

Item no 8 on Agenda

PENSIONS COMMITTEE – 25 JUNE 2021

Report of the Director for Corporate Services

Staffordshire Pension Fund Task Force for Climate Related Disclosures (TCFD) Report for 2020/21 and Climate Stewardship Plan 2021/22

Recommendation of the Chair

1. That the Pensions Committee:
 - (i) notes the content of the Staffordshire Pension Fund Task Force for Climate Related Disclosures (TCFD) Report, attached as Appendix 2; and
 - (ii) notes the content of the Staffordshire Pension Fund Climate Stewardship Plan, attached at Appendix 3.

Introduction and Background

2. At its meeting on 26 March 2021, the Pensions Committee received the Staffordshire Pension Fund Climate Risk Report together with a presentation from the authors of the report, LGPS Central Limited.
3. Using the best available techniques, the Climate Risk Report provided the Fund with an assessment of any material financial risks related to climate change and identified the most effective means to manage these risks.
4. The Climate Risk Report was also consistent with the disclosures required by the Taskforce on Climate-Related Financial Disclosures (TCFD) and has allowed the Fund to produce the Staffordshire TCFD report shown at Appendix 2. Reporting based on the TCFD Framework for all LGPS Funds is likely to become compulsory soon.
5. A key recommendation of the Climate Risk Report was for the Fund to develop a Climate Strategy and a Climate Stewardship Plan. The Fund's Climate Strategy will be developed as part of a wider Strategic Asset Allocation review, which will consider all asset classes and the impact they will have on the Fund's climate related risks. The results of this review, which is being undertaken with the help of the Fund's Investment Advisers, Hymans Robertson, will be presented to Members later in 2021, at which time a Climate Strategy will also be presented for approval.
6. The Climate Stewardship Plan, which monitors engagement by the Fund's external investment managers, to whom much of the day-to-day responsibility for managing portfolio-level climate risk is delegated, is attached at Appendix 3.

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 TCFD report describes the way in which climate-related risks are currently managed. The report also discloses the results of the recent Carbon Risk Metrics Analysis and Climate Scenario Analysis which were included in the Climate Risk Report received by the Committee in March 2021. The aim is for the TCFD report to be published annually, with updated carbon metrics.

Climate Stewardship Plan

10. Based on the analysis in the Climate Risk Report, 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. The *companies* recommended for engaging with 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.
11. The Climate Stewardship report also recommends engaging with the Fund's *investment managers*, this is also based on a set of criteria:
- Perceived level of climate risk, considering carbon risk metrics and climate scenario analysis;
 - Size (by assets under management) of the portfolio; and
 - Whether the mandate is expected to be long-term.
12. The Climate Stewardship Plan is a live working document, which will be updated as engagement with companies and investment managers occurs. Activity (Table 1 and Table 2 in the document) will be reported to the Pensions Panel as part of the Responsible Investment Report presented at their quarterly meeting. Based on the output of the annual Climate Risk Report from LGPS Central Limited, an updated Climate Stewardship Plan will also be presented to the Pensions Committee annually.

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Appendix 1

Equalities Implications: There are no direct equalities implications.

Legal Implications: The legal implications are covered in the body of the report.

Resources and Value for Money Implications: There are no Resources and Value for Money Implications.

Risk Implications: Risk implications are covered in the body of the report and its appendices.

Climate Change Implications: Climate change implications are covered comprehensively throughout the report and its appendices.

Health Impact Assessment screening: There are no direct health impact assessment implications arising from this report.