



<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	11
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CLIMATE CHANGE STRATEGY & STEWARDSHIP PLAN

**Responsible
Officer**

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1. Summary

- 1.1 This report seeks approval of the Fund's initial Climate Change Strategy and Stewardship Plan and approval for its publication. The Climate Change Strategy will consolidate the Fund's views, policies and approach to managing climate related investment risk into one document. It will also set out the Fund's priorities regarding engaging with companies and investment managers on this topic. The Fund is currently in the process of reviewing and setting climate change targets.

2. Recommendations

- 2.1 Members are asked approve the Climate Change Strategy & Stewardship Plan at Appendix A.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and there are no direct equalities issues arising from this report.
- 3.2 The environmental and climate change risks and opportunities are considered directly within the body of this report.

- 3.3 If approved, regular monitoring against the published Climate Strategy will give early warning of areas of difficulty and highlight any areas for greater consideration.

4. Financial Implications

- 4.1 There are no financial implications to consider in this report. Indirect implications are referenced within the body of the report and appendices.

5. Climate Change Appraisal

- 5.1 This report considers the approval of a Climate Change Strategy and Stewardship Plan, with details contained within the body of this report and appendices.
- 5.2 The Fund takes Responsible Investment very seriously; it is a key process the investment managers go through before investing where thorough due diligence is undertaken considering all risks including climate change. The 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) and a signatory to the UK Stewardship Code.

6. Background

- 6.1 In July 2020, the Fund commissioned a climate risk assessment of the Fund's investment portfolio. The results of this assessment were presented to Pension Committee in September 2020. This assessment is based upon existing fund decisions and actions in the absence of an approved Climate Change Strategy and Stewardship Plan. Members received a detailed presentation from LGPS Central Ltd, which included the following key findings:

- The Fund's equity portfolio (the one area where comprehensive carbon metrics data is available), has a carbon footprint (CO2 emissions per \$m of revenue generated) which is 13% below the general market as represented by the FTSE All World Index.
- In the absence of any agreed policy decision the Fund's equity portfolio nevertheless has less exposure to companies with fossil fuel reserves and to those exploiting coal reserves than the general index as a result of effective risk management considerations.
- Under the existing risk management and investment strategies, the survey also revealed the Fund has more investments with companies who use clean technology than the general market.
- The report also considered the risk and return characteristics of the Shropshire Fund's investment portfolio under various climate scenarios including an increase in global temperatures of 2, 3 and 4 degrees centigrade. Under all scenarios the review found there would be minimal impact on the expected annual investment returns for the Fund projected to 2030, again highlighting the

benefits of effective risk management unpinning the Fund's investment decisions.

- 6.2 Following consideration and approval by the Committee in September 2020, the Fund published a revised version of the Climate Risk Report, reformatted to comply with industry best practice as set out by the Taskforce on Climate Related financial Disclosures (TCFD). To assist scheme members and members of the public, a summary of key findings document was also published, and a media release issued to publicise the TCFD report and its key messages. At the same meeting Members reviewed the full range of recommendations contained in the Climate Risk report and agreed a programme of work to implement all recommendations one of which was to agree a separate Climate Change Strategy & Stewardship Plan.
- 6.3 The Climate Strategy & Stewardship Plan has been prepared in accordance with the climate risk report and Taskforce for Climate Related Disclosures (TCFD) report approved by Pension Committee in 2020.

7. Consultation and Publication

- 7.1 The preparation of the Statement has run in parallel with the Climate Risk Report and public TCFD Report approved by Pension Committee in December 2020. In consultation with LGPS Central and Aon, officers have prepared the Climate Strategy & Stewardship Plan. A copy of the Climate Strategy & Stewardship Plan is attached at Appendix A.
- 7.2 In preparing the Strategy the Administering Authority is required to consult with participating employers. All employers were sent a draft of the Climate Strategy and Stewardship plan at the start of August and asked for comments back by the 27 August 2021. Only 2 responses were received back during the consultation process and these were noted but did not require the strategy to be amended.
- 7.3 Members are asked to approve the Climate Strategy and Stewardship Plan. Following approval copies will be distributed electronically to employers, investment managers and independent advisors. It will also be available on the Shropshire County Pension Fund website.

8. Climate Strategy

- 8.1 The full draft Climate Strategy is included as an Appendix to this report. The Strategy includes a number of important policy statements, commitments:

- As a result of anthropogenic activities, the world is warming at an unsustainable rate. Already the world is approximately 1°C warmer than pre-industrial levels. Unabated, such change would be devastating for our way of life.
- We believe there is overwhelming evidence that climate change is impacting the environment. This would have long-term consequences for our financial system. We hold that the economic damages of climate change will outweigh the costs of precautionary mitigation.
- Climate change is a financially material risk for the Fund. It has the potential to impact our beneficiaries, employers, Council, and all our holdings across asset classes. Due consideration of climate risk falls within the scope of the Fund's fiduciary duty.
- Climate change has the potential to impact the funding level of the Fund through impacts on employer covenant, credit risk, asset pricing, and longer-term inflation, interest rates and demographic risk.
- The Fund strongly supports the Paris Agreement on climate change.
- We believe that a transition to a low-carbon economy is essential. This requires greenhouse gas emissions to decline to net-zero by mid-point of the century. A major part of this process will focus on the transformation of the supply and demand for energy, for example decarbonization of district heating and transportation systems.
- The Fund believes all companies should align their business activities with the Paris Agreement on climate change. It is possible for a high-emitting company to undergo this transformation and thrive in the transition to a low-carbon future.
- Investors have an important role to play in the transition to a low-carbon economy. For example, we would be less likely to realise a Paris-aligned energy transition were investors to cease influencing company behaviours.
- A global co-ordinated response is needed to limit the rise in temperatures. No individual investor is influential enough to act alone. Governments, policymakers, consumers, companies and

investors all have a role to play. Acting in collaboration will increase the likelihood of an orderly transition to a low-carbon economy.

- Climate-aware decisions can only be made with accurate, relevant, complete, and comparable data alongside appropriate expertise to draw meaningful conclusions.

8.2 The Climate Change strategy also includes a summarised version of the Fund's climate stewardship plan, setting out the engagement objectives that the Fund seeks to achieve. Key objectives include:

- More regular and detailed reporting on carbon emissions by companies.
- Transparency on funding and links to industry bodies that may work against the net zero objective.
- Full alignment of business plans with the Paris Agreement.

8.3 The engagement objectives are underpinned by the Fund's continuing belief that businesses are capable of transforming their business model to succeed in a low carbon economy and such a transition is more likely to happen with the support and engagement of committed and engaged responsible investors.

9. Monitoring and Review

9.1 The Climate Change Strategy & Stewardship Plan is subject to an annual review.

10. Conclusions and Next Steps

10.1 The publication of the Fund's first Climate Change Strategy represents an important landmark in the Fund's evolving approach to managing climate related investment risk. The Fund will continue to work to implement all remaining recommendations in its Climate Risk report and the Committee will receive regular progress reports on all aspects of its climate related risk management approach.

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

Pensions Committee, 4 December 2020, TCFD Report.

Pension Committee, 18 September 2020, Climate Risk Report

Cabinet Member

N/A

Local Member

N/A

Appendices

A – Climate Change Strategy & Stewardship Plan