

WILTSHIRE COUNCIL

INVESTMENT SUB COMMITTEE
25 February 2021

INVESTMENT STRATEGY STATEMENT

Purpose of the Report

1. This report explains the process in place to update the Investment Strategy Statement (ISS) for consideration and approval. It is a minor update to the 2020 version following on from a full assessment of climate change risk.

Background

2. The formulation, publication and maintenance of an Administering Authority's Investment Strategy Statement is required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
3. Under Regulation 7(6) and (7), the statements must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years. The ISS was last comprehensively revised in July 2020, and the current review is intended to incorporate some minor changes.
4. The Wiltshire Pension Fund Committee has been undertaking significant research into the issue of climate change risk. This has included several training sessions, both from an investment manager and from the Fund's investment advisors, Mercer. The Committee also commissioned Mercer to carry out climate change scenario modelling, in order to put some figures around the risk. The Committee held a climate change workshop on 19 November 2020 to discuss the findings of the modelling, and following on from this, the Committee members participated in a responsible investment beliefs survey, which was discussed at the 17 December 2020 meeting. The Committee then called an extraordinary Committee meeting on 14 January 2021 to further discuss the next steps, supported by Mercer. In addition, a training session will be held on 10 March 2021, to share the views of another investment manager with a long term growth philosophy, on considering climate change in an investment approach and identifying opportunities, and for the Fund's actuaries to also share some modelling which will demonstrate the effects of varying degrees of policy response to climate change risk on the funding level.
5. Mercer's climate change scenario modelling examined the potential effects on the Fund's investment returns under 3 different warming scenarios to 2100, 2°C or under, 3°C and 4°C. The modelling looked at the impact on the current strategic asset allocation, and one with a more sustainable tilt (specifically, allocations to sustainable equities and renewable infrastructure). The modelling indicated that the fund would be materially financially better off under a 2°C warming scenario, regardless of the strategic asset allocation, and that there were also opportunities to be taken advantage of by investing in more sustainable investments.
6. A 2°C or lower warming scenario is consistent with the goals of the Paris agreement and that of the UK government, and would be supported by an ambition of achieving net-zero carbon emissions in the investment portfolios by 2050, as well as an explicit statement that the Pension Fund supports a 2°C or lower warming scenario.

7. At the 17 December 2020 Committee meeting, members agreed that the ISS should be updated and brought back for debate and review. As instructed by the Committee, the updated version of the ISS incorporates the following changes:
 - An additional investment belief, which states that “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”;
 - An update on the work done on climate change risk;
 - A statement that the Fund will follow the TCFD reporting guidelines in the 2020/21 annual report.
8. As dealt with in the Responsible Investment Quarterly Update Report, elsewhere on this agenda, members are asked to endorse a proposed approach to engaging with the scheme membership on responsible investment issues. If this is approved, then it would be appropriate to add this information to the draft ISS.

Main Considerations for the Sub Committee

9. The draft ISS is attached as Appendix 1.
10. The 2020 version has been updated for the changes detailed above.
11. The draft will be taken to Full Committee on 30 March 2021 for review and approval.
12. The Local Pension Board were asked to consider the process that has been followed, and to confirm that this is in line with best practice and expectations.

Financial Considerations

13. The Financial considerations are considered within the draft ISS.

Safeguarding Considerations/Public Health Implications/Equalities Impact

14. There are no known implications at this time.

Reasons for Proposals

15. To keep the Investment Strategy Statement up to date.

Environmental Impact of the Proposals

16. Environmental considerations are dealt with within the draft ISS.

Proposal

17. The Investment Sub Committee is asked to recommend to the Pension Fund Committee that:
 - the revised ISS be approved;
 - if endorsed, the membership engagement plan is added to the ISS.
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Unpublished documents relied upon in the production of this report: None

Appendices

Appendix 1 – draft amended ISS (with tracked changes)