



Responsible Investment Statement

City of Westminster Pension Fund • **2021**



City of Westminster

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Introduction

Responsible Investment is defined by the United Nation's 'Principles for Responsible Investment' document as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long term returns.

The City of Westminster 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.

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.

The Pension Fund acknowledges that the neglect of corporate social responsibility and poor attention paid to environmental, social and governance issues is more likely to lead to poor or reduced shareholder returns. Therefore, the ESG approach has become integral to the Fund's overall investment strategy and recognises ESG factors as central themes in measuring the sustainability and impact of the Fund's investments.

Investment Horizon

The City of Westminster Pension Fund Investment Strategy Statement (ISS) sets out the Fund's policy on investment, risk management, LGPS pooling and environmental, social and governance issues. Alongside this the Fund's core investment beliefs set out the foundation of discussions, regarding the structure of the Fund, its strategic asset allocation and the selection of investment managers, incorporating ESG factors into this decision-making process.

The Fund's investment priorities over the coming years will be centred around the following topics:



Carbon Journey

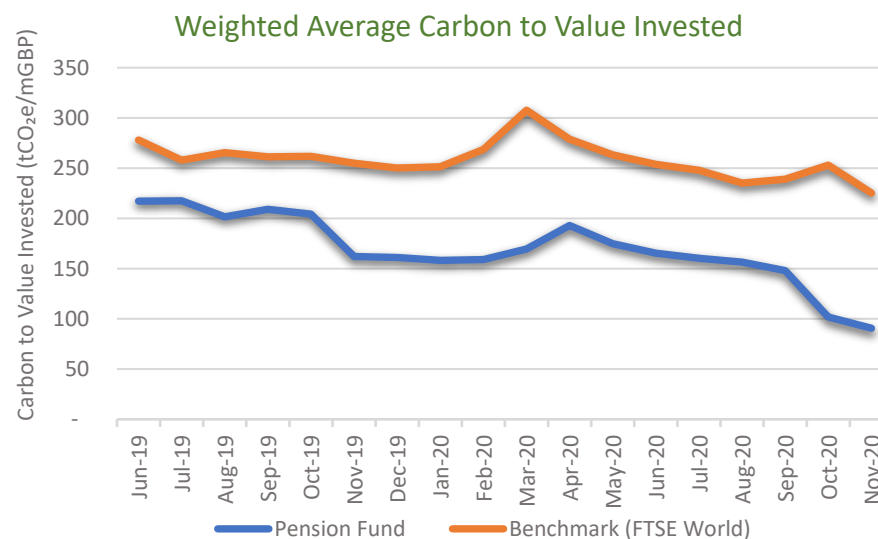
The City of Westminster Pension Fund has committed to reducing its carbon emissions, alongside Westminster City Council. The Pension Fund appointed TruCost to undertake a carbon mapping of the Fund's equity and property investments as at 30 September 2019. This included metrics such as carbon intensity, carbon emissions, stranded assets and energy transition.

Since this mapping took place, the Fund has 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, however, excludes tobacco, alcohol, adult entertainment, gambling, civilian weapons, fossil fuels, and gas or 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.

Alongside this, a 6% commitment has been made towards investment within renewable infrastructure, with funds from the sale of the Hermes Property Fund. A fund manager selection process took place during December 2020, with Macquarie and Quinbrook each selected to manage a 3% allocation. The first drawdowns totalling c.£15m, took place during Q1 of 2021.

During November 2020, the Pension Fund commissioned TruCost to undertake a Carbon Review of the Fund following the transition into the ESG equity mandates, as at 31 October 2020.

The *carbon to value invested* metric is used by TruCost to reflect how efficient companies are at creating shareholder value, relative to the carbon emissions produced. The following graph depicts the Fund's carbon to value invested journey against the benchmark, within the equity allocation, from 30 June 2019 to 30 November 2020. The Pension Fund has been benchmarked against the FTSE World Index.



ESG Case Studies

Environmental



Social



Governance



Environmental, Social and Governance factors are key indicators in measuring the sustainability and suitability of an investment. There is growing research which suggests, when integrated into business decisions and portfolio construction, these can offer stability in future returns.

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.

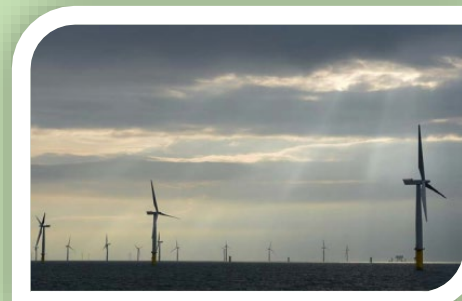
The measurement of ESG performance is still developing and benefitting from significant improvements. There are several performance benchmarks and disclosure frameworks that exist to measure the different aspects of available ESG data which include carbon emissions and a variety of social impact scores.

Environmental: Gwynt y Môr case study

Gwynt y Môr is a 576-megawatt wind farm located off the coast of North Wales, and it's held within our Macquarie Renewable Energy Fund.

The fund has a 10% stake in the windfarm and is the fifth largest operating offshore wind farm in the world. Macquarie manages an additional 10% exposure in Gwynt Y Môr through their existing renewable infrastructure funds and therefore is already familiar with the asset. Operational since 2015, Gwynt y Mor is comprised of 160 Siemens 3.6MW wind turbines spread across 80 square kilometres and provides enough clean electricity to power approximately 430,000 UK homes each year.

It is estimated that the windfarm cuts carbon emissions by around 2m tonnes a year, with the CO2e avoided equivalent to taking 234,680 cars off the road.



Source: Macquarie Renewable Energy Fund

Social: Teladoc case study

The Pension Fund holds, Teladoc, within its LCIV (Baillie Gifford) Growth Alpha Equity portfolio. The company is the largest telemedicine company in the US, providing remote access to services such as primary care appointments, expert second opinions, health support and chronic care management.

By providing healthcare services via video or phone consultants, this increases the accessibility to the services, helps to lower average healthcare costs and improves efficiency of the healthcare system.

In the first quarter of 2020, following the COVID-19 outbreak, Teladoc welcomed over a million new customers, ensuring the ability to continue to access healthcare at a time when hospitals and clinics would otherwise be unavailable to them. Teladoc operates in over 175 countries, and the company claims in the US an average saving of \$472 per medical visit. Alongside this, in countries with nationalised healthcare, savings will benefit the government and therefore the public.



Source: Baillie Gifford: Positive Change Impact Report

Governance: Cardinal Health case study

Cardinal Health is an American integrated pharmaceuticals company, providing medical products to hospitals, health systems, pharmacies, clinical laboratories and physician offices worldwide. The Pension Fund holds Cardinal Health within its LGIM Future World Fund.

During 2020, the company paid out an above target bonus to the CEO, in the same year which it recorded a pre-tax charge of \$5.63bn for opioid settlement costs. It was found the compensation committee excluded these costs when calculating the bonus, resulting in executive pay being boosted. Additionally, the CEO had been the global head of pharma during the worst years of the opioid crisis.

LGIM voted against the pay resolution and signalled concern over the bonus payment in the same year as the company recorded an expected settlement. LGIM continues to engage with US companies on their pay structures and has published specific pay principles for US companies.



Source: LGIM ESG Impact Report Q4 2020

Fund Key Facts




Aberdeen Standard Long Lease

77%  Energy data collected

74%  Water data collected

83%  A-D Energy Performance Certificate rating

5  Metric tonnes of carbon saved by solar installation

Source: ASI Long Lease Key ESG Metrics 2020

Pantheon Global Infrastructure

 5% Invested in solar

 4% Invested in wind

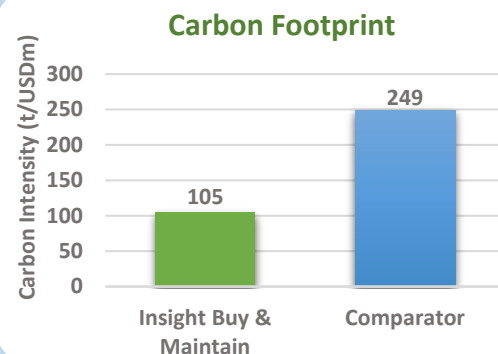
 43% of senior roles held by women

 100% recycling rate

Source: Pantheon Infrastructure ESG Report Q3 2020

Insight Buy & Maintain

The carbon intensity of the fund is 84 (t/USDm) lower than its comparators.



Source: Insight Buy & Maintain ESG Report Q2 2020

LGIM Future World

Companies failing to meet globally accepted business practices are excluded from the Future World Fund, based on any of the following criteria:



Involved in production of controversial weapons



Involved solely in the extraction of coal



Violators of the UN Global Compact initiative

LCIV Global Alpha



48% women employed



52% men employed

41.8%  Lower relative carbon footprint than the benchmark

Source: Baillie Gifford Gender Pay Gap 2019

LCIV Global Sustain

The Global Sustain Fund avoids sectors such as alcohol, tobacco, weapons, gambling, fossil fuels and electric utilities and undertakes an engaged investment approach considering financial returns and ESG criteria.



Voting & Engagement

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. The Committee expects the investment managers to vote in the best interests of the Fund. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund will continue to collaborate with the London CIV on maintaining a shared voting policy for the equity managers on the London CIV platform and actively seek to align these policies with manager insights. Lobbying with other London CIV clients will give the Pension Fund greater control and impact over our voting choices and a centralised process will ensure our voting remains consistent and has the greatest impact.

The Pension Fund views engagement with companies as an essential activity 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 all 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.

Engagement: Microsoft case study

As part of the LCIV Global Sustain Fund, Morgan Stanley have engaged with Microsoft on a number of issues including carbon and diversity and inclusion.

Microsoft have pledged to become carbon-negative by 2030, Morgan Stanley have 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 their supply chains, not just direct operations. To assist in understanding and reducing these supply chain emissions, Microsoft has started charging a carbon price on these activities and developed tools to incentivise suppliers to reduce these. Other Microsoft initiatives include \$1bn funding new carbon removal technologies, transition to renewable energy and establishing a net zero initiative with other large companies.

The company has disclosed that they include diversity as part of senior management remuneration and have set up recruitment campuses at universities with high levels of diversity.



Source: Morgan Stanley ESG Report Q3 2020

LCIV Global Sustain



99

Total Management Meetings



68

ESG Engagements

ESG Engagements by Topic:



23

Environment



36

Social



31

Governance

Of which, engagements on:



13

Climate Change



6

Diversity



4

Cyber Security

Source: Morgan Stanley ESG Report Q4 2020

LGIM Future World



489

Total number of engagements



428

Number of companies engaged with

ESG Engagements by Topic:



357

Environment



64

Social



139

Governance

Top 5 engagement topics:

1. 

Climate Change

3. 

Diversity

2. 

Remuneration

4. 

COVID-19

5. 

Strategy

Source: LGIM ESG Report Q4 2020

LCIV Global Alpha



98

Total number of engagements



61

Number of companies engaged with

ESG Engagements by Topic:



10

Environment



18

Social



37

Governance

Percentage resolutions voted:

91%



With management

4%



Against management

Source: Baillie Gifford Proxy Voting Q3 2020

Connected Organisations

The Pension Fund recognises that significant value can be achieved through collaboration with other stakeholders. The Pension Fund works closely with its LGPS pool company, other LGPS funds and member groups such as the Local Authority Pension Fund Forum (LAPFF), Pensions and Lifetime Savings Association (PLSA) and ShareAction to ensure corporate interests are aligned with the Pension Fund's values.

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.

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum are a collection of over 83 local authority pension funds, with assets under management of over £300bn, promoting the highest standard of governance with the aim of protecting the long-term value of pension funds. The LAPFF engage directly with companies, on behalf of all asset owners and pension fund trustee members, on issues such as executive pay, reliable accounting and a transition to a net carbon zero economy.

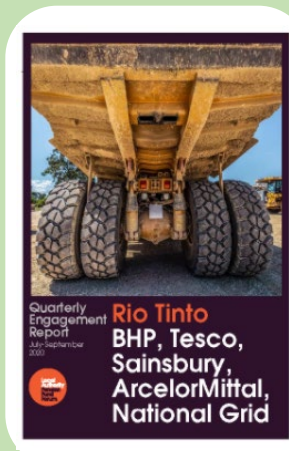
LAPFF Case Study

The LAPFF produce quarterly engagement reports, covering all ESG related issues from climate change, governance, human rights and cyber security.

Over the quarter to 30 September 2020, the LAPFF engaged with 27 companies, including Sainsbury, Tesco and the National Grid.

At the National Grid 2020 AGM, LAPFF asked the National Grid to commit to its delayed setting of scope 3 carbon emission reduction targets. The company published a response on its website, signifying that it would provide information on scope 3 targets in October.

Alongside this, the company has set a target of aiming for a carbon-neutral grid by 2025, including the provision of electric vehicle charging stations.



Source: LAPFF Quarterly Engagement Report 30 September 2020

Pensions and Lifetime Savings Association

The City of Westminster Pension Fund is a member of the PLSA, who aim to raise industry standards, share best practice and support members. The PLSA works across a range of stakeholders including governments, regulators and parliament to help the implementation of sustainable policies and regulation. They represent over 1,300 pension schemes totalling £1.3tn in assets under management, including those in the public and private sectors.

The PLSA provide an important source for training, support and guidance on regulations and pension support services.

PLSA Case Study

The PLSA published its response to the MHCLG proposals regarding the McCloud and Sargeant discrimination cases by, extending the underpin to younger scheme members with the underpin period applying from the 1st April 2014 to the 31st March 2022.

The PLSA conducted a survey of its members and consulted the Local Authority Committee on the proposals within the MHCLG consultation. On the whole the PLSA was supportive of the Government's plan to implement a two-stage underpin process, however they did express concerns about the impact these proposals would have on funds and pensions administrators given the significant resourcing requirements.



Source: PLSA Response to MHCLG's Consultant Paper

ShareAction



ShareAction is a registered charity who promotes responsible investment, working with investors to help influence how companies operate their business on a range of Environmental, Social and Governance (ESG) factors. This includes areas such as climate change, gender diversity, living wages, decarbonisation, biomass and healthy markets.

Most recently, ShareAction has been working on a Healthy Markets coalition group. The Healthy Market Initiative aims to make food retailers and manufacturers take on accountability for their role and impact on people's diets. The City of Westminster 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 ShareAction on this initiative, attending coalition meetings, as well as contacting our equity managers and the LAPFF on their behalf to see if they would be willing to engage.

ShareAction Case Study

In 2019 ShareAction partnered with the Access to Nutrition Initiative (ATNI) on its Healthy Markets Campaign. ATNI adapted the core methodology used for the Global Access to Nutrition Indexes to assess the disclosure of the UK food retail sector. In March 2020, the ATNI published its UK Supermarkets spotlight analysing the top 10 food retailers in the UK, scoring them against a number of indicators including governance, nutrient profiling, promotions and labelling. Whilst some retailers provide better transparency than others, all of them have the scope to explain more fully their commitments and action in all areas. Following the outcome of the report ATNI recommended that all 10 supermarket chains publish comprehensive strategies on diet, nutrition and health.

Source: ATNI UK Supermarket Spotlight 2020