

## **PENSION FUND COMMITTEE – 11 SEPTEMBER 2020**

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

#### **Report by the Director of Finance**

#### **RECOMMENDATIONS**

The Committee is **RECOMMENDED** to:

- (a) note the report;**
- (b) endorse the Fund applying to join the Climate Action 100+ initiative and The Institutional Investors Group on Climate Change**

#### **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 is the first update on delivery against the implementation plan and will form a standing item on Pension Fund Committee agendas.

#### **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 portfolio the Fund has been working with Brunel, UBS and the transition manager towards a 30 September transition date.
3. Officers held a meeting with Brunel in June, at the meeting the development of further passive or index-based portfolios that better align with the Fund's climate change policy was discussed. Brunel confirmed that this is also an area of focus for them and would form part of the passive product review due to take place in early 2021.
4. In addition, officers met with their counterparts at the Avon Pension Fund to discuss future expectations for product development at Brunel. In September there will be a Brunel Client Group meeting where priorities for new portfolios will be discussed and the Fund will be raising the issue that it expects all portfolios to be Paris aligned.
5. Officers are continuing to investigate additional metrics to those already provided by Brunel in order to assess portfolios' alignment with the Fund's Climate Change Policy. Brunel are also exploring what climate metrics they can develop and in particular are looking at metrics for private markets where they have an ongoing project investigating appropriate measures.
6. This is a complex area with issues inherent in all metrics currently available. In particular, in trying to measure against the target reductions in greenhouse gas

emissions some metrics do not account for scope 3 emissions (indirect emissions that occur in a company's value chain). This does not therefore provide the full picture of emissions, for example a car manufacturer could reduce their emissions by producing cars more efficiently but at the same time could be producing more polluting cars which would only form part of their scope 3 emissions.

7. Adding in scope 3 emissions, however, does not solve the measurement issues. Firstly, scope 3 data is not widely reported by companies and as such rely on estimation techniques, bringing with it a level of uncertainty. Secondly, and more importantly, the use of scope 3 data results in the double counting of emissions. For example, scope 3 emissions for a manufacturer will include transportation costs, and at the same time those transportation emissions will be included as scope 1 for the transportation companies themselves. The Pension Fund's intention was to assess absolute emissions, the double counting problem would not be an issue if a portfolio were static as the level of double counting would stay the same and you could assess against the 7.6% annual reduction target but once you get movement of companies in a portfolio as a result of trading the use of absolute emissions to assess against the annual reduction target is no longer valid.
8. At the meetings with Brunel and Avon there was also discussion around how to improve reporting on engagement in terms of measuring the success of engagement activity and how this is then reported. Brunel will also be having further discussions with their engagement provider Hermes on reporting options.
9. Brunel are currently working with The Institutional Investors Group on Climate Change on the development of their Paris Aligned Investment Initiative. This piece of work aims to explore how investors can align their portfolios with the goals of the Paris Agreement including methods for assessing alignment. Brunel are participating in testing the outputs of the work using data from their portfolios. It is hoped that the work will lead to the ability to assess alignment with the Paris Agreement across the Brunel portfolios.
10. Officers have investigated the various investor groups focusing on climate change that the Fund could join. At this stage it is recommended that the Pension Fund join the Climate Action 100+ initiative and The Institutional Investors Group on Climate Change. Both of these bodies are well established with clear goals that align with those of the Pension Fund and benefit from the support of a wide investor base.
11. Members should note that Faith Ward, the Chief Responsible Investment Officer at Brunel is scheduled to attend the December 2020 meeting of this Committee when all the above issues can be discussed in more depth.

**LORNA BAXTER**  
Director of Finance

Background Papers: None

Contact Officers: Gregory Ley, Financial Manager

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