

# Pensions Committee

29 September 2021

<b>Report title</b>	Climate Change Framework and Strategy 2021-2026	
<b>Originating service</b>	Pension Services	
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## Recommendation for approval:

The Pensions Committee are recommended to approve:

1. The Fund's Climate Change Framework and Strategy for 2021-2026, noting progress made against targets set in 2019 and the increased scope and stretch in ambition outlined for development over the next five years.

## **1.0 Purpose**

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

## **2.0 Background**

- 2.1 The West Midlands Pension Fund has taken an active approach to investment stewardship and has had a dedicated responsible investment framework in place to support delivery of the Fund's Investment Strategy for a number of years. In 2018, recognising the increasing importance and relevance of Climate Change as a financially material risk, the Committee established explicit investment beliefs, noting the risks and opportunities associated with a decarbonising economy and the importance of integrating an evidenced-based approach to stewardship and risk management. The Climate Change Framework and Strategy ("the Framework") approved in March 2019, set a four-year path for strategic action to increase understanding of risks to the Fund, increase resilience through asset allocation and increase collaboration and transparency, to advocate on a global scale, an increased pace of action in response to Climate Change.
- 2.2 The Fund continues to believe no individual investor is influential enough to act alone – to drive change at the rate required, action is needed not just by the investment and financial industries but by policy makers, corporates and consumers, with all having a role to play to address both supply and demand factors, reduce carbon emissions and enable energy transition. Supporting international collaborative investor initiatives through the UN Principles for Responsible Investment (PRI), Institutional Investors Group on Climate Change (IIGCC), Transition Pathway Initiative (TPI), Climate Action 100+ (CA100+) and the Investor Agenda, the Fund has played a leading role in championing increased action: Through these leading initiatives, engagement and measurement tools have stepped-up to inform and enable pension funds to progress Paris-Aligned investment objectives and the transition investment portfolios to Net Zero.
- 2.3 More broadly the Fund has taken action to understand potential funding risks which may emerge from increasing pension liabilities and changes to employer covenant, as business and society consider the implications of Climate Change.
- 2.4 Since 2019, research to support the Fund's evidence and science-based approach has evolved, and regulations and frameworks are developing to support asset owners and pension funds in developing investment strategies aligned to a Net Zero pathway and measuring the investment and funding risks. Calls have increased for organisations to consider and manage their own carbon footprint and advocate actions across supply chains, in an attempt to increase the scope and pace of change. In response to this and reflecting on progress the Fund has made since 2019, the Climate Framework and Strategy 2021-2026 provides an update on the Fund's approach to Climate Change, confirming revised ambition, a broadening scope of actions and target outcomes which will be reviewed and measured at least every five years going forward.

2.5 The Fund's approach to stewardship and strive of real economic outcomes has been recognised in the Fund's award of signatory status to the UK Stewardship Code in September 2021. Outcomes of targeted initiatives in place to support the objectives of our Climate Strategy will be reported in the Fund's annual Stewardship Report. Climate Change will remain an engagement theme across the Fund and we will continue to routinely publish statements and information our website.

### **3.0 Developments of the Fund's Climate Change Framework and Strategy**

- 3.1 Significant steps have been taken over the last two years to evolve the Fund's asset allocation and make tangible steps towards decarbonising the investment portfolio. Supported by enhanced data and risk metrics there has been measurable decarbonisation within the Fund's equity, fixed income and property portfolios, with targets set for allocation to sustainable investment being achieved.
- 3.2 There has been an increased focus on corporate engagement and disclosure which is increasing information points and understanding of the scale of action required. Climate scenarios and sector-specific transition pathways continue to develop alongside benchmarks for strategic corporate action. As has been widely reported, there is more to do and at pace, with growing pressure for policy makers to take a more definitive and coordinated action to step-up the pace of change and enable transition through tangible action on commitments made.
- 3.3 The Fund's Climate Change Framework and Strategy ("the Framework") has been developed and updated in context of the evolving environment and pending development of regulation and guidance for the Local Government Pension Scheme. Taking a lead from the IIGCC Paris Aligned Investment Initiative and Net Zero Investment Framework, published in March 2021 and noting regulation and guidance published by the DWP and the Pensions Regulator, the Fund has outlined a series of practical and tangible actions it will take over the next five years in order to continue to develop its decarbonisation journey and realise opportunities emerging through the transition, including through investment in climate solutions.
- 3.4 The Framework defines the Fund's corporate sustainability objectives across four foundations – financed emissions, risk management, corporate emissions and value chain. Grounded in the Fund's Climate Change beliefs, in each area the approach covers three broad pillars – alignment and integration, engagement and stewardship and transparency and disclosure. From this a series of tangible commitments and actions have been identified to form our Climate Pledge.
- 3.5 Officers have developed the Framework over a period of time, informed by the Fund's most up-to-date Climate Risk Review (2021) undertaken by LGPS Central Ltd, dialogue with the Fund's investment and asset managers, independent advisers and appointed investment consultant.

## 4.0 Enabling real world economic action and impact

- 4.1 Over the last two years the Fund has been able to demonstrate progress in portfolio decarbonisation without adverse impact to the financial outcomes for the Fund. In line with other institution investors and pension schemes, the Fund has made commitment to increasing action in support of decarbonisation to Net Zero and enabling climate solutions. Significant milestones have been achieved through collaborative engagement and research, with an increasing number of companies establishing and disclosing their climate strategy for shareholder vote and developing standards of disclosure to enable management and performance standards to be measured and benchmarked.
- 4.2 Data and information sets to inform risk management and investment decisions are, however, still considerably lacking in the completeness and consistency needed to develop long term investment strategies aligned to a Net Zero ambition: There are gaps between climate ambition, policy action and risk disclosure and the IGCC Net Zero Framework acknowledges there are currently few available and credible pathways to achieve Net Zero by 2050. As investors continue to develop initiatives and frameworks to enable alignment, policy and regulatory frameworks will need to keep pace to motivate changes in behaviour.
- 4.3 The Fund supports the Investor Agenda (September 2021) in calling for governments to
- Strengthen interim commitments
  - Implement domestic policy to deliver net-zero targets, with roadmaps for each carbon intensive sector
  - Incentivise private investment and ensure robust carbon pricing/subsidy review
  - Embed climate resilience in COVID recovery plans and develop plans for just transition for affected workers and communities
  - Implement mandatory climate risk disclosure in line with recommendation of the Task Force on Climate-related Financial Disclosures (TCFD), ensuring disclosures are consistent comparable and decision-useful

<https://www.iigcc.org/download/global-investor-statement-to-governments-on-the-climate-crisis-2021-update/?wpdmdl=4867&refresh=61488d47474361632144711>

- 4.4 Regulation and guidance to support Local Government Pension Scheme response to Climate Risk is expected to be issued by MHCLG in the Autumn 2021. The DWP has published regulations in force from October 2021 which introduce reporting requirements for occupational pensions schemes and aim to improve the governance and actions of trustees tasked with managing climate risk. This is supported by statutory guidance issued in June 2021 and the Pensions Regulator published a consultation with further guidance on the governance of climate change risk in occupational pension schemes in July 2021. Although not directly relevant to the LGPS, pending regulation and guidance from MHCLG (and the LGPS Scheme Advisory Board), the Fund has considered wider-industry change in developing the Framework.

4.5 More broadly, the TCFD sought public comment in June/July 2021 on Guidance on Climate-related Metrics, Targets and Transition Plans and Measuring Portfolio Alignment. Once finalised, these stand to materially shape organisational disclosures across sectors.

4.6 The Fund has developed the ambition and targets set in the Framework in the context of an evolving policy and regulatory framework and assuming changes are forthcoming to facilitate increasingly credible pathways to Net Zero. These include planning to make significant progress toward Net Zero by 2030.

## **5.0 Monitoring and review**

5.1 The Framework and alignment of targets with the Fund's overarching ambition for Net Zero, will be considered in view of developing and emerging research, policy, regulations and guidance applicable to the LGPS – all are expected to continue to evolve and will material influence the direction and progress of the Framework over the next five years. In 2026, if not before, the Framework will be reviewed and reset reflecting on the continuation of progress by the Fund over 2021-2026, evolving best practice and the investment opportunities and products emerging.

5.2 Forward-looking Climate Risk scenarios, illustrating the potential impact on the Fund's investment and funding strategies will be developed over 2022/23, in line with the Fund's triennial valuation and strategy review process. Climate risk metrics for the Fund's finance and corporate emissions will be reviewed annually. The Fund will continue to make annual disclosure through its Stewardship Report and Climate Risk Report, prepared, as far as possible, in line with TCFD-recommendations.

## **6.0 Financial implications**

6.1 The identification, assessment and management of climate risk is financially material to the fund and could impact on the long term delivery of investment returns and pensions to members. The Framework demonstrates how the Fund will monitor and mitigate financial risk.

6.2 Although Trustees of occupational pensions scheme could be fined by the Pensions Regulatory for breach of climate risk reporting, monetary penalties do not currently apply to the LGPS.

## **7.0 Legal implications**

7.1 There are no direct legal implications beyond those noted in the report.

## **8.0 Equalities implications**

8.1 This report contains no equal opportunities implications.

## **9.0 Other implications**

9.1 There are no other implications

## **10.0 Schedule of background papers**

10.1 WMPF Responsible Investment Framework

<https://www.wmpfonline.com/CHttpHandler.ashx?id=17811&p=0>

10.2 WMPF Climate Change Framework and Strategy 2019-2023

<https://wolverhamptonintranet.moderngov.co.uk/documents/s154134/Appendix%20B%20-%20Climate%20Change%20Framework%20and%20Strategy.pdf>

10.3 WMPF Annual Stewardship Report 2021

<https://www.wmpfonline.com/CHttpHandler.ashx?id=17878&p=0>

10.4 WMPF TCFD 2020

<https://www.wmpfonline.com/CHttpHandler.ashx?id=17733&p=0>

10.5 IIGCC Paris Aligned Investment Initiative

[Paris Aligned Investment Initiative – IIGCC](#)

10.6 DWP Governance and reporting of climate change risk: guidance for trustees of occupational schemes

[Governance and reporting of climate change risk: guidance for trustees of occupational schemes \(publishing.service.gov.uk\)](#)

## **11.0 Schedule of appendices**

11.1 Appendix A: Climate Change Framework and Strategy 2021-2026