



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Richard McIndoe, Director

Item 6

1st March 2023

Climate Change Strategy - Climate Action Plan

Purpose of Report:

To present a high-level Climate Action Plan for Strathclyde Pension Fund (SPF).

Recommendations:

The Committee is asked to **APPROVE** the Climate Action Plan.

Ward No(s):

Citywide: ✓

Local member(s) advised: Yes ☐ No ☐ consulted: Yes ☐ No ☐

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1 Background

The committee has considered a number of previous reports, and agreed a number of recommendations, regarding development of Strathclyde Pension Fund's (SPF's) Climate Change Strategy. Most recently, the committee agreed that SPF should:

- produce a high level climate action plan;
- use the IIGCC Net Zero Investment Framework as the basis for producing its climate action plan; and
- join the Paris Aligned Investment Initiative (PAII).

[Item 6, 2nd March 2022].

The following report addresses implementation of those agreed recommendations and presents a Climate Action Plan for approval.

2 Paris Aligned Investment Initiative (PAII)

The Paris Aligned Investment Initiative is a collaborative investor-led global forum enabling investors to align their portfolios and activities to the goals of the Paris Agreement. SPF joined PAII during 2022 and became a signatory to the PAII Net Zero Asset Owner Commitment (signed by 57 asset owners, with over \$3.3 trillion in assets). The commitment is set out in Appendix A to the Climate Action Plan.

3 IIGCC Net Zero Investment Framework

The Net Zero Investment Framework, published in March 2021, provides a common set of recommended actions, metrics and methodologies through which investors can maximise their contribution to achieving global net zero global emissions by 2050 or sooner.

The Net Zero Investment Framework Implementation Guide is available here: <https://www.iigcc.org/resource/net-zero-investment-framework-implementation-guide/>

The framework's approach is illustrated below.



The framework has been used as the basis for developing SPF's Climate Action Plan. The main components and actions required by the Framework are:

- Governance & Strategy
- Targets & Objectives
- Strategic Asset Allocation
- Asset Level Assessment & Targets
- Implementing Alignment
- Stakeholder & Market Engagement
- Policy Advocacy

The Plan addresses each of these.

4 Climate Action Plan

The Climate Action Plan is attached to this report.

Some additional detail regarding its production is set out below.

4.1 SPF Business Plan

Production of the Climate Action Plan is included as a priority in SPF's 2022/23 business plan.

The intention was:

- to produce a plan setting out at a high level how SPF will achieve and maintain progress towards its Net Zero objective and target,
- that this should focus on the medium term, and
- that it should remain flexible as policy, technological and corporate responses to climate change will evolve.

4.2 Climate Change Strategy

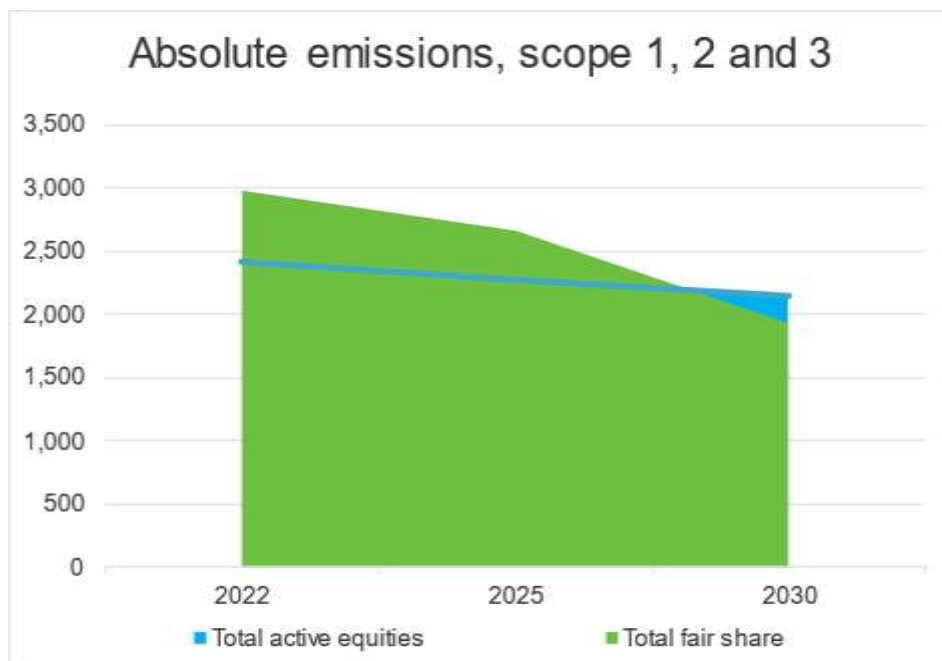
The Climate Action Plan builds on the existing SPF climate change strategy but is more forward-looking and focused on the Net Zero objective and target. In particular, the plan focuses on investment alignment.

4.3 Investment Alignment

According to PAIL: *"The key driver for achieving net zero targets and securing emissions reductions in the real economy is the increasing alignment of assets to net zero pathways within asset class portfolios."*

Pathways is the term used to describe the emissions, technologies and investment trajectories that will be needed to deliver net zero.

SPF's investment consultants, Hymans Robertson, have developed modelling which compares SPF's portfolio emission levels to those envisaged by the Intergovernmental Panel on Climate change (IPCC) and to sectoral emissions profiles assessed by the International Energy Agency (IEA) and the One Earth Climate Model (OECM). This modelling illustrates the current transition pathway of SPF's individual equity portfolios and at an aggregate level. The example below shows the current aggregate position of the 6 active equity portfolios.



The total active global equity portfolio is estimated to be on track relative to the aggregated “fair share” pathway, with cumulative emissions to 2030 below budget (SPF’s share of the remaining carbon budget to limit global warming to 1.5°C). The driver for this is the reasonably efficient position today (with the start point below industry averages) rather than a steep enough trajectory for future emissions. Past 2030, while the data beyond that point is very challenging to draw conclusions from, there is a significant risk that emissions will not reduce enough and align with 1.5 degrees over the full pathway.

4.4 Investment Managers

Each of the 6 investment managers whose portfolios are included in the above analysis is a signatory to the Net Zero Asset Managers Initiative (NZAM). NZAM is an international group of asset managers (301 signatories, USD 59 trillion in assets under management). committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner.

Managers’ participation in NZAM should form the foundation for SPF’s own decarbonisation. However, SPF will need to take actions itself to ensure that progress is achieved and maintained. This will include ongoing engagement with managers and assessment of their progress towards alignment based on their transition pathways. NZIF recommends that alignment assessment focuses on companies in high impact sectors. This is the basis for the Alignment Goal.

4.5 Alignment Goal

The goal is to have 100% of companies confirmed as net zero or aligned to net zero by 2040. The Climate Action Plan sets out interim targets on the journey to full alignment. Initial assessment of the current position produced the following summary results.

Within the active equity portfolios, SPF holds 76 companies operating in high impact sectors. This represents around 11% of those assets by value, but accounts for 74% of financed emissions in the portfolios.

% SPF High Emitting Companies	Transitioning companies (aligned, aligning, or committed)	Not aligned or committed	Insufficient data
By Number	30%	13%	57%
By Value	58%	27%	15%

An early priority of the Climate Action Plan is to engage with investment managers and companies on how this goal will be achieved. This will include active participation in the newly-launched Net Zero Engagement Initiative which SPF has committed to.

5 Next Steps

If approved, given scheme member interest, a member summary version of the plan will be published.

Implementation will begin immediately. In particular, many of the actions in the plan will be a focus of the review of investment strategy and structure which will be carried out alongside the actuarial valuation as at 31st March 2023.

The Climate Action Plan will continue to evolve as additional portfolios and assets come into scope for NZIF, and additional data becomes available allowing further targets and metrics to be agreed.

6 Policy and Resource Implications

Resource Implications:

Financial: None at this time.

Legal: None at this time.

Personnel: None at this time.

Procurement: None at this time.

Council Strategic Plan: SPF supports all Missions within the Grand Challenge of: ***Enable staff to deliver essential services in a sustainable, innovative and efficient way for our communities.*** The LGPS is one of the key benefits which enables the Council to recruit and retain staff.

Equality and Socio-

Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.

N/a.

What are the potential equality impacts as a result of this report?

No direct impact.

Please highlight if the policy/proposal will help address socio-economic disadvantage.

N/a.

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify:

Yes.

The proposal is to approve a Climate Action Plan for SPF.

What are the potential climate impacts as a result of this proposal?

The proposal will contribute to SPF's net zero objective and target.

Will the proposal contribute to Glasgow's net zero carbon target?

N/a.

Privacy and Data Protection Impacts:

Are there any potential data protection impacts as a result of this report
Y/N

No.

If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out

N/a.

7 Recommendations

The Committee is asked to **APPROVE** the Climate Action Plan.