CT/19/83
Investment and Pension Fund Committee
13 September 2019

INVESTMENT POLICY AND CLIMATE CHANGE

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendations: (1) that the Committee notes the Climate Change Position Statement issued by the Brunel Pension Partnership.

(2) that the Committee approves the undertaking of an analysis of the Fund's carbon footprint as at 31 March 2019, and thereafter on an annual basis.

1. Introduction

1.1 Climate change continues to be a significant concern nationally and internationally. Locally, Devon County Council has declared a climate emergency and continues to be lobbied to do more. The lobbying includes regular questions about the Devon Pension Fund's investments.

1.2 In February 2018, the Investment and Pension Fund considered its role as a responsible shareholder and set out a number of positive changes to strengthen its policy. These included improved reporting on voting and engagement activities across a range of issues, including climate change, becoming members of the Institutional Investors Group on Climate Change and committing to working with the Brunel Pension Partnership to develop reporting on the carbon footprint of the Fund's investments.

1.3 This report updates the Committee on the current direction of travel.

2. Current Position

2.1 The first duty of all pension fund committees is to the membership of the scheme and they cannot place ethical and other social, environmental and governance factors above the requirement to maximise the investment returns for a given level of risk. In its published Investment Strategy Statement, the Committee recognises that environmental, social and corporate governance issues, including climate change, can have materially significant investment implications, and that in the long run, socially responsible and fiduciary investment will tend to come together since adverse performance on social, environmental or ethical issues will ultimately be reflected in share prices. The precise choice of investment may be influenced by wider social, ethical or environmental considerations, so long as that does not risk material financial detriment to the fund.

2.2 The Devon Pension Fund's approach has been to seek to engage through its asset managers or other resources, such as the Local Authority Pension Fund forum (LAPPF), with companies to ensure they can deliver sustainable financial returns over the long-term as part of comprehensive risk analysis. In the example of fossil fuels, this will mean engaging with oil companies on how they are assessing their business strategy and capital expenditure plans to adapt to changes in cost base and regulation that will ensure the continued delivery of shareholder returns in the medium to long term. The Fund's policy is that engaging with their investee companies on all issues to deliver long term change delivers a more responsible investment approach than a blanket decision to divest from any group of companies.

2.3 As a result of the investment pooling initiative, the Fund is currently part way through the process of transitioning its assets from the existing external fund managers across to the Brunel Pension Partnership. Within the next couple of years, over 95% of the Fund's assets will be managed by Brunel. In relation to the issue of climate change, this means that the approach taken by Brunel, working in partnership with its client funds including Devon, will be of growing importance.

2.4 Brunel believes that climate change poses risks to global financial stability, and has issued a climate change position statement, which is attached as Appendix 1 to this report. The statement sets out that all of Brunel's portfolios, across all asset classes, will be carbon and climate aware.

2.5 The Brunel approach addresses climate change by focusing on the issue across all their investments, not just on fossil fuel extraction companies. For example, engagement with electric utility companies about their future strategy on energy sources informs the investment decisions relating to those companies and the relative attractiveness of the sector over time. Brunel are committed to being transparent about the carbon exposure of their investments by undertaking carbon footprints and fossil fuel exposure analysis for each listed equity portfolio.

2.6 While Brunel will in future publish details of the carbon footprint of its portfolios, the Devon Fund currently has no data on the footprint of its current investments managed by incumbent managers outside of the Brunel pooled investments. Brunel are able to carry out an analysis of the listed market investments held by the Fund through its incumbent managers, but this would be an elective service and there would be an additional cost to the Fund to carry out this work. An analysis of the Fund's carbon footprint as at 31 March 2019 would provide a benchmark against which future progress on decarbonisation could be measured.

7. Conclusion

7.1 The Devon Fund fulfils its fiduciary duty by not excluding investments solely on social, environmental or ethical grounds. The Fund is able to exercise more significant influence on climate change policies by remaining a shareholder and engaging with the companies concerned via LAPFF, the Brunel Pension Partnership and external fund managers. However, the

Fund also expects the carbon footprint of its investments to reduce over time as a result of the investment approach undertaken by Brunel.

7.2 It is therefore recommended that the Committee approve the undertaking of an analysis of the Fund's carbon footprint as at 31 March 2019, with further analyses being undertaken on an annual basis.

Mary Davis

Electoral Divisions: All
Local Government Act 1972
List of Background Papers – Nil
Contact for Enquiries: Mark Gayler
Tel No: (01392) 383621 Room G97

Addressing Climate Change Position Statement

Brunel Pension Partnership Limited (Brunel) believes climate change poses significant risks to global financial stability and could thereby create climate-related financial risks to our own business operations, portfolios and client partner funds, unless action is taken to mitigate these risks.

The purpose of the position statement is to present the steps already taken by Brunel to address risks and opportunities arising from climate change and to articulate our approach in developing a full Climate Change Policy, for publication by end of 2019.

Brunel was formed in July 2017 and will manage the investment of the pension assets (around £30bn/$40bn) of ten Local Government Pension Scheme funds in the UK. We use the name 'Brunel' to refer to the FCA-authorised and regulated company.

Client partner funds (as administering authorities) retain responsibility for Strategic Asset Allocation (SAA) and setting their investment strategies.

Brunel is set up with a wide range of portfolios, which allows clients flexibility to decide their SAA and reflect market developments. We offer a suite of portfolios specifically selected to provide a reasonable level of consolidation, while at the same time giving our clients the freedom to choose how they allocate their assets.

Brunel's investment team takes a long-term view on investment decisions. This view is aligned to our clients' liability profiles and investment objectives. As such, environmental and social risk considerations, along with good governance and stewardship, are integrated into our decision-making processes.

Investment Principles

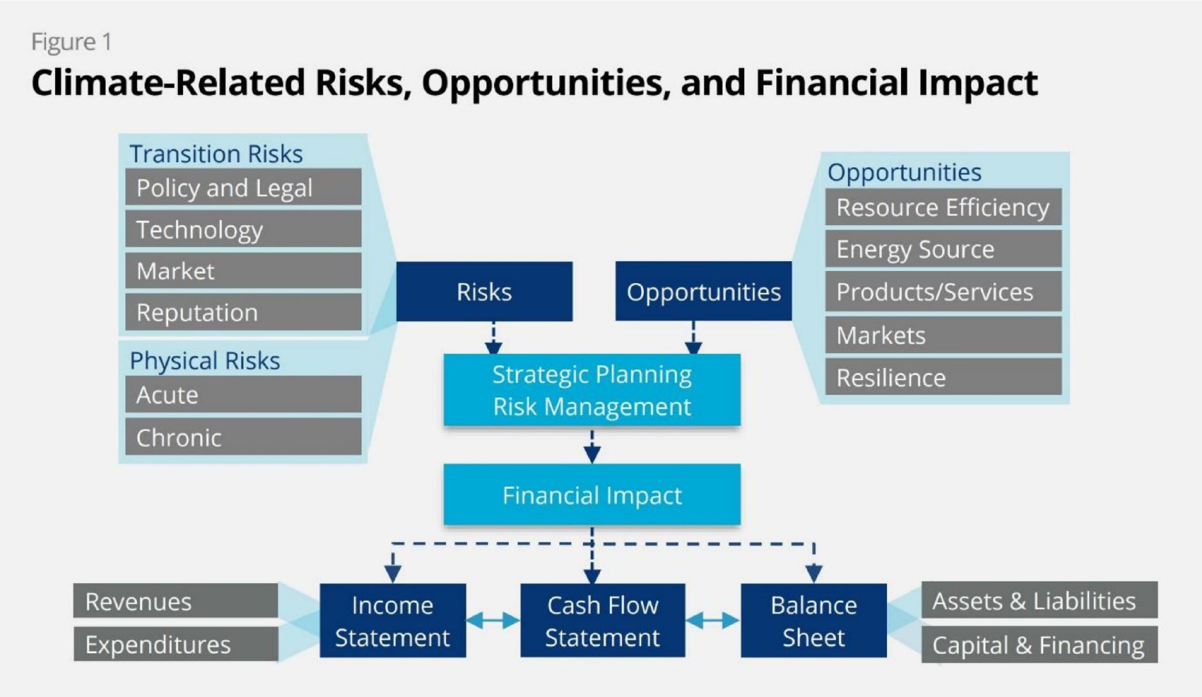
Brunel aims to deliver stronger investment returns over the long term, protecting our clients' interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

The Brunel Pension Partnership Investment Principles clearly articulate the commitment of each Fund in the Partnership and the pool company Brunel Pension Partnership Ltd to be responsible investors. As such, the Partnership recognises that social, environment and corporate governance (ESG) considerations, including climate change, are part of the processes in the selection, non-selection, retention and realisation of assets.

To integrate

Our framework for assessing the impacts of climate change encompasses **adaptation** and **physical risks** (the risks posed by the consequences of climatic change) as well as those risks and opportunities arising from the **transition to a low carbon economy** (risks from addressing the root causes of climate change).

Climate-related risks and opportunities



Reproduced with permission from the TCFD Final Report, Figure 1, page 8, 2017.

As with our approach to responsible investment (RI) more broadly, we recognise that climate change will have impacts across our portfolios and is fully embedded into our manager selection process. **100% of our portfolios, across all asset classes, are carbon and climate aware.** This means we look to all our asset managers to identify and manage climate-related financial risks as part of the day-to-day fund management. The way those risks and opportunities present themselves varies, particularly in evaluating what a portfolio aligned to the Paris Agreement looks like.

We have already taken steps to address climate risk and opportunities in our governance, strategy, portfolio construction and monitoring but recognise there are gaps, particularly in asset classes where data is not widely available or where tools are still being developed.

Brunel does not consider a top-down approach to disinvestment to be an appropriate strategy for its clients. By integrating climate change into our risk management process, using carbon footprinting, assessing fossil fuel exposure and challenging managers on physical risks, we seek to reduce unrewarded climate and carbon risk. This results in

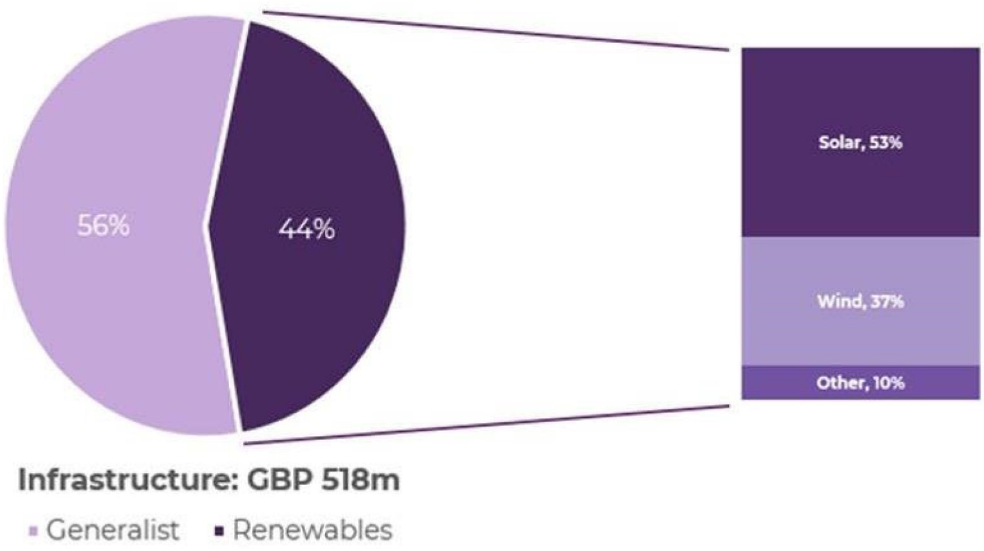
Registered address:
101 Victoria Street, Bristol, BS16PU

selective disinvestment based on investment risk, supporting our commitment to **decarbonising our listed portfolios**.

Decarbonisation is achieved by being selective in the allocation of capital, particularly to carbon intense companies. This process is informed by using the tools identified above in combination with industry and corporate engagement. For example, engagement with electric utility companies about their future strategy on energy sources informs the investment decisions relating to those companies and indeed the relative attractiveness of the sector over time. We are committed to being transparent about the carbon intensity of Brunel Portfolios through the publication of annual carbon footprints and fossil fuel exposure, alongside the development of other carbon metrics.

Climate risks are thoroughly embedded into our fund selection and due diligence process for our private markets' portfolios. We use tools such as the Global Real Estate Sustainability Benchmark to assist in monitoring real estate managers. Sustainable and clean technologies are core themes of our infrastructure investment (see charts below) and are one way that Brunel is providing clients with access to positive climate impact investment opportunities.

Brunel Infrastructure Portfolio



Brunel private markets strategy is to commit 35% of the Infrastructure portfolio to renewable energy funds. Given that some clients have expressed a desire to commit a larger portion, the effective allocation to renewables is c44% of the total commitments. The chart is based on expected technology mix within renewables funds that Brunel has committed to as at April 2019.

Registered address:
101 Victoria Street, Bristol, BS16PU

We are currently rolling out explicit **integration of climate risk assessment into the roles and responsibilities** of our Board, executives and other key personnel. This will form part of our implementation of our Senior Managers and Certification Regime (SM&CR).

A core component of our approach is active engagement with underlying companies through our asset managers, engagement and voting specialist, and collaborative forums with other investors. Brunel will undertake some direct engagement, but this is expected to be limited during the transition of assets to Brunel. Our specialist engagement provider tracks and reports their engagement activity each quarter. We are establishing wider tracking and reporting to provide more comprehensive coverage.

To collaborate

Collaboration is core to how Brunel looks to deliver its approach. We are members of the **Institutional Investors Group on Climate Change (IIGCC)**, **Climate Action 100+**, Principles for Responsible Investment (**PRI)** and the **Transition Pathway Initiative (TPI),** amongst others. These partnerships contribute to our ability to:

- Identify strategies, tools and techniques to identify and evaluate climate-related financial risks across asset classes
- Engage with policy makers globally
- Integrate best practice guidance into investment decision-making
- Provide expertise and advice to our clients on how climate risk could impact their investment strategies and individual portfolios.
- Identify what actions the underlying companies have disclosed they have undertaken
- Recognise how the company is positioned in relation to policy commitments, such as 2 Degrees and National Determined Contributions (future pathways)
- Collaborate in a forum to engage with the companies
- Collaborate in a forum to exercise voting rights in an effective manner

Registered address:
101 Victoria Street, Bristol, BS16PU

BRUNEL
Pension Partnership

To be transparent

The **Transition Pathway Initiative (TPI)** distils the disclosures made by the most carbon intense companies. Transparency is central to our ability to evaluate companies' approaches to managing the low carbon transition risks. We use this framework to prioritise engagement activities and inform our voting policy (see Stewardship policy extract below).

Brunel advocates strongly for improved transparency and will disclose in line with the recommendations of the **Task Force on Climate-related Financial Disclosure (TCFD).** Our tender process includes asking about capacity and intention to report in line with the Task Force on Climate-related Financial Disclosures (TCFD) requirements. We published our first TCFD report in our **2018 Annual Report and Financial Statements.**

We require all listed equity asset managers to undertake their own fossil fuel exposure and carbon footprinting. **We currently undertake carbon footprints and fossil fuel exposure for each listed equity portfolio and will publish aggregated carbon metrics in our Annual Responsible Investment and Stewardship Report**. We are developing capability to provide client-specific carbon footprints and fossil fuel exposure and are working toward carbon positive metrics e.g. green revenues.

We are looking to develop a range of disclosures to demonstrate that we are delivering on our commitments. These will support client beneficiary and stakeholder communication.

Stewardship Policy Extract

Climate Change

We expect companies to effectively identify and manage the financial material physical, adaptation and mitigation risks and opportunities arising from climate change as it relates to entire business model.

We expect each company to put in place specific policies and actions, both in its own operations and across its supply chain, to mitigate the risks of transition to a low carbon economy and to contribute to limiting climate change to below 2°C. We expect disclosure of climate-related risks and actions to mitigate these in line with latest best practice guidelines, such as those of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). This should include an assessment and scenario analysis of possible future climate change risks in addition to those that have already emerged. Companies will be measured against the Transition Pathway Initiative (TPI).

We engage actively on the identification and management of physical and adaption risks, with a focus on specific companies/ sectors who are most financially exposed. We will use our vote to reinforce this engagement.

We will vote against the re-election of the company chair where a company has not at least reached Level 2 of the TPI framework.

We may use our vote to reinforce engagement with specific companies in relation to climate disclosure with reference to TCFD.

Registered address:
101 Victoria Street, Bristol, BS16PU

Moving forward

We are participating in projects with the **Institutional Investors Group on Climate Change (IIGCC),** which will enable us to progress the practical implications of integrating climate risk assessment across asset classes and evaluate what a 'Paris Aligned' portfolio looks like. In other words, it will identify what portfolio changes would need to happen to align with those goals, but in the context of other financial risks. We plan to develop scenario analysis that will help us identify portfolio impacts from other less optimistic climate change scenarios. This will also support the development of carbon and climate change-related metrics.

We will also be conducting internal analysis to inform a risk-based decarbonisation strategy for listed markets with measurable objectives and targets.

We will have completed our roll out of explicit integration of climate risk assessments into the roles and responsibilities of our Board, executives and other key personnel.

We plan to publish our Climate Change Policy by December 2019.

Getting in touch

If you have any questions or comments about this policy, please email Faith Ward, Chief Responsible Investment Officer at RI.Brunel@brunelpp.org.

Registered address:
101 Victoria Street, Bristol, BS16PU

Authorised and regulated by the Financial Conduct Authority No. 790168
www.brunelpensionpartnership.org