Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Responsible Investment Update **Pensions Committee** **30 September 2021**	**Classification** **Public** **Ward(s) affected** **ALL**	**Enclosures** **None** **AGENDA ITEM NO.** **9**

1. INTRODUCTION

1.1 This report provides the Pensions Committee with a summary of the discussions that took place at the workshop for Pension Committee members held on 22 September 2021. The workshop's focus was on responsible investment and climate change.

1.2 The report also sets out the next steps and timetable for Committee in respect of the development of refreshed responsible investment policies and new target regarding the funds impact on climate change.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

- Pensions Committee Workshop - Climate CHange and Responsible Investment
- Pensions Committee June 2021 - Stewardship/TFCD Training
- Pensions Committee March 2021 - Responsible Investment Timetable
- Pensions Committee Workshop February 2020 - development of investment beliefs
- Pensions Committee July 2016 - Climate Change Impact Assessment and Target setting

4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

4.1 The Pensions Committee has always been keen to ensure that it remains at the forefront when considering its approach to responsible investment and other ESG issues, whilst of course bearing in mind its obligations arising from its overarching fiduciary duty to employers and members in the Fund.

4.2 This is clearly evidenced by the work the Committee has done, particularly over the last 5 years, in response to climate change, and the progress it has made in reducing its exposure to fossil fuel reserves through changes to its investment mandates and holdings. This report sets out the main issues discussed at a recent workshop of the Committee regarding its aspirations to explore this further given the progress already made against the target it set for the fund.

4.3 In addition to actions taken in relation to its physical investment holdings, the Committee strongly believes that it should continue to engage with companies and fund managers on ESG issues via various bodies, such as the Local Authority Pension Fund Forum (LAPFF)

4.4 Whilst there are no direct financial implications arising from this report, it is recognised that such issues can have a significant influence on the returns achieved from the Fund's investments due to the medium to long-term impact on a company's value of their associated policies and actions.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 The Committee has responsibility for the prudent and effective stewardship of the Pension Fund and a clear fiduciary duty in the performance of its functions. Reviewing the Fund's Investment Strategy following the 2019 actuarial valuation helped to ensure that the Strategy remains appropriate given the funding position and assists the Committee in fulfilling this duty.

5.2 Regulation 7 of the 2016 Regulations requires the Administering Authority to formulate an Investment Strategy in line with guidance published by the Secretary of State. Regulation 7(2) stipulates that the authority's investment strategy must include:

(a) a requirement to invest fund money in a wide variety of investments;

(b) the authority's assessment of the suitability of particular investments and types of investments;

(c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;

(d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

(e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

(f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

5.3 This paper helps demonstrate that the Committee is investing in line with Regulation 7(2), by carrying out an assessment and development of the funds policies in respect of ESG considerations whilst bearing in mind its overarching fiduciary duty.

6. RESPONSIBLE INVESTMENT WORKSHOP SEPTEMBER 2021

6.1 The workshop was held to discuss in detail the Committee's potential approach to the refresh of its climate change target and wider responsible investment policy. The workshop was well-attended by Members of the Committee.

6.2 Ahead of the workshop, members of the Committee were provided with four papers:

- Slide deck prepared by our Investment Consultants from Hymans Roberston discussing climate risk policy and targets considerations
- Two further reports from Hymans Robertson setting out climate risk and other ESG metrics for the main portfolios that the Fund will be invested in following current transitions taking place:
  - LCIV Sustainable Equity Fund
  - Blackrock ACS World Low Carbon
  - LCIV Paris Aligned
  - LCIV Emerging Markets
- Written submission from Divest Hackney - The Case for Fossil Fuel Divestment

6.3 Our investment advisors from Hymans Robertson facilitated the workshop and used their slide deck to structure the workshop and to encourage discussion by Committee members, the output of which will be fed into the ongoing work to develop the Committee's responsible investment policy and refreshed climate change target.

6.4 The discussion covered the background to climate risk including the impacts of govt policy, what the Fund itself can do to impact climate, how future governance reporting requirements will impact change.

6.5 Members then discussed sustainable development goals and its current investment beliefs, considering in particular how these could be related to specific investment actions that the Committee might decide to take. In addition, there was discussion regarding the UN Sustainable Development Goals that Members had previously decided were particularly relevant to the Fund's beliefs and whether those goals identified by the UN relating to human rights should be included amongst those adopted by the Committee.

6.6 The workshop considered carbon emissions and climate metrics, including analysis of the Fund's equity strategies impact on climate change metrics. This showed a significant positive change in the Weighted Average Carbon Intensity (WACI) of the Fund's equity portfolios, both to date and taking account of the current investment strategy changes that are being implemented. This showed that when the original climate change target was agreed, the Fund's portfolio had a WACI score of 89.4% of the MSCI ACWI. By the end of this month, this will have reduced to just 35% and then is expected to fall further to 23% by the end of 2022.

6.7 Given the information discussed above, Members then discussed ambitions and targets for the Fund, including various options and actions to be further explored over coming months in the development of policy and target.

6.8 The main messages arising from the workshop were as follows:

- that the Fund should continue to engage with companies and fund managers, re-enforcing the belief that this is ultimately more beneficial than divestment, which should probably only be considered as last resort

- that it is important that there is a just transition from fossil fuels, considering alternatives for affected communities
- that the human rights considerations are broad, and not focused simply on one country. They should ensure that any actions considered are broad, meaningful and that they have a direct impact
- WACI is the preferred measure for reporting regimes such as TFCD
- Based on the WACI measure, the progress against the Fund's current climate is very successful and indeed ahead of target. However need to re-engage the Trucost carbon footprint exercise in order to measure the progress on a consistent basis
- that improving the quality of data available is important for future metrics reporting

7. NEXT STEPS/TIMETABLE

7.1 The ultimate aim of the workshop and the ongoing work in respect of responsible investment is to ensure that the Fund has a clear, written policy statement in respect of responsible investment. This will include the approval of an overarching RI Policy and refreshed climate change policy by the March 2022 Committee at the latest.

7.2 The Fund will respond to the Divest submission to the Workshop, setting out more detail as to why the Committee still believes that engagement is a powerful tool when considering how to achieve impact in respect of climate change and wider responsible investment issues.

7.3 Trucost will be re-engaged to report to either a further workshop or future Committee (probably January 2022) on the overall outcome against the target set by the Committee to reduce the funds exposure to fossil fuel reserves by 50% over a 6 year period.

7.3 The November Committee will consider further the reporting regimes it believes the Fund should sign up to and those that it will be required to in order to comply with guidance/requirements, including the Stewardship Code and TFCD.

7.4 November/January Committee to approve overarching Responsible Investment Policy for the Fund

7.5 March Committee to approve new climate change target.

7.6 Following the adoption of the RI policy and new climate change policy, the Committee will need to consider mandate benchmarks further tro ensure that the Fund is invested in companies that are aligned to the Fund's beliefs, targets and policies, potentially requiring changes to its overall investment strategy.

7.7 It should be noted that it has been recognised by officers of the Fund, that the increased requirement of, for example, the Stewardship code will be resource intensive and are therefore looking at options to add an additional post into the Pensions Investment Team that would deal with RI related work, including the increased reporting requirements

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