



Glasgow City Council

**Net Zero and Climate Progress Monitoring
City Policy Committee**

Report by Director of Strathclyde Pension Fund

Contact: Richard McIndoe, Director

Item 4

8th August 2023

**Strathclyde Pension Fund (SPF)
Climate Change Strategy**

Purpose of Report:

To present Strathclyde Pension Fund's Climate Action Plan.

Recommendations:

The Committee is asked to **NOTE** the contents of this report and the SPF Climate Action Plan.

Ward No(s):

Citywide: ✓

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

PLEASE NOTE THE FOLLOWING:

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1 Background

1.1 Strathclyde Pension Fund (SPF)

Glasgow City Council has statutory responsibility for the administration of the Local Government Pension Scheme ("LGPS") in the West of Scotland, both on its own behalf and in respect of around 150 other bodies including the other 11 local authorities in the former Strathclyde area.

The main functions are management and investment of the Strathclyde Pension Fund and administration of scheme benefits. These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972 and Public Service Pensions Act 2013.

1.2 SPF Committee

The power to discharge all functions and responsibilities relating to the Council's role as administering authority is delegated by the Council to its Strathclyde Pension Fund Committee.

1.3 Responsible Investment

The SPF Committee has maintained a Responsible Investment Policy for more than 20 years. The policy, based on the UN Principles for Responsible Investment (PRI), sets out how SPF will address Environmental, Social and Governance (ESG) issues within its investment strategy.

1.4 Climate Change Strategy

SPF has been developing a Climate Change Strategy since 2015. The strategy is summarised in the Fund's [Annual Report](#). Development and reporting of the strategy is based on the recommendations of the Task Force on Climate Related Financial Disclosures (the TCFDs).

In developing its Climate Change Strategy, the Committee has considered a series of reports, and agreed a number of recommendations. Most recently, in March 2023, the Committee agreed the SPF Climate Action Plan.

2 SPF Climate Action Plan

The Climate Action Plan is attached to this report.
Some additional detail regarding its production is set out below.

2.1 SPF Business Plan

Production of the Climate Action Plan was 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.

2.2 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 as described in the Paris Aligned Investment Initiative (PAII) and the IIGCC Net Zero Investment Framework (NZIF).these are summarised below.

2.3 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.

2.4 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 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

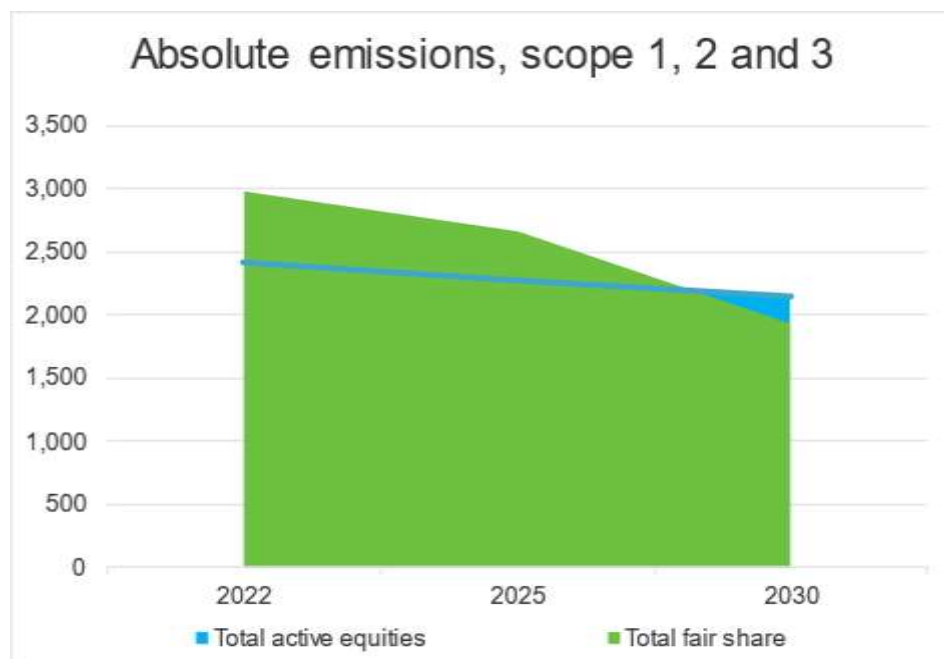
The Plan addresses each of these.

2.5 Investment Alignment

According to PALL: *“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.

2.6 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.

2.7 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.

3 Implementation

Implementation of the Climate Action Plan is underway. In particular, many of the actions in the plan will be addressed in the review of investment strategy and structure which is being carried out alongside the actuarial valuation of SPF 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.

4 Review

The plan will follow a 3-yearly review cycle. This is consistent with the statutory triennial cycle for actuarial review which forms the basis of SPF's existing cycle for strategic planning and review.

5 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: N/a.
The proposal is to note SPF's Climate Action Plan.

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

*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.

6 Recommendations

The Committee is asked to **NOTE** the contents of this report and the SPF
Climate Action Plan.