



City of Westminster

Committee Report

Decision Maker: PENSION FUND COMMITTEE

Date: 23 January 2018

Classification: General Release

Title: Fossil Fuel Investments

Wards Affected: All

Policy Context: Effective control over Council Activities

Financial Summary: The Council has approximately

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1. EXECUTIVE SUMMARY

1.1 This paper updates Members on:

- a. The Fund's current approach to fossil fuel investment.
- b. Any possibilities for divestment in the future

2. RECOMMENDATIONS

2.1 That the Committee notes:

- a. The Pension Fund's current approach to fossil fuel investing.
- b. The Council's response to Friends of the Earth's divestment query (attached at appendix 1).

3. INVESTMENT STRATEGY STATEMENT

3.1 The Pension Fund Committee reviewed and agreed the investment strategy statement in March 2017, which is agreed annually, which discusses the Fund's approach to environment, social and governance (ESG) issues.

- 3.2 Section 6 of the Investment Strategy Statement details the Pension Fund's ESG Policies. The Pension Fund has committed to socially responsible investing (SRI) and recognises that neglecting these factors may lead to poor investment returns. There is currently no specific reference to the approach with fossil fuels.
- 3.3 The Fund has a fiduciary duty to its members to provide the best level of investment returns, and should not take ESG decisions on the basis they would have a negative impact on overall fund returns.

4. FOSSIL FUELS

Engagement

- 4.1 The Pension Fund requires all of its fund managers to actively engage with the companies they are invested in and promote good corporate governance.
- 4.2 The Fund has the option to join the Local Authority Pension Fund Forum (LAPFF), a pressure group organisation made up of Local Authority Pension Funds that seeks to lobby organisations to make better ESG decisions.
- 4.3 The collective large equity holdings in the passive and actively managed funds of these LGPS funds provide significant levels of voting rights and are better able to influence large energy companies such as BP and Royal Dutch Shell.

Options for Divestment

- 4.4 Currently, the Pension Fund's largest allocation to fossil fuel companies remains in its passive equity portfolio, which is procured via the London CIV.
- 4.5 The significant cost savings of using the London CIV mean that the Fund would like to remain on the passive fund platform; the London CIV currently does not have any passive equity trackers that exclude fossil fuels.
- 4.6 The City of Westminster Pension Fund does, however, have representation on a London CIV working group that has been set up to assist in selecting a manager who can provide a passive equity ex-fossil fuel mandate. Once this has been set up, it would provide a credible option for divesting should the Committee wish to go down this route.
- 4.7 The investment strategy statement is due for review in 2018 and the Committee will need to consider its future approach to fossil fuels at this time.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

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BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Council response to Friends of the Earth

Appendix 2: Investment Strategy Statement