Cyngor Abertawe
Swansea Council

Report of the Chair of the Pension Fund Committee

Council - 3 December 2020

Pension Fund Update on Climate Change

Purpose:	This report provides an update to Council how the pension fund is progressing on its commitment to reduce the carbon footprint of its listed equity portfolio by 50% by 2022 and other initiatives to address climate change risk
Policy Framework:	City & County of Swansea Responsible Investment Policy
Consultation:	Finance, Access to Services and Legal
Recommendation(s):	It is recommended that:
1)	Council approve and note the action and progress identified in 12 that the Pension Fund has made in meeting its commitment to reducing its carbon exposure in its listed equity investments by 50% by 2022.
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Finance Officer:	Ben Smith
Legal Officer:	Deb Smith
Access to Services Officer:	Rhian Millar

1. The Local Government Pension Scheme (LGPS)

1.1 The Local Government Pension Scheme (LGPS) is a defined benefit pension scheme for local government (and affiliated employers who provide appropriate services as defined by statute) workers in England and Wales. Benefits are guaranteed by Statute and determined by the member's career average salary for service since April 2014 or their final salary (for service before April 2014).

1.2 Employees make contributions on a sliding scale in accordance with their salary, and employers make pension contributions dictated by triennial actuarial valuation. It has over 5.9m members through 15,700 employers and collective assets of approximately £300bn. It is administered via 87 separate schemes managed by the 87 Administering Authorities which are recognised within the Statutory Instrument.

1.3 There is a lot of misconception about the LGPS and its place amongst other public sector schemes. It is the only major public sector scheme which is a funded scheme, as opposed to the other public sector schemes like the Civil Service, NHS, Police etc. which are all unfunded, and pay as you go schemes. The LGPS provides pensions for workers like school break time assistants, care workers, refuse collectors, social workers, non-teaching staff in schools, road maintenance workers as well as managers, chief officers and elected members (only in Wales) in local government .

1.4 Over two thirds of the LGPS membership are women members, many of whom only work(ed) part-time. In Swansea, the average pension in payment is only approx. £5k a year.

2. The City & County of Swansea Pension Fund

2.1 Swansea Council is the Administering Authority for the City & County of Swansea Pension Scheme. The primary objective of the Administering Authority is to pay members' pensions as they fall due in the most cost effective manner.

The City & County of Swansea Pension Fund (31/3/20) has approx :

- 47,000 members
  - 21, 000 active members (still working and contributing to their pension)
  - 15,000 pensioners (members drawing their pension)
  - 11,000 deferred (members who have left employment yet to draw pension)
- 25 employers include the following larger employers:
  - Swansea Council
  - Neath Port Talbot Council
  - Gower College
  - University of Wales Trinity St. David
  - Neath Port Talbot College Group
  - Community Councils
- £2.2bn of assets

3. Governance

3.1 **The Pension Fund Committee**

The Council has delegated governance of the Pension Fund to the Pension Fund Committee, which is constituted under section 101 of the Local Government Act with associated decision making powers.

The Pension Fund Committee currently is comprised of :

- Cllr Clive Lloyd, Chairman
- Cllr Phil Downing, Deputy Chairman

- Cllr Jan Curtice
- Cllr Mike Lewis
- Cllr Will Thomas
- Cllr Gareth Sullivan
- Cllr Peter Rees co-opted member (Neath Port Talbot County Borough Council)
- Ian Guy, Unison, observer member acting as the Chairman of The Local Pension Board

3.2 Membership of the Pension Fund Committee is subject to a comprehensive programme of trustee training to achieve the statutory minimum level of skills and knowledge with which members can discharge their responsibilities

3.3 **The Local Pension Board**
Since 2015, The Pension Regulator requires the establishment of a Local Pension Board (equal numbers of scheme members' representatives and scheme employer representatives, whose role according to the statutory instrument is to 'assist' the Administrating Authority in its role as scheme manager, which in practice, is to provide an oversight and scrutiny role, ensuring the regulations and best practice are adhered to.
The Local Pension Board is comprised of :

- Ian Guy, Unison, Chairman
- Rosemary Broad, GMB Union (newly appointed Mar 2020)
- David White, Unison
- Cllr Alan Lockyer, Neath Port Talbot County Borough Council
- David Mackerras, Pelenna Community Council
- Cllr Peter Jones, Swansea Council (newly appointed Sep 2020)

3.4 Similarly, membership of The Local Pension Board is subject to a programme of skills and knowledge training to acquire the minimum threshold of competence required.

3.5 **National LGPS Scheme Advisory Board (SAB)**
Established in 2013, the national Scheme Advisory Board (SAB) was established to be proactive and reactive to proposals made by central government (Ministry of Housing, Communities and Local Government, MHCLG) in relation to the LGPS and its regulations and to provide guidance and advocate on behalf of the scheme at government levels and with The Pension Regulator.

3.6 Cllr Clive Lloyd is the Welsh Local Government Association's (WLGA) representative on the SAB.

3.7 **Wales Pension Partnership (WPP)**
In 2015, the then Chancellor instructed all of the 87 LGPS Administrating Authorities in England & Wales , on a voluntarily basis to 'pool' the management of their assets into larger asset pools, with a view to improving the efficiency of the deployment of capital, maximising buying power and increasing economies of scale and therefore improving investment outcomes. The pools of assets

created from this process were: The Northern Pool, London CIV, Brunel, Central, Borders to Coast, Access, LPP and the Wales Pension Partnership (WPP)

3.8 The WPP is comprised of :

- The City & County of Swansea Pension Fund
- The Cardiff & Vale Pension Fund
- The Clwyd Pension Fund
- The Dyfed Pension Fund
- The Greater Gwent Pension Fund
- The Gwynedd Pension Fund
- The Powys Pension Fund
- The Rhondda Cynon Taf Pension Fund

3.9 The WPP was constituted under the inter authority agreement (IAA) and its governance and decision making is delegated to the Joint Governance Committee (JGC) consisting of the 8 individual Pension Fund Chairmen. There is currently consideration for the co-option of a scheme member representative on to the JGC. The City & County of Swansea Pension Fund member of the JGC is Cllr Clive Lloyd.

4. Pension Fund Objectives & The Investment Strategy

4.1 The law commission outlined the responsibilities of a pension fund's investment strategy as:

"The primary aim of an investment strategy is to secure the best realistic return over the long term, given the need to control for risks"

The investment strategy of the City & County of Swansea is formulated to meet the liabilities of the pension fund in the most cost effective manner as possible for employers. The investment horizon for the City & County of Swansea Pension Fund is long, as the fund exists to meet the pensions of current pensioners but also members who have only just joined the scheme but shall only retire in 40 years' time. Therefore the asset mix needs to fulfil a variety of functions and includes growth assets such as global listed equities and private equity to meet future liabilities but also liability matching, income yielding assets like bonds, property and infrastructure to meet current and medium term liabilities, whilst also having defensive assets like equity protection and hedge funds to mitigate against market shocks.

4.2 In addition to the long term time horizon of its investment strategy is the fundamental principle of diversification within its investment portfolio and as such, the portfolio is varied by asset type, by geography and by fund manager with which to mitigate the various risks. It is designed to provide protection against systemic shocks and volatility in financial markets with the objective of making contributions stable and affordable for stakeholders in the scheme for the long term.

4.3 The current asset mix of the portfolio (30/6/20):

Asset	**£'000**
Growth	
Global equities	1,603,025
Private Equity	91,997
Income yielding	
Fixed income	299,195
Property	106,781
Private debt	25,620
Infrastructure	35,997
Insurance	
Hedge funds	54,180
Equity Protection	16,199
Cash	23,545
TOTAL	**2,256,539**

4.4 At 30/6/20, the fund was approximately 96% funded on actuarial basis. During 2019, the investment strategy was revised with a view to reducing the growth assets (global equities) and increasing yielding assets (property, infrastructure and private debt) by approximately 10% during 2020 in line with the changing profile of scheme membership with the aim of reducing the volatility within the portfolio and locking in some of the gains of the last 10 years. These commitments are being deployed during 2020. Ahead of that lead in time, the fund has implemented an equity protection programme.

4.5 As widely reported there was a lot of market volatility in March, April, May 2020 due to Covid 19 fears, with global markets off -20%, however the inclusion of the equity protection programme provided approximately £9m of capital preservation at that time.

5. Responsible Investment Policy - Environmental, Social Governance (ESG) Factors

5.1 *"Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance factors, and of the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems."*

United Nations Principles for Responsible Investing (UNPRI)

5.2 The latest guidance from MHCLG in 2017 is clear, although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision. It now encourages non-financial factors to be considered alongside financial priorities outlined in 4.1 with the law commission clarifying:

"The most important distinction is between the factors relevant to increasing returns or reducing risk (financial factors) and those which are not (non-financial factors) with a non-financial factor being motivated by other than financial concerns e.g. working conditions of employees".

5.3 The Pension Fund Committee undertook an extensive education and training programme culminating in a workshop in Nov 2017 where it was the first LGPS in Wales to formulate its Responsible Investment Policy attached at Appendix 1.

5.4 The non-financial factors identified for consideration are largely categorised into 3 areas:

Environmental	**Social**	**Governance**
Climate change	Customer satisfaction	Board structure
Resource scarcity	Community Relations	Accounting & audit
Water	Working Conditions	Directors' remuneration
Biodiversity	Diversity	Bribery & corruption
Pollution	Health & safety	Shareholders' rights
Energy efficiency	Employee well being	Transparency
Waste Management	Data protection	Political affiliations

5.5 The Pension Fund Committee's Responsible Investment Policy has outlined the Fund's approach to responsible investment in two key areas:

1. **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance ("ESG") factors on its investments.
2. **Effective Stewardship** – acting as responsible and active investors, through considered voting of shares, and engaging with investee company management as part of the investment process.

5.6 The committee agrees with the importance of all ESG factors, however for the purposes of this report it can be seen in Appendix 1 that Climate change risk has been identified as a clear systemic risk. To address this risk within its policy:

'***The Committee has made a commitment to reduce the Fund's listed equity portfolio's carbon exposure, and as part of this, it has set a target of the Fund's equities being 50% lower when compared to the global stock market by 2022 (MSCI AC World index, measured in terms of carbon emissions per £m invested)***'.

5.7 Effective stewardship is the meaningful engagement with investee companies to affect positive change via shareholder activism and voting both as fund and collectively as the WPP and the LGPS as whole through the fund's membership of the Local Authority Pension Fund Forum (LAPFF) and the PLSA (Pensions &

Lifetime Savings Association) . Examples of recent effective engagement has been the decision by Royal Dutch Shell to align the CEO's remuneration with reducing Co2 target emissions, having been requested to do so by a group of investors.

5.8 The Pension Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and the PLSA (Pensions and Lifetime Savings Association) where ESG issues are raised on behalf of the LGPS as whole.

6. Climate Change Risk

6.1 The evidence is overwhelming that 'Business as Usual' does not seem consistent with a sustainable planet and so something has to change – perhaps nearly everything must change. Certainly, the way that long-term investment is thought about will need to recognise the impending realities of climate change and the investment risks and opportunities that it creates. Pension schemes should be at the vanguard of that thought, but they need the support of their service providers and an appropriate context set by legislators and regulators to assist.

6.2 This is reflected in the Paris Agreement, which has committed its signing nation states to:

"Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."

6.3 Pension schemes have often seemed first in line for making finance flows consistent in this way, perhaps because of their high profile role at the top of the investment chain, which is seen as placing them in a position to use their influence to draw good practice on climate change up through that complex chain. Certainly, much policymaker attention has been on the pension industry, as has that of civil society players, noting the influence that individual savers may be able to wield at pension schemes, however as noted in 6.9 UK pension funds only account for 2.4% of shares. Trustees certainly have influence. Yet pension schemes cannot act alone if they are to deliver the change that is necessary. They need information on which to base their decisions. They need to be able to set clear expectations and hold service providers to account against them. They need relevant skills and expertise. And they need appropriate products and vehicles through which to invest in a carbon-constrained future.

6.4 Whilst the physical downsides of climate change already are being felt in many parts of the world (fires in California, Brazil and Australia; intense rainfall, flash flooding around the world and rising sea levels), the issue is still viewed as a medium to long term risk. Certainly unless Co2 emissions are restricted and perhaps reversed in the future, these physical impacts shall worsen.

6.5 The immediate and growing risks are financial: climate impacts have already caused physical damage to property and infrastructure, reducing property values, disrupting logistics and communications and infrastructure, creating additional insurance burdens. Further, the risks of the transition to a lower carbon economy that the science urges on us will also have significant financial implications: some current assets will become obsolete, other investment opportunities will blossom. If these changes are planned for they will cause less financial disruption, but the longer change is resisted the more disorderly the shift may become. An investor conscious of fiduciary duty to beneficiaries will need to keep these risks in mind when investing, particularly when investing for the medium- to long-term.

6.6 Given that it is perceived to be a medium- to long-term risk, it is typical of the issues that pension scheme investors need to worry about. The risks will cause financial impacts over the life of pension scheme investments and yet they are not usually because pension fund time horizons are typically longer than those of other participants in the investment chain, the issues of climate change are more pertinent for schemes than for the range of investment intermediaries with which they tend to operate – though government action and regulatory change is bringing the impacts of climate change more into the immediate future. It may also mean that perhaps a disproportionate level of regulatory and political attention is focused on pension schemes in the expectation that their long-term focus and their influence on the investment chain can help align the system into a more long-term mind-set. Trustees are not always convinced that they can influence the entire investment chain in this way, not least because of the small percentage of asset owners that pension funds are. Further, the closure of DB (defined benefit) schemes and the maturity of many of the pension schemes that were formerly significant owners of UK equities has led to pension funds moving much of their investment portfolios into fixed income and real assets, so that pension funds (of which the LGPS is only a subset) as a whole now hold only 2.4% of UK shares.

6.7 The main aims of pension funds in relation to the challenge of a changing climate must be to manage and mitigate the financial implications of the physical impacts of change, and to position portfolios effectively for the transition to a less carbon-intensive economy. Investing in a climate-aware way means exactly this: positioning for the expected future and to limit damage in the short- and medium-term. Their role is not to change corporate behaviour or financial systems for their own sake, but in order to enable pension schemes to invest in ways that give the best chance of delivering on the pension promise to beneficiaries.

6.8 This was the conclusion of the Law Commission in its 2014 report on the Fiduciary Duties of Investment Intermediaries: that incorporating material ESG factors is in beneficiaries’ best interests because it helps deliver stronger long-term returns, and limit downside risks. It is not an aim in itself, but a way of delivering effectively for beneficiaries. The Law Commission’s thinking was reflected in 2018 changes to the Occupational Pension Scheme (Investment) Regulations, not because the Commission thought change was needed but rather because it was believed the reforms might deliver positive behavioural change.

6.9 Expecting UK pension funds on their own to deliver climate change-preparedness at UK-listed companies is not realistic. That is the case not least because the Office for National Statistics analysis of the ownership of the £1.88 trillion value of UK quoted companies reveals that pension funds own only 2.4% of all shares. This compares to 4% owned by insurance companies and 13.5% owned by individuals – and nearly 55% ownership by foreign investors but LGPS can start to deploy their assets in a more climate aware way, which the City & County of Swansea Pension Fund have embraced.

6.10 The world is in a transition phase as we all, as a society, amend our behaviours to transition to a low carbon economy. Aspiration to achieve a totally carbon neutral state are unachievable or not economic at this point in time, however great strides are being made to make that leap in the medium term and the pension fund investment strategy is at the forefront utilising what is currently available and economically viable in investment portfolios at this time, however it continues to evaluate and consider new developments as they become available.

7. Carbon Footprinting

7.1 The pension fund committee has been subject to vigorous lobbying from various interest groups (Friends of the Earth and Extinction Rebellion) in respect of its 'fossil fuel' company investments (energy sector) with a view to wholesale divestment from these industries. This narrow approach ignores the fact that **all** companies have a 'carbon footprint' and the committee believes a more holistic approach to reducing the impact of carbon emissions is required to address climate change risk.

7.2 What do we mean by 'carbon footprint' ? and how do we measure it in respect of the listed equities the pension fund invests in:

The key carbon metrics assessed for this purpose are:

- **Scope 1 – All Direct Emissions** from the activities of an organisation or under their control. Including fuel combustion on site such as gas boilers, fleet vehicles and air-conditioning leaks.

- **Scope 2 – Indirect Emissions** from electricity purchased and used by the organisation. Emissions are created during the production of the energy and eventually used by the organisation.

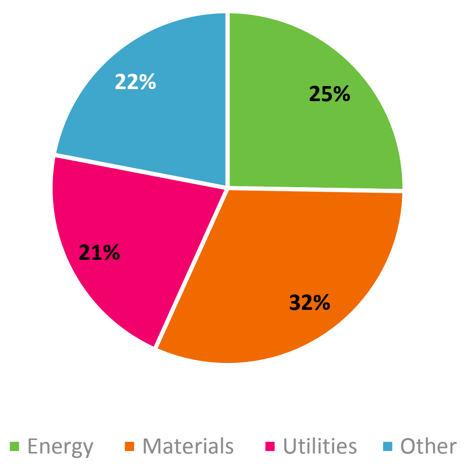
- **Carbon emissions** - the carbon emission (tonnes of CO_2) per £million invested. *Sum of ((£investment in issuer/issuers' market cap) * issuer's emissions)* – results shown as per £m invested.

- **Carbon intensity** – a measure of a portfolio's carbon efficiency, defined as the total carbon emissions of the portfolio as a proportion of underlying company sales. This is a useful metric in allowing the comparison of emissions across companies of different sizes and industries. *Sum of issuers' carbon emissions / Sum of issuers' £m sales.*

- **Weighted average carbon intensity** – the sum product of the constituent weights and carbon intensity. *Sum of portfolio weights * carbon intensity*

7.3 It can be seen that the energy sector accounts for only 25% of carbon emissions within the index. A more efficient and less volatile approach to reducing carbon exposure within the portfolio would be a more holistic approach by reducing the carbon exposure throughout the whole portfolio and achieving a far more efficient implementation of the goal to reduce carbon exposure target of 50% reduction in overall carbon emissions, than purely excluding fossil fuel companies.

fig 1. Contribution to Carbon emissions



8. Reducing the Fund's Carbon Exposure

8.1 Late in 2017, the pension fund was amongst the first in the country to measure and assess the level of carbon exposure in its listed equity portfolios, which identified that the investment portfolio at that time was approximately **9% below** the average.

8.2 In line with the WPP 'pooling' timetable in paragraph 3.7, the City & County of Swansea Pension Fund was required to transition its £0.9bn actively managed global equity assets to the WPP Global Opportunities fund managed by Russell Investments in Jan 2019. At that time, our WPP partner funds did not have a Responsible Investing policy nor a view on reducing carbon exposure within the portfolio. When the equity portfolio was re- measured in 2019, the carbon exposure was in fact **15% more** than average.

8.3 At the same time the fund determined to appraise the option of switching the benchmark of the £0.5bn Blackrock managed passive index tracking fund from a market cap weighted benchmark to a newly launched low carbon index. The tracking methodologies had developed sufficiently so that there was negligible tracking error from the original index, whilst delivering a portfolio with **42% less** carbon footprint than the index.

8.4 Following Swansea's decision to switch its passive assets to the passive low carbon index, a number of other LGPS and institutional funds invested alongside it as a seed investor . Similarly in its role in WPP, it shared its positive experiences of low carbon investing with its fellow WPP funds and subsequently Gwynedd, Torfaen and Cardiff have made the switch into the same fund, with others about to consider the same.

8.5 

8.6 Later, in that year, at the Local Authority Pension Fund (LAPF) Awards, the work of the City & County of Swansea Pension Fund in this field was recognised by winning the Award for ‘Best Approach to Sustainable Investing.’

8.7 As identified in 8.2, the WPP active global equities does not have a low carbon target, however WPP have since adopted a Responsible Investment Policy and constituent funds are currently appraising the reconfiguration of the portfolio to incorporate lower carbon targets. The progress of the same, however is not consistent with the timescales that the City & County of Swansea Pension Fund Committee has committed to.

8.8 To address the carbon overweight position on the WPP portfolio on an interim basis until the WPP can implement its low carbon proposals, the Deputy S151 Officer and Russell Investments have devised a programme of innovative ‘Total Return Swaps’ which effectively remove the carbon intensive stocks from the portfolio in a cost effective manner which was further refined by Hymans Robertson before implementation by Russell investments which effectively reduces the carbon footprint of the WPP portfolio **by 47%.**

8.9 **Therefore at October 2020, at total listed equity level when the portfolio was re-measured, following the above changes, on a weighted average basis, the total carbon footprint, has been reduced by 47%, with the fund well on its way to its target of 50% reduction by 2022.**

8.10

Date of carbon measurement analysis				
Manager	**Mandate**	**Carbon emissions (tonnes of CO_2) per £m invested (% of MSCI ACWI – target is 50%)**		
Date of carbon analysis		**2017**	**2019**	**Oct 2020**
Russell	Wales Pension Partnership ('WPP') Global Opportunities Equity mandate	N/A	(130%)	(53%)
Blackrock	World Low Carbon	(100%)	(58%)	(58%)
Aberdeen Standard Investments ('ASI')	Frontier Markets (to be redeemed in 2021)	(51%)	(51%)	(51%)
Schroders	UK Equity	(72%)	N/A	N/A
JP Morgan	Global Dynamic	(90%)	N/A	N/A
Swansea Total Listed Equity Portfolio % carbon footprint		**(91%)**	**(111%)**	**(53%)**
MSCI ACWI		*(100%)*	*(100%)*	*(100%)*

It is noted that the quality and completeness of carbon reporting by companies has improved over the years and that it continues to evolve.

9. Other Climate Change Risk Investments

9.1 Alongside its listed equity investments identified in 4.3, the pension fund also invests in a range of private market real asset investments. In January 2020, the fund committed £30m to the Blackrock Global Renewable Power Fund III which invests in global solar and wind farm projects, (a third iteration of the fund).

9.2 Wind and solar power currently account for 6% of global electricity generation, according to the IEA(International Energy Agency) up from 0.2% in 2000. Some countries, such as Germany and Spain, are at shares of more than 20%. In the U.S., California can source close to 30% of its power from non-hydro renewable sources, while states such as Iowa and Kansas can exceed that proportion, according to the U.S. Energy Information Administration. As with many technologies, greater scale brings lower prices, driven here by improved wind turbines and more efficient solar panels, among other factors. Over the last ten years the global average levelized cost of electricity (LCOE) declined an estimated 83% for solar photovoltaic (PV) and 52% for onshore wind, according to BNEF (Bloomberg New Energy Finance). In many locations it is becoming cheaper to build new renewables than to continue operating old nuclear and coal plants with high marginal costs. By 2030, it is projected that new-build renewables will be less expensive than existing fossil fuel plants in most countries, if the reference case in McKinsey's *2019 Global Energy Perspective* comes to pass.

9.3 It is these metrics which make renewables an attractive investment to provide yield for pension funds with their sustainable long term contractual income streams which match well with the long term liabilities of the pension fund, whilst also having a material positive impact on its climate risk goals.

9.4 The fund has also committed capital to 2 Community /Affordable Housing Funds with Man Group and Bank of Montreal (BMO) which look to provide quality private rented accommodation/shared ownership housing in the UK at below the prevailing market rent in the area using the recognised Rowntree methodology for determining local affordability. This is not social housing but affordable housing for people/families who cannot afford market rents and do not qualify for social housing i.e. the 'squeezed middle'. The City & County of Swansea Pension Fund would be investing alongside a number of other institutional investors, therefore diversifying the investment risk. Being a 'seed' investor has enabled Swansea to request that the funds appraise opportunities to deploy capital in the Swansea area. Both MAN Group and BMO are currently undertaking due diligence on sites in the Swansea area, one of which is at late stage due diligence and aims to be a carbon neutral housing development.

10. Next Steps

10.1 We continue to work with index providers to refine the constituents of the low carbon passive index and are in discussions with BlackRock to reduce carbon exposure further.

10.2 Work with WPP to implement the low carbon global equities fund.

10.3 Influence constituent authorities to shape WPP's existing and future portfolios in line with the principles of responsible investing.

10.4 Review climate risk in the remainder of the investment portfolio.

10.5 Review current listed equities carbon reduction targets.

10.6 Consider if there is scope to broaden this review further, to include other ESG related aspects, human rights, labour rights, governance, etc. This would work in a similar way to the process followed in the analysis for this paper, i.e. the Fund's underlying holdings compared to a broader universe using a provider's underlying scoring.

Where possible this assessment could also be broadened out to the Fund's other asset classes, i.e. not just equities.

11. Other News

11.1 The Pension Fund Committee has implemented a programme to reduce the fund's equity exposure by approximately 10% with a switch into yielding real assets (residential housing. Infrastructure, private debt, PE). Whilst this programme is implemented which takes a degree of lead in time for private assets, the fund has implemented an innovative equity protection programme, which synthetically reduced the equity exposure by the commensurate %.

11.2 At the height of the Covid pandemic in March 2020, global equity markets were – 20%. The implementation of the equity protection programme at this time resulted in a +£9m positon for the fund.

11.3 The City & County of Swansea Pension Fund has been shortlisted for 2 LAPF (Local Authority Pension Funds (LAPF) awards in respect of the this work :

- Best Investment Strategy 2020
- Best Innovation 2020

12. Summary

12.1 The City & County of Swansea Pension Fund adopts its Responsible Investment and Climate Risk Policy.

12.2 The fund measures its carbon exposure in its listed equity investments (9% below average).

12.3 The fund commits to reducing its exposure in its listed equity investments by 50% by 2022.

12.4 The fund transitions £0.5bn of its index tracking global equities into a low carbon tracking fund (42% below average) .

12.5 The fund win the LAPF Award for 'Best Sustainable Investment Strategy 2019'.

12.6 In line with the pooling agenda, the fund is required to transition its £0.9bn of active global equities into the Wales Pension Partnership (WPP) Equity fund.

12.7 In October 2020, The fund implements its TRS (Total Return Swap) programme to remove carbon intensive stocks from its portfolio (47% less than average).

12.8 The fund commits £30m of capital to a Global Renewable Power Fund investing into solar and wind power.

12.9 The fund uses it role in WPP to inform and influence positive change in respect of climate change risk with its fellow Welsh LGPS.

13. Financial Implications

13.1 The financial implications of the investment decisions in 8.3 are negligible versus the market cap weighted index, with the anticipated tracking error of +/- 0.01% The incurred fees of the total return swap programme in 8.8 is £80k.

14. Legal Implications

14.1 There are no legal implications arising directly from this report

15. Equality Impact Implications

15.1 There are no equality implications arising from this report

Background Papers: None

Appendices: None