Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**5 September 2024**
TITLE:	**Net Zero Monitoring Update**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Mercer Report: Net Zero Progress update**	

1. THE ISSUE

1.1. To support its strategic investment objective the Fund has set climate targets that require regular monitoring so we can evaluate progress and to develop our climate policy as improved data emerges and new investment solutions are developed.

1.2. The Fund monitors its progress against its net zero targets annually. Mercers have analysed the data across the portfolios (see Appendix 1).

1.3. The Fund continues to make good progress against its climate targets, with both listed equity and bond portfolios materially ahead of the decarbonisation pathway required to achieve net zero by 2045. On a forward-looking basis progress is likely to rely more heavily on underlying company decarbonisation rather than asset allocation decisions, which have driven efficiencies to date. Therefore, decarbonisation is expected to be more challenging and slower to 2030, highlighting the importance of active engagement with companies. There has been material progress with respect to investment in climate solutions, which feature across both listed and private markets portfolios. This is an area expected to grow as the Fund explores making an allocation to natural capital. More progress on disclosures across the private market portfolios is needed before we can set and monitor net zero targets.

1.4. This analysis will be included in the Fund's Responsible Investing report for 2023/24.

2. RECOMMENDATION

The Avon Pension Fund Investment Panel:

2.1. **Notes the Net Zero analysis and progress report.**

3. FINANCIAL IMPLICATIONS

2.2. The budget includes a provision for annual climate analysis to support strategic policy.

4. OUTCOMES OF 2023 ANALYSIS FOR CLIMATE TRANSITION (ACT)

4.1. To monitor progress against our climate targets Mercer have done an analysis across the portfolios where there is sufficient data to provide a meaningful outcome. This analysis is done annually so that we have evidence of progress due to both strategic decisions by the Fund and portfolio level decisions (made by managers).

4.2. Mercer's analysis covers all the listed, liquid portfolios. There is still an insufficient level of disclosure to adequately analyse the private market portfolios and draw meaningful conclusions to support strategic decision making. However, the level of disclosure is improving year on year and Brunel, through its managers, is expecting to start disclosing from 2025. The IIGCC has produced guidance for setting NZ targets in Real Estate, Infrastructure and Private Equity which will help drive higher levels of disclosure by the underlying managers. This year the analysis covered 62% of the Fund's assets.

4.3. Brunel also undertake an analysis of carbon disclosure rates at individual portfolio level, which this year revealed an improved level of emissions reporting among companies and a lower reliance on modelled emissions data. Disclosure metrics for listed assets are likely to vary year-on-year as the market moves toward a standardised methodology of emissions reporting.

4.4. The Fund has four decarbonisation and transition alignment targets that support the ambition to achieve Net Zero by 2045. Progress against each is summarised as follows:

	Target	Progress
1	Listed equities - target 43% emissions reduction by 2025 and 69% by 2030 (versus 2020 baseline)	**Ahead of** 2025 target with 60% reduction, need another 22% reduction from here to reach 2030 target. Progress will rely more heavily on underlying company decarbonisation than asset allocation.
2	Corporate Bonds -target 60% emissions reduction by 2030 (versus 2020 baseline)	**Ahead of target** pathway as achieved 47% reduction so far. Require a further 24% in carbon footprint to reach 2030 target reduction.
3	Ensure 70% of financed emissions in material sectors are subject to engagement and stewardship actions for all listed equities by end 2024 and 90% by June 2027	**On track** - 87% of material sectors' financed emissions are aligned or subject to active engagement.
4	By 2030 we will divest from developed equity holdings in high impact sectors that are not	No action taken to date 88% of financed emissions within the

	achieving NZ or not aligning to achieve NZ by 2050	listed equity portfolio are aligned[1] or subject to active engagement (up from 76% last year). Companies not aligned will be captured under the Fund's 2030 divestment commitment. Brunel have adopted more robust policies on divestment and alignment including a more stringent framework for defining climate controversial companies that will be reviewed annually. In addition there are some activity-based exclusions across specific parts of the defence, energy and tobacco sectors. These exclusions were supported by the Committee at its March-24 meeting.

4.5. Transition alignment of the underlying assets is also measured by Mercer shows the exposure to assets that are 'well aligned', those that have 'transition capacity' (not aligned as yet but can align) and those that are 'not well aligned' (and probably will find it difficult to align). The Fund has a low exposure to the 'not well aligned' category and a high allocation to the well aligned (particularly across the equity portfolios). The focus of engagement to achieve real world impact must be on our exposure to the most carbon intensive transition capacity assets.

4.6. The Fund does not have a specific target for 'Climate Solutions'. Such assets are contained within several portfolios e.g. the Paris Aligned Equity portfolio, the Infrastructure and Secured Income portfolios both invest in renewable infrastructure assets and the local impact portfolio includes renewable infrastructure as well as affordable housing which has a strong NZ focus.

4.7. The annual Responsible Investing (RI) Report will include some of this analysis to demonstrate the progress the Fund is making towards achieving Net Zero By 2045. This RI Report will be presented at the Committee meeting later in September.

4.8. Officers work closely with Brunel as the Fund's policy is implemented through the Brunel portfolios. Our climate targets are consistent with those set by Brunel and the focus of their engagement activities is on the transition alignment which will help the Fund achieve its 2030 interim targets.

5. RISK MANAGEMENT

5.1. An effective governance structure, defining clear responsibilities, and ensuring that the decision-making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

6. EQUALITIES

[1] Companies have been deemed to demonstrate evidence of alignment if they have approved SBTi targets or categorized as aligned by the Transition Pathway Initiative.

6.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

7. CLIMATE CHANGE

7.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8. OTHER OPTIONS CONSIDERED

8.1. None

9. CONSULTATION

9.1. The Head of Pensions has had the opportunity to input to this report and has cleared it for publication.

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Background papers	Mercer and Brunel analysis and reports
Please contact the report author if you need to access this report in an alternative format	