your pension our world

London Pensions Fund Authority

Investing Responsibly for a more sustainable future

Our vision

As a pension fund, we are stewards of the future. Primarily stewards of our members' financial future, ensuring robust pension provision. How our members' funds are invested also impacts the future of our economy, our environment, our society and therefore our members' future. We take this broader responsibility seriously, as a commitment to future generations and to the shape of today's world.

We regularly look at the major environmental and social issues facing the world and work to ensure we are influencing them in a positive way. Our ongoing major focus is on the climate emergency and how we can invest member funds to mitigate the financial risk from climate change, influencing the broader economy via our engagement opportunities and clearly communicating both our approach and our progress.

Chapters

CHAPTER 1

About Responsible Investment

About Responsible Investment

Our society faces many challenges.

While climate change might dominate the media headlines, water scarcity, bribery and corruption, tax evasion, human rights violations, deforestation, pay inequality and discrimination are all areas cited by the United Nations[1] as areas of concern to the future wellbeing of our society and planet.

Pension funds are being urged by regulators, environmentalists, members and politicians to invest responsibly, to improve their understanding of these issues, the risks that they pose and how their investments could contribute to finding solutions.

Responsible Investment is how we at the LPFA tackle these risks. It ensures that any investment manager working for us integrates environmental, social and governance factors (ESG) into their investment process. More detail on what these factors are can be found on page 9.

1. www.un.org/sustainabledevelopment/sustainable-development-goals/

Why are we investing responsibly?

The LPFA has taken ESG into consideration in our investment processes for some time now. We're a long-term investor focused on ensuring that our fund is financially sustainable now and in the future.

Our primary purpose as a pension fund is to ensure that members are paid their benefits when they retire. Investing in companies that behave responsibly, for example, by managing the risks to their business that comes from water scarcity or climate change supports that purpose. Using ESG factors in our investment process is good risk management and part of our duty to members and employers of the fund.

Companies that behave irresponsibly, by breaking pollution or employment laws, for example, risk reputational damage, consumer activism and regulatory and legal action. These issues can impact on profitability and so, ultimately, on our fund's financial health.

Our Responsible Investment process aims to reduce the financial risk to our fund by ensuring that the companies in which we invest behave in an appropriate manner. This is a recognition that the long-term health of society, the planet and the market are all connected.

We cover the detail of how we're making changes internally and holding ourselves to account later in this report.

Whilst interested in doing more, we believe that we're on the right path and our efforts are being recognised by others.

In a hard-hitting 2018 report, Friends of the Earth[2] recognised us as one of just four funds within the LGPS sector that were developing stronger climate change strategies and taking positive action to address some of the UN's concerns.

In 2019, Unison, the largest trade union in the UK, and Share Action, undertook a study[3] on behalf of the Local Government Pension Schemes (LGPS) Scheme Advisory Board (SAB). The report looked at best practice within the LGPS. The LPFA was rated in the top 11 out of 89 LGPS Funds in England and Wales and was noted as one of the leaders in addressing climate change and protecting workers rights.

However, we know that there is much more to do, and we're committed to keeping members and employers informed on the progress that we're making.

2. friendsoftheearth.uk/climate-change/divestment
3. www.unison.org.uk/content/uploads/2019/04/UNISON-ShareAction-LGPS-responsible-investment-final-report-319_2.pdf

"Tackling the climate crisis has to be a better course of action than suffering the consequences of doing nothing. Either way, how the LPFA Fund is managed and invested will face significant challenges as a result."

Robert Branagh, Managing Director, London Pensions Fund Authority

CHAPTER 2

What is the LPFA doing to invest responsibly?

What is the LPFA doing to invest responsibly?

To ensure that we are investing responsibly, we focus on four core areas as outlined below.

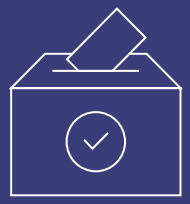
1.

SETTING THE RIGHT POLICIES

2.

UNDERSTANDING HOW OUR INVESTMENTS PERFORM AND BEHAVE

3.



USING OUR VOTE AS A SHAREHOLDER

4.

COLLABORATING TO DRIVE CHANGE

More detail on each can be found on the following pages.

1. Setting the right policies

Our policies are the vital first step in guiding our approach to our investments.

Local Pensions Partnership Investments (LPPI) and other investment companies have authority to invest on our behalf. There are two central policies that guide how we invest responsibly.

Both policies are published in full on the LPFA website www.lpfa.org.uk.

Climate Change policy

In June 2019, we updated the LPFA's Climate Change Policy. It exists as a separate policy to the Responsible Investment policy, and has its own reporting and monitoring activity associated with it to the LPFA Board.

SOME KEY POINTS FROM THE POLICY

- Where our fiduciary duty allows, we will not consider new active investments in fossil fuel companies directly engaged in the extraction of coal, oil and natural gas as sources of energy if they ignore the risks of climate change, are unable to demonstrate planning for the global transition to a low-carbon economy or for future emissions reduction targets under the Paris Agreement (or other appropriate initiatives).
- Where such investments are already in place, and where opportunities for engagement and reform are not possible, we will make reasonable efforts to divest if this will result in no material financial detriment.
- We expect LPP and their appointed external managers to be aware of investment risks associated with Climate Change and take appropriate action to identify such risks, mitigate their impact and ensure there is appropriate engagement on key issues either individually through their own activities or in conjunction with other like-minded investors.

Responsible Investment policy

In December 2019, we updated our Responsible Investment Policy. It's broader in scope than the Climate Change policy and central to it is a commitment to integrating ESG factors (see next page for background on ESG factors) into the investment process.

SOME KEY POINTS FROM THE POLICY

- We will be an active shareholder and vote in the markets in which we are invested. This will be done on behalf of the LPFA by LPPI through direct and proxy voting.
- We will collaborate with other organisations and funds to promote sustainable growth.
- When appropriate, we will participate in shareholder litigation to hold companies to account for proven wrongdoing.
- We will be transparent in our monitoring and will publicly communicate our progress and performance on Responsible Investment.
- We will ensure that ESG issues are routinely considered as part of the investment analysis, are incorporated into the due diligence leading to investment selection and are continuously monitored.

What are ESG factors?

Definitions vary but, we've highlighted some examples below.

Environmental criteria

Environmental criteria (or factors) cover how a business performs as a steward of our natural environment. They focus on how companies tackle:

- waste and pollution
- resource depletion
- greenhouse gas emission
- deforestation
- climate change

Social criteria

Social criteria cover how a business treats people. They concentrate on how companies manage:

- employee relations & diversity
- working conditions, including preventing child labour and slavery
- their support for local communities
- employee health and safety
- conflict

Governance criteria

Governance criteria cover how a business operates and polices itself. They focus on how companies approach:

- tax strategy
- executive remuneration
- donations and political lobbying
- preventing corruption and bribery
- board diversity and structure

2. Understanding how our investments perform and behave

With the policies providing a guide, an important next step is ensuring that companies in which we are invested meet our policy expectations.

Before any investment is made, LPPI and our other managers use a variety of methods and tools to look in detail at prospective investments and the likelihood they will deliver good investment returns and how they fare against the ESG factors that we describe on page 9.

It's worth noting that LPFA fund doesn't invest directly into individual companies. We, and other funds, invest into funds managed by investment managers. Funds, of course, are ultimately invested in numerous individual companies.

Investment managers working for us are required to understand a company's financial performance, their management capabilities, the risks that they face, how well placed they are in managing those risks and how likely the companies are to perform well and generate value for investors.

We're very pleased that, on behalf of the LPFA, LPPI has designed new ways to streamline the gathering of information from the external investment managers that are used. LPPI will continue to monitor the tools available for use to ensure that the LPFA continues to invest in the long-term interests of our members.

All this analysis is not just done before investment takes place. Companies are subject to monitoring once an investment is made.

Our investment managers use several tools to do this analysis. When investing in equities, for example, these tools include:

- **The Transition Pathway Initiative (TPI)**: This evaluates companies' preparedness for the transition to a low carbon economy and focusses on companies which are large emitters of greenhouse gases.
- **Proprietary ESG rankings and data.**
- Use of the **Carbon Disclosure Project**[5] and **Greenhouse Gas Emissions Data** to get better data on company efforts to tackle climate change.

5. www.cdp.net/en

TRANSITION PATHWAY INITIATIVE

MSCI

CDP DRIVING SUSTAINABLE ECONOMIES

3. Using our vote as a shareholder

Once an investment is made, it's important that companies are held to account.

In general, shareholders in a company are entitled to attend annual general meetings and vote on matters ranging from the election of board members to management pay. LPPI does this for LPFA on behalf of our members.

As we've mentioned, the money in our fund is held, collectively, in funds which themselves contain holdings of many individual companies. With each company offering many voting opportunities throughout the financial year, this can be a difficult and expensive process to manage.

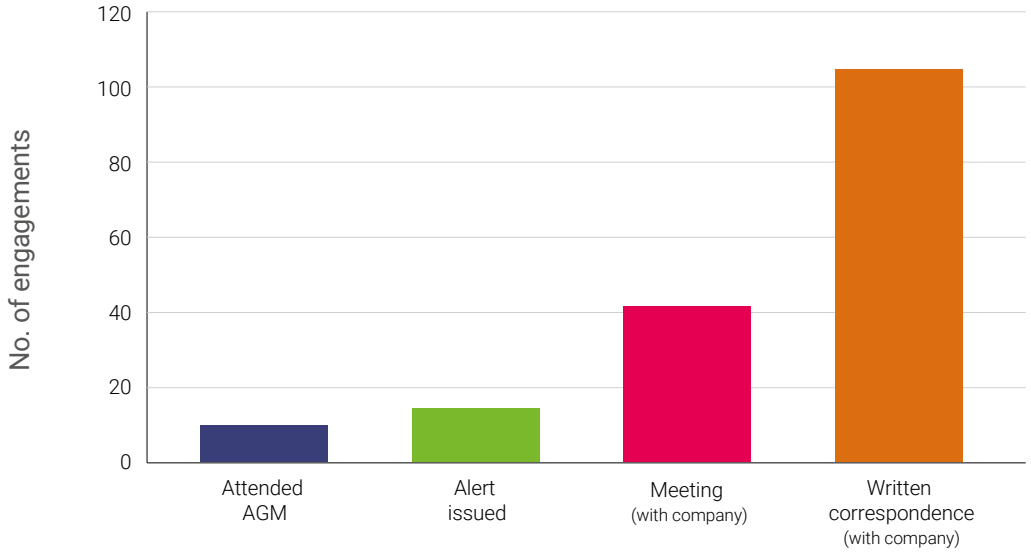
To overcome this, LPPI, on behalf of LPFA and their other clients uses a proxy voting company. The proxy voting company and LPPI vote on our behalf and are guided by the principles laid down in our policies.

In 2019, on behalf of LFPA and their other clients, LPP and the proxy voting company voted many hundreds of times at shareholder events. LPP's voting activities and policy are published quarterly on the LPP website[6] but you can see a summary of the graph on page 12.

6. www.localpensionspartnership.org.uk/what-we-do/investment-management

3. Using our vote as a shareholder CONT.

Types of interaction with companies



Reason for interaction with companies

Climate change	55	Human Rights	8
Campaign (general)	38	Environmental risk	4
Governance (general)	21	Reputational risk	2
Other	19	Audit practices	2
Employment standards	17	Supply chain management	1
Board composition	11	Social risk	1
Remuneration	10	Finance and accounting	1

Source: Local Authority Pension Fund Forum annual report 2018 - data covers all member funds collectively, supplied by LPPI, 1 March 2019

4. Collaborating to drive change

As we highlighted earlier in the chapter, we're actively engaging with efforts by companies, regulators and governments to address the risks and challenges posed by climate change.

- We are a signatory of Climate Action 100+[7] This is an investor initiative encouraging the world's largest greenhouse gas emitters to curb emissions and be transparent about the risks posed by climate change.
- The LPP is a signatory of the United Nations - supported Principles for Responsible Investment (UN PRI)[8]. They are a signatory of behalf of the LPFA and being a signatory commits us to integrating ESG factors into our investment process.
- We are a member of the Local Authority Pension Fund Forum (LAPFF)[9] a group of 80 local authorities with assets totalling £250 billion. The group is committed to promoting Responsible Investment.
- The LPFA and our Managing Director are participants in the C40 Cities Divest Invest Forum[10].
- We publicly support the recommendations of the Financial Stability Board's Taskforce on Climate Related Financial Disclosure (TCFD). This initiative also advocates better transparency by companies on climate change risks. LPP have published their first Climate Change Disclosure: TCFD Report in July 2019
- In 2019, together with 515 investors representing $35 trillion in assets, the LPFA signed a letter[11] to governments on urging action to achieve the emissions reductions targets under the Paris Agreement.
- In 2018, together with 95 investors representing $11 trillion in assets, we signed a letter to power companies in Europe outlining our expectations for them to plan for a zero-carbon future.

7. climateaction100.wordpress.com/about-us/
8. www.unpri.org/
9. www.lapfforum.org/
10. www.c40.org/
11. theinvestoragenda.org/focus-areas/policy-advocacy/

Signatory of: PRI Principles for Responsible Investment

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

C40 CITIES CLIMATE LEADERSHIP GROUP

Climate Action 100+

Local Authority Pension Fund Forum

CHAPTER 3

Divestment and Engagement

Divestment and Engagement

Some people believe pension funds should divest - or sell - holdings of organisations that contribute to global warming.

Whilst not adverse to divestment in certain circumstances our current view is that engagement is preferable in helping ensure that 'bad behaviours' can be challenged. Remedial activity can be encouraged and supported where divestment might simply pass the problem on to another shareholder.

Divestment is complicated; our society is based around oil. Should divestment include medical supply companies that produce plastic products, road haulage or air travel companies? Should it include supermarkets because they still use plastic packaging?

LPFA's current policy is to avoid investing in companies that ignore climate change risk. We will not invest in extractive fossil fuel companies that aren't working to reduce their emissions or those that do not recognise the objectives set out in the United Nations Framework Convention on Climate Change and the targets for emissions reduction within the Paris Agreement.

If we do have an investment in a company contributing to climate change and the organisation is not showing how it is tackling the issue, then LPPI will consider divesting on our behalf but only if there is no financial impact on the fund. In June 2019, for example, LPPI sold all holdings of Exxon Mobil.

CHAPTER 4

What does our fund look like now?

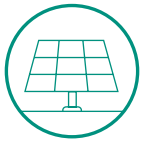
What does our fund look like now?

We are excited about how much further we can travel on our Responsible Investment journey but the progress that we have made has already resulted in changes in how the fund is invested.

↓ 0.4%

INVESTMENT IN EXTRACTIVE FOSSIL FUEL COMPANIES

The LPFA pension fund has a relatively low level of direct exposure to extractive fossil fuel companies. As at March 2019, it represents 0.4% of our total portfolio of £6.05bn.



↑ 2.25%

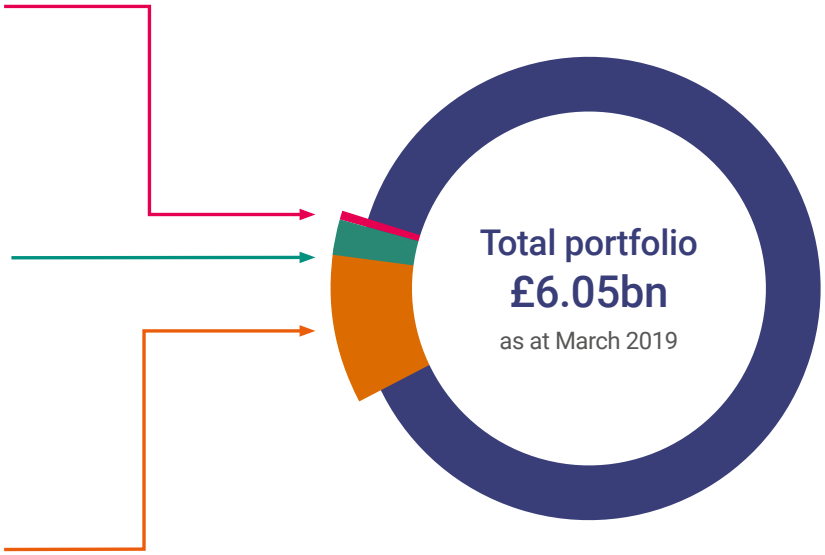
INVESTMENT IN RENEWABLE ENERGY

We're increasing our investment in renewable energy. Our investment in renewable energy in March 2019 was 2.25% of the total portfolio, the majority being through investments in infrastructure through GLIL[12], an Infrastructure fund. The following two case studies on page 18 illustrate where some of our member money ends up being invested.

↑ 10%

INFRASTRUCTURE INVESTMENTS

In 2019, the LPFA increased its strategic allocation to infrastructure from 7.5% to 10%. We are particularly pleased with our investment in Pontoon Dock in North Woolwich as this project will add much needed affordable housing to London's housing market.



12. https://www.glil.co.uk/

What does our fund look like now? CONT.

Here are two examples of recent investments influenced by our Responsible Investment policy.

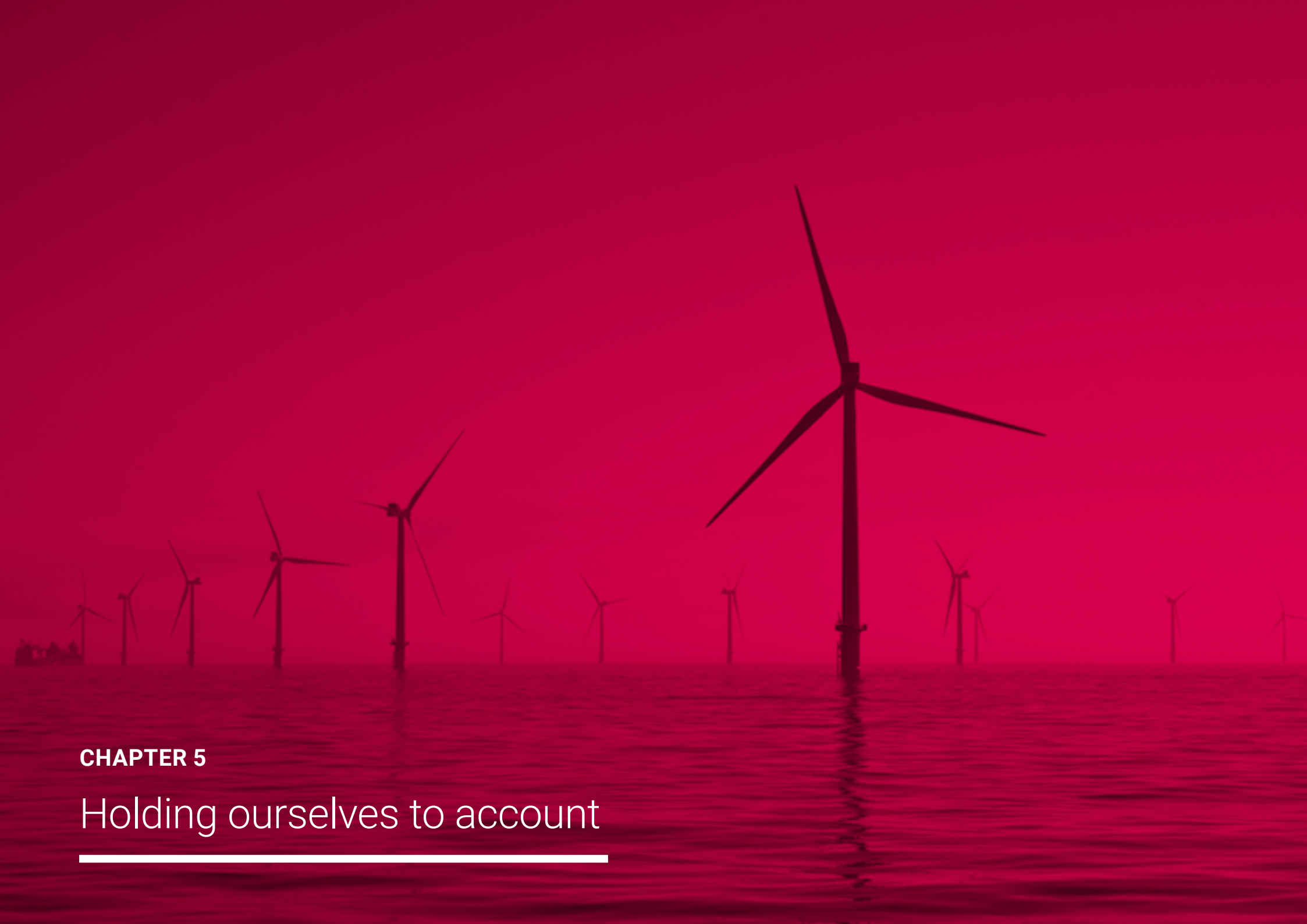
Guild Investments

Guild Investments owns six wind farm sites across Portugal. Wind power is a source of renewable energy with much lower carbon emissions than fossil-fuel based energy sources. Portugal is an attractive location for wind farm installations with windy terrain, a stable feed-in-tariff regime and the support of local communities.

Guild Investments also actively contribute to protecting the endangered species the Iberian Wolf, through formation and membership of the Iberian Wolf Habitat Conservation Association.

Cape Byron

Cape Byron Power is one of the largest renewable base load generators in Australia consisting of two biomass power plants, Broadwater and Condong on the New South Wales Coast. Together, in 2018, these plans produced enough renewable energy to power c.75,000 homes and avoided an estimated 163,000 tonnes of carbon emissions.



CHAPTER 5

Holding ourselves to account

Holding ourselves to account

The Financial Reporting Council[13] have ranked us within Tier 1 for our efforts to ensure effective stewardship of our investments.

Stewardship is defined by the Financial Reporting Council[14] as 'the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.'

13. www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-statements/asset-owners
14. www.frc.org.uk/investors/uk-stewardship-code

WE DO THIS IN SEVERAL WAYS

Holding ourselves to account

The LPP's Stewardship Committee ensures that our RI policy is in place and that investments follow the policy. The committee is chaired by LPP's Chief Investment Officer.

The LPFA's investment panel meets regularly with LPP to review asset performance and compliance. Responsible Investment is frequently an an agenda item.

Working with the GLA

While our primary duty is to the financial sustainability of our fund, we're working closely with the Greater London Authority to learn from and support their Climate Change activities.

It is essential that we monitor what we're doing to ensure that we continuously improve. This process is ongoing.

CHAPTER 6

Looking ahead

Looking ahead

Continued implementation

In 2020, we will work with LPPI and our other partners in the pool, Lancashire County Council and Berkshire County Council to ensure our Responsible Investment policies appropriately align as much as possible. LPPI will also continue to use ESG factors to screen our investments and improve our reporting and transparency of analysis.

A commitment to more transparency in our reporting

In 2020, we will build on this report and publish more detail on our Responsible Investment progress via our website, direct to members and the wider stakeholder community.

A commitment to more engagement with others

In 2020, we will seek out more examples of best practice, engage with more organisations and share with and learn from the LGPS and Pensions community, and wider RI and ESG interested parties.

Addressing our own environmental footprint

In 2020, we will be launching a new environmental policy. This is an internal policy aimed at reducing our day-to-day impact on the environment, like water and utility usage as well as our carbon footprint. The LPFA employs a very small team, so compared to many organisations, our operational environmental impact is small. However, it's important that our day-to-day operations reflect the principles of our responsible investment and climate change policies.

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