

DRAFT

Responsible Investment

London Borough of Hammersmith and Fulham Pension Fund •

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diversified approach helps balance expected returns with volatility while ensuring pension liabilities are met as they become due. As at 31 December 2024, the market value of the Pension Fund was £1.4bn

Introduction▶

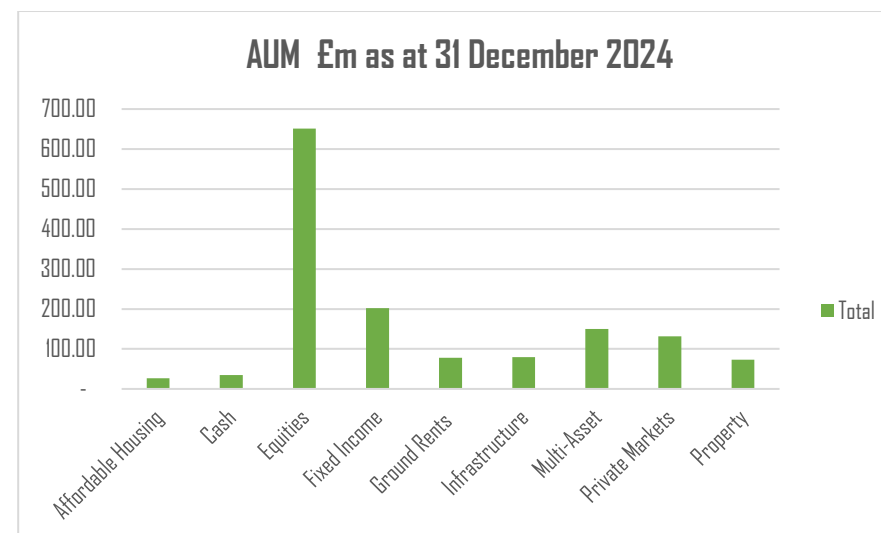
What is the Pension Fund?

The London Borough of Hammersmith and Fulham Pension Fund, part of the national Local Government Pension Scheme (LGPS), is administered by London Borough of Hammersmith and Fulham Council. This contributory defined benefit scheme provides benefits to current and former employees of the Council and affiliated bodies.

The Fund is financed through employee and employer contributions, including those from the Council and affiliated bodies, as well as investment returns. Contribution rates are set every three years by the Fund's actuary during the actuarial valuation. The latest valuation showed an increase in the Fund's funding level from 97% in 2019 to 105% in 2022. The key factors for this improvement were strong investment returns and additional deficit recovery payments from the Council.

What is the Pension Fund Invested in?

The London Borough of Hammersmith and Fulham Pension Fund is invested across various asset classes, including equities, bonds, property, infrastructure, private markets, and renewables. This



Responsible Investment Policy



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 London Borough of Hammersmith and Fulham 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, Hammersmith and Fulham, 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

Policy Implementation

The Pension Fund Committee delegates investment selection decisions to its investment managers, maintaining a policy of non-interference in their day-to-day processes. However, the Committee evaluates managers' ability to integrate Environmental, Social, and Governance (ESG) factors into investment decisions during their appointment.

This assessment includes verifying the presence of a Responsible Investment policy, ESG integration in investment processes, adherence to responsible investment frameworks (e.g., UN PRI), compliance with the Financial Reporting Council's Stewardship Code, active engagement with global companies to promote best practices, and transparent ESG reporting.

The Committee seeks advice from internal and external advisors with relevant expertise. Investment advisors assess ESG considerations during due diligence, evaluating active managers on how ESG factors influence selection, retention, and divestment decisions. For passive managers, the focus is on index construction and responsible investment policies, ensuring ESG concerns are addressed through engagement with companies. Additionally, the

assessment considers the effectiveness of voting rights in line with ESG policies, the presence of specialist ESG teams, and the integration of ESG risk assessment into portfolio selection.

Investment managers are expected to follow best practices and use their influence to promote responsible investment. Investee companies must comply with all relevant laws and regulations at a minimum.

Investment Beliefs

The London Borough of Hammersmith and Fulham 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, governing all investment decisions are the Committee's core investment beliefs, which have been established based on the views of the members. The Fund formally reviewed their Investment Beliefs in March 2023. These beliefs will form the foundation of discussions, and assist decisions regarding the Fund's structure, its strategic asset allocation and selecting investment managers.

Investment Governance

- a) The Fund has access to the necessary skills, expertise and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund's assets, such as cash management.
- b) Investment consultants, independent advisors and officers are a source of expertise and research to inform and assist the Pension Fund Committee's decisions.
- c) The ultimate aim of the Fund's investments is to pay pension liabilities when they become due. The Committee will therefore take account of liquidity, cashflow generation and the long-term ability of the Fund to meet these obligations.
- d) The Fund is continuously improving its governance structure through bespoke training to implement tactical views more

Long Term Approach

- a) The strength of the employers' covenant allows a long-term deficit recovery period and enables the Fund to take a longer-term view of investment strategy than most investors.
- b) The most important aspect of risk is not the volatility of returns, but the risk of absolute loss over the medium and long term. This would in turn impact the ability of the employers to make adequate contributions to meet the Fund's liabilities.
- c) Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long-term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.
- d) Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

Asset allocation

- a) Allocations to asset classes other than equities and government bonds (e.g., corporate bonds, private markets, property, infrastructure and renewable infrastructure) offer the Fund other forms of risk premia (e.g., additional solvency risk/illiquidity risk).
- b) Diversification across asset classes and asset types that have low correlation with each other will tend to reduce the volatility of the overall Fund return.
- c) In general, allocations to bonds are made to achieve additional diversification. When the Fund approaches full funding level, it may

Environmental, Social and Governance (ESG) factors

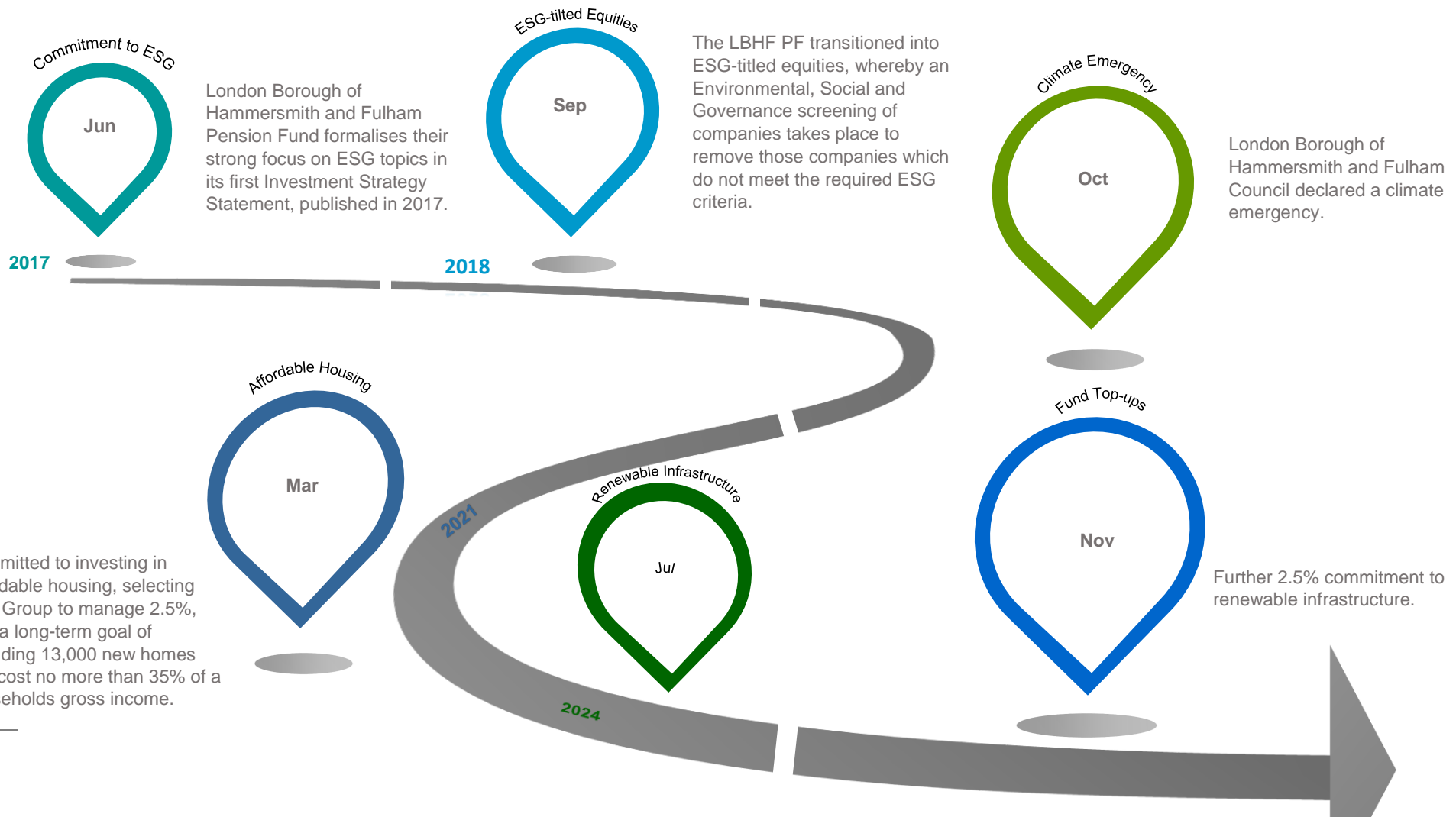
- a) Certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Fund's investments and the likelihood that the Fund's objectives will be achieved.
- b) Well governed companies that manage their business in a responsible manner are less vulnerable to downside risk and may therefore produce higher returns over the long term.
- c) In order to improve corporate governance, where possible, investment managers should exercise the voting rights attached to the shares they own, as well as engage with management of the companies they invest in.
- d) Environmental, social and governance considerations form a part of the Pension Fund Committee's decision-making process when making investment allocations. Allocations to alternative investment asset classes, such as renewable infrastructure, offer the Fund opportunity to undertake a best practice approach to ESG investment considerations.
- e) Where the Fund invests in passively-managed funds which replicate benchmark indices, where possible the Pension Fund Committee will explore ESG-tilted indices.
- f) If an investment manager fails to adequately consider ESG issues, the Committee is prepared to disinvest assets from that manager.

Management Strategies

- a) A well-balanced portfolio has an appropriate mix of passive and active investments.
- b) Passive, index-tracker style management can provide low-cost exposure to equities and bonds and can be especially attractive in efficient markets.
- c) Active management can be expensive but can provide additional performance and diversification. Fees should be aligned to the interests of the Fund rather than performance of the market.
- d) Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered, and that continued appointment is appropriate.

Investment Milestones

Commitments to renewable infrastructure, selecting Quinbrook with assets targeted to solar power, wind farms and supporting infrastructure such as battery storage and connection assets.



SUSTAINABLE DEVELOPMENT GOALS

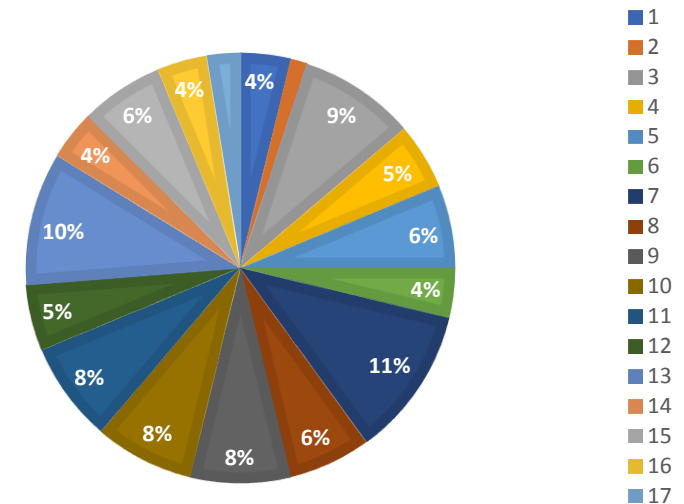


United Nations Sustainable Development Goals (SDGs)

In 2016, all United Nations (UN) members adopted the 2030 Agenda for Sustainable Development which centred on 17 Sustainable Development Goals (SDGs). These goals urge both developed and developing countries to take immediate action to end poverty and hunger, improve health and education, reduce inequality, combat climate change, and drive global economic growth.¹

¹ <https://sdgs.un.org/goals>

%



The London Borough of Hammersmith and Fulham Pension Fund's asset managers align with several United Nations Sustainable Development Goals (SDGs). The chart below highlights the key goals they have effectively addressed, including efforts to close the gender pay gap, reduce air pollution-related deaths and illnesses, develop reliable renewable infrastructure, promote efficient resource use, and enhance climate change mitigation.

Proportion of Assets Linked to SDGs

How are SDGs integrated into the Fund Assets?

SDG 3: Good Health & Wellbeing

- **London CIV (Global Equity Quality, Buy and Maintain Bonds & Absolute Return Fund):**
 - London CIV expect companies to provide good quality employment that protects employees' physical and mental health, including payment of living wages across direct operations and supply chains.
- **MAN Group Community Housing:**
 - Increasing the percentage of homes that meet the Decent Home standards.
- **Quinbrook Renewable Impact Funds I & II**
 - Better environmental justice to avoid pollution and fossil fuel emissions for communities.
- **Partners Group**
 - Create long-term value by both investing in the low carbon economy and leading assets on their path to net zero improving life for communities.

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: Project Fortress

Project Fortress, a 373 MW solar and 350 MW battery storage project in Cleeve Hill, Kent, is under construction within the Quinbrook Renewables Impact Fund. It is the UK's largest consented solar and storage project at acquisition and is set to be fully operational by early 2025. The project will generate enough renewable energy to power over 100,000 UK homes, reducing carbon emissions by 142,000 tonnes annually. It is expected to create over 2,000 construction jobs and deliver £143 million in local socio-economic benefits. Additionally, it aims for a 65% biodiversity net gain, dedicating 138 acres to habitat management and planting 3.5 km of native hedgerows. Quinbrook has secured long-term agreements with Tesco and Shell Energy Europe for 100% of the solar power output, marking the largest deal of its kind. The project supports the UK's net-zero goals while enhancing local environmental sustainability.



Social: KinderCare - Partners Group

KinderCare Education, part of the Partners Group portfolio since 2018, is the largest for-profit early childhood education provider in the U.S. It offers education, employer-sponsored care, and after-school programs.

The company prioritizes employee engagement, with an 89% participation rate in its 2022 survey, the highest in seven years. It has won the Gallup Exceptional Workplace Award for six consecutive years. Since 2021, KinderCare has implemented a three-year Diversity & Inclusion strategy, hiring key personnel and launching five employee resource groups with 800 members.

KinderCare earned the WELL Health-Safety Rating for its COVID-19 response and launched a living wage program, making its largest-ever wage investment in 2022, benefiting 21,000 teachers. This led to teacher retention exceeding targets by 20%. These efforts reinforce its commitment to employee well-being and high-quality early childhood education.



Governance: Huntington Bancshares case study

Huntington Bancshares, held within the Morgan Stanley Global Quality Equity fund via the London CIV, is a bank holding company offering financial services, including banking, mortgages, and investment management.

In 2022, London CIV's engagement provider, EOS Hermes, encouraged the bank to establish a workforce diversity strategy with targets for underrepresented groups. In 2023, EOS met with Huntington to discuss diversity, inclusion, and talent development, urging greater transparency in promotions and LGBTQ+ representation on the Board. While the bank incorporates diversity in annual pay awards, ESG metrics are not explicitly included.

In 2023, Huntington set comprehensive diversity targets, focusing on racial and ethnic representation in hiring and promotions. EOS continues to push for increased transparency in diversity programs, reinforcing the company's commitment amid regulatory challenges.



Carbon Emissions

What are carbon emissions?

Gases which trap heat within the earth's atmosphere are known as greenhouse gases, with human activities contributing towards the greenhouse gas effect and global temperature rises. Carbon dioxide is the largest contributor toward greenhouse gases, largely as a by-product from the burning of fossil fuels including coal, oil and natural gas. The Greenhouse Gas (GHG) emissions of the Pension Fund are reported in tonnes of CO₂ (tCO₂e). One tonne² of CO₂ is the equivalent of:³

2,500 miles in an average car



120,000 smartphones charged



500 CO₂ fire extinguishers



What are scope 1, 2 and 3 carbon emissions?

Carbon emissions can be broken down into three reporting categories to demonstrate how a company's operations and wider value chain feed into their emissions.

Scope 1: emissions directly attributed to a company



Scope 2: emissions indirectly attributed to a company



Scope 3: emissions further up/down the supply chain



² <https://www.edenseven.co.uk/what-does-a-tonne-of-co2-look-like>

³ <https://www.anthesisgroup.com/insights/what-exactly-is-1-tonne-of-co2/>

LCIV Climate Analytics

In Spring 2024, the London Borough of Hammersmith and Fulham Pension Fund signed up to the LCIV's Climate Analytic Service. The Climate Risk Dashboard provides an overview of key forward and backward-looking climate performance metrics calculated by London CIV.

Carbon Intensity (tCO2e/mGBP)

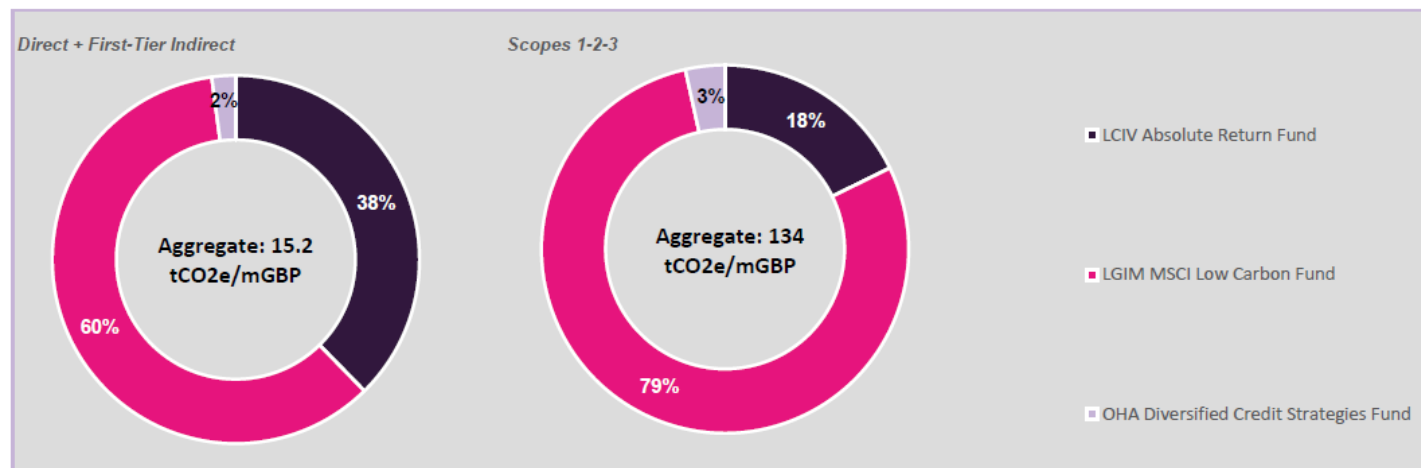


Figure 1 - 2019

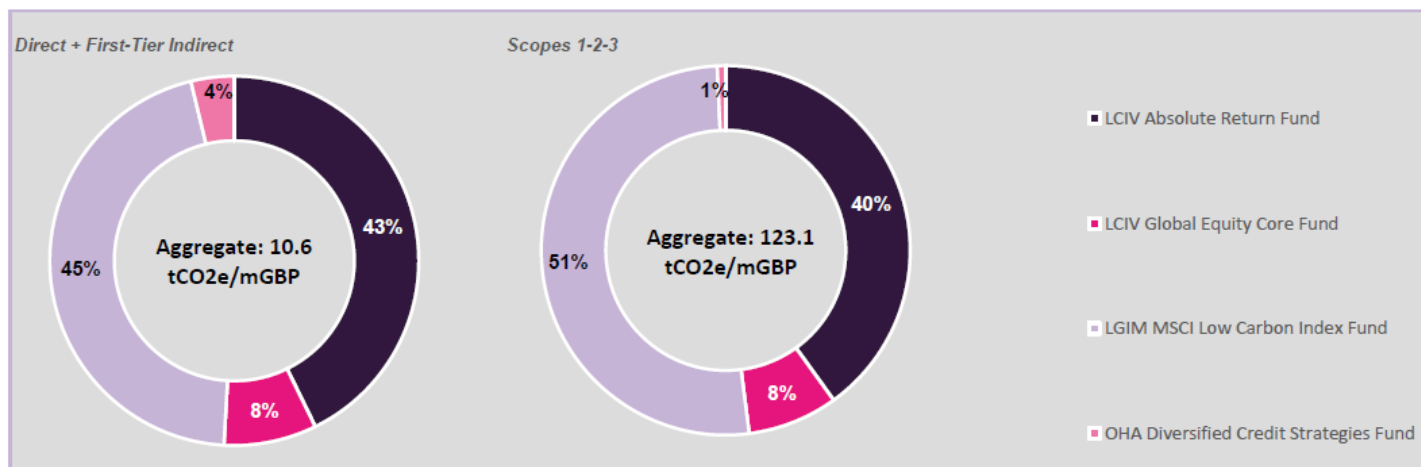


Figure 2 - 2022

The analytic service is currently only backwards looking, with figure 1 and figure 2 showing extracts from the reports provided by the LCIV for 2019 and 2022.

The diagrams show that there has been a reduction of 4.6 tCO2e/mGBP in the direct & first tier indirect carbon intensity between 2019 and 2022 on aggregate. There has also been a reduction of 10.9 tCO2e/mGBP in scope 1-2-3 emissions between 2019 and 2022.

The Pension Fund will continue to work alongside the LCIV in improving the quality of climate analytic work.

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 London Borough of Hammersmith and Fulham 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: Colgate-Palmolive case study

LGIM have been engaging with Colgate-Palmolive since November 2022, focusing on, strengthening its deforestation approach, ensuring supplier compliance, improving traceability, and enhancing board oversight. The company, which sources forest-risk commodities like palm oil, paper, cattle, and soy, was chosen due to its potential to drive sector-wide change.

Discussions with the Chief Sustainability Officer explored supplier accountability, grievance mechanisms, and key escalations for non-compliance. As a result, Colgate-Palmolive meets minimum deforestation expectations and has made progress by strengthening supplier relationships, cutting ties with non-compliant partners, and introducing satellite monitoring and palm oil mapping. Board-level oversight on deforestation has also increased.

In the next engagement in 2025, discussions will focus on traceability improvements, collaboration with industry peers, and further risk mitigation in its supply chain.



London CIV



2,832

Total Management Meetings

ESG Engagements by Topic:



680

Environment



623

Social



1,133

Governance

Of which, engagements on:



22%

Climate Change



22%

Diversity



8%

Cyber Security

48%



Other

Legal and General



1,951

Total number of engagements over a 12-month period



1,256

Unique companies engaged

ESG Engagements by



1,461

Environment



215

Social



376

Governance



174

Other

Top 4 engagement

1.



Climate impact pledge

2.



Climate Change

3.



Corporate Strategy

4.



Remuneration

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), 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 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.

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.

LA

Local
Authority
Pension
Fund
Forum

Study

The Local Authority Pension Fund Forum (LAPFF) publishes an annual report detailing its engagements, governance, and collaborations. In 2023/24, LAPFF addressed key issues such as climate change, biodiversity, systemic risks, governance, and social factors.

For over a decade, LAPFF has engaged with National Grid on decarbonisation, advocating for greater transparency in capital expenditure and lobbying activities. In May 2024, National Grid announced a £60bn capital investment plan through 2029, with 51% designated for green investment, alongside a £7bn share issuance. LAPFF welcomed this expansion, recognizing the need for capital raising to support decarbonisation. The company also released its Climate Transition Plan (CTP), Responsible Business Report (RBR), and Fair Transition statement. The CTP outlines emission reduction targets, a roadmap to net zero by 2050, climate scenario analysis, and the integration of emission targets into business processes.

Addendum: Conflict and Human Rights

The Pension Fund recognises that armed conflict and breaches of human rights create material financial, reputational, and ethical risks. In fulfilling its fiduciary duty, the Fund commits to considering these risks through alignment with internationally recognised frameworks, including:

- International Humanitarian Law, particularly the principles designed to safeguard civilians in conflict.
- The United Nations Global Compact, which sets universal standards on human rights, labour, environment, and anti-corruption.
- Local Authority Pension Fund Forum (LAPFF) guidance, providing collaborative engagement on governance, human rights, and corporate behaviour.

The Fund expects investment managers and pooled vehicles to apply robust due diligence on conflict and human rights issues, disclose any material exposures, and engage actively with companies where concerns arise.

Under the updated pooling framework, the London Collective Investment Vehicle (LCIV) plays a central role in implementing this policy on behalf of partner funds. The Fund will work with LCIV to ensure that conflict related risks and human rights considerations are fully embedded in fund selection, stewardship activity, and reporting, and will collaborate with other London boroughs through LCIV governance structures to strengthen collective influence.

Where credible evidence indicates that an investee company is in breach of international humanitarian law, contravenes the UN Global Compact principles, or fails to respond adequately to LAPFF or LCIV engagement, the Fund will consider escalation measures. These may include collaborative engagement, the use of voting rights, or, where appropriate, consideration of divestment.

This addendum to the Responsible Investment Statement has been prepared to address growing concerns regarding the Fund's exposure to companies linked to armed conflict and defence activities, particularly in the context of the Middle East conflict. The purpose is to ensure the Fund has a clear, transparent and evidence based framework for managing these issues, consistent with the Fund's fiduciary duty and responsible investment beliefs.

This addendum sets out a commitment to align the Fund's investment approach with international humanitarian law, the UN Global Compact, and guidance from the Local Authority Pension Fund Forum (LAPFF). It also reflects the new pooling requirements, confirming the role of the London Collective Investment Vehicle (LCIV) in embedding conflict and human rights considerations into fund selection, stewardship and reporting.

By adopting this addendum, the Fund will strengthen its ability to respond to member and stakeholder concerns, apply consistent standards across the Fund's investment portfolio, and ensure that any future decisions regarding engagement or divestment are made transparently and proportionately.

To provide clarity, the Fund will adopt a three-tier classification of investments relating to conflict and defence. Such categorisation will guide the Committee's deliberations and ensure that any divestment or engagement decisions are evidence based and transparent.

