



Report of: **Corporate Director of Resources**

| Meeting of:            | Date             | Agenda item | Ward(s) |
|------------------------|------------------|-------------|---------|
| Pensions Sub-Committee | 21 November 2017 |             | n/a     |

| Delete as appropriate | Exempt | Non-exempt |
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**Appendix 1 and 2** are exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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)

## **SUBJECT: ESG AND CLIMATE CHANGE RISK ASSESSMENT AND RATING**

### **1. Synopsis**

- 1.1 This report and exempt appendices provide information on the Fund to enable and better understand its exposure to climate risk and establish a starting point in identifying and managing these risk across all the whole portfolio.
- 1.2 Mercer, our investment advisors have prepared a briefing paper on the environment, social and governance (ESG) ratings of our existing managers and a climate risk assessment attached as Exempt Appendix 1 and 2 for consideration.

### **2. Recommendation**

- 2.1 To receive the presentation by Mercer, our investment advisors
- 2.2 To develop existing climate investment beliefs and policies
- 2.3 To consider how to design a more climate resilient investment portfolio
- 2.4 To consider reporting and disclosure of its actions to reduce climate risk
- 2.5 To note ESG ratings of the existing managers and engage and monitor these ratings

### **3. Background**

- 3.1 The Committee believes that Environmental, Social and Governance (“ESG”) risks should be taken into account on an ongoing basis and are an integral part of the Fund’s strategy and objective of being a long term investor.
- 3.2 Members agreed at November 2016 pension sub- committee meeting that the carbon footprint level of equities in the In-House UK Passive Fund be reduced with immediate effect, with 50% of assets allocated to Legal and General Investment Management’s MSCI World Low Carbon Target Index Fund and the remaining 50% of assets managed in house to track the FTSE UK Low Carbon Optimised index and that officers investigate how a low carbon approach could be realised for the rest of the Fund, which does not comprise equities.
- 3.3 Officers had discussions with Legal and General and the In House Manager to combine all transactions including the transfer of assets to our impending emerging market manager to minimize transition cost. The agreed way the process and timeline transition were as follows:
- LGIM received £125m in speci stocks from the In House manager on 10 May
  - LGIM crossed and sold stocks received and its existing Europe and Emerging Market to make available the cash of £59.4m for the emerging market manager by 6 June.
  - LGIM transitioned stocks to the MSCI World Low Carbon Target Index by 3 July of £140m
  - In House manager transferred his residual stocks to the new FTSE UK Low Carbon Optimised Index by 11 September.
- 3.4 Mercer has completed analysis to identify ways in which the Fund can reduce ESG risk and has conducted a review of ESG ratings for the Fund’s underlying investment managers. Mercer’s ESG ratings provide an assessment of the integration of ESG issues into the investment process and provides an overall rating – ESG 1 is the highest possible rating and ESG 4 is the lowest possible rating. As such, Mercer has provided the ESG ratings the Fund’s 9 strategies across equities, fixed income, DGFs, property and private equity.
- 3.5 Members are asked to consider the presentation, the ESG ratings of our 9 managers and focus on integration; having regular follow up discussions with managers as an important element of communicating expectations on ESG and climate integration and develop investment beliefs and a strategic approach to climate risk

## **4. Implications**

### **4.1 Financial implications**

- 4.1.1 The cost of providing independent investment advice and transition cost is part of fund management and administration fees charged to the pension fund.

### **4.2 Legal Implications**

None applicable to this report

### **4.3 Environmental Implications**

None applicable to this report. Environmental implications will be included in each report to the Pensions Sub-Committee as necessary.

### **4.4 Resident Impact Assessment**

None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

## 5. Conclusion and reasons for recommendation

- 5.1 Members are asked receive the Mercer briefings and presentation attached as exempt appendix 1 and 2 and consider the recommendations.

### Background papers:

None

Final report clearance:

### Signed by:

**Received by:** Corporate Director of Resources Date

Head of Democratic Services Date

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