

WILTSHIRE COUNCIL

INVESTMENT SUB COMMITTEE

25 February 2021

RESPONSIBLE INVESTMENT QUARTERLY 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. Follow-on actions from the recent Committee meetings are as follows:

Recommendation	Action
Members agreed...	
To amend the Investment Strategy Statement (ISS) in line with Mercer's recommendations, i.e. making a commitment to achieve net zero in the portfolios by 2050, in alignment with the Paris agreement and the UK government, and an explicit acknowledgement that warming needs to be kept to sub-2°C.	The draft revised ISS is elsewhere on this agenda, and will be on the agenda for debate at the full Committee meeting in March 2021.
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 draft revised ISS
That the Fund should aim to sign up to the 2020 Stewardship Code during 2021	Fund officers will work with Brunel and other member funds to define an approach to signing up to the 2020 Stewardship Code, and will report progress back to the Committee.
That officers will further explore commissioning Mercer to advise on a road map for the Fund to achieve net zero by 2050	If the draft revised ISS is approved, it will be necessary to commission some consultancy support for the practicalities in implementing the strategy, and therefore a quote for this is being obtained and will be included in the 2021/22 budget, which will go to the March 2021 Committee meeting for discussion and approval.

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	A paper with more information on the Brunel sustainable equities portfolio is included elsewhere on this agenda.
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4. At the end of the Committee meeting on 14 January 2021, the chair invited members to email in their opinions on the following areas of discussion: the proposed changes to the ISS, impact investing, and options for engagement with the scheme membership. Five members sent in detailed responses, which are summarised below:
5. **Investment Strategy Statement changes:** There was support for the proposed changes from four respondents, with members citing the modelling work done, the opportunities available as part of a transition to a low carbon economy, the need to safeguard the Fund's long-term investment returns, and also ethical concerns. The member who was against the changes felt that the modelling by Mercer was not to be relied upon, that the proposed changes were imprudent, and also raised concerns about the legality of the changes, in the context of fiduciary duty. A couple of respondents highlighted the need to consult with employers and/or the wider membership on the revised ISS.
6. In response to the concern around legality, Wiltshire's legal services team are conducting a review and will report back to the March 2021 Committee. Members may also find some comfort in the information provided later in this report about the Government consultations on climate risk, which indicate that the work that the Fund is currently doing (climate change modelling, reporting carbon metrics etc) will shortly become a legal obligation. It may also be helpful to refer to the following link, which explains that consideration of financially material ESG (environmental, social and governance) issues (which would include climate change risk) is a vital part of fiduciary duty, and that to neglect this could put the Fund at risk of legal challenge: <https://www.unpri.org/fiduciary-duty/the-modern-interpretation-of-fiduciary-duty/6538.article>.
7. **Impact investing / investing and reporting in line with the UN Sustainable Development Goals:** There were a mix of responses, with broad support for this idea but with a clear need for more information, particularly around practicalities, or a steer from the Fund membership. A next step for this area could be a further training session. If members support the idea, officers could reach out to Karen Shackleton, from Pensions for Purpose, to arrange for members to hear an outside view and obtain some more information.
8. **Engagement with the scheme membership:** There was a lot of support for engaging with the scheme membership, and members highlighted the following considerations – firstly that the membership do not have high stakes in the investment strategy, as their benefits are guaranteed, and also that it would be important to educate members on the issues alongside any opinions sought. A couple of respondents felt that the focus should remain on informing members at the current time, via the annual report, webinars, and possibly interacting via some online surveys. Some options for member engagement are considered later in this report, along with a suggested plan.
9. A training session has been organised for 2-4pm on 10 March 2021, so that members can benefit from hearing some additional opinions and perspectives. Hymans, the Fund's actuaries, will present some modelling which they have carried out, which looks at the potential effects on the funding level. This will examine scenarios where policies are rapidly changed to respond to the threat of climate change, where nothing is done at all, and something in-between. Baillie Gifford will also be attending, to talk to members

about how climate change risk can be incorporated in an investment approach, and their thoughts on how to manage the risks and take advantage of the opportunities. As an investment manager with a long-term growth philosophy which is well aligned with the Pension Fund's own objectives, this should be a very interesting discussion. Members are encouraged to attend the training session.

UNISON/Shareaction Report

10. Unison have published a new report on responsible investment in the LGPS, comparing the 10 Funds in the Brunel Pension Partnership. The full report is attached as Appendix 2.
11. The report is based on a review and assessment of publicly available information, so it is not a perfect appraisal, but it is a good indicator. It looks as though the data may have been obtained from an older source, as for example, Wiltshire have not been awarded a point for having a low carbon allocation, as well as a few other points throughout. Although this means that the report itself may not be fully accurate, it is good news that Wiltshire is continuing to make progress.
12. Wiltshire scored "9" in 2020, which equates to a "B" (action being taken in at least one area). This is up from a score of "7" two years ago, so progress has been made. Unsurprisingly, the Environment Agency and Avon Pension Funds are leading the pack.
13. Regardless of how accurate the current report is, it is a useful tool for identifying areas of strength and weakness. One key area of strength is knowledge and skills, where Wiltshire's training programme earned the Fund the highest marks of all funds. Some areas for improvement could be ensuring that the policies and reporting are covering all the key points – something which is already being considered. Engaging with the scheme membership is another factor to consider – this is discussed in more detail later in this report.

DWP Consultation

14. The DWP recently launched a consultation on new draft regulations and statutory guidance for private sector pension schemes. Although this doesn't directly apply to the LGPS, MHCLG will very shortly be launching a consultation which does, which will be virtually identical. A link to the DWP consultation follows:
<https://www.gov.uk/government/consultations/taking-action-on-climate-risk-improving-governance-and-reporting-by-occupational-pension-schemes-response-and-consultation-on-regulations>
15. Assuming this all goes ahead and is brought into law, then the Pension Fund will soon be legally obligated to carry out a lot of the work which has already been started, for example committing to the TCFD requirements, assessing climate change risk through modelling, training and education for both Committee members and the scheme membership, improved disclosures and reporting etc.
16. When the MHCLG consultation is launched, officers will inform Committee members and will circulate a briefing note.

Scheme member engagement

17. There are several factors to consider in terms of how and why to engage with the scheme membership. Members' benefits are set out in law, so they are not impacted by the investment returns, but they may still have opinions on how the funds are invested. The topic of investments is quite technical, and responsible investment issues can be nuanced, so it will be important to educate members as well as asking for opinions.
18. There are a range of ways that members can be engaged with:
 - **Informing** – something which the Fund already seeks to do 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.
 - **Educating** – again something which the Fund has moved towards in the last year, by holding a dedicated responsible investment webinar as part of the annual member conference. There are other ways the Fund could expand the approach here – there are plans for a responsible investment page on the Fund's website, and the Fund could also consider newsletters, and repeating the webinar format next year etc.
 - **Consulting** – the Fund does not currently consult with the employers or wider membership, but this could be done for the updated ISS.
 - **Actively seeking views** – this could be done as a first step via a member survey. The Fund does not hold email addresses for most of the pensioner members, and mail shots can be very expensive, and may not generate much of a response. The active membership are far easier to reach – the Fund has email addresses for around 10,000 active members, and can also use the employer organisations to send round internal communications. The views of the scheme membership would not be used to drive the strategy, but the exercise would provide a useful piece of information to help Committee members consider the full picture, alongside professional advice. It would be also be an effective way to engage with the scheme membership on these issues.
19. The Environment Agency is the only fund in the Brunel pool so far to have carried out extensive member engagement activity, although others are currently looking at the options. The Environment Agency started with a 10-question online survey, which they have published the results for – the results are available on their webpage at the following link: <https://www.eapf.org.uk/news/public/2020/05/what-you-think-about-responsible-investment>. This exercise was done without external support, and Environment Agency officers report that they received an impressive 2,500 responses.
20. One of the questions in the survey asked if members would be interested in being part of a focus group. The Environment Agency then engaged some external support, to help from a market research perspective, to help facilitate several focus groups. This was a useful exercise although understandably much more resource-intensive than the initial survey.
21. If Wiltshire carried out a survey, this could be done via the existing subscription to Mail Chimp (i.e. no additional cost), which is a service that also provides data analytics on the survey results. This could be launched immediately, with results reported back to the March 2021 Committee meeting, to help inform discussions at this meeting. A proposed questionnaire is attached as Appendix 1.

22. Proposed responsible investment membership engagement plan for Wiltshire Pension Fund:

- Continue to develop and expand upon the information published in the annual report;
- Develop and launch a responsible investment webpage, to contain data (for example the voting records), relevant policies, 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 the revised draft ISS, by circulating the agreed draft to heads of finance at all employers after the March 2021 Committee meeting, and inviting feedback with a deadline of 4 weeks. The ISS will then be amended and approved (with the caveat that if amendments are significant, the ISS will be brought back to Committee again for a final review before being approved);
- Launch a short online scheme member survey. This will be sent to all members for whom email addresses are held, as well as publicising the survey through internal comms at the major employer organisations. Results will be published online and in the 2020/21 annual report, and reported to Committee.

23. If this membership engagement plan is endorsed, it should be included in the amended draft ISS.

Voting Records

24. The following extract from the ISS sets out the Fund's policy with regard to voting:

- The fund believes that voting is integral part of the responsible investment and stewardship process.
- For assets that have transitioned to Brunel, the Committee has delegated the exercise of voting rights to Brunel on the basis that voting power will be exercised with the objective of preserving and enhancing long-term shareholder value. As part of owning publicly listed companies, Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/ EGMs). Brunel aims to vote 100% of all available votes. To provide guidance to its managers, Brunel has a single voting policy for all assets managed by Brunel in segregated accounts. Hermes EOS has been appointed to support Brunel as its engagement and voting service provider. Brunel will publish its voting policy and provide online voting records at least annually.

25. The ISS also states that the Fund will publish its voting records on the website. To date this has not been done. The intention is to remedy this shortly – the Fund is currently redesigning the website, and the new website will be launching later this spring. As part of this, there will be a dedicated responsible investment page, which will include lots of information including the voting records. For information, the Fund's voting and engagement reports for Q4 2020 from Brunel have been attached as Appendices 3 and 4. These contain summary information about the voting and engagement activities carried out on the Fund's behalf. For clarity – both these reports and the detailed records will be published online in due course.

Environmental Impacts of the Proposals

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

27. There are no known implications at this time.

Proposals

28. The Investment Sub Committee is asked to

- note the report and the progress that is being made towards implementing responsible investment related issues;
- instruct officers to approach Karen Shackleton to arrange for further training on impact investing;
- endorse the proposed approach to membership engagement and instruct officers to include this within the amended draft ISS;
- endorse the proposed approach to publishing voting records.

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

Appendices

Appendix 1 – Proposed responsible investment questionnaire for the scheme membership

Appendix 2 – UNISON/Shareaction report on responsible investment in the LGPS

Appendix 3 – Wiltshire voting report Q4 2020

Appendix 4 – Wiltshire engagement report Q4 2020

Appendix 1 – Proposed Responsible Investment Questionnaire for the Scheme Membership

1. Name (will be kept confidential – just needed to verify membership of the Fund):
2. Age: under 25, 25-34, 35-44, 45-54, 55-64, 65-74, 75+
3. Membership status: Active, Deferred, Pensioner
4. What level of interest do you have in how the Pension Fund invests the money held to pay the pensions? 1-10 (not interested at all – very interested)
5. What level of understanding do you have of responsible investment? good understanding, partial understanding, no understanding
6. How important do you think it is for the Fund to take account of ESG (environmental, social and governance) issues when making investment decisions? 1-10 (not important at all – very important)
7. Do you believe that ESG (environmental, social and governance) issues present a financial risk to the Pension Fund's investments? Yes, No, Maybe, Don't know
8. Do you believe that climate change in particular presents a financial risk to the Pension Fund's investments? Yes, No, Maybe, Don't know
9. Is it important to you for Wiltshire Pension Fund to invest in sustainable and/or low carbon assets? Yes, No, Maybe, Don't know
10. In your opinion, should the Wiltshire Pension Fund prioritise investment returns, ESG (environmental, social and governance) issues, or both? Prioritise investment returns first, prioritise ESG issues first, prioritise investment returns and ESG issues equally
11. How important is it to you that Wiltshire Pension Fund seeks to influence the behaviour of the wider financial community to bring about better environmental and social outcomes? 1-10 (not important at all – very important)
12. How important is it to you that Wiltshire Pension Fund seeks to influence the behaviour of the individual companies in which it invests, to bring about better environmental and social outcomes? 1-10 (not important at all – very important)
13. Have you seen the Wiltshire Pension Fund Annual Report 2019/20, and the section on climate risk? Yes, No, Don't know
14. Did you attend the responsible investment webinar at the annual member conference in November 2020? Yes, No, Don't know
15. Would you be interested in learning more about Wiltshire Pension Fund's approach to responsible investment? Yes, No, Don't know