

Wales Pension Partnership DRAFT 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 the Joint Governance Committee (“JGC”) and supported by the Officer Working Group (“OWG”), and implemented through a range of Sub-Funds managed by its Investment Managers.
- 3 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 WPP is aware that climate change may result in mispriced assets and unique investment opportunities. WPP believes that its adherence to responsible investment policies and climate risk mitigation strategies will mean that its Constituent Authorities are well placed to identify and benefit from these potential investment opportunities.
- 5 The potential impact of climate change on WPP’s Constituent Authorities and their internal stakeholders (Scheme Members and Employers) is unknown, given policy uncertainty and the unknown physical impacts that may result from climate change. 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 Constituent Authorities or through the impact on returns delivered to Constituent Authorities via investments in WPP Sub-Funds;
 - 5.2 Transition risks: 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 Constituent Authorities via investments in WPP Sub-Funds;
 - 5.3 Liability risks: 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 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, WPP will take account of the evolving risk to and requirements of the Constituent Authorities.
- 8 This policy will have regard to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and any relevant guidance provided by the Scheme Advisory Board, the Department of Levelling Up, Housing and Communities and the Intergovernmental Panel on Climate Change. The policy will note Welsh Government guidance and the Well-being of Future Generations (Wales) Act 2015.
- 9 In maintaining and acting on this policy, the WPP will have an ongoing dialogue with its Operator, Investment Managers, Voting and Engagement Provider (“V&E Provider”) and Oversight Advisor. The WPP will also seek input from third parties where appropriate.

Beliefs

- 10 WPP has a set of climate-related beliefs, which underpin its approach to dealing with the potential risk arising from climate change and the investment solutions it provides to the Constituent Authorities to facilitate the management of their climate-related risks. WPP's beliefs are as follows:
 - 10.1 Climate-related risks are systemic in nature, and have the potential to impact the investment return from all asset classes and sectors to varying degrees. Such impact may be positive or negative.
 - 10.2 A greater public understanding of climate-related risks, alongside government commitments, are likely to trigger a low-carbon transition that will present numerous compelling investment opportunities for investors, such as WPP's Constituent Authorities, who are well informed on climate risk matters, and able to effectively manage and mitigate transition risk.
 - 10.3 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.
 - 10.4 WPP has appointed a specialist V&E Provider to directly engage with investee companies on a range of issues, including climate risk, climate risk disclosures and transition plans, to enhance the long-term value of the Constituent Authorities' investments within WPP.
 - 10.5 As part of its role, WPP's V&E Provider collaborates with other asset owners to maximise the effectiveness of WPP's engagement activities. WPP believes that collaboration with other asset owners and its Investment Managers can be an effective method for amplifying its voice 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 WPP takes account of climate change and the climate-related risk associated with it;
 - 11.2 clearly outline its role and responsibilities in relation to carrying out ongoing consultation with the Constituent Authorities and facilitating investment offerings that enable each Constituent Authority to implement their own climate risk policy, and climate-related targets and ambitions; and
 - 11.3 formally outline the actions that WPP will be held accountable for by its stakeholders.
- 12 The Constituent Authorities are responsible for their own investment strategy, including their own Climate Change/ Risk Policy. WPP is not involved in formulating, nor will it seek to influence, the climate change objectives or commitments that each Constituent Authority has made a local level.
- 13 WPP's role is to consult with each Constituent Authority in relation to their climate objectives, on at least an annual basis, and to fully understand what implementation solutions they require to meet their objectives and commitments.
- 14 Following its consultation with each Constituent Authorities, WPP will endeavour to develop and facilitate investment solutions that enable each and every Constituent Authority to achieve their climate objectives and commitments.
- 15 Where possible, WPP and its Constituent Authorities will seek to collaborate and work together to develop investment solutions that meet the climate objectives and commitments of all the Constituent Authorities.

- 16 If unified and collaborative investment solutions that simultaneously meet the objectives and requirements of all the Constituent Authorities cannot be developed, WPP will work with any Constituent Authority to develop tailored investment solutions that will enable them to achieve their own local objectives and requirements.
- 17 The Constituent Authorities are aware that there may be additional costs, or reduced fee savings, associated with WPP's facilitation of these tailored investment solutions, and have signalled their willingness to bear the costs to ensure that they are able to meet their local-level objectives and requirements.
- 18 On an annual basis WPP, will assess whether its consultation exercise with the Constituent Authorities has identified a common climate-related objective that all Constituent Authorities are willing to support. If unanimous support can be obtained, from all eight Welsh Constituent Authorities, WPP will seek to adopt this climate related objectives as WPP's 'Climate Goal' and incorporate it across all WPP Sub-Funds.
- 19 WPP's Climate Goal will be regularly reviewed, following consultation with the Constituent Authorities, and will always be driven by the collective requirements and objectives of the Constituent Authorities. If WPP's consultation exercise with the Constituent Authorities fails to identify a common climate-related objective that all Constituent Authorities are willing to unanimously support, then no WPP Climate Goal will be formulated until there is unanimous support for a given Climate Goal.

Strategy

- 20 WPP recognises 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.
- 21 Recognising its current investment arrangements and offerings, WPP's immediate focus will be on climate-related risk exposure within its equity and fixed-income holdings. WPP will, however, consider climate-related risks in other asset classes when circumstances allow or require them to do so. WPP will endeavour to provide climate risk solutions across all of its Sub-Funds, including private-market assets.
- 22 WPP recognises the importance of monitoring exposure to climate-related risks in different ways. One way WPP facilitates 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. WPP receives regular Climate Risk Monitoring Reports for its Equity and Fixed-Income Sub-Funds. WPP will continue to explore and investigate market developments that enhance its ability to assess climate risk exposures within its Sub-Funds.
- 23 WPP recognises the merits of undertaking scenario analysis on the potential economic impact of climate-related risks and articulating the findings of said analysis to the Constituent Authorities. However, WPP notes that this is an evolving area and such analysis is in its infancy. WPP will endeavour to facilitate climate scenario analysis across assets held within WPP to ensure that the Constituent Authorities are aware of the potential climate risks within WPP Sub-Funds.
- 24 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. WPP has committed to hosting at least one annual climate risk-related training session for its stakeholders. WPP carries out an annual training-needs identification exercise, in conjunction with the Constituent Authorities; this is the mechanism by which WPP gauges the climate-risk training requirements of its stakeholders.

Implementation

- 25 WPP's approach to manager selection is set out in its Responsible Investment Policy. 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.
- 26 WPP expects its Investment Managers 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.
- 27 WPP will work with its Investment Managers to ensure that they account for and integrate climate-related risks into their investment processes. WPP considers the effective management of climate-related risks to be a key criterion in any Investment Manager appointment and understands that each Investment Manager will have its own means of integrating climate-related risk into the investment process. WPP, on at least an annual basis, will review each of its Investment Managers' approach to Climate Risk integration.
- 28 WPP's stewardship strategy is set out in its Responsible Investment Policy. WPP will emphasise the importance of engagement on climate-related risks through its V&E Provider. In particular, WPP will encourage its V&E Provider to engage with investee companies on climate-related issues, including an increase in the disclosure on climate-related risks by companies to investors and on the formulation of transition plans aligned with the goals of the Paris Agreement.
- 29 WPP has a Voting Policy and a set of Stewardship Themes in place that will outline how it will use its voting rights and engagement activities to influence investee companies. WPP's V&E Provider is responsible for enacting these policies on behalf of WPP.

Monitoring and reporting

- 30 WPP monitors exposure to climate-related risks within its Sub-Funds on a quarterly basis. The metrics monitored include, but are not limited to, exposure to fossil fuel producers, carbon emissions and carbon intensity. WPP will monitor changes in market practice to ensure that WPP is fully aware of changing best practice.
- 31 In addition to its own reporting, WPP will require its Investment Managers to provide monitoring on climate-related risk exposure in their quarterly reports to WPP and the Constituent Authorities. As noted above, WPP expects its equity and fixed-income 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.
- 32 WPP's V&E Provider is responsible for producing quarterly and annual reports on WPP's voting and engagement activities. These reports evidence how WPP has used engagement and voting to manage its climate-related risk.
- 33 WPP will report in line with the requirements of the Task Force on Climate-related Financial Disclosures ("TCFD"), as part of any regulatory obligations, including a report on the actions taken in fulfilment of this policy, and will support the Constituent Authorities in their own TCFD reporting.

Transparency

- 34 WPP will encourage, through its V&E Provider and Investment Managers, all investee companies to disclose in line with the requirements of the TCFD.