

Appendix 1: Past Activities on Climate Change Issue

Pension Committee meetings were held December 8th 2016 and 14th February 2017. Whereby the Committee discussed issues and approaches to mitigate risks posted by climate change, fossil fuels in order to formulate a cost effective Fund's Ethical, Social and Governance (ESG) Policy.

The below listed recommendations were provided to the committee for consideration and approval at the meeting of 16 March 2017.

- a. *Commit to the UK Stewardship Code.*
- b. *Develop a policy statement regarding the London Borough of Tower Hamlets' approach to fossil fuel investment with a view to inclusion as a section within the new Investment Strategy Statement (ISS), which is the new name for the current Statement of Investment Principles.*
- c. *Review options for switching some of the UK passive mandate into a low carbon target index fund.*
- d. *Consider options for an initial **active investment** of approximately 5% of the Fund in a sustainability/low carbon or clean energy fund(s). Given the right risk/return profile, investment in such a fund would demonstrate the Fund's commitment to invest in clean and sustainable companies.*
- e. *Monitor carbon risk within the London Borough of Tower Hamlets Pension Fund and to appoint a specialist contractor to conduct a carbon footprint review of the Fund at an estimated cost of between of £5k to £20k.*
- f. *Continue engagement activities with the Fund's investment managers on their approach to fossil fuel and to promote consideration of climate change issues with managers when making investment decisions.*
- g. *Maintain an active approach to climate change issues with investee companies and look for further opportunities to work with others on issues of ESG importance.*

The Pension Committee (with support from the Pensions Board) is committed to reducing shareholdings in carbon based investments. The Committee has been working with external investment advisors to formulate a revised investment strategy. Members of the Pension Committee and Pension Board are fully aware of the risk of fossil fuel investments becoming "stranded assets" (assets in oil and gas companies that might become worthless due to climate change legislation), and the Committee had invited speakers to their meetings held in December 2016 and February 2017 to have in-depth discussions on fossil fuel investment.

Hence the Committee agreed to rebalance some of its investments as part of the three year review of the position of the Pension Fund. The following changes to the portfolio have been agreed, and are in the process of being implemented:

1. A reduction in the total equity exposure from 60% to 50% of total assets, with the proceeds invested into multi-asset funds with much lower equity holdings (and hence lower exposure to carbon-intensive assets).
2. Of the remaining 50% of assets that make up the equity portfolio, 15% has been be invested into a Low Carbon index-tracking strategy which aims to reduce the carbon exposure of the portfolio by some 70%, relative to the broad market index, whilst still expecting to perform broadly in line with the wider market over the long term. This has reduced the Tower Hamlets Pension Fund exposure to carbon investments.