



AGENDA

PENSIONS INVESTMENT COMMITTEE

Date: THURSDAY, 7 SEPTEMBER 2023 at 7.00 pm

**Civic Suite
Catford Road
London SE6 4RU**

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COUNCILLORS

Councillor Sian Eiles (Chair)
Councillor Mark Jackson
Councillor Chris Best
Councillor Mark Ingleby
Councillor Louise Krupski
Councillor John Muldoon
Councillor James Royston
Councillor Liam Shrivastava
Stephen Warren

Observers

Independent

Officers

David Austin, Director of Corporate Services
Mark Adu-Brobbey
Gary Cummins, Strategy and Policy Officer

Jeremy Chambers
Monitoring Officer
Lewisham Town Hall
London SE6 4RU

Members are summoned to attend this meeting



INVESTOR IN PEOPLE

The public are welcome to attend our committee meetings, however occasionally committees may have to consider some business in private. Copies of reports can be made available in additional formats on request.

ORDER OF BUSINESS – PART 1 AGENDA

Item No		Page No.s
1.	Minutes	1 - 5
2.	Declarations of Interest	6 - 9
3.	General Update	10 - 18
4.	Climate Transition and Net Zero Policy	19 - 26
5.	Any Other Business	
6.	Exclusion of Press and Public	27
7.	Meet the Manager - HarbourVest	28 - 72
8.	Meet the Manager - Blackrock	73 - 137
9.	Quarterly Investment Monitoring	138 - 155
10.	General Update	156 - 160



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MINUTES OF THE PENSIONS INVESTMENT COMMITTEE

Thursday 8 June 2023 at 7pm

Members Present:

In Person: Councillor Eiles (Chair), Councillor Ingleby (Vice-Chair), Cllr Jackson, Cllr Muldoon, Cllr Royston, Cllr Shrivastav.

Present Remotely: Councillor Chris Best

NB: Those Councillors listed as joining virtually were not in attendance for the purposes of the meeting being quorate, any decisions taken, or to satisfy the requirements of S85 Local Government Act 1972.

Also present: Nick Jellema (Hymans Robertson (Hymans)), Ross MacLeod (Hymans Robertson (Hymans)), Mhairi Gooch (Hymans Robertson (Hymans)), Gilly Zimmer (JP Morgan), Jacqueline Jackson (London CIV), Maisy Salisbury (JP Morgan), Megan Hewitt (JP Morgan), Catherine Duncan (JP Morgan), Richard Bannister (JP Morgan), Vanessa Shia (London CIV (LCIV)), Harry Lamprinopoulos (London CIV (LCIV)), Sahil Arora (London CIV (LCIV)), David Austin (Director of Finance (DF)), Kathy Freeman (Executive Director Corporate Resources (EDCR)), Katharine Nidd (Head of Financial Strategy, Planning and Commercial (HFSPC)), Chris Flower (Treasury and Investments Manager), Sarah Assibey (Committee Officer), Hajera Khan (Committee Officer).

Present Remotely:

Apologies: N/A

It was MOVED, SECONDED and AGREED that Councillor Eiles be nominated as Chair of this Committee, and Councillor Ingleby as Vice Chair.

1. Minutes

The Minutes of the last meeting were agreed.

2. Declarations of Interest

None

3. General Update

The Committee were asked to note the contents of the report, the Investment Strategy Statement, which was last reviewed in 2022; it had been updated but with no with significant changes.

The Committee were asked to:

1. review and note the contents of the report;
2. note the current position regarding the Statement of Accounts 2021/22;
3. note the publication of the Funding Strategy Statement;
4. note and approve the updated Investment Strategy Statement;
5. note the Climate Metrics Analysis

RESOLVED that the Committee agreed the recommendations.

4. Pension Fund Business Plan

The Committee received the report relating to the Draft Annual Pension Fund Business Plan for the year 2023/24, with recommendation to review and agree the Annual Business Plan.

RESOLVED that the Committee agreed the Pension Fund Business Plan.

5. Pass Through Policy

The Head of Financial Strategy, Planning and Commercial Officer introduced the Pass Through Policy, highlighting the Council's pension benefits that were the same, or broadly comparable to, the Local Government Pension Scheme (Best Value Authorities Staff Transfer (Pensions) Direction 2007).

Members were advised that under these agreements, the Council would agree to cover some of the pension risks that would have transferred to the contractor under the traditional approach.

The Committee were asked to

1. Consider and approve the attached Pass Through Policy;
2. Delegate to the Executive Director of Corporate Resources the implementation and operation of the Policy as the Scheme Employer;

RESOLVED that the Committee agreed the recommendations.

7. Meet the Manager: Infrastructure (JP Morgan)

Nick Jellema (Hymans Robertson (Hymans)), Gilly Zimmer (JP Morgan) and Richard Bannister (JP Morgan) gave an illustrative presentation of the report to the Committee.

The Committee noted discussions and responses to questions raised relating to Hymans and JP Morgan's operations, analysis, fund manager ratings, inflation, carbon footprint, renewable energy, sustainability, risks, and specific investment products.

RESOLVED that the report be noted.

6. Exclusion of Press and Public

RESOLVED that under that under Section 100(A) (4) of the Local Government Act 1972, the public be excluded from the meeting during discussion of this item because it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act as set out below and the public interest in maintaining the exemption outweighs the public interest in disclosing the information:-

7. Meet the Manager: Infrastructure (JP Morgan)
8. Meet the Manager LCIV (Renewable Infrastructure)
9. Quarterly Investment Monitoring
10. Climate Risk Analysis
11. Net Zero Pathway
12. General Update (Part Two)
13. Risk Register

7. **Meet the Manager: Infrastructure (JP Morgan)**

Nick Jellema (Hymans Robertson (Hymans)), Gilly Zimmer (JP Morgan) and Richard Bannister (JP Morgan) gave an illustrative presentation of the report to the Committee.

The Committee noted discussions and responses to questions raised relating to Hymans and JP Morgan's operations, analysis, fund manager ratings, inflation, carbon footprint, renewable energy, sustainability, risks, and specific investment products.

RESOLVED that the report be noted.

8. Meet the Manager LCIV (Renewable Infrastructure)

The Committee received a presentation from the representatives of the London Collective Investment Vehicle (LCIV), relating to the status and timeline for investing funds and the income target.

The Committee also noted updates of the renewable investments and the global nature of the underlying funds, which are well-diversified by region

(including UK, Europe, US, Asia-Pacific and Latin America). Members asked questions that were answered by LCIV.

RESOLVED that the report be noted.

9. Quarterly Investment Monitoring

The Committee received and noted a report presented by the Head of Financial Strategy, Planning and Commercial Officer Relating to the performance of private equity for the previous financial years.

RESOLVED that the report be noted.

10. Climate Risk Analysis

The Committee received a report presented by the representatives of Hymans Robertson relating to carbon emissions and climate metrics.

In response to questions raised by the Committee, the representatives gave further details on corporate bonds and the Lewisham Fund.

RESOLVED that the report be noted.

11. Net Zero Pathway and draft Net Zero Policy

The Head of Financial Strategy, Planning and Commercial Officer introduced a report to the Committee on the climate risk analysis and the Fund's projected emissions pathways for its listed assets.

Following a summary of the conclusions noted in the report, Hymans Roberson gave additional information to the Committee on the One Earth Climate Model, and how information from external organisations fed into the analysis contained within the Fund's report.

In discussing the contents of the report, the Committee noted responses to questions by representatives of Hymans Roberson, and the Head of Financial Strategy, Planning and Commercial Officer and agreed that members should meet remotely in August at a date to be agreed, to review and discuss the proposed net zero policy (a draft version of which was discussed at this meeting).

RESOLVED that the report be noted.

12. General Update (Part Two)

The Committee received and noted a report pertaining to general pension related matters in the last quarterly period, and agreed to delegate the signing and revision of agreement relating to the Legal and General Investment Management Fund to the Director of Finance.

The Committee are asked to:

1. Review and note the contents of the report;
2. Delegation the signing the revised fund agreement for LGIM fund to the Director of Finance.

RESOLVED that the Committee agreed the recommendations.

13. Risk Register

The Committee received an update report relating to the monitoring of risk pertaining to the Pension Fund, and changes to the Funds Risk Register since the previous review in November 2022.

In considering the report, the Committee noted updates on several general pension related matters ranging from transfers of passive equity, inflation, and resources of the investment team.

RESOLVED that the report and the Risk Register was reviewed and noted.

The meeting closed at 22:02

Agenda Item 2



Pensions Investment Committee

Declarations of Interest

Date: 7 September 2023

Key decision: No

Class: Part 1 and Part 2

Ward(s) affected: All

Contributors: Chief Executive

Outline and recommendations

Members are asked to declare any personal interest they have in any item on the agenda.

1. Summary

1.1. Members must declare any personal interest they have in any item on the agenda. There are three types of personal interest referred to in the Council's Member Code of Conduct:

- (1) Disclosable pecuniary interests
- (2) Other registerable interests
- (3) Non-registerable interests.

1.2. Further information on these is provided in the body of this report.

2. Recommendation

2.1. Members are asked to declare any personal interest they have in any item on the agenda.

3. Disclosable pecuniary interests

3.1 These are defined by regulation as:

- (a) Employment, trade, profession or vocation of a relevant person* for profit or gain
- (b) Sponsorship –payment or provision of any other financial benefit (other than by the Council) within the 12 months prior to giving notice for inclusion in the register in respect of expenses incurred by you in carrying out duties as a member or towards your election expenses (including payment or financial benefit from a Trade Union).
- (c) Undischarged contracts between a relevant person* (or a firm in which they are a partner or a body corporate in which they are a director, or in the securities of which they have a beneficial interest) and the Council for goods, services or works.
- (d) Beneficial interests in land in the borough.
- (e) Licence to occupy land in the borough for one month or more.
- (f) Corporate tenancies – any tenancy, where to the member’s knowledge, the Council is landlord and the tenant is a firm in which the relevant person* is a partner, a body corporate in which they are a director, or in the securities of which they have a beneficial interest.
- (g) Beneficial interest in securities of a body where:
 - (a) that body to the member’s knowledge has a place of business or land in the borough; and
 - (b) either:
 - (i) the total nominal value of the securities exceeds £25,000 or 1/100 of the total issued share capital of that body; or
 - (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person* has a beneficial interest exceeds 1/100 of the total issued share capital of that class.

*A relevant person is the member, their spouse or civil partner, or a person with whom they live as spouse or civil partner.

4. Other registerable interests

4.1 The Lewisham Member Code of Conduct requires members also to register the following interests:

- (a) Membership or position of control or management in a body to which you were appointed or nominated by the Council
- (b) Any body exercising functions of a public nature or directed to charitable purposes, or whose principal purposes include the influence of public opinion or policy, including any political party
- (c) Any person from whom you have received a gift or hospitality with an estimated value of at least £25.

5. Non registerable interests

- 5.1. Occasions may arise when a matter under consideration would or would be likely to affect the wellbeing of a member, their family, friend or close associate more than it would affect the wellbeing of those in the local area generally, but which is not required to be registered in the Register of Members' Interests (for example a matter concerning the closure of a school at which a Member's child attends).

6. Declaration and impact of interest on members' participation

- 6.1. Where a member has any registerable interest in a matter and they are present at a meeting at which that matter is to be discussed, they must declare the nature of the interest at the earliest opportunity and in any event before the matter is considered. The declaration will be recorded in the minutes of the meeting. If the matter is a disclosable pecuniary interest the member must take not part in consideration of the matter and withdraw from the room before it is considered. They must not seek improperly to influence the decision in any way. **Failure to declare such an interest which has not already been entered in the Register of Members' Interests, or participation where such an interest exists, is liable to prosecution and on conviction carries a fine of up to £5000**
- 6.2. Where a member has a registerable interest which falls short of a disclosable pecuniary interest they must still declare the nature of the interest to the meeting at the earliest opportunity and in any event before the matter is considered, but they may stay in the room, participate in consideration of the matter and vote on it unless paragraph 6.3 below applies.
- 6.3. Where a member has a registerable interest which falls short of a disclosable pecuniary interest, the member must consider whether a reasonable member of the public in possession of the facts would think that their interest is so significant that it would be likely to impair the member's judgement of the public interest. If so, the member must withdraw and take no part in consideration of the matter nor seek to influence the outcome improperly.
- 6.4. If a non-registerable interest arises which affects the wellbeing of a member, their, family, friend or close associate more than it would affect those in the local area generally, then the provisions relating to the declarations of interest and withdrawal apply as if it were a registerable interest.
- 6.5. Decisions relating to declarations of interests are for the member's personal judgement, though in cases of doubt they may wish to seek the advice of the Monitoring Officer.

7. Sensitive information

- 7.1. There are special provisions relating to sensitive interests. These are interests the disclosure of which would be likely to expose the member to risk of violence or intimidation where the Monitoring Officer has agreed that such interest need not be registered. Members with such an interest are referred to the Code and advised to seek advice from the Monitoring Officer in advance.

8. Exempt categories

- 8.1. There are exemptions to these provisions allowing members to participate in decisions notwithstanding interests that would otherwise prevent them doing so. These include:-
- (a) Housing – holding a tenancy or lease with the Council unless the matter relates to your particular tenancy or lease; (subject to arrears exception)
 - (b) School meals, school transport and travelling expenses; if you are a parent or

guardian of a child in full time education, or a school governor unless the matter relates particularly to the school your child attends or of which you are a governor

- (c) Statutory sick pay; if you are in receipt
- (d) Allowances, payment or indemnity for members
- (e) Ceremonial honours for members
- (f) Setting Council Tax or precept (subject to arrears exception).



Pension Investment Committee

General Update

Date: 7 September 2023

Key decision: No.

Class: Part 1.

Ward(s) affected: None specifically.

Outline:

This paper provides the Committee with an update on several general pension fund related matters in the last quarterly period.

Recommendation:

The Committee are asked to:

1. review and note the contents of the report;
2. note the current position regarding the Statement of Accounts 2021/22 and 2022/23;
3. note the Consultation LGPS (England and Wales): Next steps on investments

Timeline of engagement and decision-making

This report is one of the regular quarterly reports prepared for the Pensions Investment Committee to enable them to fulfil their terms of reference.

Is this report easy to understand?

Please give us feedback so we can improve.

Page 10

Go to <https://lewisham.gov.uk/contact-us/send-us-feedback-on-our-reports>

1. Summary

- 1.1. This report sets out a number of general matters to ensure the Committee are appraised on the work ongoing in respect of the Fund.

2. Recommendations

- 2.1. The Committee are asked to:
- 2.2. review and note the contents of the report;
- 2.3. note the current position regarding the Statement of Accounts 2021/22 and 2022/23;
- 2.4. note the Consultation LGPS (England and Wales): Next steps on investments.

3. Policy Context

- 3.1. The overriding policy context for the Pension Investment Committee are the pension regulations and Members fiduciary duty to the beneficiaries of the Fund.

4. Background

- 4.1. This briefing will provide a summary of current topics relating to the Pension Fund and pensions in general, and address standing items on the agenda, following on from actions requested in previous meetings.

5. 2021/22 Statement of Accounts and Annual Report

- 5.1. The Annual Report and Accounts for the London Borough of Lewisham Pension Fund Accounts 2021/22 have been signed by the auditors and the Chair of PIC and has been published.
- 5.2. There have been no further changes to the Annual Report and Accounts since the accounts were reported to PIC at the June meeting.
- 5.3. The Annual Report and Accounts have been published on the Lewisham Pension web site: <https://www.lewishampensions.org/resources/>

6. 2022/23 Statement of Accounts and Annual Report

Work on the audit of the Lewisham Pension Fund Accounts 2022/23 has started and the main audit work will take place in September and October.

The Annual Report must be published by 1 December 2023 so it will be presented at the November Pension Investment Committee meeting.

7. Retendering advisory and actuarial services

- 7.1. The retendering of the advisory and actuarial services contracts will commence in September 2023.

8. Pension Board

- 8.1. The Pension Board has a full membership of two employee representatives and two employers' representatives and an independent Chair. A clerk has also been appointed to support the board.
- 8.2. The Pension Board held a meeting on 26 June 2023 and has quarterly meeting dates booked for 2023/24. The date of the next meeting is 25 September 2023.
- 8.3. The Chair has outlined his expectations of the board and it has agreed a work programme for the year which will be reviewed on a quarterly basis.
- 8.4. The board members have agreed a training programme, including the Pension Regulator's Toolkit of online training and other training sessions that have been arranged for PIC.
- 8.5. The workplan and the initial priority actions have been programmed in the context of the AON review from 2019 to ensure that those areas of weakness are addressed in addition to the expected cycle of work for the Board.
- 8.6. The minutes from the 26 June 2023 Pension Board meeting has been appended to this report as Appendix 1 for the Committee's information.

9. Training

- 9.1. A selection of conferences, workshops and seminars continue to be shared with Members. See Appendix 2. Should members find any of the sessions of interest or have identified other training they would like to attend, please can they keep the Governance Team informed. Members' training records are published annually in the Annual Report, to be finalised by November each year.
- 9.2. The recommended sessions form part of the main training offer to Members; other sessions arranged by fund managers or the Fund's advisors will also form part of regular Committee business. It is vital that Members develop and maintain their knowledge of the overall sector, and in particular the LGPS, for preserving our professional client status under MiFID II regulations. Should Fund Managers deem the Committee to be lacking in knowledge or ability, it is within their powers to withdraw their services.
- 9.3. Officers continue to recommend the excellent training tools available via the Pensions Regulator at: <http://www.thepensionsregulator.gov.uk/public-serviceschemes/learn-about-managing-public-service-schemes.aspx>. However, please note that the focus of the toolkit is on the administration and governance of the scheme and not on fund investment. Other useful sources include the free to attend SPS conferences at www.spsconferences.com or

specific training can be arranged on selected topics as needed.

- 9.4. Meet the Manager for the November meeting will LGIM (Legal and General Investment Management) and will discuss the Build to Rent investments in housing. LGIM will make presentations to the meeting. They will cover investment performance, changes they've made to the portfolio (in particular any tilt towards the social and private housing markets), and a general outlook.
- 9.5. Additional training sessions separate to the meeting cycle will be offered and the subjects and dates will be circulated to all members after the results of the Member's Knowledge and Skills Assessments have been reviewed.

10. Consultation LGPS (England and Wales): Next steps on investments

- 10.1. The government consultation on Local Government Pension Scheme (LGPS) [Local Government Pension Scheme \(England and Wales\): Next steps on investments - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments) investments has been issued and Hymans have published a briefing note for consideration the main points are listed below: See Appendix 3.
 - a) Pooling should be completed as quickly and extensively as possible, where it is achieving clear benefits for funds. The government supports pooling and has a desire for the pace to increase. The previous requirement for pools to have AUM of £25 billion has increased to £50-75 billion currently the London CIV has AUM of £28 billion.
 - b) There is a possible requirement for liquid assets to be pooled by 31 March 2025.
 - c) The government needs to consider its approach on the use of passive assets.
 - d) The government has proposed that pools specialise in areas of in-house management where they are particularly strong. This could allow pools to dedicate greater focus and resources on their own area of specialism and allow for greater pooling of assets in each area.
 - e) High level investment strategy decisions including setting investment objectives and risk appetite should remain with pensions committees.
 - f) The government needs to provide clarity on financing support for Levelling Up and what is the role of LGPS.
 - g) Its not appropriate for government to prescribe allocations to specific asset classes, given the fiduciary responsibilities of individual authorities.
 - h) The government in its consultation has a preference for a single model of pooling based on an asset manager with significant assets under management that it has full responsibility for, that itself is fully owned by its member funds. One single approach may not be better than the rest. There is strength in having different approaches and this should be preserved.
 - i) Further clarification from government on role and scope of private equity investments would be useful. There is a suggestion that that private equity should be increased to 10% (Lewisham Pension Fund is 3%).

- j) Officers and advisors will respond to the consultation by the deadline of 2 October 2023.

11. Financial implications

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

12. Legal implications

- 12.1. The Pension Regulations require that the Council has regard to the proper advice of its expert independent advisors in relation to decisions affecting the Pension Fund. They must also have regard to the separate advice of the Chief Financial Officer who has statutory responsibility to ensure the proper administration of the Council's financial affairs, including the administration of the Pension Fund.

13. Equalities implications

- 13.1. There are no direct equalities implications arising from this report.

14. Climate change and environmental implications

- 14.1. There are no direct climate or environmental implications arising from this report.

15. Crime and disorder implications

- 15.1. There are no direct crime and disorder implications arising from this report.

16. Health and wellbeing implications

- 16.1. There are no direct health and wellbeing implications arising from this report.

17. Report author and contact

- 17.1. For more information please contact Katharine Nidd, Director of Finance, 1st Floor Laurence House, 020 8314 6651, Katharine.Nidd@lewisham.gov.uk
- 17.2. Financial implications: Tony McGuinness Interim Head of Strategic Finance, Planning and Commercial

Pension Investment Committee

Suggested Training and Events

Date	Time	Event	Organiser	Location	Cost & additional information	Web site
Anytime		The Pension regulator's Toolkit	The Pension Regulator	Online	Free	https://trusteetoolkit.thepensionsregulator.gov.uk/
04/09/2023 05/09/2023	All day	London CIV Annual Conference	London CIV	8 Northumberland Avenue, Central London	Free	www.londonciv.org.uk
07/09/2023	All day	Fixed Income Strategies in the New Investment Climate	SPS Conferences	The View at the Royal College of Surgeons, London, WC2A 3PE	Free to attend: registration via website	https://www.spsconferences.com/conference-details-sept-7-2023
07/09/2023 08/09/2023	All day	Investment & Pension Summit	LGC	Royal Armouries & New Dock Hall, Leeds	Public sector delegate: 1 night's accommodation: £949	https://investmentsummit.lgcplus.com/pensionssummit2023/en/page/home
14/09/2023	All day	Trusteeship - Part One: The Theory	PLSA	24 Chiswell Street, London, EC1Y 4TY	£605	https://www.plsa.co.uk/Events/Trustee-Training/Trusteeship-Part-1-The-Theory
14/09/2023	All day	Pensions Age - Autumn Conference	LGA	Waldorf Hilton Hotel, Aldwych, London, WC2B 4DD	Free to attend: registration via website	https://www.pensionsage.com/autumnconference/agenda.php
20/09/2023	All day	Net Zero, Impact, & Sustainable Investment Conference	London CIV	The View at the Royal College of Surgeons, London, WC2A 3PE	Free to attend: registration via website	https://www.spsconferences.com/conference-details-sept-20-2023
10/10/2023	All day	The Local Authority Responsible Investment Seminar	DG Publishing	ET London: Savoy Place, London, WC2R 0BL	Free to attend: registration via website	https://www.dgpublishing.com/laris/

Pension Investment Committee

12/10/2023	All day	Fundamentals - Day 1 (specific training aimed at elected members on pension committees and boards)	Local Government Association (LGA)	18 Smith Square, Westminster, London, SW1P 3HZ	£280; registration via website	https://lgaevents.local.gov.uk/lga/frontend/reg/thome.csp?pageID=620635&eventID=1786
19/10/2023	All day	LGPS Sustainable Investment & Other Topical Issues Conference	SPS Conferences	The View at the Royal College of Surgeons, London, WC2A 3PE	Free to attend upon request via website	https://www.spsconferences.com/conference-details-october-19-2023
31/10/2023	All day	Trusteeship - Part Two: The Practice	PLSA	24 Chiswell Street, London, EC1Y 4TY	£605	https://www.plsa.co.uk/Events/Trustee-Training/Trusteeship-Part-2-The-Practice

60-second summary

Government consultation - LGPS (England & Wales): next steps on investments



Iain Campbell
Senior Investment Consultant

The government released their long-awaited consultation on Local Government Pension Scheme investments on 11 July. This set out their vision for the important matters of pooling, the LGPS's role in levelling up and private equity, as well as CMA requirements, investment definitions and the LGPS's equality duty. Here we provide a summary of the consultation's main issues.

Clear support for pooling

The consultation sets out a clear preference for pooling to go further and faster. While the government acknowledges the benefits achieved by pooling in its current guise, there's a belief that greater scale can achieve more. They therefore set out ambitions for:

- Increased scale, with a smaller number of pools in excess of £50bn of assets, to achieve further fee reductions and access to larger investment projects. Merger may be required for any pools which remain below £50bn even after all assets are pooled.
- All liquid assets to be pooled by 31 March 2025, with a preference for assets to be under pool "ownership", rather than the pool serving an oversight role. Pooling of illiquid assets is also to be considered within this timeframe, but no firm deadline has been set for these.
- In-house investment management within the pools to grow, reducing or removing the additional layer of third-party manager fees.
- Pools to specialise and collaborate, with funds to access in-house management in specific investment areas in other pools if their own pool doesn't provide this. Competition between pools is explicitly discouraged.
- Increased reporting by funds of progress on pooling assets in the Investment Strategy Statement and annual report, including explanations for assets that are not intended to be pooled.
- The setting of investment strategy is to remain with administering authorities, but with this defined as the "broad instruction regarding asset classes and level of risk". The implementation decisions below that broad definition are to be delegated to pools, including the ability to move quickly with assets as opportunities arise. The consultation also states that pools should be "actively advising funds regarding investment decisions, including investment strategies".

- Formal training of pension committee members will be required, with regular reporting of training undertaken.
- Increased transparency of reporting of assets held by funds, with greater detail on asset allocation and pooling progress in annual reports and by the LGPS Scheme Advisory Board.

Some details offered on levelling up

Michael Gove's levelling up white paper mentioned a potential requirement for the LGPS to invest 5% in assets that assist with the government's levelling up agenda. Further notes were dropped into the Edinburgh Reforms and most recent Budget regarding "venture and growth capital". While this generally raised more questions than answers, it's helpful to see more clarity around the future path, including:

- A clear view that levelling up investments can be wholly compatible with fiduciary duty.
- 12 levelling up missions that, if investments contribute to, will count towards the 5% target.
- All asset classes will count towards the target, along with investments anywhere in the UK.
- A requirement for funds to publish a plan of how up to 5% of assets will be invested in projects that support the levelling up agenda (funds may invest more than 5% if they wish).
- Annual reporting of progress against this plan.
- Reliance on pools to access these opportunities, partly to manage issues with conflicts of interest, with a preference for opportunities to be sought out and developed by funds and pools, rather than simply joining auctions of already established opportunities.
- Funds to be able to access local investments through other pools.
- Funds should also be able to demonstrate how they assess levelling up investment opportunities.

A surprise push for private equity?

While wording around levelling up shifted towards "venture and growth capital" in government communication, it was perhaps surprising to see a separate consideration of requirements to invest in private equity. Much of the discussion in the consultation is intertwined with levelling up; however, the potential requirement to invest 10% in private equity doesn't explicitly state this should be within the UK. The government's rationales for greater investment in this area are:

- Making more capital available to support UK companies, and the UK's attractiveness for company listings.
- The LGPS's long investment time horizon, and the asset class's historically high returns.

The government also discussed the potential for working with the British Business Bank to build capabilities to invest in this area.

Summary

The future of pooling and potential requirements placed on funds by the levelling up agenda have been significant uncertainties hanging over the LGPS. At times these have prevented actions being taken and progress being made. While it's positive to have the further clarity provided by the release of this consultation, many questions remain. We'll follow up with another note setting out our views on the consultation and areas where we feel more clarity is required.



Pensions Investment Committee

Net Zero Policy

Date: 7 September 2023

Key decision: No.

Class: Part 1.

Ward(s) affected: None specifically

Contributors: Director of Finance

Outline:

This report sets out route to setting a Net Zero Policy

Recommendation:

The Committee is asked to review and note the contents of the report.

Timeline of engagement and decision-making

The Pensions Investment Committee has been working on producing a Net Zero Policy for the Pension Fund while understanding the effects it may have on the pension fund investments.

1. Summary

- 1.1. This report sets out the Net Zero Policy as appended. The report will be presented by the Council's advisers, Hymans Robertson.

2. Recommendations

- 2.1. The Committee is asked to review and note the contents of the report.

3. Policy Context

- 3.1. The overriding policy context for the Pensions Investment Committee are the pension regulations and Members fiduciary duty to the beneficiaries of the Fund.

4. Background

- 4.1. One of the primary roles of the Committee is to regularly review the performance of the Fund's investment mandates to satisfy themselves they are in line with the agreed investment strategy, risk profile, and performance for the Fund.

5. Net Zero Policy

- 5.1. In June 2023 members discussed the Baseline results of what has been achieved so far and the Net Zero Pathway that shows the likely outcome of the current investment decisions.
- 5.2. The setting of a Net Zero Policy was discussed at the June meeting but it was decided to hold an additional workshop meeting in August 2023 to allow members time for further questions and discussion.
- 5.3. Hymans have drafted the New Zero Strategy see Appendix 4

6. Financial implications

- 6.1. There are no direct financial implications arising from this report.

7. Legal implications

- 7.1. In line with the Council's Constitution and the Committee's Terms of Reference within, as the administering authority for the Fund, the Council must review the performance of the Fund's investments or policy changes.
- 7.2. The Pension Regulations require that the Council has regard to the proper advice of its expert independent advisers in relation to decisions affecting the Pension Fund. They must also have regard to the separate advice of the Chief Financial Officer who has statutory responsibility to ensure the proper administration of the Council's financial affairs, including the administration of the Pension Fund.

8. Equalities implications

- 8.1. There are no direct equalities implications arising from this report.

9. Climate change and environmental implications

- 9.1. There may be beneficial affects to the climate and the environment from changes to

the pension fund investments to meet requirements of the Net Zero Policy as set out in this report.

10. Crime and disorder implications

10.1. There are no direct crime and disorder implications arising from this report.

11. Health and wellbeing implications

11.1. There are no direct health and wellbeing implications arising from this report.

12. Background papers

12.1. Appended to this report is the Hymans Robertson Net Zero Policy.

13. Report author and contact

13.1. For more information please contact Katharine Nidd, Director of Finance, 1st Floor Laurence House, 020 8314 6651, Katharine.Nidd@lewisham.gov.uk

13.2. Financial implications: Tony McGuiness Interim Head of Strategic Finance, Planning and Commercial

LB Lewisham Pension Fund - Climate Transition & Net Zero Policy - **DRAFT**

Executive Summary

The Pensions Investment Committee (the 'PIC') of the LB Lewisham Pension Fund has developed a Climate Transition and Net Zero policy. This policy will be revised on an ongoing basis as the Fund's action plan to achieve these objectives is developed and will be supported by ongoing quantitative analysis. This policy sets out the targets set by the PIC as well as the detail on the approaches that will be taken to achieve the net zero ambition. There are 4 core elements to this plan, split between portfolio level and asset level targets and actions. The key targets and actions within each element are summarised on the following page.

Portfolio level

1. Portfolio Emissions

Targets

- Reduce financed scope 1 and 2 emissions to net zero by 2040 at the latest, with an ambition to achieve this by 2030.
- Interim target to reduce scope 1 and 2 emissions on listed equities by at least 80% compared to the 2019 level by 2023, 90% by 2030.
- Measure Scope 1, 2, and 3 emissions across all asset classes by 2028.

Actions

This will be achieved through a combination of capital allocation and engagement, the following boxes setting out the main actions. Engagement with the London CIV will be a key focus, with the development of compelling decarbonisation solutions a priority.

2. Climate solutions and opportunities

Targets

- 10% asset allocation by 2030, with interim targets of 5% by 2025, 7.5% by 2028; further increasing allocations past 2030 – these investments aim to support the Fund's emission targets through either negative or avoided emissions.
- Positive impact to deforestation, biodiversity loss, social factors and climate adaptation are key factors included in decision-making

Actions

- Consider building allocations to natural capital and renewable energy, if these demonstrate impact and also help achieve Net Zero (portfolio level)

Asset level

3. Alignment

Targets

- Maintain alignment of all listed assets (excluding government bonds) to 1.5 degrees sector specific decarbonisation pathway
- 75% of property assets aligned with CRREM or 1.5 °C fair share by 2030, with interim targets of 50% by 2025, 65% by 2028.
- By 2025, 70% of emissions in material sectors* are either assessed as net zero, aligned with a net zero pathway, or the subject of direct or collective engagement and stewardship actions. By 2030, this will be 90%.

Actions

- Focus on engagement with investment managers (including LCIV) initially. Mandate alignment will be considered alongside this; in particular any new commitments to unlisted assets.
- The Fund commits to reporting progress all targets within this NZ policy on a regular basis, and will use its TCFD reporting as the primary mechanism for achieving this.

4. Engagement

- Engage with the relevant investment managers with regards the top 10 most misaligned companies (at portfolio level) in heavy emitting sectors*
- Deforestation, biodiversity loss, social factors and climate adaptation are key engagement topics; raise these with investment managers and consider collective action where appropriate (e.g. through membership of a climate change advocacy group such as IIGCC, LAPFF).
- Engage to support improving data availability and quality – emissions data available and robust for all asset classes by 2028; firm requirement for any new manager to fully meet all data requirements at the time of appointment.
- Engage annually with LCIV regarding existing investments and be a part of all seed investor groups for relevant sustainability mandates.

Introduction

The Pensions Investment Committee (the 'PIC') of the LB Lewisham Pension Fund considers that climate change represents a material financial risk with the potential to disrupt economic, financial and social systems. As well as climate change presenting a significant risk to the Fund's investment strategy, the PIC believes that long-term asset owners such as the Fund can play a significant role in decarbonising modern economies through the capital allocation decisions they make and the stewardship of the companies they finance.

As a responsible asset owner, the PIC recognises the need to address the systemic risk posed by climate change, including the risks it poses to the Fund's investments and its beneficiaries, thereby impacting the PIC's fiduciary duties. The Fund therefore has an ambition to achieve net zero by 2030, with a commitment to reach net zero financed emissions by 2040. This recognises that future improvements in the availability and quality of climate data (particularly for unlisted investments), and in the availability of available sustainable investment options, are factors in achieving progress. This commitment is made in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met.

The definition of 'net zero' may include negative or avoided emissions achieved through climate solutions. The Net Zero Asset Owners Alliance (NZAOA) defines climate solution investments as "investments in economic activities considered to contribute to climate change mitigation (including transition enabling) and adaptation, in alignment with existing climate related sustainability taxonomies and other generally acknowledged climate related frameworks".

To support the ambition, the PIC has developed this document as a framework for achieving net zero financed emissions (i.e. emissions produced by the investments held in the Fund). This framework is designed to guide as well as communicate the PIC's investment decisions enabling the Fund to align with the goals of the Paris Agreement and contribute to real economy change. A key objective is achieving positive real-world change and a significant reduction in emissions over time, whilst also maintaining a balance with the Fund's wider risk / return objectives and its fiduciary duty to pay all member benefits.

The PIC recognises the challenges of achieving net zero emissions by 2040, and fully aligning with it over the short term is a considerable undertaking. Therefore, flexibility will be a key aspect of any credible net zero strategy developed today given that the science, suggested pathways and data continue to develop and evolve. However, this should not prevent the Fund from planning and starting its net zero journey but instead should demonstrate proactivity within the wider climate transition and it should be recognised that there will be a need for an evolution of strategy and a dynamic approach towards how the plan is implemented in the future.

This document is therefore designed to be dynamic and evolve as best practice changes. The Fund's transition plan may be adjusted over time as new information emerges and circumstances change. By remaining open to new ideas and approaches, the Fund can strengthen its ability to reach its net zero goals.

The Journey

In recognition that it is cumulative emissions through time that matter, the PIC has set a high-level target to align its investments with a global carbon budget consistent with limiting warming to 1.5°C (by 2100) with a 67% likelihood (as identified in the [IPCC's AR6 report](#), 2021) and has determined a decarbonisation pathway that aligns with this.

The PIC use a bottom-up approach of assessing the Fund's carbon position, based on the Fund's asset, sector, and regional allocations. This is then built up to a portfolio level position. This approach is in line with the [IIGCC's Supplementary Guidance on Target Setting for a Net Zero Investment Framework](#), which recommends science-based net zero journeys at the portfolio level using a sectoral and regional approach.

Finally, the PIC recognises the importance of interlinked issues such as biodiversity loss and the social implications of transitioning to a low carbon economy. Considering this and building a nature positive investment strategy will be developed alongside the focus on reducing financed emissions.

Data, Asset Class Coverage and Emissions

The Fund's ambition is to be net zero by 2030, with a commitment to be net zero across the **entire** investment portfolio by 2040. However, existing limitations on data mean that approximately 70% of the strategy can be assessed quantitatively. The asset classes held by the Fund for which adequate data is available today are:

Mandate	Allocation	Data coverage (Reported and estimated)
Listed equities	50%	Close to 100%
Private equities	3%	c. 10%
Listed corporate bonds and Gilts	19%	33%
Property	10%	c. 50%
Renewable infrastructure	6%	c. 50%
Infrastructure	6%	c. 50%
Private debt	6%	c. 50%

Emissions

For the asset classes listed above there is a reasonable quality of data on scope 1 and 2 emissions and so the current targets and assessment of alignment will concentrate on these. However, given the significance of scope 3 emissions, particularly in the most material sectors (e.g. agricultural commodities, financial services) these are included in the net zero target and in forward-looking alignment work. Estimations may be made on the level of scope 3 emissions to include today in this forward-looking analysis. While lack of data on other asset classes is an issue, it does not stop the PIC pursuing engagement activity and considering capital allocation into climate opportunities or solutions. Engaging with investment managers to develop good quality data is a primary goal for the PIC.

The "How" – capital allocation and engagement

As an asset owner, there are two primary levers to move the investment portfolio towards a net zero emissions position - capital allocation and engagement. The PIC believes that a combination of both is likely to give the best chance of meeting their net zero goals.

Capital allocation

The PIC considers two aspects to improving the current net zero pathway through capital allocation:

- Reduce emissions - Improve the current mandates by allocating to more efficient companies within sectors and engagement relative to sector laggards. This includes recycling the proceeds of existing private assets into future products with better climate credentials
- Remove emissions - Increase allocations to assets that remove or avoid emissions

The table below provides some examples of how emissions reductions and removal can be achieved.

Emission reduction and removal examples

Emissions reducers		Emissions removers	
Actors: Companies that currently have high emissions that are taking active steps to reduce their emissions over time	Facilitators: Companies that are developing technologies that support others in the reduction of their emissions	Actors: Companies that are developing assets that serve to actively remove emissions from the atmosphere	Facilitators: Companies that are developing technologies that support others in emissions removal
Example: Steel companies that are migrating to electric arc furnaces, investing in low carbon steel or dematerialisation of product	Example: Companies that are developing insulation technologies that reduce energy demand	Example: Afforestation	Example: Companies developing direct from air CO2 capture

The PIC will consider implementing these options in all aspects of the investment strategy process:

- Strategic asset allocation – consider moving assets to asset classes focussed on climate solutions and emissions removal.
- Mandate selection - consider moving assets to more aligned products.
- Adjust allocations within current mandates – for example a focus on best-in-class companies within sectors.

The PIC will take an incremental approach to capital allocation changes as the data and opportunities evolves, balancing their fiduciary duties at all times.

Engagement

The PIC believe that they have a significant influence on the decarbonisation actions of the organisations they finance through engagement and will consider developing a standalone full engagement policy separately and using its influence to encourage LCIV in their engagement activities. The Fund also intends to use its influence to encourage LCIV to create compelling investment products that support decarbonisation and biodiversity objectives. Specifically, the PIC believe that they can encourage portfolio companies to align to the decarbonisation pathways for the sectors in which they operate and set an appropriate strategy to align with these pathways. The goal being that cumulative emissions remain within the carbon budgets established for sectors and companies. Stewardship is critical for investors to manage portfolio risk and real-world impact, especially in asset classes that are traded via secondary markets, e.g. equities. Voting and engagement with companies enable investors to have significant influence on company strategy, operations, long-term sustainability and viability. The PIC believes that engagement is preferable to divestment, although the option to divest when engagement is unlikely to be effective or has failed should be considered as well. The PIC will also consider becoming a member of an institutional investor climate action group in future.

Measuring and accountability

A key part of the action needed to fulfil this plan is to measure, assess and report on the progress made against the targets set. The PIC has established the baseline and alignment by assessing the current investment strategy against a 1.5 degree carbon budget pathway and other metrics. This has enabled the PIC to set portfolio level targets and asset class priorities. The pathway analysis has also helped to define engagement priorities. The committee will undertake an annual recalibration of the net zero journey plan and reassess priorities using annual climate metrics reporting (commenced in 2023, with a view to meeting future TCFD obligations).



Pensions Investment Committee

Exclusion of the Press and Public

Date: 30 August 2023

Key decision: No

Class: Part 2

Ward(s) affected: All

Contributors: Interim Director of Finance / Treasury Investment Manager / Interim Head of Strategy, Reporting and Commercial / HarbourVest / Blackrock / Hymans Robertson

Outline and recommendations

Members are asked to note items that will be considered in closed session

Recommendation

It is recommended that under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 3, 4 and 5 of Part 1 of Schedule 12(A) of the Act, as amended by the Local Authorities (Executive Arrangements) (Access to Information) (Amendments) (England) Regulations 2006:-

7. Meet the Manager - HarbourVest
8. Meet the Manager - Blackrock
9. Quarterly Investment monitoring
10. General Update including Net Zero Policy

Agenda Item 7

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Agenda Item 9

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Agenda Item 10

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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