

PENSION FUND COMMITTEE – 10 JUNE 2022

**REPORT FROM THE CLIMATE CHANGE
WORKING GROUP**

Report by the Director of Finance

RECOMMENDATION

- 1. The Committee is RECOMMENDED to note the work of the Climate Change Working Group and agree the Engagement Policy as included at Annex 4 as 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.**

Introduction

2. The Climate Change Working Group met on 5 May 2022 and its agenda comprised three items being the Global Investors Statement to Governments, the latest Carbon Metrics report and the draft Engagement Policy. This report provides the feedback on the discussions at the working group and invites the Committee to endorse the Engagement Policy as 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.

2022 Global Investor Statement to Governments on the Climate Crisis

3. The Working Group had received a confidential version of the 2022 Global Investor Statement to Governments on the Climate Crisis. The Statement is included as a confidential annex to this report prior to its formal publication later this summer. The Statement has been prepared by the seven founding partners of The Investor Agenda which includes the Institutional Investors Group on Climate Change (IIGCC) of which the Oxfordshire Pension Fund is a member.
4. The Working Group considered that the content of the Statement was consistent with the agreed Policy of the Committee and as such were happy that officers signed the Statement on behalf of the Committee under their delegated powers.
5. As part of the discussion on the content of the Statement, the question was raised as to the impact of the Russian invasion of Ukraine and the associated issues with the global supply of oil and gas. Faith Ward, Chief Responsible Investment Officer at Brunel informed the Working Group of the statement published by the IIGCC on this issue which highlighted that despite the short-term pressures to replace the supply of oil and gas from Russia, the long term

goals remained the need to transition to new more affordable and sustainable forms of energy and that accelerating this transition would mitigate the future political risks as experienced though the current situation. The IIGCC Statement is available here <https://www.iigcc.org/news/the-impact-of-russias-invasion-of-ukraine-for-the-energy-transition/>

Carbon Metrics Report to December 2021

6. The Working Group were informed that the Carbon Metrics report for the Oxfordshire Fund for the period to 31 December 2021 had just been published. A copy of the report is included as Annex 2 to this report.
7. The Working Group were informed that a full analysis of this latest carbon metrics report would be included in the annual review of our Climate Policy and the latest Taskforce on Climate Related Financial Disclosures (TCFD) report both of which are due to be presented to the September meeting of this Committee.
8. In the meantime, the Group noted that whilst the carbon emissions for the relevant portfolios (equity and corporate bonds) were 28% below their respective benchmarks in aggregate, total emissions had risen slightly over the year.
9. Faith Ward advised the Working Group that this increase was in part based on the economic bounce back following the pandemic (also reflected in the increase in emissions for the aggregate benchmark), and partly as a result of changes to the Sustainable Equities portfolio. This portfolio had seen a more significant increase in carbon emissions as the result of the appointment of a new Fund Manager who specifically targeted the energy transition, which resulted in higher short term carbon emission figures with the potential for significantly lower emissions in the longer term.
10. The Group noted the need to develop a wider basket of suitable metrics to measure performance against our Climate Change Policy to include more forward-looking indicators as well as the more backward looking weighted average carbon intensity (WACI) figures.

Engagement Policy

11. As agreed at the last Climate Change Working Group and reported to the last meeting of the Committee, the Group received information on the potential impact of applying the current policy as drafted in order to review whether it was sufficient robust to meet the overall objectives of the Climate Change Policy.
12. The Group were presented an analysis of the Climate Action 100+ holdings assessments carried out under the Climate Action 100+ programme of work and reported in March 2022. The Group were told that a further update on the analysis would be published shortly to reflect the latest pledges made by companies.

13. It was explained that the assessment was across 166 companies which included the 100 companies responsible for the highest global carbon emissions as well as a further 66 companies which were seen as having material local or national impact on the transition to a net zero emissions economy or were subject to material climate related financial risks not reflected in the emissions data. Overall, these companies account for up to 80% of corporate industrial greenhouse gas emissions.
14. A summary of the presented analysis is included as Annex 3 to this report. A key point noted by the Group was that across the active portfolios, the Fund is only invested in 51 of the 166 Climate Action 100+ companies. Even allowing for the companies held within the passive fund, our Fund Managers have already made the decision not to invest in around half of the Climate Action 100+ list.
15. In light of the analysis, the Group were largely content that the Policy as drafted would enable sufficient challenge to Brunel and the underlying Fund Managers to manage the engagement in a timely manner, consistent with meeting our targets under the current Policy. No changes were therefore proposed to the Policy and it is included at Annex 4 with the recommendation that this forms 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. There was a minority view that the timescales associated with the policy were not ambitious enough and should be shortened, especially in respect of the fossil fuel companies.
16. Members of the Group raised two other issues arising from the analysis. The first was a concern that the Climate Action 100+ list did not cover the banks and financial companies associated with financing much of the on-going exploration and development of new fossil fuel reserves. Faith Ward set out that Brunel were actively engaging with this sector including co-filing shareholder resolutions where appropriate. She noted that further information was available within the recently published Responsible Investment and Stewardship Outcomes Report (see link to Brunel website). [Responsible Investment and Stewardship Outcomes Report - Brunel Pension Partnership](#)
17. The other issue raised was in respect of the significantly higher proportion by value the Climate Action 100+ companies formed in the UK Equity Portfolio (19%) compared to the other active portfolios (next highest was 8% for Global High Alpha). It was agreed that this should form part of the consideration of the next strategic asset allocation review, due to be considered by this Committee at its meeting in March 2023.

Lorna Baxter
Director of Finance

Contact Officers: Sean Collins/Greg Ley
Tel: 07554 103465 / 07393 001071

May 2022