

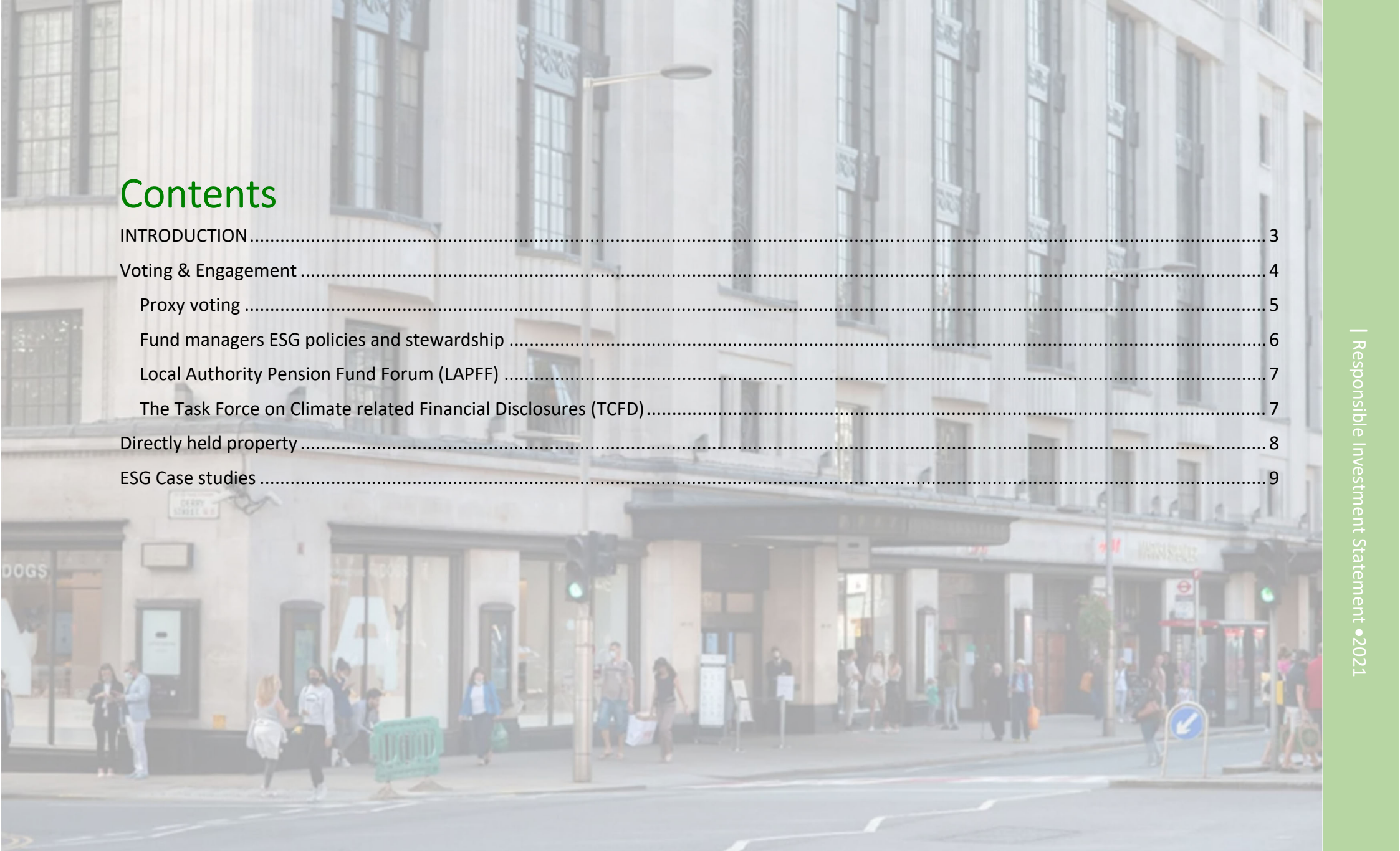
# Responsible Investment Statement

## Royal Borough of Kensington and Chelsea Pension Fund



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# INTRODUCTION

The UN Principles for Responsible Investment (PRI) defines responsible investment as ‘a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership’. As a responsible investor, the Royal Borough of Kensington and Chelsea Pension Fund (The Pension Fund), wishes to promote corporate social responsibility, good practice and improved performance in the managers through which it invests.

The Fund has a fiduciary duty to its beneficiaries and acknowledges that adverse publicity relating to low corporate, environmental or social standards can have an adverse impact on shareholder value, the Fund, its beneficiaries and local taxpayers. The Pension Fund recognises climate change as one of the world’s biggest challenges, alongside its administration authority, The Royal Borough of Kensington and Chelsea Council, which has declared a Climate Emergency and committed for the borough to be carbon neutral by 2040.

The Pension Fund has an important role to play in ensuring that the companies in which they invest are held to account and believes stakeholder engagement encourages corporate accountability and positive change. The Fund is of the belief that divestment reduces leverage with companies and makes it harder to influence positive change with no disincentive to the underlying negative behaviour with a divestment approach. Instead, effectiveness is improved by acting collectively, a view shared by the London Collective Investment Vehicle (London CIV), the central asset pool for London Borough pension funds.

The Pension Fund is invested within a diverse range of asset classes, including equities, pooled property, direct property and cash, each with a strategy to achieve corporate social responsibility. Fund managers within the portfolio typically hold positions in companies over the long term and it is therefore not in the best interests to hold shares in companies that we believe are harmful, either to the beneficiaries of the fund or to any of its stakeholders. The Council has a statutory duty to maintain the pension fund such that it has the means to pay the pensions of beneficiaries when they retire. Therefore, each pension fund investment proposal must be assessed and transacted on merit.

# Voting & Engagement



The Pension Fund expects equity fund managers to engage directly and collaboratively with companies and take a long-term perspective to add value to shareholders and deliver improved outcomes. The Investment Committee has delegated the Fund’s voting rights to its investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. Global equity fund managers utilise proxy votes on behalf of The Fund, with voting decisions based on Investment Stewardship principles. The Committee from time to time make specific voting instructions where appropriate.

The Fund believes it is in the interest of all stakeholders that companies build sustainable business models that are also beneficial to society but are mindful of ESG greenwashing that does not support long-term investing. The Fund therefore believes positive change can be achieved through conducting constructive and regular dialogue with companies, influencing through engagement, with voting utilised to hold management to account.

The Fund receives regular updates from each manager to report on what actions they are taking to steer companies away from unsustainable business models towards ones that will both protect the climate and the value of our investment in the long term and report on AGM voting.

*“WE BELIEVE THAT WE HAVE A WIDER ‘STEWARDSHIP’ ROLE TO PLAY IN ENCOURAGING RESPONSIBLE, LONG-TERM CAPITALISM. HOW COMPANIES APPROACH GOVERNANCE ISSUES CAN HAVE A VERY MATERIAL IMPACT ON SOCIETY, AND WE SHOULD CONTINUE TO USE OUR INFLUENCE TO ENCOURAGE SUSTAINABLE PRACTICES”*

*Baillie Gifford – Governance & Sustainability 2020 principles and guidelines*

*“OUR INVESTMENT PROCESS INCLUDES AN ASSESSMENT OF HOW WELL COMPANIES INCORPORATE RELEVANT ESG FACTORS INTO THEIR EVERYDAY THINKING. WE ENGAGE DIRECTLY AND COLLABORATIVELY WITH COMPANIES TO HIGHLIGHT KEY CHALLENGES AND OPPORTUNITIES, AND SUPPORT STRATEGIES THAT CAN DELIVER LONG-TERM SUCCESS”*

*LGIM Q2 2021ESG Impact Report*

## Proxy voting

Global equity fund managers utilise proxy votes on behalf of The Fund. As a responsible investor, the Pension Fund wishes to promote corporate social responsibility, best practice and improved performance in the managers through which it invests.

### Baillie Gifford – Global Alpha portfolio

Voting is based on analysis by the Governance and Sustainability Team, which includes global climate specialists. The fund managers long-term growth style means there is little investment in companies being heavily exposed to climate risk, mining or oil companies or those below the carbon footprint index

### Legal and General Investment Management (LGIM)

LGIM is widely recognised as one of the market leaders in stewardship and company engagement on a wide range of ESG issues but, in particular, environmental concerns. LGIM’s voting decisions are guided by policies that are researched, set and fine-tuned every year. They incorporate specific market policies that allow for local nuances to align with best practice. They have a long track record of encouraging better environmental practices, such as pressuring Royal Dutch Shell to commit to the Paris Agreement.



Baillie Gifford voted in favour of two shareholder proposals related to Amazon’s gender pay and climate change disclosures. The proposal requested median pay figures across the business. In our engagement we cited our experience in reporting these figures, and how we found them beneficial.

*Baillie Gifford Quarter 2 update*



LGIM voted in favour of shareholder proposals for oil majors Chevron\* and ConocoPhillips\* to set targets for emissions associated with the use of their products, and against the ‘say-on-climate’ proposals put forward by Shell\* and Total\* (now TotalEnergies\*) for an advisory vote from shareholders.

*ESG Impact report Q2 2021*

## Fund managers ESG policies and stewardship

All fund managers within The Fund's portfolio are signatories to the **Code of Transparency Compliance System**. Covering investment management fees and costs, the compliance system was developed and approved by the LGPS Scheme Advisory Board.

All fund managers within The Fund's portfolio are signatories to the United Nations supported **Principles for Responsible Investment (PRI)**. The six Principles for Responsible Investment offer a menu of possible actions for incorporating ESG issues into investment practice

### Legal and General Investment Management (LGIM)

LGIM has established a fully integrated framework for responsible investing to strengthen long-term returns, based on stewardship with impact and active research across asset classes. Strategies focus on holding boards to account, creating sustainable value, and promoting market resilience. LGIM launched the Climate Impact Pledge in 2016, a targeted engagement programme that combines in-depth analysis of companies' climate strategies alongside voting and investment sanctions and in 2020 was ranked highest among asset managers for their approach to climate change in a review by NGO ShareAction. Following regulatory focus on ESG themes LGIM have incorporated the requirements of the UK Stewardship Code and responds to the Task Force on Climate-related Financial Disclosures, into reports.

### Baillie Gifford

All investment staff are involved in stewardship work and, as long-term investors, believe that the approach to monitoring holdings, engaging with management and voting thoughtfully supports investment performance. Baillie Gifford's core principles shape how governance and sustainability matters are considered into the investment process, and are viewed as broader, interlinked concepts which also factor in a company's performance on environmental and social issues. Baillie Gifford use Weighted Average Greenhouse Gas Intensity (WAGHGI) as a measure of a portfolio's exposure to greenhouse gas-intensive companies. The climate audit confirms previous carbon footprint work showing a WAGHGI for the Global Alpha portfolio which is significantly below that of the MSCI All Country World Index. Baillie Gifford have introduced a traffic light system to identify companies at risk of not meeting climate targets, reviewing parameters such as emission target reduction and public commitments. Those failing to meet expectations are flagged as a priority for climate-related engagement.

### Grenfell exclusions

It is the view of RBKC that it does not wish to invest in companies associated with the Grenfell tragedy on ethical grounds. Neither the Council nor the Fund has any relationship with these companies.



## Local Authority Pension Fund Forum (LAPFF)

The Fund has opted to become a member of the LAPFF, a pressure group organisation made up of local authority pension funds that seeks to lobby companies and entities to achieve better corporate governance and ESG related decisions. Alongside 83 other LGPS funds and 7 LGPS pools, the collectively large equity holdings in passive and actively managed funds of the member organisations provide significant levels of share voting power and are better able to influence global companies on corporate governance and ESG issues. A strategy and engagement model based on values of honesty, openness, and robust discussion leads to a culture of trust and cooperation between all the Forum's stakeholders. The rationale is that divesting reduces leverage with companies and makes it harder to influence positive change. Therefore, in relation to fossil fuel companies, LAPFF has managed to engage with companies like Shell and BP to influence their net zero emissions policy and target setting. The Forum also helped to influence Sports Direct's decision to include a worker representative on the board.

## The Task Force on Climate related Financial Disclosures (TCFD)



The Task Force on Climate-related Financial Disclosures (TCFD) is an initiative established by the Financial Stability Board (FSB) developing best practice guidance for climate reporting in different sectors. The recommendations are structured around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets. The UK government roadmap towards mandatory climate disclosures requires banks and building societies to commence reporting in 2021, with rollout to pension funds expected from 2023. The Fund is committed to best practice climate reporting and continues to engage with fund managers ensuring alignment with the best practice recommendations adapted from the TCFD.

# Directly held property



The Pension Fund made the strategic investment decision to establish a direct property portfolio and propose to allocate 20% (approximately £250 million) of investment assets into directly managed property. Fund managers CBRE are appointed as The Fund's property advisor, using The Funds Investment Strategy and Acquisition Process document, property proposals are presented for Committee review. ESG is factored into every property purchase, the chart below details some of the measures and documents that are collected and considered during the investment lifecycle, full details can be found in The Funds Property ESG strategy (appendix a)

Aquisition	Ongoing management	Refurbishment/ Development	Disposal
<ul style="list-style-type: none"><li>• Energy Performance Certificate (EPC) ratings</li><li>• Building governance records</li><li>• Electric chargers and solar panels</li><li>• M&amp;E replacement costs considered on a sustainable basis</li><li>• Where possible, energy usage is assessed against the Carbon Risk Real Estate Monitor tool</li><li>• Tenants operations and governance</li><li>• Local impact</li></ul>	<ul style="list-style-type: none"><li>• Energy usage</li><li>• Smart meters to help inefficiencies</li><li>• Individual asset plans to identify improvements</li><li>• Up to date EPC</li><li>• Annual tenant feedback surveys</li><li>• Rental assistance to tenants</li></ul>	<ul style="list-style-type: none"><li>• Sustainable alternatives when reviewing refurbishment options</li><li>• M&amp;E improvements to improve the environmental efficiency of the buildings</li><li>• Sustainable materials for new developments</li><li>• Tenant engagement and views taken on board</li></ul>	<ul style="list-style-type: none"><li>• Sustainability credentials</li><li>• Using the CREEM model to identify whether any assets will struggle to meet the target 2050 requirements</li></ul>



# ESG Case studies

## ENGAGEMENT BAILLIE GIFFORD

*On-going discussion with Netflix, The Board is actively involved and has played an important role in supporting management's focus on developing content and nurturing the company's culture with a deliberate focus on promoting diversity and inclusion to support content creation for a diverse audience. Data security is a standard topic for the audit committee, The Netflix subscription model and absence of advertising places it in an advantageous position as it doesn't collect and sell members' data to generate revenue.*

## SIGNIFICANT VOTES LGIM

***ExxonMobil Corporation:** In 2020, we announced that we would be opposing the re-election of the company's chair/CEO as we believe the separation of roles provides a better balance of authority and responsibility. In 2021, we escalated our engagement by supporting an activist investor who proposed an alternative slate of directors, as the experience and skills of the proposed four candidates would, in our view, make a positive contribution to board effectiveness and oversight. For LGIM, the escalation is in keeping with our approach of holding individual directors accountable for their companies' climate performance.*

## LGIM 2020 stats

**665** companies with which Investment Stewardship team engaged

**Zero** net amount of emissions target across all AUM by 2050

**4,700** Director election opposed due to governance concerns

**66,037** Resolutions voted for worldwide

Expanded the scope of policy to vote against TOPIX Mid 400 companies lacking gender diversity



### Baillie Gifford call with Ryanair

*The company submitted its carbon emissions data to the Carbon Disclosure Project (CDP) for external verification, which we recommended in our previous call, and committed to improving their score. The company has joined various third-party initiatives looking to develop sustainable decarbonisation technology within the aviation industry, and announced a sustainable aviation fuel target for 2030, as well as a partnership with Trinity University to research sustainable aviation fuel. The progress and proactive approach was evident from the discussion and was welcome, given the increasing cost carbon will have for those in the aviation industry.*