Appendix 1 - UK Stewardship Code

Application for Signatory of the Code

Westminster City Council Pension Fund

Principle 1

- **Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, environment, and society.**

The Westminster Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), and its mission is to provide an efficient and equitable pensions solution for all employees, deferreds and pensioners of all eligible employers in Westminster, in accordance with the requirements of the current legislation for the LGPS.

Westminster City Council (WCC) has delegated the management of the Pension Fund to the Pension Fund Committee (the Committee) who decide on the investment policy most suitable to meet the liabilities of the scheme and the ultimate responsibility for the investment strategy lies with the Committee. The Committee has appointed Deloitte as its independent advisor on investment strategy and to oversee the activities of the investment managers.

Westminster Pension Fund publishes a yearly Investment Strategy Statement and Responsible Investment Statement. These documents can be found on the Pension Fund website.

As mentioned in the Investment Strategy Statement (ISS), Westminster has defined the following investment beliefs:

Investment Governance

a. The Fund has access to the necessary skills, expertise, and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund's assets, such as cash management.

b. Investment consultants, independent advisors and officers are a source of expertise and research to inform and assist the Committee's decisions.

c. The aim of the Fund's investments is to pay pension liabilities when they become due. The Committee will therefore take account of liquidity and the long-term ability of the Fund to meet these obligations.

d. The Fund is continuously improving its governance structure through bespoke training to implement tactical views more promptly but acknowledges that it is not possible to achieve optimum market timing.

Long Term Approach

a. The strength of the employers' covenant allows the Fund to take a longer-term view of investment strategy than most investors.

b. The most important aspect of risk is not the volatility of returns, but the risk of absolute loss over the medium and long term. This would in turn impact the ability of the employers to make adequate contributions to meet the Fund's liabilities.

c. Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long-term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.

d. Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

e. Over the long term the Fund believes that investments with negative externalities will perform worse than investments with positive externalities.

Environmental, Social and Governance (ESG) factors

a. Certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Fund's investments and the likelihood that the Fund's objectives will be achieved.

b. Well governed companies that manage their business in a responsible manner are less vulnerable to downside risk and may therefore produce higher returns over the long term.

c. In order to improve corporate governance, investment managers should exercise the voting rights attached to the shares they own, as well as engage with management of the companies they invest in.

d. Environmental considerations form a part of the Committee's decision-making process when making investment allocations.

e. If an investment manager fails to consider ESG issues, the Committee is prepared to disinvest assets from that manager.

f. The Fund's Responsible Investment Statement governs the approach to ESG in more detail.

Asset allocation

a. Allocations to asset classes other than equities and government bonds (e.g., corporate bonds, private markets, and property) offer the Fund other forms of risk premia (e.g., additional solvency risk/illiquidity risk).

b. Diversification across asset classes and asset types that have low correlation with each other will tend to reduce the volatility of the overall Fund return.

c. In general, allocations to bonds and alternatives are made to achieve additional diversification. As the funding level improves, the Committee may look to certain lower risk strategies to mitigate liability risks and thus dampen the volatility of the Fund's actuarial funding level.

Management Strategies

a. A well-balanced portfolio has an appropriate mix of passive and active investments.

b. Passive, index-tracker style management provides low-cost exposure to equities and bonds and is especially attractive in efficient markets.

c. Active management will typically incur higher investment management fees but can provide additional return. Fees should be aligned to the interests of the Fund.

d. Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.

e. Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce long term outperformance.

f. The Fund manages currency risk through a sterling hedge overlay on its passive equity portfolio.

Activity

The Pension Fund Committee is made up of four elected Members of the Council (three from the majority party and one minority party representative) who meet at least four times a year. All members have full voting rights.

The purpose of the Local Pension Board is to provide oversight of the Fund Committee. The Board comprises six members: three from the Council representing employers and three employee representatives. The Chairman is elected by the Board.

Outcome

The Committee approves the Investment Strategy Statement, Responsible Investment Statement, and the Annual Accounts of the Pension Fund, on an annual basis. All key policies and strategies are reviewed on a regular basis to ensure that the Fund is in the best position to oversee the long-term interests of the beneficiaries and ensure best practice is being implemented. As shown in Westminster's most recent strategy and statements published by the Fund, ratified by the Pension Fund Committee, there is a shared view across Westminster that environmental, social and governance factors will be integral to the long-term sustainability of the Fund and future returns.

As a result, ESG factors are having an increasing impact on investment decisions and the Fund is committed to being a responsible investor and a long-term steward of the assets in which it invests. There is a consistent approach and set of values to assist members in the making of investment decisions on the Fund. Members are bound by their fiduciary duties to act in the best interests of the beneficiaries, and this extends to making a positive contribution to the long-term sustainability of the global environment.

As detailed within the 2021 and 2022 Responsible Investment Statements the Fund is now able to track the carbon impact of the Fund's investments and the reduction the Pension Fund has seen over time, compared to the FTSE World Index. With the weighted average carbon to value invested of the Fund falling by circa 40% since June 2019.

The Pension Fund Committee and Local Pension Board have given a clear directive to move to more sustainable and forward-looking investments for the Fund for the long-term interests of scheme members across Westminster. Accordingly, investment managers have been appointed that represent the values held by Westminster and the Pension Fund itself.

To further align with the Pension Fund's strategy, the Committee directed officers to transition its London CIV (LCIV) UK Equity allocation and Legal & General (LGIM) Global Passive Equities into the LCIV Global Sustain Fund and LGIM Future World Fund. The Global Sustain Fund seeks to provide a concentrated high-quality global portfolio of companies, excluding tobacco, alcohol, gambling, weapons, fossil fuels, and gas/electrical utilities. The LGIM Future World Fund tracks the L&G ESG Global Markets Index, whereby an Environmental, Social and Governance screening of companies takes place to remove those companies which do not meet the required ESG criteria.

<u>Principle 2</u>

- **Signatories' governance, resources, and incentives support stewardship**

<u>Activity</u>

The Westminster Pension Fund is a part of the Local Government Pension Scheme (LGPS). The governance and management of the Fund is the responsibility of the Pension Fund Committee. The Committee oversees the appointment and ongoing scrutiny of external investment managers, to whom the day-to-day responsibility for implementing stewardship is delegated.

Through the Pension Fund Committee, and the Executive Director of Finance and Resources and his officers and advisors, there is sufficient resource and capacity to monitor and support stewardship activities. Alongside the officers and Committee, the Fund has appointed an external independent consultant, Deloitte, to give their expertise to assist the Committee in investment decisions. The Independent advisor is reviewed on an annual basis, as per the requirements of the Competition and Markets Authority (CMA), to ensure the highest quality service and advice is being given to the Committee.

The Pension Fund views active engagement as an essential activity in ensuring long-term value and encourages investment managers to consider assessing a wide range of factors. Pension Fund officers engage with the investment managers on an ongoing basis to monitor overall investment performance, including ESG factors and considerations.

This is implemented through regular meetings with investment managers to assess investment performance and the progress made towards achieving ESG targets; reviewing reports issued by investment managers and challenging performance where appropriate; working with investment managers to establish appropriate ESG reporting and disclosures in line with the Pension Fund's objectives; contributing to various working groups that seek to positively influence the reporting of industry standards on ESG metrics; actively contributing to the efforts of engagement groups such as the LGPS Local Authority Pension Fund Forum (LAPFF), of which the Fund is a member.

To ensure that the members of the Pension Fund Committee and Local Pension Board have the required knowledge and skills to fulfil their role, they undertake an annual training programme based on requirements identified from CIPFA's Knowledge and Skills framework. This includes training on responsible investment, risk management, Environmental, Social and Governance (ESG) factors.

Outcome

The Pension Fund Committee receives quarterly performance reports on all asset classes to ensure that Westminster's long-term vision, investment beliefs, strategy, and culture are kept closely aligned and adhered to by the appointed investment managers.

Officers arrange at least three training sessions a year for Committee and Board members, these sessions cover topics on investment principles, responsible Investment, corporate governance and environmental, social and governance (ESG) factors and risk. Such training will ensure that the Committee is well informed and knowledgeable in order to make careful and precise decisions for the continued success of the Fund. The Committee have most recently received training from Partners Group, Hymans Robertson, and Deloitte.

Principle 3

- **Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.**

Activity

The Pension Fund's approach to conflicts of interest in relation to stewardship forms part of the Fund's Investment Strategy Statement (ISS).

Conflicts of interest in relation to responsible investment and stewardship could arise when the ability to represent the interests of the Fund as a shareholder is hindered by other interests. These conflicts can arise within the Fund or within external service providers. Third party advisors and investment managers may perform roles other than which they are employed for and to that extent conflicts may arise. The Pension Fund expects the investment managers and advisors it employs to have effective policies addressing potential conflicts of interest, and for these to be publicly available. These are discussed prior to the appointment of a manager/advisor and reviewed as part of the standard monitoring process.

The Pension Fund is governed by elected members acting as trustees and the Code of Conduct for elected members sets out how any conflicts of interests should be addressed. The Code also contains rules about “disclosable pecuniary interests” and sets out the action an elected member must take when they have such an interest reference Council business, for example, withdrawing from the Committee room or chamber when the matter is discussed and decided in Committee, unless dispensation has been obtained from the Council’s Monitoring Officer. The Code also requires elected members to register disclosable pecuniary interests and to make declarations of interest prior to meetings which are documented in the minutes of each meeting.

Outcome

The Pension Fund’s approach to managing conflicts of interest has always operated as intended. On every agenda there is an ‘declaration of interest’ for elected members to register disclosable pecuniary interests and to make declarations of interest prior to meetings which are documented in the minutes of each meeting. For example, the Chairman of the Pension Fund Committee always declares that he is an employee of HSBC Global Asset Management, regardless of the inclusion of any business reference HSBC for any meeting.

Principle 4

- **Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.**

Activity

Responsibility for the Fund’s risk management strategy rests with the Pension Fund Committee and is scrutinised by the Local Pension Fund. Under the Pension Fund’s Investment Strategy Statement, the Committee recognises the wide-ranging risks that are posed to the fund, amongst which are: geopolitical and currency risks; manager risk; solvency and mismatching risk; liquidity risk and custodial risk.

The Pension Fund's foremost mitigation against market-wide and systemic risk is a well-diversified investment strategy. Therefore, it is important the Pension Fund Committee receives the appropriate training and commissions the best advice to be able to select from and monitor a wide variety of investments. The Pension Fund commissions investment consultancy advice for its strategic asset allocation and, as a point of escalation, if it has any concern over the performance of an asset class or any its investment managers.

The Fund's approach to diversification has resulted in the Fund classifying its assets into four broad categories: global equities, fixed Income, property, and Alternative investments. It is important to note that each category is itself well diversified. The size of the allocation within each asset category will vary depending on the investment conditions. The Committee is of the view that the diversification of the Fund's assets should be sufficiently broad to ensure that the investment risk is low and will continue to be low.

To help mitigate future risks, the Committee uses an external investment advisor to monitor asset volatilities. When reviewing the investment strategy on a quarterly basis, the Committee considers advice from its advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable.

In addition, a risk register is maintained and reviewed quarterly. Risks identified have been targeted with planned actions that officers and Committee can take to minimise, mitigate, and alleviate the particular risk. The risk register is managed by the Tri-Borough Director of Treasury and Pensions.

<u>Outcome</u>

The Pension Fund regularly updates the risk register to keep up with market and systemic risks with actions to mitigate and reduce all types of risks that are presented to the Fund and its investments.

As well as, working closely with the independent advisor to ensure that members are well-informed of the global economic backdrop and impact of investing decisions on the Fund, with specialist advice on investment strategy and recommendations for improvement.

For example, at the Pension Fund Committee on 16 December 2021, the Committee agreed to rebalance the allocation of the Fund to hedge against certain types of risk. These included:

- Global equity: selling £50m in the Longview Equity Fund to ensure the rebalancing of allocations to hedge risk against equities on the Fund and repositioning the 5% allocation into cash equivalents.
- Fixed income: rebalancing of the fixed income mandates, with the allocation split: 7% in global bonds, 6% in private debt and 6% in multi asset credit.
- Property: rebalancing the portfolio by topping up £22m under allocations to the Abrdn Long Lease Property mandate from over allocations to equity and cash/equivalents. Further diversification took place with the appointment of new Affordable Housing

and Social Supported Housing managers with the allocation to total 5% of total Fund value.
- Renewable Energy Infrastructure: rebalancing the portfolio by topping up the under allocations to the Quinbrook Renewables energy fund with an additional £10m using the over allocations to equity and cash/equivalents.
- Infrastructure: Due diligence on Pantheon Global Infrastructure Fund III's new infrastructure mandate in early 2022.

Principle 5

- **Signatories review their policies, assure their processes, and assess the effectiveness of their activities**

Activity

The Pension Fund Committee is required to regularly review policies and processes to enable the Pension Fund to have the best practices and to safeguard the assets of the Fund.

Good governance dictates the annual review of the ISS and Investment Beliefs, involving the scrutiny of investment governance, ESG factors, asset allocation and investment management strategies. The Committee agreed a set of core investment beliefs that govern all investment decisions for the Fund and envisioned that these beliefs would help create alignment and consistency when making investment decisions. In addition to explaining the thought process behind the evolution of the Fund and improve their stewardship of the Fund.

As part of the investment strategy review, the Committee recommended changes to the investment strategy to adapt to the changing economic environment. During the latest review, one such recommendation was to reduce the Fund's exposure to equities, this follows the 2019 triennial valuation whereby the funding level increased to 100%. Following training sessions and discussions with the investment consultant the Committee agreed a 5% reduction in the equity allocation, to be used to finance a 5% holding in renewable infrastructure, as reflected in the Fund's ESG Investment approach. For more information, please see the outcome of Principle 4.

In addition, the Committee undertakes numerous reviews, one of which was the recent review of the performance of the Fund's investment consultant. A set of consultant objectives were drawn up for the Pension Fund investment consultant, Deloitte, and approved by Committee on 23 October 2019. After conducting an extensive review into the Pension fund consultancy and fiduciary management industry, the CMA produced a report, detailing a number of recommendations to improve Pension Fund governance, with a number of concerns expressed around fees and conflicts of interest.

In line with best practice, the Pension Fund Committee has overseen the performance of the investment consultant against the objectives set. This will be reviewed on an annual basis and the objectives updated at least every three years or when there has been a material change in investment approach. Each objective is assessed individually and assigned a rating as follows: Excellent, Good, Satisfactory and Unsatisfactory.

Outcome

The Pension Fund Committee continually reviews policies and processes to ensure the Fund has the best practices for the long-term interests of the Pension Fund. The Committee is committed to the evolution of these practices and as shown below, there are good examples of the changes that have been made in recent reviews to improve the performance of the Committee's governance of the Fund.

Investment beliefs were incorporated into the Investment Strategy Statement for the first time during 2020. These were established by the Committee to improve the investment and governance processes of the Fund by having a single point of reference to govern the beliefs, investment governance, long-term approach, ESG factors, asset allocation and management strategies.

The Fund's investment advisor, Deloitte, has highlighted their observations and recommendations to consider when devising/revising any new investment strategy. This particularly applies to asset allocation review. Recent reviews have resulted in an allocation of 5% to alternative categories to be funded by a corresponding reduction in equities of 5%.

The results of the 2021 consultancy performance review highlighted that the consultant had performed well over the past year, meeting the vast majority of aims and objectives to an excellent standard. The Fund remains pleased with the work produced by the consultant and will to continue building on the good working relationship that has already been established.

Principle 6

- **Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.**

Activity

The Westminster Pension Fund is a part of the Local Government Pension Scheme (LGPS).

The LGPS is a statutory scheme and is regarded as very secure, given the pension benefits are defined in law. Members of Westminster City Council (WCC) Pension Fund include employees and ex-employees (deferred) of the Council. In addition, the Fund has a number of admitted bodies including academies, whose employees can join the scheme.

Of the membership, the Fund currently has 4,740 active members; 6,689 deferred members; and 6,430 Pensioners (at 31 March 2022). The Fund aims to use the most appropriate communication method for the recipient audiences and to ensure that scheme members have access to all the Fund's policies, strategies, and performance. As seen in the communication policy, the Pension Fund has a website designed to communicate and promote the benefits of the LGPS and associated information and is regularly updated to ensure scheme members can find out more about the LGPS and individual member pension details.

In addition, the Committee papers are available for public viewing with agenda, reports, and minutes available on the Council's website. Of note, are the quarterly performance reports that are presented to the Committee detailing the Fund's overall performance, the portfolios currently invested in, asset allocation and recent activities of the Committee and officers. The Committee considers itself long-term stewards of the Fund and invests for the long-term sustainability of the Fund. Therefore, the Committee has appointed active and passive managers as part of the portfolio, as well as ESG type investments that will deliver strong returns to the Fund and help to ensure the sustainability of the environment. This will allow the Fund to deliver the needs of beneficiaries and the return needed for the Fund to meet future pensions expectations.

Outcome

To communicate and promote the benefits of the Local Government Pension Scheme, the Fund has its own member website that contains key information to help potential members understand the pension scheme, and a link for current members to access and view their individual records online and calculate their own benefits estimates. The link can be found below:

Home | Westminster City Council Pension Fund (wccpensionfund.co.uk)

The actions mentioned above are taken to ensure beneficiaries of the Fund can be well informed of the activities of the Fund and can monitor the ongoing performance. These steps are taken to ensure that beneficiaries can hold the officers and Committee to account reference actions and performance record.

The Pension Fund publishes all reports on the Fund's website for beneficiaries to view.

The most recent Pension Fund annual report discloses the following statements:

- Governance Compliance Statement (Page 94)
- Communication Policy (Page 99)
- Funding Strategy Statement (Page 103)
- Investment Strategy Statement (Page 114)
- Responsible Investment Strategy (Page 143)
- Pensions Administration Strategy (Page 149)
- Voting activity and performance

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As seen in the statements and strategy the Fund has progressed its ESG approach where officers, members and Committee views are aligned, such that the Pension Fund aims to improve the carbon footprint and the environmental and social impact from the Fund's investments. As seen in the Annual Report the City of Westminster Pension Fund has made positive steps towards improving environmental, social and governance factors within the last 12 months.

Principle 7

- **Principle 7 – Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.**

Context

The Fund has integrated ESG factors through an ESG Policy, and Investment Principles and Beliefs statement. There are a wide range of ESG issues, with none greater currently than climate change and the associated carbon reduction targets. 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.

As mentioned in the investment principles, the Pension Fund, as a long-term investor, is committed to investing to build a better future through the integration of ESG factors at all stages of the investment decision-making process. Through active ownership with its partners, the Pension Fund engages with the investment community to help ensure a sustainable future for all its stakeholders.

As part of Fund's ISS, the Committee has set out five beliefs to govern investment decisions. One of those is environmental, social and governance factors. As set out in the belief:

a) Certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Fund's investments and the likelihood that the Fund's objectives will be achieved.
b) Well governed companies that manage their business in a responsible manner are less vulnerable to downside risk and may therefore produce higher returns over the long term.
c) In order to improve corporate governance, investment managers should exercise the voting rights attached to the shares they own, as well as engage with management of the companies they invest in.

d) Environmental considerations should reflect a growing recognition in the Committee of the urgency required in its decision-making processes when making investment allocations.
e) If an investment manager fails to consider ESG issues, the Committee is prepared to disinvest assets from that manager.

Activity

The Pension Fund has stringent appointment and investment processes to ensure that investments have ESG benefits, as well as challenging and engaging with investment managers to improve ESG outcomes.

This includes adherence to a Responsible Investment policy, ESG integration in the investment process, relevant responsible investment frameworks such as the United Nations Principles for Responsible Investment (PRI), evidence of compliance with the Stewardship Code as published by the Financial Reporting Council (FRC), and a track record of actively engaging with global companies and stakeholders to influence best practice though the LAPFF, along with a commitment to appropriately disclose, measure and report on the overall impact of ESG decisions made.

As part of its investment selection process, the Pension Fund Committee will obtain proper advice from the Fund’s internal and external advisors with the requisite knowledge and skills. The investment advisor will assess ESG considerations as part of its due diligence process and assess investment managers against the following criteria:

a. for active managers, the advisor will assess how ESG issues are integrated into investment selection, divestment, and retention decisions;

b. for passive managers, the investment advisor is aware of the nature of the relevant index construction in the investment selection process places and the proximity of ESG issues in comparison with an active portfolio, but still hold ESG issues in its responsible investment policy, with active engagements with global companies and stakeholders where appropriate;

c. consideration of whether managers are making most effective use of voting rights and if votes are exercised in a manner consistent with ESG considerations specified by the manager;

d. how significantly managers value ESG issues and whether any specialist teams and resources are dedicated to this area; and

e. how ESG risk assessment is integrated into the portfolio investment selection process and the value and effectiveness of these assessments.

Outcome

All investment management activity is delegated to external investment managers. Focus on how the Fund's investment managers have incorporated ESG factors gathered through their stewardship activities, into investment decisions, is a significant part of the monitoring and discussion with the Fund's investment managers.

Through strategy and culture, the Fund has designated ESG a key focus within Pension Fund investments and where the Fund has seen much progress. As shown in the 2022 Responsible Investment statement, from 30 June 2019 to 31 December 2021 the weighted average carbon to value invested of the Fund has fallen by circa 40%. It is also estimated that the Fund has reduced its absolute tonnes of $CO2$ emissions by circa 65% over the same period.

Further examples of the Pension Fund's progress can be seen with greener and more sociably responsible investments for the long-term interests of the beneficiaries.

Environmental:

The Macquarie Renewable Energy Fund has a 50% holding in a 268-megawatt portfolio of residential solar panels located across 18 US states.

The Macquarie portfolio has invested in operating contracted residential solar assets, which are owned and managed by Sunrun Incorporated. The solar assets are diversified across the US, with over 36,000 homes powered. Most solar assets are located within five US states, with 47% of assets in California alone, this follows a state mandate requiring all new homes to have rooftop solar fitted from 2020.

The assets have a 35-year lifespan, with avoided emissions forecast at 164,000 tonnes of $CO2$ per annum. This equates to circa 2,763 tonnes of $CO2$ avoided per year for the Westminster Pension Fund.

Social:

The Pension Fund holds Nintendo within its LGIM Future World Equity portfolio. The company is a Japanese multinational video game company, with headquarters in Kyoto. LGIM's focus within Japan remains greater diversity within company boards, particularly on the gender diversity front, with only 3% of the TOPIX 100 having at least 30% female board representation.

LGIM has been engaging with Nintendo for a number of years on this issue and has emphasised the need to improve diversity and independence of the board and increase discussion and disclosures on board diversity. Following on from this engagement, the company committed to appointing its first female board member and to increase the number of independent members, both of which have since been fulfilled. Alongside this, Nintendo has improved its disclosures by publishing its annual report in English and included information on cross holdings. However, there is still further engagement needed on workforce flexibility, including parental leave policy and commitment to increasing the female workforce to 25%.

Governance:

Within the London CIV (Baillie Gifford) Global Alpha Equities portfolio, the Pension Fund has exposure to AJ Gallagher, a global insurance brokerage and risk management company. As part of the LCIV's strategy of holding companies to account for fiscal responsibility, it approached Baillie Gifford to engage with AJ Gallagher's executive management team to discuss fairer taxation.

Over the last couple of years, AJ Gallagher has purchased clean coal credits, which have reduced its effective US taxation rate, whereby a company can reduce its tax liability by reducing its carbon, sulphur, and nitrogen oxide emissions. While acknowledging the positive benefits of this green taxation initiative on reducing greenhouse emissions, the LCIV expects managers to consider corporation tax as a social licence rather than a cost to minimise.

The company has committed to implementing a fairer taxation policy going forward and has signalled its intention to review the current approach, with the asset manager encouraged with the engagement so far.

Principle 8

- **Signatories monitor and hold to account managers and/or service providers.**

Activity

The Committee meets at least four times a year. At each of these meetings the Committee reviews investment performance, alongside advice from the independent advisor.

To that end, Committee members monitor the investment returns and the volatility of the individual investments, together with the funding level, returns and investment risk, the latter being to ensure the risks caused by interactions between investments within the portfolio are properly understood. Where comparative statistics are available, the committee will also compare the Fund's asset performance with those of similar funds.

On investments, the Committee assesses the suitability of the investments in which the Pension Fund partakes. The following due diligence takes place: prospective investment return; investment risk; concentration; risk management qualities the asset has; geographic and currency exposures and ESG criteria. Moreover, each asset category will have an individual performance benchmark against which performance is reported.

Alongside the Committee is the Pension Board, whose role is to provide oversight and scrutiny of the Pension Fund Committee. The Board meets four times a year, which allows for a second review of performance of service providers.

Outcome

The Funds closely monitors all its investment managers and publishes all voting activity in the Annual Report. This ensures that members and the public can be fully aware of voting actions and to ensure that the Fund monitors to deliver and impact on change where needed.

During November 2020, the Fund transitioned its London CIV (LCIV) UK Equity allocation and Legal & General (LGIM) Global Passive Equities into the LCIV Global Sustain Fund and LGIM Future World Fund. The Global Sustain Fund seeks to provide a concentrated high quality global portfolio of companies, excluding tobacco, alcohol, gambling, weapons, fossil fuels, and gas or electrical utilities. The LGIM Future World Fund tracks the L&G ESG Global Markets Index, whereby an ESG screening of companies takes place to remove those companies which do not meet the required ESG criteria.

The Committee also expects any directly appointed asset managers and the pool company (London CIV) to comply with the Stewardship Code (2020) and this is monitored on an annual basis. The Fund will continue to collaborate with the London CIV on maintaining a share voting policy for the equity managers on the London CIV platform and actively seek to align these policies with investment manager insights. Lobbying with other London CIV clients will give the Pension Fund greater control and impact over voting choices and a centralised process will ensure that voting remains consistent and has the greatest impact.

The Committee will continually monitor and engage with investment managers to ensure that investment managers are acting in the best interests of the Fund. Across all investments, the Fund works closely with managers to ensure that it can deliver improved outcomes and where the Fund sees the need for the long-term sustainability of the Fund using the collaborative approach to gain greater influence for positive impact and return.

Principle 9

- **Signatories engage with issuers to maintain or enhance the value of assets.**

Activity

The Pension Fund Committee 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.

The Fund has in place an Investment Strategy Statement that contains the Fund's investment beliefs, asset diversification strategy, assessment of investment suitability, investment types, approach to risk, approach to pooling investments, social, environmental, or corporate governance considerations, and retention and realisation of investments. These beliefs form the basis of investment decision making process and allow the Committee to deliver a consistent approach to investment and therefore maintain and enhance the value of assets.

The ISS is updated and reviewed yearly to ensure that the Fund has the most suitable strategy and practices in place.

As mentioned previously, as part of the investment manager appointment process, the Pension Fund Committee assesses the investment managers' abilities to integrate ESG factors into their investment selection processes. In addition, the investment advisor will assess ESG considerations as part of their due diligence process and assess investment managers as follows:

- Active managers, the advisor will assess how ESG issues are integrated into investment selection, divestment, and retention decisions; and
- Passive managers, the investment advisor places less focus on ESG issues in the investment selection process and considers ESG issues in its responsible investment policy and if the manager engages with global companies and stakeholders where appropriate.

The Pension Fund Committee is furnished with quarterly performance reports on investments highlighting business activities, manager personnel updates and performances to track and enhance the governance of the Fund. This provides the Pension Fund Committee and Local Pension Board with regular feedback on the Fund assets to make well informed decisive decisions for the future improvement of the Fund.

<u>Outcome</u>

All investment management activity is delegated to external investment managers. Engagement activities are a regular feature of the monitoring of the Fund's investment managers by the Pension Fund Committee. By carefully targeting and selecting funds in renewable infrastructure, the Fund has been able to reduce its net carbon emissions and to continually work towards a more sustainable Fund with the aim of improving shareholder returns.

For example, as at December 2021, a total of £60m was committed to Quinbrook, with the Fund committing an additional £10m to Quinbrook. On 1 October 2021, Quinbrook completed the acquisition of Project Fortress, a consented 350MW solar and battery storage project in Kent, which is estimated to require circa £270m of capital to construct. Quinbrook expects to commence construction of the project over the first half of 2022 and expects the project to be operational in late 2023 or early 2024. Once operational, Fortress is expected to be the largest single site solar PV installation in the UK, more than three times the size of the UK's next largest consented solar PV project.

As another example, as part of the LCIV Global Sustain Fund, Morgan Stanley has engaged with Microsoft on a number of issues including carbon, diversity, and inclusion. Microsoft has pledged to become carbon negative by 2030, Morgan Stanley has engaged with the company on these decarbonisation targets and how they can be achieved. This engagement has shown that Microsoft is increasingly focusing on decarbonising supply chains, not just direct operations.

Principle 10

- **Signatories, where necessary, participate in collaborative engagement to influence issuers.**

Activity

All investment management activity is delegated to external investment managers. Through active ownership, the pension fund engages with the investment community and encourages companies to take positive 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. This approach includes being members of key pressure groups such as LAPFF, and an active participant in engagement with London CIV, and regular reporting from the investment managers.

The Pension Fund closely monitors voting behaviour to ensure that it in is in line with the Fund's policy and values. The independent advisor offers an update on business, personnel, and performance on a quarterly basis to ensure asset managers are reviewed on a regular basis and to work with investment managers to make improved ESG outcomes and investment returns.

Outcome

Through active engagement the Fund has been able to use multiple avenues to communicate with issuers, by being a member of LAPFF and communicating with investment managers and pool companies such as London CIV.

As shown in the Responsible Investment Statement, the Fund has seen encouraging commitments from companies across all the asset classes. The Fund's approach of collaboration and engagement has allowed Westminster Pension Fund to reduce its carbon impact significantly. It is estimated that the Pension Fund has reduced its $CO2$ emissions by circa 65% from June 2019 to 31 December 2021.

The Pension Fund monitors its investment managers engagement activities through regular reports and discussions and welcomes instances where it sees its investment managers working with other investors. Examples include:

> During October 2021, LAPFF wrote to the FTSE All-share to ask that boards set out their strategy to manage the transition to a net zero emissions business and to provide annual provision for shareholders to vote on such plans. As at end December 2021, 64 responses had been received, from brief acknowledgements of receipt to lengthy iterations of strategies for transition. A respectable number of companies noted it would be subject to discussion by the board, and other companies in engagement meetings have noted they will be reviewing the proposition.

- Share Action, a registered charity who promotes responsible investment, has been working on a Healthy Markets coalition group. The Healthy Market Initiative aims to make food retailers and manufactures assume accountability for their role and impact on people's diets. The Westminster Pension Fund is a member of the Healthy Markets coalition and, along with other members, represents over $1 trillion in assets under management. The Fund has actively engaged with Share Action on this initiative, attending coalition meetings, as well as contacting the Fund's equity managers and the LAPFF on its behalf to see if they would be willing to engage.

Principle 11

- **Signatories, where necessary, escalate stewardship activities to influence issuers.**

Activity

The Pension Fund expects its investment managers to take the appropriate action when operating on its behalf and engage in stewardship activities: this includes actions to escalate their approach when appropriate.

As part of the Responsible Investment policy, the Pension Fund Committee is committed to playing an active role in the transition to a sustainable economic and societal environment. To that extent, the Pension Fund will continue to seek investments that match its pensions liability profile, while having a positive impact on overall society. Greater impact can be achieved through active ownership and lobbying for global companies to change and utilise their resources sustainably.

Therefore, the Fund expects investment managers to be actively engaging with companies to promote better ESG and investment outcomes for the Fund. The Local Pension Board monitors responsible investment by obtaining advice from officers and the independent advisor on assessing how ESG issues are integrated into investment selection, divestment, and retention decisions from active managers. This allows the Committee to escalate any issues with the investment managers if they feel that ESG factors are not being properly implemented into their decision-making process.

If an investment manager fails to consider ESG issues, the Committee is prepared to disinvest assets from that manager.

Outcome

The Pension Fund Committee monitors its investment managers engagement activities through regular reports and discussions and expects its investment managers to take the appropriate action when operating on its behalf engaging in stewardship activities.

- Tesla, Inc. failure to disclose a record of its corporate-level carbon emissions was a considerable concern. Not only did it not disclose the 'Scope 3' emissions (those dominated by emissions from the cars it sells), but it also does not lay out 'Scope 1' (from onsite power consumption) or 'Scope 2' (from purchased electricity). London CIV estimated that Tesla Inc., held in Global Alpha Growth Fund managed by Baillie Gifford was among one of highest contributors to the pool's weighted average carbon emissions. During 2020, the investment manager was invited by the company to provide feedback on the year's impact report and offer suggestions for next year's report. The investment manager reported to London CIV that Tesla's disclosures on its environmental and social impact have improved over recent years and encouraged the company to continue to lead and innovate on impact and sustainability. Baillie Gifford remain supportive of Tesla's efforts and look forward to ongoing dialogue with the company, playing their part as responsible stewards of the business. And will continue to engage with our investment managers to encourage Tesla to provide more detail on operational emissions, corresponding reduction strategies, supply chain auditing and health and safety data to support its shareholders.

- Baillie Gifford engaged with Ubisoft on London CIV's behalf due to allegations of sexual harassment and a toxic work culture at the company. London CIV working with Baillie Gifford emphasised the importance on corporate culture. In addition, it asked for an internal perspective on the company's perceived areas of weakness when it came to fostering a safe, inclusive, and diverse workplace environment. As a result, Ubisoft has since confirmed that they are willing to broaden the conversation to include management, and so far, consider this to be a positive outcome. London CIV observes that the company has only 22% female representation at board level. And expect that improving board level diversity will in turn improve corporate culture. London CIV and the manager will continue to monitor developments over and encourage the company to set diversity targets.

Principle 12

- **Signatories actively exercise their rights and responsibilities.**

The Pension Fund's RI policy includes the approach for exercising the rights attached to investments. The Committee expects any directly appointed asset managers and the pool company (London CIV) to comply with the Stewardship Code (2020) and this is monitored on an annual basis.

The Committee has delegated the Fund's voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. Fund managers have the delegated authority to vote at shareholder meetings in accordance with their own guidelines, which have been discussed and agreed with the Pension Fund committee. The officers keep under close review the various voting reports that it receives from fund managers.

Investments within the pooled vehicle equally requires the pool company to vote, except where it is impractical to do so. The London CIV also monitors the voting alerts of the LAPFF and where these are issued, requires the investment managers to take account of these alerts as far as practical to do so. Where the investment manager does not vote in line with the LAPFF voting alerts, the London CIV will require detailed justification for non-compliance. As seen in the Responsible Investment Strategy the Fund receives internal and external advice on assessing investment managers. A key assessment of manager impact is whether managers are making most effective use of voting rights, and if votes are exercised in a manner consistent with ESG considerations specified by the manager and how significantly the manager value ESG issues. These processes are integrated to reduce conflict in voting decisions and ensure investment managers and the Committee share an aligned view.

In addition, the Pension Fund actively contributes to the engagement efforts of pressure groups, such as the LAPFF and requires investment managers to vote in accordance with the LAPPF's governance policies. In exceptional cases, investment managers will be required to explain their reason for not doing so. By having regular engagement reports and reviews, the Fund can ensure that the investment managers are voting in accordance with Westminster's values and are able to ensure that managers are using votes for a positive impact.

The Fund through its participation in the London CIV works closely with other LGPS Funds in London to enhance the level of engagement, both with external managers and the underlying companies in which they invest. In addition, the Fund is a member of the Pension and Lifetime Savings Association (PLSA) and the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners, joining wider lobbying activities where appropriate opportunities arise.

Activity

All proxy voting for the financial year is published in the Pension Fund Annual report. During 2020/21 there were 52,859 resolutions with manager voting as follows: For 44,420; Against 8,098 and Others 341.

The pool company expects asset managers to vote on all proxies considering the impact of ESG factors to ensure shareholder value is maximised. In addition, managers must be able to provide a rationale for all voting activity on a "comply or explain" basis. London CIV managers voted on 10,010 proposals during 2020, this represents a 97% voting execution.

Outcome

The Pension Fund has seen progress when working collaboratively with its investment managers into delivering improved ESG outcomes for the WCC Pension fund.

As part of the LGIM Future World Fund, LGIM has been engaging with Mizuho Financial Group, a global bank based in Japan, over a number of years on climate-related issues. LGIM has maintained continual engagement with the company as part of the Climate Impact Pledge and monitored the company's progress. At Mizuho's 2020 AGM, LGIM supported a climate-related shareholder resolution for disclosure of a Paris-Aligned business strategy for the company. This was the first such resolution of its kind within the Japanese banking sector. Following this, in June 2021, Mizuho published its first TCFD report ahead of its 2021 AGM, with the report committing to accelerate the banks coal phase-out by ten years. Alongside this, Mizuho has addressed concerns over lack of scope 3 emissions disclosure and pledged to set and disclose interim scope 3 targets by the end of 2022.

Cllr Eoghain Murphy
Chairman of the Pension Fund Committee

Phil Triggs
Tri-Borough Director of Treasury and Pensions

28 April 2022