



Pensions Fund Sub-Committee
05 October 2022

**Report from the Corporate Director
Finance and Resources**

**Net Zero Roadmap Update and Responsible Investment
policy**

Wards Affected:	All
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	Two <ul style="list-style-type: none"> • Responsible Investment policy • LGPS Consultation on Governance and reporting of climate change risks - summary of proposals
Background Papers:	None
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1.0 Purpose of the Report

1.1 This report presents an update on the Fund's net zero road map, responsible investment policy and the LGPS Consultation on Governance and reporting of climate change risks.

2.0 Recommendation(s)

2.1 That the Pension Fund Sub-Committee note the update to the net zero roadmap, updated responsible investment policy and LGPS Consultation on Governance and reporting of climate change risks.

3.0 Detail

3.1 LGPS funds face increasing pressure from various stakeholders to ensure that Environmental, Social and Governance (ESG) issues are considered in the course of managing the fund and in its investment decision making. This has been driven by an increased focus in this area from lobby groups and regulators, and from greater public scrutiny.

3.2 The Fund's investment advisors, Hymans Robertson, have prepared the attached Responsible Investment Policy in Appendix 1 which formalises the Fund's Responsible Investment beliefs and principles and the approach the Fund is taking to fulfilling its commitments.

3.3 Responsible Investment ("RI") is defined as the integration and consideration of environmental, social and governance ("ESG") issues into investment processes and stewardship activities.

3.4 The Sub-committee's approach to responsible investment can be viewed from two key areas:

- Capital allocation – considering the financial impact of environmental, social and governance (ESG) factors (including climate change) when making investment decisions;
- Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares and engaging with investee company management as part of the investment process.

3.5 The law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

3.6 Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

3.7 The responsible investment policy brings together the Fund's responsible investment beliefs and approach into a single document.

3.8 A summary of the steps the Fund takes includes:

Integrating ESG issues into the investment decision-making process

Integrating the consideration of ESG issues throughout our investment decision-making process. Considering the use of active management over index-tracking approaches where an active manager can be expected to provide materially improved ESG characteristics. Reviewing an investment manager's RI policy when appointing a new investment manager or allocating money to a new fund.

ESG risk monitoring and assessment

Monitoring the Fund's managers on an ongoing basis from an ESG perspective. Asking our investment advisers to highlight opportunities to invest in responsible investment strategies. Ensuring that where an investment manager does not meet the expectations listed in this policy, officers will engage with the respective stakeholders to encourage improvements.

Expectations and monitoring of investment managers, including the London CIV

We require our investment managers to integrate all material financial factors, including ESG issues, into their investment decision-making processes. We expect our managers to follow best industry practice and use their influence as major institutional investors to promote good practice in the investee companies. The Fund will continue to review London CIV's RI policy to ensure that its strategies and beliefs are still aligned with ours.

Stewardship – voting and engagement

The Fund recognises the importance of our role as stewards of capital and the need to ensure the highest standards of governance. We have a commitment to actively exercising ownership rights attached to our investments. Voting rights have been delegated to the investment managers with the objective of preserving and enhancing long-term shareholder value.

- 3.9 The Fund has made good progress to date in this regard with a number of important steps taken. These are summarised below.
- 3.10 A commitment of £50m in an infrastructure fund through London's asset pool, the London CIV, with a significant renewable component was agreed in 2019. This investment is currently being built up with £23.7m invested by 30th June 2022.
- 3.11 The Fund has also agreed investment in a new low carbon passive equity tracker (BlackRock ACS World Low Carbon Equity Tracker). An initial allocation of £15m has been deployed, further allocations have been agreed and will be made shortly.

- 3.12 The Fund entered into the London CIV Private Debt fund with a £50m commitment in 2021. The underlying managers (Churchill/Pemberton) were required to show a clear commitment to integrating ESG at the fund level and the investment process as part of the evaluation criteria. This fund is currently being built up and it will be a number of years before it is fully invested.
- 3.13 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a collaboration group between LGPS Funds. Membership of LAPFF allows the Fund, along with other local government funds, to engage with large global firms. Individual funds engaging with companies on their own are unlikely to have as much of an impact. Climate change and the transition to a low carbon economy, is one of the individual engagement streams that LAPFF deals with.
- 3.14 The Fund has also introduced carbon metrics reporting into quarterly performance report providing the Weighted Average Carbon Intensity (WACI), fossil fuel exposure and carbon intensity for the majority of the Fund's assets. The Fund will continue review and refine metrics as the range and quality of data evolves.
- 3.15 Developed a practical 'roadmap to net zero' for the Fund which considered the key themes/principles that will require due consideration by the Fund as part of the net-zero journey, a framework of 5 key areas (Education, Understanding the baseline, Evaluating alignment and setting targets, Planning and implementation actions, Monitoring and reporting progress) to drive forward the Fund's strategy and a short and medium term roadmap for each key area within the framework.
- 3.16 The main changes from the previous policies are as follows:
- A further development of the Fund's ESG-related beliefs, setting out the actions we are taking to understand and manage ESG issues for the benefit of Fund members and other stakeholders;
 - Considering the use of active management over index-tracking approaches where an active manager can be expected to provide materially improved ESG characteristics;
 - Considering opportunities to make investments with a positive social or environmental impact subject to the risk and return characteristics being acceptable;
- 3.17 The Fund will review its growth holdings over the coming weeks to identify options to move towards net zero with a view to presenting a recommendation to committee in February 2023. As examples, the below table identifies some potential targets for further consideration from the London CIV and the Fund's existing low carbon equity holding through BlackRock. Alternative options through Legal and General, with whom the Fund's main equity mandates are held, will also be considered.

Fund	LCIV Sustainable Equity Fund	LCIV Sustainable Equity Exclusion Fund	LCIV Passive Equity Progressive Paris Aligned Fund (PEPPA)	LCIV Global Alpha Growth Paris Aligned Fund	BlackRock ACS World Low Carbon Equity Tracker Fund
Manager	RBC	RBC	State Street	Baillie Gifford	BlackRock
Style	Active	Active	Passive	Active	Passive
Fund AuM (£m)	1,225.6	400.0	501.2	1,033.3	6,058.26
Weighted Average Carbon Intensity (tCO2e/mGBP revenues)	144	136	91	122	26.5*

*tCO2e/mUSD rather than tCO2e/mGBP

All data is latest available data at time of publication

4.0 LGPS Consultation on Governance and reporting of climate change risks

- 4.1 The Department for Levelling Up, Housing and Communities (DLUHC) published its consultation on governance and reporting of climate change risks on 1 September 2022.
- 4.2 This consultation seeks views on government proposals to require administering authorities of the Local Government Pension Scheme (LGPS) to have effective governance, strategy, risk management and accompanying metrics and targets for the assessment and management of climate risks and opportunities.
- 4.3 The proposals developed are in line with the recommendations of the international industry-led Taskforce on Climate-related Financial Disclosures (TCFD).
- 4.4 It is proposed that LGPS administering authorities would calculate the carbon footprint of their assets and assess how the value of each fund's assets or liabilities would be affected by different temperature rise scenarios, including the ambition to limit the global average temperature rise to below 2 degrees set out in the Paris Agreement.
- 4.5 Administering authorities would be required to publish a Climate Risk Report annually by 1 December. The first Climate Risk Report would be due in December 2024.
- 4.6 A summary of the proposals included in the consultation has been attached as Appendix 2 to this report. The full consultation is available on DLUHC's website.¹

¹ <https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks>

4.7 This consultation will last for 12 weeks from 1 September 2022 to 24 November 2022. Officers, in consultation with the Fund's advisors, intend respond to the consultation on behalf of the Brent Pension Fund before the consultation closes. Members of the committee are invited to note this development and offer any comments they may have.

5.0 Financial Implications

5.1 There are no direct financial implications arising from this report. Any changes to the Fund's investment strategy or its choice of investments will be brought forward to a future Committee meeting for decision.

6.0 Legal Implications

6.1 The 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:

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