

## 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 the Joint Governance Committee (“JGC”) and supported by the Officer Working Group (“OWG”) and implemented through Sub-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 its Constituent Authorities are well placed to identify and benefit from these potential investment opportunities.
- 5 The potential impact of Climate Change on the 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 CA’s or through the impact on returns delivered to CA’s via investments in WPP Sub-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 via investments in WPP Sub-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 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”). 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 and Oversight Advisor. The WPP will also seek input from third parties where appropriate.

## Beliefs

- 10 The 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. The 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 which will present numerous compelling investment opportunities for investors, such as the 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 The WPP has appointed a specialist Voting and Engagement Provider to directly engage with investee companies on a range of issues, including climate risk and climate risk disclosures, to enhance the long-term value of the Constituent Authorities' investments within WPP.
  - 10.5 As part of its role, the WPP's Voting and Engagement Provider collaborates 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 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 the 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 offering which enable each Authority to 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 The Constituent Authorities are responsible for their own investment strategy, including their own Climate Change / Risk Policy. The 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 The WPP's role is to consult with each Constituent Authorities 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 the 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 the 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 meets the objectives and requirement of all the Constituent Authorities cannot be developed, the 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 the 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 the 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, the WPP we seek to adopt this climate related objectives as the WPP's 'Climate Goal' and incorporate it across all WPP Sub-Funds.
- 19 The 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 the 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 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.
- 21 Recognising its current investment arrangements and offerings, the WPP's immediate focus will be on climate-related risk exposure within its equity and fixed income holdings. The WPP will however consider climate-related risks in other asset classes when 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.
- 22 The WPP will provide a range of sub-funds and implementation solutions that allow the Constituent Authorities to achieve their own carbon reduction targets.
- 23 The WPP recognises the importance of monitoring exposure to climate-related risks in different ways. One way the 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. The WPP receives quarterly Climate Risk Monitoring Reports for its Equity Sub-Funds and is planning on extending this form of reporting to its Fixed Income Sub-Funds. The WPP will continue to explore and investigate market developments which enhance its ability to assess climate risk exposures within its Sub-Funds.
- 24 The 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, the WPP notes that this is an evolving area, and such analysis is in its infancy. The WPP will endeavour to continually facilitate climate scenario analysis across assets held within the WPP to ensure that the Constituent Authorities are aware of the potential climate risks within the WPP Sub – Funds.
- 25 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 its stakeholders. The WPP carries out an annual training needs identification exercise, in conjunction with the Constituent Authorities, this is the mechanism by which the WPP gauges the climate risk training requirements of its stakeholders.

### Implementation

- 26 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.
- 27 The 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.
- 28 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 considers the effective management of climate-related risks to be a key criteria in any Manager appointment and understands that each Investment Manager will have its own means of integrating climate-related risk into their investment process. The WPP, on at least an annual basis, will review each of its Investment Managers' approach to Climate Risk integration.
- 29 The WPP's stewardship strategy is set out in its Responsible Investment Policy. The WPP will emphasise the importance of engagement on climate-related risks through its Voting and Engagement Provider. In particular, the WPP will encourage its Voting and Engagement Provider to engage with investee companies on climate-related issues, including an increase in the disclosure on climate-related risks by companies to investors.
- 30 The WPP has a Voting Policy and a set of engagement principles in place which will outline how it will use its voting rights and engagement activities to influence investee companies. The WPP's Voting and Engagement Provider is responsible for enacting these policies on behalf of the WPP.

### Monitoring/Reporting

- 31 The WPP monitors exposure to climate-related risks within its equity sub-funds on a quarterly basis. The metrics monitored include, but are not limited to, exposure to fossil fuel producers, carbon emissions and overall carbon intensity. 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.
- 32 In addition to its own reporting, the 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, 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.
- 33 The WPP's Voting and Engagement Provider is responsible for producing quarterly and annual reports on the WPP's voting and engagement activities. These reports evidence how the WPP has used engagement and voting to manage its climate-related risk.
- 34 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 ("TCFD"). The WPP is currently awaiting guidance on how TCFD will be applied to the Local Government Pension

Scheme community, upon receiving this guidance the WPP will outline a timeline for the formulation of its own TCFD reporting.

**Transparency**

- 35 The WPP will encourage, through its Voting and Engagement Provider and Investment Managers, all investee companies to disclose in line with the requirements of the TCFD.
- 36 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.