

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday 25 November 2020
<b>Report Subject</b>	Responsible Investment and Climate Risk
<b>Report Author</b>	Head of Clwyd Pension Fund

### EXECUTIVE SUMMARY

At the meeting in February 2020, the Committee agreed the Fund's updated Investment Strategy Statement, which included the newly formulated Responsible Investment (RI) Policy. The RI Policy contained a number of key areas of focus and included a statement on Climate Change. The Fund recognises the importance of addressing the financial risks associated with Climate Change through its investment strategy, and recognises it as a financial risk.

The RI Policy also recognised the multitude of potential areas on which to focus, and therefore agreed 5 strategic priorities for the next three years (2020-2023). One of these priorities was to **evaluate and manage carbon exposure**.

To address this priority the Fund has undertaken an exercise, with its Investment Consultant's Mercer, to measure its exposure to Carbon through its equity investments.

At the meeting, the Committee will undertake a training session, designed to aid Members in their understanding of the Carbon footprinting process and to better assess the Fund's results, which will also be presented by Mercer at the meeting.

Fund Officers and Mercer will be discussing these results in upcoming planned meetings to understand them in more detail and to plan the next steps, which may include setting a target to reduce Carbon exposure at the total fund level.

### RECOMMENDATIONS

1.	To undertake and comment on the Carbon footprinting training session
2.	To discuss and comment on the outcome of the Fund's Carbon footprinting analysis.

## REPORT DETAILS

<b>1.00</b>	<b>RESPONSIBLE INVESTMENT</b>
1.01	<p>At the meeting in February 2020, the Committee approved the publication of the Fund's revised Investment Strategy Statement. This document contained the Fund's newly formulated Responsible Investment (RI) Policy. This Policy was developed after engagement with the Committee over a number of sessions, to establish Core beliefs and principles.</p>
1.02	<p>The Policy is designed to support the Fund's specific RI aims within the Funding and Investment specific objectives:</p> <ul style="list-style-type: none"><li>• Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability;</li><li>• Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these.</li></ul>
1.03	<p>The RI Policy includes the Fund's approach to Pooling, Stewardship and Engagement, its RI Beliefs and Principles and approach to Climate Change. It also sets five key Strategic RI Priorities for the coming three years (2020-2023).</p>
1.04	<p>The strategic priorities are:</p> <ul style="list-style-type: none"><li>• <b>Evaluate and manage carbon exposure</b><ul style="list-style-type: none"><li>○ The Fund has identified climate change as a financial risk, and intends to measure and understand its carbon exposure within its investment portfolio.</li><li>○ Once this initial assessment has been made, the Fund will look to set agreed Carbon reduction targets within 12 months to be delivered over the next five years.</li></ul></li><li>• <b>Identify sustainable investments opportunities</b><ul style="list-style-type: none"><li>○ The Fund has for a number of years looked to make Social/Impact investments; whereby in addition to making the requisite financial return the investment has a positive social or environmental impact. The 2019 Investment Strategy Review has further supported this with the creation of a separately identified portfolio.</li><li>○ This portfolio has a strategic target weight of 4% of the Fund's assets and will be seeded from existing investments that meet pre-agreed criteria based on the <a href="#">United Nations Sustainable Development Goals</a>. Additional opportunities will be added with a view to achieving the target weight in three years.</li></ul></li><li>• <b>Improve public disclosure and reporting</b><ul style="list-style-type: none"><li>○ The Fund recognises the importance of transparency and reporting with respect to ESG issues. The Fund intends to enhance its analysis, disclosure and reporting on its RI activities, including manager ESG ratings, voting and engagement and carbon emissions analysis.</li></ul></li></ul>

	<ul style="list-style-type: none"> <li>• <b>Active Engagement on ESG risks</b> <ul style="list-style-type: none"> <li>○ As a member of the LAPFF, the Fund has active engagement with its underlying investments. In the future, due to the pooling of investments this engagement will be supplemented by the work of the WPP. The Fund is committed to working proactively with WPP and its providers to improve the levels of engagement.</li> </ul> </li> <li>• <b>FRC Stewardship Code</b> <ul style="list-style-type: none"> <li>○ The Fund has been a Tier One signatory to the Stewardship Code since March 2018. The new, more demanding version of the Code was launched in October 2019, and the Fund is committed to reviewing the requirements of the new Code, and aiming to remain a Tier One signatory if practical. If this is not achievable, the Fund will encourage the WPP to do so.</li> </ul> </li> </ul> <p>The first of these priorities and the focus for this Committee meeting is to <b>evaluate and manage carbon exposure</b>.</p>
--	--

<b>2.00</b>	<b>CARBON FOOTPRINTING ANALYSIS</b>
2.01	The Fund has worked with its Investment Consultant, Mercer to analyse the underlying equity holdings within its portfolio to understand and measure the exposure to Carbon. The analysis was undertaken at a total Fund and individual manager level as at 31 March 2020, and 30 September 2020. These two data points were agreed to enable assessment of the Fund before the transition to the new Investment Strategy and after.
2.02	The analysis will be presented at the meeting of the Committee after a training session on how the Carbon footprint is measured and how to interpret the results.
2.03	<p>The final element on the Strategic RI priority was to assess and understand the results of the Carbon footprinting and look to set agreed Carbon reduction targets.</p> <p>After presenting the results to the Committee meeting on 25 November, Officers and Advisers will look to assess them in more detail and understand how the footprint could be, and will be, reduced over time. The result of this work will presented to the Committee at a future meeting.</p>

<b>3.00</b>	<b>RESOURCE IMPLICATIONS</b>
3.01	None directly as a result of this report. The work to deliver the RI principles was included within the Fund's budget.

<b>4.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
4.01	None directly as a result of this report.

<b>5.00</b>	<b>RISK MANAGEMENT</b>
5.01	The Fund has recognised Climate Change as a key financial risk and the development of the RI Policy was a key mitigating factor in managing this risk. The Carbon footprinting assessment was another key measure to help the Fund understand how Climate Change will affect its Investment Strategy.
5.02	The Fund's Investment and Funding part of the Risk Register identifies the risk of not addressing RI, with specific reference to Climate Change. Risk 9 is linked to Strategic Objectives F1, F4, F8 and F9, and seeks to address the measures in place to manage this risk.

<b>6.00</b>	<b>APPENDICES</b>
6.01	None.

<b>7.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
7.01	<p>Clwyd Pension Fund Investment Strategy Statement, including Responsible Investment Policy – Feb 2020</p> <p><b>Contact Officer:</b> Philip Latham, Head of Clwyd Pension Fund  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> <a href="mailto:philip.latham@flintshire.gov.uk">philip.latham@flintshire.gov.uk</a></p>

<b>8.00</b>	<b>GLOSSARY OF TERMS</b>
8.01	<p>A list of commonly used terms are as follows:</p> <p>(a) <b>Carbon footprint</b> - The amount of greenhouse emissions generated by an individual, company or country over a set time-period.</p> <p>(b) <b>ESG</b> – Environmental, Social and Governance issues concerning Responsible Investors.</p> <p>(c) <b>Engagement</b> – A long-term dialogue between investors and companies on ESG factors</p> <p>(d) <b>Impact Investing</b> – The process of intentionally making investments with the aim of creating a measurable beneficial impact on the environment or society, as well as earning a positive financial return.</p>

(e) **Stewardship Code** – A code requiring institutional investors to be transparent about their investment processes, engage with investee companies and vote at shareholder meetings.

(f) **UN Sustainable Development Goals (SDGs)** – 17 objectives for improving human society, ecological sustainability and the quality of life published by the United Nations in 2015.

**A comprehensive list of sustainable investment terms can be found via the following link:**

<https://www.robeco.com/uk/key-strengths/sustainable-investing/glossary/>