

Meeting Name:	Pensions Advisory Panel
Date:	30 September 2024
Report title:	Carbon Footprint Update – 30 June 2024
Ward(s) or groups affected:	Not applicable
Classification:	Open
Reason for lateness (if applicable):	Not applicable
From:	ESG Manager – Treasury and Pensions

Recommendation

1. The Pensions Advisory Panel is asked to note the Fund's updated carbon footprint as at 30 June 2024.

2. 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. For the calculations, we rely on the Weighted Average Carbon Intensity (WACI) calculations undertaken by our fund managers and available from Trucost, our carbon data provider. In our calculations, we currently consider Scope 1 and Scope 2 carbon emissions only.

Weighted Carbon Intensity over time		Weighted Carbon Intensity (Scope 1 & Scope 2) tCO2e/\$m revenue					
Asset Class	Fund Managers	Sept 2017 (baseline)	March 2021	March 2022	March 2023	March 2024	June 2024
Equity - Developed	Blackrock, LGIM	98.7	23.0				
Equity - Developed Market Low Carbon	Blackrock, LGIM		24.2	51.0	17.5	13.7	11.5
Equity - Emerging Markets	Blackrock	18.1	19.1				
Equity - Emerging Markets	Comgest			0.2	0.4	2.2	2.5
Equity - Global	Newton	10.6	4.4	5.8	6.9	4.5	3.6
Diversified Growth Fund	Blackrock	26.7	15.6	16.5	12.6		
Absolute Return Bonds	Blackrock	22.4	10.0	6.8	19.6		
Multi-Asset Credit	Robeco, LCIV					5.1	5.1
Core Property	Nuveen	14.3	10.6	12.0	1.8	1.7	1.5
ESG Priority Allocation - Property	Invesco, M&G, Brockton, Frogmore	8.8	10.9	4.6	4.8	0.8	0.7
ESG Priority Allocation - Alternatives	BTG Pactual, Blackstone, Darwin			0.1	0.5	1.1	1.2
Sustainable Infrastructure	Blackrock, Glennmont, Temporis	0.0	0.0	0.0	0.0	1.8	1.8
IL Gilts	Blackrock, LGIM	14.0	14.0	24.2	21.4	8.8	8.3
Cash And Equivalent	Blackrock, Nuveen, Newton	0.0	0.0	0.0	0.0	0.0	0.0
Total Weighted Carbon Intensity		213.7	131.7	121.4	85.5	39.7	36.0
Total Change in Footprint			-38.3%	-43.2%	-60.0%	-81.4%	-83.1%

Results

3. The results for 30 June 2024 show 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 by ~83%.
4. The reduction in Weighted Carbon Intensity ('WCI') for the period from 1 April 2024 to 30 June 2024 has been driven by a combination of the following:
 - a. Developed market equities (positive impact): The decrease in WCI for the BlackRock and LGIM developed market low-carbon equities (11.5 vs 13.7) is due to improvement in carbon footprint of the underlying portfolio companies. Based on the data received from the fund managers, there is an 8% decrease in the carbon footprint of BlackRock fund and a 23% decrease in the carbon footprint of the LGIM fund.
 - b. Nuveen (positive impact): There is an improvement in the WCI for the quarter (1.5 vs 1.7) driven by results of various decarbonisation-focused initiatives that have been implemented across the portfolio over recent years.
 - c. Comgest (negative impact): There is an increase in the WCI of the portfolio (2.5 vs 2.2), primarily due to recent investment in SK Hynix during the quarter, which represents a significant portion of the portfolio's WACI. Comgest is engaging with the company, with the expectation of seeing an improvement over time.
 - d. Newton Global Equity (positive impact): Newton continues to actively engage with underlying portfolio companies on their decarbonisation agenda. The data shared by Newton shows a 21% reduction in the WACI of the portfolio, leading to a corresponding improvement in the WCI for the quarter (3.6 vs 4.5).
 - e. Multi-asset credit funds with LCIV and Robeco (neutral): Overall WCI for both the multi-asset credits funds is the same as previous quarter and hence has had no impact on the overall weighted carbon intensity of the Fund.
 - f. ESG Priority Allocation (neutral): Overall WCI for all the investments in the ESG Priority Allocation category for both the property assets (Invesco, M&G, Brockton, etc) and wider infrastructure assets (BTG Pactual, Darwin) is the same as previous quarter (1.9) and hence has had no impact on the overall weighted carbon intensity of the Fund.
 - g. Sustainable Infrastructure (neutral): We continue to use WACI from BlackRock in relation to our investment in Global Renewable Power III Fund as a proxy for other investments in the sustainable infrastructure category. Overall, the WCI for all investments in the category is the same

as previous quarter and hence has had no impact on the overall weighted carbon intensity of the Fund.

h. Index-linked Gilts (positive impact): WCI for the index-linked gilts over the quarter has improved marginally (8.3 vs 8.8). We have used WACI provided by BlackRock and LGIM.

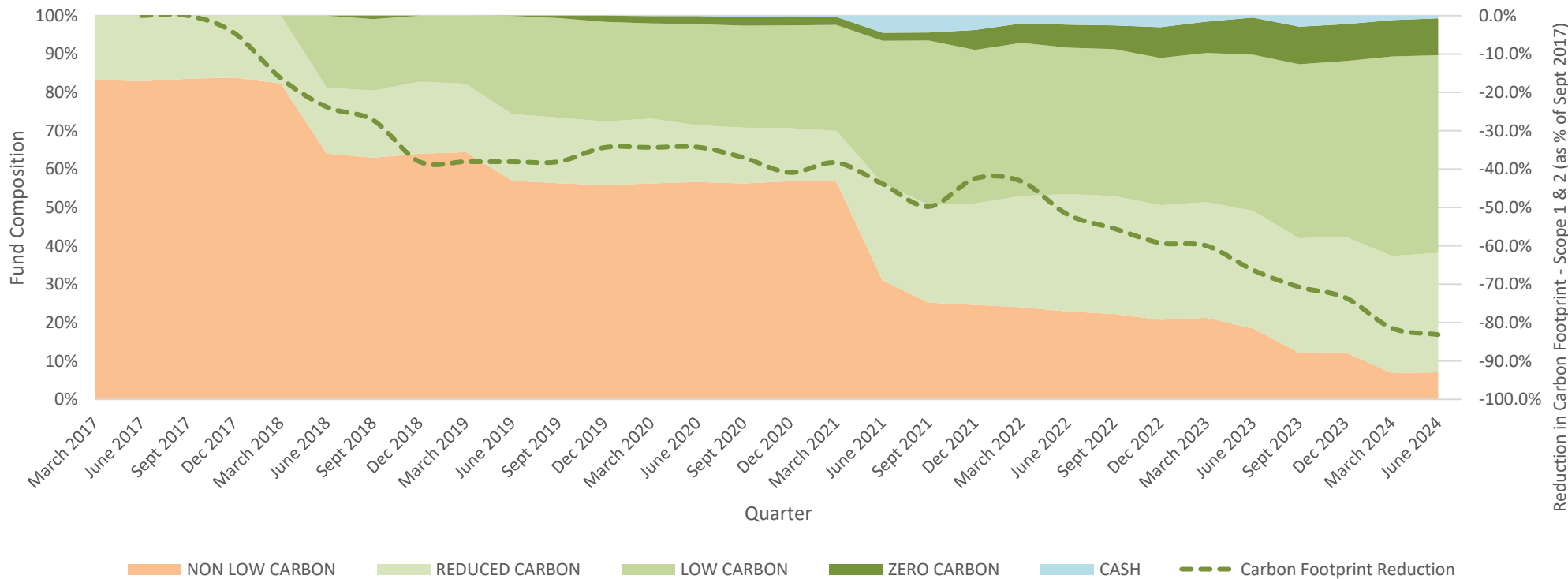
5. The unweighted exposure for each investment is set out below ranked in order of carbon footprint, from lowest to highest exposure.

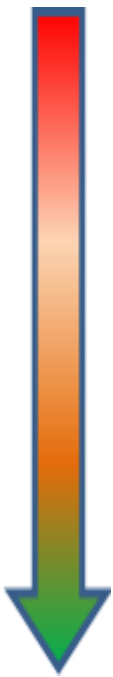
Unweighted Carbon Intensity		Unweighted Carbon Intensity tCO2e/\$m revenue
Asset Class	Fund Manager(s)	June 2024
Core Property	Nuveen	15.00
Global Equities	Newton	25.80
Low Carbon Equity	LGIM	28.80
Low Carbon Equity	BlackRock	35.00
Equity – Emerging markets	Comgest	58.00
ESG Priority Allocation - Property	Brockton, Frogmore, Invesco, M&G	60.00
ESG Priority Allocation - Alternatives	BTG Pactual, Blackstone, Darwin Bereavement & Leisure Dev	96.90
Multi-asset credit Fund	Robeco, LCIV	110.4
Sustainable Infrastructure	BlackRock, Glenmont, Temporis	112.5
Index Linked Gilts	Blackrock, LGIM	238.90
Total		781.30

6. During the quarter, the holdings in the Zero Carbon, Low Carbon and Reduced Carbon investments are ~92% of our total investment (in line with 31 March 2024).

7. The carbon footprint reduction infographic (set out below, with further information on the following page) has been produced 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 from this report.

Equalities (including socio-economic) impact statement

9. There are no immediate implications arising from this report.

Health impact statement

10. There are no immediate implications arising from this report.

Climate change implications

11. There are no immediate implications arising from this report.

Resource implications

12. There are no immediate implications arising from this report.

Legal implications

13. There are no immediate implications arising from this report.

Financial implications

14. There are no immediate implications arising from this report.

Consultation

15. There are no immediate implications arising from this report.

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources	
Report Author	Spandan Shah, ESG Manager – Treasury and Pensions	
Version	Final	
Dated	15 September 2024	
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 of Resources	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team	17 September 2024	