



**FOR PUBLICATION**

**DERBYSHIRE COUNTY COUNCIL**

**PENSIONS AND INVESTMENTS COMMITTEE**

**WEDNESDAY, 18 JANUARY 2023**

**Report of the Interim Director - Finance and ICT**

**Climate Related Disclosures**

## **1. Purpose**

1.1 To present Derbyshire Pension Fund's (the Pension Fund/Fund) third Climate-Related Disclosures Report (Disclosures Report), attached as Appendix 2, which has been prepared in collaboration with LGPS Central Limited (LGPSC), to the Pensions and Investments Committee.

## **2. Information and Analysis**

### **2.1 Background**

The Fund published its first Disclosures Report in March 2020, followed by a second Disclosures Report in November 2021. This report covers the Fund's third Disclosures Report, prepared in collaboration with LGPSC, which 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 is aligned with the recommendations of the TCFD, including updated guidance issued in October 2021. 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 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 climate scenario analysis prepared by Mercer LLC. The scenario analysis has been 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 climate scenarios forecast are: 1.5°C Rapid Transition; 1.6°C Orderly Transition; and 4°C Failed Transition.

The climate scenario analysis forecasts the following:

- A 1.5°C Rapid Transition is forecast to have a negative impact on returns, particularly on a five year basis, reflecting an assumption that the hastiness and uncoordinated response to a rapid transition leads to a short-term decline in asset prices. Thereafter, the forecast impact on long-term returns stabilises, albeit remaining marginally negative.
- The impact of a 1.6°C Orderly Transition is forecast to be broadly return neutral across all time horizons.
- A 4°C scenario would have a significant negative impact on long-term returns, reflecting the market wide impact of physical risks.

The absolute basis points forecasts should be viewed with caution given the level of uncertainty and the forecast time horizons (up to 40 years) but are a directional indicator.

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); financed emissions (absolute emissions); percentage of companies with a net zero target; Transition Pathway Initiative Scores (listed equities only); 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 since the Fund's first Disclosures Report.

## 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 2022
(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%)	(44%)
(2) Invest at least 30% of the Fund portfolio in low carbon & sustainable investments by the end of 2025	30%	Invested: 27% Committed: 29%

## 2.6 DLUHC TCFD Consultation

At the last meeting of Committee, the Fund reported its submission to the recent Department for Levelling Up, Housing & Communities' (DLUHC) consultation on the proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures.

The Disclosures Report has been prepared in line with the current DLUHC proposals, taking into account the carbon metrics data currently available to the Fund.

### **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 by the Pension Fund.

### **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.

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**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