

LOW CARBON TRACKER FUND EVOLUTION

Reason for this Report

1. This report has been prepared to present to the Committee the latest position in the proposed evolution of the Low Carbon Tracker Fund and to seek approval to include these developments.

Background

2. The Council, as Administering Authority of the Fund, has a fiduciary duty to manage the assets of the Fund responsibly on behalf of its beneficiaries and other stakeholders. LGPS Funds are required to set out how Environmental, Social and Governance (ESG) considerations are taken into account in preparing their Investment Strategy Statements. They may incorporate non-financial factors into the investment process provided that doing so would not involve significant risk of financial detriment.
3. At its meeting on 30 May 2019, the Pensions Committee approved the recommendation of the Investment Advisory Panel to make an initial allocation of 10% of the Fund assets to a fund tracking a Global Low Carbon index. The investment of £235m into the BlackRock Low Carbon Tracker Fund was completed in February 2020.
4. At its meeting on 18 July 2019 Cardiff Council passed a motion calling on the Pension Fund to continue to work to apply the principle of divestment in companies engaged in fossil fuel extraction and to have completed the divestment within a period of five years.

Issues

5. The Investment Advisory Panel at its meeting on 22 September 2020 received a presentation from BlackRock which included proposals for the evolution of the Low Carbon Tracker Fund. BlackRock introduced these proposals as being a response to the UN proposals to restrict climate increase to 1.5⁰C and the increasing number of Climate Emergencies being declared.
6. The benchmark for the Low Carbon Tracker Fund is the MSCI World Low Carbon Target Index and compared to the MSCI World index delivers an estimated 52% reduction in Carbon Emissions intensity, which measures total carbon emissions divided by total sales.

7. The current Low Carbon Tracker Fund does not operate with any screens but the proposal would now introduce screens across a number of carbon intensive areas, if a 5% revenue threshold were exceeded unless this was offset with a 40% revenue contribution from renewable energy. The carbon intensive areas that would be screened are :-
 - i. Fossil Fuel Reserves
 - ii. Thermal Coal
 - iii. Conventional and unconventional oil and gas
 - iv. Oil and gas based power generation
8. The projected impact of the screens is a reduction in the number of stocks included in the revised index of over 500. The impact on Carbon Emission intensity is an estimated 44% reduction compared with the current Fund and a reduction of 73% compared to the MSCI World index.
9. One consequence of the introduction of the exclusion screens would be an increase in the tracking error which would increase to 50 basis points (bps) compared to the 30 bps with the current Fund. There would also be some one-off transition costs as the Fund is rebalanced following the exclusions. Otherwise the risk and return from the Fund would remain unchanged.
10. Subject to sufficient interest BlackRock's intention is to progress the evolution of the low Carbon Fund early in 2021 although there is no obligation to move. The Investment Advisory Panel were supportive of BlackRock's evolution proposals.

Legal Implications

11. The body of the report (fiduciary duty) refers to the main legal duties governing this matter. The decision maker will need to be satisfied that the proposed investment accords with the Fund's approved investment strategy and any relevant guidance issued. It is understood that relevant professional advice has been undertaken in relation to the appropriateness of the investment and the decision maker should have regard to the same.

General Legal Advice

Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council eg. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

The Council also has to satisfy its public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The Protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief.

The Well-Being of Future Generations (Wales) Act 2015 (“the Act”) places a ‘well-being duty’ on public bodies aimed at achieving 7 national well-being goals for Wales – a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.

In discharging its duties under the Act, the Council has set and published well-being objectives designed to maximise its contribution to achieving the national well-being goals. The well-being objectives are set out in Cardiff’s Corporate Plan 2019-22: <http://cmsprd.cardiff.gov.uk/ENG/Your-Council/Strategies-plans-and-policies/Corporate-Plan/Documents/Corporate%20Plan%202018-21.pdf>

The well-being duty also requires the Council to act in accordance with ‘sustainable development principle’. This principle requires the Council to act in a way, which seeks to ensure that the needs of the present are met without comprising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:

- Look to the long term
- Focus on prevention by understanding the root causes of problems
- Deliver an integrates approach to achieving the 7 national well-being goals
- Work in collaboration with others to find shared sustainable solutions
- Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below: <http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en>

The Council has to be mindful of the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards when making any policy decisions and consider the impact upon the Welsh language, the report and Equality Impact Assessment deals with all these obligations. The Council has to consider the Well-being of Future Guidance (Wales) Act 2015 and how this strategy may improve the social, economic, environmental and cultural well-being of Wales.

Financial Implications

12. The one-off costs of implementing the evolution changes and on-going costs will be charged to the Pension Fund.

Recommendations

13. That the Committee:
 - (1) notes the evolution of the Low Carbon Tracker Fund proposed by BlackRock.
 - (2) determines whether to adopt the proposed changes to introduce the Fossil Fuel exclusions.

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