

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 4**

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**CLIMATE CHANGE INVESTMENT POLICY**

**Appendix 1 is confidential and not for publication by virtue of paragraphs 14 and 21 of parts 4 and 5 of Schedule 12A of the Local Government Act 1972.**

**Reason for this Report**

1. This report has been prepared to present to the Committee the latest position in working towards in a Climate Change Investment Policy.

**Background**

2. The Council, as Administering Authority of the Fund, has a fiduciary duty to manage the assets of the Fund responsibly on behalf of its beneficiaries and other stakeholders. LGPS Funds are required to set out how Environmental, Social and Governance (ESG) considerations are taken into account in preparing their Investment Strategy Statements. They may incorporate non-financial factors into the investment process provided that doing so would not involve significant risk of financial detriment.
3. At its meeting on 12 March 2018, the Pensions Committee received a report on progress towards reviewing the Pension Fund's investments in fossil fuels. The Pensions Committee noted that the Investment Advisory Panel's recommendations included the development of a Climate Change Investment Policy. The Investment Advisory Panel considered a further report at its meeting on 12 December and agreed that the progress to date should be presented for discussion by the Pensions Committee.

**Issues**

4. An analysis of the Fund's "carbon footprint" was commissioned from external experts and the results are summarised in the confidential report in Appendix 1. The Panel noted that the analysis was determined by the methodology of the research organisation and that different methodology used by other researchers may reach different conclusions on the environmental impacts of particular companies. However, it was agreed that the exercise gave worthwhile information on which to base discussions.
5. The fund is a member of the Local Authority Pension Fund Forum (LAPFF) and this organization has produced a Climate Change Investment Policy Framework. This is intended to help guide member funds to develop their policy approach to current and future investment risks and opportunities that result from the impacts of climate change. The

draft Climate Change Investment Policy set out in Appendix 2 is based on the LAPFF framework.

6. LAPFF recognize that member funds are at different stages in their active consideration of climate risk and for many the level of commitment may be aspirational at this stage.
7. There is broad agreement by expert commentators that the COP21 Paris agreement marked a significant change in the extent and seriousness of the global commitment to taking action on climate change. In June 2017, the Bank of England published its strategic response to climate change and within that Mark Carney stated “Financial decarbonisation for our economy is a major opportunity for long term investors. If pension funds are genuine long term investors then they may be well placed to benefit.”
8. In determining the Fund’s objective in this matter there is a spectrum of opportunity ranging from the status quo to full divestment with an incremental change approach between the two extremes. In developing the Fund’s policy, the Pensions Committee will need to consider investment strategies which are compatible with the Council’s fiduciary duty but which also seek to manage risks and opportunities relating to climate change. As a result it is proposed that the Committee considers setting a long term target for the reduction of the Fund’s exposure to environmental risks and considers adopting the following action points for working towards the target:
  - Movement of passive investments to funds tracking “low carbon” indices
  - Engagement with companies through the WPP and LAPFF
  - Disinvestment from companies representing a continuing risk
  - Positive investment in companies developing clean technology

In considering these points at their meeting on 12 December 2018, the Investment Advisory Panel commented that quantitative measurements of environmental impact should not be considered in isolation but that qualitative aspects should also be borne in mind.

9. Once agreed, any proposals will be incorporated into the Fund’s overall investment strategy which is due to be reviewed by the Panel in March 2019. Any recommended changes to the investment strategy will be presented to the Committee for approval at its first meeting of the 2019/20 financial year. The Panel and the Committee will receive regular reports on the impact of the policy on the Fund’s investments.

## **Legal Implications**

10. The body of the report (fiduciary duty) and the appendices refer to the main legal duties governing this matter. Pursuant to the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2016, (Regulation 7) the Administering Authority (“Authority”) is required, after taking proper advice to formulate an investment strategy which must be in accordance with any guidance issued by the Secretary of State, such an investment strategy has been prepared and approved . The decision maker will need to be satisfied that the draft policy accords with the Fund’s approved investment strategy and relevant guidance issued. The draft policy documents attached to the report are technical documents, the content of which Legal Services are unable to comment upon. Relevant professional advice should be taken as to the content of the policy. Legal Services are

instructed this has been done and the advice provided is reflected in the documents set out in appendices.

### **Financial Implications**

11. Once determined, the costs of implementing and monitoring the Policy will be charged to the Pension Fund.

### **Recommendations**

12. That the Committee:
  - (1) notes the outcome of the work undertaken to date including the comments of the Investment Advisory Panel
  - (2) determines whether to adopt the objective and actions set out in Paragraph 8
  - (3) agrees that the draft Policy document be shared with the Local Pension Board and that any comments received be reflected in a further draft to be considered by Pensions committee at its next meeting

### **CHRISTINE SALTER CORPORATE DIRECTOR RESOURCES**

- Appendix 1 Carbon Footprint Review 2018 - CONFIDENTIAL  
Appendix 2 Draft Climate Change Investment Strategy