Division(s): n/a

ITEM

PENSION FUND COMMITTEE – 4 MARCH 2022

CLIMATE CHANGE ENGAGEMENT POLICY

Report by the Director of Finance

RECOMMENDATION

1. **The Committee is RECOMMENDED to approve the draft Climate Change Engagement Policy as included as the Annex to this report and instruct Officers to work with the Climate Change Working Group and Brunel to assess the practical implications of the Policy using the latest available data and report back to the June Committee.**

Introduction

2. At its December meeting, this Committee considered and agreed an initial draft Climate Change Engagement Document which set out some of the key principles to be included in the final draft policy. This document had been developed through discussions within the Climate Change Working Group including input from the representative from Fossil Free Oxfordshire.

3. The Committee asked Officers to continue to work with the Climate Change Working Group to produce the final draft version of the Policy for consideration at this meeting. It was noted that any Policy approved by this Committee would then become the basis for a wider policy discussion across the whole of the Brunel Pension Partnership as part of the 2022 Climate Change stocktake with the aim of agreeing a single Policy across the whole of the partnership.

4. The Climate Change Working Group met on 10 February 2022 and considered an initial draft Policy document prepared by the Officers. Members of the Responsible Investment Team at Brunel attended the meeting of the Working Group to comment on the draft and provide advice, but it was agreed that at this stage of the process, the draft Policy reflected the views of the Oxfordshire Pension Fund Committee, and the views were not necessarily endorsed by Brunel. The key elements of the discussion held at the Working Group are set out below, with the amended draft Policy included as an Annex to this report for Committee approval.

Draft Policy

5. The initial draft document set out the intended scope of the policy, with an ambition to cover all asset classes in as consistent manner as possible. The subsequent discussion highlighted the need to take different approaches across asset classes and indeed within asset classes. For example it was highlighted

that the approach to selecting investment assets was very different between the public and private markets, with the greater illiquidity in the private markets making it more important to ensure that Brunel selected Fund Managers who shared their responsible investment ambitions as there was less scope for engagement and dis-investment of underlying positions later within the process. It was also highlighted that there was limited scope for engagement when discussing sovereign bonds for example.

6. It was therefore agreed that the final policy would need to include a number of sub-divisions to reflect the different approaches and criteria that could be applied to the individual asset classes.

7. It was agreed that the initial focus of the Policy should be on the listed equity markets and the corporate bond markets where company engagement was a traditional part of the Fund Manager role, alongside the ability to raise and vote on resolutions at company general meetings, and where data was more generally available to undertake assessment of the underlying investments.

8. Within this initial focus, it was agreed that priority should be on those companies responsible for the highest levels of carbon emissions. The Committee had previously agreed to sign up to Climate Action !00+, so It was agreed that the Climate Action 100+ list of high impact companies should therefore be the initial focus of the Policy. This list currently covers 187 companies who account for over 80% of corporate industrial greenhouse gas emissions.

9. There was a request that the Policy should include a clear timeline for building out the document to include all asset classes. The consensus though was that at this time it was not possible to provide a definitive timeline as too many factors lay outside the control of the Committee, including the development of credible 1.5°C scenarios for all asset classes, and the establishment of comprehensive data to assess the relative merits of all classes of underlying investments. Going forward though it would be important to understand the relative impact of the various asset classes on the Fund's carbon footprint and prioritise developments where they would have the greatest impact.

10. The members of the Working Group set out some concerns about the criteria used in the initial draft document to classify and assess individual companies. It was highlighted that we needed to adopt a standard approach to this to ensure the data was available to complete a comprehensive assessment. The criteria and classifications included in the initial draft were developed as part of the Climate Action 100+ work and included more detailed underlying sub-criteria with scores against the criteria overseen and controlled by Climate Action 100+.

11. Particular concern was expressed about including a "committed to aligning classification" based on the perceived self-assessment element of this criteria and the ability to express a commitment without any real action behind this to deliver the required net zero changes. It was noted though that Climate Action 100+ would be making an assessment of each of the high impact companies commitments, so there was some external validation of the classification, and

retaining the classification retained an earlier milestone whereby companies could be highlighted for potential action including exclusion.

12. The Working Group spent some time discussing the initial timescales for actions with conflicting views expressed about whether timescales should be shortened or were overly ambitious. The discussion also picked up the wider issues associated with the operation of the policy, and the need to deliver on both the policies objective on limiting global temperature increases to no more than 1.5°C and the over-arching fiduciary duty of this Committee.

13. The consensus was that the policy could not be overly prescriptive and needed to have a broader range of timescales attached to avoid either a fire sale of assets or to force the sale of assets when other criteria supported their retention. Having a wider range of timescales would enable the Fund to be ambitious in setting early targets for the highest impact companies whilst ensuring the timescales to manage the effective transition of lower impact companies was deliverable. It was also important to note that the Fund's overarching Climate Policy was to support the delivery of a net zero economy rather than simply a net zero investment portfolio, and whilst dis-investment would deliver the latter it could hamper the process to deliver the former.

14. It was agreed that maintaining a high level of transparency around the delivery of this policy was important, and if there was an acceptance that companies which failed to meet the required criteria by the specified timescales would not automatically be subject to exclusion, there needed to be clear reporting as to why such companies were being retained within the investment portfolios.

Next Steps

15. As part of the discussion, it was suggested that it would be helpful to understand how the policy would apply to current investment companies. Brunel reported that they expected further data would be published in March 2022 which would support such analysis. This analysis would allow us to report on the percentage of companies on the Climate Action 100+ high impact list which are contained within our portfolios and the proportion of the total emissions of the Fund attributable to these companies.

16. It was further explained that the wider discussions on developing an Engagement Policy across the whole of the partnership would not take place until the second half of 2022 as part of the Climate Change stocktake. As such it was agreed that the Working Group could undertake a further review of the potential practical impacts of implementing the draft policy and report back their findings and any proposed revisions to the draft Policy to the June meeting of this Committee.

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