

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
30 March 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 was 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 demonstrated 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. The ISS also now includes a short section (Appendix C) on plans for member engagement, in line with recent actions which have been taken, and considerations for the future.

Employer Consultation

9. Following the Investment Sub-Committee’s review of the draft ISS on 25 February 2021, the draft ISS was sent out to the head of finance at all the employer organisations for consultation, which closed on 19 March 2021. The employers were given some background to the changes, and asked four key questions:
 1. Do you believe that climate change risk presents a threat to the future investment returns of the Wiltshire Pension Fund, and therefore by extension, that it could contribute to the risk that your contribution rates need to be raised?
 2. Do you support the Committee’s approach in attempting to quantify the risk presented to the Fund and its employers by climate change?
 3. Do you support the new investment belief in the ISS?
 4. Do you have any further comments on the newly amended draft ISS?
10. There were 6 responses to the consultation, and these responses are summarised as follows:

Employer	Q1	Q2	Q3	Q4
IDverde Limited	Yes	Yes	Yes	No
The Park Academies Trust	Yes but everything is a risk, not just climate change and a portfolio should evolve to reflect the market and the future	Yes	Yes, if it does not become a constraint and remains an opportunity	All decisions must be made to deliver the best returns as opposed to a desire to meet a moral obligation
Warminster Town Council	Yes	Yes	Yes	No
Corsham Town Council	Yes	Yes	No – The target should be brought forward to 2030	The target should be brought forward to 2030

Employer	Q1	Q2	Q3	Q4
Westbury Town Council*	Yes – via stranded assets, and overvalued companies which are reliant on fossil fuels	Yes – Wiltshire Pension Fund should be an active investor to help encourage companies to transition to a low carbon economy	The timescale should be 2030 not 2050	A greater level of detail in the ISS would be welcomed
Brunel Pension Partnership	Yes, as not doing also creates also creates a risk – in our review a more likely one given scientific consensus of negative financial outcomes and thereby an increase in employer contributions	Yes, as this is in line with best practice and will provide clarity to the Wiltshire Committee on where to prioritise action	Yes	No

*Westbury Town Council's response was much more detailed, the comments in the table represent a summarised version.

11. A common response was that the target for net-zero carbon emissions in the investment portfolios should be set to 2030, in line with the Council's own target. However, although the Council has set this target, the Pension Fund needs to set its own target in line with what is practical for the Fund, after taking professional advice, and in line with the overarching objective of safeguarding the assets and optimising the investment returns into the future.
12. A target of 2050 is in line with the Paris Agreement and the UK Government, and from discussions with Mercer and the Brunel pool, this is a reasonable target which should be achievable for the Fund, with a plan in place and regular monitoring. Therefore, although this feedback is noted, it is not proposed to change the target from 2050.

Institutional Investors Group on Climate Change (IIGCC) Framework

13. The IIGCC has recently launched a framework for investors making net-zero commitments. Faith Ward of Brunel is the Chair of the IIGCC and Brunel have been involved in the development of this framework. Several other Brunel funds signed up to the framework at its inception earlier in March 2021. The framework helps asset owners who have made net zero commitments put this into practice, via an action plan and interim targets, and report on their progress. If the ISS is approved, it is recommended that Wiltshire also sign up, as this will be a useful tool, alongside support from Mercer, in implementing the net zero commitment. There is no cost in signing up to the framework. Further information can be found at the following link: <https://www.iigcc.org/news/global-framework-for-investors-to-achieve-net-zero-emissions-alignment-launched-8-trillion-investors-put-it-into-practice/>

14. It is also recommended that if the new ISS is approved, and the Fund signs up to the IIGCC framework, that a press release is issued to communicate the actions taken to the scheme membership and the wider public of Wiltshire.

Main Considerations for the Committee

15. The draft ISS is attached as Appendix 1.
16. The 2020 version has been updated for the changes detailed above.
17. 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.
18. The Investment Sub-Committee also considered the amended draft at the meeting on 25 February 2021.
19. The scheme employers have been formally consulted on the proposed changes.

Financial Considerations

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

21. There are no known implications at this time.

Reasons for Proposals

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

Environmental Impact of the Proposals

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

Proposal

24. The Committee is asked to:
- (a) approve the revised ISS;
 - (b) approve that Wiltshire signs up to the IIGCC framework, to support the net-zero by 2050 target;
 - (c) approve that the new investment belief in the ISS, and the action of signing up to the IIGCC framework are communicated to the wider public via a press release.

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

Appendices

Appendix 1 – draft amended ISS (with tracked changes)