

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND INVESTMENT SUB COMMITTEE
2 September 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

Progress against recent decisions and the actions in the Responsible Investment Plan 2021/22

2. Actions from the recent Committee meetings are as follows:

Recommendation	Action
Members agreed...	
That the Fund should adopt the recommendations of the Task force on Climate related Financial Disclosures (TCFD)	The TCFD reporting has been published online and in the Fund's Annual Report for 2020/21. The TCFD reporting can be found here: https://www.wiltshirepensionfund.org.uk/Responsible-investment
That the Fund should aim to sign up to the 2020 Stewardship Code during 2021	Fund officers have reviewed a gap analysis report prepared by Minerva, which looks at the current Fund publications and highlights the additional reporting which is required by the 2020 Stewardship Code. Officers are preparing a plan and will be reporting against the requirements of the code via a Stewardship Policy and Outcomes report in early 2022.
That officers will further explore commissioning Mercer to advise on a road map for the Fund to achieve net zero by 2050	Mercer's work is well underway. The findings will form part of the Fund's Responsible Investment Policy. Both the policy and Mercer's full report will be presented to the Committee at the meeting on 30 September 2021.
To make a strategic allocation to sustainable equities, of 8% of the Fund in the interim, and 5% long term, to approve that this allocation is implemented via the Brunel sustainable equities portfolio, and to approve that the sustainable equities portfolio is funded by transferring funds from the Brunel Global High Alpha portfolio.	Officers are working with Brunel on the transition to sustainable equities. This is anticipated to take place in late September or early October 2021.

Recommendation	Action
Members agreed...	
To approve the Responsible Investment Plan 2021/22, and the actions and costs noted therein.	Progress against the actions in the Responsible Investment Plan is shown below.

3. The road map from the Responsible Investment Plan 2021/22 is shown on the following page. Progress against actions for Q2 2021 (and Q3 to date) is as follows:
4. **Investments and strategy:**
- The decision on sustainable equities has been made, and the transition is underway.
 - Proposals for protection assets are elsewhere on this agenda.
 - The Responsible Investment Policy is in the process of being drafted, and will be brought to the Committee meeting on 30 September 2021 for approval.
 - Mercer’s work on a net zero by 2050 road map is underway, and will be included in a climate statement and action plan as part of the Responsible Investment Policy.
5. **Reporting and disclosure:**
- The TCFD reporting has been published online and in the Annual Report 2020/21. This sets out how the Fund manages climate change risk, from the perspective of governance, strategy, risk management and metrics.
 - Officers are developing plans for reporting in line with the 2020 Stewardship Code. This requirement will be met by an annual Stewardship Policy and Outcomes Report, which will be published for the first time in early 2022.
6. **Training and engagement:**
- A Committee training session on impact investing and affordable housing was held on 8 July 2021. Officers have collected feedback from attendees via an online survey. Feedback was positive – members reported that they found the training very useful, particularly on impact investing, and that both sessions were pitched at the right level.
 - One attendee fed back that they felt the Committee would benefit from the follow-on session on impact investing which had been mentioned in the training. Officers have followed this up with Pension for Purpose, and this training could be delivered for a fee of £1,700. This would cover a more in depth look at the Fund’s portfolios and show how the current investments can be mapped to the UN sustainable development goals. This would tie in with one of the actions for Q4 2021, which is to review other asset classes with respect to climate change and sustainability. Officers have also started work in this area to report back to the Committee. It is therefore recommended that this follow-on session should be arranged.
7. **Responsible Investment Plan 2021/22 progress summary:** The Plan is on track to be achieved – all actions scheduled for Q2 2021 have been completed, and actions for Q3 2021 are well underway. Some preparatory work has begun on actions for Q4 2021.

Responsible Investment Road Map

Q2 2021 -

Investments and strategy: decision on sustainable equities

Reporting and 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

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

Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report

8. The IPCC report, published on 9 August, was widely reported and commented on by the international, national and pension press and media. The full report could be summarised by the following points:
 - Global surface temperature was 1.09C higher in the decade between 2011-2020 than between 1850-1900.
 - The past five years have been the hottest on record since 1850
 - The recent rate of sea level rise has nearly tripled compared with 1901-1971
 - Human influence is "very likely" (90%) the main driver of the global retreat of glaciers since the 1990s and the decrease in Arctic sea-ice
 - It is "virtually certain" that hot extremes including heatwaves have become more frequent and more intense since the 1950s, while cold events have become less frequent and less severe
9. **How is this report different from previous reports (1 to 5)?**

One of the key differences is the increased certainty and understanding of climate change compared with when the IPCC started. The first IPCC report, published in 1990, concluded that human-caused climate change would soon become evident, but could not confirm that it was already happening. Today, the evidence is overwhelming that the climate has indeed changed since the pre-industrial era and that human activities are the principal cause of that change.
10. With the approach of COP26 and increasing government, investor and consumer impetus to take action, it is possible that political action and more aggressive steps to combat emissions will be taken, with the associated financial risks to markets and corporations.
11. **What does this mean for pension funds and institutional investors?**

Earlier this year, the Department for Business, Energy & Industrial Strategy reported that [a third of the UK's biggest companies have made commitments to net zero](#) and according to the Energy & Climate Intelligence Unit, [a fifth of the world's largest companies have committed to net zero targets](#).
12. As major shareholders of public companies, pension funds can exert pressure, via the development of policies and net zero targets, to influence transition plans and monitor progress against them.
13. **What does this mean for Wiltshire Pension Fund?**

In any scenario of the report, temperatures will rise to 1.5C in the 2030s. The result of lag between emissions and temperature rises mean action now will only be apparent in the later part of this century.
14. Following on from the modelling work, the Committee debated and agreed the 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."
15. In order to achieve this target, the objective must carry through the investment chain and across the portfolio. As progress against this is regularly monitored, there may be scope to review these targets.

Training

16. Following on from the impact investing and affordable housing training sessions in July 2021, the next training session will be a re-run of Mercer's climate change scenario modelling, on 14 September 2021, 2-4pm. Officers will also explain background and context, and subsequent actions. This training will be held on Teams. Members are all encouraged to attend, particularly new members who were appointed after the modelling was completed.
17. It is recommended that the follow-on session with Pensions for Purpose is held towards the end of 2021 – a date will be circulated shortly if members wish to proceed with this session.
18. Another topic which could be included in the same session as Pension for Purpose could be on the new Paris-aligned benchmarks, a topic which is covered in detail elsewhere on this agenda. If the decision is made to allocate to this portfolio, a training session going into more detail about how the portfolio is constructed etc, with examples, could be very interesting.

Member and Employer Engagement Activity

19. Following the publication of the Annual Report 2020/21, officers publicised the report in a variety of different ways:
 - Producing a one-page summary of the Annual Report, "Our Year in Review", which contains key facts and figures about the Fund. This can be found on the Fund's website: <https://www.wiltshirepensionfund.org.uk/Annual-report-and-accounts>
 - Circulating the Annual Report to all employers, along with the one-page summary, for onward distribution to scheme members.
 - Creating a publicity campaign to email all members who have signed up to MSS (the online self-service tool), as well as all pensioners who have signed up for e-payslips. This reached 17.7k individuals, and generated 1.5k clicks through to download the Annual Report or one-page summary.
20. Officers have been working with the scheme employer representatives on the Pension Fund Committee to begin improving the way that strategic issues (including responsible investment) are communicated to employers, as well as how their views are fed back to the Committee. There is already a very active engagement with employers on more operational issues. The first step has been an employer survey. This has been targeted at heads of finance or heads of the organisation. The survey is still active at the time of despatch, so full feedback will be provided to the Committee meeting on 30 September 2021.

Environmental Impacts of the Proposals

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

22. There are no known implications at this time.

Proposals

23. The Committee is asked to

- use the report as a basis for monitoring the progress that is being made towards implementing responsible investment related issues;
- note the progress made against the Responsible Investment Plan 2021/22 actions and discuss whether any additional actions are needed at the current time;
- approve that Pensions for Purpose be invited to deliver a follow-on session on impact investing, at a cost of £1,700 (not included in the budget);
- pending decision elsewhere on this agenda, approve that Brunel are invited to deliver a training session on the new Paris-aligned benchmark.

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