

Avon Pension Fund

Local Government Pension Scheme

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23 March 2023

Dear Elaine,

May I thank you for the statement and questions submitted in person at the Avon Pension Fund Committee on 17 March 2023. I have addressed your questions below and expanded on some of the information I shared with you in my last [letter](#).

1. At what point you disengage due to lack of progress?

We do not have a specific timeframe for divestment. However our investments are governed by Brunel's¹ [Climate Policy](#) which stipulates 100% of assets in high impact sectors in developed equities should be either i) achieving net zero or ii) meeting criteria considered to be aligning² by 2030. **Companies with a mere verbal commitment to achieving net zero by 2050 without a credible delivery plan or companies with no commitment will not form part of the portfolio beyond 2030.**

The challenge we face is complex and requires us to work with like-minded investors influencing companies to accelerate net zero ambitions and better manage climate change risks. We leverage our collective voice via [Brunel](#) and its appointed fund managers to assess the adequacy of company responses to the climate emergency using empirical tools such as the [Transition Pathway Initiative](#), [ClimateAction100+ Net Zero Company Benchmark](#) and [SBTi](#), accepting that many companies with credible decarbonisation pathways may still exhibit high carbon intensity today. Avon Pension Fund will update its position statement (enclosed) on the exclusion of investments on ESG grounds as part of its revised climate targets later in 2023.

2. What evidence do you have to suggest that this strategy [engagement] is likely to work and what detailed plans you have in place to monitor progress?

We have seen material success from ongoing engagement with the banking sector. Barclays published its updated climate plan in 2022 and gave shareholders an opportunity to vote on the bank's climate strategy. The bank has since adopted 2030 targets to reduce financed emissions across high impact sectors and aligned remuneration of executive directors with climate commitments.

Similarly Brunel's engagement with HSBC has led to targets and policy commitments designed to limit access to capital for companies unable to evidence net zero transition plans. The implementation of public commitments increases transparency and enables shareholders to hold banks, such as HSBC, to account for their actions.

¹ Brunel Pension Partnership – through which Avon invests its assets

² Per the IIGCC Net Zero Investors Framework

However progress is not linear. External factors – such as the energy crisis – may create volatility in emissions. This is borne out by the case you cite in your letter of HSBC financing a temporary increase by RWE to use coal-fired power to shore up energy supply. It will take time for industries to implement technologies required to achieve net zero and we accept there will be years when financed emissions in some sectors temporarily rise. Brunel is continuing to engage positively with banks, and indeed high emitting sectors and companies more broadly, and notes material improvements in public commitments and policies.

3. How closely are you monitoring the risk of being left with stranded assets of fossil fuels that will have to remain in the ground?

The Fund holds c.£90m in fossil fuels overall, representing 1.4% of total assets. A large proportion of this capital is invested in companies and projects able to evidence credible decarbonisation pathways, hence limiting our exposure to stranded assets as such companies increasingly invest in climate resilient assets.

The Fund undertakes an independent annual review which seeks to identify companies that have both proven and probable fossil fuel reserves across the portfolio. Taking the reserves exposures, we can estimate future emissions that may result from these reserves being realised. Due to the nature of our investment strategy we would fully expect companies with legacy fossil fuel assets to be pivoting into new, sustainable revenue streams in order to generate the attractive risk-adjusted returns we seek for our members.

We enclose links below to the Brunel Climate Policy, along with a copy of the Fund's annual Responsible Investment Report, which contain further information on engagement efficacy and escalation and stranded asset risk.

Our climate objectives are kept under review and over the next year we will be assessing how we build on progress made to drive meaningful real-world impact whilst achieving the appropriate risk/return to meet our overriding objective to pay pensions. We will consult with a broad base of stakeholders throughout this process.

Thank you

Nathan Rollinson, Investments Manager, Avon Pension Fund
(On behalf of Cllr Paul Crossley, Chair of Avon Pension Fund Committee)

[Brunel Climate Policy](#)

[APF Annual Responsible Investment Report](#)

[APF: Exclusion of Investments on Environmental, Social and Governance Grounds](#)