



**London Borough of Sutton Pension Fund**

# **Responsible Investment Policy**

March 2026

# London Borough of Sutton Pension Fund Responsible Investment Policy

## Purpose

This policy outlines the London Borough of Sutton Pension Fund's (the "Fund") Responsible Investment approach, guiding its Investment Strategy. The Pension Fund Committee ("the Committee") is tasked with formulating and implementing this strategy. The policy will be reviewed and updated at least every 3 years. This Policy has been written in accordance with the (draft) Local Government Pension Scheme (England and Wales) guidance on preparing and maintaining an investment strategy.

## Scope

This document sets out the beliefs and principles of the LB Sutton Fund's approach to Responsible Investment, alongside the ways in which these can be implemented, monitored and communicated to relevant stakeholders. It is important to note that not every principle will necessarily be applicable to all types of investment in the same way, and therefore it may not be possible to apply the same practices across the entire portfolio consistently.

## Aims and objectives

This Responsible Investment Policy complements the Fund's Investment Strategy Statement (ISS) which is a statutory requirement of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The policy should be read in conjunction with the Investment Strategy Statement, and together the two documents set out how the overall objectives of the Fund will be achieved. The Fund's chosen investment pool, the London Collective Investment Vehicle (LCIV), is responsible for implementing both the Investment Strategy Statement and the Responsible Investment Policy. This policy explains the Fund's approach to the oversight and monitoring of the Fund's activities from a responsible investment and stewardship perspective.

Responsible investment is an approach to investing that aims to incorporate financially material environmental, social and governance (ESG) factors into investment decisions to better manage risk and to generate sustainable, long-term returns. Stewardship is the responsible allocation and management of capital to create sustainable value for beneficiaries, the economy and society.

The aims and objectives of LB Sutton Pension Fund RI policy are to:

- Ensure the fund can achieve the investment returns needed to pay scheme member benefits when they fall due, whilst also acting in the most responsible way possible and being a good steward of the assets held by the fund.

- Reduce the likelihood that ESG issues including Climate Risk will negatively impact asset values and returns;
- Inform stakeholders on the action LB Sutton Pension Fund is taking to address and manage ESG including Climate Risk issues.

## 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. In order 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 pool 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.

LCIV currently has 32 partner funds, and each will have its own Responsible Investment policy. To ensure its approach to implementing the partners' requirements is both effective and manageable, LCIV has developed a Responsible Investment Matrix. This matrix uses a "Three Pillar Approach", in particular considering how exclusions are managed, to select suitable investments on behalf of the Fund, taking into account the Fund's responsible investment policy and investment strategy statement.

## Responsible Investment Beliefs

The Fund's investment beliefs reflect the need to deliver sustainable investment returns in order to pay scheme benefits. They recognise the importance of active asset ownership and effective stewardship, alongside the assessment of investment risk and opportunity over the long term.

- The Fund believes ESG factors can have a financially material impact on the delivery of investment objectives and therefore the Fund recognises that it is consistent with its fiduciary responsibility to identify and manage ESG risks and opportunities appropriately.
- The Fund is committed to active ownership and expects all of its investment managers to exercise their voting rights and to actively engage with companies to encourage responsible investment behaviour. The Fund will only consider divestment as a last resort once all avenues of engagement have been undertaken and shown not to be effective.
- The Fund will seek to integrate ESG issues throughout the investment decision making process, from setting investment strategy to monitoring the Fund's investment managers.
- The Fund seeks to identify investment opportunities that have a real-world positive impact, alongside generating suitable investment returns.
- The Fund expects that its appointed investment managers will provide evidence on an annual basis of the assessment, presence, and materiality of ESG issues across their respective portfolios. This should include how the assessment impacts on the investment case for holding the relevant assets.
- The Fund has sought advice from its appointed investment adviser regarding any changes to its investment strategy and will consider how ESG matters and the Fund's identified priorities and beliefs may influence the strategy.
- 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 10% to impact investments that does not form part of, but rather sits alongside the Strategic Asset Allocation for the fund. Impact Investing can be defined as "Investments made with the intention to generate positive, measurable social and environmental impact alongside financial return".
- The Fund believes that having diverse and inclusive workforce and governance structures leads to better outcomes for businesses and organisations. The Fund expects all its stakeholders and in particular suppliers, contractors, investment managers and consultants to include Diversity and Inclusion as key aspects of running their businesses and will ask for policies and evidence of their approach.

## Stewardship - Voting & Engagement

The Fund recognises the importance of responsible and active ownership and has a duty to exercise its stewardship and active ownership responsibilities (such as use of

voting rights and encouraging its appointed investment managers to actively engage with investee companies) effectively by using its influence as a long-term investor to encourage positive behaviour.

- The Fund supports the Local Authority Pension Fund Forum ("LAPFF") stance regarding engagement with investee companies, rather than divestment from certain sectors. The panel considers that pursuing an engagement-led approach is consistent with its fiduciary duty to members, and allows the Fund, through the actions of its appointed investment managers, to be an active participant in encouraging the companies in which it invests to transform and adapt to meet the needs of a changing world, including supporting the transition to a low carbon economy.
- In the first instance, the Fund expects the London CIV and its appointed investment managers will use engagement tools to improve standards and long-term sustainability characteristics of investee companies. Where this proves unsuccessful, the Fund would support a decision to divest as a last resort. The Fund will communicate its beliefs to its appointed investment managers and expects that they will provide evidence of their engagement activity, including case studies, on an annual basis.
- The Fund will monitor the stewardship activity of the London CIV and its appointed investment managers and expects that they will highlight examples of thematic voting (for example, on matters such as climate change, human rights and strong standards of corporate governance) and outcomes.
- In the event that voting rights are not used, the Fund will ask that their appointed investment managers through the London CIV explain why this is the case.
- The Fund will request details from its appointed investment managers through the London CIV regarding how voting decisions are made (e.g. whether based on recommendations of proxy voting agencies), and seek explanation of voting activity which conflicts with the Fund's agreed priorities.
- The Fund believes that collaboration via the London CIV gives rise to stewardship and engagement opportunities, as does the Fund's continued membership of LAPFF as well as broader collaboration with other investors.
- The Fund will continue to participate in LAPFF to actively shape their agenda and priorities on stewardship matters.
- The Fund may consider joining other investment industry collaboration initiatives in future to work with other investors to achieve greater traction on sustainability issues.

## Engagement and Escalation Process

As a partner fund of the London CIV, the Sutton Pension Fund delegates the implementation of its Responsible Investment (RI) policy to the pool, while retaining

responsibility for setting the policy itself. From April 2026, all Sutton Pension 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.

### The Engagement Approach

The Fund through its investment pool the 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.



## 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.

- Divestment: Considered only as a last resort when all other avenues of engagement and escalation have failed to address serious concerns.

## Exclusions and Divestment versus Engagement

The Fund prefers an engagement approach over divestment, because it believes the best way to influence positive real-world change is through engagement and voting. Having a seat at the table as a long-term investor, and influencing the behaviour of companies through voting and engagement activity is likely to achieve a more positive outcome than simply not investing through exclusions and divestment, and losing the ability to bring about positive change as an investor. 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.

## Our Approach to Human Rights and Conflict Affected High Risk Areas (CAHRAs)

The Fund expects our Pool to understand and support action against violations of human rights. The Fund expects the companies in which the Fund indirectly invests to comply with all legal requirements and respect all internationally recognised human rights standards including the obligations of the Modern Slavery Act in the UK and the United Nations Guiding Principles on Business Human Rights. While exclusions and escalation thresholds vary by Pillar, the Fund expects LCIV and underlying managers to apply this policy through stewardship, due-diligence and risk management, and to evidence progress through annual reporting.

The Fund, through the Pool, will seek to identify exposure to companies materially connected to conflict-affected areas, or with credible reports of involvement in human rights violations and assess whether such exposure poses financial, human-rights, or reputational risk. The Fund will seek to use globally recognised authorities to identify exposure. The Fund will engage via the London CIV and underlying managers to address concerns. The fund will escalate, where necessary and proportionate, in line with its fiduciary duty. The approach taken is based on risk, and is global and non-political, using authoritative bodies rather than geography-specific approaches.

**Principles** The Fund prioritises engagement before divestment, and escalation steps will be proportionate, evidence-based and consistent with fiduciary duty. Exposure to high risk conflict areas and companies alleged to be complicit in human rights violations can create financial, operational, regulatory and reputational risks. Actions taken by the Fund will be to manage financially material risks, not express

political views.

**Understand and engage** The Fund will seek to understand the reasons why the company has been alleged to be in breach of internationally recognised standards, and will seek to engage through the London CIV and collective engagement groups.

**Divestment** If all other avenues fail, divestment would be considered as a last resort.

## Climate Change

Considering the implications of and seeking to mitigate climate change related risks, as well as taking advantage of opportunities, is consistent with the Fund's fiduciary duty and is fundamental to the ability to continue to generate long-term sustainable returns within the Fund's investment portfolio. Accordingly, the Fund recognises that climate change is one of the material ESG factors that pose a potential financial risk over the Fund's investment timescale.

- The Fund will communicate its view of the importance of climate change as a key risk to the Fund's appointed investment managers through the London CIV. It will also communicate its view that there is the potential for investment opportunities arising from the transition to a low-carbon economy.
- The Fund expects its appointed investment managers through the London CIV to provide evidence of their consideration of climate change as a factor which affects portfolio construction on an ongoing basis.
- The Fund will work with the London CIV and its appointed investment managers to undertake carbon exposure analysis across the Fund's portfolio, in order to understand the climate risk in the portfolio and assess the Fund's progress towards achieving its Net Zero targets.
- The Fund expects its investment fund managers to fulfil their statutory duty in terms of the reporting of climate related disclosures.
- The Fund will comply with any climate related disclosure requirements and report in accordance with the International Financial Reporting Standards (IFRS) rules.
- The Fund recognises that exposure to fossil fuel investments is one component of overall exposure to climate change risks and acknowledges the importance of considering climate change risk holistically.
- The Fund has set a target to achieve Net Zero by 2050 or sooner.
- To support the long term aim of Net Zero by 2050 the Fund has set specific interim targets, progress will be reported annually against each target as part of the Annual Stewardship Report::

- Reduce the Carbon to Value (scope 1 & 2) of listed equities by 50% by 2030 (relative to a 2020 baseline)
- Engage with investment managers in order to increase the percentage of companies in listed equities which have Science Based Targets initiative (SBTi) approved targets
- 15% of total fund assets invested into climate solutions (defined as activities, products and services that contribute to emissions reductions in line with Net Zero) by 2030 subject to SAA and LCIV product availability.

## 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 a number of 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 to be a long-term, sustainable investor. The Fund will seek to make progress in any areas covered by the SDG's, however the following four SDGs have been selected as the Fund's key 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 appointed 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.

## Transparency, Disclosure and Reporting

The Fund believes that reporting, both from its appointed investment managers and from the Fund to its members and the wider public, is an important aspect of its Responsible Investment approach.

- The Fund will publish its Responsible Investment Policy and keep it under regular review at least every 3 years. An interim review will be carried out in March 2027.
- The Fund believes regular monitoring and reporting of actions and progress is important, given that this is closely linked to good governance and transparency.
- As the Committee continues to discuss and refine its approach to Responsible Investment, the approach to reporting and disclosure will develop.
- The Fund will report annually through the Annual Stewardship Report on its stewardship activities and how the responsible investment policy has been implemented in practice. This report will also include details of the real-world impact of its investments, in particular for those investments that form part of the Fund's 10% impact target. The first Annual Stewardship report was produced in December 2025 and covered the 2024/25 financial year. A report will be produced annually thereafter.

## Memberships & Affiliations

The Fund believes that it will improve its effectiveness by acting collectively with other like minded investors, because it increases the likelihood that it will be heard by the company, investment manager or other relevant stakeholder compared with acting alone. The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

## Approval and Review

This Responsible Investment Policy was approved on 17/03/2026 by the Pension Committee. It will be formally reviewed and updated at least every three years or sooner if any matters included within it merit reconsideration, including if there are any changes to the LGPS rules or other relevant Regulations or Guidance which need to be considered. Given the significant regulatory changes planned around the time of writing this policy, an interim review of the Policy will be undertaken after 1 year in March 2027 to ensure it is compliant with all the updated regulations and guidance.

## Further Information

If you require further information about anything in or related to this Policy, please contact: [lbspensioninvestments@sutton.gov.uk](mailto:lbspensioninvestments@sutton.gov.uk)

## Glossary

**ESG Factors:** Environmental, social and corporate governance factors which could impact company performance and therefore investment returns. Examples include (but are not limited to) climate change, workforce issues, remuneration, independence of the board and auditors, board composition and diversity.

**Ethical Investment:** An approach seeking a moral or ethical return, potentially ahead of financial return.

**Governance:** The process and principles by which a company or organisation undertakes its business. For the Fund, governance includes how it undertakes both its operational and investment responsibilities on behalf of its members.

**Pensions Board:** The role of the Pensions Board is to assist in the good governance of the Fund through the monitoring of Fund performance and adherence to statutory duties. The Pensions Board is not a decision-making body, nor does it hold a scrutiny function; its role is to assist in the compliance with scheme rules.

**Pensions Committee:** Body established by the London Borough of Sutton Council (the administering authority) in charge of the management of the administration of benefits and strategic management of the Fund, including Fund assets.

**Socially Responsible/Social Impact Investments:** Investments that deliver social impact as well as a financial return are often described as “social investments”. The Fund considers opportunities in social investments alongside other opportunities and will assess their relative merits on fundamental grounds and with reference to suitability of fit for the Fund.

**Responsible Investment:** The integration of financially material environmental, social and corporate governance (“ESG”) factors into investment processes both before and after the investment decision.

**Stewardship:** We define the concept of stewardship the same as the Financial Reporting Council (FRC), the organisation that oversees the UK Stewardship Code: “Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. The UK Stewardship Code (2020) sets high standards for asset owners and asset managers, and for service providers that support them”.

**Carbon to Value:** A measure of a fund's contribution to global carbon emissions. Calculated as the average greenhouse gas emissions per million pounds invested (tCO<sub>2</sub>e/mGBP). A high carbon to value intensity may indicate a high contribution to global warming.

**Controversial Weapons:** Defined as companies that derive revenue from the development of components of controversial weapons intended solely for the use in production, and are essential for the functioning of these controversial weapons. These components/services are specifically designed to be used within, or in relation to, an arms system or weapon. Controversial weapons include incendiary weapons,

cluster munitions, anti-personnel mines, biological and chemical weapons, blinding laser weapons and depleted uranium.