Responsible Investment Statement

City of Westminster Pension Fund • 2022

City for All

City of Westminster

Table of Contents

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:

Renewable Infrastructure

- The Fund has committed a 6% asset allocation to renewable infrastructure, with two specialist managers selected. Target assets include solar power, onshore and offshore windfarms, battery storage and connection assets.
- These Funds are expected to draw down over 2022/23.

Real Estate

- The Fund has appointed two dedicated affordable and social supported housing managers, Man Group and Triple Point, with each allocated a 2.5% holding.
- Man Group will focus primarily on affordable housing, with Triple Point focusing on both affordable and social supported housing.

Green Bonds

- To help meet the UK target of net zero carbon emissions by 2050, the UK government issued its first green bonds during 2021 raising over £16bn for green projects.
- There is potential for a future review of the Fund's existing allocation to corporate bonds and exploring options available within the green bonds space.

Carbon Journey

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

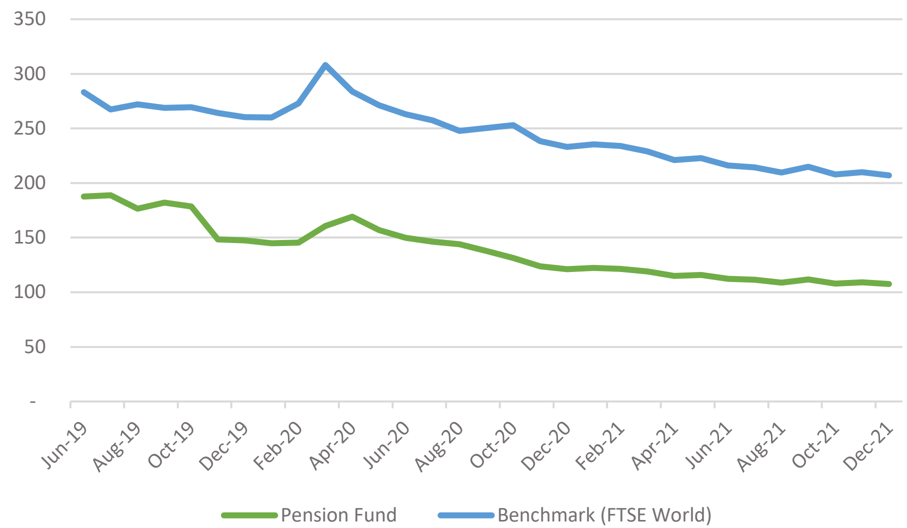
Since this mapping took place, the Fund transitioned its London CIV (LCIV) UK Equity allocation and Legal & General (LGIM) Global Passive Equities into the LCIV Global Sustain Fund and LGIM Future World Fund. The Global Sustain Fund seeks to provide a concentrated high-quality global portfolio of companies, however, excludes 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 Environmental, Social and Governance screening of companies takes place to remove those companies which do not meet the required ESG criteria.

Alongside this during late 2020, a 6% commitment was made towards investment within renewable infrastructure. A fund manager selection process took place during December 2020, with Macquarie and Quinbrook each selected to manage a 3% allocation. The Hermes Property mandate was sold during January 2021 to fund this new allocation. As at 31 December 2021, c.£20m has been invested within these renewable infrastructure funds.

During 2021, the Fund commissioned a review of its property mandates with a view to investing within social supported or affordable housing. Triple Point and Man Group were each appointed to manage a 2.5% allocation to affordable and social supported housing. These investments are expected to take place during 2022-2023. The Longview Global Equity fund was sold during December 2021, with these receipts to finance the affordable housing allocation.

The *carbon to value invested* metric is used 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 FTSE World Index, from 30 June 2019 to 31 December 2021. The weighted average carbon to value invested of the Fund has fallen by circa 40% during this time period.

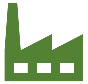
Carbon to Value Invested



Please note the Pantheon infrastructure portfolio carbon emissions are not included within this graph, the Macquarie infrastructure fund emissions include only one of the Fund assets and the Quinbrook portfolio capitalises emissions over the life of assets, once these assets become operational they will be disclosed. As data becomes available, this will be incorporated into the analysis.

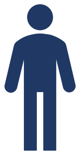
The Greenhouse Gas (GHG) emissions of the Pension Fund are reported in tonnes of CO_2 (tCO_2e). These carbon emissions can be broken down into three reporting categories as follows:

- **Scope 1:** emissions directly attributable to a company e.g. vehicles

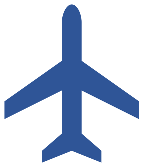


- **Scope 2:** indirect emissions relating to a company e.g. heating and electricity supply of buildings
- **Scope 3:** emissions not directly attributable to a company but those further up and down its value chain e.g. buying products from suppliers[1]

1 tonne of CO_2 is equal to…



1 month's emissions of the average UK person[2]

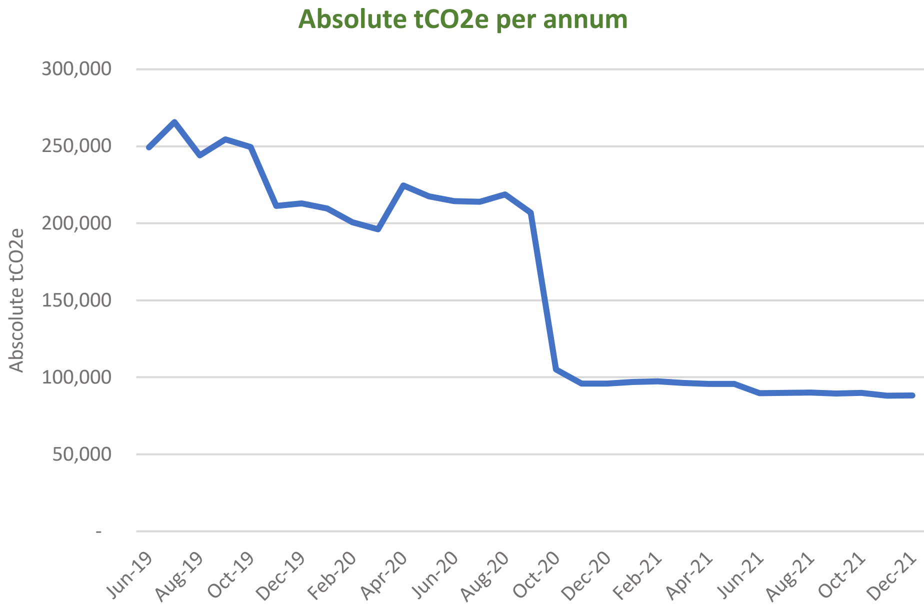


2.6 economy flights from Amsterdam to Rome[3]

6,000 km by Citroen Picasso model car[4]

The following chart plots the absolute tonnes of CO_2 emissions of the Pension Fund from 30 June 2019 to 31 December 2021. It is estimated that the Fund has reduced its CO_2 emissions by circa 65% over this period.

Where possible the Fund reports on scope 1, 2 and 3 emissions, however as this data can be difficult to collect, this may vary amongst the Fund's asset classes and managers.



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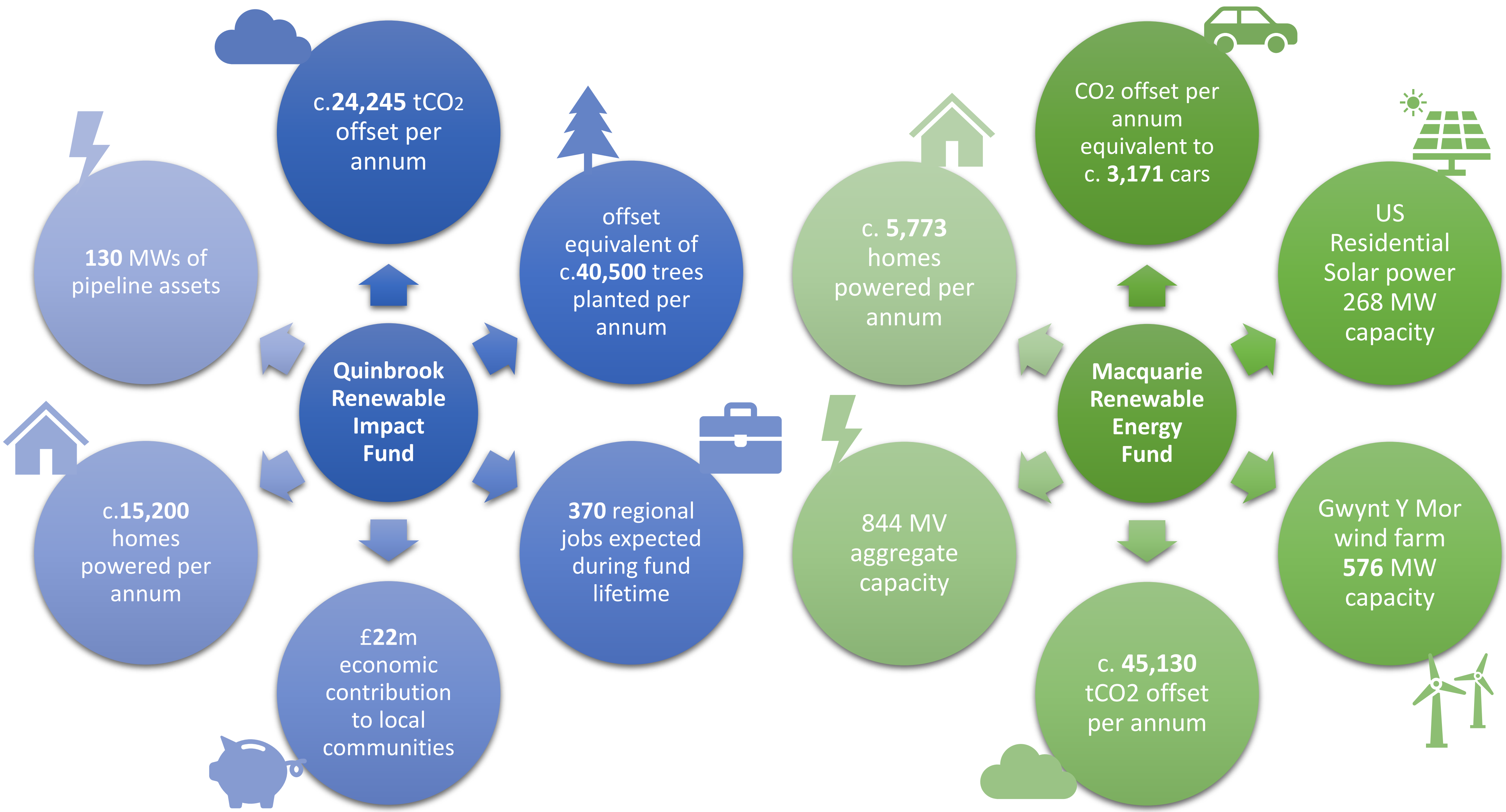
1:https://www2.deloitte.com/uk/en/focus/climate-change/zero-in-on-scope-1-2-and-3-emissions.html?gclid=EAIaIQobChMIjsWNhfKu9QIVqejtCh3FSQ0lEAAYASAAEgLiIfD_BwE 2:https://www.nulacarbon.com/some-notes-on-climate-action/whats-in-a-tonne#:~:text=As%20an%20example%2C%20one%20tonne,person%20living%20in%20Sri%20Lanka! 3:https://www.climateneutralgroup.com/en/news/what-exactly-is-1-tonne-of-co2/ 4:https://www.planete-energies.com/en/medias/close/mechanisms-putting-price-carbon

Renewables Impact Modelling



Based on a fund target size of GBP 500 million and Westminster's commitment of GBP 60 million, and once pipeline is fully drawn down. Data based on a Fund portfolio of 467 MW solar, 746 MW BESS, 620 MVA Synchronous Condenser; the information is based on the Quinbrook Renewables Impact Fund Model. Please note all figures have been estimated, so may not be a true reflection of actual impact.

Based on Westminster's commitment of EUR 55 million, circa 3.4% of total fund size, and includes CO_2 offset estimates based on the two assets currently held in the fund. Please note all figures have been estimated, so may not be a true reflection of actual impact.

Task Force on Climate Related Financial Disclosures

The Department for Work and Pensions (DWP) has announced a phased introduction of the planned new mandatory measures that ensure trustees are legally required to assess and report on the financial risks of climate change within their investment portfolios.

Although not yet compulsory for public sector pension schemes, it is anticipated these regulations will be extended to the public sector and therefore the LGPS by 2023.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The proposed new measures will ensure that trustees are legally required to assess and report on the financial risks of climate change within their portfolios, in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations. The Financial Stability Board's Task Force on Climate Related Financial Disclosures is a global, private, independent body formed in December 2015.

The Board has advised a number of TCFD recommendations in relation to climate change, which can be split into four thematic areas.

Governance: Establish and maintain oversight of relevant climate risks and opportunities for your scheme.

- Define clear roles and responsibilities for the management of climate-related risks/opportunities.
- Formulate governance policies, including roles and responsibilities in relation to climate change.
- Improve training and knowledge in relation to climate change.

Strategy: Identify climate risks and opportunities which will affect the scheme's investment strategy and consider the resilience of the strategy.

- Identify related risks and opportunities and define clear goals over the short, medium and long term.
- Conduct scenario testing for the scheme's assets and liabilities e.g. how a temperature rise of 1.5C to 2.0C will affect the Fund.

Risk Management: Establish and maintain processes to identify, assess and manage relevant climate risks and opportunities.

- Create a risk register of climate-related risks and maintain assessments over the short to long-term horizons.
- Incorporate these risks into the wider integrated risk management process.

Metrics and Targets: Select and monitor a minimum of three climate metrics for the scheme's investment portfolio, setting targets to measure performance against annually.

- Establish the quality of data available to identify an appropriate third climate metric for the scheme.
- Select at least one appropriate target and measure performance against and review annually.

Analysis as provided by Deloitte Total Reward and Benefits Limited.

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: Residential Solar case study

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

The fund has invested in a portfolio of 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. The majority of solar assets are located within 5 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 CO_2 per annum. This equates to c. 2,763 tonnes of CO_2 avoided per year for the City of Westminster Pension Fund.

Source: Macquarie Renewable Energy Fund

Social: Nintendo case study

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 main 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 have been engaging with Nintendo for a number of years on this issue and have emphasized 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 their annual report in English and included information on cross holdings. However, there is still further engagement needed on workforce flexibility, including maternity leave policy and commitment to increasing the female workforce to 25%.

Source: LGIM Active Ownership Report 2020

Governance: AJ Gallagher case study

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, they approached Baillie Gifford to engage with AJ Gallagher's executive management team to discuss fair taxation.

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

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

Source: London CIV Stewardship Outcomes Report 2021

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: Mizuho case study

As part of the LGIM Future World Fund, LGIM have been engaging with Mizuho Financial Group, a global bank based in Japan, over a number of years on climate-related issues.

LGIM have maintained continual engagement with the company as part of their 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 10 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.

Source: LGIM Investment Report 31 December 2021

LCIV Global Sustain

53 Total Management Meetings

41 ESG Engagements

ESG Engagements by Topic:

30 Environment

22 Social

17 Governance

Of which, engagements on:

28 Climate Change

14 Diversity

5 Cyber Security

Source: Morgan Stanley ESG Report Q3 2021

LGIM Future World

800 Total number of engagements

584 Number of companies engaged with

ESG Engagements by Topic:

410 Environment

178 Social

385 Governance

Top 5 engagement topics:

1. Climate Impact Pledge
2. Remuneration
3. Company Disclosures
4. LGIM ESG Score
5. Climate Change

Source: LGIM Engagement Data to 30 September 21

LCIV Global Alpha

168 Total number of engagements

69 Number of management meetings

ESG Engagements by Topic:

41 Environment

33 Social

33 Governance

Of which, engagements on:

30 Climate Change

11 Diversity

12 Tax

Source: Baillie Gifford Engagements 2021

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 LAPPF'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 84 local authority pension funds and 7 asset pool companies, 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 2021, the LAPFF engaged with 82 companies, including Shell, Rio Tinto and the National Grid.

During early September 2021, LAPFF met with Shell's new Chairman to discuss concerns regarding the company's carbon trajectory, business strategy and financial performance.

LAPFF expressed their apprehensions over the company's poor returns to shareholders over the last 10 years and noted that net zero carbon objectives would not enable the company to achieve Paris-Aligned climate targets. LAPFF welcomed the Chair's willingness to engage, however, inconsistencies within their business and climate strategy persist.

Source: LAPFF Quarterly Engagement Report 30 September 2021

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 pension schemes providing retirement income to more than 30m savers, with assets under management totalling £1.3tn, 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

During January 2022, the PLSA published its response to the DWP proposals regarding a new Paris-Alignment portfolio metric that pension schemes will need to report in mandatory TCFD reports. As well as new guidance on Statements of Investment Principles and Implementation Statements.

The PLSA welcomed the proposals set out in the DWP consultation paper on Paris-Alignment metric to mandatory TCFD reports.

However, they expressed concerns on the timings, in that they do not allow sufficient time to enable trustees to appropriately prepare for an additional metric.


PENSIONS AND LIFETIME SAVINGS ASSOCIATION

CLIMATE AND INVESTMENT REPORTING: SETTING EXPECTATIONS AND EMPOWERING SAVERS – CONSULTATION ON POLICY, REGULATIONS AND GUIDANCE

JANUARY 2022

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.

Healthy Markets Case Study

Since 2019, ShareAction has been working on a Healthy Markets coalition group. The Healthy Market Initiative aims to make food retailers and manufactures take 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 $2 trillion in assets under management.

As per ShareAction research, 1 in 3 children and 2 in 3 adults are classified as overweight or obese, with over one million hospitalisations during 2019/20 linked to obesity. The four largest supermarket retailers account for two thirds of the UK's grocery market and 71% of packaged food and drink product sales in the UK are high in fat, salt or sugar.

ShareAction engage with target companies in a number of ways, including, investor-signed letters, meetings with target companies, questions posed at AGMs and shareholder resolutions once other avenues have been exhausted.

Source: https://api.shareaction.org/resources/reports/Healthy-Markets-Impact-Report.pdf