Appendix B

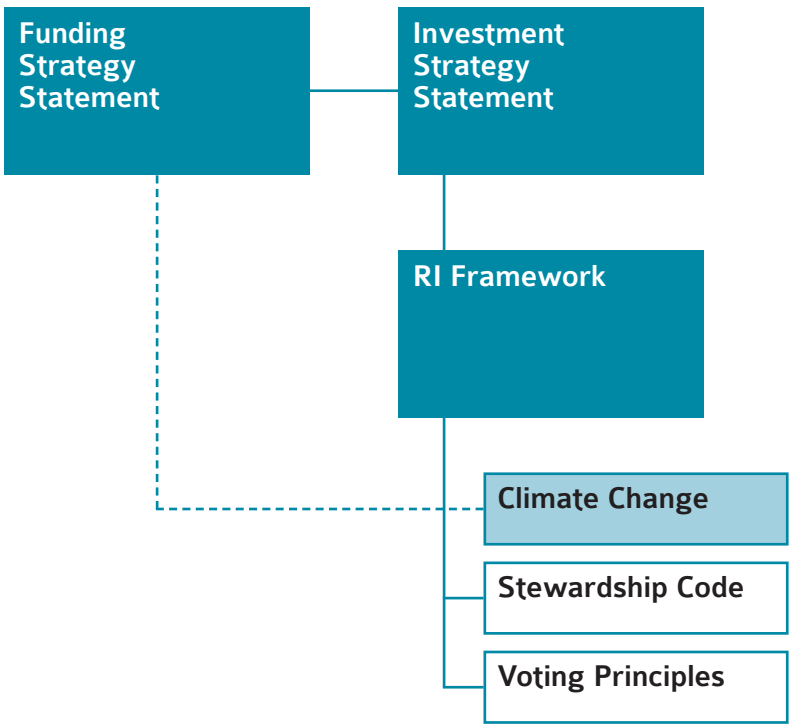
CLIMATE CHANGE FRAMEWORK AND STRATEGY 2019-2023

West Midlands Pension Fund

ABOUT THIS DOCUMENT

This document is West Midlands Pension Fund's ("the Fund") *Framework and Strategy for Managing the Risks and Opportunities Presented by Climate Change* (*"Climate Change Framework & Strategy"*). The document's objective is to explain how the Fund will address climate-related risks and opportunities of relevance to the Fund's investment and funding objectives. It has been prepared in alignment with the Final Recommendations of the Taskforce on Climate-related Financial Disclosures ("TCFD")[1]. The document is a component of the Fund's Responsible Investment Framework ("RI Framework"), which is itself a component of the Fund's Investment Strategy Statement ("ISS") developed and reviewed in conjunction with the Funding Strategy Statement ("FSS"), as depicted in Figure 1 below. The financial materiality of climate change risk is referenced in both the RI Framework and the ISS. This document sets the Fund's four-year framework and strategy; it is reviewed by the Fund's Pensions Committee on an annual basis.

Figure 1: Depiction of the *Climate Change Framework & Strategy* in relation to other key documents[2]



[1] https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf, accessed November 2018

GOVERNANCE OF CLIMATE CHANGE RISK [*TCFD Reference: Governance (a) and (b)*]

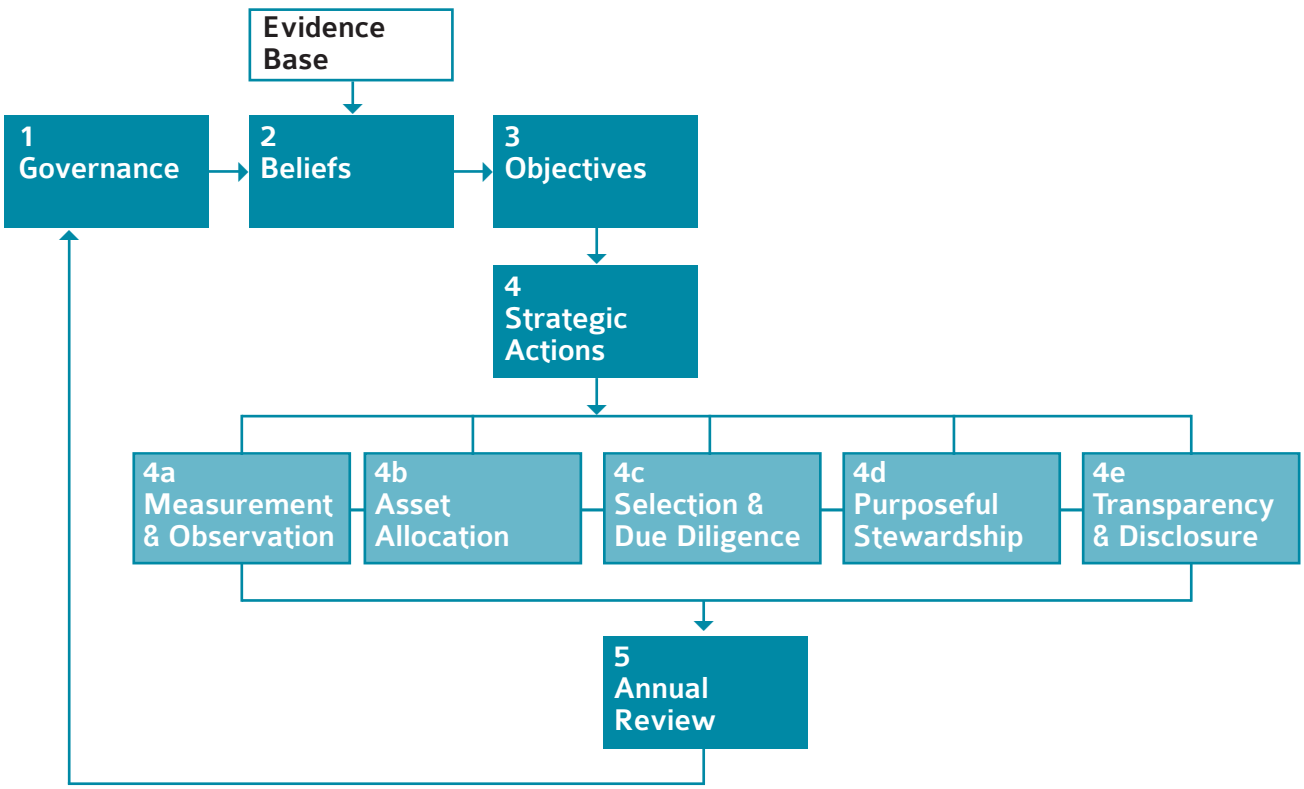
The Pensions Committee is at all times responsible for the Fund's investment and funding arrangements, including oversight of the Climate Change Framework & Strategy. Responsibility for implementation of the Fund's Climate Change Framework & Strategy sits with the Director of Pensions and Assistant Director Investments & Finance. The Pensions Committee will review this policy at a minimum annually, or at such time as the Fund sees fit to revise its policies and procedures.

The Pensions Committee receives regular training on the financial impacts of climate change. Reports on responsible investment, including climate change, are received quarterly and annually.

Day-to-day implementation of the Fund's climate change strategy is delegated to Fund officers, with oversight from the Director of Pensions and Assistant Director Investments & Finance. LGPS Central Limited, which has been established to provide opportunities for the Fund to pool its investments and achieve further economies of scale, assists the Fund in assessing and managing climate-related risks.

The identification and management of climate-related risks at the asset level is further delegated to the relevant fund manager, with oversight from the Investment Team and, where appropriate, LGPS Central Limited. As detailed in below, the Fund leverages suppliers, partnerships and initiatives to identify, monitor and manage climate risk.

Figure 2: Depiction of the *Climate Change Framework & Strategy*



EVIDENCE-BASED BELIEFS RELATED TO CLIMATE CHANGE

The Economics of Climate Change	1	Following the Intergovernmental Panel on Climate Change ("IPCC"), we acknowledge that the Earth's climate is changing as a result of anthropogenic activity. Unabated, such change would be devastating for our way of life.
	2	Consistently with Lord Stern's research, we hold that the economic damages of unabated climate change are greater than the costs of precautionary mitigation.
	3	We believe that climate change is financially material across all major asset classes. In support of fiduciary duty, the risks and opportunities presented by climate change should be mitigated and exploited by asset allocation decisions, by individual investment decisions, and through purposeful stewardship.
	4	Climate change has the potential to impact the funding level of the pension fund through impacts on employer covenant, asset pricing, and longer-term inflation, interest rates and life expectancy.
	5	We strongly support the Paris Agreement on climate change.
The Energy Transition	6	An ambitious and just energy transition, aligned with the Paris Agreement, requires global greenhouse gas emissions ("GHGs") to peak around 2020, and to decline to net zero well before the end of this century.
	7	The energy transition will not occur by focusing only on suppliers of energy. The demand for energy must also undergo a major transformation.
	8	We think that market mechanisms, including a sufficient and stable carbon pricing regime, are important policy instruments to achieve [4] meaningful GHG reductions.
	9	It is possible for a high-emitting company to shift its business model and thrive in the transition to a low carbon future.
Purposeful Climate Stewardship	10	We would be less likely to realise a Paris-aligned energy transition were responsible investors to cease owning and stewarding high emitting companies. Strong governance is essential for climate awareness and risk management.
	11	No individual investor is influential enough to act alone, nor is the investment industry sufficient to achieve the required rate of change. Policy makers, consumers, companies and investors all have a role to play.
	12	Climate-aware decisions can only be made with accurate, relevant, complete, and comparable data.

CLIMATE-RELATED OBJECTIVES

Understanding the Risks

We aim to have access to the best possible information on the risks and opportunities presented by a changing climate, as relevant for our Fund. This includes impacts to our investment strategy, or to our funding strategy, as a result of transition risks and opportunities, and physical risks and opportunities.

In collaboration with selected partners, we aim to contribute to improvements in the completeness, quality and relevance of climate-related disclosures.

Fund Resilience and Decarbonisation

We aim to ensure our investment portfolio, our funding strategy, and our employer covenant framework are resilient to climate-related risks over the short, medium and long term. This includes the risk of failing to identify climate-related investment opportunities.

For an effective first line of defence, we aim to integrate climate change into our investment processes including our selection and due diligence of assets. We aim to decarbonise our portfolio through purposeful stewardship.

We also aim to incorporate climate risk identification and analysis into our covenant and funding processes. This will be monitored and used to inform strategy reviews over the medium and longer term.

Collaboration and Transparency

We aim to work with like-minded organisations to support the ambitions of the Paris Agreement. We aim to be fully transparent with our stakeholders through regular public disclosure, aligned with best practice.[5]

STRATEGIC ACTIONS

a) Measurement & Observation

[*TCFD Reference: Strategy (c), Risk Management (a), (c), Metrics and Targets (a), (b)*]

We will make regular measurements and observations on the climate-related risks and opportunities relating to our Fund. This includes:

- Economic assessment of our asset allocation against plausible climate-related scenarios
- A suite of carbon metrics enabling the Fund to assess via a scorecard progress in responding to the recognised risks and opportunities driven by climate change
- Identification of the greatest climate-related risks to the Fund
- Engaging our advisers, including actuarial and covenant advisers, to develop analysis and tools to inform funding risk considerations

Recognising the early stages of certain methodologies and mapping of future scenarios, including the possibility of measuring alignment with the Paris Agreement, we will support efforts to develop credible methodologies.

Recognising the deficiency of relevant, consistent and comparable climate-related financial data, we will encourage disclosure and the adoption of the recommendations of the TCFD.

b) Asset Allocation

[*TCFD Reference: Strategy (b), Risk Management (b)*]

Where permitted by a credible evidence base, we will integrate climate change factors into reviews of our asset allocation, subject to the requirements of the ISS and FSS. In light of this, we will actively consider allocations to asset classes that improve our ability to meet our investment objectives.

By 2023, our ambition is to have 10-15% of the Fund invested in low carbon and sustainable investments.

By 2023, we expect our exposure to pure-play thermal coal producers to be less than 1% of the value of the Fund.

c) Selection and Due Diligence

[*TCFD Reference: Risk Management (b), (c)]*]

In our selection and due diligence of directly and indirectly held assets, we will assess material climate change risks and opportunities, alongside other relevant investment factors.

In active investment mandates, we will not make new investments without the fund manager applying sufficient procedures to manage financially material climate-related risks.

Our expectations on climate risk management will be specified in investment mandates, investment management agreements and other relevant documentation.

d) Purposeful Stewardship

[*TCFD Reference: Risk Management (b), (c)*]

Working with our partners, we will develop an Annual Climate Stewardship Plan. This will set clear goals of engagement with companies, fund managers, policy-makers, and other organisations of influence. We will use stewardship techniques to manage the risks and opportunities within our investment portfolio, focusing on the risks and opportunities of greatest magnitude.

Our monitoring and stewardship of climate-related risks and opportunities will extend to our funding risk and employer covenant monitoring.

We will collaborate with like-minded investors where possible and we will be active participants in selected collaborative initiatives where supportive of our stewardship aims.

We will make full use of our voting rights and will co-file or support climate-related shareholder resolutions.

e) Transparency & Disclosure

[*TCFD Reference: Governance, Strategy, Risk Management, Metrics & Targets*]

We will disclose, using the recommendations of the TCFD, in our annual report.

We will disclose updates on progress against our Annual Climate Stewardship Plan. We will also review and publish, on an annual basis, our Investment Strategy Statement and our Funding Strategy Statement, and these documents will, following review in conjunction with the 2019 actuarial valuation, factor in our approach to managing climate change risks and opportunities.

We will disclose our voting decisions on a vote-by-vote basis.

From time to time we may "pre-declare" our voting intentions on climate-related shareholder resolutions.

ANNUAL REVIEW

This *Climate Change Framework & Strategy* has been established to run for four years from March 2019 to March 2023. This is so as to coincide with several key events in 2023:

- First global stock take under Article 14 of the Paris Agreement
- Culmination of the Climate Action 100+ engagement programme
- IPCC Sixth Assessment Cycle concludes in 2023
- The sign-off (based on current LGPS regulations) of the 2022 triennial actuarial valuation.

Working within our climate strategy governance structure, we will next review the *Climate Change Framework & Strategy* In June 2021.

FURTHER READING

2016 Simon Dietz, Alex Bowen, Charlie Dixon and Philip Gradwell, 'Climate Value at Risk' of global financial assets

2015 Mercer *Investing in a time of climate change*

2018 IIGCC, *Addressing climate risks and opportunities in the investment process*

2017 TCFD *Final Report: Recommendations of the Taskforce on Climate-related Financial Disclosures*

2018 Carbon Tracker *Mind the Gap*

2006 The Stern Review on the Economics of Climate Change

IPCC, 2014: Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)]

IPCC 2018, Special Report: Global Warming of 1.5°C

2015, United Nations, *"The Paris Agreement"*

2017 Institute and Faculty of Actuaries, *Risk Alert: Climate-Related Risks*

2017 Institute and Faculty of Actuaries, *Resource and Environment Issues for Pensions Actuaries: Supplementary Information on Resource and Environment Issues and their Implications for Sponsor Covenant Assessments*

2017 Institute and Faculty of Actuaries, *Resource and Environment Issues for Pensions Actuaries: Implications for Setting Mortality Assumptions*

2018, Institute and Faculty of Actuaries, *Resource and Environment Issues for Pensions Actuaries: Considerations for Setting Financial Assumptions*

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