

CITY OF
WOLVERHAMPTON
COUNCIL

Pensions Committee Meeting

Wednesday, 29 September 2021

Dear Councillor

PENSIONS COMMITTEE - WEDNESDAY, 29TH SEPTEMBER, 2021

I am now able to enclose, for consideration at next Wednesday, 29th September, 2021 meeting of the Pensions Committee, the following reports that were unavailable when the agenda was printed.

Agenda No Item

6 Climate Change Framework and Strategy 2021-2026 (Pages 3 - 30)

[To present the Fund's revised and updated Climate Framework and Strategy for Committee discussion and approval.]

If you have any queries about this meeting, please contact the democratic support team:

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CLIMATE CHANGE FRAMEWORK AND STRATEGY 2021



West Midlands Pension Fund



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INTRODUCTORY STATEMENTS

Climate change is an existential threat and the defining issue of modern time. It is harming livelihoods and societies, threatening future food security and water availability, and having a detrimental impact upon local and global economies alike.

Like many across the globe, our beneficiary members work tirelessly during their working lives to provide public service and for their families as they earn their pensions; they deserve to retire into world that is not compromised by rising temperatures and sea levels, extreme weather events, and food shortages, they deserve to retire into a world with a healthy environment, a thriving economy and a guaranteed green and stable future for their grandchildren and upcoming generations.

Action is required immediately and at an extraordinary pace to limit global temperature rise and to ensure the best chance of avoiding the worst impacts of climate change. The next decade is a critical tipping point for both the planet and the direction we take as leaders, and as individuals make their own choices. All consumers and suppliers have a role to play in making change happen, no matter their place in the chain. Enabling transitions across sectors, whether it be energy, industrial, materials, and transport, is essential for in achieving a real world net zero.

As a Fund we are committed to driving down emissions and investing in solutions that directly contribute to and financially benefit from the transition to a net zero future. We will challenge those that do not align with our vision and champion and support those who do. We will work with local communities, national governments and policy makers and global companies to make sure that our voice is heard, and our requirements are met and acted upon. Truth, transparency and trust will underpin our ambition and communication strategy. We will disclose when we meet the targets that we have set and will be honest when we do not. No single party can achieve this alone and our ambition requires a continuation of coordinated and collaborative action.

Our members, employers and employees are at the heart of our operations. We are prioritising their needs and those of the local communities that we serve and the global communities that we invest in. We have set our targets and written our climate strategy with all of our stakeholders in mind. We know that the journey ahead will not be easy, but the value of the end goal is immense: a liveable climate and planet for all.



Rachel Brothwood
Director of Pensions



Councillor Milkinder Jaspal
Chair – Pensions Committee

The West Midlands Pension Fund is fully committed to aligning with the goals of the Paris Agreement and net zero ambition by 2050 or sooner. As a pension fund and asset owner we seek to understand the risks associated with climate change; ensure fund resilience as we decarbonise; and champion effective collaboration and increased transparency in our approach, as we continue to forge our pathway to net zero and contribute to building sustainable futures for all. Our framework outlines our approach, how we will measure our progress and continue to adapt to the changing policy and regulatory environment.

Strong progress has been made since we developed our first Climate Framework and Strategy in 2019 – our next phase to 2026 will see an increase in momentum as we continue to work alongside others and utilise the assets that we own to influence positive change on a global scale. At this point in time we find it hard to quantify exactly what this will mean, but it will be a further material reduction in exposure to the inherent physical and transition risks associated with the shift to a net zero economy and further investment in climate solutions. Over the next five years we will expand the scope and quality of measurement and data collection, to continue to ensure meaningful change and alignment across our investments and our own operations.

The West Midlands Pension Fund (“WMPF/ the Fund”) welcome the pressing and increasing pace of action on climate change. The year 2021 was denoted a watershed year for climate change and investor stewardship. Alongside the UN Climate Change Conference of the Parties (COP26 Summit) which took place in Glasgow in November 2021, 2021 was a critical year for both financial institutions and policy makers in accelerating action towards the goals of the Paris Agreement.

We adopt an evidence-based approach to climate change and believe there is overwhelming evidence to support that climate changes poses both risks and opportunities to the economy and society and the Fund’s investments and risk management activity. A period of co-ordinated and collaborative action is required by multiple stakeholders (governments, regulators, companies, investors and consumers) to manage the financial risks and realise the opportunities associated with the transition to a lower carbon economy.

OUR FUND

WMPF is one of the largest funds within the Local Government Pension Scheme in the UK. An open defined benefit pension scheme with more than 750 employers, the Fund has assets under management in excess of £18.5 billion and invests for the long-term across a wide range of asset classes to deliver returns to pay pensions to over 340,000 Fund members within the West Midlands.

Underpinned by our **Responsible Investment Framework** (“RI Framework”) our RI and stewardship practices are fundamental in informing our Fund identity and the investment processes required to protect and enhance the Fund’s assets, ensuring they deliver the investment returns to support the payment of members’ pension benefits. We share best practices with industry partners to contribute to climate awareness, influence local and national policy makers and accelerate wider action in society.

Through strategically aligned investment in climate solutions and collaboration with other investors, WMPF is supporting the rapid economic transition and behavioural change required to strengthen and align with the Paris Agreement ambition, which aims to limit global warming to well below 2°C, pursuing efforts to limit it to 1.5°C.

We recognise the importance we play in both financed emissions through the allocation of capital and the emissions associated with our corporate footprint. We are actively involved in developing

£18.5bn+ assets under management
340,000+ members
750+ employers



globally adopted standards for net zero investors through the Institutional Investors Group on Climate Change Paris Aligned Investment Initiative working group (IIGCC PAII), the objective of which is to define the investment practices, policies and corporate behaviours required to address climate change on a global scale.

The latest information about our action on climate change is available at:
wmpfonline.com/article/14043/Climate-Change.

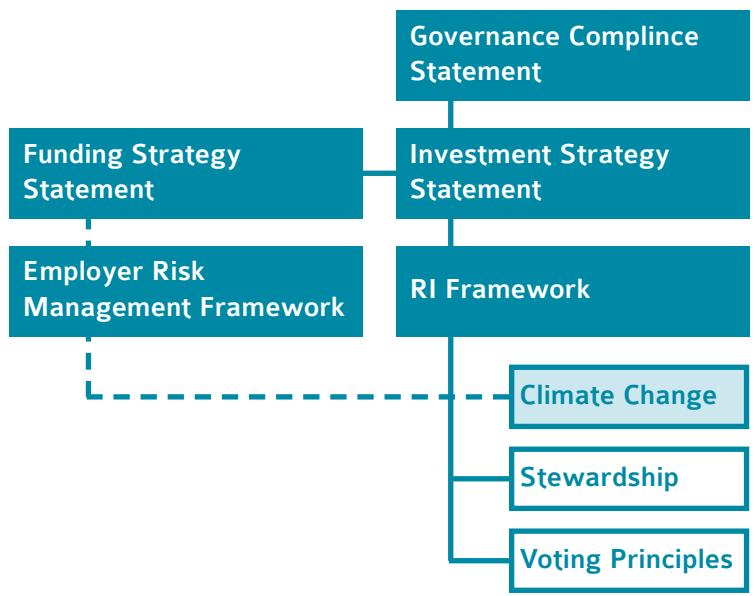
OUR RESPONSE to CLIMATE CHANGE

Climate change is integrated into our **Corporate Plan** and **RI Framework**, both of which support the delivery of our investment strategy, protect and enhance the investment returns needed to deliver sustainable pensions to our members over the long-term, and enable the delivery of the Fund’s four commitments (Figure 1).



Figure 1: West Midland Pension Fund's Four Commitments

This document is WMPF’s second Climate Change Framework and Strategy (“CCFS”) for managing the risks and opportunities presented by climate change. Its objective is to provide an overarching and focused framework on climate change and explain how we will address climate-related risks and opportunities, stewardship, and engagement of relevance to our engagement themes and investment and funding objectives. The CCFS is a component of the Fund’s **RI Framework**, which itself is a constituent of the Fund’s **Investment Strategy Statement** (“ISS”), which has been developed and reviewed in conjunction with the Fund’s **Funding Strategy Statement** (“FSS”).



FUTURE REVIEW of the CLIMATE CHANGE FRAMEWORK and STRATEGY

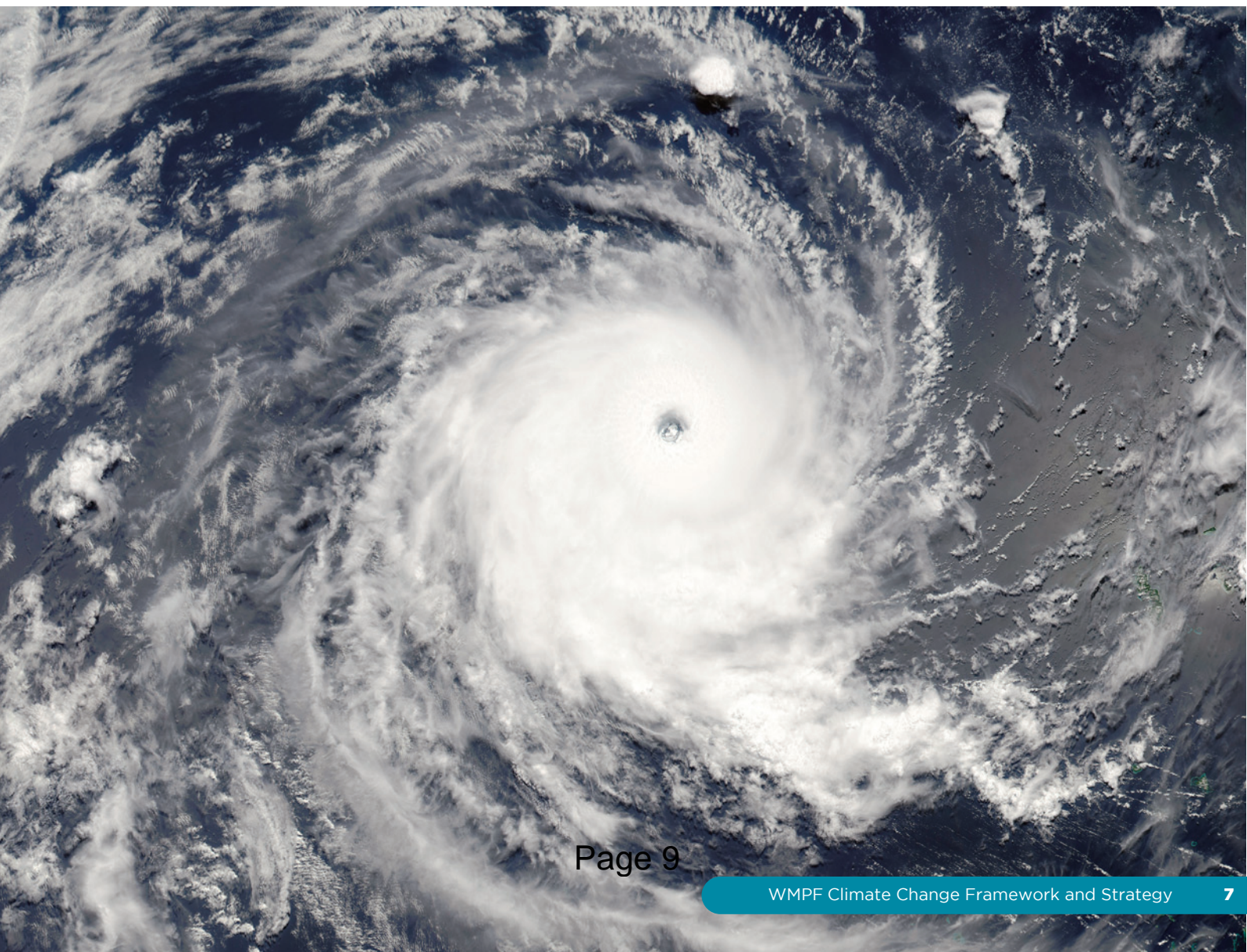
This 2021 Climate Change Framework and Strategy was approved by the Fund's Pension Committee in September 2021. In line with Fund's approach to policy development and review, progress against the 2021 Climate Change Framework and Strategy objectives will be reviewed annually, **in keeping with best practice and evolving regulations**, with full review and the next phase of the Framework due to be developed, no later than 2026/27.

Noting the pace in development, we expect the Framework and Strategy to evolve in response to:

- The publication of regulations and guidance on climate risk monitoring and disclosure, specific

and applicable to the Local Government Pension Scheme.

- Changes in global and UK policy, including National Disclosure Commitments and mandatory disclosure, which increase and shape the information available to institutional investors.
- Further development in industry-led tools available to asset owners and asset managers in designing investment mandates aligned to net zero.
- Progress monitored and reported through annual TCFD and Stewardship reports.



FRAMEWORK GOVERNANCE

WE BELIEVE THAT HAVING EFFECTIVE GOVERNANCE STRUCTURES AND POLICIES ARE ESSENTIAL FOR CLIMATE AWARENESS, RISK MANAGEMENT AND DECISION MAKING, AND WILL ADD VALUE TO THE FUND OVER THE LONGER TERM.

The City of Wolverhampton Council is the LGPS Administering Authority for the West Midlands Pension Fund. Within its constitution, the Council has delegated responsibility for the Pensions Fund to the Pensions Committee.

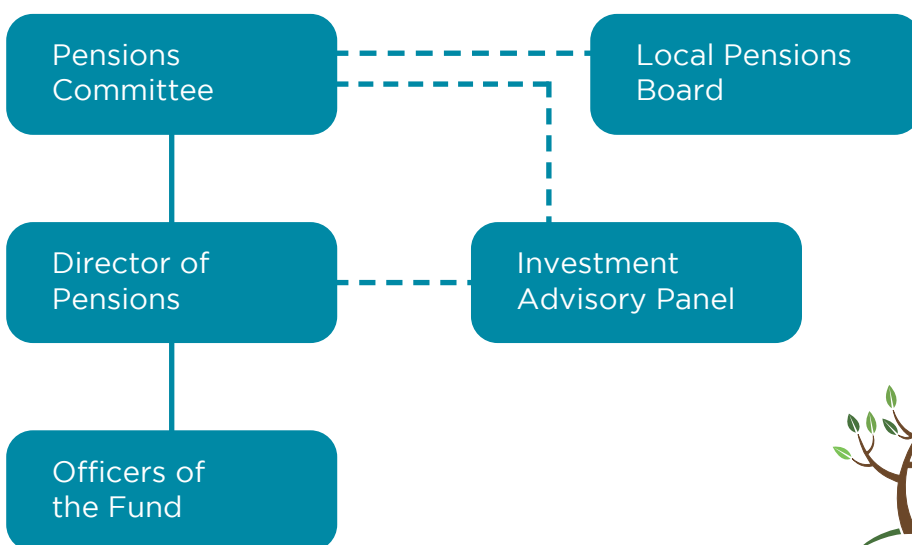
WMPF is governed by the Pensions Committee which sits as the decision making body, setting strategy and policy as to how WMPF is managed. The Pensions Committee delegates the day-to-day running of the Pension Fund to the Director of Pensions who in turn delegates to the Senior Management Team and officers.

The Local Pensions Board, made up of equal member and employer representatives, sits in an advisory role to the pension fund, supporting the good governance of the scheme. The Local Pensions Board oversees investment governance including developments and changes to WMPF’s Responsible Investment Framework and Climate Change Framework and Strategy and ongoing stewardship activity. The Board focuses on member engagement across its diverse member and employer base and communicates its responsible

investment activity and action on climate through online, event and written communications.

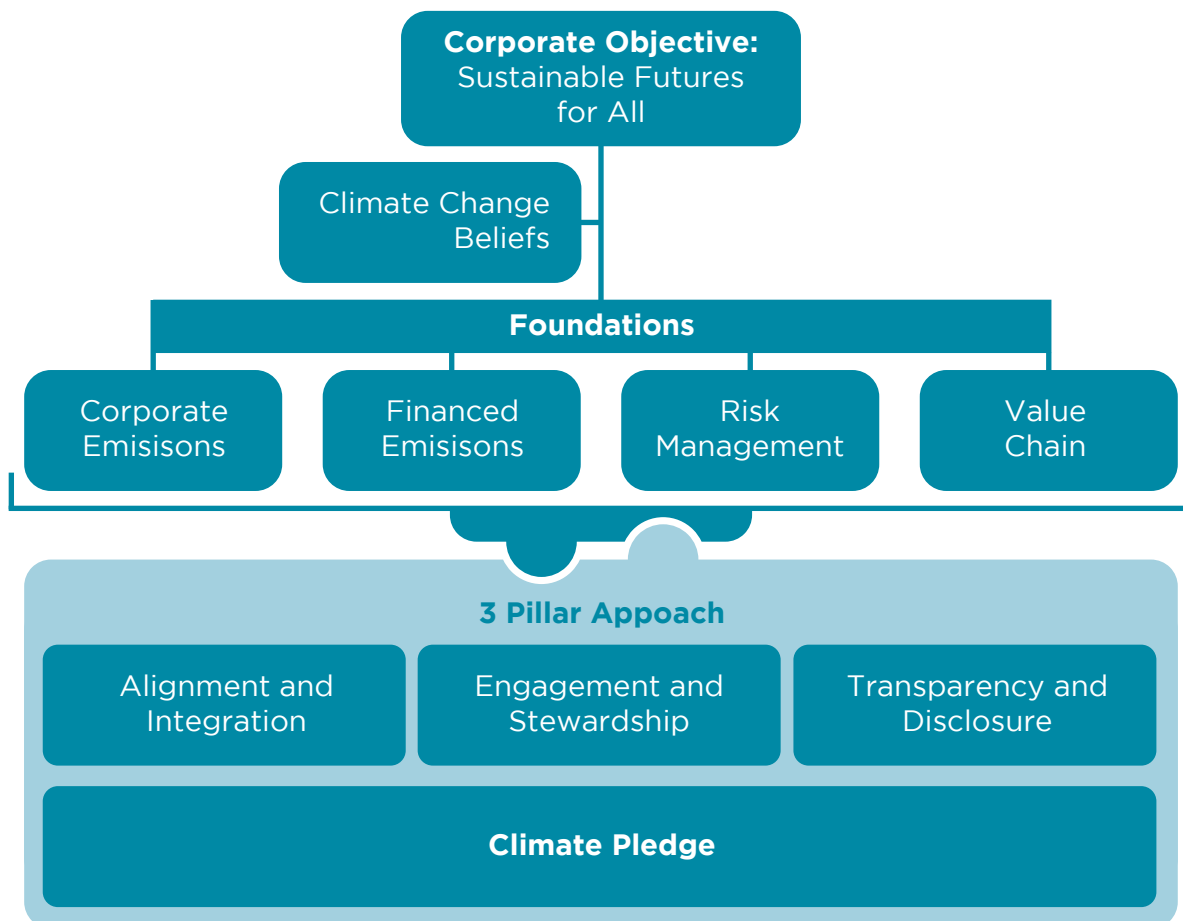
WMPF’s Investment Committee is responsible for the day-to-day management and oversight of assets including implementation of the Investment Strategy Statement (ISS), asset allocation, and Responsible Investment. Following the creation of LGPS Central in 2018, the pool and pool company provide investment products, analysis and advice to support implementation of the ISS and RI Framework. The Fund utilises a range of partners and initiatives to develop and enhance its engagement and stewardship programme.

We have a commitment to continue to evaluate and build knowledge and skills appropriate for both our Fund Officers and Governing Bodies in an evolving regulatory landscape and have dedicated Employee and Governing Body Training Policies. More information on the governance of WMPF can be found in our [Governance Compliance Statement](#) and in our [Investment Strategy Statement](#).







Our Climate Change Framework and Strategy supports the governance of our response to climate change by defining our corporate sustainability objectives across four foundations, grounded in our

beliefs, these define our approach across three broad pillars and the tangible commitments and actions within our Climate Pledge.



CLIMATE PLEDGE 2021-2026

IN LINE WITH OUR AMBITION TO DRIVE PROGRESSIVE ACTION AND CHANGE WE WILL CONTINUE TO APPROACH OUR COMMITMENT IN LINE WITH THE FOLLOWING PRINCIPLES:

-  **Draw** on science based targets and best practice guidance to monitor our exposure to climate risk and inform our decision making processes.
-  **Invest** in existing climate solutions that directly contribute to the energy transition.
-  **Challenge** both our portfolio and individual mandate climate risk analysis to identify areas for improvements.
-  **Partner** with leading global organisations (e.g. IIGCC and CA100+) to promote direct and collaborative support for the Paris goals.
-  **Champion** consistency across climate change policy and frameworks and encourage policy makers and regulatory bodies to establish comprehensive, globally analogous standards.
-  **Engage** with companies to express our expectations as asset owners, and with our wider stakeholder base (e.g. WMPF employers and members), to focus our collective alignment of ambition and work together to advocate action.
-  **Pursue** continual improvements of climate disclosure across the investment chain, including measurement of action and progress to enable a Just Transition.
-  **Collaborate** to influence company behaviours around developing responses to climate change, embracing and utilising common measurement standards and disclosing for the public good.
-  **Participate** in the development of global standards (e.g. Net Zero Investment Framework) and credible and practical solutions to address the physical and transition risks of climate change.
-  **Report** annually on progress towards achieving objectives in line with TCFD recommendations.
-  **Communicate** our ambition and action, together with those needed by others, to our beneficiaries and wider stakeholders.

OVERVIEW

2017

- Initial analysis of WMPF carbon exposure
- First WMPF TCFD Report published

2019

1st Climate Change Framework and Strategy published 2019-2023



- Allocated £2 billion to equity strategies including lower carbon to meet our sustainable investment target.
- Reduced the weight of our carbon footprint by almost 30%*.
- Reduced our total equity carbon intensity by 1/4 relative to the market.
- Disclosed the Fund's first standalone TCFD report.
- Working towards 18% carbon intensity reduction for Direct Property.
- Met our 2019 thermal coal investment target and reduced our weight in thermal coal by over 20%*.
- Increased our weight in clean technology by over 17%.
- Reduced our weight of exposure to fossil fuel reserves by almost 40%*.
- Attained signatory status to 2020 UK Stewardship Code.

* Statistics derived from analysis undertaken by LGPS Central Ltd on WMPF's Listed Equities and Fixed Income portfolios during 2020 and 2021.

2021

Updated Framework | To be reviewed by 2026/2027

CURRENT ASPIRATIONS:

Building on the progress to date and consistent with the principles set out in the Climate Pledge, we have set a number of interim targets:

- A **50% reduction** in investment portfolio carbon emissions by 2030 (vs 2019 levels).
- **60% asset coverage by 2026** – we will develop and utilise the measurement tools and methods of analysis across its property and infrastructure investments and increase allocation to both of these asset classes.
- Increase the awareness and measurement of our emissions in our day-to-day activities, **aligning to net zero with a 50% reduction targeted by 2030.**

Our approach and targets are expected to evolve as the landscape and industry develop. The targets outlined here are subject to change and are reliant on the developing global governmental commitments and policies.

THREE PILLAR APPROACH

ALIGNMENT AND INTEGRATION

Focuses on 4 of the Fund's asset classes:

LISTED EQUITY 

LISTED FIXED INCOME 

DIRECT REAL ESTATE 

DIRECT INFRASTRUCTURE** 

ENGAGEMENT AND STEWARDSHIP

TRANSPARENCY AND DISCLOSURE

** Developing over the next 5 years

CLIMATE PLEDGE

In line with the principles underpinning our ambition for progressive change, we are committed to developing our response to Climate Change across five key objectives:

Objective	Commitment	To Date
Coverage and targets	Develop measurement tools and ambition to capture those asset classes and sectors which will drive the most meaningful economic outcomes.	We built on analysis of listed equity, direct property and listed fixed income up to 2021.
Climate solutions	Further explore and define the opportunity set and target meaningful allocations within this.	We reviewed and made targeted investments within the sustainable and clean energy sectors.
Effective engagement	Seeking action and alignment to net zero pathways throughout the value chain.	We adopted and continued to make progress against the Transition Pathways Initiative and CA100+ benchmark.
Collaboration and advocacy	Support the ongoing development of practical and meaningful actions undertaken by an increasing number of assets owners.	We continued to input into ongoing consultations to develop standards and products, in partnerships with peers and the LGPS Central pool.
Progressive emissions reductions	Regularly measure, disclose and refine targets to demonstrate commitment and outcomes.	We measured and disclosed against our carbon metrics within our TCFD reports. We undertook triennial asset and liability scenario testing.

Refine targets & metrics to measure progress and alignment towards net zero

2026/7

2030

Interim assessment date

2050

2050 or sooner – Net Zero

BACKGROUND and CONTEXT

Climate change, and the risks and opportunities it presents to us as a long-term investors and a pensions provider form part of our critical thinking not just in the way we approach investment, but in the Fund's wider commitments which strive for global influence alongside delivering for local people.

We recognise the need for action to address climate change on a global scale and that it has a role to play in ensuring the shift to a lower carbon economy, ensuring a “just transition” for workers and communities, with the potential for substantial economic and social benefits. In collaboration with others, WMPF is taking action and will continue to contribute to change by engaging governments, companies, investors and individuals to ensure the long-term sustainability of our planet.

OUR JOURNEY SO FAR

An initial assessment of the Fund's exposure to climate-related risks under a range of forward-looking climate scenarios was carried out by an external provider in 2017 and used to inform our Strategic Asset Allocation. Alongside an increased pace of global engagement and policy change, we established our first Climate Change Framework and Strategy in 2019 and revise our Strategic Asset Allocation in our Investment Strategy Statement in 2020. Based around short-term targets over four years, our objective was to ensure that our climate policy actions were set in context of progressive ambition.

In 2020 and 2021 we undertook further climate risk analysis through our Pool company LGPS Central

Ltd. Through a combination of bottom-up and top-down analysis, the 2020 report provided WMPF with a view of the climate risk across the major parts of the investment portfolio. The 2021 report analysed progress against the measurable baseline of data and recommendations established in 2020 and reviewed progress against the actions established. Analysis to date has focused on our listed equity and fixed income portfolios; we will expand the coverage of analysis to include more asset classes over the next five years to 2026.

Over the last two years we have¹:

- **Allocated £2 billion of equity holdings to sustainable and low carbon investment strategies**
- **Reduced the weight of our carbon footprint by almost 30%**
- **Reduced our weight of exposure to fossil fuel reserves by almost 40%**
- **Increased our weight in clean technology by over 17%**

As a supporter of the Task Force for Climate-related Financial Disclosure (TCFD) recommendations, since they were first published in 2017, we published our climate-related financial disclosure against the TCFD recommendations in our [Annual Report & Accounts](#) between 2017 and 2019. For the first time in 2020 we published a separate stand-alone [TCFD Report](#) to further enhance transparency and disclosure around our approach to climate risk management. We will continue to consider further TCFD developments, amongst wider regulatory changes pertaining to the physical and transition risks of climate change, in future reviews of is climate strategy.

In order to assess progress towards a lower carbon economy it is essential for WMPF to measure its climate risk exposure at regular intervals and to seek appropriate coverage. Metrics and targets set for WMPF investments will be reported against annually; wider risk and forward-looking scenario analysis will be undertaken every three years, with the next analysis due to be carried out in 2022/23, alongside our triennial actuarial and investment strategy reviews and engagement with our employers. We expect that our Climate Change Framework will both inevitably, and desirably, evolve as climate related financial tools and data availability continues to advance, and the understanding of the complex issues, evident in practical and academic research, improves.

¹ Statistics derived from analysis undertaken by LGPS Central Ltd on WMPF's Listed Equities and Fixed Income portfolios on data as at 31/12/2018 and 31/12/2019.

CLIMATE CHANGE as a FIDUCIARY ISSUE

Climate scientists currently anticipate that the world will be between 2°C and 4°C warmer by 2100². This is substantially higher than the ambition set by the Paris Climate Change Agreement³ – to keep global surface temperature rise to well below 2°C above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

The magnitude and speed of a Paris-aligned climate transition leads to climate-related risks and opportunities for investors. The Taskforce for Climate-related Financial Disclosure (“TCFD”)⁴

divides climate risks into two categories (Figure 3); the first is the transition risk that could crystallise as society attempts to move into a low-carbon economy, and the second is the physical damages that are likely to occur as the natural world changes. For investors, climate change is a risk that cannot be fully diversified. Almost all asset classes, sectors and regions are likely to be affected by the physical, policy or market-related consequences of climate change over the long term.

CLIMATE RELATED RISKS, OPPORTUNITIES, AND FINANCIAL IMPACT

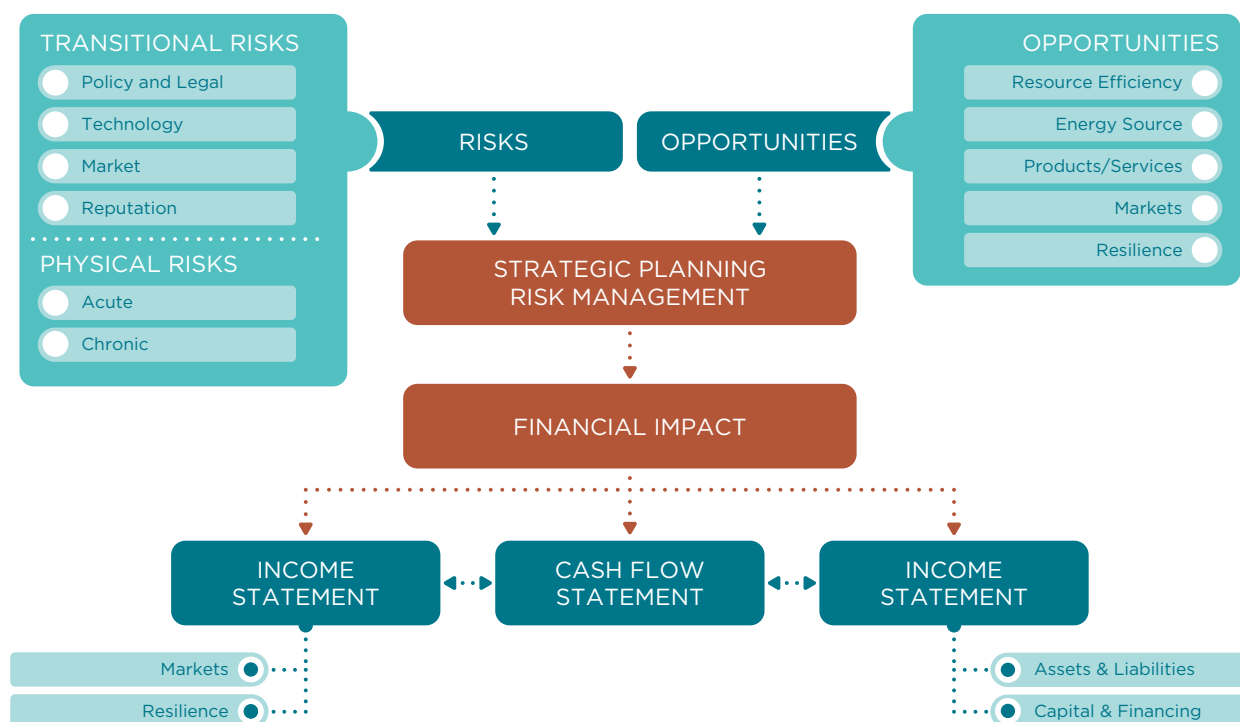


Figure 1: Climate-Related Risks, Opportunities, and Financial Impact. Source: Adapted from TCFD 2017

² <https://www.ipcc.ch/sr15/chapter/spm/>

³ https://ec.europa.eu/clima/policies/international/negotiations/paris_en

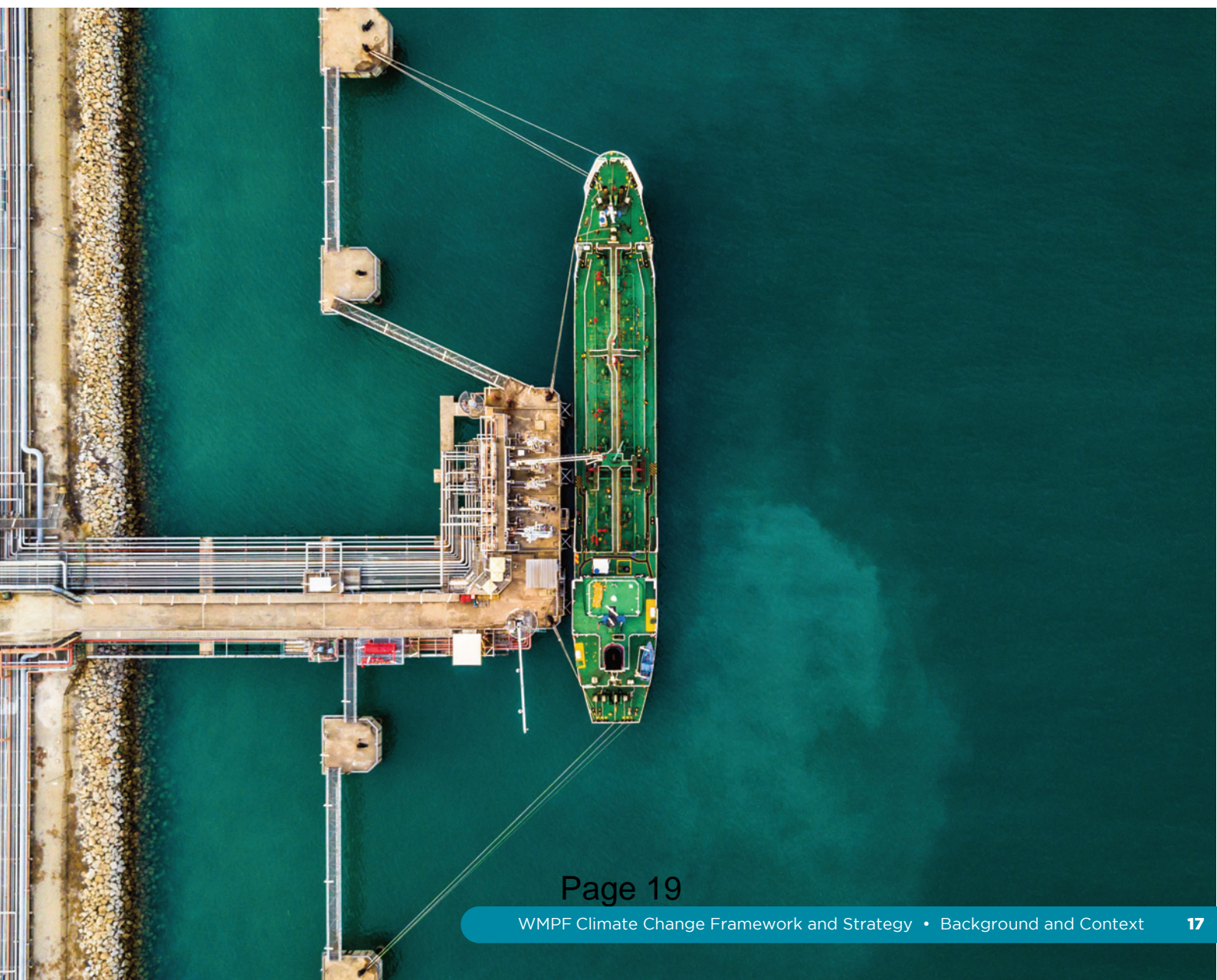
⁴ <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf>

Climate change is a fiduciary issue. As a Fund within the Local Government Pension Scheme, WMPF has multidecadal time horizons, with both long-term investment beliefs and evolving liability profiles to take into consideration. Significant uncertainty remains, and no single tool can provide an accurate and complete observation on a pension fund's climate risk. For responsible investors looking to proactively manage climate risk, a combination of metrics and methodologies represents the best possible information set currently available.

We seek to identify and assess top-down and bottom-up climate-related risks at the total Fund, asset class and individual asset levels. As far as possible climate risks are assessed in units of investment return, in order to compare with other investment risk factors. At this time, tools for assessing climate metrics have some limitations but

it is pleasing to see that this is a rapidly developing area and we look forward to seeing improvements to reporting tools. Our preferred metrics to date have been evidenced based returns impact, informed by forward-looking climate scenarios, and a thematic review of asset classes with the greatest exposures to this risk factor.

We expect our appointed investment managers to identify, assess and report emerging and evolving climate-related risks. Existing fund managers are monitored on a regular basis through the Fund's stewardship programme. Engagement activity is conducted with investee companies through selected stewardship partners including, but not limited to: LGPS Central Ltd; EOS at Federated Hermes; the Local Authority Pension Fund Forum (LAPFF); and Climate Action 100+.



The FOUNDATIONS of our CLIMATE PLEDGE

We recognise that we have a unique opportunity to influence change, not just through capital allocation but in taking a collaborative and coordinated approach to catalyst an increased rate of action across global policy, organisations near and far and in local communities. In doing so we work to ensure the long-term sustainability of our planet and a Just Transition.

Our conviction is that action is needed, at an increasing pace, to meet the challenges that climate change brings to us all, the Fund included. We believe that an increased rate of progress requires that all companies, industries, governments and policy makers, capital markets, asset owners and individuals act together and with a common goal.

We will adopt a leading role as a responsible organisation, employer and asset owner and will continue our programme of active engagement and communication to inform the debate.

Our Climate Change Framework and Strategy is holistic in that it incorporates climate change and risk considerations across Fund operations and the investment and funding strategies. We consider potential financial risks by changing economic and demographic risks as well as changing employer covenant. The Foundations of our Climate Pledge are categorised into four key groups, as depicted in Figure 4: Risk Management; Corporate Emissions; Financed Emissions; and Value Chain.

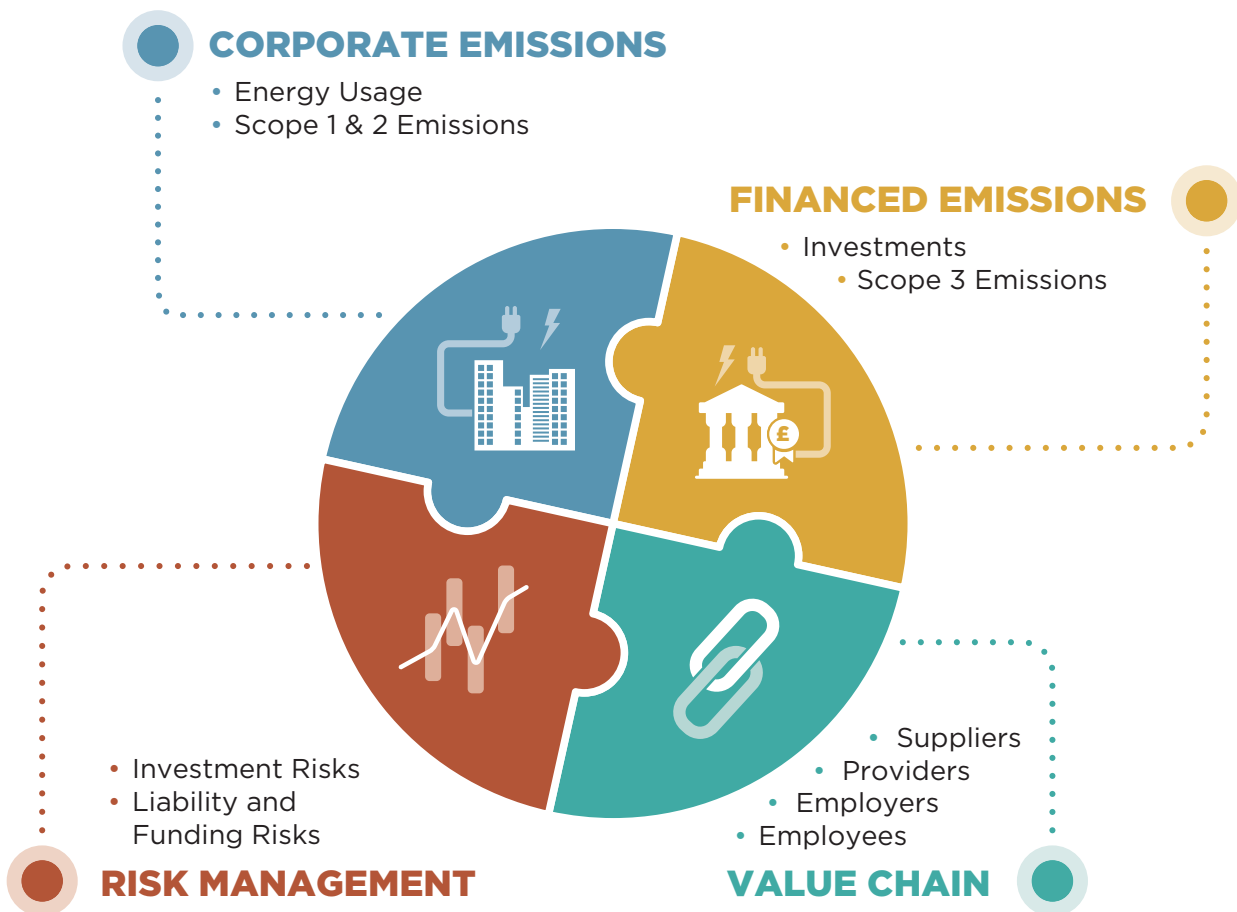


Figure 4: The Foundations of WMPF's Climate Pledge

Risk Management

WMPF will consider the impact of climate change on its asset allocation, investment and funding strategy when making decisions.

We recognise that climate-related risks are financially material and that the due consideration of climate risk fall within the scope of our fiduciary duty.

Climate change has the potential to impact the funding level of the pension fund through impacts on employer covenant, asset pricing, longer-term inflation, interest rates and life expectancy. We will access the latest information on the risks and opportunities presented by a changing climate, as relevant for our Fund. This includes consideration of how our investment returns and/or contribution requirements may be impacted by transition risks and opportunities, and physical risks and opportunities.

Corporate Emissions

Increasing the awareness of own carbon footprint, aligning to net zero and reducing emissions by 50% to 2030.

Improving standards across all properties owned or leased by the Fund with clear action plans developed to maximise the efficiency of our buildings.

Aligned to our wider ambition and action as a responsible employer, we seek to act and manage our own carbon emissions to align with the expectation we set for others and those we expect to be held to by our employees, participating employers, and the pension members beneficiaries we serve. We commit to collecting, measuring and tracking our emissions data and looking for areas where we can seek to make reductions.

As a responsible investor, employer and community partner, we set a high standard for the properties in which we reside, invest in and develop, working to ensure an increasing proportion of the portfolio meets, as a minimum the BREEAM⁵ rating of very good and an Energy Performance Certificate⁶ rating of B.

We will continue to scenario test our long term funding and investment strategies against forward-looking temperature increase scenarios to understand and inform action required to develop resilience.

- Investment and funding strategy risk will be assessed through scenario testing.
- Employer covenant indicators will be considered through climate-related risk factors.
- The continued development of an integrated selection and monitoring framework for Fund assets.
- Targeted engagement to enhance understanding of risks and mitigating actions.

Over 2021/2022 we are developing our own future work space ensuring strong credentials to support in action on climate change. The Fund commits to prioritise, plan, and reduce its organisational (scope 1 and 2 greenhouse gas emissions) through the following actions⁷:

- Maximising the energy efficiency of our buildings.
- Optimising the use of our building space, seeking day-to-day opportunity for emission savings.
- Developing initiatives to systematically reduce energy, resource and material waste in all operations.
- Reducing emissions from business travel by shifting to low-carbon travel (i.e. public transport) and utilising digital meeting technologies to avoid unnecessary travelling.

⁵ <https://www.breeam.com/>

⁶ <https://energysavingtrust.org.uk/advice/guide-to-energy-performance-certificates-epcs/>

⁷ <https://exponentialroadmap.org/1-5c-business-playbook/>

Financed Emissions

Preliminary target of halving emissions across the investment portfolio by 2030.

Continued evolution of asset manager oversight policies and practices, ensuring climate related risks are considered and managed by the managers we use.

Increasing the effectiveness of engagement activities and increasing levels of alignment across our managers and investee companies.

Either directly or through Fund management arrangements, WMPF will put its responsible investment beliefs into practice through actions taken both before the investment decision (which we refer to as the selection of investments) and after the investment decision (the stewardship of investments).

Action to assess, monitor and manage the financial risks associated with climate change will continue to progress, together with further integration of responsible investment beliefs into the day-to-day investment decision making and asset management. External fund managers are monitored in order to ensure the ongoing application and efficacy of their approaches to RI and stewardship.

WMPF expects asset managers to be aligned with our climate performance targets and we will seek to ensure that our manager's climate risks decline over time. We will meet with our managers regularly and

Value Chain

Holding suppliers to account and incorporating review of organisations' own responses to climate change within the Fund procurement and contract review processes.

We adopt a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance shareholder value. We engage with companies to express our expectations as asset owners, and with our wider stakeholder base (e.g. WMPF employers and members), to focus our collective alignment of ambition and work together to advocate action. Through direct company engagement and collaborative action, we will tackle value chain (scope 3) greenhouse gas emissions and hold suppliers to account. To do this we will undertake the following key reduction measures⁸:

continue to work with them to develop meaningful analysis and reporting on climate related risks.

Our pooling company, LGPS Central Ltd develops and monitors all pooled investment funds to meet a set standard for Responsible Investment Integrated Status (RIIS) from concept and through lifespan of WMPF investments; consideration of climate change is a crucial component of the decision making process. RIIS criteria to be met will typically include:

- Responsible investment and climate change beliefs relevant to the asset class or mandate in question.
 - Relevant RI and climate change risk/opportunity related documentation that supports the decision to invest, e.g. policies and procedures of external managers or co-investors.
 - Fund managers factor RI, ESG and climate change into their selection of portfolio assets.
 - RI reviews are carried out by WMPF managers at regular intervals (usually quarterly).
 - Stewardship responsibilities are carried out thoroughly (engaging with companies, shareholder voting, manager monitoring, industry participation).
 - Fund managers are transparent in their reporting to clients and the wider public.
- Seek alignment from our suppliers on climate related matters and request that our suppliers have policies and strategies for managing climate risk and adhere to mandatory and voluntary disclosure of their emission levels.
 - Increase awareness across our Fund, our employees and stakeholders, sharing knowledge and actions that will reduce demand-side climate risks.

⁸ <https://exponentialroadmap.org/1-5c-business-playbook/>

OUR APPROACH

ALIGNMENT AND INTEGRATION

Investment Beliefs

The Fund’s Statement of Investment Beliefs, included within the [ISS](#), underpins our approach to investment strategy and how it is implemented. These beliefs include the interrelation of ESG factors, including climate change, into the long-term decision making and operation of the Fund. A summary of our responsible investment and climate change beliefs are detailed in Table 1.

Table 1: A Summary of WMPF’s Responsible Investment and Climate Change Beliefs

Responsible Investment (RI)	Climate Change
<ul style="list-style-type: none"> • RI ensures the long-term value of assets are protected and where possible, enhanced. • RI should be integrated throughout the entire investment process. • Investing responsibly reduces risk over time. • There is investment opportunity to be realised in environmental and social challenges. • Robust governance structures protect investee companies. • Strong RI practises advocate engagement over exclusion. • Collaborative engagement delivers improvements to the way in which companies are managed. • Working in tandem with other investors can positively influence wider policy. 	<ul style="list-style-type: none"> • Science-based evidence demonstrates that climate change poses both risk and opportunities for investors. • If climate change is not managed it will have long-term consequences for funding levels and financial returns. • National policy changes must align with the Paris Agreement target of limiting warming to 1.5°C above pre-industrial levels. • Climate risk exposure should be measured at regular intervals. • A “just transition” to a low carbon economy with careful society considerations is essential. • Collaborative investor engagement is essential in informing government and policy change.

Integration Objectives

“A key finding of our work is that very few available and credible pathways achieve net zero emissions by 2050.”

Net Zero Investment Framework (2021)⁹

In order to further integrate and embed climate change considerations into our decision making and explore viable pathways to net zero we will:

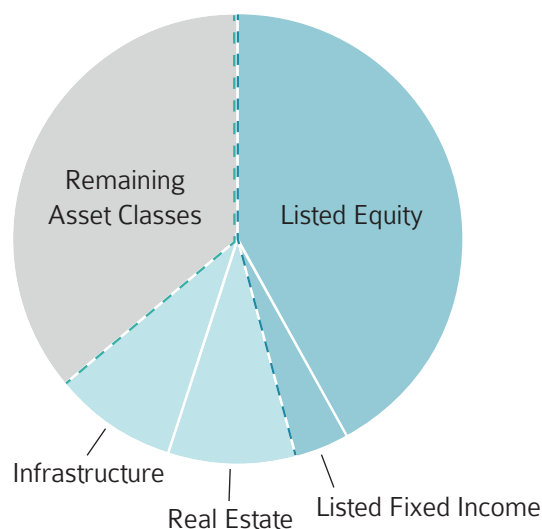
- Continue to develop and review investment mandates to increase alignment with the Fund’s commitment to adopt an investment strategy consistent with the goal of Net Zero.
- Undertake annual independent climate risk assessments to measure asset class emissions reduction over time (where available).
- Target and retain emission reductions (absolute and intensity) to be ahead of portfolio benchmarks or in line with Paris Aligned Benchmarks (where available).
- Consider increased allocation of capital to finance climate solutions, including “green” technology, where these meet the Fund’s risk and return requirements¹⁰.
- Publish outcomes of the Fund’s climate Action Plan including targeted manager and asset engagement in the Fund’s annual stewardship report.
- Review and update metrics and targets every 5 years (minimum) to reflect developing regulatory requirements and best practice.
- Commit to continuing to review and revise forward-looking scenario analysis, every three years to reflect change in exposures (SAA), and developing climate scenarios as data and best practice continues to emerge and evolve.
- Measure and identify opportunities to reduce the Fund’s operational emissions, within 5 years.

Asset Class Alignment

At the present time, the innovation around climate change means there is a paucity of data on which a portfolio assessment can be based. This is most pertinent for unlisted asset classes where datasets are not sufficiently complete to facilitate the carbon risk metrics and analyses used to observe climate risk within public equity portfolios.

Utilising the Net Zero Investor’s Framework for guidance, the scope of the Fund’s asset class alignment plan includes WMPF’s investment in listed Equity, listed Fixed Income, and Real Estate; we will also seek to expand the scope to cover additional asset classes such as infrastructure by 2026. As additional methodologies and datasets are developed for other asset classes, we will seek to incorporate these into further iterations of its Climate Change Framework and Strategy. We will also continue to explore opportunities to invest in specialist alignment/climate solutions focussed products. Our approach is expected to develop as the landscape and industry evolves over the coming years.

Current Future Climate Change Asset Allocation



Integrated Data Measurement Coverage

- Current: Listed Equity and Listed Fixed Income
- Targeted: Listed Equity, Listed Fixed Income, Real Estate and Infrastructure

⁹ <https://www.iigcc.org/download/net-zero-investment-framework-implementation-guide/?wpdmdl=4425&refresh=613b576a04c951631278954>

¹⁰ ES1144172_CCS203_CCS0421356360-002_Green Bond Framework Roll_accessible.pdf (publishing.service.gov.uk)

ENGAGEMENT, STEWARDSHIP and COLLABORATION

The West Midlands Pension Fund engages and collaborates to drive meaningful change on a global scale. WMPF's strategy is to engage with its investee companies and other key stakeholders through partnerships. WMPF will protect and increase shareholder value by engaging on a range of financially material ESG investment factors.

A significant part of WMPF's investment engagement programme is implemented through LGPS Central and EOS at Federated Hermes (via a

contract held by LGPS Central Ltd) and through partnerships including the Local Authority Pension Fund Forum (LAPFF), Principles for Responsible Investment (PRI), Institutional Investors Group on Climate Change (IIGCC), Climate Action 100+ (CA100+) and the Transition Pathway Initiative (TPI).

We participate in and are aligned with the investor-led initiative Climate Action 100+ (CA100+), ensuring that the world's largest corporate greenhouse gas emitters take necessary action on climate change.

Using the Net Zero Investment Framework¹¹ as a guide we will:

Actions:

- Implement a strong governance framework which clearly articulates the Pension Committee's accountability and oversight of climate change risk.
- Take action to reduce GHG emissions across the value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to below two degrees Celsius above pre-industrial levels, aiming for 1.5 degrees. Notably, this implies the need to move towards net-zero emissions by 2050 or sooner.
- Collectively or directly engage with policymakers and regulators on:
 - Carbon pricing relevant to achieving the net zero transition.
 - The availability of granular sector and regional pathways towards net zero emissions by 2050.
 - Improving disclosure of information relevant to assessing alignment and investment in climate solutions, and advocating for mandatory TCFD disclosure from companies.
 - Increasing shareholder rights.
- Participate in collective policy advocacy activities of investor networks where these align to ambitions and approach of the Fund.
- Engage with market actors including proxy advisers, investment consultants, and data and service providers to ensure that their assessments, data and products are based on alignment criteria, robust methodologies, and consistent with net zero emissions by 2050.
- Include engagement with existing and potential asset managers to encourage managers to provide strategies and products to achieve asset owners net zero investment goals.
- Continue to engage through a variety of forums and respond to informal and formal consultations to support the development of emerging policy, regulation and guidance.

¹¹ <https://www.iigcc.org/download/net-zero-investment-framework-implementation-guide/?wpdmdl=4425&refresh=613e33e07cf191631466464>

TRANSPARENCY and DISCLOSURE

WMPF will protect and enhance asset values over the long term through regular, high quality disclosure that is aligned with best practice.

Along with maximising the financial performance of the Fund, we see both obligation and opportunity in

continuing to improve the climate credentials of the Fund and we will continue to publish our progress through routine reporting.

Actions:

Using the Net Zero Investment Framework¹² as a guide we will:

- Provide enhanced annual corporate disclosure in line with the final recommendations of the Task Force on Climate related Financial Disclosures (TCFD), to enable investors to assess the robustness of companies' business plans against a range of forward-looking climate scenarios, including well below two degrees and improve investment decision-making.
- Collectively or directly engage with policymakers and regulators on improving disclosure of information relevant to assessing alignment and investment in climate solutions.
- Advocate mandatory TCFD disclosure from investment managers and companies.
- Encourage improved data disclosure and data-sharing initiatives.
- Produce an annual Stewardship report consistent with the requirements of the 2020 UK Stewardship Code.
- Disclose how climate objectives have been incorporated into mandates and objectives for asset managers, portfolio managers, and other personnel as relevant.
- Disclose how climate metrics, targets and objectives have been incorporated into the Fund's Strategic Asset Allocation and/or similar processes.
- Continue to develop an active communication programme, providing Governing Bodies members, employers, employees, with accessible and accurate information to inform debate and review of the Fund's Climate response, Framework and Strategy.

¹² <https://www.iigcc.org/download/net-zero-investment-framework-implementation-guide/?wpdmdl=4425&refresh=613e33e07cf191631466464>

GLOSSARY

Carbon Footprint/ Portfolio Carbon Footprint	A proxy for a portfolio's exposure to potential climate-related risks (especially the cost of carbon), often compared to a performance benchmark. It is calculated by working out the carbon intensity (Scope 1+2 Emissions / \$M sales) for each portfolio company and calculating the weighted average by portfolio weight.
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Clean Technology/ Weight in Clean Technology	the weight of a portfolio invested in companies whose products and services include clean technology. Products and services eligible for inclusion include Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, Sustainable Water.
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Climate Solutions	We note here that there is currently no standard definition for investments which classify as Climate Solutions but this is an area the Fund is advocating development.
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Engagement	Dialogue with a company concerning particular aspects of its strategy, governance, policies, practices, and so on. Engagement includes escalation activity where concerns are not addressed within a reasonable time frame.
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ESG Factors	Determinants of an investment's likely risk or return that relate to issues associated with the environment, society or corporate governance.
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Fossil Fuel Reserves / Weight in Fossil Fuel Reserves	The weight of a portfolio invested in companies that own fossil fuel reserves.
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Just Transition	A Framework developed to encompass a range of social interventions needed to secure workers' rights and livelihoods when economies are shifting to sustainable production, primarily combating climate change and protecting biodiversity.
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Net Zero Emissions	A state in which the greenhouse gas emissions created by an organisation are counterbalanced by the greenhouse gases sequestered by an organisation over a given timeframe.
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Paris Agreement	The Paris Agreement is a legally binding international treaty on climate change. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.
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Physical Risk/ Climate Physical Risk	The financial risks and opportunities associated with the anticipated increase in frequency and severity of extreme weather events and other phenomena, including storms, flooding, sea level rise and changing seasonal extremities.

Responsible Investment The integration of financially material environmental, social and corporate governance (“ESG”) factors into investment processes both before and after the investment decision.

Scope 1 Greenhouse Gas Emissions Direct emissions from owner or sources controlled by the owner, including: on-campus combustion of fossil fuels; and mobile combustion of fossil fuels by institution-controlled vehicles.

Scope 2 Greenhouse Gas Emissions Indirect emissions from the generation of purchased energy.

Scope 3 Greenhouse Gas Emissions Indirect emissions that are not controlled by the institution but occur as a result of that institutions activities. Examples include commuting, waste disposal and embodied emissions from extraction.

Stewardship The promotion of the long-term success of companies in such a way that the ultimate providers of capital also prosper, using techniques including engagement and voting.

Thermal Coal Reserves/ Weight in Thermal Coal Reserves The weight of a portfolio invested in companies that own thermal coal reserves.

Transition Risk The financial risks and opportunities associated with the anticipated transition to a lower carbon economy. This can include technological progress, shifts in subsidies and taxes, and changes to consumer preferences or market sentiment.

Voting The act of casting the votes bestowed upon an investor, usually in virtue of the investor’s ownership of ordinary shares in publicly listed companies.

MEMBERSHIP ORGANISATIONS

CA100+ Climate Action 100+

EOS EOS at Federated Hermes - LGPS Central's engagement provider

IIGCC Institutional Investor Group on Climate Change

LAPFF Local Authority Pension Fund Forum

LGPS Central Ltd The Fund's investment pool company

TPI Transition Pathway Initiative

ACCREDITATIONS

TCFD Taskforce on Climate-related Financial Disclosures. The Fund has disclosed against the recommendations of the TCFD since 2017.

UK Stewardship Code 2020 Sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. WMPF is an inaugural signatory to the 2020 code.

REFERENCES

https://www.ipcc.ch/sr15/chapter/spm/	https://exponentialroadmap.org/1-5c-business-playbook/
https://ec.europa.eu/clima/policies/international/negotiations/paris_en	https://www.iigcc.org/download/net-zero-investment-framework-implementation-guide/?wpdmdl=4425&refresh=613b576a04c951631278954ES1144172_CCS203_CCS0421356360-002_GreenBondFrameworkRoll_accessible.pdf
https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf	(publishing.service.gov.uk)
https://www.breeam.com/	
https://energysavingtrust.org.uk/advice/guide-to-energy-performance-certificates-epcs/	

WMPF DOCUMENT LINKS

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| Annual Report and Accounts | Governance Compliance Statement 2021 |
| Annual Stewardship Report 2021 | Investment Strategy Statement 2021 |
| Climate Change Framework and Strategy 2019 | Responsible Investment Framework 2021 |
| Corporate Plan 2021 - 2025 | 2020 TCFD Report |
| Funding Strategy Statement 2021 | |

