



Responsible Investment Statement

Hammersmith & Fulham Pension Fund • 2020



Introduction

Responsible investment is at the core of how we manage our members' pensions. We take great pride in acting in their best interests by investing in a diverse range of investments that generate strong financial returns, ensuring that their benefits are fully honoured in retirement.

But being a responsible investor requires us to do more. We must take responsibility for the impact our investments have on a wide range of environmental, social and governance (ESG) issues that threaten the current and future livelihoods of our global society.

The biggest threat to the long-term sustainability of this global environment in which we are an active investor is climate change, a threat we cannot ignore. This is why we are committed to having our investment portfolio net zero in carbon emissions by the year 2030.

This means that we must integrate ESG factors as part of our overall investment strategy. In doing so, we will ensure that we continue to make investments that are suitable for safeguarding our members' retirement benefits financially, in a way that contributes to the long-term sustainability of the economy and society in which they live.

Key priorities

In our Investment Strategy Statement (ISS), we outline our approach to integrating ESG factors in the selection and non-selection of investments. This approach is centered around the following priorities over the next few years:

- 1. Investing towards a sustainable future**
 - Significant investments in low carbon and renewable investments
 - Exploring further responsible investment opportunities in all asset classes, including social impact investments
- 2. Measuring the impact of investments**
 - Monitoring the impact of our investments on climate change
 - Mapping our journey to achieving carbon neutrality by 2030
- 3. Wider engagement with the investment community**
 - Working closely with our investment pool to access investment opportunities
 - Engaging with investment managers directly or through organisations such as the Local Authority Pension Fund Forum (LAPFF)

Investing towards a sustainable future

The Hammersmith and Fulham Pension Fund is a responsible investor. Investing responsibly provides us with the opportunity to use our power of ownership to influence companies in a wide range of industries to improve the long-term sustainability of their businesses.

We do this by working closely with investment managers and consultants in assessing the impact ESG issues have on the financial performance of our investments. This is a key aspect of our investment risk management: failure to manage ESG risks may lead to underperformance for the fund and missed investment opportunities.

Over the past few years, our pension fund has made significant progress in investing more responsibly. All our public equities investments are through a low carbon index fund and a global sustainability fund. The low carbon fund reduces the pension fund's CO₂ emissions by an estimated 55% when compared with the global benchmark index. The global sustainability fund actively invests in companies that are focused on contributing towards a sustainable future.

Infrastructure investments are a reliable source of income for our fund. We use the income we receive from these investments towards paying our members' pensions on time. We have set aside 7.5% of our investment assets to be directed towards infrastructure investments. Most of the already owned assets are renewable energy projects such as wind farms, solar plants and other energy generation and storage facilities.

We will continue to work closely with our partners in the investment industry to explore further opportunities that have a positive impact on society, across all asset classes. This will involve assessing the existing impact of our current investments.

Key Facts

- **45%** of investments in low carbon generating companies
- **7.5%** investments in infrastructure projects including renewable energy
- Continued assessment of investments with generate positive impact

Investment Case Study

Landfills are a major contributor to the climate crisis because of the methane gases they generate. An alternative to sending waste to a landfill, is to use that waste to generate energy.

Through our infrastructure investment manager Aviva, we are invested in an Energy from Waste facility based in Hooton, Merseyside.

For every tonne of waste processed through an energy from waste plant, approximately 400kg of CO₂ emissions are saved.



Source: Aviva Investors

Measuring the impact of investments

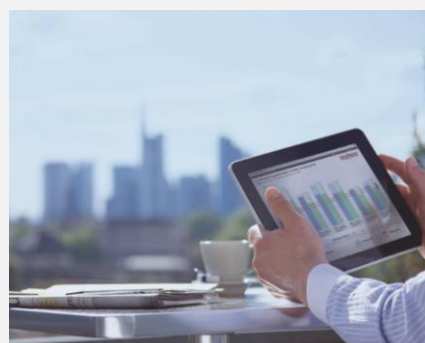
An important aspect of investing towards a sustainable future involves measuring and monitoring the impact of our investments. The measurement and reporting of ESG performance have improved significantly over the last several years. This has enabled investment managers to obtain further disclosures from companies, using reporting frameworks such as those developed by the Task Force on Climate-Related Financial Disclosures (TCFD).

Investment Case Study

Sub-metering is a cost-efficient way to reduce individual energy and water consumption.

Techem, a company managed by our investment manager Partners Group, provides residential energy consumers with technology and services that offer consumption data and incentivise more efficient resource use through lower costs.

This investment has a positive impact on the UN's Sustainable Development Goal 7.3: to "double the global rate of improvement in energy efficiency by 2030".



Source: Partners Group Corporate Sustainability Report 2019

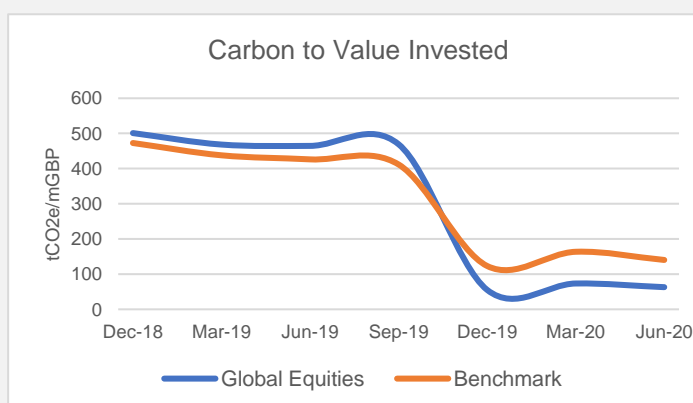
We use the information we receive from our investment managers to develop our own internal metrics and monitor our investment performance. In addition to this, each year we conduct a carbon footprint exercise on our global equities portfolios through a specialist data provider. In the coming years, we intend to extend this carbon footprint exercise to other asset classes such as fixed income and property.

Investment Case Study

The *Carbon to Value Invested* measure is one of the metrics we use to measure our fund's carbon intensity. This divides the apportioned emissions of each company in the fund by the apportioned amount the pension fund has invested in that company, through a pooled vehicle.

This is an effective measure of how efficient the companies in the portfolio are at creating value, relative to the levels of carbon produced.

As shown in the chart, the fund managed to reduce its carbon exposure by disinvesting in companies in carbon intense industries.



We report on the ESG performance of our investments on a quarterly basis. This is reviewed by the Pension Fund Sub-Committee at each meeting to ensure that the pension fund is on track to achieve its objectives. Our ESG reporting is very much an evolving process that we continue to review and improve. We will continue to incorporate more metrics, particularly for social impact and the corporate governance of our investments.

Wider engagement with the investment community

The introduction of asset pooling across the Local Government Pension Scheme (LGPS) has had a significant impact on how we implement our investment strategy. As asset owners, we are responsible for deciding how our members' pensions are invested. This is known as our strategic asset allocation.

The investment pool plays an important role in providing member funds with access to investment opportunities, creating economies of scale that significantly reduce the cost of investment for our fund.

The Hammersmith and Fulham Pension Fund is a member of the London Collective Investment Vehicle (LCIV) pool. We expect the LCIV to manage an increasing portion of our investments in line with our strategic objectives, and those of the other 31 London Borough pension funds.

This makes the LCIV a key partner in ensuring that our investments are being invested responsibly. This will provide us with greater influence when engaging with the wider investment community and the underlying companies in which we are invested.

We will continue to work closely with our investment pool manager, participating in various working groups in the development and onboarding of new investment opportunities.

Key Facts

- **65%** of assets invested with the London CIV
- Leading investor in the London CIV's Global Sustain Fund

Investment Case Study

The Local Authority Pension Fund Forum (LAPFF) is the leading voice for local authority pension funds across the UK.

With member assets exceeding £300bn, LAPFF engages directly with the company chairs and boards of investee companies to affect change, promoting the highest standards of corporate governance.

As a member of LAPFF, we require our investment managers to vote in accordance with LAPFF's governance policies.



Source: LAPFF Annual Report 2019