

Item No. 7.	Classification: Open	Date: 6 March 2023	Meeting Name: Pensions Advisory Panel
Report title:		Carbon Footprint Update - 31 December 2022	
From:		Divisional Accountant - Pensions & Investments	

Recommendation

1. The pensions advisory panel is asked to:
 - Note the Fund's updated carbon footprint as at 31 December 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									
		Sept 2017	Dec 2020	March 2021	June 2021	Sept 2021	Dec 2021	March 2022	June 2022	Sept 2022	Dec 2022
Asset Class	Fund Managers										
Equity - Developed	Blackrock, LGIM	98.7	20.4	23.0							
Equity - Developed Market Low Carbon	Blackrock, LGIM		23.7	24.2	25.5	29.8	51.1	51.0	33.2	24.9	20.6
Equity - Emerging Markets	Blackrock, Comgest	18.1	15.0	19.1	18.3	0.5	0.5	0.2	0.2	0.2	0.2
Equity - Global	Newton	10.6	7.0	4.4	4.6	4.3	4.5	5.8	5.9	5.6	4.0
Diversified Growth Fund	Blackrock	26.7	16.0	15.6	14.2	15.8	17.1	16.5	13.7	14.4	10.7
Absolute Return Bonds	Blackrock	22.4	8.7	10.0	9.8	10.2	8.7	6.8	11.2	12.5	14.0
Core Property	Nuveen	14.3	12.0	10.6	10.5	10.7	11.2	12.0	12.9	12.7	11.2
ESG Priority Allocation - Property	Invesco, M&G, Brockton, Frogmore	8.8	9.5	10.9	11.0	10.9	4.4	4.6	5.0	5.0	5.1
ESG Priority Allocation - Alternatives	BTG Pactual, Blackstone, Darwin							0.1	0.2	0.3	0.3
Sustainable Infrastructure	Blackrock, Glennmont, Temporis										
IL Gilts	Blackrock, LGIM	14.0	14.0	14.0	26.0	25.2	25.4	24.2	20.6	19.5	20.9
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	126.3	131.7	120.0	107.3	122.9	121.4	102.9	95.1	87.1
Total Change in Footprint			-40.9%	-38.3%	-43.8%	-49.8%	-42.5%	-43.2%	-51.9%	-55.5%	-59.2%

Results

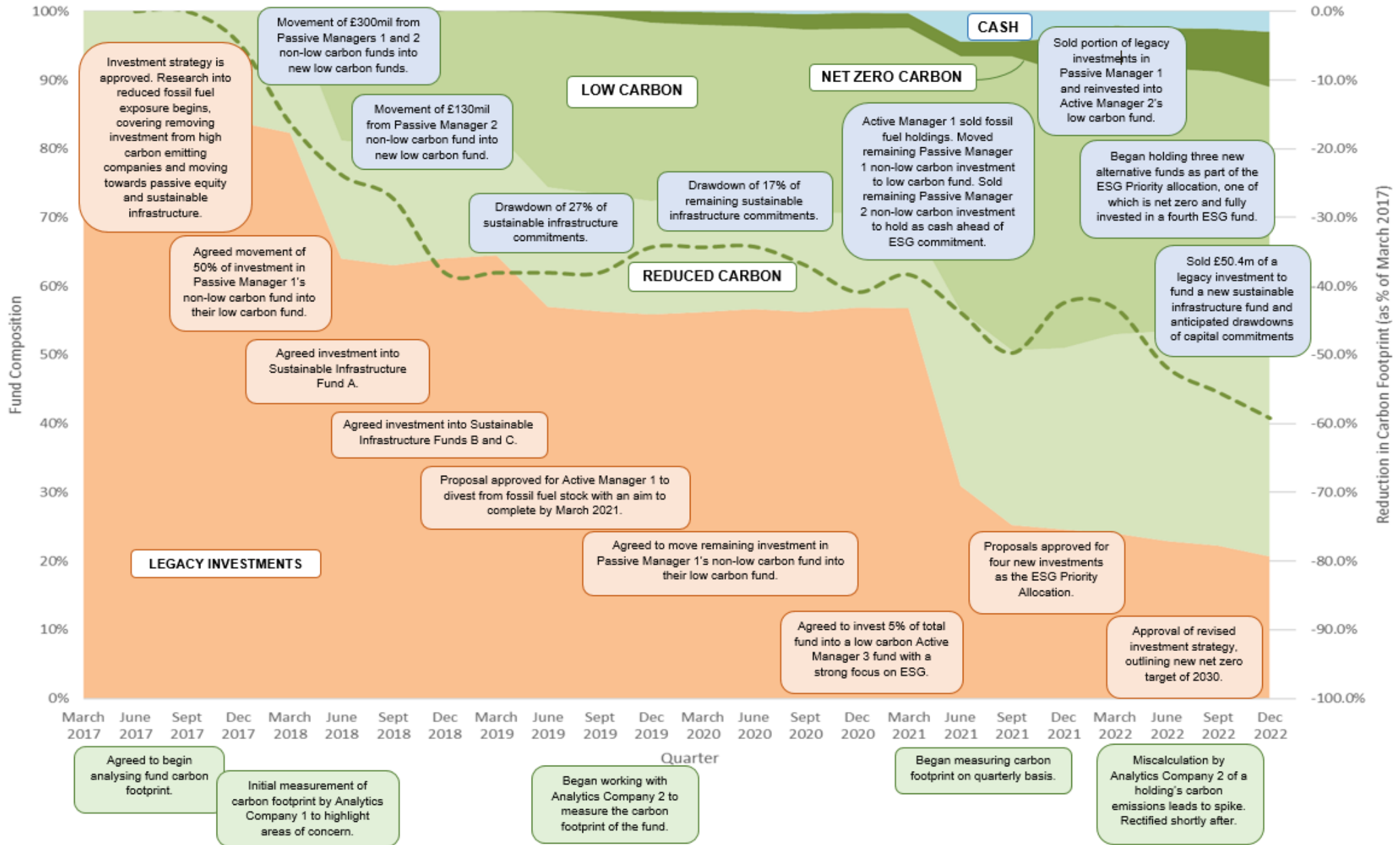
- The results for 31 December 2022 show that the Fund has reduced its weighted carbon intensity by 59% since September 2017. The reduction in the quarter to December 2022 has been primarily driven by the sale of a portion of a legacy fund to invest in the Temporis Renewable Energy Fund, and new screening methods introduced by the fund's passive equity funds.
- The unweighted exposure for each investment is set out below ranked in order of carbon footprint, from lowest to highest exposure.

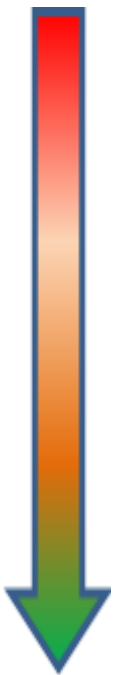
Unweighted Carbon Intensity		Unweighted Carbon Intensity tCO ₂ e/\$m
Asset Class	Fund Manager(s)	Dec 2022
Cash And Equivalent	Blackrock, Nuveen, Newton	0.00
ESG Priority Allocation - Alternatives	Blackrock, Blackstone, BTG Pactual, Glennmont, Temporis	16.10
Core Property	Nuveen	107.70
Global Equity	LGIM, Blackrock, Newton	164.47
Diversified Growth	Blackrock	167.00
Absolute Return Bonds	Blackrock	203.00
ESG Priority Allocation - Property	Brockton, Frogmore, Invesco, M&G	430.80
Index Linked Gilts	Blackrock, LGIM	564.80
Total		1653.86

- £50.3m was redeemed from a legacy holding in the Blackrock Diversified Growth Fund, of which, £30.6m was used to finance the purchase of a new net zero fund - the Temporis Renewable Energy Fund. This fund invests in renewable energy on behalf of investors. This new investment has reduced the fund's exposure to legacy high-carbon holdings and replaced it with increased zero carbon exposure. The remainder of the cash balance has been invested with the Blackrock Liquidity Fund to finance anticipated drawdowns of capital commitments'.
- Blackrock has implemented new screens to the underlying holdings of the fund's passive equity holdings, which has contributed to a 41% decrease in the weighted carbon intensity of this holding and is one of the key drivers for this quarter's change in carbon intensity.
- LGIM are holding a security which has a carbon intensity value being calculated incorrectly. Whilst officers of the fund address this, the carbon intensity measurement for LGIM's passive equities has been carried forward from the previous quarter.
- There are a number of upcoming changes expected in the quarter to March 2023, which will have an impact on the pension fund's carbon footprint over time:

- a. There are due to be Manager Selection exercises to choose alternative products to replace the current legacy holdings to Multi Asset Credit holdings with stronger low carbon credentials whilst maintaining the same risk profile, as previously agreed by PAP.
 - b. Our carbon measurement provider rebalanced their universe early in February. This process involves updating data relating to the carbon footprint of securities to what the individual organisations are publically reporting. The figures in this report were collated prior to the rebalance and the rebalance may positively or negatively affect the carbon intensity of the fund moving forward.
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

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Jack Emery, Divisional Accountant – Pensions & Investments	
Version	Final	
Dated	20 February 2023	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive – Governance and Assurance	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	24 February 2023	