

Pensions

Delivering a pension strategy towards NetZero2030

May 2023

**ALL FIGURES IN PRESENTATION
ARE FOR ILLUSTRATION ONLY
TO EXPLAIN CONCEPTS**

**CONFIDENTIAL FOR
DISCUSSION PURPOSES ONLY**

Preface:

Barnet Council has wider ambitions around reaching 2030 NetZero position. However, from a pension perspective, the regime we operate within is not geared around 2030 – we are told 2030 is not possible and / or credible – this creates an implicit drag and could make our 2030 ambition look uncredible and inconsistent with our wider goals.

The BarNetZero Pension Framework seeks to challenge this regime in a constructive and positive way and anchor discussions around 2030 so that we are credible and evidence based

Barnet's NetZero Principles

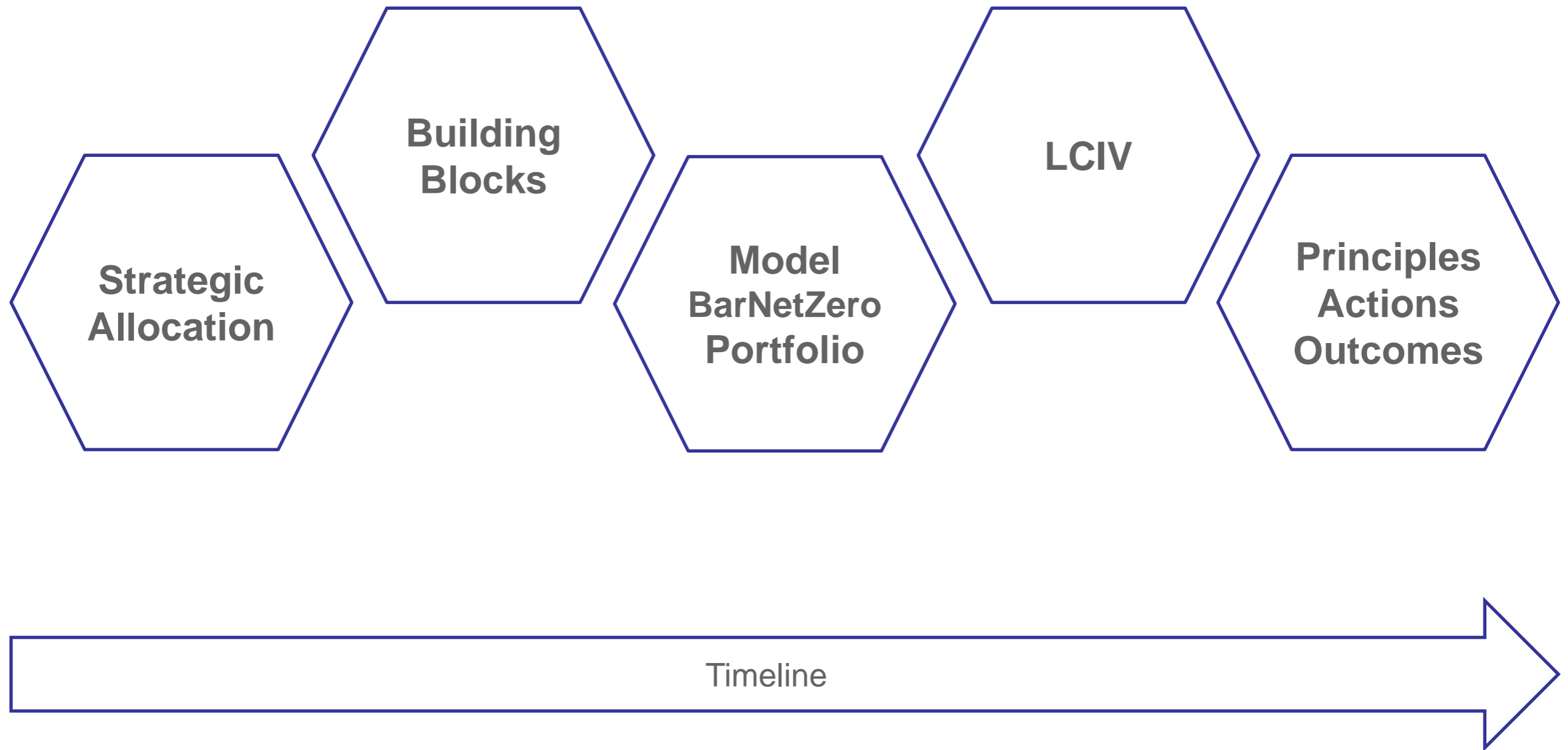
Leading and credible voice: Our framework should provide a platform for Barnet to be a leading voice in discussions around targeting a Net Zero strategy for an LGPS Pension Fund

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

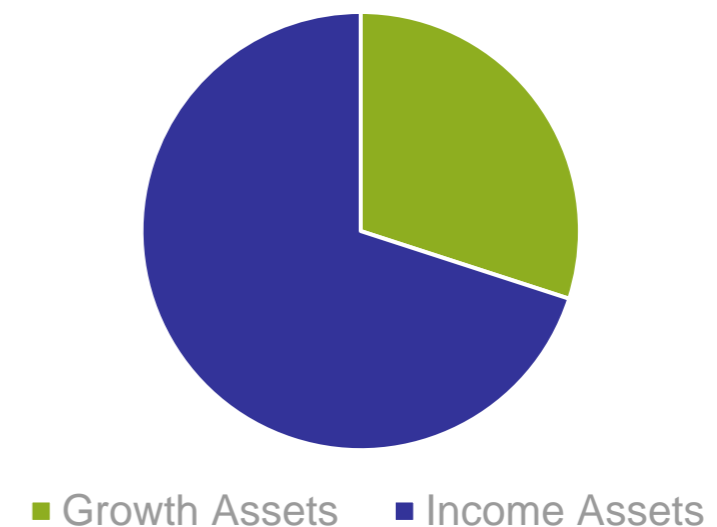
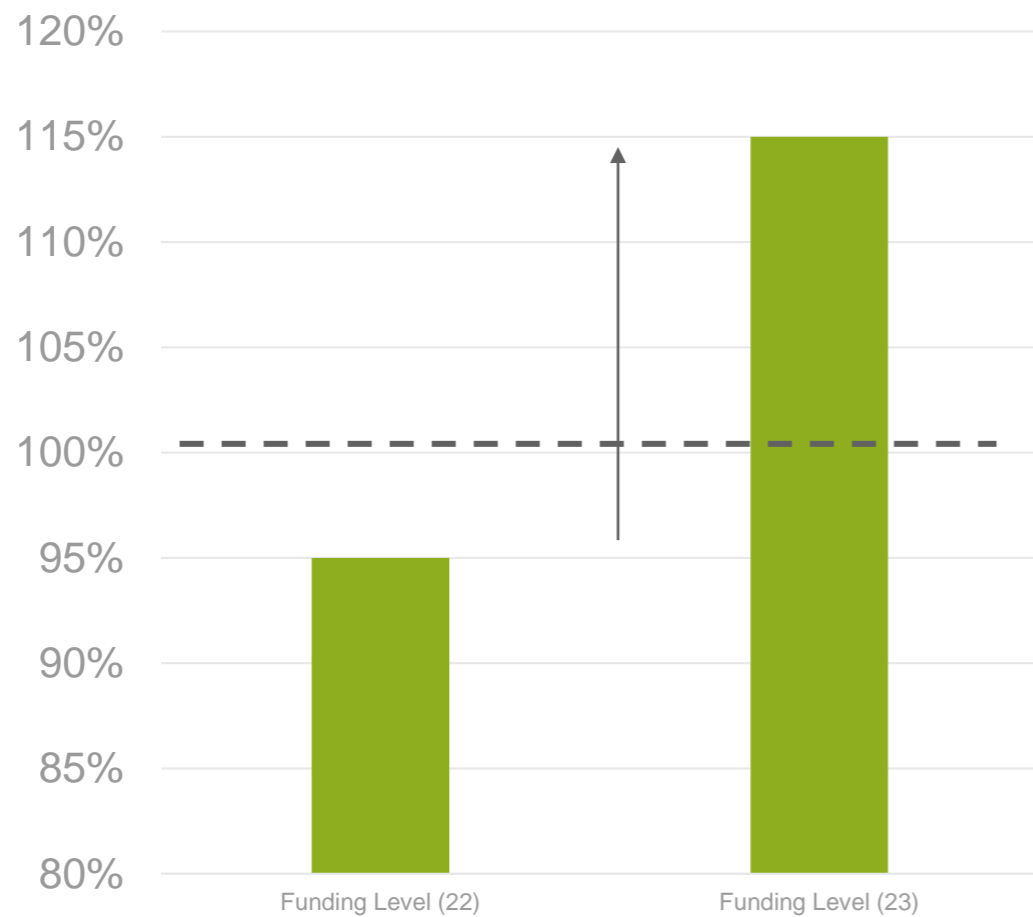
Wider Council alignment: We should echo the wider targets set by the Council

This 'Story Board' covers the following aspects:



Strategic Review

Not NetZero focused but key to sound investment management
- taking less overall risk may increase our risk budget towards NetZero



- Funding Position improved substantially (95% to 115%) implies significant reduction in cash contributions possible from 2026
- Reducing growth assets reduces risk by 15% (or more) and helps stabilise funding

Do our current “Building Blocks” meet our objective....?

Current Position:

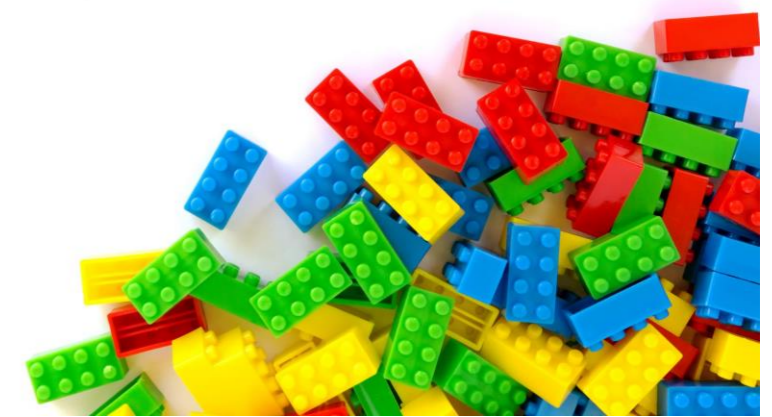
Our current “Building Blocks” will not achieve a NetZero position within a timeframe acceptable to the Council, **but some asset classes can certainly support a 2030 strategy**

However, some asset classes are not consistent with a 2030 NetZero strategy and so we will need to rethink what Building Blocks we use to achieve our strategic aims – this may force some challenging questions – e.g. if passive / Emerging Markets are not consistent with a 2030 do we abandon these approaches?

Asset class	Strategic Allocation	%	NetZero Timeframe	NetZero 2030 target available?
Global Equities	Growth	40.00%	2050+	Y
Emerging Market Equities	Growth	5.00%	2050+	N
Private Equity	Growth	6.00%	2050+	Y
Property	Income	5.00%	2050+	N
Infrastructure	Income	8.00%	2050+	Y
Corporate bonds	Income	10.00%	2050+	Y
Asset backed securities	Income	6.00%	2050+	N
Private Debt	Income	13.00%	2050+	Y
MAC	Income	7.00%	2050+	N

EXAMPLE ACTUAL ANALYSIS NOT CONDUCTED

The funds we pick to deliver our strategy are our “Building Blocks” – moving forward we need to select the Building Blocks that best meet our NetZero objectives



Creating the Model NetZero Portfolio

This is what we are currently looking at

We will map out a Model Portfolio that uses building blocks that **could** achieve a NetZero position by 2030 and which fit our overall strategic allocation – the model portfolio may not be suitable from a risk / return perspective but will help anchor us to a 2030 “target” and drive debate and inform decision making.

Asset class	Strategic Allocation	%	NetZero Timeframe	NetZero 2030 target available?
Global Equities	Growth	40.00%	2030	Y
Private Equity	Growth	15.00%	2035	Y
Infrastructure	Income	15.00%	2028	Y
Corporate Bonds	Income	20.00%	2030	Y
Private Debt	Income	10.00%	2035	Y

EXAMPLE ACTUAL ANALYSIS NOT CONDUCTED

We use our Model Portfolio to identify:

- Immediate transition opportunities
- Planned transitions (1 – 3 years)
- Opportunities in net negative (Timberland / Green Tech)
- Gaps (i.e. too risky / too low return)

Identifying the gaps and opportunities will allow us to more effectively drive solutions with key stakeholders

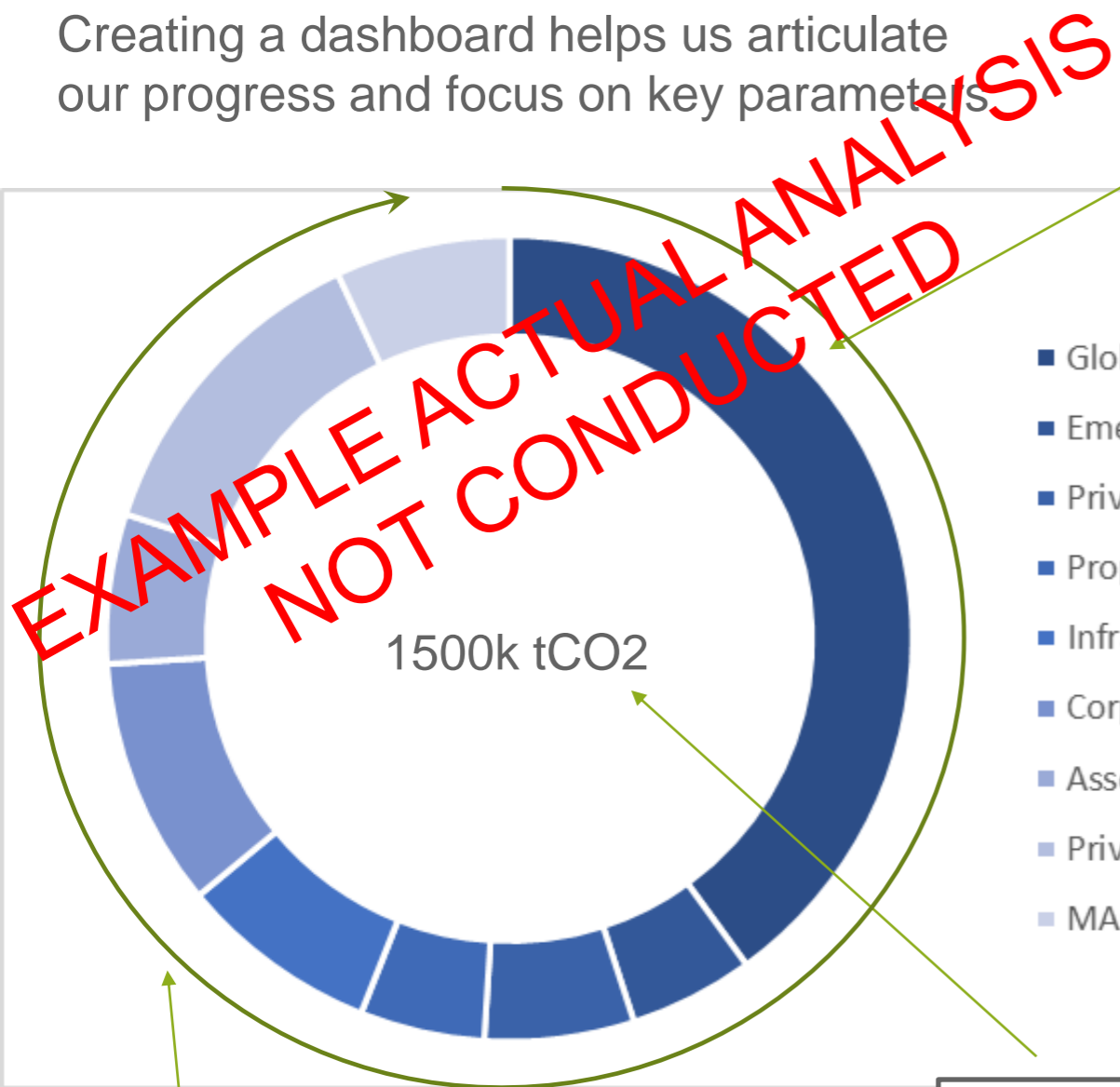


NetZero Dashboard - Prototype

Include Data Quality Flag?

Creating a dashboard helps us articulate our progress and focus on key parameters

These are our Building Blocks – include facility to click into ‘donut’ for granular stats on specific Funds?



- Global Equities
- Emerging Market Equities
- Private Equity
- Property
- Infrastructure
- Corporate bonds
- Asset backed securities
- Private Debt
- MAC

	Current
tCO2 (2030)	1500 tCO2
NetZero Date	2050+
Return	[7.5% - 8.5%]
Risk	+/- [15% - 25%]
Sector	Balanced
Style	Balanced
Geography	Balanced
Concentration	Acceptable
Fees	25bps
LCIV %	15%
GH Data quality	Unacceptable

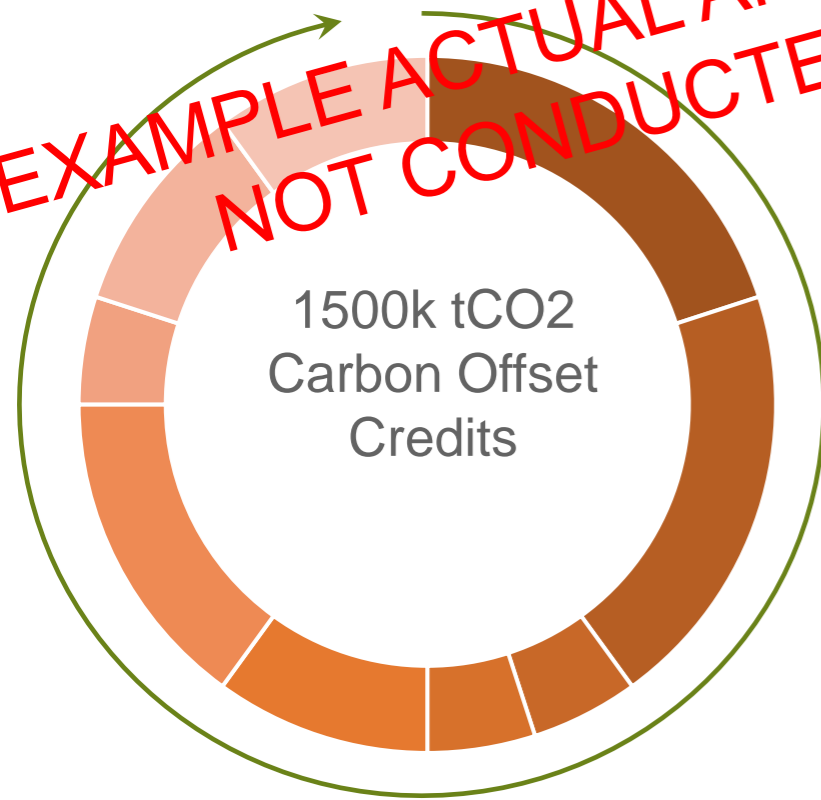
Carbon Offsetting Required as a % of Fund Assets

This is the amount of Carbon projected at 2030 based on that portfolio

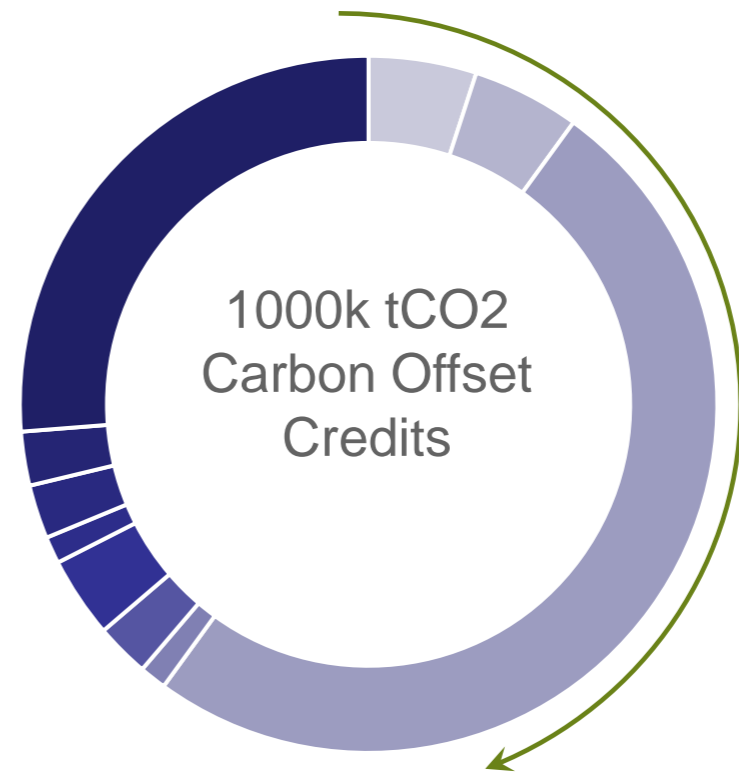
These are the key risk and return metrics that underpin our decision making

Dashboard - 2025 to 2026 Interim Step

EXAMPLE ACTUAL ANALYSIS NOT CONDUCTED



- LGIM Future World
- LGIM Rafi
- LCIV SE
- LCIV EM
- Adam Street
- MAC
- Infrastructure
- Real Estate
- Direct Lending
- Sustainable Infra



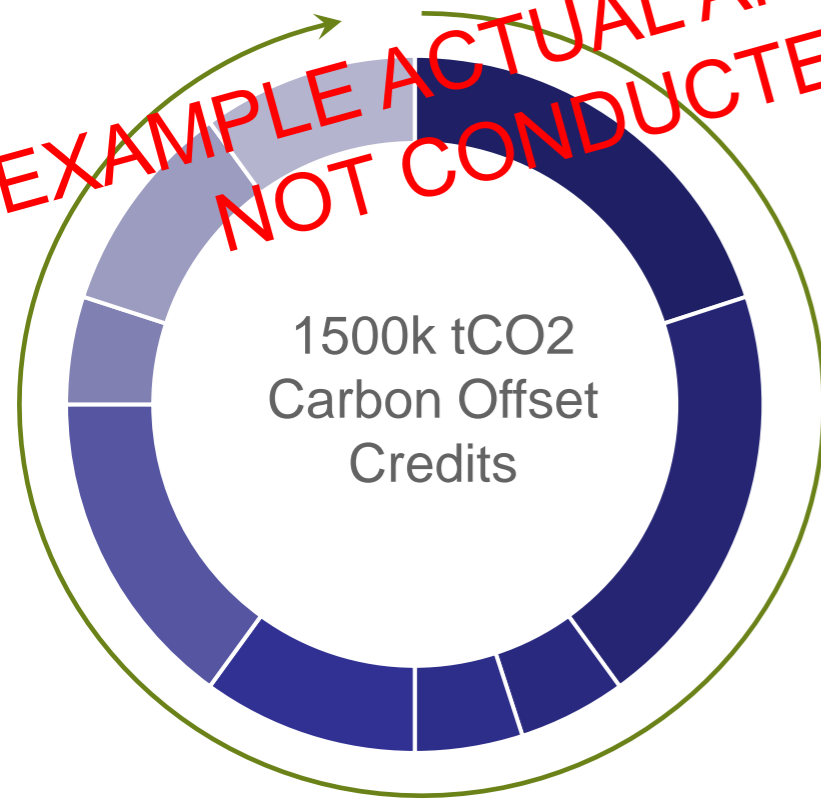
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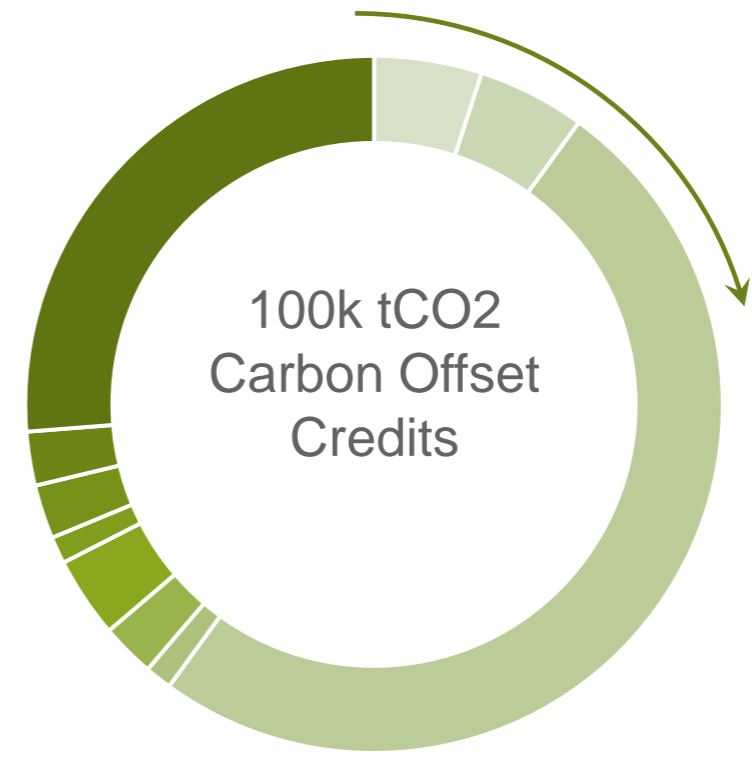
	Interim (2023 – 2026)	
tCO2 (2030)	1000 tCO2	✗
NetZero Date	2045	✗
Return	[7.5% - 8.5%]	✓
Risk	+/- [15% - 25%]	✓
Sector	Balanced	✓
Style	Balanced	✓
Geography	Balanced	✓
Fees	35bps	✓
LCIV %	25%	✓

Moving towards BarNetZero Model Portfolio

EXAMPLE ACTUAL ANALYSIS NOT CONDUCTED



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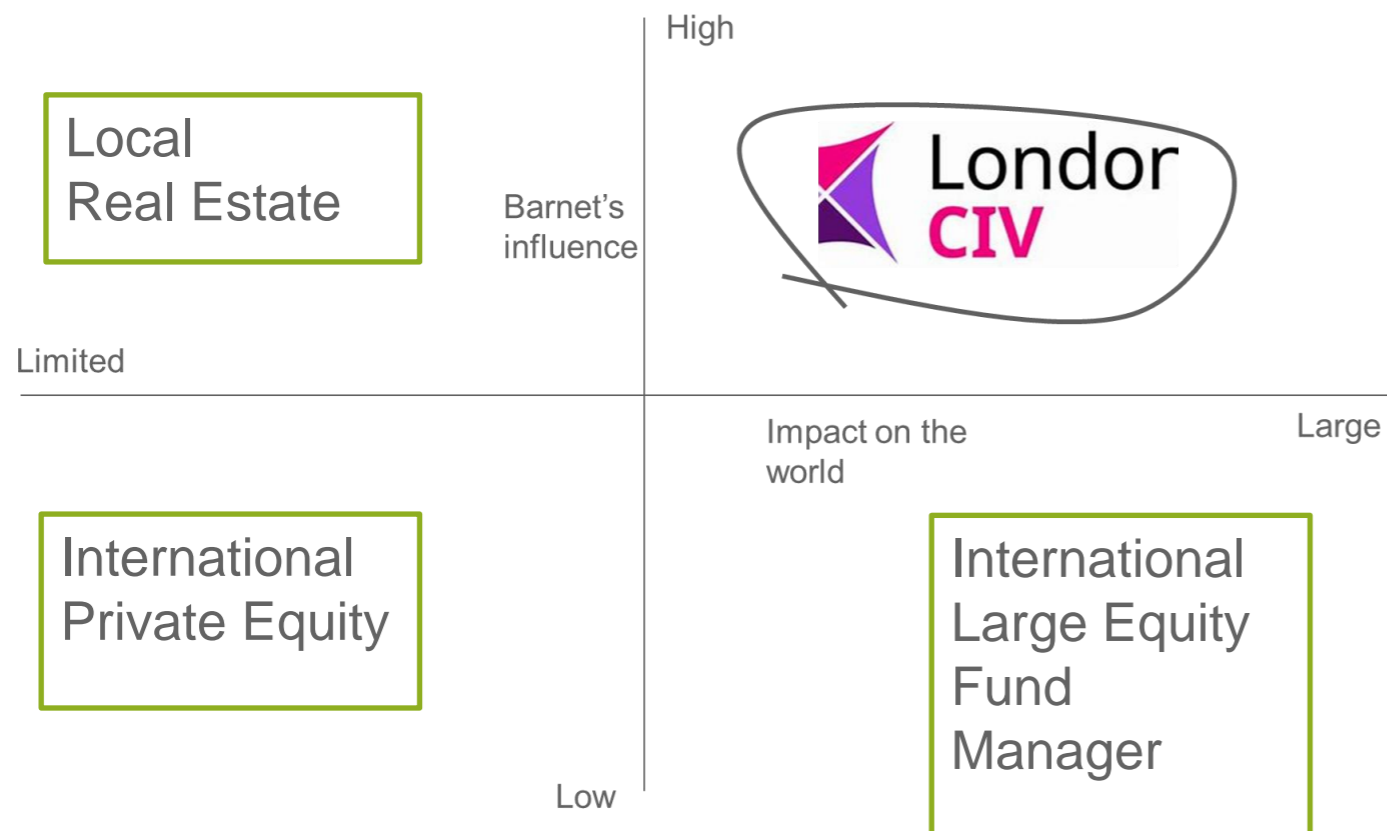
	Interim (2023 – 2026)
tCO2 (2030)	1000 tCO2
NetZero Date	2045
Return	[7.5% - 8.5%]
Risk	+/- [15% - 25%]
Sector	Balanced
Style	Balanced
Geography	Balanced
Concentration	Acceptable
Fees	35bps
LCIV %	25%
GH Data Quality	Acceptable

26%
Convergence

	BarNetZero 2030	
tCO2 (2030)	100 tCO2	?
NetZero Date	2035	?
Return	[7.5% - 8.5%]	✓
Risk	+/- [25% - 35%]	✗
Sector	Over weight tech	✗
Style	Over weight growth	✗
Geography	North America bias	✗
Concentration	Acceptable	✗
Fees	125bps (inc Carbon Offset)	✗
LCIV %	25%	✗
GH Data Quality	Unacceptable	✗

Leveraging LCIV

- London CIV has more reach than Barnet and Barnet has more influence with London CIV than with other investment managers
- A strong successful London CIV allows London to have a greater voice
- A strong relationship for Barnet with London CIV allows to be more influential in shaping that voice



A key strategic aim through a NetZero lens is to support the London CIV “where ever possible”

Over the next three years there will be a clammer from Investment Managers to grab market share through offering NetZero “solutions” – there is already evidence of some LGPS funds diverging from the pooling agenda in the name of achieving “Net Zero” – **this is a net negative net zero strategy** and we should avoid being too individualistic in our solutions – we should use our BarNetZero model portfolio to work with London CIV and be a vocal supporter of London CIV

We should seek to build relationships with London CIV at every level and have an engagement plan for doing this.

NetZero Principles / Actions / Outcomes

Principle	Planned Actions	Outcome
<p>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</p>	<p>Create Model BarNetZero portfolio.</p> <p>Support LCIV where possible.</p>	<p>Encourage debate, gives tangible platform to engage with Stakeholders and drive LCIV / London and the LGPS community forward</p> <p>Supporting London CIV leverages our influence</p>
<p>Ambitious and measurable: our target should be evidence based, credible, measurable and ambitious</p>	<p>BarNetZero Framework will measure important investment risk criteria as well as NetZero measures.</p>	<p>Ambition is achieved through ‘bringing to life’ what a NetZero2030 strategy could look like and using that to anchor discussions / debate and drive our decision making.</p> <p>Identifying the gaps through analysis will allow us to work with stakeholders to develop solutions</p>
<p>Risk and return focused: We should not compromise risk or return potential in targeting a Net Zero strategy</p>	<p>We will measure the risk and return profile of our BarNet Zero strategy</p> <p>We will not converge towards BarNetZero if too risky to do so.</p>	<p>Our strategy will be sustainable</p> <p>Where we cannot move as fast as some stakeholders would like towards a 2030 solution we can explain why</p>
<p>Wider Council alignment: We should echo the wider targets set by the Council</p>	<p>BarNetZero model is framed around a 2030 target</p>	<p>Framing our conversation around 2030 helps support the Council’s wider ambitions around 2030</p>

Timeline

