

Item No. 11.	Classification: Open	Date: 17 July 2023	Meeting Name: Pensions Advisory Panel
Report title:		Zero Carbon Investment Strategy: Implementation Progress Update	
From:		Senior Finance Manager - Treasury and Pensions	

Recommendations

1. The pensions advisory panel is asked to:
 - Note recent progress in the implementation of the net-zero carbon strategy, as set out in this report.
 - Ratify the decision, made at the special meeting of 9 March 2023, to appoint Robeco as multi-asset credit manager with a £100m allocation.
 - Ratify the decision to invest £30m in the Darwin Leisure Development Fund.

LGIM Low Carbon Transition Fund

2. Following a review of opportunities to move the holdings in the Legal and General (LGIM) Low Carbon Target Index Fund to an alternative fund that would further progress the net-zero carbon objectives, the LGIM Low Carbon Transition Fund was identified as the most suitable option.
3. A report setting out details on the Low Carbon Transition Fund was tabled at the October 2022 PAP meeting.
4. Half of the holding in the Low Carbon Target Index Fund (c. £165m) was transitioned to the Low Carbon Transition Fund in January 2023.
5. The investment performance and carbon footprint of the new holding has subsequently been monitored by officers and Aon ahead of transitioning the remaining balance to the Low Carbon Transition Fund.
6. In an advice note provided to officers on 30 June 2023, Aon has confirmed that the LGIM Low Carbon Transition Fund remains suitable for the investment objectives and long-term strategy of the Pension Fund.
7. The remaining balance will therefore be transferred to the Low Carbon Transition Fund in the current quarter (i.e. before the end of September 2023).

Multi Asset Credit

8. As part of the recent investment strategy review, PAP agreed to a new 10% strategic allocation to multi asset credit, to be funded from the legacy absolute return bond and diversified growth holdings.
9. A shortlist of proposed managers (provided by Aon) presented to a selection panel, which included voting PAP members and the Fund's advisers, on 9 March.
10. Following the selection process, a recommendation to appoint Robeco as the preferred manager for a £100m pooled fund investment will be ratified at this meeting.
11. The Robeco Climate Global Credits fund is an active global credit strategy which is focused on delivering attractive, above benchmark, returns with a lower carbon intensity and investing in line with a Paris aligned benchmark. The Fund can invest in Investment Grade credit, High Yield and Emerging Market Debt and is expected to have a 7% year-on-year decarbonisation pathway.
12. At the time of writing, officers, in consultation with Pinsent Mason, are carrying out a legal review of the Terms and Conditions of the Robeco documentation ahead of investing in the Fund. This is expected to take place in July 2023.
13. Officers and Aon continue to review and assess potential Multi-Asset Credit strategies to ensure that the 10% strategic allocation can be achieved in 2023.

Newton Global Equity Mandate

14. A report on recent activity to transition the Newton global equity portfolio to progress the implementation of the Fund's net-zero carbon strategy is presented as Item 12 on the agenda for this meeting.

Darwin Leisure Development Fund

15. The Southwark fund has been invested in the Darwin Bereavement Services Fund since 2021 and the performance target has been met during this time. As an existing investor with Darwin, an opportunity arose in March 2023 for the Fund to invest in the Darwin Leisure Development Fund (DLDF).
16. The Fund has invested £30m in the DLDF and this has been funded from the legacy diversified growth strategic asset allocation.
17. DLDF invests in land and sites across the UK that focus on outdoor, leisure and accommodation. This investment displays low correlation with other asset classes and existing property holdings in the Fund, thereby achieving diversification benefits.
18. The expected return of 10-14%p.a. aligns with the recently agreed framework for selecting illiquid assets which is set out in the investment strategy statement.

Responsible Investment Policy

19. As a commitment to our focus on net-zero and also given the increasing wider discussions on Environmental, Social & Governance (ESG) aspects of business operations, and in-line with industry best practices, we will be developing a standalone responsible investment policy (RI Policy) outlining our overall process and approach to making investments to achieve a positive environmental and social outcome, whilst also fulfilling our fiduciary duties to our scheme members.
20. The RI Policy will outline how the Fund will implement responsible investment strategies considering climate (as a key investment criteria) and other ESG considerations across the end-to-end investment lifecycle. The RI policy will complement the existing documentation we already have in place within the Fund – particularly the Investment Strategy Statement. The policy will be tabled at a future PAP meeting.

LAPF Award shortlist

21. In recognition of the significant progress made in implementing the zero carbon investment strategy, officers made a submission to the LAPF Investment Awards (Sustainable Investment Strategy – Climate).
22. The entry covered the following points:
 - How LBS pension fund formally recognised climate related risks and opportunities in 2017 and subsequently set an ambitious and challenging target of Net Zero by 2030.
 - That LBS pension fund has reduced the carbon footprint of the portfolio by investing in new opportunities thus increasing diversification while achieving strong returns.
 - That the Weighted Carbon Intensity of the LBS pension fund has reduced by 43% in the five years to 31 March 2022, and during this time it achieved an investment return of 5.8% p.a. ahead of the local authority average of 5.6%.
23. The Southwark Pension Fund has been shortlisted for this award together with Avon Pension Fund, Newham and NILGOSC. The winner will be announced on 14 September.

Further Areas of Progress

24. Further potential opportunities with new and existing managers in asset classes such as sustainable infrastructure, property, and wider alternatives, are being pursued by officers in conjunction with Aon. The PAP will be updated on progress in these areas at future meetings.

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

Community Impact Statement

25. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

26. There are no immediate implications arising.

Health Impact Statement

27. There are no immediate implications arising.

Climate Change Implications

28. There are no immediate implications arising.

Resource Implications

29. There are no immediate implications arising.

Legal Implications

30. There are no immediate implications arising

Consultation

31. There are no immediate implications arising.

Financial Implications

32. There are no immediate implications arising.

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director, Finance	
Report Author	Caroline Watson, Senior Finance Manager - Treasury and Pensions	
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Dated	7 July 2023	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive - Governance and Assurance	No	No
Strategic Director, Finance	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		7 July 2023