Suffolk Pension Fund
Path to Net Zero
2024

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Path to Net Zero

The Pension Fund Committee is committed to aligning the portfolio to the Paris Agreement and set a net zero target for 2050 or earlier. This document sets out the strategy and a high-level action plan, which includes timelines, interim targets and how this target can be achieved. This also includes monitoring to enable the Fund to report progress.

The Pension Fund Committee is aware of the need to generate a sufficient level of return whilst managing potential investment risks and therefore has developed a clear set of fundamental investment beliefs covering both investment and environmental, social and governance (ESG) considerations which provides a clear framework for all investment decisions.

The Committee's main objective is to deliver an investment return consistent with funding plans that does not compromise future generation's ability to meet their own needs.

In addition, the Committee identifies climate change, pollution and company stewardship as the priorities for responsible investments and ESG.

Strategy

Vision

To have net zero carbon emissions from the investments in the Fund from 2050 or earlier.

Objectives

- To understand the level of Climate Risk within the Fund's investment portfolio.
- Monitoring and reporting the progress towards net zero carbon emissions to enable the Pension Fund Committee to make informed decisions.
- To reassure stakeholders.

Achieved through:

- Carry out baseline analysis for investments to understand the starting position and progress made to date based on investment at 31 March 2024.
- Monitor and report on the delivery of the Net Zero commitment on an annual basis
- Evaluate progress against timeline targets to demonstrate progress.
- Identifying investments which are not aligned to achieving net zero carbon emissions by 2050 and making informed decisions on continuance.

Engagement

The Committee believes that engagement and voting are influential and promotes good practice in the corporate governance and management of the companies that they invest in. They can be effective in changing behaviour and improving the Fund's performance as well as having a positive impact on the environment and society and is more effective than disinvesting from the company.

The Fund where possible will participate in collaborative initiatives to strengthen the Fund's engagement outcomes.

The Suffolk Pension Fund has an investment managers engagement framework which sets how the elements of the process are identified and addressed, and to aid discussion, measurement of outcomes and reporting. This policy is set out in Annex 1 of this document.

Investment Strategy

The Committee recognises Environmental, Social and Governance (ESG) issues can impact on the Fund's investment returns and is committed to responsible investing to develop a sustainable investment approach to protect future Fund performance.

The Committee believes that having a responsible investment policy should lead to better financial outcomes for the Fund as businesses with more sustainable practices should outperform over the long term and lead to better outcomes for society.

The Fund should consider securities that deliver a positive environmental outcome only when there is evidence of the positive impact on risk and return and avoid exposure to securities where environmental aspects will be financially detrimental to the Fund.

Investment Managers

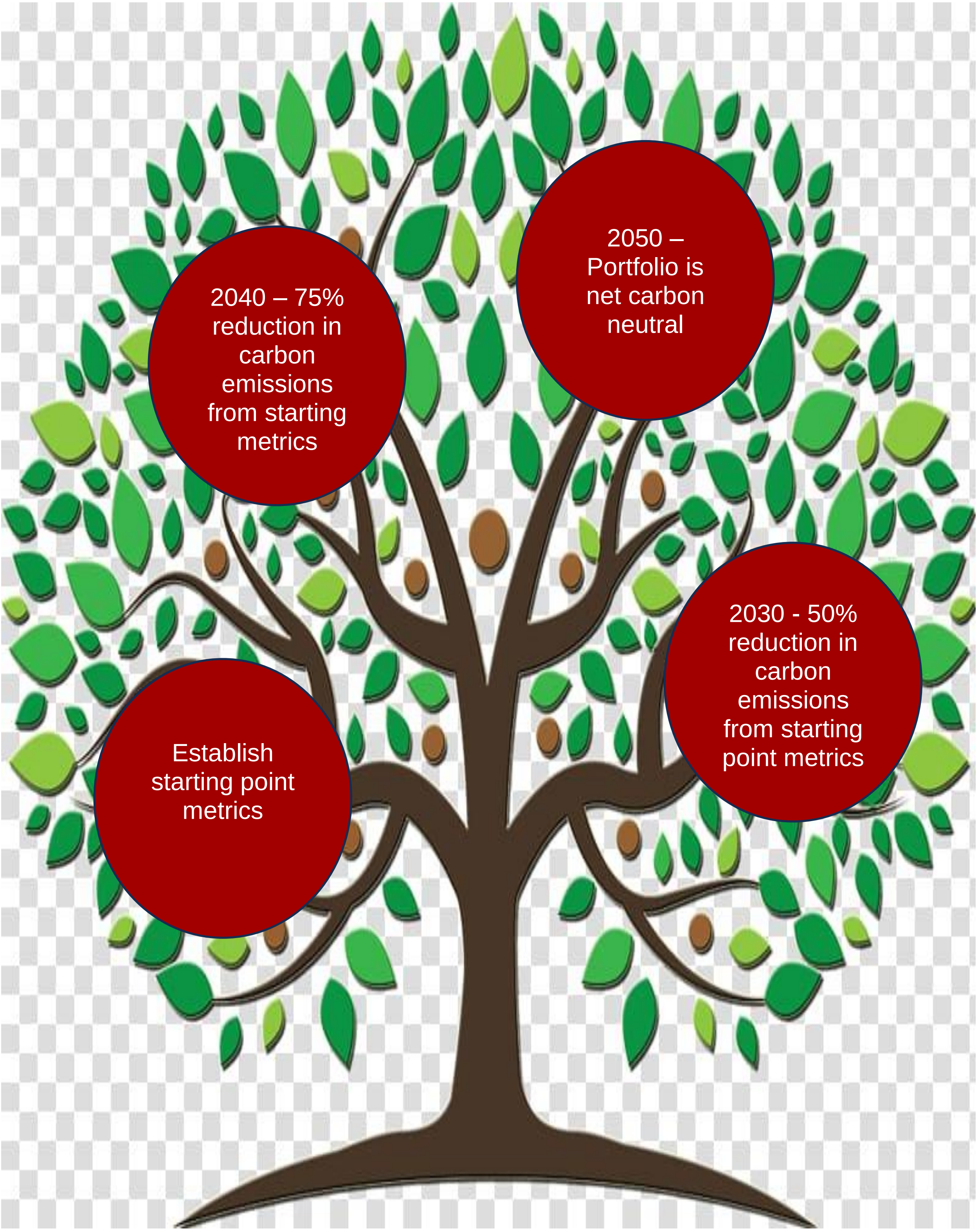
The Fund's investment managers are required to embed the consideration of Environmental, Social and Governance (ESG) factors into their investment process and decision making and to report on how these are implemented. ESG factors will evolve and the Fund's investment managers should seek to take a long-term view which evaluates the direction of travel of the invested companies.

The Committee does not restrict the investment managers' choice of investments by reference to social, environmental or ethical criteria except where restrictions have been put in place by Government. All investments that are made for the Fund comply with the legal and regulatory requirements that apply to the LGPS.

The Fund's investment managers are required to invest in line with the Fund's investment beliefs and to demonstrate how these beliefs are met.

Timeline

The timeline is a high-level journey plan, indicating the key milestones.



Measurement

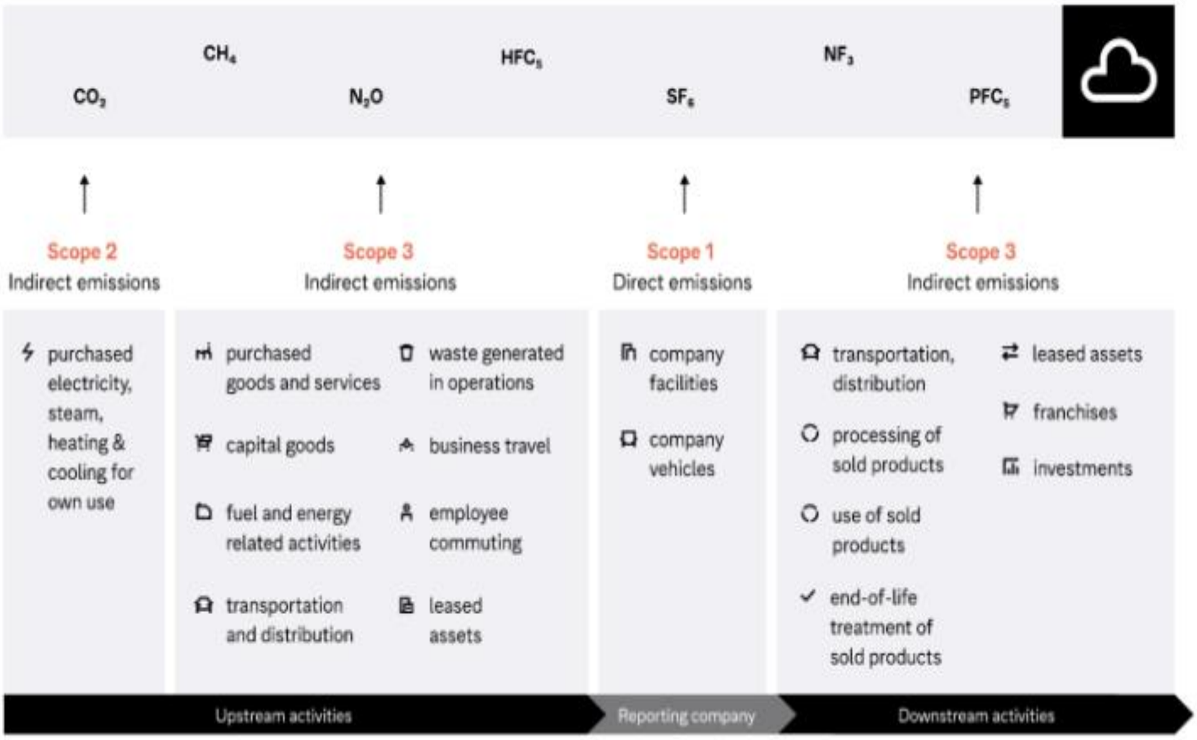
The carbon footprint of investments are reported as scope 1, 2 and 3 emissions, which categorises the different types of greenhouse gas emissions created by a company, its suppliers and customers. These are set out as follows:

- Scope 1 covers emissions from sources that an organisation owns or directly controls – such as driving non-electric vehicles.
- Scope 2 are emissions that a company causes indirectly and come from where the energy it purchases and uses is produced, such as electricity used in company buildings.
- Scope 3 are emissions that are not produced by the company itself and are not a result of activities from assets owned or controlled by them, but by those that it's indirectly responsible for up and down its value chain such as the use and disposing of products to its suppliers.

Upstream emissions occur during the production of goods or services that a business purchases or uses such as a retail business using plastic to produce its products, it's the emissions from the production of that plastic.

Downstream emissions result from the use or disposal of a businesses' s product or service such as the use and disposal of a washing machine.

The infographic below displays a business's upstream and downstream activities and the 15 categories of scope 3 emissions as defined by the Greenhouse Gas Protocol.



There is a lot to be taken into consideration to reduce emissions such as cost and practicality. A company can chose whether their fleet of vehicles are low or zero emissions, can determine how the energy for their buildings is sourced and how their products are produced and these are easily quantifiable in scope 1 and 2.

However, scope 3 emissions are the hardest to reduce because a soft drinks maker can’t control how a consumer will dispose of their empty bottle and a washing machine manufacturer can’t dictate to a customer that they can only use their appliance in eco mode and dispose of it responsibly.

Annex 1

Investment Management Engagement Framework

Format

The investment managers engagement process is a continuous cycle of:

- engagement with the investment managers and other investment professionals,
- Identification of responsible investment beliefs,
- Analysis and assessment,
- Review investments
- Monitor investments
- Report on investments

The investment managers engagement framework sets out how each of these elements of the process are identified and addressed and to aid discussion, measurement of outcomes and reporting.

Framework

Investment Managers Engagement Framework

Engagement

The Suffolk Pension Fund will meet with each investment manager at least once a year. Active equity funds and investments that are causing concern will be met with on a more frequent basis.

Identify Responsible Investment Beliefs

The Funds responsible investment belief are set out in the Investment Strategy Statement alongside how the principal responsible investment beliefs and priorities will be achieved.

The key responsible investment beliefs are as follows:

- Responsible Investment considerations are important across all time horizons, but especially in the medium and long term. This is true not just in terms of protecting and enhancing long term investment return, but also increasingly in terms of the interests of stakeholders.
- Responsible investment considerations are important irrespective of asset class.
- Responsible management of responsible investment issues is considered a reputationally important issue.
- The consideration of ESG factors is to be incorporated into the portfolio construction process of all investments made by the Fund’s investment managers.
- ESG factors are relevant in the context of benchmarking, risk analysis and investment opportunity identification.
- Climate risk and the issues which contribute to it are of significant concern to all stakeholders and as a result it is the prominent area of concern
- The Fund advocates the use of engagement over divestment as the means to promote its Responsible Investment beliefs however, selling an asset remains an option when it comes to unaddressed ESG concerns.
- The Fund recognises the value in engaging collaboratively to leverage greater influence together with other investors who share the Fund’s priorities through joint initiatives and organisations.
- The exercise of ownership rights through voting.

Analyse and Assess

The Fund will utilise a variety of methods to assess the Fund’s Investment Managers implementation of ESG which covers:

- the overall approach to ESG risks and how they apply this to the mandate they manage Fund’s behalf.

- implementation within the Fund's portfolio, identifying portfolio exposures to a range of ESG themes.

Review Investments

An agenda is prepared to promote ESG specific discussion for each meeting comprising of a set of questions based on the outcome and findings from the analysis. The investment manager should be able to demonstrate how the investments made measure up in terms of responsible investment and the stewardship activities undertaken that enhance sustainability.

The agenda will cover:

- An outline of how ESG is embedded into their investment decision making process and day to day investment activities
- justification for holding stocks that perform poorly in ESG analysis to gain sufficient comfort that the overall expected long-term financial gain is not compromised
- overall ESG scores and direction of travel
- climate change risk metrics
- What stewardship engagements activities have been carried out in relation to the mandate and the outcomes from that engagement
- The organisations path to net zero

Monitor Investments

Each of the Fund's Investment Managers is monitored and reviewed on a quarterly basis in terms of its overall investment capability and its RI rating.

Where a Manager has been flagged the Fund will meet and engage with the manager more frequently and provide appropriate challenge in the expectation that meaningful improvements will be achieved.

Report on Investments

The Pension Fund Committee receives a report on the outcomes from the investment managers meetings on a quarterly basis.

The Pension Fund Committee receives a quarterly ESG report which covers how the responsible investment beliefs in the investment strategy statement are being met. This includes how ESG is imbedded in the investment managers mandates, climate risk metrics, voting and stewardship.

The Fund requires each of its Investment Managers to provide an annual responsible investment report which outlines their policy, how the policy has been implemented and their outcomes.

Escalation Policy

Investment Managers are expected to invest inline with the Fund's responsible investment beliefs and to demonstrate how this has been implemented. They are expected to provide suitable reporting to meet the Fund's needs.

The Fund will monitor progress periodically and escalate any shortfall in expectations to the Pension Fund Committee.

If all avenues of engagement are exhausted, then the Pension Fund Committee, following professional advice, may decide to divest its mandate from the Investment Manager.