

Shropshire County Pension Fund and LGPS Central

CLIMATE STRATEGY



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The next decade is going to be critical in the fight against climate change. Humanity is running out of time, in terms of implementing a consistent and coherent strategy to limit climate change. The required decarbonisation trajectory of the real economy becomes steeper and steeper with each passing year and as a result the role of pension schemes as owners of the real economy, is becoming increasingly critical.

LGPS Central recognises the importance of aligning investment portfolios with the targets set at Paris and affirmed in Glasgow and as such has recently committed to achieving net zero alignment in our investment portfolio's by 2050 and adopting interim targets in accordance with the Institutional Investor Group on Climate Change (IIGCC) Net Zero Investment Framework.

LGPS Central was amongst the original group of asset owners that worked with the IIGCC to develop the framework via the Paris Aligned Investment Initiative Working Groups. The framework has been widely adopted by asset owners and asset managers as a framework for alignment with the goals set at Paris.

LGPS Central has been a sponsor of the Transition Pathway Initiative (TPI) since its inception and is now a founder and Director of the newly established TPI Limited, which has resulted in the development of an open access analytical tool used by investors across the globe to assess the decarbonisation of companies, sectors, benchmarks and investment portfolios. The TPI is a framework that has been used for portfolio alignment and investor engagement by many asset owners and asset managers. It is a critical tool for the measurement and reporting of alignment and LGPS Central remains at the core of its evolution.

LGPS Central considers Net Zero alignment to be a fundamental strategy for responsible investment during this unprecedented period of disruption and transition. It is a strategy that is consistent with our conviction that the integration of ESG considerations into investment processes; supported by a robust programme of corporate engagements, is essential to the delivery of our fiduciary responsibilities. We consider that it is the strategy that is most likely to maximise our contribution to this critical transition and lead to the best outcomes for our members and society as a whole.

Investors that proactively integrate ESG considerations into their investment processes and commit to Net Zero alignment will inevitably, invest in those companies that can and will transition and avoid those companies that can't and won't. This is the most enduring way to impact corporate valuations and thus incentivise responsible corporate behaviour.

A Net Zero alignment strategy affords LGPS Central an opportunity to play its full role in accelerating the transition through the exercise of stewardship rights associated with corporate ownership. LGPS Central scrutinises and challenges companies and

PURPOSE OF THIS DOCUMENT

The purpose of this paper is to recommend a climate change investment strategy for Shropshire County Pension Fund for approval by the Pensions Committee.

OUR AIM

To support Shropshire County Pension Fund in implementing a Net Zero Investment Strategy.

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their management on climate strategy, and is part of investor collaborations that put forward increasingly ambitious demands in this regard.

Our in-house team of ESG specialists can measure Net Zero alignment at portfolio and company level against agreed and established sector level decarbonisation pathways. These insights enable the team to develop and deliver a programme of engagements focused on accelerating Net Zero alignment where it is lacking. We are also in a position to monitor and challenge our external managers on the delivery of their engagement programme.

COP-26 highlighted that there remains much work to be done if we are to avoid the worst effects of climate change and limit global warming to anything near 1.5°C.

It is not going to be easy. The achievement of Net Zero requires the honest and accurate reporting of carbon emissions at corporate and government level and will inevitably require transparent and responsible usage of off-setting mechanisms. Unfortunately, not all industries will reach gross zero emissions. Investors must act as responsible owners of the companies in which we invest and be demanding around the setting and achievement of Net Zero targets. The next 10 years are going to be critical, and investors must play their part in scrutinising and challenging management. Companies cannot and will not transition at the pace required without the support and influence of their shareholders. It is the responsible investment community that will take a long-term view of corporate performance. As universal owners of equity, we can focus on both the demand for and supply of fossil fuels in our engagements.

The primary objective of the IIGCC Net Zero Framework is to ensure investors can decarbonise investment portfolios and increase investment in climate solutions, in a way that is consistent with a 1.5°C Net Zero emissions future. An 'investment strategy' led approach, supported by concrete targets set at portfolio and asset level – combined with smart capital allocation, and engagement and advocacy activity – ensures investors can maximise their impact in driving real-world decarbonisation. Four different asset classes – sovereign bonds, listed equities, corporate fixed income and real estate – are covered by the framework, with others to follow. Other features include;

- The framework focuses initially on four main asset classes – Equity, Corporate Fixed Income, Sovereign Debt and Real Estate. The framework focuses on emissions in material sectors, to maximise impact.
- Commitment to aligning investment strategy with achievement of global Net Zero emissions by 2050 (at the latest).
- Establishment of medium-term emissions reduction targets consistent with the 2050 target above, 50% reduction in carbon intensity by 2030 (at the latest).
- Portfolio alignment targets. 70% of emissions in material sectors to be either Net Zero or aligned to a Net Zero pathway, OR the subject of direct or collective engagement and stewardship actions. Target to increase to 100%.

- Increasing investment in 'climate solutions' that are needed to meet that goal, such as renewable energy, low carbon buildings, and energy efficient technologies.
- Targets reviewed at least every five years.
- Annual disclosure of performance similar to TCFD (Task force on Climate-Related Financial Disclosures).

HOW LGPS CENTRAL CAN HELP SUPPORT SHROPSHIRE COUNTY PENSION FUND;

- Measurement of Net Zero alignment at company and portfolio level.
- Targeted engagement based on alignment of portfolios and individual companies (based on sector pathways).
- Engagement with regulators, policy makers and government.
- Measurement and achievement of 70% target moving to 100%.
- Engagement with corporates supported by active voting – including shareholder resolutions.
- ESG integration in active portfolios to help identify winners and avoid losers.
- Climate Risk Monitoring Service updated for Net Zero commitments
- TCFD Reporting, including future enhancements.
- Benchmark construction and selection for passive mandates.
- Collaborative engagement with private market industry to improve climate data collection and reporting.
- Collaborative engagement to ensure transparent and responsible use of carbon off-sets by investee companies and accurate and holistic carbon emissions reporting.

A commitment to Net Zero would be an important stride forward for Shropshire County Pension Fund on its climate change journey, it would provide further focus to the existing active emissions reduction strategy and decarbonisation ambitions and builds on its significant climate change efforts to date.

The Net Zero Strategy, set out by the IIGCC aligns with the goals of the Paris Agreement, the policy and legislated aims of the UK government, and the Intergovernmental Panel on Climate Change's Special Report on Global Warming of 1.5°C. It lays out the key initial steps to deliver portfolio decarbonisation while remaining mindful of its fiduciary duties.

Such a commitment would align Shropshire County Pension Fund with the asset owner community and governments globally. The Net Zero Asset Owners Alliance has grown to 60 Investors representing \$10 trillion of assets under management. The Net Zero Asset Managers Initiative now has 220 signatories with \$57 trillion of assets under management.



LGPS Central will continue to support Shropshire County Pension Fund in their Net Zero ambitions, working collaboratively with the Fund to ensure their investments are aligned to the pathway.