

GMPF
POSITION
PAPER
2020

CLIMATE RISK



GMPF is the biggest LGPS investor in low carbon and renewables, continuing along the path of an orderly and **just transition to a net zero emissions economy.**



£3.1
billion

Over 30 years, the value of GMPF returns has been £3.1 billion more than would have been the case if it had achieved the average LGPS fund return, enabling more to be spent on local services.

Policy position

The government's Environmental Audit Committee concluded that GMPF reached the **highest standard of being 'more engaged'**.

GMPF's policy states that climate change risk is financially material to long-term performance of investments and shareholder value. GMPF's long-term goal is for 100% of assets to be compatible with the net zero-emissions ambition by c.2050 in line with the Paris agreement.

Investing in a Just Transition

GMPF has signed up to the 'Investing in a Just Transition' initiative, because we know delivering a just transition will be key to the UK's success in building a zero-carbon and resilient economy.

We need to do this in a sustainable way that supports an inclusive economy, with a particular focus on workers and communities across the country.

Analysis shows that unless a transition is effected carefully, there will be significant impacts on workers and communities in the North.

Engagement

Through our own activities and by our membership of the Local Authority Pension Fund Forum (LAPFF) and other organisations, we aim to support 1.5 to 2 degree business model scenarios.

GMPF's policy is that robust engagement on a collective basis is preferable to placing restrictions on particular types of investment. Recent years have seen an unprecedented number of investors support climate related resolutions with companies. **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.**

Recent significant developments to our approach include:

- We are a signatory to **The Climate Action 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.
- Supporting the **Transition Pathway Initiative**, 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 **Climate Majority 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.

Investment in low carbon and renewables

GMPF is at the forefront of actions to finance an orderly transition to a low carbon economy.

A key element of this has recently been implemented, involving the replacement of £2.5 billion of GMPF's passive, index tracking investments, with an enhanced approach that has significantly reduced GMPF's exposure to carbon emissions and intensity. This is the biggest divestment by any Local Authority taken anywhere in the UK.

There are a number of different investments that are aligned with a low-carbon transition. The **carbon footprinting** exercises we have undertaken showed that within GMPF's measured public market investments, the utility companies' energy mix is positioned better than the benchmark when it is compared to a 2 degree increase scenario. **The companies we invest in already produce more power through renewables than they do from coal and oil.** The exercise found that the active equity holdings were **17% more efficient** than the benchmark on the best practice weighted average carbon intensity method.

GMPF's direct infrastructure vehicle, GLIL, began investing in October 2015 and has completed **three transactions worth more than £500 million with a particular focus on renewable energy or energy efficiency:**

- **Clyde Wind Farm** approximately £300m - one of the largest wind farms in Europe, with 206 operational turbines capable of generating 522 megawatts.
- **East Anglia and South West rail franchises** approximately £100m - more than 1,000 new vehicles creating faster, more frequent and less polluting journeys.
- **Biomass Portfolio** £130m investment in a portfolio of 8 plants across the UK - provides enough energy to power thousands of homes.

Another innovative approach adopted by GMPF 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.
- **Iona North West Investments** - £40m commitment into new and existing environmental infrastructure projects in the North West, creating hundreds of jobs from clean energy funding.

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, representing around a quarter of the portfolio. The following are the main examples:

- **Arelight 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** - €1m 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.

Conclusion

GMPF stands by the belief, which **80% of our stakeholders agreed with**, that our consultative approach is more effective than divesting our fossil fuel holdings and **passing the buck** on to someone else who may not share our commitment to responsible investment.

GMPF will continue to engage with companies and policy-makers, and will continue to be the biggest LGPS investor in low carbon and renewables, to continue along the path of an orderly and **just transition to a net zero emissions economy.**