



Report of the Section 151 Officer

Pension Fund Committee - 17 November 2021

Net Zero Carbon Investment Strategy

Purpose:	To consider the implications and identify an appropriate target date and methodology to achieve a carbon net zero investment portfolio in the City & County of Swansea Pension Fund
Consultation:	Legal, and Finance
Recommendation(s):	It is recommended that the Pension Fund Committee approves: A) A commitment to achieve a net zero carbon position in its investment portfolio by 2037 B) The adoption of the Fund's Responsible Investment Beliefs as outlined in Appendix 1, will underpin the Fund's actions on climate risk. C) The climate actions of the Fund are developed across three key areas ('3-dimensions') to give greater balance between: 1. Carbon and other ESG metrics (both backward and forward looking) 2. Opportunities that will benefit from the transition to a lower carbon economy 3. Engagement activities focussed on climate, and encouraging best practice amongst fund managers, investee companies and other investors.
Report Author:	Jeff Dong
Finance Officer:	Jeff Dong
Legal Officer:	Stephanie Williams
Access to Services Officer:	N/A

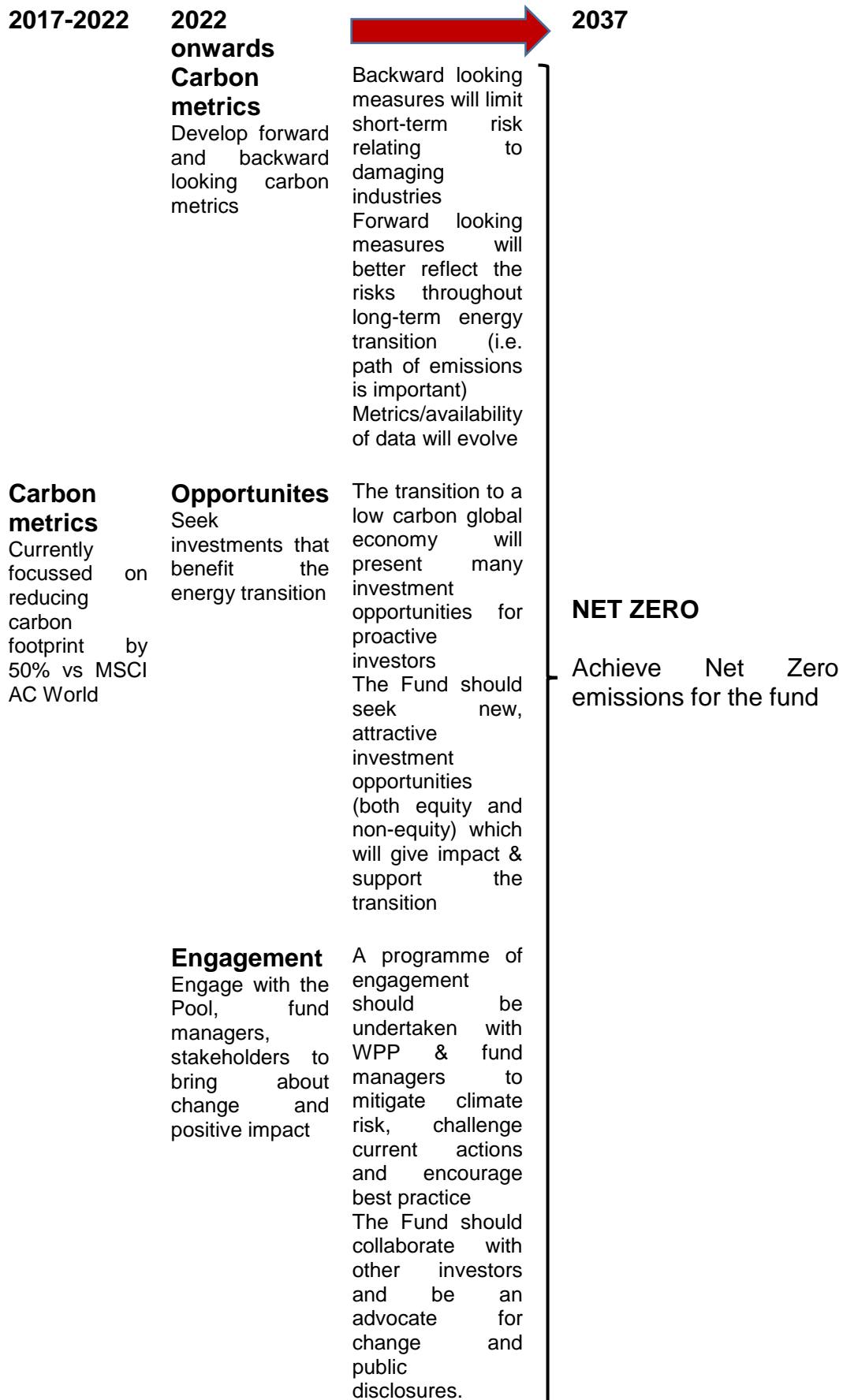
1. Introduction

- 1.1 The Pension Fund Committee approved the first iteration of its Responsible Investment Policy in 2017 and have identified 50% carbon reduction in its listed equity targets by 2022. Progress against this target is reported to The Pension Fund Committee periodically, with the latest position as having achieved a 58% reduction by Sep 2021.
- 1.2 Separately, The Administering Authority, Swansea Council has approved an ambitious target of being carbon net zero as an organisation by 2030 and also has ambitions for the City as a whole by 2050.

2. Net Zero Targets for the City & County of Swansea Pension Fund

- 2.1 As the necessity to address climate change and the risks it poses financially grows across the globe, many large asset owners and fund managers have made or have stated net zero targets or ambitions, including many of our strategic investment partners, Blackrock and Russell Investments.
- 2.2 As fund managers and investee companies realise the importance of being carbon/resource aware, the opportunities to invest in carbon responsible way have increased, though it is still a long way from being a 'free lunch'. However it is a quickly evolving space as asset managers look to meet increasing asset owners' demands in this regard.
- 2.3 The Deputy S 151 Officer in consultation with the Chairman of the Pension Fund Committee has commissioned Hymans Robertson, the fund's appointed investment consultants to assess the implications and feasibility of the Pension Fund considering and then implementing a Net Zero ambition/target, with a view to formulating a plan to achieve the same.
- 2.4 Further to the scoping and evaluation of the appropriate pathway to achieve Net Zero, a comprehensive workshop was facilitated, attended and participated in by 5 members of The Pension Fund Committee and 4 members of The Local Pension Board. The workshop comprised :
 - Whether or not an explicit net-zero objective is set
 - Consider appropriate scope and timescales for achieving net-zero (including target date and 3-5y checkpoints)
 - Assess net-zero alignment across entire portfolio and consider how emissions information can be sourced for non-equity assets
 - Review entire portfolio for climate tilted assets and consider actions for each asset class
 - Following next actuarial valuation and investment strategy review, assess how underlying assumptions take account of climate risks
 - Refine ESG objectives and investment beliefs to include net-zero and consider alignment with TCFD disclosure requirements
 - Agree methodology to adopt to identify the roadmap

2.5 The Roadmap to Net Zero



3. Recommendation

- 3.1 Attached at Appendix 1 is the outcome paper following the workshop on Net Zero Aspirations, capturing the consensus of views of Pension Fund Committee and Local Pension Board Members to inform the resultant strategy and roadmap.
- 3.2 It is recommended that the Pension Fund Committee approves:
- a. A commitment to achieve a net zero carbon position in its investment portfolio by 2037
 - b. The adoption of the Fund's RI beliefs as outlined, will underpin the Fund's actions on climate risk.
 - c. The climate actions of the Fund are developed across three key areas ('3-dimensions') to give greater balance between:
 1. Carbon and other ESG metrics (both backward and forward looking)
 2. Opportunities that will benefit from the transition to a lower carbon economy
 3. Engagement activities focussed on climate, and encouraging best practice amongst fund managers, investee companies and other investors

4. Legal Implications

- 4.1 The current legislative framework for the pension fund investments carried out by Administering Authorities is set by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The law governing pensions is a complex and specialist area. National Government guidance indicates that the pooling of LGPS assets is permissible under current law.
- 4.2 The Inter-Authority Agreement has been approved and signed by all 8 Local Authorities.
- 4.3 The Pension Fund Committee Terms of Reference and Scheme of Delegation sets out the Committees responsibility for the strategic governance of the Pension Fund.

5. Financial Implications

- 5.1 There are no direct financial implications arising from this report. There may be opportunity costs arising from the re-allocation of assets to support the transition to low carbon /net zero investments.

6. Equality Impact Assessment Implications

6.1 There are no equality implications arising from this report.

Background Papers: None

Appendices:

Appendix 1

- Hymans Paper- Net Zero
- Hymans Paper – Responsible Investment Beliefs