CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 29 November 2023
Report Subject	Climate Change Analysis Update
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The purpose of this report is to provide the Committee with the following documents which relate to the climate change analysis undertaken on the Clwyd Pension Fund's ("the Fund") assets;

- A draft of the Task Force on Climate-Related Financial Disclosures ("TCFD") report;
- A draft one page infographic summarising the key points from the TCFD report for members;
- The latest Analytics for Climate Transition ("ACT") analysis carried out for the Fund.

These documents cover the period ending 31 March 2023, and are attached as appendices to this report.

The report and the appendices include key findings in relation to the Fund's decarbonisation and actions for the future.

A glossary of key terms is available at the end of this report.

RECOMMENDATIONS	
1	That the Committee consider, discuss and note the draft Taskforce for Climate-Related Financial Disclosures (TCFD) report and the analysis from the Analytics for Climate Transition (ACT).

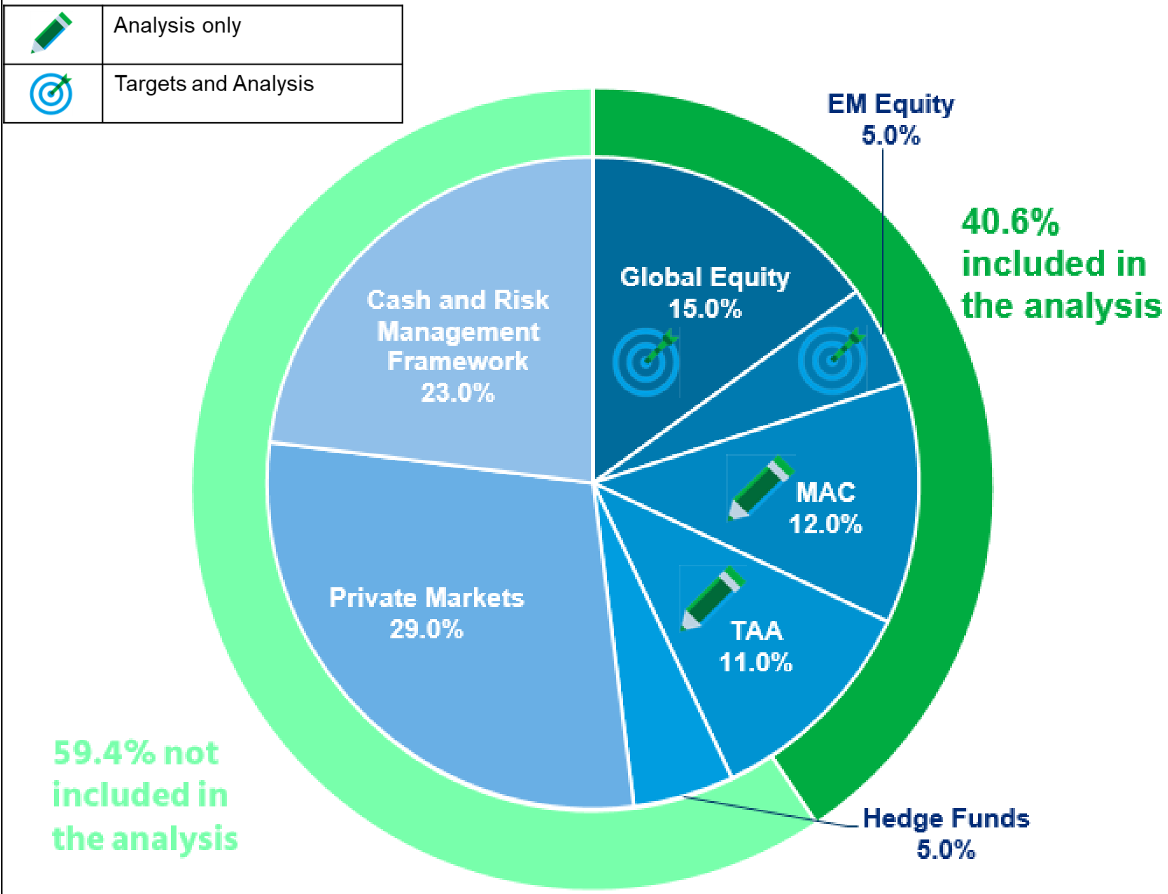
REPORT DETAILS

1.00	**Climate change analysis of the Fund's Assets**
1.01	The Committee recognise climate change as a key risk that could impact the value of the assets of the Fund if not properly measured and managed. The Investment Strategy Statement (ISS) documents the Committee's beliefs in relation to managing climate risk, and agreed targets to measure progress made towards decarbonisation. Although it is currently not a requirement for LGPS funds to produce a TCFD report, it was decided that the Fund would report this information on a voluntary basis, given that the targets and monitoring of carbon emissions is already being undertaken. In addition, climate change is a key focus of the Committee and the additional reporting helps monitor and publicise the Fund's progress.
1.02	**TCFD report** TCFD reporting provides a framework for greater transparency and understanding in relation to how this risk is being managed for the Clwyd Pension Fund. The draft of the TCFD report is included in Appendix 1. In addition an infographic has been prepared which summarises the key points of the TCFD report, and it is proposed that this will be uploaded to the Clwyd Pension Fund website to provide a less technical overview of the Fund's approach to managing climate risk. This is attached as Appendix 2. Section 3 of the TCFD report provides more background on the framework. The Fund will continue to report on this basis until the LGPS TCFD requirements are formalised. The TCFD report covers the following key areas: • Governance • Strategy • Risk Management • Metrics and targets
1.03	*Governance* The Fund already has strong governance through the Committee, the Pension Board, the Advisory Panel, a Scheme of Delegation as well as expert advisers including those providing regulated investment advice. This robust and proven governance structure is being applied in relation to how the Fund manages climate risk. As some of the Fund's assets are invested through the Wales Pension Partnership (WPP), it is important to work with WPP to deliver the climate beliefs of Fund. The WPP is responsible for appointing the voting and engagement provider (Robeco), creating new sub-funds for the constituent authority members, and reporting and monitoring on climate exposures within the WPP funds.

1.04	*Strategy* The Committee has considered the impact of climate change on the Fund's investment strategy. Analysis showed that in most scenarios, climate change would have a negative impact on the Fund's financial position unless the implementation of the strategy continues to evolve as the world decarbonises. The Committee has approved a number of climate beliefs within the Investment Strategy which are: • Climate change presents a systemic risk to the overall stability of every economy and country, with the potential to impact on the members, employers and all of the holdings in the Fund's investment portfolio. • Considering the impacts of climate change is not only the legal or fiduciary duty of the Fund, but is also consistent with the long term nature of the Fund. The Fund's investments need to be sustainable to be in the best interests of all key stakeholders. • Engagement is the best approach to enabling the change required to address the Climate Emergency, however selective risk-based disinvestment is appropriate to facilitate the move to a low carbon economy. • As well as creating risk, climate change also presents opportunities to make selective investments that achieve the required returns, whilst at the same time make a positive social and environmental impact, such as environmental infrastructure and clean energy. The initiatives that the Fund had previously agreed includes: • Helping develop a sustainable equity mandate with the WPP, and since allocating to this mandate. • Introducing more sustainable / ESG focused funds, where possible, into the Tactical Asset Allocation Portfolio when implementing new positions. • Implementing a fossil fuel Exclusions Policy in relation to its listed equity holdings (post March 2023). • Engaging with managers on matters pertaining to ESG within private markets, including looking at ways to improve climate metric data capture. • Supporting investments with strong sustainability/ impact focus by allocating 6% of the total portfolio to local/impact focused investments within private markets. • Endeavouring to make sustainable-focused allocations within other private market asset classes (Private Equity, Private Debt, Infrastructure and Real Estate) where possible. • Substantially increasing commitments to impact focused portfolios within Private Markets, including investments with a focus on clean energy and energy transition. During the period 1 April 2022 to 31 March 2023, the Fund increased its commitments to impact focused portfolios within private markets, this included investments with a focus on clean energy and energy transition. Looking forward, the Fund will continue to identify ways to reduce greenhouse gas emissions in order to meet agreed targets, reduce and eventually remove fossil fuel company exposure, continue to commit to investments that support the energy transition and increase the analysis coverage of the Fund's investments, mainly in the private markets allocations.

1.05	*Risk management* The Fund already has a Risk Management Strategy in place, which is being applied to managing climate risk in the same way as it is used to manage all other investment risks. The Fund prioritises the management of risks primarily based on the potential impact on the financial stability of the Fund and employer contribution rates. The Fund manages risk through Governance, Strategy, Reporting, Manager Selection and Monitoring, and Active Stewardship. Further information is provided within the report in Appendix 1.
1.06	*Metrics and targets* The Committee has agreed a target for the investments in the Fund, as a whole, to have net zero carbon emissions by 2045, with an interim target of carbon reduction of 50% by 2030. Underlying this overall target, there are a number of other key targets as outlined below: a) for the Fund as a whole: • to have at least 30% of the Fund's assets allocated to sustainable investments by 2030. • to expand the measurement of the carbon emissions of the Fund's investments to include as many components of the assets as possible, based on the availability of reliable and accurate data. b) within the Listed Equity portfolio: • to achieve a reduction in carbon emissions of 36% by 2025 and 68% by 2030. • to target all of the Listed Equity portfolio being invested in sustainable mandates by 2030. • to engage with the biggest polluters within the Fund's Listed Equity portfolio as part of an overarching stewardship and engagement strategy, to achieve: o by 2025, at least 70% of companies, as measured by value invested and emissions exposure, in carbon-intensive sectors have clearly articulated and credible strategies to attain net zero or are subject to engagement to achieve this objective. o by 2030, at least 90% of companies, as measured by value invested and emissions exposure, in carbon-intensive sectors have clearly articulated and credible strategies to attain net zero or are subject to engagement to achieve this objective. A summary of the Fund's performance against these targets, including progression again the 2021 baseline is included in the ACT report in Appendix 3. In order to be able to measure whether the Fund is achieving these targets, the following climate-related metrics are being used: • Absolute emissions metric • Emissions intensity metric: Carbon Footprint • Emissions intensity metric: Weighted Average Carbon Intensity (WACI)

	Analytics For Climate Transition (ACT)
1.07	The ACT report is included in Appendix 3. It provides a detailed analysis and information on the Fund's climate metrics, information on progress achieved versus targets and future areas of focus. *Purpose of analysis* The ACT analysis provides the Fund with an updated understanding of the Fund's climate transition progress and potential ("transition capacity") as at 31 March 2023. It is the third year of this analysis. The analysis was carried out on the Fund's listed equities (Global and Emerging Markets (EM) Equity), Synthetic Equity and Multi-Asset Credit (MAC) portfolios, as well as the Tactical Asset Allocation (TAA) portfolio, where data is available. This results in c.40.6% of the total Fund being analysed. The aim of the analysis is to: • Monitor progress against the Fund's listed equity targets across decarbonisation, exposure to fossil fuels (oil, gas, coal) and explore the proportion of emissions within high impact sector that are currently under engagement or aligned with a low carbon future. • Understand the transition capacity of the Fund's listed equity, MAC and TAA portfolios. • Present an updated high level implementation plan for listed equities that incorporates further asset classes over time. To date, the recommended targets have been set on scope 1 and 2 emissions. When the level of corporate reporting of scope 3 emissions improves, the analysis will look to incorporate this data within the Fund's emissions baseline and target setting framework. Carbon footprint is the primary metric for monitoring the decarbonisation progress; progress is also monitored against absolute emissions and weighted average carbon intensity (WACI). The targets were set relative to a baseline in 2021.
1.08	*Holdings analysed* Carbon metrics have been analysed on 40.6% of the Fund's Strategic Asset Allocation, which is broadly similar to last year. In relation to other areas of the Fund's assets, there is an active ongoing exercise to gather carbon metrics data. Over time as consensus around methodology for less conventional asset classes grows, this analysis will cover a greater proportion of the Fund.



Where there is partial coverage of a portfolio the absolute emissions metric is scaled up to estimate coverage for 100% of the mandate. Within the Cash and Risk Management Framework there is exposure to synthetic global developed equity and this is included in the analysis.

Detailed analysis on each of the asset classes analysed is shown within Appendix 3.

1.09 *Key findings and areas for focus*

Pages 4 and 5 in appendix 3 provide the overview of the Fund's progress against its targets. Key findings from the ACT analysis are summarised below:

- Decarbonisation progress over the period: the listed equity portfolio, on a carbon footprint basis, has increased by 2.7%, mostly as a result of the WPP Emerging Market Fund intensity increasing by 16% over the year.
- Additional analysis was carried out to show the impact of transitioning from the WPP Global Opportunities Fund to the WPP Sustainable Active Equity Fund. As a result, the carbon footprint of the listed equities reduced by an estimated c.24% from March 2023 to July 2023 and c.22% from March 2022 to July 2023. Overall, this brings the decarbonisation progress made to being modestly behind target. Please refer to page 7 of appendix 3.
- In context of the wider market, from March 2022 to March 2023, the benchmarks of the listed equity holdings had also seen an increase in carbon footprint, as can be shown on page 8 of appendix 3. This was largely driven by strong performance within the energy sector.

	• Weighted average carbon intensity (WACI) decreased over the 12 months to March 2023 by 6.4% and by 22.5% post the switch to the WPP Sustainable Active Equity Fund (March 2022 to July 2023). This indicates that the companies that the Fund ultimately invests in are less carbon intensive now than they were a year ago. • On the Absolute Emissions basis, the Fund has seen a decrease of 11.1% over the 12 months to March 2023, and by 32.9% post the WPP Sustainable Active Equity Fund switch. Page 8 of appendix 3 provides the progress made against the baseline for the listed equities.

1.10	Mercer's recommended key areas of focus for the next 12 to 18 months are summarised below:
	
	• Monitor suitability of Listed Equities decarbonisation target
	• Look at sustainability options for Emerging Market equities
	• Set and refine granular plans/targets across:
	  ○ Transition alignment
	  ○ Stewardship
	  ○ Sustainable / climate solutions
	• Expand net zero approach beyond Listed Equity assets to other assets, based the availability to robust and accurate data.
	• Review potential opportunities to biodiversity / natural capital investments.

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risk: G2 • Funding and Investment risks: F8, I1, I2

5.00	APPENDICES
5.01	Appendix 1 – Task Force on Climate-Related Financial Disclosures (TCFD) – 31 March 2023 Appendix 2 – TCFD Member Summary – Infographic – 31 March 2023 Appendix 3 – Analytics for Climate Transition (ACT) – 31 March 2023

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Investment Strategy Statement – see agenda item 4. **Contact Officer:** Philip Latham, Head of Clwyd Pension Fund **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	A list of commonly used terms are as follows: a) **Administering Authority or Scheme Manager:** Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. b) **Carbon footprint:** The amount of carbon dioxide (or other greenhouse gasses) released into the atmosphere as a result of the activities of a particular individual, organization or community. Carbon footprint is calculated for each company as (Scope 1 and 2 carbon emissions / $m investments). See also Scope 1, 2, 3 emissions and Weighted Average Carbon Intensity (WACI). c) **Carbon intensity:** The amount of emissions of carbon dioxide (or other greenhouse gasses) released per unit of another variable such as revenue, gross domestic product (GDP), per $1million invested etc. See also Weighted Average Carbon Intensity (WACI). d) **Carbon price:** The price for avoided or released carbon dioxide (CO_2) or CO_2-equivalent emissions. This may refer to the rate of a carbon tax, or the price of emission permits. In many models that are used to assess the economic costs of mitigation, carbon prices are used as a proxy to represent the level of effort in mitigation policies. e) **Carbon neutrality:** Achieved by offsetting emissions by paying for credits (usually certified via new forestry equivalents that provide carbon removal). Carbon neutrality is similar to net zero targeting – the latter requires actual emissions reductions to meet targets though (rather than purchasing offsets). See also Net Zero CO_2 emissions. f) **Clwyd Pension Fund (the "Fund"):** The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region. g) **Clwyd Pension Fund Committee (the "Committee"):** The Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund. h) **Decarbonisation:** The process by which countries, individuals or other entities aim to achieve zero fossil carbon existence. Typically refers to a reduction of the carbon emissions associated with electricity, industry and

transport.

i) **Financial Stability Board:** an international body established by the G20 that monitors and makes recommendations about the global financial system

j) **Global warming:** The estimated increase in global mean surface temperature expressed relative to pre-industrial levels unless otherwise specified. See also Pre-industrial.

k) **Greenhouse gases:** Gases in the planet's atmosphere which trap heat. They let sunlight pass through the atmosphere but prevent heat from leaving the atmosphere. Greenhouse gases include: Carbon Dioxide (CO2), Methane (CH4), Nitrous Oxide (N2O), Hydrofluorocarbons (HFCs), Perfluorocarbons (PFCs), Sulphur Hexafluoride (SF6), Nitrogen Trifluoride (NF3).

l) **Inevitable policy response:** A scenario that expects an acceleration of climate-related policy announcements in 2023−2025, which has been supported by the Principles for Responsible Investment (PRI).

m) **Investment Strategy Statement (ISS):** The main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.

n) **Local Authority Pension Form Forum (LAPFF):** Is both an engagement partner and forum for member funds to share insights and best practice and to identify opportunities. Promoting specific investment interests of local authority pension funds as asset owners.

o) **Local Government Pension Scheme (LGPS):** The national scheme, which Clwyd Pension Fund is a part of.

p) **Mitigation (of climate change):** A human intervention to reduce emissions or enhance the sinks of greenhouse gases.

q) **Mitigation strategies:** In climate policy, mitigation strategies are technologies, processes or practices that contribute to mitigation, for example, renewable energy (RE) technologies, waste minimization processes and public transport commuting practices.

r) **Net zero CO2 emissions:** Net zero carbon dioxide (CO2) emissions are achieved when CO2 emissions are balanced globally by CO2 removals over a specified period. The term "net zero" is also typically associated with the 2050 date or earlier, as this is aligned with the scientific recommendations to achieve a 1.5°C scenario. See also Carbon neutrality (which differs slightly).

s) **Paris Agreement:** The Paris Agreement under the United Nations Framework Convention on Climate Change (UNFCCC) was adopted on December 2015 in Paris, at the 21st session of the Conference of the Parties (COP) to the UNFCCC. The agreement, adopted by 196 Parties to the UNFCCC, entered into force on 4 November 2016 and as of May 2018 had 195 Signatories and was ratified by 177 Parties. One of the goals of the Paris Agreement is "Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels", recognising that this would significantly reduce the risks and impacts of climate change. Additionally, the Agreement aims to strengthen the ability of countries to deal with the impacts of climate change.

t) **Physical risks:** Dangers or perils related to the physical or natural environment that pose a threat to physical assets e.g. buildings, equipment and people. Mercer's scenario analysis grouped these into the impact of natural catastrophes (for instance sea level rise, flooding, wildfires, and hurricanes) and resource availability (particularly water). See also Transition risks.

u) **Pre-industrial:** The multi-century period prior to the onset of large-scale industrial activity around 1750. The reference period 1850–1900 is used to approximate pre-industrial global mean surface temperature.

v) **Principles for Responsible Investment (PRI):** Non-profit organisation which encourages investors to use responsible investment to enhance returns and better manage risks. It engages with global policymakers and is supported by, not but part of, the United Nations. It has six Principles for Responsible Investment that offer a menu of possible actions for incorporating ESG issues into investment practice.

w) **Private Market Investments:** Commitments to Private Equity / Debt, Property, Infrastructure, Timber, Agriculture and other Opportunistic Investments.

x) **Resilience:** The capacity of social, economic and environmental systems to cope with a hazardous event or trend or disturbance, responding or reorganising in ways that maintain their essential function, identity and structure while also maintaining the capacity for adaptation, learning and transformation.

y) **Scope 1, 2, 3 emissions:** Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

z) **Stranded assets:** Assets exposed to devaluations or conversion to "liabilities" because of unanticipated changes in their initially expected revenues due to innovations and/or evolutions of the business context, including changes in public regulations at the domestic and international levels.

aa) **Stewardship:** The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

bb) **Task Force on Climate-related Financial Disclosures (TCFD):** framework designed to improve and increase reporting of climate-related financial information

cc) **Taskforce on Nature-Related Financial Disclosures (TNFD):** market-led,

	science-based TNFD framework enabling companies and financial institutions to integrate nature into decision making dd) **Transition alignment:** the process of moving away from high-carbon intensive processes towards business models and assets aligned with a low carbon future and the Paris agreement. Different sectors will have different pathways to net zero. ee) **Transition risks:** Risks from policy changes, reputational impacts and shifts in market preferences, norms and technology as the economy moves to a low carbon approach. See also Physical risks. ff) **Weighted average carbon intensity (WACI):** The carbon intensity of a portfolio, weighted by the proportion of each constituent in the portfolio. Carbon intensity is calculated for each company as (Scope 1 and 2 carbon emissions / $m revenue). See also Carbon footprint. gg) **Wales Pension Partnership (WPP):** A collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of the eight national Local Government Pension pools. WPP was established in 2017.