London Borough of Southwark Pension Fund – Responsible Investment Policy

1. Policy Introduction

As a responsible investor, London Borough of Southwark Pension Fund ('the Fund' or 'us' or 'we') recognises that Environmental, Social and Governance ('ESG') factors are an important part of the investment decision making process. We strongly believe that integrating ESG factors into the investment philosophy and decision-making process will protect and improve the risk profile of the Fund's investments over the long term. The Fund also has its own climate strategy and goals, which are consistent with Southwark Council's target to become net-zero by 2030.

Through its investments, the Fund is looking to generate positive social and environmental impact within a framework of prudence and fiduciary duty. Ultimately, the Fund exists to pay the pensions of its members. However, managing ESG risks is an important contributor to the long-term financial health of the Fund.

In line with the above investment belief, this Responsible Investment Policy ('RI Policy' or 'the Policy') outlines how the Fund implements responsible investment strategies across the investment lifecycle.

The Policy outlines the strategy, governance and risk management framework in place to integrate climate change and wider ESG parameters into the investment decision making process and also covers operational aspects such as research, stewardship, advocacy and ongoing monitoring of ESG issues and its reporting.

The Policy has been made effective from April 2024. The Policy has been reviewed and agreed by the Fund's Pensions Advisory Panel ('PAP'). The Policy will be reviewed annually by officers and external investment advisers, and amended as required. All recommended changes will be approved by the PAP.

2. Policy Scope

The Fund invests globally through a range of asset classes, using different investment strategies to invest in multiple business sectors directly and indirectly. This means the Fund's investments are exposed to many different parts of the global economy. The Fund's strategic asset allocation is set out in the table below.

Asset class	**Strategic Benchmark %**
Global Equity	50.0
Multi-Asset Credit	10.0
Core/Direct Property	14.0
Property Funds	6.0
ESG Priority Allocation	10.0
Index Linked Gilts	10.0
Cash & Cash Equivalents	-
Total Fund	**100.0**

This Policy applies to all of the Fund's investment activities across all geographic locations and all asset classes; direct investments, and pooled funds; and all styles including active and passive investments, liquid and illiquid.

The Policy forms an integral part of the Fund's investment governance framework.

3. Responsible Investment beliefs

The Fund believes that investing in well-governed companies that manage ESG risks and opportunities - such as climate change, workforce rights, safety, diversity and inclusion, community initiatives - in their operations and supply chains, will enhance value for its stakeholders over the long term.

The Fund considers that responsible investment practices are entirely consistent with its twin objectives: first, to achieve sufficient long-term returns for the Fund to be affordable and second, to keep the employers' contribution rate as stable as possible.

The Fund recognises responsible investment as taking account of various ESG risks and opportunities at all stages in the investment decision making process from defining the Fund's Strategic Asset Allocation (SAA) through implementation via manager/investment selection and continued engagement and stewardship of Fund assets. Where possible, it is important that appointed managers incorporate climate change and wider ESG considerations into their decision making on asset selection, realisation, and retention.

The Fund will proactively exercise responsible stewardship of assets held and act as a responsible voice in the broader investment community through platforms such as the Local Authority Pension Fund Forum (LAPFF).

The Fund considers the impacts and opportunities provided by climate change on both a Fund and wider social level, and so has a commitment to meeting net-zero carbon emissions from pension fund investment by 2030.

The Fund will pursue innovative investment strategies to generate a positive social and environmental impact from its assets, including advancing the transition towards a net-zero carbon economy.

3.1 Climate Change

The Fund believes that climate change creates both investment risks and opportunities for the Fund's investments and there is a need to advocate for an orderly transition to a climate resilient economy.

The Fund is committed to achieving net-zero status across its investment portfolio by 2030. In a structured manner, the Fund will transition its current investments to reduced, low and zero carbon products to advance its objective and ultimately meet the net-zero target. The Fund has also committed to having no direct investments in companies with exposure to fossil fuels.

3.2 Other ESG considerations

ESG refers to a broad range of factors that individually or collectively influence the risk-return characteristics of the Fund's investments. As part of its investment decisions, the Fund will consider those factors that are material.

Environmental – in addition to climate change and the Fund's focus on reducing the carbon footprint of its portfolio in line with its 2030 net-zero strategy, the Fund will also consider other environmental aspects including, but not limited to: resource usage, waste and water management practices, biodiversity, and energy efficiency. These wider environmental parameters also need to be managed whilst taking advantage of new opportunities as the world transitions to a low carbon economy.

Social – the way in which companies and enterprises manage their operations with respect to employee diversity, labour market practices, health and safety, product liability and supply chain management including modern slavery and wider human rights, can be an investment risk.

Governance – Governance risks are a long-term threat to investor value and include such things as board composition, director incentives and general remuneration, transparency and accountability of senior management and ESG oversight. The Fund is a long-term member of the LAPFF, which promotes the highest standards of corporate governance to protect the long-term value of local authority pension funds. The Fund will look at good governance practices across such parameters for all asset classes, e.g. periodic disclosures, review of the RI policy, developing additional business policies and processes as required.

Through ongoing discussions, the Fund will periodically monitor how its investment managers are engaging with investee companies about all the ESG issues outlined above as part of the investment management process.

3.3 UN Principles for Responsible Investment

Proactively, where possible, the Fund will also consider the following principles laid out by UN Principles for Responsible Investment ('PRI') as part of its investment lifecycle:

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of PRI within the investment industry.
- Principle 5: We will work together with other members to enhance our effectiveness in implementing PRI.
- Principle 6: We will report on our activities and progress towards implementing PRI.

The Fund may provide support to, or endorse, other external organisations and commitments that further enhance its approach to responsible investment in the best long-term financial interests of its members.

4. Governance & Responsibilities

Southwark Council, as administering authority for the Southwark Pension Fund, has delegated responsibility for the management and decision making for the Fund to the Strategic Director of Resources ('S151 officer'). Overall decision making and governance of the Fund is a bipartite mutual responsibility between the Strategic Director of Resources and the Pensions Advisory Panel (PAP).

PAP is responsible for agreeing the Policy and for ensuring oversight, accountability and effective application of the Policy. The S151 officer considers advice from PAP whilst being responsible for all investment decision making, ongoing investment monitoring and risk management. The Local Pension Board ('LPB') will also review the suitability of, and compliance, with the Policy as part of its scrutiny function.

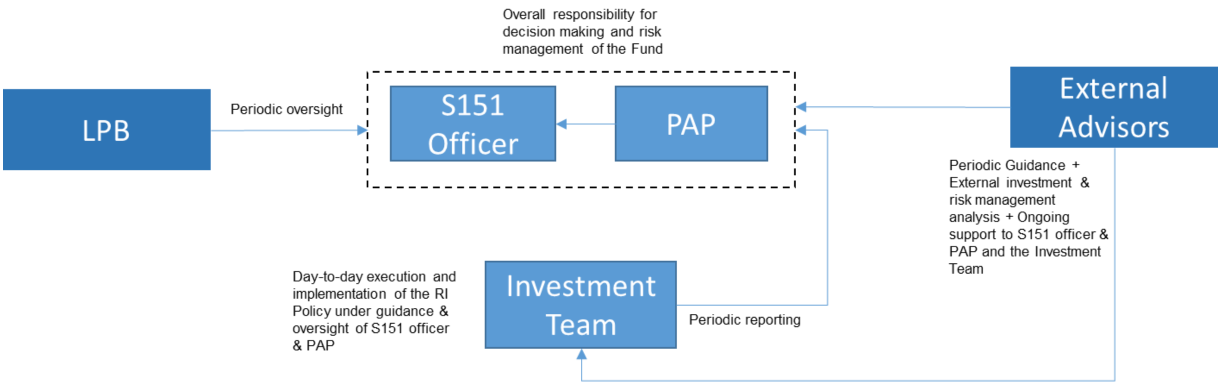
The responsibility for establishing the Policy lies with The Pension & Treasury Investments

Team (‘the Investments Team’), incorporating the advice of the Fund’s external investment advisers and considering various regulatory requirements.

The Investments Team is also responsible for implementation and ongoing monitoring of the Policy. Execution of investment mandates, including the stewardship activities, advocacy, monitoring and reporting of these investment mandates, has been delegated to external investment managers. The Investments Team is responsible for initial oversight of the external investment managers.

The Strategic Director of Resources and the PAP are ultimately responsible for the overall governance and oversight of external partners that the Investments Team work with.

Summary of the Governance and responsibilities of various internal and external stakeholders is captured below:



4.1 Internal Governance

Responsibilities for internal governance are as follows:

- PAP/Investments Team: Responsible for high-level assessment – is the investment policy working to meet the objectives expressed in the investment strategy?
- PAP: Responsible for overseeing and monitoring execution and implementation of this Policy, including any periodic revisions, as required
- Investments Team: Responsible for the development and implementation of the Policy throughout the investment lifecycle and effective risk management across the investment portfolios.
- ESG Manager/Investments Team: Responsible for ESG inputs and review across all stages of the investment process to ensure the Policy is effectively implemented by external investment managers The ESG manager/Investments Team also manage day-to-day aspects of the Policy, including ESG reporting, data collection, etc.

The Fund aims to integrate consideration of ESG issues throughout all aspects of the investment decision making process, including modelling and setting investment strategy and monitoring the Fund's investment managers. The PAP are supported in these aims through regular and ongoing input from, and engagement with, the investment advisors.

The PAP and Investments Team undertake periodic training on responsible investment to understand how ESG factors, including climate change, could impact the value of the Fund’s assets and liabilities and employer contribution rates.

4.2 Expectations and monitoring of Investment Managers

Responsible investment is a component of the Fund's investment manager selection and appointment process. The Fund will work with investment managers that have sound ESG practices (ESG disclosures, signatory to various ESG initiatives and standards, external assurance on ESG disclosures, etc.) or are actively developing/evolving their approach, which allows it to accommodate managers at different stages in their responsible investment journey.

Investment managers are appointed after a selection process in accordance with Southwark Council's procurement rules, applicable external regulations and alignment with the Fund's net-zero and wider ESG criteria. PAP makes recommendations to the Strategic Director of Resources on the appointment of new investment managers, after receiving appropriate advice from the Fund's investment advisers.

The majority of the Fund's investments are in pooled funds which have been chosen because they are a good match to the Fund's objectives, including the management of climate and other ESG risks. Where segregated mandates are in place with external managers, the Investment Management Agreement (IMA) details the specific requirements for responsible investment, including reporting and monitoring requirements.

The PAP expects the Fund's appointed fund managers to be transparent in their approach, including their approach to stewardship, how they integrate ESG into their investment decision making process and consideration of ESG matters in their own operations. The Fund will work with and encourage investment managers to be part of and adopt recommendations of and align with external initiatives such as the UNPRI, UK Stewardship Code, etc. After an investment manager has been selected, the Investments Team will continue to engage with the manager and periodically monitor the integration of ESG practices into their operations and the Fund investments.

In the event that any fund manager or service provider does not meet any of the expectations listed in this Policy, the Investment Team will engage with the respective stakeholders to encourage improvements in processes, transparency or activity as required. The PAP will consider appropriate inaction in case of failure of the investment manager to align with the Fund's ESG expectations over a recurring period of time.

4.3 Segregated Investments and Pooled Funds

Segregated mandates afford the Fund a greater level of control. They provide greater transparency and the ability to actively engage with both investment managers and the underlying companies on responsible investment.

Some investments can only be accommodated in pooled arrangements. Where possible, the Fund uses its influence to ensure the terms of the pooled vehicles are aligned to its needs and will seek to incorporate the Fund's approach to responsible investment in the governing documents.

5. Risk Management

The Fund follows a business risk management framework that includes ongoing assessment of climate and wider ESG-related risks. The Fund seeks to identify and assess such risks at Fund and asset level, where possible. The Fund uses the best available information from both internal and externally available resources to assess such climate and ESG-related risks to investment performance.

The ESG Manager/Investments Team are responsible for identifying and managing climate risks and wider ESG risks in the investments. They engage with Fund managers on an ongoing basis for this.

The ESG Manager/Investments Team discuss the risk assessment findings with PAP. PAP is responsible for providing a suitable framework and guidance to the ESG Manager/Investments Team to assess and challenge (where required) the identified risks and exposure in aggregate at the board level.

Through regular assessment and overview, the ESG Manager/Investments Team monitor ESG risks across its investment portfolio and take appropriate mitigation measures in consultation with the PAP and the Strategic Director of Resources in line with the Fund's wider risk framework and risk appetite across the material ESG risks indicators.

The LPB and external audit process provide a helpful oversight of the risk management processes implemented by the Fund. It provides an independent assessment of the risk management and oversight of the activities undertaken by the ESG manager/Investments Team and the PAP.

The PAP will continue to seek advice and information from its advisers on how to develop the Fund's approach to climate risk mitigation and management over time.

6. ESG Integration

Integration of responsible investment principles as outlined above is the structured inclusion of ESG considerations into financial analysis and decision making across the investment lifecycle. This enables ESG risks and opportunities to be identified and factored into the risk-return assessment for an investment.

The Fund believes this is most appropriate given the ongoing increase in size and diversification of the Fund's investments across the global economy. It enables the Fund to use its ownership interests in listed and unlisted companies to influence their behaviour.

The Fund's investment advisors highlight appropriate opportunities to invest in responsible investment strategies and the PAP will give due consideration to any proposals.

As part of each formal investment strategy review, the PAP will consider RI issues, including the merits of strategies which seek to generate not only positive financial returns, but also seek to make a wider positive impact on society.

6.1 Exclusions

Where appropriate, the Fund excludes particular companies, sectors or asset types which are not in line with the investment principles on climate change or the wider ESG parameters. Since 2016, the Fund has committed to having no direct investments in companies with exposure to fossil fuels, steps have been taken to adapt or replace mandates to enable the achievement of that goal.

Any proposed exclusions assessed in the best financial interests of stakeholders require approval by PAP. These circumstances include:

- If an investment is inappropriate to the extent that it may have a negative impact on the Fund's long-term investment return objective.
- If an investment is inappropriate to the extent that it may have a material negative impact on the Fund's reputation.
- If the investment would lead to contravention of international treaties or conventions.

- In cases where it is deemed not possible to influence a company through engagement or proxy voting.

The Fund will continue to engage in active discussions with the investment managers to exclude assets in sectors like oil & gas, mining or tobacco. As necessary, required approvals will be obtained to transition current investments in these potentially excluded categories to more ESG-focused investments.

6.2 Stewardship

The Fund seeks to influence the companies and assets in which it invests through engagement and voting. The purpose is to enhance long term value creation and minimise risks.

The Fund acknowledges the additional responsibility of its influence through ownership in multiple assets globally. The Fund engages with a broad range of stakeholders including its investment managers and indirectly with the listed and unlisted companies in which it invests through the investment managers.

The Fund employs a flexible approach to stakeholder dialogue. Engagement can be undertaken directly, in collaboration with other investors, or through external service providers. Engagement priorities and methods can depend on a variety of factors. These include the type of stakeholder, ability to influence, nature of the issue, geographic location of the companies or assets, size of holdings, asset class and weight in the portfolio.

In instances where engagement is considered to be unsuccessful the Fund will escalate the matter in accordance with the Funds' escalation process. The Fund expects that its investment managers will actively engage on responsible investment issues, with listed and unlisted companies or seek to influence the broader market, as appropriate for the Fund's net-zero and wider ESG considerations in-line with this Policy.

6.3 Proxy Voting

Voting at a company's annual general meeting is where the Fund can exercise its shareholder rights to influence and encourage better corporate business practices among its investee companies.

The Fund applies a consistent approach to voting at all company meetings in all markets globally for its directly held investments. The Fund has a governance process for vote decision making through investment delegations, annual strategy reviews and reporting.

Where possible, the Fund takes an active approach when voting on resolutions for companies and directly held global equities. In determining voting decisions, a variety of inputs are sought. In all cases, the Fund forms its voting decision based on the long-term financial interests of members and in line with the responsible investment principles. Guidance and recommendations of the LAPFF are also considered while engaging in direct voting or engaging with external investment managers for proxy voting purposes.

In various instances, the Fund's external investment managers also vote on the Fund's behalf. The PAP expects its managers to exercise the Fund's voting rights to the fullest extent possible. In such instances, the Investments Team regularly interacts with the external investment managers to ensure the voting is consistent and in-line with the Fund's internal guidelines.

The Investments Team reviews the stewardship activities of the investment managers on a periodic basis with input from the Fund's investment advisor and engages with managers as required.

6.4 Advocacy

The Fund undertakes advocacy with the aim to influence and promote a shift towards a sustainable financial system. The focus is primarily on influencing standards, guidelines and regulatory reform that support long-term value creation for our members' retirement. The Fund has a preference to undertake advocacy through collaboration with other stakeholders like LAPFF.

The Fund will monitor the advocacy activities of its member organisations and fund managers through participation on committees, board representation and through periodic reviews and consultations.

Advocacy can include a variety of activities including engagement with and submissions to government, regulators or other rule making bodies, commissioning and publishing research and industry wide campaigns.

6.5 Collaboration

The Fund recognises that, through collaboration with others, it can share knowledge and learnings and manage resources more effectively. The Fund will continue to collaborate with a wide range of stakeholders and market participants and also participate in various industry initiatives, networks and forums to improve management of systemic ESG risks and to advance its net-zero agenda.

The Fund is also fully committed to collaborating with other local authority partners including the London Collective Investment Vehicle (LCIV), LAPFF, and any other private or government body to advance impact in line with its responsible investment principles.

7. Monitoring & Disclosure

Since 2017, the Fund has been proactively disclosing the carbon footprint of its investments. The Fund will continue to take a leadership role on transparency and disclosure and will report its responsible investment activities, progress and outcomes to all stakeholders through the Fund's website and annual reports.

This includes information associated with the Fund's net-zero goal and material ESG parameters. Where required, the Fund's public disclosures will also be assured by external third parties.