

Environment and Community Engagement Scrutiny Commission

Thursday 12 January 2023

7.00 pm

Ground Floor Meeting Room G02C - 160 Tooley Street, London SE1
2QH

Presentations

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Pension Fund Divestment & Energy Transition

Carbon Tracker Initiative
jbenjamin@carbontracker.org
Jan 12 2023



Who we are?

Identity

Carbon Tracker is an independent non-profit financial think tank funded by EU and US foundations interested in climate.

Vision

To enable a climate secure global energy market by aligning the capital markets with climate reality.

Mission

Mapping the transition for the fossil fuel industry to stay within a “well below” 2 degrees budget.

Strategy

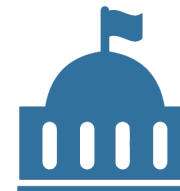
Empower **investors** to identify and switch off capital to the highest cost, highest carbon projects.



Engage with **companies** to re-assess both the viability of such projects and of their business model.



Educate mainstream **financial markets and policy-makers** over the risk of a disorderly transition.



Work with **financial regulators** to bring transparency on carbon and stranded asset risk and the fossil fuel risk premium.



Outline

1

LGPS Pension Fund objectives

5

Recap

2

Where we are on the net zero journey?

6

Further reading

3

Next steps for decarbonisation?

4

Implications of the energy transition?

Pension Fund Investment Strategy (ISS)

- Fund Investment strategy - to balance twin objectives:
 - Achieve *sufficient long-term returns* for the £1.6bn fund to be affordable.
 - *Keep the employer contribution rate as stable as possible.*
- Objectives must now also be considered in the context of the *global climate emergency* and the need to reduce carbon exposure.



Sign of the Times for Local Govt



09 Jan 2023

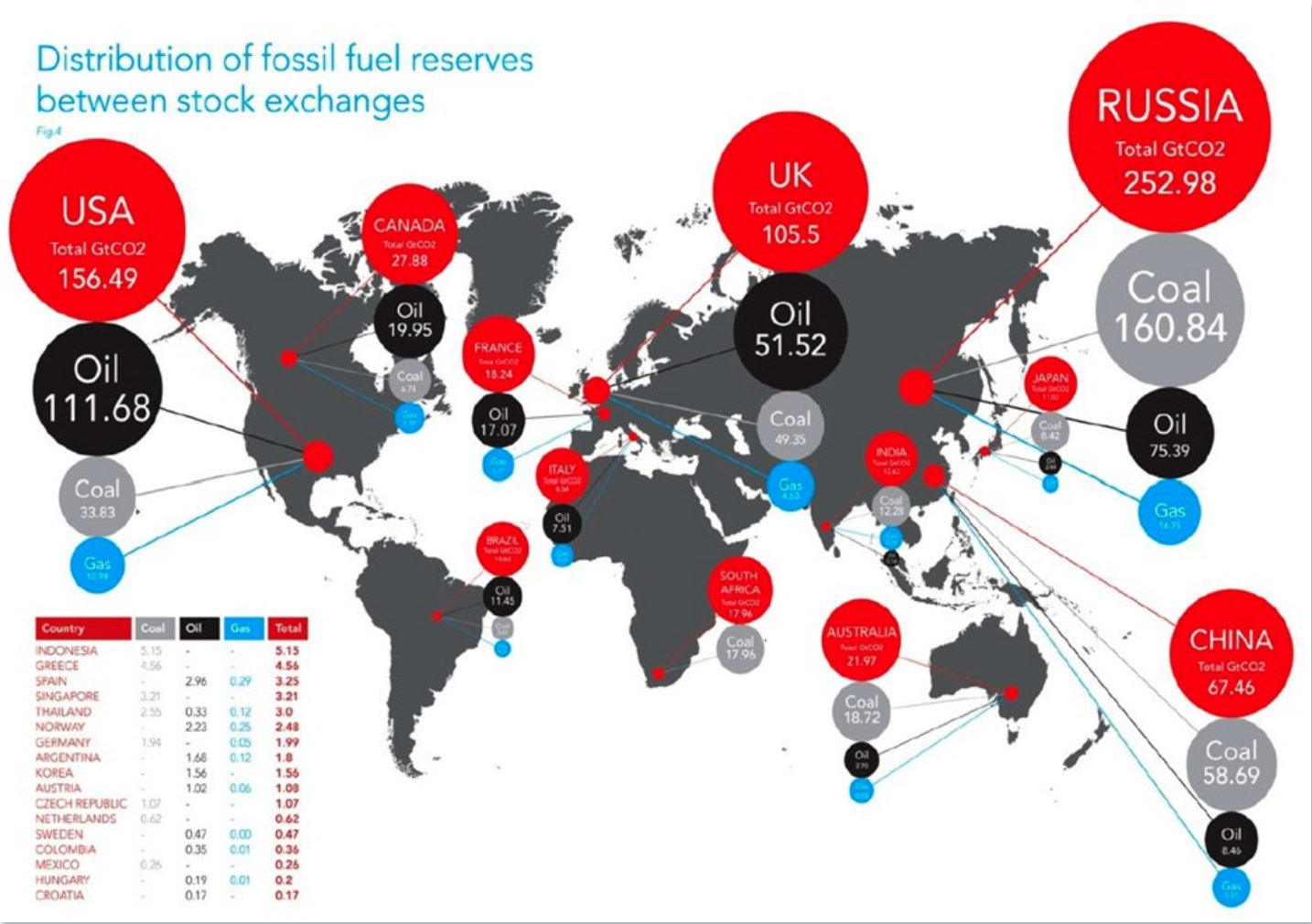


London CIV Structure

| LONDON CIV | | | | | | | | | | | | |
|--|-------------------------------|---|---------------------------|---------------------------------|-------------------------------|----------------------------------|------------------------------|--|--|---|---|---|
| Authorised Contractual Scheme (ACS) (Public Markets) Total £12.8bn | | | | | | | | | | Exempt Unauthorised Unit Trust (EUUT) (Private Markets) Total £2.1bn*/£0.9bn** | | Scottish Limited Partnership (SLP) (Private Markets) Total £195m*/£42m** |
| Global Equities | | | | | | | | | | Infrastructure | | Private Markets |
| Fund | LCIV Global Alpha Growth Fund | LCIV Global Alpha Growth Paris Aligned Fund | LCIV Global Equity Fund | LCIV Global Equity Quality Fund | LCIV Global Equity Focus Fund | LCIV Emerging Market Equity Fund | LCIV Sustainable Equity Fund | LCIV Sustainable Equity Exclusion Fund | LCIV Passive Equity Progressive Paris Aligned Fund | LCIV Infrastructure Fund | LCIV Renewable Infrastructure Fund | The London Fund |
| AUM | £1,696m | £1,471m | £573m | £555m | £910m | £596m | £1,315m | £584m | £541m | £399m*/£189m** | £854m*/£207m** | £195m*/£42m** |
| Launch Date | 11 Apr 2016 | 13 Apr 2021 | 22 May 2017 | 21 Aug 2020 | 17 Jul 2017 | 11 Jan 2018 | 18 Apr 2018 | 11 Mar 2020 | 01 Dec 2021 | 31 Oct 2019 | 29 Mar 2021 | 15 Dec 2020 |
| Manager | Baillie Gifford | Baillie Gifford | Newton | MSIM | Longview | JP Morgan | RBC | RBC | State Street | Stepstone | BlackRock, Quinbrook, Stonepeak and Foresight | LPPI |
| No. of Investors | 7 | 8 | 3 | 2 | 5 | 8 | 8 | 4 | 2 | 6 | 13 | 2 |
| Multi Asset | | | | | Fixed Income | | | Private Debt | | Property | | |
| Fund | LCIV Global Total Return Fund | LCIV Diversified Growth Fund | LCIV Absolute Return Fund | LCIV Real Return Fund | LCIV Global Bond Fund | LCIV MAC Fund | LCIV Alternative Credit Fund | LCIV Private Debt Fund | LCIV Inflation Plus Fund | | | |
| AUM | £221m | £852m | £1,135m | £175m | £591m | £1,230m | £369m | £625m*/£251m** | £213m*/£213m** | | | |
| Launch Date | 17 Jun 2016 | 15 Feb 2016 | 21 Jun 2016 | 16 Dec 2016 | 30 Nov 2018 | 31 May 2018 | 31 Jan 2022 | 29 Mar 2021 | 11 Jun 2020 | | | |
| Manager | Pyrford | Baillie Gifford | Ruffer | Newton | PIMCO | CQS and PIMCO | CQS | Churchill and Pemberton | Aviva | | | |
| No. of Investors | 3 | 9 | 10 | 2 | 7 | 12 | 3 | 8 | 3 | | | |



Global Exchanges & CO2

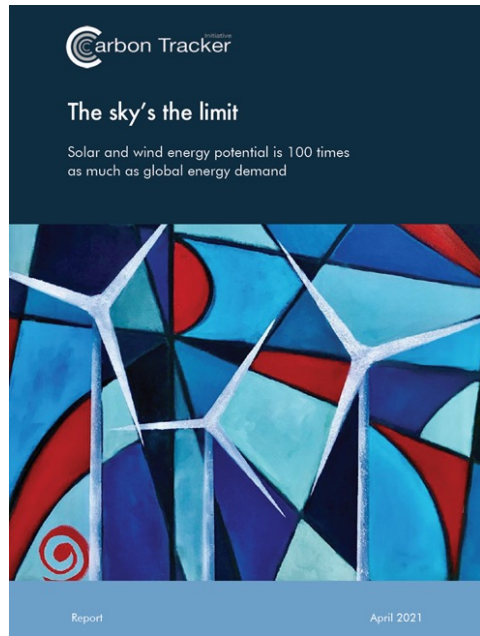


Strong Initial Progress – Where Next?

- Fund largely divested of direct fossil fuel holdings.
CO2 Footprint <40%
- Structure Review - Green tilt & management of passive funds (*risk of over-reliance on ESG?*)
- To what extent are corporate bonds + wider fossil fuel exposed sectors in the frame?

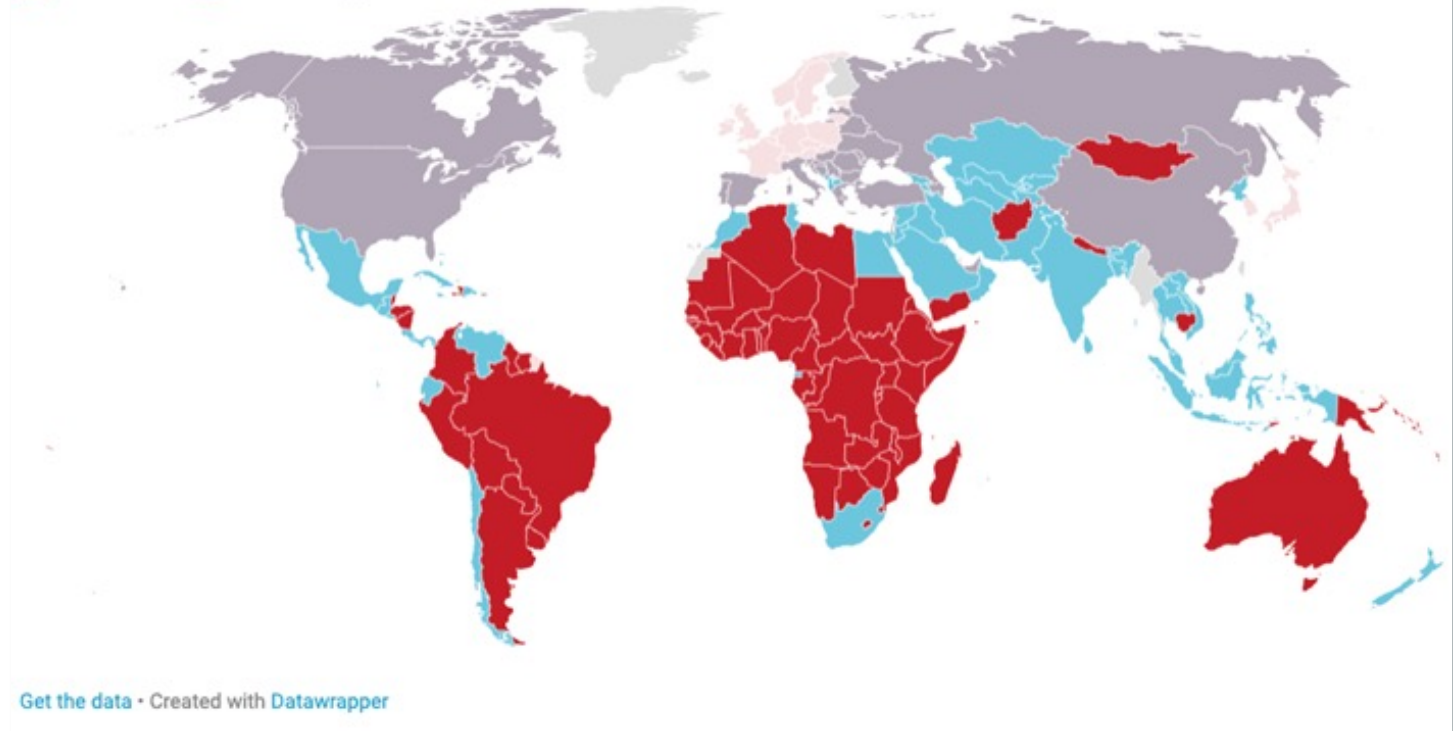


A Portfolio Fit For Energy Transition

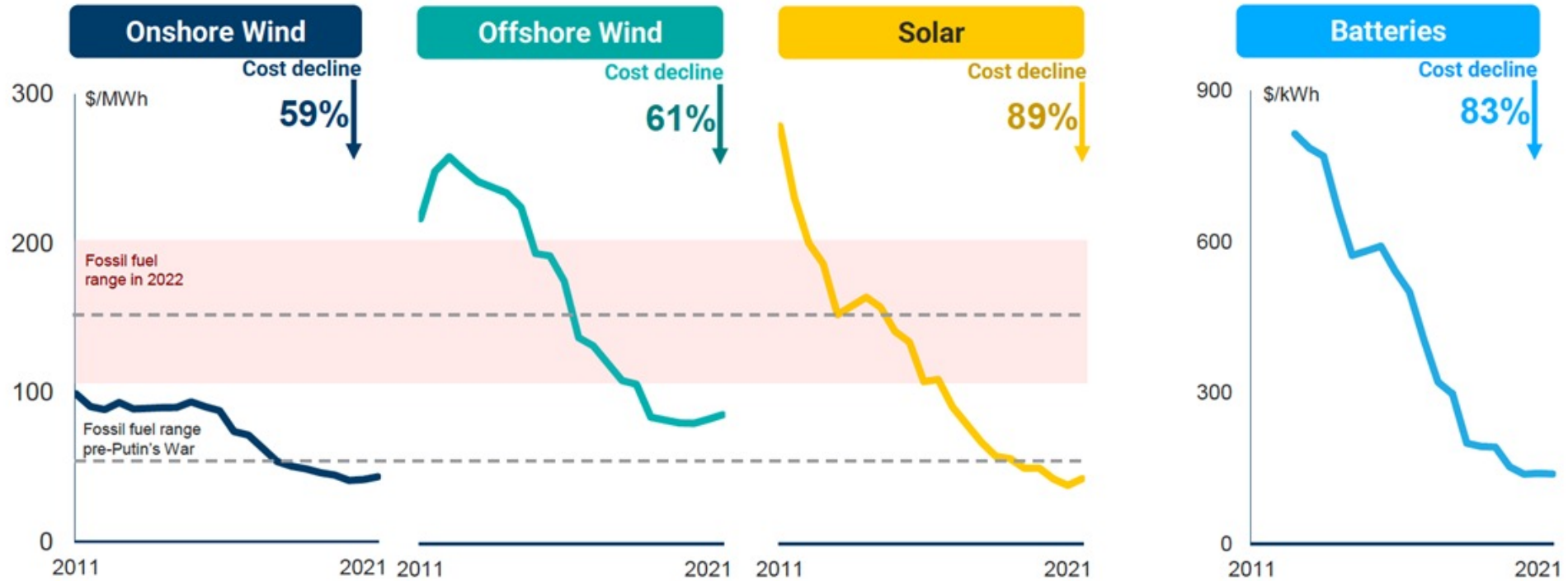


Share of land required to generate all energy from solar

0.1% or less Below 1% Below 5% Over 5%



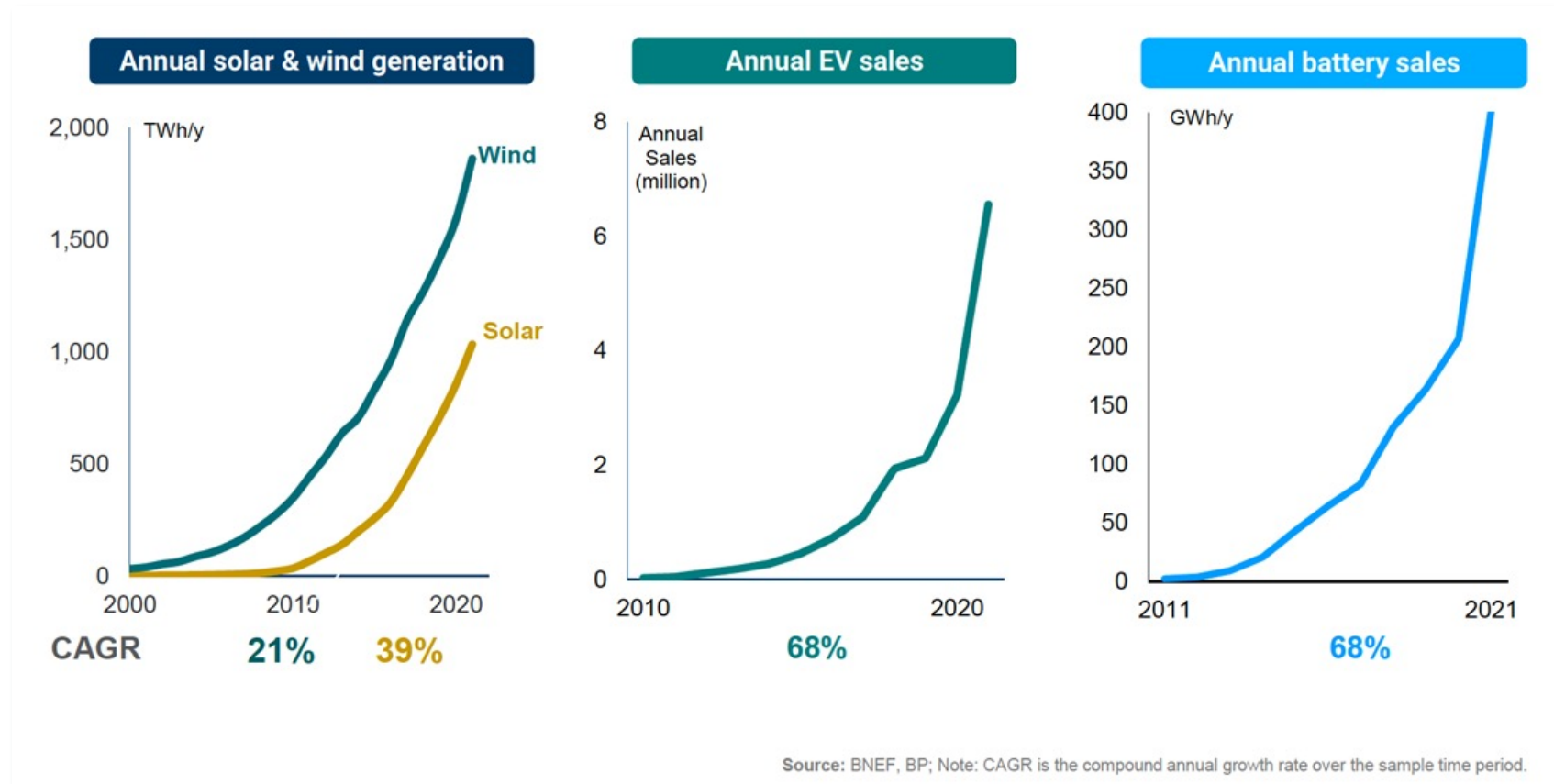
Accelerating Energy Transition



Source: BNEF; Note: figures are global averages

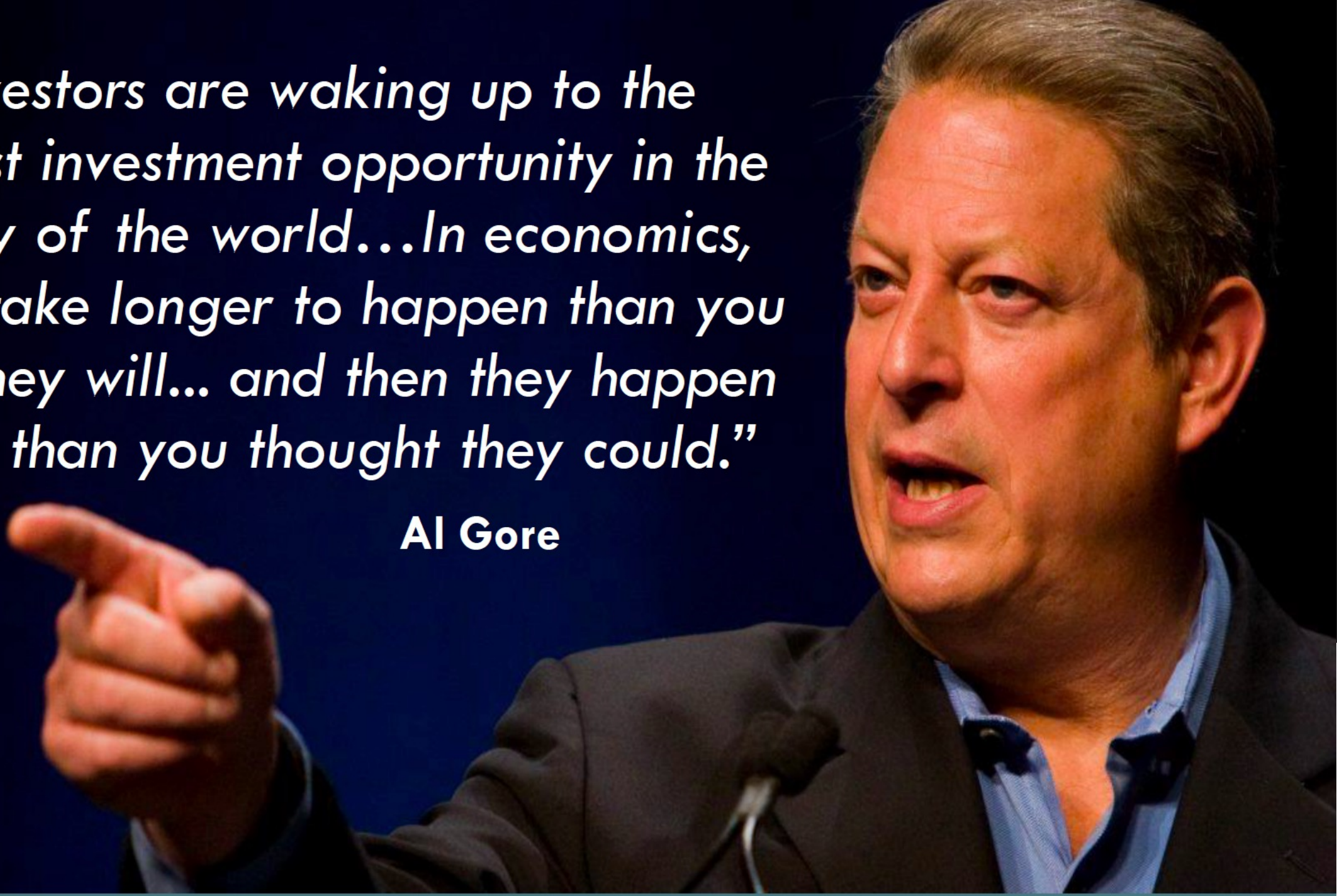


Falling Costs & Exponential Growth



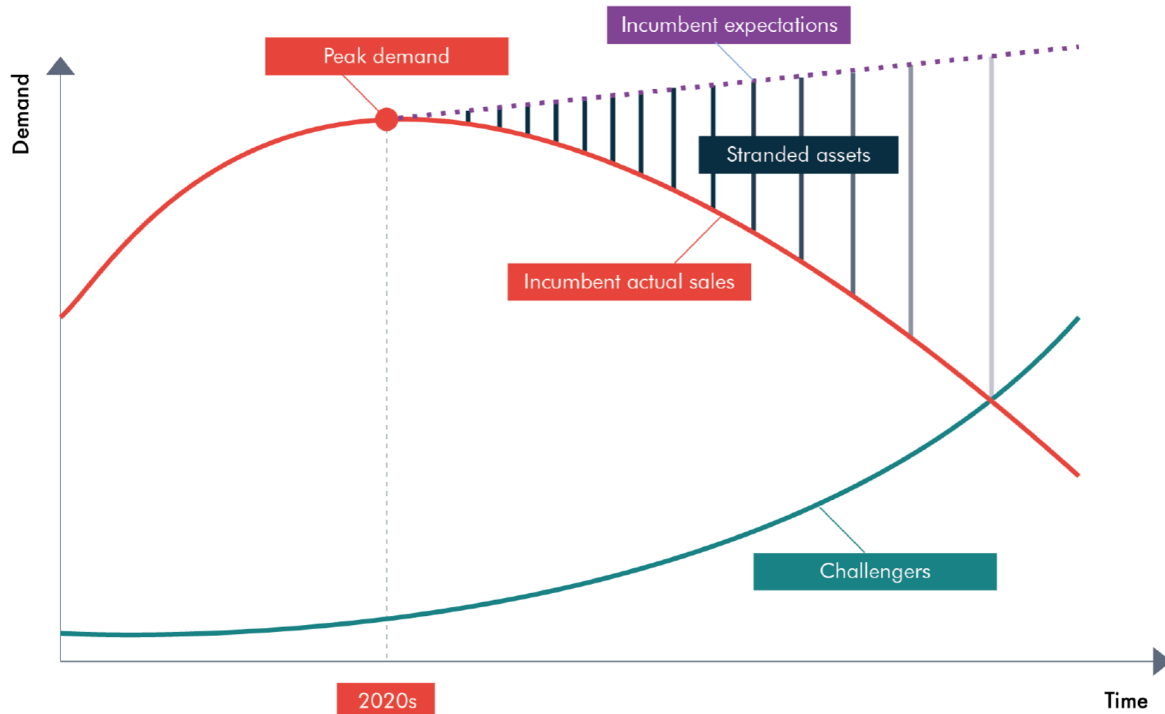
"Investors are waking up to the biggest investment opportunity in the history of the world...In economics, things take longer to happen than you think they will... and then they happen faster than you thought they could."

Al Gore

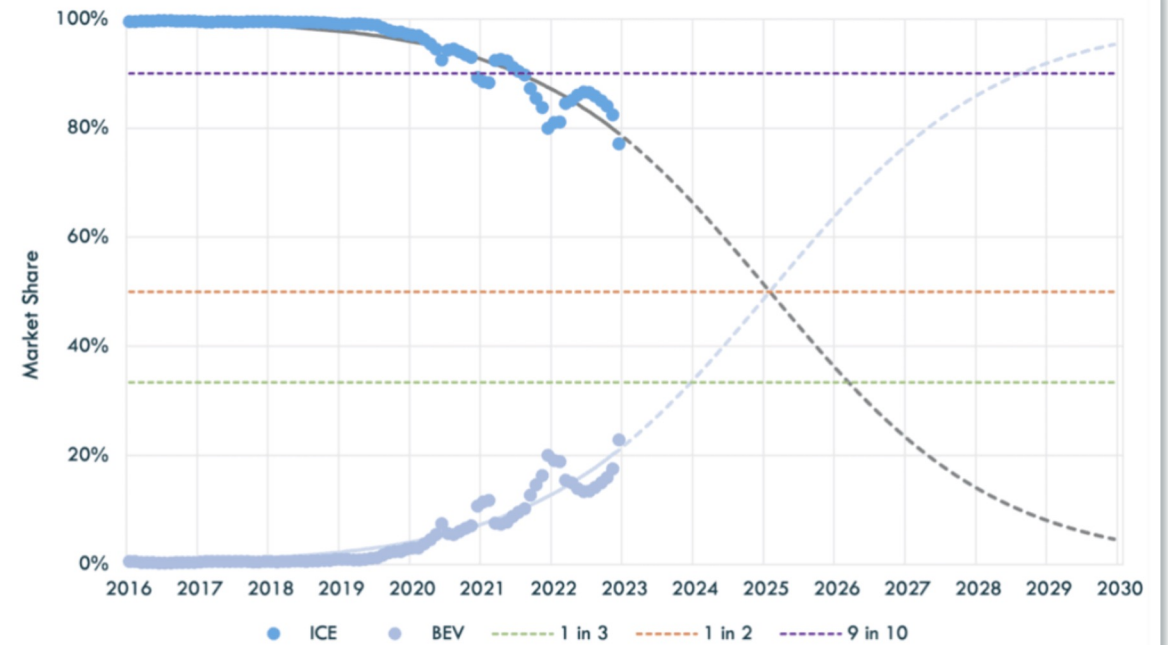


Rapid EVs Growth, ICE Stranding...

FIGURE 20 - PEAK DEMAND AND STRANDED ASSETS



Source: Carbon Tracker

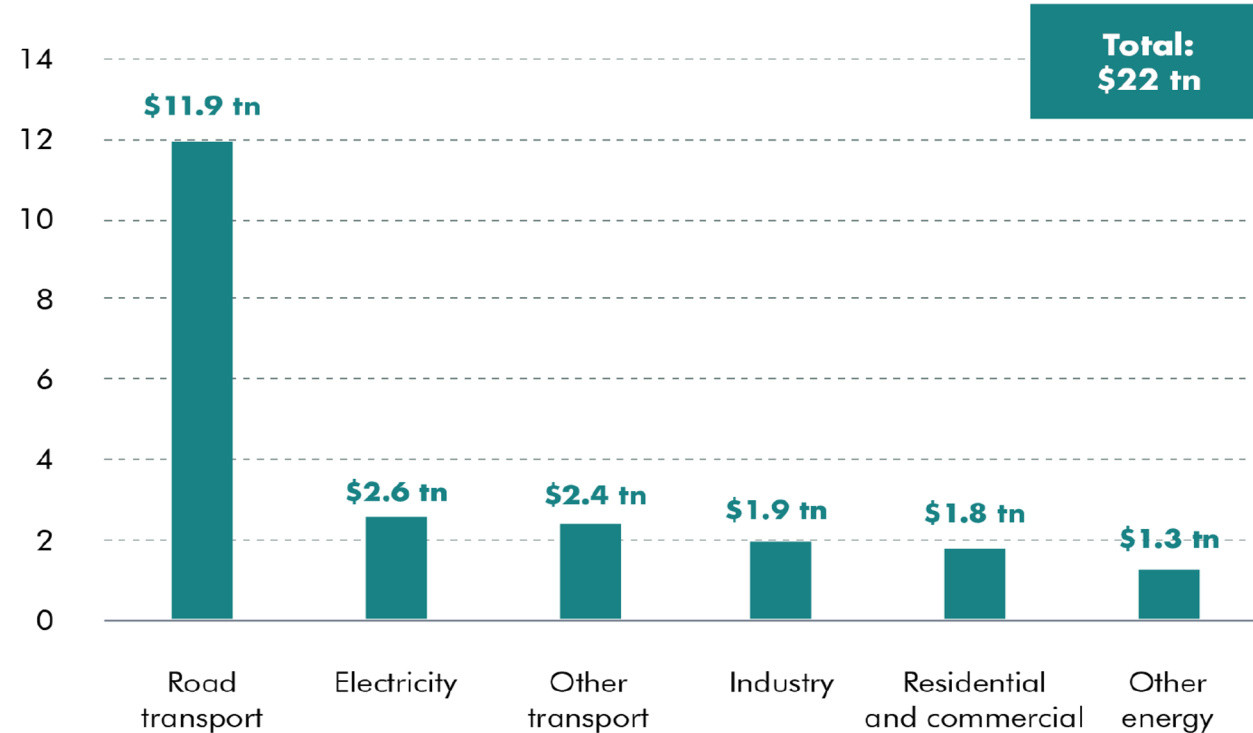


Source: New AutoMotive, Carbon Tracker. Note: The individual data points show actual new sales market share. Sales are averaged over a 3-month rolling period. The S-Curves are plotted using a [logistic function](#) with the projection shown with a dashed line. 'ICE' is defined as all vehicles with an internal combustion engine, including hybrids.



Decarbonising Transport & Industry

FIGURE 12 – FOSSIL FUEL USAGE INFRASTRUCTURE VALUE (\$TN)

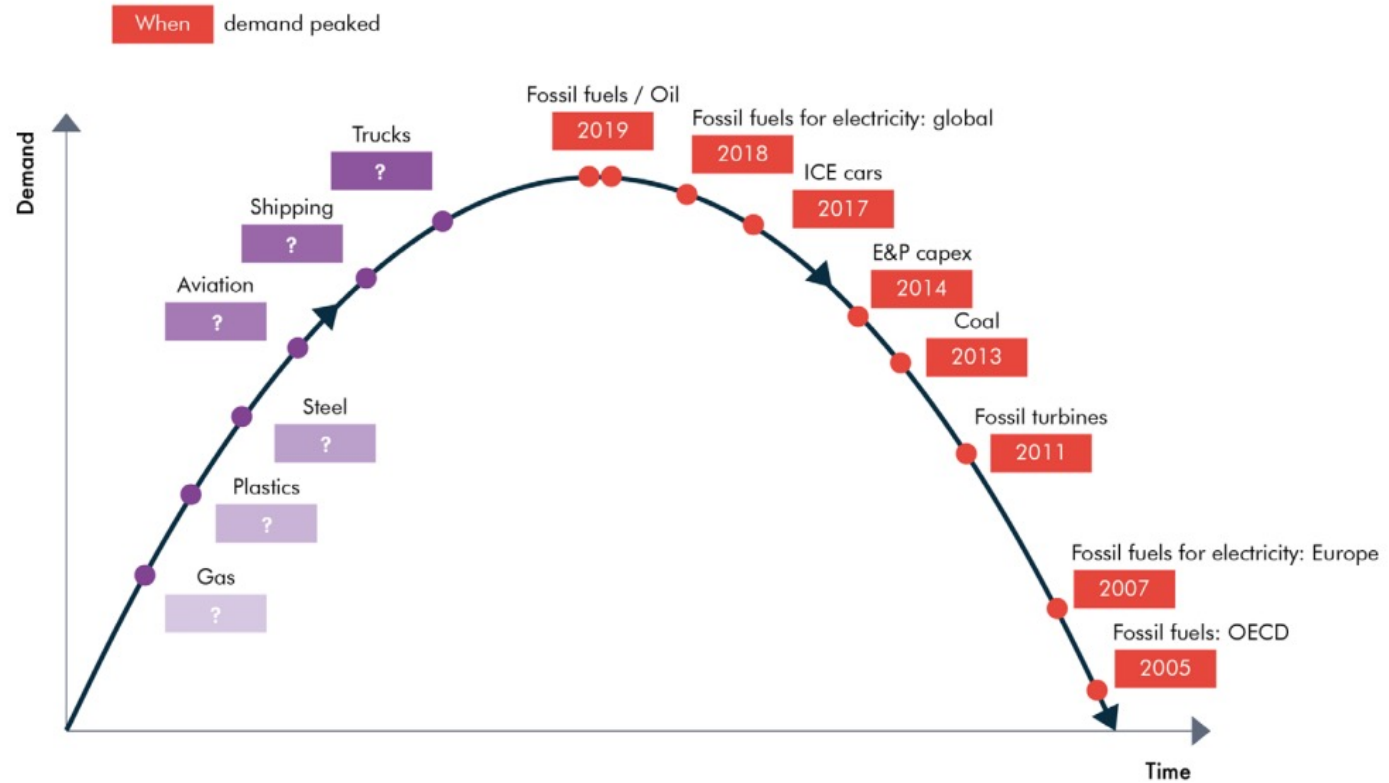


Source: Tong et al., Nature



2020s - Victims of Peak Demand?

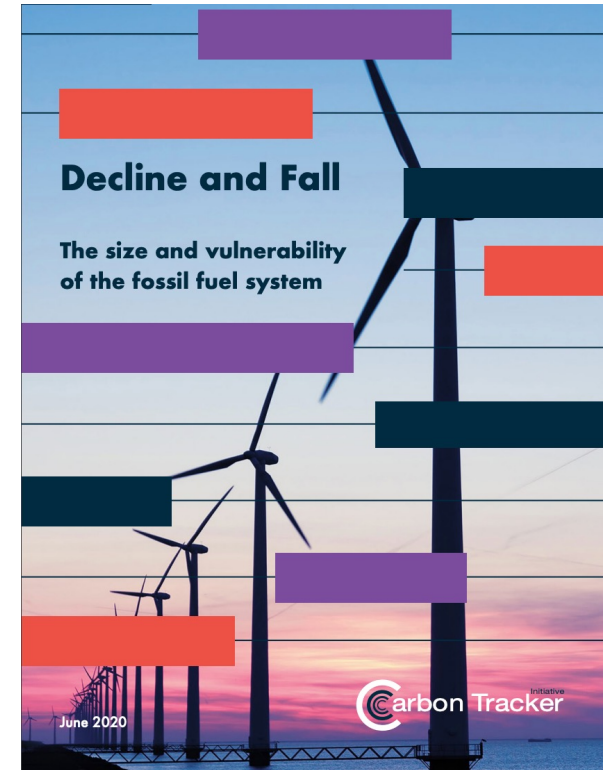
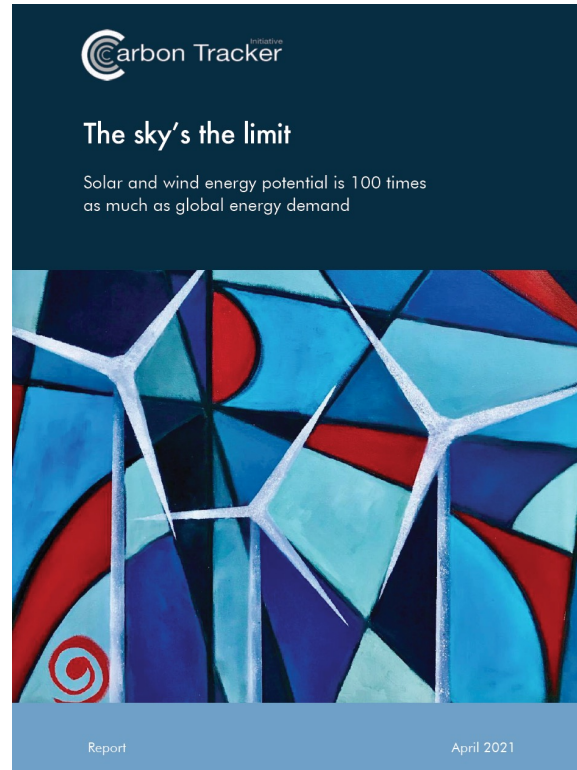
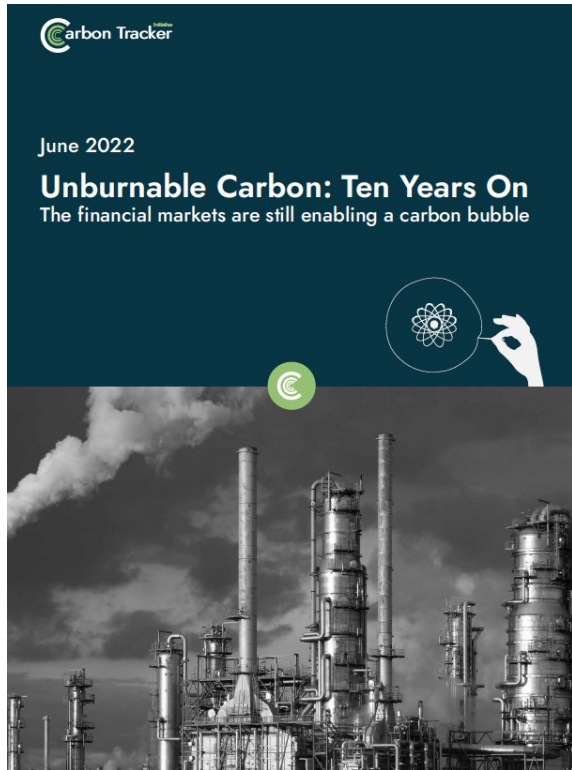
FIGURE 23 - PEAK DEMAND BY SECTOR



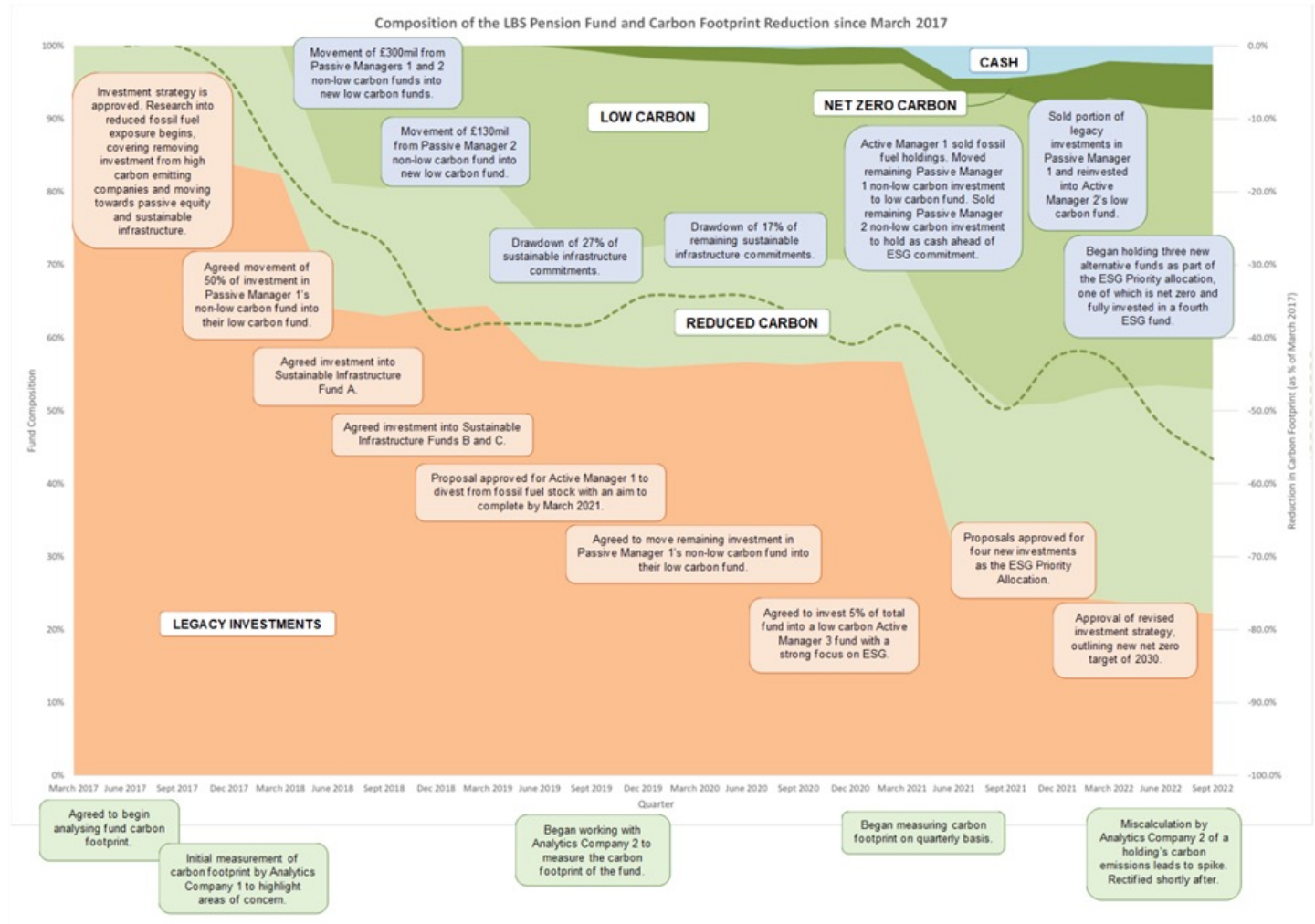
Thank you & remember

1. 2020s the decade of disruption
2. Disruptive tech on s-curves outcompetes fossil incumbents
3. Incumbents who fail to adapt perish
4. Investment risks far broader than equities of fossil producers
5. Investors must also assess fossil use infrastructure, corporate bond holdings & passive index linked funds
6. Huge opportunities for clean tech investors as the world electrifies

Further Reading

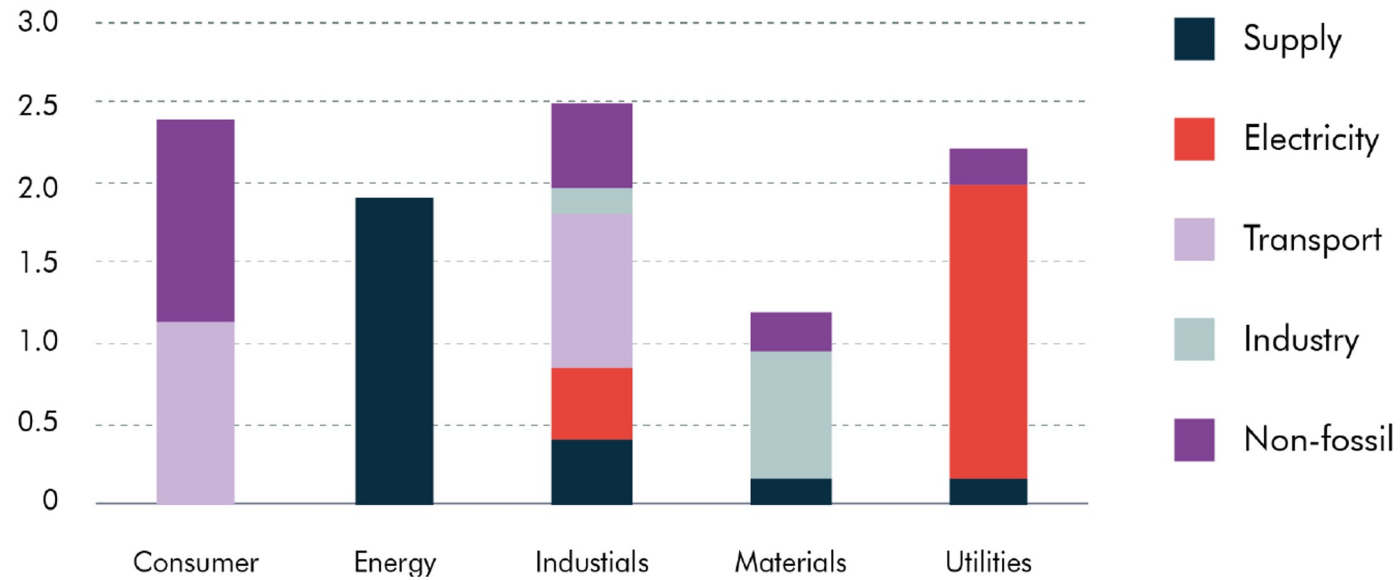


Southwark Pension Fund CO2 Footprint



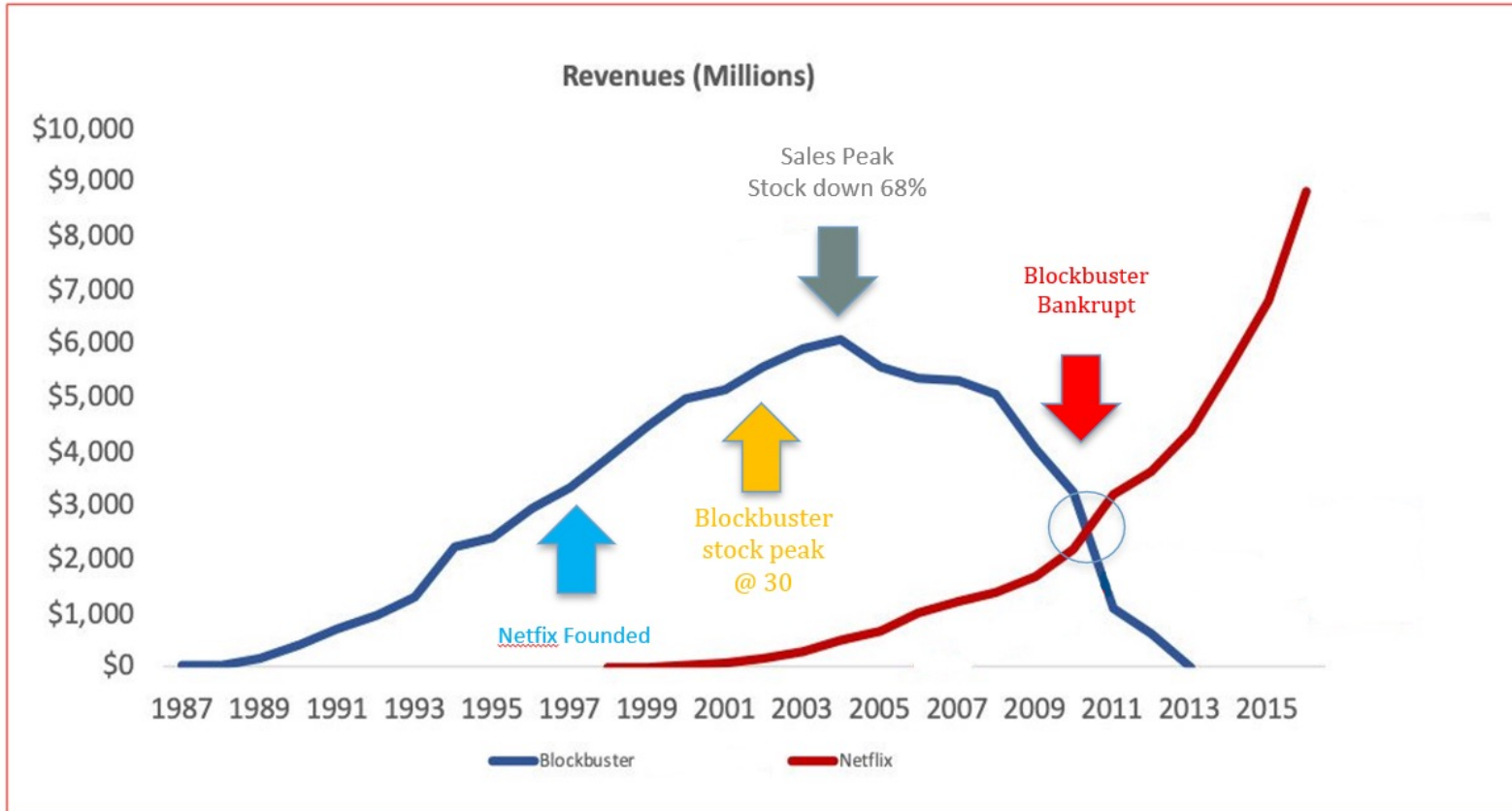
Beyond equities & fossil supply

FIGURE 41 - CORPORATE BOND DEBT BY MSCI SECTOR \$TN



Source: Bloomberg, Carbon Tracker

Equity always discounts the future



*At the point
Netflix's
revenue
matched
Blockbuster's
(blue circle),
Blockbuster
had gone bust*

Disclaimer

Carbon Tracker is a non-profit company set up to produce new thinking on climate risk. The organisation is funded by a range of European and American foundations. Carbon Tracker is not an investment adviser, and makes no representation regarding the advisability of investing in any particular company or investment fund or other vehicle. A decision to invest in any such investment fund or other entity should not be made in reliance on any of the statements set forth in this publication. While the organisations have obtained information believed to be reliable, they shall not be liable for any claims or losses of any nature in connection with information contained in this document, including but not limited to, lost profits or punitive or consequential damages. The information used to compile this report has been collected from a number of sources in the public domain and from Carbon Tracker licensors. Some of its content may be proprietary and belong to Carbon Tracker or its licensors. The information contained in this research report does not constitute an offer to sell securities or the solicitation of an offer to buy, or recommendation for investment in, any securities within any jurisdiction. The information is not intended as financial advice. This research report provides general information only. The information and opinions constitute a judgment as at the date indicated and are subject to change without notice. The information may therefore not be accurate or current. The information and opinions contained in this report have been compiled or arrived at from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made by Carbon Tracker as to their accuracy, completeness or correctness and Carbon Tracker does also not warrant that the information is up-to-date.'



Citizen sourced finance for tackling the climate emergency

“When thinking about finance the social value of different types of money matters”

“Citizen investors do not just value the financial return on an investment they are often motivated by a blended return including improvements to their place or region as well as broader social value.”

Prof. Mark Davis, Financing for Society, University of Leeds 2020

Abundance Background

- UK's first regulated crowdfunding platform
- Arranged £150m for public and corporate sector
 - Corporate Finance – green social housing, energy generation
 - Municipal Finance – Local Climate Bonds
- Enable anyone to invest with as little as £5
- Enable people to invest via an ISA or Pension, maximizing accessibility

Municipal Investment – Local Climate Bond



- Municipal Investments (MIs) offer an alternative to the PWLB for councils looking to finance their Net Zero plans. They provide a mechanism through which councils raise money from their residents.
- MIs are treated, from a council perspective, identically to PWLB borrowing.
- MIs consistently beat the PWLB Certainty Rate (including fees), while the innovation of crowdfunding means the mechanism is efficient to use.
- They fund any climate or green project in the capital programme
- No credit rating or additional audit requirement
- Model sits alongside PWLB, becoming a simple way to build a local finance market over time.

Social Value Creation

- **Communication / Engagement**
 - New tool for communicating and engaging with residents
 - Increases transparency and engagement with specific Council initiatives
 - Supports citizen participation in Council processes
 - ISA eligible
- **Money Back Donation**
 - Provide option for investors donate some or all their interest back to the council.
 - Wealthier citizens supporting community as a whole
- **Local Economic Benefits / Philanthropy**
 - Retention of money locally
 - Useful new low risk savings product

Municipal Investment Pricing

| | Average saving on the Certainty Rate (after fees), as money became payable to the council (%) |
|------------------|---|
| West Berkshire | 0.47 |
| Warrington | 0.48 |
| Islington | 0 |
| Camden | 0.83 |
| Cotswold | 0.41 |
| Telford & Wrekin | 0.82 |
| Average | 0.50 |

Donation Scheme

| | % of interest donated | Effective interest rate reduction (%) |
|------------------|-----------------------|---------------------------------------|
| West Berkshire | 8.5 | 0.10 |
| Warrington | 5.5 | 0.07 |
| Islington | 9.45 | 0.15 |
| Camden | - | |
| Cotswold | - | |
| Telford & Wrekin | - | |
| Average | 7.8% | 0.11 |

2023 - Alignment with the Green Loan

Principles

- Framework for generating global alignment and investor credibility relating to green finance
- Loan Market Association & Capital Market Association custodians of the GLP & GBP
- UK Government Green Gilt and Green NS&I aligned with the principles, but also aligned with the Green Taxonomy (been led by GFI).

Transport for Greater Manchester: Iduna



- TfGM procured a concession contract that was won by our partner Iduna (a spin off from Amey)
- Contract is to install, maintain and operate EV charging infrastructure across the region. Iduna pay a fee to TfGM for the benefit of the contract, but Iduna and investors take all performance risk.
- Raised total to date of £8m from the general public and users of the network.

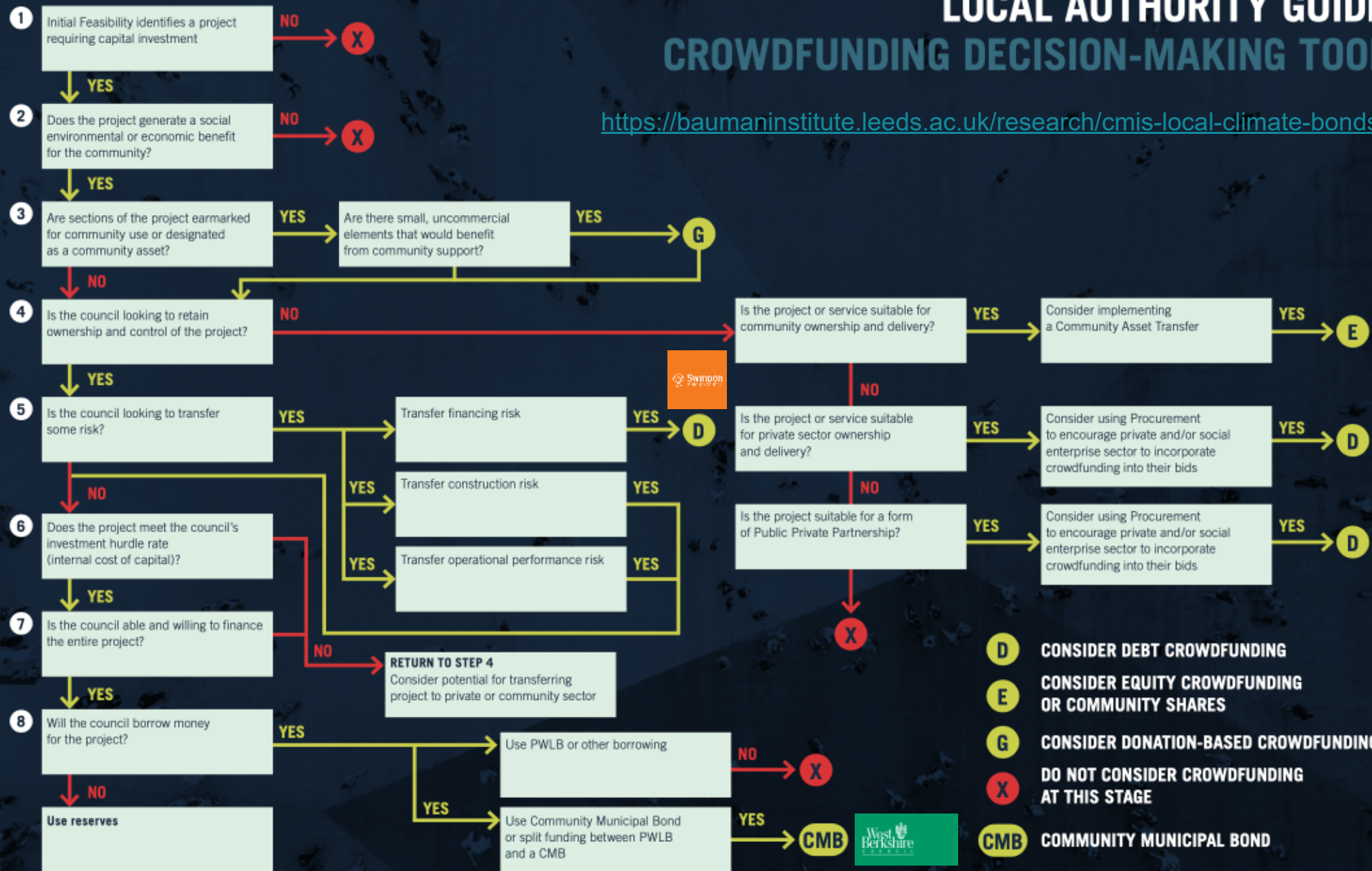
Bristol City Leap: PPP



- Council tendering for a 20-year JV partner - to decarbonize the city (providing expertise and finance)
- Abundance approached by bidders to incorporate citizen investment into their bids
- Complement traditional finance and fill gaps where traditional finance can not play – “local finance” first
- Our Bid explains how we will grow the local investment market to 100+ million
- Create a Bristol Place Based Investment Platform & Green ISA
- Our consortium won the bid in April 2022, expected first fund raise in 2023

LOCAL AUTHORITY GUIDE CROWDFUNDING DECISION-MAKING TOOL

<https://baumaninstitute.leeds.ac.uk/research/cmis-local-climate-bonds/>



- D** CONSIDER DEBT CROWDFUNDING
- E** CONSIDER EQUITY CROWDFUNDING OR COMMUNITY SHARES
- G** CONSIDER DONATION-BASED CROWDFUNDING
- X** DO NOT CONSIDER CROWDFUNDING AT THIS STAGE
- CMB** COMMUNITY MUNICIPAL BOND

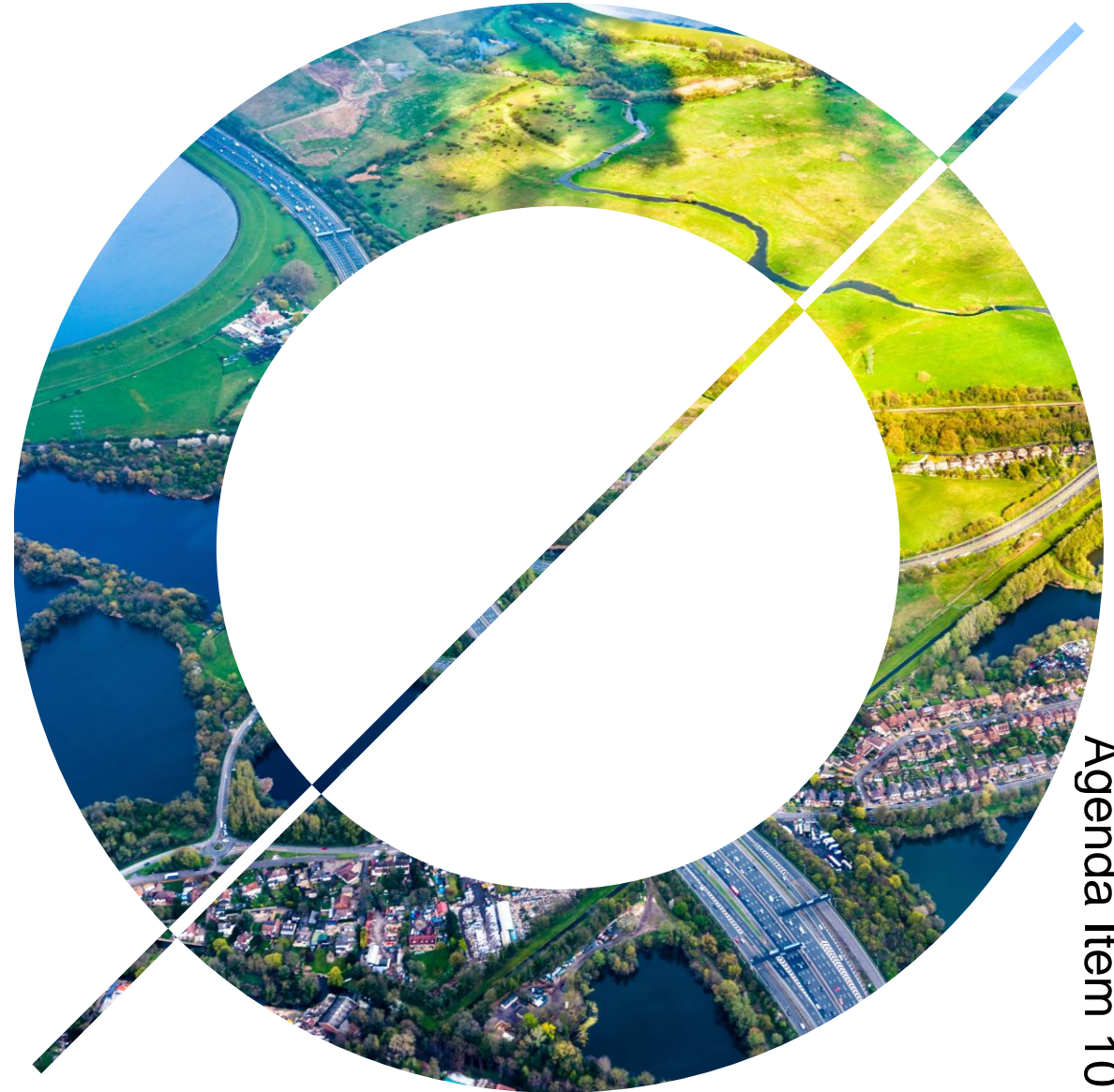


Cities
Commission
For Climate
Investment

Overview of 3Ci

X12/01/2023

Steve Turner, Director
Zoe Jennings, Head of Climate Investment



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Agenda Item 10

A Connected Places
Catapult Initiative



Contents

1. 3Ci Introduction & Governance
2. 3Ci Work Programmes
 - National Net Zero project pipeline
 - Local integrated investment pilots
 - Dissemination of local and regional innovations
 - Regional investor events
 - National technical assistance facility
3. Next Steps & Upcoming Events



What is 3Ci?

A partnership between Connected Places Catapult, Core Cities UK, London Councils and the wider local government sector aimed at supporting local authorities secure the necessary long-term finance for achieving Net Zero



We **innovate** new investment approaches



Accelerate collaboration between local & national government, industry & financial institutions



Advocate for changes in approach to investment across local & national government



3Ci Advisory Board



Chair
Prof Greg Clark CBE
Connected Places
Catapult



Sadiq Khan
Mayor of London,
M10



Marvin Rees
Mayor of Bristol



Cllr John Merry
Deputy City Mayor,
Salford City Council,
LGA City Regions Board



Cllr Susan Aitken
Leader,
Glasgow City Council



Lucy Yu
Non-Executive Director,
Connected Places
Catapult



Philip Glanville
Mayor of Hackney,
London Councils' Transport
& Environment Committee



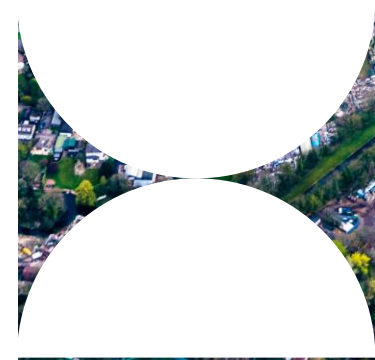
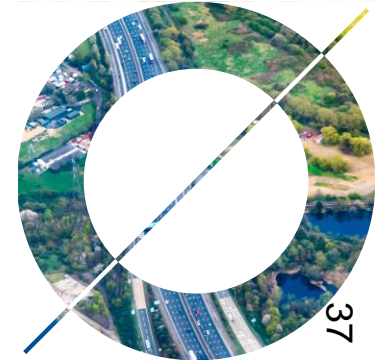
Keith Bottomley
Vice Chair, City of London
Corporation Policy
Committee



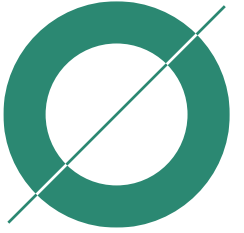
Cllr Richard Cook
Leader,
Gloucester City Council,
Key Cities Climate Lead



Cllr Kevin Bentley
Leader,
Essex County Council,
LGA People & Places Board



3Ci Steering Group



Co-Chair,
Niall Bolger
Chief Executive, LB Hounslow

Co-Chair,
Kate Josephs
Chief Executive, Sheffield CC

Denise Murray
Director of Finance,
Bristol City Council

Ian Williams
Director of Finance,
LB Hackney

Kate Kenally
Chief Executive,
Cornwall Council

Henry Kippin
Chief Executive,
North of Tyne CA

Becca Heron
Executive Director of Growth,
Manchester City Council

Victoria Lawson
Executive Director,
LB Hounslow, Chair of LEDNet

Arthur Charvonja
Chief Executive, Babergh and
Mid Suffolk District Councils

Tom Stannard
Chief Executive,
Salford City Council

Nicola Yates
Chief Executive,
Connected Places Catapult

Ali Griffin
Chief Executive,
London Councils

Stephen Jones
Director,
Core Cities

Eamonn Lally
Principal Policy Adviser,
LGA

Steve Turner
Director,
3Ci

Jon McGinty
Managing Director
Gloucester City Council

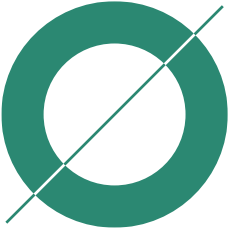
3Ci Work Programmes



3Ci Work Programmes

- 1) **National technical assistance facility** – creation of a development fund that invests in the necessary capacity and skills to bring projects forward for investment
- 2) **National Net Zero project pipeline** – national register of locally and regionally-led, bankable projects to deliver net zero outcomes
- 3) **Local integrated investment pilots** – delivery of pilot projects which test and demonstrate a Net Zero Neighbourhood financing framework. These pilots are based on our recent place-based, multi-asset investment work funded by BEIS
- 4) **Dissemination of local and regional innovations** – development of a national platform to share innovations rapidly in an easily accessible and standardised format
- 5) **Regional investor events** – a series of events aimed at convening cities and local governments with investors to showcase opportunities, building mutual understanding and confidence

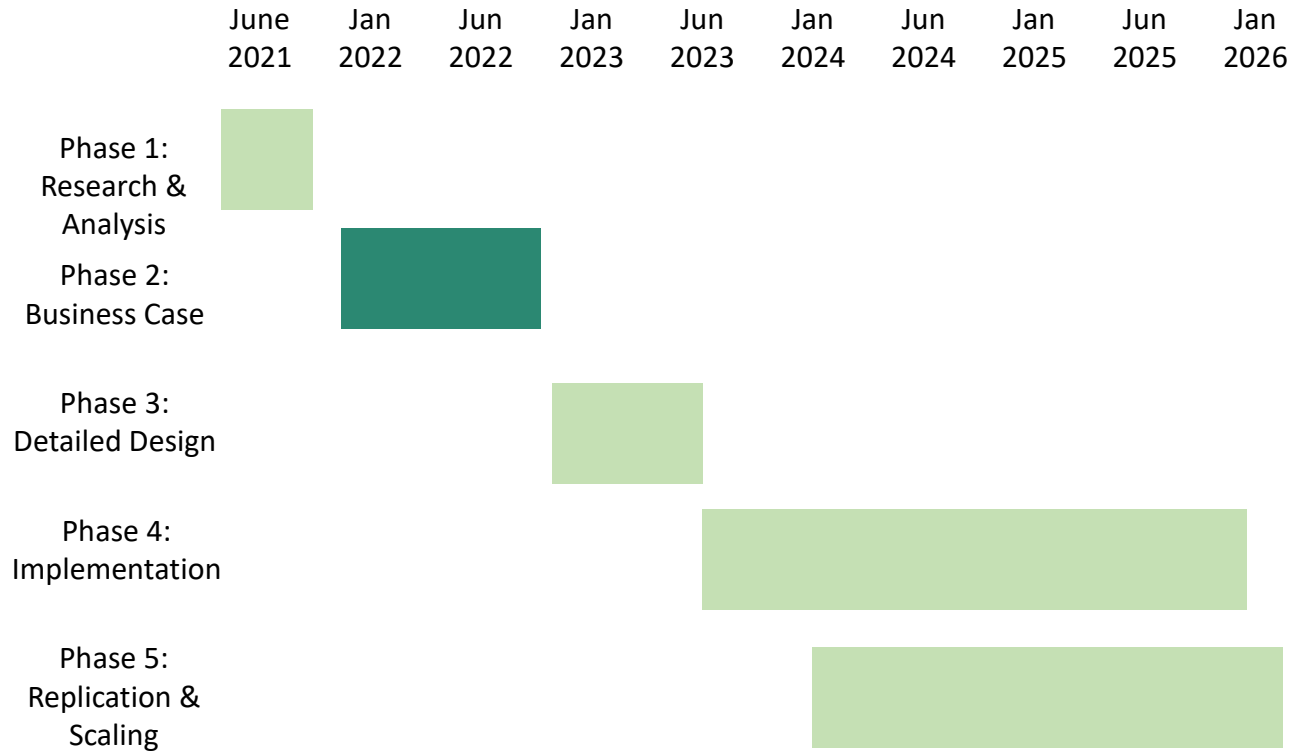




Local integrated investment pilots (1/6)

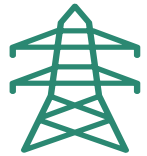
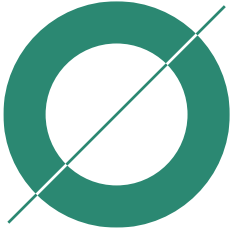
Our 5-year plan has been developed around 5 phases of work

- Phase One completed, the output of which was launched in October 2021 (link [here](#))
- Phase 2 to be completed end of November with £1.5m of BEIS funding
- Phase 3 funding through a NZ Demonstrator Programme
- Further phases are planned through to 2026 focusing on implementation



Local integrated investment pilots (2/6)

All parts of the economy will have to transform



Electricity network upgrade & reinforcement



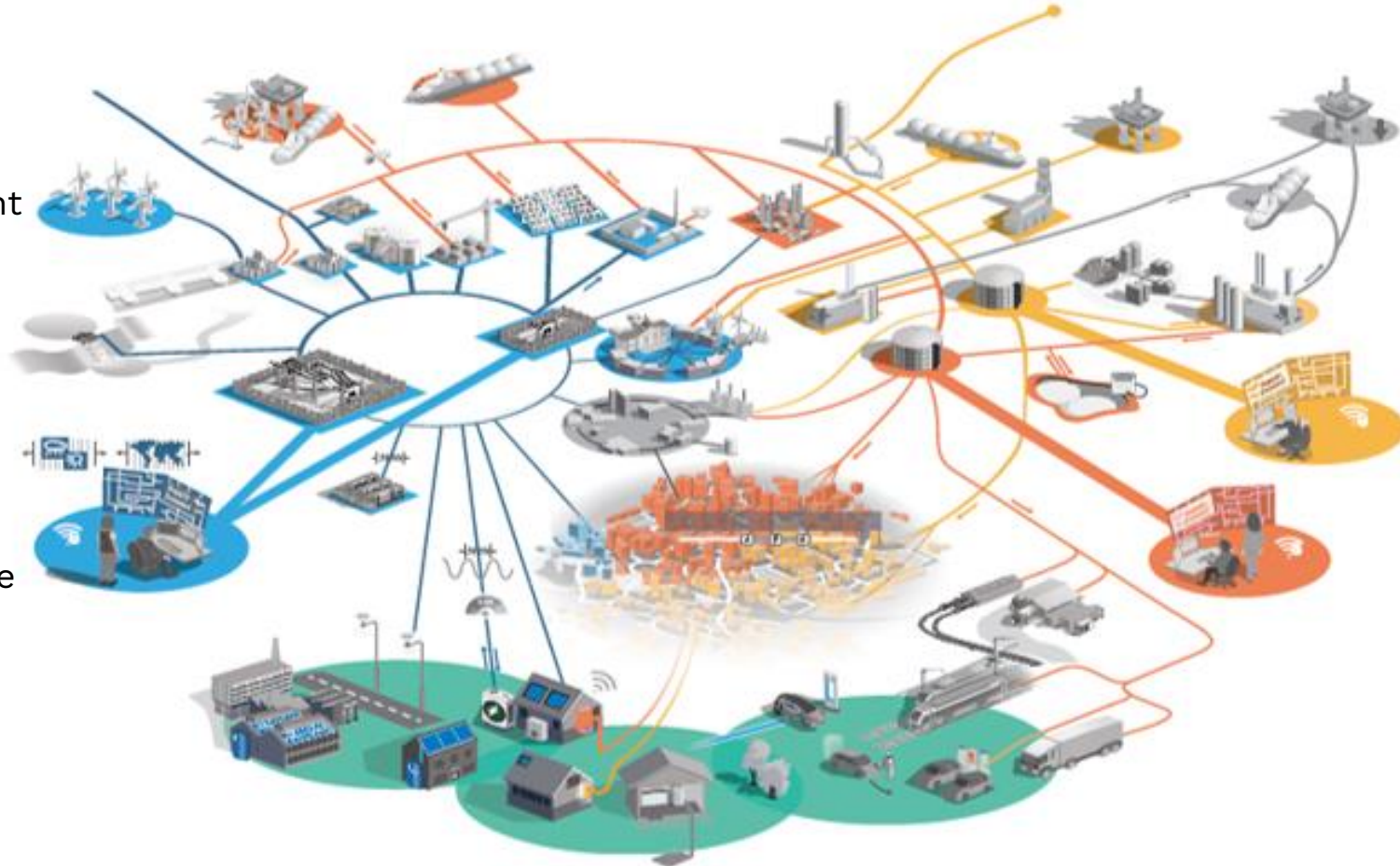
Heat pumps



Green infrastructure




Active travel



EV charging infrastructure 

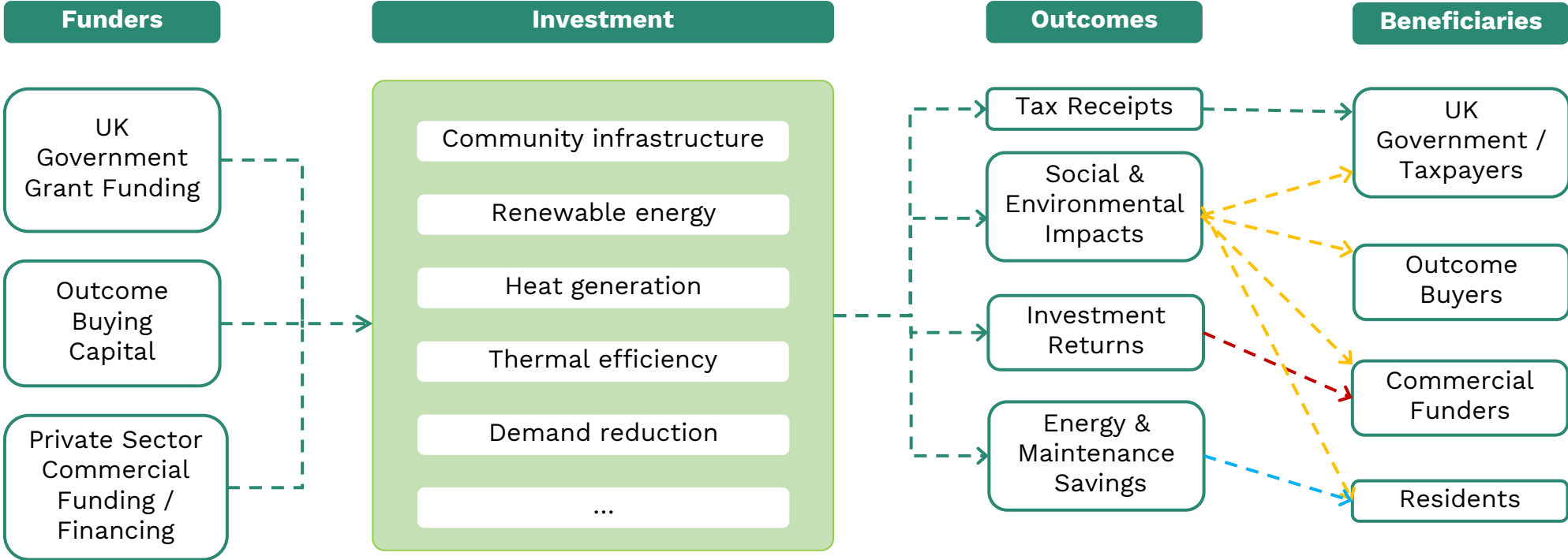
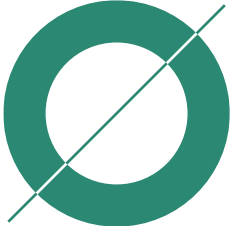
Heat networks 

Waste decarbonisation 

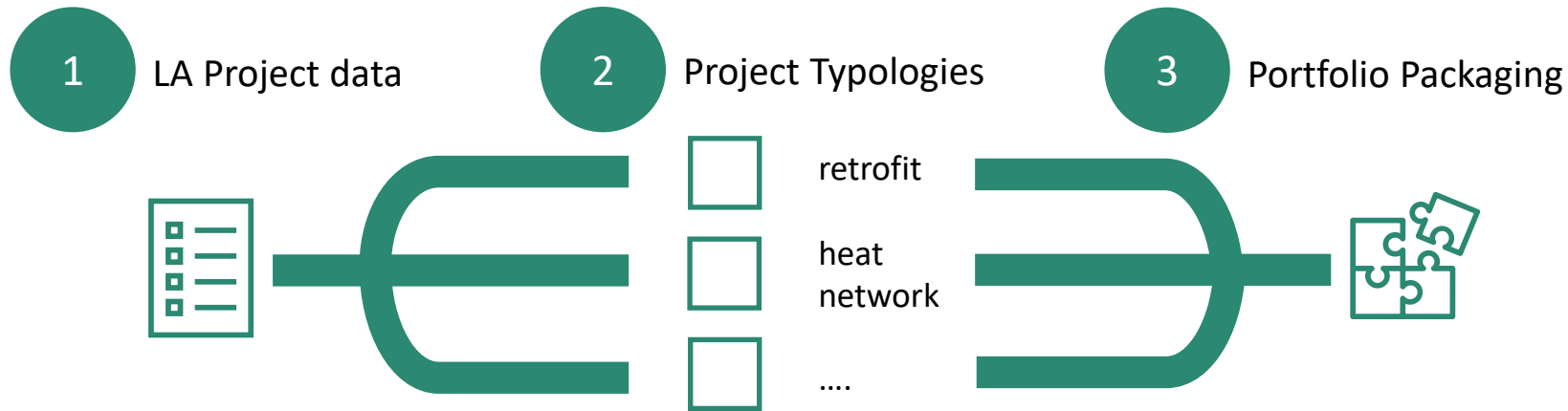
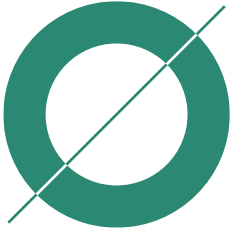
Building retrofit 

Local integrated investment pilots (5/6)

3Ci financing model: Combining and bundling funding, investment and value focused outcomes

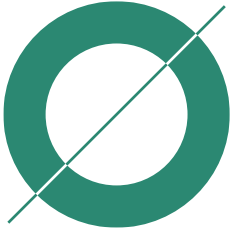


National Net Zero project pipeline (1/2)



- **981 Net Zero schemes** from 50+ local and regional authorities
- Current project pipeline has an estimated total value of between **£45bn and £60bn**
- Projects sorted by **project typologies**, packaged into **investment portfolios** and assigned **maturity index** based on project maturity and market readiness
- 3Ci & partners provide **technical assistance** to gather data & improve individual schemes; cost and carbon benchmarks and general project risks for project typologies
- Knowledge, innovation and best practice sharing
- Streamlined conversations with **private investors**
- 3Ci's **NZN pilot programme opportunities** amongst other **funding sources** available through the pipeline

National Net Zero project pipeline (2/2)



- 3Ci engagement with key partners (central & local gov, finance community, academia/consultants)
- 3Ci Advisory Board approves the National NZ project pipeline as a priority programme
- Project pipeline data template co-developed and finalised in May 2022
- Over 50 local & regional authorities invited to submit initial project data
- Launch of regional pipeline development groups

- Feedback collection and review of the pipeline data template and data submission process
- Development of project typologies, cost & carbon benchmarks, packaging options and project maturity index

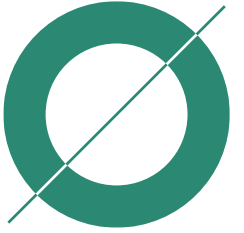
- Updated pipeline data template to be issued in Q1
- All local & regional authorities invited to submit project data
- Showcasing local projects through 3Ci Regional investor events and publications
- Pipeline projects to feed into 3Ci NZN pilots and National Technical Assistance Facility
- Online platform launch to collect and host pipeline data

Dissemination of local and regional innovations & Regional investor events

- Series of Progress & Innovation Acceleration Reports (latest 3Ci publications can be found [here](#))
- Regional investor events in Bristol and Glasgow (2022)
- Regional investor events in Birmingham, London and Leeds (2023)
- Latest 3Ci insights, news and podcasts can be found [here](#)



National technical assistance facility



What Capabilities are needed to unlock private sector investment?

1. Policy & strategy
2. Project identification & qualification
3. Supply management & procurement
4. Scenario modelling
5. Portfolio development
6. Investor engagement
7. Project delivery
8. Community engagement
9. Net Zero reporting
10. Neighbourhood upkeep

We are developing an **outcome-driven model** to help your local authority in the following ways:

- **Finding funding** – identifying public and private funding opportunities for your Net Zero portfolios
- **Filling a capability gap** – establishing targeted ways to address some of the capability gaps that local authorities experience
- **Facilitating the process** – providing project coordination and development support
- **Sharing learnings** – As the NZN model is implemented and iterated, facilitating learning across local authority experiences

Next Steps & Upcoming Events



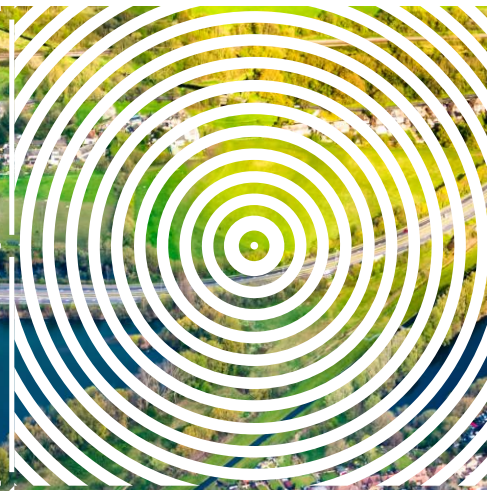
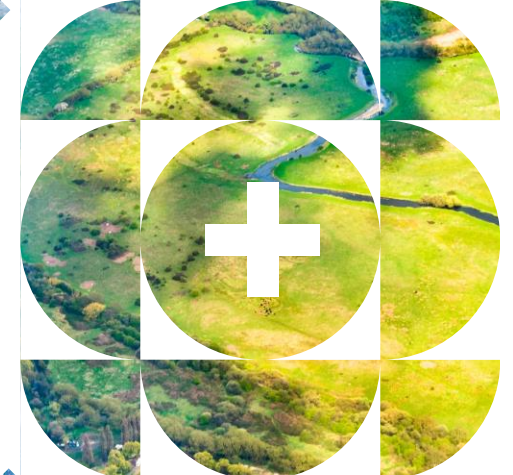
Next Steps & Upcoming Events

- Upcoming regional investor events in London, Birmingham and Leeds (2023)
- More Innovation Acceleration reports to be published next year
- Further work on the National Net Zero project pipeline, including data collection from all local authorities in the UK and launch of a new online platform to host project data





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