Staffordshire Pension Fund
Local Government Pension Scheme

Staffordshire Pension Fund

Climate Change Strategy

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www.staffspf.org.uk

Climate Change Strategy

1. Introduction

1.1 This Climate Change Strategy (CCS) sets out Staffordshire Pension Fund's (the Fund) approach to managing the risks and opportunities presented by climate change. The publication of a specific CCS demonstrates the seriousness with which the Members of the Staffordshire Pensions Committee view the potential impact of climate change on the Fund.

1.2 The 2025 CCS is the Fund's fourth iteration of the report, with the original having been published in March 2022. As in previous CCS reports, the 2025 version contains updated data (at 30 September 2024) showing performance versus the 2030 Climate Objectives set in 2022 (previously labelled as '2030 targets').

1.3 Given the speed of developments in the measurement and assessment of climate change, the Fund's first CCS in 2022 committed to a three-year review in 2025. This review which sets out new 2030 Climate Objectives has taken place in conjunction with the Fund's Investment Adviser, Hymans Robertson (Hymans) and LGPS Central Limited. As in 2022, the proposal is to review the CCS, including the suitability of the 2030 Climate Objectives, in three-years' time during 2028.

2. Background

2.1 Human activities are estimated to have caused approximately 1.1°C of global warming above pre-industrial levels[1]. 2024 represented the warmest year since global records began in 1850. Additionally, the ten warmest years have all occurred in the last decade (2015–2024).[2]. The overwhelming scientific consensus is that these observed climate changes are the result primarily of human activities, including electricity and heat production, agriculture and land use change, industry, and transport.

2.2 To mitigate the worst economic impacts of climate change, there must be a large, swift, and globally co-ordinated policy response. Despite this, most climate scientists anticipate that even given the current level of climate action, by 2100 the world will be between 2°C and 4°C warmer, with significant regional variations. This is substantially higher than the Paris Climate Change Agreement of 2015 (COP21), which reflects a collective goal to hold the increase in the climate's mean global surface temperature to well below 2°C

[1] https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_SPM.pdf
[2] Monthly Climate Reports | Global Climate Report | Annual 2024 | National Centers for Environmental Information (NCEI)

above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

3. Climate change beliefs

3.1 The Fund recognises that climate-related risks can be financially material, and that consideration of climate risk falls within the scope of the Fund's fiduciary duty. As a result of this, and due to the potential impact of climate change, the Fund has established some specific climate change beliefs which are detailed below. These build on the investment beliefs, detailed in the Fund's Investment Strategy Statement (ISS), which already incorporate wider responsible investment (RI) considerations.

- The Earth's climate is changing because of human activity, and that unabated, such change would have devastating consequences.

- The Fund supports the ambitions of the 2015 COP21 Paris Agreement and aims to achieve a portfolio of assets with net zero carbon emissions by 2050.

- Governments, policy makers, consumers, companies, and investors must all work collaboratively in a co-ordinated response to limit the rise in global temperatures. Individual investor influence is not enough alone.

- As part of a transition to a low carbon economy, demand for energy must be addressed in addition to the suppliers of energy, for greenhouse gas emissions to reduce to net-zero.

- It is possible for companies with current high emission levels to reduce their emissions and thrive in a low carbon economy, and that the support and stewardship of investors is key to influencing this.

- Climate change is a long-term financially material risk for the Fund, across all asset classes, and has the potential to impact the funding level of the Fund through impacting on employer covenant, asset pricing, longer-term inflation, interest rates and life expectancy.

- The Fund supports engagement over divestment and the objectives of the Climate Action 100+ initiative; an investor led initiative to ensure the world's largest carbon emitting companies adopt the appropriate governance structures to effectively manage climate risk, decarbonise in line with the Paris Agreement, and disclose using the Taskforce for Climate Related Financial Disclosures (TCFD) recommendations.

- Climate change risks and opportunities should be considered at all levels of investment decision making, from asset allocation to individual investment decisions.

- Diversification across a variety of asset classes, economic areas and sectors is an important tool in reducing climate risk and maximising opportunities presented by the transition to a low carbon economy.

- Improvements in reporting, consistency, comparability, and data quality, including Scope 3 emissions are needed for investors to make accurate and fully informed investment decisions.

4. How the Staffordshire Pension Fund will achieve net zero carbon emissions by 2050

4.1 The overarching aim of the Fund's CCS is to achieve a portfolio of assets with net zero carbon emissions by 2050. To achieve this the Fund has identified several key steps it must undertake:

- Integrate climate change considerations into the complete investment process through the selection, due diligence, monitoring and stewardship of assets, either directly or through the Fund's or LGPS Central's appointed investment managers, with the aim of decarbonising the entire investment portfolio.

- Access the best possible climate change data available, to be able to assess climate risks and opportunities. This will enable the Fund to make the best possible decisions and understand the impact of climate change on its Funding and Investment Strategies.

- Work collaboratively with other investors and organisations, to improve the quality, relevance and availability of climate-related data and encourage alignment with the 2015 Paris agreement.

Integrate climate change considerations

4.2 The Fund will continue to work closely with its investment adviser, Hymans and LGPS Central, to ensure that any long-term net-zero carbon target is achievable. High-level, potential changes, to adjust for climate risks within the investment strategy, will be considered across the following categories:

- Changing the investment strategy – e.g. further allocations to asset classes that will benefit from the transition to a low carbon economy.

- Reviewing existing investment arrangements– e.g. principally working with LGPS Central, to ensure all existing arrangements have climate change considerations embedded into them and are monitored regularly.

- Reallocating capital to new investment strategies - e.g., reallocating to specific climate thematic strategies.

4.3 Other more practical considerations will also be considered, such as the impact of any changes made, the availability of solutions and the capacity of the Fund and LGPS Central to implement them. These high-level changes will be modelled to develop and continually review a roadmap for decarbonisation and will feed into any Strategic Asset Allocation (SAA) changes the Fund makes.

4.4 Outside of the parameters of this strategy document, as the Fund's Actuary, Hymans, will also take climate change considerations into account for the Fund's Triennial Actuarial Valuation and Funding Strategy, which will include climate scenario analysis. Details of this are available in the Fund's Funding Strategy Statement (FSS) which is presented alongside the Investment Strategy Statement (ISS) on the Fund's website www.staffspf.org.uk.

Access the best possible climate change data available

4.5 The Climate Risk Management Report that LGPS Central have produced for the Fund since 2020, has always adhered to the structure of the Taskforce on Climate Related Financial Disclosures (TCFD). To streamline reporting in 2025, the Fund's Climate Risk Management Report (excluding certain confidential information) and TCFD report are now presented as one document, the Climate Related Disclosures Report.

4.6 Using the best available techniques, the purpose of the 2025 Climate Related Disclosures Report is to provide the Fund with an assessment of material financial risks related to climate change and to comply with the requirements of the Taskforce on Climate Related Financial Disclosures (TCFD).

4.7 The Fund's Climate Related Disclosures Report and previous TCFD reports are available on the Fund's website www.staffspf.org.uk .

Work collaboratively with other investors

4.8 Working with partners such as LGPS Central and Hymans, is going to be crucial to ensure the Fund can meet its long-term net zero carbon emissions target. The Fund will also look to work alongside other organisations it is a member of, such as the Local Authority Pension Fund Forum (LAPFF).

4.9 Through its relationship with LGPS Central, the Fund also endorses several other industry initiatives which will support the transition towards net-zero carbon emissions. Some of these are listed below:

- Principles for Responsible Investment (PRI)
- Institutional Investor Group on Climate Change (IIGCC)
- Transition Pathway Initiative (TPI)
- British Private Equity and Venture Capital Association (BVCA)
- Climate Action 100+

5. Climate objectives

5.1 To ensure the Fund was on the correct path to achieve its long-term net zero climate target in 2050, in 2022 a series of interim climate objectives for 2030 were developed. These have been measured versus the levels and data observed at March 2020 (restated), and reported in the Fund's CCS and TCFD report annually since then.

5.2 Due to the limited availability of data, the Fund's 2030 Climate Objectives were based on listed (or public) equity assets only.

Table 1

2030 Climate Objectives	March 2020 level***
Reduce the Weighted Average Carbon Intensity (WACI)* of the Fund by 50-60% by 2030.	**170.2 WACI***
Reduce the proportion of the Fund invested in Fossil Fuels reserves to less than 4% by 2030.	**5.2%**
Reduce the proportion of the Fund invested in thermal coal to below 1% by 2030.	**2.8%**
Increase the proportion of investments where carbon metrics are reported to over 95% by 2030.**	**69.2%**

*WACI (tCO2e/USDm revenue) is calculated by the division of the number of tons of Carbon Dioxide emitted, by the amount of US Dollar revenue (in millions) generated.
**where climate data is captured, calculated, and provided by the investee companies/managers, rather than estimated by the Fund/data provider.
***The data accessible through the data provider (MSCI) undergoes frequent revisions as estimated data gets replaced by reported data, estimations are refined for greater precision, and data coverage expands. Consequently, there may be variations between data reported in previous documents and the figures presented in this report due to these restatements.

September 2024 update

5.3 The most recent Climate Risk Management Report from LGPS Central compares the data at September 2024 to the March 2020 baseline data (this information is also reported in the Fund's Climate Related Disclosures report at 31 March 2025). The September 2024 data demonstrates excellent progress by the Fund towards its 2030 Climate Objectives, the detail of which is shown in Table 2.

Table 2

2030 Climate Objectives	March 2020 level***	September 2024 level	Change from March 2020 (absolute/relative)
Reduce the Weighted Average Carbon Intensity (WACI)* of the Fund by 50-60% by 2030.	**170.2 WACI***	**64.9 WACI***	**-105.3 WACI* / -61.9%**
Reduce the proportion of the Fund invested in Fossil Fuels reserves to less than 4% by 2030.	**5.2%**	**3.5%**	**-1.8% / -34.0%**
Reduce the proportion of the Fund invested in thermal coal to below 1% by 2030.	**2.8%**	**1.4%**	**-0.2% / -12.5%**
Increase the proportion of investments where carbon metrics are reported to over 95% by 2030.**	**69.2%**	**92.6%**	**+23.4%**

*WACI (tCO2e/USDm revenue) is calculated by the division of the number of tons of Carbon Dioxide emitted, by the amount of US Dollar revenue (in millions) generated.
**where climate data is captured, calculated, and provided by the investee companies/managers, rather than estimated by the Fund/data provider.
***The data accessible through the data provider (MSCI) undergoes frequent revisions as estimated data gets replaced by reported data, estimations are refined for greater precision, and data coverage expands. Consequently, there may be variations between data reported in previous documents and the figures presented in this report due to these restatements.

6. 2025 objectives review

6.1 The Fund's first CCS, approved in 2022, committed to a three-year review in 2025, and this included reviewing the appropriateness of the original 2030 Climate Objectives to take advantage of improvements in climate data reporting. The Fund has worked with Hymans and LGPS Central on setting new climate objectives, which are detailed in Table 3.

6.2 Limitations in data availability in 2020 meant that objectives were only set for the Fund's listed equities. Improvements in data availability since 2020 mean that the Fund can now set an emissions reduction objective for listed corporate bonds[3] and introduce further objectives on green revenues and net-zero

[3] All corporate bond objectives exclude the corporate bonds contained in the LGPS Central Multi Asset Class Fund due to insufficient data availability to set a baseline for this asset class.

pathway alignment. A net-zero pathway alignment objective is expected to become a requirement of TCFD reporting.

6.3 In 2022, the Weighted Average Carbon Intensity (WACI) was used as the Fund's main carbon emissions metric. It is now proposed to change this metric to Normalised Financed Emissions, as this is considered to be a more accurate reflection of the Fund's carbon footprint. Comparison of these two metrics shows a similar magnitude of reduction since 2020 for the Fund's listed equity portfolio.

6.4 Consideration has also been given to including Scope 3 emissions[4] in the Fund's carbon emission reduction objectives, as currently they only include Scope 1 and 2 emissions[5]. After discussion with Hymans and LGPS Central, it is still considered to be too early to include Scope 3 emissions in the Fund's 2030 Climate Objectives, as much of the data is still estimated and therefore not reliable enough at this time. Given the way emissions are currently classified (Scope 1-3), there is also the potential for double counting by including Scope 3 emissions. The Fund's most recent Climate Related Financial Disclosures report does include the Fund's Scope 3 emissions for information for the first time, which is seen as good progress at this stage.

6.5 The 2030 Climate Objectives, in Table 3, have been carefully considered to ensure they are meaningful, achievable, and suitably ambitious. Although achievement of the objectives is important, the Fund believes they should also be viewed with a longer-term perspective in mind, which is to guide the Fund towards its overall target, which is a net -zero carbon investment portfolio by 2050. This is opposed to hard targets that must be achieved at all costs and may be difficult to achieve, given the level of uncertainty.

6.6 As the Fund has achieved most of its original 2030 Climate Objectives through asset allocation decisions, it is anticipated that it will be more difficult to achieve the same levels of progress going forwards. This is because the Fund will need to rely even more on robust RI integration and stewardship as the means of achieving its 2030 Climate Objectives.

6.7 Stewardship is a core pillar of the Fund's CCS; this is to allow for the Fund to decarbonise its assets in a manner that contributes to a reduction in global emissions. The Fund recognises that contributing to global decarbonisation can only be done through ownership and the good stewardship of assets, whose decarbonisation progress is integral for wider change in the real economy.

This is except for the emissions reporting objective (Increase the proportion of listed equities and corporate bond investments where carbon metrics are reported to over 95% by 2030).

[4] Emissions that are not produced by an organisation, but they are indirectly responsible for.

[5] Emissions from sources that an organisation owns or controls directly, and emissions that they cause indirectly as a result of energy purchased and used.

Table 3

2030 Climate Objectives	March 2020 level***	September 2024 level	Change from March 2020 (absolute/relative)
Reduce Normalised Financed Emissions* (scope 1 & 2) by 65-75% for listed equities by 2030	**84.9**	**31.6**	**-53.3 / -62.8%**
Reduce Normalised Financed emissions* (scope 1 & 2) by 25-35% for listed corporate bonds by 2030	**69.2**	**78.3**	**+9.1 / +13.2%**
Reduce the proportion of the Fund's listed equities and corporate bonds invested in Fossil Fuels reserves to less than 3% by 2030.	**5.4%**	**3.8%**	**-1.6% / -29.6%**
Reduce the proportion of the Fund's listed equities and corporate bonds invested in thermal coal to below 1% by 2030.	**2.7%**	**1.5%**	**-1.2% / -44.4%**
Increase the proportion of listed equities and corporate bond investments where carbon metrics are reported to over 95% by 2030**	**87.1%**	**87.3%**	**+0.2% / +0.2%**
Increase the proportion of listed equities and corporate bond investments with clean technology exposure (by revenue) to above 7.5% both by 2030	**3.6%**	**5.3%**	**1.7% / +32.1%**
Increase the proportion of listed equities and corporate bonds investments aligned or aligning to the 2015 Paris Agreement (as measured by LGPS Central) to above 50% by 2030.	**18.3%**	**25.8%**	**7.5% / +29.1%**

*Normalised Financed Emissions (tCO_2e/£m Invested) is calculated by the division of the number of tons of Carbon Dioxide emitted, by the amount invested (£millions)
**where climate data is captured, calculated, and provided by the investee companies/managers, rather than estimated by the Fund/data provider.

***The data accessible through the data provider (MSCI) undergoes frequent revisions as estimated data gets replaced by reported data, estimations are refined for greater precision, and data coverage expands. Consequently, there may be variations between data reported in previous documents and the figures presented in this report due to these restatements.

7. Governance of the Climate Change Strategy

7.1 This CCS has been developed alongside the Fund's Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) to detail how climate change risks will be managed. The Staffordshire Pensions Committee is responsible for preparing the ISS and FSS and have also assumed responsibility for the CCS.

7.2 The Pensions Committee will continue to review the CCS and the 2030 Climate Objectives to incorporate metrics on additional asset classes, as the data becomes more widely available, and at least every three years. Progress against the decarbonisation roadmap and the 2030 Climate Objectives will be reported to the Pensions Committee annually.

7.3 Responsibility for the implementation of the Fund's CCS and monitoring and management of climate risks lies with the Assistant Director for Treasury and Pensions and the Fund's Senior Officers. LGPS Central and Hymans will assist the Fund in assessing and managing climate-related risks.

Transparency, Reporting and Disclosure

7.4 Annually, the Fund will publish an updated Climate Change Strategy and Climate Related Financial Disclosures report.

7.5 Details of stewardship on climate change, by the Fund's investment managers and LGPS Central will continue to be reported to the Pensions Panel[6], as part of a quarterly Responsible Investment and Stewardship (RI&S) report. This report will also include details of engagement activity by LGPS Central and the Local Authority Pension Fund Forum (LAPFF), who engage across the investment industry on behalf of most Local Government Pension Schemes, and which the Fund is a member of. Details of voting, where it is undertaken on the Fund's behalf, will also continue to be included.

[6] The Pensions Panel are a sub-group of the Pensions Committee, who meet quarterly and are tasked with focussing on the Fund's investments.

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