



Pension Fund Committee 4 July 2023

Title	Responsible Investment Update
Date of meeting	4 July 2023
Report of	Executive Director of Strategy & Resources (S151 Officer)
Wards	N/A
Status	Public
Urgent	No
Appendices	Pension Fund NetZero Storyboard
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Summary

This report provides an update on the Framework we have developed to progress our NetZero strategy

The Framework seeks to create a hypothetical 'Model NetZero' portfolio optimised on the priority of meeting a NetZero position by 2030 but in turn also generating a suitable risk /return profile. Our aim is for the actual strategy to converge towards this model portfolio once the risk / return metrics are appropriate.

This Model Portfolio approach will allow us to identify gaps and opportunities. It will also provide a means of engaging with key stakeholders as well as making robust data-driven decisions.

Recommendations

The Committee is asked to note the contents of this report and the progress made towards moving developing our NetZero strategy.

1. Why This Report is Needed

Context

- 1.1 Whilst Responsible Investment encompasses a broader agenda than NetZero, this update focuses on our NetZero strategy as this has been the focus of Officer time since the last meeting. There is an overview of London CIV's broader Stewardship policies within the Pooling Update paper provided within the agenda pack for this meeting.
- 1.2 We will provide an update on broader Responsible Investment activity at the next Pension Fund Committee meeting in November.

Our NetZero principles

- 1.3 At the 31 January 2023 Pension Fund Committee meeting, and following our Responsible Investment day held in December 2022, we took a major step by setting principles for reaching a NetZero within the Pension Fund:
- **Leading and credible voice:** Our framework should provide a platform for Barnet to be a leading voice in discussions around targeting a Net Zero strategy for an LGPS Pension Fund
 - **Ambitious and measurable:** our target should be evidence based, credible, measurable and ambitious
 - **Risk and return focused:** We should not compromise risk or return potential in targeting a Net Zero strategy
 - **Wider Council alignment:** We should echo the wider targets set by the Council

Developing our NetZero Framework

- 1.4 Officers have been considering how best to develop our NetZero strategy. In doing this we are very mindful that setting a NetZero strategy for a Financial System is very different to setting a NetZero strategy for an Operational Structure, primarily for two key reasons:
- Reducing Carbon output within the Pension Fund by selling assets does not directly reduce Carbon in the real world (i.e. the asset still exists, it is just owned by someone else)¹
 - The world is not NetZero in general (and is unlikely to be by 2030) so if we are to invest into a NetZero investment universe, we may be restricting our investment choices to too narrow a range which can increase our risk significantly
- 1.5 Therefore, those Pension Funds that have targeted a 2030 NetZero position specifically may find this challenging unless:
- They purchase significant Carbon Offsetting credits
 - They significantly restrict the investment universe (which may increase risk as mentioned)

¹ We recognise there is a second order impact that putting selling pressure on Funds that do not look attractive from a NetZero perspective may drive behaviour from management, but conversely it may drive these companies into private hands – private ownership may not share our views around NetZero. Many stakeholders, including London CIV feel engagement is better strategy than divestment

- 1.6 That said, one of our principles is to be ambitious to reflect the council’s wider ambitions around 2030. We have therefore created a framework that is credible, challenges ourselves and our stakeholders **and** anchors discussion and decision making around a 2030 target.

Establishing a “Model 2030 Portfolio”

- 1.7 Underpinning our approach will be the development of a hypothetical “Model NetZero 2030 Portfolio” – this will be the best fit portfolio we can come up with that prioritises achieving a NetZero position by 2030 (or as near as) together with key risk and return metrics as well as costs and pooling information. We then compare this with our current portfolio (where we must prioritise risk and return considerations) to challenge ourselves whether we can start to converge towards the Model 2030 Portfolio.

- 1.8 In doing this we will identify:

- Immediate transition opportunities
- Planned transitions (1 – 3 years)
- Opportunities in net negative (e.g. Timberland / Green Tech)
- Gaps that mean we cannot move towards a 2030 position (e.g. because doing so would be too risky / too low return for our requirements)

- 1.9 A story board is included within Appendix 1 that gives more detail on this Framework for developing our NetZero strategy.

Initial Insights

- 1.10 We have already started the process of considering what our Model Portfolio may look like and even in these initial stages it has raised some early insights on how we may proceed, for example:

- Having a sustainability tilt to all mandates increases the trajectory to NetZero – *many of our mandates do not have a sustainability tilt currently and so this is something we will need to look at as a first stage*
- Data quality may be a barrier to us achieving a NetZero position as some funds may appear like they achieve a NetZero position but the underpinning data is not credible enough for us to be confident to enter into that mandate – *acknowledging this will allow us to work with stakeholders to improve data quality*
- There are some mandates that provide the ability to offset carbon naturally (e.g. organically through growing trees, or, because they are developing new green technologies which would reduce carbon output in the future). However, these mandates may be limited or may mean we are exposed to too much concentration risk – *this drives an action for us to lobby LCIV and others to create more funds (or funds of funds) which addresses this issue*

[continued]

Next Steps

1.11 Our immediate next steps (pending the strategic review) are:

Step	Comment
Understand the CO2 trajectory of our current portfolio	<p>We are working with Hymans to understand the likely trajectory of our current portfolio from a Green House emissions Perspective i.e. what is the Carbon output projected to be in 2030 and when would our current portfolio reach NetZero? This will identify the areas of our portfolio which will need to change if we are to make meaningful inroads towards a NetZero position by 2030.</p> <p>Initial analysis suggests that the majority of our portfolio would need to be refreshed if we are serious about meeting a NetZero position by 2030</p>
Establish Model Portfolio	<p>Work with Hymans and other key stakeholders to develop Model Portfolio and report this back at the November PFC meeting.</p>
Transitions and recommendations	<p>Based on the model portfolio Identify transition plan and gaps and make recommendations for any immediate transitions (which we could take to the November 23 / January 24 PFC meetings).</p> <p>Identify a programme for looking at medium term actions</p>
Engagement	<p>Once we have established our Model Portfolio and reporting framework we will seek to engage with stakeholders, the LGPS community and Fund Managers and continually develop our Model Portfolio so that it becomes something we would feel comfortable converging towards.</p>

1.12 Whilst we will bring back proposals to the November PFC meeting we may run an online workshop to share more of the detail of our planned NetZero trajectory in early September. We will also start to engage key stakeholders with our findings and seek invitations to contribute to our model portfolio

NetZero and our Risk Budget

1.13 A key pillar of our strategy will be to investigate whether we can invest in opportunities which are risky, however have high upside and contribute towards the overall aim of reducing carbon (green tec). We may have more capacity to do this given our overall risk reduction strategy covered in a separate item at the 4 July 2023 Pension Fund Committee meeting.

2. Alternative Options Considered and Not Recommended

2.1 Not applicable in the context of this report.

3. Post Decision Implementation

3.1 Not applicable in the context of this report.

4. Corporate Priorities, Performance and Other Considerations

Corporate Plan

- 4.1 The Pension Fund Committee supports the delivery of the Council's strategic objectives and priorities as expressed through the Corporate Plan, by careful monitoring of the Pension Fund activities with a view to ensuring the overall sustainability of the Pension Fund.
- 4.2 Sustainability of the Pension Fund is a crucial pillar in allowing the council to fulfil its wider objectives.
- 4.3 The Pension Fund is also developing its NetZero and Stewardship policies which feed into the wider objectives around Planet, Places and People.

Corporate Performance / Outcome Measures

- 4.4 Not applicable in the context of this report.

Sustainability

- 4.5 Not applicable in the context of this report.

Corporate Parenting

- 4.6 Not applicable in the context of this report.

Risk Management

- 4.7 Risk management is central to the LGPS. LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met. Good governance is essential to managing the risks of the pension fund.

Insight

- 4.8 Not applicable in the context of this report.

Social Value

- 4.9 Not applicable in the context of this report.

5. Resource Implications (Finance and Value for Money, Procurement, Staffing, IT and Property)

- 5.1 Risks that are not mitigated or managed can have a financial penalty to the Fund.

6. Legal Implications and Constitution References

- 6.1 The Council's Constitution – Part 2B section 15 includes within the responsibilities of the Pension Fund Committee.

6.2 The terms of reference for the committee includes:

“To have responsibility for all aspects of the governance, investment and administration of the LB Barnet Pension fund, including, but not limited to the following:

To ensure compliance with all Local Government Pension Scheme statutes, regulations and best practice.”

7. Consultation

7.1 Not applicable in the context of this report.

8. Equalities and Diversity

8.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant ‘protected characteristic’ and those who do not share it; and fostering good relations between persons who share a relevant ‘protected characteristic’ and persons who do not share it. The ‘protected characteristics’ are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation, marriage and civil partnership.

8.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public sector equality duty. The [Public Sector Equality Duty](#) requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements will benefit everyone who contributes to the fund.

9. Background Papers

9.1 Further discussion on the Fund’s Responsible Investment approach can be accessed here.

[Developing the Funds Responsible Investment strategy - update.pdf \(modern.gov.co.uk\)](#)