

Committee	Pensions Committee
Officer Reporting	Pete Carpenter, Finance Tunde Adekoya, Finance
Papers with report	Responsible Investment Policy

HEADLINES

This report is to enable the Pension Committee to approve the updated Responsible Investment Policy.

RECOMMENDATIONS

That the Committee:

1. Note and Approve Draft Responsible Investment Policy**SUPPORTING INFORMATION****Draft Responsible Investment Policy**

The Draft 2026 Responsible Investment Policy positions the Fund within a fully pooled investment structure, strengthens climate and stewardship commitments, introduces explicit exclusions and impact investing targets, and aligns the Fund with modern ESG frameworks including the UN SDGs and Net Zero pathways. This updated policy enhances transparency, strengthens governance, and supports long-term sustainable returns for members.

This report presents the updated Responsible Investment (RI) Policy (March 2026) for the London Borough of Hillingdon Pension Fund, outlining significant developments since the previous version from March 2023. The revised policy reflects the Fund's evolving governance arrangements, regulatory expectations, climate ambitions and the forthcoming transition to full investment pooling via the London Collective Investment Vehicle (LCIV). The LCIV have seen this updated policy.

Considerable work has been undertaken with Committee Members in January and February 2026 to come to this position.

Members were reminded of the following guidance set out in Section 5 of the draft Investment Strategy Statement Guidance Document issued in late 2025:

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5.1 AAs as public authorities are rightly expected to be particularly transparent with their approach to responsible investment and must maintain the highest standards in managing financial risk.

5.2 The ISS must set out the AA's approach to responsible investment. Responsible investment is a strategy and practice which seeks to ensure that environmental, social and governance (ESG) factors are taken into account in making decisions on investment strategy and that investor rights and influence are appropriately exercised.

5.3 For the purposes of the ISS, AAs should be as clear and succinct as possible, in setting out their objectives, priorities and preferences with respect to responsible investment.

5.4 The RI approach and priorities should be reviewed in every valuation period to ensure they remain relevant and up to date.

Key considerations

5.5 As set out in Chapter 2, in setting their investment strategy AAs should consider all factors, including ESG factors, that are financially material to performance of their investments and the impact of their investments. AAs may also take non-financial considerations into account provided that doing so would not involve risk of significant financial detriment to the fund, and where they have good reason to think that scheme members would support their decision.

5.6 In setting out their approach to responsible investment, AAs may include a preference for investments which have a positive impact as well as an acceptable financial return. AAs may also choose to indicate that a lower return on a limited proportion of their portfolio is acceptable in order to achieve ESG-related goals.

5.7 AAs should take account of the views of employer and member representatives on their approach to responsible investment, including through their local pension board. AAs should exercise caution against undue influence from campaign groups whose positions may not reflect the views of members or align with the fund's fiduciary responsibilities. The primary obligation remains to act in the best financial interests of the fund, ensuring that any consideration of member sentiment is balanced with long-term risk management and regulatory compliance.

5.8 As set out in Chapter 3, the role of the AA is to set the ISS, including the high-level objectives, but not to specify the individual holdings, managers or geographic zones of investment. The RI approach should not set exclusions for investments in individual countries, investment styles or companies.

Summary of Draft RI Policy March 2026

1. Transition to Full Asset Pooling:

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A major change in the 2026 policy is the confirmation that all Fund assets will transition to the London CIV by 31 March 2026, with the London CIV taking responsibility for implementing the Fund’s RI policy, including manager selection and stewardship activity. The Fund retains responsibility for setting the policy and high-level asset allocation.

2. Strengthened Climate Commitments:

The policy introduces formal climate-related commitments for the first time. The Fund supports Hillingdon Council’s Net Zero 2050 target, while the London CIV has committed to achieving Net Zero by 2040, providing a clear pathway for the Fund’s own climate objectives.

3. Introduction of Priority UN Sustainable Development Goals (SDGs):

The 2026 update embeds four priority SDGs to guide investment decision-making and stewardship activity:

- SDG 13: Climate Action
- SDG 8: Decent Work and Economic Growth
- SDG 3: Good Health and Wellbeing
- SDG 10: Reduced Inequalities

4. New Target for Impact Investments:

The policy introduces a target allocation of 5% of Fund assets to impact investments, defined as investments delivering measurable environmental or social benefits alongside financial returns.

5. Updated Approach to Stewardship and Engagement:

The 2026 policy significantly expands the stewardship framework, detailing:

- London CIV’s use of EOS at Federated Hermes for voting and engagement services.
- A structured four-stage engagement milestone system.
- A clear escalation process including collaborative action, public statements, and shareholder resolutions.

6. Controversial Weapons:

For the first time, the Fund will not invest in companies deriving revenues from the development of components used solely in controversial weapons.

7. Revised Governance, Monitoring and Reporting

The 2026 policy shifts monitoring responsibilities from individual external managers to LCIV, with LCIV providing an annual RI report to the Committee.

The table below provides a comparison between the 2023 and 2026 RI Policies

Theme	2023 RI Policy Position	2026 Draft RI Policy Position	Nature of Change
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Asset Pooling & Implementation	Assets invested through mix of external managers and LCIV, Fund responsible for manager oversight and implementation.	All Fund assets to transfer to LCIV by 31 March 2026 ; LCIV responsible for implementation of RI policy, selection of underlying managers and advice.	Major operational shift to full pooling; LCIV becomes implementation body.
Net Zero Commitments	No specific Net Zero target stated.	Fund supports Hillingdon Council's 2050 Net Zero target ; LCIV committed to 2040 Net Zero , enabling Fund compliance.	New climate commitments and alignment with LCIV timelines.
ESG Framework & Approach	Fund sets ESG expectations directly for managers; encourages PRI/Stewardship Code signatory status.	LCIV expected to ensure managers integrate ESG; expectations routed via LCIV. New detailed ESG belief structure.	Shift in operational responsibility from individual managers to LCIV.
SDGs	No reference to UN Sustainable Development Goals.	Four priority SDGs identified: SDG 13, SDG 8, SDG 3, SDG 10.	New SDG framework introduced.

FINANCIAL IMPLICATIONS

Continued training will incur fees dependant on the platform and events attended.

LEGAL IMPLICATIONS

Where applicable the legal implications are included within the body of the report.

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