

Item No. 6	Classification: Open	Date: 22 December 2021	Meeting Name: Pensions Advisory Panel
Report title:		Carbon Footprint Update	
From:		CIPFA Trainee, Treasury & Pensions	

Recommendation

1. The pensions advisory panel is asked to:
 - Note the Fund's progress on reducing the carbon footprint from 30 September 2017 to 30 September 2021.

Progress to date

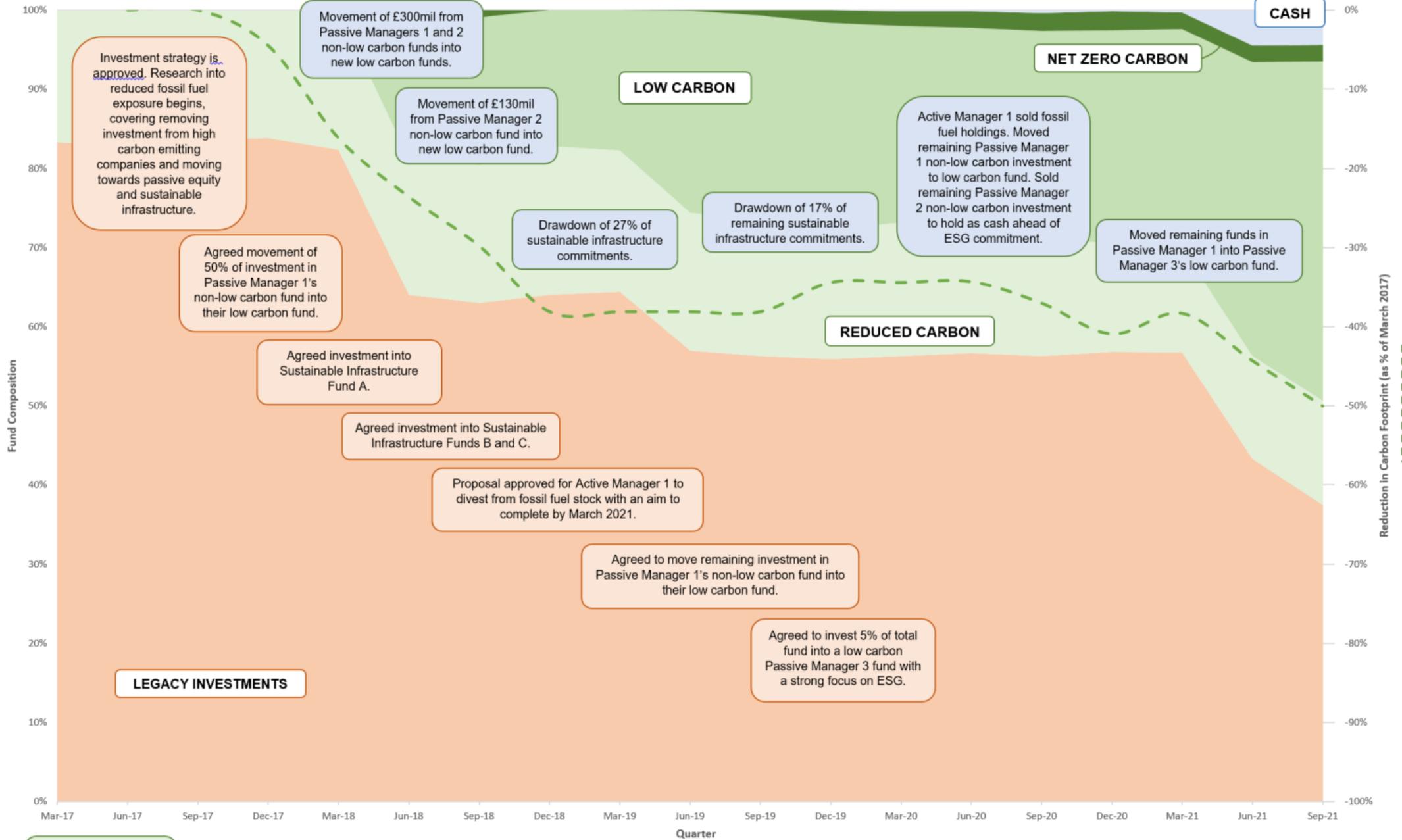
2. In December 2016, after due consideration of the long term risk to the Fund; the Fund announced that investments in fossil fuel companies would be cut over the long term. This commitment was incorporated into the Investment Strategy Statement for the Fund published in March 2017 and updated in December 2021. Southwark is one of the first LGPS Funds to make such a commitment and places the Fund at the forefront of sustainable fossil fuel aware investment.
3. The carbon emissions data for September 2021 show that the Fund has reduced its weighted carbon exposure by 50% since September 2017. This historical movement has been driven through reallocation of assets to funds which show lower carbon intensities. This is reflected through the movement of all equity holdings into low or reduced carbon investments in the period to September 2021. Where measuring equities as a stand-alone asset class, a reduction in carbon footprint has been seen of 73% from September 2017 to September 2021.
4. The progress of the carbon emissions reduction is summarised in the graphic at the end of this document, outlining Pensions Advisory Panel decisions in orange, asset movements in blue and changes in measurement process in green. This graph highlights the scale of the changes the Fund has made to its asset allocations and the improvement this has had on the Fund's carbon emissions.
5. It is important to note that the ability to measure the carbon emissions has not kept up with our asset movements within some asset classes. Where some classes are harder to measure, proxies are employed with prudent supporting calculations in order to avoid overstatement of the reduction in the footprint.

6. The carbon emissions data as at 31 December 2021 is currently being assessed within the context of the updated investment strategy statement and as such has not been included at this stage.

View for the future

7. The market for measuring carbon intensities is still within its infancy and as such, is rapidly evolving over time. Officers within the pension fund are trying to manage both the volatility and complexity of measurement criteria employed by the current data provider. As the science evolves, the Fund's approach to measurement will evolve alongside it. As such, alternative data provider options are being explored with a view to finding a more comprehensive data source with broader emissions data, to include private market investments as well as equities. This will minimise the use of proxy values for assessment of the Fund's progress and ensure greater accuracy in the output of measurements.
8. In quarter 3 of 2021, commitments were made to four new funds as part of the Fund's new ESG priority allocation. Moving forward, these new allocations will be monitored for their impact on the Fund's carbon emissions and to ensure satisfactory investment performance against targets.

Composition of the LBS Pension Fund and Carbon Footprint Reduction since March 2017



Agreed to begin analysing fund carbon footprint.

Initial measurement of carbon footprint by Analytics Company 1 to highlight areas of concern.

Began working with a new Analytics Company to measure the carbon footprint of the fund.

Began measuring carbon footprint on quarterly basis.

Investment strategy is approved. Research into reduced fossil fuel exposure begins, covering removing investment from high carbon emitting companies and moving towards passive equity and sustainable infrastructure.

Agreed movement of 50% of investment in Passive Manager 1's non-low carbon fund into their low carbon fund.

Agreed investment into Sustainable Infrastructure Fund A.

Agreed investment into Sustainable Infrastructure Funds B and C.

Proposal approved for Active Manager 1 to divest from fossil fuel stock with an aim to complete by March 2021.

Agreed to move remaining investment in Passive Manager 1's non-low carbon fund into their low carbon fund.

Agreed to invest 5% of total fund into a low carbon Passive Manager 3 fund with a strong focus on ESG.

Movement of £300mil from Passive Managers 1 and 2 non-low carbon funds into new low carbon funds.

Movement of £130mil from Passive Manager 2 non-low carbon fund into new low carbon fund.

Drawdown of 27% of sustainable infrastructure commitments.

Drawdown of 17% of remaining sustainable infrastructure commitments.

Active Manager 1 sold fossil fuel holdings. Moved remaining Passive Manager 1 non-low carbon investment to low carbon fund. Sold remaining Passive Manager 2 non-low carbon investment to hold as cash ahead of ESG commitment.

Moved remaining funds in Passive Manager 1 into Passive Manager 3's low carbon fund.

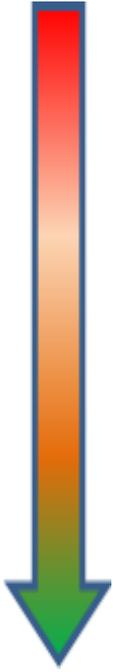
LEGACY INVESTMENTS

LOW CARBON

REDUCED CARBON

NET ZERO CARBON

CASH



LEGACY INVESTMENTS: Investment products that are not actively targeting reduced carbon emissions. Some of these may potentially have exposure to fossil fuels; however we are working to understand the extent of this and will address this in our strategy going forwards. The Fund intends to make no new investments in such products.

REDUCED CARBON: Investments either in property or in funds with specific oil and gas exclusions.

LOW CARBON: Funds specifically set up as 'low carbon' funds. All products within this category are currently index tracking developed market equities.

ZERO CARBON: Investments in vehicles that produce zero carbon or in some cases have a measurable offsetting impact on carbon emissions. Currently this category contains sustainable infrastructure products.

CASH: Held in the pension fund, usually pending anticipated drawdown requests or in advance of an acquisition.

Community, Equalities (including socio-economic) and Health Impacts

Community Impact Statement

9. No immediate implications arising.

Equalities (including socio-economic) Impact Statement

10. No immediate implications arising.

Health Impact Statement

11. No immediate implications arising.

Climate Change Implications

12. No immediate implications arising.

Resource Implications

13. No immediate implications arising.

Legal Implications

14. No immediate implications arising

Consultation

15. No immediate implications arising.

Financial Implications

16. No immediate implications arising.

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
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Version	Final	
Dated	1 March 2022	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Director of Law and Governance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		1 March 2022