



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Richard McIndoe, Director

Item 6

2nd March 2022

Climate Change Strategy

Purpose of Report:

To present an update, and propose further actions in respect of the Strathclyde Pension Fund (SPF) Climate Change strategy.

Recommendations:

The Committee is asked **to AGREE** that SPF should:

- produce a high level climate action plan;
- adopt an interim target for carbon reduction of at least 45% from the baseline by 2030;
- use the IIGCC Net Zero Investment Framework as the basis for producing its climate action plan;
- join the Paris Aligned Investment Initiative (PAII); and
- adopt and implement the energy company standards framework as set out in Appendix B with immediate effect.

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 the Climate Change Strategy would incorporate the explicit objective of implementing an investment strategy that was consistent with achieving the goal of global net zero emissions by 2050; [Item 4, 2nd June 2021]
- agreed that Strathclyde Pension Fund should have a target of net-zero emissions across its own portfolios by 2050; [Item 4, 2nd June 2021]
- noted the initial findings of an assessment of energy sector companies in Strathclyde Pension Fund portfolios; [Item 6, 8th September 2021] and
- agreed that a further report be submitted to this committee for consideration once the next steps, as detailed in the report had been completed; [Item 6, 8th September 2021].

The following report addresses implementation of those agreed recommendations.

2 Net Zero Emissions

SPF's Climate Change Strategy is fairly well developed, but agreeing the explicit net zero objective and target has added a new perspective to it. The strategy needs to be reviewed and developed to specifically address those changes. As a starting point, an initial review of the current position has been completed. This has 2 aspects:

- a review of carbon footprinting results to date; and
- a review of investment managers' net-zero policies.

2.1 Carbon Footprinting

In order to understand its own portfolio emissions, SPF carried out its first carbon footprinting exercise in 2016. The exercise was repeated in 2018, 2019 and 2020. In addition, SPF has used historic portfolio and MSCI data to establish the 2010 position as a baseline. This is consistent with IPCC (Intergovernmental Panel on Climate Change) modelling which underpins the Paris Agreement and the Glasgow Climate Pact. Results for SPF's listed equity portfolios are summarised in a simplified format below.



Notes:

1. Results need to be treated with some caution: the data used is incomplete; the methodologies are imperfect; and different sources provide very varied (and sometimes contradictory) results. SPF uses MSCI as primary source, but cross-references this with Trucost and investment manager reporting.
2. MSCI defines portfolio carbon footprint as the carbon emissions of a portfolio per \$m invested.
3. IPCC line = required trajectory to achieve net-zero by 2050.
4. MSCI Carbon Footprint = based on the MSCI All Countries World Index.

The main conclusion is that SPF's carbon footprint has reduced and is on a trajectory to achieve its target, but only just.

Results only reflect the Fund's listed equity portfolios, but these constitute a majority of SPF assets. The exercise needs to be extended to SPF's other assets. It is anticipated that these will have a lower emissions footprint than listed equity.

2.2 Investment Managers

SPF has a good understanding of investment managers' general approach to climate change and responsible investment, but less knowledge of their specific net zero policies, practices and commitments. To address this, officers compiled a short questionnaire which was issued to the 8 active equity managers. Collated results are summarised below.

Question	Yes
Do you support any climate change engagement or disclosure initiatives (e.g., CDP, SBTi, CA100+ etc.)?	8/8
Have you joined any of the Net Zero investment alliances or initiatives? <i>If not, are you considering joining in the next 12 months?</i>	7/8 1/8
Have you carried out any climate change scenario analysis? <i>If not do you intend to in the next 12 months?</i>	5/8 3/8
Do you have a climate change policy?	5/8
Do you have a Net Zero target for assets under management?	5/8
Do you have short- or medium-term portfolio emissions reduction targets for assets under management?	3/8
Do you report in line with TCFD recommendations?	5/8
Does your voting policy specifically address climate change?	6/8

The main conclusions are that:

- all managers support climate change initiatives;
- all managers have either joined or are in the process of joining Net Zero alliances; and
- where managers answered No, it is often because the item in question remains a work in progress.

2.3 Conclusions

The conclusions summarised above are reasonably positive regarding the current position and the immediate outlook. In particular: SPF is very reliant on its investment managers; progress towards Net Zero will inevitably be

dependent to a large extent on them; their participation in Net Zero alliances is very encouraging and should form the foundation for SPF's own decarbonisation. However, SPF will need to take certain actions itself to ensure that progress is achieved and maintained. Proposed actions are as follows.

2.4 Next Steps

- i. SPF should produce a high level climate action plan setting out how it will achieve and maintain progress towards its Net Zero objective and target. This should focus on the medium term, and remain flexible as policy, technological and corporate responses to climate change will evolve. This should be included as a priority in SPF's 2022/23 business plan.
- ii. Given the suggested medium-term focus, SPF should agree an interim target for carbon reduction. It is proposed that this should be a reduction of at least 45% from the baseline by 2030. This is in line with IPCC modelling.
- iii. SPF should use the IIGCC Net Zero Investment Framework as the basis for producing its climate action plan.
- iv. SPF should join the Paris Aligned Investment Initiative (PAII) to demonstrate and support its commitment to Net Zero. The Paris Aligned Investment Initiative Net Zero Asset Owner Commitment is set out at Appendix A.

3 Review of Energy Sector Companies

At its September 2021 meeting the committee considered a report which presented a draft framework for the assessment of energy sector companies and development of minimum standards to apply to them. The report outlined a number of next steps which were required in order to produce a final version of the framework. Progress in respect of each of these is summarised below.

3.1 Consider Interaction with Remainder of SPF Climate Change Strategy

The following objective has been formulated for the framework:

The objective of the minimum standards assessment is to support the climate change strategy by identifying companies which SPF directly holds within the energy sector which are not adequately considering climate risk, the impact on their business, and how to transition towards a low carbon economy, recognizing the potential for ongoing policy and regulatory change.

The framework also aims to identify where there is a need to engage with a company on specific areas or consider divesting from a company.

3.2 Engage with Managers and Advisers on the Draft Framework

SPF's investment consultants, Hymans Robertson, were asked to review and develop the framework.

3.3 Develop Detailed Standards Under Each of the 4 TCFD categories

Hymans Robertson's proposed metrics for these standards are set out in Appendix B.

3.4 Set Minimum Threshold for Each of the 4 categories

Hymans Robertson's proposed scoring and thresholds are set out in Appendix B.

3.5 Agree Detail of Actions to be Taken in Respect of Each of the Overall Assessment Categories

Hymans Robertson's proposed actions are set out in Appendix B.

3.6 Agree Implementation Details – Timeline, Responsibilities, Reporting

Implementation is proposed as follows:

- this Committee agrees the framework to have immediate effect
 - Hymans Robertson apply it to current holdings – March/April
 - IAP reviews outcomes - May
 - officers implement or instruct managers to do so – June to September
 - Director reports results back to the committee – September/December
- All subject to annual iteration and triennial review.

4 Policy and Resource Implications

Resource Implications:

Financial: There will be some implementation costs in respect of the energy company minimum standards framework. These will include consultant fees and potential transaction costs

Legal: None at this time.

Personnel: No issues.

Procurement: N/a.

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 Equalities issues are addressed in the Fund's Responsible Investment strategy, in the scheme rules which are the responsibility of Scottish Government and in the Fund's Communications Policy which has been the subject of an Equalities Impact Assessment.

What are the potential equality impacts as a result of this report? No specific equalities impacts.

Please highlight if .

*the policy/proposal
will help address
socio economic
disadvantage.*

Climate Impacts:

<i>Does the proposal support any Climate Plan actions? Please specify:</i>	Yes. The report provides an update and proposals in respect of Strathclyde Pension Fund's Climate Change strategy which is being developed in line with Item 34 of the Council's Climate Action Plan.
<i>What are the potential climate impacts as a result of this proposal?</i>	Managed reduction in SPF carbon emissions in line with previously agreed objective and target.
<i>Will the proposal contribute to Glasgow's net zero carbon target?</i>	N/A.

Privacy and Data Protection impacts: None

5 Recommendations

The Committee is asked **to AGREE** that SPF should:

- produce a high level climate action plan;
- adopt an interim target for carbon reduction of at least 45% from the baseline by 2030;
- use the IIGCC Net Zero Investment Framework as the basis for producing its climate action plan;
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Appendices

**Appendix A
Appendix B**

**The PAII Net Zero Asset Owner Commitment
Proposed Minimum Standards**

The Paris Aligned Investment Initiative Net Zero Asset Owner Commitment

Commitment

As asset owners with millions of beneficiaries around the world, we reiterate our full support for the Paris Agreement and strongly urge governments to implement the actions that are needed to achieve the goals of the accord, with utmost urgency.

Recognising the need to address the risks that investors and their beneficiaries face from climate change, investors are taking action, but we acknowledge that there is an urgent need to accelerate the transition towards global net zero greenhouse gas emissions and do our part in helping deliver the goals of the Paris Agreement.

In this context, my institution commits to the following consistent with our fiduciary obligations:

1. Transitioning our investments to achieve net zero portfolio GHG emissions by 2050, or sooner
2. Implementing this commitment with the aim of achieving real economy emissions reductions and undertaking a comprehensive set of actions available to investors, drawing on the Paris Aligned Investment Initiative's Net Zero Investment Framework
3. Setting objectives and targets, including an interim target for 2030 or sooner for reducing Scope 1, 2 and 3 emissions associated with our portfolios and setting a target for increasing investment in climate solutions, consistent with a fair share of the 50% global reduction in CO₂ identified as a requirement in the Intergovernmental Panel on Climate Change special report on global warming of 1.5°C
4. Where offsets are necessary where there are no technologically and/or financially viable alternatives to eliminate emissions, investing in long-term carbon removals.
5. Ensure any direct and collective policy advocacy we undertake supports policy and regulation relevant for achieving global net zero emissions by 2050 or sooner
6. Implementing a stewardship and engagement strategy, with clear voting policy that is consistent with an objective for all assets in the portfolio to achieve net zero emissions by 2050 or sooner
7. Engaging with asset managers, credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that funds, products and services available to investors are consistent with achieving global net zero emissions by 2050 or sooner.

8. Setting a target and reducing our operational (Scope 1 and 2) emissions in line with achieving global net zero emissions by 2050, or sooner.
9. Disclosing objectives and targets, and publishing a clear Investor Climate Action Plan for achieving these goals as soon as possible, no later than one year from making this commitment, and reviewing and updating targets every five years or sooner.
10. Reporting annually on the strategy and actions implemented and progress towards achieving objectives and targets, and in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Our institution's commitment recognises that investors across the globe have different opportunities, constraints and starting points for achieving net zero emissions and there are a range of methodologies and approaches available to investors to set targets and implement strategies. In some asset classes or for some investment strategies, agreed net zero methodologies do not yet exist. We will, therefore, work to address these challenges, including through the Paris Aligned Investment Initiative.

Our commitment is based on the expectation that governments and policy makers will deliver on their commitments to achieve the 1.5°C temperature goal of the Paris Agreement, and in the context of fulfilling our fiduciary obligations.

Any institutional asset owner may sign the Net Zero Asset Owner Commitment and use the Net Zero Investment Framework. To be recognised and showcased as making a net zero commitment under the Paris Aligned Investment Initiative an asset owner must complete and submit a signatory form to one of the four regional investor networks (AIGCC, Ceres, IGCC, IIGCC) indicating their CEO has approved signing on.

Asset owners that are members of AIGCC, Ceres, IGCC, IIGCC will have access to activities to support implementation of the commitment provided by the networks.

A separate Q&A document is available upon request and will be updated as relevant to provide further explanation and clarification of the commitment.

Framework structure and scoring



Structure

- The framework is applied across the 4 pillars of TCFD as follows:
 - Suitable range of metrics identified under each pillar
 - Ratings are ascribed for each metric and given a related climate score
 - Overall score and score for each pillar can then be assessed

Scoring

- Governance has the highest weighting as this can drive behaviours across other pillars
- Metrics within each pillar are equally weighted
- No individual red lines are applied
- Climate VaR is considered as a separate metric as it can be influenced by sector
- Total carbon emissions are also disclosed separately
- Overall score then considered:
 - 0-20% = Red
 - 20% - 50% = Amber
 - 50% + = Green
- Separate fourth score of Grey is applied where data availability is less than 45%

Metrics under each TCFD category

Governance metric	Data source
Demonstrate clear responsibilities for oversight and management of climate risk?	Climate action 100
Climate lobbying	Influence Map
Provide TCFD reporting?	Climate action 100 / company disclosures
Does exec remuneration incorporate climate change performance	TPI
TPI Management Score	TPI
MSCI ESG rating	MSCI

Risk metric	Data source
Has company carried out scenario analysis?	Climate action 100
Does scenario analysis include 1.5C warming scenario?	Climate action 100
TPI carbon performance score	TPI
Implied temperature rise	MSCI

Strategy metric	Data source
Net zero commitment in place	Climate action 100
Decarbonisation strategy in place	Climate action 100
Is decarbonisation strategy quantified?	Climate action 100
Decarbonisation plans for future capex?	Climate action 100
Proportion of green revenues generated disclosed?	Climate action 100

Targets metric	Data source
Net zero emissions target by 2050?	Climate action 100
Clear short term net zero targets (up to 2025)?	Climate action 100
Are net zero emissions targets PA?	Climate action 100
Do long term net zero targets include scope 3?	Climate action 100
Are targets SBT?	Science based targets

Additional measures disclosed in framework	Data source
Climate VaR	MSCI
Carbon emissions	MSCI

Framework actions under assessment ratings

Rating	Actions
Red overall	<ul style="list-style-type: none"> • Verification of data around transition readiness/ strategy. Acceleration of engagement between the manager and company around demonstrating intention to address the climate transition. • Engage with asset manager around intention to sell; consideration of current rationale for hold and price/value. • If the above do not result in improved score, sale to be agreed with investment manager and implemented over period of time
Red in one sub sector /Amber overall	<ul style="list-style-type: none"> • Active stewardship actions triggered. This should feed into GES/Sustainalytics and their engagement priority plans. • Manager to present business case for holdings on annual basis, addressing low scoring areas • If engagement resulted in no improvement in score after 2 years, consider shareholder resolution OR mandate that investment managers remove that security from portfolios.
Amber in any sub sector	<ul style="list-style-type: none"> • Flagged for active engagement actions
Green overall	<ul style="list-style-type: none"> • Monitor rating annually • Any decline in rating overall or at sub sector level triggers actions above
Grey (due to lack of data)	<ul style="list-style-type: none"> • Flagged for further data verification. Engage with asset manager around obtaining sufficient data to complete scoring. • Manager to present business case for holdings on annual basis, addressing data gaps.

Data limitations

- Data availability and coverage of proposed sources is limited and varies significantly by sub sector. A summary is shown opposite.
- Reporting and disclosure requirements currently also vary by jurisdiction and size of company.
- The frequency at which data sources are updated also varies.
- Climate policy is an area that is evolving extremely rapidly. Therefore published information and independent assessments based on that information may quickly become out of date.

Data source	Coverage
Climate action 100	167 companies, focussed on world's largest emitters
TPI	479 companies with future plans to extend
MSCI	Broad coverage – broadly half of the Fund's current holdings covered
Influence Map	Circa 300 companies
Science based targets	2321

Coverage as at time of writing