

Non-Executive Report of the: Pensions Committee Monday, 3 October 2022	 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 final draft of the 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 fulfil its role as a Responsible Investor.

In September, the Committee received the first draft of fund's TCFD report which 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.

Officers and advisers are currently preparing the 2021/22 version.

Recommendations:

The Pensions Committee is recommended to:

1. Consider and approve the final 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.

In March 25 March 2021, the Pensions Committee received the road map and timeline to TCFD reporting. At its meeting on 23 September 2021, the Fund received its first draft. This report has since been updated with comments from previous meeting.

- 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 agreed 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. Managers have all been contacted and have provided information on fixed income and property.

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

Next Steps

- 3.6 Officers have since submitted its registration to sign up as a TCFD voluntary supporter. The TCFD report will be included in the pension fund annual reports going forward.
- 3.7 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") final

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:

Miriam Adams, Head of Pensions & Treasury ext4248

Email: Miriam.adams@towerhamlets.gov.uk