CLIMATE TRANSPARENCY REPORT 2020

Local Pensions Partnership

PRI Principles for Responsible Investment

About the Climate-related Disclosure Indicators

Climate has been identified as a top priority for PRI signatories, with over 70% of asset owners reporting this as the most important long-term trend they are acting on.

The FSB Task Force's guidance on climate-related financial disclosure aim to create a single framework for disclosure on assessment and management of climate-related risk. The recommendations, supported by investors representing US$22 trillion, identify four main disclosures, Governance, Strategy, Risk Management, Metrics and Targets, and include specific guidance for asset owners and managers.

As a result, the PRI introduced climate-related disclosure indicators that can be used to align with the TCFD recommendations in the 2020 PRI Reporting Framework.

About this report

This report is an export of only the climate-related indicators from the 2020 Reporting Framework response. The full Public Transparency Report is available here (https://reporting.unpri.org/surveys/PRI-reporting-framework-2020/-51151FFA-7546-40AD-B5A3-870A5CF5CF53/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1). It shows the responses to all the completed climate indicators, even those you chose to keep private. It is designed for your internal review or – if you wish - to share with your stakeholders.

The PRI will not publish this report on its website if you have designated your 2020 climate reporting as "private". Otherwise, you will be able to access the Climate Transparency Report of your organisation and that of other signatories on the PRI website and on the Data Portal.

To easily locate information, there is a **Recommendation index** which summarises the indicators that signatories complete and disclose. The report presents information exactly as it was reported as per signatory preference. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory are presented in this report.

TCFD Recommendations Index

Strategy and Governance - CC			TCFD Recommendation			
Indicator	Reported	Disclosure	Governance	Strategy	Risk Management	Metrics & Targets
SG 01.6 CC	✓	Public				
SG 01.7 CC	✓	Public				
SG 01.8 CC	-	Public				
SG 01.9 CC	✓	Public				
SG 01.10 CC	✓	Public				
SG 07.5 CC	✓	Public				
SG 07.6 CC	✓	Public				
SG 07.7 CC	✓	Public				
SG 07.8 CC	✓	Public				
SG 13.1	✓	Public				
SG 13.2	✓	Public				
SG 13.4 CC	✓	Public				
SG 13.5 CC	✓	Public				
SG 13.6 CC	✓	Public				
SG 13.7 CC	✓	Public				
SG 13.8 CC	✓	Public				
SG 14.1	✓	Public				
SG 14.2	✓	Public				
SG 14.3	✓	Public				
SG 14.6 CC	✓	Public				
SG 14.7 CC	-	Public				
SG 14.8 CC	✓	Public				
SG 14.9 CC	✓	Public				
SG 15.1	✓	Public				
SG 15.2	-	Public				
SG 15.3	-	Public				

Symbol	Status
✓	The signatory has completed this sub-indicator
-	The signatory did not complete this sub-indicator.
	This indicator is relevant to the named TCFD recommendation
Within the first column "Indicator", indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.	

ORGANISATIONAL OVERVIEW

This section provides an overview of your organisation. These characteristics are used to define your peer groups.

MAIN CHARACTERISTICS	
Name	Local Pensions Partnership
Signatory Category	Other, specify
Signatory Type	Asset Owner
Size	US$ 10 - 29.99 billion AUM
Main Asset Class	Multi-Asset
Signed PRI Initiative	2018
Region	Europe
Country	United Kingdom
Disclosure of Voluntary Indicators	100% from 38 Voluntary indicators

Local Pensions Partnership

Reported Information

Public version

Strategy and Governance

PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

Investment policy

SG 01	Mandatory	Public	Core Assessed	General

New selection options have been added to this indicator. Please review your prefilled responses carefully.

SG 01.1	Indicate if you have an investment policy that covers your responsible investment approach.

SG 01 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General

SG 01.6 CC	Indicate whether your organisation has identified transition and physical climate-related risks and opportunities and factored this into the investment strategies and products, within the organisation's investment time horizon.

◉ Yes

	Describe the identified transition and physical climate-related risks and opportunities and how they have been factored into the investment strategies/products.

LPPI is committed to the integration of material ESG considerations within investment decision-making. We have identified climate change as a material, systemic and idiosyncratic risk and have begun to identify and consider transition and physical risks as part of our investment procedures.

Internal definitions of transition and physical climate risks based on Bank of England, TCFD and other industry reports have been produced and presented to our Investment Committee. We recognise transition risk will primarily impact transport, buildings and industries with high carbon emissions, and will also arise where alternative technologies exist and where there are existing regulatory mechanisms. Physical risks arise from where assets are located and on the stability of the markets they serve. They feature flooding and the consequences of extremes of temperature and are lower (in the short term) than within medium and long term scenarios,

Our overall approach is to integrate climate change consciousness into all our investment products, reflecting that climate change will affect all markets, sectors and asset classes and cannot be avoided through tilting, exclusion or sectoral divestment, though there are some obvious areas facing a more significant impact. The identification of sectors most likely to be negatively impacted by climate change led us to focus first on the traditional energy sector and specifically our portfolio's exposure to extractive fossil fuels.

For our Global Listed Equities Fund we have placed restrictions on investments in thermal coal and imposed qualitative conditions on investments in extractive fossil fuel companies, requiring managers to be able to evidence companies are demonstrably planning for the global transition to a low carbon economy and have a strong strategy in place to manage the physical, regulatory and transition risks faced from climate change. We are significantly underweight in Energy versus the benchmark.

We have introduced an approach to extractive fossil fuel companies within our private market asset classes which excludes new investments in thermal coal, favours a progressive reduction in existing exposure and requires managers to provide reporting on remaining exposure to fossil fuel extraction.

For direct investments in real assets (real estate and infrastructure) our approach to climate change risk management focuses on detailed context specific due diligence which incorporates physical, transition and regulatory dimensions as part of the consideration of location, market, sector, product and company fundamentals.

Within Real Estate our Investment Adviser is including green lease clauses within new leases to increase the number of properties reported upon and is also developing a long term work-plan to bring the portfolio up to the energy efficiency standards expected to be mandatory by 2030.

○ No

SG 01.7 CC	Indicate whether the organisation has assessed the likelihood and impact of these climate risks?

○ Yes

◉ No

	Describe why your organisation has not yet assessed the likelihood and impact of climate risks

We are in progress with but have not yet concluded a full quantitative assessment of likelihood and impact.

Our objective is to move forward from a qualitative understanding of climate change risks which has focussed on understanding scope and identifying hazards (how, when and where climate change may have an impact and create risks and opportunities) to a more quantitative understanding of the portfolio's exposure to these hazards.

Nevertheless, where investing directly we do seek to consider a variety of risks through scenario analysis and this where relevant will include assessment of both the probability and impact of different scenarios including those driven by climate change. An example being when underwriting a possible investment in the airport sector. In this case our internal team engaged with a series of external advisors to assess the likely impact of changes to behaviour and fiscal policies on the performance of the airport. This included an assessment of both impact and likelihood of these risks and enabled our Investment Committee to better judge the opportunities and risks of the proposed investment.

SG 01.8 CC	Indicate whether the organisation publicly supports the TCFD?

◉ Yes

○ No

SG 01.9 CC	Indicate whether there is an organisation-wide strategy in place to identify and manage material climate-related risks and opportunities.

◉ Yes

	Describe

LPPI has taken steps to identify and (where appropriate) seek to adapt its portfolio to mitigate climate risk.

Our organisation-wide strategy originates from LPPI's Responsible Investment Policy - Annex on Climate Change. Here we state our Climate Change beliefs, and make a statement of intent regarding implementation based on quantification and integration into key investment processes such as investment selection, portfolio monitoring and voting and engagement.

A recent step in our ongoing process is agreement to convene a Climate Risk Panel which will initially consist of representatives from our Risk, Investment Strategy and Responsible Investment teams. The Panel will jointly discuss and seek to meet the interdisciplinary challenges associated with systematically identifying and quantifying climate related opportunities and risks in order to be able to plan for building these into strategy policy and practice.

○ No

SG 1.10 CC	Indicate the documents and/or communications the organisation uses to publish TCFD disclosures.

☐ Public PRI Climate Transparency Report

☑ Annual financial filings

☐ Regular client reporting

☐ Member communications

☐ Other

☐ We currently do not publish TCFD disclosures

Governance and human resources

SG 07 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General

SG 07.5 CC	Indicate the roles in the organisation that have oversight, accountability and/or management responsibilities for climate-related issues.

Board members or trustees

☑ Oversight/accountability for climate-related issues

☐ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Risk Officer (CRO), Investment Committee

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

Portfolio managers

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

Investment analysts

☐ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

Dedicated responsible investment staff

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

	External managers or service providers

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

SG 07.6 CC	For board-level roles that have climate-related issue oversight/accountability or implementation responsibilities, indicate how these responsibilities are executed.

The members of LPPI board are aware of and supportive of the priority being given to climate change as a material investment issue.

They execute their responsiblities for climate-related oversight through their approval of the key climate-related policies and disclosures that LPPI publishes.

Such disclosures include annual reporting, PRI reporting and TCFD reporting. In the process of reviewing and approving documents the Board has oversight of climate-related activites at LPPI and the information from which to form and ask questions about the approach and activities underway.

Further, the Boards of LPPI and LPP Group have identified stewardship and leadership within responsible investment as a key strategic priority within their 2020-2025 business plan. These priorities will be monitored and reported upon within Board meetings and in shareholder interaction on an ongoing basis.

SG 07.7 CC	For management-level roles that assess and manage climate-related issues, provide further information on the structure and processes involved.

Management-level roles assess climate-related risks through their direct involvement in investment decision-making and their oversight of the policies in place and the investment procedures in operation.

Other than where investment decisions are being made under delegated authority (for example, the addition of new stocks to the internally managed listed equities portfolio) all investment proposals are subject to a 2 stage process which involves the presentation of papers to an Investment Committee which considers and gives final approval.

The Investment Committee consists of senior investment professionals including the CEO, CIO, Head of Private Markets, Head of Global Equities and Chief Risk Officer.

Papers presented to the Investment Committee are required to include information on any material ESG issues identified, which includes risks faced from climate change.

The Investment Committee members perform a supervisory role which includes the consideration of whether climate change related issues have been adequately considered within the investment papers presented to them.

SG 07.8 CC	Indicate how your organisation engages external investment managers and/or service providers on the TCFD recommendations and their implementation.

☐ Request that external managers and/or service providers incorporate TCFD into mainstream financial filings (annual financial reports, other regulatory reporting or similar)

☐ Request incorporation of TCFD into regular client reporting

☐ Request that external managers complete PRI climate indicator reporting

☐ Request responses to TCFD Fund Manager questions in the PRI Asset Owner Guide

☑ Other

	Specify

Our engagement is through a continuing focus on climate governance and through questions to managers on their approach to identifying and addressing material risks.

☐ We do not engage with external managers and/or service providers on the TCFD recommendations and their implementation

ESG issues in asset allocation

SG 13	Mandatory	Public	Descriptive	PRI 1

SG 13.1 Indicate whether the organisation carries out scenario analysis and/or modelling, and if it does, provide a description of the scenario analysis (by asset class, sector, strategic asset allocation, etc.).

☐ Yes, in order to assess future ESG factors

☑ Yes, in order to assess future climate-related risks and opportunities

Describe

We are annually reviewing the emissions intensity of the LPPI Global Equities Fund against pathways needed to achieve targets under the Paris Agreement. The review is undertaken by an external data provider who uses IEA /IPCC scenarios to estimate global emissions reduction pathways and plot our current position against these.

☐ No, our organisation does not currently carry out scenario analysis and/or modelling

SG 13.2 Indicate if your organisation considers ESG issues in strategic asset allocation and/or allocation of assets between sectors or geographic markets.

We do the following

☐ Allocation between asset classes

☐ Determining fixed income duration

☑ Allocation of assets between geographic markets

☑ Sector weightings

☐ Other, specify

☐ We do not consider ESG issues in strategic asset allocation

SG 13.3 Additional information. [OPTIONAL]

Rather than shaping strategic asset allocation, our integration of ESG issues forms part of the analysis we undertake in fulfilling our strategic asset allocation.

Our efforts focus on the selection of sustainable assets with strong ESG credentials and on the appointment of delegate managers who meet our requirements for routinely integrating material ESG considerations into their investment decision-making on behalf of client pension funds.

SG 13 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General

SG 13.4 CC Describe how your organisation is using scenario analysis to manage climate-related risks and opportunities, including how the analysis has been interpreted, its results, and any future plans.

☑ Initial assessment

	Describe

In the Annex on Climate Change to the LPPI Responsible Investment Policy we state our beliefs in the material, systemic and idiosyncratic nature of the risks Climate Change could manifest in our investment portfolio over time. To help us begin to recognise and address these potential risks we have developed definitions for Transition and Physical Climate Risk. There is a broad understanding that in different temperature scenarios the physical and transition risks we face will differ.

Currently, our risk focus is directed at asset level. This complements LPP's investment style (based on fundamental analysis) and reflects our appreciation that idiosyncratic climate risks are especially material to real assets and are also context specific.

For direct investments in real assets, we seek to consider the key transition and physical climate risks that may pose hazards to the prospective asset and we interpret these as stresses which are relevant to the valuation. Our focus is on seeking to understand potential climate risk impacts in different situations.

Future plans include using the learning and insights we are gaining from introducing scenarios to our decision-making on individual assets to develop frameworks for more general thematic and sectoral thinking about climate risks. This reflects that we recognise some risks will be common across asset classes or relevant to multiple sectors. Insights being gained across different areas need to be captured and communicated in an efficient way that helps to inform, enrich and evolve our collective thinking and learning about climate change.

☑ Incorporation into investment analysis

	Describe

LPPI has begun the process of incorporating climate scenario analysis into investment analysis by focussing on direct investments in real assets (infrastructure).

Our process involves considering which key climate hazards (transition and physical risks) apply in each case, how and when they may materialise and what impact they may have in different possible future scenarios. Through this approach, material climate risks are being identified and subjected to further analysis focussed on considering the most appropriate bases for quantifying and including estimated financial outcomes within the valuation model.

This is an initial approach which has been successful in assisting investment staff to understand the logic and become more comfortable identifying and analysing material climate risks in an objective and systematic way.

Future plans involve developing our approach to incorporating sensitivities within financial modeling. Robust estimates and reasonable proxies are needed as a basis for anticipating and modeling the operation and impact of different types of climate risk on future investment performance.

☐ Inform active ownership

☐ Other

SG 13.5 CC	Indicate who uses this analysis.

☑ Board members, trustees, C-level roles, Investment Committee

☑ Portfolio managers

☑ Dedicated responsible investment staff

☐ External managers

☐ Investment consultants/actuaries

☐ Other

SG 13.6 CC	Indicate whether your organisation has evaluated the potential impact of climate-related risks, beyond the investment time horizon, on its investment strategy.

◉ Yes

	Describe

The time horizon of investments varies by asset class and reflects the investment team's view on multiple macroeconomic factors and asset class return profiles.

Our client pension funds have liabilities extending beyond 50 years, the investment time horizon of a material portion of our assets is also long term.

Whilst the impacts of climate change also extend well into the future, specifically those faced from physical climate risk, the lost cash flows may be priced into market valuations sooner. For example, the impact of rising sea levels may be felt through a greater flood risk to real estate assets. This is a material risk and will continue increasing due to climate change.

For some years, our real estate portfolio has operated a policy that all acquisitions must be in areas with a less than 1 in a 1000 year flood risk. Current acquisition policy includes assessing both current and future flood risk in the context of expected sea level rise over the coming decades. As part of an ongoing work plan to achieve a portfolio compatible with a carbon-neutral Britain, future flood risks will also be assessed for all existing properties.

○ No

SG 13.7 CC	Indicate whether a range of climate scenarios is used.

☑ Analysis based on a 2°C or lower scenario

☑ Analysis based on an abrupt transition, consistent with the Inevitable Policy Response

☑ Analysis based on a 4°C or higher scenario

☐ No, a range is not used

SG 13.8 CC	Indicate the climate scenarios your organisation uses.

Provider	Scenario used	
IEA	☑ Beyond 2 Degrees Scenario (B2DS)	
IEA	☐ Energy Technology Perspectives (ETP) 2 Degrees scenario	
IEA	☐ Sustainable Development Scenario (SDS)	
IEA	☐ New Policy Scenario (NPS)	
IEA	☑ Current Policy Scenario (CPS)	
IRENA	☐ RE Map	
Greenpeace	☐ Advanced Energy [R]evolution	
Institute for Sustainable Development	☐ Deep Decarbonisation Pathway Project (DDPP)	
Bloomberg	☐ BNEF reference scenario	
IPCC	☐ Representative Concentration Pathway (RCP) 8.5	
IPCC	☐ RPC 6	
IPCC	☐ RPC 4.5	
IPCC	☐ RPC 2.6	
Other	☑ Other (1)	Other (1) please specify: Low Energy Demand
Other	☐ Other (2)	
Other	☐ Other (3)	

SG 14	Mandatory to Report Voluntary to Disclose	Public	Additional Assessed	PRI 1

SG 14.1	Some investment risks and opportunities arise as a result of long term trends. Indicate which of the following are considered.

☑ Changing demographics

☑ Climate change

☑ Resource scarcity

☑ Technological developments

☐ Other, specify(1)

☐ Other, specify(2)

☐ None of the above

SG 14.2	Indicate which of the following activities you have undertaken to respond to climate change risk and opportunity

☐ Established a climate change sensitive or climate change integrated asset allocation strategy

☐ Targeted low carbon or climate resilient investments

☑ Phase out your investments in your fossil fuel holdings

☑ Reduced portfolio exposure to emissions intensive or fossil fuel holdings

☑ Used emissions data or analysis to inform investment decision making

☑ Sought climate change integration by companies

☑ Sought climate supportive policy from governments

☐ Other, specify

☐ None of the above

SG 14.3	Indicate which of the following tools the organisation uses to manage climate-related risks and opportunities.

☑ Scenario analysis

☐ Disclosures on emissions risks to clients/trustees/management/beneficiaries

☐ Climate-related targets

☑ Encouraging internal and/or external portfolio managers to monitor emissions risks

☐ Emissions-risk monitoring and reporting are formalised into contracts when appointing managers

☐ Weighted average carbon intensity

☐ Carbon footprint (scope 1 and 2)

☑ Portfolio carbon footprint

☑ Total carbon emissions

☑ Carbon intensity

☑ Exposure to carbon-related assets

☐ Other emissions metrics

☐ Other, specify

☐ None of the above

SG 14.5	Additional information [Optional]

As set out in the LPPI Responsible Investment Policy - Annex on Climate Change, we are using the Transition Pathway Initiative Management Quality Tool to assess companies on their transition governance, planning and actions. We have set a minimum target for "extractive" fossil fuel companies to achieve a ranking of TPI 3 . Our target was 100% achieved as at 31 December 2019.

SG 14 CC	Voluntary	Public		General

SG 14.6 CC	Provide further details on the key metric(s) used to assess climate-related risks and opportunities.

Metric Type	Coverage	Purpose	Metric Unit	Metric Methodology
Portfolio carbon footprint	☐ All assets ☐ Majority of assets ☑ Minority of assets	Monitoring the carbon footprint of our Global Equities Fund, in order to identify the overall trend over time and be able to report to client pension funds.	Tonnes CO2 per £m of market cap	Total portfolio carbon emissions divided by the market capitalisation of the portfolio. The trend of this metric has been downwards. The limitations to this metric include market price fluctuations which introduce distortion.
Total carbon emissions	☐ All assets ☐ Majority of assets ☐ Minority of assets			
Carbon intensity	☐ All assets ☐ Majority of assets ☑ Minority of assets	Monitoring the carbon intensity of our Global Equities Fund, in order to identify the overall trend over time and be able to report to client pension funds.	Tonnes CO2 per £m revenue	Total portfolio carbon emissions divided by portfolio revenue. The trend of this metric has been downwards. The limitations to this metric include market price fluctuations which introduce distortion.
Exposure to carbon-related assets	☐ All assets ☐ Majority of assets ☐ Minority of assets			

SG 14.8 CC	Indicate whether climate-related risks are integrated into overall risk management and explain the risk management processes used for identifying, assessing and managing climate-related risks.

◉ Processes for climate-related risks are integrated into overall risk management

	Please describe

Currently climate related risk management is focussed at investment decision level, addressed by asset class teams as part of the due diligence that precedes the selection of assets and the appointment of delegate asset managers.

Where material climate risks (physical or transition) are identified as part of detailed due diligence, they are considered in the same way as other risks. They are quantified and fed into asset valuations through stress testing and the adjustment of financial inputs which ensure they feature in the modelling of expected performance.

To integrate climate related risks into overall (portfolio level) risk management requires further work and involves us developing methodologies for identifying and valuing climate risks across a variety of time horizons and scenarios. To support our progress against this important objective LPPI has convened a cross disciplinary Climate Risk Panel. The Panel will bring together representatives from the Risk, Investment Strategy and Responsible Investment teams to collaborate on the identification of potential methods preparatory to developing a pilot approach for discussion and testing.

○ Processes for climate-related risks are not integrated into overall risk management

SG 14.9 CC	Indicate whether your organisation, and/or external investment manager or service providers acting on your behalf, undertake active ownership activities to encourage TCFD adoption.

◉ Yes

	Please describe

LPPI publicly supports the TCFD, as demonstrated in the statement of commitment our Chair Michael O'Higgins has made via the A4S (Accounting for Sustainability) initiative.

As part of our annual reporting LPP disclosed in line with the TCFD recommendations for the first time in 2019, reflecting the belief we should set an example and undertake for ourselves what we are asking companies and asset managers to work towards.

Our wider advocacy for disclosure in line with TCFD recommendations is via our participation in initiatives including the Transition Pathway Initiative, ClimateAction100+ and IIGCC.

As part of shareholder voting LPPI has supported a number of shareholder proposals in 2019 requiring companies to disclose more climate related information for the benefit of investors.

One of our listed equity managers has focused an engagement theme on climate action and sound environmental management which has asked companies to align with TCFD principles and where appropriate produce TCFD disclosure.

○ No, we do not undertake active ownership activities.

○ No, we do not undertake active ownership activities to encourage TCFD adoption.

SG 15	Mandatory to Report Voluntary to Disclose	Public	Descriptive	PRI 1

SG 15.1	Indicate if your organisation allocates assets to, or manages, funds based on specific environmental and social themed areas.

○ Yes

◉ No