

Committee(s)	Date:
Financial Investment Board (FIB) Bridge House Estates Board (BHE Board)	30 th June 2021 14 th July 2021
Subject: Year 1 Progress Report for Climate Action	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	1, 5, 7, 10, 11, 12
Which outcomes in the BHE Bridging London 2020 – 2045 Strategy does this proposal aim to support?	2
Report of: The Chamberlain	For Information
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Summary

This paper serves as a report on progress to date on the Financial Investments workstream under the Climate Action Strategy (CAS). It provides Members with an overview of upcoming decisions to be taken at the September meeting and the year 1 activity and outcomes proposed within the area of financial investments.

Recommendations

The Financial Investment Board and Bridge House Estates Board are recommended to note the following:

- i. Progress to date and next steps in the preparation of a Transition Pathway for Paris alignment of the City Corporation's and BHE's Financial Investments.
- ii. Note the upcoming workshops to prepare Members for the resulting decisions on the Pathway in the Autumn.

Background and context

1. The Climate Action Strategy (CAS) was adopted by the Court of Common Council for the City Corporation, both as Trustee of BHE and in delivering its wider functions and activities, on the 8th of October 2020. This marked the start of a new and transformative programme of action. It set out three interlinked primary objectives for the City Corporation (including BHE) and the Square Mile:
 - to support the achievement of net-zero emissions,
 - to build resilience, and
 - to champion sustainable growth.
2. The strategy was adopted with an action plan across fifteen delivery areas to collectively achieve overall targets of:
 - Net Zero in our own operations by 2027
 - Net Zero in our value chain by 2040

- Net Zero in the Square Mile by 2040
 - Climate resilient in our buildings, public spaces and infrastructure
3. FIB and the BHE Board oversee the delivery area of financial investments which contributes to the target of being net zero in the City Corporation's value chain by 2040. The BHE Board is responsible for overseeing actions relevant to BHE's financial investments only. The Y1 plan for this delivery area was adopted by FIB on 21st May 2021 and will be presented to BHE for decision on 14th July. This outlines a series of immediate actions which centre around the drafting of a transition pathway by fund towards net zero.

Current position

4. Aon has been commissioned through a competitive process to support the key Officers and Boards responsible for this delivery area. Their role is to:
- Identify the material physical and transitional risks associated with the portfolio and by fund
 - Develop a transition pathway under three different climate change scenarios.
 - Prepare the Corporate TCFD report
5. A session was held on 3rd June 2021 with Aon on initial findings of a review of the portfolio by fund. This was proceeded by a workshop delivered by Carbon Tracker, an independent think tank that carries out in-depth analysis on the impact of the energy transition on capital market. A discussion of initial findings by Aon in relation to future decisions follows below.
6. The Boards will be presented with the following decisions in the first meetings after the summer recess:
- **Level of Ambition:** The de minimis ambition agreed by FIB is 60% alignment by 2040. Initial feedback from Aon is this will be achieved if all our managers commit to net zero by 2050. At the May workshop, Members have requested evaluation of more ambitious targets and thus options for 100% alignment by 2040 and 2030 are in preparation and will also be presented in September. These decisions on ambition will set the tone for how rapidly we need to decarbonise the portfolio. To note, a common floor of ambition should be adopted across all funds, however, individual funds may aim to exceed the floor (e.g. aiming for 100% by 2035 instead of 2040).
 - **Interim Targets:** Delivering the CAS objective will require interim targets to shape immediate decision making. Aon's preliminary work on a transition pathway for 100% by 2040 suggests that we would need to cut 30% of financed emissions by 2025 and 65% by 2030, relative to our 2021 baseline. These interim targets will then be reflected across the different asset classes based on return targets, product availability, and cost. The experience of other asset owners suggests targets must be reflected at asset-class level to balance the

relative contribution of asset classes to the portfolio-level emission footprint against the availability of return-neutral products.

- **Use of a Climate Solutions Allocation:** The Boards will be asked to consider whether a dedicated 'climate solutions' target is set – which is a percentage of assets allocated to green activities. Other asset owners have set asset-class agnostic targets of 2%+. At present none of our investments reflects a pureplay climate solutions product.
7. **Implementation plan:** In September, an implementation plan will be presented for the interim targets to FIB and the BHE Board. A concrete implementation plan is key for our credibility with managers and wider stakeholders. This plan will include integration of Aon's analysis with other workstreams including the recruitment of the new investment consultant, liability profiles, and other corporate considerations informing strategic asset allocation.
 8. **Engagement Expectations:** The plan will also bring a refreshed approach to manager engagement, reflecting that our primary mechanism for achieving our alignment goals hinge on the actions of fund managers. We will include options for consideration, such as including how we approach the London CIV on the pension holdings and whether we should publicly disclose our manager expectations with timebound thresholds - e.g. requiring managers to backstop their public net zero commitments with a Science Based Target by December 2022.
 9. **TCFD disclosure:** We will bring a final draft of the City Corporation's first TCFD report to by the September meetings for a decision on publication ahead of COP26. This may also be accompanied by a recommendation for the City Corporation, acting both as Trustee for BHE and in delivering its wider functions and activities, to join other networks of asset owners committing to addressing climate change.
 10. Members and Officers will be supported in this journey with a series of workshops building on the first two held by Carbon Tracker (21st May 2021) and Aon (3 June 2021).
 - Aon will hold the next session on 28th June to review their full findings on the risk profile by fund and stress testing exercise against climate scenarios.
 - Aon will hold their third and last session on 13th July to present the potential transition pathways.
 - On 21st July Carbon Tracker will come back to deliver a workshop which brings in other similar asset owners to talk with the Boards about their experiences in creating their transition pathways to Paris alignment.
 11. These sessions will allow for Officers and Members to interrogate the proposed pathways and underlying data of the potential pathways but the decision will be reserved until the September meetings of FIB (14th September) and BHE Board (15th September).

Corporate and strategic implications

12. Strategic implications: The wider CAS supports delivery against the following outcomes in the Corporate Plan, 2018-23.
 - Outcome 1: People are safe and feel safe.
 - Outcome 5: Businesses are trusted and socially and environmentally responsible.
 - Outcome 7: We are a global hub for innovation in financial and professional services, commerce and culture.
 - Outcome 10: We inspire enterprise, excellence, creativity and collaboration
 - Outcome 11: We have clean air, land and water and a thriving and sustainable natural environment.
 - Outcome 12: Our spaces are secure, resilient and well-maintained.
13. The activities of the CAS support the aims and objectives of BHE's overarching strategy, Bridging London 2020 – 2045. The activities will support the charity in becoming a world-class bridge owner, charitable funder and responsible leader.
14. The wider CAS strategy builds upon existing strategies and policies, including: The Responsible Business Strategy 2018-23, the Responsible Investment Policy, the City Procurement Strategy 2020-24, the Local Plan 2015, the draft City Plan 2036, the Transport Strategy 2018-43, the Air Quality Strategy 2015-20, the Climate Mitigation Strategy, the Carbon Descent Plan, the Transition to a Zero Emission Fleet Policy, the Renewable Electricity Policy & Sourcing Strategy and related campaigns, such as Plastic Free City. It is aligned to ongoing reviews of our financial and property investment portfolio.
15. Resource Implications – There are no new resource implications beyond what was approved by Court on 8th October 2020. The overall budget envelope for Y1 has been confirmed by Policy and Resources on 8th April 2021. The detail of the budget for the financial investments delivery area was approved by FIB on 20th May 2021 and is due to go to decision by BHE on 14th July 2021.
16. Risk Implications – To manage risk effectively in the programme, all delivery areas have a risk register and the overall risks are controlled through a corporation level risk CR30 – Climate Action Strategy.
17. Equalities Implications – A Test of Relevance was undertaken on the Climate Action Strategy and several positive impacts were identified for people in at least one of the following five protected groups - age, disability, race, pregnancy/maternity and gender. No negative impacts were identified. Potential equalities impacts will be investigated and assessed on an ongoing basis.
18. No new legal or security implications arise from the recommendations in this report.

19. The steps outlined in this report are necessary conditions in order for the City Corporation and BHE to meet its target of being net zero in its value chain by 2040.

Conclusion

20. The work to align the investment portfolios to the Paris agreement continues at pace and is on track to identify interim targets, a transition pathway and accompanying implementation and engagement plan by September 2021.

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