

Pension Fund Investment Sub-Committee

13 June 2022

Carbon Footprint Report

Recommendations

That the Pension Fund Investment Sub-Committee (PFISC):

1. Considers the content of this Report and approves the adoption of the metrics at paragraph 1.3; and
2. Requests that an annual report be brought to the PFISC setting out progress towards the metrics chosen.

1. Executive Summary

- 1.1 The purpose of this paper is to inform the PFISC about the Fund's carbon exposure as at 31 March 2021 and to seek approval for the adoption of a set of metrics against which that exposure can be measured and tracked.
- 1.2 The report of the Fund's investment consultant Hymans Robertson at Appendix 1 sets out some key metrics for the Fund's listed holdings. These metrics take on board guidance from the Partnership for Carbon Accounting Financials (PCAF) or the Taskforce for Climate-Related Financial Disclosures (TCFD).
- 1.3 The proposed metrics are
 - 1.3.1 Weighted average carbon intensity;
 - 1.3.2 Carbon emissions;
 - 1.3.3 % of portfolio in green revenues; and
 - 1.3.4 % of portfolio with ties to fossil fuels.
- 1.4 The definitions of each of the metrics are set out in the report at Appendix 1 (within the glossary on page 10). However, each of the metrics can be summarised as follows:
 - 1.4.1 *Weighted average carbon intensity* measures a portfolio's exposure to carbon-intense companies. It does this by measuring the tons of CO2 equivalent emitted per million dollars of revenue, weighted by the size of the allocation to each company;
 - 1.4.2 *Carbon emissions* are defined as the portfolios' estimated Scope 1 and Scope 2 greenhouse gas emissions expressed in terms of thousand tons of CO2 equivalent emitted by the companies invested in, weighted by the size of the allocation to each company;

- 1.4.3 *% of portfolio in green revenues* sets out the weighted average percentage of revenue for portfolio companies derived from any of the following environmental impact themes: alternative energy, energy efficiency, green building, pollution prevention, sustainable water, or sustainable agriculture; and
- 1.4.4 *% of portfolio with ties to fossil fuels* which states the percentage of the portfolio invested in companies with an industry tie to fossil fuels (thermal coal, oil and gas).

To provide the PFISC with greater support around interpreting this data, there is a training session on 6 June 2022 which will include some time on carbon metrics.

1.5 Some of the key findings are that:

- 1.5.1 The Fund could do more to ensure that climate risk is integrated in the investment process
- 1.5.2 The Fund could engage more with managers around company engagements that have taken place, for instance voting at AGMs on climate-related matters and speaking with the management teams. At present there are quarterly notes provided to the PFISC covering voting at a high-level, and so more detail could be included on the underlying topics.
- 1.5.3 The Fund may wish to consider engaging with the managers not included in this report to provide support for more carbon reporting.

2. Financial Implications

- 2.1 Climate risk, as set out in the Fund's [Investment Beliefs](#), is expected to have a material impact on the Fund's investment outcomes (Principle 12). The Committee believes (Principle 16) that a Responsible Investment approach will enhance long-term investment outcomes as well as benefiting the economies and societies in which the Fund invests and is therefore consistent with the Fund's primary purpose, to pay pension benefits to its members (Principle 1).

3. Environmental Implications

- 3.1 The prospective environmental implications of the proposal are set out in further detail in Appendix 1. The purpose of this report is to start a discussion about future reporting around carbon metrics and priorities with an awareness that data collection currently remains a limiting factor within the industry. Steps are being taken at a market level to improve reporting.

4. Supporting Information

- 4.1 None

5. Timescales associated with the decision and next steps

- 5.1 If the PFISC wishes to pursue a climate risk dashboard approach, there would be additional support given over summer 2022, with further decision-making on priorities at the September 2022 PFISC.

Appendices

Appendix 1 – Climate Risk Report (Hymans Robertson)

Background Papers

None

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The report was circulated to the following members prior to publication:

Local Members: n/a

Other members: Cllrs Kettle and Gifford