WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
5 September 2022

CLIMATE UPDATE AND PROGRESS REPORT

Purpose of the Report

1. Regarding climate change, the Fund's goal is "**To protect the investments from climate change risk, and safeguard the financial future of the Fund**". As stated in the Responsible Investment Policy, "Wiltshire Pension Fund acknowledges that climate change represents a major financial risk to the investments, and that as part of the Committee's fiduciary duty, action needs to be taken to properly manage this risk, in order to safeguard the investments but also to be positioned to take advantage of the investment opportunities presented by a transition to a low carbon economy."

2. The purpose of this report is to update members on progress towards the Fund's target of net zero carbon emissions by 2050, and also includes information on several other climate-related topics.

Key Considerations for Committee

Summary of recent work done

3. In Spring 2022, officers received the carbon metrics reporting from Brunel, as well as analysis from all the investment managers about fossil fuel and renewable energy holdings. In addition, some early reporting was received from Mercer looking at the transition alignment of the portfolios.

4. This information was used to prepare the Fund's annual reporting in line with the requirements of the Task Force on Climate-related Financial Disclosures. This was published as part of the Fund's annual report, as well as a standalone document: https://www.wiltshirepensionfund.org.uk/media/9619/TCFD-Report-2022/pdf/Wiltshire-Pension-Fund-2022-TCFD_Report_v3.pdf?m=637945320253570000

5. The full Mercer Analytics for Climate Transition (ACT) report has now been received, and the findings are summarised below. Mercer's report is attached as Appendix 1. Mercer will also attend this meeting to present their report, and answer the Committee's questions.

6. Officers have completed two further pieces of work around climate, with further detail later in this report:

   - Engaging with the investment managers on priority holdings from a climate perspective – full detail below.
   - Carrying out investigations into the potential to align asset classes other than listed equities to net zero – full detail below.

ACT Reporting Highlights, and Decarbonisation Progress

7. As mentioned above, the Mercer ACT report is attached as Appendix 1. Mercer will be attending this meeting to present their report and answer the Committee's questions.

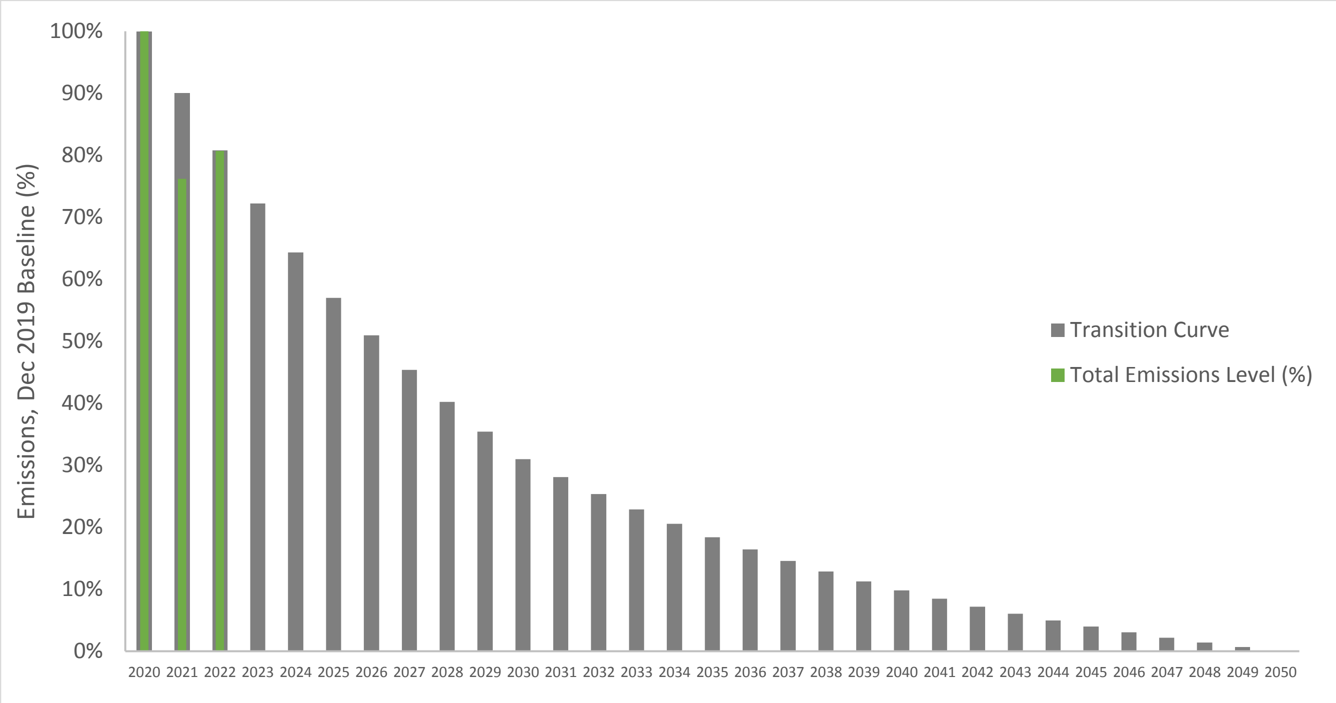
8. The report makes an important change to last year's report, in that the baseline has been updated to 31 December 2019 (was 31 December 2020 previously). This is a positive move, as it adds more data, and brings the Fund in line with the IIGCC (Institutional Investors Group on Climate Change), and will enable better comparability with other investors when assessing progress. The decision was also made (following recommendations from Mercer) to exclude Magellan from the baseline data. This is because this is strategically an interim portfolio, so it makes limited sense to include this in the baseline for measuring against a long-term target. However, from a practical standpoint, Magellan is still being treated like any other manager, with carbon metrics being monitored, and engagement work taking place on the individual holdings.

9. As well as monitoring against decarbonisation progress, the report also looks at the transition alignment of the portfolios (measured by green to in-between to grey), highlights some specific holdings to prioritise for engagement, and also looks at how target setting should evolve. The report highlights that, in line with the IIGCC framework (which the Fund publicly supports), the Fund should focus on setting more granular targets over the next 12-18 months. The Responsible Investment Policy (elsewhere on this agenda) has accordingly been updated to include a new climate commitment "We commit to expanding target setting to cover climate solutions, transition alignment and stewardship during 2023".

10. The report contains several metrics, namely absolute emissions, the carbon footprint (which is the emissions per $m the Fund has invested), and the WACI (weighted average carbon intensity – the emissions of each company in the Fund's portfolios per $m of revenue earned by each company).

11. The metric on which the Fund will measure decarbonisation progress is the carbon footprint. This is because this metric has a closer link to absolute emissions (whereas WACI demonstrates the carbon efficiency of the individual companies invested in), but in addition, it is thought very likely that this will be the metric which it is recommended that LGPS funds use when TCFD reporting becomes mandatory in the near future. Therefore, adopting this now makes strong sense to enable comparisons with other LGPS funds in the near future.

12. The decarbonisation progress to date is as follows (shown by the carbon footprint for the Fund's listed equity portfolios, with the exception of Magellan):



13. This shows that the Fund is overall on track, which is positive news, with the graph showing that the carbon footprint is down by 19.6% over the first two years of monitoring. However, it is important to be fully transparent and note that the progress for the WACI and absolute emissions does not look quite so positive, and this is shown in Appendix 1, along with explanations. Although the carbon footprint trajectory is on track overall, the 2022 datapoint (31-Dec-21) is higher than the 2021 datapoint (31-Dec-20). There are two matters to consider around this:

- The Fund has changed the strategic asset allocation over this period. The Fund has moved fully out of passive low carbon and partially out of Brunel's global high alpha active equities portfolio, into the passive Paris-aligned portfolio, and sustainable equities. These portfolios, although on track to decarbonise more over time, actually have a higher starting level of emissions.
- The sustainable equities portfolio has a new investment manager which invest heavily in companies which will be providing transition solutions for the future, but which are actually relatively high emitters today, for example chemical and industrial companies. This will be monitored, and it is anticipated that the emissions will reduce.

<u>Engagement Activity</u>

14. Officers have been carrying out work to analyse the holdings data and a range of metrics from Climate Action 100+ and the Transition Pathway Initiative, in order to prioritise holdings for further investigation. The investment managers who hold these companies were then engaged with in order to provide assurance around the investment case.

15. This work has been written up into a short report, which is attached as Appendix 2.

Net Zero across all Portfolios

16. One of the climate commitments made last year was "We will expand specific net zero target setting and monitoring of metrics for other asset classes over 2022, starting with property and infrastructure." In order to take this commitment forward, officers have been working with the Fund's investment managers and Brunel. The first stage of work has been to gather information on the current position for each portfolio. This varies across each portfolio, as each asset class presents different challenges, including availability of data, or what metrics are meaningful and available.

17. The findings of this work have been summarised in Appendix 3. Portfolios have been rated by officers across the following areas, to give an overall picture of progress for each portfolio:

    - Target setting (has the portfolio set a target of net zero by 2050 or sooner?)
    - Metrics and reporting (are metrics readily available?)
    - Data coverage (is data available on enough of the portfolio to make analysis meaningful?)
    - Transition alignment (what does the progress of the underlying holdings look like?)

18. Overall, this shows a lot of positive progress, and highlights the biggest challenges, and areas where more work needs to be done.

Climate Solutions

19. At the meeting on 26 May 2022, the Committee approved that officers work with Brunel to see if a climate solutions portfolio could be developed, as a potential way to implement the renewable infrastructure allocation, via pooling. This is currently being investigated through the investment sub-group, and a verbal update will be provided to the Committee at the meeting.

Brunel Climate Stocktake

20. The Brunel climate stocktake is ongoing, and a brief report will be provided to Committee when the work has concluded. As part of the stocktake, Brunel have requested that Funds provide feedback from their Committees. Brunel have provided a list of questions, which is attached as Appendix 4. Officers have prepared a short response, as follows. Members are asked to consider the response as a first draft for discussion, and agree on the final wording to be shared with Brunel.

21. "The Wiltshire Pension Fund Committee supports the existing objective of the Climate Policy, and agrees that this should remain as the objective. The Committee supports the work done by Brunel regarding public policy, and commends the efforts made to assess effectiveness in this area. However, at the current time, there are significant challenges around data coverage and metrics across non-listed equity portfolios, and the Committee would prefer that Brunel devote resource to developing these, in preference to adding further areas of public policy to focus on.

    The Committee would like Brunel to collaborate with the client group in the development of a multi-asset climate opportunities portfolio, and to embrace this opportunity to create something truly forward-thinking, accessing a broad range of asset classes to deliver strong risk-adjusted returns for clients by investing in renewable infrastructure and climate solutions.

The Committee would like Brunel to review how net zero can be achieved across all portfolios, whilst prioritising superior risk-adjusted returns. Central to this work will be enhanced (but still simple and easy to understand) reporting, tailored to different asset classes, for example introducing reporting on physical climate risks for all real assets (specifically property and infrastructure), as well as exposure to "green" revenues. Look-through information on the transition alignment of underlying holdings will also be essential to understanding each portfolio's position.

The Committee will be working on expanding net zero target setting over the coming year, in line with the IIGCC framework. Consequently, it is extremely likely that explicit targets will be set for climate solutions, to sit as a subset of the following existing commitment "We commit to allocating 30% of the Fund to sustainable/low carbon green assets by 2025 and 35% by 2030 (as measured by the long-term strategic asset allocation)".

The Committee's goal with regard to climate change risk, as set out in the Fund's Responsible Investment Policy is "**To protect the investments from climate change risk, and safeguard the financial future of the Fund**". Although the Fund carries out a significant amount of work on its own behalf to support this goal, support from Brunel will be essential to achieving the Fund's net zero aspirations."

Plans for Ongoing Work

22. Officers are developing plans for communications with the Fund's members around COP27, the UN's climate change conference, which will take place in late 2022. Last year's one-page factsheet was well received and a similar communication will be send out later this year.

23. Work is ongoing against Business Plan action 16 (collaborating with investment managers to ensure that climate risk is appropriately addressed). As well as the work described elsewhere in this report to obtain more information and engage with the managers, more detailed work is taking place with Ninety One around the evolution of the emerging markets multi-asset portfolio. The Fund is a large investor in this product, and so has been able to work alongside Ninety One on the direction of travel. The Committee will receive a report when this work is completed.

Plans for Future Reporting

24. As mentioned above, the TCFD report has already been published for 31 March 2022. Next year, it is proposed that officers obtain the Mercer ACT reporting earlier, and produce an enhanced Climate Report, which includes the reporting in line with the TCFD, but also much of the information included in (and appended to) this Committee report.

Environmental Impacts of the Proposals

25. This report includes information on actions and policies which directly deal with addressing climate change risk in the investment portfolios.

Safeguarding Considerations/Public Health Implications/Equalities Impact

26. There are no known implications at this time.

Proposals

27. The Committee is asked to
    - use this report as a basis for monitoring the progress that is being made towards the Fund's target of net zero emissions across all portfolios by 2050.
    - approve the statement to be provided to Brunel for the climate stocktake.
    - approve the plans for reporting on climate risk via a single report in early 2023.

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

Appendices:
Appendix 1 – Mercer's ACT Report
Appendix 2 – Officers report on engagement with managers on priority holdings
Appendix 3 – Analysis of net zero position across all investment portfolios
Appendix 4 – Brunel's questions for Committees for the climate stocktake