

## WPP Climate Risk Policy

### Introduction

- 1 The Wales Pension Partnership (“WPP”) is the pooling arrangement for the assets of the eight Welsh Local Government Pension Scheme funds (“Constituent Authorities”).
- 2 The investment arrangements of WPP are overseen by a Joint Governance Committee (“JGC”) and supported by an Officer Working Group (“OWG”) and implemented through pooled funds managed by its “Investment Managers”.
- 3 The Wales Pension Partnership (“WPP”) recognises that climate change represents a material financial risk to its stakeholders, the Constituent Authorities. Climate change has the potential to disrupt economic, financial and social systems.
- 4 The WPP is aware that climate change may result in mis-priced assets and unique investment opportunities. The WPP believes that its adherence to responsible investment policies and climate risk mitigation strategies will mean that it is well placed to identify and benefit from these potential investment opportunities for the benefit of its Constituent Authorities.
- 5 The potential impact on the WPP’s Constituent Authorities and their internal stakeholders (Scheme Members and Employers) is unknown, given policy uncertainty and the unknown physical impact from environmental systems. Risks to the Constituent Authorities arising from climate change include, but are not limited to:
  - 5.1 Physical risks: such as damage to property from flooding or lower precipitation giving rise to crop failure. Such impact could be felt directly by CA’s or through the impact on returns delivered to CA’s by WPP funds;
  - 5.2 Transition risks: being the financial risks arising from changes in policy and technology to adjust to a lower-carbon economy and the extent to which these flow through to the returns delivered to CA’s by WPP funds;
  - 5.3 Liability risks: being the potential costs arising from parties who have suffered loss or damage due to climate change seeking compensation from those they hold responsible.
- 6 This policy sets out the WPP’s approach to addressing the requirements of the Constituent Authorities in regard to climate related risks and the monitoring of these risks.
- 7 This policy will be reviewed by WPP on an annual basis and, if necessary, changes to the policy will be proposed to and agreed by the JGC and OWG. As part of the annual review process the WPP will take account of the evolving risk to and requirements of the Constituent Authorities.
- 8 This policy will have regard to the Well-being of Future Generations (Wales) Act 2015, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and any relevant guidance provided by the Scheme Advisory Board (“SAB”), the Ministry of Housing Communities and Local Government (“MHCLG”), Intergovernmental Panel on Climate Change (“IPCC”) and the Welsh Government.
- 9 In maintaining and acting on this policy, the WPP will have an ongoing dialogue with its Operator, Investment Managers and Oversight Advisor. The WPP will also seek input from third parties where appropriate.

**Beliefs**

- 10 The WPP has established a set of climate-related beliefs, which underpin its approach to dealing with the potential risk arising from climate change, and the mechanism it provides to the Constituent Authorities to facilitate the management of their climate related risks. The WPP's beliefs are as follows:
- 10.1 Climate-related risks are systemic in nature and have the potential to impact the delivery of return from all asset classes and sectors to varying degrees. Such impact may be positive or negative.
- 10.2 It is incumbent on WPP to identify potential sources of climate related risks in the development of any sub-fund and/or the procurement of any service from providers and, where necessary, seek to ensure such risks are appropriately managed and communicated to stakeholders.
- 10.3 Solutions aimed at managing and mitigating climate-related risks can also provide opportunities to long term investors such as the WPP's Constituent Authorities;
- 10.4 The WPP has appointed a specialist engagement services provider to directly engage with investee companies on a range of issues, including climate risk, to enhance the long-term value of the Constituent Authorities' investments within WPP. As part of its mandate, the WPP's engagement service provider will collaborate with other asset owners to maximise the effectiveness of the WPP's engagement activities. The WPP believes that collaboration with other asset owners and its investment managers can be an effective method for engaging with investee companies and raising awareness of climate-related issues.

**Objectives**

- 11 WPP's objective in preparing and implementing this policy is to:
- 11.1 demonstrate to its stakeholders that the WPP takes account of climate change and the climate-related risk associated with it;
- 11.2 enable the Constituent Authorities to substantially implement their own climate risk policy and climate related targets and ambitions; and
- 11.3 formally outline the actions that the WPP will be held accountable for by its stakeholders.
- 12 With regard to climate change, the WPP's own objective is to progressively reduce the likelihood that climate-related risks impact on the value or performance of the assets held within the WPP.
- 13 The Constituent Authorities are responsible for their own investment strategy, including their own Climate Risk Policy. The WPP will engage with the Constituent Authorities to fully understand their Climate Risk Policies and what implementation solutions they require to meet their policy commitments. The Constituent Authorities are aware that there may be additional costs associated with the WPP's facilitation of these investment solutions. The WPP and CAs will work together to find practical solutions to ensure that climate risk is being discussed and managed in the most suitable way
- 14 The WPP recognises that the Constituent Authorities will develop and maintain their own climate change objectives and policies.

**Strategy**

- 15 The WPP recognise that all assets have some level of exposure to climate-related risks, particularly transition risks, but that sector, geography, policy uncertainty and investment timeframes are key determinants of climate risk exposure.

- 16 Recognising its current investment arrangements and offerings, the WPP's immediate focus will be on climate-related risk exposure within its equity holdings. The WPP will however consider climate-related risks in other asset classes, for example fixed income, should circumstances allow or require them to do so. The WPP will endeavour to provide climate risk solutions across all of its sub-funds, including private market assets.
- 17 The WPP will provide a range of sub-funds and implementation solutions that allow the Constituent Authorities to achieve their own carbon reduction targets.
- 18 The WPP recognises the importance of monitoring exposure to climate related risks in different ways. One way the WPP will facilitate this is by monitoring the carbon risk exposure of each sub-fund to ensure that the Constituent Authorities have all available information at their disposal. The WPP will explore how best to assess climate risk exposures for each sub-fund. The WPP believes that external suppliers can be a cost-effective means of enhancing its climate risk exposure assessment capabilities, an analysis of current supplier offerings will be carried out on approval of this policy and at least annually thereafter. If a suitable supplier is identified, they will be appointed.
- 19 The WPP will consider the merits of undertaking scenario analysis around the potential economic impact of climate-related risks and seek means of collaborating with providers to share knowledge on this across all Constituent Authorities. However, the WPP notes that this is an evolving area, and such analysis is in its infancy. The WPP will endeavour to facilitate climate scenario analysis across assets held within WPP as an additional form of climate risk assessment to support the Constituent Authorities in integrating this assessment into their funding and investment strategies.
- 20 The WPP recognises that training and education is critical to achieving good outcomes for its stakeholders and will allocate resources to ensure that it undertakes regular training and education on climate risk. The WPP has committed to hosting at least one annual climate risk related training session for all its stakeholders. The WPP develops an annual training plan in conjunction with the Constituent Authorities this is the mechanism by which the WPP gauges the climate risk training requirements of its stakeholders.

### Implementation

- 21 The WPP's approach to manager selection is set out in its Responsible Investment Policy. The WPP's sub-fund Investment Managers have delegated responsibility for challenging managers on their approaches to the consideration of climate risk as part of its manager selection process.
- 22 The WPP expects its Investment Manager to ensure that all underlying active managers integrate the consideration of climate-related risks into their investment process and to regularly challenge underlying managers to evidence their approach.
- 23 The WPP will work with its Investment Managers to ensure that they account for and integrate climate-related risks into their investment processes. The WPP recognizes that the effective management of climate-related risks within portfolios is important in ensuring alignment with the Paris climate accord goals and that each Investment Manager will have its own approach to account for and integrate climate-related risk into their investment process which will be assessed and appraised on appointment. The WPP, on at least an annual basis, will review that the Investment Manager's approach remains appropriate.
- 24 The WPP's approach to stewardship is set out in their Responsible Investment Policy. The WPP will emphasise the importance of engagement on climate-related risks through its voting and engagement service provider. In particular, the WPP will encourage its engagement service provider to engage with

investee companies on climate-related issues, including an increase in the disclosure on climate-related risks by companies to investors.

- 25 The WPP is formulating its own Voting Policy and set of engagement principles which will outline how it will use its voting rights and how it will engage with investee companies. The WPP's proxy voting service provider is responsible for enacting these policies on behalf of the WPP.

### **Monitoring/Reporting**

- 26 The WPP will monitor exposure to climate related risks within its equity sub-funds on a quarterly basis, considering metrics which may include, but are not limited to, exposure to fossil fuel producers and carbon reserves; overall carbon intensity and alignment with future climate pathways. The WPP will monitor changes in market practice to ensure that the WPP is fully aware of changing best practice and the feasibility of monitoring climate related risk within its non-equity sub-funds on at least an annual basis.
- 27 The WPP will require its Investment Managers to provide monitoring on climate-related risk exposure in their quarterly reports. The WPP will also require Investment Managers to include such metrics in their quarterly reporting to Constituent Authorities. As noted above, the WPP will initially expect their equity Investment Managers to provide this monitoring, with the expectation that its non-equity Investment Managers will provide this information as soon as sub-fund launches and market developments allow.
- 28 The WPP's proxy voting and engagement provider will be responsible for producing quarterly and annual reports on the WPP's voting and engagement activities. These reports will evidence how the WPP has used engagement and voting to manage its climate related risk.
- 29 The WPP has an ambition to report on progress on actions undertaken to address climate risk in line with the framework set out by the Taskforce for Climate-Related Financial Disclosures. The WPP intend that their first report will be in respect of the 2020/21 Financial year.

### **Transparency**

- 30 The WPP will encourage, through its delegates, all investee companies to disclose in line with the requirements of the Taskforce for Climate Related Financial Disclosures.
- 31 On an annual basis, the WPP will prepare and publish a report detailing the actions undertaken in fulfilment of this policy and the results achieved.