

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
30 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 this meeting.
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.	The transition to sustainable equities took place during September 2021. A report on outcomes and costs is expected in due course.

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 & Q3 2021 is as follows:
4. **Investments and strategy:**
- The decision on sustainable equities has been made, and the transition is underway.
 - Proposals for protection assets were considered at the 2 September 2021 Investment Sub-Committee.
 - The Responsible Investment Policy elsewhere on this agenda for approval.
 - Mercer’s work on a net zero by 2050 road map has been completed, and is included in a climate statement and action plan as part of the Responsible Investment Policy. Mercer’s report is attached as Appendix 1, and Mercer will attend this meeting to present their report and answer the members’ questions. A summary of Mercer’s findings is detailed later in this report.
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. This was supported at the Investment Sub-Committee on 2 September 2021, and the training has been scheduled for 29 November 2021.
 - A Committee training session was held on 14 September 2021, for Mercer to represent their climate scenario modelling findings. Feedback is currently being collected.
7. **Responsible Investment Plan 2021/22 progress summary:** The Plan is on track to be achieved – all actions scheduled for Q2 & Q3 2021 have been completed. 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 1.09°C 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 by 1.5°C 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.

Mercer's Analytics for Climate Transition (ACT) Report

16. As a reminder, the Committee approved a budget for a piece of work from Mercer to help the Fund set a pathway to net zero. This piece of work looks at the following areas:
- Setting interim decarbonisation targets
 - Setting a target for investments in sustainable/low carbon assets
 - Transition alignment – analysis of where the current portfolio sits, by exposure to assets that are well aligned or not well aligned with the low carbon transition
 - Information on setting a baseline
 - Next steps
17. The Mercer report is attached as Appendix 2 to this paper. Mercer will be attending the meeting to present on their report, and answer members' questions.

Property portfolio – sustainability review

18. During September 2021, the Fund's property manager, CBRE, performed a sustainability review on the Fund's property portfolio. This report looked at the portfolio from multiple different angles, including:
- Whether the underlying funds had made net zero commitments
 - Were the funds reporting in line with TCFD recommendations (Task Force on Climate-related Financial Disclosures)
 - Engagement examples
 - ESG scores
 - Metrics around energy efficiency, emissions, water consumption and waste management
 - Physical risks by exposure to different types of natural hazard
19. Officers will be meeting with CBRE shortly to discuss the findings and how they can be used to protect the portfolio from the identified risks. A verbal update can be provided at the meeting.

Training

20. The next training session will be held in person on 29 November 2021. Officers will circulate details of timings and venue. This training will include a follow-on session on impact investing with Pensions for Purpose, at an additional cost of £1,700, which was supported by the Investment Sub-Committee at the meeting on 2 September 2021. This session will take the format of an investment beliefs workshop, to review the UN sustainable development goals (SDGs) in more detail, and focus on SDGs which the Fund could incorporate in the investment strategy.
21. There will also be a session with Brunel on the new Paris-aligned benchmarks, which will explain more about how they are constructed, with examples. All members are strongly encouraged to attend the training. Local Pension Board members will also be invited.

Member and Employer Engagement Activity

Annual Report

22. 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.

Employer engagement survey

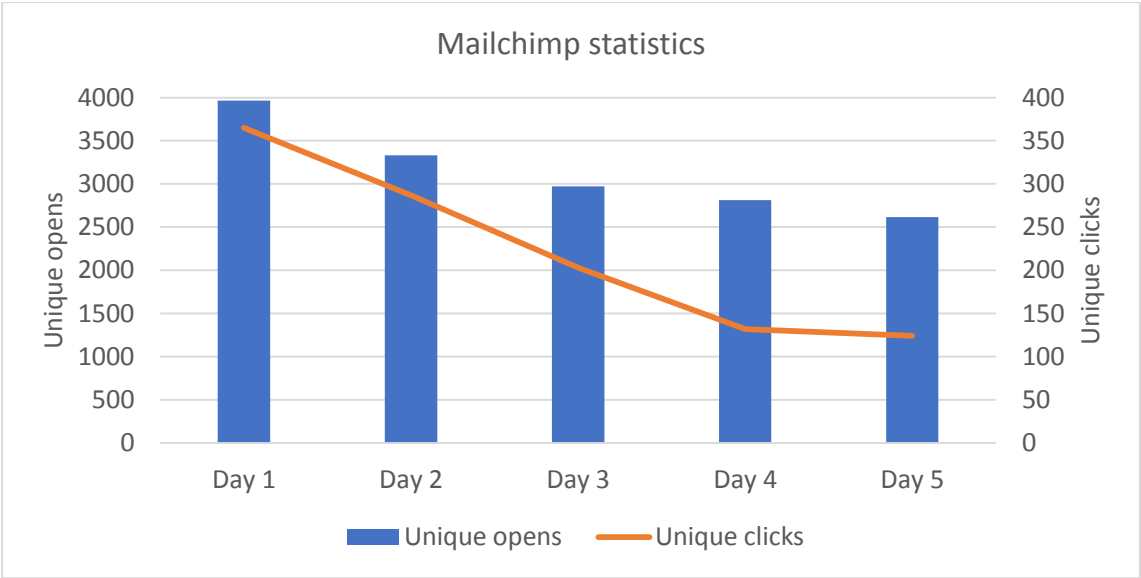
23. Officers have been working with the scheme employer representatives on the Pension Fund Committee to begin improving the way that strategic issues (including responsible investment) are communicated to employers, as well as how their views are fed back to the Committee. There is already a very active engagement with employers on more operational issues.
24. The first step has been an employer survey, which has been targeted at heads of finance or heads of the organisation. The survey recently closed, and the results are available in Appendix 1. Officers and the employer representatives on the Committee will talk through the findings at the meeting, but a brief summary of the results follows:
- Responses were received from 62 employer organisations (of approx. 180 total), representing just under 80% of all employers in terms of the value of employer contributions received. This shows a really strong level of engagement.
 - Employers showed a strong interest in how the Fund is run, and gave a clear indication of the sorts of topics they would like to know more about, and how they would like to receive information.
 - 23 respondents said that they would be interested in being part of an employer focus group, so officers and the employer representatives will be looking into establishing this. This focus group will discuss and provide feedback on key relevant strategic and policy topics, such as the communication strategy, the investment strategy, and the actuarial valuation.
 - Officers will be working alongside the employer representatives on the Committee to help facilitate the dialogue.

Pension Awareness Week (PAW)

25. 15 September 2021 was Pension Awareness Day. Officers developed a plan to use PAW to inform members about key facts on the benefits of the Pension Fund, how the money is managed, and to encourage members to visit our website and sign up to member self-service (MSS). A mini-factsheet was designed for each day of the week, as well as a single factsheet for employers who only wanted to send out a single communication to their eligible members of staff.

26. The factsheets were sent out to active members for whom we already hold email addresses via Mailchimp (7.7k members), and to all employers for onward distribution to eligible staff. A dedicated web page was also set up: <https://member.wiltshirepensionfund.org.uk/article/4608/Pension-Awareness-Week-13-17-September-2021>

27. In order to monitor the success of the PAW campaign, officers measured the number of visits to the dedicated webpage, clicks and opens through the Mailchimp mailing, and the increase in sign-ups to MSS. This data is not fully available at the current time, but some early measures are as follows:



28. The link within the Mailchimp email went through to the website where all the factsheets were stored, so it makes sense that clicks through to this page would decline over the week. The number of opens and clicks shows a high level of engagement.

29. From monitoring the number of members registered on MSS, a modest increase in sign-ups was noted across this week, but the full effect of this will take a while to filter through. Activity levels were also monitored, and these were up across the week by 58%, showing that more members were engaging with their pension.

30. Website stats have also shown an encouraging picture. Over the week the PAW page was the most popular on the website, and received 2,086 visits from 1,743 individuals. This represents over 1,000 extra visits than those generated from the Mailchimp campaign, so the majority of these are likely to have come from the emails sent out by the employers.

Environmental Impacts of the Proposals

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

32. There are no known implications at this time.

Proposals

33. The Committee is asked to

- use the 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 2021/22 actions and discuss whether any additional actions are needed at the current time;
- approve the Investment Sub-Committee's recommendation 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);

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

Appendices:

Appendix 1 – Employer survey report

Exempt Appendix 2 – Mercer's report on analytics for climate transition (contains proprietary information)