



FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 6 DECEMBER 2023

Report of the Director - Finance and ICT

**RESPONSIBLE INVESTMENT FRAMEWORK
AND CLIMATE STRATEGY**

1. Purpose

- 1.1 To seek approval for Derbyshire Pension Fund's (the Fund) updated Responsible Investment Framework and updated Climate Strategy for consultation with the Fund's stakeholders.

2. Information and Analysis

2.1 Responsible Investment

In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, the Fund's Investment Strategy Statement (ISS) must set out the administering authority's policy on how environmental, social and corporate governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments. The Investment Strategy Statement must also cover the authority's policy on the exercise of rights (including voting rights) attached to its investments.

The Fund's approach to the integration of ESG factors into investment decisions and the Fund's approach to voting, is set out in the Fund's Responsible Investment Framework (RI Framework).

The Fund believes that responsible investment can enhance long-term performance. Effective management of financially material ESG risks should support the requirement to protect investment returns over the

long term and companies with strong ESG business practices have the potential to create additional value for shareholders.

Responsible investment has relevance both before (i.e. investment selection) and after an investment decision (i.e. on-going stewardship through engagement and voting activity) and is a core part of the Fund's fiduciary duty. It is distinct from 'ethical investment', which is an approach to selecting investments on the basis of ethical beliefs (beliefs about what is morally right and wrong).

The Committee recognises its responsibility to act in the best interest of the Fund's employers and scheme members, whilst seeking to protect local taxpayers and employers from unsustainable pension costs.

The Fund's RI Framework is based on three core pillars: manager selection; stewardship (engagement and voting); and transparent disclosure.

There are no significant proposed changes to the Fund's Responsible Investment Framework. A copy of the draft updated RI Framework is set out at Appendix 2. It will be amended to include LGPS Central Limited's updated stewardship themes when they are finalised.

2.2. Climate Strategy

The Fund's Climate Strategy sets out the Fund's approach to addressing the risks and opportunities related to climate change. It includes targets to reduce the carbon emissions of the Fund's investment portfolio and to increase investment in low carbon and sustainable investments. The targets are reviewed at least every three years and progress against the targets is reported annually.

The Fund has made significant progress against the targets set out in the Fund's current Climate Strategy, as shown below:

Target	Target by end of 2025	Actual on 31 March 2023
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%)	(47%)
Invest at least 30% of the Fund portfolio in low carbon & sustainable investments by the end of 2025	30%	Invested: 29% Committed: 30%

As a result of the progress shown above, the Fund's proposed updated targets in respect of these two metrics show a material increase relative to the Fund's current targets, and the Fund's In-House Investment Management Team (IIMT) believes that these are in line with the Fund's stated ambition of achieving a portfolio of assets with net zero carbon emissions by 2050.

The Fund has also introduced a target in respect of absolute financed emissions, which is increasingly being reported by LGPS pension funds, and measures the absolute tons of CO² for which an investor is considered to be responsible. Unlike the weighted average carbon intensity metric, which measures how carbon efficient a business is for each \$1m of revenue generated, the financed emissions metric is an absolute measure of carbon emissions.

In addition, the IIMT is recommending that the Fund sets targets in respect of capturing and measuring the carbon metrics in respect of the Fund's other assets (e.g. property and private market assets), albeit it should be noted that the availability of carbon data for these assets is far less developed than it is for listed assets, and this is reflected in the Fund's proposed targets.

The aim is to build-up the scope, accuracy and comparability of the Fund's carbon metrics covering these assets, to allow the Fund to meaningfully engage and monitor investment managers and track progression towards net zero by 2050.

The updated strategy also sets out targets in respect of the Fund's stewardship and engagement activities in respect of climate change, together with a reference to Derbyshire County Council's corporate climate change strategy, which as the administering authority for Derbyshire Pension Fund, covers the Fund's corporate emissions.

The IIMT believes that the Fund's updated Climate Strategy is in line with best practice and notes that the target to reduce the weighted average carbon intensity of the Fund's listed asset portfolio by 60% by the end of 2030, relative to the weighted benchmark in 2020, is higher than the mid-point carbon reduction forecast of 48% by 2030 reflected in the International Panel on Climate Change's (IPCC) Net Zero Emissions Pathway forecast. The IPCC's Net Zero Emissions Pathway forecasts the reduction in global greenhouses at set dates (e.g. 2030, 2035, 2040 & 2050) to limit global warming to 1.5°C with no or limited overshoot.

The Fund's has engaged with the Institutional Investors Group on Climate Change (IIGCC) on the development of climate strategies and targets to determine best practice. As a reminder, the IIGCC is the leading European membership body, with over 375 members representing €51 trillion of assets under management, enabling the European investment community in driving significant and real progress by 2030 towards a net zero and resilient future. The Pension Fund became a member of the IIGCC in 2023.

Achievement of the targets set out in the updated Climate Strategy by the end of 2030, at the same time as the continued achievement of a diversified portfolio to reduce concentration risk, will be reliant on the companies and economies within the Pension Fund's investment universe continuing to decarbonize.

A copy of the Fund's draft updated Climate Strategy is set out at Appendix 3.

2.3 Independent Investment Adviser Review

The Fund's independent investment adviser, Anthony Fletcher, has reviewed the updated Responsible Investment Framework and the updated Climate Strategy; a copy of his review is attached as Appendix 4.

2.4 Investment Strategy Statement

The Fund's revised Investment Strategy Statement, which is being considered separately by this Committee, contains links to the proposed RI Framework and Climate Strategy.

3. Consultation

- 3.1 The Fund will consult with its stakeholders, including scheme members, scheme employers and members of Derbyshire Pension Board on the proposed updated RI Framework and updated Climate Strategy. The results of the consultation will be reported to Committee in March 2024.

4. Implications

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

5. Background Papers

- 5.1 Papers held by the Pension Fund Team.

6. Appendices

- 6.1 Appendix 1 – Implications
- 6.2 Appendix 2 – Draft Responsible Investment Framework
- 6.3 Appendix 3 – Draft Climate Strategy
- 6.4 Appendix 4 – Report of Fund’s Independent Investment Adviser

7. Recommendation(s)

That Committee:

- a) Approves the draft updated Responsible Investment Framework and draft updated Climate Strategy, attached as Appendix 2 & Appendix 3, respectively, for consultation with the Fund’s stakeholders.

8. Reasons for Recommendation(s)

- 8.1 The Committee is responsible for approving the Fund’s statements, strategies and policies.

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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