



Lambeth

**London Borough of Lambeth
Pension Fund**

**Stewardship Report
2020/2021**

in accordance with the UK Stewardship Code 2020



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Introduction

Welcome to the first annual Stewardship Report of the London Borough of Lambeth Pension Fund. Investing responsibly in line with the interests of the Fund’s members is a key objective for the Fund, to give members confidence that their pension funds are invested sustainably and in ways which are helping make the world a better place. Indeed, stewardship can be defined as “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 London Borough of Lambeth, as administering authority of the Fund, has a responsibility to be good stewards of the Fund’s assets, investing and managing those assets in a way that reflects the investment beliefs of the Pensions Committee, the body of elected representatives responsible for discharging the council’s functions in relation to the Fund, and ultimately ensures adequate resources to pay members’ benefits as and when they fall due.

This report has been prepared in line with the requirements of the Financial Reporting Council’s UK Stewardship Code, which sets out twelve ‘apply and explain’ principles for evidencing the highest stewardship standards of those investing money on behalf of UK savers and pensioners, and those that support them. It details how the Fund fulfils its stewardship responsibilities on a day-to-day basis, the ambition of the Committee to continually improve the Fund’s investment and stewardship processes in the future, and the changes we seek to drive by collaborating with other investors as well as the specific interventions we made on behalf of our members in the 2020/21 financial year.

A handwritten signature in black ink, appearing to read 'A. Birley', is displayed on a light grey rectangular background.

Cllr. Anna Birley

Chair – Lambeth Pensions Committee

Principle 1: Purpose, Strategy and Culture

- 1.1 The purpose of the London Borough of Lambeth Pension Fund is to provide retirement benefits to over 20,000 active, deferred and pensioner members who are or have previously been in paid employment for the London Borough of Lambeth and other participating bodies in the Fund. Administered by the London Borough of Lambeth, the Fund is governed in part by the policies and procedures of the council as prescribed in its constitution but operates as a separate entity as a statutory funded public service pension scheme and, as such, must also adhere to separate rules and regulations specific to the Local Government Pensions Scheme (LGPS).
- 1.2 Within the LGPS each administering authority is responsible for managing its own Fund on behalf of all Fund employers and beneficiaries. How an authority delegates its LGPS function is largely a matter for each authority, and as most administering authorities are local authorities, they largely operate in accordance with local government law. The specific structure and delegations of authority within the Lambeth Pension Fund is set out elsewhere in this report, but much of the culture of the Fund is influenced by that of Lambeth Council, its elected members, and its officers.
- 1.3 As set out in the Fund’s Investment Strategy Statement (ISS), good stewardship is seen as integral to being a responsible investor in both the financial and ethical sense. Effective stewardship requires not only reliable data, robust internal systems, and resource capacity and integration, but also leadership, a willingness to speak out, transparency and a commitment to developing long-term relationships and collaborations.
- 1.4 The Fund’s ISS sets out the approach taken to stewardship, with an investment strategy that aims to maximise returns at an acceptable level of risk taking into consideration the circumstances of the Fund, underpinned by sound corporate governance and the promotion of corporate responsibility with the managers in which the Fund invests. By engaging with the Fund’s managers and other stakeholders, and partnering with other pension funds and investors, the Fund can leverage its power and that of fellow institutional investors to drive change in company behaviour and better meet the interests of the Fund’s beneficiaries.
- 1.5 The Fund’s approach to stewardship is driven by a set of investment beliefs which focus on risk, investment strategy, active management, and the integration of Environmental, Social and Corporate Governance (ESG) issues.
 - A long-term approach to investing is appropriate and, moreover, an advantage. Managing risk is a complex and multidimensional task, but no more risk will be taken than is deemed necessary and risk mitigation will be prioritised according to the size of the potential impact. As the funding level of the Fund improves, there will be less of a need to take as much risk with the Fund’s strategic asset allocation.

- The Pensions Committee believes that the most important decision for the Fund is the setting of the strategic asset allocation; access to long-term streams of returns adds value to the Fund, and as the Fund matures cashflow considerations will have a greater impact on the Fund's strategic decision-making.
- The Committee believes that active managers can add value but that there is greater opportunity for active managers to add value in less efficient markets. There are limited passive options in some alternative asset classes, but a greater opportunity for active managers to add value.
- ESG issues can have a material impact on long-term risk and return outcomes; considering these issues is consistent with the fiduciary duty of the Pensions Committee. The Committee believes in engagement over exclusion and that active ownership helps the realisation of long-term shareholder value. Taking a collaborative approach with other investors can help to achieve wider and more effective outcomes, all the while remaining transparent and accountable to the Fund's members.

1.6 The approach taken by the Fund, in line with the above beliefs, has been effective in producing above benchmark returns, improving the funding level, and addressing ESG concerns in a way that leaves the Fund in a strong position as it works to develop more specific ESG policies into 2021/22 and beyond.

- The Fund's assets increased in value by approximately 27% in the year ending 31 March 2021 against a benchmark of 18.7%, by 9.6% in the three-year period and by 9.7% in the five-year period (against benchmarks of 7.8% and 8.3% respectively).
- The estimated funding level of the Fund as at 31 March 2021 was 94.5%, improved from 82.4% as at 31 March 2019.
- The Fund's estimated exposure to fossil fuel investments as at 31 March 2021 was 1.41% of the total Fund, whilst a carbon footprint analysis of the Fund's equity investments identified significantly lower carbon intensity and future potential emission measures than benchmarks (measured as at 31 March 2020).

Principle 2: Governance, Resources, and Incentives

- 2.1 Lambeth Council is the administering authority for the London Borough of Lambeth Pension Fund. Within its constitution, the council has delegated responsibility for the Fund to the Pensions Committee.
- 2.2 The Fund is governed by the Pensions Committee as the principal decision-making body with responsibility for all Fund matters including governance, investment and funding strategies, accounting, employer and scheme member engagement, communications, and administration. The Pensions Committee delegates the day-to-day running of the Fund to officers; the Director of Finance and Property, as the council's Chief Finance Officer responsible for the financial affairs of the council in accordance with Section 151 of the Local Government Act 1972, has overall delegated powers for the management of the pension fund, reporting to the Strategic Director of Finance and Investment.
- 2.3 The Pensions Board sits in an advisory role to the Fund independent of the Pensions Committee, assisting the council in securing compliance with the relevant regulations relating to the administration and governance of the scheme.
- 2.4 The council's Treasury and Pensions, and Payroll and Pensions Teams are responsible for the day-to-day management and oversight of assets including implementation of the ISS, and the administration of the Fund. Following the creation of the London Collective Investment Vehicle (LCIV) in 2015, the pool company provides investment products, analysis and advice to support implementation of the ISS and the pooling of Fund assets with those of the other London boroughs who are part of the pool.
- 2.5 There are strict rules around the governance of the Fund as set out by legislation that applies to all LGPS funds; the Fund reports in detail on how it adheres to those rules every year in the Annual Report, as well as publishing all Fund governance policies which are available on the Fund's website at the following link: www.lgpslambeth.org.
- 2.6 The following section provides further information on how the Fund is structured, makes decisions, and is governed in a way that makes for effective stewardship of the Fund's activities. The council's constitution sets out the Terms of Reference for both the Pensions Committee and Pensions Board, as well as the relevant schemes of delegation that dictate the roles and responsibilities of senior officers of the Fund. Although there are Fund-specific policies and procedures in place, the council's policies also apply to the main bodies overseeing Fund operations where not superseded by the Fund's policies; for example, the council's health and safety policies, whistleblowing policy and equalities and diversity policies will all apply to the Fund and those who represent it as employees or elected members of the council. The equalities and diversity policy in particular informs the council's Borough Plan and wider ambitions around strengthening equality and diversity and delivering inclusion, and ensures those employed by the council and working for the Fund

not only represent a wide and diverse workforce but are also passionate about upholding those standards.

- 2.7 A summary of the main functions and responsible bodies that influence the operation of the Fund is shown below, together with additional information on the Fund’s main internal bodies:

Function	Body
Policy and Objective Setting	<ul style="list-style-type: none"> - London Borough of Lambeth (administering authority) - Pensions Committee (decision making) - Pensions Board (non-decision making)
Implementation	<ul style="list-style-type: none"> - Treasury and Pensions Team - Payroll and Pensions Team - Fund Employers
External Policy Bodies and Guidance	<ul style="list-style-type: none"> - LGPS Scheme Advisory Board - The Pensions Regulator
Pooling Vehicle	<ul style="list-style-type: none"> - London CIV Ltd, governed by: - Executive Committee - London CIV Board (including Remuneration & Nomination Committee, Investment Oversight Committee and Compliance Audit & Risk Committee) - Shareholder Committee

London Borough of Lambeth

- 2.8 The London Borough of Lambeth is the administering authority of the Fund and the largest employer. The Council is the supreme political body of the London Borough of Lambeth made up of 63 elected councillors. The Cabinet is the main executive decision-making body of the council, comprising 10 elected councillors including a Leader of the Council; the Cabinet Member for Finance and Performance is responsible for the council’s Pension Fund.
- 2.9 The London Borough of Lambeth discharges the council’s functions in relation to the Pension Fund through the Pensions Committee. In addition, as the officer responsible for the proper administration of the council’s financial affairs (pursuant to Section 151 of the Local Government Act 1972) the Director of Finance and Property is authorised to act on behalf of the council in all pensions matters which includes the provision of advice to the Pensions Committee, the administration of actuarial valuations and the implementation of contribution rates as approved by Council and in consultation with the Cabinet Member for Finance.

The Pensions Committee

- 2.10 The Pensions Committee is a non-executive decision-making body of the London Borough of Lambeth, responsible for ensuring the Fund is properly operated in accordance with all relevant regulations and best practice as advised by the Pensions Regulator, the LGPS, the

Scheme Advisory Board, the Department for Levelling Up, Housing and Communities (DLUHC) (formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and the Chartered Institute of Public Finance and Accountancy (CIPFA) and, ultimately, to ensure the Fund is able to pay pension benefits as and when they fall due.

- 2.11 The Pensions Committee is made up of 8 members (akin to “trustees”). There are 5 elected members as employer representatives and 3 co-opted scheme member representatives comprising one member of staff of the London Borough of Lambeth, one pensioner member, and one Trade Union member; all have full voting rights.
- 2.12 The employer representatives are confirmed and ratified at an annual meeting of full Council, whilst the member representatives are elected by a ballot of members of the Fund or pensioners of the Fund, or nominated by a Trade Union. Members usually serve a term of at least four years.
- 2.13 The positions of Chair and Vice-Chair of the Committee are held by councillors appointed by the London Borough of Lambeth, held for a period of two years with each then taking the other’s position.
- 2.14 In addition, the Pensions Committee has 3 substitute members; 2 employer substitutes and 1 Trade Union substitute. These members may be asked to stand in for other representatives on the Committee if it is known in advance that one of the others is unable to attend and the meeting may not be quorate; substitute members retain full voting rights, subject to the Clerk of the meeting being made aware of the substitution in advance.

Advisers to the Pensions Committee

- 2.15 The Fund is supported by a core group of key advisers, and at some point in the annual cycle all will usually be invited to relevant Pensions Committee meetings. The Fund’s current advisers in relation to its stewardship approach are as follows:
- Investment Advisers – Mercer
 - Governance and Risk Advisers – Aon Hewitt
 - Actuarial Advisers – Hymans Robertson
 - External Auditor – Mazars
 - Custodian – Northern Trust

The Pensions Board

- 2.16 The Pensions Board is a non-decision-making body operating independently of the Pensions Committee. Its function is to assist the London Borough of Lambeth, in its role as administering authority, to secure compliance with all relevant pension regulations and other legislation relating to the governance and administration of the scheme, any requirements imposed by the Pensions Regulator, and to ensure the effective and efficient governance and administration of the scheme.

- 2.17 The Pensions Board is made up of 6 members. There are 3 elected members as employer representatives and 3 scheme member representatives comprising one member of staff of the London Borough of Lambeth, one pensioner member, and one Trade Union member; all have full voting rights.
- 2.18 The employer representatives are confirmed and ratified at an annual meeting of full Council, whilst the member representatives are elected by a ballot of members of the Fund or pensioners of the Fund, or nominated by a Trade Union. Members usually serve a term of at least four years.
- 2.19 The positions of Chair and Vice-Chair are appointed by members of the Board for two years and will rotate between an employer and member representative. At the end of the Chair's tenure, the post will be filled by the Vice-Chair.
- 2.20 Throughout 2020/21, the Local Pensions Board has overseen the governance of the Fund by way of regular updates on matters including a governance review action plan, the Fund's ongoing risk register, and developments and changes to the Fund's investment strategy and general stewardship activity. The Board holds the Pensions Committee accountable for its decision-making by making recommendations to the Committee, and in 2020/21 the Board made the following recommendations:
- That the risk rating in the Fund's risk register assigned to ESG risks be increased, to more accurately reflect the impact that ignoring such risks would have on the Fund.
 - That all members of the Board and Committee complete a knowledge and skills self-assessment audit to identify any knowledge gaps, that ongoing training continue to be delivered to members, and that training attendance records be maintained.
- 2.21 The mechanism that allows the Board to make recommendations to the Committee requires improvement and will be developed in 2021/22, particularly with regards to how those recommendations, and progress against them, is tracked and reported back to the Board.

Treasury and Pensions Team

- 2.22 The Treasury and Pensions Team have responsibility for the day-to-day running of the Fund, under delegated authority from the Director of Finance and Property and reporting directly to the Assistant Director of Strategic Finance. The team is made up of 4 members of staff, employed by the London Borough of Lambeth and based in Brixton.
- 2.23 Led by the Head of Treasury and Pensions, the team serves the Pensions Committee and works on all issues of governance, finance and investment. The team has a range of backgrounds, the majority having been recruited from the public sector, and have long-standing pension accounting and investment expertise including membership of relevant professional bodies such as CIPFA and ACCA.

- 2.24 All members of the team contribute to responsible investment in their respective roles, be it from a finance, investment or governance perspective.

Payroll and Pensions Team

- 2.25 The Payroll and Pensions Team has responsibility for all matters relating to Fund administration and the processing of member benefits. The team of 8 is led by the Head of Payroll and Pensions, reporting directly to the Director of Finance and Property.
- 2.26 The Team have a range of backgrounds, the majority having been recruited from the public sector with long-standing pensions administration experience and membership of relevant professional bodies. Some members of the team have been recruited internally due to their knowledge of Lambeth's finance, policy, and administration.

Training and Performance Measurement

- 2.27 The Fund maintains a Training Policy which applies to the Pensions Committee, Pensions Board, and all officers involved in the running of the Fund, recognising that effective management, governance and decision-making can only be achieved where those involved have the requisite skills and knowledge to discharge their respective responsibilities. It sets out the minimum expected standards of knowledge, the methods through which training may be delivered, and how progress will be monitored; the Fund reports on the training records of its Committee and Board members as part of its Annual Report.
- 2.28 Fund officers, as employees of the London Borough of Lambeth, are also subject to the learning and development, and performance management systems, in place at the authority. During 2020/21 officers undertook mandatory council training on subjects including race and diversity, fraud awareness and emotional resilience, as well as Fund specific training on ESG, scams, market valuations and monetary policy. As part of the performance management cycle, officers receive an annual appraisal where individual development and work-specific objectives are discussed and agreed for the year ahead; the appraisals serve to highlight how officers can integrate good stewardship into their day-to-day work activity and build this into annual objectives; for example, by monitoring compliance to regulations through submission of quarterly and annual returns, through regular engagement with the Fund's investment managers, and through regular review of the Fund's investment strategy against its stewardship objectives.

Principle 3: Conflicts of Interest

- 3.1 A conflict of interest is a financial or other interest which is likely to prejudice a person's exercise of functions, although it does not include a financial or other interest arising merely by virtue of a person being a member of the LGPS or the Lambeth Pension Fund.
- 3.2 By way of example, a conflict of interest may arise when a member of the Pension Board, in fulfilling their legal duty to assist the administering authority has, at the same time, a separate personal interest (financial or otherwise) or other responsibility in relation to a specific matter which gives rise to a possible conflict with their statutory role as a member of the Board.
- 3.3 Actual conflicts of interest are not permitted within the LGPS as it is unlikely these can be managed appropriately to prevent the conflict from having an impact. Members of the Pensions Committee and Board that declare a conflict of interest in relation to a particular matter may not participate in any decision-making or vote on that matter. Anyone with a conflict of interest may not be appointed to the Pensions Board and may be required to resign if they are already a member of the Board. As an additional mitigation against the risk of conflicts of interest, councillors who are members of the Pensions Committee are excluded from serving on the Board.
- 3.4 Managing conflicts of interest is vital to every pension scheme, and at Lambeth both the Pensions Committee and Pensions Board receive appropriate training on identifying and reporting conflicts of interest and must formally declare at each meeting any potential conflicts per the Lambeth Council Member Code of Conduct.
- 3.5 Members of the Pensions Committee and Pensions Board are subject to the Member Code of Conduct as stipulated in the constitution of Lambeth Council. The Code of Conduct is set out in accordance with the provisions of the Localism Act (2011), committing members to adhere to several statutory principles as well as the Seven Principles of Public Life (the 'Nolan Principles').
- 3.6 Officers of the Fund, as employees of Lambeth Council, are subject to the Officers' Code of Conduct as set out in Lambeth Council's constitution and to the terms and conditions of their contracts of employment.
- 3.7 In line with the requirements of the Public Service Pensions Act (2013) and the Pension Regulator's Code of Practice, the Pensions Board has also adopted a separate Conflicts of Interest Policy which clarifies the definition of a conflict of interest and how conflicts should be managed and monitored. The three-stage approach to managing conflicts of interest includes:
- identifying potential conflicts
 - monitoring potential conflicts

- managing potential conflicts

3.8 The Board should cultivate a culture of openness and transparency and in doing so members should identify and evaluate any potential conflicts of interest with the role of the Board itself or with specific items on the Board’s work programme. Members will declare any conflict of interests at the start of every Board meeting where they will be recorded on the register of interests together with the appropriate action taken to manage the conflict; this may include a member withdrawing from discussions or resigning from the Board if the conflict is so fundamental that it cannot be managed in any other way.

3.9 The Board’s Conflicts of Interest Policy is available at the following link:
<https://www.lgplambeth.org/resources/conflicts-of-interest-policy/>.

3.10 In 2020/21 there were no potential or actual conflicts identified which needed managing.

Managing Potential Investment Conflicts

3.11 The Fund’s ISS will in future be expanded to further explain how conflicts are managed in relation to the Fund’s stewardship, particularly with regards Fund investments and employers, to include at least the following:

- The Fund does not select the companies it invests in. The Pensions Committee, with the assistance of its advisers, appoints asset managers to manage the Fund’s assets in various strategies according to the ISS, and those managers then select the underlying companies best suited to deliver their strategies’ objectives. The Fund does however expect its managers to engage with the underlying companies on its behalf and escalate any concerns accordingly.
- In undertaking its stewardship activities, the Fund will act in line with its ISS and will not be influenced by the regulatory actions of scheme employers.

3.12 The Fund is also aware of the policies and processes in place for managing conflicts of interest within the London CIV and monitors adherence to these through the CIV’s reporting processes.

Principle 4: Promoting Well-Functioning Markets

Approach to Risk

- 4.1 Lambeth Pension Fund recognises that effective risk management is an essential element of good stewardship, and by identifying and managing risks through an effective policy and risk management strategy it is able to minimise the risk of adverse conditions on the Fund, identify and maximise opportunities that may arise, and support innovation and continual development to address market and systemic risks. In its management of risk, the Fund has regards to CIPFA guidance on managing risk in the LGPS and the Pension Regulator’s Code of Practice.
- 4.2 The Fund has adopted a Risk Management Policy and Statement that clearly sets out the risk philosophy of the Fund and its appetite for risk, how risk management is implemented and integrated into the day-to-day activities of the Fund, and the responsibilities for risk management within the Fund. To help identify, analyse, and evaluate risk the Fund maintains a risk register which lists each identified risk relevant to the Fund, the impact of the risk on outcomes and benefits, and the responsible owner of that risk; it then assigns a risk rating to assess the likelihood of a risk occurring and the impact it would have on the Fund. Mitigating actions are suggested and risks monitored on an ongoing basis to determine the effectiveness of those actions, if the desired outcomes have been achieved, and what lessons can be learned for the future assessment and management of risk.
- 4.3 The risk register is presented to the Pensions Committee at least twice a year and to the Pensions Board quarterly. The Pensions Board provide comment and input to the management of risks and can make recommendations to the Pensions Committee for action. The Pensions Committee have ultimate responsibility for the monitoring of risks and, in its updates to the Committee, officers flag any changes made to the register for new risks, changes to risk ratings, or the successful implementation of mitigating actions. As at 31 March 2021 there were no risks identified as ‘very likely’ to occur or that have a high chance of causing major disruption to the Fund.
- 4.4 One of the most pervasive risks identified and monitored throughout 2020/21 was the ongoing impact of Covid-19 both operationally and financially which necessitated its inclusion in the Fund’s risk register and required changes to the Fund’s business continuity plans. As a long-term investor the Fund was well placed to manage the short-term financial impact without the need for knee-jerk reactions and, following consultation with the Fund’s investment advisers and actuary, maintained confidence in the investment strategy adopted by the Pensions Committee in March 2020.
- 4.5 Changes in working arrangements for Fund officers in response to government lockdown restrictions were implemented successfully with minimal impact on the day-to-day operation of the Fund; systems and processes were updated to enable increased electronic working and to maintain service delivery, whilst additional and more regular engagement

with fund managers and other Fund stakeholders allowed Fund officers to maintain heightened oversight of Fund performance and stewardship risks, seek assurances that fund managers were able to manage the emerging risks, and discuss any concerns directly with those concerned. The use of technology throughout the pandemic has significantly increased engagement with stakeholders, particularly through virtual meeting platforms, and the Fund will continue to make use of such resources to collaborate and engage.

- 4.6 The Fund's Funding Strategy Statement (FSS) and ISS also address risk as relevant to each statement, including financial, demographic, and regulatory risks as well as investment, solvency, governance and ESG risks. The Fund's overriding approach to mitigating market-wide and systemic risk is to take a balanced approach to risk and return, seeking to maximise returns whilst minimising risk within acceptable parameters, and maintaining a diversified portfolio across many asset classes, managers, and geographies. This diversification across different markets and asset classes also reduces the Fund's exposure to the volatility of equities, which as at 31 March 2021 made up approximately 51% of the Fund. The Pension Committee believes that the additional returns that can be generated by equities compensates for the level of risk they add to the Fund, although exposure to diversifying assets helps to mitigate this additional risk.
- 4.7 Within its investment strategy the Fund has a 15% allocation to a Liability Driven Investment (LDI) mandate, an approach which recognises market risks such as changing interest and inflation rates and seeks to mitigate their impact on the Fund's liabilities. The Committee recognises that unhedged interest rate and inflation risk represents one of the Fund's largest investment risks, and so maintains an LDI strategy which invests in assets with similar sensitivities to changes in interest rates and inflation as the Fund's liabilities; changes in interest rates and inflation will therefore impact both assets and liability valuations in a similar manner, reducing funding level volatility.
- 4.8 The Fund also recognises that climate change presents a systemic financial risk that must be addressed, and in 2020/21 began a process to plan how the Fund will adapt to climate change and use its unique position to help drive systemic change. At the October 2020 Pensions Committee meeting a Responsible Investment plan was agreed by members with a pathway for developing a Climate Strategy and specific climate objectives, and in March 2021 the Committee reviewed the Fund's first carbon footprinting results. At that meeting, members agreed to formally adopt the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and instructed officers to work towards preparing a draft report. In 2021/22 the Fund plans to:
- Review and update the Committee's ESG and climate related investment beliefs;
 - Undertake climate scenario analysis;
 - Agree and set a long-term net zero target;
 - Announce interim net zero targets based on an agreed decarbonisation pathway;
- and

- Create a formal Climate Strategy to summarise the Fund’s approach to the risks that climate change present.

4.9 The Fund’s existing investment strategy already recognises the need to incorporate ESG considerations into investment decision-making, committing to reduce fossil fuel exposure within the Fund’s portfolio and considering the potential financial impacts of the transition to a low-carbon economy and the physical impacts of different climate outcomes. It has already moved to align its investments accordingly, for example by investing in a sustainable equity exclusion fund in March 2020, and expects to undertake further asset alignment to its net zero targets once they have been defined.

Continued Improvement of the Functioning of Financial Markets

4.10 The Fund has continued to engage throughout the last financial year with local authority colleagues, regulators, and industry bodies as part of its wider commitment to improving the functioning of financial markets, including continuing its ongoing membership of the Local Authority Pension Fund Forum (LAPFF) and the Pensions and Lifetime Savings Association (PLSA). One such initiative included taking part in the London CIV’s Cost Transparency Working Group, an attempt to redesign the pool’s funding model to allow the pool to better serve the needs of its clients and to increase transparency. The group of select London boroughs provided input to proposals developed by the LCIV and its consultant, for which work is still ongoing, and agreed to progress onto additional considerations including fee comparisons and charging structures.

4.11 The Fund recognises there will be plentiful opportunities to respond to market-wide and systemic risks in the immediate future, particularly with regards to the ongoing economic recovery from Covid-19, the longer-term impacts of Brexit, and the role that pension funds must play in the just transition to a low-carbon economy, and is committed to increasing its engagement with stakeholders in these matters for the benefit of the Fund and financial markets as a whole.

Principle 5: Review and Assurance

- 5.1 The Fund’s suite of policies and procedures are periodically reviewed internally by Fund officers, the Pensions Committee, and the Pensions Board as part of the normal stewardship activity of the Fund and the respective work programmes of the Committee and Board. Those strategies and policies relevant to investment and investment stewardship, such as the ISS and FSS, are formally approved by the Pensions Committee, and will be reviewed at least every three years to align with the triennial actuarial valuation though in practice are reviewed and updated on a more regular basis as appropriate. Such reviews aim to identify and implement any process improvements and reflect any developing initiatives or statutory changes; this may require additional policies and procedures to be drafted. The Fund’s latest policies can be accessed on the Fund website at the below link and, at the next review of the ISS and FSS from March 2022 a thorough review of how those strategies enable effective stewardship will be undertaken: <https://lgpslambeth.org/resources/>.
- 5.2 Going forward the Fund will seek to develop a dedicated Stewardship Policy to outline its key stewardship priorities and how the effectiveness of those priorities is measured. As a pooled member of the London CIV, the Fund values the importance the LCIV places on stewardship and its recognition of the ambition of its client funds; this drives its commitment to positive action, collaboration and leadership which in turn benefits the Fund.

Assurance

- 5.3 Effective stewardship is key to ensuring the high quality of service delivery that the Fund’s members expect, and the governance structure at the Fund has been created to provide assurance to the Fund’s stakeholders and governing bodies of the effectiveness of the Fund’s stewardship activities, making use of specialist, skilled and professional advice at every stage of Fund management.
- 5.4 As a Fund, there are several ways in which assurance is sought in relation to the Fund’s stewardship; for example;
- The Fund’s Annual Report and Financial Statements are externally audited; the most recently audited accounts for 2019/20 received an unqualified audit opinion, representing a “true and fair view” of the Fund’s financial transactions to have taken place during the year and the year-end balance of assets and liabilities.
 - The Fund commissions external governance reviews to gain assurance on its policies and procedures in place that relate to the administration and governance of the Fund. The most recent review was completed in 2018 which resulted in a comprehensive action plan to address and improve areas of non or partial compliance to the Pension Regulator’s Code of Practice. A follow-on review is planned for 2021/22 as set out in the Fund’s Business Plan for the year and approved

by the Pensions Committee at its July 2021 meeting; this review will also include a review of the Fund's stewardship policies. By seeking external assurance from an independent third party, the Fund and its stakeholders can be confident of an unbiased and unprejudiced view of the effectiveness of the Fund's stewardship processes.

- When contracts are due for renewal the Fund follows the stringent procurement policies of Lambeth Council as set out in Lambeth's Contract Standing Orders, which includes a policy on responsible procurement to ensure that all high value procurements focus on delivering value for money and achieving additional economic, social and environmental benefits.

5.5 The London CIV also maintains its own assurance controls for the benefit of its clients; all published policies, procedures and reports are required to pass through a formal review and internal assurance process. This ensures that their policies and any internal/external communications are in line with LCIV objectives and what is communicated is fair, clear and accurate. Responsible Investment (RI) policies and reports are drafted by the RI Team and reviewed by the Chief Executive Officer, Chief Investment Officer, Governance Team and Executive Team. The Compliance and Risk Team undertake periodic reviews of their RI framework to ensure compliance with regulatory obligations and to identify any risks.

Principle 6: Client and Beneficiary Needs

Scheme Membership

- 6.1 The London Borough of Lambeth Pension Fund is part of the Local Government Pension Scheme, a statutory public service scheme providing defined benefits to its members based on their earnings and length of service, and is administered by the London Borough of Lambeth on behalf of all 24 employers in the Fund. Benefits are funded by member contributions and investment returns and are guaranteed by statute.
- 6.2 Membership of the LGPS is open to all public sector employers providing some form of service to the local community and, whilst most members will be local authority employees (and ex-employees), other employers can also join the scheme where they are providing services in place of (or alongside) local authority services, such as academy schools, contractors, housing associations and charities.
- 6.3 As at 31 March 2021 there were 20,928 members in the Fund across three categories:
- 5,013 active members (representing 24% of membership) who are currently employed by one of the Fund’s employers, with an average age of 46.
 - 8,460 deferred members (representing 40% of membership): these are members who worked for a scheme employer in the past and are entitled to receive a pension from the Fund in the future.
 - 7,455 pensioner members (representing 36% of membership), being members who are currently receiving their pensions.
- 6.4 Lambeth Council is the largest employer in the Fund, accounting for 96% of overall membership, or 91% of active membership, 97% of deferred membership and 99% of pensioner members. Most of the other employers in the Fund are academies/education trusts or housing management organisations; further information is available on the Fund’s website.

Scheme Assets and Investment Time Horizon

- 6.5 As at 31 March 2021 the Fund’s assets were invested as set out in the table below.

Asset	Geography	31 March 2021 £000
Bonds		
Fixed interest securities	UK	222,409
Equities		
Pooled investments	Global (incl. emerging markets)	916,792
Other investments		
Pooled property investments	UK and Europe	159,115
Private equity	Global	72,508
Multi Asset Credit	Global	352,080
Private Debt	US and Europe	46,175
Subtotal		629,878
London CIV	UK	150
Cash instruments	UK	34
Subtotal		184
Total investment assets		1,769,263

- 6.6 The Lambeth Pension Fund takes a long-term view with regards its investment and funding strategies, given the long-term nature of the payments due to beneficiaries over a 50+ year time horizon. The Fund's primary investment objective therefore is to achieve an overall rate of return that is sufficient to ensure that assets are available to meet all liabilities as and when they fall due; to achieve this, the Fund must ensure its long-term solvency by adopting a prudent long-term view of not just investment returns but the changing liabilities of the Fund and the forces that will impact on them in the future, investing over the long-term to align with its long-term liabilities. In recognising these variables, the Fund's investment strategy also allows for some flexibility to manage short-term volatility in markets, the different risk/return profiles across asset classes, and the changes to cashflow requirements as the membership profile of the Fund or benefit structure changes.

Communication with Members

- 6.7 Lambeth Pension Fund is committed to delivering value to its members and other stakeholders, ensuring strong lines of communication and readily available information when it is needed and in whatever format or language it is required, in recognition of the culturally rich and diverse client base the Fund serves. It communicates with its members, employers, and other interested parties on a regular basis (continuing with its regular communication throughout the Covid-19 pandemic) and sets out how it does this, and how it measures the success of that communication, in its Communication Policy Statement (available on the Fund's website at the following link: <https://www.lgplambeth.org/resources/communications-policy-statement/>).

- 6.8 The Fund’s communication objectives not only include being able to resolve member queries and complaints to the customer’s satisfaction, but also to educate and explain to existing and prospective members the benefits of the LGPS. To that end, the Fund maintains its own website which acts as the first point of reference for information on the Fund, as well as providing a central depository for all Fund documentation including policies and procedures, funding and investment strategies, and various request forms. This provides a readily accessible route for communicating the Fund’s stewardship activities to its beneficiaries and other interested parties, particularly as societal and environmental changes have seen an increased interest from the Fund’s members on how their pensions are invested responsibly and ethically. In 2020/21 the Fund website received an average of 294 visits per month, with half of those typically coming via search engine results and most of the others directly by typing in the web address or using a saved favourite.
- 6.9 The Fund also communicates with members via alternative means; benefit statements are issued every year providing an estimate of benefits, whilst newsletters are sent out at least annually to both active and pensioner members setting out useful and topical information relating to the Fund, such as changes to scheme regulations and updates on Fund performance. New members are issued with a scheme guide on joining the Fund, whilst one to one sessions and presentations are available on request.
- 6.10 There is also a Member Self Service (MSS) online platform where members can register and access details about their personal pension rights and benefits. As at 31 March 2021 there were 2,868 registered users of MSS representing 14% of Fund membership; officers encourage all members to use MSS, and links are provided in emails and other communication.
- 6.11 As part of its engagement with beneficiaries and employers of the Fund, the views of those members and employers are sought for various purposes; for example:
- When finalising the Funding Strategy Statement the views of employers in the Fund are sought through a consultation period where employers and their members can provide feedback on the content of the Statement;
 - Membership of the Pensions Committee and Pensions Board is open to direct member representation through active, pensioner and trade union members; these co-opted members provide an opportunity for beneficiary representation on the respective panels, particularly for those with decision-making authority on the Pensions Committee;
- 6.12 To measure the effectiveness of its communication methods the Fund has set several target delivery periods for issuing and responding to certain requests, all much earlier than the statutory timeframes where applicable and as set out in its Communication Policy. Updates on administrative performance in general, including performance indicators, are reported to the Pensions Board every quarter, including the number of complaints received and actions taken to resolve them.

Principle 7: Stewardship, Investment and ESG Integration

- 7.1 Lambeth Pension Fund requires its investment managers to integrate all material financial factors including ESG considerations into the decision-making process for all fund investments, and delegates to them responsibility for making individual investment decisions that are in line with those integrated considerations. The Fund’s Pension Committee believes that ESG (including climate change) risks should be considered on an ongoing basis as a priority and that management of those risks is consistent with the Committee’s fiduciary duty as set out in its investment beliefs. ESG considerations are an integral part of the Fund’s strategy as a long-term investor, and the Committee receives quarterly ESG updates from its investment adviser by way of ESG ratings for each of the Fund’s managers.
- 7.2 These ratings, on a scale of 1 to 4, are assigned to managers and their strategies according to their integration of ESG into the investment process. The best strategies, rated 1, are those the advisers believe to be leaders in integrating ESG and active ownership into their core processes and where ESG is central to idea generation or portfolio construction; the worst, rated 4, provide little evidence of any integration of ESG and active ownership into core processes.
- 7.3 When taken into consideration with traditional alpha ratings assigned to managers by the Fund’s advisers, as well as investment performance, the Committee can form a view of the Fund’s managers and engage accordingly, either to seek reassurance from the managers or consider investing elsewhere. In addition, the Committee uses these ESG ratings and considers other ESG factors when procuring new managers to ascertain the extent of ESG integration within a strategy, as part of the wider evaluation process. For example, in December 2020 the Fund procured a new multi asset credit fund managed by M&G in a joint exercise with the London Borough of Islington. In evaluating ESG integration, managers were asked to disclose how carbon risk is incorporated into their strategies whilst firms with strong ESG policies were favoured over others. Managers were scored on several ESG factors including:
- Evidence of being a signatory to the UN Principles for Responsible Investment;
 - The resources available for ESG integration, and the extent of that integration in the portfolio;
 - How ESG factors are reported to investors; and
 - Any ESG affiliations that support the manager’s overall integration of ESG.
- 7.4 M&G was notable for screening companies in breach of the UN Global Compact standards, for having a dedicated central ESG resource to oversee stewardship activities, and for making use of ESG scorecards based on the Sustainable Accounting Standards Boards (SASB) framework.

- 7.5 As at 31 March 2021 none of the Fund’s investment managers/strategies were rated 4 by the Fund’s adviser, although four managers were rated at 3 suggesting a small degree of progress has been made by those managers to integrate ESG factors into their stewardship and investment activities but there is much room for improvement to integrate ESG factors into core investment processes. The Fund is committed to developing its ESG assessment of managers and in 2021/22 will work with its adviser to improve the measurement of fund manager ESG integration, to better contextualise the information reported to Committee, and to seek alternative measures of ESG integration to expand on current reporting and improve the ongoing monitoring of managers. By improving the quality and range of ESG reporting of Fund investments, the Pensions Committee will be better able to carry out its stewardship responsibilities, particularly with regards to the transition of the Fund’s assets into more sustainable asset classes that meet future net zero targets.
- 7.6 The Fund has committed to reduce climate change risk by eliminating fossil fuel exposure from the Fund’s portfolio, and considers this a priority issue when procuring any new managers. The Committee expects to continuously review further opportunities, across all asset classes, to reduce the Fund’s reliance on sensitive assets by considering the potential financial impacts of both the transition to a low-carbon economy and the physical impacts of different climate outcomes. The Committee expects its investment managers to include information on how fossil fuels are being managed within their respective portfolios as part of regular reporting for the Fund, and this information is reported to both the Committee and Pensions Board on a regular basis as a means of monitoring progress towards fossil fuel reduction.
- 7.7 The Fund recognises the importance of responsible investment principles as an integral part of any pension’s investment strategy, and the increasing relevance of RI and ESG factors as material interests to the Fund’s stakeholders. The Fund aims to improve its integration of RI and ESG considerations into its stewardship activities and its decision-making throughout the investment value chain, improving the transparency of Fund performance in this area through regular, high-quality disclosure. In March 2021 the Pensions Committee instructed Fund officers to develop a Climate Strategy for the Fund with specific objectives and measurable targets against which to monitor progress. In addition, the Committee has agreed to formally adopt the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and has instructed officers to compile an initial report using the TCFD framework, analysing the Fund’s governance, risk management, strategy, and metrics and targets in relation to climate risks and opportunities; work is ongoing on both reports.

Principle 8: Monitoring Managers and Service Providers

- 8.1 Lambeth Pension Fund believes that effective monitoring of its managers and service providers is an essential aspect of good stewardship activity, and adopts several methods of monitoring its providers to ensure services have been delivered as expected.
- 8.2 The Fund monitors its managers through regular in-person and virtual meetings and calls, engagement at conferences, attendance at performance update webinars and calls, and through its advisers and the London CIV. The Fund receives quarterly performance updates from its investment advisers summarising financial performance against a wider market backdrop as well as a measure of the managers' progress towards integrating ESG factors into their core processes. These reports are reported at both Pensions Committee and Pensions Board. Managers are invited to Pensions Committee meetings where there are particular areas of concern that the Committee wish to escalate or otherwise periodically to ensure strong ongoing monitoring of the Fund's asset managers by its decision-makers.
- 8.3 The London CIV prepare quarterly performance and voting reports for its clients as well as monthly capital statements, which allows for effective monitoring of managers' engagement, voting, and wider ESG activity in line with the Fund's policies. The CIV hold monthly business update meetings with its clients to update on pooling progress and any new pool developments, as well as 'meet the manager' sessions which give clients the opportunity to engage directly with managers. Officers also maintain regular dialogue with the LCIV on all aspects of Fund management. A quarterly update is presented to the Pensions Committee and Pensions Board summarising performance information as well as service delivery, mandate development and wider pooling updates. The CIV periodically present at Pensions Committee meetings which ensures regular face-to-face interaction with the LCIV client servicing team.
- 8.4 The Fund has established a list of 7 strategic objectives for its investment advisers, Mercer, in compliance with the Competition and Markets Authority 2019 Order, "The Investment Consultancy and Fiduciary Management Market Investigation Order". The objectives are aligned with the Fund's primary objective to be able to pay member benefits as and when they fall due, and include a requirement to consider the responsible investment responsibilities of the Fund and to assist in determining and delivering an appropriate investment strategy. The objectives will be reviewed and amended, if necessary, after any significant changes to the Fund's investment strategy or objectives, and at least every three years. The Fund monitors adherence to the objectives and engages in client feedback meetings with Mercer where officers can flag concerns but also highlight areas of the relationship that are working well, as well as identifying any future needs and how they might best be met.

Principle 9: Engagement

- 9.1 The Fund believes that effective management of financially material environmental, social and governance risks will support the Fund’s long-term approach to protect and enhance the value of the Fund’s assets. The Investment Strategy Statement includes the requirement that its investment managers integrate all material financial factors, as well as corporate governance and ESG considerations, into the decision-making process for all its investments. The Fund expects its managers to follow best practice and use their influence as major institutional investors and long-term stewards of capital to promote best practice in the investee companies and markets to which the Fund is exposed, and shares the Fund’s policies with managers and the London CIV so that those expectations are clear.
- 9.2 The Fund’s officers regularly engage and meet with Fund stakeholders, such as the London CIV and investment managers, for regular updates on investment performance, new fund developments or strategy changes, which are reported to the Pensions Committee as relevant. The Fund has also instructed its external advisers Mercer to engage with its investment managers on its behalf, and this requirement is embedded within specific strategic objectives for its advisers which include aligning its services with the overall objectives of the Fund, considering the Fund’s responsible investment requirements in supporting the Fund, and assisting with the monitoring of the Fund’s chosen investment strategy. The advisers report to the Pensions Committee at least quarterly on manager performance which includes business updates and comments on assurances sought from asset managers regarding issues of concern.
- 9.3 The London CIV engages directly with issuers and investment managers on the Fund’s behalf for those assets which the Fund has pooled, recognising that at the macro-level it must consider top-down global risks and client priorities and, from a bottom-up perspective, recognise the micro-risks of individual assets and the social and financial materiality of those risks. The Fund’s policies and beliefs align with those of the London CIV so that the Fund is confident that when the CIV engages on its behalf, it does so in a manner which is consistent with the Fund’s own policies and objectives. For example:
- In 2020 the CIV engaged with Baillie Gifford on behalf of the Fund, in respect of the investment in its global equity growth fund, to raise concerns about its holdings in Tesla; specifically, that it was one of the highest contributors to the pool’s weighted average carbon emissions. Baillie Gifford reported that Tesla’s disclosures on its environmental and social impact have improved considerably over recent years, and that it actively encouraged Tesla to continue to lead and innovate on impact and sustainability. The manager remains supportive of Tesla’s efforts and will continue to engage in active dialogue with the company, playing their part as responsible stewards of the business. This was reported to the Fund’s Pensions Committee which noted the engagement and agreed with the action taken.

9.4 Further examples of engagement activities that have been undertaken and reported to the Pensions Committee in 2020/21 include:

- In May 2020 Mercer notified the Committee of changes to the management team of the Global Alpha strategy at Baillie Gifford, specifically the retirement of a long serving Senior Partner. However, following discussions with the manager, Mercer were comforted by the significant period of notice in which Baillie Gifford had to plan a handover, the promotion of internal talent, and the explicit steps taken to address concerns raised about diversity on the team.
- In December 2020 the London CIV were invited to attend Pensions Committee and update members on developments at the pool, including the performance of the Fund's assets pooled with the CIV, as well as explain the CIV's approach to responsible investment and a timeline for implementation.
- Officers engage with fund managers on a regular basis, whether in person, by email or virtually, to carry out due diligence on ongoing performance, adherence to agreed policies and to audit the Fund's exposure to fossil fuels which is reported to Committee.

9.5 The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF is the UK's leading collaborative shareholder engagement group encompassing over 80 local authority pension funds and 7 investment pools from across the country with combined assets of £300 billion. On the Fund's behalf, the Forum engages directly with company chairs and boards to affect change at investee companies, challenges regulators, and delivers reforms that advance corporate responsibility and responsible investment.

Principle 10: Collaboration

- 10.1 Lambeth Pension Fund recognises the value in engagement with partner organisations and other stakeholders, whether with other LGPS funds, service providers, industry bodies or regulators, and is committed to actively engaging and collaborating with those partners. This includes working collaboratively with likeminded pension funds, particularly those in London, and the London CIV on issues related to climate change and ESG, particularly as the Fund focuses on decarbonisation and engagement as opposed to divestment, and in developing mandates that meet the needs of multiple boroughs.
- 10.2 The Fund has a strong history of collaborating with partner London boroughs, particularly in regard to joint procurements of asset managers to achieve cost savings and efficiencies. For example, the Project Monument pool of five boroughs in 2018 collaborated to procure two private debt managers, Churchill and Permira, at a time when the London CIV was not in a position to launch such a fund. More recently, in 2020 the Fund worked with the London Borough of Islington Pension Fund in a joint procurement exercise to appoint M&G as a multi asset credit manager, where the strategy of both Funds could be aligned, and savings achieved through cost sharing.
- 10.3 The Fund maintains a strong relationship with the London CIV, and has to date been involved in several ‘Seed Investor Groups’ (SIGs), working with the pool and other boroughs to generate ideas and proposals for new mandates from early-stage development through to fund launch. The London CIV also engages with a wide range of initiatives and pensions bodies on behalf of the Fund, as well as working with other pools, by collaborating in joint initiatives and working groups such as the Asset Owner Diversity Working Group, the Cost Transparency Initiative (CTI), and the Marine Conservation Society’s Microplastic Pollution Collaboration.
- 10.4 As an example, the Cost Transparency Initiative (CTI) is a new industry standard for institutional investment cost data which aims to increase the availability of comprehensive and transparent information on investment costs and charges, helping investors to decide if investments represent value for money. The Pensions and Lifetime Savings Association (PLSA) created a set of templates and tools which together form a framework that asset owners can use to receive standardised cost and charges information from asset managers. By collaborating with the London CIV and the PLSA on this initiative, the Fund has been able to issue CTI templates to its asset managers which has improved the analysis and reporting of investment management expenses to the Pensions Committee and within the Fund’s accounts.
- 10.5 In 2021/22 the Fund will seek to become a member of the Occupational Pensions Stewardship Council (OPSC), a forum for sharing experience, best practice and research, and providing practical support; it is hoped that membership of this forum will help the Fund to improve and collaborate with others on its stewardship activities and issues such as shareholder resolutions, climate change and diversity and inclusion.

Principle 11: Escalation

- 11.1 The Fund expects its investment managers, and the London CIV, to undertake appropriate monitoring of current investments with regards to their policies and practices on all issues which could present a material financial risk to the long-term performance of the Fund, including environmental, social and corporate governance factors. Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage.
- 11.2 Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other parties as required and permitted by the relevant legal and regulatory codes. The Fund also expects its investment managers to escalate any stewardship activities on its behalf, in line with best practice but particularly in line with any applicable recommendations of the Fund, when company dialogue is too slow or unresponsive, or when there are concerns that require ongoing dialogue and a change in approach by the underlying company.
- 11.3 The Fund monitors its investment managers' engagement activities through regular reports and discussion, including those occasions when managers have escalated their approach when required. Examples include:
- From May 2020 the London CIV raised concerns with Baillie Gifford, the Fund's global equity manager, concerning its investment in Rio Tinto, a metals and mining company which hit the headlines for its destruction of a site of cultural significance in Western Australia. A meeting was called with Baillie Gifford to discuss whether they would engage with the company to raise the issue of proper engagement with local communities. Baillie Gifford suggested a number of changes to the Board of Rio Tinto, including the appointment of a Group Head of Sustainability to report directly to the CEO, which gave the London CIV and Lambeth Pension Fund as an investor the reassurance that Rio Tinto was committed to making greater efforts to balance its impact as a natural resource extractor against its responsible investment objectives.
 - In late 2020 the Fund's emerging market equity manager, JP Morgan, engaged with the President Chain Store Corp, a Taiwan-based food and drug retailer, to discuss areas where the company fell short of the asset manager's materiality framework (setting out how ESG factors should be integrated within the investment process). This included raising concerns about the low level of female board participation and discussions about the removal of tobacco advertising from its stores to comply with ESG best practices. The company committed to seriously considering the recommendations and JP Morgan continues to monitor progress.
 - In early 2021 the Fund's sustainable equity exclusion manager, RBC, escalated concerns with Bluebird Bio, a biotechnology company that develops gene therapies

for severe genetic disorders and cancers, about a health scare with a recent gene therapy trial which led to the stock to decline, as well as the implications of plans to split the company into two. The manager spent a lot of time in discussions with the CEO, Head of R&D, and Chairman of the Board to understand the reasons for both incidents and gain the necessary assurances that the company remained a viable investment option for investors.

Principle 12: Exercising Rights and Responsibilities

- 12.1 The Lambeth Pension Fund is a long-term active investor that takes seriously its role in fostering and promoting higher standards of stewardship, and believes that good stewardship can enhance and protect the long-term interests of the Fund and its ultimate beneficiaries.
- 12.2 The Fund has a commitment to actively exercising the ownership rights attached to its investments, reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests and recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees, other stakeholders, and wider society.
- 12.3 Voting rights give shareholders both the opportunity and responsibility to participate in the stewardship of companies, and the Fund delegates these rights and responsibilities to its investment managers. There are of course different expectations for managers depending on the asset class, fund, and geography, noting that engagement can be more challenging for pooled funds, alternative assets such as those in private markets and fixed income, and those in emerging markets; however, the Fund's policy on the exercise of its rights, as set out in its ISS, allows for flexibility in these expectations with due consideration for the particular circumstances of each company. As a minimum, all managers are expected to engage with invested companies on areas related to ESG issues and, in particular, to exercise voting rights with regards to ESG factors in a manner that will most favourably impact the Fund and which is aligned with the Fund's own objectives.
- 12.4 The Fund expects its managers to use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed, and to report to the Fund on their engagement with company management and their voting record.
- 12.5 The Fund's investments through the London CIV, which account for 64% of the Fund and include investments in global and emerging market equities and multi asset credit, are covered by the voting guidelines of the CIV which have been agreed by the Shareholder Committee. The London CIV's investment managers are expected to vote on all proxies considering the impact of ESG factors to ensure shareholder value is maximised, and to vote in accordance with guidelines issued by the Local Authority Pension Fund Forum as far as is practically possible to do so (or explain why not).
- 12.6 The Fund recognises that more needs to be done to develop its approach to exercising its rights and responsibilities, particularly with regards the reporting of voting and engagement for scrutiny by the Pensions Committee and Pensions Board and the public disclosure of such information for its members' benefit; it will work with its advisers, fund managers and the London CIV in 2021/22 to refine and improve its approach.