

Wales Pension Partnership Climate Policy

Introduction and oversight

- 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 WPP investments – this includes actively managed Sub-Funds, as well as passive mandates within listed markets; and actively managed investment programmes in private (illiquid) markets – that are managed by its Investment Managers. Implementation is supported by various service providers, including the Operator, Investment Managers and Oversight Advisor. The Responsible Investment (RI) Sub-Group provides oversight and advice to the OWG and JGC on the development and implementation of this policy, as well as RI matters more generally.
- 3 WPP recognises that climate change presents a systemic risk to its stakeholders, the Constituent Authorities. Climate change has the potential to affect (and disrupt) economic, financial and social systems, including impacting financial returns and demographics.
- 4 WPP is aware that climate change may result in mispriced assets and unique investment opportunities (including climate solutions). 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 WPP's investments;
 - 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 WPP's investments;
 - 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, including issuers in which WPP invests.
- 6 This policy sets out WPP's approach to addressing the requirements of the Constituent Authorities in regard to both climate-related risks and investment opportunities (including in climate solutions), as well as the monitoring of such.
- 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 In developing and implementing this policy, WPP will have regard to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, The Pensions Regulator General Code of Practice, and any relevant guidance provided by the Scheme Advisory Board, including the opinion on fiduciary duty, the Ministry of Housing, Communities & Local Government, and the Intergovernmental Panel on Climate Change. The policy will note Welsh Government guidance and the

- 9 In maintaining and acting on this policy, WPP will have an ongoing dialogue with its Operator, Investment Managers, Voting and Engagement Provider (V&E Provider) and Oversight Advisor, as well as WPP's Constituent Authorities, in whose interest investments are made. 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 and investment opportunities. 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 WPP recognises the importance of a just transition and that changing our current trajectory will require a holistic approach across all areas of the economy. The transition will mean an ongoing period of change, away from a global economy that is broadly reliant on fossil fuels. Mitigating and adapting to the effects of climate will also necessitate investment in climate solutions.
 - 10.3 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.
 - 10.4 WPP recognises nature resilience as necessary in mitigating and adapting to climate change, with nature protection an essential element in achieving global net-zero emissions. WPP recognises the interconnectedness of nature and climate, and understands that these must be addressed together.
 - 10.5 It is incumbent on WPP to identify potential sources of climate-related risks (and opportunities) in the development of and continued investment in any WPP investment solution, as well as in the procurement of any service provider. WPP will seek to ensure that such risks and opportunities are appropriately managed and communicated to Constituent Authorities.
 - 10.6 WPP has appointed a specialist V&E Provider to directly engage with listed investee companies and policymakers on a range of issues, including climate risk, climate disclosures, investments in climate solutions and development of transition plans, to enhance the long-term value of the Constituent Authorities' investments within WPP. WPP acknowledges that engagement will differ across geographies and sectors, and recognise the particular importance of stewardship when addressing carbon-intensive sectors.
 - 10.7 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 Constituent Authorities that WPP takes account of climate change, and the climate-related risk and opportunity 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 policy, and climate-related targets and ambitions;

11.3 formally outline the actions that WPP will be held accountable for by its Constituent Authorities.

- 12 The Constituent Authorities are individually responsible for their own investment strategy, including their own climate 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 at 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 Authority, 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 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 objective as WPP's 'Climate Goal' and incorporate it across all WPP investments, as far as is practicable, acknowledging the potential difficulty in doing so on the passive mandates and within illiquid markets.
- 19 WPP's Climate Goal, including any intermediate or related targets, will be regularly reviewed, following consultation with the Constituent Authorities. Such a goal 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.
- 20 To facilitate future discussion and consensus-building on climate generally, including on a common Climate Goal, WPP has developed a Climate Framework. The Climate Framework includes a common taxonomy and basis for setting climate targets. This will support future product development, policy evolution and reporting to be addressed in a consistent manner. This will also allow WPP to assess its existing funds (active and passive, listed and private) against the Climate Framework to facilitate evolution where appropriate.

Investment strategy

- 21 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.
- 22 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 consider climate-related risks in other asset classes when circumstances allow or require them to do so. WPP will

endeavour to provide climate solutions across investment products, including private-market assets and passive mandates.

- 23 WPP recognises the importance of monitoring exposure to climate-related risks in different ways. Understanding exposure to climate solutions is also beneficial in understanding investment needs to meet climate goals. One way WPP facilitates this is by monitoring exposure to a number of climate-related attributes for each Sub-Fund to ensure that the Constituent Authorities have all available information at their disposal. WPP receives regular Climate and ESG Risk 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 exposures within its investment products, including private-market assets.
- 24 WPP recognises the merits of undertaking scenario analysis on the potential economic impact of climate-related risks and exposure to climate solutions, 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 exposures within WPP's investments.
- 25 WPP recognises that training and education is critical to achieving good outcomes for its Constituent Authorities, and will allocate resources to ensure that it undertakes regular training and education on climate change. WPP has committed to hosting at least one annual climate-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-related-training requirements of its stakeholders.

Implementation

- 26 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 underlying managers on their approaches to the consideration of climate as part of the manager-selection process.
- 27 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 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.
- 29 WPP's stewardship strategy is set out in its Responsible Investment and Stewardship Policies. WPP will emphasise the importance of engagement on climate-related risks and opportunities primarily through its V&E Provider. In particular, WPP will encourage its V&E Provider to engage with investee companies in listed markets on climate-related issues, including disclosures on climate-related risks by companies to investors, and on the formulation and implementation of transition plans aligned with the goals of the Paris Agreement.
- 30 WPP has a Stewardship 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, including on the development of transition plans and goals. WPP's V&E Provider has primary responsibility for enacting these policies on behalf of WPP, though WPP also recognises the engagement efforts of its Investment Managers and LAPFF. Voting on the passive mandates lies with the relevant passive provider.

Monitoring and reporting

- 31 WPP monitors exposure to climate-related risks and opportunities within its Sub-Funds on a quarterly basis. The metrics monitored include, but are not limited to, holdings with exposure to fossil-fuel reserves, carbon emissions and carbon intensity, and exposure to climate solutions. WPP will monitor changes in market practice to ensure that WPP is fully aware of changing best practice. WPP will develop further monitoring of asset transition alignment.
- 32 In addition to its own reporting, WPP will require its Investment Managers to provide monitoring on climate-related exposures in their regular reports to WPP and the Constituent Authorities. As noted above, WPP expects its equity and fixed-income Investment Managers to provide this monitoring on a regular basis. WPP expects reporting on climate on at least an annual basis from its private-market managers, though recognises the data constraints that exist outwith listed markets. The expectation is that WPP's non-equity Investment Managers will provide any relevant information as soon as data/market developments allow.
- 33 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 address climate-related risk and opportunity – including emissions reductions, the transition to a low-carbon economy, and mitigating and adapting to the effects of climate change, including in the development of clean solutions.
- 34 WPP will assess and report progress on climate for all WPP-held assets on an annual basis, with a wider 'all-of-Wales' report to be conducted on a triennial basis. As far as is practicable, and as part of any regulatory obligations, such reporting should be in line with the requirements of the Task Force on Climate-related Financial Disclosures (TCFD). WPP will support the Constituent Authorities in their own climate (including TCFD) reporting.

Stewardship

- 35 WPP's approach to stewardship generally (including climate stewardship) is outlined in its Stewardship Policy. To facilitate stewardship around climate specifically, WPP will maintain a list of 'climate-focus' companies (initially across active and passive equity holdings) where stewardship activity will be explicitly scrutinised. Such a list will be comprised of those stocks within those materially impacted sectors (or those financing such) where there is the greatest climate risk or potential for change. This will help WPP: support oversight of voting practices on those issuers; further scrutinise engagement activity undertaken with those issuers; and assess (on an ongoing basis) the outcomes achieved.