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London Pensions Fund Authority
Policy on Climate Change
Review of 2019

In this update, we share insights and reflections on the positive progress made during 2019 to implement our policy on Climate Change. Our policy describes a clear stance and explains the principles and objectives driving our priorities, relationships, actions and interactions.



Our Core Policy Commitments



1.
To evaluate and monitor exposure to climate change investment risk using appropriate investigative and analytical tools



2.
To manage transition risk (and place conditions on investments in extractive fossil fuel companies)

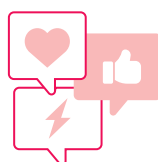


3.
To engage on key issues (individually and in conjunction with other investors)

During 2019, our focus on Climate Change has been integrated into the broader scope of a Responsible Investment (RI) Policy for the Fund. Our RI Policy (approved October 2019) confirms that the climate emergency is our ongoing major focus within wider priorities to:



mitigate
financial risk



have influence
via engagement



clearly communicate
our approach and progress

Directly, and through the actions of our Investment Manager - Local Pensions Partnership Investments (LPPI) - we have made discernible progress. We are achieving our objective of gaining a better understanding of the investment risks posed by Climate Change and what mitigations are needed to safeguard the long-term viability of the Fund.



Core Policy Commitment 1: Evaluating and Monitoring Exposure

We are routinely using the Transition Pathway Initiative (TPI) toolkit to evaluate risks posed by carbon intensive sectors. TPI Management Quality scores provide a ranking of listed companies based on robust measures of their governance of climate change and specifically transition risks.

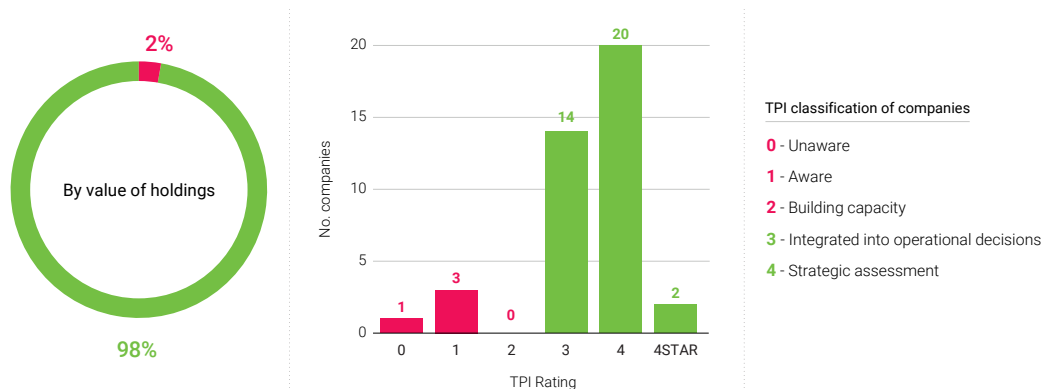
At 31st December 2019, 98% of our investments within TPI coverage ranked at TPI 3 or above, denoting companies which are taking verifiable steps to understand, address and manage climate risks which include setting forward targets for emissions reduction. **(FIG 1)**

LPFI is reviewing the carbon intensity of our listed equities portfolio annually and comparing our position against decarbonisation trajectories needed to meet Paris Agreement targets for global temperature increase of well below 2°C.

LPFA's listed equities portfolio has a carbon intensity significantly below that of our benchmark and lower than indicative emissions trajectories for achieving 2°C and 1.5°C pathways. **(FIG 2)**

LPFA featured positively in external reviews of arrangements for addressing climate change during 2019. A study of best practice within the LGPS by Unison and Share Action rated LPFA 10th out of 89 LGPS Funds in England and Wales, noting the Fund as one of the leaders in addressing climate change.

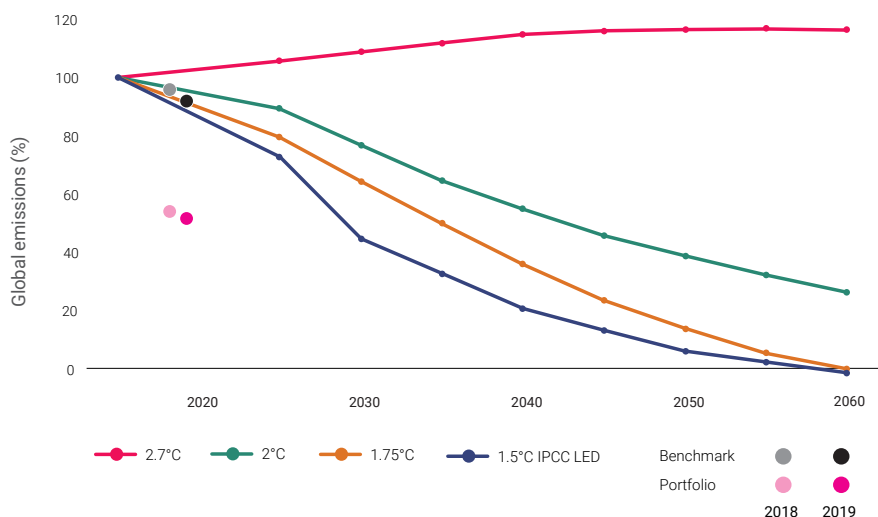
TPI MANAGEMENT QUALITY RATINGS **(FIG 1)**



Low exposure
to climate laggards (below TPI 3)

100% of extractive fossil fuel
companies TPI 3 or above

LISTED EQUITIES PORTFOLIO ALIGNMENT WITH DECARBONISATION PATHWAYS **(FIG 2)**



Carbon intensity
reduced by 4%

Emissions intensity
44% below benchmark

On a 1.5°C pathway



Core Policy Commitment 2: Risk Management and Portfolio Sustainability

What we invest in exerts the greatest influence over our exposure to climate change risk.

We monitor portfolio exposure to “Brown” (fossil fuel dependent) sectors on an ongoing basis. During 2019, our exposure has continued to decline from an already a low baseline.

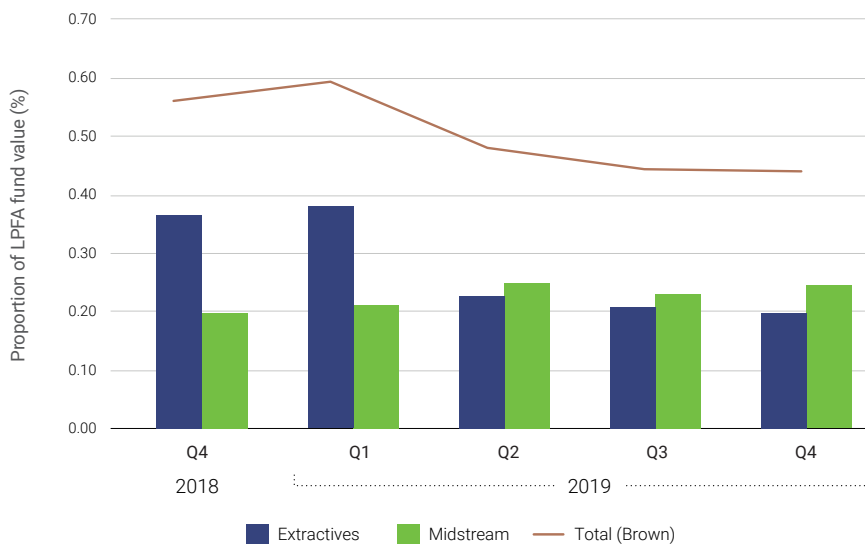
Currently, our exposure through listed equities is £27.3m (0.43% of the total Fund).

Across all asset classes combined, “Brown” exposure is less than 2.5% of the total Fund. (FIG 3)

Our portfolio also contains investments in “Green” sectors (activities contributing to the transition to a lower carbon economy). Our investments encompass wind generation, solar power and energy from waste and are predominantly through real assets (infrastructure). (FIG 4)

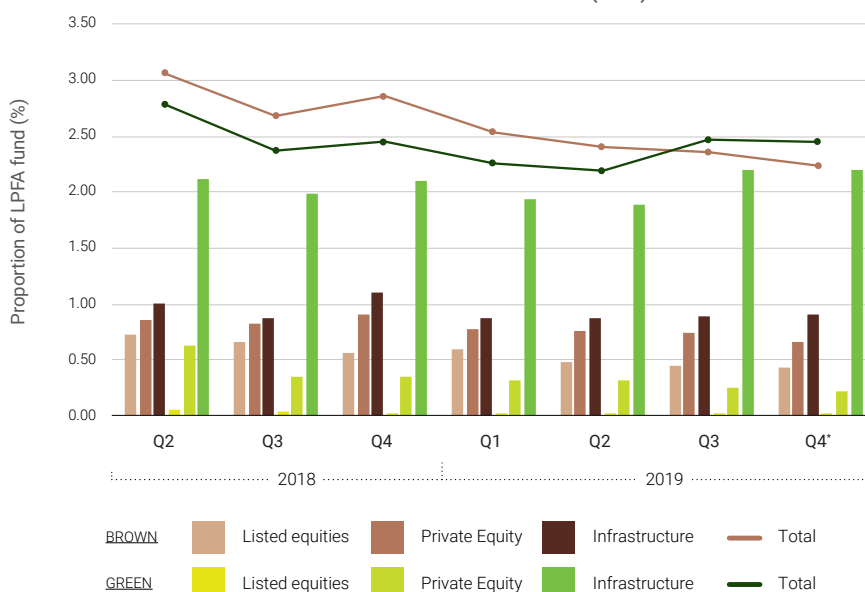
In Q4 2019, we added more renewable energy through our infrastructure collaboration, GLIL. This secured a minority stake in Cubico, which operates 18 wind and solar sites in the UK. LPFA’s equivalent share is sufficient to power 6,000 homes annually.

LPFA LISTED EQUITIES ‘BROWN’ EXPOSURE (FIG 3)



Listed equities extractive exposure reduced to £12m.

LPFA GREEN & BROWN EXPOSURE (FIG 4)



Total Fund less than 2.5% “Brown”

* At present there is no Q4 private market data. Data will be available in due course.



Core Policy Commitment 3: Active Engagement

Throughout 2019 we have continued to collaborate and work in partnership with other investors, collectively urging positive change, both in corporate practices, policy and regulation.

Examples of our participation in Climate focused investor initiatives include:

- Membership of Institutional Investor Group on Climate Change (IIGCC)
- Supporter of Climate Action 100+
- Contributor to C40 Cities Divest/Invest
- CDP Member
- Member of the Local Authority Pension Fund Forum (LAPFF)

Proactive collaboration with leading investors

Voting and engagement supporting Paris Agreement goals

RI team grown by 1 → 4

Positive Policy Advocacy

A significant example of focussed advocacy in 2019 was our participation in the Global Investor Statement to Governments on Climate Change which targeted several key meetings in 2019:

- G20 Summit in Osaka June 2019
- UN Secretary-General's Climate Action Summit in New York September 2019
- COP25 in Madrid December 2019

The statement LPFA has signed presses world governments to urgently implement actions needed to achieve the goals of the Paris Agreement and is an ongoing collaboration by 631 investors (US \$37 trillion).

Shareholder Voting

LPFA supported 17 shareholder proposals on climate and environmental themes at 14 AGMs globally in 2019. Companies were urged to adopt improved practices and greater transparency through proposals to:

- report on their greenhouse gas emissions
- improve disclosure on planning for the transition to low carbon
- set and publish emissions reduction targets
- desist from lobbying activities inconsistent with the Goals of the Paris Agreement

LPPI co-filed a shareholder proposal at the 2019 AGM of Exxon Mobil calling on the Company to disclose carbon reduction targets in line with the Paris Agreement. Exxon challenged the proposal and the resolution did not make it to the ballot. LPP subsequently voted against the entire Board as a reflection of concern over poor receptivity to legitimate investor concerns. Later in 2019, LPPI took the decision to fully divest from Exxon Mobil reflecting a poor alignment of interests on climate policy.

Accountability Through Transparency

Examples of increased openness and transparency on climate change:

- LPFA's Managing Director, Robert Branagh, spoke openly to members about work on climate change (Member Forum in September 2019)
- LPFA developed and published an RI Policy which identifies Climate Change as the Fund's core priority
- In 2019, for the first time, within its annual reporting, LPP disclosed in line with the recommendations of the Taskforce on Climate Related Financial Disclosure
- Having become a signatory in June 2018, LPP reported to the Principles of Responsible Investment for the first time in March 2019
- LPPI added a specific Annex on Climate Change to its RI Policy in August 2018

Resources

LPP has significantly increased the level of resources dedicated to stewardship and Responsible Investment during 2019. The Responsible Investment team of four full-time staff now includes a dedicated Climate Change Analyst.