Dorset Council

DORSET COUNCIL - PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON THURSDAY 10 SEPTEMBER 2020

Present: Cllrs Andy Canning, Peter Wharf, John Beesley, David Brown, Ray Bryan, Howard Legg, Felicity Rice, Mark Roberts and Adrian Felgate

Also present:, Alan Saunders, Independent Adviser, and Laura Chappell and James Russell-Stracey, Brunel Pension Partnership.

Officers present (for all or part of the meeting):

Aidan Dunn (Executive Director - Corporate Development S151), Karen Gibson (Service Manager for Pensions), Jim McManus (Corporate Director - Finance and Commercial) and David Wilkes (Service Manager for Treasury and Investments)

https://www.youtube.com/watch?v=vM1O8HKYbXs&feature=youtu.be

56. **Apologies**

No apologies for absence were received at the meeting.

57. **Declarations of Interest**

No declarations of disclosable pecuniary interests were made at the meeting.

58. **Terms of Reference**

The Committee's Terms of Reference was received, noted and understood.

59. **Minutes**

The minutes of the meeting held on 12 March 2020 were confirmed by the Chairman.

60. **Questions from Members**

Cllr Jon Orrell submitted two questions to the Committee and the following responses were given:

Question 1: Is the council exposed to losses from investments in the commercial property sector that is predicted to experience turbulence, as loans face default in the hostile environment of lockdowns, and the shift to online sales?

Response: In order to diversify sources of investment return and risk, the pension fund has investments across a variety of different asset classes including commercial property which in turn has a wide diversification both geographically and across sectors. This strategy of diversification means that exposures to losses in any one asset class or sector are reduced but not eliminated. The shift towards online sales was already in progress before the pandemic and consequently the pension fund has less exposure to property in the retail sector than in the benchmark or industry average.

Question 2: Is the council putting future pension provision at risk by continuing fossil fuel investments given that if the country adheres to mandatory carbon reduction targets, thus leaving oil in the ground, these will become stranded assets?

Response: The pension fund's Investment Strategy Statement requires its investment managers to consider and manage financially material risks arising from environmental, social, and corporate governance issues such as those risks you identify. In addition, a review of the investment strategy will be considered later on the agenda of this meeting including how the pension fund can help the transition towards a low carbon future.

61. **Public Participation**

The public questions together with the responses from the Chairman of the Pension Fund Committee are set out in the Appendix to the minutes.

The following statement was read by officers on behalf of the Chairman:

"We have received a number of questions from members of the public relating to the pension fund's investments in fossil fuels. The review of the investment strategy to be considered later on the agenda of this meeting will address these matters and therefore we do not intend to respond to each question in turn now. However, a full record of all questions and responses will be published as part of the minutes of this meeting."

62. **Urgent items**

There were no urgent items to consider at the meeting.

63. **Review of Investment Strategy**

The Committee considered a report from officers that reviewed and proposed changes to the pension fund's investment strategy.

The LGPS is a 'defined benefit' scheme so benefits are calculated based on age, length of membership and salary, not investment performance. Benefits are funded from contributions from scheme members and their employers, and from the returns from investing these contributions before they are needed to pay pensions. Contribution levels are set nationally for scheme

members and locally for scheme employers, so effectively the risk of investment underperformance is borne by scheme employers.

Every three years the actuary sets contribution rates for employers based on assumptions about the pension fund's assets and liabilities and expected investment returns. Following the results of the latest triennial actuarial valuation, investment consultants, Mercer, were engaged to review the current investment strategy and strategic asset allocation

Mercer's concluded that the discount rate of 5.0% used would be challenging to achieve with the current target allocation. Some changes to the strategic allocation were therefore recommended in order to improve the chances of achieving this target rate of return without unduly increasing risk. Members of the committee had attended a training session where Mercer explained the reasons for these proposed changes.

The main recommended changes were to increase overall equity exposure from 45% to 50% of total assets, reduce the proportion of UK specific equity holdings, increase the proportion of actively managed equity holdings and reduce the allocation to corporate bonds.

Mercer also considered two potential approaches to enable the pension fund to move towards a low carbon future - divestment, which meant completely divesting from companies involved in the sourcing and refining of fossil fuels, and decarbonisation, which meant a reduction in allocations to companies which are high carbon emitters and looked to influence the demand for fossil fuels and their financing, not just their supply.

Mercer's favoured approach was decarbonisation as opposed to divestment from all fossil fuel companies. Decarbonisation could deliver significantly greater reductions in the 'carbon footprint' of investments, it allowed for continued influence with companies, and would be more straightforward to implement.

The Chairman highlighted that the proposed investment in the Brunel sustainable equities portfolio would substantially reduce the carbon footprint of the pension fund, as would the reduction in UK and passive allocations. This was the start of a process which was likely to see over time further reductions in UK and passive allocations and further increases to sustainable equities as confidence in this product grew.

The Independent Adviser explained that the proposed changes were the result of a number of iterations between him, officers, the Chairman and Mercer. The result of this process was a good balanced strategy.

There was a fairly even split of actuary firms used by the ten Brunel Pension Partnership clients and discount rates ranged between 4% and 5%. If the actuary had set a lower discount rate at the last triennial review, this would have resulted in increased contribution rates for scheme employers.

A member agreed with the proposed increase in allocation to equities and the transfer of emphasis away from the UK but felt the case for more active management required more evidence and proposed that this decision be deferred until the next meeting of the Committee in November 2020.

If the proposals were agreed 30% of equity exposure would still be through passive investments. The changes would target areas where active managers were more likely to add value, such as emerging markets and smaller companies as opposed to core strategies. The Brunel active portfolios either don't yet have a track record or they have a very short track record. The pension fund's legacy active managers, Schroders and Wellington, had outperformed the market as had Brunel's global high alpha portfolio, albeit over a relatively short period of time. An active approach was also better able to meet the low carbon desire.

The Vice-Chairman said that the Committee's primary responsibility was to ensure investment returns are sufficient to fund pensions and, whilst not mutually exclusive, there was some tension between this and the desire to help tackle climate change. A higher allocation to active management was the only way that progress could be made to reduce the pension fund's carbon footprint and still generate the required investment returns.

A proposal to defer the decision to increase active equities and reduce passive equities until the next meeting of the Committee in November 2020 was not agreed.

A member spoke in favour of keeping investment not only in the UK but in Dorset specifically. The Independent Adviser replied that it was very hard to get the scale required by investing locally and it also raised potential conflicts of interest. However, local investment could be appropriate if the right opportunity came up.

A member highlighted that the importance of fossil fuels for investment returns had fallen from 29% of the main US equity index in 1980 to approximately 5% in 2019. It would therefore now be a much smaller task to implement a divestment approach that it would have been in the past, and it was proposed that an independent assessment of a potential fossil free portfolio be commissioned.

The Independent Adviser said that Mercer had been engaged to provide an independent opinion and they proposed a decarbonisation approach not blanket divestment. The proposed move to global and sustainable equities will help decarbonise the pension fund, and its investment managers would also reduce exposure to fossil fuels if they think it is a bad investment, as had always been the case. Decarbonisation is the approach followed by Brunel, one of the leaders in this area, and the Church of England Pensions Board, one of the co-founders of the Transition Pathway Initiative (TPI).

A proposal to request an independent assessment of a fossil free portfolio was not agreed.

It was proposed that the Brunel Pension Partnership be asked for a schedule of the pension fund's investments in organisations on the Global Coal Exit List, and that the pension fund divests from those companies within eighteen months.

The Chairman was hugely sympathetic for the desire to divest from fossil fuel companies. The Committee had to take action to reduce the pension fund's carbon footprint but divestment was not the right approach. A combination of investing in sustainable equites, with a two thirds reduction in carbon footprint, and the other Brunel active funds, all committed to a 7% year on year reduction, would have a more positive impact than the proposal to divest from all fossil fuel companies. The sustainability credentials of Brunel were described by one member as second to none amongst the LGPS investment pools.

A member thought that whilst the case for decarbonisation in the report was compelling it was not an 'either or' choice between divestment and decarbonisation. The decarbonisation approach should be taken but the Committee should also look to see if the pension fund can be made fossil fuel free.

Concerns were raised that divestment was a blunt instrument that did not distinguish between companies that were making changes, such as Shell, and those that were not, such as Exxon. Divesting from companies investing billions of pounds in new technology and fuels could have a detrimental effect on the shared desired outcomes of the Committee. Divestment should be part of a gradual process rather than a sharp knife.

The loss of influence over companies following divestment was also raised as a concern. It could lead to the sale of assets to other investors, companies or countries less concerned about the environmental impact of their investments.

It was agreed to remove the timescale for divestment from the proposal, and the revised proposal to ask Brunel for a schedule of the pension fund's investments in the Global Coal Exit List was agreed.

Resolved

i) That the proposed changes to the investment strategy and strategic asset allocation are agreed.

ii) That officers implement the changes to the investment strategy and strategic asset allocation.

iii) That officers to update the Investment Strategy Statement (ISS) as necessary.

iv) That the Brunel Pension Partnership are asked for a schedule of the pension fund's investments, through its holdings in Brunel managed portfolios, in organisations listed on the Global Coal Exit List.

64. **Investment Pooling Update**

The Committee received a presentation from Laura Chappell, Chief Executive Officer, and James Russell-Stracey, Chief Stakeholder Officer, of Brunel Pension Partnership, the pension fund's investment pooling manager. The presentation summarised the key current activities of the investment pooling partnership.

The process to replace Mark Mansley, Brunel's former Chief Investment Officer, had concluded and there would be announcement to confirm the successful candidate's appointment shortly. The appointment would be within the agreed remuneration cap.

It was not uncommon for a high turnover of staff in 'start-ups' like Brunel where those responsible for setting up an organisation move on when the company is established. Staff turnover in many of the other LGPS investment pools had been higher than in Brunel.

The final transitions of assets to Brunel's management were expected to conclude in 2021. Brunel were delivering savings for their clients and providing services within budget.

Brunel's overriding objective was to generate investment performance for its clients to fund pensions but investments could be made which had positive non-financial impacts.

Brunel's approach to responsible investment was not to divest from whole sectors but instead engagement with companies was favoured with the option of targeted divestment from individual companies. There will be a 'stocktake' of this approach in 2022.

Brunel would be reviewing its products to see if they could be better aligned with the objectives of the Paris Agreement on climate change. In particular, they would be looking at whether alternative indices could be established for passive investments to track.

Brunel would be holding a series of investment workshops in the autumn for the investment officers at client funds.

The Independent Adviser asked for more visibility of the performance of underlying managers in Brunel's quarterly reporting. Members of the committee also felt that the reports could be more concise and 'client friendly' with less reliance on acronyms and jargon.

The Vice-Chairman thanked Brunel's officers for their presentation and proposed that they be invited to at least one meeting of the Committee every year.

Resolved

i. That officers provide feedback from the Brunel investment workshops at the next meeting of the Committee
ii. That the format and content of the performance monitoring reporting from Brunel Pension Partnership be reviewed.

iii. That the Chief Executive Officer and Chief Stakeholder Officer from Brunel Pension Partnership be invited to at least one meeting of the Pension Fund Committee every year.

65. **Independent Adviser's Report**

The Committee considered a report from Alan Saunders, the pension fund's Independent Adviser, that gave his views on the economic background to the pension fund's investments, the outlook for different asset classes and the key risks for markets.

Markets had recovered a lot of ground since the steep falls in response to the coronavirus pandemic. The recovery in markets had been extraordinary but was now consolidating and high levels of volatility were expected in the coming months.

In the US, equity markets were back to December 2019 levels largely driven by the technology sector, although there had been some sell offs in recent weeks. In the UK, equity markets had lagged the US, as it had for the last to two to three years, which supported the Committee's decision to reduce exposure to UK markets.

Risks were highlighted from the imminent withdrawal of the UK furlough scheme and concerns about the agreement of a trade deal between the UK and the EU. A second spike in COVID 19 could encourage the UK government to maintain support for the economy but this could be damaging for market sentiment.

Noted

66. **Pension Fund Administrator's Report**

The Committee considered a report from officers on the pension fund's funding position, valuation, performance and asset allocation as at 30 June 2020.

The value of the fund's investments at 30 June 2020 was just under £3.0 billion, compared to £2.7m at the start of the financial year. This improvement was driven by rises across all listed markets after the falls in March and April 2020 in reaction to the impact of COVID 19.

Barnett Waddingham, the pension fund's actuary, estimated assets to be 85% of the value needed to pay expected benefits accrued to 30 June 2020. This compares to the funding level of 92% calculated by the actuary following their full assessment as at 31 March 2019.

As at 30 June 2020 approximately 40% of assets had transferred to Brunel's management. Implementation of the changes to the investment strategy agreed by the Committee were expected to increase this proportion significantly before the end of the year.

In recent years the pension fund had underperformed its combined benchmark in part because of the challenging market conditions for those investment managers with ‘cash plus’ benchmarks. There would be a review of the suitability of all benchmarks used.

Resolved
That officers and the Independent Adviser review the benchmarks for all investments.

67. **Pensions Administration**

The Committee considered a report from officers on operational and administration matters relating to the pension fund.

End of year processes had completed and Annual Benefit Illustrations (ABIs) were issued ahead of the statutory deadline. Paper statements are still issued to the vast majority of scheme members, and they are used as an opportunity to communicate important messages about the scheme.

Data quality was generally very good, with scores slightly up from last year. The aim is to maintain these levels but there could be some challenges this year. There are good relationships with employers and good data which gave confidence that benefits had been paid correctly.

Hymans Robertson had concluded their review of the in-house Additional Voluntary Contribution (AVC) arrangements for scheme members. Hymans Robertson recommended that the current service provider, Prudential, be retained but kept under review, and that the default standard investment, currently a ‘with profits’ product, be reviewed. Officers would appreciate any input from Committee members into the review of the default option.

A further consultation was issued by government on 7 September 2020 covering the exit cap and other proposed reforms, which the government was keen to implement very quickly. The proposed reforms would now cover all scheme members over 55 years old made redundant where there is a strain cost even if below the cap. The reforms would be very complex to administer as scheme members could potentially have four different options to choose from.

Officers would be responding to the consultation on behalf of the pension fund but scheme employers would be encouraged to respond too.

Discussions regarding potential remedies for the McCloud judgement continued. The estimated impact on funding level was likely to be relatively small, but remedies were likely to create a very large administrative burden which could result in thousands of benefit calculations being revisited.

The Local Government Association (LGA) Scheme Advisory Board (SAB) were also very concerned about these matters and would be engaging directly with the Ministry of Housing, Communities and Local Government (MHCLG).

Amendments to LGPS regulations come in to force on 23 September 2020. The amendments will allow administering authorities to review scheme employer contributions between triennial valuations and provide greater flexibility for the repayment of deficits by exiting employers.

The Local Pension Board has reviewed the risk register specifically in relation to the impact of COVID 19. To date there had been no serious impact on scheme employers and contributions. Home working arrangements were not ideal for the service and presented additional data protection risks to manage.

Homeworking had had a negative impact on performance as measured by the Key Performance Indicators (KPIs) but not as great as feared. The main priority was to avoid falling behind in the payment of benefits. Transfers into the pension fund were a challenge as they involved a lot of paperwork being sent to the office.

Concerns were raised about how to improve performance as it was confirmed that the administration team would continue to work from home until the end of March 2021. The administration team were still performing to a high standard in challenging circumstances and officers hoped to report an improvement at the next meeting. It was agreed that information relating to KPIs would be included at the front of future reports.

The Chairman summarised that this meeting had rightly focussed on investment matters but the priority at the next meeting should be on administration.

Resolved

i. That the pension fund administration report is considered before pension fund investments at the next meeting of the Committee in November 2020.
ii. That performance against the Key Performance Indicators (KPIs) is summarised at the front of future administration reports.
iii. That the Committee are consulted on the proposed response to the government's consultation on the exit cap and other matters.

68. **Date of Future Meeting**

Resolved

That meetings be held on the following dates:

26 November 2020
11 March 2021

69. **Appendix: Questions submitted for Public Participation Period and answered by Chairman of Pension Fund Committee**

Questions from Caz Dennett, South West Action on Pensions (SWAP)

Dorset Council's C&EE Strategy outlines how the Council will deliver a realistic and achievable approach to ensuring a carbon-neutral Dorset by 2040, with the aim to reduce the bulk of its carbon emissions before this date. It states to achieve this there will be a need for "imaginative and innovative solutions". The draft strategy makes no mention of accounting for the carbon emissions produced by Dorset Pension Fund's fossil fuel investments (currently 7.3% of the pension pot).

Question 1: When will Dorset Council include the carbon emissions from fossil fuel investments made by Dorset Pension Fund in its calculated carbon footprint, to ensure an accurate and truthful measure?

Response: Responsibility for all matters relating to the administration of the Local Government Pension Scheme (LGPS) in Dorset is delegated to the Pension Fund Committee which comprises five Dorset Council councillors, three BCP Council councillors and one scheme member representative nominated by the trades unions. We believe that it is more informative to consider the carbon emissions consequences of the pension fund's investments separately from those of the Council.

Question 2: Can Dorset Council imagine divesting the Pension Fund from fossil fuels and adopt this as a solution that helps achieve a net zero-carbon Dorset?

Response: A review of the pension fund's investment strategy has just concluded and will be considered later on the agenda of this meeting. This review has considered how the pension fund's investment strategy can help the transition towards a low carbon future whilst still ensuring there are sufficient assets to pay pensions as they fall due.

Questions from Len Herbert on behalf of Extinction Rebellion

Extinction Rebellion has three asks. The first of these is to 'Tell the Truth' about the climate and ecological emergency by communicating the urgency for change. This includes that policies and actions are communicated widely and openly to allow for stakeholder and public engagement.

When South West Action on Pensions (SWAP) formed to cover the Brunel Pension Partnership area, attempts were made to compare divestment progress between the partners. It is striking that Dorset is the partner with the least, easily available, information. Many of the others allow an understanding of the overarching policy, the relative amounts invested in high and low carbon funds, the target carbon intensity decrease and the monitoring process.

The Annual Report 2018-19 contains only brief references (in the Appendix p.153) to engagement with companies on climate risks. The Investment Strategy Statement (March 2018) makes no reference to climate. The section on 'Responsible Investment' on the Pension Fund website dates back to

2015.

Some information can be gleaned from the minutes of Sep 2019 and March 2020 in the responses to public participation questions and the reported presentations and discussions. It is clear that the committee is indeed beginning to engage with the climate emergency issues but that the communication has some way to catch up.

One piece of information that has proved particularly elusive is the amount invested in the fossil fuel industry through the Dorset County Pension Fund. In September 2019 Medact suggested that that the figure was £141 Million. The Vice-Chair asked officers to check this figure ‘as it was necessary to have an agreed baseline to inform future discussions’. A resolution was made to this effect. In March, in response to Extinction Rebellion questions, the figure ‘was not recognised’ but a renewed resolution was made ‘to confirm the current value of investments in the fossil fuel industry by the next meeting at the latest’. Further conversations have failed to elicit this figure.

Question 1: Can we expect the communication shortcomings highlighted above to be rectified in the November Annual Report (2019-20) and the Investment Strategy Statement and to see the website updated?

Response: There is a review of the investment strategy on the agenda for today’s meeting. Following this review the Investment Strategy Statement will then be amended accordingly and the updated version published on the pension fund’s website. We will also review the content of the Pension Fund Annual Report 2019-20 prior to publication, and all other documents on the website to ensure they reflect the most up-to-date information.

Question 2: Can we finally see the baseline figure for the Pension Fund’s exposure to fossil fuel investments?

Response: As at 31 March 2020, the pension fund had direct ownership of assets valued at £6.6m in companies in the oil and gas sector. In addition, the pension fund owns units in a number of pooled funds which have underlying holdings in companies in the oil and gas sector, with Dorset’s ‘share’ of this indirect exposure estimated to be a further £53m. In total, therefore, £60m of the pension fund’s assets are invested in the oil and gas sector, 2.2% of total assets.

As at 31 March 2020, the pension fund had direct ownership of assets valued at £7.3m in companies in the ‘mining’ or ‘basic materials’ sector but this covers mining for all materials such as precious metals and minerals as well as coal. In addition the pension fund owns units in a number of pooled funds which have underlying holdings in companies in the mining sector, with Dorset’s ‘share’ of this exposure estimated to be a further £60m. In total, therefore, £67m of the pension fund’s assets are invested in the mining sector, of which we estimate approximately one third relates to fossil fuels, c. £25m or 0.9% of total assets.

Questions from Val Potter, Dorchester Churches Together Ecology Group

We understand from the minutes of the Pension Committee meeting on March 12th that discussion is at present mainly around the pursuit of a policy of engagement with fossil fuel companies rather than a clear divestment policy. A distinction is made between 'good' and 'bad' companies and the phrase 'engagement with teeth' is used.

We would like to be clear where the committee draw the line. For instance: a fortnight ago Storebrand, a Nordic fund worth £70 billion, dumped its stocks in a string of the world's biggest extraction companies. Storebrand decided that the fact that these companies were using their lobbying power to block climate policies had crossed their line. They decided that spending large sums undermining action related to 'the greatest threat facing humanity' is 'simply unacceptable'.

Question: Given your argument that you are using "engagement with teeth" when dealing with fossil fuel companies, have you, at any point, divested from a fossil fuel company or made a decision to divest? What actions would it take on the part of a fossil fuel company to prompt a decision to divest and how quickly would it happen?

Response: The minutes quoted refer to a presentation given by Brunel Pension Partnership, the pension fund's investment pooling manager, on their climate change policy. Brunel believe that some fossil fuel companies will be part of the transition to a low carbon economy and that it was important to distinguish between companies, such as Repsol and Shell who were looking to engage and change, and companies, such as Chevron and Exxon who, to date, were not

Brunel have provided the following summary of their approach together with some examples of engagement that directly and indirectly relate to investment in fossil fuels:

"We are glad that you share our concern for Responsible Investing and welcome engagement on the issue.

Following extensive engagement with partner funds and many of their stakeholders we, the Brunel Pension Partnership, launched our Climate Change Policy in January 2020.

Our Policy is clear that the financial system is not fit for purpose to deliver a world that limits global warming to well below 2°C, ideally not higher than 1.5°C. Our policy clearly states our **commitment to support achieving Net-Zero well before the 2050 deadline**.

The policy sets out a five-point plan to build a financial system which is fit for a low carbon future. This is essential as Brunel and all the Partnership funds operate within a regulatory framework – a framework very different to that in which charities, endowments or, indeed, asset owners and managers in other

countries operate. **It is essential we change the system, not just our portfolios.**

To support making fundamental changes in our financial system, our strategy includes policy advocacy. We advocate mandatory climate disclosures, challenging fossil fuel subsides and asking for positive policy to encourage actions that assist with decarbonising our economy, including via a price on carbon and incentivising green investment.

However, we are not waiting on incentives. We already invest extensively in renewable energy as well energy efficiency, public transport, smart grid and other technologies that support transition.

It is critical that we do not just focus on the supply side – the fossil fuel companies – but also on the demand side, looking at fossil fuel consumption, and at the wider financing of projects. When it comes to climate risk, we assess the whole value chain and engage with companies to take responsibility for their product throughout its usage, not just in its manufacture. (The examples below demonstrate the breadth of our engagement.) This issue is wider than climate change, hence our Responsible Investment Policy includes Supply Chain issues as one of its core themes.

We have also been very active in seeking mandatory climate disclosure. For example, Faith Ward, Chief Responsible Investment Officer, sits on the Pensions Climate Risk Industry Group, which was established by various government departments, including the DWP and Pensions Regulator. This year, the Group launched a consultation on a new guide to climate-related financial risks for pension schemes.

Our policy also identified the need to develop and decarbonise the products we offer. It is important to note that Brunel does not select companies to invest in itself. Instead, stock-specific decisions are made by the asset managers we employ. Our Partnership does, however, set the investment guidelines under which they operate. These guidelines are co-developed with all ten Brunel clients, which means we can create products that meet the requirements of pooling, most specifically on cost savings.

As background, our active portfolios have a very low exposure to fossil fuel companies, as evidenced in our Carbon Metrics Report. Standard practice is to use mainstream indices to gauge many aspects of our performance – the trajectory of these indices is well over 3°C. This is an industry-wide issue that arises from carbon not being consistently priced into assets – we know we need better solutions to make meaningful measurements. The Partnership is now working on a project to identify solutions that meet all client investment objectives, specifically long-term investment returns, in a cost-effective manner.

On the issue of divestment, Brunel supports divestment from specific fossil fuel and other carbon-intense companies if they present a material investment risk – such as due to 'stranded assets' – but this is based on analysis by our

asset managers. Brunel expects managers to take these decisions independently.

In addition, we have committed to review this approach and, indeed, the holdings themselves, and to evaluate whether companies are taking steps to manage climate risks and to enable our overall alignment with the Paris Agreement. Brunel set out clear expectations for its asset managers and a deadline of 2022 for reviewing companies – our climate stock take is due in 2022. The criteria to evaluate companies and managers is being developed with clients. It will take into account different investment mandates and starting points, but always with reference to Paris alignment.

We chose not to use exclusion lists with our active managers. Instead, we have challenged them to think carefully and critically about the companies and other entities they invest in, and to justify their investments in those companies with higher greenhouse gas emissions. We will not issue exclusion lists because what is needed is change in the way investment managers work. Simply stating exclusions or requiring divestment from specific stocks or sectors will not compel investment managers to develop their capacity on climate change or to drive change in the companies in which they are invested. Climate then becomes a technical operational matter, not an investment priority.

However, while we will not instruct managers to exclude certain stocks, we do expect their portfolios to have materially reduced climate exposures. We also expect them to justify any climate-controversial holding. If investment managers are not able to explain their investment strategies robustly and credibly, and to lay out how they have managed climate risk, we will look to replace them.

If we find that our investment managers' engagement with companies is ineffective – and that the companies' trajectory is therefore not Paris-aligned – we will consider whether to remove those managers or introduce specific exclusion criteria to the companies concerned.

As we take steps to address climate change – in all its facets – we are transparent about our holdings, the climate intensity and fossil fuel exposure of our portfolios, and the outcomes of engagement. These are consistent with the expectations of the Financial Reporting Council's 2020 Stewardship Code and Taskforce for Climate Related Financial Disclosure – indeed, in many places, we exceed them.

- Our Carbon Metrics Report gives greater detail on how we assess the carbon footprint of our portfolios

- Our Responsible Investment & Stewardship Outcomes Report analysed our performance on a range of RI issues, from climate change to tax transparency. It showed that all active portfolios had achieved more than 7% carbon intensity improvements against their benchmarks and provide case studies of our engagement outcomes

More recently, we helped to develop and launch the IIGCC Net Zero framework, the first practical framework to guide asset owners and managers seeking to become Net Zero investors. While we are pleased with this progress, we also acknowledge that both climate change policies and findings from investment data continue to evolve and, in line with this, we continue to review our own policies.

We recognise that the arguments for immediate divestment from fossil fuel companies can appear compelling. But we believe that engagement, with the threat of divestment, can be more effective at putting pressure on both companies and investment managers to bring about change. We have provided some examples of engagement that directly and indirectly relate to investment in fossil fuels.

It is important to note that the commitments made by BP, Shell and Glencore include scope 3 emissions, to one extent or another. This means that commitments we are seeing coming through are getting closer to meeting our need to cover the complete supply chain of the product e.g. the consuming, purchasing and then burning of fuel.

BP

- In February 2020, BP announced new ambitions to be a 'net zero company by 2050 or sooner'
- Targets include:
  - Net zero across BP's operations on an absolute basis by 2050 or sooner
  - net zero on carbon in BP's oil and gas production on an absolute basis by 2050 or sooner
  - 50% cut in the carbon intensity of products BP sells by 2050 or sooner
  - Installation of methane measurement at all BP's major oil and gas processing sites by 2023
  - Reduction in methane intensity of operations by 50%
  - Increase in the proportion of investment into non-oil and gas businesses
- This builds on extensive positive engagement through our engagement partner, Federated Hermes and Climate Action 100+ (the largest global investor coalition on climate change)
- More information on commitments made by BP can be found here and here

Glencore

- In 2019, we co-signed a letter to Glencore calling for support of the statement to ensure investors can legally hold Glencore to the commitments it made as part of its recent announcement
- Extensive engagement through Climate Action 100+ and our engagement provider, Federated Hermes – Glencore has agreed to review its links with trade associations to identify lobbying activities that could undermine its support for the Paris Agreement

- For the first time, this year, the company has agreed to start reporting on scope 3 emissions and will do so on an annual basis.
- It has committed to report annually on the extent to which the company's capital expenditure and investments were in line with the goals of the Paris Agreement.
- It has also committed to publishing new, longer-term targets, based on policy and technical developments, which will be made public in the company's 2020 Annual Report

Shell

- Shell has committed to achieving net zero emissions by 2050 or sooner. It also has the ambition to bring its net carbon footprint in line with the goals of the Paris Agreement
- Extensive engagement through our engagement provider, Federated Hermes and Climate Action 100+, enables investors to hold Shell accountable to its targets
- More detail about Shell's commitments can be found here

Barclays

- Brunel, on behalf of our Clients, co-filed a shareholder resolution formally requesting that Barclays phases out the financing of fossil fuel companies. This was the first climate change resolution to be filed at a European bank
- It asks Barclays to publicly disclose how it plans to stop the provision of financial services to energy sector companies that are not aligned with the goals of the Paris climate agreement; it also asks how Barclays aims to understand whether a borrower is meeting Paris Agreement targets
- The resolution passed in May 2020, exceeding the 20% threshold required (23.95%). This requires Barclays to consult with shareholders and publish the views received and actions taken within six months
- Barclays has committed to being a net-zero bank by 2050. It has started to set transparent targets and will be reporting progress against them from 2021. We continue to engage with Barclays and look forward to receiving more detail on its strategy and targets, as committed, later this year
- More information on the commitments made by Barclays can be found here

Engagements with asset managers on climate change

Blackrock

- Our extensive engagement with Blackrock, including a one-to-one meeting with Larry Fink, CEO, led to the company agreeing to prioritise sustainability through their investment and stewardship approach
- Blackrock agreed to join Climate Action 100+ and take the lead on engaging with China Steel
- Blackrock recently took a public stance against companies who are not taking appropriate action on climate risk by voting against 53 companies and putting another 191 on 'watch'. See FT article

- Of the 53 companies it voted against, 37 were in the energy sector. Blackrock will vote against management again in 2021, should these companies not make significant progress
- More detail of Blackrock's commitments can be found here

To read more about our position, including our view on carbon pricing and detail on why we co-filed the Barclays resolution, please see the FAQs section of the Climate Change section of our website.

We continue to develop our thinking and practices on this issue, and to engage with a wide range of Partners and stakeholders. For a few of our most recent activity on RI and ESG, please see a recent article.

Many thanks for making contact and expressing your concern in this area. We will continue to learn from our peers and Partners as we develop our thinking and practices."

Duration of meeting: 10.00 am - 1.00 pm

Chairman

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