

12 November 2018

West Midlands Pension Fund continues to build resilience to climate change risk

The Fund's engagement on climate risks was recognised by the Environmental Audit Committee earlier this year. Since then, stewardship activity has continued to grow, and the investment portfolio evolve to increase risk management and capture potential opportunities within a decarbonising economy.

The West Midlands Pension Fund ("the Fund") has developed an investment strategy underpinned by the belief that effective management of financially material environmental, social and governance risks protect returns over the long term. Climate change is one of the Fund's engagement themes for 2018/19 Financial year along with diversity and cyber-security. The Fund recognises that the scale of the potential impact of these risks is such that a proactive and precautionary approach is required.

The Fund has included in its [Responsible Investment Framework](http://www.wmpfonline.com/CHttpHandler.ashx?id=15265&p=0) (<http://www.wmpfonline.com/CHttpHandler.ashx?id=15265&p=0>) its approach to managing climate change risk through effective stewardship activities, utilising the partnerships of like-minded investors where feasible.

Using a three-pillar framework comprising Selection, Stewardship, and Transparency & Disclosure, risk is addressed by integrating assessment into asset allocation and selection decisions, incorporating climate metrics into shareholder voting decisions, co-filing where this can promote effective action and disclosing in line with best practice recommendations.

An independent Climate Risk Assessment undertaken earlier this year considered the impact on the Fund's investments under a range of climate change scenarios noting these are "*well positioned for a shift to a low carbon economy*".

The Fund's investment portfolio continues to evolve to reflect the emerging risks (and opportunities) of climate change, for example, during 2018 the Fund has made:

- Commitment of £100m to a direct investment in a wind farms which produces 550MW of renewable power each year. This builds on over £200m investment in pure-play renewable energy investments.
- Allocation and launch of a search in October 2018 to deliver up to £750m within a global equity sustainable investment portfolio, one of the largest mandates of its kind ever issued in the UK.
- Reporting for the second year running in line with the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD), having been highlighted by the Environmental Audit Committee in May 2018 as the first UK Fund to include this within the 2017 Annual Report.

The Chair of the Fund's Pension Committee notes *"the Committee continues to recognise and debate some the challenges climate change risks bring for longer-term asset owners. Dedicated training and development of our approach has built demonstrable resilience, but we will not rest on our laurels as further opportunities emerge."*

The Fund continues to work with others to enhance the impact of engagement across the industry:

- An active member of the Institutional Investor Group on Climate Change ("IIGCC"). Through this group the Fund has petitioned global policy-makers including the G20 to ratchet up the policy response to climate risks and publicly supporting the Paris Agreement on climate change.
- Signatory of the United Nations Principles for Responsible Investment
- Founding partner of the Transition Pathway Initiative (TPI), which draws on expertise from the London School of Economics and FTSE Russell to appraise companies' preparedness for a low-carbon transition, supporting investment stewardship
- Supporting climate-related shareholder resolutions at the AGMs of Royal Dutch Shell Plc and Rio Tinto Ltd in 2018
- An active member of the Local Authority Pension Fund Forum ("LAPFF"). LAPFF issues progress reports on company engagement, including climate change. LAPFF engaged with 27 companies on climate change issues in 2017.
- Supported by Hermes EOS who have been appointed from October 2018 to provide stewardship services to the Fund via the LGPS Central investment pool where the Fund already has significant assets invested. Last year Hermes EOS engaged 215 companies on the matter of climate change risk.
- A member of Climate Action 100+ campaign, which is backed by investors worth \$30tn of assets under management (AUM). This initiative focuses on the c150 most systemically important carbon emitters in the world, and seeks three objectives: (a) best practice governance of climate change (b) emission reduction targets in line with the Paris Agreement (c) disclosure aligned with the TCFD recommendations.

Notes for editors

The West Midlands Pension Fund

The West Midlands Pension Fund provides pension services to over 313,000 current and former employees of the seven metropolitan district councils, combined authority and over 622 public body employers within the West Midlands. It is one of the largest funds in England and Wales, employing 135 FTE members of staff and as at March 31, 2018 the Fund was valued at £15.4 billion.

In April 2018, the Fund, in partnership with 8 other pension funds across the Midlands Region, launched LGPS Central Limited, the operator company for the pool, with total Pension Fund assets in the region of £45 billion.

The West Midlands Pension Fund strives to be a best practice organisation, delivering a customer-focused service, while providing value for money to its stakeholders.