



FOR PUBLICATION
DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE
8 December 2021
Report of the Director of Finance & ICT
Climate-Related Disclosures

1. Purpose

1.1 To present Derbyshire Pension Fund's (the Pension Fund/Fund) second Climate-Related Disclosures Report (Disclosures Report), which has been prepared in collaboration with LGPS Central Limited, to the Pensions and Investments Committee.

2. Information and Analysis

2.1 Background

The Fund published its first Climate-Related Disclosures Report in March 2020. This report covers the Fund's second Disclosures Report. It has been prepared in collaboration with LGPS Central Limited (LGPSC), and describes the way in which climate-related risks are currently managed by the Fund. It includes the results of climate scenario analysis and carbon risk metrics analysis undertaken on the Fund's assets as part of LGPSC's preparation of an annual Climate Risk Report for the Pension Fund.

The Taskforce on Climate-related Financial Disclosures (The Task Force/TCFD) was commissioned in 2015 by Mark Carney in his remit as Chair of the Financial Stability Board, in recognition of the risks caused by greenhouse gas emissions to the global economy and the impacts that are likely to be experienced across many economic sectors. The Task Force was asked to develop voluntary, consistent climate-related financial disclosures

that would be useful to investors, lenders and insurance underwriters in understanding material climate-related risks.

In 2017, the TCFD released its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. Guidance was also released to support all organisations in developing disclosures consistent with the recommendations, with supplemental guidance released for specific sectors and industries, including asset owners.

The Task Force divided climate-related risks into two major categories: risks related to the transition to a lower-carbon economy; and risks related to the physical impacts of climate change. The TCFD report noted that climate-related risks and the expected transition to a lower carbon economy affect most economic sectors and industries, however, opportunities will also be created for organisations focused on climate change mitigation and adaptation solutions. The report also highlighted the difficulty in estimating the exact timing and severity of the physical effects of climate change.

The Task Force structured its recommendations around four thematic areas that represent core elements of how organisations operate: governance; strategy; risk management; and metrics and targets. The four overarching recommendations are supported by recommended disclosures that build out the framework with information that will help investors/stakeholders understand how reporting organisations assess climate related risks and opportunities.

Policy frameworks to guide pension funds in their approach to dealing with the potential risks and opportunities of climate change have also been developed by the Local Authority Pension Fund Forum and by the Pensions and Lifetime Savings Association.

2.2 Climate-related Disclosures

The Disclosures Report, attached as Appendix 2, is aligned with the recommendations of the TCFD. It describes the way in which climate-related risks are currently managed by the Fund and includes information on the Fund's governance of climate risk and on the climate-related stewardship activities of the Pension Fund which are an important part of the Fund's

approach to managing climate risk. It also includes the results of recent climate scenario analysis and carbon risk metrics analysis undertaken on the Fund's assets as part of LGPSC's preparation of an annual Climate Risk Report.

2.3 Climate Scenario Analysis

The Disclosures Report includes the climate scenario analysis included in LGPSC's first Climate Risk Report, using data at 31 July 2019 and completed in 2020. Given the long-term nature of the scenario analysis, it is not appropriate to re-run the analysis on an annual basis. The scenario analysis was carried out at the asset class level and estimates the effects of different climate scenarios on key financial parameters (e.g. risk and return) over a selection of time periods.

The analysis found that:

- A 2°C scenario would have a positive impact on the Fund's returns considering both a timeline to 2030 and to 2050. This positive impact is boosted by the 29% allocation to Global Sustainable Equities in the alternative allocation.
- A 3°C scenario (which is in line with the current greenhouse gas trajectory) has a mildly positive impact on the Fund's annual returns.
- A 4°C scenario would reduce the Fund's annual returns, with most asset classes expected to experience negative returns.

The scenario analysis supports the Fund's ongoing transition to the new final strategic asset allocation benchmark from 1 January 2022.

2.4 Carbon Risk Metrics

The carbon risk metrics analysis on the Fund's listed equities and investment grade bond portfolios from the latest LGPSC Climate Risk Report is included in the Disclosures Report and considers: portfolio carbon footprint (weighted average carbon intensity); fossil fuel exposure; thermal coal exposure; and clean technology (portfolio weight in companies whose products and services include clean technology).

The carbon risk metrics analysis reports the current exposure to the above metrics and demonstrates the progress made over the last two years in reducing the carbon footprint of the Fund's equity portfolio and reducing the Fund's exposure to fossil fuel reserves.

2.5 Climate Strategy Targets

The Disclosures Report sets out the targets used by the Fund to manage climate-related risks, which form part of the Pension Fund's Climate Strategy approved by Committee in November 2020, and sets out the performance against the targets.

The following 'top down' targets were agreed by Committee to set direction and appropriate ambition for an investment strategy towards net zero, and to monitor whether that strategy is achieving expected outcomes:

- reduce the carbon footprint (Scope 1 & 2) of the Fund's listed equity portfolio by at least 30% relative to the weighted benchmark in 2020 by the end of 2025; and
- invest at least 30% of the Fund portfolio in low carbon & sustainable investments by the end of 2025.

The table below is included in the Disclosures Report to show the progress to date in respect of the two targets:

Target	Target by end of 2025	Actual at 31 March 2021
(1) Reduce the carbon footprint (Scope 1 & 2) of the Fund's listed equity portfolio by at least 30% relative to the weighted benchmark in 2020 by the end of 2025	(30%)	(37%)
(2) Invest at least 30% of the Fund portfolio in low carbon & sustainable investments by the end of 2025	30%	19%

2.6 DLUHC TCFD Consultation

The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 which came into force on 1 October 2021, introduced new requirements for private sector pension schemes with £5bn or more in assets, and for all master trusts, to report in line with TCFD recommendations to improve both the quality of governance and the level of action by trustees in identifying, assessing and managing climate risk. The requirements will be extended to private sector pension schemes with assets of more than £1bn from 1 October 2022.

The Department for Levelling Up, Housing and Communities is expected to consult shortly on regulations which will require similar TCFD aligned reporting by all LGPS funds. The Fund will assess its Disclosures Report against the requirements when they are published.

3. Implications

3.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

4. Background Papers

4.1 Papers held in the Investment Section.

5. Appendices

5.1 Appendix 1 – Implications.

5.2 Appendix 2 – Disclosures Report.

6. Recommendation(s)

That Committee:

a) notes the Climate-Related Disclosures Report attached as Appendix 2.

Report Author: Peter Handford
Director of Finance & ICT

Appendix 1

Implications

Financial

1.1 None

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None