



Local Pensions Partnership
Investments

LPP Client Update on Net Zero

This is an update on progress made, work underway, and near-term milestones for LPP's net zero project which shares insights with client pension funds on this high priority theme.

As a recap, LPP made a public commitment to the long-term goal of achieving net zero portfolio emissions by 2050 by signing the IIGCC (Institutional Investor Group on Climate Change) Net Zero Asset Manager Commitment (NZAMC) in November 2021. Our net zero approach and planning is being informed by IIGCC's [Net Zero Investment Framework](#) (NZIF) which guides and sets expectations for investors who have made a net zero commitment.

Key requirements under the framework include:

- transparency (to promote accountability)
- translation (of the long-term goal into near term actions through interim targets which facilitate planning, action and progress monitoring).

Investors must publish information on interim targets for measures defined by IIGCC within 12 months of making their net zero commitment.

Making a net zero commitment isn't about preparing to divest and avoid all high emitting assets by radically restricting the investment universe for the next 30 years. It is almost the opposite. It is recognition that all companies contribute to global emissions and must decarbonise activities and manage broader impacts to slow climate change. All companies need to be planning for a net zero future where the emissions of their operations, supply chains and products are minimised, with residual emissions systematically captured or offset via efficient regulated solutions. In not doing this they risk cost increase, value leakage, disrepute relative to peers and (in the worst cases) asset stranding. A net zero commitment in LPP's context is to be informed and vigilant about how climate change creates risks and opportunities for investee companies and integrating this insight into investment decisions. Going forward it will involve pressing companies to plan for and achieve the progress needed to be considered aligned with achieving net zero emissions by 2050, whilst identifying companies which either cannot achieve or will not commit to delivering the progress needed. It is the highest emitting companies which most need to decarbonise and which will make the biggest contribution to real world emissions reduction by instituting change in response to investor pressure.

Assessing a large, diversified investment portfolio for its degree of net zero alignment is a significant challenge. It requires investment in data, tools and expertise as foundations for embedding an entirely new focus and measurement discipline within core investment processes. The number of investors making net zero commitments is rising, but the market is still at an early stage of emerging universally agreed standards and approaches, and the aggregated data sources and modelling tools investors need to deploy these approaches in practice. Current gaps and dependencies influence what can be prioritised and achieved immediately versus those areas which will take more time.

Progress Made to Date

LPP has focussed on putting resources in place to understand requirements, identifying gaps and key dependencies, and making a solid start from which we can build over time.

- [ESG Programme Initiated](#)
Net zero along with numerous other ESG related initiatives, affect our entire AUM and investment, governance and risk processes; as a whole organisation programme, it requires dedicated project management support and well-planned resourcing across LPP. We have appointed a project manager who will work across our ESG Programme, including net zero and TCFD projects and we have a well organised and documented approach to meeting the associated challenges.

- Net zero consultant engaged

As previously advised, LPPI appointed Chronos Sustainability to provide advice and support in the first year of our net zero commitment. Chronos Sustainability have provided, and continue to provide, critical insights and expert advice as we develop our plans and put resources and approaches in place

- Data provider selected for the first asset classes in scope

Net zero is heavily data dependent, involving measurement, modelling, and forward projection to evaluate, set targets and monitor progress. The scope of assets to be included in initial target setting was a key decision, directly influenced by the availability of emissions datasets and net zero pathway modelling capabilities. In this first year LPPI have focused on baselining, (establishing the emissions starting point and determining each investee company's alignment with a net zero pathway) producing targets and starting to monitor the net zero alignment of the LPPI Global Equities Fund. In year two we will work to bring additional asset classes into scope, commencing with corporate bonds and real estate.

Investors with large portfolios require external data partners able to supply aggregated datasets and efficient modelling tools. LPPI has surveyed the market of possible data providers and the datasets and tools currently available to support our net zero work. We recently appointed MSCI as climate change data provider for the first three asset classes due to be in scope (global equities, corporate bonds and real estate). Data and tools are most developed for listed equities, with capabilities in other asset classes currently at an earlier stage of evolution.

- Approach to target setting agreed

LPPI's Management Committee has agreed an approach to setting the targets required under the IIGCC NZIF, which reflects the availability of data and modelling capabilities at this point. With the approach agreed, the focus has shifted to detailed data analysis.

Work Underway

Efforts are currently focussed on target setting, with the Responsible Investment Team utilising MSCI tools to assist baselining. This is time-consuming work which involves the triangulation of several different data sources to evaluate the current position of a company and the trajectory suggested by forward targets and plans.

Baselining establishes how the portfolio is positioned currently as a basis for identifying priority companies for review and engagement. LPPI is working to produce an engagement plan, prioritising those companies which contribute the most to the portfolio's emissions intensity and which are either not yet aligned or are not taking the actions required to be considered "aligning" with net zero. The plan will be the basis for undertaking engagement with underlying companies and asset managers, urging active stewardship to achieve clear outcomes.

Upcoming Milestones

As a signatory to the IIGCC Net Zero Asset Manager Commitment, LPPI must publish initial targets for a first set of prescribed measures (portfolio decarbonisation, % of emissions aligned or under engagement, % of Global Equities either net zero, aligned, or aligning with net zero) by the end of October 2022.

LPPI will publish an initial set of net zero targets as part of a broader Climate Action Plan (CAP) which will contextualise our net zero commitment on behalf of the partnership and explain the approach we are taking. Publishing a CAP is not a compulsory deliverable, but we believe it will be helpful for clients and broader stakeholders to receive a dedicated communication. Following this initial introduction, we intend to report on our net zero activities and their outcomes annually within reporting under the Taskforce on Climate related Financial Disclosure (TCFD).