

Climate disclosures for the year ended 31 March 2022

The Pensions Committee (“the Committee”) of the London Borough of Havering Pension Fund (“the Fund”) believe that climate change is a systemic risk and seek to manage that risk with respect to the pension scheme on behalf of their members. The Committee are supportive of initiatives they believe will be in the long-term financial interest of the Fund’s members. The Taskforce on Climate-related Financial Disclosures (“TCFD”) is one such initiative, as the Committee believe greater disclosure will lead to more engagement and a more structured approach to managing this risk.

Whilst not falling under the scope of the requirements of the TCFD, the Committee are keen to comply with these requirements as best they can whilst taking a proportionate approach with respect to the size and available resources of the Fund. As such, the Committee has produced this report, their second under the TCFD framework, summarising the current position with regards to the 11 climate-related disclosures. Future reports will continue to highlight actions taken over the year to improve the position in line with the suggested actions developed as a result of this report and underlying analysis.

Governance

Disclosure A: Describe the Committee’s oversight of climate related risks and opportunities.

The Committee has ultimate responsibility for the strategy employed to meet the Fund’s objectives. These objectives and strategy are set out in the current Investment Strategy Statement (ISS) dated July 2020. In the development and implementation of strategy, the Fund is supported by Officers and Advisers who the Committee expect to raise climate related risks and opportunities for discussion as appropriate.

The Committee has established and published a Statement of Investment Beliefs which reflects the broad views of committee members on investment, ESG and climate matters. These beliefs are documented in the ISS and include recognition of the financial materiality of climate risk. The Committee did not review their beliefs during the year but expects Officers and Advisers to reference these beliefs in the management and evolution of the Fund. Beliefs did drive various strategic changes during the year as summarised later in this report.

Committee members are expected to undertake training on all matters relevant to the governance of the Fund. In November 2021, Committee members took part in a Climate Risk workshop. The workshop provided background on climate change for pension funds and provided guidance on identifying and assessing the climate-related risks across the Fund’s investment portfolio. The workshop expanded on different ways of assessing exposure to climate-related risks and how this could be used in order to set relevant ESG targets and escalate management with investee companies on climate-related topics. During the workshop, the Committee also reviewed the action taken by the London Collective Investment Vehicle (‘London CIV’) to address climate risk.

The Committee also undertakes a high-level review of stewardship activity on an annual basis and considers the actions that its managers are taking to address climate risk within this review. The Committee determined that manager inaction in the exercise of stewardship was an issue to be monitored and focussed on this issue in its 2021/22 review. Through the Fund’s review of voting and engagement, more specific actions of stewardship activity were identified from the Fund’s investment managers’ engagements, as well as further detail on their approach and policies towards climate-related risk. Furthermore, over the year the Committee has made a point to challenge the Fund’s managers on their stewardship when attending quarterly Fund meetings.

The Committee’s Business Plan for 2022/2023 includes the development of a broader climate action plan.

Disclosure B: Describe management’s role in assessing and managing climate related risks and opportunities.

A number of parties involved in the management of the Fund are expected to assess climate related risks and opportunities and take steps to address these. In particular:

- Officers are expected to ensure that climate related issues are considered in their discussion with all Fund stakeholders. Over the year to 31 March 2022, Officers have engaged in a number of discussions on climate related risks and opportunities with the Fund's investment managers, the London CIV as pooling provider and the Fund's investment advisers. Officers report the outcome of such discussions and any actions arising to the Committee for decision as necessary.
- The LCIV is the Fund's pooling provider with responsibility for the development of appropriate solutions for the management and governance of Fund assets. During previous years, LCIV has sought to develop and introduce several pooled vehicles which directly manage climate related risks for its clients. LCIV has also engaged third-party stewardship provider, Hermes EOS, to provide input on voting and engagement and a data provider, Trucost, to provide fund level analytics, including the measurement of climate related metrics. During the year, Officers and Advisers engaged with the LCIV on the development of a new passive product in which the Fund ultimately invested and the parameters for stock lending and voting policy in relation to this product.
- The Investment Adviser is expected to raise climate related risks and opportunities in the development and delivery of advice. During the year, the Adviser addressed climate related risks in providing advice on the evolution of the Fund's equity strategy and identified a potential infrastructure opportunity linked to climate issues and provided input on climate related stewardship issues.
- Investment managers employed by the Fund are also expected to competently address climate related issues in their management of Fund issues. The Committee will ask questions of their managers on climate issues as part of regular meetings. The Committee, as a minimum, expect its managers (including the London CIV) to be signatories of the UN supported Principles for Responsible Investment and, where appropriate, the FRC UK Stewardship Code.

Strategy

Disclosure A: Describe the climate related risks and opportunities the organisation has identified over the short, medium and long term.

The Committee has not formally specified time-horizons for the Fund although, given the Fund remains open to new members, the Committee regards climate risk as an issue that must be considered over all time horizons. Over the year, the Committee considered the potential for transition risks and the repricing of companies with high carbon intensity to affect financial outcomes from investments and has considered how such risks can be reflected in portfolios. These considerations were raised and addressed during consideration of the Fund's equity strategy

Opportunities have been identified during ongoing discussion with advisers and the LCIV, particularly with regard to the LCIV's development of a Renewable Energy Infrastructure Fund. In June 2021, the Committee committed £25m to this identified opportunity in the private market LCIV Renewable Infrastructure Fund. The open-ended Fund focuses on renewable energy infrastructure assets, investing in greenfield (i.e. a project which is not following a previous project on unused lands, where there is no need to remodel or demolish an existing structure) and brownfield (i.e. projects which are modified or upgraded) assets to provide a long-term and sustainable responsible investment solution to the Fund.

Disclosure B: Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning.

Whilst climate related issues have been reflected in certain investment decisions and the evolution of the Fund's strategy (such as the integration of climate-related risk considerations in the Fund's equity allocation), the Committee has not undertaken a stand-alone review of how climate risks and opportunities should be addressed. Rather, in conjunction with Officers and Advisers, the Committee has phased the consideration of climate-issues into its strategy and business planning.

Over the year, the Committee took various steps to evolve the Fund's equity allocation with a particular view focus on addressing some transition related risks within the strategy. This included:

- Switching assets from the LCIV Global Alpha Fund to the LCIV Global Alpha Paris Aligned Fund variant, with climate related risks being addressed directly by the underlying fund manager;
- The introduction of the multi-factor, climate tilted, LGIM Future World Fund which was selected as part of a strategy review when switching from a single factor equity fund;
- Investment into the, LCIV developed, LCIV Passive Equity Progressive Paris Aligned ("PEPPA") Fund which seeks to reduce exposure to carbon emissions and the associated climate transition risks, whilst maintaining expectations of returns from global developed market equities. The Fund's Officers were part of the seed investor group for the LCIV PEPPA Fund and provided feedback at various stages of the development process.

As a consequence, the Weighted Average Carbon Intensity ('WACI') of the Fund's equity assets reduced to 76% of that of global markets. Over 2022/23, the Committee will be reviewing its Emerging Market Equity exposure, noting this allocation is also a significant contributor to WACI of the Fund equity allocation.

The Committee has had a more detailed assessment of climate considerations and risks over the year. The Fund's Climate Risk Plan provides a plan for the Fund to address climate risk. The Fund's current position in this plan is to establish a baseline position for change, from then on, the Fund can expect to focus on specific areas and frame objectives and targets for change. Following this, the Fund will be able to develop and implement a plan to address climate-related risks and monitor and report these over time.

Disclosure C: Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios including a 2 degree or lower scenario.

The Committee has not undertaken any analysis on the impact of climate scenarios on the Fund. The Committee intends that climate-related scenario analysis will be undertaken as part of the Fund's ongoing triennial actuarial valuation being undertaken as at 31 March 2022 .

Risk Management

Disclosure A: Describe the organisation's processes for identifying and assessing climate-related risks.

At a simple level, the Committee's risk management process comprises identification, assessment, monitoring and control of risk. Climate risks are identified by the Committee with support from Officers and Advisors as appropriate. Once risks are identified, they are then evaluated and prioritised based on the overall threat posed to the Fund. The Committee prioritise risks based on the size, scope and materiality of the risk event. This includes rating the likelihood and impact of the risk event to produce a score reflecting the threat that the risk event poses to the Fund, then making a decision on the appropriate action (mitigation, control or acceptance) based on this score and available courses of action.

Disclosure B: Describe the organisation's process for managing climate-related risks.

Risks and opportunities are considered both in absolute terms and in relation to the risk appetite of the Fund. Risk appetite can be defined in terms of a willingness to take risk or the acceptability of risk. The management of climate related risks take place at several levels withing the decision-making processes of the Fund:

- Within strategy management, the Committee will consider market and policy developments with particular regard to climate change and discuss how such factors may influence asset allocation. The Committee expects to develop its approach in this area through the use of scenario analysis;
- Within mandate selection, the Committee will consider how climate related risks may influence the design of a particular strategy, taking advice where appropriate. Over the year, the Committee has considered how

emissions and transition readiness influence the choice of equity indices for the Fund, with advice directly considering the

- Within manager selection and ongoing monitoring, the Committee will consider the actions managers are taking to address climate related risks in the management of a mandate. This includes questioning the managers' approach to climate risk, stewardship, governance and its level of engagement with investee companies as a positive influence for ESG action. During the year, the Committee formally met with five of their investment managers, with discussion on climate related risks forming an element of these discussions. The Committee's process for reviewing managers includes receiving a briefing on manager activity and areas for discussion being highlighted.
- Within stewardship, the Committee includes discussions on governance and voting with the Fund's equity manager on a periodic basis. The Committee reviews stewardship activity, including voting on climate issues, on an annual basis and the effectiveness of its managers in exercising the responsibilities that have been delegated to them. The Committee reviewed the Fund's investment managers' voting and engagement activities over the 12-month period to 30 June 2021. The Fund had investments through two investment managers (LGIM and LCIV) across six mandates with equity exposure.

Over the 12-month period, the majority of votes that were eligible to be exercised were voted on, on behalf of the Committee. Exercise rates for all six mandates was at least 97%. Climate change was the most frequent reason for engagement across all managers. The Fund will undertake this review of voting and engagement activities again in 2022/2023 for the last 12-month period.

Disclosure C: Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Officers and Advisors raise new or updated risks at quarterly Committee meetings or other appropriate points in time, depending on urgency. Following this, where appropriate, training sessions are provided on the respective risks. This includes rating the likelihood and impact of the risk event to produce a reflection of the threat that the risk event poses to the Fund and then making a decision on the appropriate action (mitigation, control or acceptance) based on this and available courses of action.

Metrics and Targets

Disclosure A: Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

The Committee has not formally adopted any climate related metrics for management of the Fund. Committee expects to consider this as part of the evolution of its approach to the management of climate related risks during the year as part of its Climate Risk Plan. On an informal basis when considering individual investment solutions, the Committee has considered a range of metrics as part of their initial discussions including Weighted Average Carbon Intensity, Carbon footprint, exposure to materially impacted sectors and stewardship behaviours of managers.

Disclosure B: Disclose Scope 1, Scope 2 and if appropriate Scope 3 greenhouse gas (GHG) emissions and the related risks.

The Committee has not collated data on climate metrics as at 31 March 2022 but aims to provide a full disclosure of metrics for the Fund in 2022/2023, as the Fund is still to formally define its climate related metrics for management and monitoring.

Disclosure C: Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

The Committee has not yet set targets for the Fund. Over the year, the Fund will consider setting targets for a Net Zero ambition and respective date for achieving this and milestones towards it. In making commitments, the Committee will consider the forthcoming consultation on TCFD by the Department for Levelling Up, Housing and Communities.