

Pension Committee – March 2021

**Submitted by:
Cllr Anne Hill**

Questions

Pensions Investment Strategy

1. The inclusion of PF – Inv 3 in the Risk Register is welcomed. Since ESG factors (including Climate Change) should now be considered in all investment decisions, please could committee members consider, at each committee meeting, comparative performance information for the other portfolios provided by Brunel Pension Partnership, in order to evaluate properly how the chosen portfolios are performing in comparison with the other available portfolios, especially:
 - a. the Low Carbon Equities portfolio, compared to the chosen Global Equities Portfolio (both passively managed);
 - b. and the actively managed Sustainable Equities portfolio, in comparison with the chosen actively managed portfolios provided by Brunel.
2. Is Somerset County Council Pensions investment strategy compliant with Somerset County Council, Frome Town Council and the four Somerset District Councils' overall strategy of carbon neutrality by the target date of 2030?
3. Please could the committee set out how the pension investments are moving towards carbon neutrality by 2030, either by being carbon neutral (or negative) or by offsetting the carbon emissions associated with those investments?

In line with Council public question time rules Q1-3 will be considered at the meeting. Written responses will be offered to additional questions.

4. Please could the committee provide the target date by which Brunel Pension Group will be able to demonstrate carbon neutrality of its portfolios?
5. Please could the committee share the information that Brunel Pension Group provides to Local Authorities to support the offsetting of remaining emissions?
6. Please could the pensions committee set out the actions taken, to date, to encourage

businesses that are invested in, both within and outside of the Brunel portfolios, to reduce their emissions and other environmental impacts?

7. Please could the pensions committee share any evidence that they have from Brunel that their engagement approach has higher effectiveness than a more activist approach?
8. Please could the pensions committee share their evidence, or that of Brunel, of changes that companies have made as a direct result of engagement with them?
9. Could the pension committee share the criteria that Brunel use to decide which 'dirty' companies are cleaning up their act; how do Brunel monitor the progress that these companies are making; how do Brunel react if a company does not fulfil its green intentions or promises?
10. Does the pensions committee, its advisers and Brunel, have evidence that the risk of divestment is greater than the risk of staying invested in fossil fuels?
11. Please could the pensions committee share the relative performance of the portfolios investing in low carbon sectors versus high carbon sectors?
12. What discussions have Somerset had with other local authorities who have / have not divested from fossil fuels; what are the lessons learnt from those that have; what lessons have they learnt from an engagement strategy?
13. How do Somerset and Brunel Pension Group gather the views of pension scheme members in deciding their overall investment strategy and priorities; if members supported divestment, would that affect the investment strategy?

Responses:

1. The Committee will consider all the relevant information as part of the planned review of Investment Strategy and allocation to Brunel portfolios later this year. Committee is happy to consider whether additional on-going monitoring is required as part of that review.
2. The SCC Pension Fund investment strategy, as set out in the Investment Strategy Statement, makes no specific commitment regarding the carbon neutrality of the investment portfolio. The Fund's investment strategy is therefore not specifically aligned with this target.

3. As stated above, carbon neutrality by 2030 is not a commitment that has been made by the Pension Fund and therefore no specific action has been taken in meeting this target.
4. Brunel Pension partnership Ltd., the FCA regulated investment manager we use to manage the Fund's investments, is committed to being a Net zero investor and is seeking to reduce the emissions intensity of its portfolios in line with the commitments of the Paris Agreement. This is slightly more extensive than carbon neutrality as it takes into account other greenhouse gas emissions.

The Brunel's Climate Change Policy was published in January 2020 and has an at least 7% annual reduction target in carbon intensity of their listed equity portfolio, resulting in roughly +20% emission intensity reduction from the index benchmark baseline as at 31/12/19. This level of decarbonisation is in line achieving net zero but will be kept under review.

Details of Brunel's Climate Change policy are available on their website:

www.brunelpensionpartnership.org/climate-change/

5. Brunel Pension Partnership Ltd. is committed to using the Net Zero Investment Framework and the Paris Aligned Commitment statement. Both the methodology and the commitment make it clear that offset should not be used for financed emissions (as opposed to operational emissions) and offsets at an asset level should only be used where other decarbonisation options are not viable.
6. The Committee does not take any direct action as we do not have the resources and action by the Fund in isolation is unlikely to be productive. We fully support the engagement work of the Local Authority Pension Funds Forum (LAPFF) and the engagement and voting actions of Brunel

Pension Partnership Ltd. and our pre-Brunel managers.

Brunel Pension Partnership has an extensive programme of engagement with the companies in which they invest. Details of their approach is outlined in the Stewardship Policy and Voting guidelines and the outcomes reported Annually. Brunel is currently compiling the latest report which is due to be published on their website at the beginning of May 2021.

7. We believe that there is no such thing as a more activist approach to ESG investment than what is employed by Brunel Pension Partnership Ltd. Details of Brunel's approach can be found on their website. www.brunelpensionpartnership.org/climate-change/our-approach-to-engagement-and-divestment/

Brunel Pension Partnership reports in line with UK Stewardship Code 2020, which required them to demonstrate the effectiveness of their approach. This information is detailed in their annual RI and Stewardship Outcomes Report.

Brunel's PRI scores are also available on their website.

8. Successful engagement examples can be found on the Brunel website. (www.brunelpensionpartnership.org). Similar disclosures are made by LAPFF (www.lapfforum.org).

9. Brunel does not directly invest in companies or make investment decisions regarding companies, they hire third party fund managers which make these decisions. Brunel are in continuous dialogue with the fund managers they hire about the nature of the holdings in the portfolios including the carbon intensity.

Details of the approach to manager selection, monitoring and engagement with companies is

extensively outlined in Brunel's RI Policy, Stewardship Policy, Voting Guidelines and Climate Change Policy. The outcomes as detailed above are published annually.

10. Brunel Pension Partnership Ltd.'s approach, which the SCC Pension Fund endorses, is that by targeting the carbon intensity of all portfolio companies, irrespective of industry, we will encourage a reduction of the amount of carbon produced by the global real economy. We believe this reduction, in time, will be greater than what would be achieved compared to a blanket divestment from a specific group of companies. Across all active Brunel portfolios the amount of carbon intensity for each portfolio is below benchmark. See Carbon metrics report and Taskforce for Climate Related Financial Disclosures on their website.

11. All Brunel Pension Partnership Ltd. portfolios invest in low carbon sectors and are likely to have some, although probably limited, exposure to high carbon sectors. All of the active portfolios have significantly lower than benchmark exposure to carbon intensity. We don't believe there are segregated "low carbon sector" portfolios or "high carbon sector" portfolios to compare against each other. Please see Brunel's TCFD and carbon metrics report.

www.brunelpensionpartnership.org/wp-content/uploads/2020/06/Brunel-Carbon-Metrics-Report-.pdf

12. We have not had any specific discussions with other LGPS funds regarding this topic.

13. Brunel Pension Partnership Ltd. is only authorised by the FCA to engage with "Institutional Investors", it is precluded by its authorisations from interacting with "retail investors". SCC Pension Fund only makes very limited effort to directly engage with the membership. There are significant issues with trying to extract a nuanced answer to a complex issue from a large and

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| | diverse set of people where there is likely to be a significant silent minority or majority. |
| Submitted by: Sigurd Reimers | <p><u>Question</u> I understand that the Pensions Committee is carrying out a major review this year. Could you give me some indication when this is likely to be completed?</p> <p><u>Response</u> Wherever possible Committee work is timetabled in the Committee work plan which is reviewed at every Committee meeting under the "Business Plan Update" report. Although this reflects our genuine expectations it is not a guarantee as to when a given review or item will begin as we must retain a certain amount of flexibility to adapt to circumstances. It should also be remembered that the work plan typically reflects the start of the consideration of an item or issue and the final decision may not be reached at this point.</p> |