

Chairman's Update on Fossil Fuel Investment

The issue of fossil fuel investment was raised at the last Local Pension Board meeting held on 20 October 2016, this document is to update the Board on the information that was subsequently provided to public speakers in response to their submissions at the meeting.

LPB role

The Wiltshire Pension Fund (WPF) Local Pension Board (LPB) has no decision making powers in respect of WPF investments. Its role is to assist the WPF to comply with the LGPS regulations, statutory guidance, and the Pension Regulator requirements on public pension schemes. I can confirm the WPF publishes its statutory statement of investment principles, details of investment strategy and policies, and information on who the funds assets are managed by (and their annual investment performance), and the fund's investment performance overall in the fund's annual report, all as required by the LGPS regulations.

Risk Register

The purpose of the WPF risk register is to provide the WPF Pensions Committee (PC) with a "dashboard" of the key financial risks facing the WPF and the mitigating actions being used and taken to reduce these risks. The WPF has included EU Brexit on its risk register because of overarching financial materiality to the fund (which pays benefits in £ sterling) and the financial uncertainty around its implementation, financial impacts, and timing, not least on the UK based asset managers who manage some of the fund assets.

I understand the WPF has not included the Paris Agreement on its risk register because there is far less uncertainty over its implementation, impact, and timing. The EU and UK government are both signatories to it and they are responsible for its implementation which is underway. The Paris Agreement has provided a clear signal to financial markets in respect of emission controls and the financial sector are responding to this through their financial risk models, investment decisions, and engagement with fossil fuel companies. Moreover, the WPF has no direct shareholdings in fossil fuel companies and it only has a small residual risk exposure to fossil fuels via its investment in pooled funds.

I understand the fund has measured the extent of this small residual risk exposure for around 5 years and the funds risk exposure has decreased markedly. In 2012 around 5.5% (£74m) of the pooled funds investments held fossil fuel stocks. In 2016 this figure is now 1.8% (£32m) of the total funds assets of around £1.8bn. This reducing residual risk is being addressed and mitigated by a range of mechanisms. The funds investment advisors (Mercer) have undertaken research on climate change and their consultants seek to take it into account in their investment advice to WPF in respect of asset allocation, fund manager selection, and investment risk mitigation. When WPF invest in pooled funds it does not have any legal ownership (such as shareholder voting rights) over any companies the pooled fund manager invests in, so the WPF requires its pooled fund managers to manage all portfolio risks on its behalf. They do this by deciding what companies to invest in and by engaging with the companies they invest in and this includes fossil fuel companies. The WPF receives regular reports from its pooled fund managers, and I understand both the WPF officers and the PC seek assurance from them that they are actively addressing the funds concerns over the pooled fund portfolio risks, including ESG risks like fossil fuels. The WPF also participates in the LAPPF who also engage with fossil fuel companies on behalf of nearly all the 89 LGPS funds. The WPF is also aware of the global transition to move to lower carbon economies that is now underway and the WPF has made investments of over 21m in renewable energy companies.

As mentioned at the LPB meeting, there are some new LGPS investment regulations that come into effect in November 2016. They require the WPF to develop a new statutory Investment Strategy Statement (ISS) and to publish it by 1st April 2017. The Government has issued statutory guidance on the production of these new LGPS pension funds ISS and it specifically states that each LGPS pension fund should disclose more about their approach to asset stewardship including environmental, social, and governance (ESG) issues. The new ISS will be available for all fund members to see and comment on in 2017. After the WPF has developed and published its new ISS and considered the results of its 2016 valuation results, the WPF may well review its asset allocation and investment mandates, plus update and re-post its ESG policies on the WPF website, during 2017-18, and this will include the WPF position on fossil fuels to bring them up to date with the new LGPS regulations and the WPF ISS.

As mentioned by the Head of Pensions at the LPB, currently WPF is not currently resourced to undertake additional work on ESG issues, however the proposed new Brunel asset management company is being designed so that it can in due course undertake additional work in this area for WPF and the other LGPS funds who are sponsoring the new Brunel asset management company. In due course it may also enable WPF to benefit from the experiences of the Environment Agency Pension Fund (EAPF), in respect of climate change risk mitigation and reporting, who for example, are piloting a new low carbon index tracking pooled fund to assess its financial efficacy (relative to traditional index tracking pooled funds).

Communications

I can confirm the WPF has a detailed communications strategy published on the WPF website and it states that the WPF welcomes contact with fund members and LGPS employer who participates in the WPF.

I have investigated how your letters sent to the WPF were dealt with by WPF officers and Chairman of Wiltshire PC. From my investigations, each letter and email has received a response. I noticed that I was cc'd into your letter of 17 April to the Chair of the PC (Councillor Tony Deane), however I am not sure why but I did not receive your letter either electronically or as hard copy. Councillor Tony Deane (Chair of the PC) offered in his email of 17 April to meet you face to face to discuss the requests in your letter of 17 April. I am not sure if you followed this up with him directly by suggesting any dates or times. If you had, my understanding is that subject to his diary availability, he would have met you to discuss your concerns.

Since the LPB meeting on 20 October I can confirm the Head of Pensions has put in place arrangements to publish on the WPF website, the funds position on fossil fuels which was agreed in September 2015 as soon as it can be loaded up on the site. Officers apologise that this did not happen earlier and after I requested it in my emails to you of the 1st and 11th April 2016. However, when it goes live on the WPF website, any WPF member or employer can view it and communicate with the fund about it. As stated above this WPF position statement on fossil fuels will be updated in 2017 after the fund has published its new statutory ISS.

I am advised by the Head of Pensions that plans are in hand for a WPF AGM but this has had to be delayed to due the huge work pressures arising from LGPS asset pooling on the officers of the fund and Chair of the PC. I understand once a location, date and time has been agreed, this information will be promoted to WPF fund members so that they can attend if they are able and wish to do so.

This will provide you and other WPF members to ask questions and seek answers about the WPF position on any LGPS and WPF matter.