



<u>Committee and Date</u>
Pensions Committee
04 December 2020
10.00am

<u>Item</u>
<b>6</b>
Public

## CLIMATE RISK REPORT

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### 1. Summary

- 1.1 At the last Pension Committee on 18 September 2020, Members received a detailed presentation from LGPS Central Ltd which set out the initial results of the climate risk assessment that they had conducted on the Shropshire County Pension Fund investment portfolio.
- 1.2 At this meeting, Members informally agreed that they wanted to press ahead and publish a revised public version of the Climate Risk Report, reformatted to comply with the industry best practice as set out by the Taskforce on Climate Related Financial Disclosures (TCFD) which is attached at Appendix A.

### 2. Recommendations

- 2.1 Members are asked to endorse the publication of the Fund's first Climate Risk Report as set out in Appendix A on its website, formatted to comply with industry best practice as set out by the TCFD.
- 2.2 Members are asked to note the attached press release at Appendix B which was sent to the local media and major employers and published on the website.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 Risk Management is part of the Pension Fund's structured decision-making process by ensuring that investment decisions are taken by those best qualified to take them.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.3 The Fund's Corporate Governance Policy enables it to influence the environmental policies of the companies in which it invests.
- 3.4 There are no direct Equalities or Community consequences.

## **4. Financial Implications**

- 4.1 There are no direct financial implications arising from this report.

## **5. Climate Change Appraisal**

- 5.1 The Fund takes Responsible Investment very seriously of which Climate Change is a key component. All investment managers undertake thorough due diligence processes, considering all risks including climate change. The Pension Fund Investment Managers vote on the Fund's behalf, BMO engage with companies on the Fund's behalf and the Fund is a member of the Local Authority Pension Fund Forum (LAPFF) as well as a signatory to the UK Stewardship Code.
- 5.2 Shropshire County Pension Fund commissioned a Climate Risk Report from LGPS Central and will publish a TCFD report.

## **6. Background**

- 6.1 Since the key findings of the Climate Risk Report were considered by the Pension Committee on 18 September 2020, work has been underway to re-format the original report into one which complies with the requirement of the industry standard TCFD. This report is now available for consideration and is attached at Appendix A.
- 6.2 It is proposed that, subject to Committee approval, this is published on the Fund's website with immediate effect. The main change from the earlier, more detailed, Climate Risk Report is the removal of granular detail on the carbon position of individual investment funds or companies; this information is proprietary, and the Fund does not have permission to publish it.
- 6.3 The key highlight emphasised is that the Fund's equity portfolio (the one area where comprehensive carbon metrics data is available) has a carbon footprint (CO<sub>2</sub> emissions per \$m of revenue generated) which is 13% below the general market as represented by the FTSE All World Index. This index covers the world's largest 3,000+ companies across 47 countries.
- 6.4 Finally, in terms of communications, officers and the Council's communications team have produced a media release which is attached at Appendix B. This has been released to the local media and main employers and is for Members to note.

## **7. LGPS Central Climate Risk Report**

- 7.1 The Fund's full Climate Risk Report, which was reviewed at the last Pension Committee meeting on 18 September 2020 contained a number of climate related recommendations and considerations. A summary of all of these is included in the public TCFD report attached at Appendix A. It is proposed that the Fund should accept all the recommendations in principle and implement as many as it can over the next 6-12 months. This will involve the Committee approving a number of policy statements/decisions as follows:

- Agree at least twice a year, agenda time at Committee meetings is dedicated to the discussion on progress on a climate strategy.
- Agree at least one training session per year is dedicated to climate specific issues;
- Agree to produce a Climate Strategy document which will include a Climate Stewardship plan, setting out how the Fund will manage and monitor its identified climate risks;
- When the Fund’s Investment Strategy Statement, Funding Strategy Statement Annual Report and Responsible Investment policy is updated, include a formal statement of support for the Paris Climate Agreement;
- Conduct a Climate Risk report once a year;
- Publish a TCFD compliant report once a year from this point on.

7.2 External resources will be required to help deliver some of the recommendations as highlighted in Appendix 2 of the TCFD report. Further training is scheduled at this meeting from BMO who engage with companies on the Funds behalf and from Majedie on the engagements they undertake with the companies within their portfolio that were highlighted in the Climate Risk Report presented at the last meeting. A number of further training sessions will be provided to members over the next 6-12 months in order to address the recommendations/considerations listed in the TCFD report.

## 8. Conclusion

- 8.1 The publication of the Fund’s first TCFD compliant Climate Risk Report will represent a major landmark in the Fund’s management of climate related investment risk. The Fund will be one of the first LGPS funds in the country to publish a TCFD report and the associated publicity material should encourage interest in the report from fund members and other organisations.
- 8.2 However, it is important to recognise that the report and its associated and more detailed internal Climate Risk Report is merely the start of an ongoing process of assessing, monitoring and tackling climate risk for many years to come.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Climate Risk Report, Pensions Committee 18 September 2020

**Cabinet Member**

N/A

**Local Member**

N/A

**Appendices**

- A. TCFD report and summary of recommendations/considerations
- B. Media release.