

Pension Fund Divestment & Energy Transition

Carbon Tracker Initiative

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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

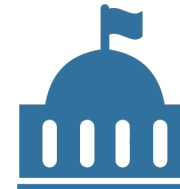
Empower **investors** to identify and switch off capital to the highest cost, highest carbon projects.



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

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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



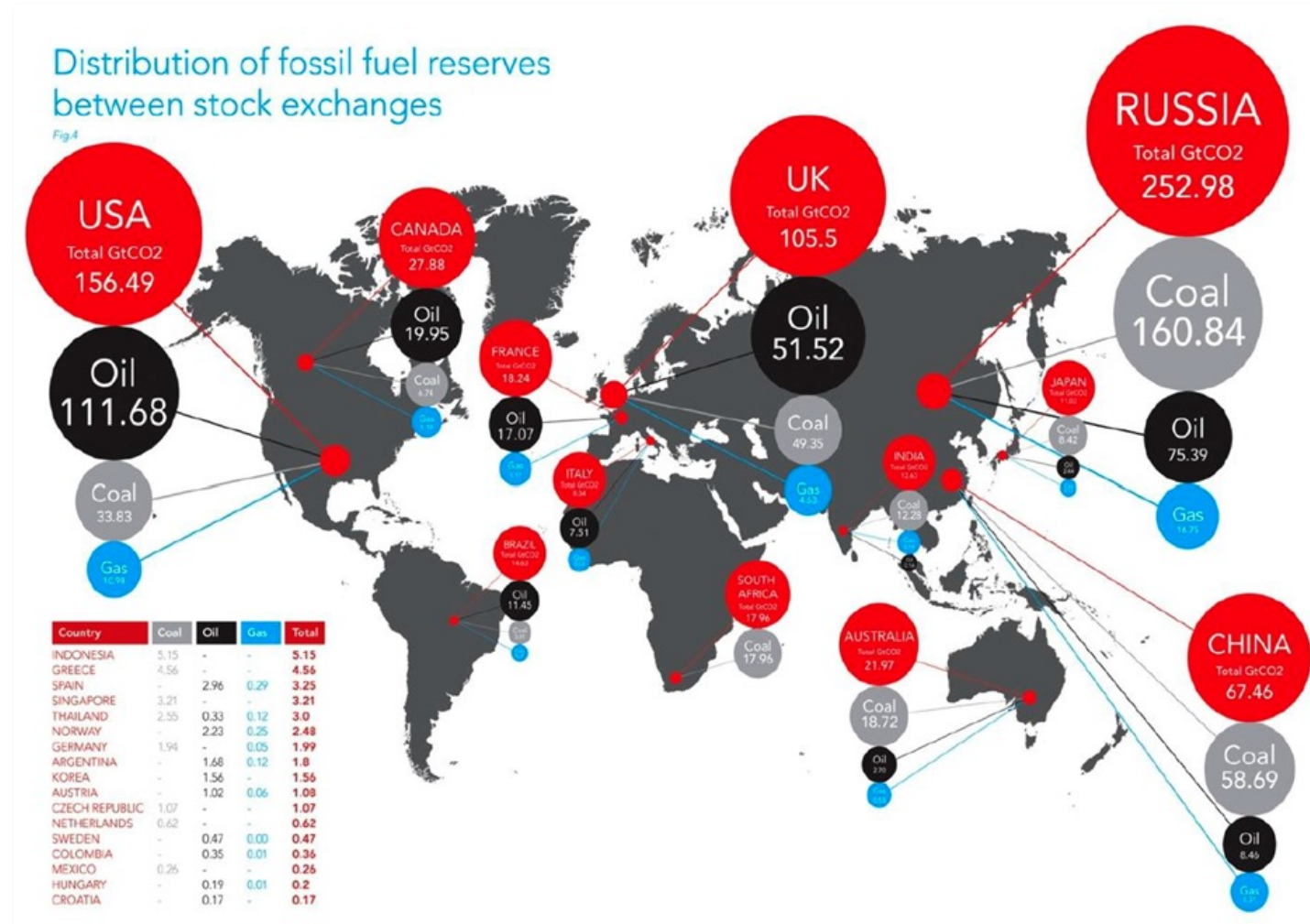
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London CIV Structure

LONDON CIV												
Fund	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
	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
Fund	Multi Asset				Fixed Income			Private Debt		Property		
	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			

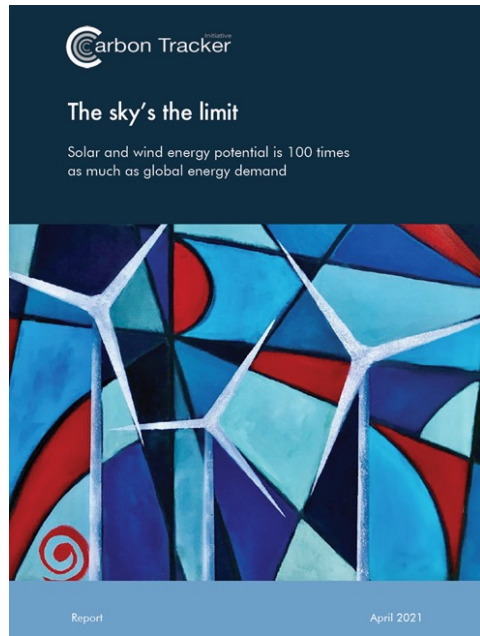
Global Exchanges & CO2



Strong Initial Progress – Where Next?

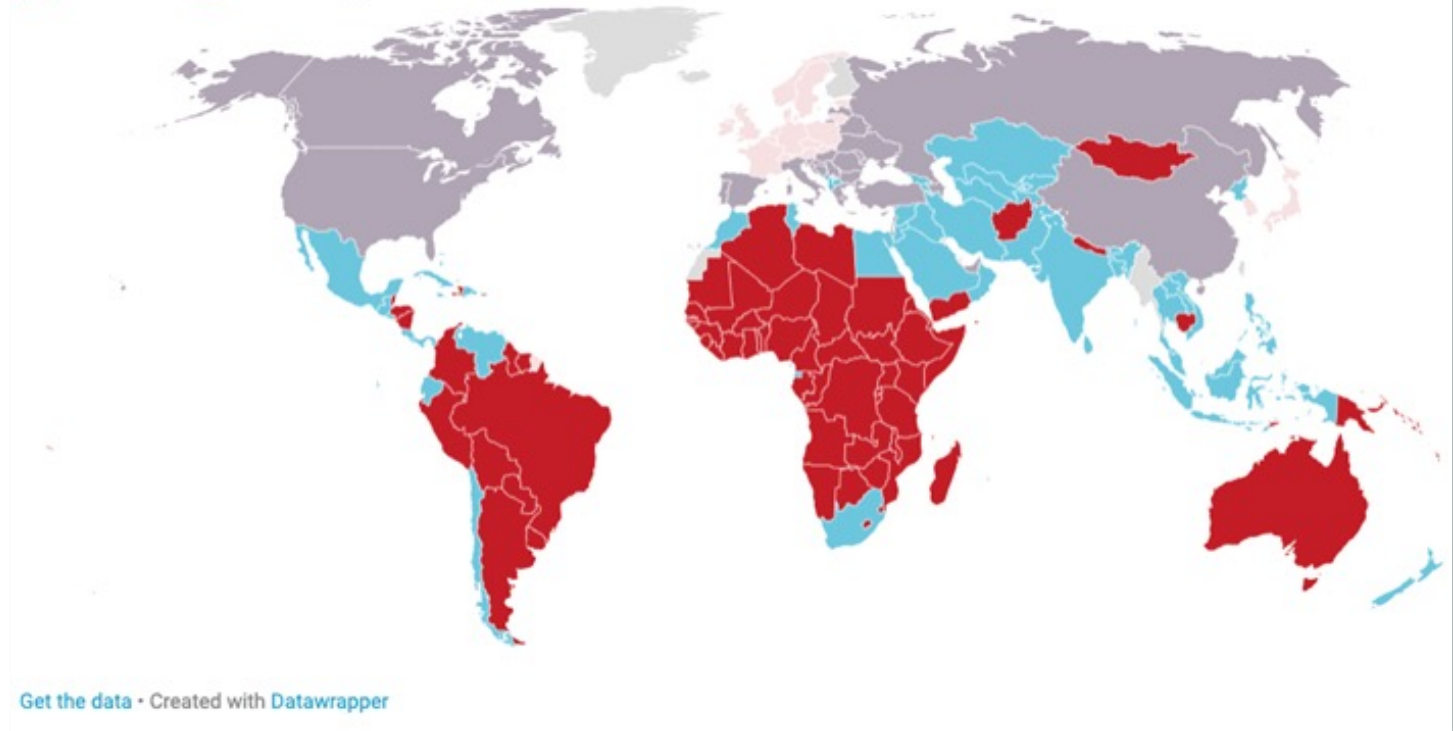
- Fund largely divested of direct fossil fuel holdings.
CO2 Footprint <40%
- Structure Review - Green tilt & management of passive funds (*risk of over-reliance on ESG?*)
- To what extent are corporate bonds + wider fossil fuel exposed sectors in the frame?

A Portfolio Fit For Energy Transition

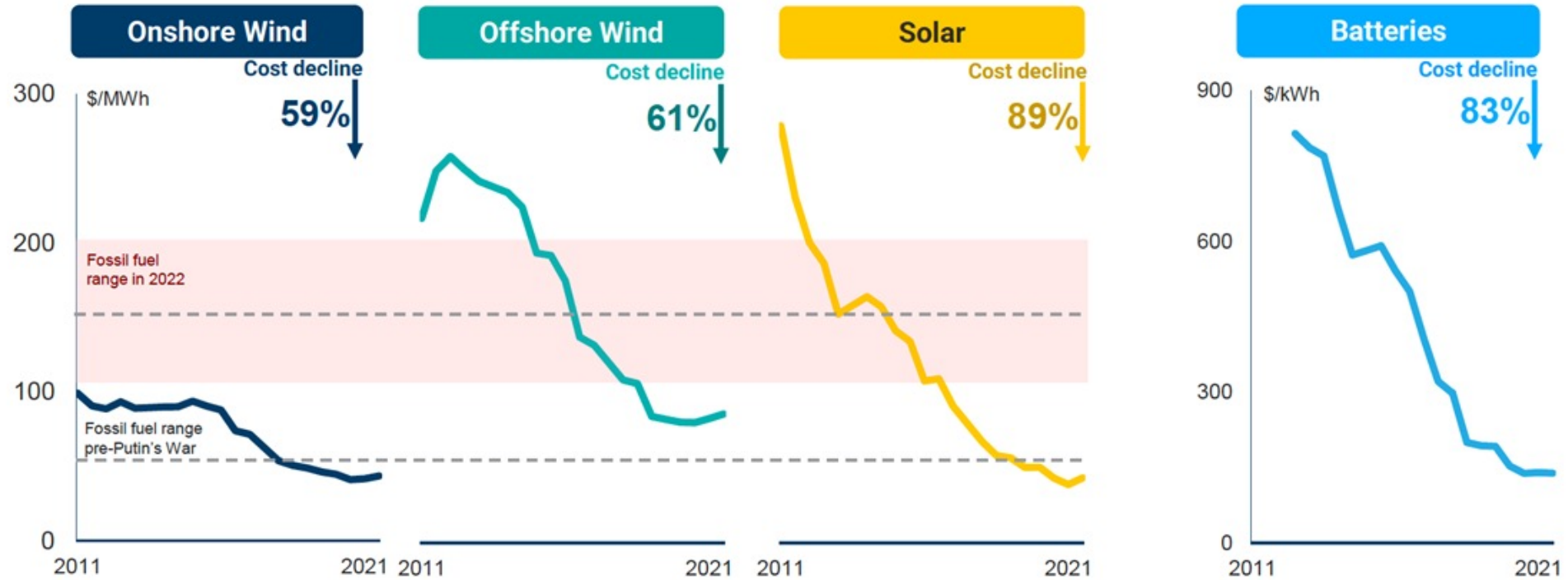


Share of land required to generate all energy from solar

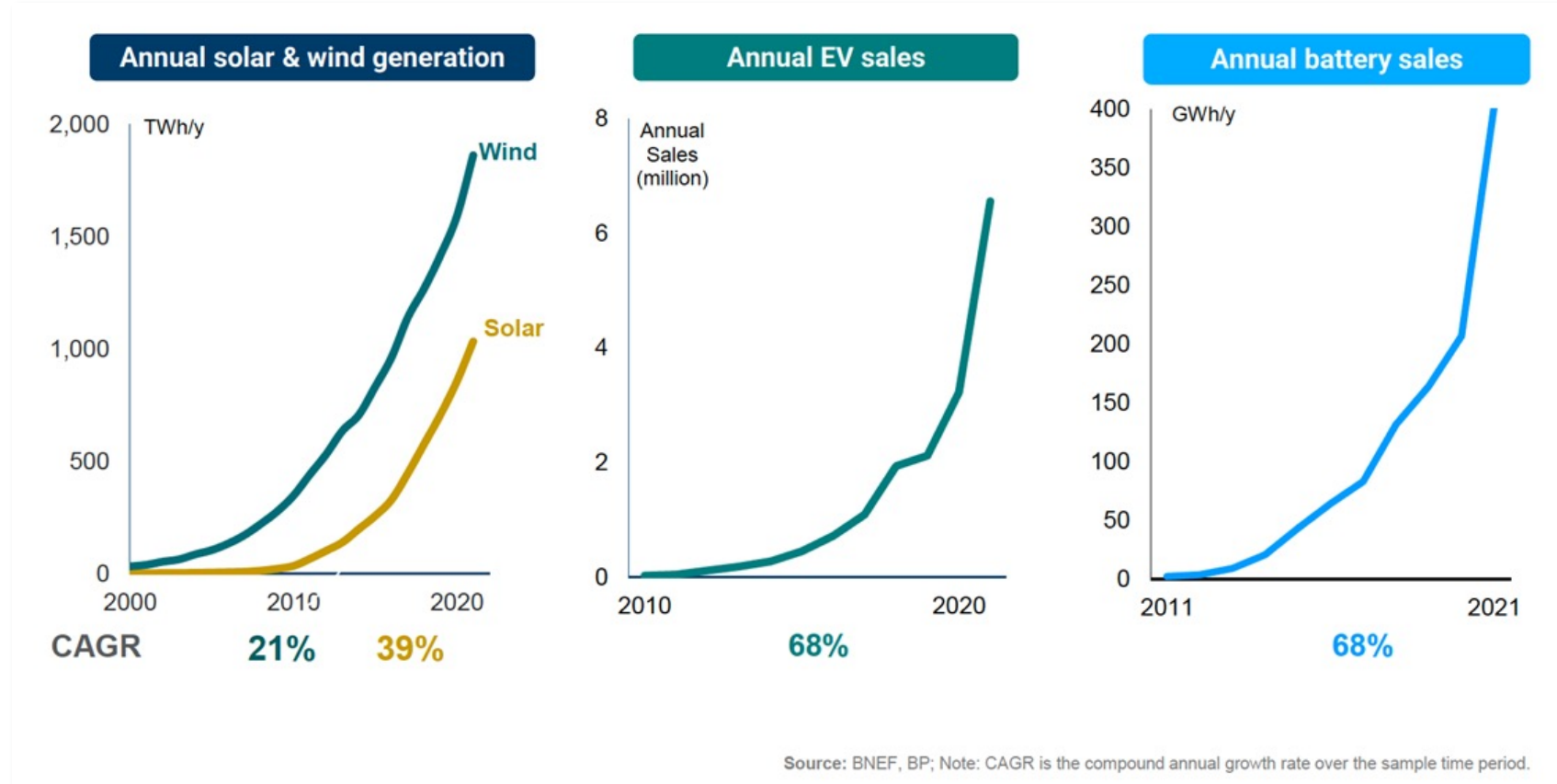
■ 0.1% or less ■ Below 1% ■ Below 5% ■ Over 5%



Accelerating Energy Transition

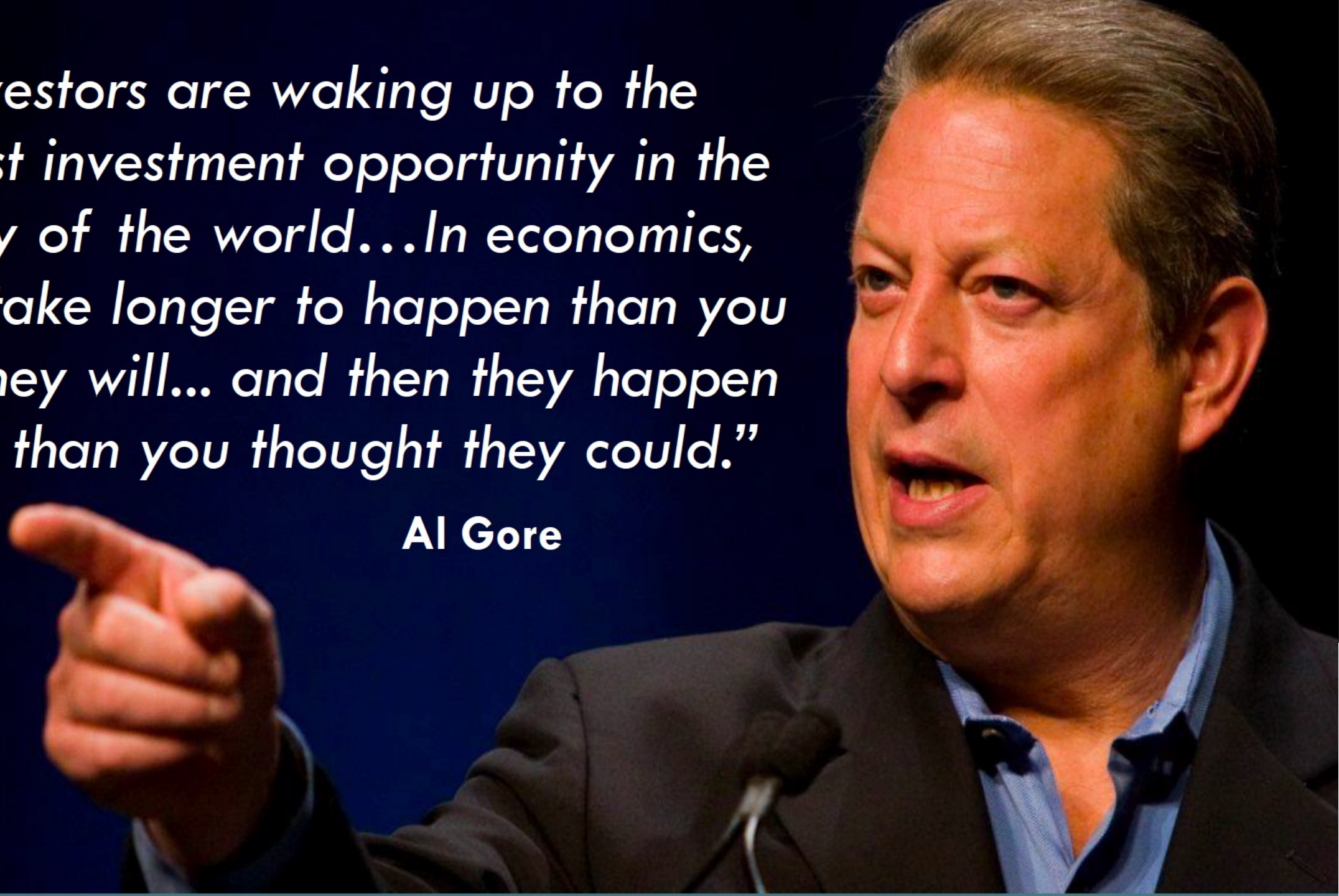


Falling Costs & Exponential Growth



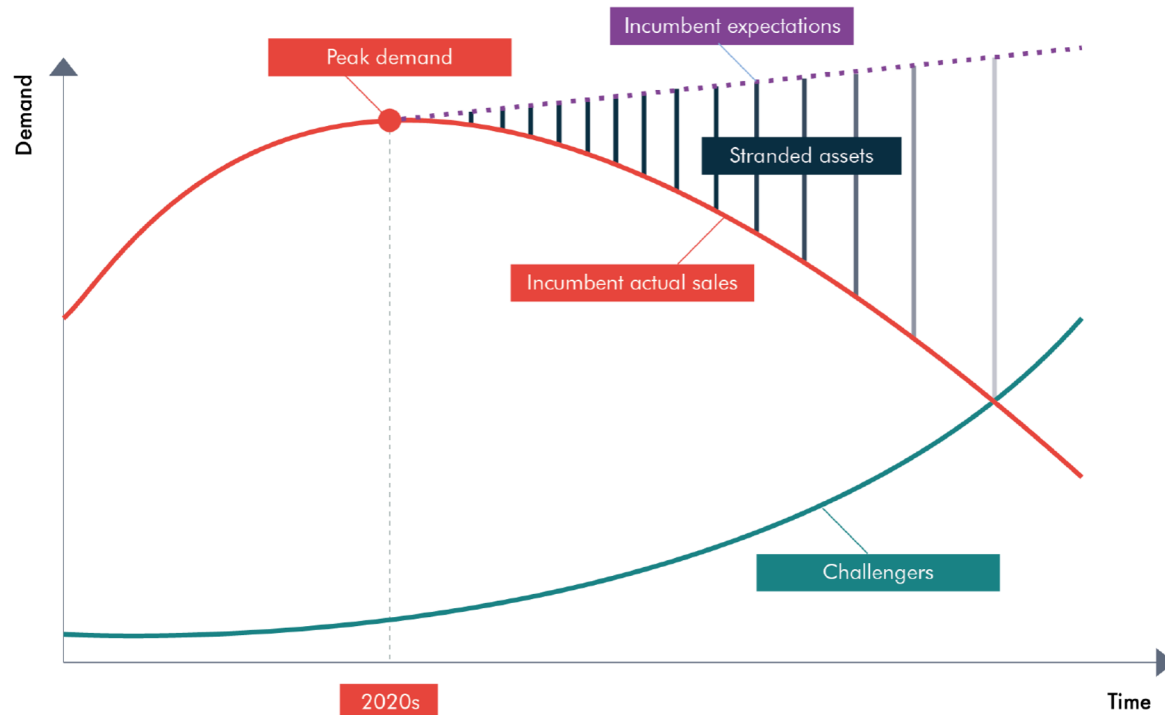
"Investors are waking up to the biggest investment opportunity in the history of the world...In economics, things take longer to happen than you think they will... and then they happen faster than you thought they could."

Al Gore

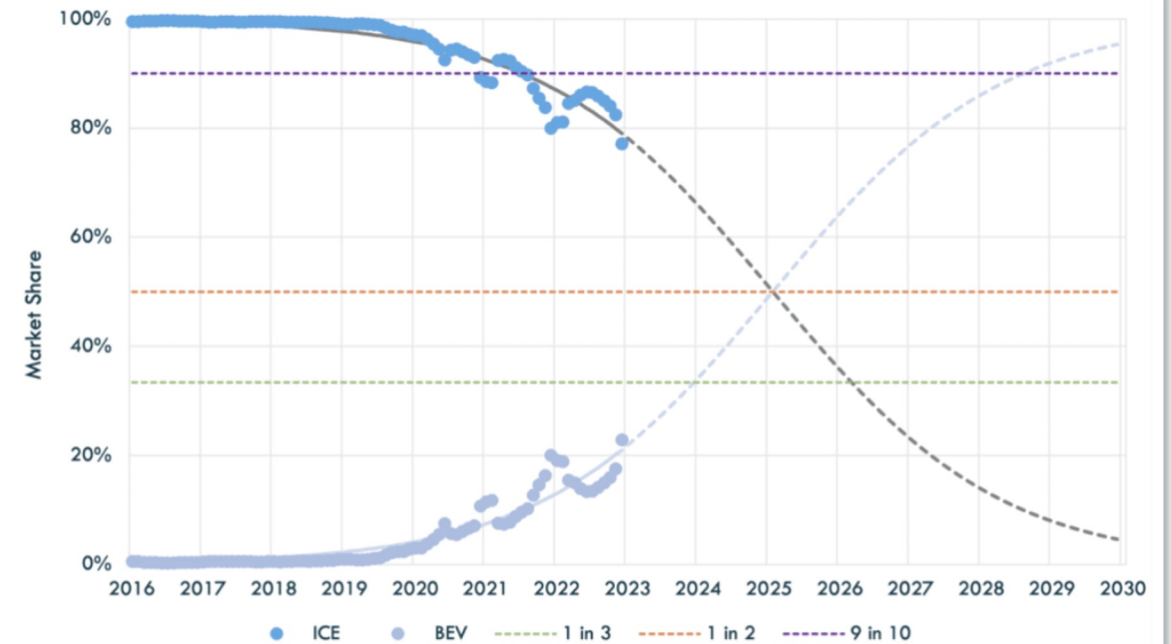


Rapid EVs Growth, ICE Stranding...

FIGURE 20 - PEAK DEMAND AND STRANDED ASSETS



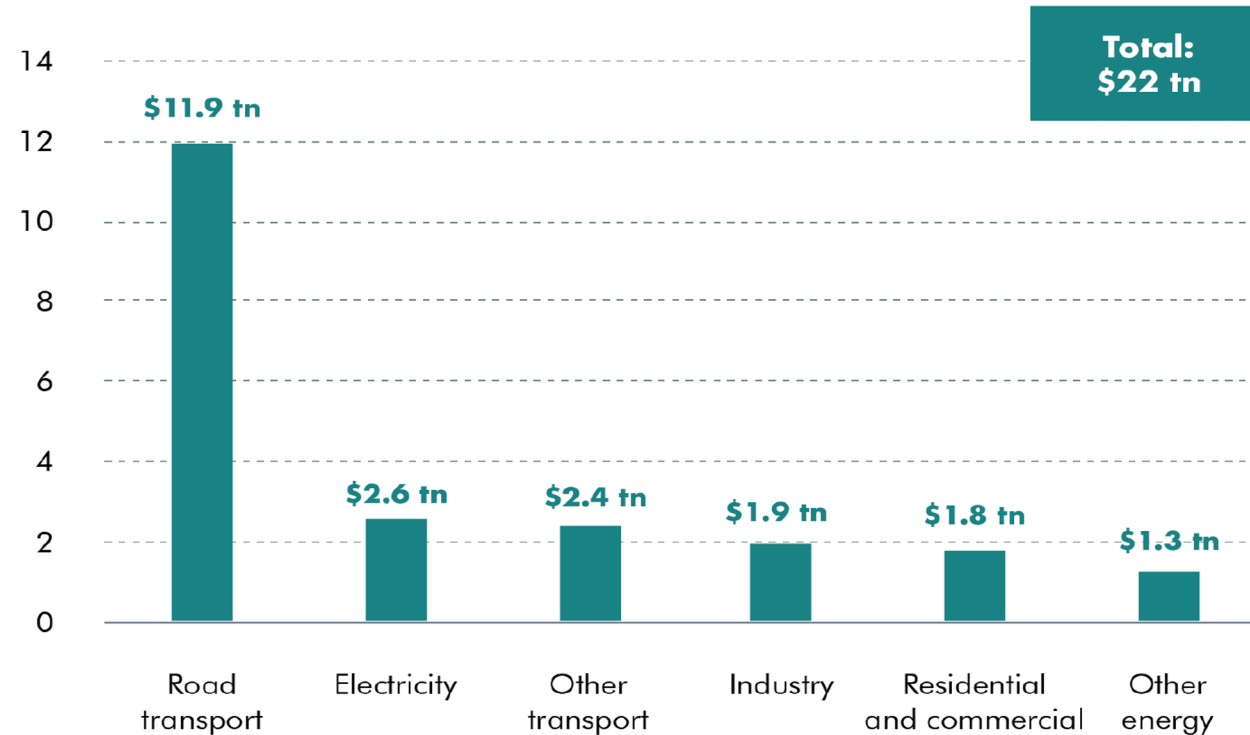
Source: Carbon Tracker



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

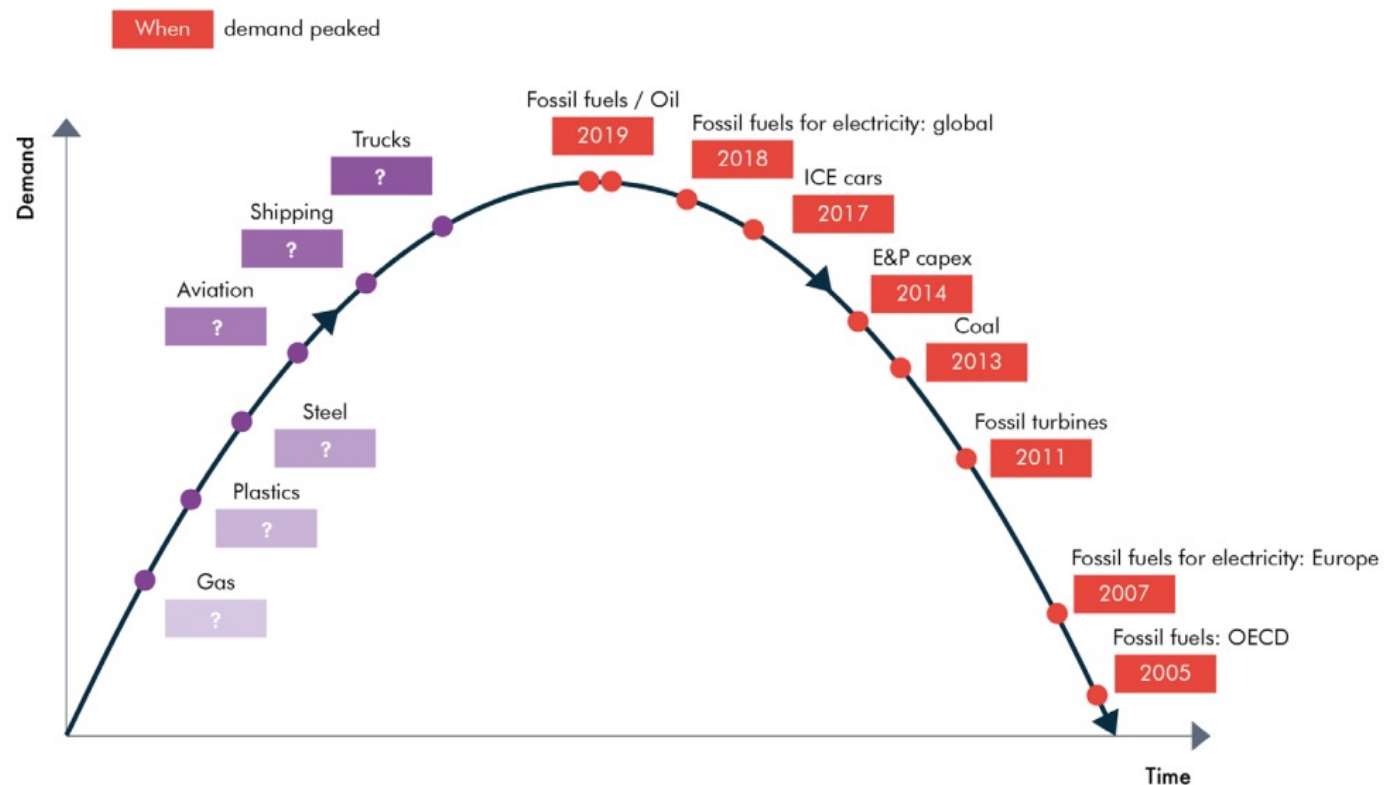
FIGURE 12 – FOSSIL FUEL USAGE INFRASTRUCTURE VALUE (\$TN)



Source: Tong et al., Nature

2020s - Victims of Peak Demand?

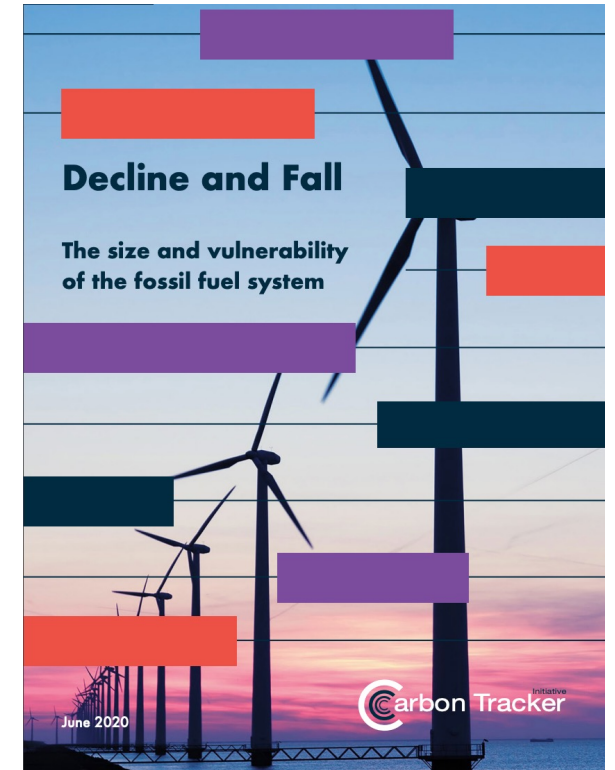
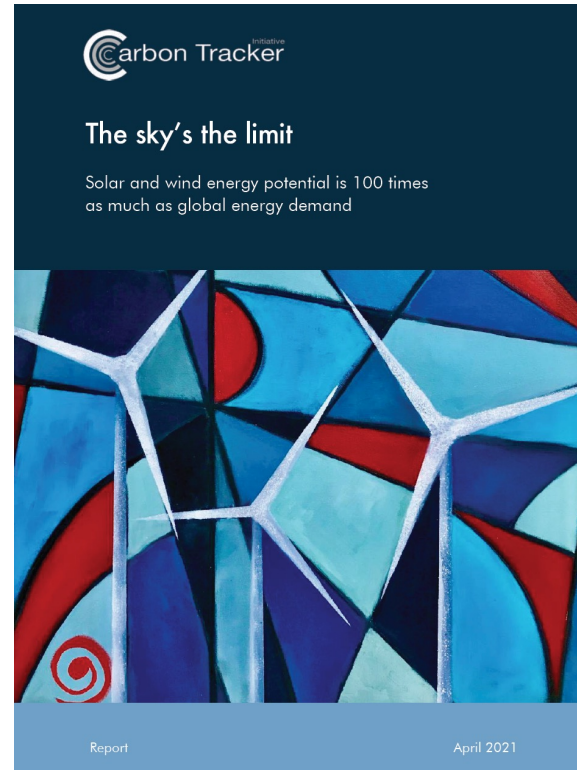
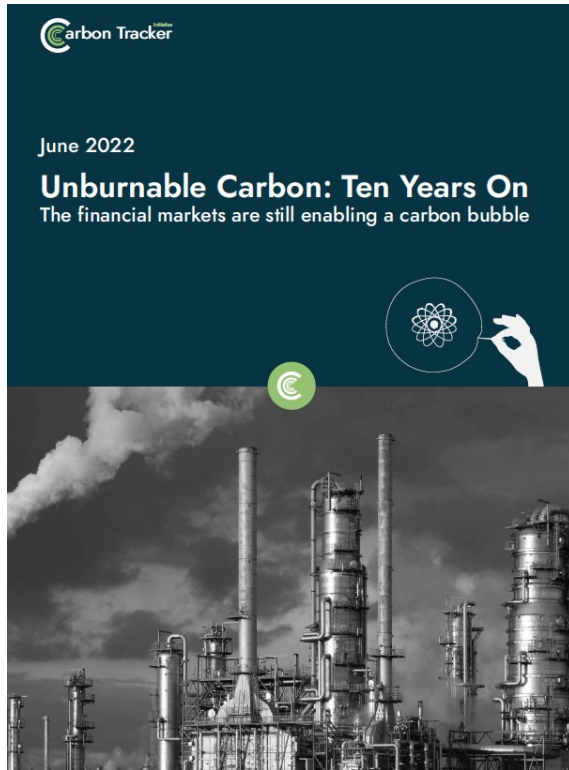
FIGURE 23 – PEAK DEMAND BY SECTOR



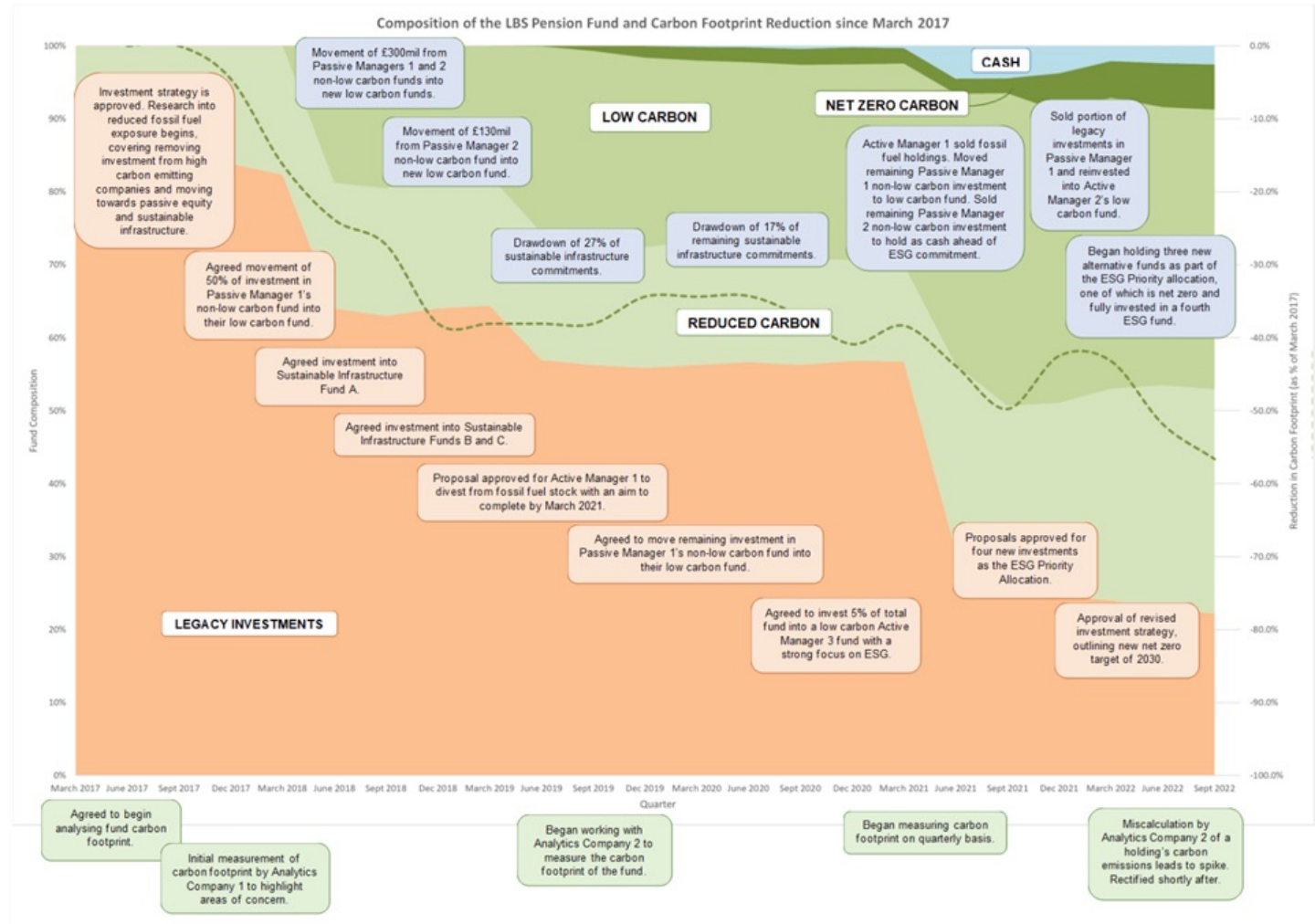
Thank you & remember

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
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Further Reading

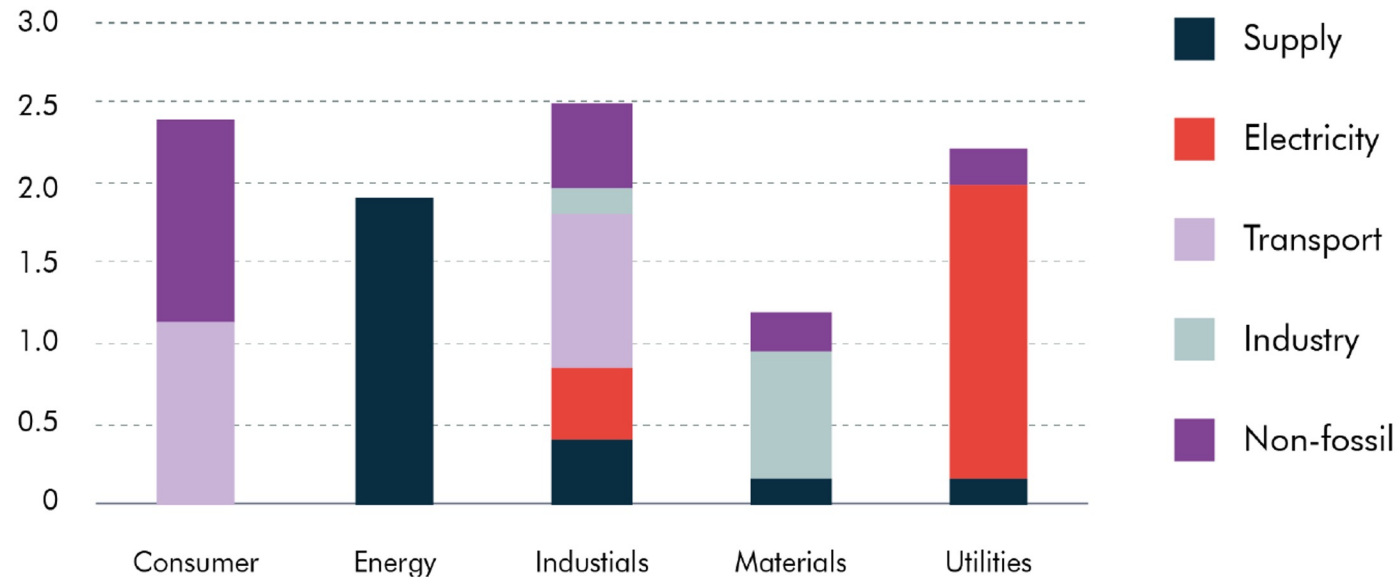


Southwark Pension Fund CO2 Footprint



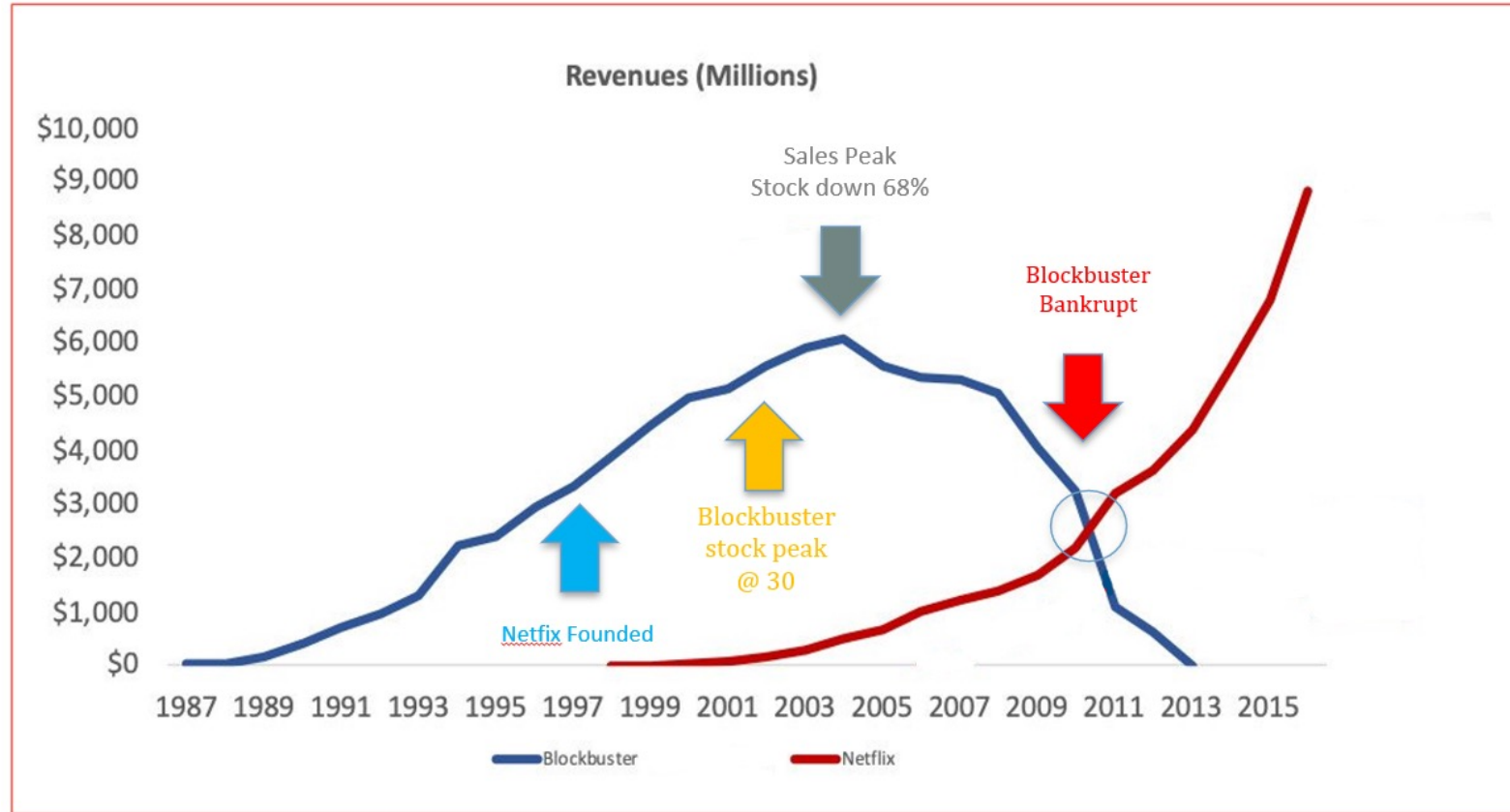
Beyond equities & fossil supply

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

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