

MINUTES OF A SPECIAL PENSIONS COMMITTEE

MONDAY, 17TH FEBRUARY, 2020

Councillors Present: Councillor Robert Chapman in the Chair
Cllr Michael Desmond (Vice-Chair),
Cllr Kam Adams, Cllr Ben Hayhurst,
Cllr Polly Billington and Cllr Rebecca Rennison

Co- Optees: Henry Colthurst

Officers in Attendance: Ian Williams, Group Director, Finance and Corporate Resources, Michael Honeysett, Director Financial Management, Sean Eratt, Legal Services, Rachel Cowburn, Head of Pension Fund Investment

Also in Attendance: Tess Merrett, Governance Services

2 Apologies For Absence

2 Declarations of Interest - Members to declare as appropriate

There were no declarations of interest.

3 Any Other Business Which in The Opinion Of The Chair Is Urgent

There was no urgent business.

4 Carbon Risk Audit 2019 - Interim Results

Ian Williams introduced the report and highlighted the work which had taken place over the last three years in respect of reducing the Fund's carbon footprint.

Councillor Chapman thanked everyone for the excellent progress made against the hard target which the Committee had set itself for reducing the Fund's exposure to future CO2 emissions by 50% by 2022. The progress made meant that the Fund was ahead of target.

Neil McIndoe from TruCost gave a brief overview of the position for Pension Funds in respect of reporting on climate change which had changed in the last 3 years. There had been considerable activity by the Bank of England and the Financial Conduct Authority in relation to this and The Taskforce on Climate Related Financial Disclosures (TCFD) had put requirements in place for banks, Pension Funds and Asset Manager to report on climate change.

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Nikol Ioannou from TruCost gave a presentation of the Portfolio Footprint. The presentation covered a variety of metrics covering historical performance

- carbon footprint metrics
- carbon disclosure metrics
- fossil fuel and stranded assets exposure metrics

The presentation then went on to consider forward looking metrics and scenario analysis specifically in respect of

- 2 degree alignment: energy transition

Nikol Ioannou highlighted the improved position within the Hackney Pension Fund portfolio from 2016 to 2019. 60% of the target to reduce exposure to future CO2 emissions by 50% by 2022 had already been achieved so the Fund was on track to achieve its overall target of a 50% reduction in exposure to reserves over 6 years.

Looking forward, the Fund would need to make positive decisions around renewable energy generation and green revenues to improve its alignment with the Intergovernmental Panel on Climate Change's (IPCC) Special Report on Global Warming of 1.5 degree C.

Councillor Hayhurst asked how Hackney's target of a 50% reduction in carbon emissions by 2022 benchmarked with other boroughs.

Rachel Cowburn said that Hackney was one of the first authorities to undertake an analysis and report on it. However, TruCost had benchmarked Hackney's Fund Portfolio against the Mediterranean-Climate Regions (MCRs) world common benchmark used by investors. The Fund had significant exposure in the UK but the gap between the MCRs and the global portfolio had narrowed in the years 2016-2019. The Hackney Investment Strategy was not unusual with other Funds' strategies and UK exposure. However, Hackney's Fund had reduced its exposure from 25% to 10%.

There was likely to be a bigger move towards the TCFD's recommendations and more focus on real world emissions. An update could be brought back to Committee in the future.

Councillor Billington said that as there had been significant change across the world in respect of climate change, could the Hackney Fund's target be revised?

Councillor Chapman said that it would be possible but the policy would need to be revised first and this evening's meeting was to measure the progress against what we set out to achieve.

Councillor Billington said it was important to review passive and active investments.

Rachel Cowburn said that Scope 1 and Scope 2 disclosures were improving however Scope 3 disclosure relating to products was more challenging. Exposure to reserves focussed on fossil fuel extraction. TCFD looked at real

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world emissions so it was asking companies what they were doing to reduce carbon footprint and there was an increased use of this approach.

Neil McIndoe said that it would become easier in the future as more metrics were used. There were also more regulations emerging which would help in establishing commonality.

Councillor Chapman asked for an update on metrics and what had changed to be brought to a future Committee meeting. This could assist with a review of Hackney's investment strategy.

The Committee thanked TruCost for their presentation.

Sriya Sundaresan from Carbon Tracker gave a presentation.

Henry Colthurst said that in respect of the coal stations in China used to produce power, these had to be receiving government subsidy and did we have details on that. Sriya Sundarsan said that it was very difficult to get the Chinese data so data from satellites had been used therefore subsidy information was based on assumptions. Henry Colthurst commented that there could be huge redundant coal assets in the future as renewable energy sources were now cheaper to produce.

Councillor Hayhurst asked what advice Carbon Tracker would give to Hackney. Sriya Sundarsesan said it would be advisable to desist from investment in coal. However, coal producers did not just provide for power stations.

Councillor Billington asked how the Council as investors could help decision makers address a way of managing stranded risk?

Sryia Sundarsesan said that as the Council had an investor and policy making role, it was most important to have data transparency and the fact that Hackney had hired third parties to help with this was forward thinking.

The Council as policy makers should use solid, financial, publically available data to make an economic case for divesting.

Councillor Desmond asked if Carbon Tracker had looked at the Airline Industry? Sryia Sundarsesan said they had not.

Councillor Rennison asked about the interplay between investors and the transition away from fossil fuels.

Sryia Sundarsesan said that peer pressure played a role in divesting and making an argument for an orderly exit from such investments.

Councillor Chapman said that it was important to look at the positive impact of our investments and also to be proactive in the way we invested

Rachel Cowburn said the Fund could look for investments which both gave a return but also had environmental benefit such as investing in renewables.

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Councillor Chapman asked whether the Collective Investment Vehicle (CIV) made Hackney's position harder, easier or a combination of both?

Ian Williams said that a considerable amount of work had been undertaken with CIV and it was important for shareholders to keep the pressure on. Focus needed to be on the Environmental, Social and Governance (ESG) investments and to ensure the Committee protected the interests of Hackney's Fund.

Councillor Hayhurst agreed with Councillor Billington in that given Hackney was ahead of its target, more stringent stretch targets should be set. Councillor Chapman said it was important not to lose sight of the fact that Hackney was the only local authority to be doing this sort of analysis.

The Committee thanked Carbon Tracker for their presentation.

Recommendations

The Pensions Committee **RESOLVED**

- to note the reduction in exposure to future CO2 emissions by 31% over 3 years which placed the Fund well over halfway to its target of 50% over 6 years.
- to note that the fund manager for PT Bukit Asam, the Indonesian coal miner, had now sold this holding from the Fund's investment portfolio.
- to agree the consideration of performance against the Fund's carbon reduction target would form a formal part of setting the 2020 investment strategy together with measurement of financial performance.
- to agree that consideration of approaches to improving alignment with the 1.5 degree C warming scenarios would form a formal part of setting the 2020 investment strategy.
- to agree that in light of the Fund's current performance, to review the target to reduce our carbon emissions.
- to agree that the strategy setting process would consider how the Fund could make a positive contribution to the transition to a low carbon economy, through investment in renewable infrastructure and other suitable asset classes driving better returns for our Fund.

5 Any Other Business

Councillor Chapman said that following the discussions at the last Committee meeting in respect of employer contributions into the pension fund, further discussions had taken place between himself as Chair of the Committee, Councillor Rennison as Lead Member for Finance and Ian Williams as Group Director, Finance and Corporate Resources. The outcome of these discussions had been that the Council would aim to reduce its contributions to the pension fund more quickly than had been set out in the report so the contributions would reduce by 1.5%, 1.5% and then 0% over 3 years rather than 1%, 1% and 1% over 3 years.

Duration of the meeting: 6.30 - 8.45 pm

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