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DATE: 14 December 2023

PENSIONS COMMITTEE

Meeting to be held on Thursday 14 December 2023

12 **APPENDIX A - QUESTIONS TO THE COMMITTEE** (Pages 3 - 6)

Copies of the documents referred to above can be obtained from
http://cds.bromley.gov.uk/

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PENSIONS COMMITTEE
14 DECEMBER 2023

SPECIFIC QUESTIONS FOR ORAL REPLY

1. From Gill Slater, Local Pension Board Member to the Pensions Committee

Regarding Item 7: Pension Fund Performance Q2 2023/24:

The Mercer Report (Appendix 7) merits thorough Committee debate. A tipping point for climate scenarios highlights subsequent research stating that climate scenarios used significantly underestimate climate risk, ignoring ‘tipping points’, financial stability and insurance “breakdown”. Will the Committee, as Mercer suggests, engage further to understand climate risks, transitional and physical, of pension scheme funding?

Reply: *The Mercer's report is part of the Pension Committee's ongoing research into the impact of climate change on the LB Bromley Pension Fund assets. It will be reviewed at the December Pension Committee meeting. The Pension Committee do believe that climate change is likely to impact financial returns into the future and will, therefore, continue to discuss this issue with the Fund's investment managers, their Independent Investment Advisor and external consultants going forward.*

Supplementary Question: At COP28, the Government explicitly recognized the loss and damage caused by fossil fuels and concluded a deal signalling the beginning of the end for fossil fuels. This Committee has the luxury and responsibility to play its part in the global transition away from fossil fuels. The ability to make a significant difference rests in the hands of a relatively select few, including you as Members of this Committee. I ask that in drafting your Responsible investment Statement for the Taskforce of Climate Related Financial Disclosure Reporting, you seize the opportunity to respond to this essential and historic shift from fossil fuels and commit to divest.

Reply: *It is interesting that you raised COP28 as only this morning I got a report back on what was actually agreed there. Sometimes when these statements are issued at the end of the COP meetings, they aren't saying much and this is the case with COP28. The report looks like a meaningless fudge with a ‘get out’ clause that will allow China, India and the rest of the 24-strong like-minded developing countries who vetoed the phrase out of COP26 to carry on using as much fossil fuels as they like. If the intention was to phase out fossil fuels, I think COP28 hasn't been robust enough. Regarding Taskforce of Climate Related Financial Disclosure Reporting, the Committee's Independent Investment Advisor has been doing work on this and will continue to do more with the London Collective Investment Vehicle. There are two reasons for this. Firstly, the LCIV is better resourced to deal with this on behalf of London as a whole and secondly, they are not charging for this service. Climate Related Financial Disclosure Reporting is not a statutory requirement at present but it is coming and as Chairman, I think it is important that we get ahead of the game and start producing this report before it is needed which will allow us time to ensure we address any issues. The Head of Responsible Investment at the LCIV will be attending the Pensions Committee in February to explain what they do, not just for environment but the whole of the wider Environmental Social Governance agenda.*

PENSIONS COMMITTEE
14 DECEMBER 2023

SPECIFIC QUESTIONS FOR WRITTEN REPLY

1. From Stephen Wells, Bromley resident

Regarding Item 7: Pension Fund Performance Q2 2023/24:

The attached quarterly report (Appendix 5) by Apex has a section on ESG, which looks at the narrower definitions of scope 1&2 emissions. Regularly monitoring such emissions is useful, but are there plans to reduce these over time, or have a qualitative assessment of their level and drivers?

<u>Reply:</u> *Reporting on the emission of greenhouse gasses (as defined in the Kyoto agreement) by companies is still at an early stage and the data is incomplete and can be misleading, especially, as you note, as we are unable to include scope 3 emissions at the current time with any sense of conviction in the underlying data. The Pensions Committee are working with their managers and Independent Investment Adviser to improve the quality of this data and will look to include scope 3 emissions at the earliest opportunity. In the meantime, we believe it is important to start reporting what data we have and to monitor this data going forward. Our expectation is for the level of carbon emissions made by the Fund's investments to fall over time, but we are currently wary of putting in place numeric targets for this where there are obvious data issues.*

2. From Emilie Macmullen, Bromley resident

Regarding Item 7: Pension Fund Performance Q2 2023/24:

The quarterly report doesn't document any underlying investment managers' engagements with the companies that they invest in. How are the committee monitoring such engagements with companies on ESG issues and tracking their effectiveness and does the committee engage with underlying investment managers to understand their commitment to net zero?

[NB Explanation of terminology: 'Underlying Managers' / ' Underlying Investment Managers' - Bromley doesn't directly buy companies to create a portfolio, instead, they appoint investment managers to do that with their assets. For example, it looks like Bromley either directly or indirectly (through a London Borough Common Investment Fund 'CIV') utilize the services of Ballie Gifford, MFS, Fidelity etc.]

<u>Reply:</u> *The Pension Committee receives quarterly reports from each of its underlying investment managers which detail the performance of the individual portfolio; any changes made to the holdings; the economic and market outlook and what engagement they have had with individual portfolio companies as well as their voting record. In addition to this the Committee chair, your pension officer and the Fund's Independent Investment Advisor met with each investment manager to specifically discuss their approach to climate change and how they were engaging with the*

companies held in each portfolio during the last 18 months and will repeat this cycle of meeting going forward.

2. From Parisa Wright, Bromley resident

Regarding Item 7: Pension Fund Performance Q2 2023/24:

Given the substantive risks to the potential valuation and funding of the Pension Scheme brought about by climate change highlighted in Mercer's report (Appendix 7), what measures are the committee implementing to help mitigate such risks and is the Pension Scheme aligned to the council's target of net zero by 2029?

Reply: *The Mercers report uses the Fund's current asset allocation but does not take into account the actions taken by the Fund and its underlying managers to include climate change in their analysis of investment risks and opportunities.*

At the Fund level, your Pension Committee has purposely selected investment managers who believe in investing for the long term. They analyse the business opportunity and risk for their investments over a multi-year future and because of this, the impact of climate change becomes a key part of their analysis. The Pension Committee look to work with these managers over the long-term and because of this can build a good understanding of each manager's investment philosophy and process and can challenge each manager as appropriate including on their assumptions on climate risk.

At the individual manager level, whilst we do not force our managers to only invest in companies which claim to be Paris Aligned, we do expect our managers to build a portfolio which is aware of the risks and opportunities presented by climate change. Whilst data on carbon emissions is still of a poor quality we do believe, where we can match the individual investment managers mandate to an index, that in each case the manager has built a portfolio which emits a lower level of carbon (and associated greenhouse gases) than its benchmark index and that this level of carbon emissions will fall over the long-term.

The Committee are conscious of the desire to align with the LBB goal, but investments have different difficulties in providing robust data, and we are pressing all our contacts for more work on this. At this time, we would not wish to give an assurance of alignment with 2029 but will continue to work towards that aim.

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