

<b>Item No.</b> 13.	<b>Classification:</b> Open	<b>Date:</b> 26 February 2024	<b>Meeting Name:</b> Pensions Advisory Panel
<b>Report title:</b>		Carbon Footprint Update – 31 December 2023	
<b>From:</b>		Interim ESG Manager – Treasury and Pensions	

### **Recommendation**

1. The pensions advisory panel is asked to note the fund's updated carbon footprint as at 31 December 2023.

We continue to use Sustainalytics to assist with assessments of the CO2 equivalent exposure of our passive listed holdings. We also rely on the Weighted Average Carbon Intensity (WACI) calculations undertaken by our fund managers for our active assets. The table below sets out the weighted carbon intensity (with \$ million revenue as a base) 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 revenue						
		Sept 2017	March 2021	March 2022	March 2023	June 2023	Sept 2023	Dec 2023
Equity - Developed	Blackrock, LGIM	98.7	23.0					
Equity - Developed Market Low Carbon	Blackrock, LGIM		24.2	51.0	17.5	18.9	17.1	16.6
Equity - Emerging Markets	Blackrock	18.1	19.1					
Equity - Emerging Markets	Comgest			0.2	0.4	2.4	2.4	2.2
Equity - Global	Newton	10.6	4.4	5.8	6.9	6.1	5.2	5.2
Diversified Growth Fund	Blackrock	26.7	15.6	16.5	12.6	7.3		
Absolute Return Bonds	Blackrock	22.4	10.0	6.8	19.6	15.1	12.6	7.9
Multi-Asset Credit	Robeco						2.7	1.4
Core Property	Nuveen	14.3	10.6	12.0	1.8	1.8	1.8	1.8
ESG Priority Allocation - Property	Invesco, M&G, Brockton, Frogmore	8.8	10.9	4.6	4.8	4.9	5.2	5.2
ESG Priority Allocation - Alternatives	BTG Pactual, Blackstone, Darwin			0.1	0.5	2.7	4.1	3.7
Sustainable Infrastructure	Blackrock, Glennmont, Temporis	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IL Gilts	Blackrock, LGIM	14.0	14.0	24.2	21.4	12.6	11.4	12.6
Cash And Equivalents	Blackrock, Nuveen, Newton	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Weighted Carbon Intensity</b>		213.7	131.7	121.4	85.5	71.1	62.5	56.6
<b>Total Change in Footprint</b>			<b>-38.3%</b>	<b>-43.2%</b>	<b>-60.0%</b>	<b>-66.3%</b>	<b>-70.7%</b>	<b>-73.5%</b>

## Results

2. The results for 31 December 2023 show a continuing improvement in the carbon footprint (Scope 1 and Scope 2) for the Fund. Since September 2017, the Fund has reduced its weighted carbon intensity considering Scope 1 and Scope 2 emissions by ~73%.
3. The reduction in Weighted Carbon Intensity for the six month period from 1 July 2023 to 31 December 2023 has been driven by a combination of the following:
  - a. Developed market equities (positive impact): The decrease in WACI for the Blackrock and LGIM developed market equities (16.6 vs 18.9) is due to an improvement in the carbon footprint of the underlying portfolio companies based on the data available from Sustainalytics.
  - b. Nuveen (neutral): Nuveen WACI is the same as previous quarter and hence has had no impact on the overall weighted carbon intensity of the Fund.
  - c. Comgest (positive impact): The decrease in WACI for the Comgest equities (2.2 vs 2.4) is due to improvement in the carbon footprint of the underlying portfolio companies. WACI is based on the report shared by Comgest.
  - d. Newton Global Equity (positive impact): Newton continues to actively engage with the underlying portfolio companies on their carbon footprint. WACI for the six months has shown an improvement (5.2 vs 6.1) as reflected in the report shared by Newton.
  - e. BlackRock Dynamic Diversified Growth Fund (DDGF): We have now fully divested from the BlackRock DDGF and have in-turn invested the proceeds in a low carbon multi-asset credit fund with Robeco, which will have a more reduced carbon footprint over time.
  - f. BlackRock Absolute Return Bonds (ARB) (positive impact): The decrease in WACI for BlackRock ARB (7.9 vs 15.1) is due to an improvement in carbon footprint of the underlying portfolio companies based on the data shared with us by BlackRock.
  - g. Multi-asset Credit Fund with Robeco: This is the first reporting for the investment with Robeco. WACI is based on the details shared with us by Robeco. There is an agreed mandate with Robeco to reduce the carbon footprint of the underlying portfolio so we expect to see a decrease in the carbon footprint of the portfolio over time.
  - h. ESG Priority Allocation (negative impact): In absence of actual data available, we have used WACI from Comgest and our property assets as a proxy for our investments in the ESG Priority Allocation category which include Blackstone Strategic Capital Holdings II Fund, BTG Pactual Open Ended Core US Timberland Fund, Darwin Leisure Development Fund, and

the Darwin Bereavement Services Fund. Due to this, overall WACI for this asset category is higher compared to the previous quarter.

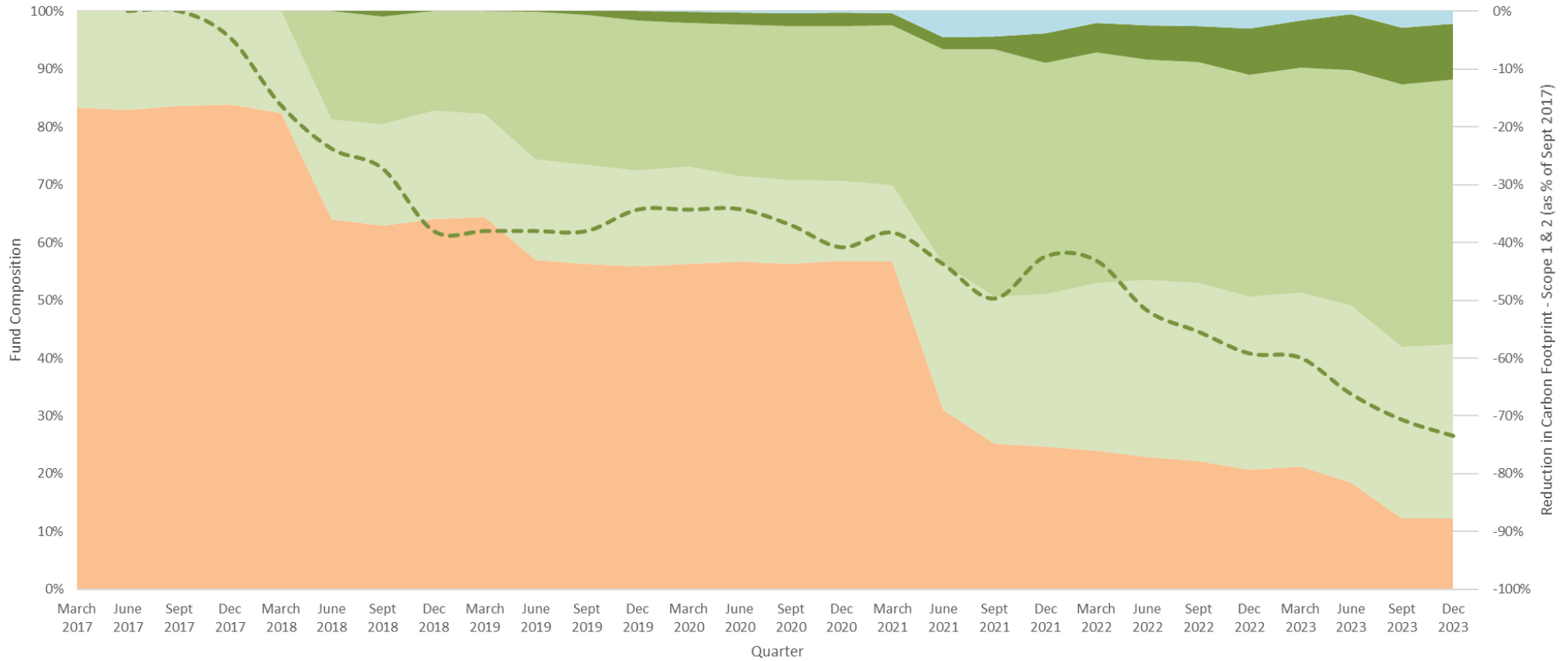
- i. Index-linked Gilts (neutral): WACI for the index-linked gilts holdings over the six month period is the same as previous quarter as at 30 June 2023 (12.6). We have used actual WACI from BlackRock and continue to use proxy WACI for LGIM.
4. We continue to use historical WACI as a proxy for our indirect property assets. We consider the 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.
  5. The unweighted exposure for each investment is set out below ranked in order of carbon footprint, from lowest to highest exposure.

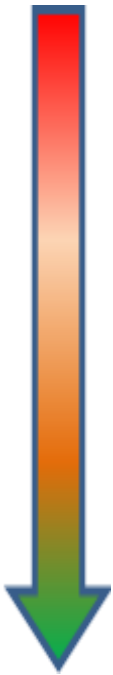
#### Unweighted Carbon Intensity

Unweighted Carbon Intensity		Unweighted Carbon Intensity tCO2e/\$m revenue
Asset Class	Fund Manager(s)	Dec 2023
Cash And Equivalents	BlackRock, Nuveen, Newton	0.00
Sustainable Infrastructure	BlackRock, Glennmont, Temporis	0.00
Core Property	Nuveen	18.00
Multi-asset credit Fund	Robeco	29.40
Low Carbon Equity	BlackRock	37.40
Global Equities	Newton	39.40
Equity – Emerging markets	Comgest	51.00
Low Carbon Equity	LGIM	59.00
Absolute Return Bonds	Blackrock	157.00
ESG Priority Allocation - Alternatives	BTG Pactual, Blackstone, Darwin Bereavement & Leisure Dev	260.70
Index Linked Gilts	Blackrock, LGIM	387.60
ESG Priority Allocation - Property	Brockton, Frogmore, Invesco, M&G	430.80
<b>Total</b>		<b>1470.30</b>

6. During the six month period, there has been an increase in holdings in the Zero Carbon, Low Carbon and Reduced Carbon categories, with the holdings now making up ~ 85% of our total investment (up from ~80% as at 30 June 2023).
7. 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.

Composition of the LBS Pension Fund and Carbon Footprint Reduction since Sept 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**

8. There are no immediate implications arising.

### **Equalities (including socio-economic) Impact Statement**

9. There are no immediate implications arising.

### **Health Impact Statement**

10. There are no immediate implications arising.

### **Climate Change Implications**

11. There are no immediate implications arising.

### **Resource Implications**

12. There are no immediate implications arising.

### **Legal Implications**

13. There are no immediate implications arising

### **Consultation**

14. There are no immediate implications arising.

## Financial Implications

15. There are no immediate implications arising.

## SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

16. Not applicable.

## AUDIT TRAIL

<b>Lead Officer</b>	Clive Palfreyman, Strategic Director of Finance	
<b>Report Author</b>	Spandan Shah, Interim ESG Manager - Treasury and Pensions	
<b>Version</b>	Final	
<b>Dated</b>	13 February 2024	
<b>Key Decision?</b>	No	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments Included</b>
Assistant Chief Executive - Governance and Assurance	No	No
Strategic Director of Finance	No	No
<b>Cabinet Member</b>	No	No
<b>Date final report sent to Constitutional Team</b>	14 February 2024	