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London Pensions Fund Authority **Climate Change Policy**

December 2023



London Pensions Fund Authority

Climate Change Policy

Our responsibilities

We have a statutory duty to act in the best long-term interests of the Fund and its beneficiaries.

Making informed investment decisions to ensure the long-term viability of the Fund and pay our members their benefits is an overriding priority.

Fulfilling our statutory duty requires us to recognise that environmental, social and governance (ESG) issues can affect the Fund's financial performance. ESG issues should be taken into account throughout the funding and investment decision-making process.

Climate change poses a long-term and material financial risk to our long-term financial viability. It may impact value across all our investments, but the route, scale and timing of this impact is both complex and uncertain.

About climate change risk

"If left unchecked, climate change will cause average global temperatures to increase beyond 3°C, and will adversely affect every ecosystem. Already, we are seeing how climate change can exacerbate storms and disasters, and threats such as food and water scarcity, which can lead to conflict. Doing nothing will end up costing us a lot more than if we take action now.." United Nations ¹

Climate change is a systemic risk, which arises from the physical effects of sustained changes in weather patterns due to, for example, global warming. Human interventions attempt to mitigate and manage these changes by adapting to new circumstances through regulation, technological innovation, or other cultural shifts.

Climate change will impact all investments globally in some manner. It has the potential to destroy value where climate change risks are not being recognised and integrated into effective strategic planning. It also presents opportunities for value creation where products and services can be developed which solve problems and meet societal needs.

"To address climate change, we have to vastly raise our ambition at all levels. Much is happening around the world – investments in renewable energy have soared. But more needs to be done. The world must transform its energy, industry, transport, food, agriculture and forestry systems to ensure that we can limit global temperature rise". United Nations ²

Our beliefs

We believe that fulfilling our statutory duty requires us to recognise that ESG issues can have a direct financial impact on the value and sustainability of individual investments and an influence on the long-term investment

goals of the fund. We believe that by addressing the risks and opportunities posed by climate change collaboratively we are:

- Protecting the value of the Fund
- Contributing to an improved economic future both locally and globally
- Contributing to improved prospects for our beneficiaries' quality of life
- Playing a visible role in advocating for positive change in our society

Our role in addressing climate change

The LPFA is the owner of the assets held in the Fund. However, as for all funds within the Local Government Pension Scheme (LGPS), investment decision making is delegated to our investment manager, Local Pensions Partnership Investments (LPPI).

LPPI manages investments on our behalf taking account of policies set by our Board. LPPI has delegated authority for investment implementation, including the selection of individual assets and managers our Fund is invested in.

We have made a commitment for our fund to reach net zero by 2050, and have developed a climate action plan to work towards this³.

Our convictions about climate change, and the work towards our net zero commitment, are reflected in our work with LPPI to:

- **Minimise exposure** to sectors and companies heavily associated with climate change risk
- **Increase exposure** to sectors and companies whose activities support the transition to a lower-carbon future
- **Use our influence** with companies and asset managers to advocate for change
- **Report our progress** clearly and transparently to our members, stakeholders and wider society.

Each of these areas are considered further below.

Minimising our exposure to climate change risk

We expect LPPI and their appointed external managers to be aware of climate change related risks, including those associated with biodiversity loss and natural capital depletion. We expect them to take action to identify these risks, assess their materiality for the Fund, and mitigate their impact where appropriate. We expect them to engage with companies, either individually or with other likeminded investors or groups of investors such as the Local Authority Pension Fund Forum (LAPFF) or the Institutional Investors Group on Climate Change (IIGCC).

¹ <https://www.un.org/sustainabledevelopment/climate-change/>
² <https://www.un.org/sustainabledevelopment/climate-change/>

³ <https://www.lpfa.org.uk/net-zero-our-goals>

We expect LPPI to take steps to evaluate and monitor the level of exposure to climate change risk. This will involve the use of investigative and analytical tools such as the Transition Pathway Initiative. These tools provide support that can help inform investment decision making and will be referenced in regular reporting and assurance provided to the Investment Committee and LPFA Board.

Where our statutory duty allows, we wish to avoid new active investments in companies that are paying little or no attention to climate change related risks (including those deriving from biodiversity loss and natural capital depletion) and/or cannot demonstrate that they are planning for the global transition to a low-carbon economy, including future emissions reduction targets under the Paris Agreement. For example:

- Fossil fuel companies with substantial activities in the extraction of coal, oil and natural gas as sources of energy
- Carbon intensive activities such as transport and construction that do not have a clear strategy for achieving material emissions reduction
- Carbon intensive activities with minimal scope for emissions abatement (within current technology).

If such investments are already in place and there is no possibility to engage or reform the company, we will make all reasonable efforts to divest if there is no significant financial detriment to the Fund (either through increased costs or increased investment risk).

Encouraging exposure to green technology

We recognise that we can directly support the low carbon transition and adaptation, through investing in sectors that actively address climate change.

Where our statutory duty allows, we will encourage LPPI to seek investments in companies that are making a positive impact in tackling climate change. Examples include:

- Renewable energy
- Energy distribution
- Energy efficiency
- Electric vehicles and associated infrastructure
- Natural carbon capture solutions

We also believe in leading by example and take steps to reduce our own impact on climate change. We are proud to have been awarded the Planet Mark accreditation four years in a row, recognising our commitment to reduce our own carbon footprint.

We will also do this through our procurement of goods and services, travel choices and use of technology. We will report on our principal impacts and the steps we have taken to reduce them as part of our wider corporate disclosures.

Advocating for change

Our commitment to encouraging good corporate governance through our ownership activities includes a specific focus on climate related issues for investee companies. On our behalf, LPPI explicitly identifies upcoming resolutions at the meetings of listed companies on environmental themes. In appropriate circumstances we will support resolutions that encourage companies to recognise, evaluate, adapt to and report on climate related risks and opportunities (including those related to biodiversity loss and natural capital depletion), or which urge them to evolve their current approach where further development is warranted.

This recognises the responsibility of asset owners to monitor and engage with investee companies in order to protect value. As part of our engagement approach, ourselves and LPPI are networked with a range of organisations working on climate-related agendas.

These include:

- The Principles of Responsible Investment,
- The Institutional Investor Group on Climate Change,
- The Transition Pathway Initiative
- Climate Action 100+
- C40 Cities
- The Local Authority Pension Fund Forum
- ShareAction

Our interactions with these groups inform our thinking. They also provide opportunities to support and participate in collective initiatives encouraging companies to address climate change related business risks and report transparently.

We support the recommendations of the FSB's Taskforce on Climate Related Financial Disclosure (TCFD). This identified that inadequate corporate reporting creates significant information gaps. In turn, this prevents investors from evaluating the quality of climate change governance by investee companies. On our behalf, LPPI encourages investee companies to develop their reporting in line with the disclosures outlined by the TCFD.

We also recognise that TCFD recommendations on enhanced reporting extend to investors and Asset Managers, and will extend to the LGPS including the LPFA in the foreseeable future. LPPI reports annually in line with TCFD disclosure requirements. LPFA will continue to encourage LPPI to broaden its alignment and provide enhanced reporting in the future.

Through our own net zero reporting we are also supporting the principles of the TCFD. In addition, we recognise the relevance of the Taskforce on Nature Related Financial Disclosure (TNFD) to complement and contribute to the aims and objectives of our Climate Change Policy and support its recommendations.

Transparency and reporting

LPPI reports to us every quarter on its responsible investment activities, including illustrating progress against this policy. These reports include qualitative and quantitative information to provide assurance that our principles and beliefs are being reflected within our portfolio. For example, these reports include:

- Analysis of the proportion of the Fund covered by the Transition Pathway Initiative and the scores for those assets that are covered.
- Quantification of our investments in green investments (businesses directly contributing to the global transition to a lower carbon economy).
- Quantification of our investments in brown investments (traditional energy (based on use of fossil fuels)).
- Analysis of voting activity, including in relation to ESG and climate change issues.
- Examples of positive social outcomes from our investments.

We are committed to sharing our progress against this policy with our members, employers, wider stakeholders, and the public. We publish our net zero progress on our website in a dedicated net zero hub so that all our stakeholders can follow our progress. We also share our progress with the media, on our social channels and with other stakeholders.

LPFA will continue to publish these reviews in future years.

“We believe that the LPFA should be a voice for change, encouraging others in the pensions industry to play their part in tackling Climate Change and related biodiversity challenges. We can do this by sharing our journey with, and learning from, others.” – Robert Branagh, LPFA CEO, , December 2023

Wider engagement

We have worked closely with the Greater London Authority (GLA) and the Mayor of London since 2017. We have discussed and identified the risks associated with a lack of proper consideration of climate change issues and associated biodiversity and natural capital considerations and our policy is consistent with their own policy. This revised policy builds upon the success of our updated 2020 climate change policy.

This document should be read in conjunction with our RI policy, our RI strategy, and our Investor Climate Action Plan, which can be accessed from our website.

We are aware of the long-term risks and the importance of fully understanding the nature of our investments. It is important that we engage with the companies in which we invest to ensure any such risks are identified. We will take appropriate actions, including divestment where justified while ensuring that we act in line with our statutory duty.

We will continue to work closely with investment partners and the wider LGPS to highlight our approach and the benefits associated with it, and to learn from best practice elsewhere.

Further information

This policy document sets out our belief in climate change specifically as a systemic risk. It therefore compliments our RI policy, which also details a range of wider ESG considerations which are considered the most prominent investment-related risks to the fund.

For more information, please contact:
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