

London Borough of Bromley

Fossil Fuel Report

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Fossil Fuel Investment

There is limited agreement about what counts as an investment in fossil fuels and rather than using a simple industry classification of energy companies most asset managers look at the carbon intensity of their portfolio. This tends to capture tiers 1 & 2 for carbon emissions i.e carbon emissions directly from a company's operations (1) and from their energy usage (2) but does not capture tier 3 emissions which covers a company's entire supply chain.

It is often obvious that a company is engaged in fossil fuel production e.g. the major oil producers or coal miners. Other companies may have only a minor exposure to the production of fossil fuels and be predominantly exposed to other areas. Even the major oil producers often have a high exposure to renewable energy and are investing heavily into this area.

The table below gives a breakdown of the Fund by manager as at 30/9/20:

Manager	Asset Class	Assets	
Baillie Gifford	Global Equity	£525m	43.1%
MFS	Global Equity	£259m	21.3%
Fidelity	Fixed Interest	£65m	5.4%
Fidelity	Fixed Interest	£89m	7.3%
Schroders	Multi-Asset Income	£107m	8.7%
Fidelity	Multi-Asset Income	£128m	10.5%
Fidelity	UK Commercial Property	£45m	3.7%
Total		£1,218m	100%

The Fund's two global Equity managers produce the most detail on their carbon footprint.

- 1) Baillie Gifford Global Alpha portfolio reports the carbon intensity of the portfolio using two measures.
 - Carbon Intensity measures the carbon efficiency of the portfolio and is defined as the total carbon emissions per \$ million of portfolio sales, expressed in tons CO₂e/\$m revenue. This methodology is consistent with the Taskforce for Climate Related Financial Disclosure (TCFD) and MSCI, the index provider, allowing us to compare the portfolio against funds managed by other asset managers.
 - Weighted Average Carbon Intensity (WACI). The WACI is a measure of the portfolio's exposure to carbon-intensive companies and consequently carbon related risks. The TCFD recommends asset owners and managers report this figure to their clients. The WACI for the portfolio is simply the sum product of the portfolio's weights and carbon intensities.

At the end of June, the Baillie Gifford Global Alpha portfolio had a Carbon Intensity of 58% of the MSCI All Countries World Index and a Weighted Average Carbon Intensity of 40% of the MSCI Index. This latter figure is below the level calculated for the MSCI Paris Aligned Index which includes only those companies which have a stated intention to adhere to the Paris Climate accord for keeping the rise in global temperature below 2%.

- 2) MFS Global Equity portfolio use an independent company, Trucost, to calculate their carbon intensity. The modelling includes the direct and first -tier supply chain greenhouse gas (GHG) emissions of over 4,500 companies world-wide. The calculations include the six GHGs covered by the Kyoto Protocol on climate change (CO₂, CH₄, N₂O, HFCs, PFCs and SF₆) and are converted into tonnes of carbon dioxide equivalents (CO₂e) on the basis of their global warming potentials (using a GWP index calculated by the intergovernmental panel on climate change). Each company's Carbon Footprint, or carbon

intensity, is calculated as its CO₂e divided by its turnover. The lower the score, the lower the company's carbon footprint.

Based on Trucost data, the MFS portfolio has a similar carbon intensity to the MSCI Index. This is due to being underweight oil producers and holding no coal mining companies but also having limited exposure to technology focused companies which produce limited carbon directly. The majority of the carbon exposure within the portfolio (as measured by Trucost) is through holdings in Consumer Staples and Railway companies.

The table below gives the Fund holdings in Energy and Utility companies held by each manager. This covers the main carbon emitters for each portfolio (tiers 1 & 2) and includes those companies which produce fossil fuel.

Manager	Exposure
Baillie Gifford Global Equity	1.7% (£9.0m)
MFS Global Equity	3.1% (£8.0m)
Fidelity Fixed Interest	8.2% (£5.3m)
Fidelity Fixed Interest	7.2% (£6.4m)
Schroders Multi-Asset Income	Unknown
Fidelity Multi-Asset Income	Unknown
Fidelity UK Commercial Property Portfolio	5% of the rental, one tenant.

The managers of the two Multi-Asset Income portfolios invest into other funds rather than directly and as such it is more difficult to see the underlying companies the portfolio is invested in. The Multi-Asset Income portfolios do invest into both equity and debt funds. They also invest in renewable energy funds amongst other areas.

I estimate that approximately 2% of the Fund is invested in companies engaged in fossil Fuel production at the current time. This includes companies which are involved in the production of fossil fuel even if it is not a mainstream business for them.