

Rebecca Evans AC/AM
Minister for Finance and Trefnydd



Dyddiad/Date: 31st May 2019

Dear Ms Evans,

Thank you Rebecca for your recent letter regarding the Welsh Government plan 'Prosperity for All: A Low Carbon Wales', and rightly connecting how our Local Government Pension Fund investment considerations can positively contribute.

I reply herein from the perspective of the Rhondda Cynon Taf Pension Fund, a separate response has been provided in respect of the Wales Pension Partnership (WPP).

1. Has your pension scheme formally considered climate change risk?

As you correctly point out, LGPS Funds are required as part of their Investment Strategy Statement, to define how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

The overriding principle of the Rhondda Cynon Taf Fund's investment policy is to obtain the best possible financial return using the full range of investments authorised under the Local Government Pension Scheme regulations.

Although the pursuit of a financial return is our predominant concern, where possible, the Fund is committed to embed Responsible Investment factors (environmental, social and corporate governance factors 'ESG') into the investment process. These non-financial factors are considered to the extent that they are not detrimental to the Fund's investment returns.

With regard to climate change risk, the Fund does indeed recognise the investment implications of climate change and carbon emission management. As a long term investor charged with looking after the interests of beneficiaries over many decades into the future, we are fully aware that climate change is one of the risk factors for our pension fund investments.

The Fund has issued a statement in this regard and this can be found on the Fund website, a link to which is provided below.

<http://www.rctpensions.org.uk/En/RelatedDocuments/GovernanceandInvestments/Investments/ResponsibleInvestmentClimateChange.pdf>

2. If you have considered climate change related risks, what actions have you taken in response to those risks? In particular, have you taken formal advice on the issue and developed a specific investment strategy on climate risk?

The Fund engages with companies in the sector through its participation in the Local Authority Pension Fund Forum (LAPFF). LAPFF's engagement strategy is to push for an orderly carbon transition by requiring companies to identify and tackle carbon risks in their business models.

The Fund has also expressed a view on how it would wish its Fund Manager's to vote on resolutions at global AGMs seeking transparency and disclosure of climate risks and setting emission reduction targets.

The Fund is committed to an orderly carbon transition and believes active engagement with investee companies is the preferred option to bring about change whilst managing overall investment risk issues.

I repeat below, in full, the relevant excerpt from the Fund's Investment Strategy Statement, which was, approved the RCT Fund Pension Committee in March 2019.

How social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

The overriding principle of the Fund's investment policy is to obtain the best possible financial return using the full range of investments authorised under the Local Government Pension Scheme regulations.

Although the pursuit of a financial return is our predominant concern, where possible, the Fund is committed to include Responsible Investment factors (environmental, social and corporate governance factors) into the investment process. These non-financial factors are considered to the extent that they are not detrimental to the Fund's investment returns.

The incorporation of these factors into Investment Managers' stock selection decisions should serve to enhance the process, rather than restrict choice in any way. The Fund does not negatively screen stocks from the investment universe available to Managers.

The Fund requires its Investment Managers to integrate all material financial and non-financial factors, into the decision-making process for all investments. Furthermore, it expects its managers to proactively engage, influence and promote good corporate governance in the companies and markets to which the Fund is exposed. The Fund's Investment Managers provide updates on their activities in this regard.

All of the Fund's Investment Managers are signed up to the United Nations Principles of Responsible Investment (UNPRI) which encourages asset owners and asset managers to incorporate environmental, social and governance (ESG) issues into investment analysis and decision making, be active owners, seek disclosure of ESG issues and promote the principles within the industry.

The six principles are:

- We will incorporate Environmental, Social and Governance issues into investment analysis and decision-making processes;*
- We will be active owners and incorporate Environmental, Social and Governance issues into our ownership policies and practices;*
- We will seek appropriate disclosures on Environmental, Social and Governance issues by the entities in which we invest;*
- We will promote acceptance and implementation of the Principles within the investment industry;*
- We will work together to enhance our effectiveness in implementing the Principles; and*
- We will each report on our activities and progress towards implementing the Principles.*

The Pension Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

The Fund is committed to an orderly carbon transition and believes active engagement with investee companies is the preferred option to bring about change whilst managing overall investment risk issues.

The Fund is also committed to adhering to the principles of the Stewardship Code.

I have also, personally, spoken to a number of Asset Managers on behalf of our Fund and in my role as chair of the WPP to understand the investment products they have to offer with specific regard to ethical and socially responsible investment options going forward. This has led to the RCT Pension Fund Committee arranging to meet up with a number of managers to further explore and understand the product in the market place.

3. How is the Wales Pensions Partnership considering climate change related risks in developing its policies for investment?

I have replied separately with regard to the WPP approach.

4. What further steps are you taking in your own Pension Authority and in the Joint Governance Committee for the Welsh Pensions Partnership to apply the Well-being of Future Generations Act to the approach to investment?

Examples of our approach and progress in respect of the fund to date are described above. These provide an indication of how we are seeking to embed the Act, by maximising our contribution to the 7 national goals, including a Globally responsible Wales, and meet the Act's sustainable principle of "*acting in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs*". This positive and pragmatic approach is supporting our continuing implementation of the detailed requirements of the Act.

5. Whether, and to what extent, disinvestment from the fossil fuel sector is being considered or active engagement with funds to achieve carbon positive investment.

The Rhondda Cynon Taf Pension Fund favours active engagement with companies through regular monitoring of our Fund Manager investments and through the activity undertaken by the Local Authority Pension Fund Forum (LAPFF) on behalf of the majority of LGPS Funds, in order to ensure such an orderly carbon transition.

I hope this provides you with reassurance that the RCT Pension Fund Committee are fully aware of their responsibilities with regard to investment decisions and that appropriate local strategies are duly considered. ESG considerations are clearly an integral part of the investment decision-making processes and will be subject to ongoing scrutiny, particularly as the speed of transition, the associated risks and opportunities evolve.

Regards.

Yours sincerely,



Councillor Mark Norris
Chair of Rhondda Cynon Taf Pension Fund Committee

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We welcome correspondence in Welsh and corresponding with us in Welsh will not lead to a delay. Let us know your language choice if Welsh or bilingual.

