Wiltshire Council

Wiltshire Pension Fund Committee

2 March 2023

RESPONSIBLE INVESTMENT UPDATE REPORT

Purpose of the Report

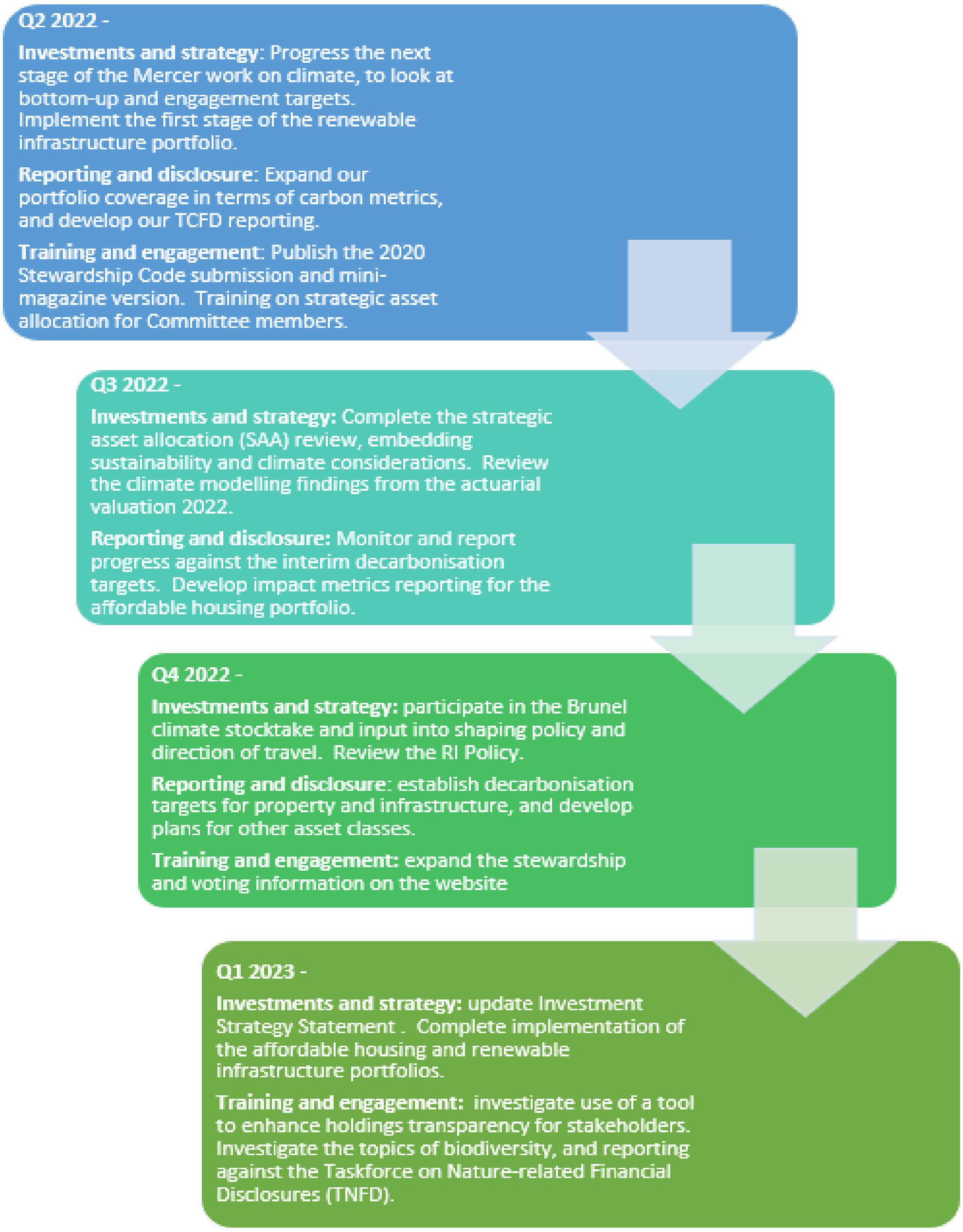
1. The purpose of this report is to update members on responsible investment issues.

Key Considerations for Committee

Progress against recent decisions and the actions in the Responsible Investment Plan 2022/23

2. The road map from the Responsible Investment Plan 2022/23 is shown on the following page. Progress against actions for Q1 2023 is as follows:

Responsible Investment Road Map



Investments and strategy:

3. The Fund has made a specific allocation to renewable infrastructure and climate solutions of 7%. Implementation options are currently being explored and considered via the Brunel Investment Sub Group (ISG). These options include private markets and solar opportunities in particular.

4. Following approval of the Strategic Asset Allocation at the meeting of 17 November 2022, the Investment Strategy Statement was updated, taken to the Local Board meeting of 1 February 2023, and circulated to employers for consultation. The main change from an RI point of view was the removal of RI detail as this is now set out in a separate [but integral] policy document.

5. Collaborating with investment managers to ensure climate risk is appropriately addressed was listed as item 16 on the Fund's Business Plan 2022/23. Officers held a preliminary meeting with asset manager, Ninety One, in February 2022, and further strategy evolution workshops in July and October. This work involved looking at investment processes, scorecards, target setting and reporting; as an emerging market 'multi-asset' (EMMA) strategy, this meant considering these issues across equities and debt as well as alignment of sovereignties.

Reporting and disclosure:

6. A Stewardship Report 2022 against the Stewardship Code 2020 will be drafted to secure renewed signatory status from the Financial Reporting Council (FRC). The deadline for submission for renewals is now 30 May.

7. The Department for Levelling Up, Housing & Communities (DLUHC) consultation LGPS (England and Wales): Governance and reporting of climate change risks closed on 24 November 2022. A response is expected later this year, with regulations mandating first Climate Risk Report due by December 2024.

8. New reports for 2023 will include an Impact Report on affordable housing (Q2 2023) and enhanced voting and engagement reporting to include emerging market and listed infrastructure equities. This will be featured on the website and in the Stewardship Report due in April 2023.

Training and engagement:

9. Officers have investigated tools and options to enhance holdings transparency for stakeholders. For example, the Environment Agency Pension Fund use Tumelo, a platform designed for impactful stewardship, enabling pass-through voting and expression of wish for fund managers, institutions, and retail investors (defined contribution). For transparency only, the cost versus benefit case for typical LGPS funds (defined benefit) has not been fully tested, therefore this workstream will be kept under review, see **Appendix 1** "Holdings transparency for stakeholders".

10. As mentioned above, the topics of biodiversity, and reporting against the Taskforce on Nature-related Financial Disclosures (TNFD) have been investigated and are reported in a separate paper on the agenda.

11. Wiltshire Pension Fund was shortlisted for the Pensions for Purpose Paris Alignment "Best Climate Change Member Communication" and "Best Climate Change Policy Statement" Awards at the Event held on 1 February 2023. The Fund did not win either category on this occasion but was up against strong competition from Smart Pensions Master Trust and the Environment Agency.

12. Wiltshire Pension Fund was also featured in the Pension Management Institute (PMI) series, 'Purposeful Pensions'. A new multi-part documentary, created in collaboration with Zinc Media Group, that investigates how investing money with purpose can help growth, sustainability, and deliver retirement income.

13. Pension Fund Committee members attended a Brunel Climate Strategy webinar on 8 February 2023. The purpose of this webinar was for Brunel to update clients on progress ahead of publication.

Fossil Fuel Divestment – a consideration of the Fund's position

What is divestment?

14. Divestment = the intentional act of moving money and investments out of a company. This is most often spoken about with regard to fossil fuel investments, and there is significant pressure on LGPS funds to divest from all fossil fuel companies. This pressure comes both from scheme members, wider campaigns, and this is even an area where we were recently (justifiably) challenged by the Wiltshire Council carbon reduction team.

WPF's current position

15. WPF's position with regard to divesting from fossil fuels is that we do not require our investment managers to exclude any specific holdings from our investment portfolios. Nevertheless, often managers will avoid certain types of stock, for example those which violate the UN Global Compact, or controversial weapons. The Fund's current view is summed up in one of our investment beliefs: "Stewardship and engagement are generally more effective tools than divestment in encouraging changes that will help safeguard the Fund's investments. The Fund values the benefits of working with other investors to strengthen these activities and achieve better outcomes." Brunel adopt a similar approach, and their engagement escalation policy permits eventual selective divestment if companies are not making the necessary changes after attempts have been made to engage.

16. Arguments have been made on both sides. Some argue that it is better for investors such as WPF to remain invested as that is how we can drive change, and that if we are not invested then someone else will be, who may have worse intentions as an investor. Others argue that this is a fallacy, and that the strongest way to deliver change is to not be invested at all, and that if companies want our capital, they will make the required changes in order to become investable.

17. The Fund also holds the following investment belief: "In order to protect the Fund's investments into the future, the Fund supports a global warming scenario of well below 2°C, and states an ambition to achieve net-zero carbon emissions across all investment portfolios by 2050". The Fund still holds a small amount of investments in fossil fuel companies, which could be seen to be in conflict with this belief, and could even be interpreted as potentially supporting the very scenario we are trying to avoid, which would be financially detrimental to the Fund, and therefore incompatible with the fiduciary duty to our beneficiaries.

What is a fossil fuel company?

18. An important factor to consider here is "what is a fossil fuel company?". The definition can range from purely extractive industries, all the way through to distribution and retail of fossil fuels. Investing in some of these companies might not be at odds be the Fund's wider goals – for example, a utility company could work to change its supply to renewables, and future-proof its activities. Or a distribution company could adapt its business to be part of a low carbon future. It can be hard to see how extractive companies can be part of the solution – but even here, they could form part of a forward-looking portfolio, if they were being supported to wind down operations, and distribute assets to investors.

19. Through the Fund's allocation to the Paris-aligned passive portfolio, some companies are removed from the investable universe if they meet certain criteria. These are as follows:

- Companies with:
    - 1 % or more of revenues from exploration, mining, extraction, distribution or refining of hard coal & lignite
    - 10 % or more of revenues from the exploration, extraction, distribution or refining oil fuels
    - 50 % or more of revenues from the exploration, extraction, manufacturing or distribution of hydrocarbons, hydrogen and carbon monoxide mixtures present in gaseous state
- Electricity producers with carbon intensity of lifecycle GHG emissions greater than 100 gCO2e/kWh (50%+revenues)
- Any companies found or estimated by them or by external data providers to significantly harm one or more of the environmental objectives under the "Do No Significant Harm" definition
    - Currently this includes Pure play Coal and Pure play Tar sands companies

20. Going forward, the Fund will use these exclusion criteria from the Paris-aligned benchmark as its definition of "fossil fuel companies", and will monitor holdings on this basis. This will be reported annually, as part of the Climate Report (including reporting in line with the Task Force on Climate-related Financial Disclosures/TCFD).

What are the next steps?

21. This is a high profile topic, and it is therefore recommended that the Committee approve a statement on the Fund's position. This can be used to respond to queries from the press and public about this topic, and can be included as part of the next revision of the Responsible Investment Policy, in September 2023. It is worth pointing out that due to the nature of investment pooling, even if the Committee decided to immediately divest from all companies meeting the above definition of fossil fuel companies, this might not be possible to implement, due to the fact that the portfolios have to contain the same holdings for all client funds, and a consensus position would need to be sought.

22. That said, even though there may be a rationale for continuing to hold selected fossil fuel companies in the short term, it is hard to imagine a scenario where these would form part of our portfolio in the medium term. The Committee therefore could consider stating an aim to divest from all companies meeting the above definition by 2030, which would be communicated to Brunel and other investment managers. In the short term, the Committee may agree that officers continue to monitor the position, and ensure that for all such companies there is a convincing reason to retain the holding, which is not in direct conflict to the Fund's long term goals. This joint approach should help to protect the Fund against any financial loss from exposure to stranded assets.

Suggested draft statement, for discussion:

23. As a long term investor, WPF's goal is to protect the investments from climate change risk, and safeguard the financial future of the Fund. We support a global warming scenario of well below 2°C, and have an ambition to achieve net-zero carbon emissions across all investment portfolios by 2050. We do not see a long-term place for fossil fuel investments in our portfolios, and aim to be fully divested from these companies by 2030. In the short term we will continue to monitor our holdings in these companies, to ensure that any such investments are helping to finance real-World change. This approach aims to ensure that the Fund's risk of exposure to stranded assets is well managed, and that the Fund can benefit from the investment opportunities presented by the transition to a low carbon economy.

Environmental Impacts of the Proposals

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

25. There are no known implications at this time.

Proposals

26. The Committee is asked to

- use this report as a basis for monitoring the progress that is being made towards implementing responsible investment policy;
- note the progress made against the Responsible Investment Plan 2022/23 actions and discuss whether any additional actions are needed at the current time.
- discuss Fossil Fuel Divestment and consider the draft statement as set out in this report.

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

Appendix 1 – “Holdings transparency for stakeholders”