Brent	**Brent Pension Fund Sub-Committee** 01 August 2024
	Report from the Corporate Director of Finance and Resources

Net Zero Roadmap Update

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
List of Appendices:	1. 2024 London CIV Responsible Investment Policy
Background Papers:	N/A
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1.0 Executive Summary

1.1 This report presents an update on the Fund's net zero road map and updated London CIV responsible investment policy.

2.0 Recommendation(s)

2.1 That the Pension Fund Sub-Committee note the update to the net zero roadmap and London CIV responsible investment policy.

3.0 Detail

3.1 Contribution to Borough Plan Priorities & Strategic Context

3.1.1 The work of the Pension Fund is critical in ensuring that it undertakes statutory functions on behalf of the Local Government Pension Scheme (LGPS) and complying with legislation and best practice. Efficient and effective performance and service delivery of the Pension Fund underpins all Borough Plan priorities.

Background

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 However, it is also important to remember that Fund is required to remain focused on its primary obligation to pay benefits to its members. Decarbonising a portfolio which is invested globally, across many sectors, is more challenging than decarbonising an individual organisation and it is challenging to invest in a “net zero” portfolio today.

3.4 The transition to a cleaner future will offer investment opportunities in the companies that lead the way during the transition or are at the forefront of new greener technologies and divestment alone in the short term will not necessarily support the global transition to net zero.

3.5 The Fund has made good progress to date in this regard with several important steps taken, these are summarised below:

- Developed an infrastructure fund through London’s asset pool, the London CIV (LCIV), with a significant renewable component. A commitment of £50m in this Fund was agreed in 2019 and a total of £39.6m has been invested by 31 March 2024. The design of this fund ensures that at least 25% will be allocated to renewables. In practice, around 40% of the Fund has been allocated to renewables since inception.

- The Fund committed £50m to the LCIV Private Debt fund in 2021. The London CIV required managers to show a clear commitment to integrating ESG issues into the investment process. Additionally, the manager has implemented an exclusions policy including thermal coal and the distribution and production of fossil fuels; and greenhouse gas metrics were reported for the first time in 2023.

- The Fund introduced an allocation into BlackRock’s Low Carbon equity fund in 2021 and this forms a core part of the Fund’s equity allocation. So far, £28m has been invested. This is a first step in in the evolution of the strategy to be more responsible investment focussed and actively reduce the carbon intensity of the Fund.

- Introduction of a dedicated Responsible Investment (RI) policy

- ESG and Climate Risk considerations play a significant part in the LCIV’s manager selection and monitoring process.

- For example, the Fund's emerging market mandate through the London CIV has zero exposure to fossil fuels and a carbon intensity of less than a quarter compared to similar emerging market mandates.

- Recently LCIV have strengthened the ESG elements of the PIMCO sleeve of the LCIV Multi Asset Credit (MAC) Fund which Brent invests in. These changes include:

    - Omitting corporate issuers with the weakest ESG credentials;
    - Omitting issuers which generate 10% or more of their revenues from thermal coal mining, oil and gas extraction or power generation from thermal coal or liquid fuels;
    - Reporting requirements strengthened to include scope 3 emissions.

Review of Global Equities

3.6 One of the asset classes with the highest carbon intensity are the equity holdings with Legal and General. Therefore, at its most recent investment strategy review, the Pension Fund Sub-committee agreed to a market review of the passive global equities allocation as reducing emissions here would make significant progress towards achieving the Fund's net zero ambitions. Initially this will focus on the global (ex UK) index-tracking equity fund.

3.7 The Pension Fund Sub-committee have considered the approaches that be taken for this portfolio. The key areas of focus are tilts based on ESG scoring, exclusions, engagement and transition alignment, and the committee have agreed a set of characteristics that will be used when selecting a new manager mandate to help the Fund achieve its net zero ambitions without harming funding outcomes.

3.8 Officers and the Fund's investment advisors are currently in the process of analysing a shortlist of Funds from Legal and General, BlackRock and London CIV against the desired characteristics, the philosophy & RI credentials of the manager and performance figures. The conclusions from this work and a recommendation will be presented at the October committee meeting.

London CIV Responsible Investment Policy

3.9 The London CIV have updated their Responsible Investment Policy which details the overarching responsible investment process and provides a reference point for the mechanisms in place to manage ESG risks and opportunities throughout the investment process.

3.10 The policy provides detail about the 3 key steps in LCIV's responsible investment approach:

1. Integration: Embedding responsible investment into the investment decision and design e.g. ESG questionnaires and quarterly meetings;

2. Engagement: Collaboration with companies, managers, peers and participants e.g. working with Hermes EOS (EOS) to use our shareholder rights to maximise shareholder value;
3. Disclosure: transparent reporting in line with best practice e.g. through the quarterly investment report.

3.11 In this policy LCIV have updated stewardship themes for engagement in 2024/25 to include natural capital, technology & cyber and, health, safety & wellbeing. The updated policy is attached in Appendix 1.

4.0 Stakeholder and ward member consultation and engagement

4.1 There are no direct considerations arising out of this report.

5.0 Financial Considerations

5.1 There are no direct financial considerations arising out of this report.

6.0 Legal Considerations

6.1 There are no legal considerations arising out of this report.

7.0 Equality, Diversity & Inclusion (EDI) Considerations

7.1 There are no equality considerations arising out of this report.

8.0 Climate Change and Environmental Considerations

8.1 There are no climate change or environmental considerations arising out of this report.

9.0 Human Resources/Property Considerations (if appropriate)

9.1 There are no HR or property considerations arising out this report

10.0 Communication Considerations

10.1 There are no communication considerations arising out of this report.

Report sign off:

Minesh Patel
Corporate Director of Finance and Resources