Climate disclosures for the year ended 31 March 2023

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 member 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 third such report, setting out their approach to managing climate related risks in line with the TCFD disclosure 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 DLUHC has consulted on the adoption of TCFD reporting within the 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. These objectives and strategy are set out in the current Investment Strategy Statement (ISS), this having been updated following the year-end to reflect changes in strategy agreed during the year. 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 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 to 31 March 2023 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 March 2023, Committee members completed an education session on climate metrics, as scheduled in the Fund's Climate Risk Management Plan. The session provided information on different approaches to the measurement of climate risk exposures with the acknowledgement of potential TCFD reporting requirements. The session also provided background on the availability, challenges and limitations of climate data, detail on 'core' and 'additional' climate metrics and potential areas of focus for the Fund, with respect to outlining an action plan for climate metric monitoring over time and setting associated targets. Finally, the session also included a baseline assessment for the Fund, allowing for recently available and more up to date climate data across the Fund's mandates.

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. In the review to 30 June 2022, it was highlighted that two of the Fund's investment managers had re-applied and had been successful in becoming signatories to the 2020 UK Stewardship Code – as such, all but a three of the Fund's investment managers had now been accepted as signatories to the 2020 UK Stewardship Code. As the UK Stewardship Code had been designed to be applicable to investment managers across all asset classes, the expectation is for all the Fund's investment managers to have an aspiration to become a signatory. A point was made to revisit this in 12 months' time, to further explore the rationale of any of the Fund's investment managers yet to become a signatory.

The voting and engagement activity of the two investment managers through which the Fund has equity exposure was also reviewed – LGIM voted directly on behalf of the Fund, whereas LCIV has put in place its own voting policy with support from Hermes EOS for the funds in which the Fund is invested: Baillie Gifford, Ruffer and State Street

(SSGA), these previously being voted directly by the managers. The Committee were satisfied that the vast majority of votes that were eligible to be exercised were voted on, that, on occasion, investment managers demonstrated preparedness to vote against company management and any undertaken engagement activity was in line with expectations. It was recommended at future Committee meetings, where LGIM or LCIV present, some focus be given to voting practices.

As part of the Committee developing the Fund's Climate Risk Plan over 2023, it was suggested stewardship activity be revisited and that the Committee consider how it could develop its approach to demanding accountability and scrutiny.

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 2023, Officers have engaged in 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.
- 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 allocations to infrastructure and investment grade corporate bonds, funded from the LCIV Baillie Gifford DGF allocation) to the Fund's overall emissions/carbon metrics.
- 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 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 embedding climate risk management into the Fund via a climate policy and action plan. This was in accordance with the Committee's 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."

Committee also agreed a plan of activity to take place over the course of 2023, including the framing of a long-term Net Zero ambition, the development of interim objectives and an associated climate action plan. Committee also agreed to increase climate related engagement with the Fund's investment managers.

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

In previous years, various changes were made to the Fund's equity portfolio and as a consequence, the Weighted Average Carbon Intensity ("WACI") of the Fund's equity assets reduced to 76% of that of global markets. Over 2023/24, the Committee will be reviewing its equity portfolio – noting the Fund's Emerging Market Equity exposure is a significant contributor to the Fund's overall WACI.

Over the year, the Committee established a baseline position of the Fund's climate metrics, considering each mandate's WACI, % ties with fossil fuels and exposure to green revenues/climate solutions. With this as the Fund's initial position, the Committee is able to determine which 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.

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 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 undertaken 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 assume that there will be a period of disruption linked either to the response to climate risk (transition risks) or the effect of it (physical risks). This disruption will lead to high volatility in financial markets, and the later the disruption, the more pronounced it will 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 are worse in the Delayed Transition and Head in the Sand scenarios. This is 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. However, the Committee did agree to make adjustments to their strategy to reduce exposure to multi-asset mandates, specifically the LCIV DGF, and increase exposure to infrastructure and investment grade bonds. The net effect of these changes is expected to be positive on the Funds assessment of Weighted Average Carbon Intensity.

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 has undertaken high level climate scenario analysis as part of the Fund's funding and investment strategy review.
- Within mandate selection, the Committee will consider how climate related risks may influence the design of a particular strategy, taking advice where appropriate. Committee has previously considered such factor in the implementation of its equity strategy.
- 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 incudes 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 2022. The Fund had investments through two investment managers (LGIM and LCIV) across seven 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 seven mandates were at least 88%. 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 2023/24 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.

Committee has assessed the Fund's baseline position 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 Action Plan.

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 the three metrics set out above as at 31 March 2022. These metrics have been averaged across all mandates within the portfolio and are set out below:

Mandate	WACI (tCO2e / £m revenue)	% of Portfolio with Fossil Fuel Ties	Exposure to Green Revenues / Climate Solutions
Equity	153	2%	2%
Multi-asset	339	15%	0%
Property	41	0%	n/a
Infrastructure	63	20%	33%
Bonds	132	5%	10%

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

Climate metrics varied across the Fund's mandates. The LCIV DGF has the highest WACI at 441 tCO2e/£m revenue although Committee has agreed to remove this mandate from the strategy as part of the agreed changes in asset allocation. The JP Morgan Infrastructure Investment Fund had the greatest tie to fossil fuels with 22% of the portfolio having fossil fuel ties. Committee did engage with JP Morgan during the year and noted the progress being made on implementing net zero plans across the entirety of the mandate. Exposure to climate solutions was positive within the Stafford II Fund and the LCIV Renewables Fund, the latter being wholly focused on renewable energy infrastructure.

Committee has noted that gaps in the Fund's climate data remain and will engage with their investment managers to improve the quality of underlying data.

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

The Committee did not set any targets for the Fund during the year although agreed a series of interim targets following the year end. These will be detailed in its 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.