

HAMPSHIRE COUNTY COUNCIL

Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	1 March 2024
Title:	Taskforce for Climate Related Financial Disclosure Report
Report From:	<i>Deputy Chief Executive and Director of Corporate Operations</i>

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Purpose of this Report

1. The purpose of this report is to present the Pension Fund's fourth annual Taskforce for Climate Related Financial Disclosure (TCFD) report.

Recommendations

2. That the Pension Fund's annual TCFD report is noted.

Executive Summary

3. The international Taskforce on Climate-related Financial Disclosures (TCFD) published a set of recommendations in 2017 with the aims of improving assessment, management, and disclosure of climate-related financial risks. Hampshire has published three previous annual reports for the Pension Fund based on the TCFD recommendations, which have been reported to the Responsible Investment (RI) sub-committee.
4. In September 2022 the Department for Levelling-up, Housing and Communities (DLUHC) published a consultation – *Governance and reporting of Climate Change risks*, which proposed to make reporting based on the TCFD requirements mandatory for LGPS funds starting for 2023/24 reporting. This followed a similar move for private sector pension funds by the Department for Work and Pensions which made TCFD reporting a requirement for the largest private sector pension funds starting in 2022. Unfortunately DLUHC has not yet responded to the 2022 consultation, and it is understood this is not one of their current priorities. Nonetheless Hampshire continues with its adoption of TCFD reporting and has chosen to follow the proposals contained in DLUHC's 2022 proposals, which should make it well

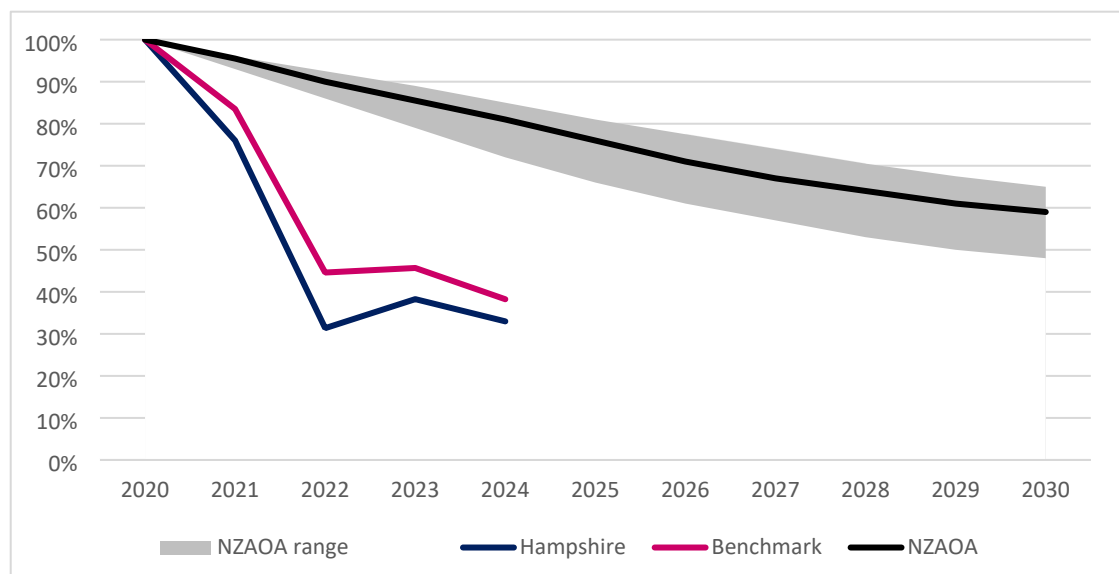
placed when the requirement for TCFD reporting comes to the LGPS as expected.

Hampshire's TCFD report

5. Hampshire's TCFD report is attached to this report as Annex 1. The report continues to be structured under the four headings of *Governance, Strategy, Risk management, and Metrics and targets*. For this reason, much of the report does not change from year-to-year aside from the carbon metrics contained in the report, which are likely to be of most interest to readers.
6. The Pension Fund's key carbon metrics continue to show a positive picture, with the Fund's carbon footprint from equities (for which the Fund has the longest track record for, from 2020) below both a net-zero trajectory and the equities benchmark. The Fund's carbon emissions remain in a positive position based on a number of decisions made by the Panel and Board that have lowered the carbon footprint of the Fund's investments, such as agreeing to change portfolio strategies to target lower carbon investments. The latest of these decisions in 2023, was the Panel and Board agreeing to move the fund's investments in emerging market equities from a passive to an active portfolio.

Figure 1: Decarbonisation – Hampshire equities (Scope 1&2) Net-Zero Asset Owner Alliance (NZAOA) decarbonisation guidelines (indicative)

(% reduction vs. Baseline)



7. Following the 2022 TCFD consultation the Pension Fund has measured the percentage of invested companies that have set 'Paris-aligned' carbon reduction targets. For the Fund's equity portfolios (where predominantly this

data is available) 56% of invested companies have 'Paris-aligned' targets, and this remains an area of priority for the Fund's engagement with its investment managers, to encourage the companies that the Fund invests in to align with the Fund's commitment to the transition to a low carbon economy.

Data Risk

8. The reporting of carbon data is still relatively new and with that there remain issues with both the scope and quality of data. Emissions data for illiquid investments remain largely absent. There is still no Scope 1 and 2 data for Private Equity and Infrastructure investments, and it can only be estimated for Private Debt. Whilst the level of Scope 3 data for listed equity is improving, there still remain greater instances of this information having to be estimated. Whilst the Pension Fund's officers can sense check the data that is provided by investment managers and can cross-check between portfolios, there remains a significant reliance on the Fund's investment managers for the accuracy of the data the Pension Fund is reporting.

Next Steps

9. By engaging with the requirement for TCFD reporting the Pension Fund has put itself in the best place to both comply with regulations for the LGPS whenever they may be enacted and to have the best possible information for the Fund's decision making on Responsible Investment (RI). Through the Pension Fund's progress on managing RI and carbon data over recent years, it has commissioned a number of pieces of external advice to provide analysis of RI risks, evaluation of its investment managers' RI capabilities and to collate carbon emissions data. The Pension Fund's Business Plan includes the action to take further advice in 2024/25. Officers will take this forward this summer to address how best to utilise external expertise to further develop the Fund's work on RI, particularly in emerging areas such as climate change scenario analysis and implied temperature rise measures for investments.

Climate Change Impact Assessments

10. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
11. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower

carbon economy, therefore the Pension Fund recognises the risk that ESG factors, including the impact of climate change, can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy [Responsible Investment | Hampshire County Council \(hants.gov.uk\)](https://www.hants.gov.uk/responsible-investment).

12. This reports specific concerns the impact of climate change on the Pension Fund and measuring the actions the Fund has taken in response.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a report because of the ongoing management of the Hampshire Pension Fund.	

Other Significant Links

Links to previous Member decisions:	
<u>Title</u> none	<u>Date</u>
Direct links to specific legislation or Government Directives	
<u>Title</u> Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks - GOV.UK (www.gov.uk)	<u>Date</u> 01/09/2022

Section 100 D - Local Government Act 1972 - background documents	
<p>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</p>	
<u>Document</u>	<u>Location</u>
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.