London Pensions Fund Authority Investor Climate Action Plan 2023-24 progress report

LPFA
your pension our world

A year of good progress

Contents

Section 1
Executive summary

This section summarises the progress that we have made, a timeline of our journey and where we are going next.

Introduction

This is an annual update to our Investor Climate Action Plan (ICAP). In it, we share the progress that we're making in aligning our portfolio to net zero and reducing our greenhouse gas (GHG) emissions to net zero by 2050 or sooner.

The impact of climate change poses a financial risk to all pension funds and we look to manage the risks and opportunities facing our Fund so that we can continue to pay our members their pensions.

I am delighted to say that we have made great progress against the six goals that we first published in November 2022. These are summarised on page 5.

We started our journey with targets for our listed equity investments, around half of our assets. We are now widening our work to add Corporate Fixed Income and more than half of our Real Estate holdings. With this expansion, over 54% of our portfolio is now under net zero targets and monitoring.

While we are delighted to have made good progress, we know that difficult stages remain ahead. With this in mind, we are committed to communicating our progress simply and clearly and sharing it widely so that everyone can understand what we're trying to do, how we are doing and the challenges ahead.

We would like to thank our partners and stakeholders in helping us reach this point and we would welcome any questions that you might have.

Robert Branagh
CEO | LPFA
communications@lpfa.org.uk

"We are committed to communicating our progress simply and clearly and sharing it widely so that everyone can understand what we're trying to do, how we are doing and the challenges ahead."

Our timeline

2016
Publication of our first Climate Change Policy

November 2021
Net zero commitment made

February 2022
The sale of the last extractive fossil fuel company from our listed equity Portfolio

November 2022
Our first ICAP is published

February 2023
We support ShareAction's Oil and Gas Bank Campaign

June 2023
We become a lead engager for the Net Zero Initiative

October 2023
We support the CDP's Science-based targets initiative

January 2024
Publication of our new Climate Change Policy and Responsible Investment Policy

January 2024
ICAP expanded to cover Corporate Bonds and Real Estate

Where we are

In 2022-23, we started with a focus on our Scope 1 & 2[1] emissions in our listed equity holdings.

We started there because listed equities are our largest asset class making up around 50% of our £7.7 billion[2] portfolio and crucially, it has the highest quality of data. This lets us set credible baselines and targets. It was also the area where we knew that we could have an immediate impact because our asset manager, Local Pensions Partnership Investments (LPPI) and the managers they appoint, are already speaking to many companies to influence their behaviour as part of our regular investment process.

This table sets out our targets published in November 2022 and our progress as at June 2023.

29.5%

of all our listed equity holdings in material sectors are considered net zero

Our goals	Our 2023 target	Why is it important?	How are we doing?	Status
PORTFOLIO EMISSIONS	Reduce emissions by 75% by 2030 from our 2019 baseline	This goal is the commitment to decrease our overall greenhouse gas emissions by 2030	In the listed equity part of our portfolio, emissions intensity, as measured in tCO_2e/£m invested, has already reduced by 75% compared to our 2019 baseline. This is ahead of our 2030 target and has been delivered partly through our divestment from extractive fossil fuel companies	
TEMPERATURE RISE	Maintain an implied temperature rise that is consistent with the Paris Agreement	This is a measure of the real-world implications of our progress and what we want to happen from our alignment and engagement goals. By making sure that our investments are aligned to net zero, we expect our implied temperature rise will be consistent with the Paris Agreement and well below 2˚C	Our implied temperature rise measure is now showing our portfolio at 1.7˚C, down from 1.8˚C at previous report. This means we are currently 0.3°C within our target	
CLIMATE SOLUTIONS	We will increase our investment in the climate solutions needed to meet net zero by 2050 or sooner	This is the commitment to ensure a proportion of the fund is invested in industries and companies that will help the world reduce carbon emissions or protect against climate impacts. This could mean renewable energy to carbon capture to forestry operations	IIGCC published their guidance on defining Climate Solutions in November 2023. Without this, it was challenging to set a baseline in time for this report. We will now be publishing this target later in 2024	
ALIGNMENT	At least 32% of material sector investments aligning to net zero by 2025	This is the commitment that we want every investment in our portfolio to be aligned with net zero. We aim for this proportion to rise to 55% by 2030	29.5% of all our listed equity holdings in material sectors are considered net zero, aligned or aligning. This is 15.5% above baseline and ahead of schedule for meeting the interim 2025 target of 32%	
ENGAGEMENT	At least 70% of financed emissions aligned with net zero, aligned or subject to engagement, starting immediately	This is the commitment that we will meet, speak and write to companies in which we invest about their emissions to ensure that they're also making progress towards Paris alignment	At the end of Q2 2023, 72% of the financed emissions in material sectors in the portfolio were net zero, aligned to net zero or under engagement. This is ahead of the 70% target we set for December 2022 (Q4 2022: 66%)	
OPERATIONAL EMISSIONS	By 2030, we aim to reduce the Scope 1 and 2 GHG emissions by 50% per full time employee, relative to our GHG emissions in 2022-23	This is the commitment that we want to drive down the carbon emissions of our day-to-day operations	We have been recertified by the Planet Mark, but our operational emissions are likely to increase as post-COVID travel has resumed	

1 Scope 1 covers emissions that a company makes directly – like running its boilers and vehicles. Scope 2 covers the emissions it makes indirectly – like the electricity or energy it buys for heating and cooling buildings being produced on its behalf.

2 As at 31 March 2023.

Where next?

We are working to expand the range of asset classes we can bring under net zero target setting and monitoring. The next areas under focus are the direct portion of the LPP Real Estate Fund and our Corporate Fixed Income holdings.

Adding Corporate Fixed Income and Real Estate

Corporate Fixed Income are bonds issued by companies on the stock markets as a way of raising money. In return for an investment, a company will promise to pay investors a set amount each year as well as their original investment at a specified future point. For the moment, we are including only Corporate Fixed Income that sits within the LPPI Fixed Income Fund. This is because it uses the same methodology as the listed equity holdings and has a similar level of data available to enable target setting. Real Estate describes all kinds of physical properties from offices to warehouses and residential buildings. We're bringing in Real Estate assets managed directly by LPPI at this point which is around 65% of this whole asset class.

Not tackling a whole asset class in one go is being done for practical reasons. For example, some of our Real Estate holdings are with third party Fund Managers appointed by LPPI. This means that gathering the data that we need is more complex. Our strategy is to focus on areas where we can have the most impact while we put systems in place to gather the rest of the data.

By focusing on assets that LPPI hold directly, we can have an immediate impact while also giving the other Fund Managers time to get their data ready[3].

These sections are around 0.3% and 4.8% of our portfolio. This means that, as you read this, around 54% of our Fund has a plan to reach net zero, up from 50% in 2023.

Other asset classes

We'll also be looking at setting a baseline for our Infrastructure holdings before we include this asset class in our 2025 ICAP. Infrastructure represents another 12% of our Fund. LPPI will be aiming to expand their net zero work to indirectly held Real Estate, Infrastructure and Credit during 2024. This will give us opportunity to expand the scope of our net zero work to those assets too.

Data availability in many of the remaining asset classes, like Private Equity or Private Credit, is poor because there's little publicly available information. This means that data must be requested directly by us or our manager and this can take some time – assuming it even exists in a usable format. This makes assessment of baselines in those areas much harder. We will be tackling those asset classes in the coming years when more guidance has been issued and the data will have improved.

Investigating Scope 3

We have also looked at including Scope 3 into our net zero work in listed equity. Scope 3 covers the emissions of all suppliers and customers of each company in which we invest. As you can imagine, understanding and monitoring these emissions can be difficult. At this point in time, we are not confident that this can be achieved in an accurate and meaningful way for target setting purposes, because so much of the available information is estimated. Like many other funds in our position, we are committed to including Scope 3, but more work needs to be done before we can be confident that it would prove useful.

Adding targets

Our original six overarching goals, first published in 2023, will remain the same, of course, because our goal of net zero won't change. However, we'll add in specific targets for each asset class each time we expand our work.

This year, for example, you will see additional targets in Goals 1, 4 and 5.

Around 12%
of our Fund is invested in Infrastructure

Around 54%
of our Fund has a plan to reach net zero, up from 50% in 2023

3 This will be done by asking Fund Managers to use the Global Real Estate Sustainability Benchmark (GRESB) reporting systems.

Section 2 The background

This section gives some background to our Fund, how we're run and some detail around our net zero activity. Our plans and goals are outlined in more detail from page 9 onwards.

About us

Fund assets:

£7.7bn

Number of members in our Fund:[4]

96,796

Active employers in our Fund:

122

Our main purpose is to ensure that our 96,796 members are paid their pensions when they retire and to help the 122 employers in our Fund manage the costs of pension provision for their employees. Our members work – or have worked – for organisations that make up so much of London's cultural, educational, and administrative life – from schools to museums, from arts centres to government bodies and from universities to housing associations.

LPFA set the strategic direction of our Fund, investment decision-making is delegated to our asset manager, Local Pensions Partnership Investments (LPPI). They make day-to-day investment decisions for us, including the selection of individual assets and choose other Fund Managers through which we also invest.

What we are doing

Both we and LPPI have made our own net zero commitments. Together, we engage with companies to improve their behaviour on a range of issues from climate change to human rights, workers' rights to corporate governance and pay[5]. We're using the IIGCC's Net Zero Investment Framework (NZIF) to guide us on our journey to net zero.

Once we are invested in a company, our investment managers monitor and observe them, engaging with them when improvements to the way they act is needed. Engagement can mean many things: voting at shareholder meetings, writing letters to company Boards or by joining campaigns to drive corporate change. We often link up with other like-minded investors like the Local Authority Pension Fund Forum (LAPFF) as our voice is louder when we work together with other investors.

Being vocal

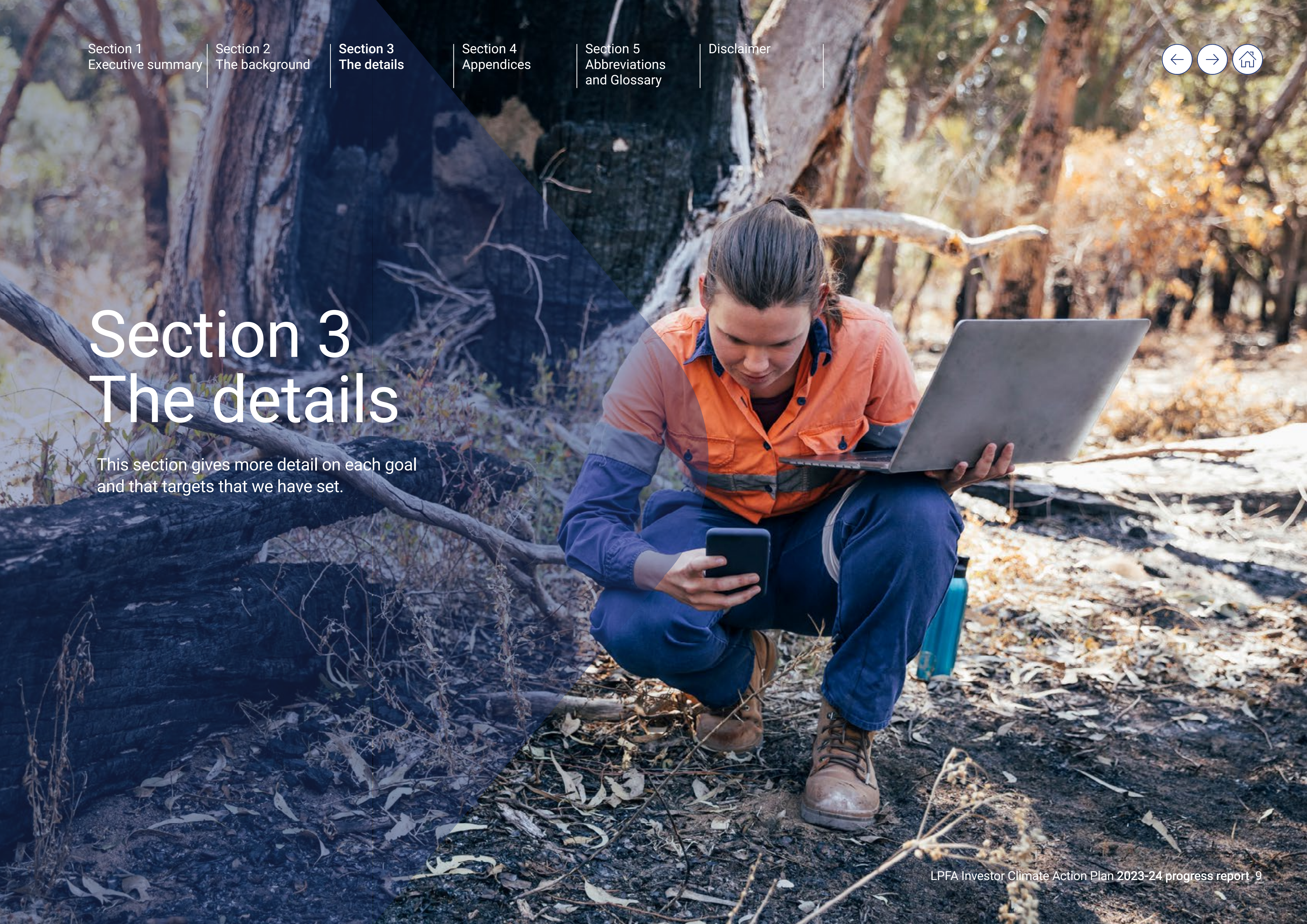
To achieve the goals of the Paris Agreement and make sure that the world transitions to a low carbon future in a just and fair way, there must be widespread policy and market changes. These changes are likely to have a larger impact on the climate transition than what we do with our investment portfolio.

However, we are committed to being vocal on our support for these changes and, together with LPPI, we are already involved in climate policy and regulatory debates. Both our organisations are committed to promoting progressive climate action and a just transition by policy makers and market participants.

We will work with, and publicly support, the campaigns of industry groups, including the likes of ShareAction, LAPFF, Make My Money Matter and the IIGCC, that are aligned with our net zero ambitions. We will share our progress with all our stakeholders on our website and social media channels.

4 As at 31 March 2023. Please see our 2022-23 Annual Report for more information: https://www.lpfa.org.uk/library/our-performance/annual-reports.

5 Our priority issues are set out in our 2024 Responsible Investment Policy: https://www.lpfa.org.uk/library/our-policies-and-procedures.



Section 3
The details

This section gives more detail on each goal and that targets that we have set.

Our goals: a summary

In 2022, we set ourselves six original goals in three areas: Portfolio, Assets and Operational. The new Corporate Fixed Income and Real Estate additions are marked in bold on the tables on the following pages.

Portfolio

1. This goal is the commitment to decrease our overall greenhouse gas emissions by 75% by 2030

PORTFOLIO EMISSIONS

2. Maintain an implied temperature rise that is consistent with the Paris Agreement below 2°C

TEMPERATURE RISE

3. Increase investment in climate solutions. Set a percentage target in 2023

CLIMATE SOLUTIONS

Assets

4. At least 32% of material sector investments aligning to net zero by 2025

ALIGNMENT

5. At least 70% of financed emissions aligned with net zero or subject to engagement, starting immediately

ENGAGEMENT

Operational

6. Reduce GHG emissions per full-time employee by 50% by 2030

OPERATIONAL EMISSIONS

Portfolio goals

The portfolio level goals consider our whole Fund. The new Corporate Fixed Income and Real Estate additions are marked in bold.

1 PORTFOLIO EMISSIONS

What is the intention of the goal	What is our goal?	Why have we set it?
The portfolio emissions reduction goal: monitoring reductions in financed emissions	By 2030, we aim to reduce Scope 1 and 2 portfolio level emissions intensity for the Global Equities and Fixed Income Fund to 13 tCO_2e/£m invested This represents a 75% reduction relative to the portfolio emissions in 2019 which is our baseline **As we're adding in Corporate Fixed Income, we've also re-set the baseline and target including data from the fixed income assets, so now the target is 12tCO_2e/£m** **Real Estate Fund (directly held by LPPI) goal: Reduce (average) building emissions intensity by 50% by 1 January 2030**	This goal is the commitment to decrease our carbon footprint by 2030

2 TEMPERATURE RISE

What is the intention of the goal	What is our goal?	Why have we set it?
The implied temperature rise goal: maintaining a portfolio that is consistent with the Paris Agreement	We will measure the temperature rise implied by the assets in our portfolio We will aim for this implied temperature rise to be consistent with the Paris Agreement to keep global temperature rises well below 2°C by the end of the century	This is a measure of the real-world implications of our progress and the desired outcome from our alignment and engagement goals, outlined later By making sure that the companies in which we invest are aligned to net zero, regardless of their current emissions, we expect our implied temperature rise to be consistent with the Paris Agreement

3 CLIMATE SOLUTIONS

What is the intention of the goal	What is our goal?	Why have we set it?
The climate solutions goal: investing in assets that help the global economy achieve net zero	We will increase our investment in the climate solutions required to meet net zero by 2050 or sooner We have not yet set a percentage goal due to the lack of available guidance prior to November 2023 We expect to baseline our current exposure and set a percentage goal for investment in climate solutions during 2024	This is the commitment to help provide finance to industries and companies that will help deliver the emissions reductions the world needs

Asset class goals

These are “bottom up” goals that look at each asset class separately. The new Corporate Fixed Income and Real Estate additions are marked in bold.

4 ALIGNMENT

What is the intention of the goal	What is our goal?	Why have we set it?
The alignment goal: investing in companies that are aligned to net zero	We aim to ensure that by 2025 at least 32% (by value) of our listed equities investments in material sectors meet the criteria to be considered aligning to net zero (as a minimum) as defined by the NZIF. We aim for this proportion to rise to 55% by 2030. By 2040, we aim to ensure that all our listed equities investments in material sectors meet the criteria to be considered aligned to net zero (as a minimum) as defined by the NZIF. **Real Estate target: At least 90% of Assets under management (AUM) of the direct portfolio will be assessed as net zero, aligned or aligning with a net zero pathway by 2025. We aim to reach 100% of AUM by 2040 or sooner.**	This is the commitment that LPFA will achieve a portfolio aligned with net zero ensuring that, over time, all companies in the portfolio come to be net zero or aligned to net zero.

5 ENGAGEMENT

What is the intention of the goal	What is our goal?	Why have we set it?
The engagement goal: applying pressure to put net zero plans in place	We will ensure that at least 70% of financed emissions in material sectors resulting from our listed equities exposure are assessed as net zero, aligned with a net zero pathway, or the subject of direct or collective engagement and stewardship actions. By 2030, we will ensure that at least 90% of financed emissions in material sectors resulting from our listed equities exposure meets these standards. **Real Estate target: 90% of financed emissions of the direct portfolio will be assessed as net zero, aligned with a net zero pathway or the subject of direct or collective engagement and stewardship actions by 2024.**	This is the commitment that LPFA will engage with material companies to ensure that they become aligned with net zero.

Operational goal

This goal covers our emissions as an organisation.
This is separate from our investment portfolio.

What is the intention of the goal	What is our goal?	Why have we set it?
The operational emissions reduction goal: reducing the emissions from running the Fund	By 2030, we aim to reduce the Scope 1 and 2 GHG emissions by 50% per full time employee, relative to our GHG emissions in 2022-23.	This is our commitment to hold ourselves to the same standard as the companies we invest in. We will achieve this through changes to our office environment and how and when we travel

Portfolio goals

The portfolio level goals will be reviewed and updated as necessary as we consider more asset classes over time. The portfolio level goals consider our whole Fund.

Our goals: in detail

Goal 1:
The portfolio emissions reduction goal
Monitoring reductions in financed emissions

$12.8\ tCO_2e/£m$

Scope 1 and 2 emissions intensity invested at the end of the first half of 2023.

The lowest point it has been measured since we announced our net zero ambition

The 2030 goal was set based on analysis of the GEF's current and projected future carbon footprint using the sectoral decarbonisation pathways implied by the One Earth Climate Model.

We said...

In 2022, we said that by 2030 we wanted to reduce Scope 1 and 2 portfolio-level emissions intensity to 13 $tCO_2e/£m$ invested. This represents a 75% reduction relative to the portfolio emissions in 2019. Our listed equity investments are held through the LPPI Global Equities Fund (GEF). The GEF is actively managed, meaning that the individual companies it holds can change over time depending on LPPI's investment views.

Changes in the companies held in the GEF can result in significant changes in carbon footprint – both up and down – from one year to the next. The GEF's carbon footprint should be expected to rise and fall each year on its way to the 2030 goal – it is unlikely to be a steady, predictable, downward trend. The 2030 goal was set based on analysis of the GEF's current and projected future carbon footprint using the sectoral decarbonisation pathways implied by the One Earth Climate Model. We know that our goal of 13 $tCO_2e/£m$ by 2030 is an ambitious one. For comparison, in 2021 the GEF's benchmark had a carbon footprint of 148 $tCO_2e/£m$.

The NZIF aims to avoid an approach to target setting that incentivises investors to take actions that reduce their GHG emissions purely to meet a specific target in a given year – sometimes referred to as 'greening the portfolio'. For example, it would be counterproductive to divest from a company where engagement is generating results. For this reason, the portfolio emissions reduction goal is considered as a "reference target" – it is used to keep track of progress, but it is not the primary way of making progress towards net zero.

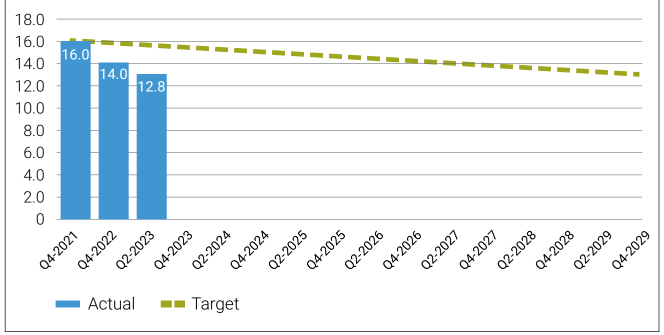
Where we are now?

At the end of the first half of 2023, the Scope 1 and 2 emissions intensity was 12.8 $tCO_2e/£m$ invested. This is the lowest point it has been measured since we announced our net zero ambition. It's also the first time it has gone below the level we said we want our Fund to be by 2030.

During the first half of 2023, due to some restructuring of our portfolio by LPPI, we reduced the number of high carbon intensity utilities sector companies in our portfolio. This contributed to this fall in portfolio emissions intensity. Alongside this, we are also pushing for change with other high emitting companies in our portfolio. This is where we will make the most real-world change.

The graph below shows how our emissions are declining. It doesn't mean that we've done our job. It just means that we're ahead of target and ahead of time. As our portfolio constituents continue to change over time we anticipate this number to evolve significantly when we add in Scope 3 emissions data to this goal.

Portfolio emissions ($tCO_2e/£m$ invested)



Source: 1 LPPI, MSCI

Our goals: in detail continued

Goal 2:
The implied temperature rise goal
Maintaining a portfolio that is consistent with the Paris Agreement

1.7ºC degree implied temperature rise of our listed equity portfolio at the end of June 2023.

0.3ºC degrees lower than the December 2021 position.

We said...

We will measure the temperature rise implied by the assets in our portfolio. We will aim for this implied temperature rise (ITR) to be consistent with the Paris Agreement to keep global temperature rises well below 2°C by the end of the century. The ITR is a way of showing the estimated global warming impact of the likely carbon footprint of the portfolio. In many ways projections such as this are more useful for making decisions than considering historic portfolio emissions. The implied temperature rise is calculated by estimating a global "carbon budget" – the amount of GHG that humanity can emit and still be likely to meet the goals of the Paris Agreement. This global carbon budget is then allocated to each sector and each company within that sector, allowing us to compare each company's projected future GHG emissions against its carbon budget. Companies with credible, ambitious, net zero plans are better placed to operate within their carbon budgets than those with no plans in place. Examples are provided below.

By comparing each company's estimated future emissions against its budget, it is possible to identify if they are on track to overshoot or undershoot their budget and from there, calculate the ITR. The ITR can help tell us what the global temperature rises will be by the end of the century, if all companies and sectors over or under-shot their carbon budget to the same extent.

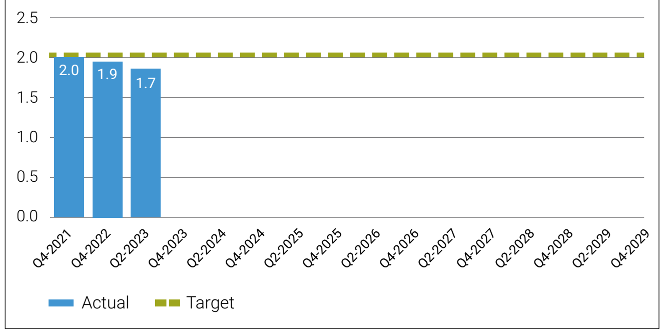
In the same way, an implied temperature rise for our portfolio can be calculated by comparing the total projected GHG emissions of all companies in the GEF against their total carbon budget. The GEF had an implied temperature rise of 2°C at 31 December 2021 which is in line with the Paris Agreement. This is well below the implied temperature rise of the GEF's investment benchmark, which was 2.8°C at the same date.

We will monitor the implied temperature rise and review other potential forward-looking information. Our goal of ensuring that our implied temperature rise remains consistent with the Paris Agreement is a deliberately challenging one. We want the companies in our portfolio to have projected emissions that are within their budgets and we will engage with companies that are operating outside their carbon budget to encourage them to improve.

Where we are now?

At the end of June 2023, the implied temperature rise of our listed equity portfolio was 1.7ºC degrees, 0.3ºC degrees lower than the December 2021 position. We are hitting our goal of keeping our implied temperature rise measure at or below 2ºC, in line with the Paris Agreement.

Implied temperature rise (degrees celcius)



Our goals: in detail continued

Goal 3:
The climate solutions goal
Investing in assets that help the global economy achieve net zero

3%
of our total assets were identified as "green"at 30 June 2022

4.43%
of our total assets were identified as "green" at June 2023

We said...

We will increase our investment in the climate solutions required to meet net zero by 2050 or sooner. We have not set a goal for the percentage of assets to be invested in climate solutions at this stage because of the lack of available data and recognised methodology. We expect to set a percentage goal for investment in climate solutions during 2024-25.

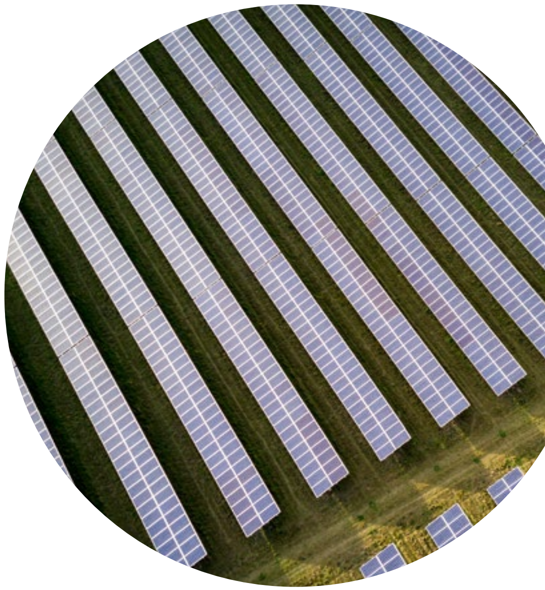
At 30 June 2022, 3% of our total assets were identified as "green". Most of this exposure is related to infrastructure investments in renewable energy generation. However, we know that 'climate solutions' has a broader definition than just renewable energy. We also know that in many cases, particularly in listed markets, development of climate solutions is part of companies' wider commercial activities.

The availability and quality of data about climate solutions has improved in recent years but we require more complete and reliable information to accurately identify how much of LPFA's assets are invested in companies producing climate solutions. We also need to further understand the relationships between this climate solutions goal and the other goals set out in this document. During 2023-24, we will be working to develop our approach in this area and expect to set a goal to invest a percentage of our portfolio in climate solutions.

Where we are now?

We continue to increase our green investment. At June 2023, 4.43% of our total assets were identified as green. This is an increase compared to the previous year. We did this by partly investing in new assets, like Hornsea One, the world's largest wind farm. The increase has also been driven by the growth in value of our existing green assets.

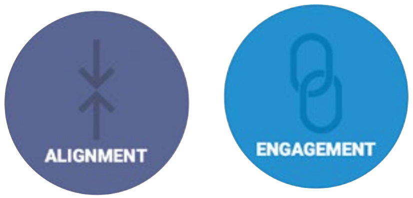
We couldn't set ourselves a target this year as the guidance on how to define a climate solution was only published by the IIGCC in November 2023. This was too late for us in the reporting cycle. Now that it has been published, we will be working with LPPI to deliver on this promise this year.



Asset class goals

The asset class goals consider each asset class separately. The goals are tailored to the specifics of each asset class and will grow as new asset classes are added. For our two asset class goals, we assess the extent to which each company in our portfolio with emissions high enough to be classified as 'material', is aligned to net zero. We use the Net Zero Investment Framework (NZIF), see below, which helps us to categorise companies by setting the criteria. These criteria set a high standard for companies to be considered net zero or aligned to a net zero pathway, reflecting the fact that significant change is needed in the real world to achieve the Paris Agreement. As a result, a relatively low proportion of companies are currently considered to be aligned to a net zero pathway.

The purpose of the alignment goals is to increase the number of companies that are making the real-world changes required to align to net zero.



	Aligned to a net zero pathway	Aligned towards a net zero pathway	Commited to aligning	Net zero
Ambition: A long-term 2050 goal consistent with achieving global net zero	✔*		✔	
Targets: Short- and medium-term emissions reduction targets set	✔	✔		
Emissions performance: Current emissions intensity performance is in line with targets	✔			
Disclosure: Disclosure of Scope 1, 2, and material Scope 3 emissions	✔	✔		
Decarbonisation Strategy: A quantified plan setting out the measures that will be deployed to deliver on GHG targets	✔*	Partial		
Capital Allocation Alignment: A clear demonstration that the capital expenditures of the company are consistent with achieving net zero emissions by 2050	✔*			

There are also four additional criteria to be incorporated where feasible/as data availability increases. All other companies are considered to be signed.

* For higher impact companies

Our goals: in detail continued

ALIGNMENT

Goal 4: The alignment goal

Investing in companies that are aligned to net zero

29.5%

of our AUM in material sectors is assessed overall, as aligned or aligning to net zero.

We said...

We aim to ensure that by 2025 at least 32% (by value) of our listed equities investments in material sectors meet the criteria to be considered aligning to net zero (as a minimum) as defined by the NZIF. We aim for this proportion to rise to 55% by 2030. By 2040, we aim for 100% of our listed equities investments in material sectors meet the criteria to be considered "aligned" to net zero (as a minimum) as defined by the NZIF.

At 31 December 2021, we understood our listed equity portfolio to include 44 companies operating in material sectors. These 44 companies represented around 9% of our listed equity assets by value. Of our investments in material sector companies, 14% by value were assessed as aligning to net zero, and none were yet assessed as being aligned to net zero. The target of achieving 32% aligning by 2025 is based on a straight-line increase to 100% aligned by 2040 which is the standard specified by the NZIF.

In practice, we know that actual progress is unlikely to follow this straight line – there will be periods of faster and slower progress. The interim goals for 2025 and 2030 represent approximate milestones in our journey towards full alignment. We intend to reach these goals by engaging with companies to ensure that they align to net zero (see the engagement goal on the next page). We believe that successful engagement leads to better outcomes than divestment, and in most cases is more likely to result in real world emissions reductions. However, we will support selective divestment from companies that do not respond sufficiently to engagement.

Where we are now?

Since we published our first report, the methodology and data for this goal have improved, meaning that more companies in which we invest are now classed as being in material sectors than we first thought. The criteria used to identify a company as Aligning vs Aligned has also been tightened.

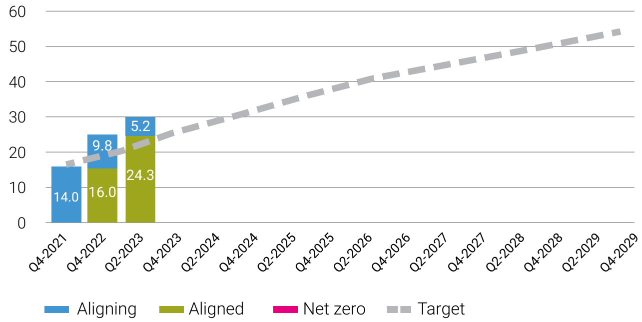
We now assess that we have 270 companies in material sectors which is much more than our original 44.

At June 2023, the proportion of our AUM in material sectors which was aligned to net zero was 24.3% with another 5.2% identified as Aligning. This means that overall, 29.5% of our AUM in material sectors is assessed as aligned or aligning to net zero.

While no companies as yet are net zero , we are very close to our first interim target level (32% by 2025).

Bear in mind that the number of companies has increased so our performance here is better, more widespread and more meaningful than we had initially envisaged it would need to be.

Alignment as proportion of material sector value %



Source: 2 LPPI, MSCI

6 Note: Following an updated understanding of material and high impact sectors definitions, 44 has been revised upwards to 280 companies in material sectors at that time.

7 Accurately assessing if a company is on a 1.5°C aligned pathway has been difficult to date due to a lack of credible data and tools. However, the market has developed substantially; tools are under development which will make our assessment more accurate in the future.

Our goals: in detail continued

ENGAGEMENT

Goal 5:
The engagement goal

Engaging with companies to put net zero plans in place

72%

of the financed emissions in material sectors in the portfolio were net zero, aligned to net zero or under engagement.

We also collaborate with the following organisations to drive real world change

IIGCC The Institutional Investors Group on Climate Change

Local Authority Pension Fund Forum

Occupational Pensions Stewardship Council

ShareAction»

We said...

We will ensure that at least 70% of financed emissions in material sectors resulting from our listed equities exposure 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, we will ensure that at least 90% of financed emissions in material sectors resulting from our listed equities exposure meet these standards. At 31 December 2021, none of our listed equity holdings in material sector companies were assessed as being net zero or aligned to a net zero pathway. This reflects the reality that at present very few companies globally meet the NZIF standards to be considered aligned to net zero.

We will ensure that our asset manager, LPPI, continues to engage robustly on our behalf with sufficient material sector companies to achieve the engagement goal.

Where we are now?

We are increasing our engagement activities. In 2023, we supported several collaborative campaigns.

- We joined the IIGCC's NZIF, becoming part of the lead engagement group for three companies on the NZEI engagement list that are in our portfolio
- We supported ShareAction's campaign to lobby banks to end financing of new oil and gas fields
- We supported the joint IIGCC / UN letter to UK Prime Minister Rishi Sunak in September 2023 to convey concern about changes in government policy about net zero timescales
- We supported the CDP's Science-based targets initiative.

Our manager LPPI undertakes voting on all assets on our behalf. As a part of that activity, we ask them to report to us how they have voted on all resolutions which are subject to a Climate Action 100+ alert, or a climate-related alert by the Local Authorities' Pension Fund Forum (LAPFF), and to provide rationale for instances where they have voted differently to the alert recommendation.

We also expect our manager to exercise ownership rights in alignment with our policies, including our climate change policy expectations. We have continued to engage with our manager to support our commitment on investing in climate solutions.

We have also participated in investor working groups including the IIGCC, the Local Authority Pension Fund Forum which provides support on net zero activities, ShareAction (including their campaign to lobby banks to stop financial fossil fuel extraction), and the Occupational Pensions Stewardship Council which also offers support and collective action opportunities for members on a range of topics including climate change related issues.

The table below summarises our progress of all our engagement efforts:

Engagement Target/Threshold	Q4 2021	Q4 2022	Q2 2023
% financed emissions net zero	0	0	0
% financed emissions aligned	0	6	6
% financed emissions under collaborative engagement	42	21	29
% financed emissions under direct engagement	0	38	37
Total	42	66	72

Note: A change in methodology in 2022 adjusted the categories impacting some companies.

Operational goals

This goal covers our emissions as an organisation. It is separate from our investment portfolio.

Our goals: in detail continued

OPERATIONAL EMISSIONS

Goal 6:
The operational emissions reduction goal
Reducing the emissions from running the pension fund

PlanetMark

We have been recertified by the Planet Mark for the fourth year running.

We said...

By 2030, we aim to reduce the Scope 1 and 2 GHG emissions by 50% per full time employee, relative to our GHG emissions in 2022-23. We use Planet Mark to calculate our operational emissions from data we provide. This calculation covers pro-rata use of utilities, waste, paper usage as well as business travel by our CEO and Chair.

The April 2021-March 2022 Planet Mark accreditation report can be found on our website. As this data was gathered while the UK was still under lockdown restrictions stemming from the COVID-19 pandemic, we will use the 2022-23 figure as the starting year for our target, as we expect this will be a more accurate reflection of normal working life. In 2023-24, the data collected will also be expanded to include all travel for all colleagues on LPFA business. This will include LPFA employees, members of the LPFA Board and members of the Local Pension Board (LPB). Our main areas of focus are our office, our travel, and our suppliers.

Our office

LPFA sublets 2,607 square feet of office space in London Fire Brigade's 117,584 square foot offices in Union Street, London. Planet Mark estimate that gas and electricity in our office makes up over 90% of our operational emissions. LPFA will collaborate with other tenants, including London Fire Brigade and Greater London Authority, to improve the energy efficiency of the building. If substantial improvements by the landlord are not forthcoming or are not possible in this building, we will plan to move to alternative accommodation.

Our travel

We will publish a policy setting out our approach to business travel for staff, LPFA Board members and LPB members. The policy will aim to monitor our GHG emissions from travel, while maintaining our ability to operate effectively.

Our suppliers

The net zero policies of all suppliers with whom we spend over £10,000 per year are summarised on our website. We will set out our procurement which will seek to ensure that all suppliers we work with:

1. Have made a net zero commitment, and
2. Have committed to regular annual reporting on the above commitment

Our suppliers' GHG emissions represent "Scope 3" emissions, so fall outside our formal target. However, we will seek to influence suppliers as much as possible as a way of driving real world emissions reductions.

Where we are

We have been recertified by the Planet Mark for the fourth year running.

Based on 20 staff, our 2022-23 baseline emissions are 1.31 tCO_2e with total office emissions of 26.4 tCO_2e. Most of our emissions come from our office (11.3 tCO_2e) and travel (14.9 tCO_2e). We have travelled more in 2022 and, while it tends to be domestic travel, our CEO has made several international flights over the past year as part of our work with C40 Cities and best practice in pension fund governance. It is our view that our travel habits in 2022-23 largely represents business as usual so we are now able to develop a net zero travel policy in 2024.

In 2023, we recruited a Chief Legal Officer who is now working on the development of our procurement policy and progress.

We began working with the Planet Mark when the LPFA comprised five people. Now that we have over 20 employees, we will need to review if accreditation by the Planet Mark remains appropriate.

Section 4 Appendices

This section outlines our Paris Aligned Asset Owner Commitment Statement and provides a glossary of words and phrases used in this document.

Appendices

Paris Aligned Asset Owner Commitment Statement

The full standard commitment is set out below.

"As asset owners with millions of beneficiaries around the world, we reiterate our full support for the Paris Agreement and strongly urge governments to implement the actions that are needed to achieve the goals of the accord, with utmost urgency. Recognising the need to address the risks that investors and their beneficiaries face from climate change, investors are taking action, but we acknowledge that there is an urgent need to accelerate the transition towards global net zero greenhouse gas emissions and do our part in helping deliver the goals of the Paris Agreement.

In this context, my institution commits to the following consistent with our fiduciary obligations:

Our institution's commitment recognises that investors across the globe have different opportunities, constraints and starting points for achieving net zero emissions and there are a range of methodologies and approaches available to investors to set targets and implement strategies. In some asset classes or for some investment strategies, agreed net zero methodologies do not yet exist. We will, therefore, work to address these challenges, including through the Paris Aligned Investment Initiative.

Our commitment is based on the expectation that governments and policy makers will deliver on their commitments to achieve the 1.5°C temperature goal of the Paris Agreement, and in the context of fulfilling our fiduciary obligations".

Commitment	Progress
1. Transitioning our investments to achieve net zero portfolio GHG emissions by 2050, or sooner.	In progress
2. Implementing this commitment with the aim of achieving real economy emissions reductions and undertaking a comprehensive set of actions available to investors, drawing on the Paris Aligned Investment Initiative's Net Zero Investment Framework.	In progress
3. Setting objectives and targets, including an interim target for 2030 or sooner for reducing Scope 1, 2 and 3 emissions associated with our portfolios and setting a target for increasing investment in climate solutions, consistent with a fair share of the 50% global reduction in CO_2 identified as a requirement in the Intergovernmental Panel on Climate Change special report on global warming of 1.5°C.	In progress in some asset classes
4. Where offsets are necessary and there are no technologically and/or financially viable alternatives to eliminate emissions, investing in long-term carbon removals.	Under consideration
5. Ensure any direct and collective policy advocacy we undertake supports policy and regulation relevant for achieving global net zero emissions by 2050 or sooner.	On-going
6. Implementing a stewardship and engagement strategy, with clear voting policy that is consistent with an objective for all assets in the portfolio to achieve net zero emissions by 2050 or sooner.	In progress
7. Engaging with asset managers, credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that funds, products and services available to investors are consistent with achieving global net zero emissions by 2050 or sooner.	On-going
8. Setting a target and reducing our operational (Scope 1 and 2) emissions in line with achieving global net zero emissions by 2050, or sooner.	Complete
9. Disclosing objectives and targets and publishing a clear Investor Climate Action Plan for achieving these goals as soon as possible, no later than one year from making this commitment, and reviewing and updating targets every five years or sooner.	Complete (on-going)
10. Reporting annually on the strategy and actions implemented and progress towards achieving objectives and targets, and in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.	In progress (on-going)

Section 5 Abbreviations and glossary

The definitions in the glossary are given to make this document easier to understand. Our wording may not be the only definition in use.

Abbreviations and glossary

FIF	See: Fixed Income Fund
GEF	See: Global Equities Fund
GHG	See: Greenhouse gas
LPPI	See: Local Pensions Partnership Investments Ltd
NZIF	See: Net Zero Investment Framework
PAII	See: Paris Aligned Investment Initiative

Term	Definition
Aligned, Alignment	A company is aligned to a net zero pathway if it meets the relevant criteria outlined in the Net Zero Investment Framework. These criteria include having a credible commitment to be net zero by 2050 or sooner, putting in place short- and medium-term targets for GHG emission reduction, and disclosing its emissions.
Asset	Assets are the things that the pension fund owns, which either generate money to pay pensions or can be sold in future to pay pensions. LPFA's assets include cash, shares in companies, loans to companies, and ownership of buildings and infrastructure.
Asset class	An asset class is a grouping of investments that exhibit similar characteristics and are subject to the same laws and regulations. LPFA invests in seven asset classes: cash, credit, fixed income, infrastructure, private equity, public equities, and real estate. More information is available in our Investment Strategy Statement.
Asset manager	An organisation responsible for buying and selling assets on behalf of an asset owner.
Asset owner	Asset owners (including LPFA) are institutional investors that are responsible for investing assets to achieve a purpose. In LPFA's case, our purpose is to ensure that over the long-term the Fund will have sufficient assets to meet all pension liabilities as they fall due.
Benchmark	A standard against which investment performance can be assessed. For example, the investment performance of the GEF is measured relative to the MSCI ACWI index.
Carbon budget	At a global level, this is an estimate of the maximum amount of GHGs (expressed in CO_2 equivalents) that can be emitted by humanity if we are to achieve the Paris Agreement. This global carbon budget is then divided between sectors and companies for comparison against their actual GHG emissions.
Carbon footprint	The amount of GHGs released into the atmosphere because of the activities of a particular individual, organisation, or community. See also: tCO_2e/£m.
Climate solutions	Activities that deliver a substantial contribution to mitigating climate change. Examples include generating renewable energy, improving energy efficiency, and developing carbon capture technology.
Collective engagement	Groups of asset owners and asset managers working together to apply pressure to companies to ensure that they align to a net zero pathway. See also: direct engagement.
Corporate Fixed Income	Fixed income is a class of assets and securities that pay out a set level of cash to investors, typically in the form of fixed interest or dividends. Corporate Fixed income is issued by companies, not governments.
Direct engagement	A single asset owner or asset manager applying pressure to companies to ensure that they align to a net zero pathway. See also: collective engagement.
Decarbonisation	The process of reducing GHG emissions.

Abbreviations and glossary continued

Term	Definition
Divestment	The sale of assets to another party.
Engagement	In the context of this document, engagement means the process of applying pressure to companies to ensure that they align to a net zero pathway. Examples of engagement include sending emails or letters, meeting or speaking with representatives of the company, and voting at Annual General Meetings.
Equities	Equities are shares in the ownership of a company.
Exposure	A term used to describe how much of an investment is held by an asset owner or asset manager.
Financed emissions	The share of GHG emissions that are paid for using the money provided by an investor.
Fixed Income	Fixed income is a class of assets and securities that pay out a set level of cash flows to investors, typically in the form of fixed interest or dividends. Government and corporate bonds are the most common types of fixed-income products.
Fixed Income Fund (FIF)	This is a LPPI Fund which aims to deliver long-term returns by investing in the global fixed income market
Global Equities Fund (GEF)	This is an investment vehicle set up by LPPI to invest in public equities worldwide. Further information is available on the LPPI website.
Greenhouse gas (GHG)	Greenhouse gases are gases that can absorb infrared radiation and thereby trapping heat within the atmosphere. The 1997 Kyoto Protocol defines six gases as GHGs: carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulphur hexafluoride. These gases have different potencies, and to reflect this we express GHG emissions as carbon dioxide equivalents, written as CO_2e. For example, gram for gram methane can trap 80 times more heat than carbon dioxide, so one kg of methane emissions would be expressed 80kg CO_2e.
Infrastructure	Infrastructure investments are a category of real assets that encompass physical elements we encounter in our daily lives, such as roads, ports, energy production and distribution (including wind and solar farms), telecommunications and utilities infrastructure such as water.
Investment returns	The income from an asset, plus the change in value of the asset.
Implied temperature rise	Implied temperature rise is a metric that can be calculated for a company or portfolio. It is an attempt to answer the question "how much might global temperatures be likely to rise by 2100 if all companies and sectors over- or undershot their carbon budget to the same extent as this company is expected to?"
Listed equities	Shares in the ownership of a company that are available to buy and sell on an exchange, such as the London Stock Exchange.
Local Pensions Partnership Investments Ltd (LPPI)	LPPI is an FCA authorised company to which LPFA has delegated all aspects of investment implementation. It was set up by the LPFA and Lancashire County Council for the purpose of achieving economies of scale, greater internal resource, and superior investment opportunities.
Material sectors	These are the economic sectors identified in the NZIF as being most important for the global net zero transition. These are outlined in the NZIF.

Abbreviations and glossary continued

Term	Definition
Net zero	A state in which GHG emissions are as close to zero as possible, with any remaining emissions re-absorbed from the atmosphere by, for example, oceans and forests.
Net Zero Investment Framework (NZIF)	The Net Zero Investment Framework, published in March 2021 by the Paris Aligned Investment Initiative, provides a common set of recommended actions, metrics and methodologies through which investors can maximise their contribution to achieving global net zero emissions by 2050 or sooner. The NZIF implementation guide is publicly available here.
One Earth Climate Model	This is a methodology for estimating decarbonisation pathways for twelve of the sectors of the economy that are most important to the global net zero transition. More information is available here.
Paris Agreement	The Paris Agreement on climate change is a 2015 global accord seeking to keep the rise in global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the increase to 1.5°C. As of 2021, the Paris Agreement has been signed by 191 countries and ratified by 186 countries.
Paris Aligned Investment Initiative (PAII)	The Paris Aligned Investment Initiative is a collaborative investor-led global forum enabling investors to align their portfolios and activities to the goals of the Paris Agreement. It is a collaboration between four regional investor networks across the globe, including the Institutional Investors Group on Climate Change (IIGCC), which represents European investors and of which LPFA is a member. More information is available on the PAII website.
Pathway	A future projection of expected or required GHG emissions.
Portfolio	The term used to describe all the assets held by an asset owner.
Real Estate	Real estate is defined as the land and any permanent structures, like a home, or improvements attached to the land, whether natural or manufactured. It differs from personal property, which is not permanently attached to the land, such as vehicles, boats, jewellery, furniture, and farm equipment.
Scope 1 GHG emissions	An organisation's direct GHG emissions. These might be created as an organisation combusts fossil fuels or uses fuel in transportation.
Scope 2 GHG emissions	An organisation’s emissions associated with the generation of purchased electricity, heating/cooling, or steam for own consumption.
Scope 3 GHG emissions	An organisation’s indirect emissions other than those covered in Scope 2. This includes the emissions associated with an organisation's supply chain and its customers.
Stewardship actions	The actions taken by the asset owner and asset manager to supervise assets responsibly. LPFA’s approach to stewardship is set out in our Responsible Investment Policy and Climate Change Policy, which are available on our website.
tCO_2e/£m	The units of carbon footprint, tonnes (t) of carbon dioxide equivalent (CO_2e) per million pounds (£m) of investment. See also: carbon footprint.

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