



Pensions Fund Sub-Committee
21 February 2022

Pension Board
24 March 2022

Report from the Director of Finance

Net Zero Transition Roadmap Update

Wards Affected:	All
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	One <ul style="list-style-type: none"> Roadmap to net zero - update
Background Papers:	Net Zero Transition Roadmap – 5 October 2021
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1.0 Purpose of the Report

1.1 This report presents an update on progress against the Fund's net zero transition roadmap.

2.0 Recommendation(s)

That the Pension Fund Sub-Committee:

- 2.1 Note the update on progress on the net zero road map as outlined in Appendix 1.
- 2.2 Agree to the climate metrics set out in Appendix 1 and to expand climate metrics further to include forward looking metrics.

3.0 Detail

- 3.1 The Fund's investment advisors, Hymans Robertson, have prepared the attached report, in Appendix 1, which provides an update on work undertaken with officers on progress against the roadmap that was previously agreed with the Pensions Fund Sub-Committee ("Committee").
- 3.2 Responsible investment, in particular climate risk, continues to dominate the LGPS and broader investment landscape. Therefore it is important for the Fund to evolve its investment strategy to take account of the opportunities and risks presented by climate change.
- 3.3 The Fund has made good progress to date in this regard with a number of important steps taken:
 - Dedicated Responsible Investment ("RI") training sessions for Fund Officers and Committee members;
 - Introduction of RI focussed investment beliefs;
 - Investment in a new low carbon mandate (BlackRock ACS World Low Carbon Equity Tracker) and a new infrastructure fund with a significant allocation to renewables (LCIV Infrastructure Fund); and
 - Updated Investment Strategy Statement (ISS) to reference carbon goals.
- 3.4 At the last Committee meeting in October 2021, the Committee was presented with a practical 'roadmap' to net zero for the Fund, which considered the following key principles:
 - A background to RI and key themes/principles that will require due consideration by the Fund as part of the net-zero journey.
 - Developing a Net Zero Framework in the form of 5 key areas to drive forward the Fund's strategy.
 - A short and medium term roadmap for each key area within the framework.
 - Potential targets (both long term and interim) for further consideration and an initial list of equity funds.
- 3.5 The report discusses the following key topics:

- Progress against the short term road map (12-18 months) which was agreed at the last meeting;
- A review of the key challenges facing the Fund from decarbonisation;
- The strategic context considering the Fund's current carbon emissions and the levers available to the Fund: capital allocation supported by ongoing engagement;
- Agree carbon metrics to be monitored;
- Introduce carbon metrics reporting into quarterly performance report;
- Assess feasibility of different net zero target dates.

4.0 Financial Implications

4.1 There are no direct financial implications arising from this report. Any changes to the Fund's investment strategy or its choice of investments will be brought forward to a future Committee meeting for decision.

5.0 Legal Implications

5.1 The Committee holds a key fiduciary responsibility to manage the Fund's investments in accordance with its investment strategy and in the best interests of the beneficiary members and the council tax payers, where the primary focus must be on generating an optimum risk adjusted return. It is vital that any investment decision must not negatively impact on this primary responsibility.

5.2 The administering authority has fiduciary duties both to scheme employers and scheme members and the investment strategy must be exercised for investment purposes, and not for any wider purposes. Thus, investment decisions must be spread across a wide variety of investments classes and achieve a balanced risk and return objective.

5.3 The choice of investments can be influenced by RI and ESG considerations, so long as that does not risk material financial detriment to the Fund.

6.0 Equality Implications

6.1 The proposals in this report have been subject to screening and Officers believe that there are no adverse equality implications.

7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable.

8.0 Human Resources

8.1 Not applicable.

Report sign off:

Minesh Patel
Director of Finance