

Item No. 9.	Classification: Open	Date: 27 September 2023	Meeting Name: Pensions Advisory Panel
Report title:		Carbon Footprint Update – 30 June 2023	
From:		Interim ESG Manager	

Recommendation

1. The pensions advisory panel is asked to note the fund's updated carbon footprint as at 30 June 2023.

2. We continue to use Sustainalytics to assist with assessments of the CO2 equivalent exposure of our holdings. The table below sets out the weighted carbon intensity by asset class against our benchmark period of September 2017. In our calculations, we currently only capture Scope 1 and Scope 2 carbon emissions.

Weighted Carbon Intensity over time		Weighted Carbon Intensity (Scope 1 & Scope 2) tCO2e/\$m											
		Sept 2017	Dec 2020	March 2021	June 2021	Sept 2021	Dec 2021	March 2022	June 2022	Sept 2022	Dec 2022	March 2023	June 2023
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	17.5	18.9
Equity - Emerging Markets	Blackrock	18.1	15.0	19.1	18.3								
Equity - Emerging Markets	Comgest					0.5	0.5	0.2	0.2	0.2	0.2	0.4	2.4
Equity - Global	Newton	10.6	7.0	4.4	4.6	4.3	4.5	5.8	5.9	5.6	4.0	6.9	6.1
Diversified Growth Fund	Blackrock	26.7	16.0	15.6	14.2	15.8	17.1	16.5	13.7	14.4	10.7	12.6	7.3
Absolute Return Bonds	Blackrock	22.4	8.7	10.0	9.8	10.2	8.7	6.8	11.2	12.5	14.0	19.6	15.1
Core Property	Nuveen	14.3	12.0	10.6	10.5	10.7	11.2	12.0	12.9	12.7	11.2	1.8	1.8
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	4.8	4.9
ESG Priority Allocation - Alternatives	BTG Pactual, Blackstone, Darwin							0.1	0.2	0.3	0.3	0.5	1.8
Sustainable Infrastructure	Blackrock, Glennmont, Temporis	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IL Gilts	Blackrock, LGIM	14.0	14.0	14.0	26.0	25.2	25.4	24.2	20.6	19.5	20.9	21.4	12.6
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	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	85.5	71.1
Total Change in Footprint			-40.9%	-38.3%	-43.8%	-49.8%	-42.5%	-43.2%	-51.9%	-55.5%	-59.2%	-60.0%	-66.7%

Results

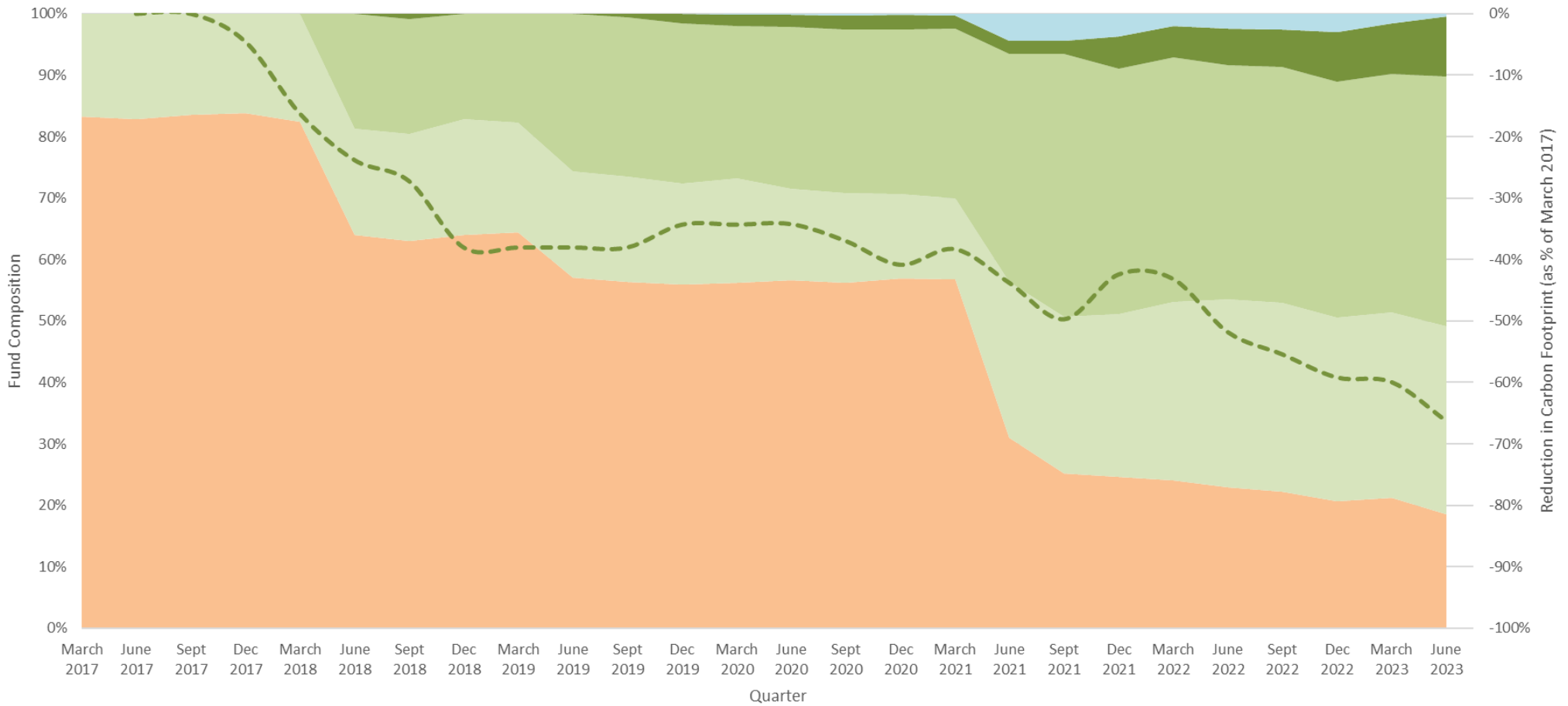
3. The results for 30 June 2023 shows continuing improvement in the carbon footprint reduction for the Fund. Since September 2017, the Fund has reduced its weighted carbon intensity by ~67%.
4. The reduction in Weighted Average Carbon Intensity (WACI) for the quarter to June 2023 has been driven by a combination of the following:
 - a. Developed market equities (negative impact): The increase in WACI for the Blackrock and LGIM developed market equities (18.9 vs 17.5) is due to market fluctuations and underlying data available from Sustainalytics.
 - b. Index-linked Gilts (positive impact): Previously, we used proxy WACI for both our investments with LGIM and BlackRock (282.4). We now have received actual WACI from BlackRock (105.2) which is lower than the proxy we have used to date. We continue to use proxy WACI (282.4) for LGIM. The lower actual WACI for BlackRock investment has contributed to reduction in overall carbon intensity for the index-linked gilts.
 - c. Newton Global Equity & BlackRock Absolute Return Bonds and Diversified Growth Fund (positive impact): The decrease in WACI for Newton (6.1 vs 6.9), BlackRock ARB (15.1 vs 19.6) and DGF (7.3 vs 12.6) is due to an improvement in underlying data available from Sustainalytics and BlackRock.
 - d. Comgest (negative impact): We now have more accurate WACI data being provided by Comgest. This WACI (53.06) is higher than what we have used previously which has in-turn increased the overall WACI for our Comgest investments.
 - e. ESG Priority Allocation (negative impact): In absence of actual data available, we have used WACI from Comgest as a proxy for our investments in the ESG Priority Allocation category which include Blackstone Reduced Carbon Fund and Darwin Bereavement Services Fund. Due to this use of Comgest WACI as a proxy, overall WACI for this asset category is higher compared to the previous quarter.
5. We continue to use historical WACI as a proxy for our indirect property assets. We consider carbon footprint of our sustainable infrastructure assets to be zero. We are working on improving engagement with the fund managers to achieve a more accurate carbon footprint measurement of these assets.
6. 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		Unweighted Carbon Intensity tCO ₂ e/\$m
Asset Class	Fund Manager(s)	June 2023
Cash And Equivalents	Blackrock, Nuveen, Newton	0.00
Sustainable Infrastructure		0.00
ESG Priority Allocation	BTG Pactual	0.00
Core Property	Nuveen	18.00
Equity – Emerging markets	Comgest	53.10
ESG Priority Allocation - Alternatives	Blackrock, Blackstone, Glennmont, Temporis	106.08
Diversified Growth	Blackrock	145.90
Global Equity	LGIM, Blackrock, Newton	219.16
Absolute Return Bonds	Blackrock	235.04
Index Linked Gilts	Blackrock, LGIM	387.63
ESG Priority Allocation - Property	Brockton, Frogmore, Invesco, M&G	430.80
Total		1595.75

7. During the quarter, there has been an increase in holdings in the Zero Carbon, Low Carbon and Reduced Carbon investments, with the holdings now making up ~ 80% of our total investment (up from ~77% as at 31 March 2023).
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	Clive Palfreyman, Strategic Director, Finance	
Report Author	Spandan Shah, Interim ESG Manager	
Version	Final	
Dated	12 September 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		18 September 2023