPS.

The Fund is committed to being a long-term steward of the assets in which it invests to protect and enhance the value of the Fund over the long-term. As part of the Committee's fiduciary duty, which includes a comprehensive approach to risk management, it has been recognised that ESG factors, including, but not limited to, climate change, can be financially material. As such, the Committee recognises that there is a need for the Fund to be a long-term, responsible investor in order to achieve sustainable returns.

The Committee believes that ESG considerations should be integrated into all investment decision making as it helps reduce risk and improve performance to the pension fund and aligns with the fiduciary responsibility of the Fund. The Committee takes their responsibility in this regard seriously and considers all ESG issues, including climate change in all investment decisions.

The Committee further believes in a policy of long-term investment in order to achieve sustainable returns from well governed and sustainable assets. Investment in companies that are managed better and that work within strong Environmental, Social and Governance aware frameworks can provide investors with risk-aware, long-term sustainable returns. The Fund believes ESG risks should be approached holistically rather than on specific issues as factors are continually evolving, this enables the Fund to be reactive to the underlying company ESG issues and work with companies to make improvements.

The Committee has a collaborative culture and works closely with officers, external advisers and the Pensions Board in meeting its obligations to its members. The Pensions Board has an oversight role to assist the London Borough of Hillingdon Council (the Council), in its capacity as administering authority for the Fund, in ensuring compliance with regulations and policies that apply to the Fund.

The Committee believes sustainable investments can be achieved with robust and effective dialogue and engagement with fund managers and corporate management teams. Further, the Committee pursues a policy of transparency and accountability to its stakeholders for the effective management of the Fund and its investment portfolio.

Strategy

- Funding Strategy Statement (FSS)

  Given that employees' benefits are guaranteed by LGPS Regulations, employers need to pay the balance of the cost of delivering benefits to members and their dependents. The FSS is a summary of the Fund's approach to funding it's liabilities, including how these liabilities are measured, the pace of funding, and how these are paid by the employer.

  The Fund's overall funding objective is to ensure that sufficient assets are available to pay all benefits as they fall due for payment and the FSS provides a summary of the Fund's approach to funding the liabilities and includes reference to other relevant policies. The Funding Strategy Statement for the Fund, from 2020, is available at:

  Pension fund documents - Hillingdon Council

- Investment Strategy Statement (ISS)

  The ISS outlines the Fund's investment objectives and investment beliefs, and includes an assessment of the investments the Committee has chosen, the approach taken to risk and how ESG factors are taken into account.

  As mentioned above, the Fund's primary investment objective is to ensure that over the long-term the Fund will have sufficient assets to meet all pension liabilities as they fall due. To achieve this, the Fund will look to maximise the return on its investments while managing risk within acceptable levels. The Committee has taken professional advice to set a suitable strategic asset allocation benchmark for the Fund. Further details can be found in our ISS, available here:

  Pension fund documents - Hillingdon Council

Investment Beliefs

To achieve the Fund's primary investment objective, it aims to:

- Maximise the returns on its investments
- Manage risk within acceptable levels
- Maintain liquidity to meet obligations as they fall due
- Contribute cash into the Fund towards 100% Funding level
- Stabilise employer contribution rates as far as possible
- Invest in a wide range of investments
- Pool assets with other LGPS funds
- Take proper formal advice on relevant decisions
- Consider ESG factors when making all investment decisions.

ESG Beliefs

Alongside the Fund's overall investment beliefs, the Committee has formulated a set of bespoke ESG beliefs to help underpin overall investment decision making. The Committee's ESG beliefs are included and forms the basis of the Fund's separate Responsible Investment (RI) policy, which is available on the website here:

Pension fund documents - Hillingdon Council

The Fund's ESG beliefs are categorised under five broad headings: Risk Management; Investment Approach/Framework; Voting & Engagement; Reporting & Monitoring; and Collaboration. The ESG beliefs are as follows:

Category	Belief
Risk Management	1. ESG factors (including Climate Change) are important for risk management (including reputational risk) and can be financially material. Managing these risks forms part of the fiduciary duty of the Committee.
	2. The Committee believes that ESG integration, and managing ESG factors such as climate change risks, leads to better risk-adjusted outcomes and that ESG factors should be considered in the investment strategy, where there is clear financial rationale for doing so.
	3. The Committee is responsible for the Fund's ESG beliefs and Responsible Investment Policy but will be cognisant of the Council's wider policies and values.
Approach/Framework	4. The Committee expects investment managers to integrate ESG considerations into their investment process and in their stewardship activities and seeks to understand how they do so.
	5. The Committee believes that certain investment opportunities that provide a positive ESG impact, such as funds that support the climate transition, will perform strongly as countries transition onto more sustainable development paths. Where possible the Committee will seek to allocate to these opportunities where there is clear financial rationale for doing so.
Voting & Engagement	6. ESG factors are relevant to all asset classes, whether liquid or illiquid investments, and managers have the responsibility to engage with companies on ESG factors.
	7. The Committee wants to understand the impact and effectiveness of voting & engagement activity within their investment mandates.

	8. The Committee believes that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. Divestment will be considered on a pragmatic basis in the event that the engagement with the investment manager has not produced positive results.
Reporting & Monitoring	9. ESG factors are dynamic and continually evolving, therefore the Committee will receive training as required to develop their knowledge.
	10. The Committee will seek to monitor key ESG metrics, such as greenhouse gas emissions, within the investment portfolio to understand the impact of their investments. The Committee will take a pragmatic view and look to evolve their approach over time.
	11. The Committee will set pragmatic ESG targets based on their views, data availability, and how key ESG metrics evolve over time.
Collaboration	12. The Fund's investment managers should be actively engaging and collaborating with other market participants to raise broader ESG investment standards and facilitate best practices as well as sign up and comply with common frameworks.
	13. The Fund should seek to sign up to a recognised ESG framework/s to collaborate with other investors on key issues.

ESG Policy, approach & framework

The Fund believes in a policy of long-term investment in order to achieve sustainable returns from well governed and sustainable assets. Investment in companies that are managed better and that work within strong Environmental, Social and Governance aware frameworks and can provide investors with risk-aware, long-term sustainable returns.

The Fund believes that the companies that manage assets on behalf of the pension fund should at the least be signatories to the UK Stewardship Code and Principles for Responsible Investment (PRI). Existing managers outside of these frameworks should have a valid reason not to sign up, for example are signed up to other relevant bodies for their industry or specific asset class, but will encourage them to do so. New investment will not be made into managers who are not signatories to the UK Stewardship Code and PRI, or are intending to work towards being signatories in the short-term, or have good reason not to.

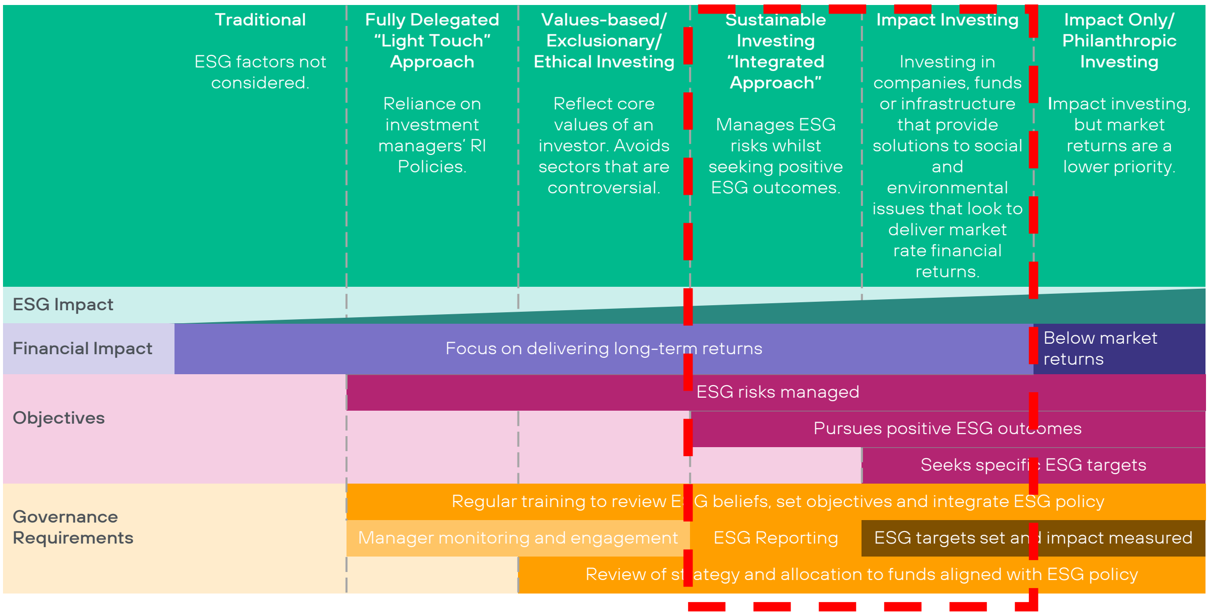
The Fund favours a policy of engagement with companies as opposed to widespread policies of exclusion of companies from specific sectors. However, divestment is a tool available to the Fund and its investment managers to divest from companies for any reason including ESG reasons.

The Fund believes that Climate Change is a financial risk to the Pension Fund and manages this risk through the Fund’s Risk Register. Climate risk is evident in all sectors and should be considered in all investments. The Fund expects investment managers to consider the usage of resources of companies and the implications of targets for reduced carbon emissions to support the achievement of the Paris agreement principles.

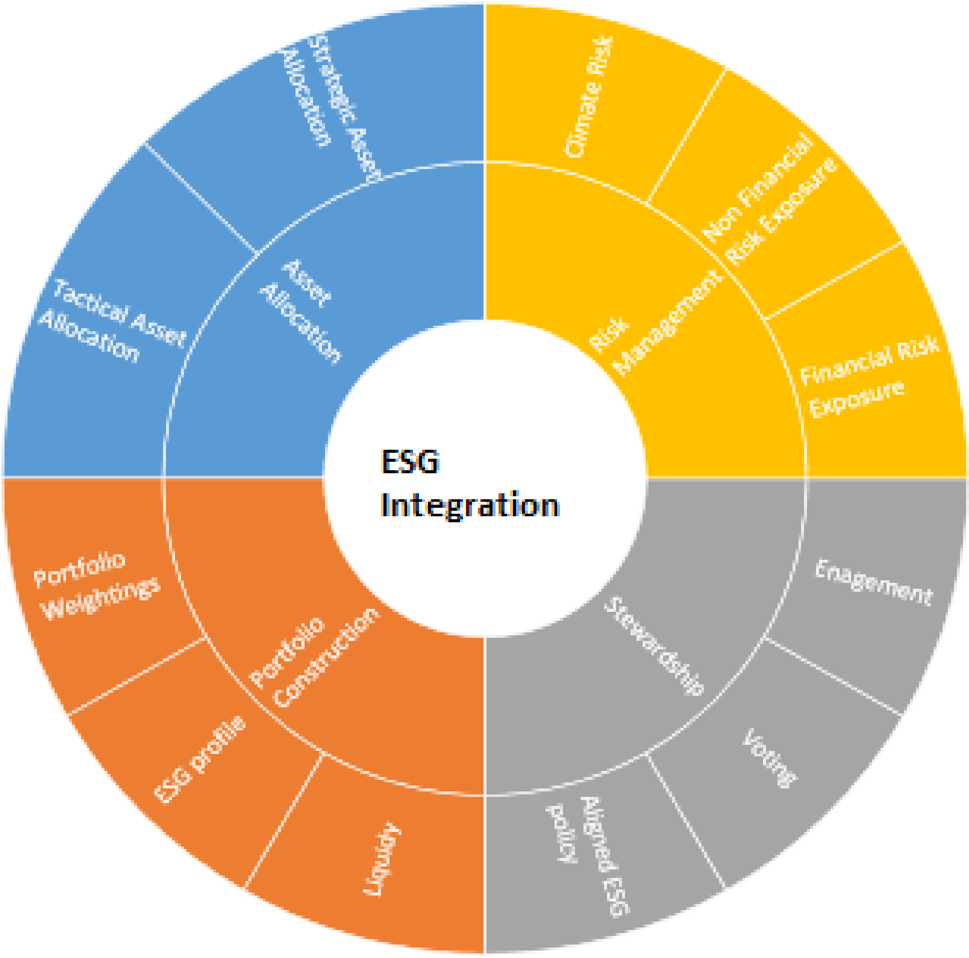
The Fund believes ESG risks should be approached holistically rather than on specific issues as factors are continually evolving, this enables the Fund to be reactive to the underlying company ESG issues and work with companies to make improvements. The Fund believes sustainable investments can be achieved with robust and effective dialogue and engagement with fund managers and corporate management teams.

Effective ESG integration combined with proactive engagement should maximise the adoption of these policies and structures within our portfolio to ensure companies in which the Fund ultimately invests have robust board structures, remuneration and sustainability policies, risk management and debtholder rights.

The Fund will consider the fullest range possible of asset classes when determining its asset allocation. No asset classes are excluded. As per the spectrum of ESG approaches presented in the chart below, the Committee wish to pursue a “sustainable” investment approach for the Fund that integrates ESG risk analysis into investment decision-making, whilst pursuing certain “impact” opportunities that generate competitive financial returns whilst also providing positive and measurable environmental or societal impact. The Committee will seek clear financial rationale in any investment decision, and also consider in balance all financial and non-financial considerations. The Committee’s position is indicated on the spectrum chart below.



This RI framework provides the investment beliefs and objectives as the starting point to deliver RI and stewardship for the Fund. ESG will be considered in all investment decisions, whether investing through direct segregated mandates or into pooled funds and will incorporate ESG criteria as part of new mandate selection exercises.



The Fund will ensure manager ESG integration policies are in line with fund expectations and beliefs and managers will report ESG factor management to the Fund regularly. Delegation of day-to-day ESG integration of investments to asset managers who are expected to have closer knowledge of companies under investment and board activity. However, the Committee, with the support from its investment advisors, will undertake annual reviews of the investment managers' approach to integrating ESG factors and engage with them where there is misalignment with the Committee's ESG beliefs and look to remedy any issues where possible. The Fund will also seek to understand each manager's approach to voting and engagement and monitor this on an ongoing basis to seek the effectiveness of these activities. The Fund will challenge and require assurance on decisions and investments made by managers where fund stakeholders may have ESG concerns, to fully understand risk profile of investment.

The Fund RI policy and the Funds compliance with the Stewardship code will be formally reviewed and updated annually. The Committee's ESG beliefs will be formerly reviewed biennially or more frequently if required, in order to ensure alignment with the policy.

The Committee will monitor the Fund's assets against this Policy on an ongoing basis, with the assistance of its investment advisor. The Committee views the development of the Policy as an ongoing process as approaches to integrating ESG factors continue to evolve over time. When reviewing the Policy, the Committee will take account of any significant developments in these areas to ensure they are taking a best practice approach.

Activity

The Fund's approach to Stewardship is summarised in the RI policy included in Appendix A. The Committee have taken the following actions to ensure their investment beliefs, strategy and culture enable effective stewardship:

- The Committee considers ESG in all the Fund's investment decisions through incorporating ESG as a formal criterion as part of new mandate selection exercises. This maps directly to ESG beliefs 4 and 5 outlined above and the Committee, with the support of its advisors, assess all their investment managers in relation to their ESG credentials. This is also related to prudent risk management (ie. ESG beliefs 1, 2 and 3).
- The Committee ensures the ESG integration of new and existing investment managers is in line with Fund's investment beliefs and investment managers factor ESG into investment decisions regularly. Similarly linked to both ESG beliefs 4 and 5, in particular ESG belief 5 where the Committee looks to identify opportunities to provide a positive impact or support the climate transition, and examples include investment in the LGIM Future World Fund and the LCIV Global Alpha – Paris Aligned Fund (Baillie Gifford).
- With support from the Fund's investment advisors, the Committee conduct an annual review of the investment managers' approach to integrating ESG, then engage and monitor these approaches on an ongoing basis. This is linked to beliefs under investment approach (beliefs 4 and 5) as well as voting & engagement (beliefs 6, 7, and 8).
- The Committee have recently agreed ESG metrics and targets to monitor and report against and will engage with underlying investment managers to improve both the absolute measures reported and disclosures of the agreed metrics over time (linked to ESG beliefs 9, 10 and 11 under reporting and monitoring and the Committee have in 2021 set ESG objectives and metrics and agreed a framework to begin engaging and reporting on these metrics in 2022 and going forward as ESG metrics continue to evolve).
- The Committee formally review and monitor the Fund's ESG policy and beliefs on a regular basis, at least annually.
- The Fund makes investments with the London CIV (LCIV), a collective investment vehicle for London Borough LGPS funds. The Fund reviewed the LCIV's investment governance and shared the outcomes with LCIV and subsequently worked with LCIV to put improvements in place.

- The Fund looks to collaborate with wider ESG initiatives and bodies to broaden its scope and potential impact, for example through LCIV and TCFD. This is linked to ESG beliefs 12 and 13.

The Fund believes that effective ESG integration combined with proactive engagement should maximise the Fund's ability to achieve the targeted risk-adjusted returns, the mitigation of ESG risks, and demonstrate benefits to all stakeholders.

The Fund is committed to complying with the regulatory obligation to achieve a position whereby at least 95% of its investment assets are pooled, where possible (mindful of any liquidity constraints) and when the appropriate investment propositions are available on the pool. The Fund has committed to pool its assets through the London CIV (LCIV). The Fund will continue to monitor the arrangements put in place by the pool in ensuring thorough due diligence has been carried out by the LCIV including manager RI and ESG policies in manager selection. The Fund is maintaining a regular dialogue with senior management of LCIV in order to ensure that its Investment beliefs and policies are taken into account and as much as possible accommodated by LCIV and its fund managers.

Investment into pooled funds does not remove or reduce the fiduciary responsibilities of the Fund and the Committee and officers will engage closely with LCIV and will seek its full co-operation in order to properly acquit these responsibilities including implementation of ESG policies and stewardship of assets.

Outcomes

Manager selection

While the overall strategic asset allocation has remained relatively constant over recent years, the Committee's ESG beliefs and amended Responsible Investment policy played a part together with investment consideration that drove recent investment strategic decisions within the existing asset allocation over 2021, examples including: replacing both the UBS UK Active Equity Fund and the LCIV Equity Income Fund (which were accounting for the highest proportion of carbon emissions in the portfolio and resulting in a clear UK bias to the equity portfolio) with the LGIM Global Future World Index Fund and the LCIV Global Alpha - Paris Aligned Fund (Baillie Gifford) (c.13% strategic allocation of overall portfolio in each) respectively, which has significantly reduced the carbon emissions and footprint of the portfolio, while also reducing the UK bias. See more details provided under Principle 4 and 7.

Action-based outcomes

The Committee has been actively engaging with the LCIV as well as the other Fund's managers to drive improvements of ESG integration and overall governance within the underlying portfolios. Engagement continues to ensure momentum is maintained and further improvements can be discussed. In 2021, the London CIV has become the first Local Authority pension pool to target net zero emissions by 2040, and was a result of collective engagement by investors, of which the Fund is one, and a bid in supporting needs of clients. The Committee and advisors plan to continue to engage in 2022 with the LCIV on interim targets and their plan in order to achieve these targets.

The Committee regularly request and review engagement and voting information from all investment managers and compile this into an annual report (see Appendix for the Fund's implementation statement), while expecting investment managers to provide detailed quarterly reporting.

In 2021, the Committee agreed a set of ESG objectives in line with the ESG beliefs, as well as related ESG metrics and targets which will form the basis of further engagement with managers in 2022 to firstly encourage them to report on these (if not able to already) as well as to improve these metrics year on year. The agreed metrics align with the TCFD reporting requirements, with some additional metrics which the Committee see as a priority for the Fund. The chosen ESG metrics and targets will be reviewed on an ongoing basis to be in line with future developments. See more details in Principle 7.

PRINCIPLE 2: GOVERNANCE, RESOURCES, & INCENTIVES

Signatories' governance, resources and incentives support stewardship.

Activities

Governance overview

The Committee has a fiduciary responsibility for the determination and oversight of investment policies and the conduct of those policies. The Committee works closely with officers, external advisers and the Local Pensions Board in meeting its obligations in this respect.

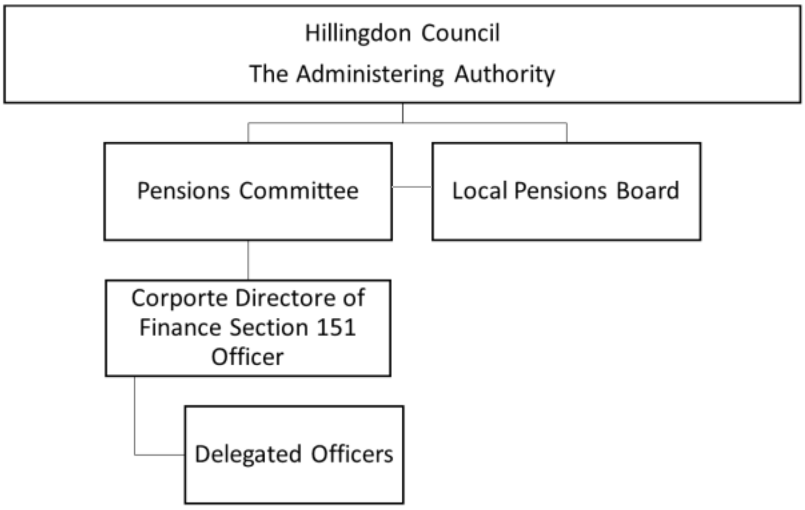
The Committee meets quarterly and regularly reviews the Fund's asset allocation and investment policies with officers and external advisers. Periodically, investment objectives and investment strategy are considered and revised as appropriate.

The Local Pensions Board has an oversight role to assist the Administering Authority in securing compliance with regulations and policies that apply to the Fund. The Local Pensions Board is not a decision-making body, but rather holds a compliance and scrutiny role to ensure the Committee effectively and efficiently complies with the code of practice on the governance and administration of public service pensions schemes issued by the Pension Regulator. The membership of the Local Pensions Board must be equally split between employer and Fund member representatives all with the relevant experience and capacity. No elected member may sit on both the Pensions Committee and the Local Pensions Board. The Local Pensions Board meets quarterly to review the reports of the Committee that will include reports relating to compliance with ESG and the Responsible Investment Policy.

The Constitution of the Council sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and that those who made the decisions are accountable to the local people the represent. The Constitution of the Council also sets out the framework under which the Fund is administered. See below diagram outlining the governance structure.

Governance structures are to be further reviewed and revised once recommendations are released in relation to the Good Governance Framework and the Combined Code of Practice. The Fund will aim to follow all recommendations and apply best practice.

Diversity is an important topic for the Fund and is reflected through the ethnic and cultural diversity of the London Borough as the councillors are elected to represent the Borough and the membership reflects the diversity of the Borough. Although the Fund is itself somewhat limited to influence diversity as only have access to elected members. Diversity is also an important topic in terms of the Fund's and advisors' engagements with investment managers.



The members and experience of the Committee and Board members are outlined below:

Committee Member	Qualifications & Experience
Cllr. Goddard (Chairman)	• Chartered Accountant - Fellow of the Institute of Chartered Accountants in England & Wales. • 23 Years' experience in auditing companies and pension funds in the private sector (15 years of which as a partner). • 21 Years' experience as a partner in a major international accounting firm. • 2 years' experience as Vice Chair of the Audit Committee at the London Borough of Hillingdon. • 4 years' experience as a member of the Pensions Committee (2 years as Vice Chairman and 2 years as Chairman). • Regular attendee at training courses designed for LGPS.
Cllr. Flynn	• 8 years' experience as a local councillor. • Former Finance Solicitor - practiced with a top 20 UK law firm for several years specialising in Real Estate and Asset Finance work • Qualified as a Solicitor in 2007. • 8 months experience on a legal secondment at HSBC's Loan Management Unit.

	• 7 years as a Governor of two primary schools - Essendine (Westminster) and Hillside (Hillingdon) including chairing the Finance Committee.
Cllr. Hensley	• Masters in Philosophy (MPhil), CAS, Chartered Engineer (CEng), Member of the Institution of Mechanical Engineers (MIMechE), Member of the Institution of Electrical Engineers (MIEE), Member of the institute of Materials, Minerals, & Mining (MIMMM) • 30+ years experience managing large professional and skilled workforces in both the private and public sectors to include overall responsibility for their pay and pension.
Cllr. Sansarpuri	• BA and law graduate • 27 years' experience in the private sector with 4 of those in banking and 16 years as a local Councillor.
Cllr. Morse	

Board Member	**Qualifications & Experience**
Roger Hackett - Chairman	• Member of the Chartered Institute of Personnel and Development (MCIPD) • University of Leeds - BA Hons 2:1 Degree in History • Head of Human Resources for a number of organisations in the private and public sector including responsibilities for either a DB scheme or in the case of LB Hillingdon the LGPS from 1971 to 2008. • From 1991 to 2008 – head of the HR, occupational health and payroll functions for LB of Hillingdon. • Since 2015, an employee member of the Pensions Board of LB Hillingdon. • Completed tPR Public Sector toolkit and regularly attend pensions and LGPS webinars,

	and other pension events, courses, conferences and training.
Shane Woodhatch	• CIMA accountant; HND in Internal Auditing • Member of the Pensions Board for 14 months and undertaken the requisite training as set out in the CIPFA Knowledge and Skills framework as well as other complementary training events. • Knowledge has been assessed at a 'skilled' level.
Tony Noakes	• 3+ years experience on the Hillingdon Pensions Board for over three years and undertaken the required training plus other complementary training events. • 4 years experience in payroll and pensions at an Academy Trust within the LGPS, and managing both DC and DB personal pensions.
Anil Mehta	• BSc honours degree in Business Management and Accounting. • 8 years experience in the Finance function and a member of the pensions board for the past 6 months. • Completed the training modules on the CPIFA Pensions Education Portal.

Officers and external advisers maintain a rolling programme of review and due diligence on all appointed fund managers and report the results of their work to the Committee. This ensures that officers maintain oversight of the Fund’s holdings on an ongoing basis, allowing sufficiently timely and informed decisions surrounding stewardship activities.

A copy of the Governance Policy and latest Compliance Statement is also available on the website here:

Pension fund documents - Hillingdon Council

In relation to the governance of the Fund, the objectives are to ensure that:

- all staff and Committee members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them;

- ultimate oversight for the integration of ESG (including climate change) and stewardship issues within the Fund's investments. This is delegated to service providers and investment managers in terms of advice and implementation;
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties;
- all relevant legislation is understood and complied with;
- the Fund aims to be at the forefront of best practice for LGPS funds; and
- the Fund manages conflicts of interest appropriately.

Training

A training policy has been put in place to assist the Fund in achieving its governance and stewardship objectives and all Committee members, Local Pension Board members and officers are expected to continually demonstrate their own personal commitment to training and to ensuring that the governance objectives are met.

To assist in achieving these objectives the Fund aims to comply with:

- the CIPFA Knowledge and Skills Frameworks and;
- the knowledge and skills elements of the Public Service Pensions Act 2013 and The Pensions Regulator's (TPR) Code of Practice for Public Service Schemes.

In addition, the Fund must comply LGPS specific guidance relating to the knowledge and skills of Committee members, Local Pension Board members or officers which may be issued from time to time.

Members of the Committee, Local Pension Board and officers involved in the management of the Fund will receive training on all relevant issues, including ESG and climate-related issues, to ensure that they meet the aims of the Training Policy with training schedules drawn up and reviewed on at least an annual basis. Including training in preparation for the Task force on climate-related financial disclosures (TCFD) reporting regulations, which the Committee have committed to supporting and which is likely to be captured under the next wave of TCFD regulations making it mandatory (in 2023 or shortly thereafter).

Governance monitoring processes and systems

In order to maintain oversight of the Fund's governance and stewardship activities and objectives, the following monitoring arrangements are in place:

Objective	**Monitoring Arrangements**
Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.	• The Committee and the section 151 officer make decisions on behalf of the Fund. • The Committee and Officers are also supported by various third party experts and advisors.

	• The Local Pensions Board has oversight of the decisions made to ensure compliance with relevant legislation and regulations • Policy and strategy documents are regularly reviewed and published to ensure they are up to date.
Ensure the Fund is well managed and its services delivered by people who have the appropriate knowledge and expertise	• A Training Policy is in place together with monitoring of all training by Committee members and key officers.
Act with integrity and be accountable to stakeholders for decisions, ensuring they are robust and well based.	• Committee meetings are open to all stakeholders to attend and papers and minutes are published. • The Local Pensions Board includes representatives from Fund members and employers in the Fund. • The Local Pension Board prepares and publishes an annual report which may include comment on decision making.
Understand and monitor risk	• A Risk Policy and risk register is in place. • Ongoing consideration of key risks at Committee meetings.
Strive to ensure compliance with the appropriate legislation and statutory guidance and to act in the spirit of other relevant guidelines and best practice guidance	• The governance of the Fund is considered by both the External and Internal Auditors. All External and Internal Audit Reports are reported to Committee. • The Fund maintains a log of all breaches of the law in accordance with the Fund's breaches procedure.

The Committee understand that the ESG landscape continues to evolve and therefore seek to ensure that our governance approach is fit for purpose. The Board undertakes an annual review of governance procedures and policies, of which ESG, climate change and stewardship are included.

As mentioned, the Fund is committed to complying with the regulatory obligation to achieve a position whereby at least 95% of its investment assets are pooled, where possible. The Fund has committed to pool its assets through the LCIV. The Fund will continue to monitor the arrangements put in place by the pool in ensuring thorough due diligence has been carried out by the LCIV including manager RI and ESG policies in manager selection. The Fund will ensure there is a value for money case and pooled funds meet the investment strategy risk and reward objectives. The Fund will consider making further allocations of investments within the LCIV pool as and when realisations of the existing portfolio occur either by virtue of investment decisions made or by the maturity or return of existing investments.

The Fund is maintaining a regular dialogue with senior management of LCIV in order to ensure that its investment beliefs and policies are taken into account and as much as possible accommodated by LCIV and its fund managers. Investment into pooled funds does not remove or reduce the fiduciary responsibilities of the Fund and the Committee and officers will engage closely with LCIV and will seek its full co-operation in order to properly acquit these responsibilities including implementation of ESG policies and stewardship of assets.

Service Providers

The Fund employs multiple service providers and advisors who assist with its stewardship activities, including investment consultants, actuary, benefits consultants, global custodian, fund managers, lawyers, pension fund administrator and an independent professional investment advisor. The Committee are responsible for the selection, appointment, ongoing monitoring and dismissal of these providers. The Fund requests, reviews and comments on the Statement on Standards for Attestation Engagements (SSAE) 16 and/or the International Standard on Assurance Engagements (ISAE) 3402 internal control reports of managers and service providers ensuring weaknesses have been rectified. The Fund also reviews its investment advisor (Isio) in line with CMA requirements. Responsible Investment and the consideration of ESG issues are a criteria in the selection process of service providers and advisors.

Day-to-day responsibility for managing investments is delegated to the Fund's appointed asset managers, and the Fund expects them to monitor companies, intervene where necessary, and report regularly on activities undertaken, while making appropriate or relevant investment in research and analysis in relation to stewardship and apply an overarching strategy accounting for all investment risks and considerations as part of their stewardship responsibilities. As part of the appointment and ongoing assessment of asset managers, ESG considerations (including climate change) are taken into account.

The Fund engages with the LCIV to ensure effective stewardship and governance activities in relation to its assets, as well as the appropriate consideration of ESG and climate issues.

Incentive programmes are not explicitly incorporated into fund manager contracts, however as part of the ESG impact assessment, the Fund with the support of its investment advisor, considers how the Fund's asset managers use relevant incentive programmes to encourage best practice in relation to stewardship and ESG integration in the funds they manage for the Fund.

Outcomes

Case Study:

Following the investment governance review and collaboration with the LCIV, they now have in place Investment Governance Documentation which outlines their processes including the integration of Responsible Investment (RI) in the selection and oversight of investment managers. Enhancements were also made to the LCIV's reporting which provides greater insight on LCIV's products, including significant improvement in reporting on RI activity and metrics. There is now also greater transparency on LCIV's development of new investment products, including manager selection and the integration of RI.

As a result and given additional focus on responsible investment, LCIV have added dedicated responsible investment resource and included reporting enhancements. The Committee have also themselves focussed more time on responsible investment considerations for the Fund as illustrated throughout this report.

PRINCIPLE 3: CONFLICTS OF INTEREST

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Context

Overview

The Fund has a Conflicts of Interest Policy (see below) that defines conflicts of interest and outlines how to identify, monitor and manage conflicts of interest that may occur, including in relation to stewardship as well as ESG issues. A register of interest is also maintained for the Local Pensions Board and declaration of interest in relation to members of the Committee are available on the Council's website. Fund managers and advisors are also required to submit their organisation's conflict of interest policy. The Fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. Declaration of interests is a standing item on both the Local Pension Board and Committee agendas.

In respect of conflicts of interest within the Fund, Committee members are required to make declarations of interest prior to Committee meetings. These declarations are reported in agenda items readily available to the general public in the minutes of the quarterly meetings.

Further to the declarations of interest at Committee meetings, members are duty bound to make written related party declarations annually, which form part of the disclosure notes to the fund accounts and notes. These declarations are in addition to member declarations for the main Council's accounts. As such, any actual or perceived conflict of interest is transparent to members of the public.

Where conflict of interests arises during the decision-making process, involving member(s) of the Committee or officers of the Fund, such individuals may be recused from the particular decision-making process to protect the integrity of the outcome.

In addition, conflicts of interest training is included as part of induction training and within the knowledge and skills framework which is followed.

Conflicts Policy

The Fund's Conflicts of Interest Policy is publicly available, and can be found at the following link:
Pension fund documents - Hillingdon Council

London Borough of Hillingdon
Pension Fund

Conflicts of Interest Policy

HILLINGDON
LONDON

Updated September 2021

Public Standards

As a Local Government Pension Scheme, the Hillingdon Pension Fund adheres to the Nolan Principles on Public Life, which are integral to the application, and success, of this policy.

Selflessness	Holders of public office should act solely in terms of the public interest.
Integrity	Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, theirfamily, or their friends. They must declare and resolve any interests and relationships.
Objectivity	Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
Accountability	Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
Openness	Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
Honesty	Holders of public office should be truthful.
Leadership	Holders of public office should exhibit these principles in their own behaviour. They shouldactively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

Through the appropriate management of this policy and in relation to stewardship, the Fund will:

- Meet the highest standards of good governance through demonstration of the key principles of transparency and accountability in the management of the Fund through clear responsibilities and reporting.
- Ensure that robust governance arrangements are in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.
- Act with integrity and be accountable to stakeholders for all decisions, ensuring they are robust, soundly based and do not unreasonably favour one group of stakeholders over another.
- Ensure the Fund complies with the appropriate legislation and The Pension Regulator's Code of Practice.
- Deliver an efficient and effective pensions and financial administration service, which provides excellent value for money.

Activity

In summary, the Fund takes a 3-stage approach to managing conflicts of interests (including in the context of stewardship):

- Identifying
- Monitoring
- Managing

Identifying

To assist the Committee, Local Pension Board members and Officers in identifying when a conflict may arise, attached to the policy as Appendix 1 are some examples of conflicts. Ultimately, it will be the responsibility of the individual, given the adequate training, to identify if a conflict exists and to seek advice from the Fund's Head of Finance-Statutory Accounts & Pension Fund.

Monitoring

The Fund keeps a register of interests for all its Local Pension Board member declarations of interest. Elected Councillors, under their own code of conduct are required to declare interests at the point of their election. These are published publicly on the Council's website.

Declaration of interest will be included as an opening agenda item at each Committee and Local Pension Board meeting. This will provide an opportunity for those present to declare any interests, including other responsibilities, which have the potential to become conflicts of interest, and to minute discussions about how they will be managed to prevent an actual conflict arising. This conflict could be with a general subject area or a specific item on the agenda.

The register also protects the individual members who are responsible for deciding whether or not they should declare an interest in a meeting. It is also important that the public know about any interest that might have to be declared, so that decision making is seen by the public as open and honest. This helps to ensure that public confidence in the integrity of local governance is maintained.

Managing

Committee and Local Pension Board members are required to have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest, and should know how potential conflicts should be managed.

The Pension Committee and Local Pension Board are required to evaluate the nature of any dual interests and responsibilities, assess the impact on operations and governance were a conflict of interest to materialise, and seek to prevent a potential conflict of interest becoming detrimental to their conduct. The 'Conflicts Register' can be provided to assist members.

The Committee and Local Pension Board may consider seeking independent legal advice from a nominated officer (for example, the monitoring officer) or external advisers where necessary on how to deal with these issues, if appropriate.

Individual members of the Committee and Local Pension Board must know how to identify where they have a conflict of interest which needs to be declared and which may also restrict their ability to participate in meetings or decision making. They must also appreciate their legal duty under the Regulations to provide information to the

Administering Authority in respect of such conflicts of interest.

Any individual who considers they have a potential or actual conflict of interest which relates to an item of business at a meeting, must advise the Chair of the Committee or Local Pensions Board and the Head of Finance – Statutory Accounts & Pension Fund prior to the meeting where possible, or state this clearly at the earliest possible opportunity in the meeting. A decision should then be reached on whether further action needs to be taken.

Options for managing an actual conflict of interest, should one arise, include:

- A member withdrawing from the discussion and any decision-making process;
- The Committee or Local Pensions Board establishing a sub-board to review the issue (where the terms of reference give the power to do so); or
- A member resigning from the Committee or Local Pensions Board if the conflict is so fundamental that it cannot be managed in any other way.

<u>Potential Conflicts</u>

Potential conflicts may arise relating to the Fund's investment decisions. For example, stewardship related conflicts may arise as a result of business relationships between asset owners and asset managers, ownership structure of invested companies, differences between the stewardship policies of asset managers and their clients, cross-directorships, and client and other beneficiary interests which differ from each other.

Outcomes

The Conflicts of Interest policy is maintained and reviewed on a regular basis to ensure it remains fit for purpose and as emerging issues and new guidance become evident, but at least every three years. The policy was most recently reviewed and updated in September 2021.

The Committee maintain an up-to-date conflicts of interest registry with a record of all potential or actual conflicts, including annual declarations.

A Member's General Declaration of Interest is completed within 28 days of taking office, recorded on their individual web pages, and updated as and when there are changes. In addition, members are asked annually to check their entry and update any changes.

In addition, members are obliged to advise of any Gifts or Hospitality that they receive and this is updated as and when such a notice is received. Before each Committee meeting members are asked to advise of any declarations of interest and this is noted in the minutes and made transparent to the members of the public.

Annually members are required to complete a Related Parties disclosure for assessment and inclusion where relevant in the Statement of Accounts and Pension Fund Annual Report. Members are also provided with Conflicts of Interest training.

Individuals on the Board and Committee are made aware of, and are reminded of, key responsibilities, and all decisions are made in the interests of members and employers.

As mentioned, within the conflict of interest policy which is routinely followed and will continue to be, there are various routes in which an actual or potential conflict of interest is identified or raised, however to date there has been no actual conflicts of interests identified to report on and below we illustrate one potential conflict which was raised in relation to investment advice and was managed in accordance with the police, but concluded that there was no actual conflict.

Case Study: Potential conflict in investment advice

The Committee challenged their investment advisor Isio on an area where they thought there may be a potential conflict of interest. In a presentation to the Committee on their Diversified Private Credit proposition, BlackRock referenced that Isio had been involved in discussions around the development of the fund. The Committee asked Isio to draft a letter describing their role in these arrangements and whether this created a conflict of interest.

In the letter, Isio clarified that they had not been engaged to provide any paid work on the development or design of the fund presented to the Committee, nor had they received renumeration from BlackRock in relation to any investment product it offers. Isio explained that BlackRock's reference to Isio being involved in the discussions was correct, as they had provided some input to explain what Isio believed would reflect a "best-in-class" investment proposition for their clients might look like, based on their views on markets and other managers. Isio were not paid for this input and provided this information to the manager in the best interests of their clients. Following further development of propositions from managers, Isio undertook further investment due diligence and ultimately shortlisted two investment managers that they believe offer best in class propositions (BlackRock was one of these managers).

Isio also had a role in providing advice to the LCIV on the selection of a Direct Lending manager. In this case, an Isio research team, separate from the core client team that advises the Committee on an ongoing basis, was engaged to provide manager research input to support the LCIV team in selecting direct lending managers for the fund they are offering to London Boroughs for investment. The LCIV was responsible for all decisions on the mandate structure and manager selection, drawing on Isio's manager research input where appropriate. The team that advises the Hillingdon Fund was purposefully kept separate from the research team working with LCIV in order for them to be able to provide the Fund with an independent and objective view on the LCIV mandate, to offer challenge and to advise on how the LCIV mandate compares to best in class alternatives if that is desired. Isio discussed this with the Fund ahead of completing any work with the LCIV.

The Committee were satisfied that this involvement did not present an actual conflict of interest for Isio and both matters were resolved.

PRINCIPLE 4: PROMOTING WELL-FUNCTIONING MARKETS

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Activity

The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS. The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance of the Fund at a strategic and operational level. The risk management policy is a 5-step process which includes: risk identification; risk analysis and evaluation; risk response; risk monitoring and review; and risk reporting.

Identification and response

The Fund monitors and managers a wide range of market and systemic risks, including market price risk, interest rates and inflation, liquidity, ESG risks (including climate change), credit risk, longevity and currency, among others, and looks to mitigate these risks where possible.

The risks horizon is constantly monitored through various sources including news feeds, manager communications, advisor support, market and governance updates, government news and peer groups. These all feed into regular review and action. This can be evidenced in thematic reviews undertaken by the Fund's investment advisor (Isio) and considered by the Fund in terms of Covid 19 and Inflation. The Pension Fund Senior Officer and Pension Committee Chair, with support from the Pension Board Chair regularly meet to discuss risks and these are presented to Committee quarterly for review and consideration.

The Committee logs and maintains a risk register detailing all relevant risks to the Fund, including a rating with consideration of likelihood and expected impact, as well as actions taken to mitigate or manage each risk, as well as progress made against each.

The Committee ensures a sufficiently well-diversified investment strategy to mitigate market risks as far as possible.

The Committee also reviews the most pertinent risks to the Fund, including inflation risk, which given the uncapped nature of the Fund's liabilities to movements in inflation is considered a significant risk to the Fund. A review and discussion of the Fund's exposure to inflation risk and possible actions was conducted in Q4 2021, including consideration of high-level inflation scenarios and their impact on the current investment strategy and potential actions the Fund could take to mitigate further against higher inflation, although the strategy already has allocation to inflation hedging assets. It was decided to monitor forward-looking inflation indicators on a regular basis and consider further options if deemed necessary. A Covid-19 review was also done in June 2020 to establish the impact of the crisis on the Fund.

ESG as a Financially Material Risk

The Fund's Responsible Investment policy and Investment Strategy Statement describes ESG as a financially material risk. The Fund's Implementation Statement (see Appendix) details how the Fund's Responsible Investment policy is implemented, and outlines the Committee's ESG beliefs used in evaluating the Fund's managers' ESG policies and procedures.

Climate change is a systemic risk for markets and investors and as such requires explicit attention by the Fund. This includes both risks arising from the transition to a low carbon economy (the transition from high to low carbon energy and transport) and physical risks arising from climate change (including natural disasters and shifts in weather patterns).

The below table outlines the areas which the Committee assessed the Fund's investment managers on when evaluating their ESG policies and engagements.

Areas for engagement	**Method for monitoring and engagement**	**Circumstances for additional monitoring and engagement**
Environmental, Social, Corporate Governance factors (including climate change) and the exercising of rights and engagement activity	- Through the manager selection process, ESG considerations will form part of the evaluation process; - The Committee and the Fund's investment advisor, Isio, will monitor managers' ESG policies on an ongoing basis; - When attending Committee meetings, investment managers will be asked to present on actions they have taken in respect of ESG factors and their exercise of rights and engagement activity; - The Committee is provided with a report detailing the managers' ESG policies as well as a summary of actions the Fund has engaged with managers on in relation to ESG.	- The manager has not acted in accordance with their policies and frameworks. - The investment managers' ability to abide by the Committee's RI policy ceases due to a change in the managers ESG policies.

Industry initiatives and working with other investors/investment managers

The Fund seeks to work collaboratively with a range of other institutional shareholders and third parties in order to maximise the influence that it can have on individual companies in relation to environmental, social and governance (ESG) issues. Examples include collaboration with the LCIV pool, together with the Local Authority Pension Fund Forum (LAPFF), as well as the Task force on Climate-related Financial Disclosures (TCFD), to which the Fund has signed up as a supporter and committed to report in line with their requirements. The Committee also set expectations for their investment managers against which they engage and collaborate on a regular basis to drive improvements in relation to ESG issues. More information is included under Principle 10 in relation to collaborative engagement.

Outcomes

Effectiveness in identifying and responding to systemic risks

The Fund maintains a risk register to assist in monitoring and identifying market-wide risks that are relevant to the Fund, including ESG risks as well as cyber security, market, governance and other risks. The risk register also details persons with responsibility for maintaining oversight of these risks, or the 'Lead Officer/Committee Member'. The risk register is reviewed on a regular basis, and to illustrate this, following the outbreak of the global Covid-19 pandemic, a new risk factor 'Threat of Covid-19 to Business Continuity' was added to the risk register. The approach taken by the Fund will be continually reviewed in partnership with asset managers and service providers, to ensure this remains fit for purpose.

Case Study: London CIV engagement

The Fund has been actively engaging with London CIV in order to improve their overall governance arrangements and manager reporting. A number of meetings have taken place between the London CIV Chief Executive Officer and the London Borough of Hillingdon Pension Committee Chairman, along with respective officers, setting out a manifest of improvements. During 2021 the majority of requests have been implemented by the London CIV. Engagement continues to ensure momentum is maintained and further improvements can be discussed. While not directly related to this engagement the London CIV has become the first Local Authority pension pool to target net zero emissions by 2040, and was a result of collective engagement investors, of which the Fund is one, and a bid in supporting needs of clients and to manage systemic market risks, including climate change. The Committee and officers are looking to engage further in 2022 in order to further understand how LCIV intend to reach their net zero target by 2040, and to set associated interim targets.

Case Study: Aligning holdings with climate change commitments

Following a strategic asset allocation review carried out in late 2019 and considered by the Committee in early 2020, the Committee made the decision to reduce the bias to UK equities in favour of a passive, global, broad ESG focused approach (with LGIM Future World) following advice and a manager selection exercise conducted by the Fund's investment advisor. Demonstrating the Fund's commitment on climate change and TCFD, the Fund has further restructured its equity portfolio over the past year. In doing so and again followed by a review of appropriate investment managers on and outside the LCIV pool, and with a preference for a growth style, the Fund invested in the LCIV Global Alpha - Paris Aligned Fund (Baillie Gifford), an equity fund with holdings aligning to the commitments of the Paris Agreement.

This Paris-aligned version of the Baillie Gifford Global Alpha fund on the LCIV pool includes an additional process to screen out carbon intensive companies that do not or will not play a major role in the energy transition, and commits to having a weighted average greenhouse gas intensity lower than that of the MSCI ACWI EU Paris Aligned Requirements Index. The fund applies two screens as follows: companies that generate more than 10% of revenues from the extraction and production of coal, oil, and gas; and companies that generate more than 50% of revenues from services provided to coal, oil and gas extraction and production are excluded. In addition, the highest emission companies are subject to a proprietary framework designed to assess the risks they face in the low-carbon transition across three dimensions – is the company providing an essential product/service; can emissions be mitigated in an economically viable way; and is the company part of the problem or the solution.

PRINCIPLE 5: REVIEW & ASSURANCE

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Activity

Policies

The Fund has a number of policies in place which it adheres to in order to support effective stewardship. A number of these have been referenced elsewhere in this report. Please refer to the table below for further details on a selection of these:

Policy	Document	Comments
Responsible Investment	Click here (also see Appendix 1)	This policy details the Fund's approach to ESG issues, including the objectives and beliefs of the Fund. The policy details the Fund's approach to engagement and stewardship and ensures consistency of approach. The policy was most recently reviewed and updated in May 2021. This update included the inclusion of bespoke ESG beliefs.
Governance	Click here	This policy details the Fund's governance structure and objectives. The policy was most recently reviewed and updated in September 2020. This update included more robust wording around the governance structures and policies.
Conflicts of Interest	Click here	This policy sets out the process for managing conflicts (including actual and potential conflicts as well as bias) in the operation and management of the Fund. The policy was most recently reviewed and updated in September 2021, to explicitly include comments that conflicts specifically relating to stewardship are identified, monitored, reported and managed throughout the document as well as to include examples of what constitutes a conflict relating to stewardship.

There are a number of other policies available on the Fund website, including a risk management policy as well as a training policy, but we believe the above selection to be the most relevant.

In order to ensure the above policies remain fit for purpose and are supporting the Fund in exercising effective stewardship, they are reviewed on a regular basis (at least annually) and effort is made to maintain consistency in wording and approach across all policies.

The policies are initially developed internally by members of the Committee with the support from officers and the advice of external advisors. Each policy is formally reviewed and approved by the full Committee.

A draft responsible investment policy was reviewed by the Local Pensions Board prior to its approval by the Committee on 29 January 2019. An updated policy was subsequently reviewed in May 2021.

Although, no external verification is undertaken in relation to stewardship, the Committee continue to engage with investment managers to ensure their voting and engagement efforts are in line with Fund beliefs as well as fund-level stewardship reporting is included in annual ESG or other reporting, to members and other stakeholders. We also ensure the presence of case study examples to bring these efforts to life for our members.

Outcomes

The Fund holds a policy register with prescribed review intervals to ensure they remain fit for purpose and up-to-date, with immediate reviews taking place if and when required. As mentioned above recent reviews and updates (in 2020 and 2021) have been made to a number of polices, including the Fund's approach to responsible investment as well as stewardship, ensuring improvements and incorporating ESG considerations into investment decision-making, evidenced under a multiple of other Principles in this report.

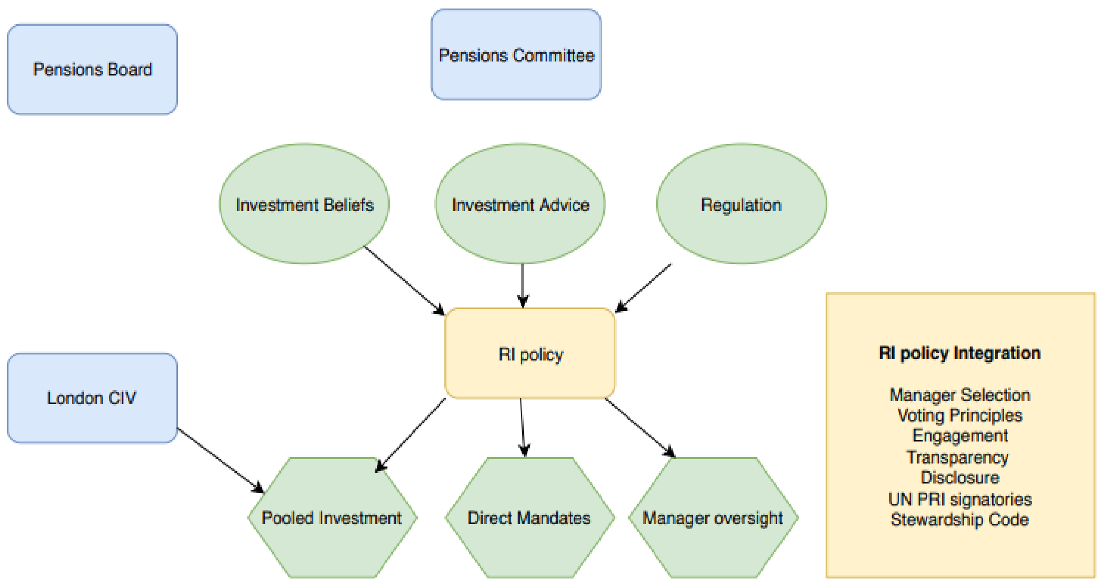
In addition, the Committee review LCIV's proposed changes to processes and policies and engage with them on these. For example, recent and ongoing discussions around their achievement of achieving their target of net zero by 2040 as mentioned in Principle 4 and 9.

Case study example – Responsible Investment Policy

The Fund's Responsible Investment Policy as well as other policies are made publicly available to members on the Fund's website. The Responsible Investment Policy was initially developed through a working group consisting of three members of the Committee with support from officers, who met a number of times to outline and develop the policy, and the Committee's investment advisor, Isio. As part of this, training on responsible investment and ESG was provided for all Committee and Local Pension Board members.

A draft policy was reviewed by the Local Pensions Board prior to its approval by the Committee on 29 January 2019. An updated policy was subsequently reviewed in May 2021. This update was primarily to ensure alignment of the policy to the UK Stewardship Code 2020. The Fund has considered guidance and information from the Department for Levelling Up, Housing and Communities ("DLUHC") (previously Ministry of Housing, Communities and Local Government ("MHCLG")), the Local Government Association (LGA), Scheme Advisory Board (SAB), Pensions and Lifetime Savings Association (PLSA), the Law Commission, and the UK Stewardship Code in establishing this policy.

This thorough approach to developing the Fund's Responsible Investment Policy was necessary to ensure that it accurately reflects the views of the variety of stakeholders in the Fund, and most importantly its beneficiaries. The Fund pursues a policy of transparency and accountability to its stakeholders for the effective management of the Fund and its investment portfolio.



INVESTMENT APPROACH

PRINCIPLE 6: CLIENT & BENEFICIARY NEEDS

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Context

The Fund is a LGPS, located in the London borough of Hillingdon with over £1bn of assets under management. The Fund's members currently comprise the following as at November 2021:

Type	Number of Members	Average Age[1]
Active	8,924	53 years
Deferred	6,468	52 years
Pensioner	6,796	69 years

Notes: [1] Average age as at the 2019 valuation.

As custom for LGPS, the Fund remains open to new members and the future accrual of benefits and thus has a very long-term investment horizon. This is considered as part of the investment strategy decisions and in setting the objectives of the Fund.

As set out in the Responsible Investment Policy, the Fund's primary investment objective is to ensure that over the long-term the Fund will have sufficient assets to meet all pension liabilities as they fall due, on an ongoing basis. In order to meet this overriding objective, the Fund will act in the best financial interests of its members. Instead of solely pursuing the highest possible investment return, it will take into account all financial risks within its investment strategy, including Environmental, Social and Corporate Governance (ESG) risks and considerations. Pension Committee and Board meetings are open to members to attend and these are publicised ahead of each meeting. Members are able to communicate with the Fund and any enquiries are considered and responded to in a timely manner. Information relating to the Fund's activities are published in the Pension Fund annual report and in communications to members. Responsible investment topics, engagement, manager stewardship and voting is presented to Committee on a quarterly basis. Any instances where further information, engagement or scrutiny is required is directed to fund managers.

Activity

The Fund has a fiduciary duty to ensure the needs of members are met, which includes ensuring we have the required funds to pay benefits and have the required funding level to maintain fund stability and solvency. Aligned to this is establishing an investment strategy to support a sustainable ESG environment. Information on the Fund's ESG journey and progress is provided to members through the Pension Fund Annual Report and Board Annual Report.

The intention is to promote the Fund's ESG activities by raising awareness through direct member communications and giving greater prominence on the Fund's website. Members are also able to attend Pension Committee and Board meetings to observe ESG agenda items.

Transparency in approach is key for the Fund, and as such the Committee look to provide an array of communication to keep our members updated on the activities of the Fund via the website. In addition, Fund members and the wider general public are free to attend all meetings. These include, but are not limited to:

- Quarterly Pension Committee meetings (including agenda and minutes)
- Website updates and articles
- Annual reports
- Annual general meetings
- Updates to policies

The Committee and/or Board may consider members views as appropriate when it comes to managing the assets and there are two employee/scheme member representatives on the Local Pensions Board.

Outcomes

As mentioned in previous Principle, the Fund's policies have been reviewed recently and are reviewed on a regular basis to ensure fit for purpose and up to date. The Pension Board (including members and employer representation) contribute to discussions at Committee and review draft policies, and employers and members are engaged with in relation to governance. The below case study provides an example of this.

PRINCIPLE 7: STEWARDSHIP, INVESTMENT & ESG INTEGRATION

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Context

Issues prioritised within investments

The Committee, with support of their investment advisors, assess investments (or asset classes and respective managers against a wide range of criteria including business and operations, investment approach or philosophy, risk management, investment team, as well as ESG issues and considerations (including climate change). The Committee must firstly have a thorough understanding of the asset class before investing and assess the suitability of the investment within the wider portfolio in terms of investment process or philosophy and risk management.

The Responsible Investment Policy sets out what the Committee expect from all asset managers and covers all elements and risks which are to be considered in investment decision-making and risk management, including ESG factors. We expect the highest standards across all managers and do not dilute for certain geographies or asset classes. Compliance with a variety of ESG factors are included and assessed in every mandate award. We do not set specific time limits but expect these to be ongoing and continually improving over the investment period.

ESG issues as a priority within investments

As previously mentioned, the Fund is committed to being a long-term steward of the assets in which it invests., and in so doing will take into account all financial risks, including ESG considerations. The Committee believe this approach will protect and enhance the value of the Fund over the long-term and act in the best financial interests of its members. The Committee has a fiduciary responsibility for the Fund and its members for the determination and oversight of investment policies and the conduct of those policies.

The Fund regularly appraises, with the assistance of its investment advisor, the ESG credentials and performance of London CIV and its other fund managers in order to ensure that its ESG principles are properly reflected within the investment portfolio. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

Responsible investment principles and considerations, including climate change are addressed in investment manager and other service provider appointments and included in the Investment Management Agreements (where relevant) in place between the Fund and its respective investment managers. The Committee believes that the companies that manage assets on behalf of the Fund should at the least be signatories to the UK Stewardship Code and UNPRI. As previously noted, existing investment managers who operate outside of these frameworks should have a valid reason not to sign up, for example are signed up to other relevant bodies for their industry or specific asset class or region, but the Committee will encourage them to do so in any case. New investments will not be made into managers who are not signatories to the UK Stewardship Code and UNPRI.

Committee and Local Pension Board members have received and will continue to receive training and education in ESG matters including climate, governance and other risks, in order to keep up to date on the latest sustainable investment regulations and opportunities. Training will be recorded in a training log and reviewed under regular training needs analysis assessments. Key ESG issues will be considered and included on the Fund risk register, where they are material.

ESG will be considered in all investment decisions, whether investing through direct segregated mandates or into pooled funds and will incorporate ESG criteria as part of new mandate selection exercises.

Activity

Responsible investment approach

Responsible investment activity is carried out by:

- the Fund's investment managers who are required to exercise the Fund's voting rights, in line with the Fund's Responsible Investment Policy, to incorporate analysis of ESG issues into their investment analysis and expected to engage on an ongoing basis on these issues with the companies in which they invest;
- assessment of each investment manager in relation to their capabilities and consideration in relation to their overall ESG approach and management of ESG related risks, including climate change has been completed with the support from the Fund's investment advisor. Each fund is rated on it's ESG integration credentials across five main criteria, including investment approach, risk management, voting and engagement, reporting, and collaboration, as well as an overall rating. This assessment included proposed actions for each investment manager, followed by direct engagement with the managers, to drive improvements within the Fund;
- likewise for new manager selection exercises a thorough due diligence process is followed, against agreed evaluation criteria, across investment and stewardship, including the integration of material ESG issues; and
- lastly, collaboration with other investors through collaborative organisations and bodies, including the LCIV, together with LAPFF (of which the LCIV is a member and engage with them on behalf of the Fund and other London Borough LGPS funds), and TCFD. The Fund has signed up as a supporter of the TCFD requirements and are committed to reporting in line the recommendation over the coming years irrespective of regulatory requirements.

Manager selection, retention, and engagement

The Committee has undertaken direct engagement activities with its two key investment managers; namely, London CIV and Legal and General Investment Management (LGIM).

As mentioned previously, the Committee have been actively engaging with London CIV in order to improve their overall governance arrangements and manager reporting. A number of meetings have taken place with the London CIV CEO and London Borough of Hillingdon Pension Committee Chair, along with respective officers, setting out a manifest of improvements. During 2021 the majority of requests have been implemented by London CIV. Engagement continues to ensure momentum is maintained and further improvements can be discussed.

With almost 60% of our funds under management, LGIM are a key manager for the Fund. The Committee has engaged specifically with LGIM to understand their approach to ESG, how this is rated, how it can be developed further and specifically how this is reflected in our Future World Fund and Long Lease Property mandates held by the Fund. As a result, the Fund receives regular reporting and in-depth analysis from LGIM. Other engagements are conducted with the Fund's other investment managers through the Fund's investment advisor, Isio, and the Committee are provided regular progress updates.

The Committee's stewardship activity covers the whole spectrum of ESG issues and risks, and have set bespoke ESG beliefs which have been included in the latest review of the Responsible Investment policy.

ESG metrics and targets

In 2021 key priorities for the Fund were identified using the UN Sustainable Development Goals (UN SDGs) framework.

This framework was used to set specific priorities for the Fund including metrics chosen to be aligned to the Committee's beliefs. The Committee agreed to prioritise SDGs #7 (Affordable & Clean Energy) and #13 (Climate Action) as key objectives for the Fund and agreed relevant metrics and targets in line with these objectives. These are intended to be used to meaningfully engage with the Fund's investment managers.

Noting this is a developing area and data continues to evolve, the Committee intend to reassess and refresh the framework as data improves over time. The data related to some metrics are currently inconsistent across the Fund's invested managers but will continue to improve with regulations like TCFD coming to the fore, which the Committee are supportive of. For example, Scope 4 emission data (i.e. total avoided carbon emissions which can offset scope 1,2, and 3) is currently not widely available and so the approach of the Fund is to not monitor Scope 4 data yet until such time as data has improved. It is also worth noting that some data is difficult to compare across multiple managers as a result of different methodologies used and ways of reporting not currently standardised.

However, the Committee believe the framework implemented will enable the Fund to identify whether its investment managers are improving over time in line with the Committee's objectives and what action is required – improving disclosure, driving incremental year on year metric improvements through engagement, or managing exposures (for example, to reduce the carbon footprint/emissions of the Fund) and use this to engage with asset managers on key priority areas for the Fund and to drive improvements over time.

The Committee will look to review and implement more specific, relevant, and quantifiable targets for these metrics once data becomes more readily available.

The chosen metrics the Committee are looking to monitor and engage with asset managers on in relation to the above key priorities are as follows:

- Scope 1,2 carbon emissions/footprint/WACI* (tonnes of CO_2e / £m revenue)
- Scope 3 carbon emissions/footprint/WACI (tonnes of CO_2e / £m revenue)
- % companies with climate transition plan
- No. of engagements on climate change in year
- % of energy usage from renewable sources
- Energy consumption (kWh) per £m revenue

Outcomes

As mentioned in 2021, the Fund set specific ESG beliefs and objectives which are aligned and underpin the Fund's Responsible Investment Policy, which has also been reviewed and updated in reflection of these. In addition, the Fund maintains and has reviewed separate governance, risk management (including a regularly updated risk register with consideration of ESG risks) and conflict of interest policies (see principles 2, 3 and 4 for additional detail).

Given the ESG beliefs and objectives (aligned with prioritised SDGs), the Fund has started integrating ESG considerations and opportunities into the investment strategy and have in the last couple years made a number of strategic changes to drive improvement in the above metrics, starting with the equity portfolio, and has already made some progress against the proposed objectives and metrics over the last year. For example, the Fund has made two strategic changes, as the Committee did not believe the UBS UK Active Equity Fund and the LCIV (EPOCH) Equity Income Fund were doing enough, and these were accounting for the highest proportion of carbon emissions. As a result, these were replaced with the LGIM Global Future World Index Fund and the LCIV Global Alpha - Paris Aligned Fund (Baillie Gifford) (c.13% strategic allocation of overall portfolio in each) respectively, which offered improved ESG integration, while also significantly reducing the carbon emissions and carbon footprint of the portfolio (the new funds in aggregate have more than 50% reduction in emissions compared to the previous respective funds). It is worth noting that not all managers/funds are currently able to provide all metrics, however this is expected to improve over time given the incoming TCFD regulations, and through regular engagement with investment managers.

The above metrics are also aligned with TCFD reporting requirements and the Fund has started to engage with the above equity managers on reporting these metrics and plan to focus our reporting and engagement efforts further to include the remainder of the portfolio (including fixed income and illiquid assets) in 2022.

PRINCIPLE 8: MONITORING MANAGERS & SERVICE PROVIDERS

Signatories monitor and hold to account managers and/or service providers.

Activity

As mentioned previously, asset managers are assessed on their investment capabilities relevant to the mandate and asset class, including an assessment of how ESG considerations and risks, including climate change, are accounted for within the portfolio.

In 2021, the Committee, with the support of its investment advisor undertook an ESG impact assessment. This was a benchmark assessment of the ESG capabilities of each investment manager which the Fund invests in, with each manager rated as follows: 1 (below satisfactory), 2 (satisfies requirements) and 3 (above satisfactory) across five ESG criteria. Each of which involve a due diligence assessment based on a number of underlying criteria. This due diligence aimed to assess the elements key to ESG integration, resulting in overall assessment of each mandate, with an additional category in relation to views for specialist ESG or impact/sustainable funds. As part of this assessment, proposed actions were also outlined for each manager, with the intention that these are used to engage with and drive improvement in the respective manager's ESG credentials and to align with best practice indicators (see appendix for more detail). These actions are not an exhaustive list but the areas which are considered priority areas and will make the most significant improvements from an ESG perspective. An example of a manager ESG assessment and associated framework/criteria is shown overleaf.

<u>Views</u>

Manager X – Passive Equity

Criteria	Risk Management	Investment Approach/Framework	Voting & Engagement	Reporting	Collaboration
Isio View	3	3	3	2	3
3 Manager X has shown a strong commitment to highlighting, identifying and managing ESG risks across their entire fund range, including their passive equity funds. Manager X is a market leader in their approach to ESG. They have developed a clear and comprehensive framework for scoring portfolio companies on ESG factors. They actively communicate these scores to the companies and engage with them directly to help mitigate ESG risks moving forwards.	– Manager X has a dedicated Investment Stewardship team who are responsible for the evolution and implementation of their firm-wide policies. – Manager X has identified 28 ESG indicators that are used to establish an ESG score for each underlying portfolio company. These scores are aligned with how manager X engage with and vote on the companies in which they invest. Manager X publish these scores and explain the metrics on which they are based, to help facilitate the engagement process. – Due to the passive nature of the funds in question, Manager X cannot base a no investment / sell decision on ESG factors. – Manager X has targets in place to increase gender and ethnic diversity at the Board level.	– Manager X analyse and measure all of their funds underlying holdings against their established metrics, including those specific to ESG related risks. – Alongside the traditional metrics of risk and return, Manager X also consider a third dimension; "Impact", driven by their belief that there is a growing expectation to quantify the societal or environmental contribution of investments. – The passive funds do not have specific ESG objectives, however, Manager X set company-level objectives, regarding engagement, based on the results of the ESG metrics.	– Manager X's Investment Stewardship team manage the voting and engagement across all funds, leveraging all possible capital to maximise effectiveness. – Engagement activity is recorded in a dedicated data management system. This system is also used to oversee progress and quantify engagement effectiveness. – Manager X share their finalised ESG scorecards with portfolio companies, highlighting the metrics on which they are based, Manager X's key focus areas and the improvements companies could make to better their score. – Manager X produce an annual Active Ownership report to summarise how they have worked towards creating sustainable value for clients.	– Manager X obtain a large amount of ESG related data from third parties. They typically prefer raw data, as opposed to third party ESG scores/ratings, as Manager X believe their knowledge and expertise of investing and engaging with companies is best placed to identify material and relevant ESG factors. – An Active Ownership/ESG Impact report is available to all investors each quarter, detailing case studies of their recent voting and engagement activities. – Manager X's voting records are published to their website monthly to support external reporting requirements. – Manager X do not currently report on ESG metrics in standard client reporting, however, they aim to integrate these by the end of 2020.	– Manager X is a signatory / member of key organisations, including the UNPRI. Manager X has an UNPRI score of A+. – Manager X use their membership of global governance associations and connections with other global asset managers to leverage their engagement with portfolio companies. Manager X were able to provide a number of case studies highlighting this. – Manager X is a member of the Institutional Investor Group on Climate Change, their Head of Sustainability and Responsible Investment was appointed to the board in 2016 and they co-author public guides on the issue.

Scoring Framework

Underlined	**Underlined**: The underline denotes that the fund is a specialist ESG fund with ESG-focused objectives being equal in importance to more traditional financial objectives such as risk and return targets. To receive the underline means that the fund will need to fulfil the minimum criteria to receive an "Above Satisfactory" rating whilst also meeting additional ESG evaluation criteria. The additional ESG evaluation criteria asses whether the fund has a risk framework that is related to its ESG objectives, if the allocation decisions are in line with the stated ESG objectives and also that the fund is delivering on meeting these objectives. The manager will be expected to have enhanced reporting on ESG factors and produce formal impact reporting for the fund on a regular basis. We also expect the manager to actively engage in line with their ESG objectives with portfolio companies and be able to evidence the effectiveness of these engagements.
3	**Above satisfactory**: The manager is well resourced and displays strong knowledge on key ESG issues. There is significant evidence of support from the business to build and maintain ESG capabilities. The manager incorporates ESG factors as a source of investment return and as a tool to mitigate risk at the portfolio management level. This is supported by evidence of how ESG factors are applied and measured. The manager acts as an active owner by taking responsibility of voting and engagement with companies. The manager collaborates with other market participants to encourage best practice on various ESG related issues. The manager provides detailed ESG related reporting to clients.
2	**Satisfies requirements**: The manager has good knowledge of ESG issues and collaborates with market participants to encourage best practice in the wider market. There is evidence of support from the business to build and maintain ESG capability, but evidence of how ESG factors are applied at the portfolio management level may be limited. The manager takes responsibility for voting and engagement and provides high level reporting to clients.
1	**Below satisfactory**: The manager displays limited knowledge of ESG issues at the business and portfolio management level. The manager is unable to provide evidence of voting and engagement. The manager relies heavily on voluntary codes, such as the UNPRI, to reflect their ESG capabilities.

Proposed Actions

Manager X – Passive Equity Fund

Category	Proposed Action	Action Log
Risk Management	– Manager X to consolidate the ESG scores of the underlying portfolio companies to generate a portfolio level score, making it easier for investors to digest the ESG impact of the fund.	– **February 2021**: This is to be picked up as part of the project to report ESG metrics, and we expect this action to be implemented in before the end of 2021. Isio plan to continue to engage with Manager X and will monitor further progress. No change to 3 rating for risk management.
	– Manager X should provide further evidence that they are making progress towards diversity at a firm level and also within the portfolio management team.	– **February 2021**: Manager X provided a range of materials on their progress on diversity at the board and firm level, listing a number of encouraging initiatives promoting this. No change to 3 rating for reporting.
Reporting	– Manager X should integrate ESG reporting into their standard, quarterly client reports. While Manager X currently produce numerous, comprehensive reports on ESG, they are separate from the standard reporting.	– **February 2021**: Manager X noted a timeline for reporting ESG metrics, earmarking before the end of 2021 for release of quarterly client ESG reports. We will engage with Manager X again and monitor progress of the release of these documents and provide a further update. No change to 2 rating at this date and continue to monitor progress in reporting capabilities.
Overall		No change

In addition, together with other investment considerations (such as risk and return characteristics), ESG will be considered in all investment decisions, whether investing directly through segregated mandates or into pooled funds and specific ESG criteria will be incorporated as part of new mandate selection exercises.

The Fund also complies with the requirements set under the Competition and Market Authorities' (CMA's) Investment Consultancy and Fiduciary Management Market Investigation Order 2019. With effect from 10 December 2019, the Fund has been required to set strategic objectives for Isio as their investment consultant/advisor. This was a new requirement brought in by the CMA investigation into the investment consultancy and fiduciary market, with the aim for the Committee to better assess and evaluate the quality of their investment consultant. The Committee have agreed strategic objectives, which were prepared with reference to TPR 's guidance, combining a mixture of quantitative and qualitative measures. Approach to ESG forms part of this assessment. Additionally, consideration of aligning the Fund's processes in relation to climate considerations are on the horizon in the near term, with TCFD recommendations likely to become a regulatory requirement for LGPS shortly and as a result we will shortly be looking to also assess investment managers climate capabilities.

The Committee has confirmed compliance with the CMA Order for both 2020 and 2021, and will continue to do so on an annual basis. We expect TPR to issue further information about how regularly the Committee need to review their investment consultants against the agreed objectives. However, TPR are yet to confirm anything further on this and therefore currently the only requirement is for the Committee to set the objectives and review them periodically (at least every three years and after any significant change to the Fund's investment strategy).

In the meantime, the Committee assess Isio and their other advisors on a regular basis and in relation to the services received and consider a re-tender process on a rolling basis. For a number of service providers, services are provided on a contract basis and KPIs are reported and monitored.

Outcomes

Under the ESG assessments, we have in parallel assessed alignment with the Scheme's ESG and stewardship-related beliefs and policies and expectations, to ensure the approach continues to meet our needs.

The Committee, with the support from their investment advisor, as well as off the back of the ESG impact assessment and proposed actions and independently have engaged with investment managers and LCIV to understand and critique their ESG approach and have noted progress across the board. Examples include a session with LGIM on ESG and their approach, requested information from Baillie Gifford on their ESG approach, and have discussed ESG with AEW (large property asset manager, with significant assets invested). In addition, the Committee has directly requested all managers sign up to the UK Stewardship Code (or local equivalent) and/or UN PRI and have had take up on this request.

As also mentioned under principle 2, the Fund has engaged with LCIV and oversee progress on a number of proposed items in relation to responsible investment, governance and stewardship, including engagement on achieving their net zero target and improvements to reporting of ESG metrics and climate analytics, which has been developed recently. The Committee intent to continue engaging with all investment managers and service providers, including LCIV, in 2022 and beyond.

ENGAGEMENT

PRINCIPLE 9: ENGAGEMENT

Signatories engage with issuers to maintain or enhance the value of assets.

Activity

Processes

The Fund's ESG approach is set out in its Responsible Investment Policy and distributed to fund managers for consideration when voting. Further, the Committee expect managers to vote in the best interest of the Fund, while maintaining our fiduciary duty. Day-to-day responsibility for managing investments and stewardship activities (including engagements) are delegated to the Fund's appointed asset managers, and the Fund expects them to monitor companies, intervene where necessary, and report regularly on activities undertaken. Reports from the fund managers on voting are received and engagement activities reported to Committee quarterly. Effectiveness of Fund managers' engagement activities is appraised through responses gleamed from their detailed quarterly reports and the engagement volumes monitored with a view to ascertain their commitment to stewardship of investments under their management. Voting patterns and volume of attended meetings are also good indications of their commitment and effectiveness.

When contentious issues of national interests relating to any of the Fund's investments is prominent in the press or widely debated. The Fund will generally contact the relevant manager(s) to ensure they are aware of the Committee's interest and opinions on the issue and provide the Fund and Committee with their views and steps being taken to ensure the invested company take on board such views. On occasions, the Fund may participate in escalation of poignant issues, principally through fund managers' engagements with parties of concern. Furthermore, fund managers engaged by the fund as part of their investment process have regular meetings with individual company boards and feedback such engagement results to the Committee through their quarterly ESG reports. The Fund has in the past directed fund managers to divest from companies in a particular sector (for example, Tobacco) based on our concern of the effect of their product on general population's health at a time when the Council was entrusted with Public health responsibilities locally and will consider such actions looking forward should engagement not result in the desired outcome.

Annual reviews

Following the initial ESG impact assessment, the Committee with the help of its investment advisor, produce a progress report. Reporting back on each investment managers progress against the proposed actions as well as any improvements in relation to each managers' considerations of ESG risks and opportunities and integration approach, including their voting and engagement, and reporting and disclosures of ESG metrics. This is something the Fund intend to continue to do on a regular and ongoing basis.

Lastly, the Committee has produced an Implementation Statement (see Appendix B) to provide evidence that the Fund continues to follow and act on the principles outlined in the Investment Strategy Statement (ISS). This report details:

- Actions the Committee has taken to manage financially material risks, and ESG risks, including climate change, and implement the Fund's key policies;
- the current policies and approach with regards to ESG and the actions taken with managers on managing ESG risks;
- the extent to which the Committee have followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies they invest; and
- the voting behaviour of the Fund's investment managers covering the reporting year up to 31 March 2021 (noting the Committee's delegation of Fund voting rights to the investment managers through its investment in pooled fund arrangements).

The Fund through its participation in the LCIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests.

The Fund's investments through the LCIV are covered by the voting policy advising managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible. The London CIV will hold managers to account where they have not voted in accordance with these directions.

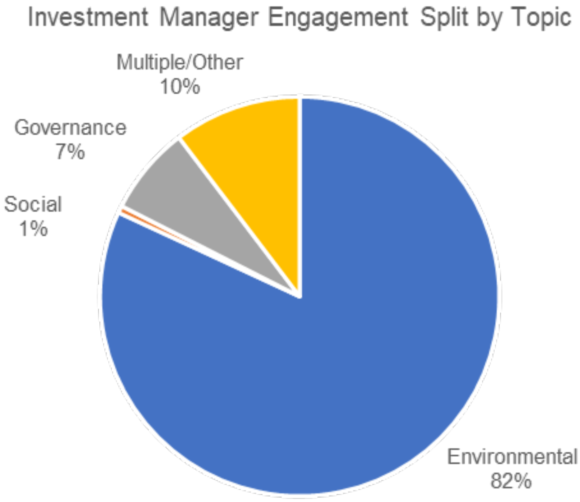
The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders more broadly. The Fund appreciates that to gain the attention of companies in addressing governance concerns; it needs to join with other investors sharing similar concerns.

To ensure effective and consistent use of the voting rights, investment managers are tasked with exercising the voting rights accruing to the Fund. If important issues impacting local residents do emanate from actions of invested companies, the Pensions Committee will contact investment managers in charge of assets of such a company to make their opinion known and ask for such to be presented at meetings with the company or reflected in their voting pattern.

Outcomes

Following the ESG assessments and proposed actions fed back to investment managers, and engagement on these points, we have noted improvements in a number of ratings across the funds in the portfolio, either at the overall level or for a number sub-criteria ratings. Most notably, the Macquarie infrastructure portfolio ESG integration capabilities have markedly improved across a number of elements which the Fund's advisors engaged on. No fund's ratings declined, while in some cases we continue to monitor and engage with managers to encourage further improvements to be made before upgrading any further ratings.

In addition, the below chart and table shows a summary of investment manager engagements by topic (across both equity and fixed income funds) over the 12 month period to 31 March 2021 (the Fund's accounting year end):



Engagement Topic	
Environmental	285
Social	2
Governance	25
Multiple topics/Other	36
Total	**348**

A few examples of relevant engagement including outcomes, which are aligned to the Fund's key priorities and objectives are shown below with more detail shown in the Appendix.

Engagement:

JP Morgan Global Bond Opportunities Fund	Total engagements: 8 Environmental: 2 Governance: 4 Environmental & Governance: 2	**Repsol** – JPM engaged with the CFO of Repsol to discuss the credit and ESG implications of the recently announced strategic plan to 2025, which builds on its commitments to drive further decarbonisation and achieve net zero emissions by 2050. We expect that with €5.5bn (about 30%) of the planned capex being devoted to low carbon generation, Repsol will seek to return to the

		green/transition bond market in time and is also considering the issuance of SDG-linked bonds, which would allow it to use proceeds for overall carbon reduction and not necessarily just for new solar/wind projects.
LCIV Absolute Return Fund (Ruffer)	Total engagements: 32 ESG: 3 Environmental & Governance: 8 Environmental & Social: 1 Social & Governance: 4 Environmental only: 2 Social Only: 2 Governance only: 12	**General Motors Company ("GM")** – Ruffer has been in continual engagement with GM on emissions standards, board structure and lobbying, Given the importance of EVs to the company's overall strategy, and its recent commitment to increase its combined investment in electric and autonomous vehicles to $27 billion by 2025, they spent significant time discussing the topic. The company stated that it expects to be compliant with emissions standards across its fleet, and that its commitment to an all-electric future is a key component to delivering this and reiterated that it is fully committed to delivering on the strategy, regardless of the political landscape. The company also explained that it expects to announce detailed alignment of remuneration with ESG, including EV transition, targets next year. Ruffer welcomed this and stressed the importance of these targets being quantitative and sufficiently ambitious. On governance, Ruffer communicated that they voted against two directors that they consider to be entrenched and asked how the company plan to maintain sufficient diversity of experience and skillsets on the board. The company explained that it has launched a formal five year board succession plan. It is looking to add members with experience in technology, disruptive industries and venture capital to reflect its transition to an EV technology business.

As mentioned previously, the Committee has, on behalf of the Fund, undertaken engagement activities with its two key investment managers; namely London CIV and LGIM.

Case study - LGIM

With almost 60% of the Fund's assets under management held with LGIM, LGIM are a key manager for the Fund. Hillingdon has engaged specifically with LGIM to:

- understand their approach to ESG, how it is rated, how this can be developed and specifically how this is reflected in the Future World Fund and Long Lease Property mandates in which the Fund is invested;
- ensuring the Fund receives regular reporting and in-depth analysis from LGIM. We have seen some improvements already to date across the mandates with LGIM.
- LGIM have undertaken variety of engagements with underlying holdings across Environmental, Social, and Governance (ESG) factors.
    - For example, LGIM engaged with BHP, one of the world's largest mining companies, and voted in relation to its Climate Transition Plan, and while noting BHP has made substantial progress in its environmental footprint, LGIM opposed the climate transition plan as deemed the targets to be insufficient and fell short of the level of ambition required to support a net zero pathway.
    - From a social perspective, LGIM launched its ethnicity engagement campaign and voting strategy in September 2020, and in 2022 will begin voting against the board chair of UK companies and Chair of Nomination Committee of US companies with no ethnic diversity on the board. Another example is in early 2019, the Social Media Collaborative Engagement of 104 global investors was established, representing £7 trillion AUM, in response to the live streaming of the Christchurch terror attack on 15 March 2019 on Meta (formerly Facebook), Alphabet, and Twitter. The purpose of the collaboration was to engage these three social media companies with a single focus: to strengthen controls to prevent livestreaming and dissemination of objectionable content. The collaboration has now closed and the results and impact show how powerful working together can be, where speaking with a united voice on an important issue can yield positive change. As a result Meta strengthened its the Audit & Risk Oversight Committee charter to explicitly include a focus on the sharing of content that violate its policies (to prevent and mitigate such abuse).
    - In terms of governance, LGIM file shareholder proposals and resolutions in relation to a wide range of governance issues including board independence, remuneration or executive pay, and governance structures. Every year, LGIM's stewardship team responds to over 100 remuneration consultations.

Case study – London CIV

As mention, the Fund has been actively engaging with London CIV in order to improve their overall governance arrangements and manager reporting. A number of meetings have taken place with the London CIV Chief Executive Officer and London Borough of Hillingdon Pension Committee Chair, along with respective officers, setting out a manifest of improvements. During 2021 the majority of requests have been implemented by London CIV and:

- they have become the first Local Authority pension pool to target net zero emissions by 2040;
- engagement continues to ensure momentum is maintained and further improvements can be discussed.

Case study – M&G Debt Opportunities Fund

The M&G Debt Opportunities Fund is akin to a private equity structure whereby they have majority control or ability to influence the underlying business and its strategy. The Fund engaged with an Irish Real Estate Development to target and improve the sustainability of their residential developments.

- Actions included:
  - Hiring a Head of ESG to lead the ESG framework.
  - CEO of the Irish firm signed up as the ambassador for the Irish Green Building Council #BuildingLife campaign, a leading role in policymaking for setting carbon emissions in the infrastructure sector in Ireland.
  - Signed up to Irish Green Building Council EPD (Environmental Product Declarations) campaign which commit to promoting and requesting the use of EPD’s on all projects.
  - Architects, engineers, and developers have been tasked with ensuring incorporation of sustainable design concepts and materials in the planning and construction process.
- Outcomes:
  - Over 320,000 sq. ft. of commercial portfolio has been certified LEED (Leadership in Energy & Environmental Design) Gold or Platinum by U.S. Green Building Council (USGBC).
  - All consultants have been appointed to achieve HPI (Home Performance Index) certifications.
  - All residential developments have: green roofs which are designed to encourage biodiversity and improve air quality, and introduced one of Ireland’s first residential Blue Roof – an urban drainage technology designed to attenuate and manage rainwater at roof level for biodiversity; use of an environmentally sustainable waste management system which reduces carbon footprint by 93% compared to standard wheelie bin collection; and all buildings are SMART metered which allows tenants to manager their energy consumption.

PRINCIPLE 10: COLLABORATION

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Activity

The Fund seeks to engage collaboratively with the broader market including other investors and recognised bodies on key issues and in relation to the Fund's priorities and key objectives. The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund also expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders more broadly. The Fund appreciates that to gain the attention of companies in addressing governance concerns and other ESG issues; it needs to join with other investors sharing similar concerns.

Industry initiatives

The Fund seeks to work collaboratively with other institutional shareholders and asset owners in order to maximise the influence that it can have on individual companies. These are listed and described in the table below:

Initiative / Body	Description
London CIV	The London CIV, which takes direction from LAPFF in respect to ESG issues on behalf of its members, through voting alerts on such issues as recommended by LAPFF. These alerts are then referred to engaged fund managers in pursuance of important ESG engagement issues for implementation or opinion.
TCFD	The Taskforce on climate-related financial disclosures (TCFD) advocate for better disclosure in relation to climate risks and metrics. As the Fund considers climate issues of paramount importance and a primary risk to the investments it holds and as a result the Fund has in 2021 signed up to being a supporter of TCFD and committed to reporting in line with TCFD requirements over the coming years and as part of this look to collaborate with other TCFD supporters.

Expectations of investment managers

The Committee believes that the companies that manage assets on behalf of the Fund should at the least be signatories to the UK Stewardship Code and UN PRI and are encouraged to collaboratively engage with a wide set of other relevant bodies, organisations and initiatives, including in relation to climate change which is considered a current priority. Existing managers outside of these frameworks should have a valid reason not to sign up, for example are signed up to other relevant bodies for their industry or specific asset class or region (for example the Global

ESG Benchmark for Real Assets (GRESB)), but the Committee will regardless encourage them to do so. New investments will not be made into managers who are not signatories to the UK Stewardship Code and UN PRI at a minimum but an expectation to sign up to others in addition (for example Net Zero Asset Manager Initiative, TNFD, Climate 100+, etc).

As part of the ESG impact assessment, one of the five criteria in which asset managers are assessed is collaboration and as a result the Committee through its investment advisor engage with the Fund's asset managers in relation to their collaboration with the wider industry to drive broad improvements across the board. Engaging with investment managers in this way not only asserts the Fund's views but also uses the weight of the Fund's investment advisors other clients to drive change.

The Fund also expects investment managers to consider the usage of resources of companies and the implications of targets for reduced carbon emissions to support the achievement of the Paris Agreement principles.

Outcomes

Engagement and collaboration has to date been focused directly on investment managers of the underlying portfolio to drive improvement in the assets the Fund holds (as shown in previous Principle and further detail in the Appendix). The Committee looks to collaborate with LAPFF through the LCIV (who collaborated on behalf of the Fund) and in addition, following recently signing up as a supporter of TCFD and so intend to collaborate on climate risks and opportunities with other TCFD supporters from 2022, as climate change has been identified as a key priority and objective of the Fund and hope this will result in positive outcomes in relation to the disclosure of climate-related metrics. While, as mentioned, there is the expectation investment managers themselves also collaborate to broaden their scope and impact to drive company improvements (examples of collaborative engagement included from the investment managers are shown in the Appendix).

The Committee is also committed to pooling and working with and improving the pooling structure and approach by working closely with LCIV, and have been a leading force in LCIV's governance improvements and financial reporting. The Committee also engaged with LCIV to in turn engage with Epoch (previous income equity fund manager) through a period of unsatisfactory performance.

PRINCIPLE 11: ESCALATION

Signatories, where necessary, escalate stewardship activities to influence issuers.

Activity

The Committee, and their advisors, have set minimum expectations of managers including through collaborative initiatives they should be party to (see previous Principle), as well as in relation to ESG integration and investment approach.

The Committee believes that the companies that manage assets on behalf of the Fund should at the least be signatories to the UK Stewardship Code and UN PRI and are encouraged to collaboratively engage with a wide set of other relevant bodies, organisations and initiatives, including in relation to climate change which is considered a current priority. Given the Committee's focus on climate, we further expect investment managers to have net zero pledges and interim targets and look to escalate this where investment managers currently have no such pledges and/or engage with them on how they will meet their pledges.

As highlighted previously, responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code and the Committee expect this to be in line with the Fund's objectives and beliefs stated within the responsible investment policy. On occasions, the Fund may participate in escalation of poignant issues, principally through the Fund's investment managers' engagements with parties of concern. Furthermore, fund managers engaged by the Fund as part of their investment process have regular meetings with individual company boards and feedback such engagement results to us through their quarterly ESG reports. The Fund has in the past directed fund managers to divest from companies in a particular sector (for example, Tobacco) based on our concern of the effect of their product on general population's health at a time when the Council was entrusted with Public health responsibilities locally, and will continue to look to engage with investment managers in relation to holdings within the portfolio going forward (for example, in relation to fossil fuels).

The Committee believes that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. Divestment will be considered on a pragmatic basis in the event that the engagement with the investment manager has not produced positive results.

The LAPFF issues voting alerts for members where deemed necessary or helpful. The recommendations are provided on a case-by-case basis and take account of previous company engagement on the relevant topic. LAPFF members sometimes choose to draft and co-file shareholder resolutions, either among themselves or in coalition with other investors. The Fund receives periodic voting alerts for companies where LAPFF has identified serious ESG concerns and where attempts to engage

with the company have been unsuccessful. LAPFF outlines the rationale behind the vote via several platforms, such as by means of a press release or in the public LAPFF quarterly engagement report. LAPFF believes in engaging constructively with members' investee companies and explaining the escalation in activity is deemed another form of engagement with the company, therefore extending the opportunity for dialogue and debate on material responsible investment concerns. LAPFF engagements and voting alerts are disclosed in their quarterly engagement reports are publicly available at:
https://lapfforum.org/publications/category/quarterly-engagement-reports/
and in their annual report which is also publicly available at:
https://lapfforum.org/wp-content/uploads/2020/12/LAPFF_annual-report-2020_final2-1.pdf.

Outcomes

The Fund has had no direct escalations to its service providers in relation to stewardship or governance matters, however as mentioned in other areas of this report there is constant engagement and collaboration with investment managers and other service providers in order to drive improvements on an ongoing basis and have seen positive outcomes as a result.

As mentioned, responsibility for day-to-day interaction with companies is delegated to the Fund’s investment managers, including the escalation of engagement when necessary which is done through proxy voting on behalf of investors (including the Fund). Please see appendix for details of investment manager’s engagement and voting, including outcomes of where matters have been escalated with underlying companies’ boards and executives to drive improvement in policies and processes.

EXERCISING RIGHTS & RESPONSIBILITIES

PRINCIPLE 12: EXERCISING RIGHTS & RESPONSIBILITIES

Signatories actively exercise their rights and responsibilities.

Context

The Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code and expects appointed asset managers to be signatories to the Code and publicly disclosed their policy via their statements on how they will discharge their stewardship responsibilities. Stewardship is part of the responsibilities of share ownership, and therefore an integral part of the investment strategy.

In practice, the Fund’s policy is to apply the Code through its arrangements with its asset managers. To this end, a quarterly summary of fund managers' ESG activities detailing the engagement meetings undertaken and issues raised at such meetings, AGM and EGMs attended and their voting statistics are provided to members as part of the Committee meeting reports. Due to the diversity of investments made on behalf of the Fund by the investment managers engaged. Their role is pivotal in ESG issues as they have vast resources at their disposal to raise issues of concern to clients such as the Fund with respective companies and feedback information from such engagements via quarterly performance reports, detailing their activities for the period. Most investment managers combine these meetings with their investment due diligence as part of a holistic approach to management of funds entrusted into their care. Whilst all voting decisions were outsourced to managers, managers are expected to adhere to their ESG and climate policies, as well as any expectations set by the scheme in relation to e.g. ESG or climate.

The process described above ensures invested companies are aware of the opinion of shareholders such as the Fund regarding their stewardship of the companies and consider such opinion in their decision-making processes. Failure to heed such opinion has often been followed by the fund manager in question raising the issues at company AGMs and subsequently employing their vote at such meetings to reinforce their position or sometimes in extreme cases, divest from such companies.

Activity

Details of the rights and responsibilities in relation to the Fund’s voting and engagement activities is detailed in the Responsible Investment policy and specific details of voting and engagement activity over the Fund’s accounting year is detailed in the implementation statement (see Appendix).

Responsibility for the exercising of voting rights is delegated to the Fund’s appointed asset managers and this includes consideration of company explanations of compliance with the Corporate Governance Code. Regular reports are received from the asset managers on how votes have been cast, and controversial issues can be discussed at panel meetings. The Fund publish available summary voting data by manager as part of the quarterly report to the Pension Committee. The Fund also reports annually on stewardship activity through a specific section on "Responsible Investing" in its annual report. Via these quarterly and annual stewardship reporting, the Committee expect managers to provide an indication on shares invested on the scheme's behalf and exercise any voting rights they have, wherever feasible.

Equity and multi-asset

The below table shows a summary of voting activity from the Fund's investment managers (covering equity and multi-asset funds) over the period (see Appendix for more detail):

Meetings eligible to vote at	7,655
Resolutions eligible to vote	88,986
Voted with management	73,958 (83%)
Voted against management / Abstained	15,028 (17%)

Further information in relation to voting on equity and multi-asset funds can be found in the Appendix, including a summary on how resolutions were voted over the period, significant examples and information on voting policies.

Fixed Income

For fixed income assets, the Committee, with the support of their advisors, review the fund prospectus and conduct appropriate due diligence before appointing an investment manager. The Committee delegates the stewardship responsibility to the investment managers and expects prudent measures to be taken in relation to terms and conditions within contracts, deeds, and impairment rights. Further the Committee expect managers to engage with credit issuers to drive improvements in relation to ESG risks. The Committee reviews information on engagements from the investment managers on a regular basis and uses this to engage with them on key ESG issues.

Given the Fund is a Local Government Pension Scheme (LGPS) and has a commitment to pooling, the the Fund works closely with the LCIV to improve the stewardship and governance of all assets across the platform (including both private and public markets as well as equity and fixed income).

Outcomes

Voting information and activity including outcomes from LGIM, a key manager for the Fund, and which are aligned to the Fund's key priorities and objectives are shown below with more detail and examples from other managers are shown in the Appendix. Key engagement examples were included in Principle 9, with further detail also in the Appendix.

Voting:

LGIM Passive Equity	Meetings eligible to vote for: 2,823 Resolutions eligible to vote for: 35,043 Resolutions voted for: 99.8% Resolutions voted with management: 81.3% Resolutions voted against management: 18.7% Resolutions abstained from: 0.2%	**Qantas Airways Limited** – LGIM voted against the participation of Alan Joyce (CEO) in the Long-Term Incentive Plan (LTIP) Resolution but approved the remuneration report. The COVID crisis has had an impact on the Australian airline company's financials. In light of this, the company raised significant capital to be able to execute its recovery plan. It also cancelled dividends, terminated employees and accepted government assistance. LGIM supported the remuneration report given the executive salary cuts, short-term incentive cancellations and the CEO's voluntary decision to defer the vesting of the long-term incentive plan (LTIP), in light of the pandemic. However, LGIM's concerns as to the quantum of the 2021 LTIP grant remained, especially given the share price at the date of the grant and the remuneration committee not being able to exercise discretion on LTIPs, which is against best practice.	LGIM's Investment Stewardship team are responsible for managing voting activities across all funds. LGIM's Investment Stewardship team uses ISS's 'Proxy Exchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure the proxy provider votes in accordance with their position on ESG, LGIM have put in place a custom voting policy with specific voting instructions.

APPENDIX

Implementation Statement
(covering period 12 months to 31 March 2021)

BACKGROUND

This document has been drafted by the London Borough of Hillingdon Council ("the Council") as the Administering Authority of the London Borough of Hillingdon Pension Fund ("the Fund"). This document has been reviewed and approved by the Pensions Committee ("the Committee").

The Department for Work and Pensions ('DWP') has been increasing regulation to improve disclosure of financially material risks. This regulatory change recognises Environmental, Social and Governance ("ESG") factors as financially material and Funds need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that funds detail their policies in relation to these factors and demonstrate adherence to these policies in an implementation report, which includes a summary of the Fund's Responsible Investing policy and its engagement with investment managers, including underlying voting and engagement activities.

While this is not yet a regulatory requirement for Local Government Pension Schemes ("LGPS"), the Department for Levelling Up, Housing and Communities ("DLUHC") (previously Ministry of Housing, Communities and Local Government ("MHCLG")) are considering following a similar path in terms of guidance. DLUHC (formerly MHCLG) changed requirements for LGPS Investment Strategy Statements in 2017, requiring Schemes to document how ESG considerations are taken into account in investment strategy decisions. The LGPS Scheme Advisory Board ("SAB") have similarly advised Schemes to take into account ESG considerations.

This document also represents a necessary step in becoming aligned with the 2020 UK Stewardship Code, which is a stated objective of the Committee and Fund.

Investment Strategy Statement

The Investment Strategy Statement ("ISS") is required by Regulation 7 of the Local Government Pension Scheme Regulations 2016 (the "Regulations") and must include:

- The authority's assessment of the suitability of particular investments and types of investments;
- the authority's approach to risk, including the ways in which risks are to be measured and managed;

- the authority's policy on how environmental, social or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- the authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Fund updated its ISS in April 2020 in response to the requirements.
The ISS can be found online at the following web address: https://archive.hillingdon.gov.uk/article/6492/Pension-Fund

Implementation Report

This Implementation Report is to provide evidence that the Fund continues to follow and act on the principles outlined in the ISS. This report details:

- Actions the Committee has taken to manage financially material risks and implement the Fund's key policies;
- the current policies and approach with regards to ESG and the actions taken with managers on managing ESG risks;
- the extent to which the Committee have followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies they invest; and
- the voting behaviour of the Fund's investment managers covering the reporting year up to 31 March 2021 (noting the Committee's delegation of Fund voting rights to the investment managers through its investment in pooled fund arrangements).

Implementation Statement

This report demonstrates that the London Borough of Hillingdon Pension Fund has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

IMPLEMENTING THE CURRENT ESG POLICY AND APPROACH

ESG as a Financially Material Risk

The Fund's Responsible Investment policy and Investment Strategy Statement describes the ESG as a financially material risk. This page details how the Fund's Responsible Investment policy is implemented, while the following page outlines the Committee's ESG beliefs used in evaluating the Fund's managers' ESG policies and procedures. The rest of this statement details a summary of the Committee's view of the managers, actions for engagement and an evaluation of the stewardship activity.

The below table outlines the areas which the Committee assessed the Fund's investment managers on when evaluating their ESG policies and engagements. The Committee intend to continue to review the Fund's ESG policies and engagements periodically to ensure they remain fit for purpose.

Implementing the Current ESG Policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity	- Through the manager selection process, ESG considerations will form part of the evaluation process; - The Committee and the Fund's investment advisor, Isio, will monitor managers' ESG policies on an ongoing basis; - When attending Committee meetings, investment managers will be asked to present on actions they have taken in respect of ESG factors and their exercise of rights and engagement activity; - The Committee is provided with a report detailing the managers' ESG policies as well as a summary of actions the Fund has engaged with managers on in relation to ESG.	- The manager has not acted in accordance with their policies and frameworks. - The investment managers' ability to abide by the Committee's RI policy ceases due to a change in the managers ESG policies.

ESG MANAGER SUMMARY

Manager and Fund	ESG Summary View	Actions Identified	Engagement details
Adam Street Private Equity	Adams Street Partners ("ASP") integrate ESG within their investment process. This is also notable in the post-investment monitoring stage, which helps them to identify areas for engagement with existing portfolio companies.	ASP could set fund-specific ESG objectives and could improve their approach to assessing ESG during the pre-investment due diligence stage. Reporting on ESG factors including engagement activity in standard reporting is also clearly an area ASP are currently developing.	Engaged with ASP in Q1 2021 to review their ESG policies and set actions and priorities.
AEW UK Core Property Fund	AEW have provided evidence of a clear and succinct ESG policy focused on social impact and awareness of key climate issues. AEW have demonstrated the implementation of these policies within the Fund.	AEW could further demonstrate the role of ESG within the due-diligence process by clearly defining the process that filters the assets that are reviewed through to the assets invested in. AEW engage with tenants on ESG initiatives. However, there are not formalised incentives for tenants to address ESG issues and could do more to align interests.	Engaged with AEW in April 2021 to review their ESG policies and feedback and review proposed actions and priorities. As of the last engagement there has been fairly limited progress.

LCIV Equity Income Fund (Epoch)	The LCIV have appointed Epoch as the sub-manager of the LCIV Equity Income Fund. ESG integration is largely driven by the underlying manager. ESG is not currently integrated into Epoch's investment approach or risk management to the level it could be. However, it is clear that Epoch are investing in their ESG capabilities. They have developed a clear firm wide ESG policy, established a dedicated ESG team and identified a number of key priority areas.	A number of actions have been proposed including to develop a clear approach into integrating ESG considerations into the investment framework, develop an ESG scorecard, implement best practice voting and engagement practices and to integrate ESG reporting into standard client reports.	Engaged with Epoch and LCIV in Q1 2021 to review their ESG policies and set actions and priorities. We note the Fund has now fully disinvested from this fund.
JP Morgan Global Bond Opportunities Fund	ESG is integrated within the Fund's risk management process and investment approach. However, the lack of any ESG reporting needs to be addressed. Despite showing promise in the Fund's adoption of ESG into its processes and risk management, JPM as a company must consider their own impact on carbon emissions as well and their wider business practices.	JP Morgan should finish developing their ESG reporting and ensure this is included in regular client reporting including engagements with issuers. JP Morgan should also develop measurable ESG objectives for the Fund.	Engaged with JP Morgan in Q4 2020 to review their ESG policies and set actions and priorities. Plan to engage further with the manager in Q2 2021 and will report back with updates.

LCIV Infrastructure Fund (Stepstone)	Stepstone and LCIV have illustrated a good level of commitment to ESG. Both have dedicated ESG teams responsible for integrating and developing ESG across their wider firms, with ESG clearly embedded within the investment process, particularly in due diligence. Due to the fund of funds nature, the ability to engage directly and standardise metric reporting is limited.	Going forward, the Fund would benefit from setting KPIs or quantifiable objectives for each underlying general partner and incorporating this, along with metric monitoring into regular Fund reporting.	Engaged with Stepstone and LCIV in Q4 2020 to review their ESG policies and set proposed actions. Stepstone confirmed on call that they are in the process of developing modelling to monitor metrics for the Fund and are hoping that this will be available in H1 2021 and planning to report in line with the TCFD framework.
LGIM Passive Equity	LGIM has shown a strong commitment to managing ESG risks in its passive equity fund range. As a passive investor, LGIM is unable to express ESG views through stock selection, but instead uses voting and engagement to do so. Alongside the traditional risk and return metrics, LGIM also considers the 'impact' of holdings to quantify their societal or environmental contributions.	It was proposed that LGIM should integrate ESG reporting into their standard quarterly reports and to provide fund-specific engagement reporting to satisfy regulatory requirements.	Engaged with LGIM in Q1 2021 to review their ESG approach and saw some progress, however ratings were unchanged at this time.

LGIM Future World Passive Equity	LGIM have developed a clear and comprehensive framework for scoring portfolio companies on ESG factors and actively engage on these factors with companies. The Future World range is well established and has been designed to tilt towards better performing ESG companies. LGIM has a sophisticated ESG framework as well as a market leading stewardship team.	It was proposed that LGIM should integrate ESG reporting on ESG metrics and stewardship activities into their standard quarterly reports and to provide fund-specific engagement reporting to satisfy regulatory requirements.	Engaged with LGIM in Q1 2021 to review their ESG approach and saw significant progress and upgraded the view on reporting.
LGIM LPI Income Property	LGIM have a strong and integrated ESG approach which follows a robust framework. At a firm level, LGIM have a strong history of active engagement and collaboration on ESG related topics. The use of third parties, to advise on ESG policies, shows strong commitment to ESG at both firm and fund level.	LGIM have identified key areas they must implement to become net zero carbon across their real estate portfolios by 2050, including: the introduction of a new property management model and technologies; setting more ambitious targets and understanding what this means for the organisation and investors/clients. LGIM should also look to log engagements with tenants and progress on ESG initiatives in their reporting.	Engaged with LGIM in Q1 2021 to review their ESG approach and saw some progress, however ratings were unchanged at this time.

LGIM Index-Linked Gilts	For the LGIM gilt funds, the firm's central ESG policies are applied at a strategy level. ESG factors are not expressed in the underlying holdings as these are limited in index-linked gilts. Instead LGIM analyse ESG-related criteria as part of their assessment. LGIM have a strong ESG framework and integrated ESG approach across the firm.	In line with LGIM's passive equity and property funds, the lack of inclusion of ESG in their regular reporting was highlighted as an area of progress.	Engaged with LGIM in Q1 2021 to review their ESG approach and saw some progress, however ratings were unchanged at this time.
LCIV Absolute Return Fund (Ruffer)	The LCIV have appointed Ruffer as the sub-manager of the LCIV Absolute Return Fund and ESG integration is largely driven by the manager. Ruffer have an integrated and proactive approach to ESG. ESG risks are considered and monitored from the outset of a new investment by a dedicated responsible investment team, supplemented by research from third party sources. Ruffer participate in a number of ESG focussed initiatives.	Ruffer should incorporate meaningful ESG metrics into regular client reporting. Ruffer should also include an official ESG scorecard to be used as part of the due diligence process.	Engaged with Ruffer in Q2 2020 to review their ESG policies, monitor progress, and set proposed actions. Ruffer are looking to incorporate ESG into quarterly reporting and to issue bespoke ESG reporting to clients in 2021.

Macquarie Infrastructure MEIF & MIP	The manager is clearly aware of ESG issues, however we believe a more standardised and consistent approach could be applied. They have introduced the analysis of ESG risks within the investment process and engage with companies where possible. However, we believe Macquarie could benefit from setting ESG priorities, a quantitative scorecard and KPIs.	Macquarie to adopt an ESG risk manager to oversee the ESG initiatives at fund level, with the aim of ensuring a consistent approach and is in line with the wider ESG policy and thereby implement a more standardised approach to scoring ESG risk factors within the due diligence stage and be able to include ESG reporting within the Fund's regular reporting.	Engaged with Macquarie in Q4 2020 to review their ESG policies and set actions and priorities. Plan to engage with the manager in Q2 2021 and will report back with updates.
M&G Debt Opportunities Fund II	M&G have made significant progress with regard to their ESG integration within their approach to risk management and investment processes, which has fed through at a Fund level. They also remain active participants in driving industry change.	We continue to encourage M&G to finalise their ESG scorecard, as well as improving ESG-specific firm-wide objectives, engagement and reporting capabilities, which remain limited.	Engaged with M&G in Q1 2021 to review their ESG policies and set actions and priorities.
Permira Direct Lending	Permira are performing in line with their peers in this area. Given that ESG policies are more difficult to assess and implement in private markets however, their ESG integration is weaker in comparison to the Fund's other investment managers. ESG is	The team are looking to further develop their ESG screening process for potential investments. The lack of client reporting has been raised with Permira, and this has been noted as an area which requires improvement.	Engaged with Permira in Q2 2020 to review their ESG policies and set actions and priorities.

	largely incorporated at the initial due diligence stage as a negative screening tool for potential investments.		
UBS Balanced Property	UBS clearly place importance on ESG factors across the firm, with a dedicated team, clear policy and due diligence process, as well as effective engagement and industry collaborative efforts. Given the nature of the Fund (fund of funds, unlisted property) as a limited partner, they are somewhat restricted in this Fund in ESG integration in terms of metrics and reporting.	UBS would benefit from setting quantifiable KPIs and metrics for the underlying funds, and incorporating ESG into regular reporting.	Engaged with UBS in Q4 2020 to review their ESG policies and set actions and priorities. Plan to engage with the manager in Q2 2021 and will report back with updates.

ESG ENGAGEMENT

Investment Managers' Engagement Activity

As the Fund invests via pooled funds managed by various investment managers, each manager provided details on their engagement activities including a summary of the engagements by category for the 12 months to 31 March 2021 (in line with the Fund's financial reporting year).

Fund Name	Engagement summary	Commentary
Adam Street Private Equity	Adams Street have considerable influence and a "seat at the table" at meetings of the Fund's underlying portfolio managers and are continuously engaging with underlying managers and management teams on ESG issues. They have provided a long list of instances where ESG engagement occurred at various meetings.	The fund primarily takes majority ownership positions in privately listed companies so they have a seat at Committee and Board meetings and will attempt to attain this where they do not automatically have it. This drives engagement with management and the board of investee companies. Given the nature of the fund, Adams Street engage on a number of matters with underlying managers. These engagements include ad-hoc interactions with underlying managers in the Fund's portfolio; engagements via annual meetings, which managers typically organize to provide a broad review of their funds and processes; Advisory Committee meetings, where Adams Street sits on the AC of the underlying manager's fund and has an opportunity to discuss particular topics (including ESG) in further depth; and finally, ASP send managers an annual survey sent, which covers operational topics as well as ESG considerations, with the aim to collect quantifiable and usable information on underlying managers and is incorporated into the manager's ESG rating.
AEW UK Core Property Fund	Total engagements: 281 Environmental: 281	The Fund invests directly in UK commercial real estate and the majority of properties are occupied by a single tenant who has discretion over day-to-day management of the property. Therefore, AEW looks to actively engage with tenants on ESG

		issues where they can. All engagement examples provided by AEW in relation to the UK Core Property Fund were in relation to the Environment and were requests for utility data across the entire portfolio for portfolio analysis and to assist with improvement of portfolio properties. Consumption data allows AEW to work with tenants and look to make cost savings and reduce the impact (carbon emissions) on the environment. This is considered a focus area for AEW.
LCIV Equity Income Fund (Epoch)	Epoch were unable to provide engagement data.	Currently, Epoch's engagements have primarily related to climate change risks. They were able to talk through an example of where they engaged with a petro-chemical company on their use of single use plastics, introducing targets to reduce usage moving forwards. London CIV (LCIV) work with the underlying managers in relation to engagement and through deep research select annual engagement themes, define priorities, implement voting and engagement and collaborate to drive outcomes. Based on detailed research, LCIV has identified three key stewardship themes for engagement in 2021 including climate change, diversity and inclusions, and tax and cost transparency (within the broader theme of governance).
JP Morgan Global Bond Opportunities Fund	Total engagements: 8 Environmental: 2 Governance: 4 Environmental & Governance: 2	JPM's Sustainable Investment Leadership Team ("SILT") lead engagements with issuers on ESG concerns. This enables JPM to use its fixed income and equity platforms to influence change. Fixed income analysts within the portfolio management team who come across ESG related issues in the fund work with the SILT to engage with the issuer.

		Two examples of significant engagements include: **Telefonica** – The stewardship team met to obtain an update on their ESG program and spoke about human capital management (during covid-19); governance and board; sustainability strategy; and stakeholder engagement (including cyber security and long-term alignment (executive remuneration). Telefónica presented their ESG efforts well, however this doesn't seem to translate into their overall strategy. JPM wanted to understand from the Company why the share price continues to fall despite the longevity of Telefonica's ESG strategy. They continue a dialogue with Management and the Board. Overall, Telefónica is transparent on their ESG efforts, and demonstrate that they have taken steps forward in areas such as gender diversity, where they now have 30% female representation at Board level. **Repsol** – JPM engaged with the CFO of Repsol to discuss the credit and ESG implications of the recently announced strategic plan to 2025, which builds on its commitments to drive further decarbonisation and achieve net zero emissions by 2050. We expect that with €5.5bn (about 30%) of the planned capex being devoted to low carbon generation, Repsol will seek to return to the green/transition bond market in time and is also considering the issuance of SDG-linked bonds, which would allow it to use proceeds for overall carbon reduction and not necessarily just for new solar/wind projects.
LCIV Infrastructure Fund (Stepstone)	Total engagements: 12 (across 6 companies) ESG: 3 AGM: 1	It is relatively early in the investment period of the Fund with only c. 15% of capital drawn down to date and so engagement is somewhat limited as a result. Engagements are managed by the individual at Stepstone allocated to monitor that specific investment, with

	Advisory board: 3 General update: 2 Onsite DD: 3	their responsible investment team providing direction on engagement. When required, the responsible investment team head engagements directly with GPs. Two examples of significant engagements include: **Arcus Infrastructure Partners** – Stepstone engaged with Arcus on ESG strategy which included discussion of 2020 GRESB results, progress on TCFD reporting, and ESG reporting with LPs. The engagement also included the annual general meeting and advisory board meeting where an update on the ESG framework was presented and they released their first sustainability report. **First Sentier (“FSI”)** – Engagement related to FSI’s ESG framework. Stepstone consider FSI a GP which exhibits best in class ESG policies within the sector and use their engagements to feed into discussions with other GPs. The engagement also included a general update regarding other business areas.
LGIM Passive Equity	LGIM currently do not provide details of their engagement activities at Fund level, however, this is something they are looking to implement, and they are considering how such information can be provided going forward. The intention is to remain in contact with LGIM surrounding the firm’s engagement reporting.	LGIM’s investment Stewardship team are responsible for engagement activities across all funds. LGIM share their finalised ESG scorecards with portfolio companies and the metrics on which they are based. LGIM leverage the wider capabilities of the global firm to engage with companies meaningfully.
LGIM Future World	Same as above	Same as above
LGIM LPI Income Property	Same as above	Same as above LGIM can only engage with the tenants

		of the assets which are held in the Fund, and their overall influence as a landlord is limited. They maintain dialogue with all occupiers, and as part of this interaction ESG-related behaviours are encouraged.
LGIM Index-Linked Gilts	Same as above	Same as above
LCIV Absolute Return Fund (Ruffer)	Total engagements: 32 ESG: 3 Environmental & Governance: 8 Environmental & Social: 1 Social & Governance: 4 Environmental only: 2 Social Only: 2 Governance only: 12	Ruffer continually engage with companies on a case-by-case basis to drive shareholder value and look to achieve tangible ESG progress with investee companies. An Example of a significant engagement is: **General Motors Company ("GM")** – Ruffer has been in continual engagement with GM on emissions standards, board structure and lobbying, Given the importance of EVs to the company's overall strategy, and its recent commitment to increase its combined investment in electric and autonomous vehicles to $27 billion by 2025, they spent significant time discussing the topic. The company stated that it expects to be compliant with emissions standards across its fleet, and that its commitment to an all-electric future is a key component to delivering this and reiterated that it is fully committed to delivering on the strategy, regardless of the political landscape. The company also explained that it expects to announce detailed alignment of remuneration with ESG, including EV transition, targets next year. Ruffer welcomed this and stressed the importance of these targets being quantitative and sufficiently ambitious. On governance, Ruffer communicated that they voted against two directors that they consider to be entrenched and asked how the company plan to maintain sufficient diversity of experience and skillsets on the board. The company explained that it has launched a formal five year

		board succession plan. It is looking to add members with experience in technology, disruptive industries and venture capital to reflect its transition to an EV technology business.
Macquarie Infrastructure Funds - MEIF & MIP	Macquarie were unable to provide specific engagement data given the nature of these funds.	Macquarie Infrastructure and Real Assets (MIRA) take an active and involved approach to the investments the fund makes. Engagement with the management of the assets/companies in relation to sustainability and ESG considerations is continual, where they often have seats on the Board of Directors. Macquarie's voting and engagement policy is set centrally, and they were able to articulate examples of active engagements/ collaborations or initiatives that resulted in desired outcomes and supported sustainable outcomes of portfolio companies. Some examples of such initiatives are where MIRA is actively supporting AGS airports as it seeks to reduce the carbon footprint of its portfolio. Another initiative is in relation to the Jadcherla Expressways Private Ltd ('JEPL') "Let there be light" solar lighting initiative in partnership with MIRA and the Macquarie Foundation.
M&G Debt Opportunities Fund II	The M&G Debt Opportunities Fund (DOF) is a private market credit team and as such engagement data is limited, however M&G continually engage with portfolio companies since investment. M&G have not been recording DOF II engagements so far, and are in the process of exiting the three remaining portfolio assets, however were able to provide examples of engagement efforts of	ESG-related engagements are primarily controlled and managed by credit analysts. Credit analysts will lead the engagement with companies to ensure there is a dialogue on ESG issues. The Sustainability and Stewardship Team ("SST") works actively with analysts and attends company meetings as required. An example of such an engagement was as follows: **Health services company** – The engagement objective was to improve the effectiveness of the board to ensure independent oversight, and sufficient expertise in the right areas to

	the DOF team.	support the business. M&G worked with other main shareholders to: 1) design an effective board infrastructure, and 2) select suitable board members. The engagement has involved active collaborations with other shareholders, search firms and with the company, primarily the CEO and existing board members. M&G have changed the constitution of the board, and put in place a 5-person board, including 4 Non-Executive Directors (NED) with a diversity of skills, backgrounds and nationalities. Comparing to the previous board with members having primarily financial experience.
Permira Direct Lending	Total engagements: 5 ESG strategy: 5	Permira maintain ongoing contact with the management teams of their portfolio companies, however, given their position as lenders they will typically rely on the equity sponsor to report ESG-related concerns and drive ESG improvements. Investing in private companies also reduces the transparency of the information available to assess ESG risks. Two examples of significant engagements include: **SoHo House** - Permira engaged with the management team on ESG pre and post-investment. In 2020, they developed foundations to pilot a sustainability linked loan (“SLL”). Permira engaged with external advisers Sustainability Group on strategy development and identification of ESG KPIs for SLL. SoHo House sustainability strategy was developed by the management team focusing on: Climate; Environment; Diversity and Inclusion; Social and Economy. **Kinaxia** – The ESG team, including the head of ESG, visited a Kinaxia facility to meet with management and discuss the company’s progress on ESG topics identified back in 2017.

		This included interviews with managers, tours of key areas of selected sites, and discussions of issues such as health and safety, carbon reporting, gender pay gap reporting, cyber security and data protection. They highlighted potential areas for improvement. The also discussed new projects and ESG-related aspirations were also discussed. Kinaxia appointed a head of ESG in 2018 and developed comprehensive KPIs to track health and safety statistics.
UBS Balanced Property	Total engagements: 10 Governance: 9 Governance & Social: 1	The UBS Balanced Property portfolio is a fund of funds and therefore UBS engages with underlying fund managers and have limited oversight of the underlying portfolio assets. UBS's engagement and voting activities are overseen by the Stewardship Committee which is chaired by the head of investments. Annual GRESB scores, which assist UBS with monitoring investments' ESG performance which is used to inform engagement. Funds are made aware of ESG priority areas in quarterly meetings. Examples of engagements include: **Patrizia Hanover Property Unit Trust** – A meeting was held with Patrizia to get an update on a new credit facility with reduced margin if certain ESG KPIs are met. **Triton Property Fund** – Engaged with the manager to get an update on an ongoing initiation to measure social value of Triton's assets.

ESG VOTING (for equity/multi asset funds only)

Investment Managers' Voting Activity (for equity/multi asset funds only)

As the Fund invests via fund managers the managers provided details on their voting actions including a summary of the activity covering the financial reporting year up to 31 March 2021. The managers also provided examples of any significant votes.

Fund Name	Voting summary	Examples of significant votes	Commentary
LCIV Equity Income Fund (Epoch)	Meetings eligible to vote for: 112 Resolutions eligible to vote for: 1,737 Resolutions voted for: 100% Resolutions voted with management: 94% Resolutions voted against management: 6% Resolutions abstained from: 0%	Epoch were unable to provide examples of significant votes.	The LCIV has delegated its voting rights to the Fund's investment managers and requires them to vote, except where it is impractical to do so. The LCIV also monitors voting alerts and where these are issued and requires the investment managers to take account of these alerts as far as practical to do so or provide justification for non-compliance. The LCIV reviews and monitors the voting policies and activities of its investment managers as part of its monitoring. The LCIV appointed Epoch Investment Partners (Epoch) as the manager for the LCIV Equity Income Fund. Epoch does not consult with clients before voting unless specifically requested to do so. Epoch proxy voting advisor is Institutional Shareholder Services.

LGIM Passive Equity	Meetings eligible to vote for: 2,823 Resolutions eligible to vote for: 35,043 Resolutions voted for: 99.8% Resolutions voted with management: 81.3% Resolutions voted against management: 18.7% Resolutions abstained from: 0.2%	**Qantas Airways Limited** – LGIM voted against the participation of Alan Joyce (CEO) in the Long-Term Incentive Plan (LTIP) Resolution but approved the remuneration report. The COVID crisis has had an impact on the Australian airline company's financials. In light of this, the company raised significant capital to be able to execute its recovery plan. It also cancelled dividends, terminated employees and accepted government assistance. The circumstances triggered extra scrutiny from LGIM as they wanted to ensure the impact of the COVID crisis on the company's stakeholders was appropriately reflected in the executive pay package. In collaboration with their Active Equities team, LGIM's Investment Stewardship team engaged with the Head of Investor Relations of the company to express LGIM's concerns and understand the company's views. The voting decision ultimately sat with the Investment Stewardship team. LGIM supported the	LGIM's Investment Stewardship team are responsible for managing voting activities across all funds. LGIM's Investment Stewardship team uses ISS's 'Proxy Exchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure the proxy provider votes in accordance with their position on ESG, LGIM have put in place a custom voting policy with specific voting instructions.

		remuneration report given the executive salary cuts, short-term incentive cancellations and the CEO's voluntary decision to defer the vesting of the long-term incentive plan (LTIP), in light of the pandemic. However, LGIM's concerns as to the quantum of the 2021 LTIP grant remained, especially given the share price at the date of the grant and the remuneration committee not being able to exercise discretion on LTIPs, which is against best practice and so voted against the second resolution.	
LGIM Future World Passive Equity	Meetings eligible to vote for: 4,626 Resolutions eligible to vote for: 51,008 Resolutions voted for: 99.9% Resolutions voted with management: 83.8% Resolutions voted against management: 15.7% Resolutions abstained from: 0.5%	The above example is also applicable to the LGIM Future World Fund.	Same as above.

LCIV Absolute Return Fund (Ruffer)	Meetings eligible to vote for: 94 Resolutions eligible to vote for: 1,198 Resolutions voted for: 97% Resolutions voted with management: 91% Resolutions voted against management: 9% Resolutions abstained from: 2%	**Lloyds Bank** – Ruffer voted against a vote on CEO remuneration pay. Ruffer spoke to the company prior to the AGM to understand better the changes implemented in the revised voting policy and to communicate their concerns. Ruffer still decided to vote against the proposed remuneration policy as although it reduces the maximum pay-out at the time of the grant, it significantly relaxes the vesting criteria. Therefore, Ruffer did not think it sufficiently incentivises management to deliver shareholder value.. **Weaton Precious Metals** – Ruffer voted against five non-executive director re-elections taking into account the average tenure of members of the board, the regions in which the company is domiciled and the sector in which the company operates, they did not support the re-election of a number of directors in the period because of concerns that they were not independent.	The LCIV has delegated its voting rights to the Fund's investment managers and requires them to vote, except where it is impractical to do so. The LCIV also monitors voting alerts and where these are issued, requires the investment managers to take account of these alerts as far as practical to do so or provide justification for non-compliance. The LCIV reviews and monitors the voting policies and activities of its investment managers. Ruffer is the appointed investment manager for the LCIV Absolute Return Fund. As a discretionary investment manager, Ruffer does not have a formal policy on consulting with clients before voting. However, they accommodate LCIV voting instructions for specific areas of concerns or companies where feasible. Ruffer proxy voting advisor is Institutional Shareholder Services (ISS). However they have developed their own internal voting guidelines and do not delegate or outsource stewardship activities, but rather take into

		account issues raised by ISS to assist in the assessment of resolutions and the identification of contentious issues. They voted against the recommendation of ISS 7.7% of resolutions over the period.

Pension Fund Risk Register

Committee	Pensions Committee
Officer Reporting	James Lake, Finance
Papers with this report	Pension Fund Risk Register

HEADLINES

The purpose of this report is to identify to the Pension Committee the main risks to the Pension Fund and to enable them to monitor and review going forward (see Appendix). There are two risks which are red.

RECOMMENDATIONS

That the Pensions Committee consider the Risk Register in terms of the approach, the specific risks identified, and the measures being taken to mitigate those current risks.

SUPPORTING INFORMATION

The specific risk matrix for the Pension Fund allows better classification of the risks than would be possible through the Council's standard risk matrix. The significance of risks is measured by interaction of the likelihood of occurrence (likelihood) and by the potential damage that might be caused by an occurrence (impact). The risks are also RAG rated to identify level.

There are currently 12 risks being reported upon. Whilst there are many more risks which could be identified for the Fund, those identified are the most significant and those which are actively managed.

Each risk has been explained, along with details of the actions in place to mitigate that risk. The progress comment column provides the latest update in respect of the impact of those mitigating actions. The Direction of Travel (DOT) has also been included.

Pen06 – Poor performance of outsourced administrator. Hampshire County Council (HCC) has been in place for almost 6 months. During this time performance against set KPI's has consistently been at 100% across all indicators. In addition, complementary support and governance has been first class and gives confidence that the Fund has in place, a well-resourced and efficiently managed partner. As such the likelihood element of the risk has been reduced from medium to low and the overall rating reduced from D2 to E2.

FINANCIAL IMPLICATIONS

The financial implications are contained in the risk register attached.

LEGAL IMPLICATIONS

The legal implications are contained in the risk register attached.

Pension Fund Risk Register 2021/22

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 01 - Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	1. Anticipate long-term return on a relatively prudent basis to reduce risk of failing to meet return expectations. Funding Strategy outlines key assumptions that must be achieved in agreeing rates with employers for a significant chance of successfully meeting the funding target. 2. Analyse progress at three yearly valuations for all employers. 3. Undertake Inter-valuation monitoring.	With the assistance of Hymans quarterly funding report, the position is kept under regular review and Pension Committee is informed of the impact of prevailing market conditions on the funding level The latest interim valuation shows a level at 89.0%, which has detracted from recent the positive trend since the COVID-19 adversely impacted asset values in March 2020. This is still however 2.0% higher than the 2019 triennial valuation. In addition assets values have been recouped and surpassed pre COVID levels now at £1.287b as at December 21. The current position should be viewed with caution as there is still much uncertainty relating to COVID and inflation, however the objectives of the fund are long term and the portfolio is well positioned to withstand volatility over the long term. Officers are closely monitoring developments and liaising with fund managers and advisors. Member cashflow remains positive with contributions exceeding benefits.	Strategic risk Likelihood = Significant Impact = Large **Rating = C2 (Static)**	James Lake / Cllr M Goddard	08/03/2022
PEN 02 - Inappropriate long-term investment strategy	1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data. 2. Keep risk and expected reward from strategic asset allocation under review. 3. Review asset allocation formally on an annual basis. 4. Asset allocation reported quarterly to committee 5. Officer and advisers actively monitors this risk.	A separate Officer and Advisor working group regularly monitors the investment strategy and develops proposals for change / adjustment for Pension Committee consideration. The impact of each decision is carefully tracked against the risk budget for the Fund to ensure that long-term returns are being achieved and are kept in line with liabilities. In May 2021, a new Pension Sub-Group was established to allow Members, advisers and officers to meet regularly and provide a platform for greater oversight	Strategic risk Likelihood = Low Impact = Large **Rating = E2 (Static)**	James Lake / Cllr M Goddard	08/03/2022
PEN 03 - Active investment manager under-performance relative to benchmark	1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager. 2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager. 3. Regular monitoring measures performance in absolute terms and relative to the manager's index benchmark, supplemented with an analysis of absolute returns against those underpinning the valuation. 4. Investment managers would be changed following persistent or severe under-performance.	The Fund is widely diversified, limiting the impact of any single manager on the Fund. Active monitoring of each manager is undertaken with Advisors and Officers meeting managers on a quarterly basis and communicating regularly. The LCIV as pool is increasingly managing more assets on the funds behalf as per regulation,. The Fund has been in consultation with LCIV regarding improved oversight, reporting and communication; requested improvements have mostly been implemented. Comments on whether mandates should be maintained or reviewed are included quarterly and where needed specific performance issues will be discussed and reviewed. Action is taken to remove under-performing managers where appropriate.	Strategic risk Likelihood = Low Impact = Small **Rating = E4 (Static)**	James Lake / Cllr M Goddard	08/03/2022

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 04 - Inflation - Pay and price inflation significantly more than anticipated	1. The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. The actuarial basis examines disparity between the inflation linking which applies to benefits of Deferred and Pensioner members as well as the escalation of pensionable payroll costs which only applies to active members, and on which employer and employee contributions are based. 2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk. 3. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees. 4. Covenant's are in place with security of a guarantee or bond for admission agreements. 5. Inter-valuation monitoring gives early warning. 6. Investment in index-linked bonds helps to mitigate this risk. 7. The fund has increased its inflation linkage by allocating 5% to Inflation linked long lease property in 2018. 8. Contribution rate setting as part of the triennial valuation process considers 5000 scenarios in achieving a fully funded position	The impact of pay and price inflation is monitored as part of the Council's MTFF processes and any potential impact on pension fund contributions is kept under review and factored into the Council's overall position. The impact of pay inflation is diminishing since the introduction of the CARE benefits in 2014 as there is less linkage to final salary in future liabilities. The impact of inflation is reviewed through all strategic investment decision making, however inflation risk is gaining greater prominence and is raising concern with the potential detrimental impact on liabilities and assets. Inflation linked investments form part of the investment strategy and are aimed at balancing this risk and protecting against the impact of inflation., A PSG meeting was held on 5th October to discuss the risk, analyse potential impacts and explore mitigating actions. Currently the portfolio has an adequate allocation to inflation risk mitigating investments, however a watching brief will remain in place. Ongoing monitoring of forward indicators is in place to highlight if remedial action is required.	Strategic risk Likelihood = Significant Impact = Large **Rating = C2** **(Static)**	James Lake / Cllr M Goddard	08/03/2022
PEN 05 - Pensioners living longer.	1. Mortality assumptions are set with some allowance for future increases in life expectancy. Sensitivity analysis in triennial valuation helps employers understand the impact of changes in life expectancy. 2. Club Vita monitoring provides fund specific data for the valuation, enabling better forecasting.	The Fund is part of Club Vita, a subsidiary of the Fund Actuary, which monitors mortality data and feeds directly into the valuation. Results also feed into the quarterly funding position which is reported to and assessed by Committee Members and officers.	Strategic risk Likelihood = Low Impact = Small **Rating = E4** **(Static)**	James Lake / Cllr M Goddard	08/03/2022
PEN 06 - Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary	1. New partnership in place with HCC. 2. Regular service meetings in place. 3. Monthly KPI reports are provided to track and monitor performance. 4. Critical errors cleared prior to transfer of valuation data to actuary. 5. Data Improvement plan will be developed and implemented in 2022.	Transfer of pension administration services to a new partner, Hampshire County Council (HCC) has been in place for 6 months. Regular meetings will take place between HCC & LBH to ensure the new partnership is working in accordance with expectations and that any issues are addressed. KPI's have been at 100% since partnership inception and all other levels of service and interaction have been positive and pro-active.	Strategic risk Likelihood = Low Impact = Large **Rating = E2** **(Reduced)**	James Lake / Cllr M Goddard	08/03/2021

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 7 - Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals	1. Council wide policies and processes in place around: acceptable use of devices, email and internet use of passwords and other authentication home and mobile working data access, protection (including encryption), use and transmission of data 2. Risk is on the Corporate risk register with risk mitigation in place. 3.All member and transactional data flowing from HCC and Hillingdon is sent via encryption software or via the employer portal. 4.Data between the fund, HCC and Hymans is distributed via upload to an encrypted portal 5. Systems at Hillingdon and HCC are protected against viruses and other system threats 6. HCC are accredited to ISO27001:2013 and signed up to the Pensions Regulator Pensions Pledge. HCC currently undergoing penetration testing to ensure they are PSN compliant.	This risk has been recognised in response to recommendations by the Pensions Regulator and work carried out by Pensions Board A basic Data Mapping exercise has been carried out to understand data transfers and risks in this area including potential for threat through other employers. A new tool will be completed to better understand the mapping going forward. As a result of work with the Pensions Board in gaining assurance in this area the fund will create a policy to ensure a sufficient action plan is in place. The Fund recently participated in the AON LGPS cyber scorecard exercise which is a high level assessment of the Fund's cyber resilience. The results show the Hillingdon Fund is generally either average or above average. No immediate concerns were highlighted. HCC has in place a number of cyber controls in place, upgraded the member portal security in December 2021 and has produced a cyber compliance statement which sets out for all partners the controls they have in place and detailing areas of improvement. Penetration testing is underway and is due to be completed in Q1 2022.	Strategic risk Likelihood = Medium Impact = Large **Rating = D2** **(Static)**	James Lake / Cllr M Goddard	08/03/2022
PEN 8 - ESG - Risk of financial loss through the negative impact of ESG matters.	1. The fund have an ESG policy in place as part of the ISS. 2. Active equities within fossil fuel sector have been assessed in relation to the Transition pathway analysis tool to identify those companies transitioning to a lower carbon world. 3. Manger selections take into account ESG policy 4. Mangers are expected to be signed up to the stewardship Code 5. Managers are expected to have signed up to the UN Principles for Responsible Investment (UK PRI) 6. ESG Issues are discussed with managers at review meetings 7. The Fund is working towards signing up to the new 2020 UK Stewardship Code 8. The Fund has signed up to support TCFD.	The Pensions Committee has created a stand alone RI policy which supports principles and implementation of the investment portfolio. The policy is a live document and is due to be updated through the Stewardship Code 2020 sign-up process. A revised policy is being tabled at the June 2021 Committee for approval. Fund manager engagement now forms part of an annual assessment and engagement process to improve manager ESG credentials. The project to sign up to the 2020 UK Stewardship Code is progressing as per the project plan with the submission document still on track for submission by the April 2022 deadline. The Fund actively invests in portfolios with an ESG tilt, including the LGIM Future World Global Index and the LCIV Global Alpha Paris Aligned Fund. These actions have considerable reduced the carbon metric of the Fund. The Fund aims to work towards UN SDG 7 & 13 objectives and will start to report on complementing TCFD metrics. The Fund will also collaborate and has signed up to TCFD.	Strategic risk Likelihood = Medium Impact = Medium **Rating = D3** **(Static)**	James Lake / Cllr M Goddard	08/03/2022
PEN 9 - Portfolio liquidity - risk of failure to liquidate assets or meet drawdown calls	1. The fund has an active daily cash management process in place to ensure there is sufficient cash available to meet all beneficiary payments. 2. Cash management includes investing large amounts of surplus cash to balance the investment portfolio or hold in liquid asset classes in anticipation of cash calls 3. Officers liaise with managers where commitments have been made to keep track of predicted drawdown timescales 4. The fund is significantly diversified in different asset classes and asset managers to ensure if there is a stop on any one holding then the portfolio will continue to operate as normal.	There is a detailed cash management process in place. This is signed off daily to ensure liquidity. The fund continues to invest in illiquid asset classes to benefit from illiquidity premium, however this is a relatively small portion of the portfolio and there are other liquid asset classes easily accessible. All trade times are listed in the cash management policy. The fund is still cashflow positive / breakeven on member dealings and is forecast to remain so in 2021/22. The Fund has sufficient liquidity should it need to draw on investments. Employer contributions are received with no negative impact due to COVID.	Strategic risk Likelihood =Very Low Impact = Large **Rating = F2** **(Static)**	James Lake / Cllr M Goddard	08/03/2022

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 10 - Failure of the pool in management of funds / access to funds	1. Quarterly review meetings held with the pool 2.Regular reporting out of the pool informing the fund of manager performance 3. Swift communications received from the pool with staff turnover and concerns the fund may need to be aware. 4. Independent adviser carried out a review of governance for manager selection and manager monitoring to add assurance and discussion points with the pool 5. Active Shareholder representation at General meeting and AGM. 6. Pool to attend Committee meetings where required, to provide assurance over progress and activity.	LCIV staff turnover has stabilised with all key post now in place. The team is steadily building to cover ESG, new markets and reporting requirements, as the underlying portfolio grows. Governance remains high on the agenda and Hillingdon have been key in forging improvements. There has been positive progress by LCIV and promised governance improvements have largely been implemented. The Hillingdon Fund has taken the lead in actively managing its underlying Pool investments with the recent divestment from the LCIV Income Fund (Epoch). The Fund will pro-actively manage this risk and take action ahead of the LCIV Pool; where necessary.	Strategic risk Likelihood = Low Impact = Low **Rating = E4** **(Static)**	James Lake / Cllr M Goddard	08/03/2022
PEN 11 - Threat of COVID 19 to Business Continuity	1. The pensions section and corporate finance has a business continuity plan that identifies critical tasks and resources required to carry them out. 2. Communication to key 3rd party providers HCC to co-ordinate business continuity plans 3.Active monitoring of developments, keeping abreast of Council and Government advice to ensure readiness to implement the continuity plan if required. 4. Non-essential external meetings have been cancelled to reduce contact 5. Checks being done to ensure staff have facilities to work from home 6. Vulnerable staff are being kept out of the office as much as possible	Since the Covid emergency was enacted in March 2020, the business continuity plan for the Pensions Section has been updated to identify critical tasks and resources and systems required to maintain services. Business continuity plans have been obtained from the Hampshire to ensure continuity of essential member services. Staff have been principally working from home With the success of the vaccine programme resulting in significantly reduced Covid cases in the UK, the government has removed restrictions albeit whilst still exercising the need for caution. Service delivery has been maintained through a hybrid arrangement of actual and virtual meetings and office and home working. Officers continue to monitor and follow government and Council advice.	Strategic risk Likelihood = Low Impact = Large Rating = E2 (Reduced)	James Lake / Cllr M Goddard	08/03/2022
PEN 12 - Failure of the Fund's governance to comply with statutory requirements and/or The Pension Regulator expectations including: **Failure to ensure that Committee members' knowledge and understanding of pension matters is robust and meets statutory requirements** **Failure to ensure that the Pension Board is effective in carrying out its role."**	Governance Policy Statement, reviewed every 3 years. Policies on range of issues, reviewed regularly. Compliance with CIPFA Code of Practice on Public Sector Pensions Finance, Knowledge and Skills Programme of training sessions and access to external events Use of Regulator's on-line toolkit A knowledge self-assessment framework for Committee and Board members to identify training requirements The Fund's Annual Report includes details of Committee and Board members' training activities Fund Governance Adviser in place Access is provided to CIPFA K&S Framework training modules	The Fund has undergone a COP14 Governance review and has been implementing changes to be either fully or partially compliant. Regular reports and updates are presented at Pensions Board. Committee and Board members receive regular training and specific training aligned with decision making where required. Training logs are to be brought to Pensions Committee & Board with a mandatory Committee training programme in place. Mandatory training, in line with the CIPFA K&S Framework, is to be undertaken by all Committee members. The fund has a schedule of policies in place to ensure reviews are carried out at the required intervals. Reviewed Pension Board's Terms of Reference were approved by Council and a new Operations Manual has been developed. Maximum tenure and staggered terms are to be put in place to allow for smooth succession planning. The Fund will monitor progress on the Regulator's new combined Code of Practice and implications of Scheme Advisory Board's Good Governance recommendations. Following the outcome update relevant policies which cover all aspects of the Fund's governance	Strategic risk Likelihood = Low Impact = Very Large Rating = E1 (Static)	James Lake / Cllr M Goddard	08/03/2022

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Attributes:

				Risk rating	Score	Risk rating	Score	Risk rating	Score	Risk rating	Score
Greater than 90%	This week		**Very High (A)**	**A4**	6	**A3**	12	**A2**	18	**A1**	24
70% to 90%	Next week / this month		**High (B)**	**B4**	5	**B3**	10	**B2**	15	**B1**	20
50% to 70%	This year		**Significant (C)**	**C4**	2	**C3**	4	**C2**	6	**C1**	8
30% to 50%	Next year		**Medium (D)**	**D4**	1	**D3**	2	**D2**	3	**D1**	4
10% to 30%	Next year to five years		**Low (E)**	**E4**	0	**E3**	0	**E2**	0	**E1**	0
Less than 10%	Next ten years		**Very Low (F)**	**F4**	0	**F3**	0	**F2**	0	**F1**	0
				Small (4)		**Medium (3)**		**Large (2)**		**Very Large (1)**	

IMPACT

THREATS:

Attributes:				
Financial	up to £500k	Between £500k and £10m	Between £10m and £50m	Over £50m
Reputation	Minor complaint, no media interest	One off local media interest	Adverse national media interest or sustained local interest	Ministerial intervention, public inquiry, remembered for years

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WORK PROGRAMME & TRAINING LOG

Committee	Pensions Committee
Officer Reporting	James Lake, Finance
Papers with report	None

HEADLINES

This report is to enable the Pension Committee to review planned meeting dates and forward plans.

RECOMMENDATIONS

That the Pensions Committee:

1. **Note the dates for Pensions Committee meetings;**
2. **Make suggestions for future agenda items, working practices and / or reviews; and,**
3. **Note the Committee's mandatory training update and progress.**

SUPPORTING INFORMATION

Meeting Date	Item
30 March 2022	• Training - Triennial Valuation 19Jan22 • Training - Portfolio Construction 9Feb22 • Investment update and manager review • Annual Report of the Board • Administration Report • Risk Management Policy review • Responsible investment (Inc. Stewardship Code) Update • Risk Register • 2022/23 Expense Budget • Workplan & Training Log
9 June 2022	• Training TBC • Investment update and manager review • Valuation Update • Administration Report • Risk Register • Responsible investment Update • 2022/23 Expense Budget • Workplan & Training Log • Pension Fund Audit Plan

	• Discretions Policy Update
28 September 2022	• Pension Fund Annual Report 2021/22 • External Audit of Pension Fund • Investment update and manager review • Valuation assumptions and preliminary results and funding strategy statement • Administration Report • Risk Register • 2022/23 Expense Budget • Responsible Investment • Workplan & Training Log
6 December 2022	• Training TBC • Investment update and manager review • Responsible Investment • Draft Valuation Report & Employer Rates • Administration Report • Risk Register • 2022/23 Expense Budget • Workplan & Training Log
22 March 2023	• Training TBC • Investment update and manager review • Responsible Investment • Administration Report • Valuation Final Results • Workplan & Training Log • Funding Strategy Statement Approval • Investment Strategy Statement review • Risk Register • 2023/24 Expense Budget • Annual Report of the Board • Annual Audit Plan

Training

In line with the required competencies set out by CIPFA Knowledge and Skills Framework, Pension Committee members should have a general understanding of areas associated with their LGPS fiduciary role. Upcoming changes in legislation are expected to enforce the need for training and will make it a regulatory requirement for Pension Committee members.

To monitor progress against this requirement a log of member training is shown below. Pension Committee members are asked to complete the AON CIPFA Knowledge & Skills Framework sessions by March 2022

Pensions Committee Training Log

Date	Details	Cllr Goddard	Cllr Flynn	Cllr Hensley	Cllr Morse	Cllr Sansarpuri
14 Apr 21	ESG	✓	n/a*	n/a*	✓	n/a*
2 Jun 21	Governance	✓	n/a*	n/a*	✓	n/a*
1 Jul 21	Private Debt	✓	✓	n/a*	✓	n/a*
19 Jan 22	Hymand=s Robertson Actuarial Valuation	✓	✓	No	No	✓
9 Feb 22	Baillie Gifford Portfolio Construction	✓	No	No	✓	No
Mandatory Training (AON CIPFA Knowledge & Skills Framework) Sep 21 – Mar 22						
Introduction to the LGPS		✓		✓		
Pension's legislation, guidance, and governance				✓		
Local governance and pensions procurement and contract management				✓		
Funding strategy and actuarial methods, and financial, accounting and audit matters				✓		
Investments – Strategy, asset allocation, pooling, performance, and risk management				✓		
Investments - Financial markets and products				✓		
Pensions Administration and Communications				✓		

*Prior to Committee appointment or PSG only item.

FINANCIAL IMPLICATIONS

Continued training will incur fess dependant on the platform and events.

LEGAL IMPLICATIONS

The legal implications included within the body of the report.

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ANNUAL REPORT OF THE LOCAL PENSIONS BOARD

Committee	Pensions Committee
Reporting Board Member	Roger Hackett – Chair of the Local Pensions Board
Papers with report	Annual Report of the Pensions Board

RECOMMENDATION

That the Pensions Committee note the annual report of the Local Pension Board for the year 2021.

REASON FOR ITEM

The Scheme Advisory Board's LGPS Guidance on the Creation and Operation of Local Pension Boards in England and Wales recommends that the Board produces a report to the Pensions Committee on the work undertaken during the year and future work plans.

This report has been compiled to provide feedback to Pensions Committee on the work undertaken by the Local Pension Board during the year 2021

FINANCIAL IMPLICATIONS

The financial implications are included in the annual report.

LEGAL IMPLICATIONS

The legal implications are included in the report.

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Pension Board Annual Report 2021

Contents

1 Chair's Foreword

Welcome to the Annual Report of the Local Pension Board (LPB) of Hillingdon Pension Fund (HPF). This report covers the period from January to December 2021. At the Board meeting of February 2021, the terms of reference of the Board was changed allowing for the election of a Chair for one year. I was privileged to be elected to serve as Chair of the Board for 2021.

The Board was able to carry out its role of assisting the Administering Authority in securing compliance with regulations despite the challenges of COVID-19. All the meetings were held virtually during this time and Officers and the administration service providers were able to deliver the expected services.

Some of the key achievements the Board oversaw in addition to the regular review of the Pensions Committee reports were:

- The fund achieving full compliance with the Pension Regulators Code of Practice 14
- Reviewing the Anti-Scamming Arrangements
- Raising awareness of cyber security and the Cyber scorecard assessment
- Monitoring breaches and ensuring corrective actions were implemented
- Full knowledge and skills assessment of Board members and the successful implementation of a comprehensive training plan.
- Supporting the Pensions Committee and Officers in successfully transferring the administration services from Surrey County Council (SCC) to Hampshire County Council (HCC).

The year ahead continues to be met with the challenges of COVID-19 and the resulting uncertainties in terms of changes in rules that the government may implement. However, the Fund has adapted to the changes including the ability to function with staff working remotely.

There are upcoming regulatory changes with which the Fund has to comply and that the Board will oversee; these include:

- The Pensions Regulator's Single Code of Practice
- Updated Good Governance Framework
- The Pensions Dashboard Programme
- The Data Improvement Programme
- Implementation of McCloud & GMP

In closing I would like to thank the Pensions Committee, Officers, Advisers and fellow Board Members for their cooperation and support during my time as Chair and I look forward to helping the Fund address the challenges we expect to face in 2022.

Roger Hackett

Chair of Hillingdon Local Pension Board (2021)

2 Introduction to the Local Pension Board

The Public Service Pensions Act 2013 introduced the requirement to have a Local Pensions Board to assist in the good governance of the scheme.

The purpose of the Board is to assist the Administering Authority in its role as a Scheme Manager of the scheme. Such assistance is to:

- Secure compliance with the regulations and any other legislation relating to the governance and administration of the scheme, and requirements imposed by the Pensions Regulator in relation to the scheme; and
- To ensure the effective and efficient administration of the scheme.

London Borough of Hillingdon Council ratified the establishment of the Board on 6th November 2014 to commence with effect from 1st April 2015. At its meeting 02 November 2017, Council agreed to change the structure of the Board and its membership to improve the overall effectiveness of the Board. The Board meets four times a year and consists of two Employer representatives, and two Scheme member representatives.

Membership of the Board

Employer Representatives	Scheme Member Representatives
Hayley Seabrook (Jan-21-Jul-21)	Roger Hackett
Shane Woodhatch	Tony Noakes
Anil Mehta (Aug-21-Dec21)	

Record of Attendance

Name	Feb-21	Apr-21	Jul-21	Nov-21
Roger Hackett	**Y**	**Y**	**Y**	**Y**
Tony Noakes	**Y**	**Y**	**Y**	**Y**
Hayley Seabrook	**Y**	**Y**	**Y**	**n/a**
Shane Woodhatch	**Y**	**N**	**Y**	**N**
Anil Mehta	**n/a**	**n/a**	**n/a**	**Y**

The Scheme Advisory Board's LGPS Guidance on the Creation and Operation of Local Pension Boards in England and Wales recommends that the Board produces a report to the Pensions Committee, on the work undertaken during the year and future work plans. This report covers the work of the period from February to November 2020.

AON Hewitt is appointed as Governance advisers to support the development and work of the Board and attend meetings as necessary.

3 Summary of the Work of the Board

Transition of administration services
One of the largest pieces of work for the Board during 2021 was their involvement regarding the transition of pension administration services from Surrey County Council to Hampshire County Council.

The Board were heavily involved in monitoring the communications project, change of pension pay-date, risk management and data integrity. The Board provided robust challenge to officers and Committee to ensure all aspects and member interests were taken into consideration and managed appropriately.

The transition proceeded in accordance with the project timeline and successfully went live on 27th September 2021.

TPR code compliance review
The review of the Councils compliance with the TPR code of practice was initially presented to the Board in February 2020 with full compliance in 78 areas, partial compliance in 18 and 1 area of non-compliance. Work continued throughout 2020 reducing partial compliance to 7 and removing the non-compliance item.

During 2021, the Board has worked closely with officers and by the November meeting the Fund had moved to 100% compliance across all areas.

Updated Terms of Reference and Operating Procedures
In 2020 with the start of the pandemic it was noted there were some potential gaps in the Board's Terms of Reference. These were addressed with updated Terms of Reference being approved by the Council. This in turn allowed the Board to prepare a robust and comprehensive set of Operating Procedures giving greater detail and clarity on how the Board should operate.

Cyber Security & Pension Scams
Areas high on the agenda of the Board are cyber security and pension scams. Throughout 2021 various items have been raised by the Board to understand the Funds position. These included the completion of a cyber scorecard to understand the control environment and positioning within a sample of other Funds. Clarification was sought on the Council's own IT security as well as measures in place with third party suppliers. It was confirmed that the Fund's new administration partner HCC had signed up to the Pensions Regulator's Pension Pledge and that they were preparing a policy relating to pension scams and the recently introduced Pension Transfer guidance.

Other key areas of work have been undertaken as outlined below

- Monitoring of the data quality and breaches
- Review of Policy documents to ensure they are kept up-to-date
- Monitoring the performance of the Pensions Administration
- ESG – Stewardship Code and TCFD progress

Future Work of the Board

As noted in the Chair's foreword, a number of key areas will be monitored in 2022 including:

- The Pensions Regulator's Single Code of Practice
- Updated Good Governance Framework
- The Pensions Dashboard Programme
- The Data Improvement Programme
- Implementation of McCloud and GMP.

Another key area will also focus on the progress of the triennial Fund valuation which is due to commence in April 2022. The Board will attend the session in January 2022 to prepare the Committee and Board members for the process, training and what to expect.

The Board will also keep a keen eye on how the new administration partnership with HCC progresses past the initial implementation.

4 Areas Investigated by the Board

No official investigations were required or undertaken by the Board.

5 Details of any Conflicts of Interest

The SAB guidance recommends that the Board reports details of any conflicts of interest that have arisen in respect of individual Local Pension Board members and how these have been managed.

Declaration of interest remains on the agenda at the start of each meeting and in addition to the register of interest, Pension Board members have been requested to renew their declarations of interest form in line with best practice.

A Conflicts of Interest Policy was also introduced following the TPR CoP review which provides guidance to the Board on how to identify and manage conflicts of interest. No major conflicts of interests have arisen other than the declarations made at the start of each meeting.

Board members and officers continue to monitor conflicts of interest.

6 Areas of Concern or Risk

Regulatory changes **–** The Board recognises that there are currently many regulatory changes to be implemented in the LGPS. These include: McCloud Judgement; Goodwin Judgement; GMP reconciliation, Pensions Dashboard and potentially a new iteration of the Exit Cap.

In addition, the framework under which the Fund will need to operate is also expected to materially change with the new Single Code of Practice and Good Governance Framework implementation.

The Board will continue to monitor and seek assurance from Officers that the changes can be effectively delivered in compliance with the regulatory deadlines.

7 Training

7.1 Regular training has been made available to the Board and is a standing item on the quarterly work programme. As a result of the move to virtual meetings, training has been delivered separately from the meetings. The schedule below outlines the training undertaken by the Board.

Areas of Training	Date	Roger Hackett	Tony Noakes	Hayley Seabrook*	Shane Woodhatch	Anil Mehta*
The Pensions Regulator Public Sector Toolkit	On-demand	Y	Y	Y	Y	Y
The Pensions Regulator Pensions Scam	On-demand	Y				
AON - Introduction to the LGPS	On-demand	Y				
AON - Pension legislation and guidance, and national governance	On-demand	Y				
AON -Local governance and pensions procurement and contract management	On-demand	Y				
AON - Funding strategy and actuarial methods, and financial, accounting and audit matters	On-demand	Y				
AON -Investments – Strategy, asset allocation, pooling, performance, and risk management	On-demand	Y				
AON -Investments - Financial markets and products	On-demand	Y				
AON – Pension Administration & Communications	On-demand	Y				
CIPFA K&S Assessment	On-demand	Y	Y	Y	Y	Y
CIPFA LPB Spring Seminar	15/02/21	Y				
AON Conflicts of Interest Training	Feb-21	Y	Y	Y		
Hymans Keeping the LGPS connected	25/02/21	Y				
AON mitigating cyber security risk	10/03/21	Y				
AON conference current issues for DB schemes	22/03/21	Y				
TPR Pensions scam webinar - Pensions pledge	31/03/21	Y				
Russell-Cooke LLP - how to avoid scams	23/02/21	Y				
AON Cyber risk in LGPS	19/03/21	Y			Y	
CIPFA Annual PB meeting	23/06/21	Y				
Hymans Keeping the LGPS connected	12/05/21	Y				
PLSA - LA Conference	18-19/05/21	Y				
Governance update training (joint) Clare Scott	02/07/21	Y	Y		Y	
Sackers Quarterly Update	15/07/21	Y				
Professional Pensions Live	14/09/21	Y				
Hymans Robertson: LGPS Pensions Administration: Future Challenges and Changes.	30/11/21	Y				

*Term of Office: H Seabrook Jan21-Jul21, A Mehta Aug21-Dec21)

7.2 The future training programme for the Board has been set out below. Board members have been requested to refresh the knowledge and skills assessment to assist officers to develop a targeted training programme.

Areas of Training	Date
AON CIPFA K&S Framework 7 Sessions	On-demand
Triennial Valuation (Joint with Committee)	19-Jan 2022
Investment and portfolio construction in an inflationary/COVID environment - Baillie Gifford view (Joint with Committee)	9-Feb-2022

8 Work Plan

The workplan below sets out the tasks undertaken by the Pension Board during 2021.

Meetings	**Specific topics**
17 February 2021	• Training Update Report • Administration Report • Breaches Log • Cyber Scorecard • Terms of Reference • Pension Board Annual Report • Review of Pension Committee Reports
21 April 2021	• tPR Checklist review & focus areas • Training Update Report • Administration Report • Breaches Log • Cyber Scorecard • Terms of Reference • Review of Pension Committee Reports
28 July 2021	• tPR Checklist review & focus areas • Training Update Report • Administration Report • Breaches Log • Cyber Scorecard • Review of Pension Committee Reports
3 November 2021	• Administration Report and regulatory update • tPR Checklist review & focus areas • Training Update Report • PB Code of Practice • Breaches Log • Cyber Security • Operating Procedures • Review of Pension Committee Reports

The Future workplan of the Board is set out below.

Meetings	Specific topics
26 January 2022	• TPR Checklist review & focus areas • Training Update Report • Administration Report • Draft PB Annual Report • Breaches Log • Review of Pension Committee Reports
4 May 2022 (TBC)	• Administration Report • TPR Checklist review & focus areas • Data Cleansing Plan/Update • Training Update Report • Breaches Log • Review of Pension Committee Reports
20 July 2022 (TBC)	• Administration Report • TPR Checklist review & focus areas • Training Update Report • Breaches Log • Review of Pension Committee Reports
9 November 2022 (TBC)	• Administration Report • TPR Checklist review & focus areas • Single Code Update • Training Update Report • Breaches Log • Review of Pension Committee Reports
29 April 2023 (TBC)	• Administration Report • TPR Checklist review & focus areas • Training Update Report • Breaches Log • Review of Pension Committee Reports

9 Expenses

The Board incurred expenses of £770 in relation to its operations in 2021. (This does not include the standard governance support fees)

Pension Fund Risk Management Policy

Committee	Pension Committee
Officer Reporting	James Lake, Finance
Papers with this report	Revised Risk Management Policy

HEADLINES

The Risk Management Policy for the Pension Fund was approved at Pensions Committee on 15 June 2016 and amended on 30 March 2019. This policy has been revised in line with the three-yearly review schedule and is now submitted for the Committee's review and approval.

RECOMMENDATIONS

That the Pensions Committee approve the revised Risk Management Policy.

SUPPORTING INFORMATION

The Risk Management Policy sets out the aims and objectives of the Administering Authority in relation to the management of risk; explains the regulatory context within which the policy has been developed; and sets out the Pension Fund risk management process.

The risk register has been established as an integral tool to management decisions with review and discussion every quarter at Pensions Committee. There are currently twelve risks being reported within the Risk Register, but these constantly evolve and change based on the risk management cycle.

Whilst there are many more risks which could be identified for the Fund, those identified are the most significant and those which are actively managed.

In line with the three-year policy review frequency, the Risk Management Policy has been updated to reflect the current process and structures and is presented for Pension Committee approval.

FINANCIAL IMPLICATIONS

The financial implications are reported within the Risk Register.

LEGAL IMPLICATIONS

There are no legal implications in the report.

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London Borough of Hillingdon Pension Fund

Risk Management Policy

Risk Management Policy

Introduction

This is the Risk Management Policy of the London Borough of Hillingdon Pension Fund ("the Fund"), part of the Local Government Pension Scheme ("LGPS") managed and administered by London Borough of Hillingdon ("the Administering Authority"). The Risk Management Policy details the risk management strategy for the Fund, including:

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the Fund's risk management process
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Administering Authority can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance of the Fund at a strategic and operational level.

To whom this Policy Applies

This Risk Management Policy applies to all members of the Pension Committee and the local Pension Board, including both scheme member and employer representatives. It also applies to senior officers involved in the management of the Fund.

Less senior officers involved in the daily management of the Fund are also integral to managing risk for the Fund, and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Head of Finance – Statutory Accounting and Pension Fund.

Advisers and suppliers to the Fund are also expected to be aware of this Policy and assist officers, Committee members and Board members as required, in meeting the objectives of this Policy.

Aims and Objectives

In relation to understanding and monitoring risk, the Administering Authority aims to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Fund, the Administering Authority will aim to comply with:

- the CIPFA publication, “Managing Risk in the Local Government Pension Scheme”
- the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes as they relate to managing risk.

Risk Management Philosophy

The Administering Authority recognises that it is not possible or even desirable to eliminate all risks. Accepting and actively managing risk is therefore a key part of the risk management strategy for the Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund’s objectives in the light of the Administering Authority's risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, the Administering Authority will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained
- adopt a system that will enable the Fund to anticipate and respond positively to change
- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided
- make sure that any new areas of activity (new investment strategies, joint-working, framework agreements etc.), are only undertaken if the risks they present are fully understood and taken into account in making decisions.

The Administering Authority also recognises that risk management is not an end in itself; nor will it remove risk from the Fund or the Administering Authority. However, it is a sound management technique that is an essential part of the Administering Authority's stewardship of the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

<u>CIPFA and The Pensions Regulator's Requirements</u>

CIPFA: Managing Risk in the Local Government Pension Scheme

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

The Pension Regulator's Code of Practice

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 relating to the requirement to have internal controls in public service pension schemes.

> *“**249B Requirement for internal controls: public service pension schemes***
>
> *(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*
>
> > *(a) in accordance with the scheme rules, and*
> >
> > *(b) in accordance with the requirements of the law.*

(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.

(3) In this section, "enactment" and "internal controls" have the same meanings as in section 249A."

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which they encourage scheme managers (i.e. administering authorities in the LGPS) to employ a risk based approach to assessing the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator's code of practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register, which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

The code of practice goes on to say that schemes should consider the likelihood of risks arising and the effect if they do arise when determining the order of priority for managing risks, and focus on those areas where the impact and likelihood of a risk materialising is high. Schemes should then consider what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them. The code of practice includes the following examples as issues which schemes should consider when designing internal controls to manage risks:

- how the control is to be implemented and the skills of the person performing the control
- the level of reliance that can be placed on information technology solutions where processes are automated
- whether a control is capable of preventing future recurrence or merely detecting an event that has already happened
- the frequency and timeliness of a control process
- how the control will ensure that data are managed securely, and
- the process for flagging errors or control failures, and approval and authorisation controls.

The code states that risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

Application to the London Borough of Hillingdon Pension Fund

The Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to the Fund. This Risk Policy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

Responsibility

The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the "Head of Finance – Statutory Accounting and Pension Fund" is the designated individual for ensuring the process outlined below is carried out, subject to the oversight of the Pension Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

The London Borough of Hillingdon Pension Fund Risk Management Process

The Administering Authority's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections:

1. Risk Identification

The risk identification process is both a proactive and reactive one: looking forward i.e. horizon scanning for potential risks, and looking back, by learning lessons from reviewing how previous decisions and existing processes have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Pension Committee
- performance measurement against agreed objectives
- findings of internal and external audit and other adviser reports
- feedback from the local Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Fund
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

2. Risk Analysis & Evaluation

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating, as illustrated in the table below.

		Risk rating	Risk rating	Risk rating	Risk rating
LIKELIHOOD	**Very High (A)** This week	**A4**	**A3**	**A2**	**A1**
	High (B) This month	**B4**	**B3**	**B2**	**B1**
	Significant (C) This year	**C4**	**C3**	**C2**	**C1**
	Medium (D) Next year	**D4**	**D3**	**D2**	**D1**
	Low (E) Next 5 years	**E4**	**E3**	**E2**	**E1**
	Very Low (F) Next 10 years	**F4**	**F3**	**F2**	**F1**
		Small (4)	**Medium (3)**	**Large (2)**	**Very Large (1)**
		IMPACT: Financial or Reputation			
		up to £500k	Between £500k and £10m	Between £10m and £50m	Over £50m
		Minor complaint, no media interest	One off local media interest	Adverse national media interest or sustained local interest	Ministerial intervention, public inquiry, remembered for years

When considering the risk rating, the Administering Authority will have regard to the existing controls in place and these will be summarised on the risk register.

3. Risk Control and Response

The Head of Finance – Statutory Accounting and Pension Fund will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pension Committee approval may be required where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- **Tolerate** – the exposure of a risk may be tolerable without any further action being taken; this is partially driven by the Administering Authority's risk 'appetite' in relation to the Pension Fund;
- **Treat** – action is taken to constrain the risk to an acceptable level;
- **Terminate** – some risks will only be treatable, or containable to acceptable levels, by terminating the activity;
- **Transfer** - for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action.

The Fund has a cautious risk appetite, particularly in relation to investment, reflecting the Fund's preference for safe delivery options that have a low degree of residual risk with a strong control framework in place for investment operations. The Fund will take risks that have been carefully considered and where controls have been implemented to reduce the likelihood of a risk materialising or the impact if one did materialise. This means that the Fund puts processes and systems in place that ensure achievement of planned outcomes, although controls would not be put in place where the cost of these exceeds the value of the expected benefits.

4. Risk Monitoring & Review

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Pension Committee. In monitoring risk management activity, the Committee will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- there are any lessons to be learned for the future assessment and management of risks.

5. Risk Reporting

Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to the internal controls, will be provided to the Pension Committee.

The Pension Committee will be provided with updates on a quarterly basis in relation to any changes to risks and any newly identified risks.

As a matter of course, the local Pension Board will be provided with the same information as is provided to the Pension Committee and they will be able to provide comment and input to the management of risks.

In order to identify whether the objectives of this policy are being met, the Administering Authority will review the delivery of the requirements of this Policy taking into consideration any feedback from the local Pension Board.

The risks identified are of significant importance to the Pension Fund. Where a risk is identified that could be of significance to the Council it would be included in either the Finance Group Register or the Corporate Risk Register.

Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pension Committee will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day-to-day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pension Committee and/or local Pension Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources are available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately

Costs

All costs related to this Risk Policy are met directly by the Fund.

Approval, Review and Consultation

This Risk Policy was approved at the London Borough of Hillingdon Pension Committee meeting on 15 June 2016 and last amended on 30 March 2022. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

Further Information

If you require further information about anything in or related to this Risk Policy, please contact:

James Lake; Head of Finance – Statutory Accounting and Pension Fund; London Borough ofHillingdon Civic Centre; High Street; Uxbridge; Middlesex; UB8 1UW
Email: JLake@hillingdon.gov.uk

Further information on the London Borough of Hillingdon Pension Fund can be found @:
https://www.hillingdon.gov.uk/pensions

STRICTLY NOT FOR PUBLICATION
Exempt information by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

Agenda Item 12

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Agenda Item 13

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Exempt information by virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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