



# **Merton Pension Fund**

## **Responsible Investment Policy**

**March 2018**

## **Merton Pension Fund - Responsible Investment Policy Statement**

Regulation 7(2) (e) The. Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires an administering authority to demonstrate that it considers any factors that are financially material to the performance of the Fund's investments, including social, environmental and corporate governance factors, depending on the time horizon over which their liabilities arise.

The Merton Pension Fund is committed to being a long-term responsible investor. The Fund complies with and follows the principles of both the UK Stewardship Code and to the UN-backed Principles of Responsible Investment.

Responsible Investment is an investment approach which recognises the significance of the long-term health and stability of the market as a whole. It encompasses both the integration of material Environmental Social and Governance (ESG) factors within investment analysis and decision-making and the active use of ownership rights to protect and enhance shareholder value over the long term – primarily through voting and engagement.

The objective of responsible investment is to decrease investor risk and improve risk-adjusted returns. Responsible investment principles are at the foundation of the Fund's approach to stewardship and underpin the Fund's fulfilment of its fiduciary duty to scheme beneficiaries.

ESG integration and the active use of ownership influence are integral to the investment management services provided by the Fund investment managers (including the London Common Investment Vehicle, LCIV), which are delivered in accordance with Merton Pension Fund's Responsible Investment Policy. The Policy forms part of the investment strategy statement

**It is Merton Pension Fund's belief that ESG factors are relevant at every stage in the investment cycle - within investment strategy, investment selection and within the stewardship of assets in ownership.**

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all Fund investments. It expects its managers to follow good practice and 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.

The Fund expects its external investment managers to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund, such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within their investment analysis and decision-making.

The Fund shall invest on the basis on financial risk and return, after considering a full range of factors which contribute to financial risk, including both those detailed above and also relevant social factors, to the extent these indirectly or directly impact on financial risk and return.

## **EXERCISING THE RIGHTS OF OWNERSHIP**

The Fund recognises that encouraging the highest standards of corporate governance and promoting corporate responsibility by investee companies protects the financial interests of pension fund members over the long term.

The Fund's commitment to actively exercising the ownership rights attached to its investments reflects the Fund's conviction that responsible asset owners should maintain oversight of both the way in which the enterprises they invest in are managed and how their activities impact upon customers, clients, employees, stakeholders, and wider society.

The routes for exercising ownership influence vary across asset types. A range of activities are undertaken, including voting at companies' AGMs and participation in partnerships and collaborations with other investors. These partnerships include membership of the Local Authority Pension Fund Forum (LAPFF). In the case of listed equities, the most direct form of ownership influence comes through shareholder voting and engagement.

## **VOTING**

Voting is delegated to individual managers and is in line with an agreed voting policy which promotes risk mitigation and long-term shareholder value creation by supporting responsible global corporate governance practices.

The managers should also consider and share the advice and guidance from LAPFF on voting.

## **ENGAGEMENT**

The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund appreciates that to gain the attention of companies in addressing governance concerns, it needs to join with other investors sharing similar concerns. It does this primarily through:

- Membership of representative bodies including LAPFF and the Pensions and Lifetime Savings Association (PLSA);
- Giving support to shareholder resolutions where these reflect concerns which are shared and affect the Fund's interests;
- Joining wider lobbying activities when appropriate opportunities arise.