Climate Change Strategy

Approved by the Pensions Committee 13 September 2024

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Introduction

This Climate Strategy sets out Shropshire County Pension Fund's ("the fund") approach to addressing the risks and opportunities related to climate change.

The fund is strongly supportive of the ambitions of the Paris Agreement on Climate Change to hold the increase in the global temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels.

Climate action failure is *the* stand-out, long-term risk the world faces in likelihood and impact according to Global Risks Report from the World Economic Forum.

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 take into account 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 monitoring, portfolio construction, engagement and policy advocacy.

Shropshire County Pension Fund takes a proactive view on climate change and since December 2020 we have published annual Climate Risk Reports and TCFD aligned reports together with a climate stewardship plan on our website. These reports set out the fund's emissions in respect of public market investments and show that through the practice of portfolio construction and ongoing engagement, the fund has seen a reduction in financed emissions of 46% and a reduction in weighted average carbon intensity of 59% compared to 2020, as at December 2023. The fund acknowledges that there is a lot of work still to undertake to continue this trend and to be able to formally report across all asset classes and this second edition of the strategy looks to build on the developments we have seen over the last three years.

About this Document

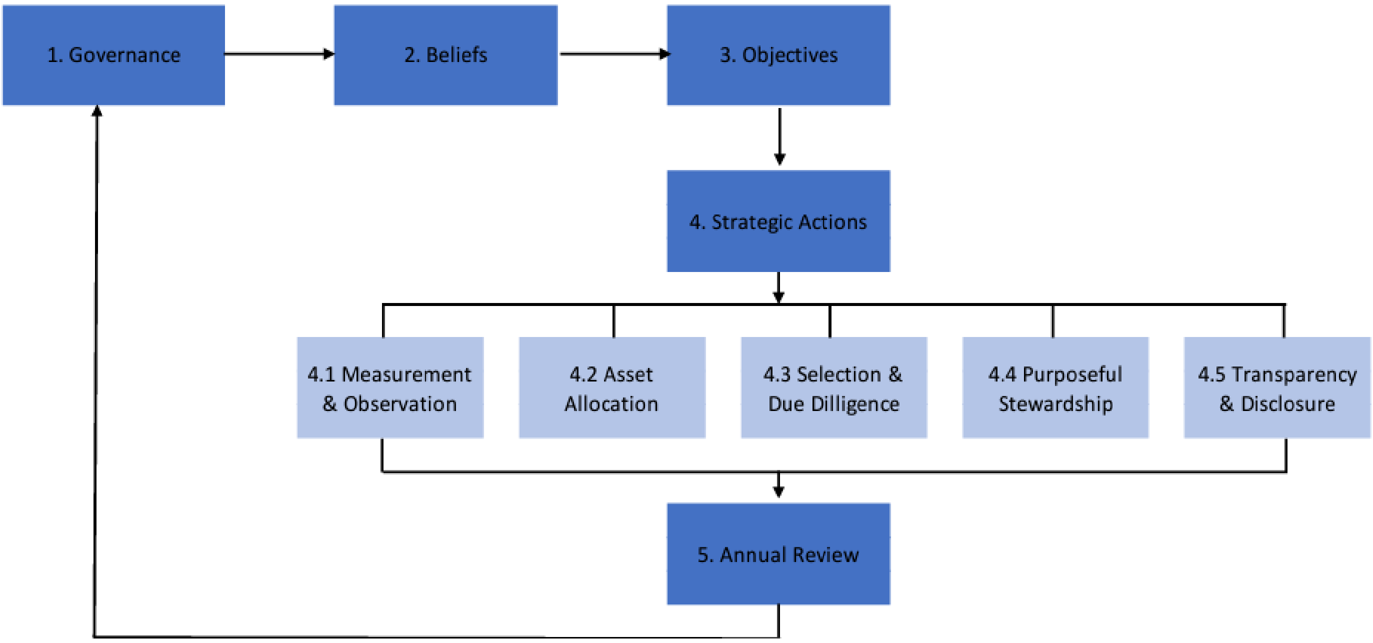
This document is Shropshire County Pension Fund's ("the fund") second *Climate Change Strategy* and builds on the original taking account of the availability of greater carbon data and developments in climate science. The document's objective is to explain the fund's approach to addressing the risks and opportunities related to climate change. It has been prepared in alignment with both the fund's Investment Strategy and Funding 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 the Head of Pensions – LGPS Senior Officer and the Pension Investment & Responsible Investment Manager. Officers will review the strategy on an annual basis and return to the Pensions Committee with any proposed changes before the review date and climate considerations will be considered in all investment papers. The Pensions Board and Pensions 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 investment consultants. Where appropriate, LGPS Central Limited assists the fund in assessing and managing climate-related risks.

Figure 1: Depiction of the Climate Change Strategy



Evidence-based beliefs related to climate change

1. As a result of anthropogenic activities, the world is warming at an unsustainable rate which presents material risks to humans, eco-systems and to global economies.

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. The fund is strongly supportive of the ambitions of the Paris Agreement on Climate Change to hold the increase in the global temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels.

4. 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. Risk will impact the fund in two ways, both in respect of transition risks and physical risks. Examples of transition risks include short-term risks such as stock price movements resulting from increased regulation to address climate change or medium-term risks such as policy and technology leading to changes in consumer behaviour and therefore purchasing decisions – the uptake in electric vehicles is an example of this. Long-term physical risks include damages to real assets and resource availability. Examples would include increased sea level rise for coastal infrastructure assets.

5. Diversification across asset classes, regions and sectors is an important risk management tool to reduce the unpredictability of climate-related risks including both unexpected and expected events where the implications of these events are not fully understood as yet.

6. 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.

7. 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.

8. 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.

9. Investors have an important role to play in the transition to a low-carbon economy, encouraging the development of better climate-related disclosures. We believe we would be less likely to realise a Paris-aligned energy transition were investors to cease influencing company behaviours.

10. 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.

11. Climate-aware decisions can only be made with accurate, relevant, complete, and comparable data alongside appropriate expertise to draw meaningful conclusions. To fully integrate climate-related risk into the fund's investment processes, the consistency, comparability, and quality of climate-related data, including the identification and measurement of companies' Scope 3 emissions, will need to improve. Scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organisation, but that the organisation indirectly impacts in its value chain. Scope 3 emissions, also referred to as value chain emissions, often represent the majority of an organisation's total Greenhouse Gas (GHG) emissions.

Objectives

Targets

Shropshire County Pension Fund is committed to decarbonising its assets under management in a manner that contributes to reducing global emissions to net zero by 2050.

To achieve this we have set the following targets:

1) Net zero (scope 1 & 2 carbon equivalent (CO_2e)) financed emissions by 2050 or sooner for listed equities, corporate bonds, sovereign debt, and property.

2) 50% reduction of (scope 1 & 2 CO_2e) financed emissions by 2030 for listed equities and corporate bonds.

3) Carbon foot printing and reporting against all public and private market assets by 2026.

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 through our annual Climate Stewardship Plan.
- 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 suite of carbon metrics for the fund's listed equity portfolio to allow the fund to assess progress in responding to climate-related risks and opportunities, including carbon intensity; weight in companies with fossil fuel reserves; weight in companies with thermal coal reserves; and weight in companies with clean technology. A more complete analysis of all the fund's assets classes will be conducted when reliable carbon-related data becomes available for non- listed equity assets.
- Assessment of progression against the fund's carbon footprint and low carbon & sustainable investment targets.

We aim to use the best available tools and techniques in consultation with our pooling company, LGPS Central Limited, to analyse climate-related risks and opportunities the fund is exposed to. The fund recognises that the tools and techniques for assessing climate-related risks in investment portfolios are an imperfect but evolving discipline. The fund aims to use the best available information as it becomes available to assess climate-related threats to investment performance.

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.

We will look to ensure that all new investments in public equity are in low carbon and sustainable investments.

We will work with managers in private markets to reach a position where the fund can accurately report on emissions from these investments allowing greater transparency of our overall carbon emissions.

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 has developed a Climate Stewardship Plan. This sets clear goals of engagement with companies, fund managers, policy-makers 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 Limited, 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. We will monitor voting by Investment Managers on a quarterly basis and employ a Responsible Overlay Manager to take an overall approach.

5. Targets

The fund has a portfolio target in respect of (Scope 1&2) financed emissions to be net zero by 2050 or sooner.

The fund recognises that the availability of data across asset classes varies and therefore we have set in line with our pooling company, LGPS Central Limited, the following asset class targets:

Listed Equity and Corporate Bonds

Emission Reduction Target

A 50% reduction in Scope 1 & 2 financed emissions by 2030 or sooner compared to 2020.

The following table sets out the anticipated pathway to net zero by 2050.

Reduction of scope 1 & 2 financed emissions per £m invested					
Target	50%	60%	80%	90%	100%
Timeframe	2030	2035	2040	2045	2050

Foot Printing Target

Track the relevant category Scope 3 emissions of the top 10 emitters in the portfolio from 2024.

Sovereign Debt and Private Markets

Emission Reduction Target

Net Zero in Scope 1 & 2 & Scope 3 (Category 13) financed emissions by 2050 or sooner.

Carbon data in respect of private market assets is still in its infancy though Investment Managers have recognised that this is a growing area of concern to investors and initiatives, like the Private Markets Decarbonisation Road Map established in 2023, have set up a process to standardise the collection of data and allow accurate recording.

At this stage we have not set reduction targets, but the position will be reviewed once accurate data is available and interim targets will be established.

Foot Printing Target

2024 Establish carbon foot printing for all pooled private market assets using estimated data.

2025 Establish carbon foot printing for all pooled private market assets using both actual and estimated data.

2026 Reporting of carbon footprint on all pooled assets.

2030 Establish carbon foot printing for all pooled private market assets and legacy managers using actual data.

Scope 3 emissions

For some sectors and companies, the assessment of material categories of scope 3 emissions is more insightful than scope 1 & 2 CO_2e emissions (see Glossary of Terms for the 15 categories of scope 3 emissions). For instance, category 11 “Use of sold products”, scope 3 emissions of an oil & gas company can represent more emissions than its scope 1 and 2 emissions.

The availability of reported scope 3 emissions is limited and there is a huge reliance on estimated scope 3 emissions calculated using a variety of methodologies. This makes it difficult to paint a true picture of the scope 3 emissions of companies and portfolios. However, as Scope 3 emissions can be an indicator of the potential risks to a company, we will track the most relevant categories of scope 3 emissions of the top 10 portfolio companies by scope 3, financed emissions.

The position in respect of scope 3 emissions will be kept under review and adjusted as data becomes more available and standardised.

6. Transparency & Disclosure

We will prepare and disclose a TCFD report annually, which will include our latest carbon risk metrics across all available asset classes.

We will report progress on the Climate Stewardship Plan to the Shropshire County Pension Fund Committee on an annual basis.

We will publish a quarterly summary of our voting and engagement activity.

Annual Review

This Climate Change Strategy has been established to run for 3 years from September 2024 to September 2027 but will be reviewed annually.

In light of the dynamic characteristics of climate change and the uncertainty regarding the level and speed of policy makers' response to the climate change risk spectrum, officers will review this Climate Change Strategy on an annual basis and report to committee as required.

As the fund progresses it's 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.

Glossary

CARBON EQUIVALENT (CO2E) EMISSIONS

A carbon dioxide equivalent or CO2 equivalent, abbreviated as CO2e is a metric measure used to compare the emissions from various greenhouse gases on the basis of their global-warming potential (GWP), by converting amounts of other gases to the equivalent amount of carbon dioxide with the same global warming potential (European Commission (Source: Glossary: Carbon dioxide equivalent - Statistics Explained (europa.eu))

FINANCED EMISSIONS

This category includes scope 3 emissions associated with the reporting company's investments in the reporting year, not already included in scope 1 or scope 2. This category is applicable to investors (i.e., companies that make an investment with the objective of making a profit) and companies that provide financial services. This category also applies to investors that are not profit driven (e.g., multilateral development banks), and the same calculation methods should be used. Investments are categorized as a downstream scope 3 category because providing capital or financing is a service provided by the reporting company.

MATERIAL SECTORS

Material sectors refer to the groups of companies with business activities classified under NACE codes A to H:

- A – Agriculture, Forestry and Fishing.
- B – Mining and Quarrying.
- C – Manufacturing.
- D – Electricity, Gas, Steam and Air Conditioning Supply.
- E – Water Supply; Sewerage, Waste Management and Remediation Activities.
- F – Construction.
- G – Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles.
- H – Transportation and Storage

SCOPE 1 EMISSIONS

Scope 1 emissions are direct emissions from owned or controlled sources.

SCOPE 2 EMISSIONS

Scope 2 emissions are indirect emissions from the generation of purchased energy.

SCOPE 1 AND 2 FINANCED EMISSIONS

The amount of scope 1 and 2 CO_2e emissions of a company that is apportioned to a portfolio.

SCOPE 3 EMISSIONS

Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

There are 15 categories of scope 3 emissions:

• Category 1 – purchased goods and services.

• Category 2 – capital goods.

• Category 3 – fuel- and energy-related activities (not included in scope 1 or scope 2).

• Category 4 – upstream transportation and distribution.

• Category 5 – waste generated in operations.

• Category 6 – business travel.

• Category 7 – employee commuting.

• Category 8 – upstream leased assets.

• Category 9 – downstream transportation and distribution.

• Category 10 – processing of sold products.

• Category 11 – use of sold products.

• Category 12 – end-of-life treatment of sold products.

• Category 13 – downstream leased assets.

• Category 14 – franchises.

• Category 15 – investments.

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

Helpdesk phonelines are open Monday to Friday: 10am to 4pm (excluding Bank Holidays).

Contact details

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