London Pensions Fund Authority

The practicalities of divesting

Robert Branagh, Managing Director

C40 Cities

Workshop focus

- About the LPFA and our Climate Change Policy
- Understanding the divestment process and methodology
- Progress at the LPFA: Exxon Case Study
- Transition Pathway Initiative
- Working with stakeholders
- Beyond divestment

About the LPFA

- c.£6.5 billion in assets
- c.142 contributing employers
  - *British Film Institute, Serious Organised Crime Agency, UK Sports*
  - *Primary & Secondary schools and Universities*
  - *London Boroughs*
- c.91,000 fund members
- Assets within the Local Pensions Partnership (LPP) 'Pool' of c.£21 billion
- Shareholder of LPP with Lancashire County Council
- 8 Local Government Pension Scheme 'Pools' totalling c.£259 billion
- Small management team of four
- Single Board responsible for fund governance and investments

LPFA: Our Climate Change Policy

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- **Managers must be aware of investment risks** associated with Climate Change and take action to identify and mitigate their impact and…
- …ensure there is **appropriate engagement** on key issues through their own activities or with other likeminded investors or groups of investors (LAPFF and IIGCC).
- **Exposure to climate change investment risk must be evaluated and monitored**, using appropriate tools (e.g. the Transition Pathway Initiative) to increase information and provide appropriate input around investment decision making…
- There will be **regular reporting and assurance** provided to LPFA.
- **Where our fiduciary duty allows, we will not consider new investments in companies directly engaged in the extraction of coal, oil and natural gas** which are ignoring climate change risks and unable to demonstrate planning for the global transition to a low-carbon economy and future emissions reduction targets under the Paris Agreement.
- Where such investments already exist, and **where opportunities for engagement or reform are not possible, we will divest** provided that this will result in no material financial detriment.

City pension funds: Putting a divestment commitment into practice

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Seven core steps

1. Identify the portfolio's most obvious financial risk from Climate Change (Fossil Fuel Producers)
2. Assess the scale and source of current exposure
3. Determine the options and conditions for reducing exposure
4. Agree the outcomes
5. Know the desired endpoint
6. Agree delivery
7. Repeat for other asset classes and sectors

LPFA: Reasons for divestment and leadership in tackling Climate Change

- Financial risk to the future value of the fund
- Cultural: LPFA is a long-term responsible investor integrating ESG
- Public sector ethos
- Member interest
- Activism and pressure groups
- Mayor of London alignment

LPFA: The process and methodology of divestment

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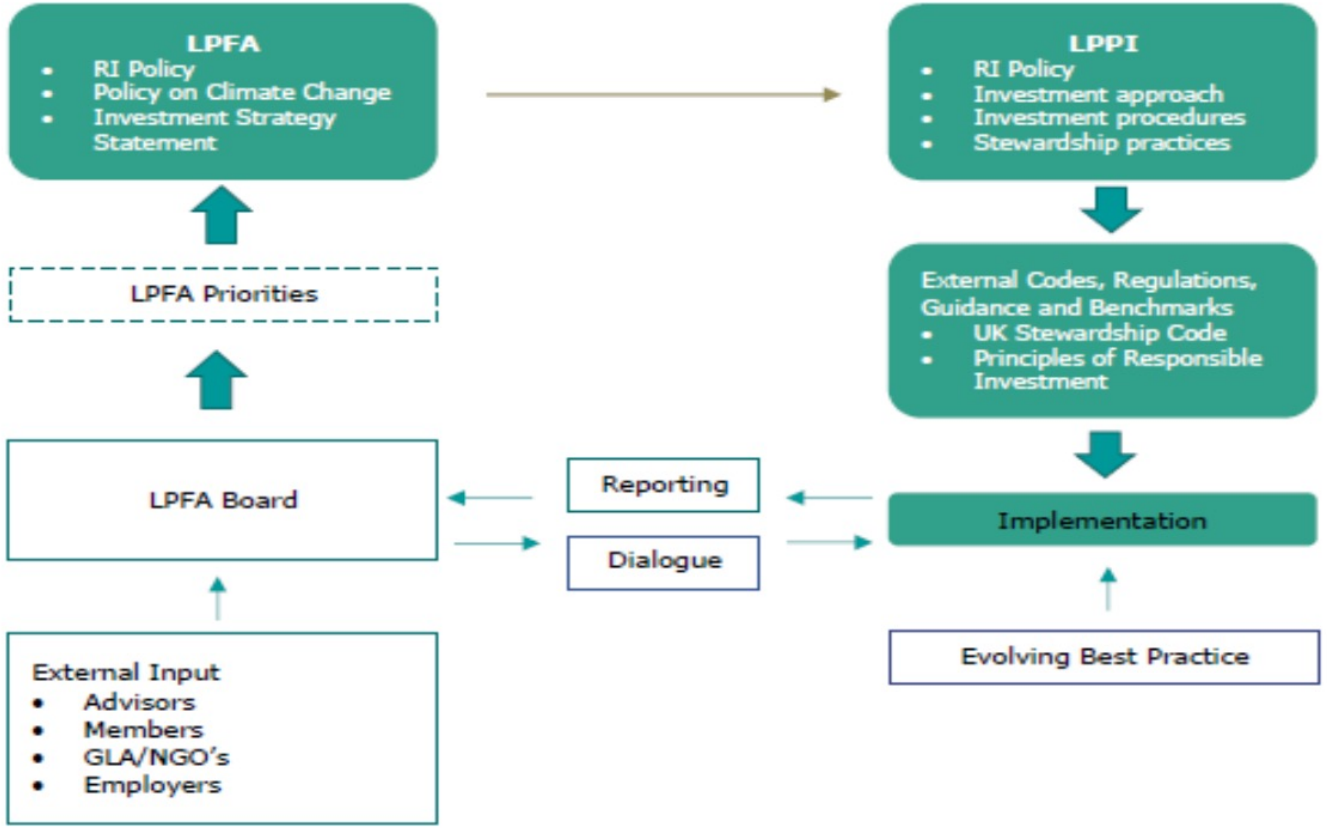
Figure 1: Communication and Monitoring of RI Priorities

The following diagram explains how LPFA's RI Policy informs LPPI's approach to RI.



LPFA: Divestment 12/2018 – 12/2019

	12/2018	12/2019
Number of energy companies in LPFA portfolio	18	11
Value of extractive energy companies	£20.5 million	£11.6 million

LPFA: Divestment 12/2018 – 12/2019

Company
Exxon Mobil
Gazprom
YPF Sociedad Anonima
Canadian Natural Resources
Devon Energy
Lekoil
Tullow Oil
Change in exposure: 0.18%

LPFA: Exxon Case Study

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- Through a delegated manager, LPPI monitored Exxon's stance on climate change.
- Inadequate evidence of meaningful engagement with shareholder concerns on climate change.
- With New York State Common Retirement Fund and Church Commissioners for England, LPPI co-filed shareholder proposal supporting Climate Action 100+ requirements.
- Exxon sought to exclude the proposal from AGM.
- LPPI signed investor petition to the Securities and Exchange Commission to support investor dialogue by allowing the proposal.
- LPPI directly communicated to Exxon our disappointment at the Board seeking no action relief and failure to engage with CA100+.
- Following Exxon's exclusion of the shareholder proposal on emissions targets, LPPI voted against the entire Exxon Board and supported all remaining climate resolutions at the 2019 AGM.
- Post-AGM, LPPI decided that there was insufficient alignment between Exxon’s stance and actions, LPPI policy aims on climate change mitigation, and the intent of the Paris Agreement.
- LPPI concluded that divestment was appropriate and fully liquidated stock in mid-2019.

LPFA: What we've achieved
(Appendix 1)

- LPPI target for extractive fossil fuel companies in its global equities fund to be TPI 3 (integrating cc into operational planning) by December 2019.
- LPFA Climate Change Policy Progress Report, Published March 2020
- Listed equity (LE) holdings:
  - 1.5 degree pathway
  - 98% of LPFA LE investments ranked TPI 3 or above
  - Carbon Intensity of LE reduced by 4%
  - Emissions intensity is 44% of the benchmark
  - 'Brown' exposure 0.43% (£27.3 million)
- All asset classes
  - 'Brown' exposure 2.5% of fund
- Stewardship
  - Supported 17 Climate related shareholder motions at 14 AGMs in 2019

Transition Pathway Initiative:
Rationale, methodology and our experience

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- Selected to provide a robust reference point for individual company progress in transitioning to lower carbon economy.
- An investor tool, created by investors, for investors
- TPI focusses on biggest emitters globally
- Data and analysis from:
  - Grantham Research Institute of Climate Change and the Environment
  - London School of Economics
  - FTSE Russell
  - PRI
- Evaluates them against clear criteria, assigned a quality score from TPI 0 to TPI 4.
- Covers 336 companies in 16 sectors.

https://www.transitionpathwayinitiative.org

Management Quality

FTSE Russell

Level 0	Level 1	Level 2	Level 3	Level 4
Unaware	Awareness	Building capacity	Integrating into operational decision making	Strategic assessment

TPI's Management Quality framework is based on 19 indicators, each of which tests whether a company has implemented a particular carbon management practice. These 19 indicators are used to map companies on to 5 levels/steps. The data are provided by FTSE Russell. See our latest *Methodology and Indicators Report, version 3.0*, for more detail.

Level 0 – Unaware

- Company does not recognise climate change as a significant issue for the business

Level 1 – Awareness

- Company recognises climate change as a relevant risk/opportunity for the business
- Company has a policy (or equivalent) commitment to action on climate change

Level 2 – Building capacity

- Company has set GHG emission reduction targets
- Company has published info. on its operational GHG emissions

Level 3 – Integrating into operational decision making

- Company has nominated a board member/committee with explicit responsibility for oversight of the climate change policy
- Company has set quantitative targets for reducing its GHG emissions
- Company reports on its Scope 3 GHG emissions
- Company has had its operational GHG emissions data verified
- Company supports domestic & international efforts to mitigate climate change
- Company discloses membership and involvement in trade associations engaged on climate *(new question)*
- Company has a process to manage climate-related risks
- Company discloses Scope 3 GHG emissions from use of sold products (selected sectors only)

Level 4 – Strategic assessment

- Company has set long-term quantitative targets (>5 years) for reducing its GHG emissions
- Company has incorporated climate change performance into executive remuneration *(modified question)*
- Company has incorporated climate change risks and opportunities in its strategy
- Company undertakes climate scenario planning
- Company discloses an internal carbon price
- Company ensures consistency between its climate change policy and position of trade associations of which it is a member *(new question)*

LPFA: Working with the Mayor of London and City Hall

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- "Take all possible steps to divest the London Pensions Fund Authority of its remaining investments in fossil-fuel industries." Mayor of London, 2016
- However, LPFA is a LGPS fund working within regulatory and fiduciary requirements of that scheme
- Mayor has supported development of LPFA climate change expertise:
  - Appointment the LPFA Chair and Fund trustees
  - Job description for new trustees includes commitment to supporting climate change and responsible investment action.
- Crucial for both parties to understand pressures facing all stakeholders
- Collaboration and communication paramount
  - Explain the drivers and conditions for the policy approach
  - Communicate the progress

Beyond Divestment:
Approach and rationale for aligning with 1.5C and the Paris Agreement (Appendix 2)

- We used Engaged Tracking to analyse our Listed Equity portfolio
- Regulation, legislation and activism will drive the world towards a 1.5 degrees alignment
- What this means…
  1. Beyond Listed Equities
     - Exposure to climate change risks from other asset classes
  2. Beyond extractive fossil fuels
     - Haulage and transport sectors
     - Building sector
  3. Towards Stewardship
     - Improving reporting on Stewardship of Assets (Inc. impact of LPP voting)

How did the LPFA increase its sustainable assets over time?

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	Value of holdings at Dec 2018	Value of holdings at Sept 2019
Wind	£79.3 million	£79.9 million
Biomass	£24.9 million	£23.3 million
Mixed Renewables (Pooled Fund)	£13.5 million	£13.1 million
District Heating	-	£23.8 million
Totals	£117.9 million	£140.3 million

Key tips

1. Join organisations like the Institutional Investor Group on Climate Changes, PRI
2. Don’t wait for perfect data or the perfect methodology
3. Be clear about your portfolio’s make up
4. Think ahead. What’s next after fossil fuels?
5. Consider the options available to you.
6. Start somewhere
7. Be transparent: Report
8. Remember that it’s a journey

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Thank you

Appendix 1
Policy on Climate Change, Review of 2019.

Appendix 2 – Points on Carbon Intensity and the Paris Agreement