


<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">PENSIONS BOARD</p> <p style="text-align: center;">6 February 2019</p>	
<p>CARBON EXPOSURE AND EQUITY STRATEGY</p>	
<p>Report of the Strategic Director, Finance & Governance</p>	
<p>Open Report</p>	
<p>Classification - For Information</p> <p>Key Decision: No</p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: Philip Triggs, Director of Pensions and Treasury</p>	
<p>Report Author: Matt Hopson, Strategic Investment Manager</p>	<p>Contact Details: Tel: 0207 641 4126 E-mail: mhopson@westminster.gov.uk</p>

1. EXECUTIVE SUMMARY

1.1 This paper provides the Pensions Board Members a summary of:

- a. The two options for low carbon indices which were considered by the Pensions Sub-Committee, including a comparison and preferred option for the Fund.

2. RECOMMENDATIONS

2.1 The Board is requested to note:

- a. The Pensions Fund Sub-Committee's decision to transition its entire passive equity holdings from the MSCI All World Index to the MSCI World Low Carbon Target Index under the LGIM mandate.

3 BACKGROUND

3.1 The Pensions Sub-Committee was provided with several updates on low carbon options at the 23 July 2018 and 4 September 2018 meetings, including the FTSE Russell Low Carbon and the MSCI World Low Carbon indices.

3.2 Subsequently, the Sub-Committee commissioned Trucost to carry out a study on the Fund's carbon exposure. The headline figures from the report showed that the MSCI World Low Carbon Target Index contains, in absolute terms, 43 million tonnes of CO₂ (equivalent) less than the MSCI World Index at 28 million tonnes compared with 71 million tonnes.

3.3 As per the report taken to the Pensions Sub-Committee on 23 July 2018 and the graph below, the MSCI World Low Carbon Target Index has outperformed the MSCI World Index over a seven-year period.



3.4 The Pensions Sub-Committee was reminded of its fiduciary duties at the 23 July 2018 meeting and 4 September meeting:

If decisions on carbon reduction are taken by the Sub-Committee, those decisions must be based on the likely positive investment outcome pertaining to the Pension Fund, and be not be based on any ethical approach or ideological attitude adopted either by the Sub-Committee or the local authority itself.

3.5 By the fact that the MSCI World Low Carbon Target Index has outperformed the MSCI World Index over a seven-year cycle, it presented a compelling case for moving the portfolio to this index as part of an investment decision to secure better returns from the portfolio.

3.6 This investment-based decision would also mitigate some of the investment risk surrounding fossil fuel companies connected with the fears of “stranded assets” that was discussed at the 23 July 2018 Sub-Committee meeting.

3.7 The Pensions Sub-Committee was also presented with a further option in the FTSE Russell Low Carbon Index during the 4 September 2018 meeting, in which the Sub-Committee were able to ask questions.

4 INDEX SELECTION

4.1 Following on from the previous meetings, the Fund's investment consultant, Deloitte, met with FTSE Russell and prepared a short paper (attached as Appendix 1) on a comparison between the two managers.

4.2 The factors considered by the Sub-Committee in their choices are set out below:

- The MSCI World Low Carbon aims to keep returns close to the main index with regards to reducing carbon, whilst FTSE Russell Low Carbon tracks the FTSE All World.
- The MSCI Word Low Carbon has a preferential fee rate with the Fund's existing provider, Legal and General.
- The FTSE Russell World Low Carbon index takes account of green revenues within stocks such as Royal Dutch Shell and BP.

4.3 The Pensions Fund Sub-Committee took the decision to transition its entire passive equity holdings from the MSCI All World Index to the MSCI World Low Carbon Target Index under the existing LGIM mandate.

5 CONSULTATION

5.1 Not applicable

6 EQUALITY IMPLICATIONS

6.1 Not applicable

7 LEGAL IMPLICATIONS

7.1 The Sub-Committee's fiduciary duties are discussed in the main body of the report.

8 FINANCE AND RESOURCES IMPLICATIONS

8.1 None

9 IMPLICATIONS FOR BUSINESS

9.1 Not applicable

10 RISK MANAGEMENT

10.1 The selection of a different index to the current passive equity mandate could potentially lead to different levels of investment risk. As the Low Carbon indices

broadly seek to match the return of the major global index, there is not anticipated to be a material additional investment risk to the portfolio.

10.2 The reduction in volatile commodity stocks could reduce volatility and therefore risk over the longer term.

10.3 There are currently eight local authorities invested in the MSCI Low Carbon index including five London Boroughs: Ealing, Haringey, Tower Hamlets, Islington and Southwark. The Fund value is just over £2bn.

11 PROCUREMENT IMPLICATIONS

11.1 None

12 IT STRATEGY IMPLICATIONS

12.1 None

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.			

LIST OF APPENDICES:

Appendix 1: Low Carbon Indices Comparison

Appendix 2: Low Carbon Exposure Strategy

Appendix 3: Equity Strategy