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Your re/Eich cyf:

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Date/Dyddiad:

GC/GHR/P2.13

May 2019

Please contact/Cysyllter â

Glyn Caron

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Rebecca Evans AC/AM
Minister for Finance and Trefnydd
Welsh Government
Cardiff Bay
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Dear Minister,

Welsh Government -Prosperity For All: A Low Carbon Wales (March 2019)

The Greater Gwent (Torfaen) Pension Fund administers the Local Government Pension Scheme in the Gwent area. The Fund had, prior to receiving your letter dated 26th April 2019, already drafted correspondence to you in this regard.

The Fund was pleased to see the publication of the Welsh Government Plan entitled "Prosperity For All: A Low Carbon Wales" which sets out Welsh Governments approach towards reducing carbon emissions and supporting the growth of a low carbon economy. The Fund noted certain consistencies between the approach of the Fund towards reducing its own carbon footprint and that set out by the Welsh Governments Plan and wants to be able to contribute fully towards wider Welsh Government ambitions in this respect.

By way of context, the Fund is the second largest LGPS Fund in Wales with over 60,000 members and total assets in excess of £2.9 billion as at the end of March 2019. The assets of the Fund not immediately required for payment to members are invested globally across a diverse range of investment types designed to provide a consistent and stable return on investments to the financial benefits of both members and employers who participate in the Fund. The Fund is however acutely aware of the role it can play in contributing positively as a Responsible Investor and indeed noted the specific reference to the Greater Gwent Fund and fossil fuel investments (page 62) within the Welsh Government Plan Report. *(nb...but please see comments below)*

Of particular interest was Part 2 of the Plan which refers to Leadership, Integration, Collaboration and Involvement and the section on Public Sector Leadership (starting page 53). The Fund was struck by some of the narrative as it relates to the Public Sector generally which

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could be specifically applied to Local Government Pension Funds and their investments as follows:

- *“Welsh Government will assist other actors to take the lead where they are best able to...this means encouraging and assisting , and where required mandating ...public sector...to contribute”(53)*
- *“the public sector must take an early leadership role in driving toward a low carbon future”(53)*
- *“One of the first steps is to gain a better understanding of the current situation in our public bodies to best target further support”(55)*
- *“We need to be able to monitor and report on progress to achieving our ambition”(55)*

The Plan and its direction of travel are helpful to the Fund in adding insight to our ongoing in house discussions currently taking place on the wider issue of Responsible Investment and in particular on the issue of our carbon footprint.

Turning specifically to page 62 of the Plan, there is reference to the Monmouthshire County Council motion which called for an “ordered divestment” from fossil fuels not one “without delay” which seems to be the approach of some. This is an important distinction in order to balance the wider climate change needs with the interests of members and employers within the Fund. In that context the Funds current view is to reduce its carbon footprint in a measured and controlled way that does not adversely affect its membership. To do this, it is essential to undertake the research and explore the options to achieve this outcome in a timely but effective way. It is also important to be able to measure and monitor its activities in this respect. These are important aspects consistent with the Welsh Governments own approach outlined above. It is also appropriate to point out that the Monmouthshire motion was put forward without any contact with the Fund and without asking for advice or information from the Fund on what it was already doing in this area.

I thought however a few points specific to the Greater Gwent Fund may help to give you some assurance that the Fund is seriously looking at climate change as part of its overall desire to strengthen its approach to Responsible Investing. These points will also help to respond to the questions you raise in points 1,2,4 and 5 of your letter whilst not duplicating separate correspondence that you will no doubt receive from the Wales Pension Partnership.

You may therefore find it helpful to note that:

- The Fund has established Responsible Investment Working Group (RIWG) whose role is to look at the Funds approach, undertake research and make recommendations to the full Pensions Committee and Pensions Board of the Fund. This group enables more in depth consideration and discussion around Climate Change. In this context, the Fund is clear on its desire to reduce its carbon footprint.

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- The Fund is a member of the LAPFF, a group of 70 local authority pension funds who act collectively to influence behaviours in those companies in which we are invested. I sit on the Executive of the LAPFF.
- The Fund is considering membership of other bodies such as UNPRI and requires its Investment managers to have signed up to the Code of Transparency
- The Fund is considering signing up for the Stewardship Code.
- The Fund has been discussing with all its managers, their ESG approaches and it does receive carbon footprint measurements from some (but not all) managers currently We are exploring with specialist companies such as MSCI and Engaged Tracking (as well as with our external investment managers) how we can best measure our carbon footprint as a Fund and how we would monitor the trends. This is not restricted to just Scope 1 and 2 emissions (Green House Gases Protocol) but could also incorporate Scope 3 where our own research currently indicates 85% of total emissions are found.
- We are looking at different types of investment (rather than traditional equities) that may support a more sustainable approach.
- The Fund recognises that Engagement strategies are not on their own enough and do not necessarily influence quickly enough so whilst engagement could be deemed preferable where it can effect change quickly, other more direct options do need to be considered.
- The Fund is also working with the Wales Pension Partnership to frame an All Wales approach for Responsible Investment and you will receive further detail on this directly from the WPP. This wider perspective across Wales is helpful but would be complementary as it would not remove the desire or intent of the Fund to have its own more bespoke policy in this area since it is at Fund level that ultimately the responsibility remains.

We recognise however that the above actions are largely to do with research and determining appropriate next steps but nevertheless they are important and necessary steps in determining what direct actions the Fund wants to take on what is an extremely important and ongoing issue, both now and for our future generations. In that context, you may wish to note that we have already had a direct interchange of correspondence with the Future Generations Commissioner in Wales to share with her some of the activities we are undertaking. This measured approach does seem consistent with Welsh Governments own ambitions but the Fund recognises that some pace is still required in taking things forward.

As indicated, the Fund has a clear view that it wishes to reduce its carbon footprint and has already seen a reduction since figures published by Friends of the Earth 18 months ago (£245million invested in fossil fuels) which it is worth pointing out were overstated and misleading. However they did not detract from the principle that we do continue to hold investments in fossil fuels and the Fund is well aware of its responsibilities in this regard.

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The Fund sees a more sustainable footing as core to its future investment strategy. Indeed there is recognition that companies not prepared to take action will not survive. In that context the Fund is working to turn some of its research and beliefs into practical implementation and it is hoped that this will emerge in the coming months.

As a final point, the Welsh Government report proposal 6 as you point out in your letter refers to commissioning “*research to gain a better understanding of Welsh Public Sector Investment Profiles to stimulate discussion around future investment strategies*”. The Fund recognises the purpose in doing this but it is important that as part of this research, a wider understanding of the investment practices and requirements is also built into the research as this provides essential context to the way LGPS Funds approach these issues. The Greater Gwent (Torfaen) Fund would either individually, or as part of the Welsh Pension Partnership, be more than happy to contribute or take part in discussions designed to build a better understanding and take these issues forward positively.

I trust this information is helpful but should you have any further questions or queries, or you wish to engage further on these issues please do not hesitate to contact either myself directly (glyn.caron@torfaen.gov.uk) or my Head of Pensions, Graeme Russell (graeme.russell@torfaen.gov.uk).

Yours sincerely

Councillor Glyn Caron
Chair of the Greater Gwent (Torfaen) Pensions Committee

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