

Pensions Committee



Thursday, 23 September 2021 at 6.30 p.m.

Committee Room One - Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

Supplemental Agenda 1

This meeting is open to the public to attend.

Further Information

For further information including Membership of this body and public information see the main agenda.

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Next Meeting of the Committee:

Thursday, 25 November 2021 at 6.30 p.m. to be held in the Committee Room One -
Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

Non-Executive Report of the: Pensions Committee Thursday, 23 September 2021	 TOWER HAMLETS
Report of: Interim Corporate Director, Resources	Classification: Appendix 1 is restricted
Climate Change - Related Disclosures	

Originating Officer(s)	Miriam Adams
Wards affected	(All Wards);

Executive Summary

This report is a summary of the Fund’s first report complying with the Task Force for Climate Related Financial Disclosures (TCFD). The report supports the Fund’s Strategic Investment Objectives, with a particular focus on how it will fulfil its role as a Responsible Investor.

The report explains how the Committee have established and maintains oversight and processes to satisfy themselves that the Fund’s relevant climate-related risks and opportunities are considered appropriately by all stakeholders involved in the day-to-day management of the Fund.

Recommendations:

The Pensions Committee is recommended to:

1. Consider and approve the 2020-21 TCFD Report (Appendix 1)
2. Continue to enhance its approach to Climate Risk

1. REASONS FOR THE DECISIONS

- 1.1 This report and appendix explain how the Committee have established and maintains oversight and processes to satisfy themselves that the Fund’s relevant climate-related risks and opportunities are considered appropriately by all stakeholders involved in the day-to-day management of the Fund. The role of the Fund as an investor includes being aware of its wide responsibilities in Responsible Investment, as well as how it exercises its influence through engaging as active shareholders.

- 1.2 The report should be read in conjunction with the Fund's Responsible Investment and Climate Change Policy which the Committee approved in July 21. This policy is also attached as appendix 2 to this report.

2. ALTERNATIVE OPTIONS

- 2.1 There are no alternative options to this report. The LGPS Investment Regulations 2016 instructs funds to 'consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long-term dependent on the time horizon over which their liabilities arise'. Climate Change is considered an environmental and systemic risk which can have a significant financial impact on the Fund's investments and its ability to meet future pension obligations.

3. DETAILS OF THE REPORT

- 3.1 The Taskforce on Climate-related Financial Disclosures (TCFD) was commissioned in 2015 by former Bank of England Governor, Mark Carney, in his remit as Chair of the Financial Stability Board. In 2017, the TCFD released its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. Disclosures that align with the TCFD recommendations are currently seen to represent best practice. The TCFD recommendations are based on the financial materiality of climate change.

- 3.2 The Committee have been on a journey to lower the Fund's carbon footprint for several years by annually monitoring fossil fuel exposure and the Fund's wider carbon footprint (measuring carbon intensity and fossil fuel reserve exposure) to better understand opportunities and risks within the Fund's portfolio.

At its meeting on 25 March 2021, the Pensions Committee received the road map and timeline to TCFD reporting.

- 3.3 The Fund actively considers investing in strategies that target long-term ESG themes on the basis that such opportunities will generate good risk-adjusted investment returns.

- 3.4 The Committee recognises that climate issues can be more relevant and readily implementable for some parts of the portfolio than others. This statement outlines where governance of climate risk and opportunities has been applied. For example, the carbon foot-printing analysis currently covers the Listed Equities, Diversified Growth Fund, and Bondholdings of the Fund which represents c.62% of the Fund's total asset exposure as at 30 June 2021. The Committee will seek to expand the remit of this reporting to cover

the entirety of its portfolio as and when the ability to monitor these risks becomes more achievable via improved availability of data.

- 3.5 The full report can be found in the Annexe.

Next Steps

- 3.6 Officers will sign up to support the TCFD as a voluntary supporter. The TCFD report will be included in the 2021/22 pension fund annual report. TCFD provides the most recognised industry standard basis to report and organisation's approach to Climate Change in four key areas: Governance, Strategy, Risk Management and Metrics. Climate Change has been included in the Fund's Risk Register.

The Fund will continue to monitor the progress of its approach to Climate Risk and Reporting, in context of all risks and sustainable development, and how it can impact investment decisions.

4. EQUALITIES IMPLICATIONS

- 4.1 The TCFD Report does not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

Risk Management

- 5.2 Any form of investment inevitably involves a degree of risk. The rigorous robust management of LBTH Pension Fund results in better performance and reduction in the contribution required from the Council towards the Fund.

To minimise risk, the Pensions Committee attempts to achieve a diversified portfolio. There are no risk related issues contained in this report.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 Although most accreditations are free to join, there are indirect financial costs associated to resourcing, commissioning carbon measurements and officers time required to maintain the memberships and annual reporting. Material, financial and business issues, and possibility of risks have been considered and addressed.

7. COMMENTS OF LEGAL SERVICES

- 7.1 One of the functions of the Pensions Committee is to meet the Council's duties in respect of responsible investment matters. It is appropriate having regard to these matters, for the Committee to receive information about new guidance to ensure the Fund is being managed in accordance with the Council's statutory obligations. There are no immediate legal implications arising from the report.

Linked Reports, Appendices and Background Documents

Linked Report

- Task Force on Climate Related Financial Disclosures ("TCFD") Reporting Road Map

Appendices

- TCFD report (Appendix 1 restricted)
- Responsible Investment and Climate Change Policy (Appendix 2)

Local Government Act, 1972 Section 100D (As amended)

List of "Background Papers" used in the preparation of this report

List any background documents not already in the public domain including officer contact information.

- NONE

Officer contact details for documents:

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Responsible Investment and Climate Change Policy

Members of the Pensions Committee (the “Committee”) have a fiduciary duty to act in the best interests of Fund members and other beneficiaries in all financial and non-financial decisions. With respect to the Fund’s investments, to do this effectively there is recognition of the importance of generating sustainable long-term returns. This involves more than an appraisal of financial factors but also takes into account non-financial factors such as Environmental, Social and Corporate Governance (“ESG”) issues, including notably, climate change, which the Committee believes will be financially material to the Fund’s investments. The Committee recognises the growing urgency and continual regulatory developments with regard to long-term sustainability issues and believes that it is imperative that ESG and stewardship (or active ownership) considerations are integrated throughout investment processes and that they are taken into account as part of funding and investment strategy setting.

1. ESG integration

Effective management of ESG issues is a key determinant of long-term shareholder value and good risk management. Their consideration is part of the Fund’s fiduciary duty to beneficiaries. The Fund therefore recognises the importance of its investment managers integrating all material financial and non-financial factors, including ESG considerations, into the decision-making process for fund investments and the ongoing monitoring of these same issues.

The Fund invests via pooled funds and the underlying investment managers therefore ultimately have discretion in assessing and integrating ESG factors. The Committee has directed investment managers to consider the effects of ESG issues on the performance of a fund when considering the acquisition, retention or realisation of investments, however. The LCIV also performs a similar assessment of ESG, stewardship and the consideration of sustainable opportunities before any investment manager is appointed to the Pool.

The Committee will seek assurance via interactions with the LCIV and underlying investment managers held outside the Pool, that they are meeting the Fund’s requirements with regards to ESG integration. In particular, all current investment managers within the equity portfolio (50% of Fund assets) fully integrate ESG (as well as wider RI) considerations into their portfolios and see these issues as fundamental to their investment strategies.

Whilst the progress made in relation to the E in ESG is increasingly in focus and can often be more easily measured (see also the climate change section below), the Committee is similarly committed to developing its policy in relation to Social and Governance considerations.

In respect of social concerns, the Fund’s investment managers are expected to actively engage with underlying companies on all social issues including employee health and safety, demographics and diversity, labour and supply chain management

etc. The Committee will also assess the viability of specific social investments on an ongoing basis, such as UK social housing.

The Fund receives periodic reporting on the degree to which the Fund's investment managers integrate ESG within their investment practises. Where managers are lagging behind their peers (or the Committee's expectations) engagement will be undertaken with the respective manager to encourage them to improve. In addition, ongoing ESG developments are monitored through quarterly performance reporting.

2. Stewardship – exercise of voting rights and engagement

Good stewardship can protect and enhance value for companies and markets as a whole. The Fund is committed to being a long-term steward of the assets in which it invests. It believes in the importance of managers acting as active asset owners through proactive voting and engagement with companies. In addition, the Fund believes that acting collectively with other investors is an effective way to engage with companies.

The Committee has delegated the exercise of voting rights to investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. For investments held within the LCIV pool, the manager has implemented its own RI policy that covers voting, which it expects all managers on the platform to adopt.

The Fund is also a member of the Local Authority Pension Fund Forum ("LAPFF") which aims to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. Further details can be found on the [LAPFF website](#).

[In collaboration with other like-minded investors, the Fund may engage with public policy makers, regulators, trade bodies, indexes and other players in the financial markets to further support the Fund's fiduciary responsibilities. The Fund considers these initiatives on a case-by-case basis.](#)

The Fund embraces the 12 principles of the Financial Reporting Council's UK Stewardship Code 2020 and is actively considering the most appropriate way to improve stewardship reporting going forward (whilst remaining cognisant of the Fund's wider objectives and the governance constraints on Officers). The Fund provides voting, engagement and stewardship updates to the Committee and has also agreed to take an annual 'deep dive' on its investment managers in this area.

From a Pooling perspective, the LCIV is supportive of the UK stewardship Code. The Pool also encourages investment managers to sign up to the Code and the United Nations supported Principles of Responsible Investment (UNPRI).

3. Human rights

Human rights include civil, political, economic, and social and cultural rights, such as the right to life, the right to freedom of association or the right to health. The ability and commitment to human rights issued reflects the strength of a company's culture

and risk management. As a member of LAPFF, the Fund has been supportive of the LAPFF focus on valuing and supporting greater diversity on company boards. LAPFF stewardship work incorporates a drive for wider-ranging action on equality and inclusion to drive change and increase representation and involvement by all.

4. Climate Change

The Fund believes that climate change presents risks over the short, medium and long-term that the Fund should better understand and mitigate where possible. The Fund recognises these risks as well as the Council's own targets in this regard and the views and aspirations of other employers and members. Climate risk is recorded as a key risk in the Fund's Risk Register.

The Committee have been on a journey to lower the Fund's carbon footprint for several years by annually monitoring fossil fuel exposure and the Fund's wider carbon footprint (measuring carbon intensity and fossil fuel reserve exposure) to better understand opportunities and risks within the Fund's portfolio.

Given the proactive steps taken in this area the Fund's equity portfolio has shown materially lower carbon intensity relative to the benchmark over all periods reviewed. The equity assets are invested in a diversified and innovative way, with dedicated allocations to Low Carbon equities, a Paris-Aligned equity strategy and broad based Sustainable equities. Looking forward, the Committee have discussed setting explicit decarbonisation targets and these will be considered further in due course.

Separately, the Committee is also actively working with advisors regarding the adoption of the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), which was established with the objective of creating a consistent climate disclosure framework to be used by companies, asset managers and asset owners, further showcasing the Fund's ongoing commitment to managing climate change. As part of this reporting framework, the Fund plans to build on its existing annual carbon monitoring report by undertaking climate change scenario analysis. This analysis seeks to understand the climate impact on return at the total Fund and asset class level across different warming scenarios and help the Fund to further its decision-making. The Fund is looking to be an early mover and adopt these recommendations over 2021.

5. Thematic sustainable investments opportunities

Long-term sustainability trends, including climate change, present opportunities that require explicit consideration. The Fund actively considers investing in strategies that target long-term ESG themes (e.g. energy, water, demographic trends) on the basis that such opportunities will generate good risk-adjusted investment returns.

The Fund has a representative on the Responsible Investment Reference Group (RIRG) which was set up to progress the RI agenda for London based Pension Funds. The Committee has also worked closely with the LCIV separately to encourage the set-up of specific sustainable investment mandates that the Fund now invests in. In particular, the Fund has worked with the LCIV to introduce;

- A renewable energy infrastructure mandate, in order to invest Fund assets in clean, renewable energy and further contribute to the transition towards to a lower carbon economy.
- An equity sub-fund with a more explicit view on reducing carbon exposure and increasing sustainable equity exposure via alignment with the Paris Agreement.

The Fund will consider further investment initiatives with environmental or low carbon themes or where there is a social benefit in future, providing they also meet the Fund's fiduciary requirements. Work is ongoing to explore the potential introduction of targets and the monitoring of sustainable exposures via annual reporting.

6. Pooling

The Fund is a participating Fund in the LCIV Pool and works collaboratively with LCIV to set clear expectations and help define the strategic requirements of the Fund in respect to Responsible Investment, believing that it is important that LCIV offer funds to investors that integrate ESG considerations into their investment. It is expected that the Fund's ability to implement its own Responsible Investment Policy will be enhanced through the LCIV Pool, due to the inherent benefits of scale and improved governance and stewardship practices that will result from the collaboration.

For the investments that are held within the Pool, LCIV recognises that it has a responsibility to be an active steward and to promote good corporate governance and management of the companies within the sub-funds and has developed a comprehensive Responsible Investment Policy that it expects investment managers to follow. More information can be found here [LCIV-Responsible-Investment-Policy.pdf \(londonciv.org.uk\)](https://londonciv.org.uk/LCIV-Responsible-Investment-Policy.pdf).

The Fund is committed to continue working with LCIV and the underlying partner funds to further develop the Responsible Investment approach and the pool level reporting.

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Agenda Item 8.5

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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