Clwyd Pension Fund – Response to Consultation

LGPS (England & Wales) Governance & Reporting of Climate Change Risks

Introduction

The response to the questions in your consultation have been approved by the Clwyd Pension Fund (CPF) Committee on 23rd November 2023. The response aims to share the views and experience from the perspective of the CPF as we are fully aware of other responses that will consider the LGPS as a whole.

The Clwyd Pension Fund is a £2.5bn LGPS fund and is a partner fund in the Wales Pension Partnership pool. The CPF has always aimed to give both Risk Management & Responsible Investment high priority within our investment governance approach and we have just made our Stewardship Code 2020 submission to the FRC.

In recent years the CPF has given more focus on the integration of climate risk into investment decisions. After a number of training sessions and taking expert investment advice from our consultants, Mercer, CPF Committee have:

- developed beliefs
- included climate objectives into the CPF funding & investment objectives
- Set a net zero ambition for 2045 along with a credible transition plan underpinned by targets along the way.
- commissioned Mercer to provide a Climate Risk Report for 2021/22 and undertaken climate change scenario analysis, ahead of future requirements set out in this consultation.
- assisted Wales Pension Partnership in development of their climate risk policy.

As recognised in your consultation this is all very much work in progress and we will learn along the way and make appropriate investment decisions as more reliable data becomes available and as the investment landscape changes.

However we are already in a position where Mercer will consider how to implement our climate objectives as part of our investment strategy review currently underway. This is also integrated into the 2022 actuarial valuation, which will also consider climate risk from a liability perspective.

Overall the CPF is supportive of the approach in the consultation and we have taken input from Mercer, especially for Q3, Q5 & Q6. This is simply another investment and funding risk we need to manage, along with many others, within our existing governance and risk management structure and cannot be considered in isolation.

We hope our response is both informative and helpful.

Philip Latham

Head of Clwyd Pension Fund.

24th November 2023

Question 1: Do you agree with our proposed requirements in relation to governance?

Your proposals are:

We are not proposing to place any legal duties on individuals, whether officers or advisers, or on the pool. Our proposal is to place new duties on AAs to:

- *establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities*
- *establish and maintain processes by which they can, on an ongoing basis, satisfy themselves that those who undertake climate-related governance activities, advisors, and those who assist the AA (including officers and advisors) with respect to climate related governance are doing so effectively.*

W**e agree with the proposals and as a Fund believe we already have the governance arrangements in place to comply with the 'new duties' as illustrated below.**

The governance structure for the CPF is shown below for illustration and ensures that the CPF Committee receives expert investment and funding advice, currently from Mercer, who have experts in managing climate risk for pension funds. Our investment objectives, including climate related objectives, form part of the CMA assessment with Mercer.

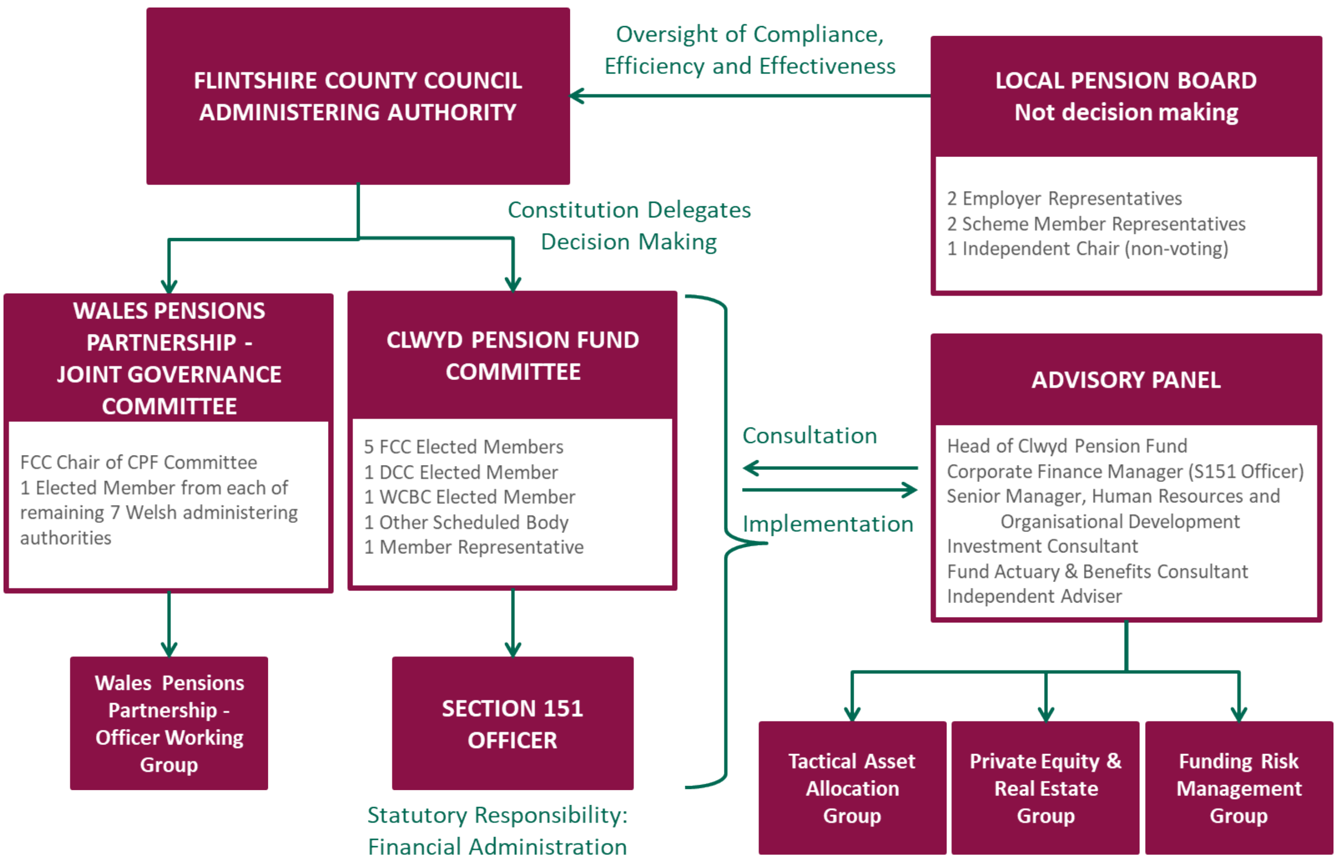
The structure also enables input from the Board in their statutory governance advisory role which is also relevant here. This governance structure manages all pension fund risks of which climate risk is one of many. We will comment on the role of the pool later.

The CPF Governance and Compliance Statement includes the following objectives that are applied to the management of climate risk as to all other risks.

In relation to the governance of the Fund we will aim to:

- Act in the best interests of the Fund's members and employers
- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
- Ensure the Pension Fund is managed, and its services delivered, by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- Understand and monitor risk

- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success
- Ensure the confidentiality, integrity and accessibility of the Fund's data, systems and services is protected and preserved.



Question 2: Do you agree with our proposed requirements in relation to strategy?

Your proposal is to place new duties on AAs to:

- *identify, on an ongoing basis, climate-related risks and opportunities that will impact the investment and funding strategy of the AA, over the short, medium and long term.*
- *assess, on an ongoing basis, the impact of the identified risks and opportunities on the AA's investment and funding strategy.*

Although we do not disagree with the proposal, given this relates to strategy the approach taken by CPF was first to determine and document clear investment objectives relating to sustainability, including Climate Risk which can be measured using your proposals.

For illustration relevant extracts from our Investment Strategy Statement dated February 2022 are shown below.

1. Funding & investment Objectives

The specific objectives relating to the funding and investment management of the Fund are summarised below with those of particular relevance to this consultation **in bold**.

- Achieve and maintain assets equal to 100% of liabilities within the 13-year average timeframe, whilst remaining within reasonable risk parameters
- Determine employer contribution requirements, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- Ensure net cash outgoings can be met as/when required
- Minimise unrecoverable debt on employer termination
- **Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability**
- **Ensure that the Fund's investments are aligned with the transition to a low carbon economy through a commitment to achieving a net zero carbon dioxide emission's target by 2045**
- **Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these**

- **Aim to use the Wales Pensions Partnership as the first choice for investing the Fund's assets subject to it being able to meet the requirements of the Fund's investment strategy and objectives (including sustainability requirements), within acceptable long-term costs to deliver the expected benefits and subject to ongoing confidence in the governance of the Partnership.**

The key actions and areas of focus that have been identified to achieve these objectives are included in the Fund's business plan, to align with the key aims and objectives of this strategy.

2. <u>Responsible Investment Principles</u>

- The Fund's fiduciary duty is to act in the best interests of its members and employers. The Fund recognises that ESG issues create risk and opportunity to its financial performance, and will contribute to the risk and return characteristics. The Fund believes, therefore, that these factors should be taken into account in its Funding and Investment Strategies and throughout the decision making process
- The Fund is a long-term investor, with pension promises for many years, and because of this, it seeks to deliver long-term sustainable returns
- The Fund integrates ESG issues at all stages of the Fund's investment decision making process
- The Fund seeks to apply an evidence based approach to the implementation of Responsible Investment
- The Fund recognises that transparency and accountability are important aspects of being a Responsible Investor and will demonstrate this by publishing its RI policy and activity for the Fund
- The Fund has a duty to exercise its stewardship responsibilities (voting and engagement) effectively by using its influence as a long-term investor to encourage corporate responsibility
- The Fund recognises the significant financial risk of not being a Responsible Investor and it seeks to ensure that this risk is mitigated through its Investment Policy and implementation
- The Fund recognises the importance of Social/Impact investments which can make a positive social and environmental impact whilst meeting its financial objectives, and it will make selective investments to support this aim

3. <u>Climate Change Beliefs</u>

The Fund recognises the importance in addressing the financial risks associated with climate change through its investment strategy, and believes that:

- Climate change presents a systemic risk to the overall stability of every economy and country, with the potential to impact on the members, employers and all of the holdings in the Fund's investment portfolio
- Considering the impacts of climate change is not only the legal or fiduciary duty of the Fund, but is also consistent with the long term nature of the Fund. The Fund's investments need to be sustainable to be in the best interests of all key stakeholders
- Engagement is the best approach to enabling the change required to address the Climate Emergency, however selective risk-based disinvestment is appropriate to facilitate the move to a low carbon economy
- As well as creating risk, climate change also presents opportunities to make selective investments that achieve the required returns, whilst at the same time make a positive social and environmental impact, such as environmental infrastructure and clean energy.

Question 3: Do you agree with our suggested requirements in relation to scenario analysis?

You propose to place a new duty on AAs to:

assess their assets, liabilities, investment strategy and funding strategy against climate risks and opportunities in at least two climate scenarios. This assessment must include at least one scenario based on a global temperature rise of 2°C or lower on pre-industrial levels. This assessment must occur at least once every valuation cycle. In interim years, AAs must consider whether any changes in the fund have been substantial enough to require scenario analysis to be repeated.

We agree with your suggested requirements, however, although we usually welcome local discretion, in this case on balance we would prefer consistency across the LGPS on the other scenario or scenarios used. Mercer have shared the following:

"We are supportive of mandating consideration of a 2°C or lower scenario. Whilst we believe that being overly prescriptive would have a number of drawbacks, not least because there are any number of plausible future scenarios, we would be in favour of providing guidance regarding the choice of second scenario. At Mercer, we use three scenarios; a rapid transition resulting in a 1.5°C outcome; an orderly transition resulting in a below 2°C outcome and a failed transition leading to a 4°C outcome. We find this range of scenarios helps investors explore the implications of a low carbon transition and climate-related physical risks.

We believe the interpretation of the asset class impacts under each climate-related scenario should not be prescribed. It is important to have the diversity of views across the industry as well as the tools that are used to carry out the modelling in order to avoid *the susceptibility to model risk and reliance on a few, ultimately deterministic, economic pathways."*

In the case of the Clwyd fund, we have undertaken strategic climate change scenario analysis detailing results that are consistent with a range of scenarios, including a scenario covering 2ºC or lower outcome. The Fund is committed to taking further investment strategy decisions that will enable commitments that have been made to date to be implemented (see response to question 6 of the consultation for a list of these commitments).The table below details the Fund's current investment strategy – the Fund continues to work with its advisers to understand developments within the applicable asset classes and how industry standards and metrics in regards to climate scenario analysis can be incorporated going forwards, particularly for private markets and real assets strategies.

Asset Class	Strategic Weight
Developed Global Equity*	10.0%
Emerging Market Equity	10.0%
Hedge Funds	7.0%
TAA/Best Ideas **	11.0%
Multi-Asset Credit	12.0%
Cash and Risk Management Framework	23.0%
Private Markets***	
Property	4.0%
Private Equity	8.0%
Local/Impact	4.0%
Infrastructure	8.0%
Private Credit	3.0%
Total	**100.0%**

Source: Clwyd Investment Strategy Statement, February 2022. See document for explanatory notes. https://mss.clwydpensionfund.org.uk/documents/Investment%20Strategy%20Statement.pdf

Question 4: Do you agree with our proposed requirements in relation to risk management?

Your proposed requirements are for AAs to:

- *Establish and maintain processes for the purpose of enabling them to identify and assess climate-related risks.*
- *Establish and maintain processes for the purpose of enabling them to effectively manage climate-related risks.*
- *Ensure, on an ongoing basis, climate-related risk management processes are integrated into their overall risk management.*

You also state in para 58 *AAs will already have risk management processes in place to manage investment risks. We therefore propose to require AAs to integrate these climate-related processes in their existing risk management processes. AAs may also wish to identify, assess and take action on climate-related opportunities, and integrate the consideration of these opportunities in their risk management. We propose to provide statutory guidance to assist AAs.*

We agree with the proposed requirements and this process is already in place through the CPF Risk Management Policy and we have for many years successfully made climate related investments.

Question 5: Do you agree with our proposed requirements in relation to metrics?

You propose to require AAs to calculate and report the following metrics:

- *Metric 1 (absolute emissions metric) - Total Carbon Emissions, which includes the Scope 1, 2 and 3 emissions reported separately, as well as the sum of the three.*
- *Metric 2 (emissions intensity metric) - Carbon Footprint. This is Carbon Emissions divided by the total assets of the fund to which the data relates. It should be calculated separately for Scope 1, Scope 2 and Scope 3 emissions.*
- *Metric 3 (data quality metric) – the percentage of assets for which Scope 1, 2 and 3 emissions are verified, reported, estimated or unavailable, in line with the GHG Protocol.*
- *Metric 4 (Paris Alignment Metric) – the percentage of the fund's assets for which a public Paris aligned commitment has been made, i.e. net zero by 2050.*

You also propose to recommend in statutory guidance that AAs consider whether they wish to calculate any other climate related metrics recommended by the TCFD in order to inform assessment of climate risks.

We have discussed the proposed requirements with our adviser, Mercer, who have shared the following:

“There is merit in calculating and reporting a range of metrics covering emissions/non-emissions alongside point-in-time/forward-looking appraisals. However, Mercer have noted the following points regarding the proposals:

<u>Total Fund versus mandate level reporting</u>

We understand the desire for whole of fund level reporting as it will facilitate comparisons between funds and seek to give an overall view of the asset position. However, the assumptions required to generate Total Fund level emissions metrics, including how to account for assets with no data, will make comparison across funds highly challenging and even misleading. One alternative would be for Funds to report on their aggregate listed equity and corporate bond holding metrics.

<u>Scope 1, Scope 2 and Scope 3 emissions</u>

We note the intention to report metrics across all three scopes. We anticipate significant gaps in relation to scope 3 data, which has implications for how useful this data will be when making investment decisions. We are also aware of situations where scope 3 data has been materially revised. Therefore, whilst we agree with the proposal to collate this data, we recommend that statutory guidance highlights the limitations associated with relying upon this data when making investment decisions. As a counterbalance, we also recommend the guidance cautions against making investment decisions based solely on scope 1 and 2 data, given they are a very narrow definition of a company’s carbon footprint. We also note that there is no expectation that climate related targets based on emissions have to include scope 3 emissions, which we are comfortable with at this point in time.

While we support reporting separately on scope 3 data we believe administering authorities should be able to report scopes 1 + 2 together in line with how many investors think about their emissions today.

<u>Emissions Intensity metric: Carbon footprint</u>

We support the use of Carbon Footprint or Weighted Average Carbon Intensity (WACI) as metrics under the Emissions Intensity category, rather than prioritising solely Carbon Footprint. We believe that both metrics provide useful information for investors. Furthermore, in our experience, WACI is more readily available, particularly in fixed income, than Carbon Footprint due to current limitations on the availability of Enterprise Value (including cash), which is required to calculate the Carbon Footprint but not WACI. We have also found that, on balance, fixed income managers are more familiar reporting and setting targets against WACI. We would, therefore, suggest that administering authorities have the option of selecting either of these intensity metrics. If there is a strong desire for consistency in metric reporting across administering authorities, to be able to aggregate data, we would suggest reporting on both metrics, noting that they provide a different lens by looking at intensity by revenues (WACI) and by financed emissions (Carbon Footprint).

Data quality and the data quality metric

We also note the requirement to report data quality, alongside the intention for the LGPS to use its scale and market power to drive improvements in the quality of emissions data, which will be a critical factor in raising the quality of climate risk management. We agree this rationale in the short to medium term, but suggest that inclusion of this metric as a required metric be kept under be review as we are already seeing high reported data quality metrics across listed portfolios, reducing the decision usefulness of this metric in certain situations.

Paris Alignment metric

We also note the position that the Binary Target Measure is considered the most appropriate for the LGPS at this point in time. We agree that all Paris Alignment Metrics have their strengths and weaknesses. With regards to Binary target measurements, there is a danger of corporate greenwash, as the metric as stated will not capture the credibility of the various transition targets. We recommend, therefore, requiring that any net zero/Paris alignment transition plans be verified by a 3rd party e.g. the Science Based Target Initiative (SBTi). This will encourage companies to get their targets verified."

Question 6: Do you agree with our proposed requirements in relation to targets?

Your proposed requirements for AAs are:

- *AAs must set a target for their fund in relation to one of the metrics which they have selected. The target may be in relation to one of the mandatory metrics (absolute emissions, emissions intensity, data quality or Paris alignment), or any other climate-related metric endorsed by the TCFD which the AA chooses.*
- *AAs must annually measure, as far as they are able, the performance of their fund against the target they have set and taking into account that performance, determine whether the target should be retained or replaced.*

There is no expectation that AAs should set targets which require them to divest or invest in a given way, and the targets are not legally binding.

We agree with the proposal in relation to targets. The CPF has already set a number of targets, priorities and commitments relating to climate risk within its Investment Strategy Statement which are extracted below for your information.

Net-Zero commitment

As part of its commitment to RI the Fund has undertaken to evaluate and manage the carbon exposure of its investments to assist in ensuring an effective transition to a low-carbon economy. As part of this work, on 10 November 2021 the Clwyd Pension Fund Committee approved a strategy to achieve net-zero carbon emissions from its investment portfolio. This included carbon emissions analysis of the listed equity portfolio to provide a baseline for the Fund. Specifically, the Committee agreed an ambitious target for the investments in the Clwyd Pension Fund, as a whole, to have net zero carbon emissions by 2045, with an interim target of carbon reduction of 50% by 2030 (relative to 31 March 2021levels). Underlying this headline commitment, the Fund also has a number of other key targets as outlined below:

a) for the Fund as a whole:

- to have at least 30% of the Fund's assets allocated to sustainable investments by 2030
- to expand the measurement of the carbon emissions of the Fund's investments to include all assets by the end of 2023

b) within the Listed Equity portfolio:

- to achieve a reduction in carbon emissions of 36% by 2025 and 68% by 2030 (relative to 31 March 2021levels)
- to target at least 30% of the Listed Equity portfolio to be invested in sustainable assets by 2030 (relative to 31 March 2021 levels)
- to reduce fossil fuel exposure relating to oil and gas by 70% by 2025 and 90% by 2030 (relative to 31 March 2021 levels)
- to reduce fossil fuel exposure relating to coal by 90% by 2025 and 95% by 2030 (relative to 31 March 2021 levels)
- to engage with the biggest polluters within the Fund's Listed Equity portfolio as part of an overarching stewardship and engagement strategy, to achieve:
    - by 2025, at least 70% of organisations in carbon-intensive sectors have clearly articulated and credible strategies to attain net zero or are subject to engagement to achieve this objective
    - by 2030, at least 90% of organisations in carbon-intensive sectors have clearly articulated and credible strategies to attain net zero or are subject to engagement to achieve this objective

The Fund will monitor and report against these targets at least annually, and may review and revise them as appropriate, particularly to ensure that targets and ambitions are in line with national and international developments and initiatives.

Strategic RI Priorities

The Fund recognises that as a Responsible Investor there are a multitude of potential areas on which to focus, however it is not possible to concentrate on everything together. Therefore, to enable the approach to be focused, the Fund considered its strategic priorities for 2020 to 2023, which will support the overall aim of being a Responsible Investor.

These priorities were set in 2020 and work is ongoing to deliver against each of them, and the Clwyd Pension Fund Committee receives regular updates on progress. These strategic priorities will be reviewed annually, and may be added to, but to maintain the desired focus the following have been identified from an RI perspective:

Evaluate and manage carbon exposure

- The Fund has identified climate change as a financial risk, and intends to measure and understand its carbon exposure within its investment portfolio
- Once this initial assessment has been made the Fund will look to set agreed Carbon reduction targets within 12 months to be delivered over the following five years

Identify sustainable investments opportunities

- The Fund has for a number of years looked to make Social/Impact investments; whereby in addition to making the requisite financial return the investment has a positive social or environmental impact. The 2019 Investment Strategy Review has further supported this with the creation of a separately identified Local/Impact portfolio. This portfolio has a strategic target weight of 4% of the Fund's assets and will be seeded from existing investments that meet pre-agreed criteria based on the United Nations Sustainable Development Goals. Additional opportunities will be added with a view to achieving the target weight in three years (i.e. by 2023)

Improve public disclosure and reporting

- The Fund recognises the importance of transparency and reporting with respect to ESG issues. The Fund intends to enhance its analysis, disclosure and reporting on its RI activities, including manager ESG ratings, voting and engagement and carbon emissions analysis

Active Engagement on ESG risks

- As a member of the LAPFF, the Fund has active engagement with its underlying investments. In the future, due to the pooling of investments, this engagement will be supplemented by the work of the WPP. The Fund is committed to working proactively with WPP and its providers to improve the levels of engagement

FRC Stewardship Code

- The Fund was previously confirmed as a Tier One signatory to the 2012 Stewardship Code in March 2018. The new, more demanding version of the Code was launched in October 2019, and the Fund is committed to reviewing the requirements of the new Code, and recently made a submission to the FRC with the intention of becoming a signatory

Actuarial Valuation and review of Investment Strategy

The assessment of the impact of climate change on the Fund's investment strategy will underpin the actuarial valuation and investment strategy review processes, both of which will be carried out during 2022/23. Addressing climate change related risks will be a key factor in each.

Commitment

The Fund has always sought to act with conscience and financial materiality when it comes to its investments and recognises that its approach to RI will need to evolve continually, given the speed of change with regard to the impact and understanding of ESG issues, and the ever changing world in which we live. Due to the increased focus on RI within the investment industry there is continuous development of thinking and best practice, and the Fund is committed to ensuring its approach remains relevant and appropriate. The Fund' RI Policy will be formally reviewed at least every three years as part of any strategic review of the Fund's asset allocation, or as required due to changing regulatory requirements or to address specific issues that may arise

In relation to the statement at the end of this section of the consultation - *"There is no expectation that AAs should set targets which require them to divest or invest in a given way, and the targets are not legally binding."*- we believe that this is an extremely important point, particularly given many administering authorities are put under pressure to set targets or divest by organisations, including participating employers, who may have different targets or climate objectives. In some cases this can result in a conflict of interests for members of pension committees and administering authority officers such as section 151 officers. We would welcome this statement being included within the statutory guidance with a reference to the fiduciary responsibility to scheme members (and employers) which exists for the LGPS.

Question 7: Do you agree with our approach to reporting?

There are a number of proposals made in the consultation which we have commented on in turn and made some **alternative suggestions relating to the template you mention in the consultation document.**

121. *We propose that each AA publishes a Climate Risk Report every year, at the same time as the AA's annual report is published – i.e. 1 December for the reporting year which ended the previous 31 March. Once published, the Climate Risk Report must be easily and freely accessible online and members must be informed of where to find it. In addition, links to each AA's Climate Risk Report will be included in the Scheme Climate Report and may be shown on the Scheme Advisory Board's (SAB) website. The Climate Risk Report may be a constituent part of the AA's Annual Report, or a standalone report.*

Agreed.

122. This means that the first report for the year 2023/24 must be available by 1 December 2024.

Agreed. However given the CPF would have already completed scenario analysis voluntarily ahead of this we ask that this is not required to be repeated as of the date of the first 'formal' report, given the costs involved.

123. *The Climate Risk Report should be accessible to two distinct types of user: specialist and non-specialist. The Climate Risk Report will contain detailed and useful data, and we hope that the metrics, targets and scenario analysis in particular will be important resources for specialist audiences. This role of the Climate Risk Report may require it to be technical in content, and dense with information.*

124. In addition, various non-specialist stakeholders including scheme members, members of the public and other parties will also need to be considered. The Climate Risk Report should include enough information to be understood by the lay reader.

125. The AA will have to decide on how best to approach these dual requirements. One approach is to split the Climate Risk Report into two sections: a body and a short executive summary. The executive summary would be written to explain the AA's approach and high-level findings to the lay reader. This allows the body of the Climate Risk Report to be technical as is useful to specialist audiences. We regard this as a very effective way to address this balance, although other approaches would also be valid.

126. We would like to stress that the narrative provided in the Climate Risk Report will be as valuable as the data for most audiences. Metrics by themselves are difficult to interpret for the lay reader.

We would like to suggest an alternative method of reporting to tackle some of the issues raised in the consultation and ease the local administration burden. The requirement should be for an **AA to provide a Climate Risk report for the Responsible Authority**. This would be in an online template format with the link being publicly available. This would include details required in 130. A link to this Climate Risk Report for DLUHC must be included in the Fund's AA Annual report along with a lay person narrative. External auditors are already required to audit the Annual report to ensure consistency of content so this provides added scrutiny on the 'lay' person message given to members.

As an aside the Annual Report & Accounts is now becoming very cumbersome and time consuming to complete. A publicly available reporting template (in English & Welsh) approach to the Responsible Authority would have many advantages and leave the AA to provide a shorter more reader friendly document for members and other stakeholders. The link to the completed DLUHC template would have to be included in the Annual Report for members and other stakeholders.

This is like the approach of the tPR to their annual return.

127. *For example, differences in an AA's investment allocation, such as its strategic allocations between the main asset types will affect its carbon emissions. Moreover, a high carbon exposure or poor alignment with the Paris climate goals may be managed by effective stewardship and engagement from the AA. AAs should ensure that messages such as these are presented in a way to help the lay reader interpret the report and understand the fund's strategy towards managing the risks from climate change.*

Your example does lead a preference for the Climate Risk Report to be part of the Annual Report otherwise it will be meaningless in isolation without repeating the fund's investment activity during the year. This will be particularly important if a fund's change to strategic or tactical allocation to manage more immediate significant financial risks increases carbon exposure.

128. *It is important that the report must be easily accessible to scheme members, on the AA's website and via an internet search. We propose that AAs must at least inform members of the Climate Risk Report and how to find it when they issue their annual benefit statements. This does not necessarily mean including wording in the annual benefit statement itself.*

The CPF is required to have a Communication Strategy along with all AAs. However how this is done is determined by the AA and there is no reason for any exception to be made for a Climate Risk Report. At CPF the existence of the Climate risk report will be assessable on our web-site (in English and Welsh) and communicated to members in the same way as other matters, which may or may not be at the same time as Annual Benefit Statements. For example, pensioner members are also interested in this who do not receive an Annual Benefit Statement.

129. *Climate Risk Reports should be produced in line with the Local government transparency code 2015.*

This Code is for England only and does not apply to Wales.

130. We propose that the Climate Risk Report must include the following information:

Area	Disclosure Requirement
Governance	Describe the AA's oversight of climate-related risks and opportunities Describe the role of any person other than the scheme manager who undertakes relevant governance activities and the process by which the committee satisfy themselves that this is being done Describe the role of any person who (other than a legal advisor) advises the scheme manager on relevant governance activities and the process by which the committee satisfies itself that adequate steps are being taken

Strategy	Describe the climate-related risks and opportunities which the scheme manager has identified Describe the scheme manager's definition of short term, medium term and long term
Scenario Analysis	Describe the most recent scenarios the scheme manager has analysed Describe the impact of the climate-related risks and opportunities on the AA's investment and funding strategies Describe the potential impacts on the AA's assets and liabilities which the AA has identified in the most recent scenarios and the reason for any data which is missing from the analysis Describe the resilience of the AA's investment and funding strategies in the most recent scenarios the AAs have analysed
Risk Management	Describe the processes which the AA has established for identifying and assessing climate-related risks to their fund Describe the processes which the AA has established for managing climate-related risks to the AA Describe how these processes are integrated into the AA's overall risk management
Metrics	Report the metrics which the AA has calculated (or an explanation as to why these were not possible to calculate)
Targets	Report the target which the AAs have set and the performance of the AA against that target.

We agree with the content of the report.

Question 8: Do you agree with our proposals on the Scheme Climate Risk Report?

Your proposals are:

In addition to the Climate Risk Reports published by each AA, we are proposing an annual Scheme Climate Risk Report to provide an overview of the LGPS and climate risks, produced by the Scheme Advisory Board (SAB). Such an overview would be useful for scheme members and other stakeholders. It would also enable the LGPS to demonstrate progress and impact, and showcase good practice.

We therefore propose as a minimum that the Scheme Climate Risk Report would include links to each AA's Climate Risk Report and the four aggregated metrics for the whole LGPS.

In relation to metrics, we propose that Total Carbon Emissions and Carbon Footprint should be calculated and reported at an aggregate level. This would involve a simple sum of Total Carbon Emissions for Aggregate Total Carbon Emissions. In order to calculate Aggregate Carbon Footprint, this would be calculated as Aggregate Total Carbon Emissions divided by the overall size of the LGPS investment portfolio for which total emissions are at least estimated. This would be done separately for Scope 1, Scope 2 and Scope 3 emissions.

When reporting the data quality metric, each AA must report the proportion of its assets for which overall emissions data is: Verified, Reported, Estimated or Unavailable. One reason that we have proposed this metric is that it can be aggregated across AAs. As risk management is a key objective of TCFD reporting, we believe that visibility of data quality, which is essential to the understanding of risk, will be a useful way to measure progress. Therefore, we propose to show overall data quality in the Scheme Climate Report, whereby the LGPS's entire assets will be divided into verified, reported, estimated and unknown.

We propose that the SAB reports on an aggregate Paris Alignment Metric based on AA level reports. This would show the proportion of the value of the whole LGPS's assets for which there is a net zero commitment in line with the Paris goals.

In the above paragraphs we have outlined our minimum proposals for the Scheme Climate Risk Report. In addition, we are inviting views about whether emissions, data quality and Paris-alignment metrics for each AA should be shown in the Scheme Climate Risk Report.

Emissions and data quality metrics will already be available in the Climate Risk Reports published by each AA and it will be possible to make comparisons between AAs. AAs may be concerned about being compared unfairly, and may fear that this may lead to pressure to reduce emissions through divestment. There is no expectation from Government that AAs should reduce emissions via divestment.

We recognise that transparency is an important feature of the LGPS's approach to managing climate risks. It is important for all those to whom the Scheme is accountable have easy access to climate-related information.

We do not propose to include any aggregate data on the scenario analysis requirement. This is because scenario analysis may be very difficult to aggregate in a meaningful way.

We will leave the SAB to comment on this question, noting that the standard template being produced to support consistency should be carried out in consultation with administering authorities so that is ‘practitioner-friendly’.

Our only suggestion is to assist in making the data more understandable and to put into context for the lay person the total carbon metric at scheme level could be compared or equated with something -e.g. emissions of X average households, X cars etc. Otherwise a standalone carbon emissions number is meaningless.

Question 9: Do you have any comments on the role of the LGPS asset pools in delivering the requirements?

The CPF will work with the Wales Pension Partnership to determine whether there are any advantages of joint working. At the moment the CPF only has circa 30% assets pooled, so less of a factor for us currently but this will change over time. We would advise that funds with their pools are left to determine the most efficient method of how this is done for both pooled and non-pooled assets without further guidance forcing a particular outcome.

It will be important for the pools to ensure they have appropriate resource and expertise to carry out this reporting, and we would suggest this is included in the statutory or operational guidance.

Question 10: Do you agree with our proposed approach to guidance?

DLUHC intends to provide high level statutory guidance to accompany changes to regulations. This will include guidance relating to the governance activities required of AAs and the Climate Risk Report. We have also asked the SAB to produce more detailed operational guidance.

The SAB will also be asked to produce a standard template which AAs will be required to follow in producing their Climate Risk Report. This will help AAs to comply with the requirements, and help to ensure that the Scheme Climate Risk Report is as comprehensive and consistent as possible.

We agree to the approach to guidance as long as governance and communication activities are consistent with those elsewhere in LGPS Regulations and Guidance required for other activities. There is no justification for management of climate risk to be a special case or exception and considered in isolation.

With reference to our response to Q7 we are **very supportive of the template approach**.

Question 11: Do you agree with our proposed approach to knowledge, skills and advice?

It is important that individuals making decisions in response to climate-risk management processes have the adequate skills and information to make choices. While we will not be imposing any legal requirement on an individual's knowledge and skills, we wish to promote best practice in our approach. It is important to note that scheme managers are not expected to be technical experts in climate science or climate finance. However, a base knowledge regarding climate risks will be necessary in order to, for example, interpret the results of scenario analysis.

Agreed. The CPF also has a Knowledge & Skills policy for Committee, Board and Senior Officers to meet the requirements of CIPFA, tPR and MIFID II. Climate risk has been the subject of several induction, briefing and training sessions.

Although we note no legal requirement we would encourage more compulsory online LGPS accredited training arranged nationally to ease the burden and cost of training locally especially given the turnover of Committee members at each local election. Climate risk would then form part of that training.

Firstly, we propose to require that AAs must take proper advice regarding assessing and managing climate risks. This should help the scheme manager, who may not be a technical expert to take proper account of climate risks in setting their investment strategy and asset allocation.

AAs will need to satisfy themselves that the advice is high quality and provided by appropriately qualified people. We welcome views as to how this may be practically ensured. We welcome responses on whether and how pools could jointly procure expert advice for their partner funds.

We agree with the proposed approach and as explained earlier ensure CPF take proper expert advice on all investment matters including climate risk and is part of our CMA assessment with Mercer.

The requirement to take 'proper advice' on investment matters is already in LGPS Regulation. If this could be open to other interpretation than expert/regulated investment advice then this wording should be reviewed. Management of climate risk is integrated into other investment decisions so there should be no reason for a separate requirement being necessary.

The Wales Pension Partnership already jointly procures expert investment advice through the Host Authority, Carmarthenshire County Council. Hymans Robertson already provide some climate data on WPP sub funds.

Question 12: Do you have any comments on the impact of our proposals on protected groups and on how any negative impacts may be mitigated?

None specifically although we do ask when considering guidance that you consider reference to the recommendations for pension funds from the Local Authority Pension Fund APPG Just Transition report. – Ensuring Responsible Investment for a Just Transition to Net Zero.