Task Force on Climate-related Financial Disclosures (TCFD) Report

Introduction

The Financial Stability Board, an international body that monitors and makes recommendations about the global financial system, established the Task Force for Climate Related Financial Disclosures. The recommendations it has developed aim to promote more informed investment and highlight the financial system's exposures to climate-related risks across sectors and jurisdictions.

In the UK, occupational pension schemes will be mandated to report against these recommendations from spring 2022, with similar regulations strongly anticipated to apply to the LGPS along the same timescales.

Wiltshire Pension Fund has taken several steps towards furthering its identification, analysis and management of climate related risks and reporting this information. This report sets out the work in these areas against the recommendation structure around the four themes of: governance, strategy, risk management, and metrics and targets.

Governance

Describe the organization's governance around climate-related risks and opportunities.

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Wiltshire Pension Fund's Governance Policy & Compliance Statement sets out the statutory framework under which the administering authority delegates statutory functions to committees, sub-committees or to officers. The existing governance arrangements of the Fund are provided for using the following structure;

Pensions Committee – the role and responsibilities of which are set out in its own terms of reference within the Council's Constitution[1]; The Committee meets at regular quarterly intervals to review the affairs of the Fund, to review Fund performance and to plan the implementation of policy.

Investment sub-Committee (ISC) – a secondary committee reporting to the Pensions Committee, with its own terms of reference (effective June 2015); again, this sub committee meets quarterly, and the role of the ISC is to implement and monitor investment manager performance while considering and to make recommendations to the main committee on changes in the investment strategy of the Fund.

[1] under Part 3B paragraph 2.7 and Protocol 2A

Local Pension Board – the role and responsibilities of which are set out in the Council's Constitution[2]; is responsible for securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and; ensuring the effective and efficient governance and administration of the Scheme.

Brunel Pension Partnership (BPP) – an FCA regulated investment pooling company with its own governance structure in which the Fund seeks to integrate its own governance arrangements. The Administering Authority has dual relationships as both shareholder and client, these role and responsibilities are set out in Shareholder and Client Service Agreements (2017).

The approach to consideration of Environmental, Social and Governance ESG factors is set out in the Fund's Investment Strategy Statement (March 2021).

A responsible investment policy for Wiltshire Pension Fund will be drafted during 2021/2022. This will draw on the existing policies and beliefs in the Investment Strategy Statement and develop work which will be done with Mercer in planning a net zero carbon by 2050 road map. This document will be a resource for all stakeholders, for governance of the Fund, engagement with pension fund members and for wider audiences.

b. Describe management's role in assessing and managing climate-related risks and opportunities.

The scheme of delegations sets out the responsibility of the Treasurer of the Pension Fund (S151 officer) and the day to day responsibility for management of the Fund and climate related risks and opportunities is delegated to The Head of Pension Fund Investments.

Wiltshire Pension Fund investments are managed by external managers. External manager appointments are assessed against ESG factors, which includes climate, during the procurement process, and Brunel Pension Partnership conduct extensive assessment and reporting of responsible investment factors for investments held.

The investment sub-committee and pension committee monitor their activities, together with the support of officers, on a regular basis. Responsible Investment is a standing item on the quarterly ISC and Committee agendas.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

a. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

The primary risks of the Wiltshire Pension Fund related to climate are those to the investment portfolio and asset values. Companies, assets or investment strategies that are carbon intensive are potentially more likely to be exposed to regulation, rising costs as a result of taxation and changing consumer behaviour.

[2] under Part 3B paragraph 7 and Protocol 2B (effective April 2015)

Short to medium term factors identified were cost of investing in new technology and policy risks during the transition from high to lower carbon. Longer term risks were the availability of natural resources and the impact of natural catastrophes.

Potential opportunities include investment in sustainable equities and renewable infrastructure, for example, and positive influence via stewardship. Federated Hermes EOS, via Brunel Pension Partnership, provides engagement and voting services together with activity reporting.

The Fund is currently exploring options to incorporate sustainable equities and affordable housing – where there is the opportunity to be at the forefront of decarbonisation - into its investment strategy.

b. Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

In December 2019, the Fund transitioned all of its passive equity exposure to a low carbon passive equities portfolio managed by Brunel.

The Pensions Committee has completed several training sessions on responsible investment, including climate change and related topics such as embedding ESG issues within the investment process, impact investing, and what has been done by the Brunel pool on responsible investment.

In the summer of 2020, the Committee commissioned Mercer (as the Fund's investment consultants) to carry out climate change scenario modelling, on both the existing strategic asset allocation, and one with a more sustainable tilt.

The modelling work completed by Mercer showed that the Fund may be able to realise a material financial benefit by taking advantage of the opportunity to invest in sustainable equities. This will also have the additional bonus of diversifying the Fund's investment strategy via exposure to different investment styles and sizes/types of company. The Committee has reviewed initial information on Brunel's sustainable equities portfolio and will be making a formal decision in due course.

In addition, Hymans (as the Fund's actuary) carried out modelling looking at different levels of policy response to climate risk. The results of this modelling have been used by the Committee to help understand the financial implication of climate change risk and to develop the investment strategy along with other information from training, other professional advice from the Fund's independent adviser and investment managers.

The Committee has shown support of the updated Stewardship Code (the Fund was a signatory of the previous code), by committing to develop a plan to report in line with the new code. The plan will be put in place through 2021, ready for full reporting the following year.

The most recent Investment Strategy Statement outlines a programme of scheme employer and membership engagement including member and employer webinars on responsible investment matters, communication with the membership on the new net zero by 2050 target, development of the Fund's website, and a scheme membership survey on responsible investment.

c. Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Scenario analysis for the Wiltshire Pension Fund was conducted by Mercer in November 2020.

The current and previous portfolios compared with a more sustainably tilted asset allocation were modelled against global policy environments resulting in warming increase scenarios of 2, 3 and 4ºC. This modelling can be used to illustrate both the current exposure to climate risk and also the impact that changes already made may have.

		Current SAA	Sustainably tilted AA
		Climate change impact on return (% p.a.)	
2°C	2030	0.18%	0.37%
	2050	-0.01%	0.12%
	2100	-0.06%	-0.01%
3°C	2030	-0.02%	0.00%
	2050	-0.08%	-0.05%
	2100	-0.12%	-0.10%
4°C	2030	-0.08%	-0.08%
	2050	-0.15%	-0.15%
	2100	-0.20%	-0.20%

≤-10bsp >-10bsp, <10bsp ≥10bsp

The reported findings and recommendations will be used to develop the Fund's Responsible Investment Policy during 2021/2022.

The findings of Mercer's modelling were considered alongside multiple training sessions, modelling by the Fund's actuaries, consultation with the employers, and a responsible investment membership survey, and led to the Committee agreeing a new investment belief **"In order to protect the Fund's investments into the future, the Fund supports a global warming scenario of 2°C or lower, and states an ambition to achieve net-zero carbon emissions across all investment portfolios by 2050"**. This new investment belief has been included in the Investment Strategy Statement. The Committee also agreed a budget for Mercer to develop an action plan for the net zero target.

Risk Management

Disclose how the organization identifies, assesses, and manages climate-related risks.

a. Describe the organization's processes for identifying and assessing climate-related risks.

The approach or process Wiltshire Pension Fund takes to identify climate related risks may be considered at both macro and micro levels. At a total Fund level, governance processes and policies are used to manage them. At the stock selection level, external investment managers take responsibility for identifying and assessing climate-related risks where appropriate.

Work in this area is developing and the Committee monitors external managers performance on a regular basis.

Brunel views engagement with companies, fund managers and policy makers as a key part of the approach to managing climate change risks. Engagement implementation is undertaken by fund managers, Brunel's dedicated engagement provider Federated Hermes EOS, and via collaborative forums such as the UN, PRI, IIGCC and Climate Action 100+.

b. Describe the organization's processes for managing climate-related risks.

Risks are managed according to their likelihood and impact of occurrence; action is taken to mitigate these as far as possible. In the case of climate related risks, stewardship activity is key to influencing companies which the Fund is invested in (indirectly via pooled funds).

Brunel use a number of different complimentary ESG and carbon specific datasets in the portfolio management tool in order to manage risks within investment portfolios. Carbon footprint (Scope 1, Scope 2 and first tier Scope 3) and fossil fuel revenues and reserves exposure (proxy for downstream scope 3) of each of the listed equity portfolios are monitored. This enables Brunel to as assess exposure to high carbon industries. Data, such as that provided by the Transition Pathway Initiative (TPI), helps understand exposure to any carbon-intensive companies and assessment of their preparedness for the transition to a low carbon economy.

Brunel has a robust approach to incorporating climate change factors in its voting decisions, including on specific climate-related shareholder resolutions. Wiltshire Pension Fund officers are active members of the Brunel responsible investment sub-group and engage with Brunel in developing RI policy and reporting.

The Fund's direct Emerging markets Equity portfolio is managed by an external manager, and the manager is responsible for casting the votes in line with their policies, which include specific consideration of climate change factors.

Federated Hermes EOS are the dedicated engagement provider for Brunel, and report quarterly internally and externally.

Wiltshire Pension Fund is a member of the Local Authority Pension Fund Forum. LAPFF's mission is to protect local authority pension fund by promoting the highest standards of corporate governance and corporate responsibility. Engagement lies at the heart of the Forum's work as a means of delivering positive change. Outcomes from these engagements are disclosed publicly in the LAPFF Annual and Quarterly Engagement Reports.

c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

Wiltshire Pension Fund uses a risk register to record and monitor its risk. This document identifies all risks to the Fund which are reviewed regularly; at least once a quarter.

Climate risk is identified on the risk register as a high priority but reduced to a medium residual risk after mitigating controls are considered. The failure to manage climate risk effectively via the investment strategy could result in lower investment returns over the long term.

Further measures, such as developing a Responsible Investment Policy (to be drafted in 2021/2022), further information gathering, analysis, and progress towards set targets may further reduce the residual assessment over time.

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

a. Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

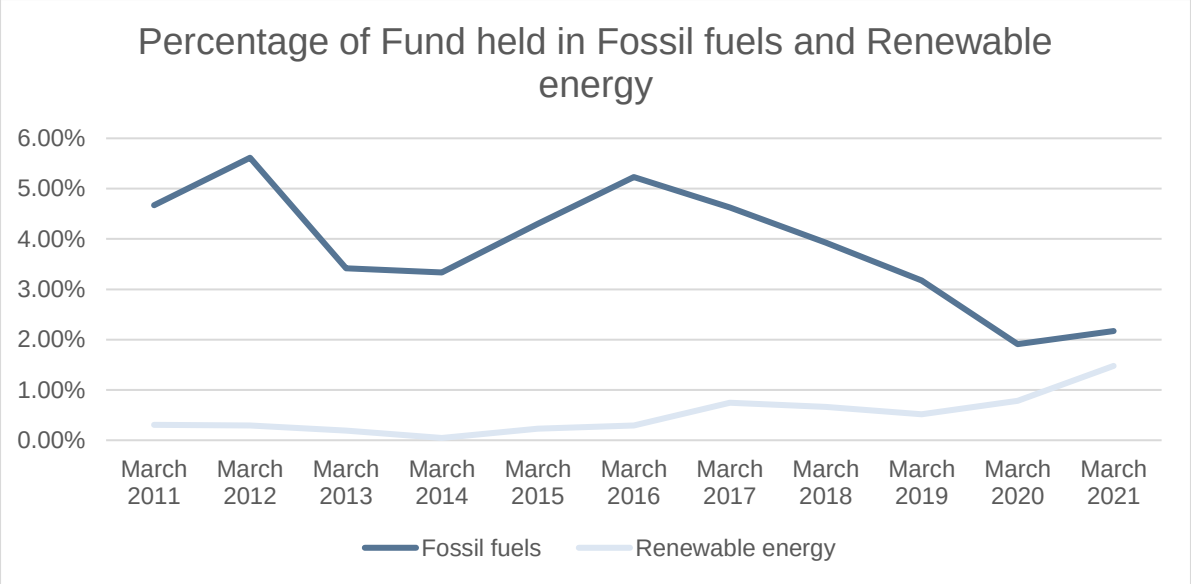
Currently, equities are the only asset class with readily available carbon metrics. Equity holdings represent approximately 50% of the total assets under management. Stewardship information is also widely reported and has been in place for some time.

The metrics for other asset classes are being developed and where information is less readily available, the investment manager, asset class or strategy are assessed by looking at how climate factors are incorporated into investment philosophy and portfolio strategy.

The Committee monitors on an annual basis, as at 31 March, the Fund's overall exposure to companies which derive the bulk of their revenues from fossil fuels, as well as companies or assets (mainly via the infrastructure portfolio) which are focussed on renewable energy. A graph showing the exposure as a percentage of the total Fund value over the last 11 years is shown below.

The exposure to fossil fuels increased over the year from just under to just over 2% of the total fund value, but broadly in line with the previous year. It is anticipated that this will resume its downward trend, as the Fund puts in place targets to reduce carbon intensity in line with the new target of net zero by 2050.

The exposure to renewables has risen, more than doubling in absolute terms over the year. This trend is expected to continue, as global policy demands a reduction in carbon emissions and the Fund's managers seek investment opportunities in companies and assets which support a transition to a low carbon economy.



b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.

Brunel produce a Carbon Metrics Report on an annual basis which details the following for each Portfolio against its relevant benchmark:

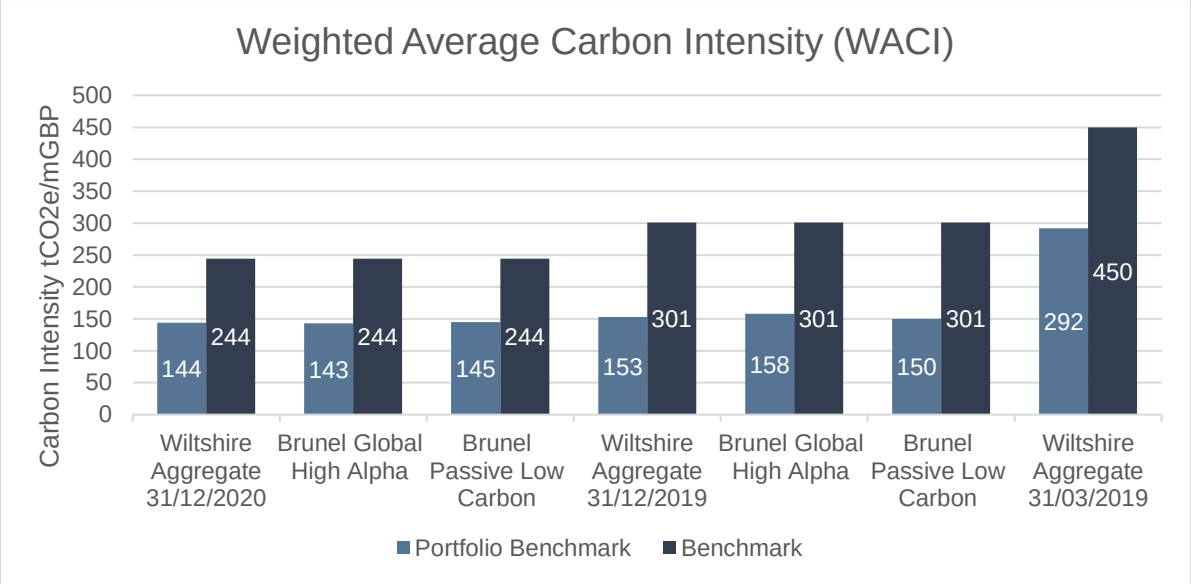
- The Weighted Average Carbon Intensity (WACI) of the Portfolio and its benchmark for both the current and previous quarter
- Exposure to fossil fuel in terms of the proportion of the Portfolio that derives revenues from fossil fuel extraction and energy activities.
- The proportion of the Portfolio that has fossil fuel reserves exposure
- The disclosure rates of companies within the Portfolio (both for a greenhouse gas and value of holdings basis)

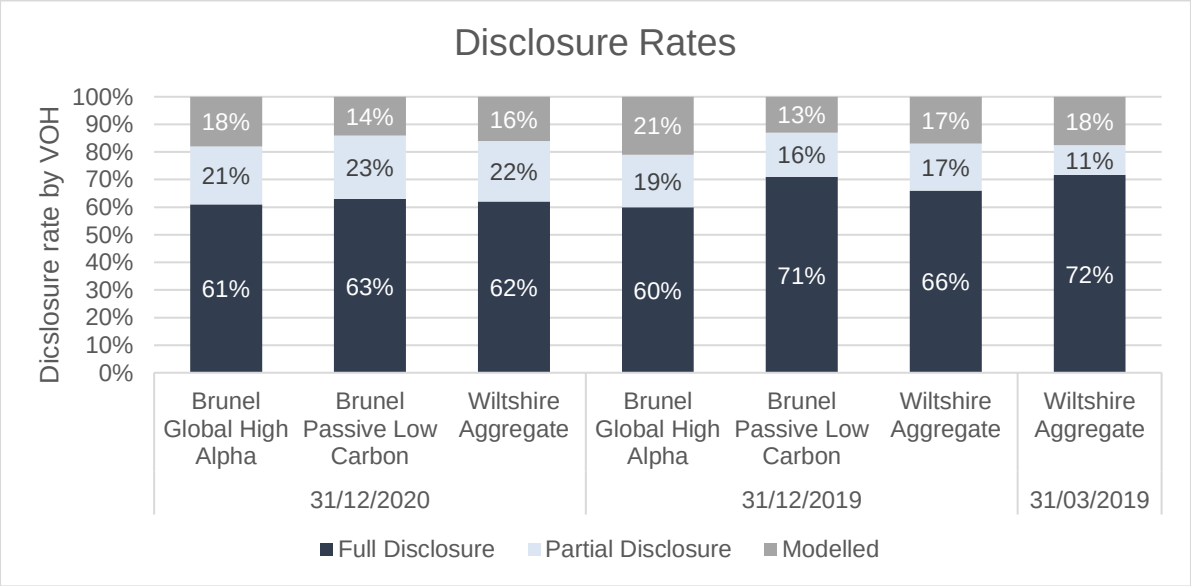
Brunel also report on the level of company disclosures for Aggregate Portfolios and each sub-portfolio. The definitions of these are below:

Full Disclosure - Companies reporting their own carbon data (e.g. in financial reports, CDP disclosures etc).

Partial Disclosure - The data disclosed by companies has been adjusted to match the reporting scope required by the research process. This may include data from previous years' disclosures, as well as changes in business activities.

Modelled - In the absence of usable or up-to-date disclosures, the data has been estimated by employing Trucost models.





The weighted average carbon intensity (WACI) shows the portfolio's exposure to carbon intensive companies. This measure is determined by taking the carbon intensity of each company and weighting it based on its holding size within the Portfolio.

These disclosures of (Brunel) equity fund carbon metrics form a baseline from which to progress. While metrics from other asset classes, investment managers, strategies or vehicles are not readily available yet, the Fund will be engaging with all relevant stakeholders as this initiative widens.

Wiltshire Pension Fund has made strategic asset allocation changes into low carbon products (Passive Low Carbon and Global High Alpha). As such, the relative efficiency is likely to decrease over time and be incrementally lower going forwards.

As is shown in the charts at both fund and aggregate portfolio level, the large drop in WACI for the MSCI World benchmark was a result of carbon intensive names in the energy and utilities sectors declining and making up proportionally less of the index. This was driven by the decline in the oil price seen in Q1 2020 and exacerbated by the COVID crisis. The Portfolios that Wiltshire are invested in (Passive Low Carbon and Global high Alpha) are

significantly less carbon intensive than the MSCI World, with much lower exposure to companies with fossil fuel related activities. As a result, the market movements seen throughout 2020 had less of an impact on the WACI of the Portfolios.

c. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

In reporting in line with TCFD recommendations this year, the Fund is keen to demonstrate best practice in this area in advance of any regulatory or mandatory requirements imposed on the LGPS or pension funds.

In March 2021, the Pension Committee approved and committed to a target of net zero carbon by 2050 for the Fund's investment portfolios. This has been added to the Investment Strategy Statement – "In order to protect the Fund's investments into the future, the Fund supports a global warming scenario of 2°C or lower, and states an ambition to achieve net zero carbon emissions across all investment portfolios by 2050."

The Commitment also intends to report in line with the Stewardship Code 2020 (as a signatory of the previous code). A plan to report in line with the new code will be put in place during 2021, with full reporting in 2022.

At the asset class level, there are varying degrees of data availability, consistent methodologies and transparency around climate factors.

As demonstrated above in the disclosure charts provided by Brunel, larger, more established markets with greater reporting obligations and regulations appear to have moderate ratings. Setting targets and making quantifiable assessments against climate factors is more difficult in smaller cap, emerging, developing and private markets, where disclosure practices may need time to evolve.

In the meantime, and to support its strategy and policy implementation there will be regular training on climate change issues for the Committee, Board, and Officers so that decision making of the Fund is sufficiently informed.