

| PENSIONS INVESTMENT COMMITTEE | | | |
|--------------------------------------|--|-----------------|-----------|
| REPORT TITLE | Addressing Climate Risk – Report by Hymans | | |
| KEY DECISION | No | Item No: | |
| WARD | N/A | | |
| CONTRIBUTORS | Acting Chief Finance Officer | | |
| CLASS | Part 1 | Date: | June 2019 |

Lateness: This report was not available for the original dispatch date due to a delay in receipt from the Fund’s advisors.

Urgency: The report is urgent and cannot wait until the next meeting of the Pensions Investment Committee; it provides important updates to Members which require their attention before the next meeting.

Where a report is received less than 5 clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100(b)(4) the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

1. PURPOSE

- 1.1. This paper aims to clarify the Fund’s rationale for building a climate-aware investment strategy by setting out to define and agree specific climate risk objectives which will then inform specific targets for reducing carbon exposure. The report presents possible options for transition to low carbon passive funds, and suggests a timeline for such a transition.

2. RECOMMENDATIONS

- 2.1. Members are asked to note the contents of the report and the attached appendix, and agree to the following recommendations:
 - 2.1.1. To agree the Committee’s climate risk beliefs;
 - 2.1.2. To agree the extent to which focus should be on exclusion, reduction in exposure to carbon omissions/intensity or the inclusion of forward looking metrics;
 - 2.1.3. To agree to the proposed timetable outlining the first steps of a low carbon approach.

3. BACKGROUND

- 3.1. Responsible Investment (RI) and Environmental, Social and Governance (ESG) factors form key components of this Committee's investment beliefs. Discussions at previous Committee meetings have focussed on approaches to managing climate risk as part of the Committee's wider approach to RI, and an analysis of the Fund's carbon footprint has been commissioned as part of the first stage in developing and implementing a low carbon strategy.
- 3.2. The attached paper from the Fund's advisors seeks to address the detail of climate risk and assist the Committee to draft a set of clearly defined climate risk objectives for inclusion in the Fund's Statement of Investment Principles. It sets out a number of low carbon passive fund options as the first step in implementing a low carbon approach, and presents a proposed timetable outlining steps to be taken over the next year.

4. FINANCIAL IMPLICATIONS

- 4.1. There are no financial implications arising directly from this report.

5. LEGAL IMPLICATIONS

- 5.1. An administering authority must, after taking proper advice, formulate an Investment Strategy Statement which must be compliant with the relevant Regulations (Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016/329 Regulation 7). The statement must be published and reviewed at least every three years.
- 5.2. In considering the proposed Statement of Investment Beliefs, this Committee must have regard to matters including the need to ensure the adequacy of the Pension Fund and for diversification of investment fund monies, and the suitability of any investment proposed having obtained proper advice. It must act prudently with regard to risk whilst obtaining the best return on the fund investments, and comply with the fiduciary duty. That duty requires consideration of matters such as the need to invest the scheme assets in the best interests of scheme members and beneficiaries; the weighing of returns against risks including long-term risks taking into account factors which are financially material to the performance of investments; and not taking decisions for "improper purposes".
- 5.3. In accordance with Regulation 7(2)(e) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and the associated *Guidance for Preparing and Maintaining an Investment Strategy*, an administering authority must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments, and must also explain their approach to social investments.

6. CRIME AND DISORDER IMPLICATIONS

- 6.1. There are no crime and disorder implications directly arising from this report.

7. EQUALITIES IMPLICATIONS

- 7.1. There are no equalities implications directly arising from this report.

8. ENVIRONMENTAL IMPLICATIONS

- 8.1. There are no environmental implications directly arising from this report.

APPENDICES

The full report is attached for Members only. Commentary will be provided at the meeting by the Council's appointed advisors from Hymans Robertson.

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact either:

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