Dear Ms Creagh MP,

Green Finance Inquiry – Request for Information

Thank you for your letter of the 28 February 2018 and your interest in the responsible investment work of the Greater Manchester Pension Fund and, in particular, our approach to climate change.

We recognise that climate change poses a key financially material environmental risk, and the Fund is committed to working towards a 2 degree warming scenario and was a signatory to the Paris Pledge for action. The Fund is a signatory to the recommendations of the FSB Task Force on TCFD (https://www.accountingforsustainability.org/en/activities/tcfd.html), which recommends a framework for disclosing climate related risks and opportunities, going beyond current practices.

We wholly support the Bank of England Governor Mark Carney’s statement that ‘Financial decarbonisation of our economy is a major opportunity for long-term investors’. If pension funds are genuine long term investors, then they may be well placed to benefit.’

We also recognise that financial decarbonisation of our economy is a complex and challenging issue for all long term investors. However, the Fund’s long-term goal is for 100% of assets to be compatible with the net zero emissions ambition by 2050 in line with the Paris Agreement. The Fund acknowledges that it is transitioning and that this needs to be an orderly process to avoid stranded costs and ensure that we continue to deliver affordable and sustainable pensions for employers and taxpayers alike.

This letter is set in the context that the Greater Manchester Pension Fund has had an excellent long term investment track record, over the last 30 years, the value of its returns has been over £3.4 billion more than would have been the case if it had achieved the average LGPS fund return and has been the number 1 Fund over the last 30 years.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a collaborative shareholder engagement group which brings together over 70 local authority pension funds from across the UK with combined assets of over £200 billion.

LAPFF is the Country’s leading Shareholder Engagement Forum and our primary aim is to use our collective voice to challenge and engage with companies on climate change.

The Fund is an active participant in the work of the LAPFF and the Institutional Investors Group on Climate Change, both of which have highly informative websites describing their influential work in this area. We have drawn upon the work of LAPFF in response to a number your questions.
In relation to your specific questions, we set out our responses below:

1. **Do the trustees accept the TCFD conclusion that pension funds are potentially exposed to financial risks through climate change?**

   Yes, the Fund does accept this conclusion and supports its aim of greater reporting of these risks.

2. **Which climate-related financial risks are you most concerned about?**

   The Fund believes that each of the following categories of risks, as outlined by the TCFD, poses a material financial risk to the Fund, and are thus each a cause for concern:
   - Market and Technology Shifts (e.g., reduced market demand for higher carbon products)
   - Reputation (e.g., growing expectations for responsible conduct from stakeholders)
   - Policy and Legal (e.g., increased input/operating costs for high carbon activities)
   - Physical Risks (e.g., chronic changes and more frequent and severe extremes of climate)

3. **Has your pension scheme formally considered climate change risk at Board (or Investment Committee) level?**

   Yes. It is a regular item. The Board and Management of the Fund believe that, over the expected lifetime of the Pension Fund, climate-related risks and opportunities will be financially material to the performance of the investment portfolio. As such, we will consider climate change issues across the Fund and specifically in areas such as Strategic Asset Allocation, Investment Strategy, Investment Manager Selection and Risk Management with the aim of minimising adverse financial impacts and maximising the opportunities for long-term economic returns on our assets.

   A dedicated, specialist sub-committee of the Management Panel oversees the Fund’s approach to environmental, social and governance issues (ESG), which includes the monitoring of the engagement activity of the external managers. In 2015, the sub-committee held a seminar specifically on climate risk, and a summary is available on the Fund’s website: [https://www.gmpf.org.uk/investments/climaterisk.htm](https://www.gmpf.org.uk/investments/climaterisk.htm).

   The Fund is committed to transparency. In October 2017, the Fund held what is believed to be the first LGPS stakeholder engagement and stewardship event with support from the Pensions & Investment Research Consultants Ltd (PIRC). A report summarising the day is available at the following link [https://www.gmpf.org.uk/documents/shaping.pdf](https://www.gmpf.org.uk/documents/shaping.pdf).

   The event, which was attended by the Management Panel and open to all stakeholders, provided an opportunity to learn about the Fund’s current approach to Responsible Investment and to have an input into shaping the evolution of the future approach.

   Almost 80% of survey respondents agreed with the Fund’s general approach to engage with companies rather than divest from them. There was overwhelming support to the approach that the Fund is taking which will enable it to continue to be the most successful local Government Fund over the last 30 years.

   The table below particularises the response in favour of the Fund’s approach:

<table>
<thead>
<tr>
<th>To what extent do you agree with the Fund’s:</th>
<th>% in support</th>
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<tbody>
<tr>
<td>policy statements represent a positive approach to ESG issues?</td>
<td>83%</td>
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<tr>
<td>approach to its voting policy?</td>
<td>86%</td>
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<td>collaborative approach to engagement?</td>
<td>90%</td>
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<td>general approach to engage with companies rather than disinvest from them?</td>
<td>76%</td>
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<tr>
<td>approach to measuring climate change risk?</td>
<td>85%</td>
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<td>approach to managing climate risk?</td>
<td>85%</td>
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<tr>
<td>To what extent do you agree with the Fund's:</td>
<td>% in support</td>
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<td>---------------------------------------------</td>
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<tr>
<td>✓ approach to holding the Fund Managers to account for their implementation of the Fund’s ESG policies?</td>
<td>86%</td>
</tr>
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<td>✓ approach to being transparent on its ESG policies?</td>
<td>91%</td>
</tr>
<tr>
<td>✓ broad approach to investing locally with the twin aims of making a positive ESG impact and achieving a commercial rate of return?</td>
<td>92%</td>
</tr>
<tr>
<td>✓ approach to direct UK infrastructure investing?</td>
<td>93%</td>
</tr>
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<td>✓ ambition to develop housing in the local area?</td>
<td>90%</td>
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In line with the Task-Force's recommendations that organisations should report within mainstream finance reporting, last Friday, 23 March 2018, the Fund’s Management Panel considered and adopted updated summaries of its policy on climate change within its Investment Strategy Statement and Core Beliefs Statement: (http://tameside.moderngov.co.uk/ieListDocuments.aspx?CId=136&MId=1447&Ver=4).

4. If you have considered climate change related risks, what actions have you taken in response to these risks? We are interested, for example, in the development of specific investment strategies on this issue, whether you have taken formal advice, any changes in your investment strategy made or planned, and the exercise of your ownership responsibilities on this issue (either directly, or through your investment managers).

The Fund has taken numerous actions in relation to climate change.

**Climate-Related Investment Opportunities**

Whilst the Fund has historically had a relatively high exposure to fossil fuel companies by virtue of being the biggest LGPS Fund in the UK, it is also at the forefront of actions to finance an orderly transition to a low carbon economy. It is vital that as a society, we invest in new renewable energy capacity, to replace our historic reliance on fossil fuels.

As long term investors, we are clear that pension funds can play a crucial role in this.

Climate-related investment opportunities are available in areas such as energy efficiency, choice of energy sources, products and services and new markets. We consider that currently there are relatively limited climate related investment opportunities in the public markets with more opportunities existing in the private markets across private equity, private debt, infrastructure and real assets. This has asset allocation implications due to the illiquidity and complexity of some of these asset classes.

Property is a significant asset class allocation and we are aware that buildings are responsible for over one-third of total green-house gas emissions in the UK. For directly-held properties, we will look to work with our property management teams on focus areas such as energy management and owner-occupier relations to reduce these emissions, and we will expect indirectly held property managers to do likewise.

Within the last two years, the Fund has increased its strategic allocation to infrastructure to 10%, unlocking over £2 billion of assets for this purpose. A key strategy within this allocation is investments in low carbon and renewable energy opportunities.

In April 2015, the Fund and the London Pensions Fund Authority formed a joint venture to invest directly in infrastructure assets, offering excellent value for money with a focus on the UK. West Yorkshire, Merseyside and Lancashire County Council pension funds joined in December 2016, increasing commitments to GLIL of £1.3 billion. GLIL began investing in October 2015 and has completed three transactions with a total value of more than £250 million as at 31 March 2017 and two particular key renewable energy investments include:
- Clyde Wind Farm - £150m commitment - GLIL's largest transaction was the purchase from Scottish and Southern Energy of a 21.7% stake in Clyde wind farm. Clyde is one of the largest wind farms in Europe, with 154 operational turbines capable of generating 350 megawatts. GLIL has exercised its option for a follow on investment in this asset to construct a further 54, more powerful turbines on the site.

- East Anglia rail franchise - The financing of new rolling stock of 378 new vehicles to replace old rolling stock, creating faster, more frequent and less polluting journeys.

- Leeming Biogas Limited – £60m commitment in one of the largest anaerobic digesters in the country - converting up to 80,000 tonnes of food waste a year into bio methane which will be injected direct into Northern Gas Network's pipeline and provides enough energy to power more than 2,500 homes.

Another innovative approach adopted by the Fund is an allocation of up to £210 million into an Impact Portfolio. This portfolio has the twin aims of generating a commercial return and delivering a positive local impact. Examples of investments made in renewable energy include:

- Albion Community Power - £20m commitment to a power generation company seeking to develop community-scale renewable energy projects. It is one of the largest single sources of equity funding available for projects in the sector.

- Iona North West Investments - £40m commitment into new and existing environmental infrastructure projects in the North West, which will create hundreds of jobs from clean energy funding in the coming years.

Our Infrastructure Funds portfolio has a number of funds that have invested in renewable energy production in the UK, the US and in parts of Europe. The following are the main examples:

- Arclight Energy Partners VI - $45m commitment in US wind and hydroelectric assets.

- I Squared Infrastructure - $50m commitment in US hydroelectric power assets, various wind and solar assets in the US, solar assets in Spain.

There are also two specialist renewable energy funds within the portfolio:

- Impax New Energy Investors II - €11m commitment - portfolio of mainly European wind assets but also solar PV assets.

- Capital Dynamics Clean Energy Infrastructure - $32m commitment - portfolio of wind assets in the US and the UK.

Company Engagement and Collaboration

We believe collaboration with other investors helps influence and improve market best practice standards as well as strengthening the voice of asset owners and their pension beneficiaries. Consequently, through our own activities and by our membership of the LAPFF and other organisations, we aim to support 1.5 to 2 degree business model scenarios and participate in:

- engagement with companies to improve their approaches to climate change as well as encourage them to report on their actions for future business model scenarios;

- influencing policy makers; and

- promotion of relevant research projects in areas, such as developing standardised carbon intensity measures, and investment initiatives that improve information flow and investment opportunities.
Where shares are held directly by the Fund, we identify, with guidance from our specialist advisors, companies in our portfolios that are at the greatest financial risk from the transition to a low-carbon economy. We use our shareholder rights to engage directly, collaboratively (including with LAPFF) and through our specialist advisors, with companies exposed to the greatest risks, to encourage them to adapt their business models to ones that are better aligned to a low carbon economy. We further encourage companies to take account of the TCFD recommendations. Company responsiveness to engagement is taken into account in voting activity and the Fund will co-file and support relevant shareholder resolutions where appropriate. Where possible, we extend this engagement to investee companies across all asset classes.

LAPFF has seen the power of assets owners voting and engagement through its members using their share power co-filing and support strategic resilience resolutions. LAPFF strongly supports mandatory carbon emission reporting in the context of how companies are factoring the relevance of climate change into their business strategy. In particular, the Forum supports the ‘Aiming for A’ investor coalition which co-filed shareholder resolutions at the BP and Shell 2015 AGMs on behalf of 50 global investor organisations as well as individual shareholders. The resolutions asked BP and Shell to report effectively on climate related risk in their routine annual reporting. The resolutions received 98% and 99% shareholder support respectively. LAPFF’s policy is that robust engagement on a collective basis is preferable to placing restrictions on particular types of investment. Last year alone saw an unprecedented number of investors support climate related resolutions with companies such as Chevron, Exxon and PPL. Boards that have previously been intransigent on addressing the strategic business implications of climate change have had to devote attention and resources to it as a result of shareholder pressure, which would not be the case with non-ethical asset owners.

Additionally, we are a signatory to The Climate 100+ which aims for investors to primarily engage with companies in their ‘home’ markets. Outcomes are demonstrable and can be endorsed. For example, Carbon Tracker has identified that 90% of Petrobras’ reserves will be required in a 2 degree scenario because they are low cost reserves relative to the reserves of the rest of the market. If companies are able to conclusively demonstrate that their business is consistent with the below 2 degree scenario, they may be de-listed from the Climate Action 100+ initiative.

Recent significant developments to our approach include:

- Supporting the Transition Pathway Initiative (TPI), which aims to evaluate what the transition to a low carbon economy looks like for companies in high-impact sectors starting with oil and gas, mining, electricity generation, cement, iron and steel and autos. This enables asset owners and other stakeholders to make informed judgements about how companies with the biggest impact on climate change are adapting their business models to prepare for the transition to a low carbon economy.

- Partnering with the 50/50 Climate Project, which will provide research on company risks and opportunities, analysis of corporate-board climate competencies, and involvement in campaigns to refresh boardrooms as well as supporting the development of a pipeline of credible ‘climate-literate’ director candidates.

- We are also collaborating with ShareAction on a European-wide project led by the World Wide Fund for Nature (WWF) that aims to foster the alignment of investment portfolios with a below 2°C scenario. In February 2017, WWF started engaging with the 100 largest European asset owners offering each participant the opportunity assess the alignment of their public equity holdings to the 2°C climate scenario from the International Energy Agency (IEA). They are using a methodology currently being developed and tested by the Sustainable Energy Investment (SEI) metrics research consortium, led by 2 Degrees Investing Initiative and of which WWF is a member. The SEI methodology is rapidly gaining mainstream recognition, for example:

  - AXA used the SEI methodology in the report which won them “Best Investor Climate-Related Disclosures” in the contest organized by the French Minister of the


We believe this project will be a valuable source of information for the Fund, especially in light of the current TCFD recommendations on scenario analysis.

**Risk Management**

Climate risk will be measured and managed by integrating climate change into our risk management processes. We, or our managers on our behalf, will also consider the following:

- include climate related financial risk on our risk register;
- monitor the scheme’s carbon intensity;
- monitor policy dialogues for early indicators of change; and
- increase internal awareness of publicly available climate change scenarios and other risk analysis tools.

This will include seeking to reduce climate-related risks by improving the resilience of our investments where possible as well as identifying investments where appropriate in suitable low-carbon assets to rebalance the investment portfolio away from carbon intensive assets.

**Metrics and Goals**

The Fund has undertaken a number of carbon footprinting exercises through specialist providers and Investment Managers. These will help the Fund, on both backwards and forwards looking bases, measure its progress towards having 100% of assets to be compatible with the net zero emissions ambition by c2050 in line with the Paris Agreement.

Trucost have analysed the Fund’s active equity holdings against the respective benchmarks and found that the portfolios are more carbon efficient, indicating relatively lower carbon risk.

Trucost also found relatively higher risk due to stranded asset exposure than the benchmark at an aggregate level. The Fund’s utility companies’ energy mix is positioned better than the benchmark when it is compared to a 2 degree World scenario. The companies we invest in already produce more power through renewables than they do from coal and oil.

The Fund has committed to reduce its footprint by changing the composition of its passive (index-tracking) public equities portfolio in such a way that significantly reduces emissions and reserves intensity from the current level. The details of how this will be implemented are in the process of being worked through, but will likely involve a process of risk-based screening of particular stocks from the passive portfolio (either by a reduction or a removal of their presence in the portfolio) over the next two years.

We believe that this exercise could be described as a ‘partial divestment’ using FF: UK’s definition of that term, although the Fund considers this to be primarily a risk-based approach in line with our long-term strategic goals.
5. Are you planning to adopt the TCFD recommendations in your scheme's reporting? If so, please indicate your planned timing.

We welcome the recommendations of the Financial Stability Board’s Taskforce on Climate-related Financial Disclosures to which we were a signatory and commit to including a TCFD statement in our financial reporting from 2018 as part of our on-going climate risk assessment and disclosure.

6. How would you suggest the Government and regulators implement the recommendations on climate-risk reporting? Is a voluntary approach sufficient to ensure widespread adoption?

We would like to draw the Committee’s attention to LAPFF’s response to Recommendations of the Task Force on Climate-Related Financial Disclosures (http://www.lapfforum.org/wp-content/Publications/consultations/files/LAPFF_FSBTCFD_Feb_2017_final.pdf).

The following extract is particularly relevant in relation to company disclosure:

“LAPFF promotes reporting on climate risk to be made mandatory. In the UK, the mechanism for this is already in place under The Companies Act requirements for companies to report financially material risks in the annual report. We are supportive of the statements in the report that the Task Force believe climate-related risk is a financially material risk and this further reinforces the requirement for climate risk reporting under the materiality clause. Indeed, reporting of social and environmental risks are a key focus of directors’ duties under Section 172 of the Companies Act which determines disclosure in the strategic report. Guidance could go beyond promoting disclosure of a scenario that reflected a two-degree future to recommending that companies should be positioning themselves for the required low carbon future by disclosing a transition plan.”

7. Would guidance from Government or regulators on climate-risk reporting be helpful for pension funds?

Drawing further on the above LAPFF consultation document, we would highlight the following extracts, which suggest that guidance should initially be flexible, with a view to standardisation in time:

“The Task Force's recommendations also include the requirement for Asset Owners to report and this has already begun with some investors (including one LAPFF member) reporting on some GHG emissions data relating to equity and debt investments. In the Supplemental Guidance for Asset Owners, the proposed normalisation factor is strategy/fund investment value (in USD or equivalent) which will lead to annual changes in GHG footprint driven by market valuations rather than companies underlying strategy. There are some concerns over all normalisation factors and we request the Task Force remain flexible on the methods that Asset Owners can use to report until a suitable and generally acceptable standard is found.”

“We encourage the Task Force to engage actively with all financial regulators to agree a joint implementation plan across regulation updates, messaging and guidance.”
8. **Have you discussed climate change with your actuarial advisers, having regard to the Risk Alert that the Institute and Faculty of Actuaries (IFoA) issued to its members last year?**

Our most recent triennial actuarial valuation was as at 31 March 2016, and did not explicitly include a consideration of climate change risks. Notwithstanding this, implicit in the actuary’s assumptions were a range of modelled investment return scenarios, which would be impacted to varying degrees by climate change risk. In light of the Risk Alert that the Institute and Faculty of Actuaries recently issued, our actuarial advisers have confirmed that climate change will explicitly be considered in the Fund’s forthcoming triennial valuation.

Our actuaries, Hymans Robertson, attend and take part in our Management Panels and one of the Advisors to the Fund who comment on all our Policies and attends our Management Panel is Ronnie Bowie, a Partner at Hymans Robertson who is a Scheme Actuary and Investment Adviser to a number of large private and public sector schemes and has built a reputation as a respected expert.

9. **Please share with us any other information you think may be relevant as we develop our understanding of the approach UK pension funds are taking to climate change and, more generally, green finance.**

The above responses comprehensively cover our approach, and we are more than happy to discuss or work further with you.

I hope you find the above a useful contribution to your inquiry and we look forward to implementing the recommendations of the TCFD.

Yours sincerely,

Executive Leader &
Chair of the Greater Manchester Pension Fund