



County Hall
Cardiff
CF10 4UW
Tel: (029) 2087 2000

Neuadd y Sir
Caerdydd
CF10 4UW
Ffôn: (029) 2087 2000

SUPPLEMENTARY PAPERS

Committee	PENSIONS COMMITTEE
Date and Time of Meeting	MONDAY, 14 JANUARY 2019, 5.00 PM
Venue	ROOM 263C - COUNTY HALL
Membership	Councillor Weaver (Chair) Councillors Dilwar Ali, Howells, Lay and Graham Thomas

The following papers were marked 'to follow' on the agenda circulated previously

4 Climate Change Investment Policy - to follow (Pages 3 - 16)

To consider proposals for a Climate Change Investment Policy.

Davina Fiore

Director Governance & Legal Services

Date: Tuesday, 8 January 2019

Contact: Andrea Redmond, 02920 72434, a.redmond@cardiff.gov.uk

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REPORT OF CORPORATE DIRECTOR RESOURCES**AGENDA ITEM: 4**

CLIMATE CHANGE INVESTMENT POLICY

Appendix 1 is confidential and not for publication by virtue of paragraphs 14 and 21 of parts 4 and 5 of Schedule 12A of the Local Government Act 1972.

Reason for this Report

1. This report has been prepared to present to the Committee the latest position in working towards in a Climate Change Investment Policy.

Background

2. The Council, as Administering Authority of the Fund, has a fiduciary duty to manage the assets of the Fund responsibly on behalf of its beneficiaries and other stakeholders. LGPS Funds are required to set out how Environmental, Social and Governance (ESG) considerations are taken into account in preparing their Investment Strategy Statements. They may incorporate non-financial factors into the investment process provided that doing so would not involve significant risk of financial detriment.
3. At its meeting on 12 March 2018, the Pensions Committee received a report on progress towards reviewing the Pension Fund's investments in fossil fuels. The Pensions Committee noted that the Investment Advisory Panel's recommendations included the development of a Climate Change Investment Policy. The Investment Advisory Panel considered a further report at its meeting on 12 December and agreed that the progress to date should be presented for discussion by the Pensions Committee.

Issues

4. An analysis of the Fund's "carbon footprint" was commissioned from external experts and the results are summarised in the confidential report in Appendix 1. The Panel noted that the analysis was determined by the methodology of the research organisation and that different methodology used by other researchers may reach different conclusions on the environmental impacts of particular companies. However, it was agreed that the exercise gave worthwhile information on which to base discussions.
5. The fund is a member of the Local Authority Pension Fund Forum (LAPFF) and this organization has produced a Climate Change Investment Policy Framework. This is intended to help guide member funds to develop their policy approach to current and future investment risks and opportunities that result from the impacts of climate change. The

draft Climate Change Investment Policy set out in Appendix 2 is based on the LAPFF framework.

6. LAPFF recognize that member funds are at different stages in their active consideration of climate risk and for many the level of commitment may be aspirational at this stage.
7. There is broad agreement by expert commentators that the COP21 Paris agreement marked a significant change in the extent and seriousness of the global commitment to taking action on climate change. In June 2017, the Bank of England published its strategic response to climate change and within that Mark Carney stated “Financial decarbonisation for our economy is a major opportunity for long term investors. If pension funds are genuine long term investors then they may be well placed to benefit.”
8. In determining the Fund’s objective in this matter there is a spectrum of opportunity ranging from the status quo to full divestment with an incremental change approach between the two extremes. In developing the Fund’s policy, the Pensions Committee will need to consider investment strategies which are compatible with the Council’s fiduciary duty but which also seek to manage risks and opportunities relating to climate change. As a result it is proposed that the Committee considers setting a long term target for the reduction of the Fund’s exposure to environmental risks and considers adopting the following action points for working towards the target:
 - Movement of passive investments to funds tracking “low carbon” indices
 - Engagement with companies through the WPP and LAPFF
 - Disinvestment from companies representing a continuing risk
 - Positive investment in companies developing clean technology

In considering these points at their meeting on 12 December 2018, the Investment Advisory Panel commented that quantitative measurements of environmental impact should not be considered in isolation but that qualitative aspects should also be borne in mind.

9. Once agreed, any proposals will be incorporated into the Fund’s overall investment strategy which is due to be reviewed by the Panel in March 2019. Any recommended changes to the investment strategy will be presented to the Committee for approval at its first meeting of the 2019/20 financial year. The Panel and the Committee will receive regular reports on the impact of the policy on the Fund’s investments.

Legal Implications

10. The body of the report (fiduciary duty) and the appendices refer to the main legal duties governing this matter. Pursuant to the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2016, (Regulation 7) the Administering Authority (“Authority”) is required, after taking proper advice to formulate an investment strategy which must be in accordance with any guidance issued by the Secretary of State, such an investment strategy has been prepared and approved . The decision maker will need to be satisfied that the draft policy accords with the Fund’s approved investment strategy and relevant guidance issued. The draft policy documents attached to the report are technical documents, the content of which Legal Services are unable to comment upon. Relevant professional advice should be taken as to the content of the policy. Legal Services are

instructed this has been done and the advice provided is reflected in the documents set out in appendices.

Financial Implications

11. Once determined, the costs of implementing and monitoring the Policy will be charged to the Pension Fund.

Recommendations

12. That the Committee:
 - (1) notes the outcome of the work undertaken to date including the comments of the Investment Advisory Panel
 - (2) determines whether to adopt the objective and actions set out in Paragraph 8
 - (3) agrees that the draft Policy document be shared with the Local Pension Board and that any comments received be reflected in a further draft to be considered by Pensions committee at its next meeting

CHRISTINE SALTER CORPORATE DIRECTOR RESOURCES

- Appendix 1 Carbon Footprint Review 2018 - CONFIDENTIAL
Appendix 2 Draft Climate Change Investment Strategy

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By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

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DRAFT CLIMATE CHANGE INVESTMENT POLICY FRAMEWORK**Investment Belief**

Cardiff Council's Pensions Committee, as governance body for the Cardiff & Vale of Glamorgan LGPS believes that over the expected lifetime of the Pension Fund, climate related risks and opportunities will be financially material to the performance of the investment portfolio.

Introduction

Cardiff Council is the Administering Authority for the Cardiff & Vale of Glamorgan Pension Fund, a fund of the Local Government Pension Scheme (LGPS) for England and Wales.

Strategic oversight of the Fund is provided by the Pensions Committee and the operational management of the Fund is the responsibility of the Corporate Director Resources under the Council's scheme of delegations. Cardiff is a participating authority in the Wales Pension Partnership (WPP) which oversees the pooling of investments for the eight LGPS funds in Wales.

The Well-being of Future Generations (Wales) Act 2015 requires each public body (including local authorities) in Wales to act "in accordance with the sustainable development principle". This means acting in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. As Administering Authority of the Fund, the Council has a fiduciary duty to ensure that sufficient contributions are paid into the Fund and that assets are invested responsibly so that pension benefits being earned by current members of the Fund do not become a burden for future generations of local taxpayers.

The Pensions Committee recognises that environmental issues, together with social and corporate governance issues, are relevant to the Fund's investment strategy which aims to deliver the sustainable long-term returns required by the Fund. The aim of this Climate Change Investment Policy is to provide a framework within which these issues can be taken into account in setting investment and funding strategies and throughout the investment management process. The Policy will be reviewed regularly in the light of the development of the WPP, changes in the LGPS Regulations and the wider regulatory environment.

Investment Strategy

The Committee will consider investment strategies which are compatible with the Council's fiduciary duty but which seek to manage risks and opportunities related to climate change. This may include seeking to reduce the Fund's carbon footprint through tilting the asset allocation towards low carbon companies and asset classes, alongside company engagement and an increased allocation to low-carbon investment opportunities.

Investment Manager Oversight and Company Engagement

The Committee recognises that engagement between investment managers and companies is a key element of the investment process. In collaboration with the other LGPS funds in the WPP, the Fund will work to ensure that the investment managers appointed by the ACS Operator sign up to and adhere to relevant codes of practice including the UK Stewardship Code, the UN Principles of Responsible Investment and the LGPS Cost Transparency Code. Managers will be monitored on their approach to climate change. They will be expected to engage with companies on environmental issues and report back to the WPP on the outcomes of their engagement.

The Fund will also engage with companies through its membership of the Local Authority Pension Fund Forum (LAPFF), which aims to protect the long-term investment interests of fund beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies.

Voting Policy

The Fund will participate in the development of WPP voting policies which aim for transparency and accountability by companies for business activities which have an environmental impact.

Disinvestment

The Committee believes that significant improvements in the governance and behaviour of companies can be achieved through engagement and that this will have a positive impact on the Fund's exposure to climate change related risks.

Regular reviews of the Fund's exposure to carbon risk will include monitoring of companies' efforts to manage carbon emissions and related risks. Where it is evident that a company has not responded positively to engagement by investors and investment managers, and continued investment presents a significant financial risk to the Fund, the Committee will consider disinvesting from the company. Where possible this action would be in collaboration with other WPP funds.

Climate-related Investment Opportunities

Climate-related investment opportunities are available in areas such as energy efficiency and renewable energy sources. These opportunities are mainly in more illiquid asset classes such as private equity, private debt, property and infrastructure and will be more accessible to the Fund as the WPP develops pooling arrangements in these areas. The Fund will collaborate with the other WPP funds in seeking opportunities which are likely to yield a suitable rate of return and also make a positive reduction to the Fund's exposure to climate change risk.

Risk Management

Climate risk will be measured and managed by integrating climate change into the Fund's risk management processes. The Fund, and also through working in collaboration with our WPP partners will also consider the following:

- Include climate related financial risk on our risk register
- Monitor the Fund's carbon intensity
- Monitor policy dialogues for early indicators of change; and
- Increase internal awareness of the publicly available climate change scenarios and other risk analysis tools

Measurement and Monitoring of Climate Change related risks

The Committee will report progress in its Annual Report and Accounts. Any measures of carbon intensity undertaken will be used to feed into the Investment Strategy and risk management process, to highlight specific risks and to inform work with the WPP.

The Committee will aim to set targets that are measurable and reportable over time. Reviews of the Fund's exposure to climate change will be carried out at regular intervals in collaboration with WPP and its investment managers.

The Pensions Committee will set a long term target for the reduction of the Fund's exposure to environmental risks and will monitor progress towards the target. This target will be regularly evaluated in line with our fund objective of maintaining long-term financial performance.

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