

Avon Pension Fund

Local Government Pension Scheme

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Dear Nick,

Thank you for the statement delivered at the Pension Fund's Investment Panel meeting on the 27 May.

The Fund has long recognised the need for urgent action on climate change and has been taking tangible action to ensure we contribute to the solution while protecting our members interests, which remains our priority.

As at March 2022, the value of our holdings in the top 5 Oil & Gas companies was £4.1m, which equates to 0.2% of the Fund's listed equity portfolio and 0.07% of total assets. Using a broader definition of fossil fuel exposure¹, the Fund held around £86.6m in fossil fuels overall, representing just 3.4% of our listed equity portfolio and 1.4% of the total Pension Fund. Rather than operating a blanket divestment approach to fossil fuels, which we do not believe achieves any real-world impact in itself, we instead focus on portfolio decarbonisation, collective engagement, and investing to enable the climate-transition.

While our policy on climate change more broadly states we will become net zero by 2050 or earlier, we have important interim goals, targeting absolute emissions reductions of 43% by 2025 and 69% by 2030 (from a 2020 baseline), respectively.

In addition, we have made a number of strategic allocation decisions to align the portfolio with the transition to the low carbon economy. Recently we exited our investment in emerging markets where the ability to directly influence climate policy, at appropriate levels, is limited and this reduced our listed equity emissions by approximately 28% (from 86k tonnes to 62k tonnes of Co2).

In 2021 we invested over £500m in a new equity portfolio designed to divert capital away from the most carbon intensive sectors and companies and reward those that are investing in the transition and providing climate solutions. This portfolio does not invest in coal and tar sands companies as well as companies whose primary business function relates to the exploration, extraction or distribution of fossil fuels and will ultimately see us on a carbon reduction pathway consistent with achieving net zero by 2050, or earlier.

Decarbonisation represents one route to net zero, the other requires large capital investment in climate change mitigation technology. We are investing £380m in renewable infrastructure which includes traditional forms of renewable energy such as solar and wind as well as new technologies such as battery storage, bioenergy and sustainable agriculture.

These latest steps represent a continuation of the Fund's strategy on climate change, as it seeks to balance the need to generate an investment return required to fund our pension liabilities with setting ambitious – yet credible - climate change targets.

¹ Defined as companies that derive some proportion of revenues from either fossil fuel extraction, storage & transportation and/or power generated from fossil fuel consumption. This covers companies across Energy (Oil & Gas), Financials, Industrials, Materials & Mining and Utilities; a number of which are also known to own, operate and/or generate power from renewable energy sources. Fossil fuel figures as at December 2021.

Transformation at the speed and scale required to reach net zero will take a coordinated approach across the entire industry and ensuring the right policy frameworks are in place to unlock investment opportunities and scale up flows of low carbon finance is essential to addressing the issue. The Fund has engaged on finance and climate policy at the global, EU and national level which has helped inform and strengthen policy decisions made in support of a low carbon, climate resilient economy.

As a relatively small investor in global terms and, in order to maximise the contribution the Fund can make to reducing emissions in the real economy, it works collectively with industry groups and initiatives. As a signatory to ClimateAction100+, for instance, the Fund is represented at some of the most high-profile engagements with corporate greenhouse gas emitters. Last year we saw successes after engaging intensively with the banking sector on measures to limit the amount of financing the fossil fuel sector receives.

To ensure that we maintain our position as a market leader in responsible investment we are working with our investment manager, Brunel, on a review of their Climate Policy during 2022. This includes an assessment of the effectiveness of company engagement with a view to identifying those companies that we invest in that have not met our expectations and where selective divestment is an option. The Fund will report on the progress of this 'climate stocktake' in due course.

Details relating to our responsible investment policy as well as our approach to climate change can be found on our climate microsite [here](#). The Fund's net zero target is consistent with the framework set-out by the Institutional Investors Group on Climate Change, further details of which can be found [here](#). You may also find more information in our latest Responsible Investment Report [here](#).

Yours sincerely,

Cllr Shaun Stephenson-McGall

Chair of the Avon Pension Fund Investment Panel