tCO2 emission from the Pension Fund's listed equity investments

David Spreckley, Head of Pensions and Treasury

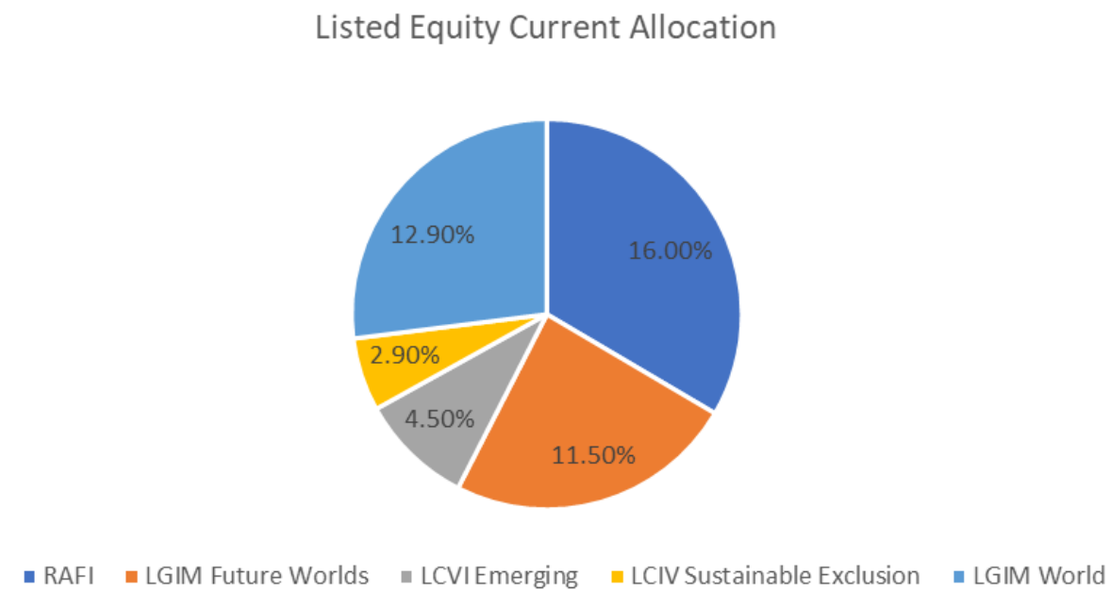
BARNET
LONDON BOROUGH

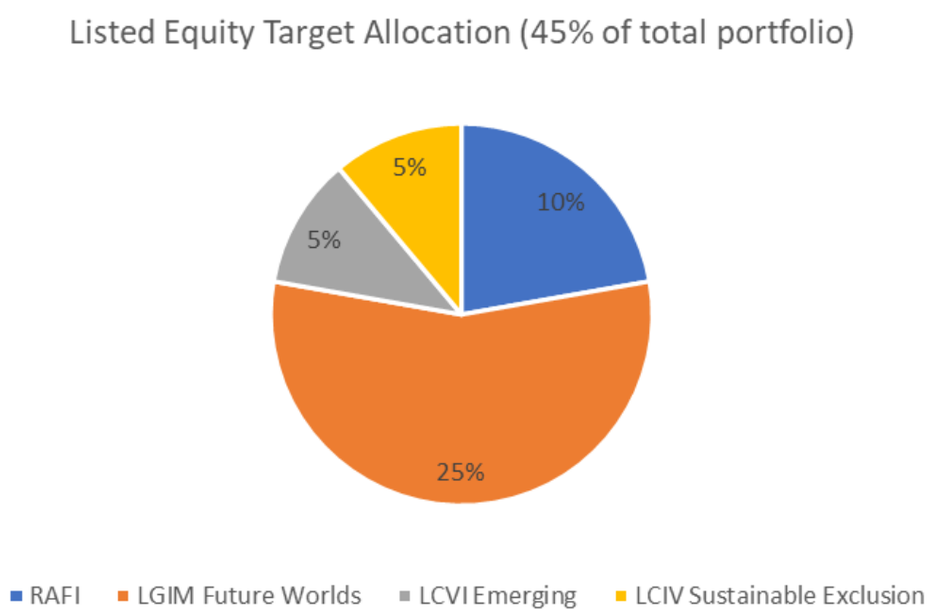
Planned transition of listed equity investments

Listed equities comprise around 45% of the Fund's total assets. As agreed in February 2021, there is a planned transition towards a new listed equity allocation. The target allocation has a more favourable sustainability profile and comprises four funds:

- RAFI (10%)
- Future Worlds (25%)
- LCIV Emerging Markets (5%)
- LCIV Sustainable Exclusion (5%)

The current (at 31 March 2022) and target allocation of listed equities is summarised to the right:





Source: Hymans / LBB analysis

Estimated tCO2 emissions (Scope 1 + 2)

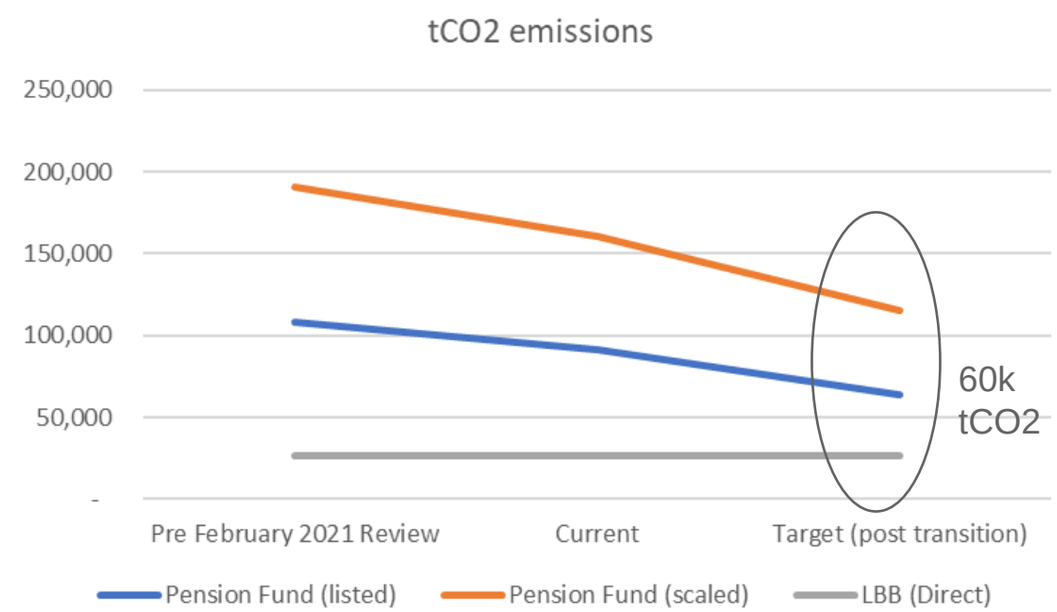
Hymans Robertson have estimated the Fund's total CO2 emissions (tCO2) directly generated by the Fund's listed equities (Scope 1 + 2). This excludes indirect emissions generated by services and products (Scope 3). Scope 3 emissions are notoriously difficult to measure due to lack of data, but are thought to be many multiples of Scope 1 and 2 emissions for some companies.

The Chart to the right summarises the trajectory of the Fund's tCO2 emissions reflecting the change in strategy. The total emissions, once the transition is complete, is around 60k tCO2 – a substantial reduction from the previous allocation that generated in access of 100k tCO2.

We have also estimated the Fund's total emissions assuming that non-listed assets generate the same proportion of emissions as the listed elements (this is very crude analysis and likely to be incorrect) and we have also compared the emissions with LBB's recent baseline figures.

It can be seen, as an order of magnitude, that the Pension Fund is potentially emitting around 5x - 10x the emissions of the Council. However, reducing the Council's emissions has a real impact, whereas, reducing the emissions of the Pension Fund through divestment does not necessarily reduce emissions in the real world.

Source: Hymans / LBB analysis



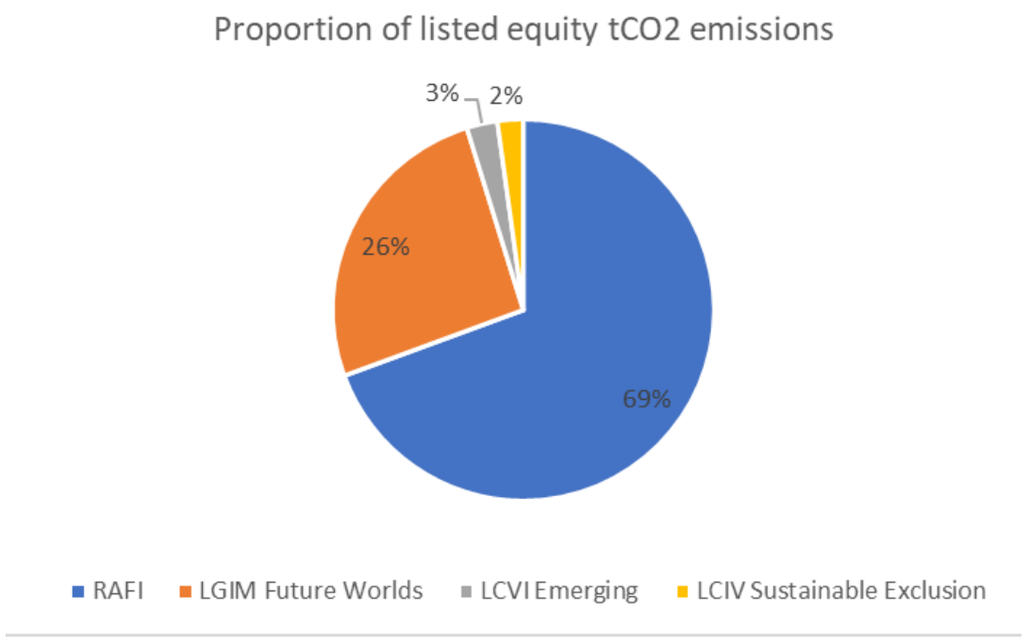
The Fund's emissions are significant relative to emissions generated directly by the Council

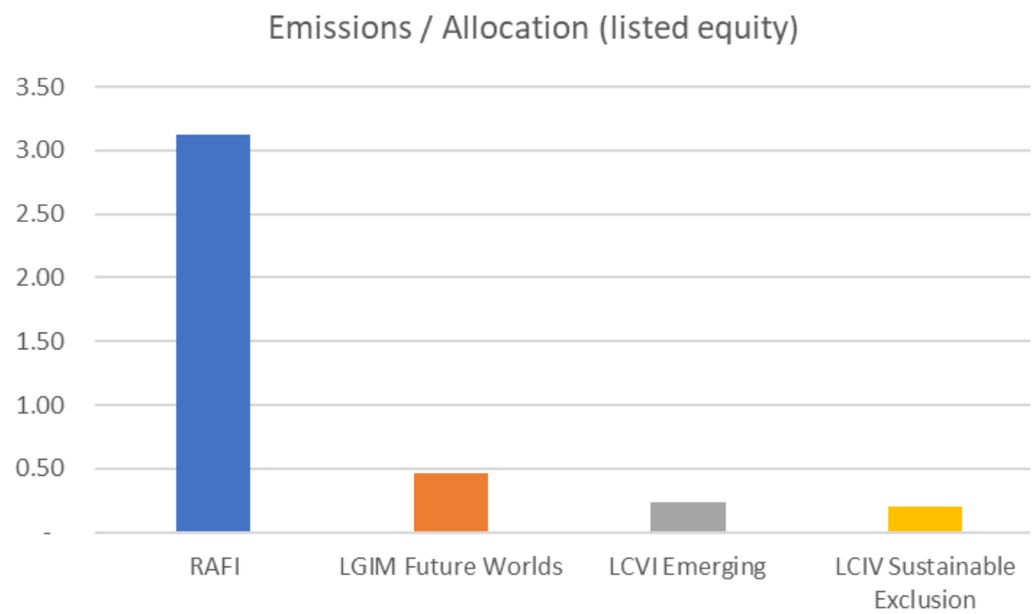
Contribution of tCO2 emissions by RAFI

Due to its quantitative approach to stock selection, the RAFI fund is known to have a bias away from Tech Stocks and towards more traditional sectors. This means the RAFI fund has a higher proportion of its total assets invested in carbon intensive stocks. This was a prime reason why the RAFI target allocation was reduced from 20% of total assets to 10% of total assets.

The target allocation of RAFI is around 22% of total listed equities, however, the Hymans report suggests it contributes around 70% of the listed equity Scope 1 and 2 emissions. Reviewing the RAFI allocation again would therefore be an obvious step against an objective of reducing the Fund's allocation to carbon intensive stocks.

The firm that generate the RAFI index are aware that their index, when viewed through a Carbon Intensity lens, does not look favourable, and so are looking to develop an alternative index which rebalances the allocation based on tCO2 output.

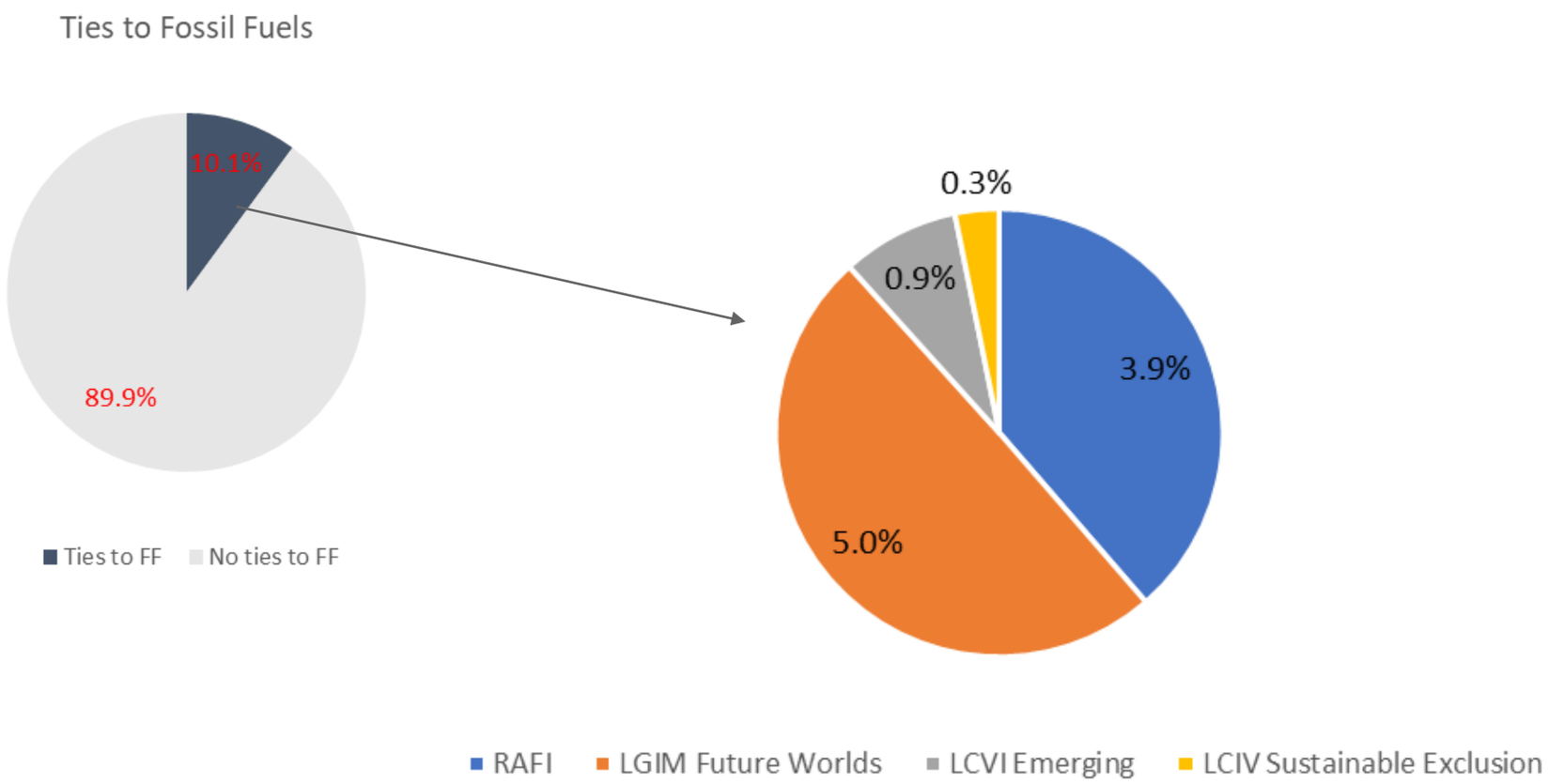




Source: Hymans / LBB analysis

Ties to Fossil Fuel companies

Under the target allocation, around 10% of the Fund's listed equity investments have ties to Fossil Fuel companies. Around 9% of the 10% is generated from the RAFI and Future World funds.



Source: Hymans / LBB analysis