Hounslow Council's pension fund: Fossil fuel investments

The Fund has no specific policy on investing or divesting investments wholly with regard to Environmental, Social and Governance (ESG) issues. However, external fund managers are expected to take into account ESG issues when assessing potential investment opportunities.

Fossil fuel company shares have been among the best investments by way of return but they also represent a small proportion of the overall investments, at less than 5%. The Fund's aim is to meet its responsibility of ensuring that investments are legal and ethical, whilst also providing the best level of return possible to avoid any pension shortfall needing to be made up by Hounslow council tax payers, and the other employers, including our schools, within our pension fund. We do invest in a diverse range of investments to ensure sufficient funds are available to pay our pensions. These include renewable energy, as part of a balanced approach to portfolio management.

It is the belief of the Fund that well-governed companies that manage their business in a responsible manner will produce superior returns over the long term, and the Fund expects these considerations to form part of the investment selection criteria for external fund managers in carry out stock selection. The Fund also holds expectations of its fund managers to hold companies to account with reference to the highest standards of behaviour and reputational risk management which may affect long term performance, and for those issues to be part of their stock selection criteria. The Fund believes that 'robust' engagement with companies is a better approach than placing restrictions on particular types of investment. A more detailed paper outlining our approach is attached at Appendix 1, highlighting the detailed approaches of our fund managers on ESG issues.

The Fund is an active shareholder in the exercising of its company share voting rights to promote and support good corporate governance principles. Share voting is undertaken internally, with a specialist corporate governance advisor, PIRC. The Hounslow Fund is a regular co-filer on shareholder resolutions on matters relating to climate change. It has been a co-filer on resolutions at the BP, Shell, and Rio-Tinto AGMs (Annual General Meetings). All of these resolutions were passed by shareholders with votes of over 98% at all the meetings, and hence such resolutions are legally binding on the companies. At the December 2015 Pension Fund Panel meeting Members delegated support to the Chairman to sign up to similar resolutions, with the proviso that he keeps Members appraised of such decisions.

The Fund is also an active member of the Local Authority Pension Fund Forum (LAPFF), a membership group of 72 LGPS (Local Government Pension Scheme) funds that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility. The Chair of the Hounslow Pension Fund is on the Executive Board of the LAPFF and takes part in attending and applying pressure to companies at their AGMs and at specific separate meetings with their Chief Executives.

The Local Authority Pension Fund Forum (LAPFF) announced in early June 2017 that it is partnering with the 50/50 Climate Project. The new partnership will see the LAPFF increasing its engagement with companies on climate risks with potential impact on shareholder value. The 50/50 Climate Project, which engages the 50 largest public companies with systematically significant carbon footprints, will bolster the Forum's efforts to ensure climate competent boards and enable increased collective investor action advocating better climate strategies and decision-making. The move will see the Forum draw on the 50/50 Climate Project's experience and build on the successful track record of both organisations. The Project has already made significant advances securing proxy access for shareholder promoted director candidates, rising from just 1% of S&P 500 large-cap firms in 2014 to over half by the beginning of 2017.