Climate Change Strategy

September 2021

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Introduction

Climate action failure is the stand-out, long-term risk the world faces in likelihood and impact according to the 2020 Global Risks Report from the World Economic Forum. If ‘business as usual’ continues, the world could heat up by about 5 degrees by 2100 which would cause profound societal damages and significant human harm. According to the Intergovernmental Panel on Climate Change (IPCC), GHG emissions need to fall by 45% vs 2010 levels by 2030 in order to avoid the worst effects of climate change.

As a long-term asset owner, we would like to see stable, well-functioning and sustainable markets which will foster long-term value creation and sustainable returns. Climate change cuts across industries, markets and economies and is a risk that cannot be fully diversified. How companies manage climate-related transition and physical risks and opportunities is highly likely to affect long-term profits and company returns. Likewise, policy makers need to consider the affect policies could have on Companies long term profits and returns. We endeavour to take a holistic approach to managing climate change risk and to act in a manner that will enable broader transition towards a low-carbon economy through a combination of portfolio construction, engagement and policy advocacy.

Shropshire County Pension Fund take a proactive view on climate change and in December 2020 published its first Climate-related Financial Disclosures Aligned Report. This climate strategy document should be read in conjunction with this report, which can be found here.

About this Document

This document is Shropshire County Pension Fund’s (“the Fund”) Climate Change Strategy. The document’s objective is to explain the fund’s approach to addressing the risks and opportunities related to climate change. It has been prepared in alignment with the Final Recommendations of the Taskforce on Climate-related Financial Disclosures (“TCFD”). The document is a component of the fund’s Investment Strategy.

Governance of Climate Change risk

The Pension Fund Committee is responsible for approving the fund’s policies and procedures including the fund’s Climate Change Strategy. Responsibility for the implementation of the strategy is held by Scheme Administrator and Head of Treasury & Pensions. The Pension Fund Committee will review the strategy on an annual basis and agenda time will be scheduled twice a year for discussion of progress on the strategy. The Pension Board and Pension Committee will receive regular training on responsible investing topics including climate change, with the latter receiving updates quarterly.

As a primarily externally managed fund, the implementation of much of the management of climate-related risk is delegated onwards to portfolio managers, with oversight from the fund officers, and Aon, the investment consultant. Where appropriate, LGPS Central assists the fund in assessing and managing climate-related risks.

Figure 1: Depiction of the Climate Change Strategy

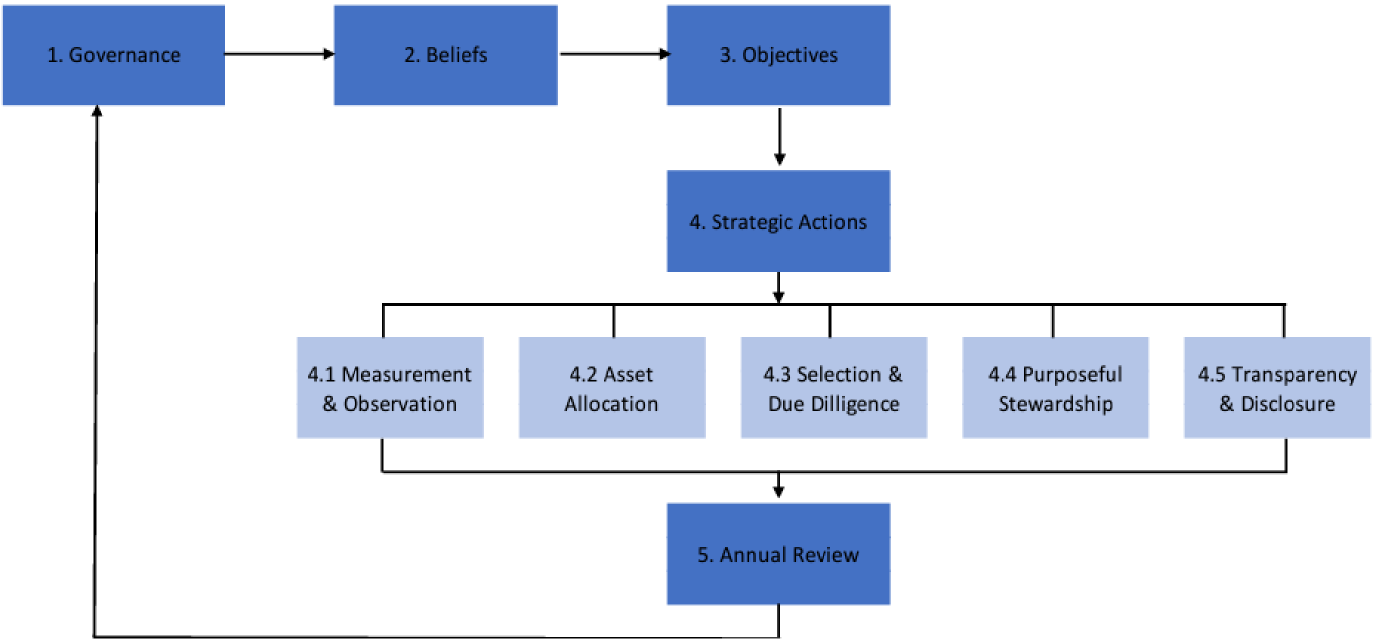

Figure 1 Depiction of the Climate Change Strategy. Image shows a breakdown of how the Climate Change Strategy is planned and implemented. It is shown in the form of a cycle with numbered sections, with each section connected to the next. Beginning the cycle at number one and listing in order reads: 1. Governance, 2. Beliefs, 3. Objectives, 4. Strategic Actions and 5. Annual Review. Number 5.

Annual Review then link back around to number 1. Governance and the cycle begins again. Under section 4. Strategic Actions is a further breakdown of procedures. Number four breakdown listed, in order reads: 4.1 Measurement & Observation, 4.2 Asset Allocation, 4.3 Selections & Due Diligence, 4.4 Purposeful Stewardship and 4.5 Transparency & Disclosure.

Evidence-based beliefs related to climate change

1. As a result of anthropogenic activities, the world is warming at an unsustainable rate. Already the world is approximately 1°C warmer than pre-industrial levels. Unabated, such change would be devasting for our way of life.
2. We believe there is overwhelming evidence that climate change is impacting the environment. This would have long-term consequences for our financial system. We hold that the economic damages of climate change will outweigh the costs of precautionary mitigation.
3. Climate change is a financially material risk for the fund. It has the potential to impact our beneficiaries, employers, Council, and all our holdings across asset classes. Due consideration of climate risk falls within the scope of the fund's fiduciary duty.
4. Climate change has the potential to impact the funding level of the fund through impacts on employer covenant, credit risk, asset pricing, and longer-term inflation, interest rates and demographic risk.
5. The fund strongly supports the Paris Agreement on climate change.
6. We believe that a transition to a low-carbon economy is essential. This requires greenhouse gas emissions to decline to net-zero by mid-point of the century. A major part of this process will focus on the transformation of the supply and demand for energy, for example decarbonization of district heating and transportation systems.
7. The fund believes all companies should align their business activities with the Paris Agreement on climate change. It is possible for a high-emitting company to undergo this transformation and thrive in the transition to a low-carbon future.
8. Investors have an important role to play in the transition to a low-carbon economy. For example, we would be less likely to realise a Paris-aligned energy transition were investors to cease influencing company behaviours.
9. A global co-ordinated response is needed to limit the rise in temperatures. No individual investor is influential enough to act alone. Governments, policymakers, consumers, companies and investors all have a role to play. Acting in collaboration will increase the likelihood of an orderly transition to a low-carbon economy.
10. Climate-aware decisions can only be made with accurate, relevant, complete, and comparable data alongside appropriate expertise to draw meaningful conclusions.

Objectives

Identify, understand and assess risks and opportunities

We aim to utilise the best available information and tools to identify, understand and assess climate change risks and opportunities across regions and sectors that are material to our fund. This includes both relevant climate-related transition and physical risks and opportunities likely to impact our investment strategy and funding strategy.

Fund resilience

We aim to ensure our investment portfolio and our funding strategy are resilient to climate change impacts.

To achieve climate change resilience, we aim to ensure that material short, medium- and long-term climate change considerations play an integral part in the stewardship of our investment portfolio. This includes climate change integration in the selection and due diligence, and continuous monitoring of assets.

We aim to influence investee companies and fund managers through routine engagement and voting on climate change issues.

Policy advocacy and transparency

We aim to work alongside like-minded organisations to support the ambitions of the Paris Agreement. This includes advocating for Paris- aligned regulations and policies with governments, policy makers, the investment industry and other stakeholders.

We aim to be fully transparent with our stakeholders through regular public disclosure, aligned with best practice.

Strategic Actions

1. **Measurement & Observation**

We will make regular measurements and observations on the climate-related risks and opportunities relating to our fund. This includes:

- Identification of the most material climate-related risks and opportunities relevant to the fund
- A triennial economic assessment of the fund's asset allocation against plausible climate-related scenarios such as monitoring the likelihood of different climate scenarios, drawing on the fund's suppliers and advisers.
- A carbon risk metrics assessment of the fund's listed equities. This includes the following metrics; Portfolio Carbon Footprint, Fossil Fuel Exposure, Carbon Risk Management and Clean Technology. The Fund aims to expand this type of analysis to other asset classes once reliable climate-related data becomes available.

We aim to use the best available tools and techniques to analyse climate-related risks and opportunities the fund is exposed to. We recognise that certain methodologies are in the early stages of development, including measuring fund alignment with the Paris Agreement. As such, we will support efforts to develop credible methodologies.

Recognising the deficiency of relevant, consistent and comparable climate-related financial data, we will encourage disclosure and the adoption of the recommendations of the TCFD across our investment chain, including external managers and investee companies.

2. Asset Allocation

Where permitted by a credible evidence base, we will integrate climate change factors into reviews of our asset allocation, subject to the requirements of the Investment Strategy Statement and Funding Strategy Statement.

Like most investors, the fund is supportive of the development of target- setting methodologies, and of the increasing completeness of carbon datasets. The fund wishes to explore options to further manage climate-related risks and work is underway to assess options within the limitations of currently available data. As part of the continued development of the fund's Climate Strategy, the Pensions Committee is exploring ways to reduce the fund's carbon footprint, particularly in the listed equities portfolios.

3. Selection, Due Diligence and Monitoring

In our selection and due diligence of new funds we will assess the material climate-related risks and opportunities, alongside the manager's approach to managing climate risks. Appointed investment managers will be regularly monitored to ensure climate-related risk is fully integrated into the investment process. The fund will make use of the IIGCC's "addressing climate risks and opportunities in the investment process" as an aid. In addition, the fund will:

- Discuss with our equity managers the influence of climate factors on their sector positioning
- Discuss with our real asset managers their physical risk resilience and GRESB participation
- Engage our corporate bond managers on their approach to assessing climate risk within their portfolios even when in the absence of reported GHG emissions data
- Our expectations on climate risk management will be specified in investment mandates, investment management agreements and other relevant documentation.

4. Purposeful Stewardship

The fund will develop a Climate Stewardship Plan. This will set clear goals of engagement with companies, fund managers, policymakers and other organisations of influence. We will use stewardship techniques to manage the risks and opportunities in our investment portfolio, focusing on the risks and opportunities of greatest magnitude.

Through LGPS Central, the fund will join collaborations of like-minded institutional investors to collectively lobby for Paris-aligned climate policies and promote engagement.

We will make will use of our voting rights and will co-file or support climate-related shareholder resolutions.

5. Transparency & Disclosure

We will prepare and disclose a TCFD report annually, which will include our carbon risk metrics. We will report progress on the Climate Stewardship Plan to the Shropshire County Pension Fund Committee on an annual basis. We will publish an annual summary of our voting and engagement activity.

Annual Review

This Climate Change Strategy has been established to run for three years from September 2021 to September 2024 but will be reviewed annually. Considering the dynamic characteristics of climate change and the uncertainty regarding the level and speed of policy makers' response to the climate change risk spectrum, we will review this Climate Change Strategy on an annual basis.

As the fund progresses its focus on climate change, upon each annual review, we expect the climate strategy will be updated with more detail of specific processes and methods used to achieve the desired objectives.

We cannot predict future investment returns of investments in the low carbon transition but we will consider investment options that seek competitive returns and can deliver additional societal and environmental benefit.

Contact Details

The Shropshire County Pension Fund is a data controller under data-protection law. This means we store, hold and manage your personal information in line with statutory requirements to enable us to provide you with pension administration services. To enable us to carry out our statutory duty, we must share your information with certain bodies, but will only do so in limited circumstances. For more information about how we hold your information, who we share it with and what rights you have, you can ask for this information from the fund, please visit *www.shropshirecountypensionfund.co.uk*.

If you can read this but know someone who cannot, please contact us on 01743 252130 so we can provide this information in a more suitable format.

Office hours

Monday to Thursday	8.45am to 5.00pm
Friday	8.45am to 4.00pm

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