Climate disclosures for the year ended 31 March 2024

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 and believe greater disclosure will lead to more engagement and a more structured approach to managing this risk.

The Committee has prepared this report, their fourth such report, setting out their approach to managing climate related risks in line with the Task Force on Climate-Related Financial Disclosures ("TCFD") framework. As with previous reports, the Committee has taken a proportionate approach to reporting, recognising the size and available resources of the Fund. 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. The Committee also recognises that the Ministry of Housing, Communities and Local Government ("MHCLG") (previously DLUHC) has consulted on the adoption of TCFD reporting within the Local Government Pension Scheme ("LGPS") and will comply with the reporting requirements when these are finalised. A response was submitted to this consultation on behalf of the Committee.

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. This strategy and objectives are set out in the Fund's current Investment Strategy Statement ("ISS"). Over the year, the ISS was updated to reflect agreed changes in the Fund's strategy over the period.

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 up for discussion as appropriate.

The Committee has established and published a Statement of Investment Beliefs which reflects the broad views of members on investment, Environment, Social and Governance ("ESG") and climate matters. These beliefs are documented within the ISS and include recognition of the financial materiality of climate risk. There were no changes made to the Investment Beliefs over the year to 31 March 2024. The Committee expects the Fund's Officers and Advisers to reference these beliefs in the management and evolution of the Fund. These beliefs have previously driven the Fund's various strategic changes and will continue to do so over time.

The Committee members are expected to undertake training on all matters relevant to the governance of the Fund. In March 2024, the Committee attended a 'Climate Workshop' relating to the Fund's Climate Policy and Action Plan. The workshop provided a recap on the climate actions progressed by the Fund, as well as discussions and decisions on the actions to be progressed by the Fund over 2024 and beyond. The workshop also had a particular focus on the development of a Net Zero journey plan for the Fund, focussing on four areas of emissions reduction, transition alignment, investment into climate solutions, and engagement).

The Committee, on an annual basis, undertakes a high-level review of the Fund's stewardship activity and considers the actions taken by its managers to address climate risk

The voting and engagement activity of the two investment managers through which the Fund has equity exposure - LGIM and the London CIV ("LCIV") was reviewed. LGIM voted directly on behalf of the Fund whilst LCIV delegated voting to EOS at Federated Hermes for global equity funds, using a custom policy, and delegated voting to underlying investment managers for multi-asset funds. The Committee was satisfied that the vast majority of votes that were eligible to be exercised were voted on, and that, on occasion, investment managers demonstrated preparedness to vote against company management. Additionally, any engagement activity undertaken by LGIM and LCIV was in line with expectations.

It was recommended that where LGIM or LCIV present at future Committee meetings, focus should be given to voting practices and the progress climate ambitions. It was also recommended that a number of case studies and a shortlist of focus companies should be identified in order to facilitate discussion at Committee meetings and provide points to actively challenge the investment managers' activity on. It was also further recommended that the Committee or Officers undertake a more structured engagement on stewardship issues with key investment managers, such as LGIM and LCIV.

As part of the Committee developing the Fund's Climate Policy and Action Plan in 2023, it was recommended that stewardship activity be revisited, and the Committee consider how it could develop its approach to demanding accountability and scrutiny. The Committee strives to continually improve its approach in this area.

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

A number of parties are involved in the management of the Fund and are thus 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 2024, Officers have engaged in discussions on climate related risks and opportunities with the Fund's investment managers, LCIV as pooling provider and the Fund's Investment Adviser. 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, EOS at Federated Hermes, to provide input on voting and engagement and a data provider , to provide fund level analytics, including the measurement of climate related metrics.
- The Investment Adviser is expected to raise climate related risks and opportunities in the development and delivery of advice. During the year, the Fund's Investment Adviser considered the potential impacts of proposed investment strategy changes (i.e. the increased allocation to infrastructure and the allocation to investment grade corporate bonds) to the Fund's overall climate metrics. Where possible, the Investment Advisor will consider and note the potential impact of any proposed changes to the Fund's strategy on the Fund's climate-related risks.
- Investment managers employed by the Fund are also expected to competently address climate related issues in their management of Fund issues. The Committee, as a minimum, expect its managers (including the LCIV) to be signatories to the Principles for Responsible Investment and, where appropriate, the FRC UK Stewardship Code. The Committee also question their managers on climate issues as part of regular meetings so as to scrutinise actions being taken.

Strategy

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

The Committee regards climate risk as an issue that must be considered over all time horizons, given the Fund remains open to new members. The Committee has the belief that "climate change and the expected transition to a low carbon economy represents a long-term financial risk to Fund outcomes and should be considered as part of the Committee's fiduciary duty." and as such, has considered the embedding of climate risk management into the Fund via its Climate Policy and Action Plan.

Over the year, the main action completed by the Fund was the development and implementation of its Climate Policy and Action Plan.

The following actions have been achieved as at March 2024:

- Conducted and established a baseline of climate metrics as at 31 March 2022 and received associated education on this.
- Established a Climate Policy and Action Plan including:
  - The adoption of a long-term ambition for the Fund to achieve 'net zero' emissions by 2050.
  - Targets for individual climate metrics and actions to achieve those targets.
  - Framing on how the Fund wishes to approach Net Zero across the four associated 'pillars' to achieve this.
- Received training on TCFD climate metrics and three TCFD reports published.
- Invested in several funds with a climate focus and an allocation made to renewable energy infrastructure.

The following actions are expected to take place over the course of 2024:

- Update the Fund's climate metrics as at 31 March 2024 position. Following this, write to providers with data gaps.
- Receive analysis on listed equity funds held with LCIV.
- Conduct climate focused engagement with LGIM and LCIV to set out the Committee's expectations.
- Gather information on private market opportunities/climate solutions.

Looking further forward, the following areas been identified as areas of focus for 2025.

- Focus on climate solutions investment as private markets mandates mature over time.
- Improve the data collection across all the Fund's investment mandates.
- Better understand the Fund's climate uncertainty through scenario analysis as part of the actuarial valuation exercise.

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 (e.g. 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 – as part of its Climate Policy and Action Plan.

This process was accelerated in 2023 with Committee agreeing a complete programme of activity to address climate change.

Over the year, this process continues to be progressed with a programme of activity being set out over 2024 and 2025 (as mentioned above).

The Committee agreed to adjust the Fund's strategy to reduce exposure to multi-asset mandates, specifically the LCIV DGF, and increase exposure to infrastructure and investment grade bonds. This was implemented over the year, via an allocation to investment grade corporate bonds achieved through the LCIV. Prior to implementation, the net effect of this change on the Fund's Weighted Average Carbon Intensity ("WACI") was considered and was expected to reduce.

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

Climate scenario analysis was last undertaken as part of the Fund's triennial actuarial valuation as at 31 March 2022 and shared with the Committee in October 2022. The analysis sought to stress-test outcomes from the asset-liability modelling undertaken as part of the actuarial valuation.

Three stressed scenarios were considered, all of which assumed that there would be a period of disruption linked either to the response to climate risk (transition risks) or the effect of it (physical risks). This disruption would lead to high volatility in financial markets, and the later the disruption, the more pronounced it would be.

The stress test results are set out below.

Scenario	Likelihood of being fully funded in 20 years	Average of worst 5% of outcomes in 20 years
Core	67%	43%
Green Revolution	68%	44%
Delayed Transition	64%	41%
Head In The Sand	61%	41%

The results were worse in the Delayed Transition and Head in the Sand scenarios. This was to be expected given the strategies seek to emphasise downside outcomes. Whilst the outcomes were lower under the stressed scenarios, they were not sufficiently material for Committee to make any adjustments to the Fund's high-level funding and investment strategy.

Over the year, no further climate scenario analysis was undertaken. The Fund is expected to update its climate scenario analysis as part of the next triennial actuarial valuation, to be undertaken as at 31 March 2025.

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.

Shortly after the Fund's year-end, the Committee reviewed the Fund's the ESG-related exclusions and restrictions on an underlying investment mandate level. No changes were made to investments by Committee because of this exercise.

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 within 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 has undertaken high level climate scenario analysis as part of the Fund's funding and investment strategy review, as part of its last triennial actuarial valuation as at 31 March 2022.
- Within mandate selection, the Committee will consider how climate related risks may influence the design of a particular strategy, taking advice where appropriate. Previously, the Committee has considered this factor in the implementation of the Fund's equity portfolio strategy. More recently, the Committee considered this factor in the implementation of the Fund's allocation to investment grade corporate bonds.
- 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 four of their investment managers, with discussion on climate related risks forming an element of these meetings. 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 managers 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 Fund had investments through two investment managers (LGIM and LCIV) across six mandates with equity exposure. Over the year to 31 March 2024, the Committee reviewed the Fund's equity investment managers' voting and engagement activities over the 12-month period to 30 June 2023.
- Over the period, the majority of votes that were eligible to be exercised were voted on, on behalf of the Committee. Exercise rates for all mandates were at least 95%. Climate change remained the most frequent reason for engagement across all managers. The Fund will undertake this review again in 2024/25.

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.

Committee has assessed the Fund's baseline position as at 31 March 2022 against a range of standard climate metrics, in particular:

- Emissions intensity is measured using Weighted Average Carbon Intensity ("WACI").
- Exposure to potentially stranded assets is measured using % assets with ties to fossil fuels.

- Exposure to climate solutions considers both green revenue exposure and direct exposure to climate solutions.

The Committee expects to determine which of these climate metrics, in consideration with TCFD reporting requirements, to monitor over time in order for the Fund to achieve its key climate targets and objectives, as set out in the Climate Policy and Action Plan.

A summary of the Fund's updated climate metrics position as at 31 March 2024 can be found further below.

On an informal basis when considering individual investment solutions, the Committee considers a range of metrics as part of their initial discussions including WACI, carbon footprints, 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.

Committee has collated data across its three measurement areas as at 31 March 2024 (or more recent date of assessment if otherwise necessary). These metrics have been averaged across all mandates within the portfolio and are set out below:

Mandate	WACI (tCO2/£m)*	% of Portfolio with Fossil Fuel Ties	% Exposure to Green Revenues/Climate Solutions
Equity	107	6%	6%
Multi-Asset	201	12%	N/A
Property	56 (UBS – tCO2/£m) 39 (CBRE – tCO2/m^2)	0%	60%
Infrastructure	225	22%	30%
Private Debt	51	0%	N/A
Bonds	113	5%	5%

Asset class figures based on a weighted average of the underlying mandates for which data was available.

The Committee notes that gaps in the Fund's climate data remained and agreed to engage with their investment managers to improve the quality of underlying data over time.

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

The Committee has set objectives and actions for the Fund to achieve as part of its management of climate-related risks and opportunities and these are detailed in the Climate Policy and Action Plan. The broad objective areas set by the Fund include portfolio emissions, climate solutions and opportunities, alignment with Net Zero pathways and engagement. Each of these objective areas have respective key targets the Committee will assess and actions the Committee will take to achieve these key targets and objectives both in the nearer term and over the longer term to 2050.