Cyngor Abertawe
Swansea Council

Report of the Chair of the Pension Fund Committee

Council - 4 November 2021

Amendment to Inter Authority Agreement (IAA) of the Wales Pension Partnership (WPP) and Funding & Investment Performance Update, and Climate Change Risk Update

Purpose:	To seek approval from Council to amend the previously approved Inter Authority Agreement (IAA) of the Wales Pension Partnership (WPP) to incorporate revised governance arrangements which allow a scheme member representative on the Joint Governance Committee (JGC) along with other operational changes identified and to inform Council of the funding position of the pension fund and recent investment performance and progress against mitigating climate change risk in the investment portfolio.
Policy Framework:	LGPS Investment Management Regulations
Consultation:	Finance, Access to Services and Legal
Recommendation(s):	It is recommended that Council:

1) Approve the amended Inter Authority Agreement (IAA) attached at Appendix 1;

2) Note the funding position and investment performance in section 4 of this report and the progress on addressing climate change risk and journey to achieving net zero within its investment portfolio in sections 5-10 of this report.

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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 90 plus separate schemes managed by the 89 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 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 (31/3/21) 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 eligible employment and yet to draw pension)

- 27 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

- £2.6bn 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 1972 with appropriate decision making powers.

The Pension Fund Committee currently is comprised of :
- Cllr Clive Lloyd, Chair
- Cllr Phil Downing, Vice Chair
- Cllr Jan Curtice
- Cllr Mike Lewis
- Cllr Will Thomas
- Cllr Gareth Sullivan
- Cllr Peter Rees (Neath Port Talbot County Borough Council) co-opted employer member
- Cllr Alan Lockyer, (Neath Port Talbot County Borough Council) 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, scrutiny and audit committee role, ensuring the regulations and best practice are adhered to.

The Local Pension Board is comprised of :
- Cllr Alan Lockyer, Neath Port Talbot County Borough Council, Chair
- Ian Guy, Unison,
- Rosemary Broad, GMB Union (newly appointed Mar 2020)
- David White, Unison
- 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 the governance and decision making is delegated to the Joint Governance Committee (JGC) consisting of the 8 individual Pension Fund Chairmen. Swansea Council originally approved the original inter authority agreement on Feb 23rd 2017, found here:

(Public Pack)Agenda Document for Council, 23/02/2017 17:00 (swansea.gov.uk)

3.10 At section 11 of this report, outlines the proposed changes to the IAA.

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, infrastructure and private debt 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 audited financial statements and annual report of the City & County of Swansea Pension Fund 2020/21 can be found here :
www.swanseapensionfund.org.uk

4.4 It can be seen that at 31/3/21:

- Fund value £2.614bn
- Increase in fund value of £626m
- Fund return of 31% (LGPS average 22%) outperformance of 9%
- Ranked 8th in year
- Ranked 10th 3 yr annualised
- Ranked 12th 5 yr annualised
- 103% funded

The fund has been recognised by being shortlisted for **3** awards in The 2021 LAPF (Local Authority Pension Funds) Awards :

- 'Pension Fund of the Year with assets >£2.5bn'
- 'Best Investment Innovation' for its programme of total return swaps implemented to reduce its carbon exposure in its listed equity portfolio.
- 'Best Climate Change Strategy'

Winners to be announced on Dec 15th 2021.

4.5 Noting the strong performance and funding position outlined above , the Pension Fund Committee have approved the continued asset reallocation strategy switching capital from its listed equities to yielding real assets, locking in some of these gains ahead of the 2022 triennial valuation. It is recognised that this entails accompanying relative opportunity risk should equity markets continue to outperform, but is considered prudent to mitigate the risk of drawdown.

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.

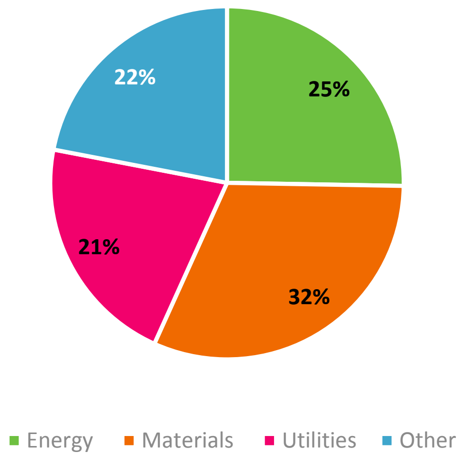
- **Carbon emissions** - the carbon emission (tonnes of CO2) per £million invested. *Sum of ((£investment in issuer/issuers’ market cap) * issuer’s emissions)* – results shown as per £m invested

- **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 (fossil fuels) 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 WINNER
LAPF INVESTMENTS AWARDS 2019
BEST APPROACH TO SUSTAINABLE INVESTING

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.'

8.6 The fund has also been shortlisted in the LAPF Awards 2021 for best Climate Change Investment Strategy (results TBA in Dec 2021)

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 58%**

8.9 **Therefore at September 2021, 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 58%, with the fund well ahead of its target of 50% reduction by 2022.**

The Pension fund Committee have now taken this opportunity to appraise setting a 'Net zero 'carbon emissions target in respect of parts/all of its investment portfolio. (see section 10 of this report)

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 nonhydro 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/flex rent housing in the UK at below the prevailing market rent in the area using the recognised 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 fully carbon neutral housing development.

10. Achieving Net Zero in the Fund's Investment Portfolio

10.1 As the necessity to address climate change and the risks it poses financially grows across the globe, many large asset owners and fund managers have made or have stated net zero targets or ambitions, including many of our strategic investment partners, Blackrock and Russell Investments.

10.2 As fund managers and investee companies realise the importance of being carbon/resource aware, the opportunities to invest in carbon responsible way have increased, though it is still a long way from being a 'free lunch'. However it is a quickly evolving space as asset managers look to meet increasing asset owners' demands in this regard.

"Net zero" means reaching a state of the world where there is a balance between the greenhouse gases human activity discharges into the atmosphere and the emissions that can be safely absorbed by natural processes or which are otherwise removed. Policy pathways towards net zero

will determine the nature of the climate risks faced by asset owners. Carbon emissions have rapidly increased in the last 70 years and the change required to achieve net zero is huge, and is therefore likely to be a key driver of risk and return in future.

10.3 The Deputy S 151 Officer in consultation with the Chairman of the Pension Fund Committee commissioned Hymans Robertson, the fund's appointed investment consultants to assess the implications and feasibility of the Pension Fund considering and then implementing a Net Zero ambition/target, with a view to formulating a plan and roadmap to achieve the same whilst considering all risks and mitigations.

10.4 Members of the Pension Fund Committee and The Local Pension Board participated in a workshop on the 26th October 2021 to appraise the impact of adopting a roadmap to achieve net zero and identifying appropriate timescale and plan to achieve the same.

10.5 **Evolving the Fund's climate ambitions to achieve Net Zero Carbon Target**

To date, the Fund's approach to managing climate risk has mainly related to assessing backward-looking Carbon metrics (i.e. carbon footprint), and engagement with Russell and WPP on decarbonisation has led to reduced exposure and therefore risk in this area.

• This approach has successfully mitigated climate risk associated with the heaviest-emitting carbon sectors and companies, however a more rounded approach to addressing climate risk is now appropriate as this will:
• demonstrate the Fund's proactivity in relation to RI and climate;

• lead to lower climate risk exposures; • identify forward looking opportunities; and

• contribute more fully towards a Carbon 'Net Zero' future.

• The development of the Fund's RI beliefs as we have suggested, will underpin the Fund's actions on climate risk.

• The climate actions of the Fund are developed across three key areas ('3-dimensions') to give greater balance between

1. Carbon and other ESG metrics (both backward and forward looking)
2. Opportunities that will benefit from the transition to a lower carbon economy
3. Engagement activities focussed on climate, and encouraging best practice amongst fund managers, investee companies and other investors

10.6 **The Roadmap to Net Zero**

2017-2022	**2022 onwards**		**2040 ??**
	Carbon metrics Develop forward and backward looking carbon metrics	Backward looking measures will limit short-term risk relating to damaging industries Forward looking measures will better reflect the risks throughout long-term energy transition (i.e. path of emissions is important) Metrics/availability of data will evolve	
Carbon metrics Currently focussed on reducing carbon footprint by 50% vs MSCI AC World	**Opportunities** Seek investments that benefit the energy transition	The transition to a low carbon global economy will present many investment opportunities for proactive investors The Fund should seek new, attractive investment opportunities (both equity and non-equity) which will give impact & support the transition	**NET ZERO** Achieve Net Zero emissions for the fund
	Engagement Engage with the Pool, fund managers, stakeholders to bring about change and positive impact	A programme of engagement should be undertaken with WPP & fund managers to mitigate climate risk, challenge current actions and encourage best practice The Fund should collaborate with other investors and be an advocate for change and public disclosures.	

11. Wales Pension Partnership (WPP) – Inter Authority Agreement (IAA)

11.1 As indicated in section 3.9 of this report, Swansea Council approved the original IAA in Feb 2017.

11.2 The WPP is now well established and progress is regularly reported to the Pension Fund Committee on a quarterly basis but the following highlights from its most recent annual report are:

- The WPP has now established eight investment sub-funds across Equity and Fixed Income asset classes, with further sub-funds planned for launch in 2021 and 2022

- The total value of pooled Assets under Management (AuM) totalled £9.4 billion, with an additional £5.2 billion of passive equity assets also held under a pooled arrangement;

- The City & County of Swansea Pension Fund has successfully pooled c. 84% of its assets as at 31st March 2021, placing it well ahead of its LGPS peers;

- The Governance structure of the pool is now fully operational. This includes an FCA certified operator, Link Fund Solutions, who manage the Authorised Contractual Scheme (ACS).

- In addition, several specialist advisors have been appointed to support the WPP in respect of investment management, custodial services, voting and engagement and legal services;

  A suite of policy documents has also been established and published on the WPP website covering all aspects of investment, governance and risk management.

11.3 The Joint Governance Committee of the WPP have previously approved the following amendments to the IAA. The JGC approved changes are explained below:

1. **Scheme Member Representative to be co-opted to JGC**
   - **a.** For some time, the JGC has collectively agreed that provision for a Scheme Member representative should be included within the IAA, allowing their appointment to the JGC in a non-voting capacity. This provision has been supported by the Scheme Advisory Board (SAB) who have raised the profile of member representation in recent years;
   - **b.** A Scheme Member representative will be able to join the JGC as a co-opted, non-voting member. Following legal advice, it was suggested that the co-opted member provisions are changed rather than the core structure of the JGC. As such, the Scheme Member representatives are not ‘members’ of the JGC as far as voting and exercise of powers, however they would be entitled to see the papers, attend and speak at meetings, including on exempt items;
   - **c.** The WPP sought specialist legal advice from Burges Salmon as to the viability and appropriateness of such a position which was subsequently agreed by the JGC in December 2020. This proposal has now been reflected within revised wording to the IAA.
   - **d.** Following its approval, officers have been developing, in consultation with advisors and the JGC, a person specification in anticipation of advertising for a Scheme Member representative;
   - **e.** The IAA as currently drafted does not make provision for the inclusion of a Scheme Member representative. The revised version now acknowledges the role of the Scheme Member representative for members consideration and approval.
2. **Allocator appointment for the Private Market Alternatives sub-funds**
   - **a.** The WPP has now established eight sub-funds available for investment with a collective £9.4 billion AuM. However, the development of real asset sub-funds (i.e Real Estate, Infrastructure, Private Credit) also known as “Private Market

Alternatives" has proved to be more challenging than first envisaged;

b. In contrast to listed assets such as Equities and Fixed Income the Private Market Alternatives comprise of different characteristics which make them more "bespoke" in nature. It is not as straightforward to establish a Private Markets solution which meets the needs of all constituent authorities in the same way that has been achieved on the existing sub-funds already launched;
c. Following the receipt of professional advice, it has been agreed that a specialist "Allocator(s)" with extensive experience and knowledge of Private Market Alternatives be appointed. The JGC approved this request and it was agreed that all future appointment/terminations of the Allocator role will fall under the remit of the JGC;
d. At the time of drafting the initial IAA, the WPP could not have anticipated the challenges noted previously in this section of the report in relation to Private Market alternatives. As the WPP has evolved and the needs have altered, so has the requirement for the role of an Allocator.

3. **Minor revised changes to the IAA**
   a. With the abovementioned changes requiring Council approval, the WPP decided to undertake a full review of the IAA. As a result, several minor changes have been made to align the IAA to the work carried out by the WPP;
   b. The revised changes include minor amendments to the terms of reference in relation to the role of the Officer Working Group (OWG) and the establishment of sub-groups. In addition, the review, formulation and evaluation of WPP policies is more clearly captured within the role of the OWG.

11.4 The amended WPP IAA is attached at Appendix 1 for approval by Council

12. Financial Implications

12.1 There are no direct financial implications arising from the recommendation of the report

13. Legal Implications

13.1 The proposed amendments have been appraised by appointed legal advisors to the WPP and the 8 Monitoring Officers consulted.

14. Integrated Assessment Implications

14.1 The Council is subject to the Equality Act (Public Sector Equality Duty and the socio-economic duty), the Well-being of Future Generations (Wales) Act 2015 and the Welsh Language (Wales) Measure, and must in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Acts.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.
- Deliver better outcomes for those people who experience socio-economic disadvantage.
- Consider opportunities for people to use the Welsh language.
- Treat the Welsh language no less favourably than English. - Ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs.

The Well-being of Future Generations (Wales) Act 2005 mandates that public bodies in Wales must carry out sustainable development. Sustainable development means the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in accordance with the sustainable development principle, aimed at achieving the ‘well-being goals’.

Our integrated Impact Assessment process ensures we have paid due regard to the above. It also takes into account other key issues and priorities, such as poverty and social exclusion, community cohesion, carers, the United Nations Convention on the Rights of the Child (UNCRC) and Welsh language

Background Papers: None

Appendices
Appendix 1 – The Wales Pension Partnership (WPP) Inter Authority Agreement (IAA)