

Committee(s)	Dated:
Financial Investment Board (FIB) Bridge House Estates Board (BHE Board)	9 February 2022 16 February 2022
Subject: Quarterly Update on Financial Investments workstream under the Climate Action Strategy	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly.	1, 5, 7, 10, 11, 12
For BHE, which outcomes in the <i>BHE Bridging London 2020 – 2045</i> Strategy does this proposal aim to support?	1,2,3
Does this proposal require extra revenue and/or capital spending?	No
If so, how much?	NA
What is the source of Funding?	NA
Has this Funding Source been agreed with the Chamberlain's Department?	NA
Report of: The Chamberlain	For Information
Report author: James Graham, Group Accountant, Chamberlains Kate Limna, Corporate Treasurer, Chamberlains Simi Shah, Project Director, Innovation and Growth	

Summary

This report sets out the updates on quarterly progress for the Financial Investments workstream under the Climate Action Strategy (CAS).

Recommendations

The Financial Investment Board and Bridge House Estates Board are each recommended as relevant to their terms of reference to:

1. Note quarterly activity in the financial investments workstream of the Climate Action Strategy.

Main Report

Background

1. The Climate Action Strategy (CAS), was adopted by the Court of Common Council on the 8 October 2020 for all activities and Funds including as Charity Trustee for BHE and other various funds and as Trustee for the Pension Fund.
2. Upon adoption the strategy stated a minimum goal of 60% of the portfolios to be net zero. A stretch target of 100% by 2030 was also named. In the inaugural year, investigation was to take place on the highest ambition that could be pursued under fiduciary duties. Decisions for each of the Funds was to be taken independently in each's best interests. This was encapsulated in the Year 1 plan which was adopted by FIB for all funds except BHE on 21 May 2021 and by BHE Board on 14 July 2021.

3. On 14 and 15 September respectively, FIB and BHE Board adopted the following recommendations:
 - A new minimum target of 100% net zero by 2040 across the financial investment portfolios for each Fund with named interim targets starting in 2024- 2025.
 - An Investor Statement on Climate Change which integrates the targets into expectations for fund managers.
 - A proposed engagement strategy including a bespoke approach to engagement with the London Collective Investment Vehicle (London CIV) who at the time held a 2050 target and managed 23% of the Pension Fund assets.
4. It was also noted that:
 - Officers will bring a dedicated climate solutions allocation into asset allocation discussions with the new investment consultant before the end of the Financial Year;
 - Additional in-house capacity will be added within Chamberlains to execute the engagement strategy and monitor progress against targets; and,
 - Officers were preparing the City Corporation's inaugural Taskforce for Climate Disclosure (TCFD) for publication.
5. On October 14 the Policy and Resources Committee noted the revised climate targets for financial investments and resulting need to integrate new interim targets into the aggregate programme level targets.

Current Position

6. The new 2040 target was announced by the Chair of Policy on 19 October 2021 as part of the UK Government's Global Investor Summit. The investor statement on climate change and TCFD report were published on the same date.
7. All fund managers received official notification of the new expectations for fund managers in October 2021. This includes new lines of reporting which will inform our measure of progress as expressed in the previously adopted CAS KPIs for financial investments which are outlined in **Appendix 1** for reference. Progress on addressing climate related risk is a standing agenda item on all subsequent engagement meetings with fund managers, with a particular focus on managers with high carbon intensities.
8. The previous approved post for a Responsible Investment Engagement Manager has been highlighted within the Chamberlain's TOM and will report to the Group Accountant, Treasury Management, and Investments. Recruitment for the position is scheduled to commence in February 2022. This position will lead the engagement strategy on behalf of all Funds with fund managers and key investor networks and monitor progress against targets.
9. Preparations are in place to represent KPI data across the CAS on a public facing Dashboard. Data for financial investments are expressed by Fund. The Dashboard prototype is currently being tested at the operational level. It is

planned to go live internally in the new financial year with an aim to have the public feed up by the summer.

10. The new targets and implementation actions were factored into the tender process for the new investment consultant. Mercer, as the successful bidder, has full access to the analysis from Aon conducted over the past year. We will need to rely heavily on the retained consultant to support implementation.
11. On 30 September 2021 we welcomed the news that LCIV had made a commitment to net zero emissions by 2040 as both a company and as an entity throughout its supply chain.

Next Steps

12. The next carbon footprint exercise across the Climate Action programme will commence in April 2022 using the position on 31 March 2022. The financial investments were last footprinted using the position of 31 March 2021 as part of the exploration of transition pathways. However, this will be the first time the entire programme will be assessed since the 31 March 2019 position used as the baseline for the strategy.
13. Exploration with the investment consultant regarding options to bring a dedicated climate solutions into the Strategic Asset Allocation can now begin. However due to a variety of reasons this is not anticipated to be complete before end of the financial year. Also, the asset allocation processes for each Fund vary and are dependent on external factors and timescales such as the timings of the grant of the Supplemental Royal Charter for BHE. Relevant progress updates will be included in future quarterly updates.

Conclusion

14. Progress continues on the work of aligning our financial investments with net zero. Activities under this strategy ensure that the City Corporation and the funds in which it is a Trustee can leverage the unique capabilities. This is intended to achieve outsized impact by accelerating progress among the wider investment management community and peer asset owners.

Appendices

- **Appendix 1 – Key Metrics of Climate Related Financial Risk**

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Appendix 1: Key Metrics of Climate Related Financial Risk

This chart outlines the key metrics agreed in the Year 1 plan for the financial investments workstream under the Climate Action Strategy. These will be collected regularly and reported publicly on the Climate Action Dashboard. Information will be displayed by fund and by asset class where relevant.

Fund manager maturity*	Covering four categories alignment, engagement, risk management, data. Fund managers will also be asked for firm level commitments.	Annually – for internal progress only, not external
# of engagement meetings	# of engagement by Fund Managers meetings related to the climate impact of our portfolio	Quarterly
Portfolio Paris-alignment	% of portfolio in investments that are SBTI Paris-aligned	Quarterly
Portfolio carbon footprint	Annual snapshot of Scope 1,2 and 3 emissions on 31 March of each year	Annually
Weighted average carbon intensity (WACI)	Aggregate of scope 1,2, and 3 emissions of each holding company set against fund financial performance	Annually -WACI reported publicly but fund performance for internal progress only
Portfolio temperature alignment	Projected temperature rise associated with the investment holdings and their projected transition pathway	Annually
Investment in green or transition assets	% of portfolio invested in green/transition assets	Annually

