



FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 6 MARCH 2024

Report of the Director - Finance and ICT

**INVESTMENT STRATEGY STATEMENT, RESPONSIBLE INVESTMENT
FRAMEWORK & CLIMATE STRATEGY CONSULTATION**

1. Purpose

To advise the Pensions and Investments Committee (the Committee) of the outcome of consultation in respect of Derbyshire Pension Fund's revised Investment Strategy Statement (the ISS), and Responsible Investment Framework (RI Framework) and Climate Strategy.

To seek approval for the ISS attached as Appendix 2, the RI Framework attached as Appendix 3 and the Climate Strategy attached as Appendix 4.

2. Information and Analysis

2.1 The Consultation

The ISS, RI Framework and Climate Strategy were approved by Committee for consultation on 6 December 2023. The consultation process opened on 13 December 2023 and ran until 31 January 2024.

The consultation was managed through an online response form accessed through either the Pension Fund's website or a link to the Fund's website from consultation page on Derbyshire County Council's website. The consultation response form was available to stakeholders in different formats on request.

A letter was sent to all members of the Fund for whom up to date contact details are held informing them about the legislation to implement the

McCloud remedy in the LGPS and highlighting the launch of the consultation and the launch of a new Member Engagement Forum.

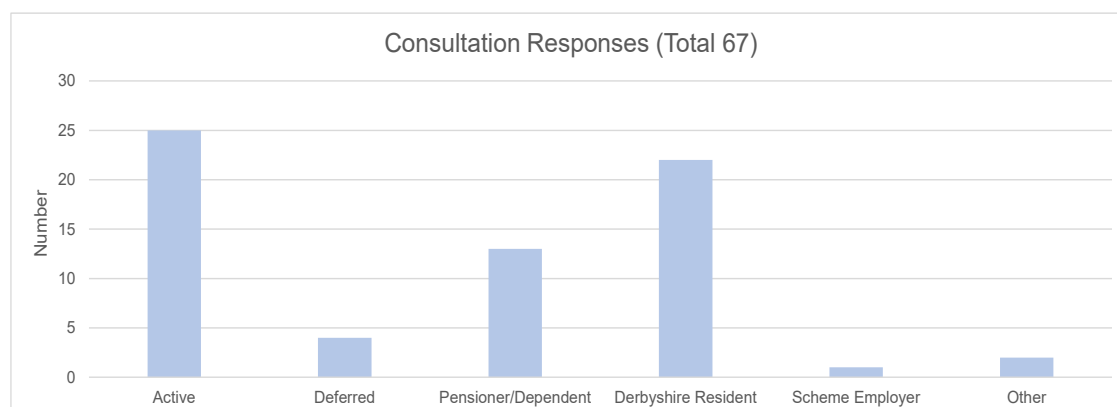
The letters were uploaded to My Pension Online, for those members registered for the Fund's self-service system, with emails alerting members that a new letter was available for them to view online, and over 60,000 letters were posted to members not registered for the online service. In total, almost 90,000 letters were sent to individual members including details of how to respond to the consultation. The letters included the Fund's Helpline telephone number. Emails were also sent to the Fund's 340 participating employers highlighting the launch of the consultation.

The online response form provided the opportunity to answer a range of specific questions requiring Yes / No / Not Sure answers, with additional comment boxes provided in respect of each of the ISS, RI Framework and Climate Strategy.

Frequently Asked Questions were attached to the consultation providing a clear summary of each of the documents, highlighting the key changes proposed from when the documents were last approved by Committee in 2020, and including an explanation of several technical issues (e.g. what absolute financed emissions are and how do they differ to a carbon intensity measure). The Fund's position on several relevant matters was also explained (e.g. why the Fund supports engagement over divestment).

2.2 Consultation Comments: Number of Responses

The Fund received 67 responses to the consultation, an increase from the 49 responses received in 2020, from the following respondents:



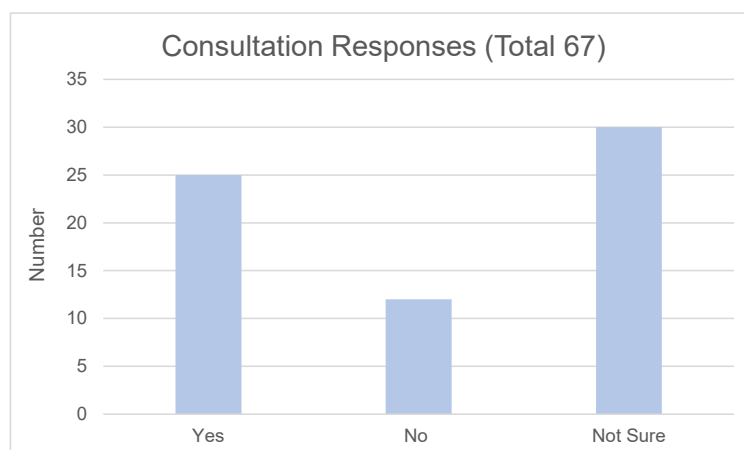
The majority of responses were from either members of the scheme (active, deferred & pensioners/dependents) (42) or from Derbyshire residents (22). There was one response from a participating employer,

Derbyshire Dales District Council, a response from Derbyshire Pensioners Action Group and a response from an elected member at Derbyshire Dales District Council.

2.3 Consultation Comments: the ISS

The responses to the following question were as follows:

Q: Do you agree with the proposed changes to the Fund’s Strategic Asset Allocation Benchmark following the ongoing improvement in the Fund’s funding level?



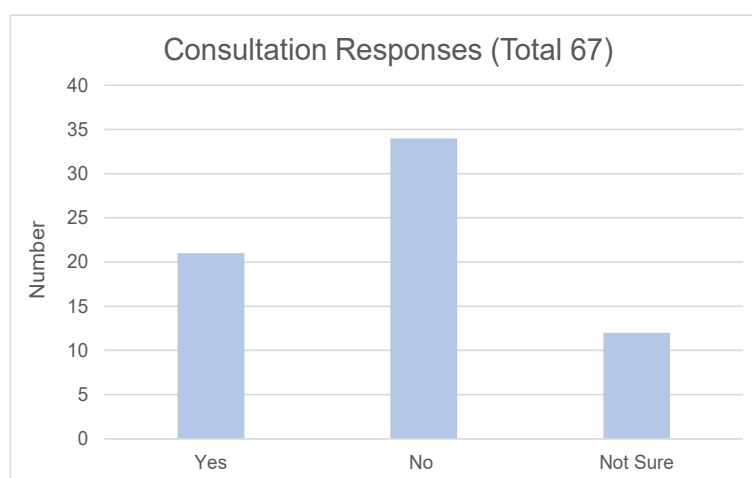
Most responses were either ‘yes’ or ‘not sure’.

There were 28 respondent comments in respect of the ISS, 21 of which related to concerns around climate change, including requesting that the Fund increases the speed at which it decarbonises the investment portfolio (e.g.. net zero by 2030 at the latest) and divests from fossil fuel investments. There were minimal comments in respect of the Fund’s proposed asset allocation mix or the ongoing switch from Growth Assets to Income Assets.

2.4 Consultation Comments: RI Framework

The responses to the following question were as follows:

Q: Do you agree that the Fund’s updated Responsible Investment Framework reflects the right approach to managing responsible investment, including environmental, social and governance factors?



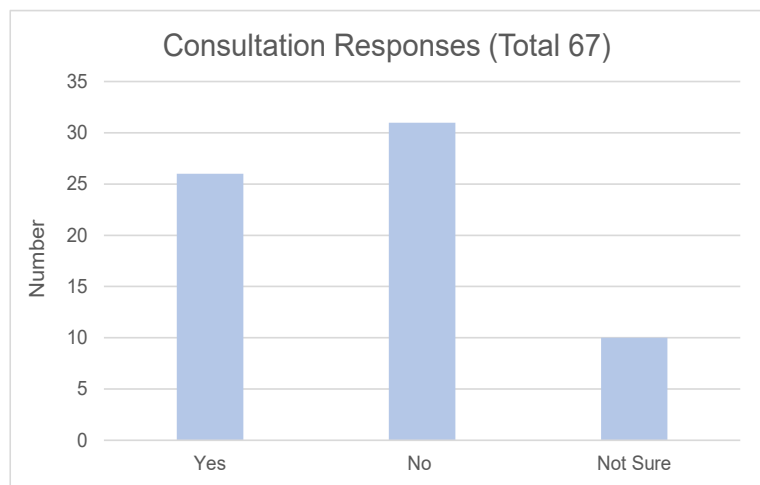
Most responses were ‘no’, followed by ‘yes’ and then ‘not sure’.

There were 34 respondent comments in respect of the Fund’s RI Framework, principally from those respondents who answered ‘no’ to the consultation question noted above. Most of the responses focussed on concerns around climate change, a preference for ethical investment, questioning whether engagement works and supporting fossil fuel divestment.

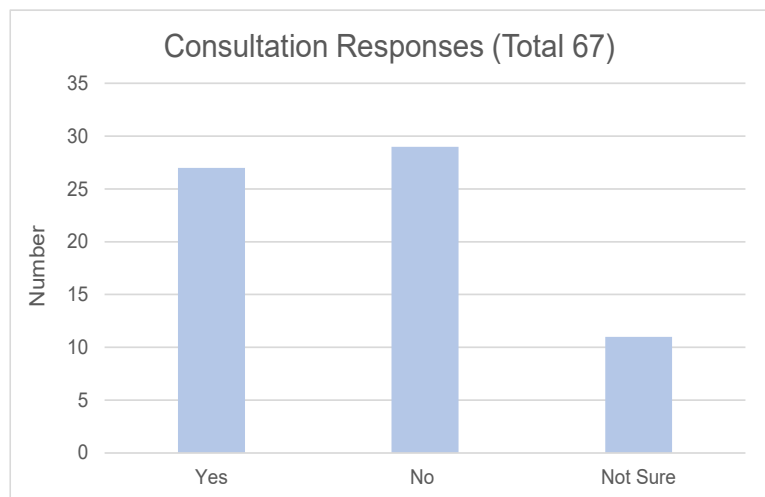
2.5 Consultation Comments: Climate Strategy

The responses to the following question were as follows:

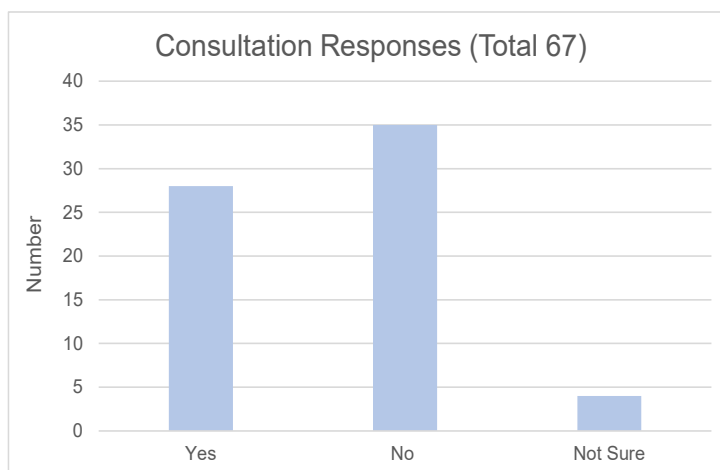
Q: Do you agree with the Fund’s ambition, as set out in the updated Climate Strategy, to be net carbon neutral by 2050?



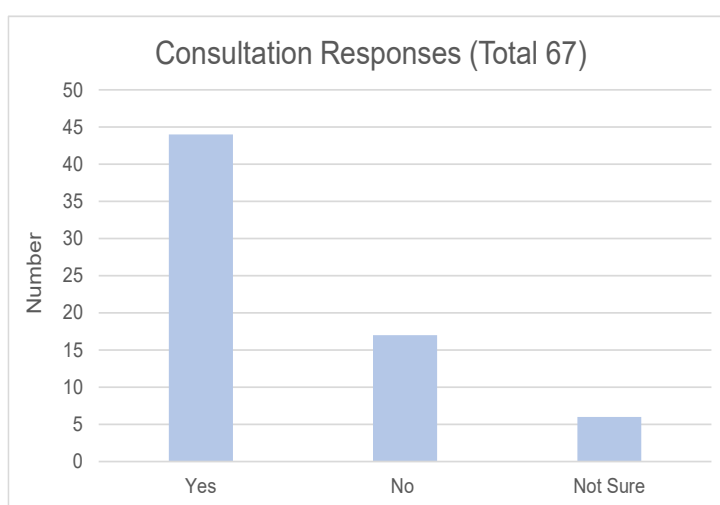
Q: Do you agree with the proposed targets set out in the updated Climate Strategy related to reducing the carbon intensity and financed emissions of the Fund’s listed equities and investment grade bond investments by the end of 2030?



Q: Do you agree with the proposal to increase the target for the Fund to invest in low carbon and sustainable investments from 30% to 45% of total investment assets by the end of 2030?



Q: Do you agree with the proposed targets set out in the updated Climate Strategy related to reducing the carbon intensity and financed emissions of the Fund's listed equities and investment grade bond investments by the end of 2030?



Across the four questions, 'no' responses outweighed 'yes' responses, however, the balance was relatively tight.

There were 49 respondent comments in respect of the Climate Strategy, with the vast majority stating that the Fund should do more to manage climate-related risks. Comments included:

- supporting a much quicker, or immediate, transition to net zero
- stating that the Fund was dismissing/ignoring the science in respect of climate change and not doing enough to address climate-related risks
- questioning whether engagement works/stating that engagement does not work
- supporting the immediate or rapid divestment from fossil fuel related investments
- supporting increased investment in environmentally friendly opportunities, together with investment into social/affordable housing or other ethical investments

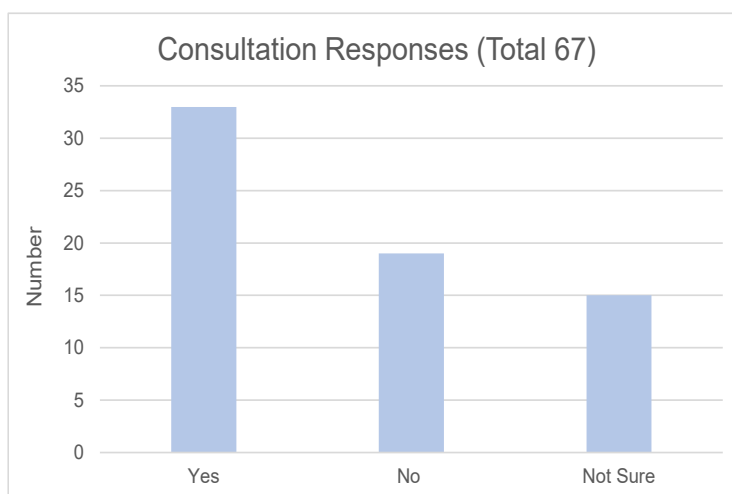
- stating that the Fund is not fulfilling its obligations, including its responsibilities to the people of Derbyshire, by not doing more to combat climate change
- stating that the Fund's proposed policies are 'greenwashing'.

A small number of responses questioned whether the targets set by the Fund are too aggressive and would limit the investment options and investment returns available to the Fund.

2.6 Consultation Comments: Frequently Asked Questions

The responses to the following question were as follows:

Q: Did you find the Fund's responses to some frequently asked questions helpful?



2.7 Participating Scheme Employer Responses

As noted above, the Fund received one response from a participating Scheme Employer. The response was provided by Derbyshire Dales District Council and reflected the following resolution approved by Derbyshire Dales District Council motion on 14 December 2023:

Resolution 1

That Derbyshire Dales District Council calls upon Derbyshire Pension Fund's Pensions and Investments Committee and Managers of the Derbyshire Pension Fund to:

- a) with immediate effect, to freeze any further investment into publicly traded fossil fuel companies;
- b) by 31 December 2025, to divest the Derbyshire Pension Fund of all investments in fossil fuel stocks, equities, and funds that include fossil fuel related assets or projects;
- c) urgently to review and update its Investment Strategy Statement and Climate Strategy to incorporate these objectives, and to adopt a

method for quantifying and addressing climate change risks affecting other investments.

Derbyshire Dales District Council approved two additional resolutions relating to formally responding to the consultation and to publicising the consultation process and encouraging participation by individual Council Members, employees, residents and local businesses.

2.8 Email Responses

In addition to the online response forms noted above, the Fund received twenty-three email responses in respect of the consultation, with twenty-two responses from local residents and one response from Transition Chesterfield. All the responses related to the Fund's Climate Strategy, with respondents wanting to see an increase in the speed of the net zero transition, together with full divestment from fossil fuel related investments.

The Fund notified each of the email respondents that for the response to be formally registered, a consultation response form needed to be completed either online or in hard copy. Whilst it is not possible to quantify how many of the email respondents subsequently submitted a consultation response form, it is considered likely that most of the respondents will have done so.

2.9 Comments on the Consultation Process

Feedback received on the consultation process, including comments on the timing, length, format and publication of the consultation, will be considered before the Fund next consults with its stakeholders.

2.10 Fund Response to the Consultation Comments

The Fund's In-house Investment Management Team (IIMT) continues to believe that responsible investment is more comparable with the Fund's trustee-like responsibility to scheme members, participating scheme employers and local taxpayers than ethical investment which is based on beliefs about what is morally right or wrong.

The integration of environmental, social and governance considerations into the investment process and Fund stewardship and governance activities supports the management of investment risk and the generation of sustainable long term investment returns.

Engagement with investee companies is a slow process and the Fund as a long-term investor takes a long-term approach to its stewardship activities. Influence is lost when an investor divests and there is a risk that ownership moves into the hands of less transparent and less

accountable investors. Divestment does not result in a reduction in 'real-world' carbon emissions.

Net zero alignment for a pension fund, is currently considered to mean implementing an investment strategy that is consistent with achieving the goal of net zero emissions by 2050. The Institutional Investors Group on Climate Change's (IIGCC) Net Zero Investment Framework Implementation Guide, notes that a board or investment committee should commit to the goal of achieving net zero portfolio emissions by 2050, or sooner. The Fund's updated Climate Strategy is in line with this Framework.

As a reminder, the IIGCC is the leading European membership body, with over 375 members representing over €50 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 Fund has made significant progress in respect of decarbonising the investment portfolio since the Fund developed its first Climate Strategy in 2020, having already achieved its current decarbonisation targets two years ahead of schedule.

The updated Climate Strategy includes a significant increase in the Fund's listed asset decarbonisation targets by 2030, together with introducing targets in respect of reducing absolute financed emissions and assessing/estimating the carbon metrics of the Fund's other investment assets.

The targets reflect the need for the Pension Fund to continue to maintain access to a diversified portfolio of investment assets to achieve the Fund's risk and return objectives which aim to ensure that sufficient assets are available to meet benefit payments whilst keeping employer contribution rates as stable as possible.

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.

3. Implications

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

4. Background Papers

Files held by the Pension Fund.

5. Appendices

- a. Appendix 1 - Implications
- b. Appendix 2 - Draft Investment Strategy Statement
- c. Appendix 3 - Draft Responsible Investment Framework
- d. Appendix 4 - Draft Climate Strategy

6. Recommendation(s)

That Committee:

- a) notes the outcome of the consultation in respect of Derbyshire Pension Fund's revised Investment Strategy Statement, Responsible Investment Framework and Climate Strategy.
- b) confirms that no changes to the revised Investment Strategy Statement are required based on the outcome of the consultation and approves the draft Investment Strategy Statement attached as Appendix 2.
- c) confirms that no changes to the Responsible Investment Framework are required based on the outcome of the consultation and approves the draft Responsible Investment Framework attached as Appendix 3.
- d) confirms that no changes to the Climate Strategy are required based on the outcome of the consultation and approves the draft Climate Strategy attached as Appendix 4.

7. Reasons for Recommendation(s)

- 7.1 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