

A photograph of two hikers walking away from the camera on a dirt path through a dense forest of tall evergreen trees. The hiker on the left is wearing a red shirt, a grey skirt, and a brown backpack. The hiker on the right is wearing a light green shirt and a dark skirt. Sunlight filters through the trees, creating dappled light on the path and foliage.

LPP

Local Pensions Partnership
Investments

Our roadmap
to net zero

Limiting warming to 1.5°C is possible within the laws of chemistry and physics, but would require unprecedented transitions in all aspects of society.

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Introduction

Local Pensions Partnership Investments (LPPI) has voluntarily made a public commitment to the goal of aligning our portfolio with net zero emissions by 2050. This is a significant multi-decadal ambition, and it is important we take time to explain why this is an appropriate step for LPPI, and what it means for us in practice as an investment manager and for the pension funds we serve as clients.



Richard J Tomlinson
Chief Investment Officer

This document provides a short introduction to our approach and we hope it offers helpful and accessible insights into an inescapably complicated subject matter. We aim to convey that LPPI's net zero commitment is the natural extension of our efforts to understand, measure, and manage the investment risks and opportunities both climate change, and efforts to hold planetary warming below 1.5°C, present for investors.

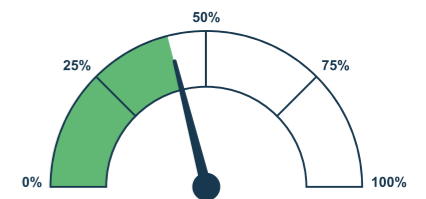
Our asset manager commitment to net zero confirms that we are investing the time and resources to bring emissions measurement and net zero alignment into closer focus. Our first set of targets cover 100% of the listed equities investments we manage through our Global Equities Fund. We will be working hard to bring additional asset classes into scope moving forward.

Thank you for your interest in this area of LPPI's work, we hope you find this guide informative.

Summary of net zero targets

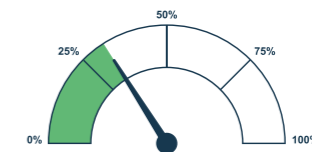
In scope

Our first interim target for the proportion of assets to be managed in line with net zero emissions being attained by 2050 is 42%. We aim to have 100% of assets under management in scope of net zero target setting over time.

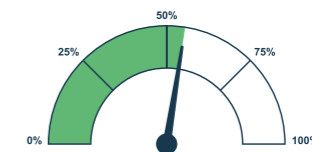


Coverage targets

Global Equities Fund assets under management in material sectors that are net zero, aligned or aligning with net zero.

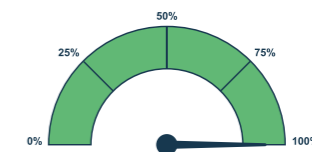


32% of listed equities by **2025**



55% of listed equities by **2030**

Global Equities Fund assets under management in material sectors that are net zero or aligned with net zero.



100% of listed equities by **2040**

Decarbonisation targets

Global Equities Fund portfolio decarbonisation.

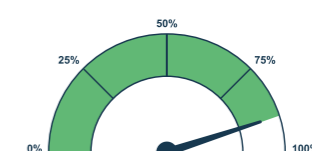
In December 2019, emissions intensity was 40% below the benchmark index. By 2030 the target is to reduce the fund's Weighted Average Carbon Intensity by at least a further 16% compared to 2019 levels.

Engagement threshold (listed equities)

Global Equities Fund financed emissions in material sectors that are net zero, aligned with net zero or under engagement.



70% of financed emissions by **2022**



90% of financed emissions by **2030**



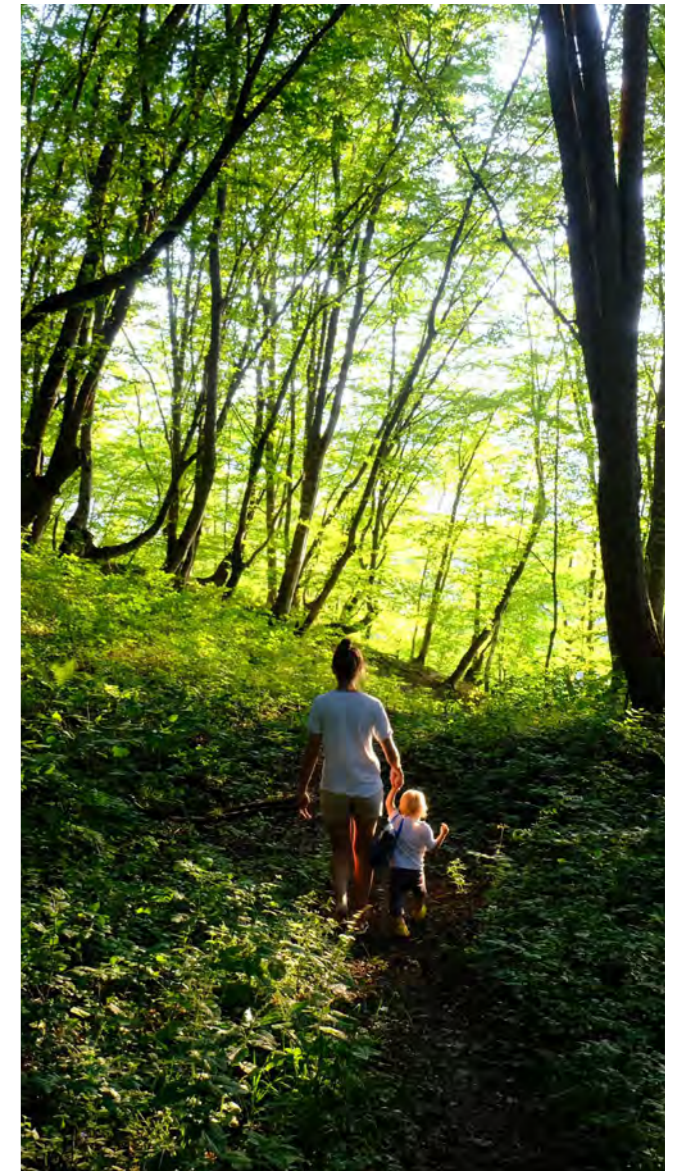
What is net zero?

Net zero refers to a global state of balance between the amount of greenhouse gases being emitted into the atmosphere and the amount being absorbed or removed from it.

Currently, human activities are creating more emissions than planetary eco-systems can absorb, leading to ocean acidification, atmospheric pollution and global warming.

The timeframe for addressing the current imbalance through decisive action to avoid potentially irreversible consequences is limited. Scientific consensus recognises warming of 1.5°C above pre-industrial levels as a critical threshold. Halting warming at this level demands a sharp decline in greenhouse gas emissions by 2030, and net zero emissions by 2050.

The measures required involve significantly less CO₂ being produced and emitted, which cannot be achieved without the transformation of energy, industry, land use, higher energy efficiency and much lower energy demand.



Why have we made a net zero commitment?

A material issue

Climate change is already affecting people, ecosystems and livelihoods all around the world.

Net zero emissions are needed to avert the worst impacts and preserve a liveable planet. The actions required are radical and far reaching. They equate to rapid transition to a net-zero-emissions global economy by mid-century.

In 2015, 196 countries adopted the Paris Agreement, pledging to limit warming to no more than 1.5°C and build resilience to climate change. Efforts have not been significant enough to date, meaning deeper and more ambitious action is needed in the remaining critical decades to 2050.

As an asset manager we recognise the importance of anticipating how the dynamics of transition are likely to affect the investments we make on behalf of our clients and ensuring we are well-prepared to respond to the risks and opportunities presented.

Put simply, we understand the need to resource and upskill ourselves to integrate the necessary data and insights to support our decision making. This will enable us to interpret how global efforts to achieve net zero are shaping the investment universe and likely to play out, evaluate how they are affecting current assets under management, and inform an appropriate response.

We have voluntarily made a public commitment to the goal of aligning our portfolio with net zero emissions by 2050. This recognises the importance we are giving to this work. Our net zero commitment has board level support and is a priority objective identified in our business plan.

A focus on net zero emissions tailored to our specific investment context is aligned with LPPI's purpose and responsible investment beliefs, and a natural progression for our approach to addressing climate change.

"Lack of global cooperation, lack of governance of the required energy and land transformation, and increases in resource-intensive consumption are key impediments to achieving 1.5°C"

Our purpose is to deliver first class, value for money, investment outcomes aligned with our clients' interests and bring our expertise and spirit of collaboration together to help our clients invest sustainably in better futures.



Our responsible investment beliefs



Fiduciary Duty

LPPI has a contractual responsibility to act in the best long-term interests of our clients – namely both the client pension funds and their beneficiaries.



Optimum Returns

We must focus on optimal returns in the long-term, at an acceptable level of risk, to describe ourselves as responsible investors.



Sustainable Basis

The effective management of investment risks is essential to achieve optimum risk-adjusted returns on a sustainable basis.



ESG Factors

Environmental, social and governance (ESG) factors can have a measurable, direct financial impact on the value of securities, assets, markets and portfolios.



Active Ownership

Ownership rights have a value and investors have influence. Institutional investors have a duty to use their ownership powers to protect the long-term financial interests of beneficiaries.

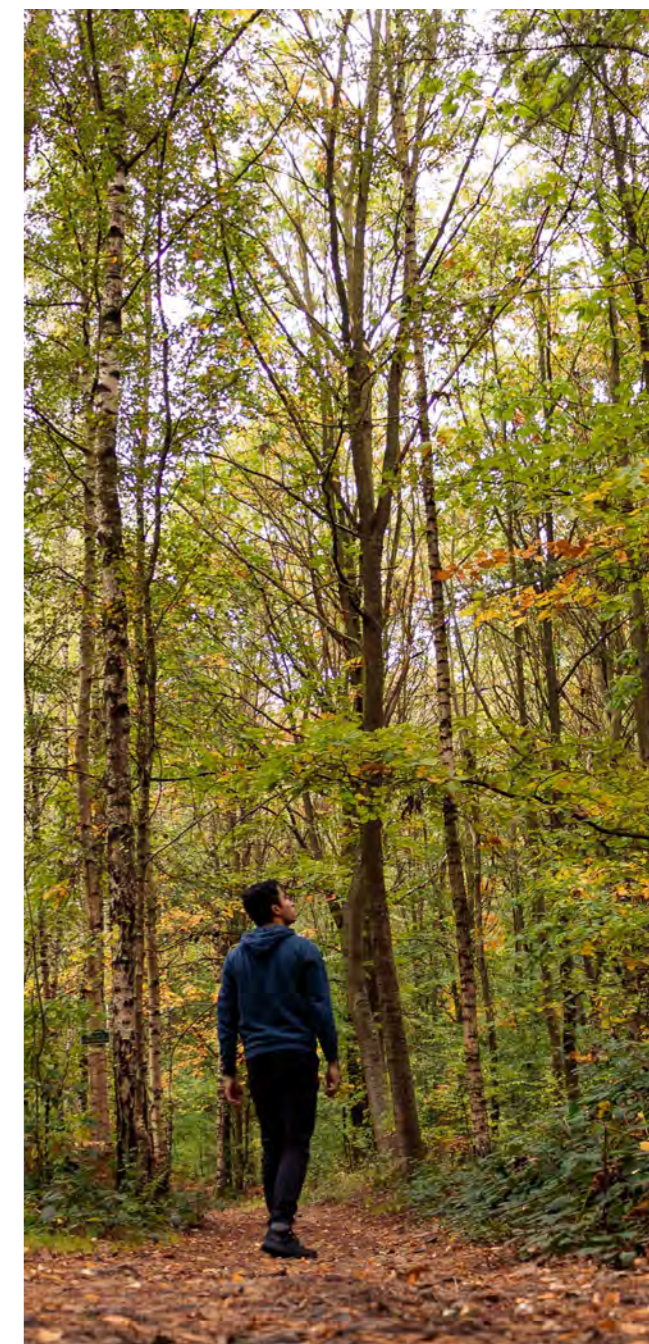
Our investment context

LPPI is an investment firm authorised and regulated by the Financial Conduct Authority. We are an asset manager overseeing approximately £24 billion in assets for public sector pension funds.

We are unique among the LGPS (Local Government Pension Scheme) investment pools in providing a full fiduciary management service, running 100% of assets for three core clients. Full fiduciary management means we strategically manage client pension assets and monitor liabilities, helping our clients ensure sufficient funds are available to pay pensions as they fall due.

Our services include:

- **Asset management** – overseeing investments in LPPI pooled funds and assets held on client balance sheets including local investments
- **Strategic advice** - assisting clients to target and deliver appropriate risk adjusted returns, taking their assets and liabilities into account

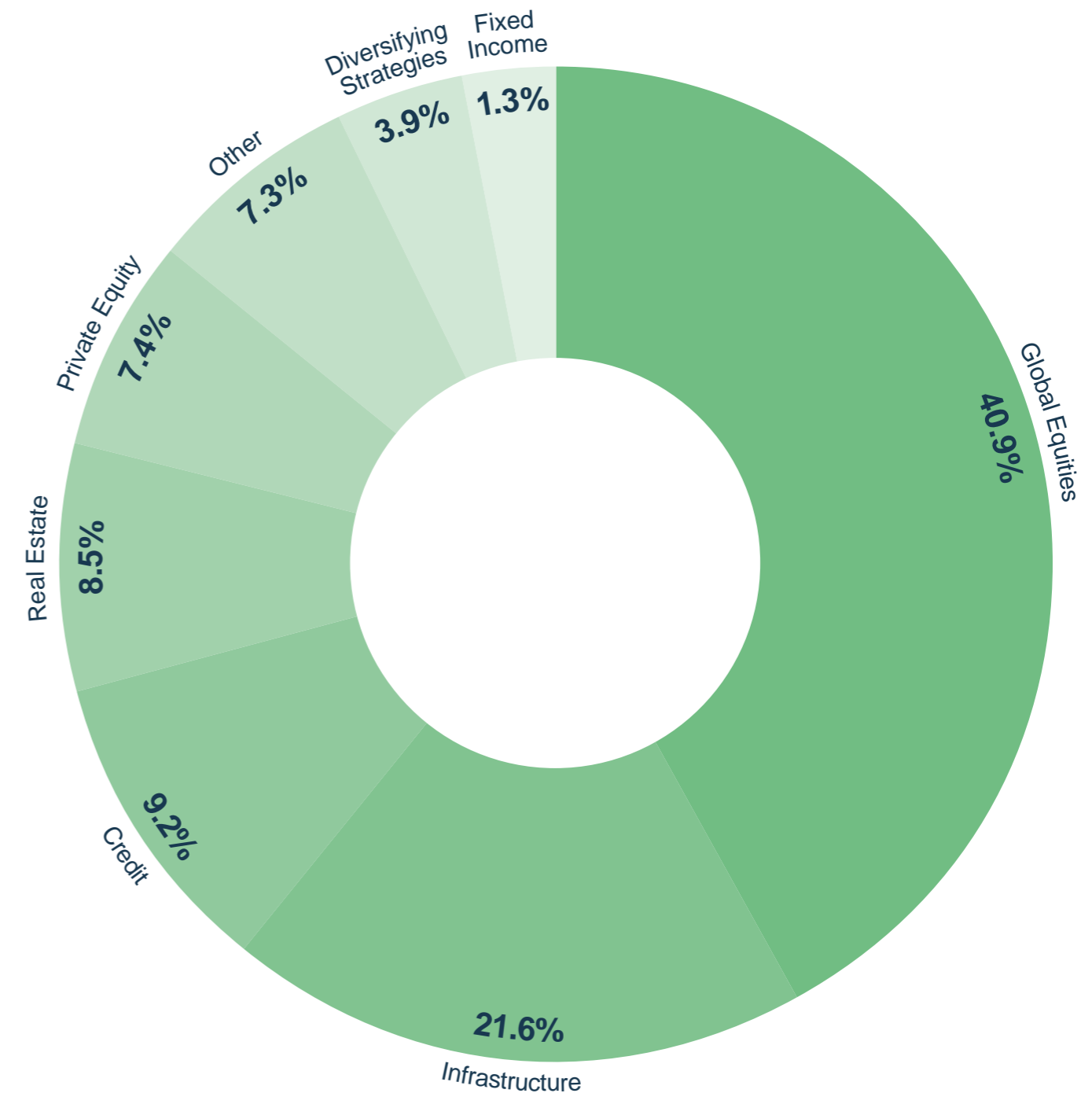


Our assets under management

The investment portfolio we manage spans seven asset classes.

We predominantly manage large pooled funds which have multiple investors rather than segregated mandates specific to individual clients. Our pooled funds incorporate internally-managed mandates where assets are selected and overseen directly by our in-house investment staff, and externally-managed mandates where asset selection and stewardship are by delegate asset managers appointed and overseen by LPPI.

These arrangements mean that fulfilling our net zero commitment will involve co-operation and co-ordination across a large diversified portfolio.



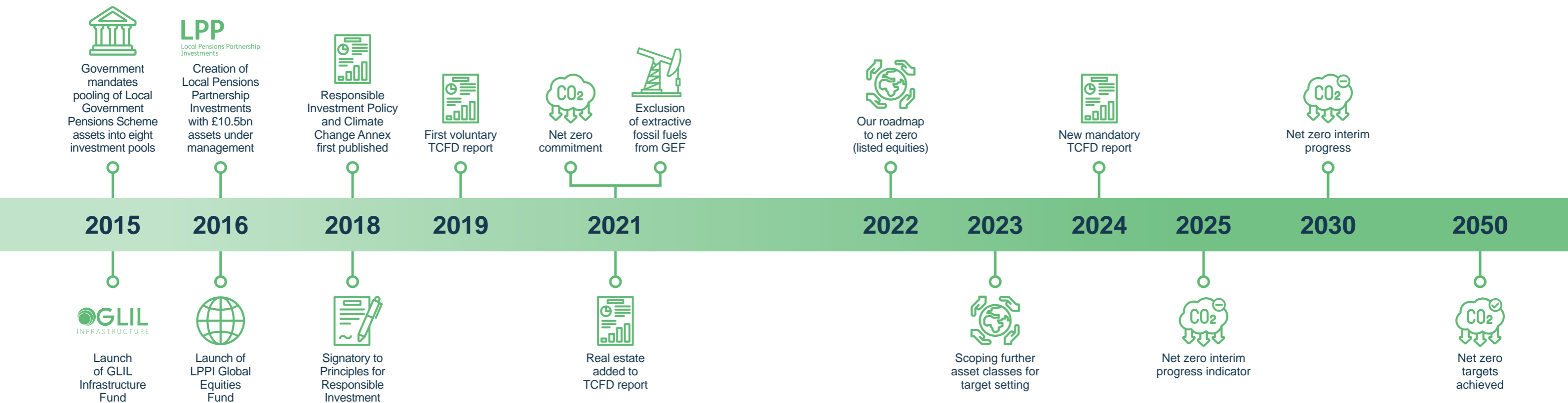
Source: Local Pensions Partnership Investments as at 30 September 2022

Sustainable stewardship

Making a net zero commitment represents a natural progression for LPPI which continues a long-standing focus on sustainable stewardship.

Making a net zero commitment evolves our current approach to addressing climate change as a material investment issue. Our Responsible Investment Policy has a

dedicated Annex on Climate Change and we have reported voluntarily in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) since 2019. We are currently preparing for the compulsory regime of TCFD reporting for UK asset managers which is applicable to us from January 2023, and our approach to net zero is consistent with meeting the new regulatory requirements.



Net zero and TCFD interrelationship

TCFD aims to drive transparent disclosure through clear reporting under four pillars on how climate-related risks and opportunities are considered in managing investments. Net zero spans all four pillars. As a lens focused on the global decarbonisation needed to halt planetary warming at 1.5°C, net zero will be part of our approach under all four pillars, but most obviously part of metrics and targets.

Governance

The organisation's governance around climate-related risks and opportunities.

Strategy

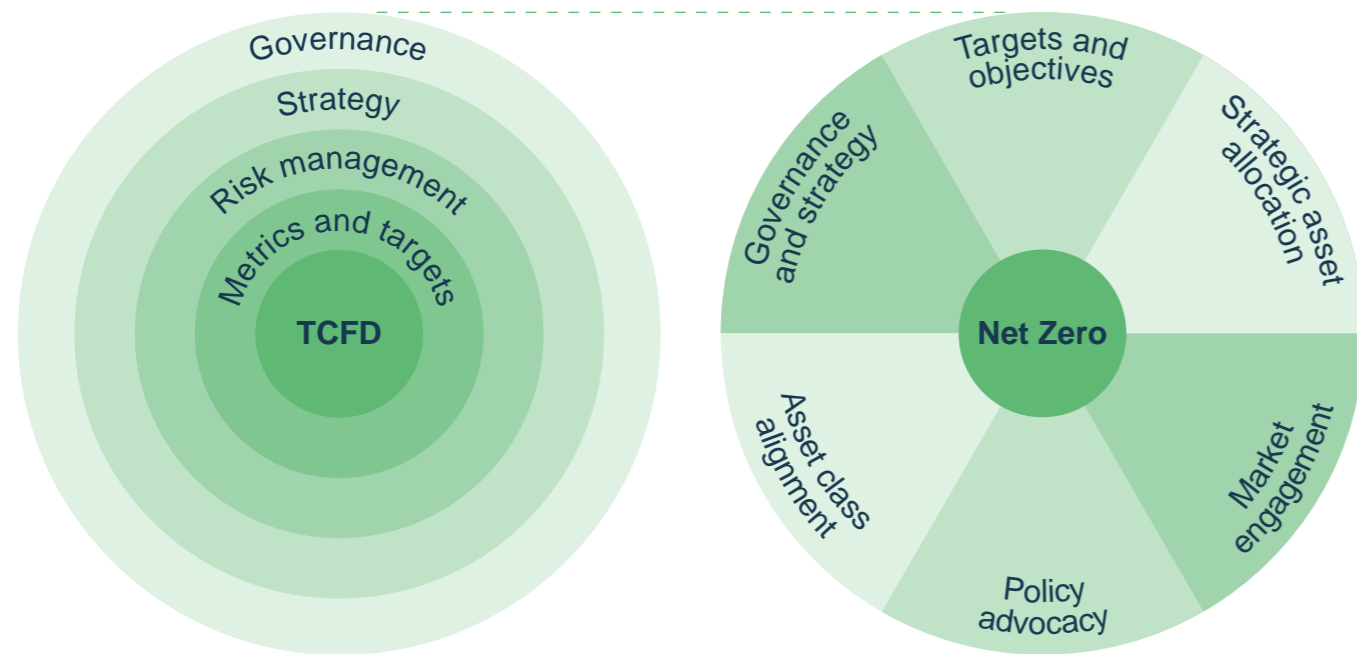
The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Risk management

The processes used by the organisation to identify, assess, and manage climate-related risks.

Metrics and targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities.



What have we committed to doing?

We manage a large, complex, diversified investment portfolio. A commitment to net zero compatible with our role, remit, and responsibilities means an approach that is:

Reflective of

- our business model and the services we provide
- the type of investment products we offer and their investment objectives
- the purpose and structuring of our pooled investment funds
- our advisory and management agreements with core clients and the mandates they give us
- levels of consensus on the importance of net zero as a stewardship priority amongst our clients and partners

Deliverable within

- our investment management agreements with delegate asset managers and the mandates and products they steward
- our contracts with external service providers and the specifications they encompass

As an investment issue, net zero is an important but nascent area. Best practice standards are still under development and data, tools, and recommended methodologies for assessing the net zero alignment of investments are still evolving.

LPPI is a member of the Institutional Investors Group on Climate Change (IIGCC). To prioritise progress around sound principles, we have selected the IIGCC Net Zero Asset Managers Commitment (NZAM) and the IIGCC Net Zero Investment Framework (NZIF) as good practice guides.

LPPI became a signatory to the NZAM commitment in November 2021 with support from our core clients for developing a net zero approach conducive to meeting their ongoing investment needs, compatible with LPPI's business model, and consistent with fulfilling our collective fiduciary responsibilities.

The Net Zero Asset Managers Commitment

In line with the best available science on the impacts of climate change, we acknowledge that there is an urgent need to accelerate the transition towards global net zero emissions and for asset managers to play our part to help deliver the goals of the Paris Agreement and ensure a just transition.

In this context, my organisation commits to support the goal of net zero greenhouse gas ('GHG') emissions by 2050, in line with global efforts to limit warming to 1.5°C ('net zero emissions by 2050 or sooner'). It also commits to support investing aligned with net zero emissions by 2050 or sooner.

Specifically, my organisation commits to:

- a. Work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management ('AUM')
- b. Set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner
- c. Review our interim target at least every five years, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included

In order to fulfil these commitments my organisation will:

For assets committed to be managed in line with the attainment of net zero emissions by 2050 or sooner (under commitment b)

1. Set interim targets for 2030, consistent with a fair share of the 50% global reduction in CO2 identified as a requirement in the IPCC special report on global warming of 1.5°C
2. Take account of portfolio Scope 1 & 2 emissions and, to the extent possible, material portfolio Scope 3 emissions
3. Prioritise the achievement of real economy emissions reductions within the sectors and companies in which we invest
4. If using offsets, invest in long-term carbon removal, where there are no technologically and/or financially viable alternatives to eliminate emissions
5. As required, create investment products aligned with net zero emissions by 2050 and facilitate increased investment in climate solutions

Across all assets under management

6. Provide asset owner clients with information and analytics on net zero investing and climate risk and opportunity
7. Implement a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with our ambition for all assets under management to achieve net zero emissions by 2050 or sooner
8. Engage with actors key to the investment system including credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that products and services available to investors are consistent with the aim of achieving global net zero emissions by 2050 or sooner
9. Ensure any relevant direct and indirect policy advocacy we undertake is supportive of achieving global net zero emissions by 2050 or sooner

Accountability

10. Publish TCFD disclosures, including a climate action plan, annually, and submit them to the Investor Agenda via its partner organisations for review to ensure the approach applied is based on a robust methodology, consistent with the UN Race to Zero criteria, and action is being taken in line with the commitments made here

We recognise collaborative investor initiatives including the Investor Agenda and its partner organisations (AIGCC, CDP, Ceres, IGCC, IIGCC, PRI, UNEPFI), Climate Action 100+, Climate League 2030, Paris Aligned Investment Initiative, Science Based Targets Initiative for Financial Institutions, UN-convened Net-Zero Asset Owner Alliance, among others, which are developing methodologies and supporting investors to take action towards net zero emissions. We will collaborate with each other and other investors via such initiatives so that investors have access to best practice, robust and science based approaches and standardised methodologies, and improved data, through which to deliver these commitments.

We also acknowledge that the scope for asset managers to invest for net zero and to meet the commitments set forth above depends on the mandates agreed with clients and clients' managers' regulatory environments. These commitments are made in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met, including increasing the ambition of their Nationally Determined Contributions, and in the context of our legal duties to clients and unless otherwise prohibited by applicable law. In some asset classes or for some investment strategies, agreed net zero methodologies do not yet exist. Where our ability to align our approach to investment with the goal of net zero emissions by 2050 is, today, constrained, we commit to embark with determination and ambition on a journey, and to challenge and seek to overcome the constraints we face.

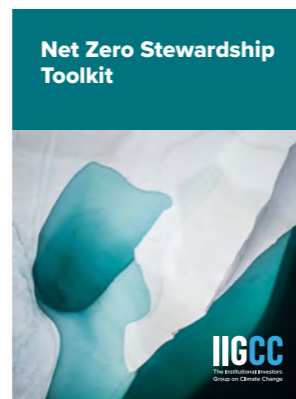
Preparing for our journey

Net zero refers to a global balance being achieved between the amount of greenhouse gases emitted into the atmosphere and the amount being absorbed or removed from it.

The IIGCC's Net Zero Investment Framework (NZIF) attempts to translate a planetary challenge of enormous complexity into a format capable of being addressed by investors. It contains detailed guidance and recommended approaches principally directed at asset owners, but recognises a significant supporting role for asset managers, through:

- encouraging client thinking and net zero awareness
- facilitating real world decarbonisation through net zero aligned investment
- incorporating requirements for net zero alignment into stewardship, engagement, and policy advocacy.

In formulating a roadmap for our net zero pathway we have aimed to meet the requirements of our NZAM commitment by adopting appropriate good practice from the *IIGCC's Net Zero Investment Framework Implementation Guide, Supplementary Guidance on Target Setting and Net Zero Stewardship Toolkit*.





Our route to net zero

The NZAM commitment encompasses significant ambition over multiple decades and will be logistically challenging to address. It involves securing the data and building the insights to support a net zero lens being embedded across our operating model (as part of governance, strategy and core procedures) and becoming integral to what we consider, measure, monitor and address as part of stewardship.

The global asset management industry is working with imperfect information at this point. We lack full data on the emissions our portfolio is financing (the total emissions investee companies are producing and the proportion of this attributable to our assets under management). We lack clarity about which emissions are being managed in alignment with reaching net zero by 2050. Our assets under management span thousands of companies globally and multiple investment vehicles. It is a complex landscape to measure and evaluate. Many companies are not yet disclosing information which gives investors key insights. Providers developing datasets and analytical tools of the type institutional investors need are focused on public market assets. With private market asset classes relatively poorly served, data has to be sourced, collected and aggregated manually before it can be analysed, which is resource intensive and time consuming.

The route we are taking involves effort to improve the quality and coverage of our data on financed emissions and increase the proportion of our assets under management for which we can assess net zero alignment. The overall aim is to incorporate measurement within evaluation, and focus stewardship on the most material considerations.

Reducing financed emissions

We are taking a prudent approach to the long term goal of portfolio emissions reaching net zero by 2050 (commitment a). This reflects that we have to navigate gaps, unknowns and conditions that are changing continuously. The shape and pace of actual real world decarbonisation may not proceed in line with a 1.5°C pathway, because it will reflect the interplay of multiple different factors, many not controllable by investee companies.

Equally, the portfolio we manage is not static. Changes in its composition (what we invest in) will continually alter the proportion of emissions attributable to our assets under management, without anything changing at the global level.

Similarly, because the real-world emissions investee companies generate reflect their commercial operations, they will shift as a reflection of factors including the location and scale of production methods, the integration of innovation or technological advances, the energy mix, and the development or contraction of product ranges, segments and market share.

Our overriding objective is to make good investment decisions which lead to positive investment outcomes for our clients. Our commitment is to investing aligned with net zero emissions by 2050 or sooner, not investment (and divestment) which achieves portfolio decarbonisation in isolation from other relevant investment considerations.

Taking all this into account, we have set a target for portfolio decarbonisation as an aid to tracking progress but will not address this target directly. By this we mean our focus will be first and foremost on the asset-level targets we have set around the engagement and net zero alignment of our individual holdings. We recognise that all companies and sectors need to become net zero aligned to deliver the decarbonisation required globally. Our assets under management encompasses thousands of individual companies at different stages of transition, with different emissions intensities, and with different capabilities, pathways and timelines for reaching net zero. Individual asset managers will consider emissions intensity, the quality of corporate planning, and the net zero positioning of companies in context as part of ongoing asset selection and stewardship. We will set clear expectations about net zero featuring within their stewardship priorities and will engage with managers where we identify concerns.

Doing this well should then result in the necessary emissions reductions in the real economy that can be tracked using the decarbonisation target. We have committed to prioritise real world emissions reductions within the sectors and companies we invest (Pledge 3). Addressing the decarbonisation target as a priority or in isolation however, may result in perverse outcomes that do not align with this ultimate goal.

Supporting a *journey* to low emissions by all companies is equally important. Some of our portfolio companies may have high emissions currently, but also have a robust strategy for decarbonising their operations, and supporting them is aligned with our net zero commitment. Equally, some of the industries and companies which are developing process innovations or products and services which qualify as climate solutions might have high emissions at the moment. It is possible that increasing our investment in climate solutions (Pledge 6) could increase the emissions attributable to our assets under management for an initial period, until corporate plans and action to fulfil them translate into real world decarbonisation.

Increasing net zero alignment

We are clear that the actions taken by individual investee companies to decarbonise towards net zero should produce real world emissions reduction over time. Increasing our portfolio's net zero alignment should produce a trend of measurable portfolio decarbonisation, though this may take time to emerge.

Ratcheting the proportion of the portfolio managed in alignment with attaining net zero emissions by 2050 (commitment b) involves bringing measurement and target setting to increasingly challenging areas of a large complex portfolio. However, the data, tools, methodologies and robust 1.5°C pathways needed to baseline, benchmark and set forward targets for alignment are not available for the full range of assets we manage at this point.

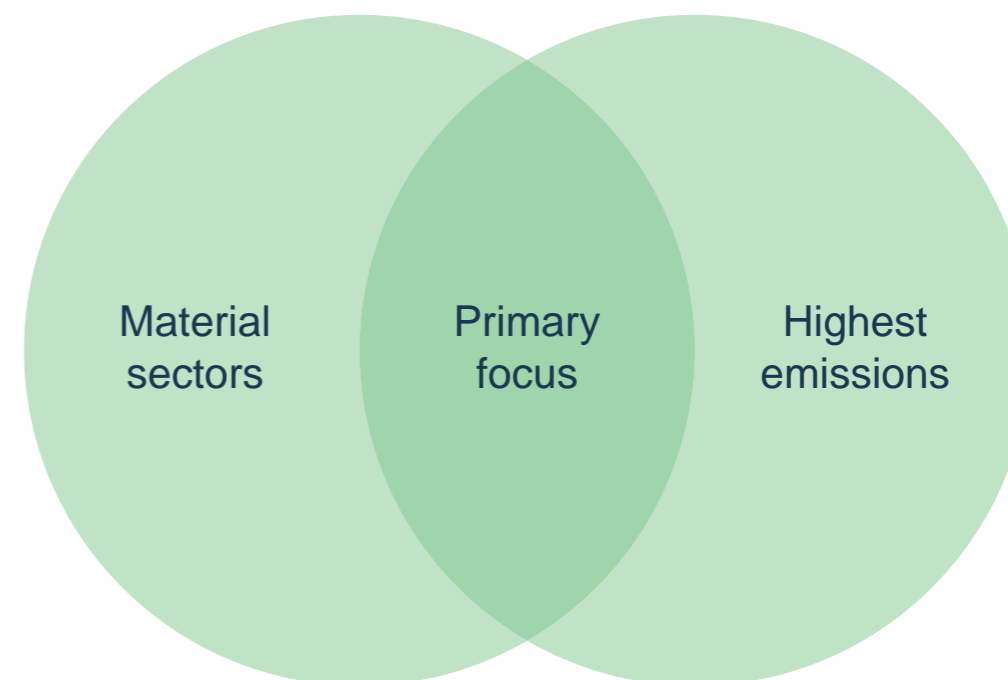
We will need to source datasets from providers (where available) and otherwise gather and collate granular information manually, involving co-ordination across multiple sources. This is resource intensive and will take time to accomplish. We will approach the work in tranches, determining the timing and phasing for different asset

classes depending on the availability of reported emissions data (or robust proxy data) and the information and tools to measure, analyse, and forecast future net zero alignment.

Integrating net zero into stewardship

We aim to progressively improve our coverage of the portfolio's current emissions position and our evaluation of its alignment with net zero through focused stewardship, using the levers available to us as an institutional investor.

We will prioritise the most material sectors and the highest emitting companies in building out a net zero stewardship and engagement strategy.



Net zero stewardship

Meeting our commitment will mean integrating a net zero lens across our approach to stewardship, as part of active ownership which uses a range of levers to exert a positive influence.

Active Ownership

- The assets we select (strategy and implementation).
- The expectations we incorporate (contracts and side letters).
- How we monitor and oversee (assets and external managers).
- How we identify, interpret and address risk (control environment).
- How we engage (companies - directly and collaboratively, delegate managers - clear expectations, insights from monitoring).
- How we advocate for supportive policy and an assistive regulatory environment (consultation responses, direct dialogue with regulators such as the Financial Conduct Authority and the Financial Reporting Council, and government departments such the Department for Levelling Up, Housing and Communities).

Levers of influence

- LPPI's main levers include dialogue with firms directly through our in-house investment team, and dialogue through external investment managers and service providers.
- We will engage unilaterally with firms via shareholder voting and board seats.
- We will engage with firms collectively, in collaboration with other like-minded investors through initiatives including IIGCC, CDP, ClimateAction100+, and the Transition Pathway Initiative.

Examples of what we are already doing:

- We have pre-existing policies to move away from new investments in some specific sectors – coal exclusions apply to the whole portfolio and extractive fossil fuel exclusions apply to the Global Equities Fund.
- Reporting on climate change - through voluntary TCFD disclosure, and as a signatory to the Principles for Responsible Investment, and the UK Stewardship Code 2020.

- Reporting to clients - via a responsible investment annual report and quarterly responsible investment dashboard including climate change related metrics and “green” and “brown” exposure.
- Participating in collaborative investor initiatives - including IIGCC, ClimateAction100+, UK Pension Schemes Responsible Investment Roundtable, Occupational Pensions Stewardship Council, Transition Pathway Initiative, and CDP non-disclosure campaign.
- Advocating for an assistive and ambitious policy environment - as a signatory to investor letters to G7 and G20 governments, and the Investor Statement to Governments on Climate Change.
- Engaging with our service providers - shareholder voting (Institutional Shareholder Services), climate change data (MSCI), engagement partner (Robeco Active Ownership), to explain our needs and encourage them to develop solutions to existing gaps.

Our milestones and initial net zero targets

We have made positive progress since making our NZAM commitment in November 2021 and have sought to update and bring clients along with us, particularly those considering net zero commitments of their own, to support their planning and implementation.

Our first year has involved interpreting and translating recommended best practice into LPPI's specific operating context. Net zero spans multiple elements of LPPI's asset and risk management model. It has brought additional resourcing demands for personnel and data and a review of existing processes as part of planning to integrate net zero considerations into our investment governance, risk control framework, and investment management routines.

Our milestones

Our first year milestones:

- meet NZAM commitments b and c by setting and publishing initial targets within 12 months
- adopt good practice standards from NZIF as the basis for our target setting approach
- publish a document explaining our net zero approach and indicating the route we will follow going forward

All first-year milestones have been met.

Our approach and planning will continue to evolve with experience and will be refreshed iteratively to incorporate new insights and solutions.

Our most immediate future milestones are to:

- embed live monitoring of net zero targets within risk, portfolio, and manager monitoring routines.
- develop a phased plan for expanding the coverage of our emissions data for private market assets.
- expand the proportion of assets under management within net zero target setting.

- continue discussions with clients on their net zero thinking and future requirements as part of our planning for product development.
- incorporate net zero within TCFD disclosure as part of our transition from a voluntary to compulsory reporting regime.



Our initial net zero targets

The NZAM commitment envisages 100% of assets under management being brought within the scope of net zero target setting over time. Our actual progress will depend on our mandates from clients and partners, our regulatory environment, and the availability of sufficiently robust foundations for target setting. We need corporate disclosure to improve, and tools and methodologies to mature, across the full range of asset classes we manage.

Our first interim target (under commitment b) is for 42% of our assets under management to be managed in line with the attainment of net zero emissions by 2050 or sooner. This represents 100% of the assets we manage in listed equities through our Global Equities Fund (GEF) and is our largest asset class under management.

We will review our interim target regularly (at least every five years in line with commitment b). Our next areas of focus for measurement and target setting are real estate and corporate fixed income.

IIGCC guidance recommends and provides methodologies for setting two targets at asset class level (engagement and coverage) and two at portfolio level (decarbonisation and investing in climate solutions) where these are compatible with an asset manager's remit and fiduciary arrangements.

We have set three of the four recommended targets. We have not set a target for increasing investment in climate solutions at this point. We may consider doing so in future pending discussion with clients on their preferences for products which invest in climate change solutions and the asset classes offering suitable scope. Meanwhile, we are already investing in climate solutions, most obviously through our infrastructure pooled fund which includes direct investments in renewable energy (wind, solar, and energy from waste) and transition assistive projects including battery storage and district heating.

The targets shared in this document have been submitted to the IIGCC for evaluation and have been confirmed as compliant with our NZAM commitment.

LPPI's net zero targets are also available on the [Net Zero Asset Managers initiative website](#).

The phasing of target setting

Phase 1 – Complete
Global equities
(42% of our assets under management)

Phase 2 – Started
Real estate, corporate fixed income

Phase 3 – Planning
Remaining asset classes

Our asset class targets (listed equities)

Coverage target

Measure: Percentage of *assets under management* in material sectors* that are net zero, aligned or aligning with net zero.

Purpose: A target for increasing the *value* of assets already meeting conditions required for being assessed as net zero or taking the actions to move them into this position.

Our targets:

- **32%** of our global equities assets under management in material sectors* **by 2025**
- **55%** of our global equities assets under management in material sectors* **by 2030**
- **100%** of our global equities assets under management in material sectors* to be net zero or aligned by **2040**

100% by 2040

55% by 2030

32% by 2025

Engagement threshold

Measure: Percentage of *financed emissions* in material sectors* that are net zero, aligned with net zero or under engagement.

Purpose: A target for increasing the proportion of total *financed emissions* from companies already meeting conditions required to be considered aligned with net zero, or under focused engagement on the actions needed.

Our targets

- **70%** of financed emissions in material sectors* at least aligned or under engagement **by 2022**
- **90%** of financed emissions in material sectors* at least aligned or under engagement **by 2030**

90% by 2030

70% by 2022

*Material sectors have been defined by IIGCC for consistency in the IIGCC Net Zero Implementation Guide. They are the sectors whose activities make the largest contribution to total emissions globally and which will need to produce the materials, develop the critical technologies and evolve the lower emitting, more energy efficient processes that achieving a sustainable global economy depends upon.

Our portfolio target

Portfolio decarbonisation goal

Measure: Weighted Average Carbon Intensity (WACI) in tonnes of CO₂e per \$m sales. Initially covering Scope 1 and Scope 2 emissions (updated to include Scope 3 emissions when data quality allows).

Current scope: Listed equities only.

Purpose: Monitoring the portfolio's decarbonisation trajectory over time.

Goal: A portfolio emissions intensity aligned with net zero emissions by 2050 or sooner.

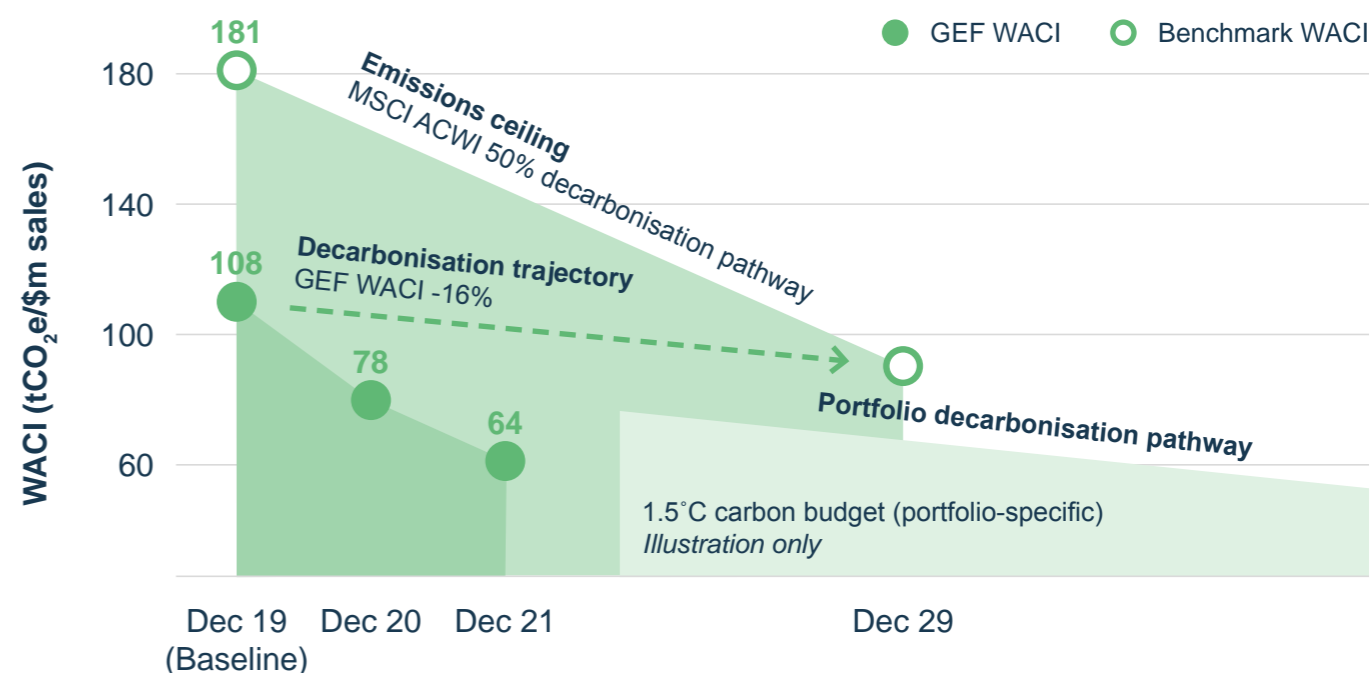
Our monitoring approach for listed equities involves comparing the WACI of our Global Equities Fund (GEF) to the WACI of its comparator benchmark, the MSCI All Country World Index (MSCI ACWI). We will review how the GEF is positioned relative to a decarbonisation pathway for the benchmark halving its emissions intensity between December 2019 and December 2029. IIGCC guidance describes this as a benchmark-relative approach to setting a "fair share" decarbonisation target.

A benchmark-focused decarbonisation pathway provides a helpful ceiling (or guardrail). It is a top-down, fixed-in-time comparator which does not move. The MSCI ACWI is a universal benchmark which means it is representative of the global market as the GEF's investment universe.

We plan to enhance our emissions monitoring approach by calculating a portfolio decarbonisation pathway for the GEF in due course. This will focus on comparing the investments we hold in listed equities against a 1.5°C pathway (or emissions budget) specific to them, indicating a glidepath for emissions reduction which supports us monitoring how our portfolio is positioned and progressing.

The portfolio decarbonisation pathway indicated in the diagram opposite is illustrative only. We are awaiting tools under development by our data provider to support us modelling a portfolio-specific 1.5°C decarbonisation pathway for the GEF which can be regularly rerun and updated. It is important our monitoring can keep pace with changes in the composition of the GEF and its financed emissions to ensure our stewardship and engagement are trained on the highest priority companies within our assets under management.

Decarbonisation glidepath



Current positioning

Our GEF is currently in a very positive position. It was registering an emissions intensity 40% below the MSCI ACWI in December 2019 (the baseline date). The GEF's WACI needs to reduce by at least a further 16% by 2030 to remain aligned with or beneath a 1.5°C decarbonisation pathway for its universe. When measured at the end of December 2021, the GEF had a WACI materially lower than the benchmark's 50% decarbonisation pathway.

When we can produce a portfolio-specific decarbonisation pathway, we can also review the GEF's position against a bottom-up, notional emissions budget which reflects current holdings and adjusts for changes in the composition of the GEF. This will assist us in refreshing our target setting over time.

Our own operational emissions

Our NZAM commitment focuses on the financed emissions attributable to our assets under management, but the NZIF includes encouragement for investors to monitor and set targets for their own operational emissions as a direct contribution to reducing real world emissions.

As part of LPPI's net zero commitment we are monitoring the operational emissions of our business and have sought PlanetMark accreditation to ensure we are following a certified and appropriate measurement approach.

We have not set a forward target for business emissions reduction at this point but will do so in due course once efforts to collect further data improve our capabilities to capture our baseline and assess the options for improvement.



Some early reflections

The NZAM commitment represents an aspirational multi-decadal ambition which presents strategic, operational and logistical challenges we will need to work to overcome. The approach and plans this roadmap articulates reflect initial steps which share our thinking and learning to date.

Since we became signatories in November 2021, LPPI's priority has been to assemble the advice, tools, core data and key personnel to agree appropriate first steps in a thoughtful, logical, and prudent approach.

Key steps in our journey to date (from initially making our commitment to publishing targets and a net zero roadmap) include:

- Establishing a multi-disciplinary project group to oversee net zero planning and support progressive implementation into our core investment processes
- Assignment of internal project management resources and an external consultant, to support and co-ordinate change management
- Surveying the data, tools and services currently available from the provider market
- Assessing the availability of emissions data, pathways, and net zero alignment indicators (to understand the scope of asset classes capable of inclusion in initial target setting)

- Undertaking portfolio baselining, benchmarking and target setting for in scope assets (to establish the current position of companies, assess net zero alignment positioning, set forward targets for improvement-focused stewardship, and identify priority companies)
- Evaluating the practical outcomes and potential financial impacts of our initial targets (to the extent possible)
- Formulating a stewardship and engagement strategy for a priority group of companies
- Implementation planning for the incorporation of net zero analysis, monitoring and oversight into live processes

Our first reflection from the first phase of our net zero journey is on co-ordination. From the start, the multidisciplinary working group has been instrumental in building engagement with this initiative across the business, acting as a focal point driving action and consensus at all levels. It has been a key success factor which we will continue to deploy as we bring on board more asset classes to the initiative over the next 12 months.

The second is on data. Our exercise of surveying the market for an appropriate provider of data and analytical alignment tools reinforced to us the shortcomings in data availability and methodological consistency at present.

Our ability to bring a large, complex, diversified portfolio within scope of net zero management will be significantly improved by increased market co-operation and rapid evolution of industry-wide infrastructure. The building blocks required include corporate reporting to consistent minimum disclosure standards through legislation regulating what underlying companies (in both public and private markets) must disclose, and co-operation and equivalency from asset managers in assembling information for the mandates they manage.

The role of data providers is fundamental to achieving an efficient market solution given the need for both high quality aggregated datasets reflecting market agreed measures of corporate alignment, and modelling tools which utilise this data to enhance the production of decision-useful analysis.

An important pillar of our net zero stewardship and engagement strategy was and will continue to be:

- advocacy for a supportive regulatory and policy environment
- industry engagement urging the emergence of agreed definitions and methodologies
- pushing for a maturing offer from data providers which understands and addresses investor needs

Our final reflection is on ambition. This first year of our commitment has seen the establishment and cementing in practice of a critical house view: focus our efforts and ambition where we can have the greatest impact.

As an asset manager that means the stewardship of capital. While alignment methodologies develop, our teams are focused on building a robust and stretching stewardship and engagement strategy. The investment team has set high expectations of our existing managers in particular and have committed to build their understanding and capacity to meet these through focused and targeted engagement. This has quickly become a key criterion for future relationships with managers as well.

We are committed to being transparent about our position and the actions we are taking to progress our understanding, address what is immediately possible, and invest in the next steps required to take us further. Our experience of embedding net zero considerations into listed equities will inform efforts to expand coverage, though we recognise only some aspects will translate to other asset classes and others will need adapting to accommodate different contexts.

Our future reporting on net zero, including progress against our targets and the evolution of our approach, will form part of TCFD disclosure. This reflects that making a voluntary commitment to net zero is not a separate initiative but an integral part of improving how we understand, measure, assess, manage and report on the investment risks and opportunities posed by climate change.

Glossary

Baselining

Establishing the starting point against which targets will be set and progress measured.

Benchmark-relative approach

Uses the emissions of a comparator benchmark at a point in time to reference an emissions reduction target against and measure progress.

CDP

CDP (previously the Carbon Disclosure Project). [Visit the website.](#)

FCA

Financial Conduct Authority. Regulates financial services firms and financial markets in the UK.

Financed emissions

The emissions associated with our assets under management based on attributing a share of the total emissions produced by underlying companies in proportion to the size of the investment we hold.

IIGCC

Institutional Investors Group on Climate Change.

Investment universe

A selection of assets which reflect an investable universe, generally grouped based on the preferences of an investment strategy in terms of, for example, sector, industry or regional exposure.

IPCC

Intergovernmental Panel on Climate Change IPCC Special Report on the impacts of global warming of 1.5°C.

MSCI All Country World Index (ACWI)

A stock index designed to track broad global equity market performance. The LPPI Global Equities Fund's comparator benchmark.

NACE

A statistical classification in use within the European Community.

NZAM

Net Zero Asset Manager Commitment (see pages 22-23).

NZIF

Net Zero Investment Framework.

Paris Agreement

Intergovernmental Panel on Climate Change, the United Nations body for assessing the science related to climate change.

Portfolio self-decarbonisation

Using portfolio emissions at a point in time to reference an emissions reduction target against and measure progress.

Scope 1

All direct greenhouse gas emissions from sources owned or controlled by the company. Some examples include emissions from fossil fuels burned on site, emissions from entity-owned or leased vehicles.

Scope 2

Indirect greenhouse gas emissions from consumption of purchased electricity, heat, or steam, and the transmission and distribution (T&D) losses associated with some purchased utilities.

Scope 3

Other indirect emissions that occur from sources not owned or controlled by the company. Some examples of Scope 3 activities are extraction and production of purchased materials; transportation of purchased fuels; and use of sold products and services.

Stewardship

The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society (UK Stewardship Code 2020).

Total Carbon Emissions

The sum of all the emissions in the portfolio based on the investor's ownership share.

$$\sum_n^i \frac{\$ Investment_i}{Issuer's full mcap_i} \times Issuer's emissions_i$$

TPI

Transition Pathway Initiative. [Visit the website.](#)

Universal global benchmark

A benchmark stock index which is representative of the global economy, for example the MSCI All Country World Index.

Weighted Average Carbon Intensity (WACI)

Weighted Average Carbon Intensity is the measure of a portfolio's exposure to carbon-intensive companies, expressed as tCO2e/\$m company revenue.

$$\sum_n^i Portfolio\ weight_i \times Issuer's\ carbon\ intensity_i$$



For more information about LPPI, visit our website or contact us to discuss your specific requirements in more detail.

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Authorised and regulated by the Financial Conduct Authority (Reference number: 724653)

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