

<b>Item No.</b> 7.	<b>Classification:</b> Open	<b>Date:</b> 5 December 2022	<b>Meeting Name:</b> Pensions Advisory Panel
<b>Report title:</b>		Carbon Footprint Update – 30 September 2022	
<b>From:</b>		Divisional Accountant, Pensions and Investments	

## Recommendations

1. The pensions advisory panel is asked to:
  - Note the Fund's updated carbon footprint as at 30 September 2022.

Since December 2018, the Fund has engaged Sustainalytics to assist with assessments of the CO2 equivalent exposure of its equity holdings. The table below sets out the weighted carbon intensity by asset class against September 2017.

Weighted Carbon Intensity over time		Weighted Carbon Intensity tCO2e/\$m									
Asset Class	Fund Managers	Sept 2017	Sept 2020	Dec 2020	March 2021	June 2021	Sept 2021	Dec 2021	March 2022	June 2022	Sept 2022
Equity - Developed	Blackrock, LGIM	98.7	21.4	20.4	23.0						
Equity - Developed Market Low Carbon	Blackrock, LGIM		33.7	23.7	24.2	25.5	29.8	51.1	51.0	33.2	24.9
Equity - Emerging Markets	Blackrock, Comgest	18.1	14.1	15.0	19.1	18.3	0.5	0.5	0.2	0.2	0.2
Equity - Global	Newton	10.6	7.0	7.0	4.4	4.6	4.3	4.5	5.8	5.9	5.6
Diversified Growth Fund	Blackrock	26.7	15.9	16.0	15.6	14.2	15.8	17.1	16.5	13.7	14.4
Absolute Return Bonds	Blackrock	22.4	7.1	8.7	10.0	9.8	10.2	8.7	6.8	11.2	12.5
Core Property	Nuveen	14.3	12.6	12.0	10.6	10.5	10.7	11.2	12.0	12.9	12.7
ESG Priority Allocation - Property	Invesco, M&G, Brockton, Frogmore	8.8	8.9	9.5	10.9	11.0	10.9	4.4	4.6	5.0	5.0
ESG Priority Allocation - Alternatives	BTG Pactual, Blackstone, Darwin								0.1	0.2	0.3
Sustainable Infrastructure	Blackrock, Glennmont, Temporis										
IL Gilts	Blackrock, LGIM	14.0	14.0	14.0	14.0	26.0	25.2	25.4	24.2	20.6	19.5
Cash And Equivalents	Blackrock, Nuveen, Newton	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Weighted Carbon Intensity		213.7	134.6	126.3	131.7	120.0	107.3	122.9	121.4	102.9	92.7
Total Change in Footprint			-37.0%	-40.9%	-38.3%	-43.8%	-49.8%	-42.5%	-43.2%	-51.9%	-55.5%

## Results

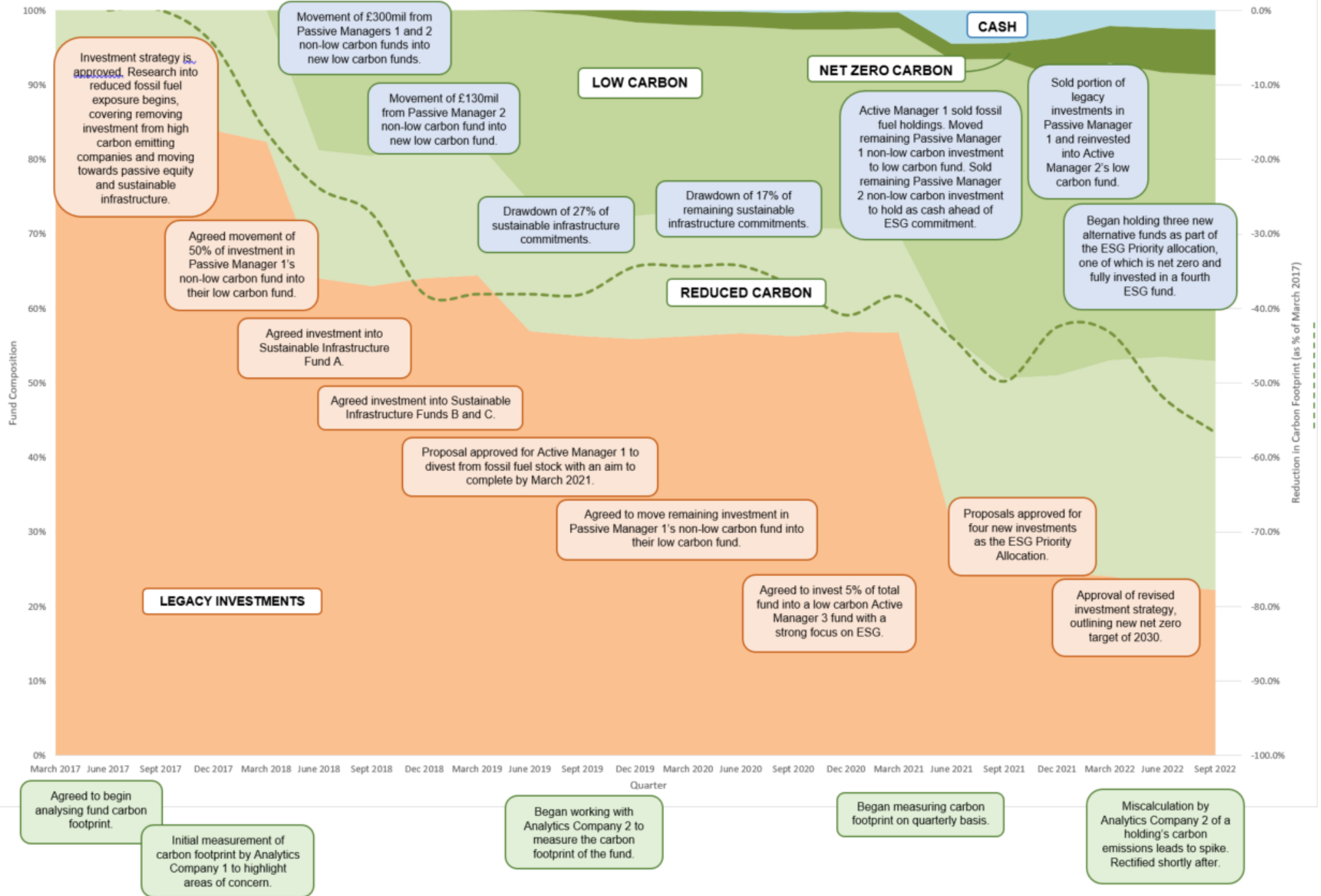
2. The results for 30 September 2022 show that the Fund has reduced its weighted carbon intensity by 56% since September 2017. The reduction in the quarter to September 2022 has been primarily driven by a decrease in carbon intensity of one of the developed, low carbon equity funds due a change in their underlying holdings.
3. The unweighted exposure for each investment is set out below ranked in order of carbon footprint, from lowest to highest exposure.

Unweighted Carbon Intensity		Unweighted Carbon Intensity tCO <sub>2</sub> e/\$m
Asset Class	Fund Manager(s)	Sept 2022
Cash And Equivalents	Blackrock, Nuveen, Newton	0.00
ESG Priority Allocation - Alternatives	Blackrock, Blackstone, BTG Pactual, Glennmont, Temporis	15.14
Core Property	Nuveen	107.70
Diversified Growth	Blackrock	164.40
Absolute Return Bonds	Blackrock	190.50
Global Equity	LGIM, Blackrock, Newton	205.65
ESG Priority Allocation - Property	Brockton, Frogmore, Invesco, M&G	430.80
Index Linked Gilts	Blackrock, LGIM	564.80
<b>Total</b>		<b>1678.99</b>

4. As noted above, one of the fund's passive equity funds altered their underlying holdings, which has led to a decrease in this fund's carbon footprint. Where the highest carbon contributor in this fund previously sat at a weighted carbon intensity of 62.1 tCO<sub>2</sub>e/\$m, the highest is now only 7.0 tCO<sub>2</sub>e/\$m. This is the main driver for the change in the carbon footprint to 30 September 2022.
5. The market value of LBS' low carbon developed market equities dropped in the quarter to June 2022, mirroring global markets. The value of these assets began to show growth again in the following quarter, slightly increasing the proportion of the fund's allocation to the low carbon category and a reduction in the footprint.
6. The fund's index-linked gilts allocation saw a minor reduction in market value from 30 June to 30 September 2022, which reduced the fund's weighting towards these assets' carbon intensity. These remain as the highest contributors to the fund's weighted carbon intensity but it is worth noting that these assets are held for defensive properties, with their value increasing with inflation.

7. There are a number of upcoming changes expected in the quarter to December 2022, which will have an impact on the pension fund's carbon footprint over time.
  - a. A key movement is the upcoming investment in the Temporis Renewable Energy Fund, a fund which invests in renewable energy on behalf of investors. The current intention is to fund this investment through divesting from the Blackrock Diversified Growth Fund, which would reduce the Fund's exposure to the high carbon asset and replace it with increased exposure to zero carbon assets.
  - b. Both of the fund's passive equity funds are implementing new screens to their underlying holdings, with the intention of further 'greening' of the funds alongside other ESG factors. It should be noted that these changes will include scope 3 emissions, meaning there is a chance the funds may increase their carbon emissions before they reduce over time.
8. The carbon footprint reduction infographic (set out below, with further information on the following page) has been produced in order to demonstrate the changes in the composition of the Fund in terms of carbon emissions against the reduction of the carbon footprint over time. The graph is intended for use as a way of easily displaying the Fund's progress towards net zero and can be easily updated over time.

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





**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. There are no immediate implications arising.

### **Equalities (including socio-economic) Impact Statement**

10. There are no immediate implications arising.

### **Health Impact Statement**

11. There are no immediate implications arising.

### **Climate Change Implications**

12. There are no immediate implications arising.

### **Resource Implications**

13. There are no immediate implications arising.

### **Legal Implications**

14. There are no immediate implications arising

### **Consultation**

15. There are no immediate implications arising.

## Financial Implications

16. There are no immediate implications arising.

## AUDIT TRAIL

<b>Lead Officer</b>	Duncan Whitfield, Strategic Director of Finance and Governance		
<b>Report Author</b>	Jack Emery, Divisional Accountant – Pensions and Investments		
<b>Version</b>	Final		
<b>Dated</b>	10 November 2022		
<b>Key Decision?</b>	N/A		
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>			
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments Included</b>	
Director of Law and Governance	N/A	N/A	
Strategic Director of Finance and Governance	N/A	N/A	
<b>Cabinet Member</b>	N/A	N/A	
<b>Date final report sent to Constitutional Team</b>		28 November 2022	