

PENSION FUND COMMITTEE – 6 DECEMBER 2019

CLIMATE CHANGE POLICY

Report by the Director of Finance

RECOMMENDATION

The Committee is RECOMMENDED to note the position on the development of the Climate Change Policy and the establishment of a Working Group to undertake the next stages of the work.

Introduction

1. At their meeting on 7 June 2019, the Committee agreed to hold a workshop on Climate Change to support the development of their own policy which would in turn feed into the Investment Strategy Statement and Asset Allocations to be agreed in March 2020.
2. This report feeds back on the Workshop and the main issues arising and proposes the next steps in the process. This includes an update on the development of Brunel's own Climate Change Policy which is seen as a key document to support and facilitate our own Policy. It is intended that a full draft Climate Change Policy will be produced to be reviewed at the meeting of this Committee in March 2020, to be then subject to formal consultation with key stakeholders, before formal adoption at the June 2020 meeting of this Committee.

Climate Change Workshop – 8 November 2019

3. As instructed by the Committee, the Workshop was designed to ensure input from a variety of stakeholders to ensure all views were heard and considered before determining the policy direction. To support the effective management of these various views, it was agreed to appoint an Independent Facilitator to support the planning for the Workshop and to manage the event on the day. Officers appointed Dawn Reeves, a Certified Professional Facilitator with the Internal Association of Facilitators.
4. To ensure that the Workshop covered the views of the key stakeholder groups, Officers held a planning session with representatives of Fossil Free Oxfordshire and invited them to propose expert speakers who could contribute to the discussions on the day. Fossil Free Oxfordshire proposed 6 speakers, of which 5 were able to participate on the day, with the 6th having a prior engagement.
5. Following two planning meetings, the first with Officers and the second with Officers, the Chairman and Cllr Sanders, the full programme for the day was

planned by Dawn Reeves, including the engagement with all contributors. Final sign-off was by Officers.

6. The Workshop itself was attended by 9 members of the Committee and 5 members of the Pension Board. They were joined by 3 Officers from the Fund, 3 representatives of Fossil Free Oxfordshire, 2 Climate Change Lead Members from the District Councils and the Fund's Independent Financial Adviser.
7. The Workshop consisted of three main sessions which involved short 10-minute inputs from our expert speakers, followed by table discussions on questions set by the facilitator. Seating at each of the tables had been planned to ensure a cross range of stakeholders at each table.
8. The expert speakers who contributed to the day were:
 - Professor Richard Allan, University of Reading – a lead author on papers from the Intergovernmental Panel on Climate Change
 - Kingsmill Bond – an energy strategist and member of Carbon Tracker
 - Pascale Gordeau – a student at Oxford University to present the youth perspective
 - Marion Maloney, Policy Governance and Risk Manager from the Environment Agency Pension Fund
 - Henrik Wold Nilsen, a Fund Manager from Storebrand, who delivered his contribution by Skype, as on principle he refuses to fly where there are alternative lower carbon means of delivering his message
 - Iancu Damarus – an energy analyst, Legal & General Investment Management
 - Joel Moreland – a financial consultant
 - Faith Ward – Chief Responsible Investment Officer from Brunel
 - Lauren Juliff – Head of UK Institutional, Skagen (part of Storebrand)
 - Chris Lyons – Client Director, Legal & General Investment Management
 - Revd Hugh Lee – Church of England
 - Alistair Bastin, Unison – a member of the Local Pension Board who provided feedback on a recent Unison survey amongst scheme members.
9. The independent Facilitator noted a high level of consensus in the room along with a real willingness to engage in the complex issues. She has produced a summary report of the key outputs from the Workshop which have been circulated to all attendees and which will support the next steps of the process.
10. Some of the key outputs from the day include:
 - Our first priority must be our fiduciary duty to the beneficiaries of the Fund
 - We recognise that the risks posed to our investments by climate change are real, and that the financial system can and should do more to address these risks

- We recognise the need for a managed transition from the current reliance on oil and gas (although this needs greater clarification and understanding of the mechanisms for delivery)
 - We need to collaborate with others to achieve the best outcomes
 - We need to aim to contribute to a low carbon world, consistent with a maximum 2-degree scenario (some would like to see this as a 1.5 degree maximum)
 - No single approach is likely to be fully successful, and we will need a combination of engagement and divestment to deliver our desired outcomes
 - We need to ensure transparency from our investments, with clear engagement targets and timescales. Divestment should be a sanction where companies are not working towards full transparency or becoming aligned with the Paris Treaty in the stipulated timescales
 - There is a considerable information shortfall, and we should seek to bring investment industry wide pressure to address this – doing nothing though whilst we wait for better information is not an option
 - We need better metrics and clear targets (although we need to do more work on what these should be)
 - There is a major communication gap to our scheme members and to the wider stakeholders about our current investments and our policies. Considerable work needs to be achieved in this area
 - We also need to invest in the solutions to a sustainable world, building on the existing investments in renewable energy etc made by the Fund
 - In addressing the risks of climate change we need to ensure we do not lose sight of the wider UN Sustainable Development Goals and manage any competing risks
 - We need a robust assurance and accountability framework with Brunel to ensure they are in turn managing the underlying Fund Managers to deliver our objectives
 - Measures need to include financial performance, carbon emissions, carbon risk scores, compliance with the Task Force on Climate related Financial Disclosures, carbon efficiency, progress on delivery action plans towards Paris Treaty compliance.
12. There was a strong consensus that the Workshop had been a major success, with Fossil Free Oxfordshire stating that “Today’s workshop felt like a huge change in how we can engage with the Pension Fund and have ongoing constructive conversations”. It is therefore important how the outcomes are taken forward.
13. The Workshop did look at next steps. It was felt that a small working group should meet before the end of 2019 to take forward the issues identified above, but to seek feedback from the wider group before producing a Policy document for the Committee to consider in March 2020. Initial proposals for membership of the Working Group is the Chairman, Deputy Chairman and Opposition Spokesperson to ensure political input, the Independent Financial Advisor and a representative from Fossil Free Oxfordshire to ensure a balance of views.

14. It was agreed that the Policy should set a clear direction of travel, with specific targets and timescales. Given the current issues with information standards in this area, and full transparency and disclosure against any such standards, it is likely that initial targets will need to be in respect of develop a robust set of measures, with more specific targets to be set against such metrics to be determined at a later date.
15. However, it was also recognised that all of this has a degree of urgency, and concrete action needs to be taken now if we are to achieve our overall objectives in contributing towards a less than 2-degree scenario and therefore protecting our future investment returns.
16. Finally, the Group felt that there would be real benefit in bringing a similar group back together on a regular basis to review progress against the Policy and ensure it remained relevant as climate science develops further and new evidence on impacts and mitigations is identified.

Brunel Climate Change Policy

17. As part of the presentation from Faith Ward of Brunel, there was some discussion of the approach to Climate Change being developed by Brunel. The initial intention was to publish the Policy before the end of the year, but this has now been delayed until the end of January/beginning of February 2020.
18. The Policy is being developed around 5 themes to deliver an overall objective to contribute to a below 2-degree scenario and to challenge the investment industry to structural reform to deliver a sustainable future. The 5 themes are around policy advocacy (lobbying decision makers around carbon pricing, climate change transparency and regulatory barriers to a renewable future), product governance (low carbon options, positive impact options, integrating the management of climate risks across all portfolios, climate change reporting), portfolio management (assessment tools for Paris Treaty compliant portfolios, assessment tools for monitoring investment managers and their stock selection practices), positive impact (e.g. renewables, products required to develop a sustainable future) and persuasion (focus on engagement outcomes, co-filing resolutions at AGMs, voting policies).
19. A key element of the Policy is to introduce a stock take in 2022 to review the success of progress to date and amend the approach as necessary. This would include decisions around divestment where sufficient progress has not been through engagement and voting policies, recognising that the implementing a widespread divestment approach in 2022 reflects a failure of the investment management industry to address the climate change risks prevalent today.

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