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# Climate Action Plan

## Avon Pension Fund

2022

**TCFD** | TASK FORCE ON  
CLIMATE-RELATED  
FINANCIAL  
DISCLOSURES



# How the financial sector can better report on climate related issues

The Task Force on Climate-Related Financial Disclosures (TCFD) makes recommendations for reporting to help stakeholders understand the climate risks big organisations such as pension funds and publicly listed companies are exposed to and how these risks are monitored and addressed.

Although not yet compulsory for Local Government pension funds, the Fund is a strong supporter of these disclosures. We have now adopted this guidance and set out our own disclosures below in the form of a climate change action plan.

## **Our commitments**

- Net Zero emissions alignment – an overarching climate goal which we have committed to achieve by 2050 or earlier.
- To invest at least 30% of total assets in sustainable and net-zero transition aligned investments by 2025.
- To invest 5% of total assets in renewable energy infrastructure.
- For our investments to be 30% less carbon intensive than our benchmark – a goal for 2022 that has already been achieved
- To reduce our absolute emission levels - the Fund has set new targets to reduce the absolute emissions in our equity portfolio by 43% by 2025 and 69% by 2030 compared to its 2020 levels.
- To support the idea of a 'Just Transition'. A key goal for the Fund is to use its power as a shareholder to encourage companies and policy makers to adapt their activities to support the transition to a low carbon economy, especially across developing nations and societies.

## **Absolute emissions**

Analysis for 2020 calculated that the absolute emissions for the Fund's listed equity portfolios were 85,775 tCO<sub>2</sub>e<sup>1</sup>. While carbon intensity gives valuable risk and decarbonisation information, absolute emissions must be lowered to enact real-world change. This is the first year our absolute emissions have been calculated and this figure will be used as a baseline to measure against further reductions.

## **The four key pillars of TCFD Reporting**

1. **Governance**
2. **Strategy**
3. **Risk Management**
4. **Metrics & Targets**

<sup>1</sup> Tonnes of carbon dioxide equivalent.

# Governance

## How our organisation makes decisions around climate change

Our beliefs and approach to climate change pass through several layers of ‘governance’. Beginning with Officers, consultants and a dedicated Investment Panel before being formalised through the Avon Pension Fund Committee (the Committee), made up of a broad range of the Fund’s stakeholders including elected councillors, employer and member representatives and independent members. Decisions made by our Committee are reflected in our Investment Strategy Statement (ISS) [here](#).

### What we report

Our climate change reporting covers areas such as;

- Carbon emissions metrics – reporting on emissions generated by the Fund, how this is improving over time and how we compare to the wider market
- Engagement work with the companies we invest in – either using our own voting rights or working collectively with other investors
- Policy advocacy work – collaborating with our partners to ensure policy frameworks are in place to support the low carbon transition
- Outcomes and key initiatives that the Fund has committed to – such as specific climate change targets and investments made.

Our approach to responsible investing continuously evolves and our Policy is revised and updated on an ongoing basis to ensure it stays relevant and informative. More details of all areas of reporting and ongoing actions can be found in our [2021 Responsible Investing Annual Report](#).

### Voting and engagement

- We use our shareholdings to reward companies when they are meeting our expectations and to make our voices heard when they are not. This is primarily undertaken via;
- Voting – in 2021 we participated in 3,880 company meetings while casting over 50,000 votes
- Engagement – we engaged with over 650 companies in 2020, across thousands of issues spanning Environmental, Social and Ethical, Governance and Strategy, Risk and Communication matters. More details of our engagement activity can be found [here](#).

### Brunel

Through Brunel Pensions Partnership (Brunel), and its combined £35 billion in assets that it manages for us and the other LGPS funds in the pool, as well as collaborating with our strategic partnerships across the industry, we can leverage our collective voice to influence and effect change at policy and company level.

Brunel now directly manages the majority of the Fund’s portfolios and are committed to managing climate change risk and opportunities, dedicating significant resources to this area. A guide to their climate change policy can be found [here](#). This partnership approach ensures the Fund plays a key role in the development of strategic priorities of Brunel and ensures Brunel remain on track to deliver our own climate objectives.



# Strategy

## Climate-related risk and opportunities facing the Fund and our resilience to them

From an investor's perspective climate change risk manifests itself in two distinct ways;

- **The transition to a low carbon economy** – as the world continues its carbon reduction journey, we look to invest in companies leading the change alongside those with a clear plan to adapt and avoid the risk of being left behind. These will pose the biggest risks and opportunities over the medium term
- **The physical risks posed by climate change** – this will dominate over the longer term and refers to the increasing occurrence of extreme climate conditions and the damage they could cause. This could include having to reassess the viability of continuing to run physical holdings like infrastructure or property

### Investment manager and asset selection

Asset allocation remains one of the Fund's primary tools to help meet our climate goals, and the Fund now holds £1.4bn in low carbon and sustainable equities. It has also committed a further £380m to renewable infrastructure projects, covering wind and solar energy generation as well as emerging technologies including bioenergy and energy storage solutions

Green revenues are targeted throughout our portfolios, with UK examples including a new multi-fuel facility which uses waste as an energy source and the world's first ever low-carbon greenhouse. Both projects not only come with environmental benefits, but also create jobs in the local area.

### Engagement

Engagement and lobbying with investment managers can often lead to positive outcomes that may not have been possible through simply selling the holding. This has included successes such as in the financial sector. Here, increased shareholder pressure led to a number of concessions at

major European Banks around their lending activities, such as HSBC's pledge to phase out the financing of coal-fired power and thermal coal mining by 2030 within the OECD.

### Climate modelling and analysis

We have undertaken extensive climate change modelling, seeing how the Fund's assets would be affected by different rates of climate change and temperature increases. This analysis was a factor in the decision to remove our dedicated allocation to emerging market equities and instead invest in more climate-aware strategies, which is expected to reduce emissions in the portfolio by around 25%. However, we will retain some indirect exposure to emerging markets to support their transition to a low carbon future.

This analysis made clear that, under the most extreme temperature rises, asset allocation becomes less important as all portfolios suffer from lower expected returns from physical climate change. The outcomes uncovered here continue to hold importance for the portfolio and for seeking to ensure the world avoids those extreme scenarios.

### Internal operations

Environmental decisions factor into the day-to-day running of the Fund with Bath & North East Somerset Council, who administer the Fund, working towards their own Net Zero goal. This is reflected in staff policy via:

- Hybrid working arrangements
- Holding remote meetings
- Encouraging public transport use
- Providing bike storage.

The pension fund also has an ongoing digitalisation programme underway to improve IT infrastructure and reduced unwanted printed/posted material.

# Risk Management

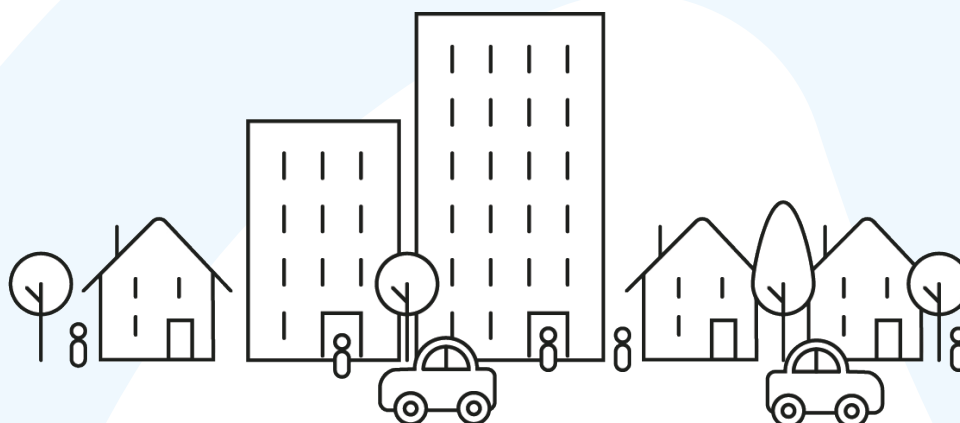
## Our processes for identifying and managing climate risks

**Climate change is fully integrated into our, and Brunel's, investment decision making process and is included alongside other material risks in our ISS. The Fund considers ESG issues, such as climate change, when setting its investment principles and objectives and these issues are also considered when setting the Fund's strategic asset allocation. The Fund actively seeks to identify positive environmental (and Social/Governance) related opportunities across all asset classes in line with our investment return objective.**

### Ways we identify and manage climate risk

In addition to the carbon metrics reporting, climate change modelling and engagement activity outlined elsewhere, we also identify and manage our climate risks through:

- Private Markets - Climate risk, in terms of both transition and physical risk, is fully embedded into the approach of our private market investments, which include a diversified portfolio of UK renewable infrastructure assets
- Property - In 2020 our property portfolio was also given a sustainability score showing that we exceeded the benchmark average in overall ESG performance
- Investor led initiatives - the Fund independently participates in initiatives such as Climate Action 100+, Local Authority Pension Fund Forum and the Institutional Investors Group on Climate Change (IIGCC). Recent actions by the Fund included becoming an initial signatory of the IIGCC-led '2021 Global Investor Statement to Governments on the Climate Crisis', which called on governments to step up their activities in meeting the Paris Agreement.



# Metrics & Targets

## The metrics used to measure our emissions and climate risks and our targets to improve on them

### Carbon Metrics Report

We have set ourselves the targets outlined on Page 1. Emissions data is collected and analysed every year in our Carbon Metrics Report, which can be read [here](#), while our latest Responsible Investing Annual Report contains more details on other metrics studied and measured by the Fund.

### Carbon metrics

- **Weighted Average Carbon Intensity<sup>2</sup> (WACI)** – this quantifies our exposure to carbon intensive companies. Our 2021 Carbon Metrics report showed that all the active equity portfolios that the Fund invests in exhibited a lower WACI than their respective benchmarks. In total, the aggregate portfolio's carbon intensity fell by 22% in 2020 alone
- **'Stranded Asset' risk assessment** – we are less exposed to fossil fuel revenues and future emissions from reserves than our benchmark, meaning we have less risk of being left holding assets that that could become less valuable, or obsolete, following a transition to a low carbon economy.

### Net zero transition alignment

We use independent analysis that assesses the listed equity portfolio from an individual-stock perspective to determine transition alignment using emerging metrics such as implied temperature rise assessments. Going forward, we also aim to expand use of this analysis to cover other areas of the portfolio such as fixed income.

### Paris Aligned Benchmark

We worked with Brunel to develop a climate investment index aligning with the Paris Agreement goals (to limit global warming to well below 2°C, and preferably to 1.5°C) while meeting the EU's benchmark standards by targeting a 50% reduction in carbon emissions over a ten-year period. At launch, we transitioned our 10% (£575m) allocation to low carbon passive equities into this more comprehensive benchmark.

<sup>2</sup> The metric takes the carbon intensity (total carbon emissions divided by total revenue) of a company and multiplies it by its weight in the portfolio.

## **Alternative Formats**

This document can be made available in a range of community languages, large print, Braille, on tape, electronic and accessible formats, to request an alternative version please contact the Avon Pension Fund using the details provided.

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