

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 4

CLIMATE CHANGE INVESTMENT POLICY

Reason for this Report

1. This report has been prepared to present to the Committee the latest position in working towards 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 14 January 2019 the Committee received a report presenting a draft Climate Change Investment Policy. The report proposed four key action areas for the Committee to consider in managing the Fund's exposure to climate change risks:
 - 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
4. The Committee noted the work carried out to date, agreed to adopt the overall objectives of the policy and asked for the Local Pension Board to be consulted on the proposals.
5. The Committee also asked for work to be progressed on the feasibility and impact of specific divestment in fossil fuel extraction, recognising that any such action must be consistent with its fiduciary duties and prudent investment of the Fund's assets.
6. The Committee will note that since its last meeting, both Cardiff Council and the Welsh Government have declared a Climate Emergency.

Issues

7. The Local Pension Board met on 29 January and members were supportive of the proposals. The Board noted that the policy made positive steps towards addressing climate change risk in a proportionate and measured manner.
8. The Investment Advisory Panel met on 19 March and supported the proposals for an initial 10% allocation to a Global Low Carbon fund with provision for further allocations in subsequent years subject to the outcome of regular reviews on the performance and impact of the fund.
9. Work is in progress in developing options for the other action points. As reported under agenda item 5, the Wales Pension Partnership is developing a Responsible Investment Policy. The policy will include a section on climate change and a commitment to consult further with the eight pension fund authorities with a view to developing a WPP-specific climate risk policy.
10. The WPP RI Policy currently being established will note that whilst the WPP has not adopted a policy of exclusionary practices, it will recognise that Constituent Authorities may individually adopt such a policy. In line with Cardiff Council's Capital Ambition commitments, officers will continue to work with the investment partners of the Fund and the WPP to explore options for excluding from its investment portfolios those companies which present the most significant climate change risks; for example, over a period of time disinvesting in companies engaged in fossil fuel extraction.

Legal Implications

11. The body of the report (fiduciary duty) refers to the main legal duties governing this matter to which regard should be given. The decision maker will need to be satisfied that the proposed investment accords with the Fund's approved investment strategy and any relevant guidance issued. It is understood that relevant professional advice has been undertaken in relation to the appropriateness of the investment and the decision maker should have regard to the same. The decision maker should have due regard to all material considerations prior to proceeding with any decision affecting the Fund and/or any adopting any policies that may affect the Fund.
12. In considering this matter the decision maker must have regard to the Council's wider obligations under the Wellbeing of Future Generations (Wales) Act 2015, the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards.
13. Any decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

Financial Implications

14. All costs arising from the management of the Pension Fund's investments are charged to the Fund.

Recommendations

15. That the Committee:

- (1) Approves the recommendation of the Investment Advisory Panel to make an initial allocation during 2019/20 of 10% of fund assets to a fund tracking a Global Low Carbon index.
- (2) States its support in principle for divestment in companies engaged in fossil fuel extraction, subject to this being consistent with its fiduciary duties and regular assessment of the impact of such an investment decision; and states its support for further development of Climate Change Investment Policy to reflect this work and ensure investment decisions are consistent with the aims of the Paris Agreement.
- (3) Notes the ongoing work being undertaken in collaboration with the other WPP authorities and the WPP's investment partners.

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