

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.