

# LONDON BOROUGH OF ISLINGTON PENSION FUND

## ENVIRONMENT, SOCIAL AND GOVERNANCE (“ESG”) CONSIDERATIONS NEXT STEPS –CONTINUED IMPROVEMENT

### INTRODUCTION

The Fund seeks to achieve the following targets<sup>1</sup> by May 2022:

1. **Reducing future emissions** by focussing on absolute potential emissions (tons of CO<sub>2</sub>e), a reserves based measure that focusses on emissions that could be generated if the proven and probable fossil fuel reserves owned by the companies in the portfolio were burned, in the public equity allocation by more than three quarters compared to the exposure at June 2016, the date of the Fund’s latest carbon footprinting exercise.
2. **Reducing “exposure to carbon intensive companies”** as measured by Weighted Average Carbon Intensity<sup>2</sup>, an indicator of current climate-related risks facilitating comparison across asset classes and across industry sectors in the public equity allocation by more than half compared to the exposure at June 2016, the date of the Fund’s latest carbon footprinting exercise.
3. **Will invest at least 15% per cent of the Fund in sustainability-themed investment** - for example in climate change mitigation, low carbon technology, social housing, sustainable infrastructure, energy efficiency and other opportunities.

The Fund will review targets annually. The Fund will form a view on decarbonisation of all assets classes beyond public equities by 2022 and will develop mechanisms to evaluate the progress.

In terms of monitoring, the Fund has agreed to:

- Adopt TCFD supplemental guidance for asset owners where applicable.
- Monitor ESG (including climate change) risks annually and set targets to mitigate these risks.

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<sup>1</sup> The targets were adopted in 2018.

<sup>2</sup> Weighted Average Carbon Intensity (tons CO<sub>2</sub>e / \$M sales). Calculated based on Scope 1 and 2 emissions. Does not relate to the Fund’s ownership share and hence serves as an indicator of potential climate-related risks. Importantly facilitates comparison with non-equity assets. FSB Taskforce for Climate-related Disclosures (TCFD) recommended metric for asset owners indicating portfolios exposure to carbon-intensive companies.

- Complete bi-annual analysis of the carbon footprint of the Fund’s portfolio.
- Conduct a periodic scenario analysis based on multiple climate change scenarios ranging from 2°C to 4°C.

With the above objectives and monitoring requirements agreed, we have set out below an indicative project plan for the coming twelve months for the Committee to consider.

### PROJECT PLAN (OVER THE NEXT TWELVE MONTHS)

| MEETING DATE      | PROPOSED ITEMS TO BE DISCUSSED                                                                                                                                                                                                                                                                                                                                                         |
|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 17 June 2019      | <ul style="list-style-type: none"> <li>• Committee to review of the proposed project plan as set out herein.</li> <li>• Discussion of Mercer’s paper “Investing in a time of climate change – the sequel”.</li> <li>• Annual review of ESG manager ratings.</li> </ul>                                                                                                                 |
| 10 September 2019 | <ul style="list-style-type: none"> <li>• Mercer to potentially present climate change scenario analysis on the Fund’s current investment strategy.</li> <li>• Decarbonisation of non-equity assets– consideration and next steps.</li> <li>• Integrate any conclusions in the broader investment strategy review.</li> </ul>                                                           |
| 3 December 2019   | <ul style="list-style-type: none"> <li>• Review other sustainable opportunities/ asset classes.</li> </ul>                                                                                                                                                                                                                                                                             |
| 3 March 2020      | <ul style="list-style-type: none"> <li>• Mercer to review the Fund’s carbon footprint analysis in 2020 (compared to 2016) and present to the Committee at the March or June Pensions Sub-Committee meeting<sup>4</sup>.</li> <li>• Update on the implementation of moving assets from the in-house UK passive equity mandate to the LGIM MSCI Low Carbon Target Index fund.</li> </ul> |

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<sup>4</sup> The Committee should decide when they would next want to review the Fund’s carbon footprint analysis. As such, the timescale shown here is for illustrative purposes.

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**Tomi Nummela**

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