Gloucestershire
COUNTY COUNCIL

PENSION COMMITTEE
10.00 am

FRIDAY 24 SEPTEMBER 2021

Council Chamber - Shire Hall, Gloucester

MEETING PAPERS

Gloucestershire
COUNTY COUNCIL

PENSION COMMITTEE

TIME: **10.00 am**

DATE: **Friday 24 September 2021**

VENUE: **Council Chamber - Shire Hall, Gloucester**

A G E N D A

ITEM	TOPIC	CONTACT
3.	**Public Questions -** (Pages 1 - 4) To answer any written questions about matters that are within the powers and duties of the Committee. The closing date/time for the receipt of questions is **10.00am on 17th September 2021.**	Andrea Griffiths
4.	**Members' Questions -** (Pages 5 - 8) To answer any written members' questions. The closing date/time for the receipt of questions is **10.00am on 17th September 2021.**	Andrea Griffiths

NOTES

(a) **MEMBERSHIP** – Councillors Cllr Matt Babbage, Cllr Mark Mackenzie-Charrington, Cllr Wendy Thomas, Cllr Colin Hay, Cllr Lynden Stowe, Cllr David Brown and Cllr Dr Andrew Miller

COOPTEES - Peter Clark and Cllr David Gray

(b) **DECLARATIONS OF INTEREST** – Members requiring advice or clarification about whether to make a declaration of interest are invited to contact the Monitoring Officer: Jane Burns ☎01452 3284721 /fax: 42425149/e-mail: jane.burns@gloucestershire.gov.uk prior to the commencement of the meeting.

GENERAL ARRANGEMENTS

(1) *Will Members please sign the attendance list.*

EVACUATION PROCEDURE - in the event of the fire alarms sounding during the meeting please leave as directed in a calm and orderly manner and go to the

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assembly point which is <u>outside the main entrance to Shire Hall in Westgate Street</u>. Please remain there and await further instructions.

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PENSION COMMITTEE – 24TH SEPTEMBER DATE 2021
PUBLIC QUESTIONS

1. Questioner's name: Helen Bojaniwska, on behalf of Stroud Town Council staff. Submitted letter attached to agenda.	Respondent's name: Cllr Lynden Stowe	Notes
Question 1: How much of the Gloucestershire County Council Pension Scheme fund is currently invested in fossil fuels? Question 2: Will the Committee pass a motion, or make a recommendation to Full Council, committing to reducing the zero the Gloucestershire County Council Pension Fund's holdings in companies whose main business is the production and distribution of fossil fuels, by a definite date?	Q1 Reply: Based upon the last annual carbon metrics report for the Gloucestershire Pension Fund as at 31 December 2020 the exposure to fossil fuel revenues was 1.4% of the Fund. Q2 Reply: The Gloucestershire Pension Fund aims to deliver stronger investment returns over the long term, protecting our interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society. The Brunel Pension Partnership manage the investment of the assets of the Gloucestershire Pension Fund, in conjunction with nine other Funds in the South West of England. As such, Brunel will own and maintain a Responsible Investment and Stewardship Policy on behalf of their clients. The current Brunel policy on Engagement & Divestment states: 'On the issue of divestment, Brunel supports divestment from specific fossil fuel and other carbon-intense companies, if they present a material	

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	investment risk – such as due to ‘stranded assets’ – but this is based on analysis by our asset managers. Brunel expects managers to take these decisions independently. In addition, we have committed to review this approach and, indeed, the holdings themselves; and to evaluate whether companies are taking steps to manage climate risks and to enable our overall alignment with the Paris Agreement. Brunel set out clear expectations for its asset managers and a deadline of 2022 for reviewing companies – our climate stock take is due in 2022. The criteria to evaluate companies and managers is being developed with our clients. It will take into account different investment mandates and starting points, but always with reference to Paris alignment. We chose not to use exclusion lists with our active managers. Instead, we require them to analyse the companies and other entities they invest in, and to justify their investments in those companies with higher greenhouse gas emissions. We do not currently issue exclusion lists because what is most needed is change in the way investment managers work. Simply enforcing exclusions, or requiring divestment from specific stocks or sectors, will not compel investment managers to develop their capacity on climate change or to drive change in the companies they hold. Climate then becomes a technical operational matter, not an investment priority.	

Question 3: Will the Committee ask the Brunel Partnership to make available investment opportunities across the various asset classes which would entirely avoid the financial risks of investment in companies whose main business is fossil fuels? (This could be achieved if the promised ‘Paris-aligned portfolio’ were to exclude investment in such companies.)	However, we acknowledge that we may need to take other action and have reserved the right to implement specific, and stock-specific, exclusions as part of our Climate Stock Take in 2022.’ The Fund supports this policy and looks forward to working in collaboration with the nine other Funds and Brunel on the outcomes of the Climate Stock Take in 2022. Q3 Reply: Brunel has been working with FTSE Russell to develop a new set of benchmarks, not least for passive funds, that integrate climate objectives into how they are constructed. These ground-breaking benchmarks were formally announced earlier this summer and will be available for the partnership and the Fund shortly. These portfolios will offer us the Net Zero-aligned portfolios, we as partner funds tasked Brunel to provide. Emphasis was also placed on developing indices that not only met current needs, but also have scope to evolve in response to rapid industry developments, so that we continue to have the ability to deliver on our overall investment objectives.	

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Dear Cllrs Cody, Hoyland, McFarling and Turner,

Thank you for your letter of 15 September. I have liaised with the Head of Pensions over the letter and am pleased to respond below.

I would hope that the Committee share your concern for the urgency of the climate change challenge.

Through our partnership (known as Brunel) with nine other Funds in the South West of England, which includes the Environment Agency Pension Fund, Brunel owns and maintains a Responsible Investment and Stewardship Policy on behalf of us all, which aims to deliver stronger investment returns over the long term, protecting our interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

The partnership believes that wholesale change is needed for the investment industry to be fit for purpose to limit human-made climate change to well below two degrees – preferably 1.5 degrees – above pre-industrial levels.

Furthermore, I'm sure the committee shares your belief that, if pension funds fail to invest sustainably, they risk failing to fulfil their long-term fiduciary duties.

A whole-economy challenge

You frame the challenge of climate investing almost entirely in terms of the fossil fuel sector. The partnership believes both that the problem is far bigger than that – and that the solution has to be far more ambitious than what you propose.

The reality of climate change is that it is not the problem of one sector, but a challenge for the whole economy. It is the entire global economy that relies on fossil fuels – across every sector. To simply divest from the fossil fuel sector is, in the view of the partnership, not ambitious enough to address the gravity of the challenge. Asset owners and asset managers need to apply Net Zero principles and targets to how they invest right across the investment universe.

To change the whole economy, the partnership believes you need to engage meaningfully across the whole economy. The position as a partnership is that the most effective approach at present is: ***engagement with the threat of divestment***.

If you engage with no ultimate threat behind your engagement, companies will lack a key motivation to change. If you divest without engaging, it may win you headlines, but you are then allowing the company to continue with its current practices – and potentially leaving it in the hands of far less climate-conscious investors. There is certainly evidence to suggest that a divest-only approach achieves less for the climate than a mixed approach.

Brunel, on our behalf, engages primarily through investment managers, with additional resource through a dedicated provider EOS at Federated Hermes. Brunel does undertake some direct engagement, such as for the climate resolution at HSBC. Engagement through large-scale shareholder actions are impossible for companies to ignore entirely – and sometimes shareholders can force even the most reluctant company's hand. Nevertheless, as you would doubtless agree, engagement needs to lead to tangible progress.

Running the numbers
The proof of whether a climate policy is really working is, of course, not in the arguments but in the numbers. Brunel have always published our total partnerships carbon exposures – and progress against our own partnerships ambitions.

Brunels most recent Stewardship & Responsible Investment Outcomes Report showed that, over the reporting year, they **have reduced the carbon intensity of our Partnerships Aggregate Portfolio by 30%**. That would not have been possible by simply pursuing a single-sector divestment policy. Furthermore, Brunel achieved a carbon efficiency that was 15.4% better than our benchmark – up from 11% in the previous reporting year. These are major reductions, and all the more so for a set of partner funds that *already* had climate concerns baked into their structures – and into manager selection and monitoring processes.

Brunel also provide detail of our partnerships active holdings' carbon exposure in the Climate Change Action Plan Report (aligned with TCFD) and supported by the Carbon Metrics Report. The report offers further insight into the approach to fossil fuels. As the report shows, the Partnerships Aggregate Portfolio was much less exposed to fossil fuel revenues in the reporting year than its custom benchmark (1.4% vs 2.2%).

In terms of specific holdings for Gloucestershire, our portfolios' low exposure (1.4% as at 31 December 2020) to the fossil fuel sector is simply the outworking of the partnerships Climate Change Policy. The investment area that has proved more of a challenge, however, is passive investing, where the lack of climate-sensitive benchmarks has left passive funds lagging their active peers in incorporating climate change risk into how they are invested.

Changing the investment industry
Despite our partnerships relatively small size, we were determined to task Brunel to find a solution to this challenge. They therefore worked with FTSE Russell to develop a new set of benchmarks, not least for passive funds, that integrate climate objectives into how they are constructed – and that are flexible enough to change in future in line with developments within RI and climate, such as improved data.

I would just highlight a couple of details about these benchmarks. The benchmarks apply a transparent tilt exposure towards or away from index constituents according to several exposure objectives, including fossil fuel reserves, carbon reserves and green revenues – all in order to achieve Paris alignment. They also limit the active weight of banking sector constituents to no more than their underlying index weight, in order to reflect the sector's funding role for large carbon emitters as a contributory factor in climate change. You can find more details on FTSE Russell's website.

These groundbreaking benchmarks were formally announced earlier this summer and these will be available towards the end of the year. The benchmarks are crucial to changing the broader investment universe and the partnership will be pushing other asset owners and asset managers to adopt them, too. Again, a whole-economy approach is needed to address climate change, and these benchmarks help to meet that need.

Consultation
Furthermore, I should just highlight that, in the autumn, Brunel will be launching a 2022 Climate Stocktake. This will provide us with a chance to conduct a comprehensive review of our partnerships Climate Change Policy, in order to see what is working and how we can ensure we continue to deliver best practice. Brunel will be engaging with a range of stakeholders to elicit their views during the consultation phase.

Finally, I should just reemphasise two points. Firstly, there may be more than one effective approach to climate investing, but it is always important to look at the data – and through Brunel we are showing radical improvements in carbon exposure across our portfolios, as a result of the partnerships Climate Change Policy. Secondly, we continue to review both performance and our partnerships policies on an ongoing basis, but the 2022 Climate Stocktake will be especially comprehensive on this front.

Many thanks for your letter.

Best wishes,

Cllr Lynden Stowe
Chair of the Gloucestershire Pension Fund Committee

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