

Appendix 1: CITY OF WESTMINSTER PENSION FUND ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) POLICY WITHIN THE INVESTMENT STRATEGY STATEMENT

The Present ESG Policy (found within section 6 of the ISS)

Introduction

6.2 The City of Westminster (WCC) Pension Fund (the Pension Fund) is committed to being a responsible investor and a long-term steward of the assets in which it invests. The Fund has a fiduciary duty to act in the best interests of its beneficiaries and this extends to making a positive contribution to the long-term sustainability of the global environment.

6.3 The Pension Fund recognises that the neglect of corporate social responsibility and poor attention paid to environmental, social and governance (ESG) issues may lead to poor or reduced shareholder returns. This presents a significant responsibility for the Pension Fund Committee (the Committee). The ESG approach has become integral to the Fund's overall investment strategy.

6.4 The Fund maintains a policy of non-interference with the day-to-day decision making of the investment managers. The Committee believes that this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and the appropriate disclosure and reporting of actions.

6.5 There are a wide range of ESG issues, with none greater currently than climate change and carbon reduction. The Pension Fund recognises climate change as the biggest threat to global sustainability alongside its administering authority employer, Westminster City Council, which has committed itself to achieving carbon neutrality by 2030.

6.6 Members of the Pension Fund place their trust in the Pension Fund Committee who hold a fiduciary duty to act in the members' best interests and ensure that their pension benefits are fully honoured in retirement. That is why, as well as targeting investment returns that match the pension liabilities, the Committee is committed to managing the investment risks: the risks that pose a substantial threat to LGPS members' long-term future.

6.7 The Pension Fund's revised investment strategy should be governed by the following investment principles, which are set out below

6.8 Investment Principles

- The Pension Fund as a long-term investor, is committed to **investing to build a better future** through the integration of ESG issues at all stages of the investment decision-making process.
- Through active ownership, the Pension Fund **engages with the investment community** to help ensure a sustainable future for all its stakeholders. This includes demanding best practice amongst its investment managers and challenging their investment outcomes where appropriate.
- The Pension Fund recognises that significant value can be achieved through **collaboration with other stakeholders**. The Pension Fund will work closely with its LGPS pool company (the London CIV), other LGPS funds and member groups such as the Local Authority Pension Fund Forum (LAPFF) to ensure corporate interests are aligned with the Pension Fund's values.
- The Pension Fund wants to **gain the trust and pride of members** in the governance process and the way in which in the Fund is invested on their behalf. It is important for the Pension Fund to be completely transparent and accountable to members and stakeholders.

6.9 Policy Implementation: investing to build a better future

The Pension Fund will continue to assess investment opportunities that have a positive impact on society as whole. These include but are not limited to, investments in fixed income (green bonds), property, low carbon assets, renewables and social impact opportunities. The Fund currently has a 5% allocation to global infrastructure, where the asset manager has the freedom to invest within renewables if a suitable venture presents itself.

The Pension Fund views engagement with companies as an essential activity and encourages companies to take position action towards reversing climate change. The Westminster Pension Fund is a responsible owner of companies and cannot exert that positive influence if it has completely divested from carbon intensive producing companies. The Pension Fund will continue to encourage positive change whilst officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including carbon and other ESG considerations.

6.10 Policy Implementation: engaging with investment community

Institutional investors have the power to influence and change behaviour globally. The WCC Pension Fund believes that there is significant value in being able to actively engage with the companies we invest in and be part of the transition to a global, low carbon economy.

The Fund expects managers to integrate ESG factors into investment analysis and decision making. Monitoring these effectively can assist with resolving issues at early stages through effective engagement with companies and board members. The Fund expects asset managers where possible to engage and collaborate with other institutional investors, as permitted by relevant legal codes to ensure the greatest impact.

The measurement of ESG performance is still developing and benefitting from significant improvements. There are several performance benchmarks and disclosure frameworks that exist to measure the different aspects of available ESG data which include carbon emissions and a variety of social impact scores.

- The Pension Fund carries out a carbon footprint exercise on its separate portfolios annually via a specialist firm. The outcome of this measurement exercise will be instrumental in ensuring that the fund is able to meet its decarbonisation goals through effective asset allocation.
- The Pension Fund will continue to work closely with its investment managers to measure the carbon impact of its investments. This will involve developing internal metrics and agreed targets which will be reviewed on a regular basis.

Increasingly, there is growing interest in the investment community to develop investment strategies that focus on sustainable investments. As well as the wider investment community, the Pension Fund will support and contribute to the work carried out by the London CIV in the development of sustainable investments.

6.11 Policy Implementation: collaboration with other stakeholders

The introduction of pooling across the Local Government Pension Scheme (LGPS) will impact how the Pension Fund's responsible investment policy is implemented. The WCC fund is committed to playing a key role as part of the LGPS London CIV pool, with circa 70% of assets pooled.

As asset owners, the Pension Fund, in line with its investment strategy, is responsible for deciding how its assets are invested through its strategic asset allocation. In addition to engaging with the investment community, the Pension Fund will continue to work closely with other UK and London LGPS funds to find common solutions for ESG issues.

As more funds are onboarded into the London CIV, the Pension Fund expects to further increase its investment in the pool. This is expected to create economies of scale and increased synergies for the Pension Fund through a significant reduction in management fees and greater influence when engaging with external stakeholders. The London CIV will manage the Pension Fund's investments in line with the Fund's strategic objectives and those of the other London LGPS Funds.

The Pension Fund actively contributes to the engagement efforts of pressure groups, such as the Local Authority Pension Fund Forum (LAPFF) and requires investment managers to vote in accordance with the LAPFF's governance policies. In exceptional cases, investment managers will be required to explain their reason for not doing so, preferably in advance of the AGM. This will be monitored on a regular basis.

6.12 Policy Implementation: gaining our members trust

WCC's LGPS members have spent at least part of their careers helping to deliver key services to their community. It is important for them to understand how their Pension Fund is managed and the contribution its investments make in securing a sustainable future. Members are encouraged to take an active interest in the governance processes of their Pension Fund and their views are represented within the work of the Local Pension Board.

The Pension Fund will aim to provide members with a variety of information which allows them to easily understand the types of investments within the portfolio.

The Pension Fund reports on its overall performance annually through an annual report which is readily accessible to members on the fund's website.

Data within the annual report will include investment performance, an assessment of the key performance indicators (KPIs) of the Fund's administrative function and the Fund's assessment of its many risks.

The Pension Fund hosts an annual general meeting (AGM), following the end of the financial year, which all members and key stakeholders are invited to attend. This includes updates on the administration service, investment performance from our investment advisor, as well as a market update from an asset manager and a presentation from our actuary.