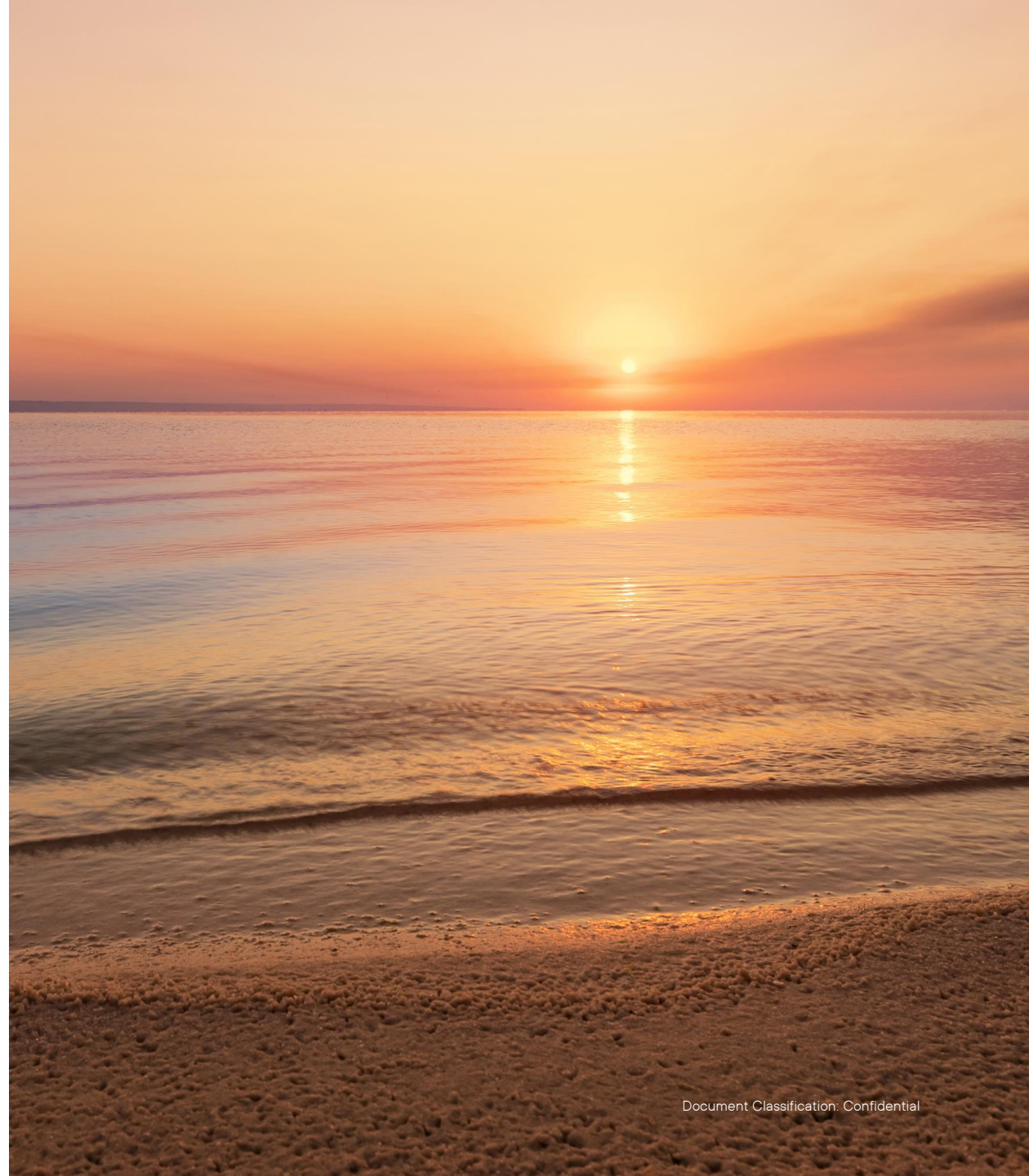


London Borough of Hammersmith & Fulham Pension Fund

Investment Exposure to Elbit Systems and Other
Controversial Weapons Companies

August 2025

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Introduction and Background

- This paper has been prepared for the Pension Fund Committee (the “Committee”) of the London Borough of Hammersmith & Fulham Pension Fund (the “Fund”).
- This paper provides further information and considerations in relation to the Fund’s investment exposure to Elbit Systems and other potentially controversial weapons companies.
- The purpose of this paper is not to provide recommendation but additional information – a factual assessment of the Fund’s current exposure and to provide considerations for future discussions.
- The paper considers the approaches available to the Committee, and likely associated costs should the Committee seek to remove exposure associated with Elbit Systems and other controversial weapon exposures.
- The Committee should consider this paper in the context of the outcome of the Fit for the Future legislation, which mandates full management of the Fund’s assets via the asset pool by March 2026, and may wish to engage London CIV on any issues raised.
- This paper does not constitute a recommendation but is an overview of the information available to help the Committee make an informed decision.

Two Approaches – Engagement vs Divestment

- Tackling and understanding various environmental, social and governance issues is increasingly important to investors in a world where we see rising inequalities, the impacts of climate change on communities, a cost of living crisis, rising global tensions and war, and more. To date, two broad approaches have been available to investors in response:
 - **Engagement:** defined as purposeful, targeted communication with the relevant entities with the goal of encouraging meaningful change at an individual company level, or on a collective systemic issue. This can be done by a single investor or larger group.
 - **Divestment:** defined as a situation where the investor commits to remove certain assets or exposures from their investable universe either immediately or over a set period time. Selective disinvestment may sometimes be used following engagement attempts which are unsuccessful at driving change..
 - **Engagement for change** – Active ownership through voting and dialogue can improve corporate behaviour and transparency. This can be done directly by an investor or through various third parties.
 - **Divestment as a statement** – Divestment signals disapproval of practices but also removes the investor's influence, potentially losing a voice in key discussions and decisions.
 - **Market dynamics** – An often-discussed unintended consequence is the extent to which divested shares may be bought by other investors who may not prioritise ethical considerations, reducing the impact on the excluded company, and potentially exacerbating the situation or making change less likely.
- **Isio's view;** While exclusions are important for screening clear offenders e.g. UN impact violators, they are not perfect, we are wary of significantly scaling them, and the "real world" impact of this approach. We believe the most successful approach is complementing basic exclusions with a holistic approach to stewardship and manager selection.
 - The approach followed by the Fund to date has been engagement with this delegated to the LCIV pool and the Fund's other third-party managers. As outlined in the Defence Company Stocks Discussion Paper authored by Pension Officers for discussion at the 26 November 2024 Pension Fund Committee Meeting, the Fund's current approach is to engage with and encourage companies to take positive action rather than having an exclusion or divestment policy. To date there has been no requirement for the Fund to enact disinvestment.



Current Fund Exposure

- As at 30 June 2025 the Fund’s direct exposure to Elbit Systems equates to c.£0.2m, or c.0.01% of total assets, via the L&G Low Carbon Mandate. As at 30 June 2025 the broader controversial weapons exposure equates to c.£4.4m, or c.0.31% of total assets as a result of exposures in the L&G Low Carbon Mandate, LCIV Absolute Return Fund and the LCIV Buy & Maintain Long Duration Fund. The Committee should note that there may also exist indirect exposure via the Fund’s other global investments. For example, through supply chains, economic dependencies and revenue streams. These are extremely hard to fully unpick.
- The Fund’s exposure to these funds is via pooled funds and it is therefore not possible for the Fund to exclude specific securities as a pooled fund has a defined mandate with multiple underlying investors. To divest fully, the Fund would be required to fully disinvest from the pooled investment product before replicating the exposure elsewhere, either via a segregated or pooled approach. We estimate disinvestment costs alone to remove all weapons exposure would be in the region of £1.5m (c.0.25% of assets disinvested*) for these mandates. Actual redemption costs will differ by manager and strategy and will fluctuate based on the market conditions at the time of disinvestment. In addition, the Fund would be subject to other costs such as advisory costs in searching for a replacement mandate, plus transition costs in entering any new funds (expected to be similar to c.£1.5m as above). If a segregated mandate is required to achieve a bespoke exclusions approach, this would lead to an increase in ongoing management costs (e.g. a segregated passive global equity fund annual management charge could be over 30bps vs current L&G fee of c.7bps) in addition to other expenses of running a bespoke fund (which are often higher than a pooled approach). The Committee may then desire to replicate the exclusions throughout the remainder of the portfolio, again this could come at significant cost.
- From a strategic perspective, a full exclusionary approach may not be possible in all asset classes, pursuing divestment may lead to a compromise in the target asset allocation which could impact overall diversification, and cause risk vs return deviations from the agreed strategic asset allocation. This could be explored in further detail if required.
- The Committee should also consider context the incoming Fit for the Future legislation, in that predominant responsibility for the Fund’s investment portfolio will lie with London CIV from March 2026, and their Responsible Investment approach will be key.

Manager	Asset Class	30 Jun 2025 (%)	Exposure to Elbit (Y/N)	Exposure to Controversial Weapons (Y/N)	Screens/ exclusions available?
L&G	Low Carbon Global Equity	31.9	Y - 0.04%	Y - 0.71%**	Incorporates low carbon tilt. Could go further with ESG future world framework
LCIV	Global Equity Quality	13.0	N	N	
LCIV	Absolute Return Fund	9.9	N	Y – 0.49%**	No further exclusions available with LCIV
LCIV	Buy and Maintain Long Duration	2.2	N	Y- 1.49%**	Includes exclusions but no further available with LCIV
LCIV	Buy and Maintain Short Duration	2.3	N	N	
Allspring	Buy & Maintain (Climate Transition)	9.9	N	N	
Partners Group	MAC	0.2	N	N	
Partners Group	Infrastructure	2.0	N	N	
Oak Hill	Div. Credit	5.6	N	N	
Darwin	Leisure	1.5	N	N	
Quinbrook	Renewables	4.0	N	N	
Aberdeen	Multi Sector Private Credit	3.6	N	N	
Aberdeen	Long Lease Property	3.7	N	N	
Alpha Real Capital	Ground Rents	7.2	N	N	
Man Group	Affordable Housing	1.9	N	N	
Total		100.0	0.01%	0.31%	

* Estimated redemption costs based on recent market transactions: L&G 0.2%, Absolute Return 0.3%, B&M 0.4%. ** LCIV controversial weapons exposure is based on companies where at least 0-5% of the revenue is linked to controversial weapons, L&G exposure provided by Sustainalytics. While we have not received formal confirmation from Quinbrook, we do not expect this fund to hold exposure to controversial weapons as per our understanding of the strategy and remit of the portfolio.

The Fund's Responsible Investment Statement

- The Fund's has an agreed Responsible Investment Statement in place which sets out the Fund's Responsible Investment Policy and approach. This also sets out specific environmental, social and governance (ESG) issues and considerations, and the integration of the United Nations Sustainable Development Goals. The Committee formally reviewed the Fund's Investment Beliefs in March 2023, which considers how ESG factors are implemented in the asset portfolio.
- 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. The Fund recognises climate change as the biggest threat to sustainability alongside its administering authority, the London Borough of Hammersmith and Fulham Council, which has made a commitment of achieving carbon neutrality by 2030.
- The Committee evaluates managers' ability to integrate ESG factors into the investment decisions during their appointment and ongoing monitoring. 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.
- Pension Fund Officers have proposed an addendum to the 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. This is included in the 9 September 2025 Pension Fund Committee Meeting agenda pack.
- The Committee should consider the additional wording and determine whether this fully reflects the Committee's views on the issues. The inclusion of such wording within the Responsible Investment statement will give additional guidance to the Fund's third-party investment managers including the London CIV.
- The Committee should consider, however, the extent to which such views are conveyed and be mindful of the precedent set in relation to pressure of future controversies which may arise. It is important to ensure serious ethical considerations are accounted for across the Fund's investments, but the Committee should be cognisant not to limit the Fund's investable universe to a significant degree, given the fiduciary duty outlined.

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High Level Options Moving Forward

1) Take no action – continue to follow an engagement approach

- Continue unchanged and maintain the status quo
- Address public concerns on an ongoing basis as and when they arise
- Assets will move to a fully pooled fiduciary management approach with London CIV at 31 March 2026.

2) Take action to consider the merits of divestment further

- Further analysis on the practicalities, costs and process to consider divestment
- Engage with London CIV and third-party managers to see what is possible – although potentially limited by pooled fund availability and the London CIV's preferred approach.
- Consider cost of change and impact to investment strategy (including explicit cost and opportunity cost from a fiduciary point of view)

3) Update Current Responsible Investment Policy to reflect Committee's position

- Review current Responsible Investment Policy and update to reflect the Committee's stance
- Update ahead of March 2026 pooling deadline to ensure the Committee's views are considered by the London CIV during their initial stages of onboarding and streamlining the London LGPS Funds' assets.

- In the first instance, we believe the Committee should consider the proposed addendum to the Responsible Investment statement, included in the 9 September 2025 meeting pack. We also believe the Committee should engage the London CIV to determine their preferred / likely approach to Elbit and controversial weapons exposure (currently and going forward). While the London CIV have their own Responsible Investment Policy and beliefs which they are unlikely to waver from, it is perhaps best practice for the Committee to ensure policies are in place at a Fund level, ahead of the 31 March 2026 deadline, to ensure London CIV understands the Committee's preferences in relation to sensitive topics such as those

London CIV's Approach

- The Fund's engagement approach is currently fully delegated to the London CIV pool and the Fund's other third-party investment managers. The approach to engagement and broader ESG issues of third-party managers is considered as part of the initial selection process and as part of ongoing monitoring of mandates.
- If the Committee were to consider alternative avenues, this decision should be taken in the context of the outcome of the Fit for the Future Consultation – that all LGPS Funds' assets are to be fully pooled by March 2026.
- Going forward, any decisions related to the Fund's investment portfolio should be taken by the Committee cognisant of the London CIV and their approach.
- The Fund will become increasingly exposed to decisions made by London CIV (and fully by March 2026) and we would therefore encourage the Committee to seek an understanding of what the London CIV is doing from a fund launch and current fund management perspective, but also from a responsible investment perspective, including the issues discussed in the paper.
- The London CIV has a Responsible Investment Policy available to the public [online](#). We would encourage the Committee to read the policy in detail and engage with the London CIV to ensure their thoughts, process and policies are aligned with that of the Committee, as far as possible. We highlight that controversial weapons and conflict zones are not explicitly referenced in the London CIV's policy currently.
- London CIV's responsible investment strategy is one of engagement over exclusion. London CIV believes it can use its influence, and scale of assets under management, to improve a company's ESG performance. They have also introduced an escalation strategy which is detailed in the Stewardship Policy.



- As things stand, the Committee's role going forward will be increasingly to monitor London CIV's progress, and ensure engagement is being done properly and is effective.
- While the London CIV will take on significant control of the Fund's investment portfolio, and there is limited opportunity for the Committee to influence decision-making and Responsible Investment policy, where there are views the Committee wishes to convey, we recommend this is highlighted to LCIV at the earliest opportunity.
- This could be conveyed via update to the Fund's own Responsible Investment Policy, as per the proposed addendum to the Fund's Responsible Investment statement.

Summary

- The Fund's current exposure to Elbit Systems is c.0.01% and to controversial weapons is currently c.0.31%*. This is relatively small in size in the context of the overall investment portfolio.
- The Committee's fiduciary duty is to ensure the payment of the Fund's pensions as and when they fall due through achieving the investment returns required in an appropriate risk-managed way. As such, the Committee should form its views on the merits of pursuing an engagement or divestment approach in the context of their primary fiduciary duty, and also the materiality of direct divestment costs and corresponding opportunity and strategy costs represented. In practice, given the direction of travel for the LGPS (to pooling of assets) and the cost of divestment relative to the size of underlying exposure to the companies discussed in this paper, we believe a divestment approach would be difficult to achieve efficiently in practice.
- The Committee should also note that a number of the delegated investment powers they oversee for the Fund will transition to the London CIV in the near future. The Committee should therefore seek further understanding of London CIV's processes and views, and may wish to engage London CIV on this topic as the Fund transitions on-pool.
- On balance, given the limited exposure to the companies considered, and the incoming Fit for the Future legislation, alongside the Committee's fiduciary responsibilities, we do not believe that any material change in the current approach is needed, but an amendment to the current Responsible Investment Statement may be justified and a proposed addendum to the Fund's Responsible Investment statement has been provided in the agenda pack for Committee consideration.

Next Steps

- The Committee should consider the contents of this paper and whether any further action is needed.
- The Committee should consider the additional suggested wording to the Responsible Investment statement and determine whether this fully reflects the Committee's views on the issues. The inclusion of such wording within the Responsible Investment statement will give additional guidance to the Fund's third-party investment managers including the London CIV.

We look forward to discussing the paper further at the September 2025 Pension Fund Committee Meeting.

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