AGENDA

Meeting: **Investment Sub-Committee**

Place: **Access the online meeting here**

Date: **Thursday 10 June 2021**

Time: **10.00 am**

Please direct any enquiries on this Agenda to Kieran Elliott of Democratic Services, County Hall, Bythesea Road, Trowbridge, direct line 01225 718504 or email kieran.elliott@wiltshire.gov.uk

Press enquiries to Communications on direct lines (01225) 713114/713115.

This Agenda and all the documents referred to within it are available on the Council's website at www.wiltshire.gov.uk

Membership:

Cllr Richard Britton (Chairman)
Cllr Steve Heyes
Cllr Gordon King
Cllr Edward Kirk (Vice-Chairman)

Substitutes:

Cllr Pauline Church
Cllr Sarah Gibson
Cllr Gavin Grant
Cllr Carole King
Cllr Ian Thorn
Cllr Robert Yuill

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AGENDA

Part I

Items to be considered when the meeting is open to the public

1 **Membership**

To note any changes to the membership of the Sub-Committee.

2 **Apologies**

To receive any apologies for absence or substitutions for the meeting.

3 **Minutes** *(Pages 7 - 12)*

To approve and sign as a true and correct record the Part I (public) minutes of the previous meeting held on 25 February 2021

4 **Declarations of Interest**

To receive any declarations of disclosable interests or dispensations granted by the Standards Committee.

5 **Chairman's Announcements**

To receive any announcements through the Chairman.

6 **Public Participation and Councillor Questions**

The Council welcomes contributions from members of the public. During the ongoing COVID-19 situation the Council is operating revised procedures and the public are able participate in meetings online after registering with the officer named on this agenda, and in accordance with the deadlines below.

Guidance on how to participate in this meeting online.

Statements
Members of the public who wish to submit a statement in relation to an item on this agenda should submit this is electronically to the officer named on this agenda no later than 5pm on Tuesday 8 June 2021.

Statements should:

- State whom the statement is from (including if representing another person or organisation)
- Clearly state the key points
- If read aloud, be readable in approximately 3 minutes

Up to three speakers are allowed for each item on the agenda.

Questions
Those wishing to ask questions are required to give notice of any suchquestions

electronically to the officer named on the front of this agenda no later than 5pm on Thursday 3 June 2021in order to be guaranteed of a written response. In order to receive a verbal response questions must be submitted no later than 5pm on Monday 7 June 2021.

Please contact the officer named on the front of this agenda for further advice. Questions may be asked without notice if the Chairman decides that the matter is urgent. Details of any questions received will be circulated to members prior to the meeting and made available at the meeting and on the Council's website; they will be taken as read at the meeting.

7 **Responsible Investment Update and Progress Report** *(Pages 13 - 44)*

To receive a report on responsible investment issues

8 **Date of Next Meeting**

The next ordinary meeting of the Investment Sub-Committee will be held on 2 September 2021.

9 **Urgent Items**

Any other items of business which, in the opinion of the Chairman, should be considered as a matter of urgency. Urgent items of a confidential nature may be considered under Part II of this agenda.

10 **Exclusion of the Public**

To consider passing the following resolution:

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Item Numbers 11-16 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

Part II

Items during consideration of which it is recommended that the public should be excluded because of the likelihood that exempt information would be disclosed.

11 **Private Markets Progress Report** *(Pages 45 - 62)*

To receive a report on Private Markets

12 **Sustainable Equities** *(Pages 63 - 78)*

To receive a report on Sustainable Equities.

13 **Private Markets Portfolio**

To receive a presentation on the private markets portfolio.

14 **Listed Markets**

To receive a presentation on Listed Markets

15 **Investment Quarterly Progress Report** *(Pages 79 - 124)*

To receive a report in relation to the Fund's investment performance to 31 March 2021.

16 **Minutes** *(Pages 125 - 134)*

To approve and sign as a true and correct record the Part II (private) minutes of the previous meeting held on 25 February 2021.

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Wiltshire Council

Investment Sub-Committee

MINUTES OF THE INVESTMENT SUB-COMMITTEE MEETING HELD ON 25 FEBRUARY 2021 AT ONLINE MEETING.

Present:

Cllr Pauline Church (Vice-Chairman), Cllr Tony Deane (Chairman), Cllr Brian Ford (Substitute) and Cllr Gordon King

Also Present:

Courtney Bensen, Matt Betts, Sarah Brewer, Marlene Corbey, Chris Crozier, Joshua Caughey, Jennifer Devine, Anthony Fletcher, Kieran Harkin, Shruti Moraes and Susan Tompkins

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64 **Membership**

There were no impending changes to the membership of the Sub-Committee.

65 **Apologies**

Apologies were received from:

- Cllr Robert Jandy

Cllr Jandy was substituted by Cllr Brian Ford.

66 **Minutes**

The Part I (public) minutes of the previous meeting held on 2 December 2020 were considered, and it was:

Resolved

The Sub-Committee approved and signed the Part I (public) minutes of the previous meeting held on 2 December 2020 as a true and correct record.

67 **Declarations of Interest**

There were no declarations of interest.

68 **Chairman's Announcements**

There were no Chairman's announcements.

69 **Public Participation and Councillor Questions**

There were no statements or questions from the public or Councillors.

70 **Investment Strategy Statement Review**

Jennifer Devine, Head of Pension Fund Investments, introduced the report which outlined the process in place to update the Investment Strategy Statement (ISS).

The track changes to the ISS were briefly highlighted. Officers noted that all Committee and Board members had been invited to an additional training session outside of the ordinary meeting structure on the afternoon of 10 March 2021. This session would provide members with further insight and would aid in the discussions surrounding the Wiltshire Pension Fund's (WPF) approach towards tackling climate change related issues and risk.

Officers clarified that the ISS would be brought to the next ordinary meeting of the Committee on 30 March 2021 for approval. It was also highlighted that some members of the Committee had suggested that employers should be consulted on the changes which officers confirmed could be done in advance of the Committee meeting and would take the form of providing the draft ISS, and asking employers to respond to a brief four question survey.

In response to a question, officers confirmed that the only changes to the ISS were related to the climate change modelling, however it was noted that these may lead to further changes in the future.

Resolved

The Sub-Committee recommended to the Pension Fund Committee that:

a) **The revised ISS be approved;**
b) **The membership engagement plan be added to the ISS.**

71 **Responsible Investment Quarterly Update**

Jennifer Devine, Head of Pension Fund Investments, presented a report updating members on responsible investment issues.

The extraordinary meeting of the Committee on 14 January 2021 was raised and it was explained that during the meeting, members were encouraged to email in their opinions on the matters raised to Jennifer Devine. Officers explained that the feedback received was summarised in the report alongside how officers were intending on taking the feedback forward, with impact investing given as an example. Recommendation 2 was highlighted, and it was noted that Committee member Mike Pankiewicz, had attended a conference in which he had heard Karen Shackleton speak and had raised the possibility that she be invited to present to members.

It was highlighted that Unison had published a new report on responsible investment in the LGPS, comparing the 10 Funds in the Brunel Pension Partnership. Officers noted that the data used was not current and as such the WPF's score was not as high as it could have been, however it showed the progress made to date and highlighted further areas of improvement.

Officers additionally noted that The Department of Work and Pensions consultation was live. It was clarified that it did not apply to the WPF, but it would be looking at how pension schemes handle climate change risk. A very similar MHCLG consultation, which was expected to apply to the LGPS, was expected shortly. Officers confirmed that if the changes being consulted on came into law, then the WPF were in a good place as they were already implementing a lot of the recommendations, such as climate change modelling.

Officers then raised the topic of scheme membership engagement and explained that the report sets out a plan and ideas with regard to broadening the Fund's approach, such as the circulation of a survey to gain a further understanding of members' views.

In response to a question, Anthony Fletcher, MJ Hudson, explained that Karen Shackleton was previously an asset manager who moved into working as an independent advisor for different London Fund's and County LGPS schemes. It was clarified that she was interested in impact investing, sustainability and ESG issues and therefore set up a forum with other likeminded people to discuss these issues and to inform people as to what they consider to be best practice and what they have seen other schemes put in place.

Resolved

1) **The Sub-Committee noted the report and the progress that is being made towards implementing responsible investment related issues.**

2) **The Sub-Committee instructed officers to approach Karen Shackleton to arrange for further training on impact investing.**

3) **The Sub-Committee endorsed the proposed approach to membership engagement and instructed officers to include this within the amended draft ISS.**

4) **The Sub-Committee endorsed the proposed approach to publishing voting records.**

72 **<u>Date of Next Meeting</u>**

The next ordinary meeting of the Investment Sub-Committee would be held on 10 June 2021.

73 **Urgent Items**

There were no urgent items.

74 **Exclusion of the Public**

The Sub-Committee considered the recommendation to exclude the public. After which, it was:

Resolved

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Item Numbers 12 - 16 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraph 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

75 **Presentation from Partners Group**

Sarah Brewer and Courtney Bensen delivered a presentation on Partners Group's Infrastructure portfolio.

76 **Presentation from Brunel**

Chris Crozier and Matt Betts delivered a presentation on Brunel's Global High Alpha portfolio.

77 **Investment Quarterly Progress Report**

Jennifer Devine, Head of Pension Fund Investments, introduced a report in relation to the Fund's investment performance to 31 December 2020.

Resolved

1) **The Sub-Committee noted the investments report and the update provided by officers and advisers at the meeting.**

2) **The Sub-Committee resolved to delay rebalancing the index linked gilts and global high alpha portfolios until further advice from officers and advisers had been received on the possibility of widening both portfolios ranges.**

78 **Sustainable Equities**

Jennifer Devine, Head of Pension Fund Investments, introduced the report providing members with information regarding Brunel's Sustainable Equities portfolio.

Resolved

The Sub-Committee noted the report and resolved to invite a representative from Brunel to present on the Sustainable Equities portfolio at the ISC meeting on 10 June 2021.

79 **Minutes**

The Part II (private) minutes of the previous meeting held on 2 December 2020 were considered, and it was:

Resolved

The Sub-Committee approved and signed the Part II (private) minutes of the previous meeting held on 2 December 2020 as a true and correct record.

(Duration of meeting: 10.00 am - 12.55 pm)

The Officer who has produced these minutes is Ellen Ghey of Democratic Services, direct line 01225 718259, e-mail ellen.ghey@wiltshire.gov.uk

Press enquiries to Communications, direct line (01225) 713114/713115

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND INVESTMENT SUB COMMITTEE
10 June 2021

RESPONSIBLE INVESTMENT UPDATE REPORT

Purpose of the Report

1. The purpose of this report is to update members on responsible investment issues.

Key Considerations for Committee

Climate risk work and the investment strategy

2. Following on from the Mercer climate change modelling, which was presented to members at a dedicated workshop on 19 November 2020, and the responsible investment beliefs survey, the findings of which were presented at the Committee meeting on 17 December 2020, an extraordinary Committee meeting was held on 14 January 2021. This meeting specifically focussed on responsible investment issues, to help define the way forward for the Fund.

3. Further training was organised for 8 March 2021, part of which was provided by the Fund's actuaries, Hymans. During March 2021, a scheme membership survey on responsible investment issues was carried out, as well as a consultation with the Fund employers on an amended Investment Strategy Statement (ISS). Results were reported back to Committee on 30 March 2021, and at that meeting, on consideration of all the information, a decision was made to agree an amended ISS, containing a new investment belief and a commitment to net zero by 2050 for the Fund's investment portfolios.

4. Follow-on actions from the recent Committee meetings are as follows:

Recommendation	Action
Members agreed…	
To approve an updated Investment Strategy Statement (ISS) including a new investment belief: "**In order to protect the Fund's investments into the future, the Fund supports a global warming scenario of 2°C or lower, and states an ambition to achieve net-zero carbon emissions across all investment portfolios by 2050**."	The approved ISS has been published on the Fund's website, and the net zero commitment has been discussed with the Fund's investment managers.
That the Fund should adopt the recommendations of the Task force on Climate related Financial Disclosures (TCFD)	The TCFD reporting will feature in the Fund's annual report for 2020/21, and a commitment to this has been added to the revised ISS
That the Fund should aim to sign up to the 2020 Stewardship Code during 2021	Fund officers have been working with Brunel and other member funds to define an approach to signing up to the 2020 Stewardship Code. An amount of £5,000 was approved as part of the 2021/22

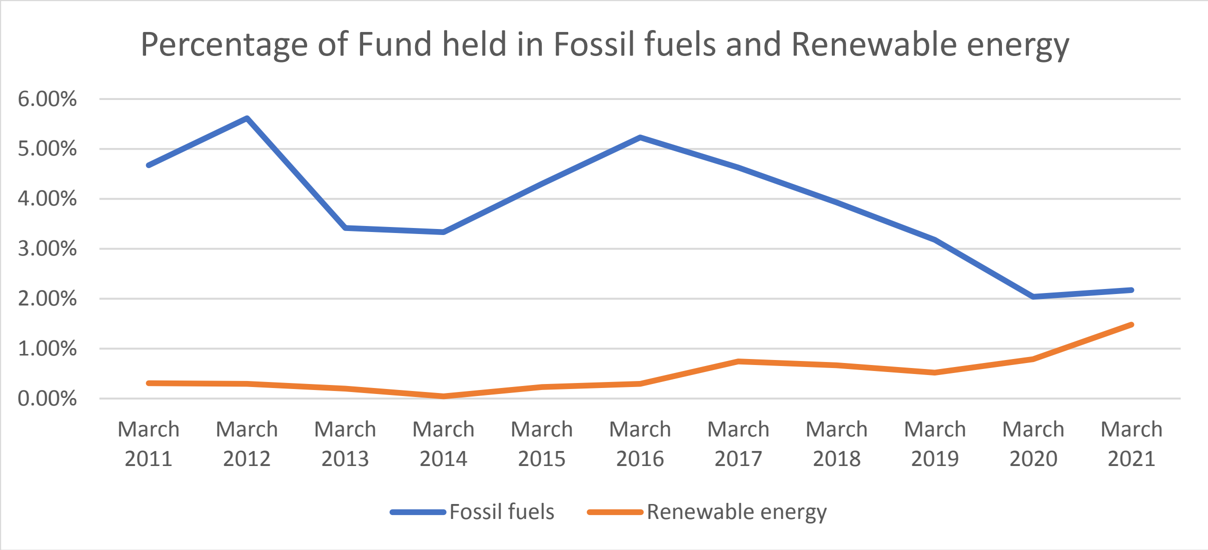
Recommendation	Action
Members agreed…	
	Pension Fund budget to help support this commitment.
That officers will further explore commissioning Mercer to advise on a road map for the Fund to achieve net zero by 2050	A quote for this work was obtained (£65,000) and was approved as part of the 2021/22 budget. Mercer have commenced work, and conclusions will be reported back to the Committee in September 2021.
To instruct officers to prepare a paper on the Brunel sustainable equities portfolio, for consideration at the next Investment Sub-Committee and main Pension Fund Committee in March 2021. Following on from review of that paper at the March 2021 meeting, the Committee requested that Brunel attend the June 2020 Investment Sub-Committee so that members would have an opportunity to ask questions of Brunel, before a final decision would be made on whether to allocate to this portfolio.	Representatives from Brunel have been invited to this Investment Sub-Committee meeting to present on the portfolio and answer the members questions. A separate paper is included elsewhere on this agenda.
To instruct officers to organise a training session on impact investing with Karen Shackleton	This is being organised for 8 July 2021 at 10am. All members of the Committee and Local Pension Board will be invited. The session will also include affordable housing. This should be a fascinating training opportunity and all members are encouraged to attend.

5. In order to ensure that progress continues to be made against the objectives set by the Committee, a Responsible Investment Plan for 2021/22 has been prepared, and is included in Appendix 1. The Plan includes background and context, as well as the actions taken so far. The Plan also includes proposals for next steps, and a suggested timeline, so that officers can report back on completed actions, and Committee members can measure progress against the Plan.

Fossil Fuel and Renewable Energy Exposures

6. For the past 11 years officers have performed an annual (as at 31 March) analysis of the investment portfolios, to monitor the exposure to fossil fuels companies, and the level of investment made into renewable energy. The investments in renewable energy are mostly via unlisted infrastructure investments, but can also be in listed equities, for example a company which manufactures the blades for wind turbines.

7. The analysis, updated to 31 March 2021, follows:



8. There is a very slight uptick this year in the exposure to fossil fuels, from just under to just over 2% of the total fund value, but overall this is broadly in line with the previous year. In future years it is anticipated that this will resume its downward trend, as the Fund puts in place targets to reduce carbon intensity in line with the new target of net zero by 2050.

9. The exposure to renewables has risen significantly, and has more than doubled in absolute terms since 12 months ago. This is a trend that is anticipated to continue, as global policy demands a reduction in carbon emissions, the Fund's managers are seeing over-increasing investment opportunities in companies and assets which support a transition to a low carbon economy.

10. More importantly than the holdings, is how those holdings are performing with regards to reducing their carbon emission. Brunel have now published reporting on each individual Fund's carbon metrics, as at 31 December 2020. This now enables comparison with the data which Brunel produced for Wiltshire as at 31 December 2019 and 31 March 2019. The full report is attached as Appendix 2. Extracts from the reporting will be included in this year's Annual report.

Wiltshire Pension Fund – Carbon Footprint Analysis as at 31 December 2020				
Metric	**Unit**	**Portfolio**	**Benchmark**	**Relative Efficiency**
Weighted Average Carbon Intensity	tCO2e/mGBP	144	244	41%
Extractive Industries Revenue Exposure (VOH)	%	1.1	2.6	58%

Wiltshire Pension Fund – Carbon Footprint Analysis as at 31 December 2019				
Metric	**Unit**	**Portfolio**	**Benchmark**	**Relative Efficiency**
Weighted Average Carbon Intensity	tCO2e/mGBP	153	301	49%
Extractive Industries Revenue Exposure (VOH)	%	2.3	5.3	57%

Wiltshire Pension Fund – Carbon Footprint Analysis as at 31 March 2019				
Metric	**Unit**	**Portfolio**	**Benchmark**	**Relative Efficiency**
Weighted Average Carbon Intensity	tCO2e/mGBP	292	450	35%
Extractive Industries Revenue Exposure (VOH)	%	4.3	8.0	46%

Definitions:

11. **WACI:** The weighted average carbon intensity shows the portfolio's exposure to carbon intensive companies. This measure is determined by taking the carbon intensity of each company and weighting it based on its holding size within the Portfolio. Because carbon intensive companies are more likely to be exposed to potential carbon regulations and carbon pricing, this is a useful indicator of potential exposure to transition risks such as policy intervention and changing consumer behaviour.

12. **Extractives Industries Revenue Exposure (VOH):** This is calculated by summing the weights of any holdings in companies that have a revenue dependency on extractives-related activities. This measure is useful as an indicator to show potential exposure to stranded assets.

13. This analysis shows that between March 2019 and December 2020, there has been significant improvement in Wiltshire's carbon footprint situation. Of particular note is the change in the WACI, which has reduced by 49% over the period.

Brunel Updates

14. Brunel have recently published a few relevant reports on their responsible investment work, which can be found at the following link: https://www.brunelpensionpartnership.org/2021/05/06/brunel-realises-ambitions-across-responsible-investment-and-climate-change/

15. Included via the link are the 2021 Responsible Investment and Stewardship Outcomes Report, which details the breadth of work carried out by Brunel, the Climate Change Action Plan Report (TCFD reporting), and the Carbon Metrics Report.

Environmental Impacts of the Proposals

16. This report includes information on actions and policies which directly deal with addressing climate change risk.

Safeguarding Considerations/Public Health Implications/Equalities Impact

17. There are no known implications at this time.

Proposals

18. The Committee is asked to
    - note the report and the progress that is being made towards implementing responsible investment related issues;
    - approve the Responsible Investment Plan 2021/22, and the actions and costs noted therein.

Report Author: Jennifer Devine (Head of Pension Fund Investments)

Unpublished documents relied upon in the production of this report: NONE

Appendices
Appendix 1 – Responsible Investment Plan 2021/22
Appendix 2 – Brunel carbon footprinting report as at 31 December 2020

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Introduction

1. Responsible investment is the strategy to incorporate ESG (environmental, social and governance) factors into investment decisions. The Fund's position regarding ESG issues is set out in the ISS (Investment Strategy Statement) as follows:

> The Committee believes that in order to carry out their fiduciary duty by acting in the interest of its members, that effective management of Environmental, Social & Corporate Governance management (ESG) issues, including climate change, which are financially material to the Fund is essential. In order to protect the Fund's investments into the future, the Fund supports a global warming scenario of 2°C or lower, and states an ambition to achieve net-zero carbon emissions across all investment portfolios by 2050.
> ESG risks should be taken into account on an ongoing basis and are an integral part of the Fund's strategy and objective of being a long-term investor.

2. The Pension Fund's investment objectives are to achieve sufficient investment returns such that there are funds available to pay the pensions as they fall due, and to meet the liabilities over the long term whilst maintaining stable employer contribution rates.

3. Therefore, consideration of all factors (including ESG factors) which could affect the investment returns is a fundamental part of managing the investments. Responsible investment practices can both help mitigate risks and also enhance returns.

4. This Responsible Investment Plan 2021/22 sets out where the Fund is now, what has been done so far, and plans for developing the Fund's approach to responsible investment issues over the coming year.

Fiduciary Duty

5. The UNPRI (UN Principles for Responsible Investment) discusses a modern interpretation of fiduciary duty at the following link: https://www.unpri.org/fiduciary-duty/the-modern-interpretation-of-fiduciary-duty/6538.article

6. A quote from the link above states that "The integration of ESG issues into investment practice and decision making is an increasingly standard part of the regulatory and legal requirements for institutional investors, along with requirements to consider the sustainability-related preferences of their clients and beneficiaries, and to report on how these obligations have been implemented. Investors that fail to incorporate ESG issues are failing their fiduciary duties and are increasingly likely to be subject to legal challenge."

7. Wiltshire Council's in-house legal team have produced a memo which specifically addresses how climate change risk can be considered in the Fund's investment strategy, and which also tackles the broader issue of consideration of ESG factors in the investment strategy. The memo is attached in full as Appendix 2.

Wiltshire Pension Fund as an investor

8. As the Fund is open to new members, who will not be retiring for many years into the future, the Fund has a very ***long-term investment horizon***. The Fund therefore needs to consider long-term sustainability issues, and the importance of engagement with companies in which it is invested, in order to safeguard the investments into the future.

9. The Fund is a ***large, diversified investor***, with exposure to the global economy. The Fund therefore needs to invest in a way that contributes to the success of the global economy and society as a whole, as this will have a positive financial impact on the Fund's investments.

10. One of the Fund's investment beliefs, as set out in the ISS, is that "**Investing over the long term provides opportunities to improve returns**".

Business plan and risk register

11. Developing the Fund's approach to responsible investment is set out as a "High Priority" action in the Fund's Business Plan for 2020/21. This will have the expected service benefit of helping the Committee to understand and incorporate risks which could have a material financial impact on the Fund's future investment returns. This high priority action shows the strong commitment which the Committee has towards responsible investment, and the high importance of this area of work.

12. Climate change risk is included in the Pension Fund's risk register (risk PEN041) as a "High" priority risk ("Medium" residual risk after the controls in place to manage the risk are considered). Climate change is a key environmental risk which could have a material financial impact on the Fund's returns, and as such needs to be considered, managed and monitored as part of the Committee's fiduciary duty, to protect the investment returns of the Fund. Failure to embed climate change considerations in the investment strategy could cause a negative impact on investment returns over the long term.

What has been done to date

13. The Fund has historically demonstrated a strong approach to responsible investment. The following actions are a summary of recent work done by the Committee and officers, and build on the strong foundations laid over past years.

Investments and strategy

i. **Passive Low Carbon Equities** – in December 2019, the Fund transitioned all of its passive equity exposure to a low carbon passive equities portfolio managed by Brunel. This was done following research to ensure that the risk and return profile of the portfolio would remain the same as the previous portfolios, but also delivered the benefit of reducing the Fund's exposure to carbon-intensive companies, therefore reducing the risk of exposure to stranded assets and reducing transition risk.

ii. **Climate change scenario modelling** – in the summer of 2020, the Committee commissioned Mercer (as the Fund's investment consultants) to carry out climate change scenario modelling, on both the existing strategic asset allocation, and one with a more sustainable tilt. In addition, Hymans (as the Fund's actuary) carried out modelling looking at different levels of policy response to climate risk. The results of these pieces of modelling work have been used to help the Committee understand the financial implication of climate change risk, and this has helped to develop the investment strategy, when considered in the round with other information including training and other professional advice from the Fund's independent adviser and investment managers. A summary of the modelling findings is in Appendix 1.

iii. **Including a new investment belief in the Investment Strategy Statement** – following on from the modelling work, the Committee debated and agreed a new investment belief: "**In order to protect the Fund's investments into the future, the Fund supports a global warming scenario of 2°C or lower, and states an ambition to achieve net zero carbon emissions across all investment portfolios by 2050**."

iv. **Setting a net zero by 2050 target** – the Committee approved a target of net zero by 2050 for the Fund's investment portfolios, based on the outcomes from the modelling work done, which showed that this was in the Fund's best financial interests.

v. **Publicly declaring the net zero target** – the Fund has signed a net zero by 2050 commitment through the IIGCC (Institutional Investors Group on Climate Change), and hopes to be involved in a round of publicity regarding the commitment in June 2021. The news has also been shared with the scheme membership via a newsletter.

vi. **Approving a budget to work with consultants to develop an action plan to deliver the net zero target** – the Committee has approved a budget for Mercer to help develop a plan to achieve the net zero target, showing a strong commitment to making good on the promises made.

vii. **Research into investing in sustainable equities** – the modelling work done by Mercer showed that the Fund may be able to realise a material financial benefit by taking advantage of the opportunity to invest in sustainable equities. This will also have the additional benefit of diversifying the Fund's investment strategy via exposure to different investment styles and sizes/types of company. The Committee has looked into initial information on Brunel's sustainable equities portfolio, and will make a formal decision in due course.

Reporting and disclosure

viii. **Enhanced voluntary disclosures in the Annual Report** – in the 2019/20 Annual Report, the Fund voluntarily included a section on climate risk and metrics, in order to communicate with stakeholders about the work which has been done, and to demonstrate transparency about the Fund's holdings and actions.

ix. **Carbon footprinting** – the Fund first commissioned carbon footprinting of its equity portfolios as at 31 March 2019, to develop an awareness of the starting point for ongoing monitoring.

x. **Commitment to delivering TCFD (Task Force on Climate Related Financial Disclosures) reporting in 2021** – the Committee is keen to demonstrate best practice, so the Fund will be reporting in line with TCFD in or alongside the 2020/21 Annual Report, in advance of any requirements on LGPS funds. It is anticipated that this will become mandatory in the next couple of years. This will explain the way that the Fund manages climate change risk, from a perspective of governance, risk management, strategy and reporting metrics.

xi. **Commitment to reporting in line with the Stewardship Code 2020** – the Committee has shown support of the updated Stewardship Code (the Fund was a signatory of the previous code), by committing to develop a plan to report in line with the new code. The plan will be put in place through 2021, ready for full reporting the following year.

Training and engagement

xii. **Dedication to Committee training** – the Committee has engaged with several training sessions on responsible investment in general, and climate change in particular, including topics such as embedding ESG issues within the investment process, impact investing, and what work is done by the Brunel pool on responsible investment.

xiii. **Strong programme of scheme employer and membership engagement** – the Committee has approved a plan for scheme membership engagement, which is included in the latest version of the ISS. Work done so far includes member and employer webinars on responsible investment matters, communication with the membership on the new net zero by 2050 target, development of the Fund's website, and a scheme membership survey on responsible investment, which generated a very high level of response and engagement. The results of the survey have been published online, and a section in the Annual Report for 2020/21 will highlight the key findings.

Where the Fund needs to be

14. There is no one framework for best practice regarding responsible investment in the LGPS. Each fund needs to decide the best approach individually, whilst operating in line with their fiduciary duty, and taking appropriate professional advice.

15. In order to ensure that all relevant risks are considered and acted upon, the Fund needs to integrate responsible investment issues across the whole investment process:
    - i. **Investment Strategy Statement** – recently updated to include the new investment belief, and will be kept under review as part of the ongoing work in this area;
    - ii. **Strategic Asset Allocation** – see comments below;
    - iii. **Monitoring of managers and the pooling company** – ESG issues are a standing item in manager meetings and reporting. More detail on Brunel's role is below;
    - iv. **Stewardship and engagement work** – more detail on Brunel's role below, but the Fund can improve its approach here by engaging with wider initiatives;
    - v. **Internal reporting and accountability** – responsible investment is a standing item at quarterly Committee meetings;
    - vi. **Reporting externally** – the Fund includes information in the Annual Report, and this will be developed further via TCFD reporting and Stewardship Code 2020 reporting;
    - vii. **Stakeholder engagement** – the Fund includes a plan on scheme membership engagement as part of the ISS, and more detail on this topic is included below.

16. The Fund needs to refine the Strategic Asset Allocation to reflect the results of the climate change scenario modelling, in order to ensure the best possible financial returns for the Pension Fund's investments, and to mitigate risks. This will involve a review of all asset classes to ensure that climate risk and sustainability are being fully considered. Two specific areas are under current consideration:
    - i. **Sustainable equities** – the modelling carried out by Mercer indicated that the Fund could benefit financially from taking the opportunity to invest more sustainably. Specifically, the modelling found that under a 2°C scenario returns could be enhanced by around 0.2% p.a. over the next 10 years by adjusting the current strategic asset allocation to be more sustainable. The biggest impact would come from making a specific allocation to sustainable equities, which under a 2°C scenario, would deliver 1.63% p.a. more than standard global equities over the next 10 years.
    - ii. To put this into context, the Fund is currently valued at £3bn, and the long-term allocation to active global equities is 10% of the Fund. 1.63% p.a. over 10 years on a portfolio of £300m is equivalent to the Fund potentially benefitting to the tune of £53m, from making a switch into a sustainable equities portfolio.
    - iii. This could be achieved by making a strategic allocation to sustainable equities, and then implementing this portfolio via Brunel.
    - iv. **Protection assets** – the Fund is currently reconsidering the way that the protection assets part of the strategic asset allocation is implemented, and this provides an opportunity to introduce more sustainable investments to this part of the strategy, thereby providing additional protection as part of securing stable, long-term, inflation-linked, sterling returns.
    - v. The Mercer modelling indicated that there could be financial benefits from investing more in renewable infrastructure. In this part of the portfolio, this could be

implemented via additional exposure to operational renewable infrastructure. Other asset classes which could be included here include affordable or social housing, which may also provide an opportunity to invest locally (once all risk and return objectives have been satisfied). Officers will work with the advisers to research all options, and will provide Committee members with training and recommendations on the best way forward for the Fund.

17. Officers plan to develop a dedicated Responsible Investment Policy in the autumn of 2021, for approval by the Committee. This will bring together the existing policies and beliefs in the ISS with the work which will be done alongside Mercer to develop a net zero by 2050 road map. Having this information in one place will be a helpful resource for stakeholders, and can be used as an engagement tool.

18. In order to support the new investment belief and help achieve the net zero by 2050 target, the Fund could make use of more widely available resources, by signing up to various responsible investment initiatives. This will have multiple benefits, for example communicating the Fund's position on responsible investment issues, opening up opportunities to get involved in shareholder initiatives to promote the Fund's investment goals, and providing officers and members with resources. A list of initiatives is included below in this plan.

Stewardship

19. Stewardship is defined by the PRI as "The use of influence by institutional investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend". The Stewardship Code 2020 defines it as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society".

20. The Fund was a signatory to the original Stewardship Code, which was introduced in 2010 by the Financial Reporting Council (FRC). The FRC has now published a revised 2020 Code, to which the Fund plans to become a signatory. The 2020 Code is ambitious and has a focus on outcomes, not just policy statements. It will entail a significant amount of work to report on and comply with the new 2020 Code, and the Fund is working on plans to do this during 2021, so that reporting can begin next year. This is being done by carrying out a gap analysis on the current Annual Report format, and then full reporting will be developed, either as part of or alongside the Annual Report.

21. Voting and engagement activities on the Fund's equities portfolios are carried out through the Brunel pool. As part of owning publicly listed companies, Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/EGMs). To provide guidance, Brunel has a single voting policy for all assets managed by Brunel in segregated accounts.

22. Brunel has appointed Federated Hermes EOS as the engagement and voting services provider. The appointment enables a wider coverage of assets and access to further expertise across different engagement themes. For full transparency, the Fund publishes its voting and engagement activities on its website on a quarterly basis.

Wider Initiatives

23. The following is a list of organisations and/or initiatives which the Fund either already supports, or which is it recommended that the Fund signs up to support. Some of these come with a cost, which is detailed below, and some also come with requirements on the

Fund to deliver reporting. All will deliver the maximum benefits if the Fund is able to engage fully, which with the added resource in the investments and accounting team should now be possible.

i. **The Brunel pool** – the Fund is a shareholder and client of the Brunel Pension Partnership. The Fund is able to be involved in setting portfolio specifications, approving manager selection, and monitoring ongoing performance of portfolios. Responsible investment is completely embedded and considered at each of these stages of the process. The Fund also engages through the client group, the responsible investment sub-group, and ad hoc communications from Brunel on responsible engagement initiatives, for example engagement and voting matters.

ii. **LAPFF (Local Authorities Pension Fund Forum)** - The Fund is also a member of the LAPFF, to enable it to act with other local authorities on corporate governance issues. LAPFF's mission is to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. Details of their activities can be found on the following link: http://www.lapfforum.org/about-us

iii. **TPI (Transition Pathway Initiative)** – The Fund publicly supports TPI, which is a is a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy. The TPI tool assesses progress against companies and sectors to measure the level management quality and carbon performance, to aid in risk assessment. More information can be found here: https://www.transitionpathwayinitiative.org/

iv. **PRI (UN supported Principles for Responsible Investment)** - the Fund supports Brunel as a signatory to the PRI. Asset managers and asset owners who are signatories to PRI support the six Principles for Responsible Investment, which are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. More information can be found here: https://www.unpri.org/. It is recommended that the Fund sign up to PRI in its own right. There is a small cost of £3,069 to join. There are numerous benefits including access to resources and guidance, and the ability to engage in collective action with other signatories. There is an administrative burden in reporting, but this will help hold the Fund to account against its objectives.

v. **IIGCC (Institutional Investors Group on Climate Change)** – it is recommended that the Fund join this initiative, as it will help deliver the Fund's net zero by 2050 target. There is an annual membership fee of £2,460. Faith Ward, Brunel's Chief Responsible Investment Officer, is the Chair of the IIGCC, and it is well supported by other Brunel funds. The Fund has already made a public net zero commitment through the IIGCC. More information can be found here: https://www.iigcc.org/

vi. **Climate Action 100** – this is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Is it recommended that the Fund sign up to this initiative, as it will help to deliver the Fund's net zero by 2050 target. This initiative would enable the Fund to support and/or take part in engagement activities with companies it is invested in. It is not possible to sign up to Climate Action 100 without also being a member of PRI or IIGCC. More information is available here: https://www.climateaction100.org/

vii. **Just Transition** – a just transition means not transitioning to a low carbon economy at any cost, but doing so whilst also ensuring that this is done in a socially responsible way. The Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science have put together a comprehensive guide as to what this means for investors, and what action can be taken. It is proposed that the Fund signs a statement of support, and uses the guide to help embed this goal within the Fund's policies, and help hold our investment managers to account. More information is available at the following link: https://www.lse.ac.uk/granthaminstitute/investing-in-a-just-transition-global-project/

Responsible Investment Road Map

Q2 2021 -

Investments and strategy: decision on sustainable equities

Reporting & disclosure: TCFD reporting

Training and engagement: Training on impact investing and affordable housing

Q3 2021 -

Investments and strategy: proposals for protection assets, develop and publish Responsible Investment Policy, including climate statement and action plan

Training and engagement: Develop plan for Stewardship Code reporting

Q4 2021 -

Investments and strategy: begin work to implement proposals for protection assets, begin reviewing potential work on other asset classes with respect to climate change and sustainability

Reporting & disclosure: sign up to wider initiatives

Training and engagement: hold membership webinars and develop the information shared on the Fund's website

Q1 2022 -

Investments and strategy: update Investment Strategy Statement

Reporting & disclosure: develop plans for reporting the year's progress in the Annual Report

Resourcing

24. Work done on responsible investment issues is largely resourced by officer time. The investments and accounting team has recently expanded by one FTE, and part of this additional resource will be used to help implement the responsible investment plan.

25. A huge amount of responsible investment work is carried out by the Brunel pool, which has a dedicated team of staff who are widely regarding as being market leading. This resource is a real benefit of pooling, as the Fund would be unable to carry out this level of work independently.

26. Clients engage with Brunel on responsible investment issues regularly – one of the ways this takes place is through the responsible investment sub-group, which Wiltshire officers regularly attend. This group learns about engagement case studies, helps to develop reporting, and sets the responsible investment agenda at the pool in line with client needs.

27. Through the Brunel pool and a wider network of contacts, officers regularly share responsible investment knowledge, ideas, progress, updates etc. with other LGPS funds.

28. The Scheme Advisory Board has recently launched a website resource on responsible investment, which is being further developed over time to add relevant case studies. This is available via the following link: https://ri.lgpsboard.org/items

29. The Fund's investment adviser, Mercer, have allocated a specialist responsible investment adviser to work with the Fund. This continuity of specialism will benefit the Fund as the approach is further developed.

30. The Fund has access to information through the various initiatives it has signed up to (and plans to sign up to), including reading materials, relevant data, and access to training.

31. Training is available for Committee members and officers, including but not limited to conferences, Brunel investor days, and internal training days. The next internal training opportunity will be a half-day in July 2021 which will cover impact investing and affordable housing.

Scheme membership engagement plan

32. The Pension Fund considers that transparency on its actions, particularly with regard to responsible investment issues, is important, and engagement with the scheme employers and membership is a key part of this. The topic of investments is quite technical, and responsible investment issues can be nuanced, so it is important to educate members as well as asking for opinions.

33. There are a range of ways that members can be engaged with:
    - i. **Informing –** the Fund seeks to keep members and the general public informed via a section of the annual report which reports on climate change risk and actions. The Fund also published a press release about the transition to low carbon equities, and engaged in publicity to communicate the net zero by 2050 commitment.
    - ii. **Educating –** the Fund held a dedicated responsible investment webinar as part of the annual member conference in November 2020. This covered the responsible investment framework, actions taken already, and plans for the future. The Fund has now launched a dedicated responsible investment page on its website, which will be further developed and will be used to keep members up to date on progress.

iii. **Consulting –** in order to incorporate the views of the employers, the Fund consulted with employers on the amended ISS.

iv. **Actively seeking views –** the Fund launched a responsible investment survey in early 2021, the results of which are published online at the following link: https://www.wiltshirepensionfund.org.uk/media/6555/Responsible-Investment-Survey-Report/pdf/Responsible_Investment_Survey_Report.pdf?m=637559931407900000. A summary of highlights from the survey will also be published in the Annual Report 2020/21. The views of the scheme membership cannot solely be used to drive the strategy, but the exercise provided a useful piece of information to help Committee members consider the full picture, alongside professional advice. It was also be an effective way to engage with the scheme membership on these issues. The survey received 2,251 responses, and gave a strong steer that members of the Fund put a high priority on sustainable issues, and would welcome further information and engagement.

Responsible investment membership engagement plan for Wiltshire Pension Fund:

- Continue to develop and expand upon the information published in the annual report;
- Develop the responsible investment webpage, to contain more data and resources, news and updates;
- Deliver a webinar on responsible investment issues at the member conference in the autumn to inform members about the responsible investment framework, policies and actions;
- Consult with employer organisations on revisions to the ISS;
- Communicate major responsible investment related decisions via press releases and member and employer newsletters;
- Consider further options for engagement with the scheme membership.

Appendix 1 – Summary of Climate Change Scenario Modelling Results

Mercer's Modelling

1. Mercer's scenario modelling looked at the climate change impact on return for the current strategic asset allocation, and one with a more sustainable tilt (i.e. higher exposure to sustainable infrastructure and global sustainable listed equity), in the context of various different climate change scenarios. The analysis covered 2°C warming, 3°C warming, and 4°C warming scenarios over various timescales up to 2100 (all compared to pre-industrial times).

2. The Mercer report gave compelling evidence that the Fund had scope to further reduce the exposure to climate change risk and increase its exposure to opportunities, and that not doing so could financially harm the Fund's investments.

3. A key finding was that keeping warming to 2°C or below was essential to protect the Fund's investment returns – this scenario is best for most investors and asset classes. Under scenarios with higher warming (3°C and 4°C), there was poorer performance across most asset classes.

4. It was found that in moving towards a higher weighting in sustainable assets, the Fund would be able to take advantage of more opportunities in a 2°C scenario, and that the Fund would be marginally better protected in a 3°C scenario. Both asset allocations modelled generate similar returns under a 4°C scenario as risks scale up towards the end of the century.

5. This finding is illustrated in the outcomes from the modelling, shown below:

		CURRENT SAA	SUSTAINABLY TILTED AA
		Climate change impact on return (% p.a.)	
2°C	2030	0.18%	0.37%
	2050	-0.01%	0.12%
	2100	-0.06%	-0.01%
3°C	2030	-0.02%	0.00%
	2050	-0.08%	-0.05%
	2100	-0.12%	-0.10%
4°C	2030	-0.08%	-0.08%
	2050	-0.15%	-0.15%
	2100	-0.20%	-0.20%

≤ -10 bps   > -10 bps, < 10bps   ≥ 10 bps

6. As well as addressing the risks, the modelling found that the Fund was currently not best positioned to capture the potential upside. Under a 2°C scenario, there was significant opportunity to invest in companies and assets which would benefit from the transition to a low carbon economy. These could be accessed through allocations to renewable infrastructure and sustainable equities.

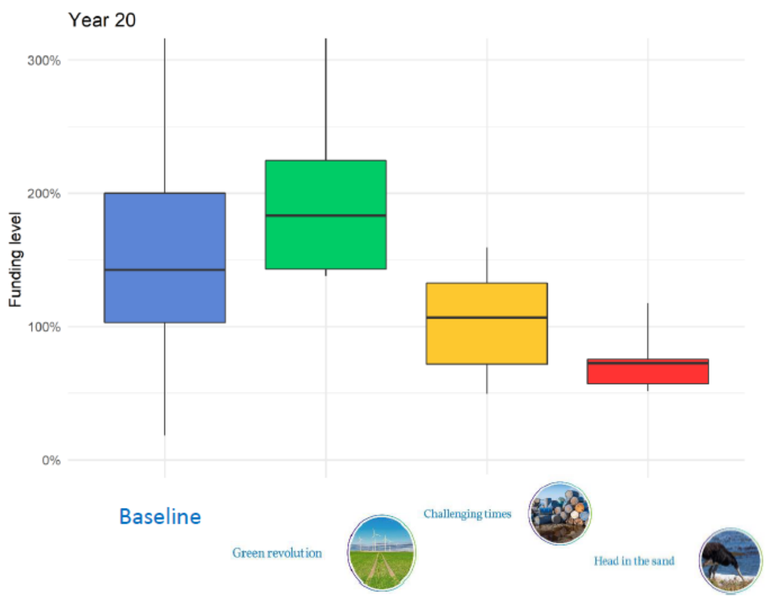
7. Specifically, the modelling found that under a 2°C scenario returns could be enhanced by around 0.2% p.a. over the next 10 years by adjusting the current strategic asset allocation to be more sustainable. The biggest impact would come from making a specific allocation to sustainable equities, which under a 2°C scenario, would deliver 1.63% p.a. more than standard global equities over the next 10 years. However sustainable infrastructure would also offer a material "low carbon transition premium" under this scenario as well.

Hymans' Modelling

8. Hymans' modelling looked at the potential effects on the funding level. This modelling examined scenarios where policies were rapidly changed to respond to the threat of climate change, where nothing is done at all, and something in-between. Hymans explores the issue of climate risk from a purely financial perspective. The Institute and Faculty of Actuaries has identified climate change as a risk which needs to be addressed, as it is a financially material factor. In addition, GAD (the Government Actuary's Department) has very recently set out that climate change modelling is now mandatory as part of the 2022 triennial LGPS valuation cycle.

9. As with other responsible investment issues, climate change is a long-term issue. Hymans' modelling looked at a 10-year time horizon. The modelling showed that the Fund would be in a substantially better place under a "green revolution" scenario, i.e. one where there is a strong policy response and a transition to a low carbon economy. Investment returns (and the funding level) were significantly higher. This would be slightly dampened by increased liabilities resulting from improved longevity, but this does not alter the conclusion.

10. The following graph is an extract from Hymans' modelling. It shows the potential effects on the funding level from the different scenarios of policy response (green revolution (green) = immediate policy change, challenging times (yellow) = no immediate action followed by a catch up, head in the sand (red) = limited policy response). This chart only looks at changes from investment returns, and does not include other factors, and is only to be taken as a broad view to illustrate the potential magnitude of the issue of climate change.



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Memorandum

To:	Jennifer Devine, Wiltshire Pension Fund Committee
CC:	Frank Cain, Head of Legal, Wiltshire Council
From:	Elizabeth Muir, Senior Solicitor, Wiltshire Council
Date:	19 March 2021
Subject:	Wiltshire Pension Fund Committee, Fiduciary Duties with respect to Investment Decisions

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This memorandum is to provide advice to the Wiltshire Pension Fund Committee members of their powers and responsibilities when making certain decisions regarding the investment strategies of the Fund. Following a consideration of the relevant legislation and guidance, it is clear that the Wiltshire Pension Fund Committee must provide an investment strategy statement that sets forth the Administering Authority's policy on how social, environmental and corporate governance considerations affect its investment strategy. This approach to investment would not violate the Wiltshire Pension Fund Committee's fiduciary duty to its beneficiaries as this is consistent with the actions of a "prudent person" when handling its affairs.

<u>Background</u>
The Pension Fund Committee instructed the investment consultants, Mercer, to provide scenario modelling for investments that may be affected by climate change, which is a significant risk with many unknown variables. Mercer's report, among other things, recommended future proofing the Fund's investments up to 2100 with emphasis on investment in renewables, long term growth industries, and sustainability (for example, investment in electric car manufacturers).

The Pension Fund Committee is proposing to include within its investment strategy statement a statement that the Pension Fund Committee supports a global warming scenario with 2 degrees of warming, with the desire to make all portfolios net zero by 2050. This is in line with the Paris Agreement and central UK government goals.

The question that has arisen is whether the Pension Fund Committee can consider environmental concerns such as global warming when making decisions about its investment strategy, and whether this violates their fiduciary duty to their beneficiaries.

<u>The Pension Fund Committee Powers</u>
The Wiltshire Pension Fund Committee receives its authority directly from the Council under the Wiltshire Council Constitution in Article 2.7.2 of Part 3:

> *2.7.2 [The Wiltshire Pension Fund Committee] will exercise the functions of the Council as administering authority under the Local Government Superannuation Acts and Regulations and deal with all matters relating thereto. The committee will publish meetings attendance records in an Annual Report.*

This provision states that the Committee will act as the Council with all of the powers the Council has in determining the investment of funds in the Wiltshire Pension Fund.

Protocol 2A of the Wiltshire Council Constitution contains the full terms of reference for the Wiltshire Pension Fund Committee and states in more detail at article 3:

> *3. Statement of purpose*
> *3.1 The Committee is to act on behalf of the Administering Authority in its role as a scheme manager of the Scheme.*
> *3.2 In particular:*
> *3.2.1 To have full decision-making responsibility on all aspects of the administration and management of the pension fund;*

Protocol 2A confirms this and also lists the documents that the Committee must maintain and abide by at article 12:

> *12. Functions of the Committee*
> *12.1 The Committee exercises the functions of the Council as Administering Authority. To fulfil its functions the Wiltshire Pension Fund Committee will operate within a framework of key Governance and Compliance documents which it will ensure are maintained.*
> *12.2 The key documents are:*
> *12.2.1 Governance Compliance Statement;*
> *12.2.2 Funding Strategy Statement;*
> *12.2.3* ***Investment Strategy Statement;***
> *12.2.4 Administering Authority Discretions Policy;*
> *12.2.5 Stewardship Code Statement;*
> *12.2.6 Communications Strategy;*
> *12.2.7 Business Plan;*
> *12.2.8 Administration Strategy;*
> *12.2.9 Cessations Policy; and*
> *12.2.10 Annual Report and Accounts.*

In addition, article 3.2.4 specifically states that the Committee must maintain its own investment strategy statement:

> *3.2.4 maintain a business plan and other key Wiltshire Pension Fund documents such as the Governance Compliance Statement, Funding Strategy Statement and* ***Investment Strategy Statement*** *to facilitate the delegation to officers of key strategic functions of the Scheme.*

Under these provisions of the Constitution, the Committee has the powers of the Council as Administering Authority to determine the investment strategy, and has the obligation to maintain a set of policies, strategies and statements in which to operate. One of these is the investment strategy statement, which the Committee is proposing to amend to include information on its investment strategy in relation to environmental concerns, specifically global warming.

Investment strategy statements are also mandatory under regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the LGPS Regulations 2016):

> *7(1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.*

The LGPS Regulations 2016 apply to any authority that has powers under the general power of competence given in the Localism Act 2011. As the Committee are acting as the Administering Authority here, it is proper and mandatory under the LGPS Regulations 2016 for the Committee to formulate this strategy.

More particularly, the LGPS Regulations 2016 state under regulation 7(2)(e) that the investment strategy must include:

> *(e) the authority's policy on how **social, environmental and corporate governance** considerations are taken into account in the selection, non-selection, retention and realisation of investments; and*

The Committee, on behalf of the Administering Authority, must review and revise the statement every three years, however this must be in accordance with guidance issued by the Secretary of State. Under regulation 8 of the LGPS Regulations 2016, where the Secretary of State is not satisfied that the Administering Authority is acting in accordance with guidance, the Secretary of State has certain actions it may take to remedy this.

The Department for Communities and Local Government released Guidance on Preparing and Maintaining an Investment Strategy Statement in July 2017 which provides some more information on how administering authorities can apply regulation 7(2)(e):

> *When making investment decisions, administering authorities must take proper advice and **act prudently**. In the context of the local government pension scheme, a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate.*
>
> *Although administering authorities are not subject to trust law, those responsible for making investment decisions must comply with general legal principles governing the administration of scheme investments. They must also act in accordance with ordinary public law principles, in particular, the ordinary public law of reasonableness. They risk challenge if a decision they make is so unreasonable that no person acting reasonably could have made it.*
>
> *The law is generally clear that **schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors**, and over the long term, dependent on the time horizon over which their liabilities arise.*
>
> *Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.*

This guidance makes reference to certain fiduciary duties that administering authorities have for their beneficiaries, which is that it must "act prudently". Since the legislation and the guidance is clear that the Committee must consider environmental concerns when making investment decisions, the question is whether it is also acting in according with its fiduciary duties when doing so.

<u>Fiduciary duties</u>
The Wiltshire Pension Fund Committee members are not subject to trust law, however they may be treated as trustees for the purpose of fiduciary duties to the Wiltshire Pension Fund, and owe specific duties of care and skill in the administration of the Fund, as well as certain fiduciary duties such as loyalty, honesty and good faith. Fiduciary duties are set out in common law and under statute, but for the LGPS the Pensions Regulator sets out these fiduciary duties as:

- Acting in line with the trust deed and rules. In the case of the Pension Fund Committee, these will be the governance and compliance documents listed within Protocol 2A of the Constitution.
- Acting in the best interests of the scheme beneficiaries. The beneficiaries of the Wiltshire Pension Fund are the members of the scheme and potentially their own beneficiaries, such as dependents or surviving spouses. This could also be, in some circumstances, the employer who may receive a payment on cessation. The beneficiaries of the Wiltshire Pension Fund are guaranteed to receive predetermined benefits in line with legislation from the rate payer of Wiltshire even if the Fund collapses, however the Committee members are still required to act in their best interests.
- Acting impartially. This would be to balance the interests of all of the possible classes of beneficiaries and give appropriate weight to each. Each member of a class of beneficiaries should be treated the same, and the interests of individuals should be balanced against the needs of all beneficiaries.
- Acting prudently, responsibly and honestly. This is the most complicated aspect of fiduciary duties, and covers the following:
    - Conflicts of interest – the Pension Fund Committee should follow its internal procedures on conflicts of interest;
    - Acting prudently – Committee members should act in the way that a prudent person would in their own affairs, using their own skills and experience. **The Pensions Regulator states, "This is the relevant duty when selecting and dealing with the scheme's investments". However for the avoidance of doubt we may also consider other sources that state that acting prudently also includes**:
        - Having regard to the need for "diversification of investments" as appropriate.[1]
        - Having regard to the "suitability" of each investment[2];
        - Obtaining "proper advice" on certain matters[3];
    - Reaching decisions – Committee members must consider the circumstances impartially and make reasonable decisions on the relevant facts only;
    - Personal profit – Committee members must not make a personal profit at the Fund's expense.

[1] Cowan v Scargill [1985] Ch 270
[2] The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) in relation to ESG within Statements of Investment Principles
[3] The Trustee Act 2000, section 5

The relevant standard under the guidance from the Pensions Regulator states that the fiduciary duty in these circumstances is for the Committee members to act in "*the way a prudent person would act in its own affairs, using their own skills and experience",* whereas the standard under the Department for Communities and Local Government's guidance is whether the members of the Committee are acting prudently, exercising "*care, skill, prudence and diligence"*. The consideration therefore is whether the Wiltshire Pension Fund Committee is acting prudently when it considers changing its investment strategy to take into account the recommendation by Mercer to make certain strategic investment decisions that may protect the Fund against future concerns with respect to climate change. Some thought should be paid for each aspect of what it means to be acting prudently, to include the Department for Communities and Local Government and the Pensions Regulator guidance along with other sources.

<u>Acting in the way that a reasonable, prudent person would when dealing with their own affairs</u>.
Considering environmental concerns with investments is routine in many types of organisations. Here are a few examples: BlackRock made climate change central to its investment strategy in 2021. The CFA Institute released a "Climate Change Analysis in the Investment Process" in 2020. The The New Zealand Superannuation Fund released a white paper on their climate change investment strategy in 2019. AIGCC released "Integrating Climate Change into Investment Strategy" in 2017. These disparate organisations have all made the decision to consider climate change in investment strategies and therefore it is likely that that prudent person would also consider this when dealing with its own affairs.

<u>Using care, skill, experience and diligence.</u>
The Trustee Act 2000 states that trustees owe duties of skill and care in the administration of trusts. Section 1(1) requires that a trustee "must exercise such care and skill as is reasonable in the circumstances, having regard in particular (a) to any special knowledge or experience he has or holds himself out as having, and (b) if he acts as trustee in the course of a business or profession, to any special knowledge or experience that it is reasonable to expect of a person acting in the course of that kind of business or profession". Again, the members of the Committee are not trustees under the Trustee Act, however their standard is the same under relevant guidance.

Members are to act with:

> Care – members of the Committee fulfil their duty of care if they take all those precautions that an ordinary prudent person would take in their own affairs. See previous section on acting prudently;
>
> Skill – to have regard to any special knowledge and experience that they have or hold themselves out as having, or to any special knowledge or experience that is reasonable to expect of a person acting in their position;
>
> Experience – similar to the duty of skill, above, this would be the experience (or specialist experience) that the Committee members have in the subject area, or reasonably expected of a person in the position of member;
>
> Diligence – this would be the same level of diligence that a reasonably diligent person would have in carrying out the functions of the Committee member.

The Pension Fund Committee members, when making their decision to include environmental considerations into the investment strategy, were acting reasonably, in line with major investment firms and government goals and guidance. When considering the significance of this, they applied their skills and experience to determine their goals, received and applied advice, and diligently considered their options.

The guidance from the Department for Communities and Local Government states that "*[administering authorities] risk challenge if a decision they make is so unreasonable that no person acting reasonably could have made it"*. Given the above, there is only a small risk that this decision would be challengeable.

From the further sources listed above, acting prudently may also consist of:

<u>Taking in account relevant considerations and ignoring irrelevant ones</u>. Climate change and global warming may change the landscape of investment as markets react to changing customer needs. The UK government has agreed with the Paris Agreement that as far as possible the goal is to keep warming under 2 degrees, and business and investment must change to match that. Wiltshire Council has also declared a climate emergency and has reflected this within its business case, indicating that this is an ongoing issue for the Council and a relevant consideration for its business;

<u>Having regard to the need for "diversification of investments" as appropriate</u>. Trustees should consider the full range of investment options available to them, which would include environmental concerns;

<u>Having regard to the "suitability" of each investment</u>. The Committee secured the advice of Mercer to determine the suitability of investments and considered this when making its decision;

<u>Obtaining "proper advice" on certain matters</u>. Under the Trustee Act 2000, advice is "proper" if it is taken from a person who the trustees reasonably believe to be qualified to give such advice in terms of that person's ability in, and practical experience of, financial and other matters relating to the proposed investment. The Wiltshire Pension Fund Committee obtained advice from Mercer, which is a multi-national asset management firm who provides investment consultant advice as well as many other financial management services. This is a well known firm which routinely provides advice to central government on investments and can be considered a provider of proper advice.

From this analysis, it would seem likely that the Wiltshire Pension Fund was acting in accordance with its fiduciary duty when considering environmental factors.

<u>Conclusion</u>
There is little question that the Committee can consider environmental concerns, which would include climate change, when making certain investment decisions. In fact, the LGPS Regulations 2016 requires that this is included in the investment strategy statement.

The Committee, acting in accordance with the Wiltshire Council Constitution and as the Administering Authority, properly secured investment advice. In accordance with its fiduciary duty to its beneficiaries and with its powers under the Wiltshire Council Constitution, it has acted in the way a reasonable and prudent person would in its own affairs and duly followed the expert advice given to it to take into account global warming and climate change in its investment strategy. This is compliant with advice issued from central government and with the Wiltshire Council business case.

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Wiltshire
Carbon Metrics Report

Holdings as at 31st December 2020

Key Info:	AUM in mGBP: 1,156	Coverage: 98%	13/04/2021

The Wiltshire Aggregate Portfolio

- This report illustrates key Carbon Metrics for the Wiltshire Aggregate Portfolio and the two associated underlying Brunel Portfolios.
- The Wiltshire Aggregate Portfolio is made up of Wiltshire's share of Brunel Portfolios (Passive Low Carbon and Global High Alpha) weighted by investments as of 31 December 2020.
- A custom benchmark has been used so that the Wiltshire Aggregate Portfolio can be measured against a meaningful comparator.

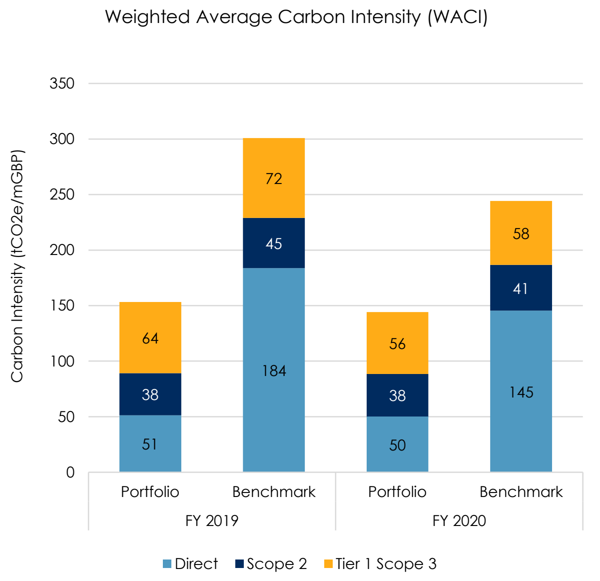
Performance Summary

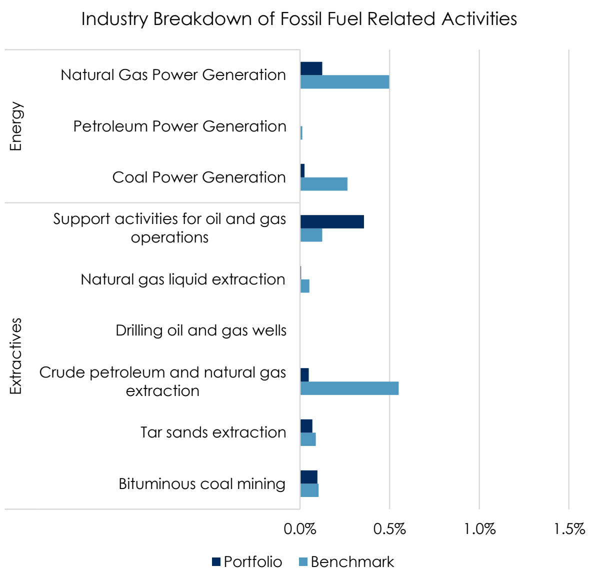
- The Weighted Average Carbon Intensity (WACI) of the Wiltshire Aggregate Portfolio is below its custom benchmark, with a relative efficiency of +41%.
- From 31 December 2019 to 31 December 2020 the WACI of the Wiltshire Aggregate Portfolio has declined by 5.9%.
- Both Portfolios within the Aggregate have carbon intensities significantly below their MSCI World benchmarks. Brunel Passive Low Carbon has a WACI of 145 tCO2e/mGBP and Global High Alpha has a WACI of 143 tCO2e/mGBP versus 244 tCO2e/mGBP for the MSCI World.
- The Wiltshire Aggregate Portfolio is less exposed to both fossil fuel revenues (0.73% vs 1.69%) and future emissions from reserves (1.1 MtCO2 vs 1.5 MtCO2) than its custom benchmark.
- Both Brunel Portfolios, Passive Low Carbon and Global High Alpha, have future emissions from fossil fuel reserves significantly below their benchmark.
- The rate of companies in the Wiltshire Aggregate Portfolio for which fully disclose carbon data was available was 56% (carbon weighted method) and 62% (investment weighted method), indicating scope for improved reporting among investees.

Wiltshire Carbon Metrics Report

Wiltshire Aggregate vs. MSCI World

2021





Current Year Top Contributors to WACI

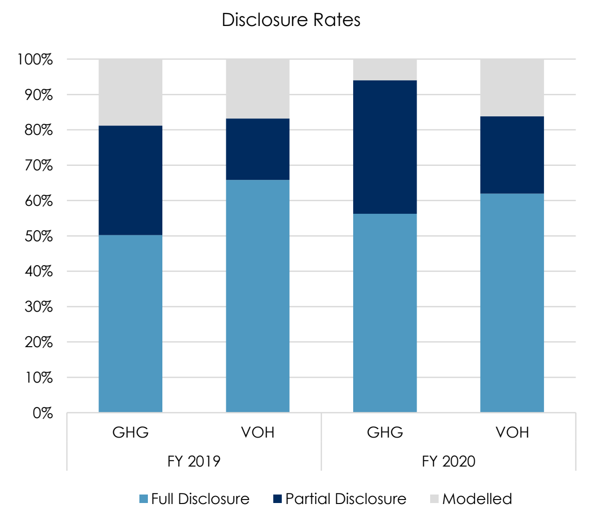
Name	Carbon-to-Revenue intensity ($tCO_2e/mGBP$)	Weight (%)	Contr. (%)
LafargeHolcim Ltd	6,862	0.08%	-3.86%
Nestle SA	545	1.35%	-3.82%
NextEra Energy, Inc.	3,169	0.15%	-3.07%
Steel Dynamics, Inc.	1,043	0.40%	-2.50%
Taiwan Semiconductor Manufacturing (	407	1.16%	-2.15%

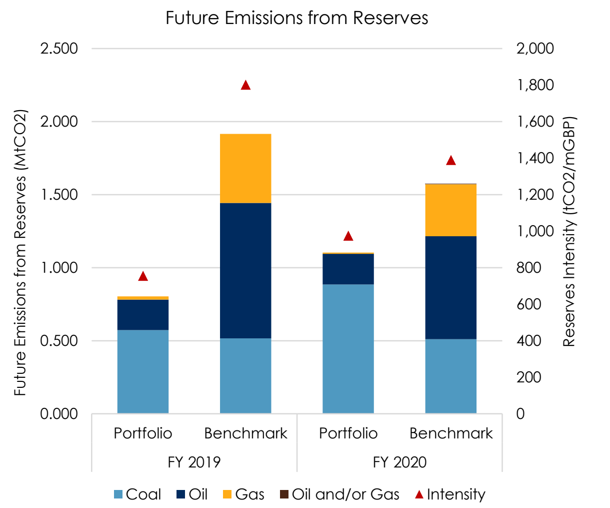
The **WACI** shows the portfolio exposure to carbon intensive companies. This metric takes the carbon intensity (total carbon emissions divided by total revenue) of each investee and multiplies it by its weight in the portfolio.

Top Contributors to Weighted Fossil Fuel Revenues

Name	Weight (%)	Weighted FF Revenue (mGBP)
Schlumberger Limited	0.22%	48
Berkshire Hathaway Inc.	0.80%	47
Halliburton Company	0.15%	27
Glencore Plc	0.32%	24
Suncor Energy Inc.	0.20%	20

The **Industry Breakdown of Fossil Fuel Relatred Activities** chart above breaks down the 'extractives' and 'energy' revenue exposure into specific industry exposures.





Portfolio Disclosure Rates by Method

Carbon disclosure category	GHG-weighted disclosure	Value-weighted disclosure
Full Disclosure	56%	62%
Partial Disclosure	38%	22%
Modelled	6%	16%

Full Disclosure - Data disclosed by a company in an un-edited form.
Partial Disclosure - Trucost has used data disclosed by a company but has made adjustments to match the reporting scope required by its research process. Values may also be derived from a previous year's disclosed data using changes in business activities and consolidated revenues.
Modelled - In the absence of usable disclosures, the data has been modelled using Trucost's EE-IO model.

Future Emissions from Reserves by Type ($MtCO_2$)

Source	FY 2019 Port.	FY 2019 Ben.	FY 2020 Port.	FY 2020 Ben.
Coal	0.57	0.52	0.89	0.51
Oil	0.21	0.93	0.21	0.71
Gas	0.02	0.47	0.01	0.35
Oil and/or Gas	0.00	0.00	0.00	0.00

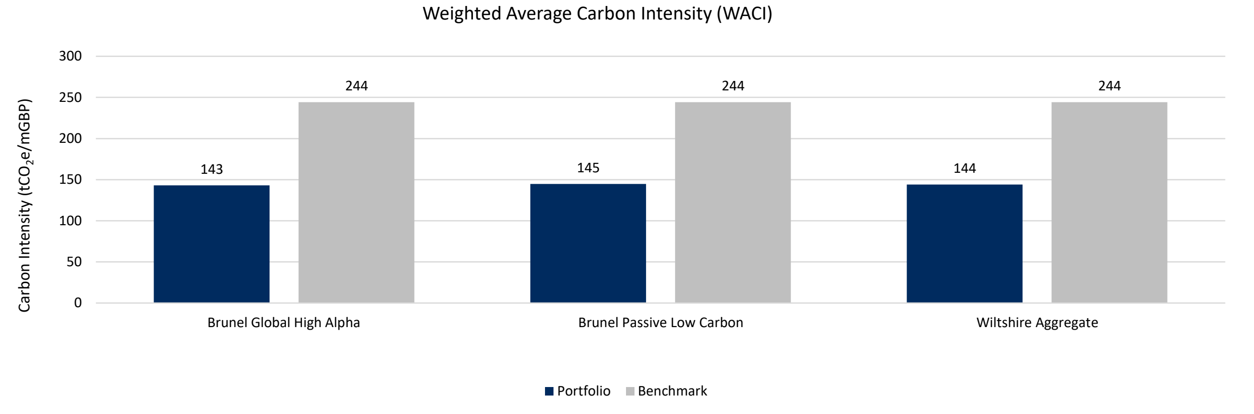
Companies may disclose both 1P and 2P reserves (1P refers to those held with 90% confidence, 2P are those held with 50% confidence). Both 1P and 2P are used when assigning embedded emissions to a company.

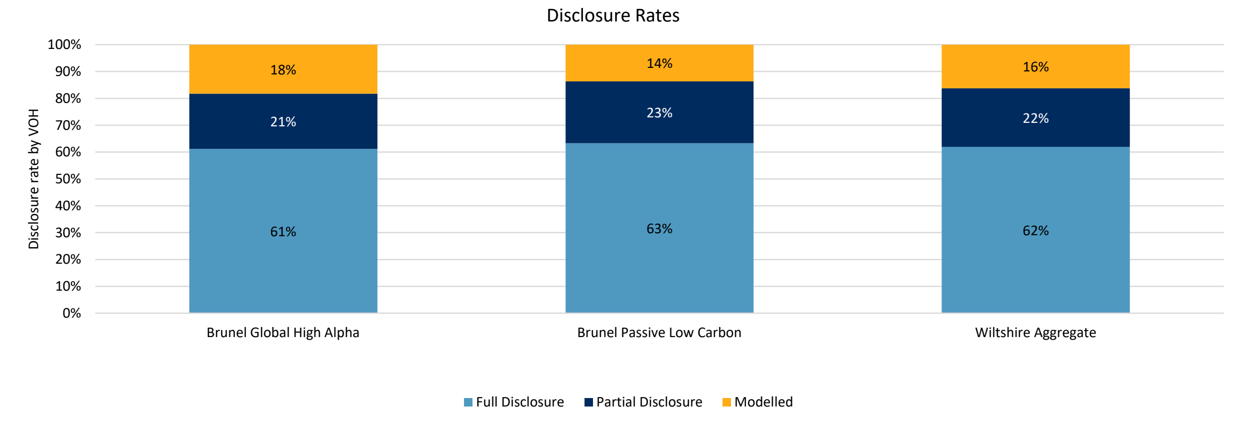
The chart above shows the total tonnes of apportioned CO2 from reserves, broken down by reserve type. It also shows the reserves 'intensity' by normalizing the apportioned embedded emissions by the VOH.

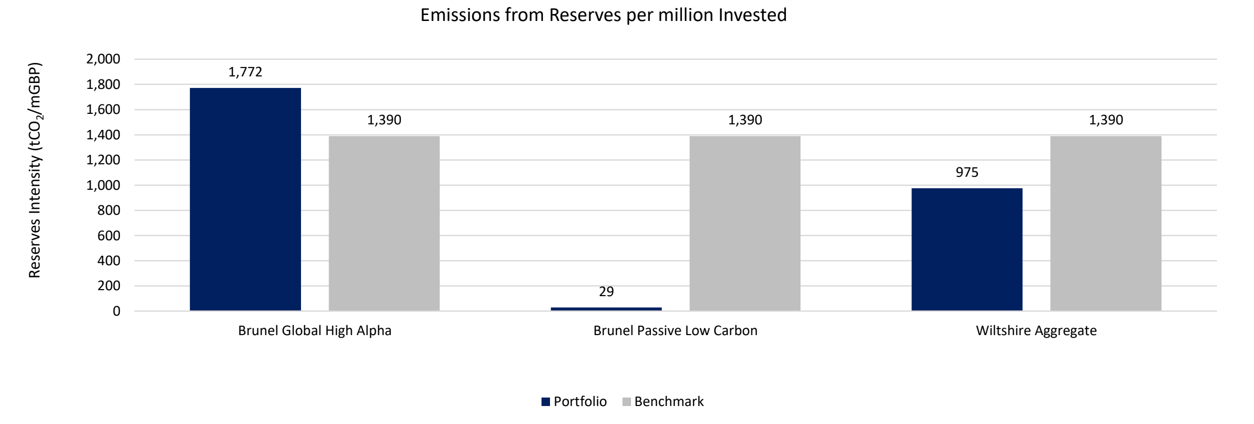
Wiltshire
Carbon Metrics Report

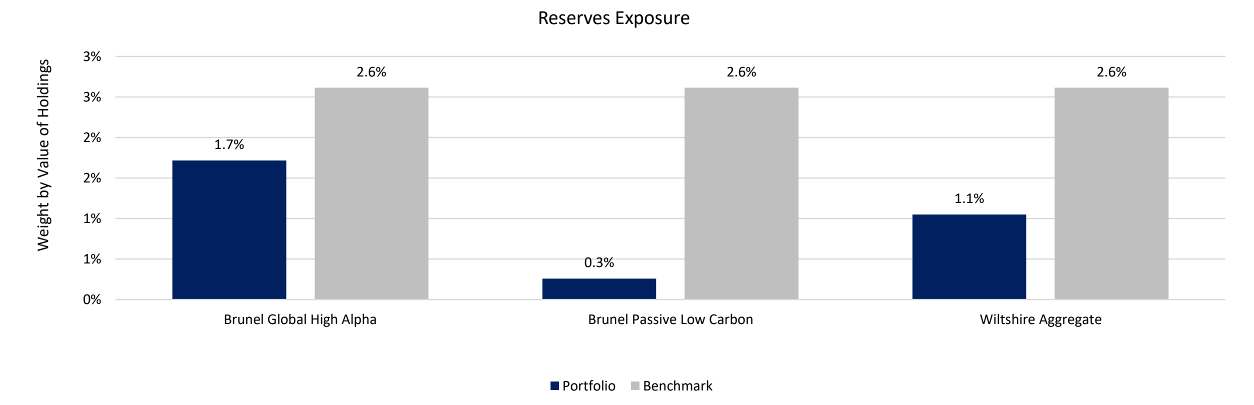
Summary Sheet

2021



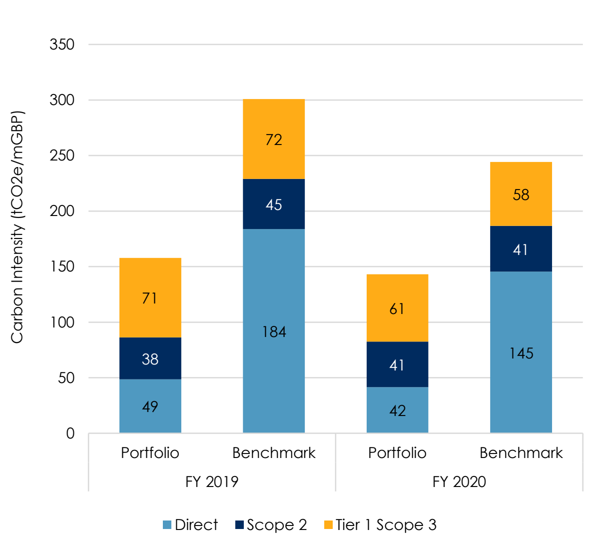


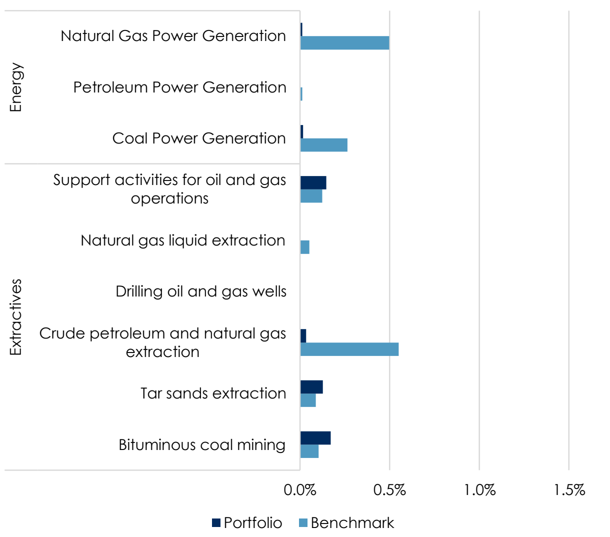




Brunel Global High Alpha vs. MSCI World

2021





Current Year Top Contributors to WACI

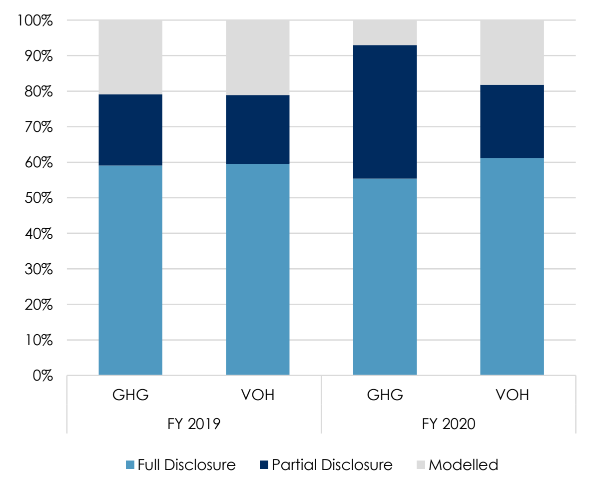
Name	Carbon-to-Revenue intensity ($tCO_2e/mGBP$)	Weight (%)	Contr. (%)
LafargeHolcim Ltd	6,862	0.15%	-7.18%
Nestle SA	545	1.93%	-5.51%
Steel Dynamics, Inc.	1,043	0.74%	-4.67%
Taiwan Semiconductor Manufacturing (	407	2.15%	-4.05%
Anglo American Plc	870	0.76%	-3.88%

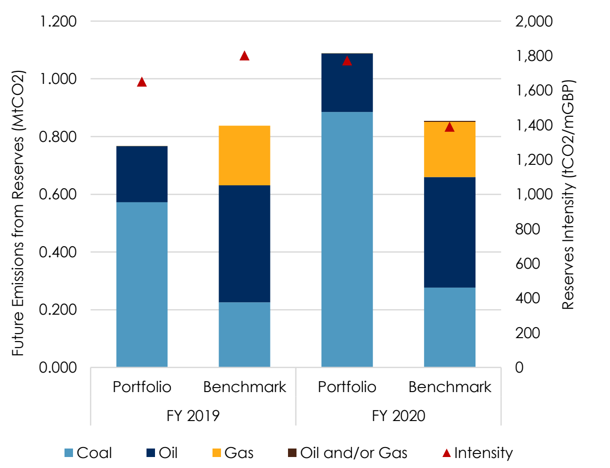
The **WACI** shows the portfolio exposure to carbon intensive companies. This metric takes the carbon intensity (total carbon emissions divided by total revenue) of each investee and multiplies it by its weight in the portfolio.

Top Contributors to Weighted Fossil Fuel Revenues

Name	Weight (%)	Weighted FF Revenue (mGBP)
Berkshire Hathaway Inc.	0.94%	56
Glencore Plc	0.59%	44
Suncor Energy Inc.	0.37%	37
Anglo American Plc	0.76%	34
Halliburton Company	0.15%	26

The **Industry Breakdown of Fossil Fuel Relatred Activities** chart above breaks down the 'extractives' and 'energy' revenue exposure into specific industry exposures.





Portfolio Disclosure Rates by Method

Carbon disclosure category	GHG-weighted disclosure	Value-weighted disclosure
Full Disclosure	55%	61%
Partial Disclosure	38%	21%
Modelled	7%	18%

Full Disclosure - Data disclosed by a company in an un-edited form.
Partial Disclosure - Trucost has used data disclosed by a company but has made adjustments to match the reporting scope required by its research process. Values may also be derived from a previous year's disclosed data using changes in business activities and consolidated revenues.
Modelled - In the absence of usable disclosures, the data has been modelled using Trucost's EE-IO model.

Future Emissions from Reserves by Type ($MtCO_2$)

Source	FY 2020 Port.	Ben.
Coal	0.89	0.28
Oil	0.20	0.38
Gas	0.00	0.19
Oil and/or Gas	0.00	0.00

Companies may disclose both 1P and 2P reserves (1P refers to those held with 90% confidence, 2P are those held with 50% confidence). Both 1P and 2P are used when assigning embedded emissions to a company.

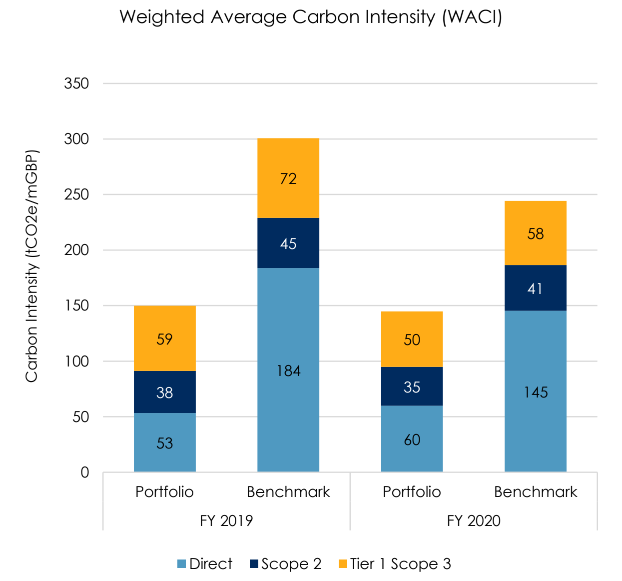
The chart above shows the total tonnes of apportioned CO2 from reserves, broken down by reserve type. It also shows the reserves 'intensity' by normalizing the apportioned embedded emissions by the VOH.

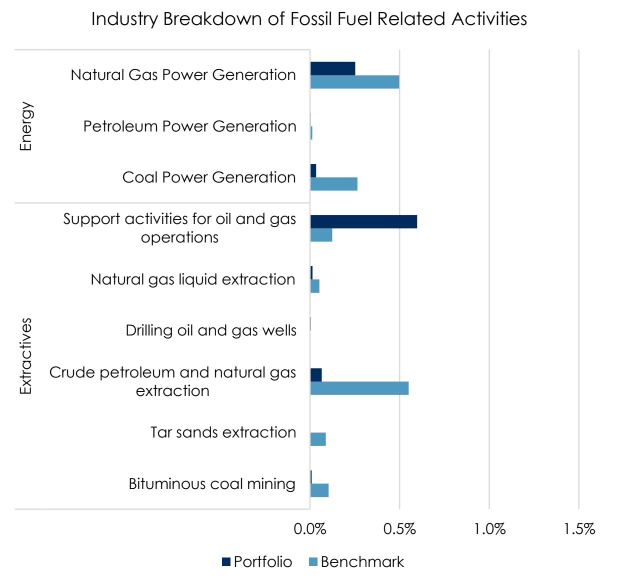
Wiltshire
Carbon Metrics Report

WILTSHIRE PENSION FUND

BRUNEL Pension Partnership

Brunel Passive Low Carbon vs. MSCI World — 2021





Current Year Top Contributors to WACI

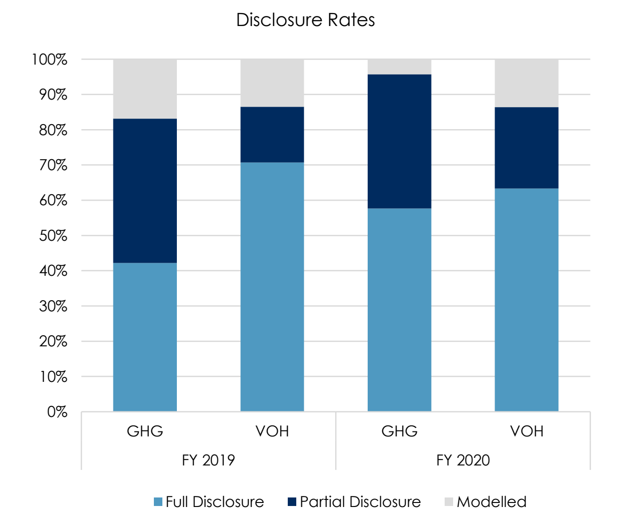
Name	Carbon-to-Revenue intensity ($tCO_2e/mGBP$)	Weight (%)	Contr. (%)
NextEra Energy, Inc.	3,169	0.32%	-6.66%
Linde plc	1,746	0.28%	-3.09%
Dominion Energy, Inc.	2,750	0.13%	-2.43%
Nestle SA	545	0.67%	-1.87%
Air Products and Chemicals, Inc.	3,996	0.06%	-1.50%

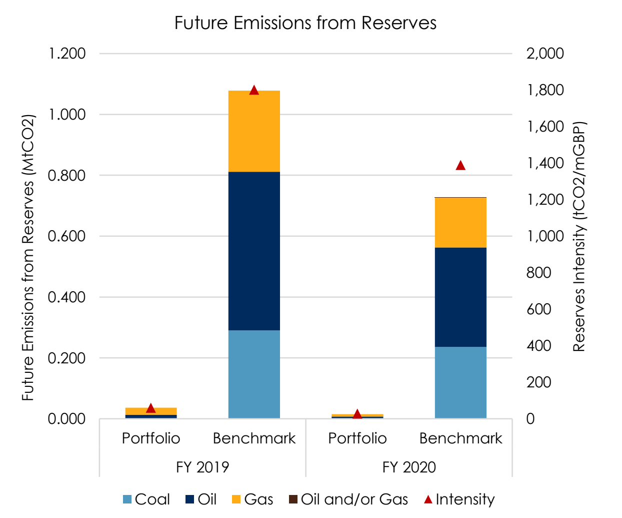
The **WACI** shows the portfolio exposure to carbon intensive companies. This metric takes the carbon intensity (total carbon emissions divided by total revenue) of each investee and multiplies it by its weight in the portfolio.

Top Contributors to Weighted Fossil Fuel Revenues

Name	Weight (%)	Weighted FF Revenue (mGBP)
Schlumberger Limited	0.48%	103
Berkshire Hathaway Inc.	0.62%	36
Halliburton Company	0.15%	27
NextEra Energy, Inc.	0.32%	24
Mitsui & Co., Ltd.	0.18%	13

The **Industry Breakdown of Fossil Fuel Relatred Activities** chart above breaks down the 'extractives' and 'energy' revenue exposure into specific industry exposures.





Portfolio Disclosure Rates by Method

Carbon disclosure category	GHG-weighted disclosure	Value-weighted disclosure
Full Disclosure	58%	63%
Partial Disclosure	38%	23%
Modelled	4%	14%

Full Disclosure - Data disclosed by a company in an un-edited form.
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Modelled - In the absence of usable disclosures, the data has been modelled using Trucost's EE-IO model.

Future Emissions from Reserves by Type ($MtCO_2$)

Source	FY 2019 Port.	FY 2019 Ben.	FY 2020 Port.	FY 2020 Ben.
Coal	0.00	0.29	0.00	0.24
Oil	0.01	0.52	0.01	0.33
Gas	0.02	0.27	0.01	0.16
Oil and/or Gas	0.00	0.00	0.00	0.00

Companies may disclose both 1P and 2P reserves (1P refers to those held with 90% confidence, 2P are those held with 50% confidence). Both 1P and 2P are used when assigning embedded emissions to a company.

The chart above shows the total tonnes of apportioned CO2 from reserves, broken down by reserve type. It also shows the reserves 'intensity' by normalizing the apportioned embedded emissions by the VOH.

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Agenda Item 12

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Agenda Item 15

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