LONDON BOROUGH OF CAMDEN	**WARD:** All
REPORT TITLE: Pension Committee Update Report	
REPORT OF: Executive Director Corporate Services	
FOR SUBMISSION TO: Pension Board	**DATE:** 6 April 2022

SUMMARY OF REPORT:

The Pension Board has responsibility for assisting the Pension Committee in ensuring compliance with the Scheme Regulations, other legislation relating to governance and administration, and the requirements of the Pension Regulator. The Pension Board must also ensure the effective and efficient governance and administration of the scheme. This report summarises the items presented and decisions made at the Pension Committee meetings on 30 November 2021 and 3 March 2022.

Local Government Act 1972 – Access to Information
No documents required to be listed were used in the preparation of this report.

Contact Officer: Nigel Mascarenhas
Head of Treasury and Financial Services
Finance
Corporate Services
Dennis Geffen Annexe
Camley Street
London. N1C 4DG

Telephone: 0207 974 1904
Email: nigel.mascarenhas@camden.gov.uk

RECOMMENDATIONS:

The Pension Board is requested to note the contents of this report.

Signed by

Director of Finance ……………….**Agreed**…………………………………

Date ……………….**07/03/2022**…………………………………

1. **INTRODUCTION**

1.1. The Pension Board has responsibility for assisting the Pension Committee (known as the 'Scheme Manager') to ensure the effective and efficient governance and administration of the scheme. The role is one of providing oversight of assurance in and governance of the scheme administration and not decision making.

1.2. This report aims to summarise the reports and decisions made at the preceding Pension Committee meetings. Individual reports and the web pages on which they are published can be accessed through the links included in this report.

1.3. **PENSION COMMITTEE 30 NOVEMBER 2021**

2. **Performance Report**

3. This report presented the performance of the Pension Fund up to 30 September 2021. The portfolio had a market value of £2.2bn at 30 September 2021 which was broadly similar to 30 June 2021, an increase of 1.2%. However, this figure includes the prepayment of secondary contributions by Camden Council, so excluding this, the overall return on the Fund's investments is 1.4% - below the composite target of 2.1% and shown in Table 7.

4. During Q3 2021 global equity markets increased, driven by positive corporate earnings results and supportive central bank comments early on in the period. However, they declined in September as issues grew over inflation and interest rate hikes resulting in global equity markets gaining 1.5%. The UK FTSE All Share Index continued to advance, returning 2.2%. The energy sector was the strongest-performing sector over the quarter, chiefly due to increasing oil and gas prices in September. North America gained 2.6%, due to a robust performance over the first two months of the quarter, as upbeat corporate earnings and positive economic figures outweighed worries about a rise in US Covid-19 cases. Japanese markets considerably outperformed at 7.0%, rallying on anticipations of further stimulus and economic reopening as COVID cases declined. Asia (ex Japan) equity index reported negative returns of 3.2%, led by China. Apart from China's slowing growth and continuous regulatory scrutiny across sectors, investors had concerns over property developer Evergrande's unresolved debt crisis, which led to worries of wider systemic risk within the real estate and financial sectors.

5. Supply chain constraints have forced prices higher, and inflation surprises will remain. Increasing oil and gas prices are pushing up headline metrics but even core inflation, which excludes those prices as well as food, is surpassing central bank targets in the major advanced economies.

6. Since 1 February the Fund transitioned £38m each month from the UK L&G Fund to the Future World Fund as agreed at the November 2020 meeting. This completed with the residual balance of £66m being transferred on 1 July. The Future World Fund as at November had funds of £275.5m invested and this achieves the strategic asset allocation for sustainable equity. The future world fund delivers a portfolio with a reduced carbon footprint and enhanced ESG score which encompasses the Fund's Investor Beliefs while still tracking the wider equity index.

7. The performance of the Fund is set out below:

TABLE 7: MANAGER PERFORMANCE

Name	Trailing 3 Months	Trailing 1 Year	Trailing 2 Years	Trailing 3 Years	Since Inception
Harris	0.6	40.0	15.2	10.7	12.0
Custom Global Equities (Gross) + 2.5%	2.1	25.8	16.8	14.7	15.9
Excess Return	-1.5	14.2	-1.6	-4.0	-3.9
Baillie Gifford (London CIV)	-0.7	20.8	23.1	17.3	16.3
Custom Global Equities (Gross) +2.5%	2.1	25.8	16.8	14.7	15.3
Excess Return	-2.8	-4.9	6.3	2.6	1.1
L&G UK Equity / Future World Global Equities	1.7	**29.3**	3.9	3.5	10.0
FTSE All Share + 0%	2.2	27.9	3.3	3.1	9.8
Excess Return	-0.5	1.4	0.6	0.4	0.3
L&G Global Equity	1.5	**22.6**	13.8	11.8	13.7
FTSE All-World + 0%	1.5	22.7	13.9	11.8	13.7
Excess Return	-0.0	-0.1	-0.1	-0.0	-0.0
Insight Investment	0.9	4.8	2.8	0.9	0.9
3 month LIBOR + 4%	1.0	4.1	4.3	4.5	4.5
Excess Return	-0.1	0.8	-1.5	-3.5	-3.5
CQS (LCIV)	1.2	10.9	4.3	-	4.1
3 Month GBP Libor +4.5%	1.1	4.6	4.8	-	4.9
Excess Return	0.1	6.3	-0.5	-	-0.8
L&G Passive ILG	2.3	0.2	0.3	6.6	8.4
FTSE Over 5yr Index Linked Gilts + 0%	2.2	-0.1	-0.0	6.2	8.1
Excess Return	0.1	0.4	0.4	0.4	0.2
CBRE	3.9	**10.9**	3.3	3.3	7.4
All Balanced Property Funds + 1%	4.8	14.3	5.9	5.0	8.2
Excess Return	-0.8	-3.4	-2.7	-1.8	-0.8
Partners Group 2009 Euro Fund	-0.7	-9.3	-4.1	-4.4	6.2
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	-4.2	-24.3	-19.1	-19.4	-8.8
Partners Group 2013 USD Fund	3.2	-4.2	-6.3	-1.3	11.5
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	-0.3	-19.2	-21.3	-16.3	-3.5
Partners Group 2017 USD Fund	5.7	4.3	3.2	9.4	6.1
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	2.1	-10.7	-11.8	-5.6	-8.9
HarbourVest	22.8	57.8	30.9	28.2	28.1
Absolute 8%	1.9	8.0	8.0	8.0	7.9
Excess Return	20.8	49.8	22.9	20.2	20.2
Barings	0.0	0.0	0.0	0.0	0.0
3 month LIBOR + 4%	0.0	0.0	0.0	0.0	0.0
Excess Return	0.0	0.0	0.0	0.0	0.0
Ruffer (London CIV)	0.5	13.6	9.8	7.0	6.4
3 month LIBOR + 3%	0.8	3.1	3.3	3.5	3.5
Excess Return	-0.2	10.5	6.5	3.6	2.9
Stepstone (London CIV)	3.2	-3.8	-	-	-2.0
9% p.a Net	2.2	9.0	-	-	8.6
Excess Return	1.1	-12.8	-	-	-10.6
Standard Life	-2.0	0.4	2.6	3.1	1.7
6 month LIBOR+5%	1.3	5.1	5.3	5.5	5.6
Excess Return	-3.3	-4.7	-2.8	-2.4	-3.9
Total Fund	**1.4**	**20.2**	**10.8**	**8.7**	**10.1**
Total Fund Composite Target	**2.1**	**17.5**	**8.7**	**8.3**	**11.4**
Excess Return	**-0.7**	**2.7**	**2.0**	**0.5**	**-1.2**

7.1. **Harris** have underperformed the benchmark, by -1.5% over Q3 2021, but outperformed the benchmark trailing one year, by 14.2%. Harris are also still behind target, since inception, by 3.9%.

7.2. **Baillie Gifford (London Collective Investment Vehicle)** have underperformed the benchmark over Q2 2021 and the trailing one year, by -2.8% and -4.9% respectively, but outperformed over all other time periods including 6.3% over trailing two years. The Baillie Gifford fund now consists of two **Global Alpha sub-funds**: the **Global Alpha Growth Fund** and the **Global Alpha Growth Paris-Aligned Fund**. On 13 September 2021, £248.4 million of the Fund's investment in the Global Alpha Fund transitioned to the **Paris-Aligned Fund**. This was to align more closely with the pension fund's investment principles concerning climate change.

7.3. **Insight** underperformed against their target by 0.1% in Q3 2021, and still lag considerably behind target since inception by 3.5%. Insight's performance is worse than that of CQS over comparable time periods, (CQS being the other actively managed fixed income fund into which the Committee agreed to transfer from Insight).

7.4. **CQS (London Collective Investment Vehicle)** have outperformed the benchmark over Q3 2021 and the trailing one year, by 0.1% and 6.3% respectively. But they remain behind the target since inception, by -0.8%. Credit selection has continued to guide performance, as would be expected for a strategy of this type.

7.5. **CBRE** trailed the target by -0.8% over Q3 2021 and trails target across all time horizons (by -3.4% over the year). They have returned 7.4% per annum since inception, against a target of 8.2%.

7.6. **Partners Group** funds' performance were below target over Q3 2021, with the exception of 2017 Dollar fund, but these valuations are lagged by three months, so this is expected: Partners Group funds' performance is viewed individually for the three funds as follows:

i. The 2009 Euro fund has underperformed the benchmark, by -4.2% over Q3 2021, and is -8.8% below its ambitious target since inception. The fund is completely invested.
ii. The 2013 Dollar fund's performance fell over Q3 2021 by -0.3% and -19.2% over the year. However, since inception, the fund has returned 11.5% per annum which is more in line with its benchmark.
iii. The 2017 Dollar fund, the youngest of the three funds, performed the best during the second quarter of 2021, achieving 5.7% growth.

7.7. **HarbourVest** strongly outperformed their benchmark by 20.8% in Q3 2021, outperforming over all time periods including 49.8% over the year. They remain above target for all time horizons.

7.8. **Stepstone (London Collective Investment Vehicle)** had recorded 3.2% in its latest quarterly results, but these figures are lagged by three months, as is typically the case with private investments. The fund was only launched on 31 October 2019 and so it is too early to read into their performance figures.

8. **Barings** Dynamic Asset Allocation Fund was fully liquidated on 30 June 2021 as per the notice sent out to investors back in April this year.

9. **Ruffer (London Collective Investment Vehicle)** reported positive returns of 0.5% in Q3 2021, against a target of 0.8%, and outperforming over all time periods including 10.5% over the year. For the third quarter as a whole, equities and inflation-linked bonds were the main positive contributors to performance of the diversified growth funds.

9.1. **Standard Life** performance fell over Q3 2021 by -2.0%, against a target of 1.3%, and since inception they still lag by 3.9%, and over one year they have underperforming the index by -4.9%.

Minutes

9.2. With reference to Table 7, some Members noted that a number of managers were consistently producing a negative return and felt that consideration should be given to transferring funds from them to other managers who were performing better. The Head of Treasury and Financial Services explained that it was important to look at the performance of managers over the long term, that is one, two and three years. Harris for instance had done well in the first year and was just behind its target for 3 years. Many of the managers were below target, but ahead of their value benchmarks. The Independent Advisor and officers would become concerned if the values fell below the benchmark.

9.3. Harris was beating the style/value index but there was an issue with gender balance which was still under review. They had always been consistent in sticking to their investment style, but it was recognised that they fell a little short on ESG issues. Harris had, however, given a very detailed report on its carbon footprint as contained at Item 11.

9.4. It was noted that there had been some changes to the CEO and at senior officer level at Ruffer. Although LCIV had not seen any evidence that this had had a significant impact on the manager's capabilities, the Committee agreed that this was something that should be monitored.

9.5. The Committee also noted that it was difficult to assess the DGFs of companies and to compare carbon equity. Officers were asked to seek the views of LCIV on this matter.

9.6. It was noted that a manager meeting was being held with Legal and General and Harbour Vest on Monday, 6th December 2021, to which Committee Members were invited to attend.

9.7. The Committee noted the report.

10. **Employers' Register**

11. This report contains key data about each employer including the admission body's status, admission agreements and bonds, as the Fund has sought to address the risks that a failing admitted body would pose. The full list of employers in the Fund and their respective contribution rates can be found in the Rates and Adjustments certificate and can be downloaded from the Pensions website.

12. The **Improvement and Development Agency** (IDeA) are the second largest employer in the Fund (forming (11% of the Fund's assets) after the Council. Committee has previously been briefed in last year's employer register report and then more recently in July about the Substitution of Funds involving a transfer of all assets and liabilities from Camden to Merseyside. They had liabilities of £184m and assets of £158m as at March 2019 meaning they were 86% funded as at the last valuation.

13. The transfer requires that all active, deferred and pensioner members are transferred to the new fund (913 members in this case including actives, deferreds and pensioners) and a bulk payment would be made from Camden to Merseyside. Based on March 2019 assets valuations this payment will be c£190m (plus asset growth since then).

14. The actuaries for the Camden and Merseyside Funds have been finalising the terms of the Actuary's letter which sets out the basis for calculating the final payment amount in respect of pension liabilities for transferring members. Both sets of actuaries will need to confirm the transfer value for the bulk transfer. Upon agreement of these terms, and payment of the bulk transfer amount, the transferring Fund (Camden) will be fully discharged from all future liabilities to the receiving fund (Merseyside) in respect of the transferring members.

15. The £95k cap on public sector exit payments in England and Wales came into force on 4 November 2020. Previously, LGPS members over the age of 55 being made redundant on the grounds of efficiency would typically get:

- Immediate payment of unreduced LGPS benefits
- Statutory redundancy payment
- Discretionary compensation

16. On 12 February 2021 the Chancellor of the Exchequer determined that the Restriction of Public Sector Exit Payments Regulations 2020 Regulations should be withdrawn. After extensive review of the application of the Cap, the Government concluded that the Cap may have had unintended consequences. On 25 February the necessary legislation was laid in Parliament to revoke the Exit Payments Regulations.

17. Since the introduction of the exit cap up to 11 February 2021, to minimise risk the Pension Shared Service have, in the event of terminations breaching the exit cap, offered the member a deferred pension or fully reduced pension and the scheme employer has delayed making any cash alternative payments until the law was settled. We did not have any members in this category. Going forward and until any new regulations come into force, for all redundancy or efficiency cases the Fund will pay the full unreduced pension benefits and request a strain cost from the scheme employer.

17.1. <u>The Committee noted the report.</u>

18. **<u>Carbon Footprint & Climate Related Financial Reporting</u>**

19. The Camden Pension Fund has been reporting on its carbon footprint annually since 2017, with this report being the fourth such item reported to the Pension Committee.

20. The Pension Fund includes a specific risk in its **risk register** that “Fossil Fuel linked investments suffer losses due to stranded assets and reputational damage”. The mitigations of this risk and actions include:

- participation with LAPFF to engage with fossil fuel companies and boards and continue work in this area including ‘aiming for A’, strategic resilience resolutions, and managed decline of fossil fuel extraction;
- continued engagement with Fund managers to ensure climate change and stranded asset issues are acknowledged and dealt with by boards;
- continued use of voting policy to support strategic resilience resolutions (with LAPFF voting alerts) and appropriate measures with respect to climate change
- to measure the Fund’s carbon footprint to better understand the exposure to fossil fuels, and to look to enhance this in future.

20.1. **LAPFF comment on COP26**

20.2. Paragraph 36 of the original Glasgow Climate Pact ‘Calls upon Parties to accelerate the development, deployment and dissemination of technologies, and the adoption of policies, to transition towards low-emission energy systems, including by rapidly scaling up the deployment of clean power generation and energy efficiency measures, including accelerating efforts towards the phase-out of unabated coal power and inefficient fossil fuel subsidies, recognizing the need for support towards a just transition.’ The agreed version of the text referred to phasing down rather than phasing out coal.

20.3. Knowing now what we do about the ensuing discussions between developed and less developed states, it is not surprising that the original wording did not pass. There was a fundamental difference of understanding when it came to the allocation

of the global ‘carbon budget’. Whilst developed nations pointed to India and China as currently emitting large proportions of the total amount of the world’s carbon, many developing nations pointed to the historic emissions of the developed states over the past centuries that allowed for their economic growth.

20.4. Consequently, developed states pushed for phasing out coal without addressing the needs of less developed states to provide jobs, resources, and human rights protections for their populations. Coal is seen as an important source of jobs and economic development in many countries, notwithstanding evidence that renewables are already the cheapest source of new electricity in 90% of the world. Without allowing for provision to compensate countries for potential losses in these areas and for social and environmental loss that has already taken place due to climate change, many developing states were not prepared to make the sacrifice requested. Not having had their needs met, many less developed states revolted and required a watering down of the language on phasing out coal.

20.5. In other words, the crux of the disappointment with the COP 26 outcome was a just transition fail. This outcome further amplifies the need for a just transition.

20.6. This outcome is a lesson for investors. Focusing solely on technological solutions and negotiated outcomes, especially those set through developed state parameters, will only take us so far; this approach will not allow us to reach the Paris Agreement’s, and now the Glasgow Pact’s, 1.5°C target. Investors must consider the social impacts of any climate transition and put their money where their mouths are in supporting a just transition. This is particularly the case now because their governments’ COP 26 failure to support a just transition makes reaching the Paris 1.5°C target that much more unlikely and makes it much more likely that investor money spent in the interest of climate mitigation and adaptation without a genuine commitment to a just transition will be wasted.

20.7. **The Task Force for Climate-related Financial Disclosures**

20.8. The Task Force for Climate-related Financial Disclosures (TCFD) was convened by the Financial Stability Board in 2015 to “develop voluntary, consistent climate-related financial disclosures that would be useful to investors, lenders and insurance underwriters in understanding material risks”.

20.9. The **TCFD** published its final report in June 2017, designed to help companies provide better information to support informed capital allocation setting out overarching recommendations in four thematic areas: governance; strategy; risk management; and metrics and targets. Beneath these sit 11 recommended disclosures that provide more granular detail on the information to be disclosed under each of the recommendations. An extract from the report listing the recommended disclosures is included at **Appendix A**.

20.10. The design and structure of the recommendations are intended to provide the market with decision-useful, forward-looking information on how organisations are addressing climate-related risks and opportunities in their activities.

20.11. Mandatory TCFD-aligned disclosures would require that organisations provide decision-useful information to help:

- build awareness of climate-related risks, opportunities and impacts across the economy
- integrate assessment and management of these risks, opportunities and impacts
- inform investment decisions, improving market effectiveness through more efficient pricing and allocation of capital, empowering stewardship and driving economic change to support the transition to a lower carbon economy and resilience to physical climate risks

- stimulate the development of green financial products and competition between providers of these products with follow-on benefits for consumers.

20.12. The Camden Pension Fund are supportive of the proposals, and will aim to introduce the disclosures ahead of the mandated timeline. The Committee are asked to agree to commit the Fund to introduce TCFD-aligned reporting on its investments as far as possible from 2021.

20.13. **Transition Pathway Initiative**

20.14. The Transition Pathway Initiative is a global initiative launched in 2017 and led by asset owners and supported by asset managers, assessing how companies are preparing for the transition to a low-carbon economy. They provide independent, open-access data showing whether the world's largest high-emitting companies are adapting their strategies to align with international climate goals.

20.15. Two of our fund managers, Aberdeen Standard Investments and Legal & General, are closely aligned to the Transition Pathway Initiative and enable research behind reports by acting as Research Funding Partners. Further, TPI counts over 80 global investors as on-board supporters, including the LAPFF, other institutional investors and fund managers including Aviva Investors, Harris Associates and Ruffer.

20.16. On an annual basis, TPI assesses how companies are preparing for the transition to a low-carbon economy in terms of their:

- Management Quality – all companies are assessed on the quality of their governance/management of greenhouse gas emissions and of risks and opportunities related to the low-carbon transition.
- Carbon Performance – in selected sectors, TPI quantitatively benchmarks companies' carbon emissions against the international targets made as part of the 2015 UN Paris Agreement.

20.17. The TPI categorises the Management Quality of companies into one of five levels as set out below:

- Level 0 – unaware of (or not acknowledging) climate change as a business issue
- Level 1 – acknowledging climate change as a business issue
- Level 2 – building capacity
- Level 3 – integrated into operational decision-making
- Level 4 – strategic assessment

20.18. They then assess Carbon Performance, a company's emissions intensity path derived from company reports and public disclosures, using sectoral scenarios, which in most sectors are defined as:

20.19. *No alignment*: not on track to reduce emissions to Nationally Determined Contributions as set out by countries in the 2015 Paris Agreement, or align emissions with a 2°C pathway by 2050.

20.20. *Paris Pledges*: consistent with the emissions reductions pledged by countries as part of the Paris Agreement in the form of Nationally Determined Contributions or NDCs. These are insufficient to limit the increase in global average temperature to 2°C or below.

20.21. *Below 2 Degrees*: consistent with the overall aim of the Paris Agreement to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels"

20.22. **Equity Manager carbon footprints**

20.23. Carbon footprints are most commonly reported in the equity asset class. Below we present and discuss each of the Fund's equity manager's carbon footprints and information provided. The Fund continues to engage with all managers on their approach to carbon reporting and engagement.

20.24. Since September we are now invested in the **Bailie Gifford** Paris-aligned fund (active equity). The Paris-Aligned product is a lower carbon version of the Baillie Gifford Global Alpha Growth product the fund was originally invested in, and its goals are consistent with the objectives of the Paris Agreement.

20.25. The benchmark for the Paris-Aligned product starts with a Weighted average greenhouse gas intensity (WAGHGI) which is 50% lower than the MSCI All Country World Index. It then has a year-on-year decarbonisation target of at least 7%, which puts it in-line with the Intergovernmental Panel on Climate Change's 1.5°C warming scenario.

20.26. Baillie Gifford applies quantitative and qualitative screens to exclude high-emission companies that do not or will not have an important role to play in the transition to a low-carbon economy.

20.27. The Paris-Aligned WAGHGI is 53% lower than that of the MSCI ACWI EU Paris Aligned Requirements Index. It is 62% lower than that of the standard CIV Global Alpha Growth Fund, and 82% lower than that of the MSCI All Country World Index. This is a major step for the Fund to be able to invest in an innovative and forward-looking fund which aims to reduce its footprint year on year.

20.28. The carbon footprint of the BG portfolio has been calculated using MSCI ESG research (Appendix B). For comparison purposes, the following Weighted average carbon intensity (WACI) metrics have been calculated and compared against the MSCI ACWI benchmark. All refer to scope 1 and 2 emissions only.

21. Baillie Gifford have a firm level TCFD report and will look to produce a portfolio-level TCFD compliant report in Q1 2022.

22. **Harris** (active equity) use a different reporting tool to produce their carbon footprint data, the ISS ESG Climate Impact Assessment (see **Appendix C** for full details) as they now engage directly with the data provider. As at 30 September 2021 their portfolio has a relative carbon footprint of 105 tCO_{2e} per $1m invested compared to the benchmark of 93 tCO_{2e}, a 13% overweight. The portfolio's relative carbon footprint has reduced from 209 tCO_2e to 105 tCO_2e this year.

23. **Legal and General** (ESG index equity, market cap weighted index equity and index linked gilts) have also provided carbon footprint data.

24. The Future World Global Equity ESG index equity fund employs an index tracking strategy, aiming to replicate the performance of its benchmark. The index aims to provide exposure to developed and emerging equity markets while reflecting significant environmental, social and corporate governance (ESG) issues. The index weightings are 'tilted' according to ESG scores to allocate more money towards companies that score well from an ESG perspective, and away from low-scoring companies. As part of LGIM's commitment to address climate change, companies that fail to meet LGIM's minimum standards in low carbon transition and corporate governance standards may be excluded from the fund, as a result the fund may not hold all of the constituents of the index.

25. For the market cap weighted index equity mandate, the manager is effectively reporting on the contributors within the regional benchmarks. LGIM's passive equity mandate tracks the benchmark and as such holds companies in the FTSE All World index in proportion to market capitalisation.

26. L&G's footprint in the global equity fund (£390m) is on benchmark (as expected) but in the Future World Fund (£275m), that we have recently transitioned to, it is one-

third of the footprint of the global equity fund. This is very pleasing to see and demonstrates the low carbon credentials of this innovative fund.

27. L&G introduced their Climate impact pledge two years ago in order to use their rights as major shareholders to put pressure on companies to accelerate their transition to a low-carbon economy. L&G engage with 84 of the world's largest companies, alongside analysing, scoring and ranking them against their peers to improve their strategies to address the climate challenge. Climate Impact Pledge | Climate change | LGIM Institutional

28. As part of the process L&G committed to making public the names of some of the best and worst performers, alongside examples of best practices that they would like to see adopted more widely (the full report can be found here: Climate Impact Pledge | Climate change | LGIM Institutional). The pledge works by highlighting best practice at leader companies but also recommending disinvestment at laggards, and has led to productive engagements with companies. This includes previously excluded companies being reinvested in select L&G funds following improvements in their climate strategies (e.g. Subaru, Occidental Petroleum).

29. **Non-Equity Managers**

30. Only the main equity mandates provide carbon footprint metrics, however responses from the other fund managers have been set out for completeness in the table below:

Manager	**Comment**
CBRE (UK property)	Since 2013 all new funds or operating partners are required to participate in GRESB. CBRE looks for year on year improvements on absolute scores. CBRE publish quarterly data in their report on ESG issues.
Partners (global property)	In 2020, Partners Group became a supporter of the Task Force on Climate-related Financial Disclosures (TCFD). Since 2008, they have been a signatory of the UN Principles for Responsible Investment. Partners have voluntarily participated in the CDP (formerly Carbon Disclosure Project) since 2008. Partners Group is implementing a TCFD Climate Report in 2022. From a real estate perspective, information already collected on the underlying portfolio includes the following data points relating to carbon footprints: - Heating and cooling efficiency - Overall electricity efficiency – based on recognised third party certification body (BREEAM, LEED, etc) - Waste management and/or ability to reduce paper/packaging, water usage, etc.
Standard Life (Diversified Growth Fund)	Not able to provide information regarding the fund's carbon footprint. They have collated data on exposure to fossil fuels.
Ruffer (Diversified Growth Fund)	They have produced carbon footprint data for the first time this year. The data is only available on the equity part of their fund (40%). Their footprint is 204 tCO_{2e} /£m invested. They also estimate their WACI as 254 t / £m revenue and carbon intensity as 187 t/ £m revenue.

Manager	Comment
	In May 2019, Ruffer publicly endorsed the TCFD and its call for increased climate related financial disclosure to support well-functioning information flows within the financial markets they operate in.
HarbourVest (private equity)	At present, the theme of carbon footprint and transitioning to a low carbon environment forms part of their broader ESG approach, both as part of their due diligence process and continued monitoring post-investment. HV work closely with their underlying fund managers to fully understand their ESG policies and continually engage with them. HarbourVest is developing an actionable climate change strategy that will be aligned with the Recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD). The progress of HarbourVest's TCFD-aligned commitments are outlined in their 2020 ESG report. https://viewpoints.harbourvest.com/2020-esg-report/climate-change-strategy/ HarbourVest is a CarbonNeutral® company in accordance with The CarbonNeutral Protocol, the leading framework for carbon neutrality. Our offsetting program delivers finance to emission reduction projects, supporting the transition to a low-carbon economy.
Insight (absolute return bonds)	As of 30 September 2021, the carbon intensity of the fund was 49 metric tonnes (scope 1 & 2 emissions per $USD 1m). As a basis for comparison the Bloomberg Barclays Global Aggregate Corporate index has carbon intensity of 274.
CQS (Multi Asset Credit)	CQS have continued to refine their coverage levels and methodology. The metrics provided include Scope 1 and Scope 2 emissions, for which there is 34% actual emission disclosure coverage, with proxy estimations used to estimate where companies are not yet disclosing. They report their carbon emissions as $92 t$CO_2$e /$m invested and their WACI as $87 t$CO_2$e/ $m sales.
StepStone	Carbon data for the CIV Infrastructure Fund is conducted on an annual basis. The CIV's analysis currently only covers the renewable energy exposure due to data availability, which is around 30% of Assets as of Q42020. The London CIV has also calculated the carbon footprint of its infrastructure portfolio and estimated the avoided emissions resulting from the displacement of conventional power generation sources by Renewable energy assets. The results indicate that the fund commitments towards renewable energy infrastructure will contribute towards 335,040 tCO2e of avoided emissions during the project lifetimes. This corresponds to 14,287 tCO_2e of avoided emissions on an annual basis.

31. **Finance Comments of the Executive Director Corporate Services**

32. The Investment Strategy Statement sets out the Fund's expectations for 'robust' engagement with companies. It also affirms the Fund's belief that companies conforming to high ethical and social standards will produce shareholder returns that are at least comparable to those produced by other companies. To this end encouraging fund managers and companies to reduce their carbon footprints will ensure that the Fund will not have stranded assets and will make the transition to

the net zero carbon economy and ultimately benefit from successful investment returns.

Minutes

32.1. The Chair referred to COP26 and the Glasgow Financial Alliance for Net Zero (GFANZ), which was a global coalition of leading financial institutions in the UNs Race to Zero which was committed to accelerating and mainstreaming the decarbonisation of the world economy and reaching net-zero emissions by 2050. Officers were asked to check which managers had signed up to GFANZ.

32.2. Some Members expressed concern that Baillie Gifford did not include scope 3 when measuring their carbon emissions and officers were asked to raise this with them in advance of the meeting with fund managers in January 2022.

32.3. With regard to section 4 of the report, officers were requested to ask the TCFD when they were planning to publish their reports. The TCFD's response would then be reported to the January meeting with fund managers

32.4. In response to a question, the Independent Advisor informed the Committee that some Funds paid for a company to provide a holistic view of the whole portfolio in terms of carbon emissions. It was agreed that this possibility should be raised and explored with the LCIV.

32.5. It was noted that although Camden Council had set a net zero target for emissions, the Fund had not, and the Chair felt that this was the right path to follow. LCIV was allowing Funds to set their own targets. He suggested that the IDeA could be asked, after the Triennial valuation, to factor this in when carrying out the next Investment Strategy review. Managers were good at providing information comparable to benchmark, but needed to provide information showing how they had improved with regard to meeting targets over a particular period, for instance over the last year. The Chair suggested that fund managers could be asked at the January meeting, as to how they perceived their position in respect of their carbon footprints. The issue of real estate investment should also be raised.

32.6. In response to a question, it was noted that the Fund did not run any assets, they were all operated by third parties, that is the fund managers. The Fund could not tell them what to invest in, the stock selection was delegated to the manager, but the Fund did look at their mandates and checked to ensure that they met the Fund's investment beliefs. It was stressed that the Fund could not do it by itself, it needed the products to be available. The market was evolving rapidly and products were coming forward, like biodiversity and rewilding. It was important to gain some expert views on these products to ensure that they made sense from an investment perspective. It was thought that LAPFF might be doing some work around this and they could be asked for their views.

32.7. With regard to section 3 of the report and LAPFF comments on COP26, Councillor Johnson said that she had attended LAPFF meetings and conference. It was considered important to ensure that methods used to reduce carbon footprints in one area were not causing problems in another area or country. There was a need to think about a whole world approach.

33. The Committee noted the report.

34. **Engagement Report**

35. This report brings Members up to date with engagement activity undertaken by the Fund and on its behalf by LAPFF (the Local Authority Pension Fund Forum) since the last Pension Committee meeting. This work is important to the Fund's ambition to be a fully engaged investor and demonstrates its commitment to Responsible

Investment and engagement in Environmental, Social and Governance (ESG) issues as a way to achieve its objectives.

36. The Forum held a business meeting on 6 October 2021 and the agenda is summarised below, but the full reports along with minutes can be provided if members require further details.

LAPFF AGM

37. The results of the **LAPFF executive elections** were announced. Cllr Doug McMurdo (Bedfordshire) was re-elected Chair and Cllr Chapman (Hackney) and Cllr Gray (Newham) were elected Vice Chairs.

38. The Annual Report for 2020 was also presented to the meeting "Rising to the Challenge" which features heavily on the new Stewardship Code addressing the four main topics of the Code: purpose and governance, investment approach, engagement and the exercise of rights and responsibilities.

LAPFF Business Meeting

38.1. A report on **Carbon taxes** discussed how both emissions trading and contracts for differences (CfDs) have had committed implementation and had some effect on decarbonisation. However, as the Exxon Channel 4 revelations have shown, talk of carbon taxes and large-scale offsets may well be a defence of core oil and gas businesses planning for expansion, rather than a genuine energy transition. The meeting noted the paper.

38.2. **Nuclear power and net zero** - Nuclear power is a material carbon free energy source for the UK and France. France has below average electricity costs and exports surpluses, including to the UK.

38.3. The introduction of small modular reactors is subject to some interest in the UK, Canada and the US, with established commercial interests, including Westinghouse (now Brookfield) and Rolls Royce, as well as Urenco, the UK based uranium enrichment company. The meeting noted the paper and that companies of engagement interest are Rolls Royce, EDF, EON, RWE as well as all power suppliers.

38.4. **Direct air capture** - some climate change mitigation approaches rely on mechanical means to extract CO_2 from the air (Direct Air Capture, DAC). Due to the relatively low concentrations of CO_2 in the atmosphere the effort to extract even small amounts by mechanical means is tremendous.

38.5. With nature-based solutions, i.e. tree planting the amounts claimed as targets are difficult to envisage on basis of the land use required and time to plant.

38.6. An issue with DAC is that the targets (the IEA has 10MT/year by 2030) are too low to have any credible effect on cumulative carbon in the air, whilst requiring very large industrial scale activity to achieve. Whilst anything higher that might be material would require enormous levels of industrialisation and resource consumption.

38.7. Rather than DAC being a solution to mitigating climate change it may be that DAC has been mooted on the one hand to mitigate overt opposition to policies to deal with climate change whilst on the other being used as a device to not deal with reducing fossil fuel extraction - on the false premise that what is emitted now can be recaptured later. In essence, it is considered greenwashing.

38.8. The meeting noted the paper and agreed to look into organising a webinar on direct air capture.

38.9. **Mining and Human Rights** - the first two parts of the mining and human rights paper have been submitted to the January 2021 and April 2021 LAPFF meetings.

These first two submissions covered the international human rights framework and, secondly, how it applies to the mining sector.

38.10. This third part of the paper applies the international human rights law framework to five companies with which LAPFF has engaged extensively over the past two years: Anglo American, BHP, Glencore, Rio Tinto, and Vale.

38.11. LAPFF engagement with Anglo American, BHP, Glencore, Rio Tinto, and Vale have raised a number of human rights concerns for the mining industry. These concerns will be explored in more detail in Part IV in the next report and the next few paragraphs summarise these.

38.12. From a **governance** perspective, there is concern that joint ventures are contributing to accountability gaps that are resulting in severe human rights violations and that there is not sufficient involvement from mining company boards to prevent, mitigate, and remediate these violations. There is also concern that mining companies are conducting assessments to determine only business risks, not human rights risks and impacts.

38.13. From a **social** perspective, there are serious concerns about companies' failures to obtain free prior and informed consent from Indigenous stakeholders. In some cases, there appears to be a failure to undertake even the most basic engagement with affected communities, let alone free prior and informed consent. Where there is engagement with affected communities, there is concern that companies are 'cherry picking' community input to support their positions rather than undertaking a more rigorous human rights impact assessment in line with the UNGPs to inform their operations and decision-making.

38.14. From an **environmental** perspective, there are concerns about mining impacts on the human rights pertaining to natural resources, including the right to water. There are also climate change concerns pointing to the need to work toward a just transition to a zero-carbon economy.

38.15. The Quarterly Engagement Report (Q3 2021) was discussed. This covered work from July 2021 to September 2021.

38.16. Cllr McMurdo visited a **tailings dam** in Devon and was briefed on the downstream dam which is safer than the upstream types which are very dangerous due to run off. LAPFF intend to visit Brazil at some point on this topic.

38.17. LAPFF had some serious concerns about the out-going **Shell** Chair's statement that oil and gas would be needed as part of the company's portfolio for the foreseeable future. LAPFF met Shell in September focusing on the company's financial performance and approach to fossil fuels and impact on performance.

38.18. Cllr McMurdo was met with **Rio Tinto's** Chief Financial Officer, Peter Cunningham, to discuss the financial impacts and social challenges. Rio Tinto has improved its engagement with LAPFF over the years.

38.19. LAPFF has been concerned that **Anglo American's** board and management have not been sufficiently engaged with community members affected by the company's operations. Anglo have a thermal coal mine operation in Cerrjon, Columbia and days after a LAPFF meeting they pulled out of this joint venture.

38.20. Cllr Rob Chapman met with **SSE** to discuss the company's 'say on climate' resolution ahead of SSE's AGM in July. Acknowledging that SSE is ahead of the game on much of its transition planning, LAPFF raised some concerns in particular around Scope 3 emissions measurement and targets.

38.21. The LAPFF chair met with **HSBC** representatives to ascertain how HSBC will be assisting its clients to set and implement coal phase-out plans in line with the bank's own commitment and timeline. HSBC representatives noted that the International Energy Agency scenario 'net zero by 2050' will be used to

benchmark progress. On retreating from coal intensive industries, it was noted that coal exposure represents 0.2% of wholesale loans and advances as measured under the Taskforce on Climate Related Financial Disclosure metrics in 2020.

38.22. Cllr Glyn Caron, of the LAPFF executive, joined a collaborative investor call with **Mitsubishi Financial**. The meeting sought to cover constituent details of a plan which would align financing to the goals of the Paris agreement and the setting of a net zero financed emissions target. In May Mitsubishi made a net zero declaration, and as part of this commitment joined the net zero banking alliance.

38.23. LAPFF attended **Sainsbury's** 'Plan for Better' event and posed questions on the company's packaging practices, electric vehicles, supply chains, climate change and Say on Climate. In 2020, Sainsbury announced its climate target to be net zero by 2040 and has this year announced Scope 3 emissions target, which followed with a key theme of this year's ESG event being that the company was engraining ESG at the core of its business strategy. Sainsbury has also been recognised as the retailer with the second highest proportion of loose fruit and vegetables in the market, reducing plastic packaging.

38.24. Occupied **Palestinian** Territories (OPT) engagement - In line with the UN Guiding Principles on Business and Human Rights, LAPFF has engaged a business and human rights expert to help with this engagement.

38.25.

38.26. LAPFF has been engaging with **Persimmon** over a number of years following serious concerns about excessive executive pay, customer care and build quality. The Forum met with the Chair of Persimmon, Roger Devlin, to discuss improvements in customer care and executive pay alongside how it was seeking to move to a net zero business model. Persimmon has made a commitment that all new homes will be net-zero by 2030 and for the company, including its operations, to be net zero by 2040. Gas boilers are being banned in new homes from 2025 and the discussion focused on how Persimmon was seeking to get ready for this change.

Minutes

38.27. It was noted that there had been a printing error with regard to the tables on page 149 and a corrected version was circulated at the meeting (Appendix C).

38.28. It was noted that Councillor Heather Johnson would be attending the LAPFF conference in Bournemouth from 8th to 10th December 2021. The dates of the future business meetings were listed in paragraph 1.33, which Committee Members were invited to attend.

38.29. With regard to paragraph 1.23, page 151, it was noted that a member of LAPFF intended to visit Brazil regarding the safety of dams. Some Committee Members questioned whether an in-person visit was necessary and that a video call might be preferrable. Councillor Johnson replied that a lot of meetings had been done on-line. However, it proved useful to visit such areas to gain first-hand experience of the extent of devastation they had suffered. Companies did very little to rectify problems. Councillor McMurdo had been visiting different areas to talk to the people who had been affected by certain incidents directly and more widely and the local people welcomed his support. A dam burst in Brazil had demolished 200 homes, but only 3 homes had been rebuilt. Cllr McMurdo wanted to contextualise such disasters and see the effects for himself. It was agreed that LAPFF be informed that the Committee had some concerns with regard to whether this was an appropriate use of resources.

39. The Committee noted the report.

40. **London Collective Investment Vehicle Progress Report**

41. This report provided a quarterly update on developments at the London Collective Investment Vehicle (CIV) in creating sub-funds for the spectrum of asset classes, on-boarding of assets and development of the CIV's staff resource.

42. In London all 32 of the London Borough Funds have joined the London CIV (LCIV) including this Fund. Committee receives quarterly reports on the establishment and progress of the London CIV and transfer of assets into it. This report covers establishment and procurement of new sub-classes, launches of new sub-funds, assets under management and resource build-out at the CIV.

43. This will assist the Committee in its responsibility of asset allocation whilst future procurement of funds and day to day management is now the responsibility of the London CIV.

44. The CIV have £12.9bn of assets under management (AUM) with £13bn of passive funds totalling £25.9bn. It aims to pool 75% of the £44 billion total assets.

Funds

45. The Passive Equity Progressive Paris Aligned (PEPPA) Fund is now available for investment. Two initial PEPPA investors have agreed to make contributions to the sum of £495m, and assets are planned to be onboarded by the end of the year. Net flows of £359m into the LCIV's ACS funds were recorded during the third quarter. Significant transactions included three investors transitioning £578m from LCIV Alpha Growth Fund to the LCIV Global Alpha Growth Paris Aligned Fund, and an additional new investor to the LCIV Global Alpha Growth Paris Aligned Fund with a contribution of £247m, sourced from assets currently outside the LCIV pool. Two new investors with a joint contribution of £250m have agreed to allocate asset to the LCIV Sustainable Equity Fund. LCIV are continuing to make progress on the modifications planned for the LCIV Global Bond Fund with LCIV MAC Fund and the launch of the LCIV Alternative Credit Fund both of which, will be launched in late Q4 2021 to early Q1 2022.

46. During Q3 2021, Private Market Funds have recorded a total of £63m in drawdowns across the LCIV Private Debt Fund, LCIV Infrastructure Fund, and LCIV Inflation Plus Fund. LCIV have committed 74% of the existing investors' commitments to four primary funds and have deployed 7.5% or £51.6 million of the capital through to 30 September 2021. It is forecasted that the fund will be c.10% drawdown by the year-end.

47. The LCIV Infrastructure Fund had one close with £399m from six investors, in October 2019. Stepstone has committed 75% of the existing investors' commitments to primary funds and has deployed 27% of this total. Year to date, there have been no commitments to primary funds, and LCIV should expect one more commitment to a primary fund.

Responsible Investment

48. London CIV in recognising their responsibility to act in the long-term interests of their clients, have made a commitment to become a Net-Zero company by 2040, in line with the Paris Agreement targets to restrict global temperature rise below 1.5°C. London CIV in doing so, has become the first Local Authority pension pool to target Net-Zero emissions by 2040.

49. London CIV interim targets include:

- Reduce the carbon intensity of the Pool's investments by 35% by 2025 (relative to 2020), and 60% by 2030 across funds invested via the London CIV ACS, EUUT and SLP.
- Become a Net-Zero company across operational and supply chain emissions by 2025. Net-Zero relates to attaining an overall balance between emissions produced and emissions removed from the atmosphere.

50. London CIV will also set sector-level decarbonisation goals, climate-engagement targets, and financing transition targets to push GHG emissions reduction results in the real economy. London CIV will also work to assess the climate impact of assets invested passively via Blackrock and LGIM and incorporate these funds as part of the London CIV Net-Zero Strategy by 2023.

50.1.

Minutes

50.2. The Chair informed the Committee that he was now co-chair of the LCIV Shareholder Committee and updated Members as follows:

.1. - LCIV was the first pool to commit to get net zero by 2040 which would then enable the Camden Fund to give the same commitment and in turn put more pressure on its fund managers to commit to it too.

.2. - Gender equality was one of the Fund's SDGs and pressure has been placed on LCIV to improve this. New Non-Executive Directors (NEDs) would be announcement soon.

.3. - He would be getting a briefing on the shareholders briefs tomorrow and would report back to the next meeting.

The Committee noted the report.

51. **Business Plan**

52. This report updated the Pension Committee on future business items and training attended and opportunities.

53. Members were notified of a new training opportunity for Members of Pension Committee and Pension Board as well as officers, in the Hymans online learning academy. This includes modules on:

- an introduction to the LGPS
- Governance and Oversight
- Administration and Fund management
- Funding and Actuarial matters
- Investments
- Current events

54. Training is delivered via videos, with jargon buster crib sheets and a quiz on each module. Completion can be tracked for each user so we can keep a record of which topics have been covered widely and which topics users need to focus on. The training meets the requirements of the CIPFA Knowledge and Skills Framework and the Pension Regulator's Code of Practice.

55. The Committee noted the report.

56. PENSION COMMITTEE 3 MARCH 2022

56.1. There was a **deputation** by Unison about the Climate emergency. Liz Wheatley presented the deputation and Members asked questions. Officers and advisers also answered questions.

57. Performance Report

57.1. This report presents the performance of the Pension Fund investments up to 31 December 2021 and since manager inception. The portfolio had a market value of £2.3bn at 31 December 2021 which was an increase on 30 September 2021, of 3.9%.

58. The fourth quarter of the year saw positive performance from most asset classes, despite the prospective impact of omicron and the policy stances of central banks regarding rising inflation. The post-Covid resurgence in global markets appears to have tailed off. The IMF has revised its global GDP forecast downwards to 4.4% in 2022.

58.1. During Q4 2021 global equity markets increased, particularly among developed economies as the Omicron variant had less impact than initially feared. Emerging Markets and Japan, however, suffered, driven by the economic situation in China and a strong US dollar. Rising inflation led to strong returns for index-linked gilts, although there was less confidence in corporate paper.

58.2. Gilt yields dropped sharply in November as the Bank of England did not raise interest rates, confounding market expectations. A record 1.2 million job vacancies reported in Q4 suggest price and wage increases have the potential to be sustained. In contrast the ECB is more concerned with cushioning the economic impact of the pandemic rather than combatting inflation – government bonds on the continent have provided a total return of -0.5% accordingly. Sterling has strengthened against the Euro accordingly, and to a lesser extent against the US dollar.

59. **TABLE 7: MANAGER PERFORMANCE**

Name	Trailing 3 Months	Trailing 1 Year	Trailing 2 Years	Trailing 3 Years	Since Inception
Harris	2.4	20.1	14.5	17.7	11.9
Custom Global Equities (Gross) + 2.5%	7.0	23.1	19.5	21.5	16.4
Excess Return	-4.6	-3.0	-5.0	-3.8	-4.5
Baillie Gifford (London CIV)	-0.1	8.6	20.1	22.6	15.2
Custom Global Equities (Gross) +2.5%	7.0	23.1	19.5	21.5	16.2
Excess Return	-7.0	-14.5	0.6	1.1	-1.1
L&G UK Equity / Future World Global Equities	6.6	22.3	5.1	9.6	10.4
FTSE All Share + 0%	4.2	18.3	3.3	8.3	9.9
Excess Return	2.4	4.0	1.8	1.2	0.5
L&G Global Equity	6.1	19.9	16.4	18.3	14.0
FTSE All-World + 0%	6.2	20.0	16.4	18.4	14.0
Excess Return	-0.0	-0.0	-0.0	-0.0	-0.0
Insight	-1.2	1.9	0.1	1.0	0.7
3 month LIBOR + 4%	1.0	4.1	4.2	4.4	4.4
Excess Return	-2.2	-2.1	-4.1	-3.4	-3.7
CQS (LCIV)	1.0	6.4	4.1	-	4.1
3 Month GBP Libor +4.5%	1.2	4.6	4.7	-	4.9
Excess Return	-0.1	1.8	-0.6	-	-0.8
L&G Passive ILG	5.4	4.2	8.2	7.8	8.7
FTSE Over 5yr Index Linked Gilts + 0%	5.7	4.3	8.1	7.5	8.5
Excess Return	-0.3	-0.1	0.2	0.3	0.2
CBRE	5.1	15.0	5.9	4.5	7.7
All Balanced Property Funds + 1%	7.8	20.3	9.7	7.3	8.7
Excess Return	-2.7	-5.3	-3.7	-2.8	-1.0
Partners Group 2009 Euro Fund	13.2	2.9	1.0	-0.5	7.2
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	9.6	-12.1	-14.0	-15.5	-7.8
Partners Group 2013 USD Fund	5.8	6.9	-1.4	-0.4	11.9
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	2.2	-8.1	-16.4	-15.4	-3.1
Partners Group 2017 USD Fund	3.8	15.2	7.8	8.2	6.7
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	0.2	0.2	-7.2	-6.8	-8.3
HarbourVest	5.7	58.6	32.0	28.4	27.9
Absolute 8%	1.9	8.0	8.0	8.0	7.9
Excess Return	3.8	50.6	24.0	20.4	20.1
Ruffer (London CIV)	1.5	10.3	10.1	9.6	6.4
3 month LIBOR + 3%	0.8	3.1	3.2	3.4	3.5
Excess Return	0.7	7.2	6.9	6.2	2.9
Stepstone (London CIV)	2.8	2.7	-0.6	-	-0.5
9% p.a Net	2.2	9.0	9.0	-	8.6
Excess Return	0.6	-6.3	-9.6	-	-9.2
Standard Life	1.0	-2.0	2.8	4.2	1.8
6 month LIBOR+5%	1.3	5.2	5.3	5.5	5.6
Excess Return	-0.3	-7.2	-2.5	-1.3	-3.8
Total Fund	3.0	13.9	11.2	13.0	10.2
Total Fund Composite Target	4.3	14.8	9.9	11.6	11.5
Excess Return	**-1.3**	**-0.9**	**1.2**	**1.4**	**-1.3**

59.1. **Harris** have underperformed the benchmark, by -4.6% over Q4 2021, and over all other tracked time periods. Harris are also still behind target, since inception, by 4.5%.

59.2. **Baillie Gifford (CIV)** have underperformed the benchmark over Q4 2021 and the trailing one year, by -7.0% and -14.5% respectively, but outperformed over the long term, by 1.1% over three years. The Baillie Gifford holdings now consists of two

Global Alpha sub-funds: the **Global Alpha Growth Fund** (earmarked for the substitution of funds to Merseyside for the employer IDeA) and the **Global Alpha Growth Paris-Aligned Fund**.

59.3. **Legal & General** equities have either matched or outperformed their benchmark in Q4. The Future World global equity index fund is a sustainable passive fund which is more closely aligned to the Pension Fund's investment beliefs. The Future World fund is benchmarked against the Solactive index, although it is compared in table 7 above to the FTSE All-share. The Fund is in the process of changing the performance comparator. The Solactive index returned 6.47% over the quarter.

59.4. **Insight** underperformed against their target by 2.2% in Q4 2021, and still lag considerably behind target since inception by 3.7%. Insight's performance remains worse than that of CQS over comparable time periods.

59.5. **CQS (CIV)** have slightly underperformed the benchmark over Q4 2021, by 0.1%; but have better performance over the trailing twelve months, outperforming the benchmark by 1.8%. However, CQS remains behind the target since inception, by -0.8%.

59.6. **CBRE** trailed the target by -2.7% over Q4 2021 and trails target across all time horizons (by -5.3% over the year). They have returned 7.7% per annum since inception, against a target of 8.7% - while performance is strong compared to many other asset classes, it is nevertheless behind the benchmark for similar investments. CBRE expects property performance to remain robust in 2022, as the market stabilises after the effects of global economic disruption.

59.7. **Partners Group** funds' performance improved over Q3 2021, but it is important to bear in mind that these valuations lag by three months due to the nature of the fund of fund arrangement. Partners Group funds' performance is viewed individually for the three funds as follows:

iv. The 2009 Euro fund has underperformed the benchmark, by 9.6% over Q4 2021, although is -7.8% below its ambitious target since inception.
v. The 2013 Dollar fund's performance rose over Q4 2021 by 2.2% but registered -8.1% over the year.
vi. The 2017 Dollar fund, the youngest of the three funds, performed the least well during the third quarter of 2021, achieving 3.8% growth, 0.2% greater than the benchmark.

59.8. **HarbourVest** strongly outperformed their benchmark by 3.8% in Q3 2021, outperforming over all time periods including a remarkable 50.6% over the year. HarbourVest attribute this to exceptional performance by some of the companies which they hold or are exposed to and they do not expect such a high rate of return in the future. Their valuations are also lagged by three months and so the full effects of the current macroeconomic situation are yet to be seen on HarbourVest's holdings.

59.9. **Ruffer (CIV)** reported positive returns of 1.5% in Q4 2021, against a target of 0.8%, and have outperformed over all time periods including 7.2% over the year.

59.10. **Stepstone (CIV)** had recorded 2.8% in its latest quarterly results, but these figures also lag by three months, as is typically the case with private investments.

59.11. **Standard Life** performance over Q4 2021 lags the benchmark by -0.3% over the quarter and by -7.2% over twelve months. Since inception they still lag by 3.8. Based upon performance in recent quarters, the fund is at the lower end of the two diversified growth funds.

59.12. **Aviva (CIV)** received initial investment from the Pension Fund in December, and so will be recorded in Table 7 in future reports. £95m has been committed by Camden to this long lease property mandate with £61.3m being drawn-down to date.

60. ASSET ALLOCATION REBALANCING UPDATE

60.1. Given the many moving parts as a result of decisions and actions from the July 2021 review, the performance report will update on progress each quarter until all asset transfers as a result of the asset allocation rebalancing has been completed.

60.2. As discussed, the Substitution of Funds for the Improvement and Development Agency will occur in Q1 of 2022. The Fund has ringfenced assets in the legacy Baillie Gifford Global Alpha Growth fund of c£190m to fund this transfer.

60.3. In August the application form for the £95m Inflation Plus mandate was submitted to the London CIV after legal due diligence on the fund was cleared. £61.3m has been invested in Aviva as at 31 December 2021, with a further £34m to follow.

60.4. Post quarter end, officers have concluded the Harris redemption of £171m to bring equities back down towards their target allocation of 50%. This occurred over three tranches, with the first completed by quarter end and the remaining tranches completed in January 2022 avoiding the Christmas break and thin market trading.

60.5. Once fully redeemed the Fund will also invest in a further tranche of £57m in index linked gilts and invest in the CIV Baillie Gifford diversified growth fund of £95m.

60.6. The Multi Asset Credit fund with the CIV (CQS) will only be moved to the new blended sub-fund, including PIMCO, once this is available for investment. The CIV are expecting to launch the alternative credit fund during Q1 2022 and we await progress on this.

60.7. The CIV have proposed some alternative scenarios for Camden to consider regarding at what point we invest the three components that will form our target investment in the new blended fund. We have £54m in the CQS mandate, £98m in the Insight mandate to be disinvested and transferred in to the new fund and an £80m cash top-up recommended as part of the July 2021 review. Based on advice and discussions with Isio and our Independent investment advisor this report recommends we invest the £54m with CQS and the £98m with Insight on day one (which will lower transaction costs) and then in tranche two invest the £80m to spread the trading risk (the timing to be determined by the Executive Director Corporate Services). Pension Committee were asked to agree this recommendation.

61. FOSSIL FUEL EXPOSURE

61.1. All Investment managers were asked about the Fund's exposure to fossil fuels in general. The results for all our investment managers, at 31 December 2021, are as shown in Table 9 below.

61.2. It is important to remember that all companies have slightly different definitions of fossil fuel companies and so this is only an estimate. In 2012, the Fund had 7.2% of its equity assets invested in fossil fuels. In the report given at November 2021's Committee, the fossil fuel proportion of all assets was 3.72%, and it is now 2.11%.

61.3. **TABLE 9: PERCENTAGE OF TOTAL FUNDS INVESTED IN FOSSIL FUELS**

		Total Fund (£m)	Fossil Fuel Holdings (£m)	Total Percentage of NAV in Fossil Fuels at 31 December-2021
Legal & General	Global Equities	415	13	
	Future World Global Equities	294	3	
	Over 5y Index-Link Gilts	49	0	

Harris		288	21	
Baillie Gifford (LCIV)	Global Alpha Growth Fund	186	4	
	Global Alpha Growth Paris Aligned Fund	273	0	
CBRE		97	0	
HarbourVest		62	1	
Insight		98	1	
Standard Life		41	0	
Partners Group		88	0	
Aviva		61	0	
Stepstone		41	0	
CQS		54	1	
Ruffer		73	4	
(Cash - JPM)		179	0	
Total		**2299**	**49**	**2.11%**

61.4. To highlight the impact that the funds recent moves to new low carbon funds have had, the holdings in the Baillie Gifford Paris-aligned fund have reduced the overall value in fossil fuel stocks by £5.9m and the funds in L&G's Future world fund by £6.2m. These reductions account for a reduction of 0.53% in the Fund value invested in fossil fuels (currently 2.11%).

61.5. The Committee noted the report

62. **Corporate Governance Annual Review**

63. The Camden Pension Fund employs a corporate governance advisor (PIRC)to review company voting resolutions and execute the proxy votes of the Fund in accordance with its policy. This report reviewed and analysed the voting that has been undertaken by the Fund during the calendar year, as executed by PIRC.

64. Some highlights from the report are:

- The Fund voted on 9,977 resolutions in 2021 at 724 meetings
- Almost three-quarters of the time the Fund voted in favour (74%) and so opposed one-quarter (26%)
- In the UK the Fund supported 58.4% of remuneration reports and so opposed 41.6%
- Appendix A notes that for the first time since the goal on gender diversity was set (for 2020) boards of FTSE 350 companies and executive committees of FTSE 100 companies comprise more than 33% of women
- Women are still far less represented in more senior board positions, such as chair (executive or non-executive) and chief executive. Additionally, women are less represented in senior management than in the supervisory board.
- The Fund's own voting policy supports the target of 33% female representation on FTSE 350 boards and the Fund opposes the chairs of nomination committees where female representation is below 33% or no statement is given committing to the target.
- Women are still far less represented in more senior board positions, such as chair (executive or non-executive) and chief executive. Additionally, women are less represented in senior management than in the supervisory board
- Directors with Social, Environmental, and Climate experience/ skills made up 8.6%, 5%, and 2.2% respectively of the total number of directors analysed and so these skill sets are sadly lacking in the boardroom.

2. The Committee noted the report.

65. **Voting Guidelines Report**

66. The policy was last reviewed in March 2021 to take account of changes in the shareholder voting environment, and notably PIRC's revised remuneration scoring. As with the previous year, the voting policy also fully incorporates the Local Authority Pension Fund Forum (LAPFF) voting guidelines, of which the Fund is an active member.

67. The proposal for the 2022 Camden voting policy statement from PIRC is detailed in Appendix A. Officers from PIRC were present at the Committee meeting to talk through any specific items. Camden uses PIRC ratings to assess remuneration for directors. PIRC ratings consist of three letters, where each can range from A to E. The methodology is set out in Appendix B.

68. PIRC have highlighted the following proposed changes to the policy, which integrate developments in the markets:

- Support Article amendments to allow for "virtual only" shareholder meetings, provided that the changes do not allow virtual meetings to substitute conventional meetings entirely.
- Oppose the Chair of the sustainability committee where one has been constituted and where the sustainability policies and practice does not mitigate the associated risks.
- Oppose the Chair of the board if there is no sustainability committee.

14. The Committee noted the report.

69. **London Collective Investment Vehicle Progress Report**

70. This report provided a quarterly update on developments at the London Collective Investment Vehicle (CIV) in creating sub-funds for the spectrum of asset classes, on-boarding of assets and development of the CIV's staff resource.

71. In London all 32 of the London Borough Funds have joined the London CIV (LCIV) including this Fund. Committee receives quarterly reports on the establishment and progress of the London CIV and transfer of assets into it. This report covers establishment and procurement of new sub-classes, launches of new sub-funds, assets under management and resource build-out at the CIV.

72. The CIV have £14.6bn of assets under management (AUM) as at 31 December 2021. Total assets pooled by Client Funds were valued at £27.3bn. During Q4 they set a more realistic pooling target of 71% pooled by 2025 instead of 75% pooled by 2023. This new target forms part of the basis for their Medium-Term Financial Strategy (MTFS) and Budget for 2022/23.

London CIV Annual General Meeting

73. The AGM took place on 27 January 2022. The new Chair of the CIV, Mike Craston, highlighted the significant progress being made in making ESG integral, and that London CIV had built a strong, successful team. In October 2021 the CIV were the first pool to announce their ambition to achieve net zero by 2040 and achieve net zero across operational and supply chain emissions by 2025. They also became a signatory to the first list of signatories to the UK Stewardship Code.

74. The CIV is now reporting cumulative net savings of £33m to client funds for the first four years of operation. He noted the changes to the CIV's constitutional documents to ensure the FCA agree the position on regulatory capital.

74.1. CEO Mike O'Donnell updated on actions to achieve financial efficiency and savings and reduce costs. Mike highlighted the work to enhance the quality of client services including the use of Seed Investor Groups, the annual conference, and the diversity and inclusion both with staff and the board. As reported elsewhere, the more realistic target for the CIV is to achieve 70% pooled by 2025. The CIV now has 20 funds with four funds coming onstream in 2021. EOS Hermes was appointed as their voting and engagement partner during the year.

74.2. The Annual Budget 2022/23 and MTFS were presented, with headlines being a balanced budget which did not aim to generate a profit and a projected £1.7bn consistent growth in AUM. Shareholder questions were answered, and the budget was approved by significant majority.

Funds

74.3. The Passive Equity Progressive Paris Aligned (PEPPA) Fund is now available for investment. Two initial PEPPA investors made contributions in Q4 to the sum of £540m (our Fund is invested in a similar product with Legal and General (the Future World Fund).

74.4. Net flows of £1m into the LCIV's ACS funds were recorded during the fourth quarter. Significant transactions included new investors into the Global Bond Fund, Sustainable Equity Fund, and Multi Asset Credit Fund, as well as positive net flows into the multi-asset Diversified Growth Fund and Absolute Return Fund due to rebalancing activity, and smaller negative net flows were recorded for Global Total Return Fund, Global Equity Fund and Global Alpha Growth Fund.

74.5. There are indications that there may be further opportunities for client funds to invest in existing funds to meet their strategic asset allocation requirements. By the end of January 2022 London CIV aimed to launch the Alternative Credit Fund, which will enable them to introduce PIMCO's Diversified Income Strategy to the Multi Asset Credit Fund which is to be incorporated in February 2022.

74.6. During Q4 2021, private market funds have recorded a total of £371m in drawdowns, with the largest drawdown attributable to the Inflation Plus Fund with £132m (our Fund is invested in this sub fund) and the LCIV Renewable Infrastructure Fund with £127m.

74.7. In the quarter, terms were also agreed by the Inflation Plus fund to acquire a £158m portfolio of real estate long income assets. These acquisitions create a diverse portfolio of approximately £217m worth of assets across 6 sectors and have an average investment grade rating of BBB+.

Responsible Investment

75. London CIV have, in recognising their responsibility to act in the long-term interests of their clients, made a commitment to become a Net-Zero company by 2040, in line with the Paris Agreement targets to restrict global temperature rise below 1.5°C. London CIV in doing so, has become the first Local Authority pension pool to target Net-Zero emissions by 2040.

76. During Q4 London CIV advanced with the integration of Environmental, Social and Governance (ESG) factors to their strategy for the Global Bond Fund. They partnered with Hermes EOS in respect of stewardship and engagement activities and Hermes EOS is to sit alongside the voting guidance received as members of the Local Authority Pension Fund Forum (LAPFF).

77. The CIV were approved as an asset owner to the first list of signatories to the 2020 UK Stewardship Code last quarter, which is an achievement.

78. London CIV have been conducting a trial with one of their client funds to assess the carbon footprint in line with the Task Force on Climate Financial Disclosures (TCFD) for its entire investment portfolio. In the future they hope to offer this service to all client funds, which will therefore present an assessment of the entire investment portfolio, showing relevant metrics and enabling each Pension Committee to work towards their net zero targets.

79. The LCIV Infrastructure Fund bought a single position in BlackRock Renewable Income UK Fund which invests in a portfolio of UK-wide wind and solar projects. This investment allowed London CIV to deploy capital into a mature portfolio of renewable energy assets. As the investment is already generating cash this means they can offer their client funds an immediate return.

80. The Committee noted the report.

81. **Engagement Report**

82. This report brings Members up to date with engagement activity undertaken by the Fund and on its behalf by LAPFF (the Local Authority Pension Fund Forum) since the last Pension Committee meeting. This work is important to the Fund's ambition to be a fully engaged investor and demonstrates its commitment to Responsible Investment and engagement in Environmental, Social and Governance (ESG) issues as a way to achieve its objectives.

83. LAPFF has 85 members and 7 pools with the London Boroughs of Bromley, Kensington and Chelsea, and the Isle of Wight Pension Funds joining recently. Membership expectations for 2022/23 currently stands at 91 (out of a total of 98 funds in the UK), with 86 paying membership and 5 non-paying pool memberships.

84. The Forum held a business meeting on 26 January 2022 and the agenda is summarised below, but the full reports along with minutes can be provided if members require further details.

85. **Summary of LAPFF Business Meeting Reports**

86. There was a strategy meeting in November which noted LAPFF's unique approach to engagement, which is built on in the workplan. The draft workplan also includes proposals progressed during the year such as the emerging focus on 'Say on Climate'.

87. **Mining and Human Rights paper** - The first three parts of the mining and human rights paper were submitted at previous meetings and part IV was submitted at the January meeting. This provided analysis of how conduct in the industry is misaligned with the standards set at international human rights law and the UN Guiding Principles on Business and Human Rights, as exemplified through the five companies – Anglo American, BHP, Glencore, Rio Tinto, and Vale – LAPFF's largest mining holdings.

88. From an **environmental** perspective, there is a real concern about a lack of effective enforcement by governments of these environmental impacts with the European Court of Human Rights considering some governments to have a 'passive attitude' to regulation and enforcement regarding environmental damage. The right to a clean and healthy environment is now accepted by the UN as a human right which should be protected by governments, however, there appears to be less than full compliance by mining companies with this. The environmental

damage such as reduction in access to natural resources and water pollution by mining companies causes serious human rights impacts to affected communities. These impacts carry operational, reputational, legal, and financial risks to mining companies and investors.

89. From a **governance** perspective, there is concern that joint ventures are contributing to accountability gaps that are resulting in severe human rights violations and that there is not sufficient involvement from mining company boards to prevent, mitigate, and remediate these violations. There is also concern that mining companies are entering into these joint ventures specifically to evade their human rights and environmental responsibilities. There is a lack of board leadership on human rights, suspect corporate cultures, problematic project structures and a lack of understanding of the importance of full and appropriate information on social and environmental risks by mining companies indicate concerns over governance matters.

90. From a **social** perspective, there are serious concerns about companies' failures to obtain free prior and informed consent from Indigenous stakeholders. In some cases, there appears to be a failure to undertake even the most basic engagement with affected communities, let alone free prior and informed consent. Where there is engagement with affected communities, there is concern that companies are 'cherry picking' community input to support their positions rather than undertaking a more rigorous human rights impact assessment in line with the UNGPs.

91. A report on **Water Companies and Sewage** was presented. The water industry has been privatised since the late 1980s and water companies in England and Wales have been criticised for their environmental practices, including the release of raw sewage into rivers and seas, as well as their approach to pricing and water leaks.

92. The proposed approach is to engage the listed water companies (which 20 or more members hold), however as there is a different relationship between LAPFF members and water companies in the private markets, conflicts of interest and confidentiality would have to be managed carefully.

93. Currently the LGPS Tender Framework foresees member fund engagement on behalf of **bond holdings** operating in unison with engagement on behalf of shares. LAPFF considers this approach inherently problematic as the skills needed to deal to scrutinise bonds are different to the skills used to deal with equity, as the risks are very different. There is also a conflict of interest between what is best for shareholders and what is best for bondholders if the engagement contract is intended to deliver to the standard of fiduciary duty. The time horizons on shares and bonds are also markedly different: a long-term shareholder interest has no time limit to the investment horizon, but the OECD estimates the average remaining life of investment grade corporate bonds is 13 years. Even if the bonds are rolled over on maturity, the rights and protections are reset to benefit bondholders at that point, whereas shareholders do not have this reset opportunity.

94. LAPFF decided to support an APPG inquiry into a responsible investment for a **just transition** in September 2020. It was agreed that the just transition should become a larger focus of discussion in some existing engagements, including with companies in the mining and automotive sectors. It was recommended that LAPFF engages with stakeholders, such as trade unions, about potential concerns at specific companies and in the future the Forum may wish to outline its own set of expectations. LAPFF may consider proposing a worker director where change has not occurred or been too slow, and they will host webinars and guest speakers at business meetings as appropriate.

95. At the executive strategy meeting in November 2021 it was agreed to establish a taskforce with membership drawn from LAPFF executive to consider ways to **enhance diversity**. It was noted that LAPFF promotes greater diversity within investee companies and the Forum has sought to ensure diversity within the executive. However, more could be done to promote diversity and ensure LAPFF is following the best practice it expects of companies.

96. The **Quarterly Engagement Report (Q4 2021)** was discussed. This covered work from October 2021 to December 2021.

97. LAPFF held its 2021 conference in Bournemouth from 8-10 December, as well as online, due to the pandemic.

98. Cllr McMurdo met with **BHP** Chief Executive, Mike Henry, to discuss the imminent unification process and the on-going human rights concerns related to the Samarco tailings dam collapse in Brazil and joint venture Resolution Copper project with Rio Tinto in Arizona. LAPFF also issued a voting alert opposing BHP's climate plan, which was put to vote this year in line with the 'say on climate' initiative. LAPFF will continue to engage with BHP on its climate developments more frequently.

99. LAPFF met with **BP** to discuss detailed aspects of the company's energy transition plan and if a 'Say on Climate' is planned for the 2022 AGM. Representatives from BP provided more background to the company's plan which includes a reduction of production of 40% over 10 years and a goal of 50GW of renewable generating capacity by 2050.

100. LAPFF met with **Standard Chartered** chair, José Viñals, to determine how the bank is progressing work with clients to reduce carbon emissions and align with the bank's net zero by 2050 policy. Standard Chartered issued a road map for its progress to net zero, as well as plans to mobilise $300bn in green and transition finance by 2030.

101. LAPFF representatives held a meeting with **Lyondell Basell** to discuss analysis of progress against the second iteration of the CA100+ benchmark. In the first iteration of the benchmark, four indicators were partially met, and six were not met. Further updates will be published in April 2022.

102. LAPFF attended a **National Grid** meeting in December to cover disclosure on lobbying activities and further discussion on Paris Aligned accounting and audit disclosure. Correspondence was sent on behalf of the CA100+ initiative with an updated assessment of progress against the second CA100+ benchmark. National Grid also gave further details of net zero alignment with International Energy Agency's 2035 date for all relevant electricity emissions, noting the assumption of zero-carbon power grid by 2035.

103. Cllr McMurdo met with the chair of **Barratt Developments** as the property sector is a major contributor to carbon emissions. LAPFF gained assurance about plans Barratt are making towards achieving net zero for homes and their operations. LAPFF will continue engaging with Barratt and other housebuilders to ensure set targets are being met.

104. LAPFF wrote to five **pharmaceutical companies** for engagement meetings discussing whether Covid has forced them to change business models or

strategies. **Roche** offered a meeting and they met **Johnson & Johnson** through a collaborative investor discussion. There appear to have been more operational changes, such as how staff work together online and hybrid working, than there has strategy changes. In early 2022 LAPFF will write again to the companies they have not met with yet, as they have all contributed to responding to the pandemic, they may be more available when there is not a Covid resurgence.

105. The Committee noted the report.

106. **Business Plan**

107. This report sets out items scheduled for future agendas of this Committee together with a record of training/ meetings attended and a list of future training opportunities.

108. Cllr Johnson attended the Annual LAPFF conference in December 2021. Furthermore, a number of officers and Members met with fund managers LGIM and HarbourVest to talk about performance and ESG matters in December 2021, and CQS and Stepstone in February 2022.

109. Members of Pension Committee and Pension Board, as well as officers, have now been enrolled on the Hymans online learning academy.

110. The Committee noted the report.

LEGAL COMMENTS OF THE BOROUGH SOLICITOR

111. The Borough Solicitor has been consulted and has no comments to add.