REPORT TITLE: Annual review of Analytics for Climate Transition

Meeting:	Pension Committee
Date:	13 June 2024
Item Type:	For information
Purpose of Report:	The Pension Committee, at its meeting in December 2023 approved a number of net zero commitments for the Fund. This report provides Committee with an update on the progress on those commitments
Recommendations or Actions Sought:	1. That the Committee notes the progress on the Funds net zero commitments 2. That Committee request quarterly reporting on the engagement activity on the holdings identified on the Climate Target List contained within the attached report.
Background Documents:	The Investment Strategy Statement of the Fund approved by Committee in December 2022: Gloucestershire Pension Fund - Investment Strategy Statement
Appendices:	Appendix 1 – ACT Analysis
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Introduction

At its meeting in December 2023, the Committee made the following net zero commitments:

- Adopt a whole of Fund 2045 net zero target, with a total Fund carbon reduction target of 50% by 2030 (carbon footprint 1&2) against the base level at 2020;
- Adopt a target of a 60% reduction by 2030 (carbon footprint 1&2) against the base level at 2020 for its listed equity allocation.
- Adopt a target of a 50% reduction by 2030 (carbon footprint scope 1&2) against the base level at 2020 for its corporate bonds allocation.
- Raising the Fund's sustainable/low carbon green assets to 30% (currently 23%) by 2025
- Commit to expanding the Fund's Net Zero target setting to incorporate other asset classes, targeting a whole of Fund approach.

The Analytics for Climate Transition (ACT) analysis, undertaken by Mercer, is attached at appendix 1 to this report.

The ACT analysis was used to set the baseline for the Fund at 2020, and was the basis for the net zero commitments agreed in December 2023. The original analysis was based on the Funds data as at 31 December 2022. This analysis has now been produced on the Funds 31 December 2023 data, to capture the Funds progress. The analysis relates to listed equities and corporate bonds portfolio's and has now been extended to include the Brunel multi asset credit (MAC) portfolio.

This latest analysis will assist the fund in producing its first Taskforce for Climate Related Financial Disclosures (TCFD) Report, which will considered by Committee in September 2024.

Executive Summary

The key findings of the analysis are:

- Good progress to date, with the Fund's listed equity and corporate bond portfolios ahead of decarbonisation pathway
- Good progress on alignment and climate solutions
- Too early to set net zero targets for private markets

In respect of the decarbonisation of the listed equities, the carbon footprint has decreased by 49.7% from the 2020 baseline and is ahead of the pathway to achieve the interim target of 60% reduction by 2030, with a further 21% reduction in the carbon footprint required.

In respect of bonds, the carbon footprint has decreased by 29.1% since the 2020 baseline and remains ahead of the pathway for a reduction of 50% by 2030, with a further 30% reduction in the carbon footprint required.

The fund is on course to meet its target of 30% allocation of the total Fund to sustainable and low carbon assets by 2025. As at December 2023, the following investment holdings in meeting this target were held which equated to 24% of total investment holdings:-

- 23% invested in the Brunel Global Sustainable Equity& Paris Aligned Strategies.
- Specific renewable energy holdings within the Brunel Private Market Infrastructure Portfolio, which equated to 1%.

In addition to the above the Fund has subsequently made a commitment to the following investments which will go towards achieving this allocation target by 2030:-

- A 2% strategic asset allocation to the Schroders Greencoat Renewable Energy Fund, totalling £60m of which £42 million has been drawn down to date.
- A 5% strategic asset allocation to Social Affordable Housing Portfolio, where three Fund Managers have been selected, with monies to be drawn down during 2024.

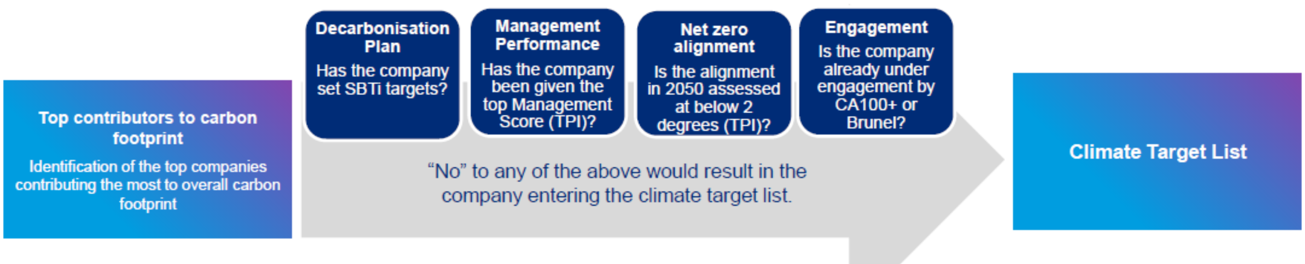
The Fund recognises the need for the ACT analysis to be extended to cover all investment holdings including private markets. However, currently there is insufficient data available to include these portfolios within this analysis. The Fund will continue to work with Brunel and other fund managers to improve the availability of data enabling greater analysis and the setting of more specific private market targets. The development of Taskforce for Climate Related Financial Disclosures (TCFD) reporting during 2024 onwards will greatly improve this process.

Next Steps – Engagement Plan

Under the ACT analysis process, it has become clear that the top ten contributing companies for carbon emissions within the listed equity are responsible for 38 % of the total carbon intensity for the listed equity portfolio. It is therefore evident that the Fund should develop an engagement plan that focuses on these companies and provides Committee with a monitoring framework which provides quarterly updates on any engagement undertaken directly, or through Brunel and through the Fund affiliated partners.

Development of a Climate Target List

The following assessment criteria has been undertaken by Mercers as part of the ACT analysis in identifying the highest carbon footprint companies which creates Climate Target List.

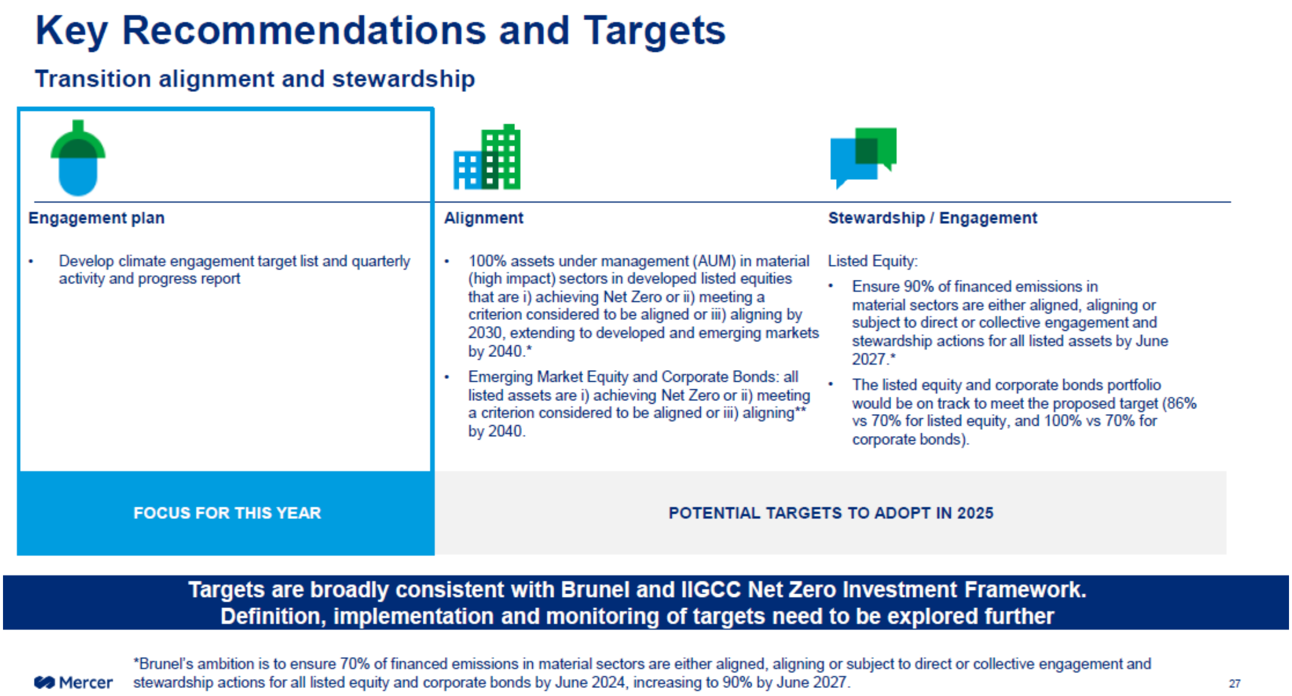


Committee will receive a quarterly engagement report which will indicate any engagement that has been undertaken during that quarter on the Climate Target List. This information will be obtained from Brunel/EOS Hermes who assist Brunel with their stewardship and engagement on responsible investment, together with any information available from our affiliated partners such as the IIGCC, LAPFF, TPI etc. It is hoped that this additional focus will provide a greater insight on the progress being made in reducing these carbon emissions and the engagement being undertaken.

Next Steps – Possible Introduction of Alignment and Stewardship Targets from 2025 onwards.

Mercers as part of their work in assessing the Fund's portfolio and developing our responsible investment policy have recommended that the Fund give consideration to the introduction of specific alignment and stewardship targets within the listed equities and corporate bond portfolio's in 2025.

Assess the alignment of assets with a low carbon transition, supported by stewardship, allows for a more holistic approach to whole economy transition.



It is proposed at this time that Committee will receive a quarterly update on the engagement activities for those holdings identified on the Climate Target List and the introduction of further targets will be considered further during 2024.