WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
24 June 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

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. Further training was organised for 8 March 2021, part of which was provided by the Fund's actuaries, Hymans. During March 2021, a scheme membership survey on responsible investment issues was carried out, as well as a consultation with the Fund employers on an amended Investment Strategy Statement (ISS). Results were reported back to Committee on 30 March 2021, and at that meeting, on consideration of all the information, a decision was made to agree an amended ISS, containing a new investment belief and a commitment to net zero by 2050 for the Fund's investment portfolios.

4. Follow-on actions from the recent Committee meetings are as follows:

Recommendation	**Action**
Members agreed…	
To approve an updated Investment Strategy Statement (ISS) including a 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**."	The approved ISS has been published on the Fund's website, and the net zero commitment has been discussed with the Fund's investment managers.
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 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 was approved as part of the 2021/22

Recommendation	Action
Members agreed…	
	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	A quote for this work was obtained (£65,000) and was approved as part of the 2021/22 budget. Mercer have commenced work, and conclusions will be reported back to the Committee in September 2021.
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. Following on from review of that paper at the March 2021 meeting, the Committee requested that Brunel attend the June 2021 Investment Sub-Committee so that members would have an opportunity to ask questions of Brunel, before a final decision would be made on whether to allocate to this portfolio.	Representatives from Brunel were invited to the Investment Sub-Committee meeting on 10 June 2021 to present on the portfolio and answer the members questions. Members agreed to recommend to full Committee that an allocation is made to this portfolio.
To instruct officers to organise a training session on impact investing with Karen Shackleton	This is being organised for 8 July 2021 at 10am. All members of the Committee and Local Pension Board will be invited. The session will also include affordable housing. This should be a fascinating training opportunity and all members are encouraged to attend.

5. In order to ensure that progress continues to be made against the objectives set by the Committee, a Responsible Investment Plan for 2021/22 has been prepared, and is included in Appendix 1. The Plan includes background and context, as well as the actions taken so far. The Plan also includes proposals for next steps, and a suggested timeline, so that officers can report back on completed actions, and Committee members can measure progress against the Plan. The Investment Sub-Committee reviewed the plan and agreed to recommend it to full Committee for approval at the meeting on 10 June 2021.

6. At the meeting on 30 March 2021, the Committee approved 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**." It was also decided at the same meeting was that this decision should be communicated to Fund members and the wider public via a press release. This has now been actioned, and a press release went out on 8 June 2021, along with other investors making similar commitments. An example of one of the articles can be found at the following link: https://www.pensionsage.com/pa/UK-pension-funds-sign-up-to-Net-Zero-Asset-Owner-Commitment.php

7. At the Investment Sub-Committee meeting on 10 June 2021, members reviewed a paper on investing in sustainable equities. This followed on from one of the key findings from the Mercer climate scenario modelling. The modelling found that under a 2°C scenario, returns could be enhanced by around 0.2% p.a. over the next 10 years by adjusting the

current strategic asset allocation to be more sustainable. The biggest impact would come from making a specific allocation to sustainable equities, which under a 2°C scenario, would deliver 1.63% p.a. more than standard global equities over the next 10 years.

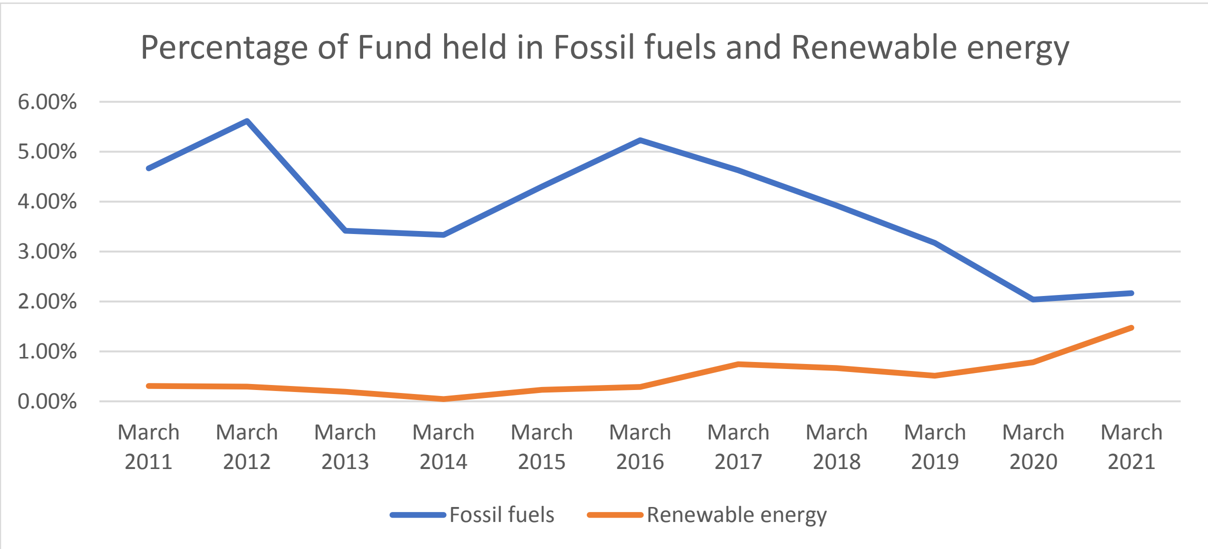
8. To put this into context, the Fund is currently valued at £3bn, and the long-term allocation to active global equities is 10% of the Fund (although currently it is roughly 2x higher pending drawdowns into the private equity portfolio and recent good performance). 1.63% p.a. over 10 years on a portfolio of £300m is equivalent to the Fund potentially benefitting to the tune of £53m, from making a switch into a sustainable equities portfolio. Of course, this figure is purely illustrative, and stock selection and strong active management of either type of portfolio will be a key contributor to returns.

9. An allocation to sustainable equities could be implemented through the Brunel pool. At the meeting on 10 June 2021, members of the Investment Sub-Committee received a presentation from David Cox, Head of Listed Markets at Brunel, which set out the characteristics of the portfolio, and had the opportunity to ask questions. After this presentation, members agreed to recommend that the Committee:
   - make a strategic allocation to sustainable equities, of 8% of the Fund in the interim, and 5% long term;
   - approve that this allocation is implemented via the Brunel sustainable equities portfolio;
   - approve that the sustainable equities portfolio is funded by transferring funds from the Brunel Global High Alpha portfolio.

Fossil Fuel and Renewable Energy Exposures

10. For the past 11 years officers have performed an annual (as at 31 March) analysis of the investment portfolios, to monitor the exposure to fossil fuels companies, and the level of investment made into renewable energy. The investments in renewable energy are mostly via unlisted infrastructure investments, but can also be in listed equities, for example a company which manufactures the blades for wind turbines.

11. The analysis, updated to 31 March 2021, follows:



12. There is a very slight uptick this year in the exposure to fossil fuels, from just under to just over 2% of the total fund value, but overall this is broadly in line with the previous year. In future years it is anticipated that this will resume its downward trend, as the Fund puts in place targets to reduce carbon intensity in line with the new target of net zero by 2050.

13. The exposure to renewables has risen significantly, and has more than doubled in absolute terms since 12 months ago. This is a trend that is anticipated to continue, as global policy demands a reduction in carbon emissions, the Fund's managers are seeing over-increasing investment opportunities in companies and assets which support a transition to a low carbon economy.

14. More importantly than the holdings, is how those holdings are performing with regards to reducing their carbon emission. Brunel have now published reporting on each individual Fund's carbon metrics, as at 31 December 2020. This now enables comparison with the data which Brunel produced for Wiltshire as at 31 December 2019 and 31 March 2019. The full report is attached as Appendix 2. Extracts from the reporting will be included in this year's Annual report.

Wiltshire Pension Fund – Carbon Footprint Analysis as at 31 December 2020				
Metric	**Unit**	**Portfolio**	**Benchmark**	**Relative Efficiency**
Weighted Average Carbon Intensity	tCO2e/mGBP	144	244	41%
Extractive Industries Revenue Exposure (VOH)	%	1.1	2.6	58%

Wiltshire Pension Fund – Carbon Footprint Analysis as at 31 December 2019				
Metric	**Unit**	**Portfolio**	**Benchmark**	**Relative Efficiency**
Weighted Average Carbon Intensity	tCO2e/mGBP	153	301	49%
Extractive Industries Revenue Exposure (VOH)	%	2.3	5.3	57%

Wiltshire Pension Fund – Carbon Footprint Analysis as at 31 March 2019				
Metric	**Unit**	**Portfolio**	**Benchmark**	**Relative Efficiency**
Weighted Average Carbon Intensity	tCO2e/mGBP	292	450	35%
Extractive Industries Revenue Exposure (VOH)	%	4.3	8.0	46%

Definitions:

15. **WACI:** The weighted average carbon intensity shows the portfolio's exposure to carbon intensive companies. This measure is determined by taking the carbon intensity of each company and weighting it based on its holding size within the Portfolio. Because carbon intensive companies are more likely to be exposed to potential carbon regulations and carbon pricing, this is a useful indicator of potential exposure to transition risks such as policy intervention and changing consumer behaviour.

16. **Extractives Industries Revenue Exposure (VOH):** This is calculated by summing the weights of any holdings in companies that have a revenue dependency on extractives-related activities. This measure is useful as an indicator to show potential exposure to stranded assets.

17. This analysis shows that between March 2019 and December 2020, there has been significant improvement in Wiltshire's carbon footprint situation. Of particular note is the change in the WACI, which has reduced by 49% over the period.

Brunel Updates

18. Brunel have recently published a few relevant reports on their responsible investment work, which can be found at the following link: https://www.brunelpensionpartnership.org/2021/05/06/brunel-realises-ambitions-across-responsible-investment-and-climate-change/

19. Included via the link are the 2021 Responsible Investment and Stewardship Outcomes Report, which details the breadth of work carried out by Brunel, the Climate Change Action Plan Report (TCFD reporting), and the Carbon Metrics Report.

Environmental Impacts of the Proposals

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

21. There are no known implications at this time.

Proposals

22. The Committee is asked to
    - note the report and the progress that is being made towards implementing responsible investment related issues;
    - approve the Responsible Investment Plan 2021/22, and the actions and costs noted therein;
    - make a strategic allocation to sustainable equities, of 8% of the Fund in the interim, and 5% long term;
    - approve that this allocation is implemented via the Brunel sustainable equities portfolio;
    - approve that the sustainable equities portfolio is funded by transferring funds from the Brunel Global High Alpha portfolio.

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

Appendices
Appendix 1 – Responsible Investment Plan 2021/22
Appendix 2 – Brunel carbon footprinting report as at 31 December 2020