Staffordshire
Pension Fund
Local Government Pension Scheme

# Climate Change Strategy

# March 2023

# Climate Change Strategy

## 1. Introduction

1.1 This Climate Change Strategy (CCS) sets out Staffordshire Pension Fund's (the Fund) approach to managing the risks and opportunities presented by climate change. The publication of a specific CCS demonstrates the seriousness with which the Members of the Staffordshire Pensions Committee view the potential impact of climate change on the Fund.

1.2 This is the second iteration of the CCS, with the original having been published in March 2022. This version of the CCS contains updated data at 30 September 2022 along with other minor revisions. The CCS is due for a major 3-year review in 2025.

## 2. Background

2.1 Human activities are estimated to have caused approximately 1.0°C of global warming above pre-industrial levels. Most of this warming has occurred in the past 35 years, with the ten warmest years on record occurring since 2010. 2022 was the sixth warmest year on record according to the US National Oceanic and Atmospheric Administration's (NOAA) temperature data and observed a global mean surface temperature which was 0.86°C higher than the 20th century average. The overwhelming scientific consensus is that these observed climate changes are the result primarily of human activities, including electricity and heat production, agriculture and land use change, industry, and transport.

2.2 To mitigate the worst economic impacts of climate change, there must be a large, swift, and globally co-ordinated policy response. Despite this, most climate scientists anticipate that even given the current level of climate action, by 2100 the world will be between 2°C and 4°C warmer, with significant regional variations. This is substantially higher than the Paris Climate Change Agreement of 2015 (COP21), which reflects a collective goal to hold the increase in the climate's mean global surface temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

## 3. Climate Change Beliefs

3.1 The Fund recognises that climate-related risks can be financially material, and that consideration of climate risk falls within the scope of the Fund's fiduciary duty. As a result of this, and due to the potential impact of climate change, the Fund has established some specific climate change beliefs which are detailed below. These build on the investment beliefs, detailed in the Fund's Investment Strategy Statement (ISS), which already incorporate wider responsible investment considerations.

- The Earth's climate is changing because of human activity, and that unabated, such change would have devastating consequences.

- The Fund supports the ambitions of the 2015 COP21 Paris Agreement and aims to achieve a portfolio of assets with net zero carbon emissions by 2050.

- Governments, policy makers, consumers, companies, and investors must all work collaboratively in a co-ordinated response to limit the rise in global temperatures. Individual investor influence is not enough alone.

- As part of a transition to a low carbon economy, demand for energy must be addressed in addition to the suppliers of energy, for greenhouse gas emissions to reduce to net-zero.

- It is possible for companies with current high emission levels to reduce their emissions and thrive in a low carbon economy, and that the support and stewardship of investors is key to influencing this.

- Climate change is a long-term financially material risk for the Fund, across all asset classes, and has the potential to impact the funding level of the Fund through impacting on employer covenant, asset pricing, longer-term inflation, interest rates and life expectancy.

- The Fund supports engagement over divestment and the objectives of the Climate Action 100+ initiative; an investor led initiative to ensure the world's largest carbon emitting companies adopt the appropriate governance structures to effectively manage climate risk, decarbonise in line with the Paris Agreement, and disclose using the Taskforce for Climate Related Financial Disclosures (TCFD) recommendations.

- Climate change risks and opportunities should be considered at all levels of investment decision making, from asset allocation to individual investment decisions.

- Diversification across a variety of asset classes, economic areas and sectors is an important tool in reducing climate risk and maximising opportunities presented by the transition to a low carbon economy.

- Improvements in reporting, consistency, comparability, and data quality, including scope 3 emissions are needed for investors to make accurate and fully informed investment decisions.

## 4. How the Staffordshire Pension Fund will achieve net zero carbon emissions by 2050

4.1 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 has identified several key steps it must undertake:

- Integrate climate change considerations 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.

- Access the best possible climate change data available, 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.

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

**Integrate climate change considerations**

4.2 The Fund will continue to work closely with its investment adviser, Hymans Robertson (Hymans) to ensure that any long-term net-zero carbon target is achievable. High-level, potential changes, to adjust for climate risks within the investment strategy, will be considered across the following categories:

- Changing the investment strategy – e.g., making further commitments to infrastructure, with a focus on renewable energy.

- Revising and monitoring existing investment mandates – e.g., ensuring all existing arrangements have climate change considerations embedded into them and are monitored regularly, to ensure that the investment managers who invest on behalf of the Fund, are taking climate considerations into account.

- Reallocating capital to new investment managers or investment strategies - e.g., reallocating to specific climate thematic strategies.

4.3 Other more practical considerations will also be considered, such as the impact of any changes made, the availability of solutions and the capacity of the Fund to implement them. These high-level changes will be modelled to develop and continually review a roadmap for decarbonisation and will feed into any Strategic Asset Allocation (SAA) changes the Fund makes.

4.4 Outside of the parameters of this strategy document, as the Fund's Actuary, Hymans will also take climate change considerations into account for the Fund's Triennial Valuation and Funding Strategy. Details of this are available in the Fund's Funding Strategy Statement (FSS) which is presented alongside the Investment Strategy Statement (ISS) on the Fund's website www.staffspf.org.uk.

**Access the best possible climate change data available**

4.5 In 2020, the Fund received its first Climate Risk Report from its asset pooling company, LGPS Central Limited. This report, which will be received annually going forward, provides the Fund with an assessment of the material financial risks related to climate change. It also identifies the most effective means by which the Fund can manage these risks.

4.6 The Climate Risk Report is consistent with the disclosures required by the Taskforce on Climate-Related Financial Disclosures (TCFD). This has allowed the Fund to report in line with the TCFD Framework, on an annual basis, which is seen as best practice.

4.7 Based on the recommendations of the Climate Risk Report, a Climate Stewardship Plan is also produced. This document, which is refreshed annually, is a working document for Fund Officers, to focus the Fund's climate related engagement on the specific investments and investment managers which are contributing most to the Fund's climate risk and carbon footprint.

4.8 The Fund's TCFD Report's is available on the Fund's website www.staffspf.org.uk and the Fund's Climate Stewardship Plan is available quarterly, as part of the reporting for the Staffordshire Pensions Panel*.

**Work collaboratively with other investors**

4.9 Working with partners such as LGPS Central and Hymans, is going to be crucial to ensure the Fund can meet its long-term net zero carbon emissions target. The Fund will also look to work alongside other organisations it is a member of, such as the Local Authority Pension Fund Forum (LAPFF).

4.10 Through its relationship with LGPS Central, the Fund also endorses several other industry initiatives which will support the transition towards net-zero carbon emissions. Some of these are listed below:

- United Nations Principles for Responsible Investment (UN PRI)
- Institutional Investor Group on Climate Change (IIGCC)
- Transition Pathway Initiative (TPI)
- British Private Equity and Venture Capital Association (BVCA)
- Climate Action 100+
- The Investor Forum

## 5. Climate Targets

5.1 To ensure the Fund is on track to achieve its long-term net zero climate objective in 2050, a series of interim climate related targets for 2030 have been developed, in conjunction with Hymans. These are to be measured versus the levels and data observed at March 2020, as reported in the Fund's TCFD report at 31 March 2021. The climate targets demonstrate the seriousness with which the Pensions Committee takes climate change risks and the achievement of its long-term net zero 2050 objective.

5.2 The 2030 climate related targets, in Table 1, have been carefully considered to ensure they are meaningful, achievable, and suitably ambitious. They will be reviewed alongside the CCS in 2025, albeit progress made will be reported annually. Due to the limited availability of data, the Fund's climate targets are currently based on listed (or public) equity assets only. In subsequent revisions of the CCS, the Fund intends to update the targets to incorporate information on additional asset classes. There is also the potential to introduce further targets, on green revenues and transition pathway alignment (as recommended by the Institutional Investors Group on Climate Change (IIGCC) framework), when the metrics which allow this become more widely available.

Table 1

| 2030 Climate Target | March 2020 level |
|---|---|
| **Reduce the Weighted Average Carbon Intensity (WACI)* of the Fund by 50-60% by 2030.** | **176.51 WACI*** |
| **Reduce the proportion of the Fund invested in Fossil Fuels reserves to less than 4% by 2030.** | **6.39%** |
| **Reduce the proportion of the Fund invested in thermal coal to below 1% by 2030.** | **2.61%** |
| **Increase the proportion of investments where carbon metrics are reported to over 95% by 2030**.** | **69.20%** |

*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.

**September 2022 update**

5.3 The most recent Climate Risk Report has been received from LGPS Central Limited which compares the data at September 2022 (which will be reported in the Fund's TCFD report at 31 March 2023) to the March 2020 baseline data. Although relatively early days, the September 2022 data demonstrates good progress by the Fund, towards the 2030 targets. This is shown in Table 2.

5.4 Table 2

| 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%** |

## 6. Governance of the Climate Change Strategy

6.1 This CCS has been developed alongside the Fund's Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) detailing how climate change risks will be managed. The Staffordshire Pensions Committee is responsible for preparing the ISS and FSS and have also assumed responsibility for the CCS.

6.2 The Pensions Committee will review the CCS at least every three years, or at such times as it is deemed appropriate, and intends to update the climate targets to incorporate metrics on further asset classes, as the data becomes more widely available. Progress against the decarbonisation roadmap and the interim targets for 2030 will be reported to the Pensions Committee annually.

6.3 Responsibility for the implementation of the Fund's CCS and monitoring and management of climate risks lies with the Assistant Director for Treasury and Pensions and the Fund's Senior Officers. LGPS Central Limited and Hymans will assist the Fund in assessing and managing climate-related risks.

**Transparency, Reporting and Disclosure**

6.4 Annually, the Fund will publish an updated Climate Change Strategy, TCFD Report and Climate Stewardship Plan.

6.5 Details of engagement on climate change, by the Fund's investment managers and LGPS Central Limited will continue to be reported to the Pensions Panel*, as part of a quarterly Responsible Investment and Engagement (RI&E) report. This report will also include details of engagement activity by the Local Authority Pension Fund Forum (LAPFF) who the Fund is a member of, and who engage across the investment industry on behalf of most Local Government Pension schemes. Details of voting, where it is undertaken on the Fund's behalf, will also continue to be included.

*The Pensions Panel are a sub-group of the Pensions Committee, who meet quarterly and are tasked with focussing on the Fund's investments.

***If you have any comments on this Climate Change Strategy or require any more information on the details contained within it, please contact:***

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