Strathclyde Pension Fund

Questions and Answers.

Pensions. People. Planet.

Signatory of: UK STEWARDSHIP CODE | 2021

PRI Principles for Responsible Investment

Q What is Strathclyde Pension Fund's climate change strategy?

A Founded in 1974 to pay pensions, Strathclyde Pension Fund has become a global leader in responsible investment, with a commitment to become net zero across our portfolios by 2050 in line with the 2015 Paris Agreement.

We are supporting both people and the planet with our ambitious climate change strategy which includes taking into consideration the environmental risks of every investment, collaborating with stakeholders to put pressure on some of the world's biggest companies to clean up their act and where necessary, disinvesting from companies that fail to address the climate emergency.

We are members of the Institutional Investors Group on Climate Change (IIGCC) which includes some of the world's biggest pension funds, and have committed to reporting on climate risk using the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TFCD) framework. Our TFCD statement can be found in our **annual report**.

Q Is Strathclyde Pension Fund divesting from oil and gas?

A Strathclyde Pension Fund has adopted a target of becoming net zero across its portfolios by 2050 in line with the Paris Agreement of 2015. Our investment managers consider the climate risks of every investment and actively engage with companies to hold them to account. Where companies fail to meet our environmental standards, the fund will disinvest from them.

Q How much do you have invested in fossil fuels?

A SPF has £167m invested in energy sector companies. These span 100% renewables operators, companies which are making the transition away from fossil fuel reliance, and a few dedicated fossil fuel companies. That sum is dwarfed by the £500m-plus invested in renewables, including windfarms, solar power and hydro schemes.

We have also invested a further £250m in further green initiatives as well as £20m in the Clean Growth Fund, founded to invest in early-stage companies in the clean technology sector.

Our investment managers assess the environmental risk of each and every investment they make. This active investment management has reduced our

exposure to oil and gas by around 50% since the Paris Agreement while continuing to deliver strong investment returns. The fund has no direct holdings in coal assets.

Q Can't you just dump your fossil fuel investments now?

A No. Divestment is not a panacea and is often a placebo. If we sell our shares there is a substantial risk that a less scrupulous investor will buy them and not hold fossil fuel companies to account in the way that we do.

As an active and activist investor, we have had significant success in using our influence to achieve change and be part of the transition.

For example, the Korea Electric Power Corporation (KEPCO) renounced plans to expand thermal coal power after our investment managers at Legal & General exerted pressure on management through voting sanctions and other engagement. The company is now committed to renewables and natural gas. Legal & General's investment managers also voted against the re-election of the chief executive and chairman of Exxon Mobil as the company was falling behind global peers to by failing to act on climate change.

Last year we joined with 108 institutional investors from 24 countries representing US12trn in assets to campaign for greater corporate transparency around climate change, engaging with 1,025 previously non-disclosing companies. The campaign had an overall response rate of 20%- its highest since it commenced in 2017 – and demonstrated that businesses were 2.2 times more likely to disclose when directly engaged by investors.

As a member of the Institutional Investors Group on Climate Change (IIGCC) we co-signed letters to 36 of Europe's largest companies, calling on them to publish Paris-aligned accounts that consider climate risks, and we recently took the lead in coordinating a collaborative letter signed by all LPGS in Scotland and Northern Ireland to Apple. After expressing investor concern around plastics and waste the tech giant agreeing to engage with the issue.

Simply offloading our oil and gas investments also misunderstands the wider demands of tackling climate change, which requires a much broader approach.

For example, 40% of global energy use comes from buildings and buildings are responsible for about a third of global greenhouse gas emissions. Our property manager, DTZ Investors, is working towards reducing the operational carbon emissions of our property portfolio to zero by 2030 and minimising the embedded carbon in developments and refurbishments.

Agriculture and land use account around 24% of global greenhouse gas emissions, and meat and dairy supply chains are major contributors and are also among the biggest drivers of tropical deforestation. We have signed collaborative letters to fast food, pub and restaurant chains including McDonald's and Dominos urging them to improve sustainability in their supply chains and to Brazilian food producers to eliminate deforestation from supply chains in the Amazon.

Q Why set a net zero target of 2050 – why can't you achieve this sooner?

A We hope to cut the majority of our emissions by 2030 but until we complete further analysis, we are not in a position to confirm how quickly we can reduce our footprint and by how much. Climate leadership is not something that can be achieved overnight.

We hope to achieve the target by encouraging all portfolio companies to reduce their emissions, not just by selling the highest emitters to someone else.

Our target of net zero by 2050 is in line with the 2015 Paris Agreement and the recommendations of the Intergovernmental Panel on Climate Change (IPCC). We look forward to seeing what COP26, being held in our home city of Glasgow, will produce.

Q What has SPF done previously to tackle climate change?

A As an active and activist investor, we have had significant success in using our influence to achieve change and be part of the transition.

For example, two Korean companies, the Korea Electric Power Corporation (KEPCO) and the engineering and construction company Samsung C&T renounced plans to expand thermal coal power after our investment managers at Legal & General exerted pressure on management through voting sanctions and other engagement. KEPCO is now committed to renewables and natural gas and Samsung C&T will no longer participate in coal-fired power generation projects in any capacity.

Recently our investment managers at Lazard voted to force US energy giant Chevron to cut its carbon emissions and report on the impacts of a Net Zero 2050 scenario as the company was failing to act on climate change.

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We are a member of the Climate Action 100+ initiative which has secured Net zero commitments at all European oil and gas majors including BP, Shell and Total and from companies in hard to decarbonise sectors like autos and steel making.