

## Response to Request for Information

Reference      FOI 000934  
Date            03 March 2017

### ***Climate risk in pension fund Investment Strategy Statements***

#### **Request:**

We are writing regarding the imminent deadline for local authority pension funds to issue new Investment Strategy Statements (ISS) by 1st April 2017, under the terms of the 2016 Investment Regulations.

The financial risks that climate change poses are a clear material consideration in the formulation of ISS.

Please could you respond stating how you intend to address the financial risks that climate change poses within your ISS?

In addition, Government guidance is clear that pension members should be consulted regarding the new ISS – we are also writing to request that you respond setting out how you are intending to consult with your fund members on this issue.

Please consider this letter a request under the Freedom of Information Regulations 2000.

In response to your request in which you asked two questions, under the Freedom of Information Act, about West Midlands Pension Fund's ("the Fund") forthcoming Investment Strategy Statement ("ISS"), we are pleased to be able to provide the answers below and would welcome clarificatory questions, should you have any:

Question 1: "Please could you respond stating how you intend to address the financial risks that climate change poses within your ISS?"

Climate change risk is, for the Fund, a material financial risk and the Fund recognises that the scale of the potential impact is such that a proactive and precautionary approach is needed in order to address it. Climate change is one of many material financial Responsible Investment (RI) risks that the Fund has identified and actively seeks to manage. Other RI risks addressed by the Fund include, for example, human rights, bribery, corporate governance, executive remuneration, water scarcity. RI risks are addressed through the Fund's RI Framework<sup>1</sup>, which is disclosed on the Fund's website. The RI Framework

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<sup>1</sup> <http://www.wmpfonline.com/CHttpHandler.ashx?id=7181&p=0>

addresses climate change specifically in the “Beliefs and Guiding Principles” section and the “RI Expectations” section. The Fund is a Tier 1 signatory to the Financial Reporting Council’s UK Stewardship Code, and climate change is also specifically addressed in the Fund’s Stewardship Code Compliance Statement<sup>2</sup>: climate change has played and will continue to play a significant role in the Fund’s engagement and voting activities. The Fund’s Statement of Investment Principles<sup>3</sup> (“SIP”) – the investment strategy document in place until an ISS is approved – also describes the Fund’s approach to RI risks, but in less detail than the RI Framework and the Stewardship Code Compliance Statement.

In moving from a SIP to the ISS, the Fund is retaining its RI Framework and stewardship commitments and will retain, as a consequence, its beliefs and approach with respect to climate change risks. Not only will the high standards we have set ourselves in the past will continue to be in place going forward, but the ISS makes more explicit reference to the management of RI risks than did the SIP. The Fund will continue to take a lead on RI issues including climate change, through engagement, voting, collaboration through partnerships (such as the Transition Pathway Initiative (TPI) the Principles for Responsible Investment (PRI), the Institutional Investors Group on Climate Change (IIGCC) and the Local Authority Pension Fund Forum (LAPFF)), engaging with regulators and other influential bodies (such as the Taskforce on Climate-related Financial Disclosures) and an increased level of RI integration into investment processes. Where portfolios are managed externally, the Fund expects appointed fund managers to meet or exceed the RI expectations of the Fund. The Fund uses a Selection-Appointment-Monitoring (SAM) strategy (borrowing from guidance issued by the PRI<sup>4</sup>) for listed equity investments, incorporates ESG into the Due Diligence procedures for private equity funds (using PRI guidance to whose development the Fund was a key contributor<sup>5</sup>) and analogous procedures for other asset classes. The quality of ESG approach forms part of the RFP when selecting new fund managers. The full RI section from the ISS is available on the Fund’s website<sup>6</sup>. Please let us know if you have any further questions regarding the ISS, or the RI Framework in place at the Fund.

When assets are pooled – you might be aware that the Fund will pool with LGPS Central – the Fund will expect the same standards or higher when it comes to the management of RI risks and the execution of stewardship duties for pooled assets. Indeed, the RI Framework for LGPS Central<sup>7</sup>, submitted as part of the pooling submission, shares a lot of characteristics with the Fund’s existing RI Framework.

Question 2: “In addition, Government guidance is clear that pension members should be consulted regarding the new ISS – we are also writing to request that you respond setting out how you are intending to consult with your fund members on this issue.”

The Fund has a Statement of Investment Principles dated September 2016 which is publicly available on our website and interlinks with the Fund’s Responsible

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<sup>2</sup> <http://www.wmpfonline.com/CHttpHandler.ashx?id=12346&p=0>

<sup>3</sup> <http://www.wmpfonline.com/CHttpHandler.ashx?id=7813&p=0>

<sup>4</sup> <https://www.unpri.org/news/pri-launches-esg-integration-guide-for-equity-investors>

<sup>5</sup> <https://www.unpri.org/news/pri-launches-private-equity-due-diligence-question>

<sup>6</sup> <http://www.wmpfonline.com/CHttpHandler.ashx?id=12344&p=0> please see section 10, pp5-6

<sup>7</sup> <http://www.wmpfonline.com/CHttpHandler.ashx?id=10550&p=0> please see Annex B4 (c) (vi)

Investment policy. This sets out the governance arrangements of our investments (roles and responsibilities) together with the Fund's approach to RI. The Investment Strategy Statement (ISS) will replace the SIP from April 2017.

As part of the Fund's routine annual review and following the regulation changes in November 2016, the Fund consulted with its Investment Advisory Panel (Main Fund) and the Investment Strategy Panel (ITA) during November and December 2016 on proposed wording of the ISS, incorporating any recommendations where appropriate.

During the course of its drafting, there have been some minor changes to the statement reflecting the DCLG guidance on moving from the SIP to the ISS. In particular, the Fund's approach to Responsible Investment (RI) and inclusion of RI in the investment process, is covered in more detail. More information about the Fund's Responsible Investment Framework can be found on the Fund's website<sup>8</sup>.

In line with the statutory requirements, new Investment Strategy Statements (ISS) for both the Main and ITA funds have been drafted and issued for consultation in advance of the Pensions Committee review at its meeting on 22 March 2017. The Committee is a public meeting, the papers for which are published 5 days in advance (Tuesday 14 March 2017) on the Council's public website with a copy of the draft ISS on our website<sup>9</sup>. All Trustees, members of the Pension Board and our Trade Union representatives will receive copies of the report by email at this time and are invited to share their comments on the drafting, as they are with all matters presented to Pension Committee.

We would like to note that the ISS (if approved) will be a dynamic document and may evolve in line with regulatory updates, the investment environment or the views of scheme members. We are pleased to have an engaged membership and welcome interaction with scheme members on any element of the Fund's operation including investment strategy.

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<sup>8</sup> [www.wmpfonline.com/ri](http://www.wmpfonline.com/ri)

<sup>9</sup> [www.wmpfonline.com/corporateinformation](http://www.wmpfonline.com/corporateinformation)