



*GMPF Report*  
**Approach to climate risk**

# Annual Report 2021

## Approach to Climate Risk



Greater Manchester Pension Fund (GMPF) actively supports the recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) and sets out below its approach to managing climate risk within the TCFD’s four thematic areas of governance, strategy, risk management and metrics and targets.

### GOVERNANCE

**Recommended disclosure (a)**

Describe the Board’s oversight of climate-related risks and opportunities.

The Pension Fund Management Panel (the Panel) is responsible for managing climate-related issues as part of its remit of having responsibility for GMPF’s investment strategy. The Investment Monitoring and ESG (Environmental, social and governance) Working Group, a specialist subcommittee of the Panel, also considers issues relating to climate change. The Panel and Working Group consider climate change issues across GMPF and specifically in areas such as strategic asset allocation, investment strategy and risk management with the aim of minimising adverse financial impacts and maximising the opportunities for long term economic returns on our assets.

GMPF has committed to undertake annual carbon footprints of GMPF’s applicable assets. The results of these are reported to the Panel.

**Recommended disclosure (b)**

Describe management’s role in assessing and managing climate-related risks and opportunities.

Day to day management of GMPF’s climate change strategy is delegated to the external Fund Managers, who operate under GMPF’s policies on ESG. An annual carbon footprinting exercise is used to assess both the risks from climate change, but also areas of opportunity. GMPF employs a specialist advisor, PIRC, to instruct its voting activity on active equity holdings, including on areas such as climate change. GMPF also incorporates Voting Alerts from the Local Authority Pension Fund Forum on climate change within its policy. The Panel are ultimately responsible for these relationships.

## STRATEGY

### Recommended disclosure a)

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

GMPF considers climate-related issues across multiple timeframes and has strategies to help address these. GMPF identifies climate-related issues through collaboration with its external Fund Managers, and organisations such as the Local Authority Pension Fund Forum, the Institutional Investor Group on Climate Change, the Transition Pathway Initiative, Climate Action 100+, Investing in a Just Transition and the Principles for Responsible Investment. This has led to co-filing and supporting resolutions for action related to climate change and better disclosures of climate-related issues.

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.

### Recommended disclosure b)

Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

GMPF's ESG policies and considerations, including climate change, are incorporated into the mandates of the external Fund Managers via their respective Investment Management Agreements. External Fund Manager appointments also take ESG considerations into account, and these are monitored on an ongoing basis.

GMPF also makes several investments with positive impacts on climate change; these are only made where an acceptable level of financial return is also expected. Climate-related investment opportunities are available in areas such as energy efficiency, choice of energy sources, products and services and new markets. GMPF considers 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 GMPF is aware that buildings are responsible for over one-third of total greenhouse gas emissions in the UK. For directly held properties, GMPF works with its property management teams on focus areas such as energy management and owner-occupier relations to reduce these emissions, and indirectly held property managers do likewise.

GMPF has increased its long term 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. For example, GMPF has invested directly in UK operational wind and solar assets, smart meters and energy storage.

By investing in low carbon and clean energy projects and ventures with the twin aims of a commercial return as well as a positive environmental and social impact, GMPF has identified opportunities in the medium to long term which complement GMPF's ambition of a just transition to a low carbon economy. These investments are made from the dedicated Impact Portfolio.

For example, improving the energy efficiency of existing domestic properties is an essential component to meet the UK's target to reduce emissions of greenhouse gases to zero relative to 1990 levels by 2050. Recognising that more than 10% of households in the UK live in fuel poverty, inefficient housing and rising household debt forcing people to choose between heating their homes or a meal, GMPF invested in AgilityEco, a provider of fuel poverty, energy-efficiency and low-carbon services.

It helps energy providers to meet their obligations under the Energy Company Obligation scheme (to reduce lifetime fuel bills of fuel-poor homes by over £8bn) by arranging the installation of measures such as better insulation and more efficient boilers. It works closely with over 150 Local Authorities to identify households eligible for the Warm Home Discount, a separate scheme for those in particular need.

Transitioning to renewable energy resources is another way of reducing global carbon emissions. GMPF invested in GEV Wind Power a wind turbine repair business supporting the transition to sustainable energy. In 2019, GEV serviced over 1,600 blades, helping its clients produce an estimated 376MW of energy, enough to power almost 350,000 homes.

**Recommended disclosure c)**

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a two degrees or lower scenario.

GMPF has compared several of its portfolios against a two degree benchmark, as part of a collaboration with ShareAction on a European-wide project led by the World Wide Fund for Nature (WWF) using a methodology currently being developed and tested by the Sustainable Energy Investment (SEI) metrics research consortium, led by 2 Degrees Investing Initiative. This pointed out areas of alignment or otherwise with a two degree scenario within GMPF's investments, noting that scenario testing is an inexact science, and is being held back by a lack of disclosure from many companies. The Panel continue to campaign for enhanced company disclosure to address this issue.

GMPF's actuary, Hymans Robertson, undertakes climate analysis in conjunction with their Asset Liability Modelling analysis. Hymans looked at GMPF's investment decision making process that is underpinned by key investment beliefs and carried out their analysis under three scenarios. The results of the analysis supported the work GMPF has been doing on integrating Responsible Investment best practices, GMPF's intention of being net carbon neutral by 2050, its implementation of the low carbon multi factor Scientific Beta mandate and the infrastructure allocation to renewables.

## RISK MANAGEMENT

**Recommended disclosure a)**

Describe the organisation's processes for identifying and assessing climate-related risks.

GMPF believes that each of the following categories of risks, as outlined by the TCFD, pose a material financial risk, and are thus each a cause for concern:

- Market and technology shifts (eg reduced market demand for higher carbon products).
- Reputation (eg growing expectations for responsible conduct from stakeholders).
- Policy and legal (eg increased input/operating costs for high carbon activities).
- Physical risks (eg chronic changes and more frequent and severe extremes of climate).

Day to day management of GMPF's climate change strategy is delegated to the external Fund Managers, who operate under GMPF's policies on ESG issues. This means that the external Fund Managers fully integrate any climate-related risks when making their investment decisions.

GMPF's annual carbon footprinting exercise, coupled with the use of the Transition Pathway Initiative (TPI) toolkit, also help assess climate-related risks, including the identification of companies to engage with.

**Recommended disclosure b)**

Describe the organisation's processes for managing climate-related risks.

A significant pillar of GMPF's efforts to manage climate change risk is through engagement with companies, both through the external Fund Managers and in collaboration with wider industry groups such as the Local Authority Pension Fund Forum, the Institutional Investor Group on Climate Change, the Transition Pathway Initiative, Climate Action 100+, the Net Zero Asset Owner Alliance, Investing in a Just Transition, Say on Climate and the Principles for Responsible Investment. For example, through collaborative activities, GMPF aims 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.

GMPF's external Fund Managers will also implement our ESG policies in their management of the portfolios.

**Recommended disclosure c)**

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

Climate change is included within GMPF's risk register in the context of the risk of the strategic allocation underperforming. Relevant controls and mitigating actions are also documented. The risk register is reviewed by the Management Panel.

GMPF has a Business Plan that is updated annually that formally incorporates an objective of enhancing stewardship activities and sets desired outcomes. The objectives include areas such as governance of GMPF, collaboration, local investments and ESG factors. The ESG outcomes include the encouragement of suppliers and investee companies to work towards a just transition to a net zero emissions economy by c2050 and to minimise the environmental impact in delivering GMPF's ultimate objective of paying its pensioners.

In addition, as set out above, the external Fund Managers have GMPF's ESG policies incorporated into their Investment Management Agreements. Day to day management of climate change strategy is delegated to the external Fund Managers. This means that the external Fund Managers consider any climate-related risks when making their investment decisions.

## METRICS AND TARGETS

**Recommended disclosure a)**

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

GMPF monitors the voting and engagement of all its external Fund Managers and proxy voting advisor on issues including climate change. GMPF has also undertaken carbon footprinting and measured the CO2 equivalent intensity per million pounds of revenue. The 'two degrees' analysis measured GMPF's alignment with various climate scenarios consistent with the Paris Agreement in relation to electric power generation, fossil fuel reserves and vehicle production.

**Recommended disclosure b)**

Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

GMPF has considered Scopes 1 and 2 in its analysis as at the time of measurement, Scope 3 data was not considered to be of a sufficiently robust standard to incorporate. GMPF's carbon footprinting exercise found that as at 31 March 2021, the active equity holdings were 20 per cent more efficient than the combined benchmark on the weighted average carbon intensity method, as recommended by TCFD. This compares with a figure of 25 per cent as at 31 March 2020.

**Recommended disclosure c)**

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

GMPF's long term goal is for 100 per cent of assets to be compatible with the net zero emissions ambition by c2050 in line with the Paris Agreement.

As part of its Net Zero Asset Owner commitment, GMPF is developing interim decarbonisation objectives and targets, utilising the Paris Aligned Investment Initiative's Net Zero Investment Framework.



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