Item no 5 on Agenda

PENSIONS COMMITTEE – 31 MARCH 2023

Report of the Director of Finance

Staffordshire Pension Fund Climate Change Strategy

Recommendation of the Chair

1. That the Pensions Committee notes the contents of;

   (i) the presentation from LGPS Central Limited on the 2022 Staffordshire Pension Fund Climate Risk Report (Appendix 1);

   (ii) the Task Force for Climate Related Disclosures (TCFD) Report (Appendix 2);

   (iii) the Climate Change Strategy (Appendix 3); and

   (iv) the Staffordshire Pension Fund's Climate Stewardship Plan 2023/24 (Appendix 4).

Climate Risk Report 2022

2. The Responsible Investment and Engagement (RI&E) Team at LGPS Central Limited produce Climate Risk Reports for each of the pool's 8 Partner Funds. Attached at Appendix 1 is a presentation from LGPS Central on the key findings and recommendations from Staffordshire Pension Fund's third Climate Risk Report, based on data at 30 September 2022. Given the length of the document, the full report is not included in the meeting papers but is available to view on request.

3. Using the best available techniques, the purpose of the Climate Risk Report is to provide the Fund with an assessment of material financial risks related to climate change, and to identify the most effective means to manage these risks. The 2022 Climate Risk Report also looks back at the progress the Fund has made on climate related issues since the Fund's first Climate Risk Report in 2020 and makes several recommendations for the Fund to consider going forwards.

4. The 2022 Climate Risk Report includes updated information on the carbon intensity of the Fund's listed equity and bond portfolios. The report highlights that the Fund's Strategic Asset Allocation (SAA) at 30 September 2022 was 19.56% less carbon intensive than the benchmark. This is a significant reduction from the 3.8% above benchmark carbon intensity at 31 March 2020, which was reported in the Fund's first Climate Risk Report.

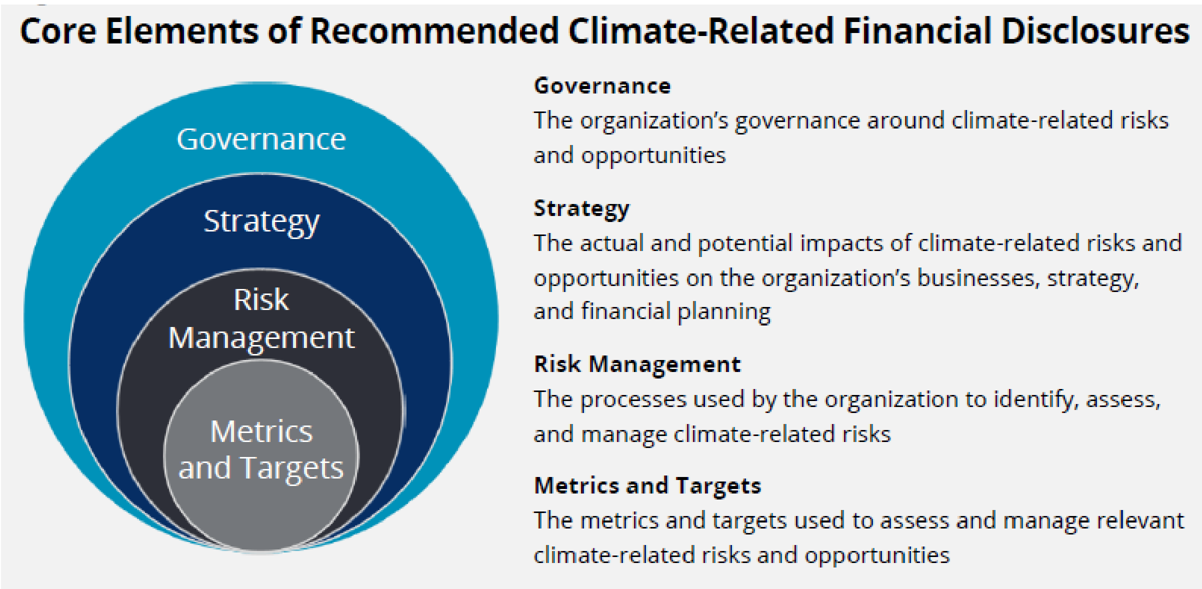
5. The 2022 Climate Risk Report also contains a section on Climate Scenario Analysis which estimates the effect on key financial parameters (such as risk and return) that could result from plausible alternative climate scenarios. This is an update to the Climate Scenario Analysis that was included in the 2020 Climate Risk Report, where three climate related scenarios (i.e., global temperature increases of +2, +3 and +4 degrees Celsius from the pre-industrial age) were modelled at three specific points in the future (2030, 2050 and 2100). The 2022 Climate Scenario Analysis has been constructed using the latest climate research and differs in that it explores three scenarios (rapid transition, orderly transition, and failed transition) over 5 to 40 years, considering two key risks; transition risk and physical risk.

6. LGPS Central Limited have been invited to attend the Committee meeting to present on the Fund's 2022 Climate Risk Report. Their presentation is included at Appendix 1 for information.

Task Force on Climate Related Financial Disclosures (TCFD) Report

7. The Taskforce on Climate-Related Financial Disclosures (TCFD) was commissioned in 2015 by former Bank of England Governor, Mark Carney, in his remit as Chair of the Financial Stability Board. In 2017, the TCFD released its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. Disclosures that align with the TCFD recommendations are currently seen to represent best practice.

8. The TCFD recommendations are based on the financial materiality of climate change. The four elements of recommended disclosures (see Figure 1 below) are designed to make TCFD-aligned disclosures widely comparable, but with sufficient flexibility to account for local circumstances.



9. The Fund's Climate Risk Reports are consistent with the disclosures required by the Taskforce on Climate-Related Financial Disclosures (TCFD) and this has enabled the Fund to report in line with the TCFD Framework, which is likely to become compulsory for all LGPS Funds soon. The Fund's latest TCFD Report, which presents the latest Carbon Risk Metrics Analysis, is attached at Appendix 2. The TCFD report also describes the way in which climate-related risks are currently managed by the Fund.

Climate Change Strategy

10. The Staffordshire Pension Fund's Climate Change Strategy (CCS) sets out the Fund's approach to managing the risks and opportunities presented by climate change and was approved by the Pensions Committee at its meeting on 11 February 2022.

11. The overarching aim of the Fund's CCS is to achieve a portfolio of assets with net zero carbon emissions by 2050. To achieve this, the Fund identified several key steps it must take, these are listed below, with further detail in the CCS presented as Appendix 3:

- <u>Integrate climate change considerations</u> into the complete investment process through the selection, due diligence, monitoring and stewardship of assets, either directly or through the Fund's appointed investment managers, with the aim of decarbonising the entire investment portfolio.

- <u>Access the best possible climate change data available</u>, to be able to assess climate risks and opportunities. This will enable the Fund to make the best possible decisions and understand the impact of climate change on its Funding and Investment Strategies.

- <u>Work collaboratively with other investors</u> and organisations, to improve the quality, relevance and availability of climate-related data and encourage alignment with the 2015 Paris agreement.

12. With 2050 being a number of years away; to guide and monitor the Fund's decarbonisation journey, a series of 2030 targets were set which use the agreed position of 31 March 2020 as a baseline.

13. The CCS included at Appendix 3 has no structural changes from the original version approved in February 2022 but has been updated with the latest performance against the 2030 targets. This is based on data from the 2022 Climate Risk Report and demonstrates the good progress to date against the 2030 targets, detailed in the following table:

2030 Climate Target	September 2022 level	Change from March 2020 (absolute/relative)
Reduce the Weighted Average Carbon Intensity (WACI)* of the Fund by 50-60% by 2030.	**WACI* 122.72**	**-53.79 WACI* / -30.47%**
Reduce the proportion of the Fund invested in Fossil Fuels reserves to less than 4% by 2030.	**6.24%**	**-0.15% / -2.42%**
Reduce the proportion of the Fund invested in thermal coal to below 1% by 2030.	**1.72%**	**0.89% / -34.08%**
Increase the proportion of investments where carbon metrics are reported to over 95% by 2030.**	**70.79%**	**1.59% / 2.30%**

*WACI (tCO2e/USDm revenue) is calculated by the division of the number of tons of Carbon Dioxide emitted, by the amount of US Dollar revenue (in millions) generated.
**where climate data is captured, calculated, and provided by the investee companies/managers, rather than estimated by the Fund/data provider.

14. As with the Fund's Funding and Investment Strategy Statements, the CCS is the responsibility of the Pensions Committee. The Committee agreed at their meeting in February 2022, to commit to review the CCS at least every three years; next review due in 2025. However, given the importance of climate change and the availability of data provided in the Fund's annual Climate Risk Report from LGPS Central, the opportunity to update the CCS can be taken on an annual basis.

Climate Stewardship Plan 2023/24

15. Based on the analysis in the Climate Risk Reports, the Climate Stewardship Plan aims to focus the Fund's engagement on the investments in companies which have the most impact on the Fund's climate risk metrics. The companies recommended for engaging with, via the Fund's external partners (e.g., the Fund's investment managers, LGPS Central or the Local Authority Pension Fund Forum (LAPFF)), were identified based on the following factors:

- Perceived level of climate risk, considering carbon risk metrics;
- Weight of the company in the portfolio;
- Likelihood of achieving change; and
- Ability to leverage investor partnerships.

16. The Fund's Climate Risk Report for 2022 contained recommendations to update the Fund's current Climate Stewardship Plan, with the addition of one utility company. The Climate Stewardship Plan 2023/24 is presented at Appendix 4.

17. The Fund's Climate Stewardship Plan includes the overarching aim of engaging with the companies in question, to emphasise the importance with which the Fund views the risks of climate change and at the same time to

lower the Funds exposure to climate risk. The Climate Stewardship Plan is a live working document which is updated as engagement with companies occurs, via the Fund's external partners. This activity will continue to be reported quarterly to the Pensions Panel, as part of the Responsible Investment and Engagement Report.

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Equalities implications: There are no direct equalities implications arising from this report.

Legal implications: There are no direct legal implications arising from this report.

Resource and value for money implications: Resource and value for money implications are considered in the report.

Risk implications: The risk climate change poses to the Fund's investments and the action being taken to manage this risk is discussed throughout the report.

Climate Change implications: These implications of climate change are covered in the report.

Health Impact Assessment Screening: There are no direct implications arising from this report.