Avon Pension Fund investments manager, Nathan Rollinson

Avon Pension Fund: Bringing forward its net-zero goals

Laura Blows speaks to Avon Pension Fund investment manager, Nathan Rollinson, about the fund's responsible investment strategy and its decision to bring forward its net-zero target to 2045

Please could you provide a brief overview of the Avon Pension Fund?

We are an LGPS fund that covers over 440 employers in the former Avon area, that is Bristol, Bath and North East Somerset, North Somerset and South Gloucestershire. Employers include local unitary councils, universities, academies, town and parish councils, housing associations and charities.

We have over 140,000 members and the fund has assets under management approaching £5.5 billion.

Our administering authority is Bath & North East Somerset Council, which is legally responsible for the fund. The council delegates its responsibility for administering the fund to the Avon Pension Fund Committee, which is its formal decision-making body. We are part of the Brunel Pension Partnership.

Why, and when, did Avon Pension Fund decide to reach net-zero by 2050?

We have been investing in a climate aware way for over two decades now and formally adopted our 2050 net-zero target in 2019. Climate risk has been a strategic priority for the fund for many years. There's no denying that we all need to play our part if we are to make real progress on dealing with the risks of climate change. Our strong view is that taking steps to address it is in the interests of our members and the planet.

How does your net-zero aim fit in with your broader responsible investment goals?

Climate is an absolute priority for the fund and that view comes squarely from the Pensions Committee. It is embedded throughout how we think about our investments.

A number of our wider responsible investment goals are inextricably linked to climate change. For instance, we are starting to see biodiversity and impact investing come to the fore and we see these as avenues for being able to progress, evolve and build on the progress we've made to date. We also strongly believe that good corporate governance is essential for companies to implement strategies to address climate risk and reduce their emissions in the drive to decarbonise the economy.

How did this decision to become net-zero affect the portfolio structure of the fund? What changed in terms of asset allocation?

Initially it meant withdrawing from the most carbon-intensive areas of emerging markets and UK markets that are heavily weighted to the energy sector and that presented significant transition risk, which we did not feel was adequately rewarded. Off the back of this we redeployed capital into sustainable and Paris-aligned equities.

But decarbonising is only one part of the equation. We also upped allocations to renewable infrastructure that seeks to mitigate the effect of climate change by investing in/providing capital for a range of climate solutions ranging from established renewables such as wind and solar to energy transition assets.

We are now in a position where 100 per cent of our passive equites are now in Paris-aligned strategies and our active equity mandates are governed by strict decarbonisation and transition alignment targets.

What challenges did you experience when trying to implement a net-zero strategy? E.g. are some asset classes more difficult than others to become net zero?

Like many others we have started with the asset classes that are underpinned by the most reliable and consistent data around emissions intensity. So, listed equities.

We face the same challenges as all market participants when it comes to data availability and level of disclosures. This means that as the market evolves we expect to increase the granularity of our targets. This year we have expanded the coverage of targets into fixed income and have worked closely with our pooling provider, Brunel, to enhance reporting across private markets for example, climate solutions exposure within our infrastructure portfolio.

How has being part of the Brunel LGPS pool helped or hindered your net-zero goal?

Without question being part of the Brunel pool has helped us think about and make progress towards our net-zero goals. Brunel are a market leader and have allowed us to raise our profile as a collective, and engage managers and service providers on innovative, market leading initiatives and ensure our disclosures are meeting best practice.

Much of what we have achieved would not have been possible without Brunel's clout, expertise and influence. Importantly, this partnership has also helped us forge relationships with the other partner funds as part of the pool (and with wider market participants) which has resulted in some pioneering and exciting work, for example, local renewable investments through the Schroders Greencoat Wessex Gardens Limited Partnership.

You recently announced that your net-zero target is being moved from 2050 to 2045. Why did you decide to bring this forward?

We recognise the urgency and criticality of acting and hope it spurs other investors to follow suit. It's by tackling the challenge together we can make the positive real-world impact that the planet needs.

The fund has made significant progress already and rather than sit back we wanted to demonstrate that we can continue to be ambitious – and to push ourselves – whilst demonstrating a credible transition pathway. On this latter point it is easy to commit, but more difficult to develop a pathway that meets that commitment. That is why our net-zero approach and date is underpinned by targets that draw on best-in-class frameworks and will, we believe, ultimately deliver on the returns we seek for our members.

What difference has the five-year acceleration had in terms of your investment decisions, compared to the 2050 target?

First and foremost, it has meant that we needed to expand the scope of our target setting, for example, developing targets covering fixed income. It has also meant developing more robust alignment targets, especially in the shorter term, which could well result in certain companies falling out of our portfolio by 2030. We are also focusing more and more on local impact and nature-based solutions, which not only helps with progress against our climate goals, but also supports our wider responsible investment philosophy and approach.

One thing we have been focused on is maintaining momentum. There is a real challenge in repeating big upfront efficiency gains, and, for us, this highlights the importance of having a robust engagement policy in place that targets not just companies, but policymakers too.

Increasingly, as a fund, we are looking at ever more innovative ways of aligning the portfolio. We are still at the early stages of our thinking, but

things we are looking at include putting a price on carbon, climate adaptation opportunities, and ways of further integrating climate into our liability-driven investing portfolio.

How do you monitor your progress to ensure you're on track to reach your new net-zero target?
We make annual disclosures and monitor these closely to ensure we are on track, employing best practice metrics including, for example, absolute emissions, carbon intensity measures, green revenues, and alignment.

There is no one measure that is completely satisfactory, which is why it is so important to measure progress against multiple metrics. We recognise that there are flaws in the carbon intensity measures as well as some of the forward-looking measures, but we don't believe imperfect measures should get in the way of the fund being on a strong path to net zero.

Have you received any feedback from your stakeholders about your new net-zero goal?
Consultation and discussions with our many stakeholders were central to our approach. We consulted extensively when reviewing our net-zero goals, speaking to hundreds of stakeholders, such as local councillors, the scheme employers, and unions.

In September and October 2023, we surveyed members' views on climate investments as part of the review of our net-zero goals. Over 5,000 members responded to our survey.

And most support from members went for a net-zero target between 2040-2050, with 88 per cent of members wanting us to invest in low carbon assets like solar and wind farms.

The overarching conclusion was that members broadly supported the Fund going faster on net zero, but also wanted us to protect the fund, and their pensions. It is about balance.

Their feedback, along with in-depth insights from our advisers, Mercer, helped shape our new net-zero goals.

We're now communicating our new goals through member emails and other communications.

How has your experience of aiming for net-zero been so far? Any unexpected benefits/challenges?
There are well known issues in trying to plot a path to net zero, for example, there are weaknesses in current data sets, inconsistency in disclosures and calculation methodologies, to name a few examples. But it is important not to let the best be the enemy of the good and all schemes need to recognise that perfection will be out of their grasp.

One watch point is that the path to net zero may not be smooth and linear. Quite often you will need to navigate a bumpy road and will not always show the progress at the speed that you want to achieve.

There are also significant communications challenges, especially when it comes to explaining the inevitable nuances and trade-offs to all stakeholders. Challenges crop up around effectively explaining and communicating concepts such as decarbonisation vs alignment, real world vs portfolio, engagement vs divestment, and the concept of fiduciary duty, to name a few.

On the plus side, there is a strong appetite to innovate and improve, and there is a real willingness of market participants to work in partnership to establish solutions that should not just benefit individual funds, but the wider market too.

What advice would you give to other pensions schemes about to embark on the journey to net zero?
Make use of the support of all the various industry groups out there to maximise impact. There is a lot of support out there and tapping into this can help spark thoughts and ideas. What we found is this, along with actively inviting challenge from stakeholders, allows us to learn and grow together and have an honest dialogue about what is and isn't achievable.

My other tip, is to make sure you are use resources to the greatest effect, focusing on where a real-world difference can be made. This may mean some compromises are made, but this is better than being distracted from the overarching goal and diluting the great work schemes are doing in this space.

Written by Laura Blows