

## Wiltshire Council

### Wiltshire Pension Fund Committee

17 November 2022

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#### Responsible Investment Update

##### 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. Actions from the recent Committee meetings are as follows. Actions which were reported as complete in the last regular update have been removed:

Recommendation	Action
Members agreed...	
That the Fund should aim to sign up to the 2020 Stewardship Code during 2021.	The full stewardship report was submitted to the FRC, published on the Wiltshire Pension Fund website; and success in achieving signatory status was confirmed on 7 September 2022.
That officers will follow up with Mercer on advising on a road map for the Fund to achieve net zero by 2050.	Mercer completed work on analysing the Fund's holdings using Mercer's Analytics for Climate Transition (ACT) tool, this was presented at the 5 September 2022 meeting.
To authorise officers to work with Mercer to deliver the implementation of the affordable housing and renewable infrastructure portfolios.	The implementation work for the affordable housing portfolio has been completed. The implementation process for renewable infrastructure is ongoing.

3. The road map from the Responsible Investment Plan 2022/23 is shown on the following page. Progress against actions for Q3 2022 is as follows overleaf:

# Responsible Investment Road Map

**Q2 2022 -**

**Investments and strategy:** Progress the next stage of the Mercer work on climate, to look at bottom-up and engagement targets. Implement the first stage of the renewable infrastructure portfolio.

**Reporting and disclosure:** Expand our portfolio coverage in terms of carbon metrics, and develop our TCFD reporting.


**Training and engagement:** Publish the 2020 Stewardship Code submission and mini-magazine version. Training on strategic asset allocation for Committee members.



**Q3 2022 -**

**Investments and strategy:** Complete the strategic asset allocation (SAA) review, embedding sustainability and climate considerations. Review the climate modelling findings from the actuarial valuation 2022.

**Reporting and disclosure:** Monitor and report progress against the interim decarbonisation targets. Develop impact metrics reporting for the affordable housing portfolio.



**Q4 2022 -**

**Investments and strategy:** participate in the Brunel climate stocktake and input into shaping policy and direction of travel. Review the RI Policy.

**Reporting and disclosure:** establish decarbonisation targets for property and infrastructure, and develop plans for other asset classes.

**Training and engagement:** expand the stewardship and voting information on the website



**Q1 2023 -**

**Investments and strategy:** update Investment Strategy Statement . Complete implementation of the affordable housing and renewable infrastructure portfolios.

**Training and engagement:** investigate use of a tool to enhance holdings transparency for stakeholders. Investigate the topics of biodiversity, and reporting against the Taskforce on Nature-related Financial Disclosures (TNFD).

#### 4. Investments and strategy:

- The Fund has made a specific allocation to renewable infrastructure of 5%. Implementation options are currently under consideration.
- Mercer's work on a "net zero by 2050" road map will continue with analysis using Mercer's Analytics for Climate Transition (ACT) tool.
- Officers of the Fund attended the Brunel Climate Stocktake workshop on 11 October 2022. The purpose of this workshop was for Brunel clients to discuss priorities and for Brunel to update clients on its progress and development of Brunel's own climate policy.
- Following approval at the meeting of 5 September 2022, the Responsible Investment policy 2022, was published and circulated to all legacy asset managers and Brunel. Officers held discussions with some managers and can confirm that the policy had been acknowledged and accepted by all on 12 October 2022.
- The triennial valuation and strategy review is on the agenda of this meeting, 17 November 2022, with the climate modelling results shown below in this paper.

#### 5. Reporting and disclosure:

- Stewardship Code signatory status was confirmed by the Financial Reporting Council (FRC) on 7 September 2022. Some feedback was provided on potential areas of improvement. This will be considered in drafting of the 2023 report.
- The Climate pages of the Wiltshire Pension Fund website have been updated with more comprehensive content on recent and ongoing work.
- The Department for Levelling Up, Housing & Communities (DLUHC) consultation [LGPS \(England and Wales\): Governance and reporting of climate change risks](#) opened on 1 September 2022.

#### 6. Training and engagement:

- Brunel held an Investor training day on 28 September 2022. Among the topics and discussion sessions were "Emerging Markets and responsible investing update", "Long-termism and Sustainability in a world of acute short-termism" and "Investing with Profit and Purpose" (impact). These were presented by Ninety One, Ownership Capital and Neuberger Berman respectively. An update on Brunel Stewardship was also provided.
- As mentioned above, the update to the climate pages of the Wiltshire Pension Fund will be accompanied by a member communication (climate one-pager) planned to align with [COP27, the UN Climate Change Conference](#). This is later in the calendar as Pension Awareness Week, originally scheduled for September, was moved to run between 31 October to 4 November 2022.
- Induction training for new Pension Fund Committee and Local Board members was held on 3 November 2022. In addition, the Local Government Association (LGA) Fundamentals training programme (a three-day introductory course) covering all aspects of the LGPS, including responsible investment, is running between October and December.
- Wiltshire Pension Fund has been shortlisted for an award for "Best Climate Change Strategy" at the LAPF Investment Awards, 15 December 2022, and Paris Alignment Awards for "Best Climate Change Member Communication" and "Best Climate Change Policy Statement" at the Pensions for Purpose Awards, rescheduled for 1 February 2023.

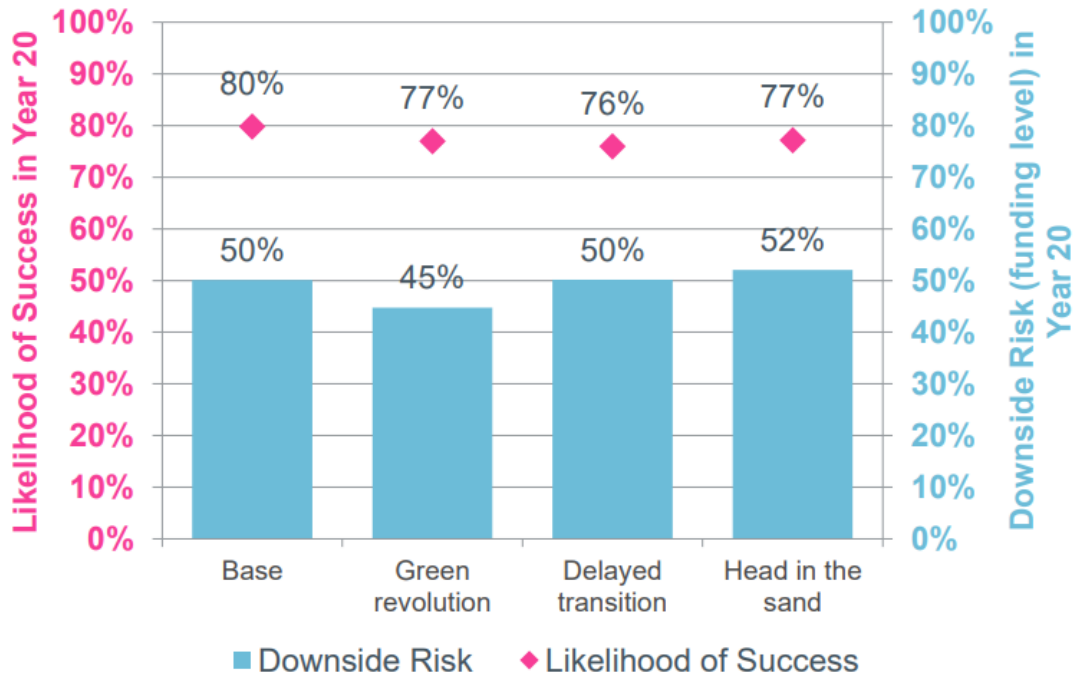
## Climate Modelling Results (Hymans)

7. As part of the actuarial valuation, it is now mandatory for actuaries to take account of climate risk as part of their work, such is the scale of this risk to pension funds. It is important to note that this work is completely separate to the climate scenario modelling work done by Mercer (the Fund's investment consultant), which looks exclusively at investment returns, and helps inform the setting of the investment strategy, and put in place measures to manage this risk from an investment perspective.
8. The work done by Hymans (the Fund's actuary) looks at the impact of climate risk on the funding position. The work takes three different scenarios, ranging from a rapid regulatory response to climate risk to doing nothing, and then something in the middle, and applies these to the entire model (which itself looks at 5,000 different scenarios). The work then shows whether the Fund's funding strategy is robust enough to survive these different scenarios.
9. The following explanation of the work has been provided by Hymans:

*"The modelling behind the charts below is intended to test the resilience of the funding strategy to potential different future climate risk scenarios for the purposes of reporting under the requirements of the Task Force on Climate Related Financial Disclosures (TCFD). In order to do this, the chart shows the impact of stressing the model based on 3 different potential future global reactions to climate risk (compared to the "standard" funding model). This is largely done by varying the volatility in economic conditions within the model at different periods of time over the next 20 years to correspond with:*

- 1. immediate, large scale global reaction to climate change – Green Revolution*
- 2. much later global reaction in the longer term (years 15-20) – Head in the Sand*
- 3. global reaction somewhere in between the two above – Delayed transition*

*The charts show that the results are not significantly impaired by any of these three scenarios – certainly not by enough to make us change our funding decisions. This provides some assurance that the funding approach already allows for sufficient variation in future economic scenarios and that the recommended strategy is resilient enough to deal with a variety of future outcomes."*



- 10. It is important to note that the Fund’s funding strategy contains a stabilisation mechanism, which means that rates can be adjusted (for the larger employer groups) by plus or minus 1% each year in light of experience. This is a big driver in ensuring that funding targets can be met.
- 11. The conclusion of the modelling is reassuring, and illustrates that the funding strategy is sufficiently resilient. The full modelling results are included in Appendix 1.

**Environmental Impacts of the Proposals**

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

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

- 13. There are no known implications at this time.

**Proposals**

- 14. 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.

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Unpublished documents relied upon in the production of this report:

NONE

**Appendices:**

Appendix 1 – Hymans climate scenario modelling