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**Case study: West Midlands Pension Fund**



THE PRINCE OF WALES'S  
CHARITABLE FUND



West Midlands Pension Fund



## KEY HIGHLIGHTS

- The West Midlands Pension Fund (WMPF) has been following the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) to help shape its approach to climate risk management ever since the recommendations were published in 2017.
- Using the TCFD framework has enabled us to refine our approach in identifying and disclosing climate-related risks and opportunities.
- We recognize that we are on a journey and our identification and reporting of climate-related data will continue to mature.

## WHAT?

The West Midlands Pension Fund is a Local Government Pension Scheme (LGPS) with over 330,000 scheme members and £17bn of net assets.

We have been using the TCFD framework for the past three years to guide us on how we consider the implications of climate change within our portfolio, and monitoring the progress we are making on this. Using the TCFD framework means that we report publicly on:

- Our governance of climate-related risks, including who is responsible for overseeing climate risks and who has day-to-day responsibility for managing them;

- Our strategy for measuring and observing climate-related risks, including how this feeds through into asset allocation decisions;
- Our approach to managing our climate-related risks at both the total fund level and individual asset class level; and
- The metrics we consider and the targets we have set ourselves.



## WHY?

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Climate change, and the risks and opportunities it presents to us as a long-term investor, has been a key consideration for us for a number of years. We carried out an initial assessment of our exposure to climate-related risks in 2017, with follow up analysis currently being undertaken in collaboration with the LGPS Central investment pool. We recognize the scale of the challenge and actions required, not just for investors but also more broadly for companies and consumers.

As a strong advocate for investee company transparency and disclosure, we were keen to ensure that we lead by example. The emergence of TCFD reporting in 2017 aligned with the work we were already undertaking on climate change in our approach to investing. We decided to use the TCFD framework to describe our climate-risk management processes – from identification through to disclosure – within our upcoming annual report. We were one of the first pension funds in the UK to do this. The annual nature of the reporting helps us to refine and evolve our approach.

## HOW?

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To report in line with the TCFD recommendations, we have been drawing on the numerous responsible investment activities that we have been undertaking over a number of years to identify and address the impact of climate change on our Fund.

In order to test portfolio resilience and to support the development of our climate strategy, we commissioned an independent review of our climate risks. This enabled us to understand the returns impact of climate change under a range of scenarios across our portfolio, and the findings led us to develop a Climate Change Framework and Strategy in 2018/19 which uses the TCFD's recommended four thematic areas:

### **Governance**

Oversight of our Climate Change Framework and Strategy sits with our Pensions Committee, and is reviewed at least annually. The Committee receives regular training on the financial impacts of climate change and wider responsible investment, with climate change being one of four engagement themes. Responsibility for the day-to-day implementation is delegated to our Director of Pensions and Internal Investment Committee, who have oversight of our external managers and the reporting we do on our approach to managing climate related risks.



## Strategy

Setting out our ambition in our Climate Change Framework and Strategy provides us with real incentive to continually strive forwards, and enables us to clearly see the progress we have already delivered. Around 10-15% of the Fund is now invested in low carbon and sustainable investments, while less than 1% is in pure-play thermal coal producers. We have also ensured that in our selection and due diligence of directly and indirectly held assets, we assess material climate change risks and opportunities alongside other relevant investment factors. Committing to the Principles for Responsible Investment (PRI), and submitting an annual transparency report, are part of our climate strategy, with our recent assessment receiving A+/A across all categories. With our stewardship approach, our engagement with investee companies focuses very much on driving more sustainable business activities, with divestment seen as a last resort.

## Risk management

Through our investment pooling company, LGPS Central Ltd, we use a climate risk monitoring platform as the primary means through which we identify and assess climate risks. Idiosyncratic risks are managed on a delegated basis by our appointed fund managers, while our portfolio level risk management levers are our asset allocation and stewardship activities. This is why research and collaboration through platforms like the **PRI**, Institutional Investors Group on Climate Change (**IIGCC**), Transition Pathway Initiative (**TPI**), **Climate Action 100+** and the Local Authority Pension Fund Forum (**LAPFF**) are so important to us.

## Metrics and targets

It is challenging to report consistent climate metrics due to the lack of standardization in the market and significant variation across different asset classes. Our preferred metrics to date have been evidenced based returns impact – given various climate scenarios – and a heat map showing the asset classes with the greatest exposures to this risk factor. We also report on our climate stewardship, such as co-filing or supporting climate-related shareholder resolutions, and disclosure of the carbon footprint of our listed equity funds using the weighted average method recommended by the TCFD.



## NEXT STEPS

We are on a journey to further develop our understanding and assessment of the financial risks associated with climate change. Our TCFD reporting, and the process through which it has been developed, has been extremely valuable. For example, by using future global warming scenarios it has provided us with further insight into the Fund's climate-exposure and portfolio resilience. Through this work we have taken targeted actions through asset allocation, development of investment mandates and company engagement, to reduce exposure to risk.

Our approach to reporting will continue to evolve over time. We are looking to further expand our analysis and reporting across asset classes – this starts with greater company and investment manager disclosure, as well as collation of data and metrics across the portfolio. As data capture and reporting systems improve, so will our reporting of climate risk metrics which will inform the ongoing development of our Climate Change Framework and Strategy.

“The WMPF Pensions Committee recognizes action on climate change requires commitment by all parties on a worldwide scale. The Fund has a long history of responsible investment and engagement and we believe that climate change is a financially material risk to the Fund which also provides investment opportunities. We recognize that as a large UK local authority pension scheme, we have a role to play in collaboration with others to engage and influence the change needed to meet the ambition to limit global warming in line with the Paris Agreement. Reporting, disclosure and transparency are essential to increase the dialogue on the collective actions needed to address climate change at the pace required.”

**COUNCILLOR JASPAL,  
CHAIR WMPF PENSIONS COMMITTEE**



# TOP TIPS

## **DETERMINE YOUR INVESTMENT 'BELIEFS'**

Establish evidence based 'beliefs' in relation to climate change and set simple and actionable climate-related objectives.

## **LEVERAGE EXTERNAL EXPERTISE AND SUPPORT**

Building a climate strategy and reporting in line with TCFD is resource intensive. We engaged external expertise on scenario analysis to support our team understand the returns impact of climate change risks and opportunities on the Fund's portfolio.

## **SET MEASURABLE AMBITIONS AND GOALS**

Investing through a climate lens and reporting in line with TCFD is a journey – schemes should avoid setting unrealistic goals at the outset but instead look to evolve them over time.

## **USE THE TRANSITION PATHWAY INITIATIVE**

Make use of the Transition Pathway Initiative Toolkit to observe climate risk management in large listed equity stocks.

## **ENSURE YOUR TRUSTEES HAVE REGULAR TRAINING AND CPD**

Trustee training on climate and investing is vital. This is a complicated area, and trustees need to understand how climate risks and opportunities impact on the financial returns the Fund is able to achieve.

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