# Avon Pension Fund

## Local Government Pension Scheme

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Dear Elaine,

May I thank you for the questions submitted to the meeting of the Avon Pension Fund Committee on 22 September. Please find a copy of the questions posed and the Fund's response below.

**Please provide more details of:**

1) **What you ask to see in those plans before you accept them – e.g. do they have to have completed 50% of the transition by date x and 75% by date y etc.**
2) **How you monitor progress**
3) **What evidence there is of any strong actions (such as divestment from specific funds) when companies fail to meet the targets – or don't have a robust enough plan – or don't provide evidence for adequate monitoring.**

There is a framework in place for our managers to use to assess the alignment of an asset and we also monitor their actions against this framework. We use a framework rather than set hard timelines for example, as companies across sectors will face differing challenges and 'one size fits all' does not always work when analysing companies, either from a financial or climate perspective.

The framework is based on scientific research and has the Institutional Investors Group on Climate Change (IIGCC) alignment framework at its core. It uses output from other industry leading tools such as Transition Pathway Initiative (TPI) and Climate Action 100+ to assess and monitor alignment. The framework enables companies to be monitored over time and for managers' to be challenged if progress is not being achieved at the company or asset level.

There are 6 stages to the framework:

1. Setting of alignment maturity definitions and climate parameters (currently based on the IIGCC NZ framework definitions and parameters).
2. Carbon metrics to determine high impact exposure and GHG emissions.
3. Assessing alignment of high emission companies using TPIs Management Quality and Carbon Performance tool, CA100+ NZ Corporate benchmark and SBTi NZ Standard and other data where available.
4. Assessment of the investment risk of controversial holdings (i.e. those not aligning or diluting their alignment).
5. The outcome is a climate -related financial risk assessment which will lead to escalated engagement or selective divestment, if the company is not meeting the alignment criteria.
6. Transparency of the framework is high as it is set out in TCFD statements.

A recent example of a manager divesting from a high carbon intensive company is Suncor. The manager initially assessed the company as 'committed to aligning' using the framework but, following recent comments from the board which implied they were moving away from alignment, Suncor was downgraded to unaligned which led to the stock being sold.

We have few carbon intensive or fossil fuel stocks within our portfolios due to the asset allocation decision to invest in Paris Aligned and sustainable equities. Therefore most of the high (carbon) impact stocks we own have been selected for investment because they are actively developing alignment plans, if not already implementing them. As a result we do not have many examples where a holding is needed to be sold; Suncor is a good example of the framework in action when an aligning company reverses course.

Thank you,

(Sent on behalf of Cllr Paul Crossley, Chair of Avon Pension Fund Committee)