



**Pensions Fund Sub-Committee**  
5 October 2021

**Report from the Director of Finance**

**Net Zero Transition Roadmap**

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	n/a
<b>Open or Part/Fully Exempt:</b> (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	PART EXEMPT - as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: "Information relating to the financial or business affairs of any particular person (including the authority holding that information)"
<b>No. of Appendices:</b>	Three Appendix 1 Roadmap – journey to net zero Appendix 1a. Appendix D in Roadmap – journey to net zero (Exempt from publication) Appendix 2 London CIV – Net Zero Strategy
<b>Background Papers:</b>	None
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## **1.0 Purpose of the Report**

- 1.1 This report presents a detailed framework setting out the practical steps to transition to net zero and to top-up the allocation to the Fund's existing low carbon global equity mandate.

## **2.0 Recommendation(s)**

The Committee is asked to:

- 2.1 To agree the net zero road map as outlined in Appendix 1.
- 2.2 To approve a further 3% allocation (c. £32m based on June 2021 valuation) in the Blackrock ACS World Low Carbon Equity Tracker Fund.

## **3.0 Net Zero Transition Roadmap**

- 3.1 The Fund's investment advisors, Hymans Robertson, have prepared the attached roadmap in Appendix 1 which sets out the necessary steps for the Fund over the short, medium and long term in the context of setting and achieving its net-zero goals.
- 3.2 Responsible investment, in particular climate risk, continues to dominate the LGPS and broader investment landscape. Therefore it is important for the Fund to evolve its investment strategy to take account of the opportunities and risks presented by climate change.
- 3.3 The Fund has made good progress to date in this regard with a number of important steps taken:
- Dedicated RI training sessions for Fund Officers and Sub-Committee members;
  - Introduction of RI focussed investment beliefs;
  - Investment in new low carbon mandate (BlackRock ACS World Low Carbon Equity Tracker) and new infrastructure fund with a significant allocation to renewables (LCIV Infrastructure Fund); and
  - Updated Investment Strategy Statement (ISS) to reference carbon goals.
- 3.4 This paper reviews the various net zero aspects into a practical 'roadmap' for the Fund, and considers the following key principles:
- Background to Responsible Investment (RI) and key themes/principles that will require due consideration by the Fund as part of the net-zero journey.
  - Developing a Net Zero Framework in the form of 5 key areas to drive forward the Fund's strategy.
  - A short and medium term roadmap for each key area within the framework.

- Potential targets (both long term and interim) for further consideration and an initial list of equity funds.

3.5 The London CIV (LCIV) recently announced an intention to target net-zero by 2040. Specifically, they state in “recognising our duty to act in the long-term interests of our clients, it is recommended that the London CIV makes a commitment to become a Net-Zero company by 2040”. As part of this they have also proposed interim carbon intensity targets for their fund range and broader engagement and transition targets. London CIV’s net-zero strategy is attached in Appendix 2.

## **4.0 BlackRock Low Carbon Fund**

### **Background**

- 4.1 The Fund is in the process of making an initial 3% investment from cash to BlackRock’s Low Carbon Fund. The introduction of this fund was agreed last year and forms part of the Fund’s core equity allocation.
- 4.2 A 3% allocation is seen as a positive first step in the evolution of the strategy to be more responsible investment focussed. It was made with the intention of increasing the proportion of equity holdings held in “ESG” mandates over time.
- 4.3 In line with this and as part of the Fund’s net-zero aspirations, a growth structure review is planned for the second half of 2022 which is aimed at reviewing and potentially restructuring the Fund’s developed market equity holdings to be consistent with any agreed upon net-zero targets. Ahead of this formal review, it is proposed to increase the allocation to the BlackRock Low Carbon Fund.

### **Increasing allocation**

- 4.4 As noted above, the 3% allocation was billed as a first step with the Low Carbon Fund intended to play a long term role. This will be alongside introducing other RI focussed equity mandates to offer manager/style diversification.
- 4.5 Given this long term aspiration, our investment advisors are supportive of a managed increase to the initial 3% allocation in the interim. A further 3% allocation (broadly £32m based on 30<sup>th</sup> June 2021 Fund valuation) would take the Fund’s total investment in the Low Carbon Fund to c.6% of total assets.
- 4.6 This size of allocation is meaningful enough to provide a positive low carbon impact ahead of the growth structure review but low enough so as not to create potential conflict with the outcome of the review itself i.e. it is likely the proposed allocation to BlackRock from the review will be at least 6%.

### **Source of funds**

- 4.7 As at 30 June 2021 the Fund’s asset allocation was as per the table below (taken from the 30 June 2021 Investment Monitoring Report produced by Hymans Robertson).

Manager	Valuation (£m) 30 June 2021	Actual Proportion (%)	Benchmark (%)	Relative (%)
LGIM Global Equity	474.7	44.1	43.0	1.1
LGIM UK Equity	63.3	5.9	5.0	0.9
Capital Dynamics Private Equity	37.8	3.5	5.0	-1.5
LCIV JP Morgan Emerging Markets	50.4	4.7	5.0	-0.3
<b>Total Growth</b>	<b>626.1</b>	<b>58.2</b>	<b>58.0</b>	<b>0.2</b>
LCIV Baillie Gifford Multi Asset	137.1	12.7	10.0	2.7
LCIV Ruffer Multi Asset	91.4	8.5	10.0	-1.5
Alinda Infrastructure	22.7	2.1	0.0	2.1
Capital Dynamics Infrastructure	8.8	0.8	0.0	0.8
Aviva Property	0.0	0.0	0.0	0.0
LCIV Infrastructure	13.2	1.2	5.0	-3.8
<b>Total Income</b>	<b>273.2</b>	<b>25.4</b>	<b>25.0</b>	<b>0.4</b>
LCIV CQS MAC	43.6	4.1	5.0	-0.9
Blackrock UK Gilts Over 15 Years	85.7	8.0	10.0	-2.0
<b>Total Protection</b>	<b>129.3</b>	<b>12.0</b>	<b>15.0</b>	<b>-3.0</b>
Cash	47.6	4.4	2.0	2.4
<b>Fund Total</b>	<b>1076.2</b>	<b>100.0</b>	<b>100.0</b>	

Figures may not add up due to rounding.

- 4.8 The Fund is broadly in line with the interim benchmark allocation for “growth” assets at an overall level. However, once the 3% allocation is made to the BlackRock Low Carbon Fund from cash there will be a 4% overweight to global equities. Meeting the proposed further 3% allocation from outside the growth allocation would only serve to increase the overweight to growth (global equities) more.
- 4.9 It is therefore sensible to look within the growth portfolio to meet the additional allocation. Thus, it is recommend the 3% is switched from the LGIM Global Equity mandate for the following reasons:
- A straight global to global split would maintain the Fund’s prevailing balance within the growth portfolio
  - The private market mandate is illiquid and so not appropriate as a source of funds
  - Taking from the emerging market mandate would reduce diversification within the growth portfolio given its exposure to different markets. It is also broadly in line with its agreed allocation, any divestment would mean a material underweight
  - Taking from the UK mandate would reduce the allocation materially below the 5% target agreed by the Sub-Committee as part of the last review. From a governance perspective, we would propose any

alteration to the UK equity allocation be taken following appropriate training and discussion (i.e. as part of the growth structure review).

## **5.0 Financial Implications**

- 5.1 The Fund currently has surplus cash within its allocation. At as 31 August 2021, cash held by the Fund amounted to £54.4m. When making investment decisions, there are a number of factors to note. This includes liquidity requirements to meet future private market commitments and to pay pensions on a monthly basis.
- 5.2 The Fund maintains an allocation of 2% over the short-medium term in cash to meet these needs. It is proposed that the 3% allocation (c.32m) to the BlackRock Low Carbon Fund is funded by selling 3% from the LGIM global equity mandate.

## **6.0 Legal Implications**

- 6.1 The Pension Fund Sub-Committee holds a key fiduciary responsibility to manage the Fund's investments in accordance with its investment strategy and in the best interests of the beneficiary members and the council tax payers, where the primary focus must be on generating an optimum risk adjusted return. It is vital that any investment decision must not negatively impact on this primary responsibility.
- 6.2 The administering authority has fiduciary duties both to scheme employers and scheme members and the investment strategy must be exercised for investment purposes, and not for any wider purposes. Thus, investment decisions must be spread across a wide variety of investments classes and achieve a balanced risk and return objective.
- 6.3 The choice of investments can be influenced by RI and ESG considerations, so long as that does not risk material financial detriment to the Fund.

## **7.0 Equality Implications**

- 7.1 Not applicable.

## **8.0 Consultation with Ward Members and Stakeholders**

- 8.1 Not applicable.

## **9.0 Human Resources**

- 9.1 Not applicable.

**Report sign off:**

***Minesh Patel***  
Director of Finance