



Responsible Investment Statement

City of Westminster Pension Fund • 2023



City of Westminster

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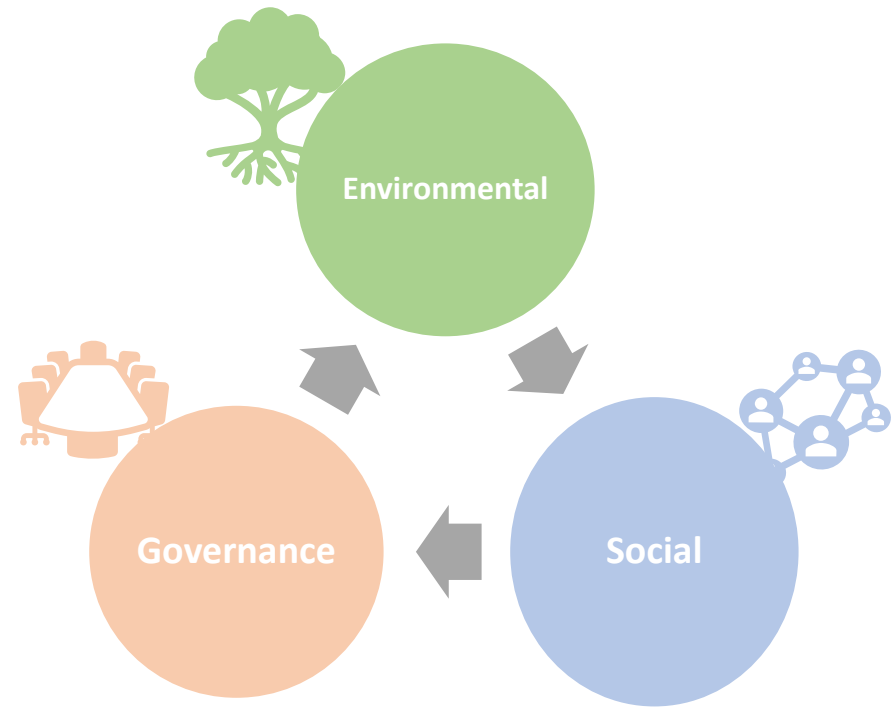
Introduction

Welcome to the City of Westminster Pension Fund's third annual Responsible Investment Statement.

Responsible Investment is defined by the United Nation's 'Principles for Responsible Investment' as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into the investment decision making process. This is beneficial for the Pension Fund as it helps us to better manage risks, generates more sustainable returns in the long term, diversifies from mainstream asset classes and supports the Council's target for net-zero emissions by 2030.

ESG refers to the three central factors, Environment, Social and Corporate Governance, in measuring the sustainability and societal impact of an investment. 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.

The Fund committed 6% (c.£110m) to renewable infrastructure during 2021, with Macquarie and Quinbrook each selected to manage a 3% allocation. As at 31 December 2022, the Fund had approximately £62m of capital drawn down, with assets targeted to solar power, onshore and offshore wind, alongside supporting infrastructure such as battery storage and connection assets. It is estimated that once fully drawn these assets will offset 46,000 tCO₂ per annum for Westminster's allocation, and power up to c.12,000 homes annually.



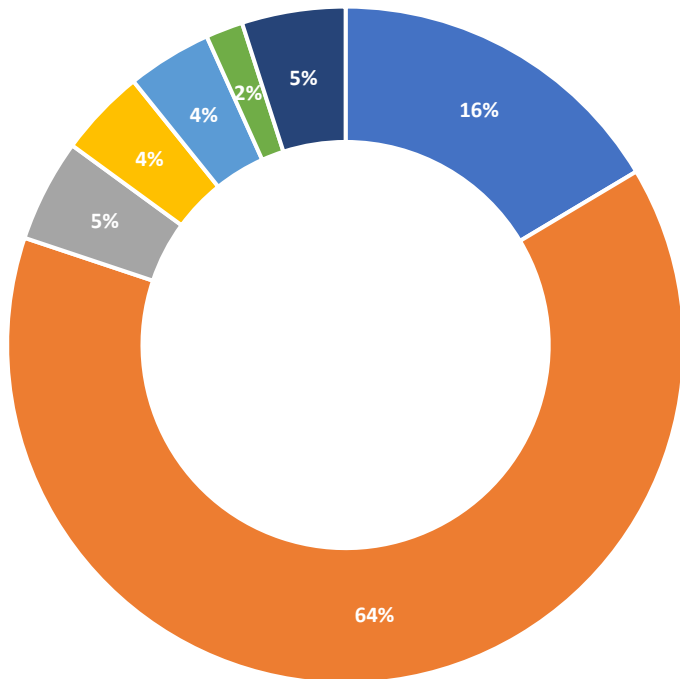
During 2022, the Pension Fund made commitments to both affordable housing and socially supported housing totalling 5% of the Fund. The allocation has a long term goal of providing 13,000 new homes that cost no more than 35% of a household's gross income and across sectors, including children's services housing, specialised supported housing and older person supported housing within the supported living market.

During late 2022, the Pension Fund submitted an application to the Financial Reporting Council to become a signatory to the UK Stewardship Code. Its principal aim is to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries. The Pension Fund is pleased to report that the application was successful and the Fund is now a signatory to the Code, an accolade held by only a handful of LGPS Funds. The Stewardship Report can be found on the Pension Fund [webpage](#).

Assets Under Management

As at 31 December 2022, the market value of the Pension Fund was £1.723bn. The Fund invests in a diverse range of assets including; equities, property, infrastructure, affordable housing, fixed income and absolute return. The Fund’s assets are managed by 14 individual fund managers who specialise in that asset class.

AUM at 31 December 2022



- Fixed Income
- Equities
- Property
- Renewable Infrastructure
- Infrastructure
- Affordable Housing
- Cash/Temp. Investments

Equities



- Monies invested in companies by purchasing their shares on stock markets.
- The Fund invests in active managers; who aim to beat the market and passive managers; who match the performance of an index.

Fixed Income



- Fixed income assets deliver fixed investment returns to investors, at determined intervals.
- Types of fixed income assets include corporate bonds, government bonds, treasury bills, loans, structured credit, convertibles and emerging market debt.

Infrastructure



- Infrastructure assets are those that are required by society to facilitate the operation of the economy, this includes transportation, utilities, energy distribution and telecommunications.
- The Pension Fund invests in global infrastructure including renewable assets, such as wind farms.

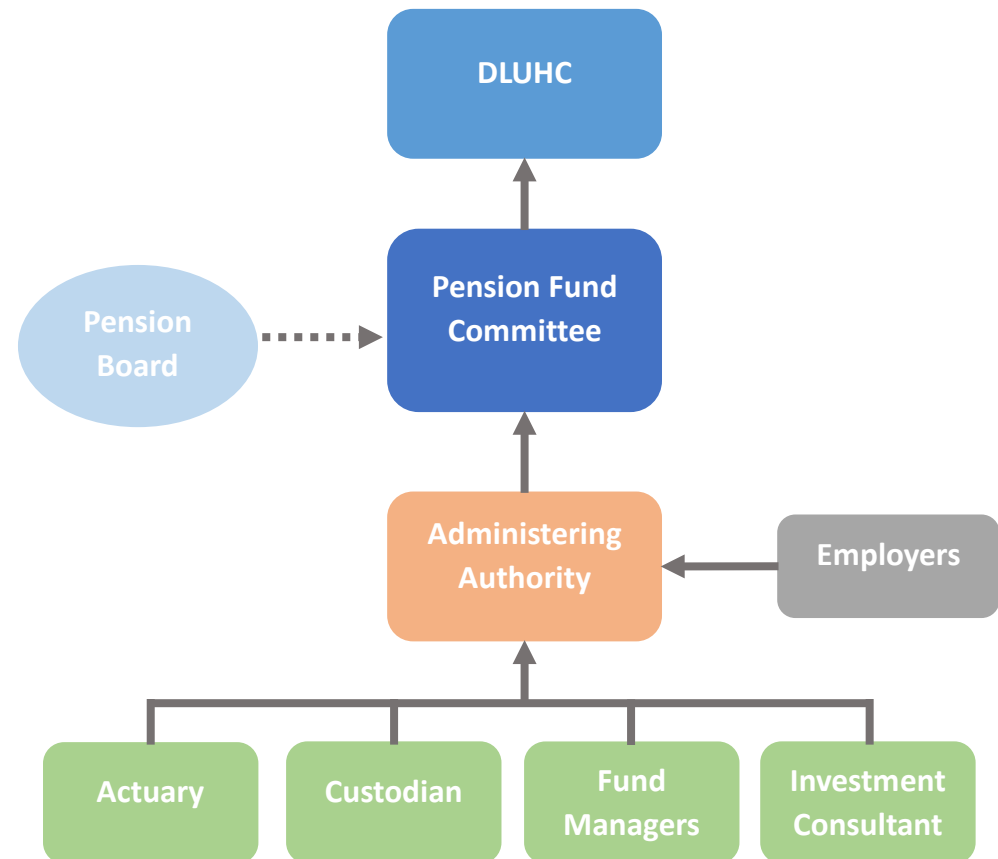
Property



- The Pension Fund invests in long lease property and affordable housing.
- Long lease property delivers returns from cyclical rent payments usually linked to CPI/RPI.
- Affordable Housing is housing accommodation typically aimed at low income workers.

Governance

- ▶ The **Department for Levelling Up, Housing and Communities (DLUHC)** set the regulations for the Local Government Pension Scheme
- ▶ The **Pension Fund Committee** is the Fund’s decision making body consisting of elected members
- ▶ The **Pension Board** assists the administering authority, ensuring the effective and efficient governance and administration
- ▶ The **Administering Authority** (the Council), dispenses the scheme on behalf of the Fund employers
- ▶ The **Investment Consultant** and **Actuary** provide advice and assistance to the administering authority and Committee relating to the Fund’s investment assets and liabilities
- ▶ The **Custodian** hold and maintain the Fund’s assets
- ▶ The **Fund Managers** implement the Fund’s investment strategy



Investment 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.

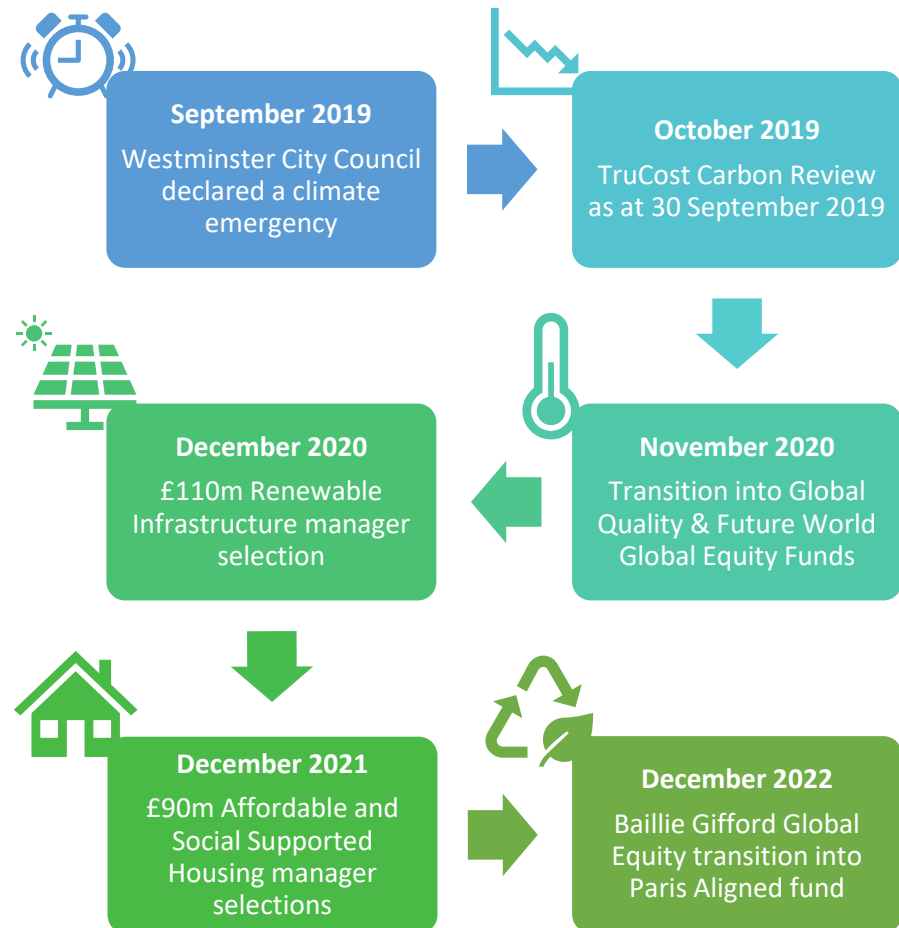
Since this mapping took place, the Fund transitioned its London CIV (LCIV) UK Equity allocation and Legal & General (LGIM) Global Passive Equities into the LCIV Global Quality Fund and LGIM Future World Fund. The Global Quality Fund seeks to provide a concentrated high-quality global portfolio of companies, 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 £110m 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. As at 31 December 2022, c.£62m has been invested within these renewable infrastructure funds.

During 2021, the Fund committed a 5% allocation to Affordable and Socially Supporting Housing. As at 31 December 2022, c.£31m had been invested within the Man Group Community Housing fund.




In December 2022, the Committee elected to transition the holdings within the London CIV (Baillie Gifford) Global Alpha Equity portfolio into the Paris

Aligned version. The Paris Aligned version has a quantitative assessment process to screen out companies with particular levels of exposure to the fossil fuels industry, plus a qualitative method to screen out companies that will not play a role in the future transition to a low carbon environment.



Carbon Emissions

The Greenhouse Gas (GHG) emissions of the Pension Fund are reported in tonnes of CO₂ (tCO₂e). These carbon emissions can be broken down into three reporting categories as follows:

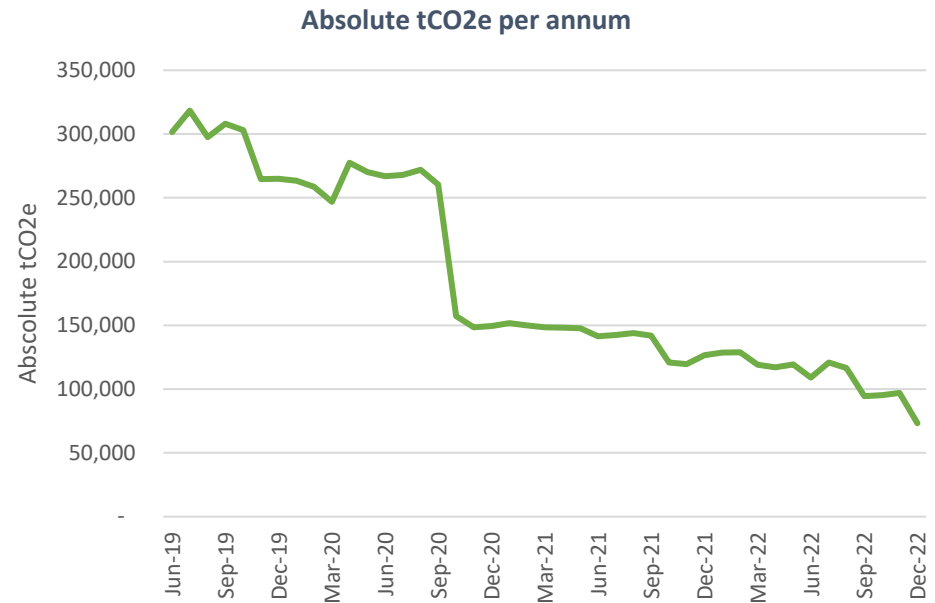
- Scope 1:** emissions directly attributable to a company e.g. vehicles 
- Scope 2:** indirect emissions relating to a company e.g. utilities 
- Scope 3:** emissions further up/down a company's supply chain: 

1 tonne of CO₂ is equal to...



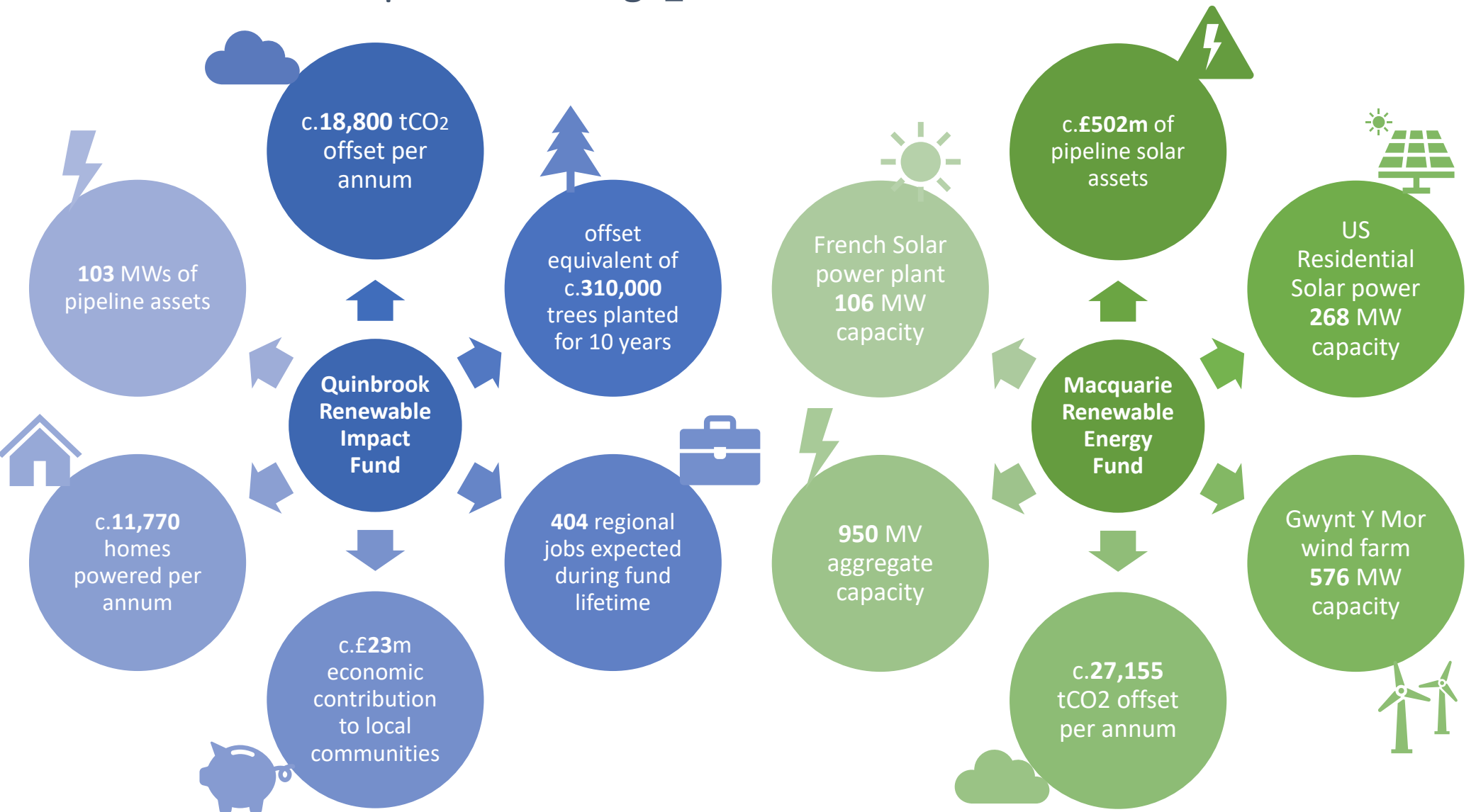
The following chart plots the absolute tonnes of CO₂ emissions of the Pension Fund from 30 June 2019 to 31 December 2022. It is estimated that the Fund has reduced its CO₂ emissions by circa 75% over this period.

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.



Please note the Pantheon infrastructure portfolio carbon emissions are not included within this graph and the Macquarie infrastructure fund and CVC Credit fund emissions include only one of the Fund assets. As data becomes available, this will be incorporated into the analysis.

Renewables Impact Modelling



Based on a portfolio of 372MW solar, 523MWBESS, 410MVA Synchronous Condenser; the information is based on the model¹⁴ August 2022 Quinbrook Renewables Impact Fund. Please note all figures have been estimated, so may not be a true reflection of actual impact.

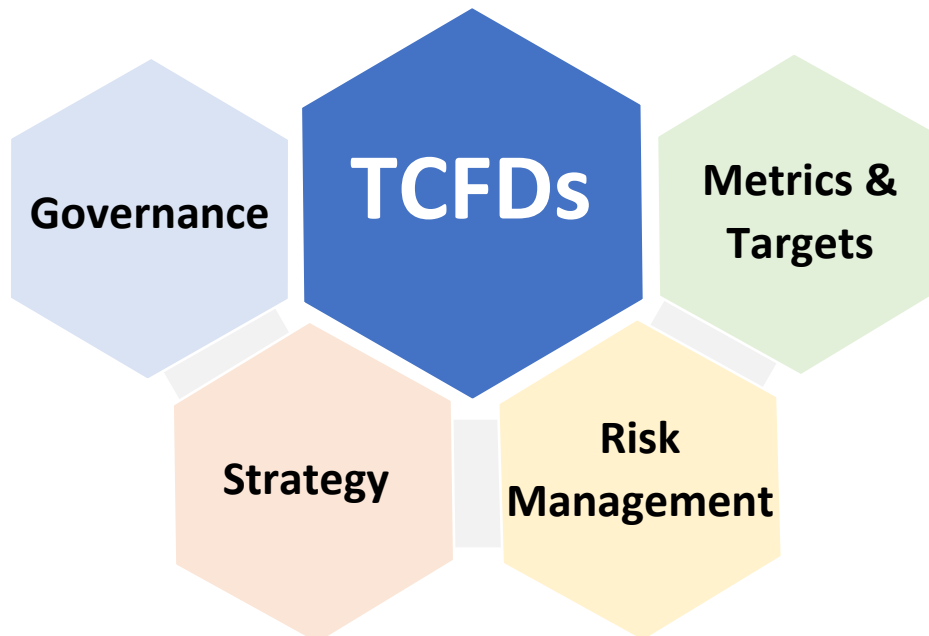
Based on Westminster's commitment of EUR 55 million, circa 3.4% of total fund size, and includes CO₂ offset estimates based on the two assets currently held in the fund. Please note all figures have been estimated, so may not be a true reflection of actual impact.

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 LGPS by 2023. Therefore, the Pension Fund has started work on the specific climate risks to the Fund and how these can be assessed, monitored and managed.

The TCFD recommendations in relation to climate change, can be split into four thematic pillars.



TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Climate related risks can be classified into two categories; Physical and Transition risks.

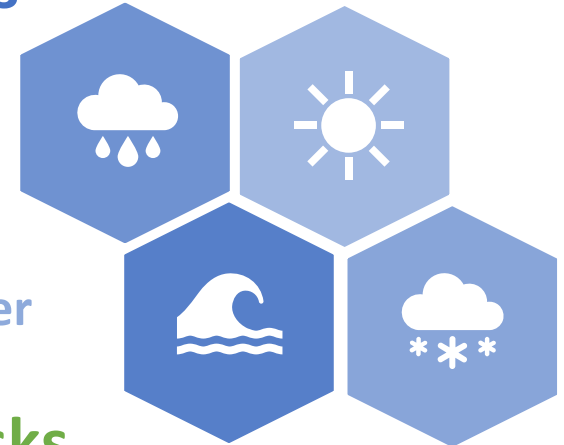
Physical Risks

Flooding

Heat

Rising Sea level

Extreme Weather



Transition Risks

Policy & Legal Liability

Technological Demand-side



United Nations Sustainable Development Goals

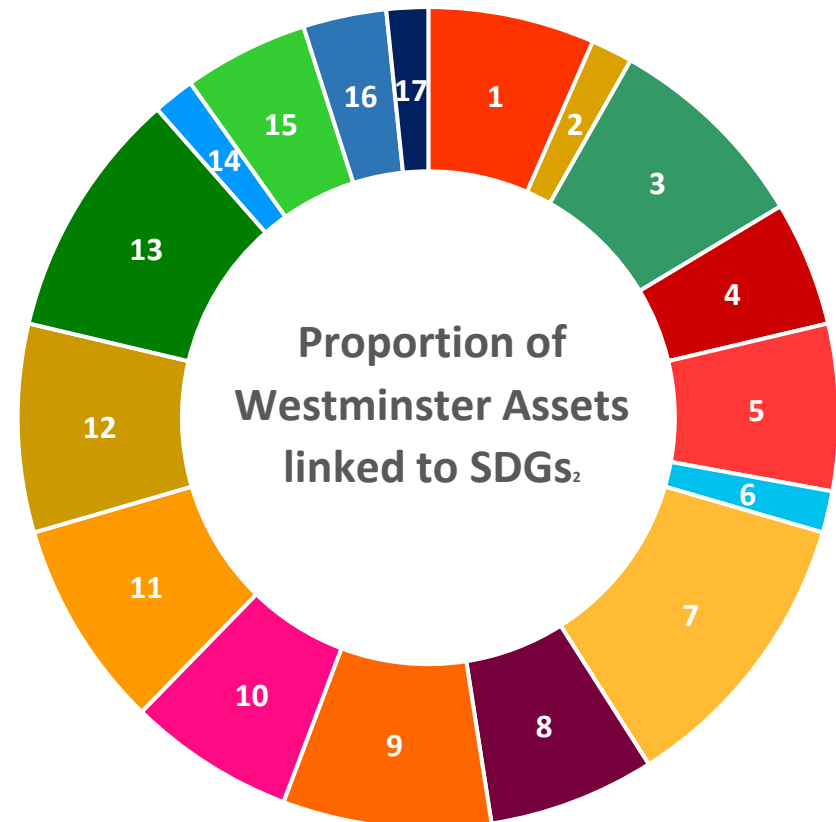
During 2016, all United Nations (UN) members adopted the 2030 Agenda for Sustainable Development, at the heart of this was the 17 Sustainable Development Goals (SDGs). These goals call for urgent action by all developed and developing countries, for ending poverty, global hunger, improving health and education, reducing inequality, tackling climate change and promoting global economic growth.¹

The UN's 17 Sustainable Development Goals are set out below:

SUSTAINABLE DEVELOPMENT GOALS






The City of Westminster Pension Fund's asset managers meet a number of the SDGs as set out by the United Nations. The chart below highlights the goals which the funds asset managers have been most successful in addressing. These include significant work towards addressing the gender pay gap, reducing deaths and illness from air pollution, developing reliable renewable infrastructure, efficient use of natural resources and improving impact on climate change mitigation.



Nature Positivity & Restoration

Nature Positivity and restoration is the regeneration of the natural world, species and ecosystems, with a goal of halting further destruction of nature. The United Nations Convention on Biodiversity international treaty sets out three goals, as shown below¹. Under the Convention, governments are working towards a target of a nature positive world by 2030 and a recovery of nature by 2050².

- 1: conservation of biodiversity 
- 2: sustainable use of biodiversity 
- 3: fair and equitable sharing of the benefits arising from the use of genetic resources 

Project Fortress case study

Project Fortress, within the Quinbrook Renewables Impact Fund, aims to build the UK's largest solar farm and battery storage facility. The site is located in Kent and commenced works during the first half of 2022. Once operational it is forecast that the site could power up to 100,000 UK homes and reduce emissions by 164,450 tonnes per year.

The asset manager has also worked alongside Natural England, Kent Wildlife Trust, Royal Society for the Protection of Birds, and the Environment Agency to design an extensive landscape and biodiversity management plan for the site. This includes planting of more than 3.5km of native hedgerows across the site area and seeking to deliver a net gain of 65% in biodiversity.

Source: Quinbrook Renewables Impact Fund

Pantheon Global Infrastructure case study

Within the Pantheon Global Infrastructure III fund, the Pension Fund has exposure to Magnon Energy. The company is the largest biomass energy company in Spain with renewable energy production in low emission forestry and agricultural biomass.

Magnon Energy manages plants that exclusively feed on biomass of agroforestry origin from nearby environments, which contributes to the reduction in CO2 by-product. Biomass energy helps to develop the rural environment and contribute to the improvement of the environment. The company has developed a [Sustainability Decalogue for Biomass](#) as a Fuel, a pioneering action in Spanish companies set up to guarantee its commitment to sustainability in the use of biomass and environment protection in the use of this renewable source of energy.

Source: Pantheon Global Infrastructure Fund III

Project Euston case study

Project Euston is held within the Macquarie Renewable Energy Fund, consisting of a solar energy farm in Thetford, England.

An area of 17 hectares will be set aside to offset any potential impact to local wildlife, with the farm area grazed with sheep in the grass growing season. Areas of wildflower will be seeded alongside new trees, with a long-term management strategy including replacement and maintenance. Existing hedgerows will also be treated annually with fertiliser and regular watering to encourage growth.

In addition, a WWII pillbox on the site will be repurposed into a bat hibernaculum, with the project expected to provide an ecological enhancement of the area.

Source: Macquarie Renewable Energy Fund

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: Inti Solar case study

The Inti solar farms are held within the Pantheon Global Infrastructure fund, with the assets located across different regions of Italy. There is also a further pipeline for future solar farms across the globe.

The fund focuses exclusively on generating electricity from 100% clean energy sources. It targets a reduction of CO2 emissions of over 2 million tons per year, thus helping achieve global climate mitigation targets. The asset manager will be heavily involved in the operation of new solar plants, thereby contributing to additional jobs in the countries it targets. As part of the project the manager has launched a charitable foundation, pledging 5% of annual profits towards alleviating poverty. Alongside this, the manager works with a specialist company to improve efficiency, including coating and tests to identify cell breakage and cracks.



Source: Pantheon Global Infrastructure Fund

Social: Experian case study

The Pension Fund holds, Experian, within its LGIM Future World Equity portfolio. The company is a multinational data and credit rating company, with headquarters in Dublin. LGIM believes the company has a key role as a business responsible for the delivery of greater social and financial inclusion.

During 2021, LGIM engaged with Experian on several occasions, and were pleased to note improvements to the company's ESG strategy, new reporting targets, greater disclosure on societal impacts and community investment, and increased capital allocated to transforming financial livelihoods.

This includes the roll out of Experian Boost, which uses data on how consumers spend their money to allow them to improve their credit score. Alongside this, the company also launched Experian Go, targeted at those with no credit history, to help them build their financial identity. Experian have also launched the United for Financial Health project to help educate and drive action for the most financially vulnerable.



Source: LGIM Active Ownership Report 2021

Governance: Rio Tinto case study

Within the London CIV (Baillie Gifford) Global Alpha Equities portfolio, the Pension Fund has exposure to Rio Tinto, a multinational metal and mining corporation.

During 2020, Rio Tinto demolished a site of cultural significance within Western Australia, promoting widespread criticism and the resignation of the CEO. LCIV had serious concerns on the corporate governance failures that led to the devastating impact on the local communities. Baillie Gifford advised they had undertaken several engagements with the company and recommended the Board to make necessary changes to its working practices to safeguard the long-term success of the company. Notable improvements within Rio Tinto include; the sale of all thermal coal assets leaving no fossil fuel exposure, strengthening carbon reduction commitments, supporting an initiative to improve global mining safety and increased disclosures; and clarity regarding the director remuneration targets. Additionally, the company has most recently published a workplace culture report to highlight areas of failing.

The logo for Rio Tinto, featuring the words 'Rio Tinto' in a large, bold, red, serif font.

Source: London CIV Stewardship Outcomes Report 2022

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: Shell case study

The Pension Fund holds Royal Dutch Shell within its Ruffer absolute return portfolio, as managed by the London CIV. As one of the highest emitters in the portfolio and following criticisms of the company's transition plan, Ruffer has engaged with the company on a number of issues. During the year, the fund manager met with Shell to discuss their climate transition strategy and to discuss the firm's reduction in carbon output to meet net zero reductions. Shell announced they intended to reduce their scope 1 and 2 emissions by 50% by 2030, however acknowledge that 90% of the emissions relate to scope 3. Ruffer challenged Shell's offset transition strategy and the lack of interim targets and have planned future engagement to further discuss Shell's consumer strategies, which are focused on encouraging the decarbonisation of transportation. Following this Shell have:

- set a target to reduce absolute emissions by 50% by 2030, compared to 2016 levels.
- pledged to reduce the carbon intensity of the energy products Shell sells by 20% by 2030, by 45% by 2035, and by 100% by 2050; and
- announced that interim targets are on the way.



Source: LCIV RI and Stewardship Outcomes Report 2021

Man Group Community Housing

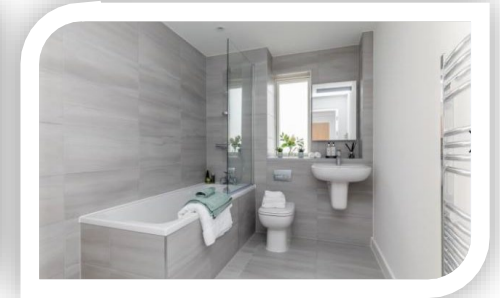
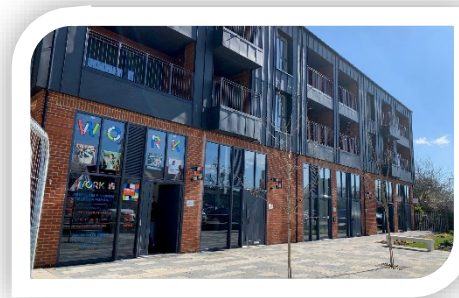
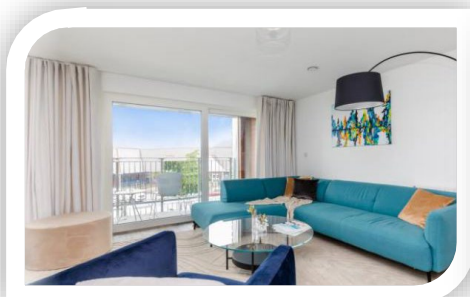
Site Visit

During March 2022, the Pension Fund officers conducted a site visit of the Man Group Community Housing fund, the majority of which, will be made available for discounted rent or shared ownership. The visit was designed to provide an in-person experience of the types of assets within the portfolio, as well as, getting a better sense of the positive impact the portfolio is already having. The visit including two sites in East Sussex, one within Lewes and another in Saltdean.

Lewes Site

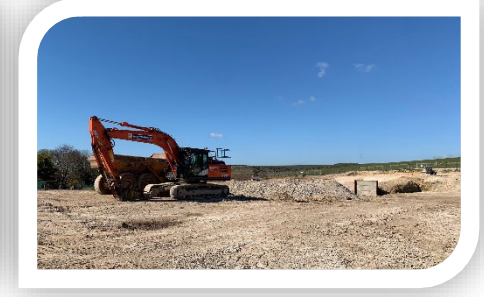
The Lewes site consists of an apartment complex with 41 properties, with 39 units to be sold as shared ownership homes and 2 penthouses to be sold on the open market. The development is located on previously developed brownfield land, in a format to support delivery of both homes and jobs.

In Lewes, home ownership is not affordable for the median household, as a result this development will have a material impact on the provision of good quality affordable housing in the area.



Saltdean Site

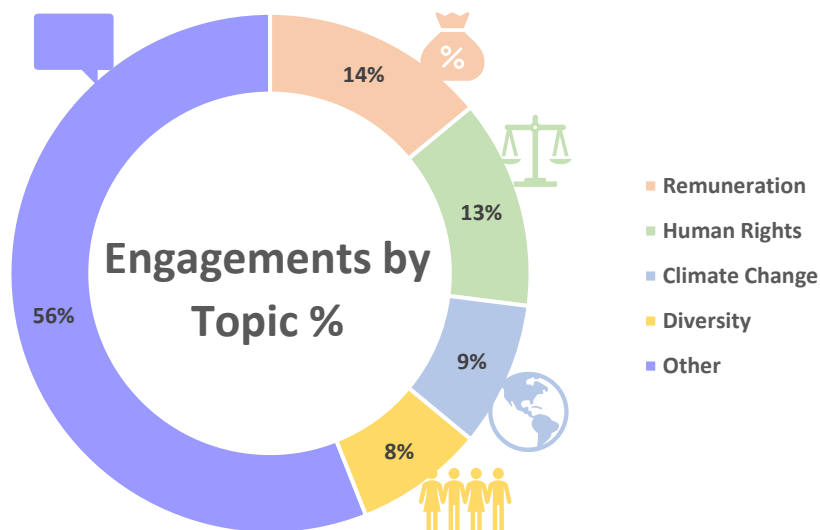
The Saltdean site is located on the footprint of a former dairy farm, in proximity to the South Downs National Park. The development comprises of 71 new homes; with 42% allocated to key worker rent, 23% to affordable rent, 18% in shared ownership and 17% for market sale. The provision of these properties will help towards the provision of affordable homes within the Brighton area, with median house prices 10 times average earnings. Alongside this, the scheme will promote substantial environmental gains, with the provision of solar panels for every home, air source heat pumps, electric car charging ports and carbon emissions 46% below the government benchmark.



Engagement Activity

London CIV

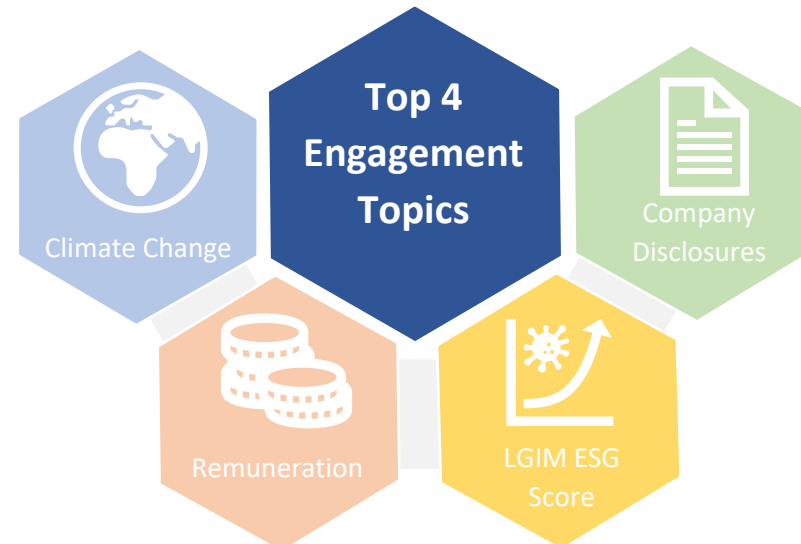
Engagements by Theme



Source: London CIV Westminster Engagement Data 2022

Legal & General

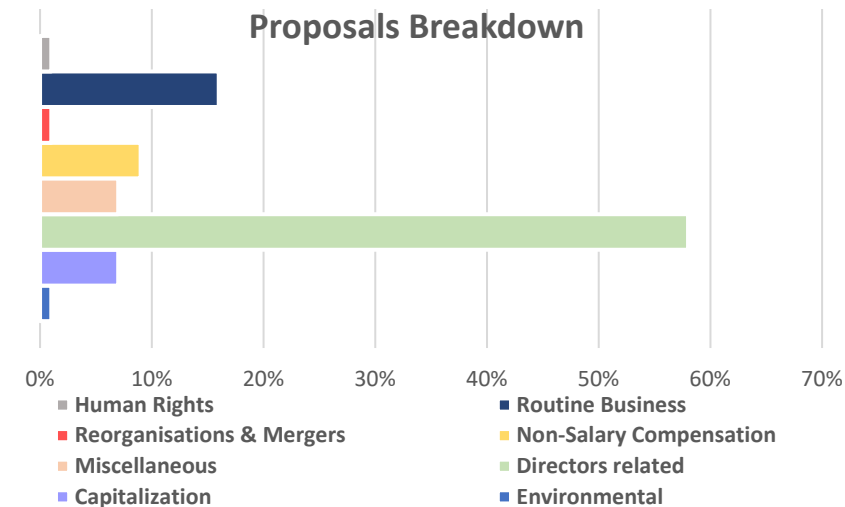
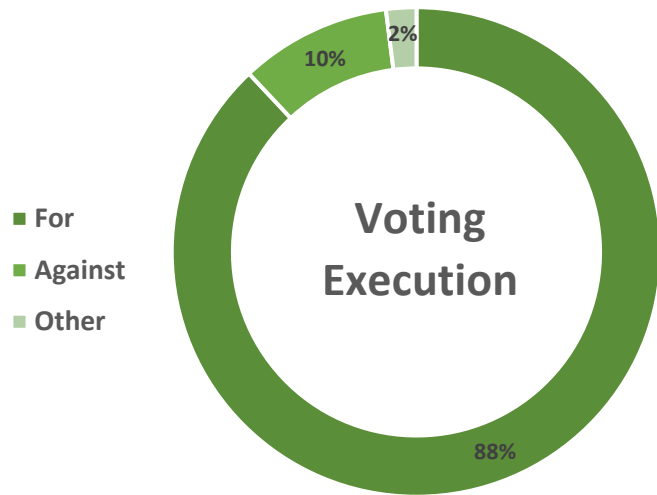
Engagements by Theme



Source: LGIM Active Ownership 2022

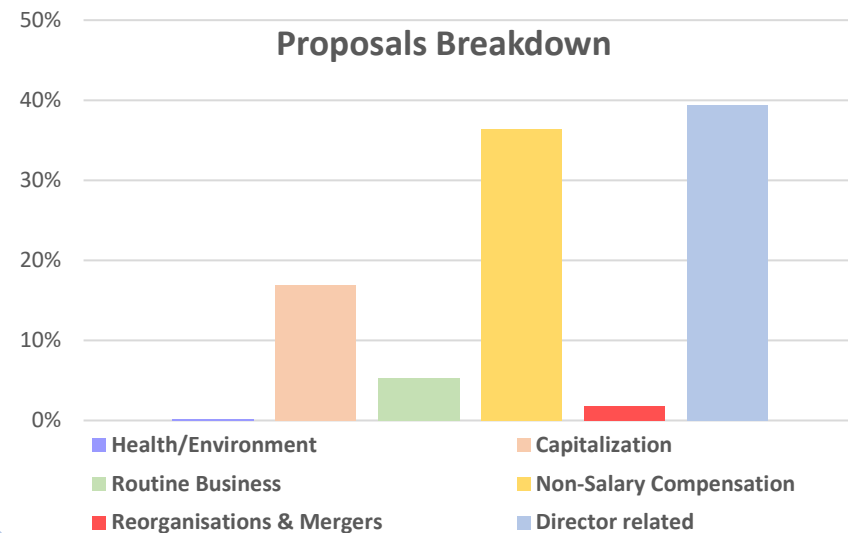
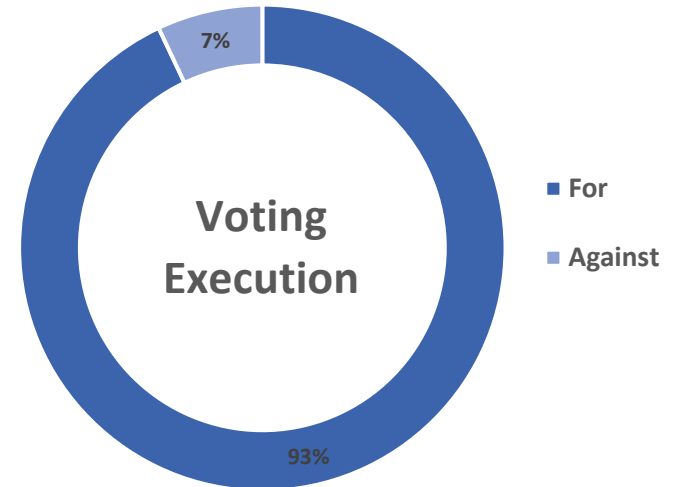
Voting Activity ✓

London CIV



Source: London CIV Westminster Voting Data 2022

Legal & General



Source: LGIM Active Ownership 2022

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 84 local authority pension funds and 7 asset pool companies, with assets under management of over £350bn, 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.

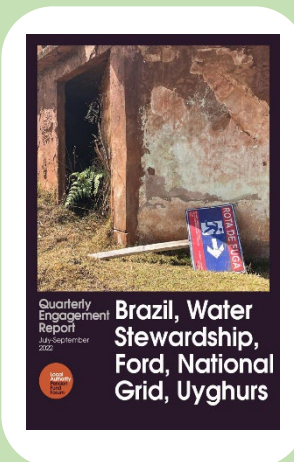
LAPFF Case Study

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 35 companies, including BHP, Apple and the Royal Mail.

During early September 2022, LAPFF Chairman, Doug McMurdo, spent three weeks in Brazil following the tailing dam collapses in Mariana and Brumadinho. This trip formed part of the LAPFF's work on human rights and mining.

During the trip, the Chair met with communities affected by the collapse and met with company executives from Vale, which own the Mariana dam. Air quality, water quality and availability of housing in resettlements remain major concerns for communities and LAPFF will continue to engage on these areas.



Source: LAPFF Quarterly Engagement Report 30 September 2022

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.

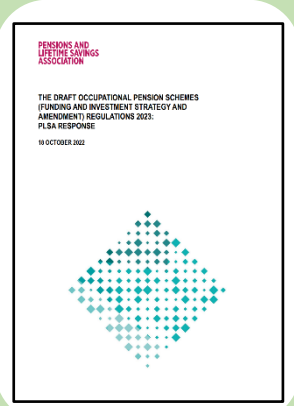
The PLSA provide an important source for training, support and guidance on regulations and pension support services.

PLSA Case Study

During October 2022, the PLSA published its response to two consultations with a view to new standards being adopted globally, requiring companies to report on sustainability. The PLSA welcomed the introduction of these standards, with the need for long-term targets for maturing schemes.

The PLSA however reflected their concerns that the framework forces a standardised approach, which does not reflect the wide range of defined benefit (DB) schemes and should allow for a more flexible approach.

PLSA noted that the proposals lacked a clear and measurable objective, with further concerns around the cost of implementation for smaller/mature schemes.



Source: PLSA Response to Funding and Investment Strategy Amendments

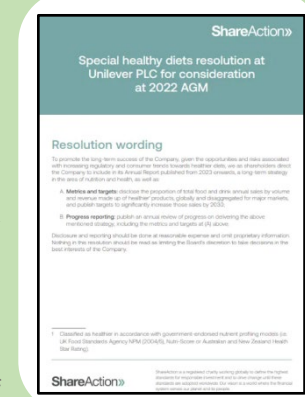
ShareAction **ShareAction**»

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 manufacturers 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, 1/3 children and 2/3 adults are classified as overweight or obese, with over one million hospitalisations during 2019/20 linked to obesity. During 2022, ShareAction filed a resolution with Unilever, asking the company to commit to a long-term nutrition strategy and disclosure metrics on their proportion of sales related to healthy products. Following this, Unilever have set a new benchmark within the industry, disclosing the healthiness of sales against the government model and their own internal model. They have also set an ambitious target to double the sale of healthy products by 2030.



Source: <https://shareaction.org/reports/unilever-resolution-2022>