



Continuing a journey

✓ **Carmarthenshire County Council, host authority for the Wales Pension Partnership (WPP), treasury and pension investment manager, Anthony Parnell, discusses the pool's recent work on responsible investment and the steps it is looking to take in future**

➤ **There has been increasing momentum around responsible investment (RI) and environmental, social and governance (ESG) issues in pensions, particularly in relation to Local Government Pension Scheme (LGPS) funds, such as those included in the Wales Pension Partnership (WPP). So, can you tell us a bit more about the progress and recent steps taken by the pool in relation to fossil fuel investments and climate change?**

Equity sub funds within the WPP were launched a couple of years ago so work is ongoing on the calculation of the weighted average carbon intensity (tCO2/\$m Sales) and carbon emissions (tCO2/£m Invested). Continual engagement with the managers (via Link the operator, and Russell, the investment management solutions provider) within the sub funds occurs and some exclusions, not divestments, have been instigated. Decarbonisation overlays have also been initiated since the sub funds were launched.

➤ **Exclusions are clearly an important aspect in your responsible investment strategy. How have you worked with investment managers to integrate these?**

A manager in one of the global equity sub funds has set up a new product, called a Paris Aligned Fund, which excludes certain fossil fuel companies. It is not just because we've been asking for it, in general this manager is very proactive in the area, so they are suggesting it to the majority of their clients. The manager will transition the investments from the current product to this new one in the

next few months.

There is also another manager in the global equity sub funds who has taken WPP's views on board and are looking to exclude certain companies within the mandate.

I think the key with the current sub funds we have set up in global equities is that the managers are taking their responsibilities regarding climate change very seriously and moving towards a low-carbon environment, and they're definitely engaging well with us.

The managers are open to dialogue and they understand the expectations from WPP. For instance, if there are any companies in the energy sector that the managers feel they cannot invest in because of high carbon, they will engage with them initially. Divestment is the last resort in most circumstances.

➤ **What specific benefits come with engaging as a pool, and how do you navigate the logistics of presenting a cohesive voice?**

We are probably at £20 billion in assets under management (AUM) now, so we've definitely got more weight behind us, as opposed to engaging on an individual fund basis.

We don't engage directly with companies. Our investments are outsourced to managers, so they engage on our behalf and in line with our responsible investment and climate risk policy. With a manager in this area, they definitely want to engage more with us now as a group, because they know the value of doing it.

We've got Robeco as a voting and engagement provider and they provide engagement voting services for the

whole pool, which is good. We've all got investments in different sub funds in the pool but when you accumulate them all together there's a lot and Robeco are doing all that engagement for all the stocks we've got, so that's a heck of a step forward, and we know that carbon footprint and fossil fuels are high on Robeco's engagement as well.

The WPP have appointed Robeco as a voting and engagement provider and they provide engagement and voting services for the whole pool. All eight Welsh funds have got investments in sub funds within the pool and Robeco are doing engagement for all the stocks.

WPP is also a member of the Local Authority Pension Fund Forum (LAPFF) in its own right and values the corporate responsibility and engagement opportunities this organisation provides.

We have also got an RI subgroup at the WPP, and they take all these issues on board and liaise with Link, Russell and Robeco on behalf of the WPP. They then communicate it back to the Officers Working Group and the Joint Governance Committee. Having the subgroups has definitely helped us to focus in this area.

➤ **It sounds like there is a lot of importance placed on cooperation and using this to maximise the effectiveness of these engagement activities. Can you tell us a bit more about how you've collaborated with the broader industry on RI issues?**

We collaborate with the other pools as well in certain areas, so we do not necessarily work in isolation as a pool, we

also collaborate with other LGPS funds, and the Scheme Advisory Board.

What we're really looking for is for the whole of the LGPS to work together on this issue, because it's an issue that affects us all. Some funds are at different levels, but having the pool brings you all up to a similar level.

➤ And how do you balance the views of each fund within the pool, particularly in relation to responsible investment issues?

When we drafted the RI document, we got together as eight funds. We all have our individual policies and investment strategies, but in general terms the WPP RI policy is the overarching umbrella policy, which every fund follows, but they can have their own nuances on local issues. Some funds will have some local renewable energy projects or solar panel projects that they want to invest in, for instance, so we are not being too prescriptive in what funds can do.

It is important when we're talking about pooling, and the WPP specifically, that we still class ourselves as being LGPS and being a public organisation. We've still got member involvement

in our decisions and member communication, which is important. We are also going down even to employer level in some areas to engage with them and communicate with them on the pooling work that has been done so far.

➤ Considering this placement as a public organisation, is there an increased focus on local projects?

We are always asked about what Welsh projects are available, currently there are investments in renewables and solar panels within Wales via the WPP and individual funds with their managers.

We are looking at other potential Welsh projects currently, and obviously, the local and national Welsh impact is definitely in the forefront of our minds when any project becomes available.

Fossil fuels and carbon footprint is a global issue, and whilst we can feed into the global side of it, it is down to everybody to work together in this area. It's down to the organisations who want us to divest quickly to work with us and the experts in developing and progressing slowly to get to the Paris-aligned objectives.

➤ What are the next steps and priorities for WPP in a post-pandemic landscape?

The drafting of the RI climate policy risk document is just the start of our journey. The WPP is looking to become a signatory to the UK Stewardship Code by the end of 2021, which will be a good step forward. Robeco is still developing engagement opportunities for us. We are also reviewing all our policies at least annually. We're currently reviewing our responsible investment and climate risk policies and building on new areas there.

We are working with Hymans Robertson, our oversight adviser, to have a base metric and start to build up a report so that when we have to start Taskforce for Climate-related Financial Disclosures (TCFD) reporting we're ready. We have already started work in this area. It's important to remember that the WPP is only four years old, and our equity sub funds are only two years old, so there is more work to do to continue the journey.

➤ Written by Sophie Smith

