Item 3

2nd June 2021

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Richard McIndoe, Director

Motion Approved by Glasgow City Council

Purpose of Report:
To consider a motion approved by Glasgow City Council.

Recommendations:

The Committee is asked to:

- **Note** the motion from Glasgow City Council as outlined in 1.1.
- **Note** the ongoing work of the Strathclyde Pension Fund in responding to the climate crisis as outlined in Appendix 1.
- **Note** that the SPF continues to perform in the top tier of global PRI signatories and received the maximum **A+** score in the 2020 PRI survey.
- **Note** the ongoing engagement within the Responsible Investment strategy
- **Agree** that an assessment of energy sector companies in SPF portfolios is conducted to ensure all are meeting minimum standards to be agreed in consultation with investment managers and Sustainalytics.
- **Agree** that if any do not meet these standards, that SPF should disinvest from them
- **Agree** that any disinvestment should be completed as quickly as possible whilst ensuring no detriment to the financial stability of the fund.

Ward No(s):	Citywide: ✓
Local member(s) advised: Yes ☐ No ☐	consulted: Yes ☐ No ☐

1 Background

At its meeting on 1st April 2021, Glasgow City council approved the following motion:-

"Council:

- recalls its previous support for a transformative Green New Deal to respond to the climate and ecological emergencies;

- believes that a Green New Deal for the city region will require massive investment, and that the Council's own pension investments could play an important part in that;

- notes that recruitment is ongoing for the position of the newly created Green Economy Manager and that an announcement on appointment is due soon; and notes that this post will sit in the Economic Development team and will play a key role in identifying opportunities for investment, from potential investors including the pension fund, in to the transformational projects required to deliver a green transition and recover from the pandemic;

- recognises that the Strathclyde Pension Fund supports low carbon initiatives through its direct investment portfolio, but is concerned that the Fund retains large holdings, worth in excess of £500m last year, in fossil fuel industries that are driving the climate and ecological emergencies and perpetuating global inequalities;

- notes the Council's fiduciary duty as administering authority for the Strathclyde Pension Fund must be paramount in all decision making around the pension fund. Further notes the calls made over many years from campaigners on the issue of fossil fuel divestment and notes that many other major public and private institutions have already made and acted on commitments to fossil fuel divestment, demonstrating leadership on the climate emergency at the same time as protecting the long-term interests of their individual investors;

- believes that in the year of the COP26 climate summit, when the eyes of the world will be on Glasgow, the city and its institutions must show climate leadership; and therefore

- resolves to write to the Strathclyde Pension Fund Committee, asking that it make a formal commitment to fossil fuel divestment prior to COP26, with the intention of divesting completely as quickly as possible, and no later than 2029; that it should continue to engage on the basis of the Responsible Investment strategy to address the impact and future of fossil fuels; and that it further considers how it can reinvest the Pension Fund Members' hard-earned money to drive a green recovery for the wider Strathclyde region."

2 Commentary on Motion

Divestment from fossil fuels is already happening as a result of the Fund's Climate Change strategy and of investment managers' discretionary decisions. More information on that work is provided in this paper. Appendix A sets out some of the limitations of divestment.

Information is also provided below on the work being undertaken around the Responsible Investment Strategy and on work being undertaken locally and on green investments.

3 Climate Change Strategy

SPF has an agreed Climate Change strategy and continues to develop that strategy to react to the ongoing climate emergency. The strategy is summarised in Appendix B.

Some of the actions the fund has taken over the past year include:

- the Fund's Annual Report included a second iteration of Climate-related Financial Disclosures – approved by SPF committee in November 2020;
- completion of first iteration of climate risk scenario modelling - as part of 2020 actuarial valuation;
- appointment of Sustainalytics to provide responsible investment engagement services. Scope of the service specified includes advice and support on developing and implementing climate change strategy - approved by SPF committee November 2020;
- further investment in renewable energy by DIP - £50m in Quinbrook Renewables Impact Fund approved November 2020; £20m in RiverRock Sustainable Industries Finance Fund approved March 2021;
- competitive tender of investment consultancy services with explicit coverage of climate change capabilities – to conclude June 2021;
- review of lower carbon factor indices as an alternative to the current allocation to RAFI – in progress; and
- a series of 4 workshops for the Committee and Board investigating legal, actuarial, strategic and investment management issues relating to climate change. These are summarised in Appendix C.

In the 2020 PRI survey, SPF achieved a maximum overall **A+** score confirming that it continues to perform in the top tier of global PRI signatories.

4 Climate Leadership

SPF remains at the forefront of responsible investment. Our early adoption of PRI, creation of DIP, and early compliance with TCFD requirements (described below) clearly demonstrate climate leadership and are closely aligned with the objectives of COP26.

5 Task Force on Climate-related Financial Disclosures (TCFD)

From March to May 2021, the UK Government ran a consultation seeking views on proposals to require mandatory TCFD aligned climate-related financial disclosures from publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs). These proposals build on the expectation set out in the government's 2019 Green Finance Strategy that all listed companies and large asset owners should disclose in line with the TCFD recommendations by 2022.

UK Government also intends to consult on proposals to require all LGPS funds in England & Wales to comply with the requirements from 2022/23. There are no proposals regarding compliance by Scottish LGPS funds.

Strathclyde Pension Fund first complied with the TCFD requirements in 2019. A third iteration of disclosures will be included in SPF's 2020/21 Annual Report.

It is intended that, in addition to other enhancements, this year's disclosures will include the explicit objective of implementing an investment strategy that is consistent with achieving the goal of global net-zero emissions by 2050.

Further information on the Task Force on Climate-related Financial Disclosures is included in Appendix D.

6 Responsible Investment Strategy

The Climate Change strategy evolved from SPF's Responsible Investment strategy. Engagement has been a key feature of the Responsible Investment for more than 20 years. Engagement spans climate-related issues including Just Transition, and a multitude of other ESG issues. Engagement on many issues is more effective as an asset owner. SPF remains committed to fully engage with responsible investment initiatives including through our industry leading engagement via the Fund's renewed contract with Sustainalytics. A summary of the Responsible Investment strategy is set out in Appendix E.

7 Green Recovery

SPF's business plan for 2021/22 includes a review of DIP, through which it makes local and ESG impact investments. Key features of DIP are:
SPF's impact investment portfolio, DIP, turned **10** in **2020**.
From an initial capacity of £300m and a first investment of £5m, DIP has grown to a capacity of **£1.3 billion** (Net Asset Value) and a typical new investment range of £20m to £100m.
Key portfolio statistics are:

- Commitments to date **£1.6 bn**
- **49** separate investments
- Return to date **7.1% p.a.**
- 2020 green energy generated = enough to power **222,644 homes**
- CO2e emissions avoided **149,426 tonnes p.a.**
- **£305m** of new investments agreed during 2020
  DIP is also creating jobs, supporting companies and building social infrastructure in Scotland and across the UK.

Appendix F sets out a summary of DIP and its investments. The challenge in deploying SPF funds remains the availability of appropriately structured opportunities which provide the return on investment required to satisfy the Fund's objectives. As work continues to define what a 'Green recovery' might look like, further opportunities to invest will present themselves.

8 Learning from others

Whilst Divestment from fossil fuels is already happening, and we are world-leaders in responsible investment, we know that we need to continue to consider our portfolio to ensure it is aligned with the commitments we have made. SPF notes the recent work undertaken by the New York State Pension Fund to look at how ensuring that all its companies meet a minimum standard, with an agreement to divest from those funds which do not.

We are keen to learn more from New York and others about their experience, as well as sharing our experiences in divesting and undertaking direct action in some of our investments.

9 Conclusion

SPF has a Climate Change strategy which aligns with the goals of the Paris agreement. SPF is continuing to develop that strategy to ensure that, over time, the entire investment strategy aligns with those goals, and the goals of any agreement which comes from COP26 being held in Glasgow.

Implementation of the strategy has already produced significant reductions in the Fund's carbon footprint. It is expected that a further iteration of measurement, whose results are expected shortly, will confirm further reductions. As a further development of the strategy SPF will conduct an assessment of energy companies held in its portfolios.

10 Policy and Resource Implications

Resource Implications:	
Financial:	None at this time.
Legal:	A legal briefing on the Duties and Obligations on the Strathclyde Pension Fund Committee regarding Climate Change (December 2020) is summarised in appendix C.
Personnel:	None at this time.
Procurement:	None at this time.
Council Strategic Plan:	Strathclyde Pension Fund aligns with the theme of a well governed city.
Equality and Socio-Economic Impacts:	
Does the proposal support the Council's Equality Outcomes 2017-22	
What are the potential equality impacts as a result of this report?	
Please highlight if the policy/proposal will help address	

socio economic disadvantage.

Sustainability Impacts:

Environmental:	ESG (Environmental Social and Governance), and local impacts are addressed in the Fund's Responsible Investment strategy and Climate Change strategy.
Social, including opportunities under Article 20 of the European Public Procurement Directive:	
Economic:	
Privacy and Data Protection impacts:	None.

11 Recommendations

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Appendices

Appendix A	**Divestment**
Appendix B	**SPF Climate Change Strategy**
Appendix C	**Climate Change Workshops**
Appendix D	**Task Force on Climate-related Financial Disclosures**
Appendix E	**Responsible Investment Strategy**
Appendix F	**Direct Investment Portfolio (DIP)**

Appendix A

Divestment

Divestment Objectives

1. Access to Capital

Divestment proponents suggest divestment from fossil fuel companies would deny the fossil fuel sector access to the capital it needs to invest in further extraction projects. There are three problems with this thesis:

i. In reality companies rarely issue equity to raise funds (for tax reasons it's more advantageous to raise bonds) and the fossil fuel sector is generally profitable and can finance projects out of cash reserves.
ii. This belief misunderstands the relationship between a company and the owners of its equity. When listed shares are sold it is to a third-party investor the company is not involved in the transaction and proceeds with little or no knowledge of the exchange. Therefore an investor boycott of fossil fuel companies will not actually exert financial pressure. This act of protest will have no direct impact on the operations of the fossil fuel companies as long as investors who are profit-seekers, as opposed to being ethically motivated, are willing to buy.
iii. In addition, the profit opportunities from owning fossil fuel stocks are not diminished through the divestment-led sales. Divestment per se does not affect either how much it costs to produce fossil fuel energy or how much consumers are willing to buy - any impact on share prices will be negligible as long as investors continue to make money. And they will continue to make money until the costs of producing fossil fuels increases significantly or limits are placed on supply.

Indeed, if direct pressure through investor action is the goal, there is a strong argument for maintaining investments in fossil fuel companies in order to participate in shareholder engagements and actions aimed to make them more responsible.

2. Divestment Targets are Poorly Defined

Divestment is a blunt tool – it does not distinguish between those who only own fossil fuel deposits and those who also produce materials essential for the global economy and the transition to renewable energy. The campaign to divest from fossil fuel companies makes no distinction between natural gas and coal or between Shell and Exxon nor do they distinguish between those companies who are more responsible in their environmental stewardship and those who are ‘worse actors’. Additionally, choosing to target only those companies that extract fossil fuels seems arbitrary.

3. Oil & Gas Industry

The Oil & Gas industry is acting to reduce its impact on the environment. Industry change is widespread and many Oil & Gas companies now have significant renewable energy operations. For example:

- Total SA owns 56% of solar panel manufacturer SunPower
- Royal Dutch Shell has a 44% stake in solar developer Silicon Ranch and acquired on-site power generation management company MP2 Energy – the CEO recently commented that Royal Dutch Shell is no longer an oil and gas company, but an energy transition company.
- BP has a 43% share in solar power provider Lightsource plus significant interests in onshore wind energy in the US including the Titan 1 wind energy site in South Dakota where they partner with Tesla to test wind energy storage.
- Repsol recently became the first global oil & gas group to adopt a net-zero emissions target and laid out plans to become a "leading international player in renewable energies".

4. Identifying Fossil Fuel Companies

Focusing on oil and gas companies conveniently omits the fact that most of the emissions associated with carbon fuels come from combustion or consumer demand rather than the production stage. In the case of most liquid fuels, exhaust gases account for 70 – 80 per cent of all greenhouse gas emissions, with the remaining portion created in upstream production, refining, and distribution. By that measure more appropriate divestment targets would be auto manufacturers, airlines, and shipping or energy utilities. Taking the logic one step further the same question could be asked of plastics, steel, aluminium and cement. Inconveniently for the divestment campaign all are vital for renewable energy infrastructure and all emit large amounts of carbon dioxide in their manufacture.

The Agriculture sector contributes to climate change both by emissions of greenhouse gases and by the conversion of non-agricultural land. Agriculture, forestry and land-use change contribute around 20 to 25% of global annual emissions. Deforestation alone contributes up to 10% of all human caused carbon dioxide emissions.

The global built environment (Real Estate) consumes 40% of global energy annually and accounts for more than 30% of global Co2 emissions. Construction is also an emissions intensive activity - cement alone contributes around 8% to global human caused CO2 emissions.

5. Worse Actors

As with any industry or sector, fossil fuel companies exhibit a wide variety of corporate practices and responsiveness to shareholder activism. Divestment campaigns fails to distinguish between those companies who are more responsible in their environmental stewardship and those who are 'worse actors'. If, hypothetically, many shareholders undertake divestment from a profitable sector of the economy the studies suggest two outcomes.

i. Other shareholders will see that profitable energy companies are available at a discount and will buy and hold these discounted shares. The net result being less opportunity for shareholder engagement on environmental issues, and no impact on the target company's operations. A fund that divests can no longer apply pressure on companies to clean up or invest in the necessary technology to remediate historic emissions - for instance developing carbon capture and storage.
ii. A possibility that companies will just become privately held. A global financial system awash with liquidity affords plenty of scope for private interests to own large energy resources and companies, and to be free of the increased regulatory burdens that often fall on publicly held corporations.

The target of divestment campaigns is the publicly listed oil, gas and coal companies. However, these public companies are not dominant in the world's energy markets. More than 85% of oil reserves are in fully or partially state-owned hands. There is little evidence that Russia, Saudi Arabia, Iran, Iraq or Venezuela intend to shut down their oil and gas industries in the name of climate change mitigation anytime soon.

6. Stranded Assets

From an investment perspective much of the divestment debate is focused on the risk of "stranded assets." In broad terms these are assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities. They can be caused by a variety of risks and occur across different sectors. In the context of fossil fuels the main risk centres around future demand or regulatory changes which could limit or curtail companies' ability to extract and monetise their oil, gas and coal reserves.

Demand for Fossil Fuels

The International Energy Agency (IEA) 2019 World Energy Outlook (Current Policies Scenario) expects global energy demand to increase by 30 percent by 2040 and fossil fuels to constitute 77 percent of overall energy use in that same timeframe. The main driver for this increase in demand is population growth. According to the United Nations the world population is projected to reach 8.5 billion in 2030, and to increase further to 9.7 billion in 2050 and 11.2 billion by 2100. Projections show these gains will come mostly in sub-Saharan Africa, which is expected to more than triple in population by 2100 with more than half a billion people added to Africa's urban population by 2040. This is much higher than the growth seen in China's urban population between 1990 and 2010, a period in which China's consumption of energy and production of materials such as steel and cement increased dramatically.

As most of the new population and economic growth will be in developing countries with high levels of poverty and energy supply deficit demand will be concentrated on the most affordable and reliable energy sources - this will include fossil fuel and renewable energy systems.

Fossil Fuel consumption

Oil and gas use is systemic. Despite recent rapid advances in technology, the science does not yet exist to replace many of today’s essential uses of hydrocarbons. The economic, social and environmental benefits of carbon fuels and petrochemical products are well established.

Fossil Fuels are used to provide affordable heat and electricity around the world. The petrochemicals derived from them make modern medicines, plastics, fertilizers, pesticides, detergents, packaging materials, paints and synthetic fibres to name but a few of literally millions of products. Even solar panels, wind turbines and electric vehicles rely on materials that can currently only be derived from fossil fuels. In the last two centuries every indicator of human well-being from life expectancy, infant mortality to child labour and education has improved, often dramatically, due to the increased use of fossil fuels.

7 Conclusion

The prospects for the oil and gas sector are indeed likely to be more challenging over the next 20-25 years than the last 100 as the rise of the electric vehicle, faster adoption of renewable energy and efforts to reduce plastic use will eventually undermine oil. Indeed, most of the oil majors have acknowledged that oil demand may peak in the next one to two decades, followed by a slow decline in demand thereafter. Consequently, they have been positioning their strategy for this proclaimed new energy transition. Most oil majors have formulated an explicit renewable energy strategy, earmarked capital spending for renewables and have built dedicated renewable energy teams in their organizations. The CEO of Royal Dutch Shell recently commented that Shell is no longer an oil and gas company, but an energy transition company.

Appendix B

Strathclyde Pension Fund

Summary of Climate Change Strategy

Strathclyde Pension Fund (SPF) believes that Climate Change is a systemic risk and thus a material long-term financial risk for any investor that must meet long-term obligations.

Control and mitigating actions listed against the risk from climate change include: SPF's climate change strategy, responsible investment strategy, diversification of investments, the Strathclyde Direct Investment Portfolio (DIP) and other positive investment opportunities.

Governance

- The Strathclyde Pension Fund Committee receives regular reports on the Fund's responsible investment activity including Climate Change.
- The Committee and officers are directly involved in analysis and decision making in respect of the Fund's Direct Investment Portfolio (DIP). To date, DIP has committed more than **£500m** to renewable energy infrastructure investments. SPF has also committed **£500m** to a global Infrastructure fund with a one third allocation to renewable energy assets.
- Day-to-day management of SPF's Climate Change strategy is delegated to the Fund's external investment managers.
- A bi-annual carbon footprinting exercise is used to assess both the risks from Climate Change and also areas of opportunity.
- SPF employs a specialist advisor, Sustainalytics, to focus engagement activity and to monitor voting activity on active equity holdings, with specific focus on Climate Change related resolutions.

Strategy

- SPF has a global investment strategy widely diversified by geography, asset class, sector and manager. Given the diversified nature of the Fund's strategy it will be exposed to all of the risks identified by the Task Force on Climate-Related Financial Disclosures (TCFD), though the degree and timing of the impact cannot be accurately gauged.
- SPF is primarily an equity investor, therefore the Fund's primary concern is that its equity investment managers and the management of the companies in which they invest have fully assessed climate –related risks and the potential impact on asset valuations, in particular from:
  - obsolescence, impairment or stranding of assets;
  - changing consumer demand patterns; and
  - changing cost structures including increased emissions pricing, insurance and investment in new technologies.
  - SPF, and all of its investment managers, are signatories to the UN Principles for Responsible Investment (PRI).

Signatory of: PRI Principles for Responsible Investment

Member of the PRI 2019 Leaders' Group

Local Authority Pension Fund Forum

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

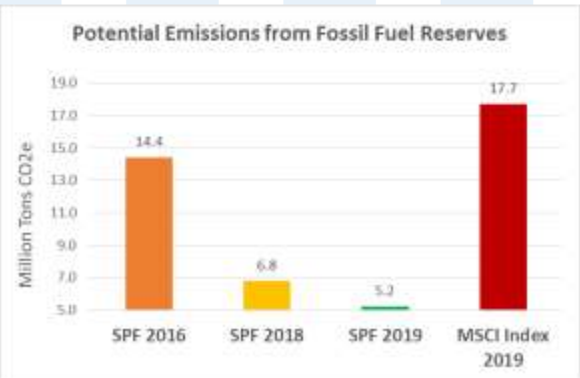
Risk Management

- External investment managers take into account any climate-related risks when making their investment decisions.
- SPF and Sustainalytics work with managers to ensure that these risks are being assessed and addressed. Carbon footprinting is used to inform this process.
- SPF also addresses these risks through its active participation in the Local Authority Pension Fund Forum (LAPFF), ShareAction, the Institutional Investor Group on Climate Change (IIGCC), Carbon Action, Climate Action 100+, and other ad hoc alliances.

Metrics and Targets

- SPF monitors the voting and engagement of all its Investment Managers on issues including Climate Change.
- SPF has engaged the leading carbon audit service provider, MSCI, to provide carbon and emissions footprinting.
- In 2018 the Fund's weighted average listed equity footprint was **192.5 tCO2e/£ revenue**.This was **4.8%** lower than in 2016 and **6.2**% lower than that of the MSCI All Country World Index.
- The analysis further highlights that dominant sectors, in terms of emissions, tend to be Energy, Utilities, and Materials.
- The carbon footprinting analysis has considered the risk of 'Stranded Assets' in the Fund's listed equity by calculating the total potential emissions from fossil fuel reserves as tons of CO2. In 2018 the total potential emissions from fossil fuel reserves was 23.7 million **tCO2e**. This was **23.8%** lower than in 2016 and **23.7%** lower than that of the MSCI All Country World Index.
- The Fund is not currently using quantitative targets as part of its Climate Change strategy but is actively considering a net-zero target.

The chart below provides a year on year view of the Fund's ownership of potential emissions from all proven reserves of Thermal Coal, Oil and Gas owned by all the fossil fuel companies held in the Fund's active equity portfolio. Expressed as millions of tons of Co2 and compared to an equal value of the most widely used global equity benchmark, the MSCI All Country World Index. The figures will be update during 2021 and further reductions are anticipated.



The Institutional Investors Group on Climate Change

A proud participant of: Climate Action 100+ Global Investors Driving Business Transition

SUSTAINALYTICS

Appendix C

Climate Change Workshops

Workshop 1 - Climate Change Strategy (October 2020)
Review of recommendations outstanding from March 2020 committee paper.
Suggested next steps to include some or all of the following:

- Complete actuarial valuation and scenario modelling (work in progress)
- Complete general and specialist investment consultancy tenders (work in progress)
- Complete UK stewardship Code 2020 compliance statement (work in progress)
- Fully review the IIGCC Net Zero Framework
- Agree climate change strategy objective
- Agree high-level plan for achieving climate change objective

Existing work with PRI, IIGCC, CA100+, TCFD, LAPFF, investment managers, Sustainalytics will continue meantime.

Workshop 2 – Legal Briefing: Duties and Obligations on the Strathclyde Pension Fund Committee regarding Climate Change (December 2020)

Executive Summary
The SPF Committee's duties in relation to investment and climate change are as follows:

- To comply with the duties imposed on it under statute and case law
- To act in the best financial interests of the SPF members by exercising its investment powers to produce the best possible return, having regard to the level of risk involved
- To obtain investment advice in accordance with the SPF's governance arrangements, consider the advice received, setting aside any personal, moral or ethical views and keep appropriate records of the decisions reached
- ESG factors may be taken into account for financial reasons i.e. ESG factors may be taken into account where the factor will have a material impact on the financial performance of the Fund
- ESG factors should not be taken into account for non-financial reasons unless any proposed investment decision is expected to generate similar financial returns and provide similar risk and return characteristics

Workshop 3 – Climate Risk Scenario Modelling (January2021)
Hymans Robertson's asset liability modelling included a scenario-based review of climate risk. Conclusions were that:

- the Fund is exposed to climate risk through both its assets and liabilities
- the modelling illustrates a wide range of potential future funding outcomes as a direct result of government business action or inaction on climate change
- some, though, by no means all, of these are very negative.

SPF already recognises the risk posed by climate change and is responding to it via its climate change strategy. The modelling will be useful in informing future development of that strategy, but no immediate change is proposed.

Appendix C

Climate Change Workshops

Workshop 4 – Climate Change and SPF Investments (February 2021)

As at 31st December 2020, SPF held oil and gas stocks in its active equity portfolios with a total value of £62m (0.24% of total assets).

SPF has no direct ownership of companies in its passive portfolios. Underlying exposure is £316m and has reduced over 5 years from 10.6% of passive equity to 5.2% (1.2% of total assets).

Any decision to hold oil and gas stocks is therefore taken by active equity managers in line with their mandates and based on expert research and analysis. External investment managers also take into account any climate-related risks when making their investment decisions.

Lazard set out their approach and reasons for selectively holding some oil & gas stocks. These included:

- Deployment by some companies of significant amounts of capital in new energies;
- Global reach, technological ability and mega-project experience to help with the energy transition; and
- Adoption of Paris-aligned targets by some companies.

Their conclusions were that:

- Climate change is humanity's biggest challenge
- Investments should align with forthcoming policy changes
- Some, but not all, integrated energy companies can be part of the solution
- Some may be good investments from hereon
- Ownership and engagement were necessary to keep them on the right course.

Exposure within other asset classes has not been quantified.

Task Force on Climate-related Financial Disclosures (TCFD)

The Task Force's Remit

In April 2015, the Group of 20 (G20) Finance Ministers and Central Bank Governors asked the Financial Stability Board to convene public- and private-sector participants to review how the financial sector can take account of climate-related issues. As part of its review, the FSB identified the need for better information to support informed investment, lending, and insurance underwriting decisions and improve understanding of climate related risks. To help identify the information needed to assess and price climate-related risks, the FSB established an industry-led task force — the TCFD. The FSB asked the TCFD to develop voluntary climate-related financial disclosures that would be useful to investors and others in understanding material risk

Extract from 2020 Status Report

Over the past 15 months, the number of organizations expressing support for the TCFD has grown more than 85%, reaching over 1,500 organizations globally, including over 1,340 companies with a market capitalization of $12.6 trillion and financial institutions responsible for assets of $150 trillion. Many of these companies have begun to implement the TCFD recommendations or continue to refine and improve their climate-related financial disclosures. Through the efforts of the World Business Council for Sustainable Development, the Institute for International Finance, the United Nations Environment Programme Finance Initiative, and other organizations, peer companies implementing the TCFD recommendations have come together to discuss effective climate-related financial disclosure practices and undertake work needed to enhance the effectiveness of such disclosures. Similar to the growth in the number of organizations supporting the TCFD, investor demand for companies to report information in line with the TCFD recommendations has also grown dramatically. For example, as part of Climate Action 100+, more than 500 investors with over $47 trillion in assets under management are engaging the world's largest corporate greenhouse gas emitters to strengthen their climate-related disclosures by implementing the TCFD recommendations. In addition, many large asset managers and asset owners have asked or encouraged investee companies broadly to report in line with the TCFD recommendations and reflected this in their investment practices or policies. Over 110 regulators and governmental entities from around the world support the TCFD, including the governments of Belgium, Canada, Chile, France, Japan, New Zealand, Sweden, and the United Kingdom. In addition, central banks and supervisors from across the globe — through the Network for Greening the Financial System — have encouraged companies issuing public debt or equity to disclose in line with the TCFD recommendations. The Task Force is also seeing governments embed the recommendations in policy and guidance and move toward requiring TCFD disclosures through legislation and regulation.

Appendix E

Strathclyde Pension Fund

Responsible Investment Policy

PRI Principles for Responsible Investment
As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following: 1. We will incorporate ESG issues into investment analysis and decision-making processes. 2. We will be active owners and incorporate ESG issues into our ownership policies and practices. 3. We will seek appropriate disclosure on ESG issues by the entities in which we invest. 4. We will promote acceptance and implementation of the Principles within the investment industry. 5. We will work together to enhance our effectiveness in implementing the Principles. 6. We will each report on our activities and progress towards implementing the Principles We encourage other investors to adopt the Principles.

Responsible Investment Strategy

Responsible Investment activity is carried out by:

- the Fund’s investment managers who are required to exercise the Fund’s voting rights, to incorporate analysis of ESG issues into their investment analysis and expected to engage on these issues with the companies in which they invest;
- Global Engagement Services (GES), a specialist responsible investment engagement overlay provider appointed by the Fund in 2012 and again in 2014; and
- the Fund itself through direct engagement, and collaboration with other investors including the Local Authority Pension Fund Forum (LAPFF), ShareAction, Institutional Investor Group on Climate Change (IIGCC), Carbon Action and other ad hoc alliances.

Strathclyde Pension Fund

Direct Investment Portfolio (DIP)

1 Investment Parameters

The current framework is summarised below.

Direct Investment Portfolio	
Objectives	Primary objective identical to overall SPF investment objective. Secondary objective of adding value through investments with a positive local, economic or ESG (environmental, social, governance) impact.
Strategy & Structure	In line with SPF risk-return framework but focused on the UK and on Equity, Long Term Enhanced Yield and Short Term Enhanced Yield asset categories.
Risk and Return	Portfolio benchmark return of **CPI +3% p.a.** Individual risk and return objectives for each investment.
Capacity	Target allocation of **5%** of total Fund (based on Net Asset Values). Range of **2.5**% to **7.5%** of total Fund.
Investment Size	Target: **£20m** to **£100m** Minimum: **£10m** Maximum: greater of **£200m** or **1%** of Total Fund Value.
Decision Making	3 stage process with review and satisfactory due diligence by officers, followed by a presentation to the Sounding Board before a proposal is taken to Committee for approval subject to completion of legal documentation.
Monitoring	Includes individual investment reports, participation in advisory boards, and a quarterly DIP monitoring report which is reviewed by the Fund's Investment Advisory Panel.

2 Portfolio Summary

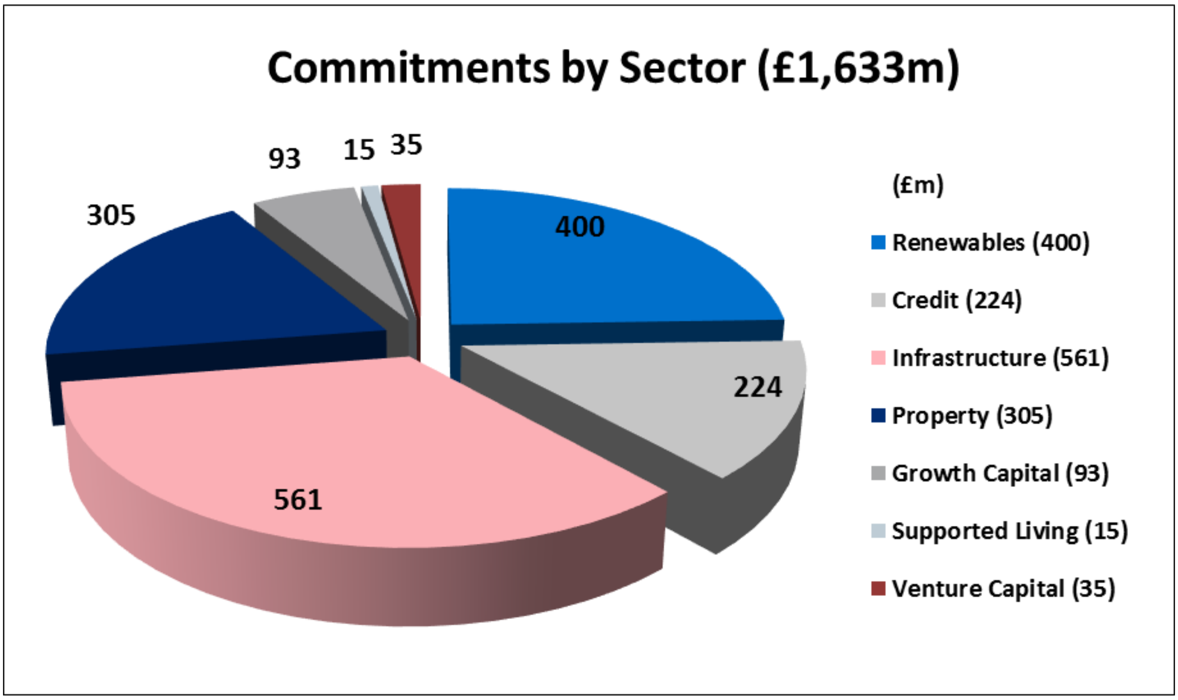
The portfolio can be summarised as follows.

	Since Inception (£m)	**Current Portfolio (£m)**
Total Commitments Agreed	**1,720**	**1,633**
Amounts Drawn Down by Managers	**1,062**	**993**
+ Increase in Value	**214**	**172**
- Received Back in Distributions	**245**	**245**
- Realisations	**111**	**-**
= Total Net Asset Value (NAV)	**920**	**920**

Based on a current total Fund value of **£26,176m**, DIP's **5%** target allocation is a NAV of **£1,309m**.

3 Sector Profile

The chart below shows the portfolio broken down by sector**.**



4 Impact

DIP adds people place and environmental impacts to the Fund's financial objectives.

- **People:** DIP has £224m committed to private debt funds and £128m to private equity. These provide much-needed loan and equity capital to small and medium-sized UK businesses. In 2018 we estimated that
  - 2,800 new jobs had been created by venture and growth equity funds which DIP invested in and
  - 36,000 jobs were supported by lending from debt funds which DIP invested in.

  These figures will have grown significantly since then.
  In addition, DIP's infrastructure investments have been instrumental in building social infrastructure across the UK.
- **Place:** in 2013 DIP created the Clydebuilt portfolio, a local property fund with a focus on development and regeneration. Clydebuilt has invested over £100m in 14 separate properties in the Strathclyde area. Notable projects include: construction of a retail park in Port Glasgow (completed 2019); construction of a retail park (completed 2020) and 150+ residential units in Gorbals, Glasgow; and development of a shopping centre in Shawlands, Glasgow to a mixed use retail and residential "village" (in planning - due to commence work later 2021). In 2020 DIP created Clydebuilt II – a further £100m portfolio. Other place-based investments have included £30m working capital for construction of the Athletes Village in the East end of Glasgow, and commitment to private equity funds raised by Glasgow-based investment managers (SEP, Panoramic, Maven).

Environment: the dominant sectors in DIP’s investments to date are Renewable Energy and Infrastructure with combined commitments of £1.3 billion. Renewable energy investments were initially opportunistic – benefiting from a helpful subsidy regime – and spanning onshore and offshore wind, hydro, solar, anaerobic digestion, and community power. We have now made our first post-subsidy investments and have also extended into cleantech and related areas. 2020 green energy generated by our share of these investments was enough to power 222,644 homes. Total generated by funds we have supported/facilitated is a multiple of that.