

WMPF Climate Risk Position Statement

-> responsibleinvestment@wolverhampton.gov.uk

The West Midlands Pension Fund (WMPF/ the Fund) has taken increased action on Climate Change since 2019. The Fund is mandated to meet clear financial targets – including maximising the risk adjusted return for the Fund, enabling securely delivery of benefit payments. As a long-term responsible investor we believe that investing responsibly is key to ensuring that the long-term value of the assets in which we invest is protected and where possible, enhanced. In pursuit of this we favour an evidence based approach, support action for asset owners to achieve net zero and set our objectives accordingly.

WMPF is at the forefront of actions to finance a transition to a low carbon economy. The Fund recognises the risks associated with climate change and the potential for these to impact on the long-term value of the Fund investments, but also the opportunity for investment reward. In line with the Fund’s fiduciary duty, WMPF aims to invest in opportunities where positive environmental and social outcomes are expected to correlate with positive financial performance. In recent years the Fund has:

- **Transitioned £2 billion of equity holdings to sustainable & low carbon investment strategies**
- **Reduced its total equity carbon intensity by 1/3rd relative to the market**
- **Increased investment in clean technology by 8% in the last year**
- **Reduced its weight of exposure to fossil fuel reserves by over 20% in the last year**

Our preference for responsible stewardship is to combine with like-minded shareholders to forcibly engage with company management, voting together to drive long term change. We believe that engagement is more effective in driving long term change than divestment, which we regard as a blunt and ineffective short term tool. Engagement is increasingly delivering results. For example, In February 2021, Royal Dutch Shell, often considered to be a “fossil fuel” holding, has responded to shareholder demand for a “say on climate” and will put its climate strategy to vote; with giants in the mining community, Glencore and Rio Tinto, following suit. In December 2020, BP CEO Bernard Looney noted the impact of shareholder engagement in driving the pace of company response – two months on, he’s joined forces with Christiana Figueres, former Executive Secretary of the United Nations Framework Convention on Climate Change (UNFCCC) calling on all parties to work to accelerate change further and faster.

The Fund’s Holdings in oil and gas companies have reduced and are only held in passively managed portfolios seeking broad market exposure. They provide an opportunity for active engagement and an

increased pace and source of change to enable a just transition. WMPFs total holdings in Shell, BP, BHP, ExxonMobil and Chevron represented less than 1% of Fund assets as at 31 March 2020.

Climate and broader ESG considerations form an integral part of our investment management process. Supported by the LGPS Central Pool, we increasingly invest indirectly through strategies in common with other Partner Funds. West Midlands' investment strategies are increasingly implemented via the pool, with specialist third party managers being appointed. ESG is considered throughout the manager appointment, management and monitoring process. All retained managers are compelled to deliver clear climate and ESG reporting in their regular updates and climate considerations form an important part of our ongoing disclosure and assessment.

Looking forward, stakeholders should expect to see climate considerations acquire increasing prominence across our portfolios. Along with maximising the financial performance of the Fund, we see both obligation and opportunity in continuing to improve the climate credentials of the Fund and we will continue to publish our progress through routine reporting.

We expect that our Climate Change Framework will both inevitably, and desirably, evolve as climate related financial tools and data availability advance, and the understanding of the complex issues, evident in practical and academic research, improves. Governments are increasingly focusing their spending on climate-friendly policies, ensuring that investors, such as WMPF, can exploit more and better investment opportunities.

What will not change is our conviction that action is needed, at an increasing pace, to meet the challenges that climate change brings to us all, the Fund included. We believe that an increased rate of progress requires that all companies, industries, governments and policy makers, capital markets, asset owners and individuals act together and with a common goal. We aim to adopt a leading role as a responsible asset owner and plan to increase the detail and aim to continue to adopt our responsible investment related communications to inform the debate.

March 2021