

London Borough of Havering Pension Fund

Draft Climate Risk Policy

- Simon Jones, Partner
- Mark Tighe, Associate Investment Consultant

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Executive Summary

Introduction

- This paper is addressed to the Pensions Committee (“the Committee”) of the London Borough of Havering Pension Fund (“the Fund”).
- The purpose of this paper is to set out the content of a draft climate transition plan and policy for Committee discussion. The aim is to set out the areas for inclusion, potential actions and
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Overview

- Our preference is that the climate policy be action oriented, setting out in greater detail the actions that will be taken to address each agreed objective. This is consistent with the broader aspiration to adopt a net zero goal, beyond the requirements of TCFD
- The suggested sections are:
 1. Introduction
 2. Beliefs
 3. Objectives/Actions
 4. Process/Governance
 5. Monitoring/reporting
- On subsequent pages, we have set out potential content or the scope of content to be incorporated in the plan/policy for discussion/comment by Committee

Next Steps

- Committee to discuss outline structure and content of climate policy and provide comment at March 2023 meeting
- Hyman's to develop formal policy/plan
- Final policy to be considered and agreed at July 2023 meeting

Section 1: Introduction

Suggested statement

The Committee consider that climate change represents a material financial risk to the Fund with the potential to disrupt economic, financial and social systems. However, the potential impact on the Fund is unknown given policy uncertainty and the unknown physical feedbacks from environmental systems. Risks to the Fund arising from climate change include, but are not limited to:

- Economic risks: risks that the assumptions made in valuing the liabilities are inappropriate;
- Demographic risks: risks that demographic experience is different to that assumed as a consequence of climate related impacts;
- Asset risks: risks that the performance of the Fund's assets is lower than assumed due to investments being affected directly by the physical impacts from climate change, the repricing of assets to reflect future physical risks or the transition to a lower carbon economy.

This policy sets out the Committee's approach to addressing climate related risks within the Fund and is intended to deliver strong long-term financial returns, in line with its overall funding objectives, as the impacts of climate change materialise.

Other issues to consider in initial statement

- Associated risks arising with climate change such as biodiversity
- The role of and potential reliance on different parties including officers, advisers, other LGPS stakeholders
- The regulatory framework

Section 2: Beliefs

It is often helpful to set out a statement of beliefs that can guide future decision making. Potential statements of belief in respect of climate change could be as follows:

- The Committee believe that climate change and the expected transition to a low carbon economy is a long-term financial risk to Fund outcomes and is considered as a part of their fiduciary duty.
- Climate-related risks are systemic in nature and have the potential to impact the delivery of return from all asset classes and sectors to varying degrees. Such impact may be positive or negative.
- All companies have some level of exposure to climate-related risks, particularly transition risks, but that sector, geography, price, policy uncertainty and investment timeframes are contributing determinants of risk exposure.
- Investment solutions aimed at managing and mitigating climate-related risks, or delivering real world change can provide opportunities to long term investors such as the Fund;
- The actions to be taken in addressing climate change within the Fund should be focused on real world outcomes rather than improvements in reported metrics
- Climate change will have an impact on other environmental and social systems and hence action to address the associated risks that may arise are consistent with a response to climate change
- Collaboration with other parties, including asset owners and managers, is likely to be the most effective method for delivering change at the scale necessary to have a meaningful impact

Section 3: Objectives & Action plan

Framing a net zero ambition has multiple associated objectives. We propose that the Committee set out and then expand the objectives, the associated KPIs and the various actions the Committee will take to achieve the goals. The areas we propose be covered are as follows:

Objective area	Broad goals/KPIs	Associated actions
Emissions reduction	<ul style="list-style-type: none">• Set goals for emissions reduction relative to 2022 baseline by 2030.• Aim to focus on real world and comparable emissions reductions	<ul style="list-style-type: none">• Consider potential trajectory of high emitting portfolios• Assess whether or not on target and action to influence/ reallocate
Alignment with the Paris goals	<ul style="list-style-type: none">• Set targets for portfolio that is aligned/aligning by certain date of 2030	<ul style="list-style-type: none">• Establish the baseline position in measurable portfolios• Set out how engagement will be used to influence change and actions that will be taken if goals not met
Investment in material sectors	<ul style="list-style-type: none">• Goals for % of portfolio invested in sectors with high emissions• Set clear definitions for relevant sectors	<ul style="list-style-type: none">• Establish the baseline position in measurable portfolios• Set out how engagement will be used to influence change and actions that will be taken if goals not met
Investment in climate solutions	<ul style="list-style-type: none">• Goals for % of portfolio invested in sectors which are contributing to solutions• Set clear definition as to what constitutes a solution	<ul style="list-style-type: none">• Consider reasonable target and asset classes that may be encompassed• Determine how this will be embedded in agreed asset allocation
Engagement with key parties	<ul style="list-style-type: none">• Expectation of managers and voting• Areas to focus engagement activity	<ul style="list-style-type: none">• Consider key subjects and engagement processes• Define expectations and communicate intentions• Put in place reporting
Transparency	<ul style="list-style-type: none">• Expectations around data quality• Targets for data improvement/coverage	<ul style="list-style-type: none">• Finalise baseline measurement and communicate expectations

Section 4: Governance/Processes

Aim to set out detail on the approach and processes employed by the Committee within the overall investment process, and the roles and responsibilities of each party. Issues to cover include:

Issue to cover	Potential statements for discussion
<ul style="list-style-type: none"> How objectives are set and reviewed 	<ul style="list-style-type: none"> The Committee's wider objectives recognise the risks posed by climate change. The Committee regularly reviews climate-related risks to ensure these are being properly accounted for.
<ul style="list-style-type: none"> Asset allocation and the use of climate scenario analysis – role of analysis in the evaluation of asset allocation 	<ul style="list-style-type: none"> The Committee will undertake climate scenario analysis to help inform the potential economic impact of climate-related risks. Output from the scenario analysis will support decision making with regard to asset allocation.
<ul style="list-style-type: none"> Risk management – framework employed for assessing and grading potential risks, approach for reporting and action to be taken for breaches 	<ul style="list-style-type: none"> The Committee will work with its investment managers to define a set of acceptable standards with regard to how underlying managers account for and integrate climate-related risk into their investment process. Underlying managers will need to meet these standards on appointment regular assessment will ensure that these standards are being upheld. On at least an annual basis, the Committee will review the set of acceptable standards and its underlying managers adherence to these standards.
<ul style="list-style-type: none"> Opportunity identification – approach used to identify the potential opportunities and frequency of approach 	<ul style="list-style-type: none"> Through regular liaison with their Investment Consultant, the Committee will actively consider opportunities in the development of their investment strategy/structure to make investments in assets that are expected to benefit from the transition to a low carbon economy.
<ul style="list-style-type: none"> Approach to the implementation of stewardship, framework for evaluating progress and providing feedback. Aspirations of stewardship approach. 	<ul style="list-style-type: none"> The Committee's approach to stewardship is set out in their Responsible Investment Policy The Committee will utilise regular climate reporting to identify areas of high climate risk and engage with underlying managers as required to ensure these risks are being properly mitigated and understood
<ul style="list-style-type: none"> Monitoring – responsibilities of different parties, approach for data collection, frequency of data collection and publication, action to be taken where there is non-disclosure 	<ul style="list-style-type: none"> The Committee recognises the importance of monitoring exposure to climate related risks in different ways. One way the Committee will facilitate this is by monitoring the carbon risk exposure of each underlying mandate, taking action if expected levels of progress are not being made. <i>[Reporting frequency (annual?) commitment]</i>
<ul style="list-style-type: none"> Oversight and training of the Committee and other relevant parties 	<ul style="list-style-type: none"> The Committee recognises that training and education is critical to achieving good outcomes for its stakeholders and will allocate resources to ensure that it undertakes regular training and education on climate risk. <i>[Minimum training frequency commitment]</i>

Objectives
/ Policy

Strategy

Implementation

Monitoring /
Oversight

Section 5: Monitoring/Reporting

Aim to set out the manner in which the Committee will both require and demonstrate accountability to its stakeholders, through reporting:

- The Committee expects managers to progressively improve their reporting/data/assessment of climate risk. Committee can consider naming and shaming if it deemed it appropriate.
- Committee can also include other risk assessments or managers, advisers etc and report on conclusions that are drawn
- Committee will have a requirement to report in line with TCFD but suggest that reporting is more comprehensive than minimum requirements to demonstrate the aspirations that are held
- The Committee will monitor exposure to climate related risks within its portfolios on an annual basis, considering *[exposure to carbon reserves; overall carbon intensity and alignment with future climate scenarios.]*
- Committee should consider an actions/outcome approach to its reporting, demonstrating how it has taken steps to achieve its goals

Thank you

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