

# London Borough of Hillingdon Responsible Investment Policy 2026

(Updated March 2026)



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## 1. INTRODUCTION

The London Borough of Hillingdon Pension Fund (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.

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 meet this overriding objective, the Fund will act in the best financial interests of its members. Instead of pursuing the highest possible investment return, it will consider all financial risks within its investment strategy, including Environmental, Social and Corporate Governance (ESG) and responsible investment risks and considerations.

The Fund's secondary investment objective is to ensure as far as possible that levels of employer contribution will be stabilised and maintained at reasonable levels and not impacted because of poor investment performance.

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 to achieve sustainable returns.

The Fund 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 Fund is a separate entity to the Council, and the Committee has delegated authority over the Fund. The Pensions Board has an oversight role in assisting 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 defines Responsible Investment ("RI") in line with the UN-backed Principle for Responsible Investing ("PRI"), which states that RI is an approach to investing that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

Given the Transfer of all Fund assets to the London Collective Investment Vehicle (London CIV) from the 31<sup>st</sup> of March 2026, and over time the reduction of investment vehicles available through the London CIV, the Fund will need to apply its RI policy to the funds available for it to use through the London CIV going forward.

### **Development of policy**

This Responsible Investment (RI) policy was initially developed through a working group consisting of three members of the Pensions Committee with support from officers who met several times to outline and develop the policy. Training on Responsible Investment and ESG has been provided for all Pensions Committee and Pension Board members. The policy has subsequently been reviewed and updated to ensure alignment to the UK Stewardship Code 2020.

The Fund has considered guidance and information from the Ministry of Housing, Communities and Local Government (MHCLG), the Local Government Association

(LGA), Scheme Advisory Board (SAB), Pensions UK, the Law Commission in establishing this policy and the UK Stewardship Code.

An initial draft of this policy was reviewed by the Pensions Board prior to its approval by the Pensions Committee on 29 January 2019. The policy was subsequently reviewed and updated in May 2021, March 2023 and March 2026.

This Policy has been written in accordance with the (draft) Local Government Pension Scheme (England and Wales) 2026 guidance on preparing and maintaining an investment strategy.

### **Compatibility with other policies**

This Responsible Investment policy is aligned with the Fund's Investment Strategy Statement where a brief overview on ESG and voting is included. In addition, the policy is aligned with the Fund's Funding Strategy Statement with consistency of objectives and return expectations to support the funding level.

The Fund fully supports the principles of the UK Stewardship Code and expects LCIV and its underlying investment managers to abide by the code.

### **Policy Scope**

This policy is applicable to all investment activities of the Hillingdon Pension Fund.

### **How We Invest**

The Fund's primary objective is to provide pension and other benefits to members and their dependents on their retirement and/or death on a defined benefits basis. To meet this primary objective, the Fund invests in a diversified range of asset classes in order to maximise investment returns whilst keeping risk at an acceptable level.

The Fund invests in public market investments (such as equities, corporate bonds and government bonds), and in private market investments such as property and infrastructure. From April 2026, all assets will be managed by the Fund's chosen investment pool (London CIV). Whilst the Fund retains responsibility for setting the high-level strategic asset allocation, the London CIV will be responsible for its implementation including selecting Investment Managers. The Fund collaborates closely with the London CIV to ensure that its wishes and the needs of its members are clearly communicated. Post April 2026 the Fund will retain responsibility for its own Responsible Investment (RI) Policy, and the London CIV will be responsible for its implementation. The Fund will work closely with the London CIV to seek to reflect this policy in its investments.

### **Risks**

There are several risks associated with this RI policy, including implementation of this strategy. The Fund is reliant on third parties to comply with its policies and for the LCIV to provide sub funds consistent with this policy. The Fund is reliant on the LCIV and its underlying external investment managers to integrate the policy into pooled funds and balance the views of other investors who may have conflicting policies. Risks will be mitigated through the LCIV and reporting of ESG activity.

## **Compliance**

Compliance of the Fund's activity with this policy will be reported annually in the Pension Fund Annual report. LCIV will provide an annual RI report to the Committee.

## **Responsibilities and Governance**

The London Borough of Hillingdon Pensions 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 Pensions Board in meeting its obligations in this respect.

The Committee meets quarterly and regularly reviews asset allocations and investment policies with officers and external advisers. Periodically, investment goals and strategy are considered and revised as appropriate.

The Local Pensions Board has an oversight role in assisting the administering authority in securing compliance with regulations and policies that apply to the Fund.

The Pensions Board meets quarterly to review the Pensions Committee reports that will include reports relating to compliance with this Responsible Investment Policy.

In future Officers will maintain a rolling programme of review and due diligence on LCIV and report the results of their work to the Committee.

In considering the performance of investments and possible changes/improvements which could be made, the Committee always takes account of initial and recurring fund costs and fees. ESG considerations and financial risk are considered in all investment decisions.

The Fund pursues a policy of transparency and accountability to its stakeholders for the effective management of the Fund and its investment portfolio.

## **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.

## **2. INVESTMENT OBJECTIVES, ESG BELIEFS & APPROACH**

### **2.1 Investment Objectives**

The Fund's primary 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.

Investment risks should be considered in the context of reasonable expectations of investment reward. Every effort must be made to ensure that risk and reward are considered jointly, and risks are sufficiently rewarded.

The Fund will ensure adequate liquidity is available within the portfolio to meet its obligations as and when they fall due.

The Fund will ensure as far as possible that levels of employer contributions will be stabilised and maintained at reasonable levels and not impacted on because of poor investment performance.

Investments will contribute as part of the Funding Strategy for the Fund to be fully funded over the long term.

The Fund will take proper advice on all investment decisions, from April 2026 LCIV will provide this advice

### **3. ESG Beliefs**

The Committee has formulated a set of ESG beliefs to help underpin overall investment decision making. These are revised on a regular basis to ensure they remain appropriate. The Committee's ESG beliefs have been summarised below.

#### **3.1 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.

#### **3.2 Approach/Framework**

4. The Committee expects investment managers appointed by the London CIV to integrate ESG considerations into their investment process and in their stewardship activities and seeks to understand how they do so. When considering new investment allocations, the London CIV should look favourably on investment managers who are able to demonstrate a plan to transition to net zero.
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, through the London CIV, will consider allocating to these opportunities where there is clear financial rationale for doing so.

#### **3.3 Voting & Engagement**

6. ESG factors are relevant to all asset classes, whether liquid or illiquid investments, and investment 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. The Committee expects the London CIV to agree to a set of stewardship priorities with the appointed investment managers and review these on an annual basis.
8. The Committee believes that engage is more effective to initiate change than divesting and so will seek to communicate key ESG actions to LCIV in the first instance. Divestment will be considered on a pragmatic basis if the engagement with the investment manager has

not produced positive results.

### **3.4 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.

### **3.5 Collaboration**

12. LCIV and the underlying 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 look to maintain current standards and seek to sign up to further recognised ESG framework/s or initiatives to collaborate with other investors on key issues as appropriate.

### **3.6 ESG Approach**

The Fund believes in a policy of long-term investment 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 LCIV and the underlying investment managers 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). 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 the Fund expects LCIV to encourage them to do so. We expect LCIV not to make new investments into managers who are not signatories to the UK Stewardship Code and PRI, or other similar regional initiatives, with clear rationale for doing so if not.

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 LCIV and its investment managers to divest from companies for any reason including ESG reasons.

The Fund will consider UK foreign policy or UK defence policy when making investment decisions.

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 LCIV 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 LCIV 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 investment managers and corporate management teams.

Sustainable investment policies should provide:

- Maintainable, competitive and risk adjusted returns
- Avoidance of harm and mitigation of ESG risks
- Demonstrable benefits to all stakeholders

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 consider in balance all financial and non-financial considerations. The Committee’s position is indicated on the spectrum chart below.

	Traditional ESG factors not considered.	Fully Delegated "Light Touch" Approach	Values-based/ Exclusionary/ Ethical Investing	Sustainable Investing "Integrated Approach"	Impact Investing	Impact Only/ Philanthropic Investing
ESG Impact						
Financial Impact		Focus on delivering long-term returns				Below market returns
Objectives				ESG risks managed		
					Pursues positive ESG outcomes	
Governance Requirements					Seeks specific ESG targets	
		Regular training to review ESG beliefs, set objectives and integrate ESG policy				
		Manager monitoring and engagement	ESG Reporting	ESG targets set and impact measured		
		Review of strategy and allocation to funds aligned with ESG policy				

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## **4. RESPONSIBLE INVESTMENT FRAMEWORK**

**4.1** This RI framework provides the investment beliefs and objectives as the starting point to deliver RI and stewardship for the Fund.

In making investment decisions, the Fund seeks and receives proper advice from specialist investment advisers. From April 2026 this advice will be provided by LCIV. The Fund requires the London CIV to undertake appropriate monitoring of current investments regarding their policies and practices on all issues which could present a material financial risk to the long-term performance of the Fund such as, but not limited to, corporate governance, social and environmental factors.

The Fund regularly appraises the ESG credentials and performance of LCIV to ensure that its ESG principles are properly reflected within the investment portfolio. The Fund expects its LCIV's underlying investment managers to integrate material ESG factors within its investment analysis and decision making.

### **4.2 Net Zero Target**

Hillingdon Council has set a Net Zero Target of 2050, consistent with UK government policy. The Fund supports this ambition and target.

London CIV has 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. LCIV achieving this target will ensure the Fund achieves its own target of 2050.

### **4.3 RESPONSIBLE INVESTMENT IMPLEMENTATION**

Pension Committee and Pension Board members have received and will continue to receive training and education in ESG matters including climate, governance and other risks, 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 material.

ESG will be considered in all investment decisions and will be incorporated as part of Investment Strategy decisions.

The Fund will ensure LCIV's ESG integration policies are in line with Fund expectations and beliefs and LCIV will report on ESG factor management to the Fund regularly. Delegation of day-to-day ESG integration of investments is given to LCIV's underlying investment managers who are expected to have closer knowledge of companies under investment and board activity. However, the Committee, with the support from its officers and LCIV, will undertake annual reviews of LCIV's 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 LCIV'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 LCIV's underlying investment managers where Fund stakeholders may have ESG concerns, to fully understand the risk profile of investment.

The Fund RI policy will be formally reviewed and updated annually. The Committee's ESG beliefs will be formerly reviewed biennially or more frequently if required, 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 LCIV. 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 the best practice approach.



The Fund is maintaining a regular dialogue with senior management of LCIV to ensure that its Investment beliefs and policies are considered and as much as possible accommodated by LCIV and its underlying investment 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 to properly acquit these responsibilities including implementation of ESG policies and stewardship of assets.

## **5. ENGAGEMENT AND ACTIVE OWNERSHIP**

**5.1** The Fund, through its participation in 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 partnerships to magnify the voice and maximise the influence of investors as owners. The Fund expects LCIV 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, LCIV's underlying 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 LCIV to make their opinion known and ask for such to be presented at meetings with the company or reflected in their voting pattern.

### **5.2 LCIV's Engagement and Escalation Process**

As a partner fund of the London CIV, the Fund delegates the implementation of its Responsible Investment (RI) policy to LCIV, while retaining responsibility for setting the policy itself. From April 2026, all Fund assets will be managed within the London CIV pool. The London CIV's approach is based on the belief that stewardship and active ownership are primary tools for delivering long-term sustainable returns and managing financially material risks. Engagement involves meaningful discussions with companies on a wide range of topics and offers the opportunity to influence corporate behaviour and bring about real-world change.

### **5.3 The Engagement Approach**

The Fund through London CIV employs a "stewardship first" philosophy, prioritising constructive engagement over immediate divestment. This approach is implemented by the London CIV through three primary channels:

- **Investment Managers:** London CIV selects and monitors external managers to ensure they integrate ESG factors into their investment processes and conduct active engagement with portfolio companies.
- **Stewardship Provider (EOS at Federated Hermes):** London CIV has appointed EOS to provide voting and engagement services for listed equities and corporate fixed income.
- **Collaborative Initiatives:** LCIV leverages the collective voice of multiple investors by

participating in groups such as the Local Authority Pension Fund Forum (LAPFF) and Climate Action 100+.

To track the effectiveness of these efforts, a four-stage milestone system is used through EOS to measure progress against specific objectives set for each company:

1. Milestone 1: The concern is raised with the company at the appropriate level.
2. Milestone 2: The company acknowledges the issue as a serious investor concern.
3. Milestone 3: The company develops a credible strategy or sets stretching targets to address the concern.
4. Milestone 4: The company implements the strategy or measures to address the concern.



### 5.4 Escalation Steps

If dialogue does not bring the desired outcomes after a defined period, or if a company is not open to constructive dialogue, various escalation strategies will be considered to trigger a corporate reaction. The approach taken will be proportionate and consistent with fiduciary duty.

Possible escalation steps include:

- **Manager Intervention:** Asking investment managers to take further action, such as writing directly to a particular Board member.
- **Collaborative Pressure:** Joining or leading collaborative groups to increase investor

pressure on a specific issue.

- **Direct Action:** Contacting the company directly to express concerns or make specific requests.
- **Public Statements:** Issuing a public statement or supporting media campaigns to highlight concerns.
- **Shareholder Resolutions:** Supporting, filing, or co-filing shareholder resolutions regarding ESG issues.
- **Voting Sanctions:** Using voting power to vote against the re-election of responsible directors (such as those on risk or audit committees), the board chair, or the annual financial report.

## **5.5 UN Sustainable Development Goals (SDGs)**

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

The Fund has identified several SDGs as relevant to the Fund and supportive of the Fund's responsible investment ambitions. The core principle underpinning the Fund's agreed approach is the desire for the Fund to be a long-term, sustainable investor. The following four SDGs have been selected as the Fund's priorities which have been grouped into three themes:

### **Environment**

- **SDG 13 - Climate Action** - this is reflected as an overarching theme relevant to the Fund and has a dedicated section within the Responsible Investment policy.

### **Economic**

- **SDG 8 - Economic Growth** - economic growth can lead to positive investment opportunities along with an opportunity to reduce inequalities and poverty. This has both local and global relevance.

### **Social**

- **SDG 3 - Good Health and Wellbeing** - the recent COVID-19 pandemic reinforces the need for communities to invest in the health and wellbeing of their populations.
- **SDG 10 - Reduced Inequalities** - reducing inequality, and ensuring no-one is left behind, are integral to achieving the sustainable development goals. It is not sufficient for countries to record positive economic growth: the resultant benefits and opportunities must be available to all, regardless of gender,

ethnicity or any other characteristic. The Fund takes a proactive approach to human rights and diversity and inclusion across all aspects of the Fund's business.

The Fund notes that there is both local and global relevance to the SDGs, and that it is important to be mindful of the context in which investment opportunities are selected and the necessity of balancing the risk, return, and diversification characteristics of any decisions made.

The Fund will communicate the agreed priority SDGs to its investment managers through the London CIV, and will request that they have regard for, and provide evidence of having considered, the SDGs in their selection, retention, and realisation of underlying investments.

The full set of 17 SDG's are included in the Appendix.

### **5.6 Committee's Ambition**

The Fund will seek investment opportunities that have a real-world positive impact, alongside generating suitable investment returns. The Fund has a target allocation of 5% to impact investments. Impact Investing can be defined as "Investments made with the intention to generate positive, measurable social and environmental impact alongside financial return".

### **5.7 Exclusions**

LCIV have adopted a 'Three Pillar' approach to how exclusions are managed for partner funds. Each 'Pillar' has a different degree of exclusions. The approach is still being refined and is illustrated below.

	Pillar 1	Pillar 2	Pillar 3
Exclusions / Restrictions	<b>Controversial weapons</b> (includes incendiary weapons, cluster munitions, anti-personnel mines, biological and chemical weapons, blinding laser weapons and depleted uranium weapons) (0% revenue exclusion)	<b>Restrictions from Pillar 1</b>	<b>Restrictions from Pillar 2</b>
	<b>Non-conventional fossil fuel extraction</b> (5% revenue exclusion)	<b>Controversial areas</b> (includes adult entertainment, gambling, tobacco, and predatory lending) (5% revenue exclusion threshold on each sector)	<b>Weapons</b> (5% revenue exclusion)
		<b>Companies breaching global norms and human rights standards</b>	<b>Companies officially listed by the UN as breaching human rights / international law in conflict zones</b>
Impact Programme	Potentially across public and private markets. This would be available to all regardless of their alignment with the above Pillars.		

The Fund prefers an engagement approach over divestment; however, the Fund does not want to invest in companies which profit from the supply of arms to vulnerable regions of the world. Therefore, the Fund will not invest in companies that derive revenue from the development of components intended solely to be used within, or in relation, to controversial weapons. Controversial weapons include incendiary weapons, cluster munitions, anti-personnel mines, biological and chemical weapons, blinding laser weapons and depleted uranium. The Fund will liaise with LCIV to ensure this aim is understood and, where appropriate and possible, is implemented via their Three Pillar approach.

**March 2026**

## 6. Appendix



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