LONDON BOROUGH OF ISLINGTON PENSION FUND

August 2019

PENSIONS FOR PURPOSE

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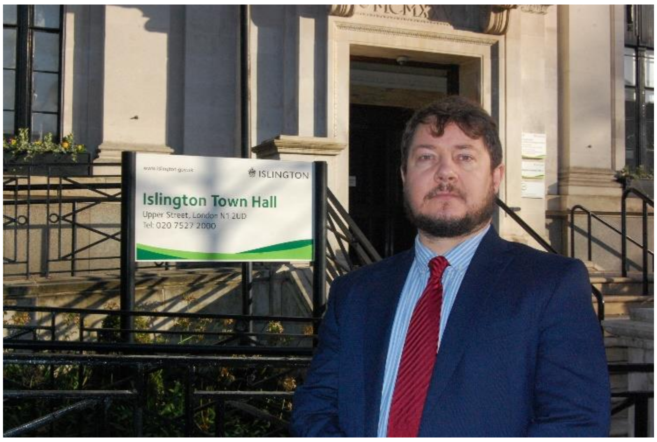
Highlights

- London Borough of Islington's pension fund serves over 20,000 members and has an investment portfolio of £1.4 billion, some of which has already been pooled and is managed by the London Collective Investment Vehicle (London CIV).
- In 2017, the fund embarked on a drive to reduce the fund's exposure to carbon, by setting goals to reach by the end of April 2022.
- The fund is in the process of decarbonising existing mandates across its portfolio and is now allocating to impact investments in renewable energy.
- It is also considering allocations to social impact investments, specifically social housing.
- Its impact investments reflect risk-adjusted returns similar to those that London Borough of Islington's pension fund would expect from its traditional portfolio.
- The fund measures its carbon footprint and carbon emissions on an annual basis.

Quotes

"In Islington, we believe safeguarding our pensioners' incomes and tackling the global climate emergency go hand in hand. There is no tension between discharging our fiduciary duty and preserving the planet for our members' grandchildren. We're putting our money where our mouth is and taking a series of deliberate, practical steps to decarbonise the fund."

Cllr Andy Hull, Vice Chair of Islington Pension Fund.



Introduction

London Borough of Islington's £1.4 billion pension fund committed to reducing the carbon footprint of its investments in 2017. This followed a discussion by the pension's committee about their investor beliefs, a review of implementation issues and a desire to meet their key goals by the end of April 2022. The fund has also expressed an intention to allocate to social impact investments such as social housing.

Decarbonisation policy goals

The pension fund's decarbonisation policy has now been embedded into its Investment Strategy Statement. The targets and metrics include:

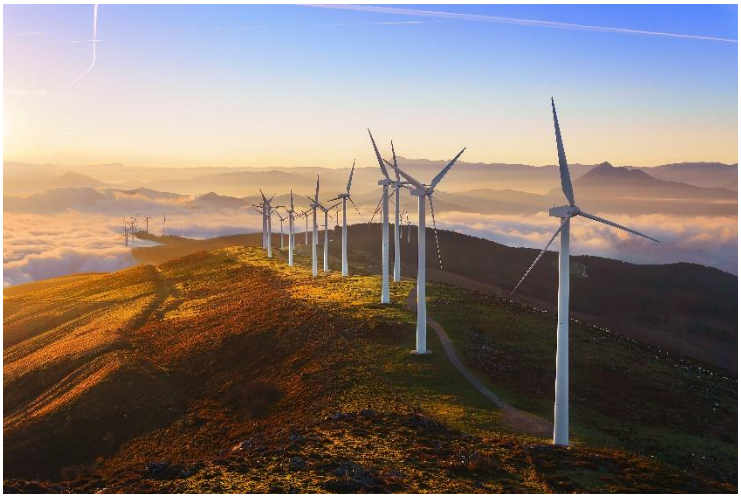
- Reducing the equity allocation's current exposure to carbon (so reducing its carbon intensity) by more than 50%, by the end of April 2022, compared to when it was measured in June 2016.

- Reducing the equity allocation's future exposure to carbon (so reducing its investment in fossil fuel reserves) by more than 75%, by the end of April 2022, compared to when it was measured in June 2016.
- Investing at least 15% of the fund in sustainability-themed investments (such as low carbon technology or green infrastructure) by the end of April 2022.
- Aiming to decarbonise other asset classes, besides equities, where possible.
- Engaging with companies in which the fund invests (including collectively through the London CIV), to urge them to reduce their carbon footprint and their reliance on fossil fuels.

Actions to date

In 2017, the pension fund began its decarbonisation process by shifting half its passive equity allocation across to the LGIM MSCI World Low Carbon Target Index Fund and shifting the other half to an in-house passive portfolio tracking the FTSE UK Low Carbon Optimised Index. This immediately resulted in a dramatic 45% drop in its carbon footprint. The committee then reviewed the actively managed equity portfolios, but since these were already invested in relatively low-carbon companies, these mandates were left unchanged at the time.

In 2018, having transitioned one of the active equity mandates onto the London CIV, as an in-specie transfer, the committee approved a switch from their Allianz sub-fund to the sustainable equity sub-fund offered by RBC. This sub-fund considers environmental, social and governance factors, which should enable the portfolio to deliver, over the long term, a carbon footprint which is lower than that of the MSCI World Index Net (Total Return).



The pension fund also decided to allocate £172 million to infrastructure. A core manager with an ESG focus was appointed (Pantheon), together with a low carbon infrastructure impact manager (Quinbrook).

In 2019, the committee approved a further transfer of their £190 million passive UK equity portfolio (which was already tracking a UK low carbon index) into the global low carbon portfolio already managed by LGIM. The global equity index has a lower carbon footprint than the UK index. This will be put into effect by the end of March 2020.

Why were these investments made?

The pension fund committee's foremost concern has always been their fiduciary duty to deliver the best risk-adjusted returns for the members of the pension scheme over the long term. The concern over the potential financial risk posed by carbon-intensive investments was therefore a key driver of the fund's decarbonisation agenda.

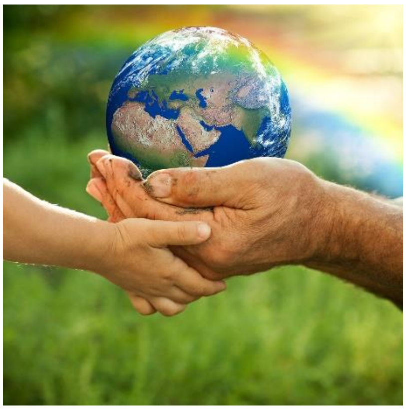
This was reinforced by Islington Labour's manifesto for 2018's local elections. Page 36 of the manifesto states: "*The Council's Pension Fund provides security to Council staff when they retire, and we will always ensure it is maintained and invested prudently. In recent years, responding to our concerns and those of staff and local people, we have worked hard to bring down the carbon footprint of the Fund's shares by 45%. We will go further and will work towards fully divesting the Council's Pension Fund from companies that extract fossil fuels.*"

Lessons learnt and challenges

Since the publication of that manifesto, the pension's committee has shifted its emphasis to go beyond simply divestment from fossil fuels towards thoroughgoing decarbonisation of the portfolio. That is because decarbonisation goes further, considering as it does: the carbon footprint of all of the fund's investments, not just its equities; current carbon emissions (eg from shipping companies), not just future ones (eg from oil companies); and all greenhouses gases which contain carbon, such as methane, not just carbon dioxide.

Another challenge has concerned LGPS pooling. The London CIV has had a somewhat limited range of sub-funds available which are consistent with London Borough of Islington's climate goals, although ongoing dialogue with the pool means that a more environmental focus within other sub-funds is now being introduced. For example, the pool's infrastructure sub-fund now has a 25% target allocation to renewable energy.

Next steps



The fund is currently embarking on a strategy review, following its latest triennial valuation. This review will incorporate the climate goals when considering changes to the current portfolio asset allocation.

The strategy review will also consider the opportunities available in social housing, with a view to introducing social impact investment into the portfolio as well as investments with an environmental focus.

About Pensions for Purpose

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