



Report of the Section 151 Officer

Pension Fund Committee – 11 July 2019

Low Carbon Index – Update (Environmental, Social, Governance (ESG) Policy)

Purpose:	To update the Pension Fund Committee on the low carbon transition component of the Environmental, Social, Governance (ESG) Policy
Policy Framework:	Environmental, Social Governance Policy
Consultation:	Legal, Finance and Access to Services.
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For Information	

1 Background

1.1 The Committee has taken a number of steps to understand the impact of ESG issues on the Fund. In November 2017, Hymans Robertson delivered a detailed training session covering responsible investing, ESG and climate change. Hermes Equity Ownership Service also delivered a presentation highlighting examples of the positive change they had delivered through engaging with companies' management and placing shareholder votes on their clients' behalf. The Committee and Board considered their "investment beliefs" in the context of ESG matters and the results have recently been used to develop the ESG policy previously approved at the March 2018 Committee Meeting.

1.2 Carbon

As part of the Fund's ESG focus, the Committee commissioned MSCI to undertake an analysis of the portfolio's carbon exposure. MSCI has

information on each global stocks' carbon related exposure (or is in a position to make an assumptionⁱ). Using this information, MSCI is able to compare the carbon exposure of the Fund's holdings with a range of reference benchmarks.

- 1.3 MSCI was provided with the individual holdings data from each of the Fund's equity managers (ex-Aberdeen's' frontier markets mandate due to lack of comparable industry benchmark data) and with specific details on each of the mandates in terms of their benchmarks and allocationsⁱⁱ. MSCI then compared the portfolio versus the broad global market capitalisation index (e.g. the MSCI ACWI as a proxy for the global stockmarket) and versus a low carbon version of the global index (this index has the same performance objective of the broad market capitalisation index, but has a general aim of being overweight to companies with low emissions relative to sales and low potential emissions).
- 1.4 The results of the study indicated that the current portfolio was 9% underweight carbon assets. The Committee agreed to target a 50% underweight position within the next 5 years in its revised ESG Policy. It was presented that the most operationally efficient way to implement a carbon reduction programme was via a low carbon passive index. The Pension Fund Committee approved the transition of its approx. £0.5bn Blackrock market cap weighted index tracking equity assets into the Blackrock Low Carbon Index tracking fund which would go a considerable way in meeting its commitment to reduce the fund's carbon footprint by 50% by 2022.
- 1.5 Transition of those assets commenced on the 3rd July 2019 and shall be completely transitioned by the end of the month.

2 Swansea Council's Notice of Motion on Climate Emergency

- 2.1 The Administering Authority of The City & County of Swansea Pension Fund is Swansea Council. At its Council meeting on the 27th June 2019, it approved a notice of motion declaring a climate emergency. In its notice of motion, the ground breaking work and commitment of the Pension Fund Committee to reduce its carbon footprint was referenced. Attached at Appendix 1 is the Environmental, Social, Governance Policy which has been formulated as a result of the initial training, further information gathering, receiving presentations from interest groups and subsequent committee discussion and decision-making.

2 Legal Implications

- 2.1 There are no legal implications arising directly from this report

3 Financial Implications

- 3.1 There are no financial implications arising directly from this report. It is recognised there shall be marginal tracking variance between the low carbon index and the market weighted index.

4 **Equality and engagement Implications**

4.1 There are no equality implications arising from this report

Background Papers: None.

Appendix 1- City & County of Swansea ESG Policy.