General Points relevant to ESG/climate change FOI responses

Responses relate to the Investments of the Greater Gwent (Torfaen) Pension Fund, as administered by Torfaen County Borough Council ("the Fund").

The Fund’s “Pensions Committee” ("the Committee") has been formulated in accordance with Local Government Pension Scheme governance requirements as the Fund’s primary decision making body and the body that approves the Fund’s statutory policies and documentation (including those related to Environmental, Social and Corporate Governance [ESG] matters).

The Council has also established a Local Pension Board ("the Board") within its constitution to assist the Council and the Committee in securing regulatory compliance and ensuring effective and efficient governance of the Pension Fund.

Within its governance arrangements the Committee delegates some of its responsibilities to officers of the Council ("the Officers") e.g. direct engagement with the Fund’s investment managers each quarter to monitor the Fund’s investments is carried out by Officers and Independent Investment Advisor with quarterly reports back to the Committee.

The below provides some background as to how the Fund invests generally and how it also takes account of ESG factors within this investment process:-

1. Investment assets are predominantly managed by a number of external investment managers. This includes all equity and bond investments.

2. Assets are predominantly invested via pooled funds, though a proportion of the UK Equity assets are managed within a segregated mandate.

3. The Fund’s ESG engagement and voting policy, across all assets including segregated, is however to allow its managers to positively engage with companies and vote shares in accordance with their own policies and principles in their considered best long term interests of the investments they manage for the Fund.

4. The Fund does however periodically review the ESG policies of its investment managers and includes specific (scored) ESG consideration within the appointment process for any new investment management arrangements.

5. The Fund is also a member of the Local Authority Pension Fund Forum which ensures the Fund adds to the LAPFF collaborative voice whilst maintaining a parallel perspective on wider ESG matters to allow consideration in conjunction with its relevant investment managers as appropriate.

6. Within the above context the Fund does not however look to routinely direct voting.

7. The Fund’s investment strategy is to invest predominantly actively (rather than passively tracking an index or market) which allows individual company selection by investment managers across the majority of its investments. ESG considerations may be used by investment managers to inform this selection. The Fund does not however currently have any specific ESG themed or screened investments within its investment strategy.

8. Though the Fund is not currently a UNPRI or UK Stewardship Code signatory, its investment managers are all signatories. The Fund therefore considers all its investments to be managed in accordance with relevant code principles.

9. The Fund includes its policy on Responsible Investment, including its compliance with the “Myners Responsible Ownership Principles” within its Statement of Investment Principles (SIP), on the Fund’s website at:-
   https://www.gwentpensionfund.co.uk/media/2468/statement-of-investment-principles.pdf (See Extract attached). In accordance with regulatory requirements the SIP is being replaced by a new Investment Strategy Statement (ISS) from 1st April 2017.
Frequently asked questions (FAQ) within recent FOI requests and our responses

1) What steps have the Committee taken to address the financial risks posed by climate change?

Please refer to the above section (General Points relevant to response) regarding the Fund’s policy to use active investment management / positive engagement to allow its investment managers to assess, control and act upon any related risks within the portfolios they manage. As noted, the Fund has an investment manager engagement process that allows Officers and advisors to routinely monitor the actions of investment managers who, within their own investment processes, positively engage with companies in the considered best interests of the investments they manage. This engagement has included specific consideration of matters related to climate change risk and Officers have had related dialogue with the Fund’s investment managers on such matters as Strategic Resilience Shareholder Resolutions at AGM’s including BP/Shell/Rio Tinto/Anglo American/Glencore etc.

Also please refer within the General section to our membership of LAPFF who “recognise the issue of stranded assets and continued fossil fuel extraction as a collective investment risk for asset owners and thus as an engagement priority”. The Fund is aware that, within this engagement, LAPFF “monitors company progress and outcomes and this includes LAPFF’s participation in the Transition Pathway Initiative, which aids understanding of where companies are placed in the transition to a low carbon economy and their competence to manage this transition”. We can provide further information on LAPFF’s related policy and engagement on behalf of its members upon request.

2) Since the December 2015 Paris COP agreement, Peabody bankruptcy, and Exxon Mobil downgrade, has the pension fund changed its approach to climate change risk management and investment in carbon stocks?

Please see above. No specific change in the Fund’s approach as its investment managers will be aware and manage any related risks in respect of any new impact of this within the specific company investments they manage for the Fund. LAPFF will also be aware of any implications and consider within their ongoing engagement.

3) Have you surveyed or formally consulted with your individual members or employers for their views on your ESG policies or practices in the last 10 years?

Yes. Please refer to the Fund’s Statement of Investment Principles regarding the work of the Fund’s ESG Working Group, the membership of which contained both employer and member representation.

4) How much does the fund spend on ESG engagement services?

The only direct cost is our membership of LAPFF which is currently (2016) £8,460 p.a. There is no additional cost to the Fund for engagement as investment managers’ engagement and voting is within the scope of their contracted investment management arrangements.

5) Can you give any examples of engagement activities relating to climate change/carbon risk from the last 10 years?

See above examples (in FAQ 1) in terms of engagement with investment managers on recent Strategic Resilience Shareholder Resolutions. The Fund also extensively engaged with its investment managers and employer and employee stakeholders in 2010 in respect of “Tar Sands” development and associated concerns.

6) Have you signed up to the UN Principles for Responsible investment?

The Fund is not currently a UNPRI signatory in its own right but all its external investment managers are themselves signatories, meaning that the Fund’s investment assets are managed in accordance with UNPRI. Also, as noted above, the Fund includes specific (scored) ESG consideration within the appointment process for any new investment
management arrangements and whether or not the manager is a signatory under UNPRI is one of the evaluation factors used.

7) **Will the fund be reviewing its SIP documents to pursue best practice and review carbon risk management and investment mandates in advance of LGPS pooling? If so when?**

In November 2016 the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force. These regulations require all LGPS funds to produce an **Investment Strategy Statement** (ISS) (to replace the Statement of Investment Principles) by 01 April 2017.

Within its requirements the Regulations require the Fund to explain within its ISS the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investment and the extent to which the views of their local Pension Board and other interested parties will be taken into account when making an investment decision based on non-financial factors.

We will adhere to the timescale and requirements of producing the new document.

In terms of the link to **LGPS Pooling** then the Fund is planning to pool its investments within a Welsh Pool in accordance with government timescales. The Welsh Pool is not proposing to build its own pooling structure but will be “renting” a suitable pooling vehicle via a European procurement process for an FCA regulated Operator. As part of the tender process, the Funds within the pool will ensure that the Operator can facilitate that each Fund’s own approved ESG policies and procedures can be incorporated within the pooling vehicle and underlying investment management arrangements.