

Divisions: N/A

## **PENSION FUND COMMITTEE – 4 DECEMBER 2020**

### **CLIMATE CHANGE POLICY IMPLEMENTATION PLAN UPDATE**

**Report by Director of Finance**

#### **RECOMMENDATIONS**

The Committee is **RECOMMENDED** to:

- (a) note the report;**
- (b) agree the purpose of the Climate Change Working Group as set out in Annex 1;**
- (c) agree that no target is set for fossil fuel reserves levels; and**
- (d) provide any comments on the priorities for the work of the Climate Change Working Group.**

#### **Introduction**

1. At the June 2020 meeting the Pension Fund Committee agreed a Climate Change Policy Implementation Plan that set out how the fund will look to deliver against its Climate Change Policy. This report provides a quarterly update on delivery against the implementation plan.

#### **Update on the Climate Change Policy Implementation Plan**

2. Further to the decision by the Pension Fund Committee at the 05 June 2020 meeting to move the full UBS global equity mandate to the Brunel Global Sustainable Equities the transition took place at the end of September 2020 with settlement occurring in early October. The sustainable equity portfolio focuses on companies that are part of the solution to material sustainability challenges. As such, the portfolio should help to deliver on the Fund's Climate Change Policy both through an immediate reduction in the emissions of the Fund's investments and contributing to solutions that avoid dangerous climate change scenarios.
3. At the Committee meeting on 11 September 2020 the Committee approved the Fund joining two investor groups focused on addressing climate change; The Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+ (CA100+). Membership of IIGCC has been completed and confirmation is awaited on registration with CA100+ where there was a requirement to be an IIGCC member first. Both groups goals align with those set out in the Fund's Climate Change Policy and provide research on climate related issues that will assist the Fund in further developing its policy and implementation plan.
4. Officers held separate meetings with Fossil Free Oxfordshire and Brunel at the start of November where a number of issues were discussed including the continuing work by Brunel in piloting the IIGCC Paris Aligned Investments

Initiative which it is hoped will provide a methodology of ensuring investment portfolios are aligned with the Paris Agreement. From the discussions it was agreed that the focus of the presentation by Brunel at this Committee should be on development of metrics, portfolio development and governance, engagement approach, and scenario testing.

5. On the 17 November 2020 the Climate Change Working Group met. One issue discussed was the terms of reference for the Group. The group felt that this should be agreed by Committee based around developing the climate change policy and developing/delivering the Implementation Plan. Draft terms of reference are included as Annex 1 to this report.
6. The Group also discussed fossil fuel reserves metrics which it was agreed at the September Committee would be investigated, and the potential of setting targets considered. It was agreed that this is a useful measure to monitor and Brunel do provide reserves measures in their annual carbon report to the Fund. However, in terms of setting a target for reductions officers believe this would be difficult as unlike the emissions target there does not appear to be a science based reduction requirement for reserves. In any case having reserves per se does not conflict with the Fund's climate policies, it is the burning of those reserves that causes emissions and should be picked up by the Fund's emissions target. What is relevant regarding reserves is how these are valued in determining a company's value; the risk to the Fund is that the price attached to reserves is too high given that some reserves are likely to be unusable if the Paris Agreement is to be met.
7. Although a target for reserves reductions may not be appropriate, given the research around the levels of fossil fuel reserves indicating that in order to meet the Paris Agreement large volumes of existing reserves cannot be burnt it is clear that there should be an expectation that reserves should not increase further. As such, it is proposed that a target is not adopted for reserves but that this metric is regularly reported on and explanations provided for significant movements. This position can be kept under review and if any developments occur that suggest a target should be adopted this can be revisited.
8. The Group discussed options around passive investments and agreed that further detail is needed on timeframes for the development of alternative passive portfolios. This will enable the Fund to consider the balance between incurring additional transition costs and the investment risk of maintaining the current passive portfolios until options more aligned with the Fund's climate policies are available. The Group also considered the balance between UK and global equities and agreed this should be considered when any decisions are made given the relatively higher exposure to high emitting companies in the UK market.
9. Following the presentation by Brunel to this Committee the Group would like to set the priority areas for its work over the next year.

**LORNA BAXTER**  
Director of Finance

Background Papers: None

Contact Officers: Gregory Ley, Financial Manager

November 2020

## **Annex 1 – Climate Change Working Group – Terms of Reference**

### Purpose

To develop the Climate Change Policy for the Oxfordshire Pension Fund for submission to the Pension Fund Committee for approval.

To regularly review the Policy and propose any changes to the Policy to the Pension Fund Committee

To lead on the development and delivery of the Climate Change Policy Implementation Plan, including proposing key milestones/targets for approval by the Pension Fund Committee and undertaking more detailed analysis of the available metrics etc to provide advice to the Pension Fund Committee on progress against achieving the key objectives of the Policy.

### Membership

Chairman of the Pension Fund Committee  
Deputy Chairman of the Pension Fund Committee  
Opposition Spokesperson on the Pension Fund Committee  
Independent Financial Adviser to the Pension Fund Committee  
Nominee of the Oxfordshire Pension Board  
Nominee of Fossil Free Oxfordshire

Meetings will be supported by the Service Manager (Pensions), and the Financial Manager Pensions.

The Working Group can also request the attendance of specialist advisers, including the Chief Responsible Investment Officer or members of the Responsible Investment Team at Brunel.

### Frequency of Meetings

The number of meetings should be determined by the Working Group to reflect their current workload, subject to a minimum of one meeting each quarter.

### Reporting

The meetings of the Working Group are not formal meetings and as such are not open to the public, and do not require formal minutes. The key issues discussed and proposals agreed should be included in the next quarterly update report to the Pension Fund Committee.