ISLINGTON

Finance Department
7 Newington Barrow Way
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Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	21st June 2021		n/a

Delete as appropriate		Non-exempt

The appendix to this report is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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: DECARBONISATION POLICY –UPDATE NET ZERO CARBON TRANSITION

1. Synopsis

1.1 This is a report on progress made on the current decarbonisation targets by 2022 and discusses proposal and actions for post 2022 to continue on the pathway to transition to Net Zero Carbon by 2050.

1.2 Mercer will make a presentation to discuss the current carbon foot printing result as at 31 March 2021 for both equities and corporate credit (69% of the fund); alternative decarbonisation pathways based on absolute carbon emissions and set out evidenced recommendation to commit to 2050 net zero target with short- term emission reduction targets for 2025-26 and 2030.

2. Recommendations

2.1 To receive the exempt Mercer presentation (to follow)

2.2 To note that the fund carbon foot printing results as at 31 March 2021 shows the baseline of emissions for the listed portfolio (listed equity and corporate credit) is 66,096 tCO2e and the listed equity portfolio has decarbonised by 32.8% (absolute emission) between 2016 and 2021.

2.3 To consider and agree the next post 2022 decarbonisation targets for the fund in both short and medium term; 2025-26, 2030 and net zero carbon by 2050.

2.4 To agree to receive a further report in September to consider action plan and fund changes required to achieve the agreed future targets.

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 Progress to date

3.2.1 Members agreed a decarbonisation policy as part of its Investment strategy statement and sets targets to achieve further decarbonisation across its entire investment assets. The policy defines the Committee's beliefs and takes account of sustainable opportunities, and agrees a monitoring regime and progress measurement.

The agreed targets are as follows:

The Fund seeks to achieve the following targets by May 2022 through:
1) Reducing future emissions by focussing on absolute potential emissions (tons of CO2e), 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 foot-printing exercise.

2) Reducing "exposure to carbon intensive companies" as measured by Weighted Average Carbon Intensity, 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 foot printing exercise.

3) Investing 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.

Measures agreed to monitor and guide decarbonisation and allocation to sustainability include:
1) The Fund adopting TCFD supplemental guidance for asset owners where applicable.

2) The Fund reviewing targets annually.

3) The Fund forming a view on decarbonisation of all asset classes beyond public equities by 2022 and will develop mechanisms to evaluate the progress.

4) The Fund monitoring ESG (including climate change) risks annually and set targets to mitigate these risks. Monitoring will include annual analysis of the carbon footprint of the Fund's portfolio, as well as conducting a periodic scenario analysis based on multiple climate change scenarios ranging from 2ºC to 4ºC.

ESG ratings

3.2.2 Mercer conducted a review of ESG ratings for the Fund's 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. The average rating for the whole Fund has improved from 2.3 to 2.1.

Measuring carbon footprint of equities portfolio annually

3.2.3 The Fund's latest carbon foot printing exercise on the equity and corporate credit holdings as at 31st March 2021 showed that since 2016 the fund has achieved in its equities a reduction of 32.6% in absolute emissions, whilst for 69% of scheme assets our emissions is 66,096 tCO2e.

3.3 **Transition to net zero carbon for pension investments**

The decarbonisation policy is a living document and Members have targeted decarbonisation across all asset classes of its pension investment where the funds' risk and return objectives are optimised. Any transition should still achieve the primary objective of paying benefits to pensioners and still affordable for employers.

3.3.1 Members agreed at the March meeting after their training session in February to adopt and agree new decarbonisation targets for the short to medium term and a net zero carbon emission for the whole Fund by 2050. Mercer our investment advisors have prepared a presentation to discuss these future targets and the transition pathway. The fund's carbon foot printing results for equities and corporate credit as at 31 March 2021 will also be discussed.

3.3.2 Members are asked to receive the presentation and consider proposal and recommendations for future short to medium targets and agree the transition pathway to net zero carbon by 2050. Members should also consider and agree an action plan for implementation and monitoring.

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**

The LGPS (Management and Investment of Funds) Regulation 2016, Regulation7 (1) requires an administering authority to formulate an investment strategy which must be in accordance with the guidance issued by the Secretary of State. The ISS must include: The authority's policy on how social environmental or corporate governance considerations are taken into account in the selection, non- selection, retention and realisation of investments

The Sub-Committee holds a key fiduciary responsibility to manage the Fund's investments in the best interests of the beneficiary members and the council taxpayers, where the primary focus must be on generating an optimum risk adjusted return. It is vital that any

investment decisions or strategies developed, such as a carbon strategy, must not negatively influence this primary responsibility.

The precise choice of investments can be influenced by ethical and environmental, social and governance (ESG) considerations, so long as that does not risk material financial detriment to the fund. Whilst deliberating on such issues, Queen's Counsel (Nigel Giffin) advice, commissioned by the LGPS Scheme Advisory Board and published in 2014, states that the administering authority may not prefer its own specific interests to those of other scheme employers, and should not seek to impose its particular views where those views would not be widely shared by scheme employers and members (nor may other scheme employers impose their views upon the administering authority).

4.3 **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**

Environmental implications will be included in each report to the Pensions-sub committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

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

4.4.1 An equalities impact assessment has not been conducted because this report is seeking opinions on an existing policy document and therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendation

5.1 Members are asked to receive the presentation from Mercer and agree the next short to medium decarbonisation targets on the transition pathway to a net zero carbon by 2050.

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date 18 June 2021

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