

LONDON BOROUGH OF HAMMERSMITH AND FULHAM PENSION FUND

RESPONSIBLE INVESTMENT POLICY

The London Borough of Hammersmith and Fulham Pension Fund (the Pension Fund) is committed to being a responsible investor and a long-term steward of capital. Such a responsibility extends to making a positive contribution to the long-term sustainability of the global environment.

The Pension Fund recognises that managing environmental, social and governance (ESG) issues is consistent with its fiduciary responsibility as their outcome may be financially material. This presents a significant responsibility for the Pension Fund and the ESG approach will be integral to the investment strategy.

There are a wide range of ESG issues, with none greater currently than climate change. The Pension Fund recognises climate change as the biggest threat to global sustainability. The Pension Fund, alongside its administering authority employer, has committed itself to achieving carbon neutrality by 2030. This commitment means that the Pension Fund must integrate ESG factors as part of its overall investment strategy.

Our pension fund members trust the Pension Fund Sub-Committee (the Sub-Committee) to act in their best interests and ensure that their benefits are fully honoured in retirement. That is why, as well as targeting investment returns that match with our pension liabilities, we are committed to managing the investment risks: those risks pose a substantial threat to the long-term futures of our members.

The Pension Fund's investment strategy is governed by the investment principles, which are set out below:

Investment Principles

- The Pension Fund as a long-term investor, is committed to **investing to build a better future** through the integration of ESG issues at all stages of the investment decision-making process.
- Through active ownership, the Pension Fund **engages with the investment community** to help ensure a sustainable future for all its stakeholders. This includes demanding best practice from its investment managers and challenging their investment outcomes where appropriate.
- The Pension Fund recognises that significant value can be achieved through **collaboration with other stakeholders**. The Pension Fund will work closely with its LGPS pool (London CIV) and other member groups such as the Local Authority Pension Fund Forum (LAPFF) to ensure corporate interests are aligned with the Pension Fund's values.

- We want to **make our members proud** of their Pension Fund. It is important for the Pension Fund to be transparent and accountable to members and stakeholders.

Policy Implementation – Investing to build a better future

Over recent years, the Pension Fund has made great strides in considering the impact of climate change within its investments. This has influenced the choice of investment and how performance is monitored.

- The Pension Fund has committed to investing its entire passive equities holdings into a low carbon index-tracker fund. This represents estimated carbon savings of over 35,000 tonnes per annum.
- The Pension Fund maintains a 7.5% allocation to infrastructure investments, the majority of which is currently invested in renewable energy assets. This includes wind farms, solar plants and energy storage facilities.

The Pension Fund will continue to assess its investment opportunities in sustainable and low carbon assets. The aim is for the Pension Fund to be carbon neutral by the year 2030. As such, this will be reflected in the strategic asset allocation and the overall Pension Fund Investment Strategy Statement (ISS).

In addition to carbon neutrality, the Pension Fund will continually assess investment opportunities that have a positive impact on society as whole. These include, but are not limited to, investments in fixed income (green bonds), property and social impact investment strategies.

Policy Implementation – Engaging with investment community

Institutional investors have the power to influence and change behaviour globally. The London Borough of Hammersmith and Fulham Pension Fund believes that there is significant value in being able to engage with the companies in which we invest and be part of the transition to a global, low carbon economy.

The measurement of ESG performance is still developing and benefitting from significant improvements. There are several 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.

- The Pension Fund carries out a carbon footprint exercise on its portfolio annually via a specialist firm. The outcome of this process will be instrumental in ensuring that the Fund is able to meet its decarbonisation goals through effective asset allocation.
- The Pension Fund will continue to work closely with its investment managers to measure the impact of its investments. This will involve developing internal metrics and agreed targets which will be reviewed regularly.

Increasingly, there is growing interest in the investment community to develop investment strategies that focus on sustainable investments. As well as the wider investment community, the Pension Fund will support and contribute to the work carried out by the London CIV in the development of sustainable investments.

Policy Implementation – Collaboration with other stakeholders

The introduction of pooling across the Local Government Pension Scheme (LGPS) impacts how the Pension Fund's Responsible Investment policy is implemented. The Pension Fund is committed to playing a key role as part of the London CIV pool.

As asset owners, the Pension Fund, in line with its Investment Strategy Statement, is responsible for deciding how its money is invested through its strategic asset allocation. In addition to engaging with the investment community, the Pension Fund will continue to work closely with other UK LGPS pension funds to find common solutions for environmental, social and governance issues.

As more funds are onboarded onto the London CIV, the Pension Fund expects to increase its investment in the pool. This is expected to create economies of scale and increased synergies for the Pension Fund through a significant reduction in management fees and greater influence when engaging with external stakeholders. The London CIV will manage the Pension Fund's investments in line with the Fund's strategic objectives and those of the 31 other London Borough's pension funds.

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 the LAPFF's governance policies. In exceptional cases, the investment manager will be required to explain their reason for not doing so, preferably in advance of the meeting. This will be monitored on a regular basis.

Policy Implementation – Making our members proud

All of our LGPS members have spent at least part of their career helping to deliver key services to their community. It is important for them to understand how the Pension Fund is managed and the contribution its investments have on securing a sustainable future. Members are encouraged to take an active interest in how the Pension Fund is run and their views are represented on the Local Pension Board.

The Pension Fund will aim to provide members with interesting information which allows them to easily understand the types of investments in its portfolio. Overall performance of the Pension Fund is reported annually through an annual report which is readily accessible to members on the Fund's website. This will include investment performance, an assessment of the key performance indicators of the Fund's administrative function and the Fund's risk assessment.