

PENSIONS COMMITTEE**30 JULY 2024**

REPORT TITLE:	NET ZERO INVESTMENT TARGETS
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

The purpose of this report is to set out shorter-term net zero investment targets for Merseyside Pension Fund (MPF) in accordance with its longer-term goal for the Fund's assets to be net zero by 2050.

This report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of Local Government Act 1972 i.e. information relating to the financial or business affairs of any particular person (including the authority holding that information).

RECOMMENDATION/S

That the Pensions Committee be recommended to approve the setting of the following interim climate targets:

1. A reduction of 50% in the Fund's carbon footprint (Scopes 1 & 2) by 2030 compared to a 2019 baseline;
2. Maintain alignment to the goals of the Paris Agreement and target 100% of assets in scope to be aligned to a below 2° temperature trajectory by 2030;
3. A high-level goal to increase investments in climate solutions.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 An ambitious short-term decarbonisation target is in line with industry best practice & scientific consensus. It provides a good indication of the overall emissions financed through the Fund's portfolio that can be tracked over time.
- 1.2 A forward-looking Paris alignment metric provides a measure of the progress made towards net zero alignment in the underlying portfolios, including progress from engagement with material companies and investment in climate solutions.
- 1.3 Monitoring and targeting an increase in allocations to climate solutions is emerging industry best practice. The main benefit of setting this target is that it allows Pensions Committee to monitor the percentage of total allocations that are focused on climate solutions.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Not relevant for this report. Anticipated Local Government Pension Scheme (LGPS) regulation will require the disclosure of climate strategy, specifically including any targets set against decarbonisation and forward alignment metrics.

3.0 BACKGROUND INFORMATION

- 3.1 The revised MPF investment strategy approved by Pensions Committee at its meeting on 11th December 2023 sets out the Fund's investment objectives, which include to target and implement a Net Zero climate plan over short, medium and long term time horizons. The MPF investment team has worked with the Fund's strategic adviser (Redington) to develop the Net Zero plan, which has also involved the participation of the Fund's Investment Monitoring and Responsible Investment Working Parties.
- 3.2 MPF has set a long-term target for its investments to be Net Zero by 2050 or sooner. In collaboration with partner funds in the Northern LGPS pool, it has made this pledge to the Paris Aligned Asset Owners initiative, organised by the Institutional Investors Group on Climate Change (IIGCC) the leading European investor network and action group on climate. IIGCC has developed the Net Zero Investment Framework (NZIF), which is now considered the leading industry tool for institutional investors to seeking to align with the Paris goal of limiting global temperature rise to between 1.5-2 degrees. NZIF prioritises the rapid reduction of Greenhouse Gas (GHG) emissions in the real economy, the flows of private capital needed to support transition to a low carbon economy and the active role of investors in pursuing both of these objectives.
- 3.3 MPF has developed its plan and climate targets in line with NZIF. The assets in

scope of the decarbonisation and alignment targets comprise the Fund's public equities and fixed income portfolios (c.51% of total assets). Guidance on target-setting in relation to increasing investment in climate solutions is less well developed. However, MPF already has significant allocations to the asset classes through which this investment is best channelled (global infrastructure, property etc) and approximately 5% of the Fund's current net asset value is already invested in renewable energy and related solutions.

4.0 FINANCIAL IMPLICATIONS

4.1 There is a risk to investment performance in the short to medium term. However, this risk can be mitigated through effective investment management and is highly likely to be significantly outweighed by the deleterious effects upon the Fund's assets and liabilities of a disorderly transition and the effects of unchecked global temperature rise.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising directly from this report. It is anticipated that statutory guidance in relation to climate risk and reporting will be issued shortly. The government's manifesto indicates that pension funds will be required "to develop and implement credible transition plans that align with the 1.5°C goal of the Paris Agreement".

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are none arising directly from this report. The implementation of the interim climate targets and Net Zero plan will be integrated into the next phase of the Fund's investment strategy change programme.

7.0 RELEVANT RISKS

7.1 There are a number of potential risks arising from the Fund's investment activities such as climate risk or reputational risk which can be managed better through active stewardship and engagement, particularly when undertaken collaboratively with other investors. This is especially so when addressing climate risk, which is considered to be systemic in nature.

8.0 ENGAGEMENT/CONSULTATION

8.1 The views of major stakeholders have been sought through the surveys undertaken in the development of the investment strategy. This showed a clear consensus that MPF should invest in a way that is measurably aligned to the goals of the Paris Agreement, given that it is possible and in the financial interests of scheme members to do so. The majority of respondents disagreed that MPF should invest in a way that removes carbon from the Fund's portfolio, but not in the global economy.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There is scope for integrating the monitoring of these targets within the broad scope of the Council's Climate Emergency Action Plan, in such a way that is also consistent with the Council's Scheme of Delegation in respect of the administration of Merseyside Pension Fund.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none arising directly from this report. MPF has invested in climate solutions in the local area such as providing Peel with a £20m loan for the construction of a district heat network in Liverpool Waters.

REPORT AUTHOR: Owen Thorne
Portfolio Manager, MPF
email: owenthorne@wirral.gov.uk

APPENDICES

Exempt appendix 1 - Redington presentation to IMWP

BACKGROUND PAPERS

IIGCC Net Zero Investment Framework
LGPS Guidance on preparing and maintaining an investment strategy statement

TERMS OF REFERENCE

- . This report is being considered by the Pensions Committee in accordance with section (a) of its Terms of Reference:
- (a) To be responsible for the overall investment policy, strategy and principles of the Fund and its overall performance.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	11 th December 2023