

## WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE  
30 March 2021

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### **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**

##### *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:

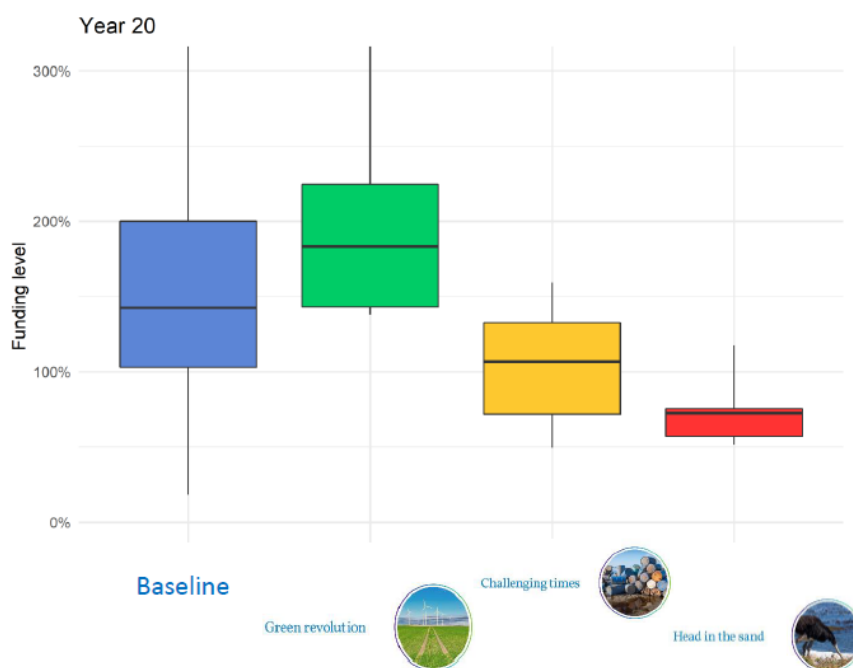
<b>Recommendation</b>	<b>Action</b>
Members agreed...	
To amend the Investment Strategy Statement (ISS) in line with Mercer's recommendations, i.e. making a commitment to achieve net zero in the portfolios by 2050, in alignment with the Paris agreement and the UK government, and an explicit acknowledgement that warming needs to be kept to sub-2°C.	The ISS has been amended, and the draft version has been reviewed at the Local Pension Board and Investment Sub-Committee meetings in February 2021. The employer organisations have been consulted on the revised ISS. The updated ISS is on this agenda elsewhere for debate and approval.
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 have been working with Brunel and other member funds to define an approach to signing up to the 2020 Stewardship Code. An amount of £5,000 is included in the 2021/22 Pension Fund budget to help support this commitment.
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 has been obtained (£65,000) and is

	included in the 2021/22 budget, which is elsewhere on this agenda for 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. Representatives from Brunel have been invited to the Investment Sub-Committee meeting on 10 June 2021 to present on the portfolio.

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 have conducted a review, which is included as Appendix 1. **The legal review has concluded that the work being done by the Committee is within the scope of fulfilling their fiduciary duty.** Elizabeth Muir, who carried out the review, will be present at the Committee meeting to answer and questions from members. 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. Officers will 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 were considered by the Investment Sub-Committee at the meeting on 25 February 2021. This was discussed in advance of the full Committee meeting so that some of the options

could be put straight into action and the results fed back to this Committee meeting. The feedback is covered later in this report, and in the agenda item on the ISS.

9. A training session was organised for 2-4pm on 10 March 2021, so that members could benefit from hearing some additional opinions and perspectives. Hymans, the Fund's actuaries, presented some modelling which they have carried out, which looks at the potential effects on the funding level. This modelling examined scenarios where policies were rapidly changed to respond to the threat of climate change, where nothing is done at all, and something in-between. Hymans explained that they were coming at this issue from a purely financial perspective, and that although investing in a way to mitigate climate change risk was the best thing for the planet, this was not the motivator. The Institute and Faculty of Actuaries has identified climate change as a risk which needs to be addressed, as it is a financially material factor. In addition, GAD (the Government Actuary's Department) has very recently set out that climate change modelling is now mandatory as part of the 2022 triennial LGPS valuation cycle.
10. As with other responsible investment issues, climate change is a long-term issue. Hymans' modelling looked at a 10-year time horizon. It was clear from the modelling that the Fund would be in a substantially better place under a "green revolution" scenario, i.e. one where there is a strong policy response and a transition to a low carbon economy. Investment returns (and the funding level) were significantly higher. This would be slightly dampened by increased liabilities resulting from improved longevity, but this does not alter the conclusion. Crucially, although Hymans were coming from a different perspective to Mercer in performing their modelling, it supports the conclusions from Mercer's modelling, and therefore also supports the proposed changes to the ISS.
11. The following graph is an extract from Hymans' slides for the training. It shows the potential effects on the funding level from the different scenarios of policy response (green revolution (green) = immediate policy change, challenging times (yellow) = no immediate action followed by a catch up, head in the sand (red) = limited policy response). This chart only looks at changes from investment returns, and does not include other factors, and is only to be taken as a broad view to illustrate the potential magnitude of the issue of climate change.



12. Baillie Gifford also attended, as an investment manager with a long-term growth philosophy which is well aligned with the Pension Fund's own objectives, 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. It was very clear that consideration of ESG issues, including climate change, was completely embedded in Baillie Gifford's investment approach. The focus for them is on bottom up analysis of the companies, to identify the specific ways they can benefit from opportunities, as they are looking for companies which have the potential to quintuple (at least) in value over the next 10 years. They highlighted the point that there were opportunities in many different areas of the market – for example transition opportunities, i.e. the gains that could be made from investing in a carbon intensive company which was listening and working to make changes to transition to a low carbon model. Conversely not all “green” companies necessarily represented good opportunities, and there could be risks of stranded assets in this rapidly developing area, for example investing in technology which becomes obsolete. The point about transition opportunities was also recently made by Faith Ward, Brunel's Chief Responsible Investment Officer, in a discussion with clients about the Brunel sustainable equities portfolio.

#### UNISON/Shareaction Report

13. 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.
14. 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.
15. 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.
16. 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

17. 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>

18. 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.
19. When the MHCLG consultation is launched, officers will inform Committee members and will circulate a briefing note.

### *Scheme member engagement*

20. 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.
21. 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 development of the 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 consulted with the employer organisations on the newly amended draft ISS.
  - **Actively seeking views** – this has now been done as a first step via a member survey. An explanation of how this has been done and the results is below. The views of the scheme membership will not be used to drive the strategy, but the exercise provides a useful piece of information to help Committee members consider the full picture, alongside professional advice. It will also be an effective way to engage with the scheme membership on these issues, and raise awareness of the work which is being done by the Committee.
22. The Environment Agency is the only other 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.
23. 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.

### ***Wiltshire's membership survey – process and results***

24. Members of the Investment Sub-Committee agreed that a membership survey should be launched immediately following the 25 February 2021 meeting, such that results could be fed back to this Committee meeting, to help form part of the bigger picture informing the decision-making process.
25. The survey was publicised via the following methods:
- Emailing all active and deferred members who have signed up to member self-service;
  - Emailing all pensioners who have signed up to e-payslips;
  - Using Wiltshire internal comms to encourage all staff to complete the survey, including a dedicated all-staff email sent out on behalf of Andy Brown as Treasurer to the Pension Fund;
  - Emailing all HR contacts at every employer organisation to ask them to make staff aware of the survey and encourage them to complete it.
26. The survey was open for 3 weeks. The survey was kept brief in order to encourage participation, although members could also put a free text comment at the end, and many interesting comments were received via this.
27. The survey generated a total of 2,251 responses, which shows a really positive level of engagement. A summary of the findings, and some plans to respond to these findings are shown in Appendix 3. This will also be published online, and some highlights will be included in the Pension Fund's annual report 2020/21.

### **Voting Records**

28. 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.
29. The ISS also states that the Fund will publish its voting records on the website. To date this has not been done, however now the Fund's new website has launched, the voting and engagement records for Q4 2020 have now been published online, and this will continue on a quarterly basis.

### **Environmental Impacts of the Proposals**

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

### **Safeguarding Considerations/Public Health Implications/Equalities Impact**

31. There are no known implications at this time.

### **Proposals**

32. The Committee is asked to

- note the report and the progress that is being made towards implementing responsible investment related issues;
- note the engagement work carried out, specifically the consultation on the ISS and the scheme membership survey, and endorse the approach taken;
- endorse the approach to publishing voting records via the Fund's website.

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

### **Appendices**

Appendix 1 – Memo on ESG issues and fiduciary duty from a legal perspective

Appendix 2 – UNISON / Shareaction report

Appendix 3 – Wiltshire Pension Fund scheme membership survey findings