

Dyfed Pension Fund – Responsible Investment Update – March 2022

This summary has been prepared as part of the Dyfed Pension Fund's (the "Fund") commitment to communicate more comprehensively about its activities and progress in respect of Responsible Investment (RI). Between September and December 2021, the Fund has:

1. Governance

- Initiated discussions with Wales Pension Partnership (WPP), member funds and with external parties to commission a specialist to provide independent measurement of the Fund's progress in respect of decarbonisation goals
- Initiated a review of the Fund's RI policy, as distinct from the WPP policy
- Started work on Task Force on Climate-related Financial Disclosures (TCFD) reporting at WPP, supported by Hymans. Exploring possibility of Hymans resource to support member Funds' reporting as well
- WPP has become a signatory to the UK Stewardship Code
- WPP is an affiliate member of Pensions For Purpose

2. Stewardship (Engagement, Communication)

- Continued active engagement on a variety of issues, via our WPP stewardship partner, Robeco <https://www.robeco.com/en/insights/2022/01/acceleration-to-paris-leads-q4-active-ownership-report.html>
- Met with and continued constructive engagement with Divest Dyfed and Friends of the Earth groups
- Initiated a quarterly RI update to the Committee

3. Progress to date

a. General

- Announced the divestment of Russian stocks, when practically possible, held by the Fund and WPP funds
- Worked with WPP to set up a Sustainable Equity sub-fund. This will be launched during 2022
The Fund continues to review its equity allocations in light of new sustainable investment opportunities (such as this sub-fund) and the rise in valuation of its investments with a higher fossil fuel exposure

b. Climate / decarbonisation

Since setting its baseline in September 2020, the Fund reduced the weighted average carbon intensity of its investments by 13% by March 2021, and by an estimated further 7% by March 2022. This exceeds the Fund's Paris-aligned aspiration of a reduction of 7% per annum.

- Established a methodology for measuring decarbonisation quantitatively (using portfolio weighted average carbon intensity). Given the long term nature of the decarbonisation goals, and current issues with data quality/coverage and short term "noise", as well as cost/resourcing, it is proposed to measure this at least annually at the Fund's year end (March), and more often if justified by significant changes in portfolio asset allocation or market movements.
- Realigned its Strategic Asset Allocation, reducing higher carbon regional equity holdings by some £60m, and reinvesting in Real Estate (£60m) and BlackRock's SAIF fund (£30m, see below). As previously reported, this is estimated to have reduced the Fund's equity CO2 intensity by some 3%

- Helped drive the following changes within DPF's managed portfolios:
 - The Baillie Gifford "sleeve", representing 43% of the WPP Global Growth Fund and 13.4% of DPF's assets at 31 December 2021, switched to the "Paris-Aligned" version of its strategy. This strategy uses more forward-looking measures of carbon emissions (e.g. incorporating consideration of "scope 3" emissions where available) and is committed to ongoing reductions of at least 7% per annum.
 - BlackRock's SAIF fund invested an additional c. 10% of its assets in the Renewable Energy (UK) Fund, taking its overall investment up to some 20% of the Fund (i.e. £25m of DPF's total investment). This represents some 30,000 tons per annum of Greenhouse gas emissions avoided for the whole SAIF Fund, so some 3000 tons for the Fund's investment. In addition, the Renewable Energy (UK) Fund projects contribute to the local communities by investing in community benefit funds. These contributions are expected to total £10.4m over the life of the fund and to support village hall renovations, wildlife preservation and mental health counselling
 - Discussions are taking place with BlackRock re: lower carbon / zero fossil fuel variant of their ACS Low Carbon Fund which the Fund is currently invested in
 - Discussions are also taking place with WPP on local investments within Wales