



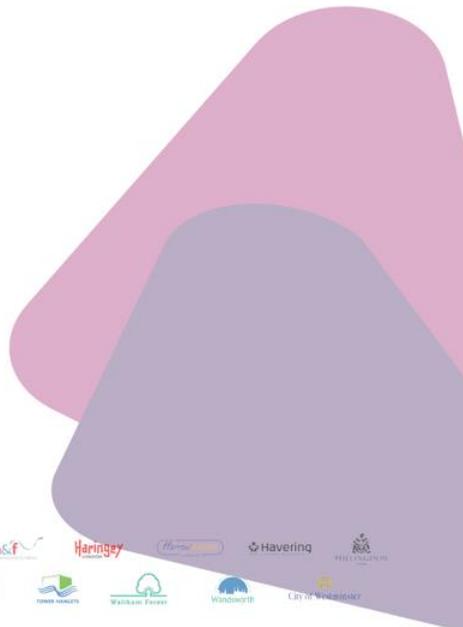
London
CIV

**Responsible
Investment
Policy
2022**



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Introduction

About London CIV

The London LGPS CIV Limited ([London CIV](#)) was authorised in 2015 to provide pooling solutions to the 32 Local Government Pension Scheme (LGPS) Funds (“the Client Funds”) in London valued at £44bn (3/21) collectively. As of 31 December 2021, the total pooled assets were £27bn, split between £14bn active investments and £13bn in passive investments managed by Legal & General Investment Management and Blackrock but invested following fee negotiations conducted by London CIV on behalf of Client Funds.

Our clients are also our shareholders and we work collaboratively to deliver our agreed purpose which is: “To be the LGPS pool for London to enable the London Local Authorities to achieve their pooling requirements”.



We would like to acknowledge the continued support from our Clients on responsible investment, stewardship and climate change. Our shared commitment to minimising the financial and social risks of ESG factors enables us to generate sustainable returns and drive change together.

Investment Principles

London CIV Statement of Investment Beliefs

Our Investment Beliefs direct our investment practices in alignment with London CIV's purpose and vision, specifically to collaborate with Client Funds and help them achieve their pooling requirements and deliver value for Londoners through long-term and sustainable investment strategies.

The Beliefs help us define how we create value for Client Funds in the context of future uncertainty, risk and opportunity. They also help us make practical decisions about the suitability of investment strategies, selection and monitoring of investment managers and pooled funds, performance objectives and the integration of best practice in sustainable investment and active ownership.

Recognising how important all stakeholders are in translating beliefs into practice, we have worked together to develop the Investment Beliefs and ensure they are aligned to our cultural values. Working with external investment managers to achieve delivery of these Beliefs is central to our role.

1. Long term investors earn better returns net of costs.
2. Careful calibration of risk against objectives, together with robust risk management, leads to better risk-adjusted returns.
3. Responsible Investment improves outcomes, mitigates risks and creates opportunities through:
 - a. Good corporate governance
 - b. Active stewardship and collective engagement
 - c. Effective management of climate change risk
 - d. Promoting diversity and inclusion
4. Providing value for money is critical and it is essential to manage fees and costs.
5. Collaboration, clear objectives, robust research and evidence-based decision-making adds value.
6. Targeting opportunities across the public and private asset markets is aligned to the needs of Client Funds.

Policy Purpose

The purpose of the Responsible Investment Policy ("the Policy") is to detail the framework governing London CIV's Responsible Investment approach. The policy structures our overarching responsible investment process and provides a reference point for the mechanisms in place to manage ESG risks and opportunities throughout our investment process. This policy should be read in conjunction with our [Climate Policy](#), [Stewardship Policy](#) and Voting Guidelines for specific area guidance.

This document is written for London CIV's stakeholders including our clients, members of staff, and underlying fund managers. This policy was approved by the Investment Oversight Committee (IOC). London CIV's Responsible Investment team is responsible for the implementation and maintenance of this policy.

Our Approach

London CIV believe responsible investment is not only a **moral imperative** but an **economic necessity**. We believe that in order to safeguard the interest of our clients and members, we must acknowledge that climate-related risks and broader ESG factors are a source of financial risk. We strive to integrate ESG considerations into our investment decisions and active ownership and support a data-led and transparent process. Our vision is to be a best-in-class asset pool that delivers value for Londoners through long-term sustainable investment strategies. London CIV further define ESG factors as the following:

- **Environmental** - Issues related to the conservation of the natural world and ecosystems, namely: carbon emissions and climate crisis, pollution of air and water, biodiversity, deforestation, energy efficiency, waste management, and water risks.
- **Social** - Issues related to people and the society, such as: human rights, inequality, human capital management, digitalisation, health and wellbeing.
- **Governance** - Issues related to standards for running a company, such as: tax, board composition, diversity and inclusion, remuneration, cyber security, anti-bribery, and corruption.

London CIV’s responsible investment approach is pinpointed by three key steps.



1. Integration

We believe that by integrating responsible investment into investment decisions and our product designs, we can mitigate potential ESG risks and enhance portfolio resilience. We seek to design products that most importantly meet our duty of care by delivering the right risk-adjusted returns but can also deliver positive climate and social benefits. Integration of ESG considerations is introduced during the product development process to ensure ESG risk is factored in at both the product and portfolio level. ESG questionnaires are sent to managers before the selection process where the approach of the manager and their own corporate governance are assessed to indicate how advanced the manager’s approach to ESG integration is. Due diligence meetings are conducted prior to appointment and quarterly meetings are held once managers have been selected as detailed in our Stewardship Policy.

2. Engagement

We expect companies in our portfolio to demonstrate their resilience against climate change and their responsibility for social considerations in their value chain. As a member of Local Authority Pension Fund Forum (“LAPFF”), London CIV works with our fund managers to ensure that they

exercise our rights in line with our responsible investment and engagement policies and in accordance with LAPFF guidelines. To further strengthen our voting and engagement process, we work with our voting and engagement partner Hermes EOS (EOS) to use our shareholder rights to maximise shareholder value. Our strategy is engagement over exclusion, we believe rather than excluding companies and sectors which are deemed problematic, we can use our influence to improve a company’s ESG performance. We have introduced an escalation strategy as detailed in our Stewardship Policy.

3. Disclosure

London CIV have developed and implemented a robust monitoring and accountability mechanism to enhance transparency and reporting quality. We believe accurate and timely ESG disclosure is central to the effective implementation of commitments set out in this policy. London CIV is currently reporting on the following:

ESG Disclosures	Frequency
Quarterly Investment Reports ¹ - ESG commentaries, voting and climate metrics at fund level	Quarterly
Stewardship Outcomes Report	Annually
TCFD Report	Annually
SRD II	Annually
UN PRI	Annually

Asset class considerations

Our responsible investment responsibilities extend to all funds held by London CIV. We recognise asset classes such as private markets and infrastructure can be more challenging due to limitation in ESG data and access. Recognising this, we have tailored our approach to each asset class which is detailed in our Stewardship Policy.

Stewardship

London CIV take a collaborative and collective approach to stewardship through engagement with investment managers, companies, regulators, peers, and market participants. We believe active ownership is a vital mechanism in managing risk and maximising triple bottom line (investment, social and environmental outcomes) returns. We have published our [Stewardship Policy \[Link\]](#) which details of our active stewardship approach. Our Stewardship Policy is designed to govern our approach to setting stewardship priorities and use of active ownership to drive real-world outcomes at scale. This policy is intended to inform our managers and suppliers about our main concerns and expectations across all ESG factors. As a signatory of the FRC’s UK Stewardship Code and the UN PRI we are committed to following guidance of best stewardship practices. Our stewardship approach is summarised below:

1. Prioritisation

We believe we must prioritise stewardship themes that are the most material to our portfolio while acknowledging emerging themes. We identify and prioritise our key stewardship themes in five ways:

¹ Report is only available to investors of each fund

1. Identifying **global drivers** including macro risks, policy and regulation as well as stakeholder priorities.
2. Assessing **company drivers** unique to London CIV including asset specific risk, client priorities, our holdings and investments as well as where we can have influence.
3. Recognising **social materiality** in terms of which issues will have the biggest impact on the world around us.
4. Calculating **financial materiality** in terms of which issues will have the biggest impact on our returns.
5. Responding **reactively** to unforeseen events after a specific and significant incident. Where an issue is prioritised based on our exposure and the probability of a successful outcome.

2. Implementation

As active stewards, we seek to utilise the rights and position of ownership to influence the activities and behaviour of investee companies. We believe voting and engagement practices are interlinked and feed into each other; one can be the initiator or the complementary tool of the other, both should be used as effective tools to support long-term value creation. We have published our **Voting Guidelines** [\[insert link\]](#) which encapsulates our position in key ESG themes. We work with Hermes EOS to consolidate and harmonise our voting activities and to ensure LAPFF alignment. For engagement, we take a collaborative approach which will be summarised in the next section.

3. Collaboration

We believe collaborating with other like-minded institutional investors and service providers is an effective way to pool knowledge and information as well as share costs and risks to influence corporate management. By working with our fund managers, companies, our voting and engagement manager, clients and peers we are able to:

1. **Build knowledge and skills:** through collective expertise on highly complex issues, enabling us to approach companies operating in challenging environments or covering a range of economic, regulatory, and cultural markets.
2. **Increase efficiency:** to avoid duplication of effort by sharing tasks and responsibilities.
3. **Enhance power and legitimacy:** through the collective reputation, size and weight of members which are difficult for companies to ignore

By engaging companies with a unified voice, we can more effectively communicate our concerns to corporate management. The result is typically a more informed and constructive dialogue.

Our Priorities

By utilising our prioritisation methodology highlighted in our **Stewardship Policy** London CIV have identified the below three key stewardship themes for engagement. These priorities were selected due to the financial impact these issues pose and the influence we believe we can have.

Climate Change

Due to the materiality of climate change risk, London CIV have a standalone **Climate Change Policy**, which details our objectives and expectations on companies. London CIV have also committed to become a net zero entity by 2040 in line with the Paris Agreement objectives to limit global

temperature rise below 1.5°C. In line with our ambition, we are committed to becoming a net zero company operationally as early as 2025. Addressing climate change is major part of our duty of care to clients and a strategic investment priority for London CIV. As all companies are subject to physical, transition risks or both, we expect all companies to report on climate change risks in line with the Task Force on Climate Related Financial Disclosures (“TCFD”) and at least disclose their carbon footprint. We calculate our own climate risk working with our partner S&P Trucost and support the Transition Pathway Initiative using both resources to engage with our material holdings.

Human Rights and Diversity & Inclusion

As institutional investors, London CIV have a responsibility to respect human rights as formalised by the UN and the Office of Enforcement and Compliance Assurance (“OECA”) in 2011. Increasing visibility and urgency around many human rights issues coupled with a better understanding of our role and responsibility in shaping real-world outcomes across our investment activities has increased expectations on the protection of human rights. Our approach to managing human rights issues applies to all our themes relating to people. We believe that by meeting international standards and preventing and mitigating actual and potentially negative outcomes for people leads to better financial risk management and helps to align activities with the evolving demands of beneficiaries, clients and regulators.

Under the same umbrella of People, Diversity and Inclusion is a basic component of human rights. It is an essential element of sound corporate governance, critical to a well-functioning organisation and needed to attract and retain a quality workforce. Companies with strong gender and ethnic diversity outperform peers when measured by return on equity and other traditional financial metrics. Diversity also helps to reduce company-specific risk in the long term, leading to a lower cost of capital. As a result of we expect companies to disclose information on diversity. We are a member of the Diversity Project, Asset Owners Diversity Working Group and Investor Alliance for Human Rights.

Tax and Cost Transparency

Rising inequality has increased scrutiny over tax and cost systems. London CIV promotes a fair and transparent approach as a way for corporations to contribute to the economies in which they operate and asset managers to demonstrate value for money. Tax avoidance has a serious knock-on effect on society as governments are less able to fund schools, hospitals and other vital public services. Pensioners also lose out from lower investment in services over their lifetimes. London CIV endorses the Cost Transparency Initiative (“CTI”) and believe that greater cost management and cost transparency will help our clients’ beneficiaries achieve a better income in retirement. Our managers are required to provide standardised cost and charges information which enables us to make clear cost comparisons across different investment platforms and challenge asset managers on cost and performance to seek better value for our clients.

Governance of this policy

This policy is developed by the Responsible Investment team and will be reviewed. The integration of ESG considerations in manager selection, monitoring and management is explicit in all roles within the Investment Team. Overall responsible investment development and operational accountability is led by the Head of Responsible Investment (“HRI”) who reports to the Chief Investment Officer (“CIO”) and is supported by two Responsible Investment Managers each responsible for Climate and Stewardship. This policy is recommended by the CIO. The development of this policy has been supported by key stakeholders specifically through the support of the Responsible Investment Reference Group (“RIRG”), membership of which includes representatives from Client Funds, London

CIV, and the appointed ESG Champion from the Board. The group meets monthly to discuss emerging ESG issues and priority areas.

Other Documents

Policy Framework

This document is the overarching policy which governs our:

- Voting Policy
- Stewardship Policy
- Climate Policy
- Investment Governance Document
- Investment Beliefs

Getting in Touch

If you have any questions or comments about this report please email Jacqueline Amy Jackson, Head of Responsible Investment at RI@LondonCIV.org.uk.

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Version Control

Date	Status	Summary of Change	Author
October 2018		Document created	
December 2020		To include information of reviews undertaken to implement the policy.	RI team
April 2022	Current	Restructured to include information from Stewardship Policy, Climate Policy and other RI documents.	RI Team