

Item No. 12.	Classification: Open	Date: 17 July 2023	Meeting Name: Pensions Advisory Panel
Report title:		Update on Newton Portfolio	
From:		Interim Pensions Investments Manager	

Recommendation

1. The pensions advisory panel is asked to note recent activity to transition the Newton global equity portfolio to progress the implementation of the Fund's net-zero carbon strategy, as set out in this report.

Background

2. Newton has been LBS PF's active global equity manager since 31 March 2007. As at 31 March 2023 the portfolio value was £267.2m, representing 13% of the total fund.
3. Newton's historic investment objective and benchmark was to outperform the FTSE All World Index by 3% per annum (net of fees) over rolling 3 year periods.
4. Since 2021 officers and AON have been in discussion with Newton regarding adapting the mandate to further progress the Fund's net-zero objectives. Following officer meetings on 14 and 15 March, a satisfactory conclusion to these discussions was reached and the Investment Management Agreement (IMA) between Newton and LBSPF was revised.

Newton's proposal

5. The following summarises the new approach:
 - a) Newton will use a proprietary Net Zero score and projected emissions pathways to construct a new portfolio consisting only of companies it assesses to have the best emission reduction plans.
 - b) Day 1 emissions were expected to reduce by c20% and the portfolio's projected future emissions profile was expected to improve, with all stocks in the portfolio awarded high Net Zero scores.
 - c) Newton's existing philosophy, process and people are unchanged and existing portfolio restrictions (e.g. exclusion of oil, gas and tobacco stocks) remain in place.
 - d) The new investment objective is as follows:

“The Manager will seek to outperform the FTSE ALL World Index (net of fees) over rolling 5-year periods through investing only in companies assessed by the Manager as having credible transition plans to reduce emissions and align with a “below 2°C” or “net zero 2050” emission reduction pathway.”

- e) Given the smaller opportunity set of companies with leading carbon scores and the potential for deviation from benchmark sectors and geographies, the financial outperformance target has been removed, although officers will still monitor Newton against the existing +3% p.a. target.
- f) Newton will use data from a third-party vendor to calculate and monitor the portfolio carbon level at the end of each calendar month and report the calculations to LBSPF on a quarterly basis.

Fees

- 6. As part of negotiations with Newton, officers requested a fee review. As a consequence the fee rate has changed, resulting in an estimated annual fee reduction of £150,000.

Transition

- 7. The portfolio “go-live” date was 30 April 2023 when trading activity took place.
- 8. The impact of the trading activity was as follows:
 - a) The total number of stocks in the portfolio reduced from 42 to 40.
 - b) The post-transition WACI (Weighted Average Carbon Intensity) reduced by 20.8% on Day 1 (marginally ahead of expectation).
 - c) WACI reduced from 57.87 tCO₂e/£1m revenue (pre-trade portfolio) to 45.81 tCO₂e/£1m revenue (post-trade portfolio) as measured by ISS. Going forward, Newton will actively measure the portfolio against this Day 1 ‘high watermark’.
 - d) Explicit trading costs (including brokers’ commissions and market trading costs) of 0.066% were incurred.

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	Clive Palfreyman, Strategic Director, Finance	
Report Author	Tracey Milner, Interim Pensions Investments Manager	
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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
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