

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Pension Fund Committee

Date: 9 September 2025

Subject: Responsible Investment Discussion

Report author: Siân Cogley, Pension Fund Manager

Responsible Director: Phil Triggs, Tri-Borough Director of Treasury and Pensions

SUMMARY

The Pension Fund's Responsible Investment Policy is founded on ESG integration, stewardship, and alignment with the long-term interests of beneficiaries. While climate change remains the Fund's most material ESG challenge, recent geopolitical conflicts have raised new questions around responsible ownership, particularly in relation to the Middle East conflict and exposure to the defence sector.

The purpose of this paper is to propose an addendum to the Pension Fund's Responsible Investment statement to set out the Fund's approach to conflict linked investments, clarify expectations for investment managers, and establish a transparent framework for decision-making.

Wards Affected: None

Our Values	Summary of how this report aligns to the H&F Values
Being ruthlessly financially efficient	Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and the council tax payer.

Financial Impact

None

Legal Implications

None

DETAILED ANALYSIS

1. Background

- 1.1 The Fund recognises that defence companies play an important role in UK national security and may, in some cases, be consistent with fiduciary duties. However, certain companies raise significant ESG and reputational risks, especially where activities may contribute to breaches of international humanitarian law or are linked to controversial weapons systems.
- 1.2 The primary issue lies in balancing the three following factors:
- Humanitarian considerations: ensuring the Fund does not support activities that exacerbate civilian harm.
 - Fiduciary responsibility: delivering long-term returns to pay pensions as they fall due.
 - Consistency: applying a clear, transparent approach across all holdings, avoiding selective or inconsistent decisions.

2. Portfolio Audit Framework

- 2.1 To provide clarity, it is proposed that the Fund should adopt a three-tier classification of investments relating to conflict and defence:
1. No grounds for divestment: companies where defence exposure is minimal, secondary, or aligned with international humanitarian law.
 2. Requires further debate: companies with material defence exposure or indirect risks that require further engagement and monitoring.
 3. Reasonable grounds for divestment: companies where evidence shows a direct link to controversial weapons or activities deemed inconsistent with international standards and the Fund's RI beliefs.
- 2.2 Such categorisation will guide the committee's discussion and ensure that divestment or engagement decisions are evidence based and transparent.

3. Policy Integration

- 3.1 It is proposed that the Responsible Investment strategy be updated to:
- Introduce a Conflict and Human Rights section, committing the Fund to consider international humanitarian law, UN Global Compact principles, and LAPFF guidance in its investment approach.
 - Establish a decision-making protocol, combining manager due diligence, engagement activity, and committee oversight.
 - Require investment managers to disclose any material conflict related exposures and engagement outcomes.

4. Update to the Position of Defence Related Investments

- 4.1 At its meeting on 26 November 2024, the Pension Fund committee reviewed the Fund's exposure to companies involved in the manufacturing, distribution, or sale of arms and weaponry across the portfolio, using data as at 30 June 2024.
- 4.2 At that point, the Fund was valued at £1,373m, with an estimated 3.5% exposure to such companies.
- 4.3 At 30 June 2025, the Fund's value had risen to £1,434m, and the overall exposure to defence related investments had decreased slightly to 3.3%.
- 4.4 An updated schedule of relevant holdings is provided in the table below. This sets out the type of investment, the company, whether the holding sits within the LCIV pool, and the estimated value and the proportion of the total Fund as at 30 June 2025.
- 4.5 The table also applies a proposed three-tier classification to the holdings, designed to distinguish between investments with no current grounds for divestment, those requiring further debate, and those where there may be reasonable grounds for divestment.
- 4.6 This framework will be subject to review and discussion at the Pension Fund committee meeting on 9 September 2025.

Investment Type	Name	Value £	Pooled Investment?	Classification	% of Overall Fund Value
Equity	BAE SYSTEMS	-	N/A	2	0.000%
Equity	ACCENTURE PLC	16,101	Under Pool Management	1	0.001%
Equity	ALPHABET INC	274,961	Under Pool Management	1	0.019%
Equity	AT&T	244,966	Under Pool Management	1	0.017%
Equity	ATLAS CO	271,708	Under Pool Management	1	0.019%
Equity	AXON ENTERPRISE	4,815	Under Pool Management	1	0.000%
Equity	CAE INC (CT)	50,242	Under Pool Management	1	0.004%

Equity	CDW CORP	1,372	Under Pool Management	1	0.000%
Equity	DANAHER CORP	19,325	Under Pool Management	1	0.001%
Equity	ELBIT SYSTEMS	1,538	Under Pool Management	3	0.000%
Equity	HEICO CORP	2,161	Under Pool Management	1	0.000%
Equity	L3HARRIS TECHNOLOGIES	37,154	Under Pool Management	1	0.003%
Equity	MICROSOFT CORP	179,608	Under Pool Management	1	0.013%
Equity	RHEINMETALL	1,518	Under Pool Management	1	0.000%
Equity	TEXAS INSTRUMENTS	24,793	Under Pool Management	1	0.002%
Equity	THALES	-	N/A	1	0.000%
Equity	THERMO FISHER SCIE	9,172	Under Pool Management	1	0.001%
Equity	TRANSDIGM GROUP	2,983	Under Pool Management	1	0.000%
Equity	WAL-MART STORES	114,608	Under Pool Management	1	0.008%
Equity	ACCENTURE PLC	5,128,629	Pooled	1	0.358%
Equity	ALPHABET INC	7,031,159	Pooled	1	0.490%
Equity	ARCELORMITTAL	1,028,845	Pooled	1	0.072%
Equity	ATLAS CO	2,280,652	Pooled	1	0.159%
Equity	BAYER	435,913	Pooled	1	0.030%
Equity	CDW CORP/DE	1,875,199	Pooled	1	0.131%
Equity	MICROSOFT CORP	12,735,371	Pooled	1	0.888%
Equity	TEXAS INSTRUMENTS	4,660,795	Pooled	1	0.325%
Equity	THERMO FISHER SCIE	5,043,222	Pooled	1	0.352%

Equity	VALLOUREC	195,036	Pooled	1	0.014%
Bonds	AT&T	672,592	Pooled	1	0.047%
Bonds	GENERAL MOTORS	510,310	Pooled	1	0.036%
Bonds	THERMO FISHER SCIE	498,259	Pooled	1	0.035%
Bonds	AT&T	1,378,624	Off Pool	1	0.096%
Bonds	GENERAL MOTORS	594,239	Off Pool	1	0.041%
Bonds	WAL-MART STORES	1,609,269	Off Pool	1	0.112%
TOTAL		46,935,139			3.273%

LIST OF APPENDICES

Appendix 1: Responsible Investment Statement 2025 and Addendum

Appendix 2: Exposure to Elbit and Controversial Weapons