

PENSION FUND COMMITTEE – 10 SEPTEMBER 2021

CLIMATE CHANGE REPORT

Report by the Director of Finance

RECOMMENDATION

1. **The Committee is RECOMMENDED to note the report.**

Climate Change Report

2. This report fulfils the target from the Pension Fund's Climate Change Policy Implementation Plan to produce a Taskforce on Climate-related Financial Disclosures (TCFD) based report for inclusion in the Fund's 2020/21 Annual Report.
3. The report is being produced two years ahead of the expected introduction of mandatory TCFD reporting for LGPS funds and should put the Pension Fund in a strong position in being able to meet those requirements once finalised by the Ministry of Housing, Communities & Local Government.
4. The report follows the TCFD recommended disclosures which cover four areas: Governance, Strategy, Risk Management, and Metrics & Targets. In addition, the report includes a review of the progress made by the Fund since the Climate Change Policy was agreed by the Committee in June 2020.
5. The Fund has taken a number of key actions since the Policy was agreed and has been working hard to implement the Policy. Below are highlights of some of the progress that has been made to date:
6. The Fund commissioned a Carbon Metrics Report from Brunel that included providing legacy holdings data for 2019 to enable the fund to track progress against its emissions reduction target. **The report showed that the Pension Fund achieved a reduction in Weighted Average Carbon Intensity (WACI) in the year to 31 December 2020 of 17.7% across measurable investments.** This is significantly above the Fund's annual reduction target of 7.6%.
7. The Carbon Metrics Report also showed that the WACI for the Fund was 25.4% below the WACI of the benchmark and that the Fund's exposure to fossil fuel reserves (an indicator of potential stranded asset risk) decreased by 30% over the year.
8. Contributing to the achievement of these reductions the Fund made the decision to move 5% of the overall Fund from a standard passive equity Fund to a low-carbon version and to transition its full legacy UBS global equities portfolio to

the Brunel Sustainable Global Equities portfolio rather than the initial planned destination of Core Global Equities.

9. On passive investments the Fund was clear when it made the allocation to the low-carbon passive fund that it did not believe this fully aligned with the Fund's Climate Policy and would seek a more suitable solution. After working with Brunel and other client funds two new passive fund types are being made available by Brunel and are the subject of a separate report to this Committee.
10. The Fund became a member of The Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+ to add its voice to groups seeking to support net-zero goals in the investment industry. In February 2021 the Fund was among the first investors to sign the IIGCC's Paris Aligned Investments Initiative: Net Zero Asset Owner Commitment, joining other global investors in committing to investing in support of the goal of global net zero emissions by 2050.
11. In December 2020 it was announced that Faith Ward, Chief Responsible Investment Officer at Brunel, had been appointed as Chair of the IIGCC. This recognises the leading work being undertaken at Brunel on Climate Change investing and puts Brunel and its clients at the forefront of global investor efforts to effect change in the investment industry.
12. The Fund has continued to operate its Climate Change Working Group bringing together a range of different participants to discuss climate issues and actions for the Fund and report back to the Committee.
13. The highlights above and further details in the TCFD report demonstrate the significant progress made by the Fund since the Climate Change Policy was agreed in June 2020 just over a year ago – moving from an informal approach to managing climate change to a more active one with an agreed Policy and Implementation Plan alongside Fund level climate targets and metrics.
14. The Fund can be proud of what it has achieved to date and will continue to work on the significant steps still to be achieved.

Lorna Baxter
Director of Finance

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