



<u>Committee and Date</u>
Pensions Committee
17 January 2022
10.00am

<u>Item</u>
<b>9</b>
Public

## COUNCIL MOTION

**Responsible  
Officer**

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### 1. Synopsis

- 1.1 The report is to update members on climate related issues facing the Shropshire County Pension Fund and agree recommendations following advice and statements made from industry experts and leading organisations on climate change and responsible investment following the Council motion which was passed in July 2020 by Shropshire Council and supported by Telford & Wrekin Council, two of the Fund's 160 employers.

### 2. Executive Summary

- 2.1 Members have been on an extensive programme of training provided by Responsible Investment and Climate Change industry experts and investment managers on all climate related issues over the last 18 months following the Shropshire Council motion (attached at Appendix A) which was passed in July 2020.
- 2.2 The report contains a number of statements from these experts on the response to the Council motion and the way in which the Fund is continuing to tackle all these climate related issues.
- 2.3 The significant progress the Fund has made over the last 18 months is detailed in the table below in paragraph 13.1 of the report.
- 2.4 A number of recommendations are put forward for Members to consider which we believe go above and beyond what is asked for within the Council motion for the reasons outlined in the individual statements from the experts.

### 3. Recommendations

- 3.1 Members approve a net zero carbon emissions commitment by 2050 or before as this is a more effective and thorough way to manage climate risk as it goes beyond scope 1 emissions which come from

fossil fuel companies. Net zero aligns with LGPS Central's approach to implementing the Fund's investment strategy.

- 3.2 Members agree that net zero aligns with global industry standards and allows the Fund to retain influence to engage and encourage positive change from the highest emitters.
- 3.3 Members approve the Fund should put in place short and medium-term plans to make progress towards the net zero by the 2050 or before target.
- 3.4 Members agree to commit £130m out of its total 50% equity allocation to LGPS Central's sustainable equities fund and transition out of its UK equity allocation which will further reduce its carbon emissions. Members note the decision to move assets to the LGIM low carbon net zero passive fund from the FTSE All World Fund which will reduce carbon emissions further.
- 3.5 Members agree that following advice from industry experts, public government statements made on climate change, an extensive 18 month training programme on climate related issues, Members of Shropshire County Pension Fund do not to agree that divestment from fossil fuels is in the best interest of its 50,000 members but commitments to net zero carbon emission before 2050, setting carbon reduction targets and collaboration with other like-minded investors is the best way to tackle climate change and make a real difference in the outcome.
- 3.6 Members agree that the Fund should continue to work with LGPS Central to put in place the net zero target and agree short and medium- term plans in order to achieve this.
- 3.7 Members agree the Fund should continue to implement climate stewardship activity, including conveying policies and targets to stakeholders.

## **REPORT**

### **4. Risk Assessment and Opportunities Appraisal**

- 4.1 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.
- 4.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 4.3 The Fund's Corporate Governance Policy enables it to influence the environmental policies of the companies in which it invests.

4.4 There are no direct Equalities or Community consequences.

## **5. Financial Implications**

5.1 There are no direct financial implications arising from this report.

## **6. Climate Change Appraisal**

6.1 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.

6.2 Shropshire County Pension Fund has also received annual Climate Risk Reports from LGPS Central and agreed its own Climate Strategy & Stewardship Plan.

## **7. Background**

7.1 Shropshire County Pension Fund members have been undertaking an extensive training and portfolio review programme on climate related issues over the last 18 months following the Council motion in July 2020.

7.2 The Fund currently addresses its social responsibility through a strategy of responsible engagement with companies. BMO Global Asset Management, LGPS Central and Investment managers appointed by the Fund provide this responsible engagement overlay on the Fund's UK & global equities portfolios.

7.3 The Fund has published a public Taskforce for Climate Related Financial Disclosures (TCFD) report, annual climate risk reports and has approved its own Climate Strategy & Stewardship Plan.

## **8. Statement from Aon – Net Zero Statement**

8.1 The statement at appendix B is Aon's response to the Council motion at Appendix A and their recommendations to the Fund including setting a net zero carbon emissions target by 2050 or before.

## **9. Statement from LGPS Central on implementing a net zero carbon emissions target**

9.1 The LGPS Central Ltd statement at Appendix C details how they will implement the Fund's investment strategy in order to meet its net zero by 2050 carbon emissions target.

## **10. Statement from Legal & General – Net Zero Statement**

10.1 Legal and General's net zero statement is attached at Appendix D.

## **11. Statement from BMO – Engagement v Divestment statement**

11.1 The statement at Appendix E outlines why BMO's engagement activities will help the Fund achieve net zero carbon emissions by 2050 or before.

## **12. Statement from Executive Director of Resources**

12.1 The statement at Appendix F outlines the governance arrangements for members who sit on the Pension Committee when considering the recommendations in this report.

## **13. Update following the Council Motion**

13.1 During the last 18 months, LGPS Central, BMO Global Asset Management, Legal & General, Aon and Majedie have presented to Committee as part of the extensive review currently being undertaken by the Pension Committee on Responsible Investment & Climate Change following the Council's motion in July 2020. The table below is a reminder of the significant progress the Committee have made to date following the Council's motion. Live streams of all the below meetings, Chair statements following the Council motion, public questions submitted and the responses provided and detailed presentations can be found on the Council's website by following the below link:

<http://shropshire.gov.uk/committee-services/ieListMeetings.aspx?CommitteeId=260>

<b>Date</b>	<b>Type of meeting</b>	<b>Agenda Item</b>	<b>Reports and Presentations</b>	<b>Key points for Cttee</b>
24 July 2020	Pensions Cttee	Climate Stewardship  Corporate Governance Monitoring	LGPS Central Climate Stewardship Report  Update on manager voting	Training on Climate Stewardship and next steps.

			& engagements activities	Quarterly update on Corporate Governance Issues
18 Sept 2020	Pensions Cttee	<p>LGPSC Climate Analysis Report</p> <p>Investment Strategy Review and Responsible Investment Timetable</p> <p>Corporate Governance Monitoring Report</p>	<p>Presentation from Michael Marshall, Director of Responsible Investment, LGPS Central</p> <p>Presentation from Aon, Investment Consultant</p> <p>Update on manager voting &amp; engagements activities</p>	<p>SCPF carbon footprint, measured and detailed climate risk analysis undertaken</p> <p>Responsible Investment timetable and recommendations agreed</p> <p>Quarterly update on Corporate Governance Issues</p>
4 Dec 2020	Pensions Cttee	<p>Public LGPSC TCFD Compliant Climate Report</p> <p>Responsible Engagement</p> <p>How Majedie integrate ESG into their Investment process</p>	<p>Presentation from LGPS Central</p> <p>Presentation from BMO Global Asset Management (Funds engagement manager)</p> <p>Presentation from Majedie (UK Equity Manager)</p>	<p>Recommendations within report agreed. Media release agreed and scheme employers updated. Documents uploaded onto SCPF website for all Stakeholders.</p> <p>Pros/cons of engagement v divestment. Case studies on effectiveness.</p> <p>Discussions on why certain stocks highlighted in the TCFD report are held within the portfolio.</p>

		Corporate Governance Monitoring Report	Update on manager voting and engagement activities	Quarterly update on Corporate Governance Issues
5 March 2021	Pension Cttee	Investment Stewardship  Corporate Governance Monitoring Report	Presentation from Legal & General (Global Equity manager)  Update on manager voting and engagement activities	Pros/cons of engagement v divestment. Case studies on effectiveness.  Quarterly update on Corporate Governance Issues
25 June 2021	Pension Cttee	Begin Implementation of revised Investment Strategy now agreed.  Corporate Governance Monitoring Report	Presentation from Aon on Investment Strategy implementation  Update on manager voting and engagement activities	Sustainable Equities, Climate Factor funds and low carbon equity funds being considered.  Quarterly update on Corporate Governance Issues
17 Sept 2021	Pension Cttee	SCPF Climate Strategy/Climate Stewardship Plan	Presentations from LGPS Central on Climate Strategy and general Responsible Investment training on climate related/ESG issues & Aon on setting carbon reduction targets	Climate Strategy/Stewardship Plan approved. Presentations on net zero commitments and an introduction to setting carbon reduction targets.



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

Pension Committee, 24 July 2020 – Climate Risk Report

Pension Committee, 04 December 2020 – Public TCFD Report and media statement

Pension Committee, 17 September 2021 - Climate Strategy & Stewardship Plan.

Pension Committee, 17 September 2021 - Investment Strategy Statement.

Pension Committee, 17 January 2022 – Updated Annual Climate Risk Report

**Cabinet Member**

N/A

**Local Member**

N/A

**Appendices**

A – Council motion July 2020

B – Aon Net Zero Statement

C – LGPS Central implementation statement

D – Legal & General net zero statement

E - BMO engagement v divestment statement

F – Executive Director of Resources Governance Statement