London CIV Climate Change Policy

Working together towards positive outcomes: Our commitment to responsible investment is part of our fiduciary duty and our desire to build a sustainable city and a future in which people and planet will prosper.

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"We would like to acknowledge the continued support of our clients in the development and implementation of this policy. Our shared commitment to limiting the impact of global climate change enables us to generate sustainable returns and drive change together."

Mike O'Donnell, CEO, London CIV

About London CIV

London CIV was authorised in 2015 to provide pooling solutions to the 32 Local Government Pension Scheme (LGPS) Funds ("the Client Funds") in London valued at £44bn collectively.[1] As of 31 December 2020, the total pooled assets were £23bn, split between £11bn active investments and £12bn in passive investments managed by Legal & General Investment Management and Blackrock but invested following fee negotiations conducted by London CIV on behalf of Client Funds.

Our clients are also our shareholders and we work collaboratively to deliver our agreed purpose which is: "To be the LGPS pool for London to enable the London Local Authorities to achieve their pooling requirements".

Our clients retain responsibility for their asset allocation and investment strategy, and thus exposure to climate risk. We see our role as helping them to understand and manage these risks, whilst also addressing the global climate emergency.

By developing a dedicated Climate Change Policy, London CIV has created a three-step strategy to protect our portfolios from the systemic risks posed by climate change using the following actions:

1. **Integration:** embedding responsible investment into investment decision and design
2. **Engagement:** collaboration with companies, managers, peers and participants
3. **Disclosure:** transparent reporting in line with best practice

Our Climate Change Policy is designed to highlight our position and approach to mitigating climate change risk and includes 15 strategic objectives which will be reviewed and reported on at least annually. We hope that this policy will help to inform our investments, managers and suppliers about our priorities and expectations when it comes to climate change risk mitigation and adaptation.

[1] As of December 20

Key Objectives:

- We will ensure our portfolio's **climate risk profiles** are **better** than the **benchmark** as soon as practical and that products are steadily improving.
- We will set an ambitious **net zero carbon emissions** target alongside an interim emissions reduction target **before the United Nations Climate Change Conference** (COP26) in **November 2021** following consultation with our clients.
- We will **facilitate** and **support cross-sectoral efforts** focussed on defining and delivering substantial reductions in supply chain and product-related greenhouse gas emissions.
- We will **assess our managers'** analysis and assessment of climate change-related risks, as well as their investment practices and processes.
- **Climate change** considerations will be **integrated** into **all the mandates** that we award for new funds.
- We will report on the **positive and negative** impact of our investments.
- We will seek **continual improvements** of climate **disclosure** across the industry, working with fund managers and engaging with securities to reduce reliance on modelling.

Why Climate Change is an issue for us, our Clients and their Members

Climate change presents an immediate systemic risk to the ecological, societal, and financial stability of every economy, country, asset type and sector on the planet. It will have significant physical and economic impact on most aspects of human activity and consequently multiple implications for our Client Funds and their beneficiaries. Addressing climate change is therefore part of our fiduciary duty and a strategic investment priority for London CIV.

> Over the next few decades, one billion lives[2,3] and trillions of pounds will be at risk due to a single issue: climate change.[4] Recognising the dual materiality of this global emergency and the associated financial opportunities associated with the green transition, London CIV has a fiduciary duty to integrate climate risk analysis into our investment process to protect our clients and their beneficiaries.
>
> **Jacqueline Amy Jackson, Head of Responsible Investment**

The Earth's temperature is now rising faster than at any time in recent history, evidenced by more numerous and volatile weather events, rising sea levels and warming marine temperatures. It is impacting agriculture and food supply, infrastructure and water availability which in turn, leads to increased migration and conflict.

Human activities are contributing to approximately 1.0°C of global temperatures above pre-industrial levels. Current emission patterns indicate that this could reach 1.5°C by 2040 and on the current path of carbon dioxide emissions, temperature is expected to increase by 3-5°C by the end of the century.[5]

> Taken as a whole, the range of published evidence indicates that the net damage costs of climate change are likely to be significant and to increase over time
>
> **Intergovernmental Panel on Climate Change**

Governments are responding. The 2015 Paris Agreement remains the best example of international action, binding 197 countries to undertake ambitious efforts to combat climate change and adapt to its effects. It aims to stop global temperatures rising by more than 2.0°C above pre-industrial levels this century and to limit that increase to 1.5°C. With COP26 taking place in 2021, it is likely that commitments will only increase.

Whilst government action matters, all sectors of society including individuals, companies and investors must take responsibility for the delivery of their own climate commitments to keep the global temperature rise to well below 2°C.

2 https://arcticwwf.org/newsroom/news/one-billion-people-threatened-by-climate-change-risks-to-oceans-polar-and-mountain-regions-un-report-warns/
3 https://www.theguardian.com/environment/2020/may/05/one-billion-people-will-live-in-insufferable-heat-within-50-years-study
4 https://unfccc.int/news/major-companies-face-usd-1-trillion-in-climate-risks
5 See https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Full_Report_High_Res.pdf and the IPCC's Fifth Assessment Report, 2013

London's Warming

The United Kingdom has taken a lead on assessing climate change impacts and continues to spearhead the way by being the first major economy to pass a net zero emissions law in 2019. London brought its own carbon neutral target forward from 2050 to 2030.[6]

Out of every English region, London has the lowest carbon emissions per person due to its high population density, extensive public transport and a comparative lack of heavy industry. However, 1.25 million people living in London and £277bn worth of assets[7] in the capital city may be severely impacted by climate change by the year 2050.

As the most populous region, urban zone and metropolitan area, home to the largest number of businesses in the UK and responsible for nearly a quarter of the UK's GDP, London is ambitious in its climate change policy and London CIV is committed to demonstrating positive action and leadership.

London CIV's Role in Driving Change

We must consider the financial implications of global warming and encourage emissions reductions now, rather than later if we are to deliver on our long-term investment strategy and manage risk. Our expertise in managing climate related risks, our industry influence and the leadership of our clients provide us with a unique position and exciting opportunity to drive change.

Our approach begins by integrating climate change risk analysis throughout the design, selection and management of our investment decisions by enabling our clients to understand and mitigate their own risk. We engage with others including fund managers, corporates and wider stakeholders, whilst remaining transparent in our reporting to support our clients, track progress and demonstrate leadership.

> We believe that a strong Responsible Investment approach and related Climate Change policy will both protect and add value over the long term and crucially be mutually beneficial to our members and wider society. Through the London CIV we hope that our impact on climate change can be greater, by joining forces and benefiting from the amplified effectiveness of engaging with fund managers and companies alongside likeminded funds.
>
> **Cllr Rishi Madlani, Chair of Pensions Committee, Camden Council and Head of Sustainable Finance & Just Transition, NatWest Group**

6 https://www.london.gov.uk/press-releases/mayoral/mayor-renews-efforts-to-mobilise-green-investment
7 C40 : The Future We Don't Want - Powering cities in the face of climate change

Our approach

London CIV recognises that the environmental and socio-economic landscape is changing rapidly from both a societal and regulatory perspective on an ongoing basis. Thus, our approach to responsible investment and strategy evolves annually and remains under constant review to help anticipate future risks.

Our three-step strategy can be described using the following process. It is held to account by objectives and is supported by Principles of Governance:

1. Integration: Embedding responsible investment into investment decision and design

2. Engagement: Collaboration with companies, managers, peers and participants

3. Disclosure: transparent reporting in line with best practice

All underpinned by **Principles of Governance:** Strategic monitoring and accountability throughout the organisation.

1. Integration: embedding responsible investment into investment decision and design

> We will incorporate ESG issues into investment analysis and decision-making processes.
>
> **Principle 1, UN PRI**

Using our clients' own policies, an understanding of best practice via our peers and the regulatory landscape, London CIV has developed its own investment beliefs which it uses to develop all policies.

Investment Beliefs

London CIV aims to deliver stronger investment returns over the **long term**, protecting our clients' interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society. Our Investment Beliefs clearly articulate our commitment to be **responsible investors**. Social, environment and corporate governance (ESG) considerations, including climate change, are integrated throughout all aspects of our investment process.

1. Long term investors get better risk adjusted returns
2. Robust risk management and mitigation improves risk adjusted returns
3. We believe Responsible Investment improves risk adjusted returns
    a. We believe good corporate governance improves risk adjusted returns
    b. We believe in good stewardship and in proactive engagement
    c. We view the management of climate change risk as a key element of our investment strategy
    d. We believe diversity improves risk adjusted returns
4. We believe taking the right risk for the right return will maximise opportunities
5. We believe that costs are important and should be managed:
    a. We believe managing fees and assessing remuneration will support cost effectiveness
    b. We believe fund structuring and implementation costs matter to ensure flexibility and to manage costs
6. We believe diversification can improve returns and reduce risk
7. All of our investment decisions and beliefs are based on clear objectives, expertise, knowledge and robust research
8. We believe transparency and accountability build client trust
9. We will innovate, collaborate and lead
10. We believe that a collaborative approach to investment improves returns and reduces risk

Our policy details how we will integrate climate change throughout the investment process and sets objectives to ensure outcomes can be monitored and measured over time. More information about how our investment beliefs translate into climate action can be found in the Appendix.

Products

We want to increase the range of products available to our clients that deliver substantial climate change benefits. We continue to develop products in collaboration with our clients, helping them to meet their own climate goals whilst delivering on this strategy.

One of the key challenges we face is that there is a limited supply of investment products which meet our climate change objectives (low carbon, socially just) and investment requirements (the right risk-return profile). Thus, encouraging innovation is critical to our product development and fund launch strategy.

Our existing climate conscious products and their approach to ESG are highlighted below. More detailed information about our climate impact and forward-looking risk analysis can be found in our annual metrics report and a summary shall be provided in the Annual Report:

Asset Class	Fund Name	Description
Equity	LCIV Sustainable Equity Fund	This Fund invests in a high conviction, research driven global equity portfolio. The strategy is based on the beliefs that great businesses create contingent assets not reflected in typical financial metrics, extensive evaluation of extra-financial factors reduces risk and uncovers alternative sources of alpha, and an integrated ESG approach supports responsible allocation of capital. These principles ensure that the strategy only considers companies with strong competitive dynamics, strong management, and environmental, social and governance practices.
Equity	LCIV Sustainable Equity Exclusion Fund	This Fund mirrors the LCIV Sustainable Equity Fund (as described above) and excludes issuers whose primary business is involved with any of the following restricted activities: adult entertainment; alcohol; gambling; weapons; small arms and tobacco; and does not invest in issuers whose primary business is directly involved in extracting, processing or transporting coal, oil or natural gas ("fossil fuels").
Equity	LCIV Global Alpha Growth Paris Aligned Fund	This Fund aims to select stocks that offer the prospect of sustainable above-average growth in earnings and cash flow. This is implemented by assessing a company's prospects for sustainable growth rather than by predicting short-term share price movements or macro-economic trends. The investment manager recognises that companies grow at different rates, some more cyclically than others, so it also invests in companies with 'latent' growth opportunities. This Fund has an explicit carbon commitment to have a Weighted Average Carbon Intensity (WACI) lower than that of the MSCI ACWI Paris-Aligned Index which puts it in line with the Intergovernmental Panel on Climate Change's 1.5 degree warming scenario. It also applies quantitative and qualitative screens to exclude high-emission companies that do not or will not have an important role to play in the transition to a low-carbon economy.
Private Markets	The London Fund	The Local Pensions Partnership Investments and the London CIV have jointly set up "The London Fund" to help access investment opportunities in Greater London across real estate, infrastructure, and growth capital opportunities. The strategy focuses on investments across Greater London, which includes the 32 London Boroughs, the City of London Corporation, and the commuter belt surrounding London, and its investment objectives also include investments in projects with sustainable outcomes that address social needs in Greater London including job creation, area regeneration and a positive environmental impact.

Asset Class	Fund Name	Description
Private Markets	LCIV Infrastructure Fund	The Fund invests in infrastructure assets in brownfield and greenfield investments. At least a quarter of the Fund will remain invested in renewable energy in line with the London CIV Responsible Investment and Engagement Policy.
Private Markets	LCIV Renewable Infrastructure Fund	The Fund invests in renewable energy infrastructure assets in brownfield and greenfield investments. This will include generation, transmissions and distribution assets, with a market segment focus on renewable energy including, wind solar and other generations such as biomass, biogas, hydroelectricity, and enablers.

Though climate aligned funds and investments have outperformed market cap indices, in recent years we have seen a secular shift towards a lower carbon economy and believe that managing carbon risk will also reduce the financial risks of our clients' investments.

Jason Fletcher, CIO

Portfolio Resistance

Whilst we recognise the varying impact of climate change on different funds, our overall investment portfolio must be resilient under a range of climate scenarios that support both mitigation and adaptation. We want to adopt best practice on climate risk management and to work with our managers to further improve and develop our processes.

Historically, climate reporting and strategy focussed on climate footprinting and subsequent impact reduction. Impact reduction is an important aspect of our policy as it enables us to support a sustainable future worth living in for all our beneficiaries.

Whilst these are both positive steps to take, we believe that our forward-looking approach built on best-practice scenario analysis helps us in future proofing our portfolios so that they are resilient to the consequences of climate change and can benefit from the opportunities that arise.

Climate change will not only result in risk but will provide new investment opportunities. For example, the Intergovernmental Panel on Climate Change (IPCC) forecast that new public and private investment in energy will need to grow to around £1.75 trillion annually to 2035 – representing around 2.5% of global GDP.

Positive impact

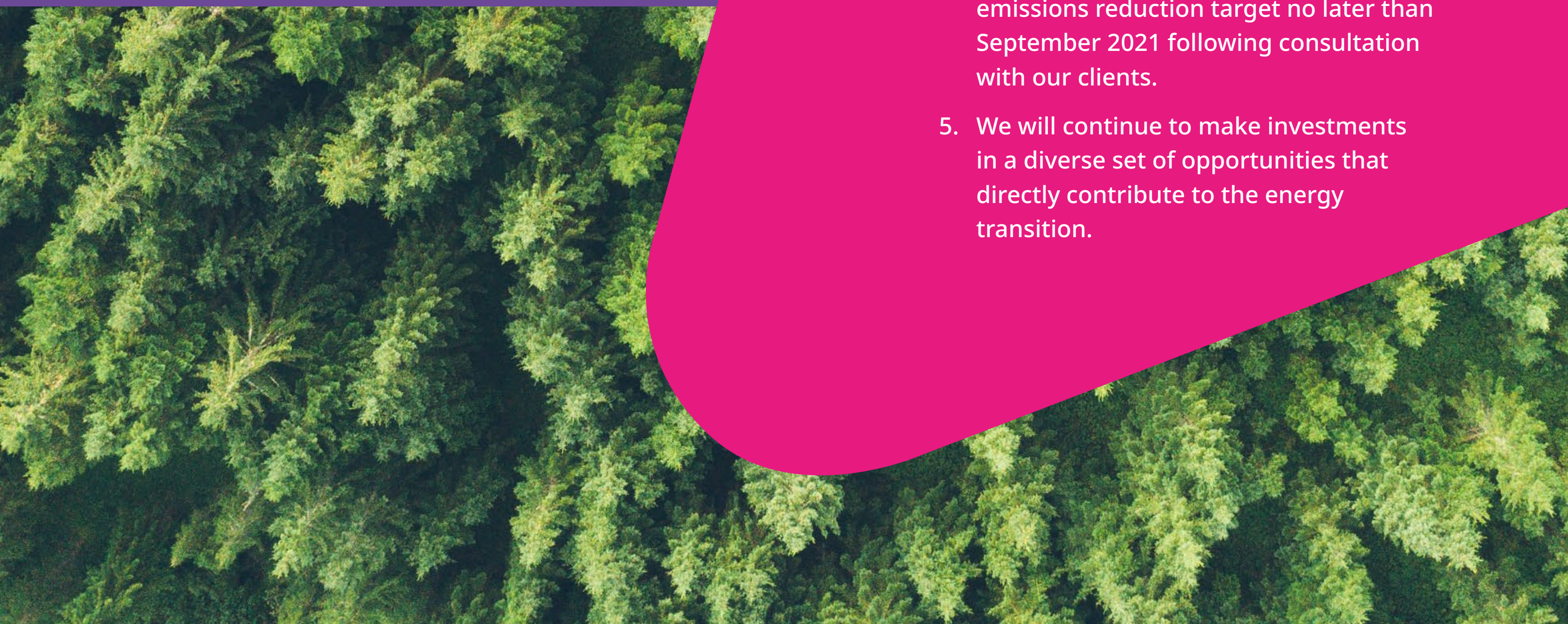
We can maximise our own opportunities whilst supporting the low carbon transition by investing in areas such as renewable energy and energy efficiency. Our primary goal is to support our fiduciary duty but this is underpinned by a responsibility to our clients' beneficiaries and wider stakeholders who demand a just transition.

Our goal is to support **not just a transition** – but **a just transition**.

All investments contain a myriad of social nuances which is why it is important that our Climate Change Policy is closely interlinked and considered against our wider commitment to positive impact and continued support of the UN Sustainable Development Goals (SDGs), designed as a blueprint to achieve a better and more sustainable future for all.

Integration Objectives:

1. We will collaborate with clients to avoid launching products with excessively high carbon footprints.
2. We will work with our clients to establish their climate change objectives and outcomes and offer a range of products to meet those goals.
3. We will ensure our portfolio's climate risk profiles are better than the benchmark as soon as practical and that products are steadily improving.
4. We will set an ambitious net zero carbon emissions target alongside an interim emissions reduction target no later than September 2021 following consultation with our clients.
5. We will continue to make investments in a diverse set of opportunities that directly contribute to the energy transition.



2. Engagement: collaboration with managers, companies, peers and participants

> We will be active owners and incorporate ESG issues into our ownership policies and practices. We will promote acceptance and implementation of the Principles within the investment industry. We will work together to enhance our effectiveness in implementing the Principles.
>
> **Principles 2, 4 and 5 of the UN PRI**

We want the companies and other entities in which we invest and contract with to demonstrate their resilience against climate change whilst collaborating with the broader market to build a financial system ready for a low carbon future.

Due to our scale, we have the opportunity to encourage companies and other entities to take action on climate change by demonstrating strong mitigation and adaptation. Our climate stewardship extends to all our portfolios and is adapted depending upon the asset class.

As a member of Local Authority Pension Fund Forum (LAPFF), London CIV works with our fund managers to ensure that they exercise our rights in line with our responsible investment and engagement policies and in accordance with LAPFF guidelines.

To further strengthen and integrate our voting and engagement process, London CIV has appointed a voting and engagement partner. Hermes EOS will enable us to uncover financially material ESG issues and adapt a global approach backed by strong resources, so that we can continue to use our shareholder rights to maximise shareholder value.

Working with Fund Managers

Recognising the fiduciary duty to act in the long-term interests of its shareholders, London CIV has implemented a rigorous screening process for selecting and appointing investment managers to ensure that climate change considerations are incorporated within their financial decision-making.

Managing risks associated with climate change is a fundamental part of our investment strategy. To reflect their importance, they have been integrated into all stages of our engagement with investment managers. This approach was established in partnership with the Responsible Investment Reference Group (RIRG) with the oversight of the London CIV Compliance, Audit, and Risk Committee (CARCO), and the Investment Oversight Committee (IOC) and is documented in the Investment Governance Documentation (IGD).

Selection

All tendering investment managers must be able to clearly demonstrate their approach to identifying and mitigating exposure to climate risk and articulate how their investment objectives support the transition to the low carbon economy. This is assessed on the basis of the fund's ESG credentials, climate policy and their set of responses to London CIV's fund manager due diligence questionnaire. Table 1 details some of the high-level questions that underpin our review process.

Table 1 : Fund Manager Due Diligence Questionnaire (Extract)

1	Does your organisation support TCFD recommendations?
2	Has your organisation included the monitoring of climate-related impacts as part of the board's and/or management group's oversight responsibilities?
3	Is there a firm-wide strategy o place to identify the risks and opportunities related to climate change?
4	Has the organisation considered the impact of climate-related scenarios on future outcomes in terms of expected risk and return, as well as the identification of new opportunities?
5	Has a process been established to assess the integrate climate-related investment risks (transition and physical impacts into investment decisions?
6	What climate related metrics, if any, does hour organisation use? Can you describe how these metrics have impacted investment decisions?
7	Has the organisation introduced steps to transition investment portfolios to net-zero GHG emission by 2050?

While climate stewardship is an essential part of our manager selection process, London CIV does not currently stipulate specific investment strategies or minimum levels of ESG or climate integration. This is left to the full discretion of investment managers, which enables them to tender with optimal strategies, contingent upon the nature and requirements of the fund mandate as defined by London CIV.

Appointment

Our Responsible Investment Policy states that for each appropriate asset class, we will ensure that managers selected for appointment have:

- An ESG Policy covering climate issues, or a standalone climate policy
- Where relevant, managers should be demonstrating active ownership policies or equivalent, articulating how climate factors are integrated into their engagement and stewardship activities
- Case studies or examples of where climate issues have influenced an investment decision.
- Where appropriate, information on the process for integrating any third party ESG data into their company financial models, investment strategies and portfolio construction.
- Whether they are a signatory of the UN backed Principles for Responsible Investment (PRI) and Stewardship Code, and if applicable a copy of their PRI public report and annual assessment scores.

Management and Monitoring

We meet with our fund managers on a quarterly basis to assess their climate performance across key exposure and impact metrics (see Appendix). Fund managers are challenged to provide case studies or examples of investment decisions that were influenced by the integration of climate factors in decision-making.

London CIV will be looking for our managers to be aligned with our climate performance targets. We seek to ensure that our funds' climate risks decline over time. Specific emission reduction targets may be designed into a specific fund where London CIV will ensure that the selected manager meets targets as set out in the objectives.

Engagement by asset class

Listed Equities

The most developed area of engagement is with our listed equities, where we use the formal rights granted to us as investors, specifically the right to vote on our shareholdings, file resolutions and the right to call Extraordinary General Meetings. London CIV will work with partners and like-minded investment managers to develop our engagement strategy.

Fixed Income

Engagement with issuers on climate mitigation and resilience is also central to our approach in corporate bonds and we are currently exploring how this can be applied in other fixed income investments that we hold.

Private Markets

The impact we can have in private markets can be even stronger, working through our fund managers and with our general partners to support private companies, real estate, infrastructure projects and other entities in managing their impact on climate change.

Engagement in other asset classes can be more challenging. However, to address this, we have appointed Hermes EOS to support London CIV in its engagement. Further information about how we manage our engagement by asset class can be found in our Stewardship Policy.

Public policy engagement

The regulatory environment and policy setting of the countries in which we invest, are a crucial factor for companies to be able to support their sustainability commitments. Policy makers play a crucial role in creating a level playing field for companies operating in different geographic markets and they have the power to both re-balance and disrupt. Therefore, London CIV engages collectively, through the investor associations of which we are a member, on matters of public policy related to the promotion of ESG and publicly disclose our consultation responses.

Industry engagement

We recognise the collective power of investors and industry stakeholders which enables us to send strong and clear messages to company management and investment managers. By aligning our requests and following best-practice principles wherever possible, we find that we can improve efficiency, relationships and therefore positive response rates from companies and managers.

Case Study: ClimateAction100+

The ClimateAction100+ Working Group is a global collaborative engagement targeting a selection of the world's biggest greenhouse gas emitters driving action to curb emissions, strengthen climate-related financial disclosure, and improve governance of climate change issues.

Through our participation with the initiative, we have committed to work with Ceres and PRI to engage PepsiCo, Rolls Royce and Martin Marietta Materials on climate change.

Engagement Objectives:

1. We will engage with our material holdings to understand how aligned they are with the Paris Agreement.
2. We will facilitate and support cross-sectoral efforts focussed on defining and delivering substantial reductions in supply chain and product-related greenhouse gas emissions.
3. We will assess our managers on their own analysis and assessment of climate change-related risks in their investment practices and processes as part of our ongoing monitoring and management.
4. We will encourage all our fund managers to show support of industry initiatives including TCFD, ClimateAction100+ and the Transition Pathway Initiative (TPI) and will not appoint new managers who are not signed up to PRI.
5. Climate change considerations will be integrated into all the mandates that we award for new funds.

Disclosure and Transparency

> We will seek appropriate disclosure on ESG issues by the entities in which we invest. We will each report on our activities and progress towards implementing the Principles.
>
> **Principles 3 and 6 of the UN PRI**

Accurate and timely disclosure of climate-related financial information is central to the effective implementation of the commitments set out in this policy. To address this, London CIV has developed robust monitoring and accountability mechanisms to improve transparency and quality of reporting to and from all its stakeholders. This includes efforts to:

- **Engage** more intensively with companies that do not yet disclose climate-related data in alignment with the recommendations of the TCFD and the Sustainability Accounting Standards Board (SASB).
- **Monitor** the climate performance of our fund managers and ensure they have communicated clear decarbonisation strategies and risk mitigation plans.
- **Report** on a range of climate metrics (see Appendix) in our mainstream financial filings to promote a more informed understanding of climate-related risks and opportunities, and foster engagement and accountability towards our shareholders. London CIV will also produce annual reports on its engagement and stewardship activities.

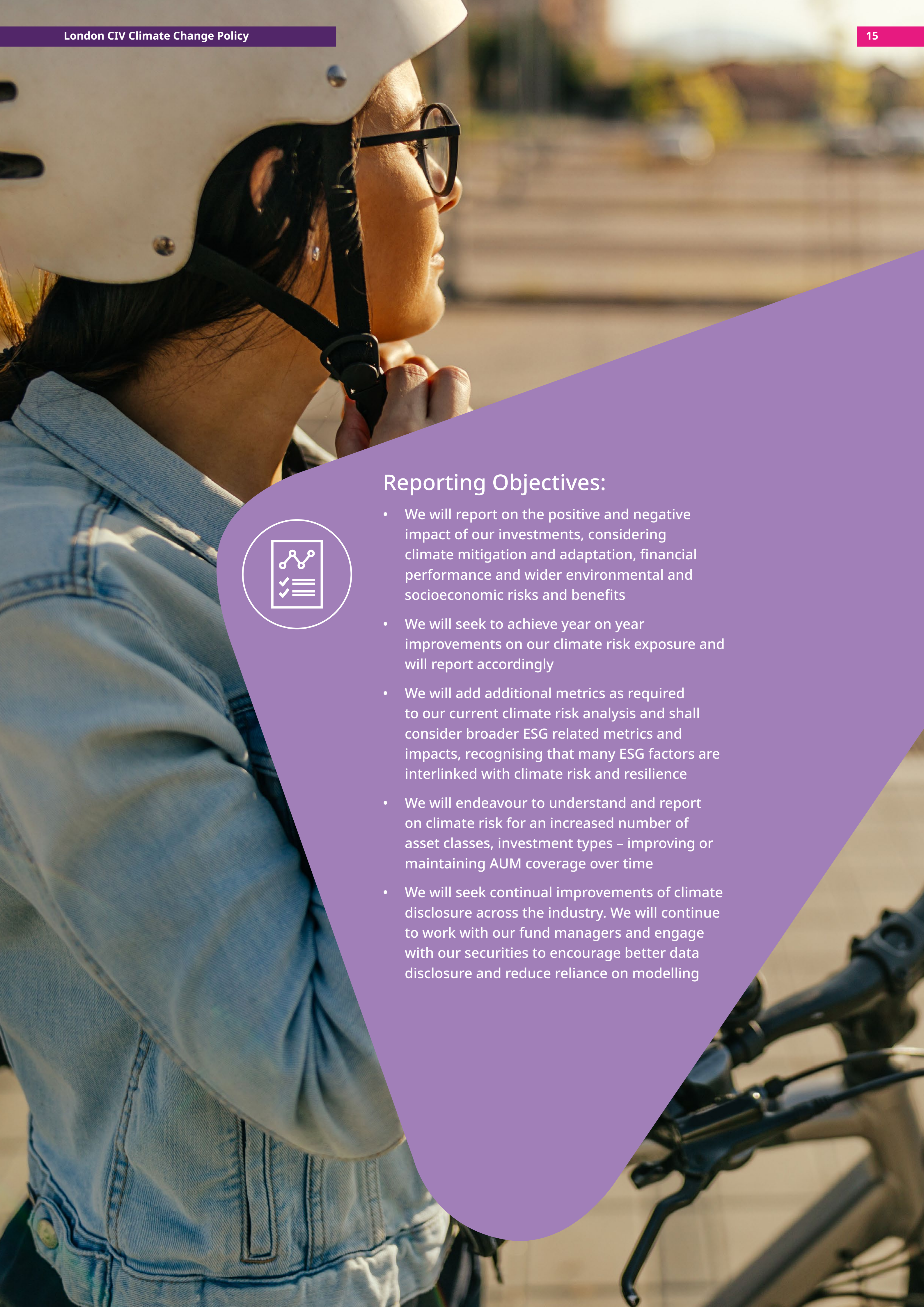
Limitations

The accuracy of the climate analytics reported is contingent upon the quality of the data available and the rigour of the analytical approaches employed in our measurement tools.

For instance, whilst financial data has been available for many centuries, environmental data is relatively new. This means that companies continue to report their greenhouse gas emissions to varying degrees of quality and detail. Some disclosures are made in accordance with global reporting standards and verified by external parties, but others are fragmented and prone to errors. Global levels of corporate disclosure will usually tend to vary depending on company size, geography, and industry.

Climate impact and exposure metrics calculated by London CIV have all been developed in line with best practice, and with reference to the recommendations provided by established organisations such as the TCFD and the Greenhouse Gas Protocol. However, their degree of precision is not homogeneous. For all reported metrics, London CIV pledges for complete transparency on the limitations of the data used and the assumptions that underpin the measurement tools.

London CIV is committed to consistently improving on its disclosure in terms of accuracy and coverage yet in the meantime, we cannot and will not let imperfection be a route to inaction on understanding and mitigating climate risk.



Reporting Objectives:

- We will report on the positive and negative impact of our investments, considering climate mitigation and adaptation, financial performance and wider environmental and socioeconomic risks and benefits
- We will seek to achieve year on year improvements on our climate risk exposure and will report accordingly
- We will add additional metrics as required to our current climate risk analysis and shall consider broader ESG related metrics and impacts, recognising that many ESG factors are interlinked with climate risk and resilience
- We will endeavour to understand and report on climate risk for an increased number of asset classes, investment types – improving or maintaining AUM coverage over time
- We will seek continual improvements of climate disclosure across the industry. We will continue to work with our fund managers and engage with our securities to encourage better data disclosure and reduce reliance on modelling

Governance and Strategy

> The Board takes its responsibility for climate change risk seriously and is determined that London CIV will make a demonstrable difference to the management of these risks, working with Client Funds to create a future worth living in for LGPS scheme beneficiaries in London.
>
> **Lord Kerslake, London CIV Board Chair**

The London CIV Board approves and is collectively accountable for London CIV's Climate Change Policy. The IOC oversees the implementation of London CIV's investment strategy on behalf of the Board including its approach to climate change risk mitigation.

The Executive Team, led by the Chief Executive Officer (CEO), is responsible for the day-to-day management of London CIV, including delivery and development of London CIV's climate change strategy. The Chief Investment Officer (CIO) is responsible for managing the integration of climate change into the portfolio construction, implementation and overall investment decision making.

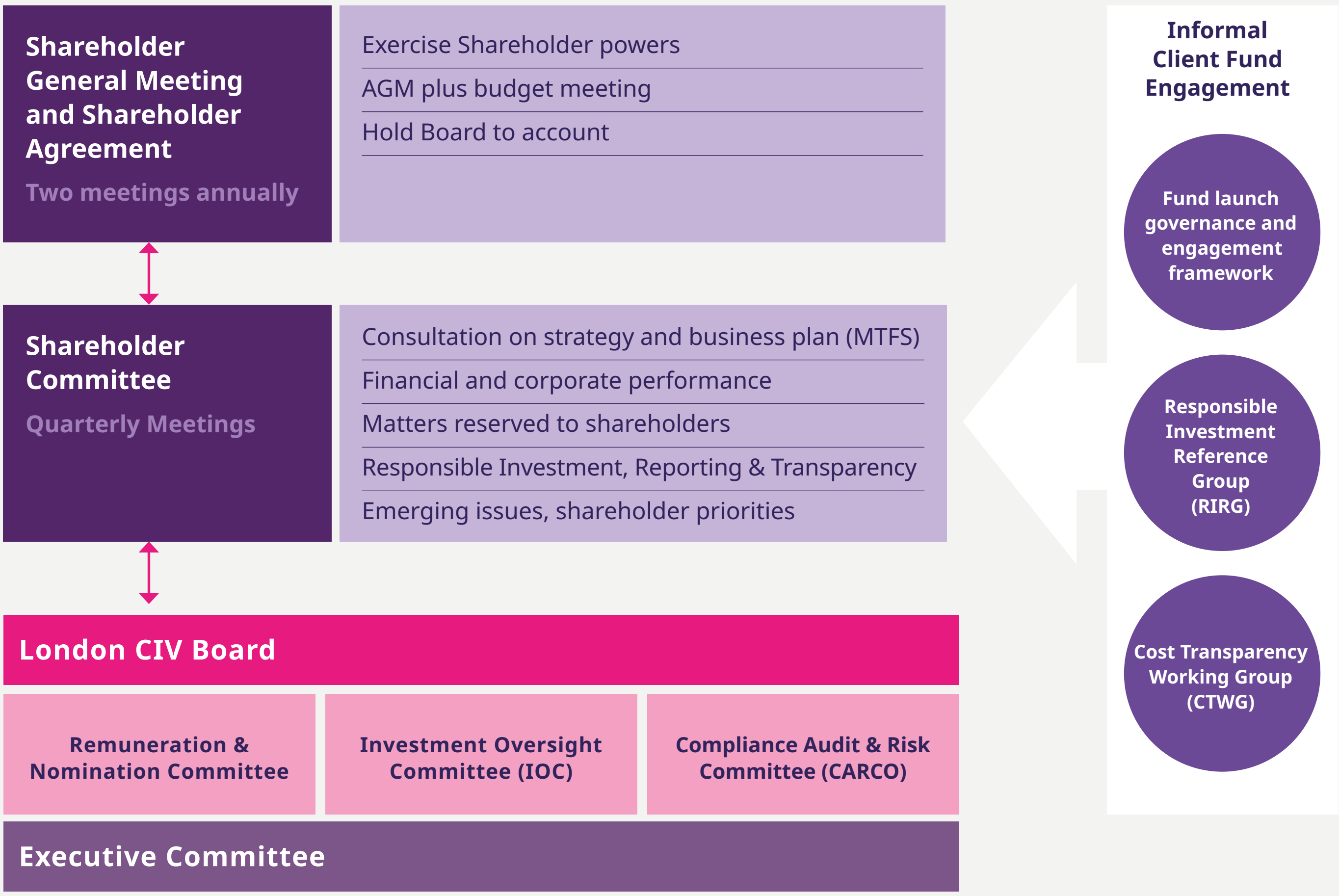
Strategy development and operational accountability is led by the Head of Responsible Investment (HRI) who reports to the CIO and is supported by two Responsible Investment Managers, one of whom oversees climate risk analytics. The integration and mitigation of climate change risk is explicit in the roles of all members of the Investment Team.

The development of this policy has been supported by key stakeholders specifically through the support of the RIRG, membership of which includes representatives from Client Funds, London CIV, and the appointed ESG Champion from the Board. The group meets monthly to discuss a number of ESG issues with a specific focus on climate change risk.

This policy relates to and interacts with other documents, in particular the Responsible Investment Policy and Stewardship Policy.

London CIV committee structure

Formal Governance



Appendix

Definitions:

Climate Change (Anthropogenic):	A change in climate that is attributed directly or indirectly to human activity that alters the composition of the global atmosphere, and that is in addition to natural climate variability over comparable time periods. Global warming is the increase in the near surface temperature of the Earth. Global Warming has occurred in the distant past due to natural causes, but recently refers to the warming predicted to occur due to the increased emissions of greenhouse gases.
Climate-related risks:	Potential negative impacts of climate change on an organisation. Physical risks emanating from climate change can be event-driven (acute), such as increased severity of extreme weather events (e.g. cyclones, droughts, floods and fires). They can also relate to longer-term (chronic) shifts in precipitation and temperature and increased variability in weather patterns; or other long-term changes such as sea level rise. Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relates to policy and legal actions, technology changes, market responses, and reputational considerations. This is in line with the TCFD's definition.
ESG Factors:	Environmental, social and governance issues that are identified or assessed in responsible investment processes. (1) Environmental factors are issues relating to the quality and functioning of the natural environment and natural systems. (2) Social factors are issues relating to the rights, well-being and interests of people and communities. (3) Governance factors are issues relating to the governance of companies and other invested entities.
Mitigation (of climate change):	Refers to efforts to reduce or prevent emission of greenhouse gases. Mitigation can mean using new technologies and renewable energies, making older equipment more energy efficient, or changing management practices or consumer behaviour.
Adaptation:	Anticipating the adverse effects of climate change and taking appropriate action to prevent or minimise the damage they can cause or taking advantage of opportunities that may arise.
Carbon Footprint:	Total carbon emissions for a portfolio normalised by the market value expressed in tonnes CO_2e (carbon dioxide equivalent) / $M invested. This is in line with the TCFD's definition.
IPCC (Intergovernmental Panel on Climate Change):	International body for assessing the science related to climate change. The IPCC was set up in 1988 by the World Meteorological Organization (WMO) and United Nations Environment Programme (UNEP) to provide policymakers with regular assessments of the scientific basis of climate change, its impacts and future risks, and options for adaptation and mitigation.
UN SDGs:	UN Sustainable Goals. These include the SDG targets and indicators, thresholds set by the UNFCCC Paris Agreement, expectations set out in the Universal Declaration of Human Rights, and other environmental, social, governance, and development objectives established by political or socio-economic institutions.
UN Principles for Responsible Investment (UN PRI):	Set of six principles that provide a global standard for responsible investing as it relates to environmental, social and corporate governance (ESG) factors. Organisations follow these principles to meet commitments to beneficiaries while aligning investment activities with the broader interests of society.
The Local Authority Pension Fund Forum (LAPFF):	The UK's leading collaborative shareholder engagement group. LAPFF promotes corporate governance standards to protect the long-term value of local authority pension funds.

UK Stewardship Code:	The UK Stewardship Code 2020 sets stewardship standards for asset owners and asset managers, and for service providers that support them. The Code comprises a set of 'apply and explain' Principles for asset managers and asset owners. The Code also recognises that environmental, particularly climate change, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and undertaking stewardship.
Climate Action 100+:	Investor initiative created to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. These include 100 'systemically important emitters', alongside more than 60 others with significant opportunity to drive the clean energy transition.
Taskforce on Climate Related Financial Disclosures (TCFD):	Organisation established with the goal of developing a set of voluntary climate-related financial risk disclosures which can be adopted by companies so that those companies can inform investors and other members of the public about the risks they face related to climate change.
GHG Protocol:	Establishes comprehensive global standardised frameworks to measure and manage greenhouse gas (GHG) emissions from private and public sector operations, value chains and mitigation actions.
Transition Pathway Initiative (TPI):	Global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy.
EU Taxonomy:	Framework designed to direct private capital toward long-term, environmentally sustainable activities and prevent false claims about the environmental nature of an investment product.
Paris Agreement:	In 2015, Parties to the UNFCCC agreed in Paris to keep the global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C. The agreement requires all Parties to put forward "Nationally Determined Contributions" (NDCs). There will also be a global stocktaking every five years to assess the collective progress towards achieving the agreement and to inform about further individual actions by Parties.

Detailed Statement of Investment Beliefs and What This Means For Climate Change

Belief	Details	Principle	What this means in practice for our work in climate change
1.Long term investors get better risk adjusted returns	We believe in a long-term approach to investment to deliver better returns, improved outcomes, and reduced trading costs. Our long-term view includes our responsibility to support a sustainable and sufficient return. Long term investing offers a greater opportunity for outperformance.	We invest for the long term	We recognise that climate change may affect our portfolios, the resilience of the financial system and the health of our economy, society and environment over the short, medium and long term. Climate change is relevant to all of our investments in all asset classes and geographies.
2. Robust risk management and mitigation improve risk adjusted returns	We believe that robust risk management and risk mitigation can improve outcomes. Robust risk management is critical for Client Funds to have complete confidence in us to deliver their investment strategy needs and to maintain our authorisation requirements.	We manage risks appropriately	We will be comprehensive in our consideration of our funds' risks considering financial and non-financial risk as appropriate. Climate change is a source of downside investment risk and upside opportunity. Thus, climate change considerations are integrated throughout the investment lifecycle (design, select, manage, and sell).
3. We believe Responsible Investment improves risk adjusted returns	We believe that being a responsible investor improves outcomes, supports risk adjusted returns and is part of our fiduciary duty. Responsible investment is about the consideration of all material financial, environmental, social and governance (ESG) risks to long term growth and thus supports our first belief in being long-term investors.	Responsible Investment is integrated into everything we do	Climate change is one of the most material factors when considering responsible investment, which we integrate into every stage of the investment process. We maintain high expectations of companies and fund managers and request defined policies on matters relating to climate change to ensure that all associated risks are adequately compensated to improve risk adjusted returns.

Belief	Details	Principle	What this means in practice for our work in climate change
3a. We believe good corporate governance improves risk adjusted returns	We believe that investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. We also believe that companies and asset managers which exhibit good governance are poised for better returns and less likely to pose a financial material risk to our funds. If issues arise we adopt a stewardship approach to generate a greater positive impact.	We strive to be exemplars of corporate governance	We allocate clear responsibilities and accountabilities for the oversight and implementation of this Climate Change Policy. We integrate climate change into our appraisal and remuneration processes, and through effective monitoring and review of the implementation of this policy. Thus, we adopt best practice collective governance with appropriate oversight, prioritisation, delegation and accountability and we expect the same of our investee companies.
3b. We believe in good stewardship and in proactive engagement	We believe that proactive engagement with investment managers and companies alike to encourage responsible investment will enable better outcomes and deliver impact where it is needed. We value the opportunity to influence companies and have a positive impact not only on the world around us but on the value of our funds.	We are exemplar stewards of capital	We require our asset managers to use their rights and influence to encourage securities to take a proactive approach to managing the business risks and opportunities presented by climate change as a central part of how they generate sustainable financial returns over the long-term. In addition, we work with the broader investment community and demonstrate leadership in order to drive action on climate change through collaboration.
3c. We believe management of climate change risk is a key element of our investment strategy	We believe financial markets could be materially impacted by climate change through the response of policymakers and increasing physical risks. Responsible investors should proactively manage this risk factor through measurement and management of climate related financial disclosures which are forward looking and robust.	Climate change risk is integrated into the design, selection and management of investments	We believe climate change is the most financially material ESG risk at present and will therefore quantify and disclose the risk of climate change exposure associated with our funds. We will also mitigate risk through our stewardship activities, using partnerships of like-minded investors. We will support ongoing efforts to adhere to the Paris Agreement and recognise efforts of investees that seek continual improvement setting ambitious targets in a science-based and data driven way.

Belief	Details	Principle	What this means in practice for our work in climate change
3d. We believe diversity improves risk adjusted returns	There is clear evidence showing that decision-making and performance are improved when company boards and investment teams are composed of diverse individuals. We believe companies and asset managers will improve outcomes by championing diversity in people and skill sets.	We expect to see diversity	We believe there are strong cases for organisational equality, diversity and inclusivity and action on climate change. Diverse and inclusive cultures bring about ideas, effective problem solving and ultimately greater chances of success. We recognise that our opportunity in diversity is strongest when we consider our influence on fund management and the materiality of our funds.
4. We believe taking the right risk for the right return will maximise opportunities	We believe that markets can be inefficient in creating opportunities to deliver alpha (higher risk-adjusted returns, net of fees). Good risk management improves outcomes and adds value. We will make our collective investments work as hard as possible to meet our funds' objectives: Providing the right structure of Portfolios, investments, and managers within asset classes. Whilst we take account of market and economic levels in our decision making, we will avoid making decisions on purely a short-term basis.	We should manage risk and return together	When evaluating climate change-related investment opportunities, we ensure that these investments meet the risk and return objectives of the fund, over the short, medium and long-term.
5. We believe that costs are important and should be managed	We believe that in this fiduciary role, we have a duty to manage costs in order to serve our Client Funds and their beneficiaries.	We should manage full Investment cost	We will seek to gain leverage from our collective status through reductions in fees and avoid added costs through increased resilience and collaboration of strengths, knowledge, and expertise. We recognise that scale is critical to reducing the costs we pay, and also to ensuring that investment that we make and the innovations we catalyse have real impact.

Belief	Details	Principle	What this means in practice for our work in climate change
5a. We believe managing fees and assessing remuneration will support cost effectiveness	The management fees of investment managers and the remuneration policies of investee companies are of significance for Client Funds, particularly in a low return environment. Fees and remuneration should be aligned with the long-term interests of our clients, and value for money is critical.	We should manage fees and assess remuneration	Meeting the needs of the Client Funds efficiently is the core purpose of the pool and we will seek the most cost-effective solutions to achieve their objectives whilst implementing these principles collectively. We are prepared to pay for active management and other services when we believe that the costs incurred are likely to be justified by the benefits.
5b. We believe fund structuring and implementation costs matter to ensure flexibility and to manage costs	We believe that the measurement and management of costs should be used to improve both net returns and outcomes.	We should measure and manage costs to improve net returns and outcomes	We will utilise the Cost Transparency Initiative ("CTI") templates to ensure we measure and manage full investment costs to the benefit of all our Investors.
6. We believe diversification can improve returns and reduce risk	We recognise that diversification can improve returns and reduce risk. Yet we remain aware that over diversification can result in greater costs and eclipse the benefits of diversification.	We should diversify investments appropriately	We offer diversified pooled funds and a variety of sub-funds to meet the risk return appetite of our investors. Offering too many funds that are too diversified will damage risk adjusted returns after costs.
7. All of our investment decisions and beliefs are based on clear objectives, expertise, knowledge and robust research	Clear objectives, appropriate decision making, and robust governance are necessary enablers for superior investment returns. Ensuring appropriate skills and knowledge is critical for Client Funds to have complete confidence in us to deliver their needs. We believe that evidence-based decision making and ensuring our knowledge is up to date will ensure their needs are met quickly and efficiently.	We should have clear objectives and decision making	We make our decisions based on extensive expertise and high quality, knowledgeable advice. We take an evidence and research-based approach to understanding the investment implications of climate change: Continually learning and reappraising from academic research, investment professionals, and our peers.

Belief	Details	Principle	What this means in practice for our work in climate change
8. We believe transparency and accountability build client trust	Being transparent, open and accountable to the Client Funds we serve is essential. We believe in the importance of being transparent and accountable, to ensure the right actions are taken, manage risk and facilitate better decisions. This applies both in our own operations, the investors we work with, and our investments. We believe that clearly articulated and consistent reporting of our investment goals and performance measures will support accountability.	We are transparent and accountable	We will report annually on the commitments set out in this policy. We will formally review the implementation of this policy in 2023 and we will set a short- and medium-term climate target in 2021.
9. We will innovate, collaborate and lead	We are innovative and demonstrate thought leadership. We recognise the benefits in collaborating with others whenever possible, to share ideas, best practice and learn from others who are leading. We believe that collaboration across the industry can help us to manage costs and maximise efficiency.	We will Innovate	We will work to innovate and collaborate with other funds, pools and the market to create cost effective, leading solutions required by the pool and its Client Funds. We will also encourage asset managers to innovate and offer new investment solutions, to effectively manage the climate related risks and opportunities in their portfolios, and to constructively engage with the companies and other entities in which they invest. In addition, we will ensure that our own staff understand and continue to learn about the impact of climate change risk.
10. We believe that a collaborative approach to investment improves returns and reduces risk	We believe that a collaborative approach to investment improves returns and reduces risk. We value the opportunities presented by pooling in managing costs and creating efficiencies.	We will collaborate	We collaborate with other funds, pools and the market to build the wider investment industry's capacity and expertise on climate change. We also work with others to ensure that public policy and the financial system are explicitly focused on enabling and financing both the low carbon transition and effective adaptation to the unavoidable impacts of climate change.

Getting in touch with the team

If you have any questions or comments about this report please email Jacqueline Amy Jackson, Head of Responsible Investment at RI@LondonCIV.org.uk.

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Important information

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