Engagement session feedback summary

- Number of attendees: 172

- Audiences:
  - 4 sets of councillors: Bristol, B&NES, North Somerset, S Gloucestershire
  - Unions, APF staff
  - Employers
  - Pension Committee & Pension Board
  - Section 151 Officers

During October-November 2023 we gathered views on investments and net zero. We spoke with c.172 stakeholders in discussions led by APF officers covering climate challenges and trade-off choices. We also received c.5,000 responses from members to an APF survey.

Members expressed well-informed and passionate views, with a wide range of opinions, e.g. some members think climate change is the biggest issue we face, whereas others think pension Funds should solely prioritise financial returns.

Generally among key stakeholders and members, there is broad support for driving real-world impact and seeking greater ambition on climate change while not putting the Fund at risk. This tended to converge on a fresh net zero target of 2040-2045.

Measuring carbon emissions and fossil fuel investments

Stakeholders were very interested in carbon emissions and the Fund's pathway to net zero. They were especially keen to understand how carbon emissions are measured, the proportion of our investments are covered by carbon measurements, and which emissions are covered by our analysis (scope 1 & 2).

We confirmed that reported carbon emissions currently cover c.50% of the Fund's assets, which we are seeking to raise to 100% over the next few years as data quality improves. We also confirmed that we are on track (indeed exceeding) to achieving the Fund's current target of net zero by 2050.

Transition alignment

Stakeholders wanted to better understand how we assess companies' transition alignment. We confirmed that APF invests in companies which commit to net zero targets, evidenced by credible transition plans and milestones, with linkage to executive incentives, and underpinned by independent measurement.

In the context of real-world impact, we discussed trade-offs between investing in companies and sectors critical to net zero transition which may exhibit high carbon intensity today.

Stakeholders in general support investing in companies aligning towards net zero, even where they exhibit high carbon intensity today.

Local impact investments

There was keen interest, particularly among councillors, in our new £160 million allocation to local impact investments such as green energy and affordable housing.

Particular interest was shown in whether we could speak to local organisations such as Bristol City Leap, with whom we have subsequently had a meeting to discuss opportunities for investment in Bristol.

In addition to our upcoming investment in Wessex Gardens, we now have c.12 ideas for local investment which we will filter into a short list to be discussed with the Investment Panel in March 2024.

All stakeholders support the idea of making some local investments. And they generally agree that affordable housing and green infrastructure (e.g. solar / wind) across the South West could make attractive investments and achieve positive goals for wider society.

Greenwashing

Attendees expressed deep concern on greenwashing, i.e. bogus climate claims by commercial organisations. They wanted to understand how we avoid falling victim to greenwashing claims to ensure we drive honest and achievable real-world impact.

We explained the process our asset manager, Brunel, takes to mitigate greenwashing risk through due diligence of investment managers and explained the consistent application of best-in-class frameworks such as those adopted by the Institutional Investors Group on Climate Change. Disclosures and collaborative engagement were also discussed as factors used to mitigate the risk of greenwashing.

Stakeholders appear to seek more climate disclosure and simple examples which bring climate action to life.

Stewardship, engagement and divestment

The Fund has limited exposure to fossil fuels. Some attendees favoured divesting from high carbon emitters like Shell and preferred investing in companies which are already on their way to achieving net zero.

There was keen interest in how we engage companies on environmental issues. We explained that we invest through Brunel which selects 3rd party fund managers. Our voting & engagement activity is pooled with other asset owners and typically routed through the responsible investment consultant Hermes. And we work collectively with other responsible coalitions to influence companies to change their behaviour.

Stakeholders want to better understand whether we can influence big companies like Shell, or whether we would have more impact by divesting. We explained that divestment means no influence and that we can exert influence working with others such as the Local Authority Pension Fund Forum. We acknowledge disappointing recent decisions from energy companies on interim climate targets, partly driven by a shift of ownership away from responsible European pension funds towards North American investors. We discussed how we have responded using our voting rights as shareholders and worked with others to register shareholder resolutions at company AGMs.

Stakeholders wanted to know if our influencing strategy was succeeding. We explained that linking the Fund's engagement work with decisions made by individual companies is not feasible. Our voting and engagement provider, Hermes, has set sector specific engagement milestones designed to assess progress over time.

Stakeholders acknowledged that the 'Engagement vs Divestment' issue is complex and nuanced. They generally agreed that APF needs to do both as joint tools to constructively exert influence and encourage companies to accelerate their net zero path.

Risk vs return and employer contributions

Stakeholders wanted to understand whether we could compare current investment returns vs returns if we invest in companies already aligned to net zero. We explained that expected returns would be similar but that risk (dispersion of potential outcomes) would increase as we would invest in a narrower range of companies.

We also emphasised that, by investing in companies already projected to achieve net zero by 2030 would limit the Fund's ability to effect real world change.

Generally attendees, particularly in the local authority, gave strong consideration to the importance of maintaining stable employer contributions.

Responsible investments and good financial returns

Stakeholders wanted to understand how responsible investments perform. We explained that it is still early days and that we expect such investments to perform well in the long-term.

More specifically people wanted to know if investors sacrifice financial gains for an ethical approach and whether fees for ethical investing may be higher. We explained that we have a fiduciary duty to deliver financial returns and will not make decisions which compromise the Fund's aggregate risk/return profile. Furthermore we increasingly see alignment between climate investments and attractive financial returns.

Communication

The challenge was posed re. how APF and councillors can better communicate with local people, members, and others about our approach to responsible investment, especially when we invest in today's high emitters who will transition towards net zero. This subtlety is difficult to explain.

Having agreed the technical climate decisions in 2023, we agreed that in 2024 we need to focus on communication and explaining climate at a simpler level. Councillors especially want to hear more about the Fund's local investments and to communicate these clear in the press, especially when APF makes new renewable investments.

Target 1
Divest by 2030 from high impact companies not aligning or achieving net zero 2050

There is support for divesting from non-aligning companies by 2030.

- At the lunch and learn for B&NES staff, 76% agreed to this target.
- The Local Pension Board is in support.
- Unions broadly supported investing in companies aligning towards net zero, but felt the companies may need to be looked at on a case by case basis to see how well they're aligning. Some people thought we should divest from such companies before 2030.
- Others felt they needed to better understand the financial implications of divesting by particular dates before forming a view.

Target 2: Net zero – target years 2030, 2040, 2045, 2050

Stakeholders proposed a range of target dates, though there appeared to be little appetite for net zero 2030, given the material increase in risk, and by extension, the impact on employer contributions this could create.

There is support for bringing forward the Fund's net zero target, with more ambitious intermediate milestones, albeit within an acceptable level of risk, with a keen appetite to better understand the risks.

- Councillors generally understand that focusing on net zero 2030 companies would add significant risk to the investment portfolio. Some councillors thought we should aim for sooner, e.g. net zero 2030, whereas others thought they need to fully understand the risk of setting more ambitious targets before voicing an opinion.
- Among APF staff, the support was approximately: 2050 target-8%; 2045 target-67%; 2040 target-25%; 2030 target-0%.
- At the Local Pension Board, the general consensus was that they would welcome bringing forward the date, but they were keen to prudently manage investment risk - so 2045 seemed a good option. There was some thought to the potential for a 2040 target, but an acknowledgement this would bring risks which we may struggle to manage. General opinion net zero 2030 is too risky and net zero 2050 is insufficiently ambitious.
- Among unions, they felt there was a balance between protecting the Fund and reaching net zero, advising we should 'proceed boldly with caution'. There appeared to be broad support for bringing forward the Fund's net zero target.