

West Midlands Pension Fund responds to UK Fossil Free Divestment Campaign

The Fund believes that effective management of financially material environmental, social and governance risks should support the Fund's requirement to protect returns over the long term. With regard to climate change risks, the Fund recognises that the scale of the potential impacts is such that a proactive and precautionary approach is needed in order to address them.

The Fund's Pensions Committee has reviewed the issue of climate change and believes that a rapid, reactive response to this potential long term risk, for example divesting from all oil and gas stocks, may prove a detrimental strategy. As long term shareholders, the Fund feels that it must allow sufficient time for companies to respond to this rapidly changing regulatory and market environment. A balanced and prudent approach is therefore required. As such, at this time the Fund prefers to influence corporate behaviour through a robust active ownership approach. The Fund's concern is if we divest completely we lose the ability to influence and hold companies to account, whilst other sources of capital, less engaged in tackling climate risk, will step in and will be less forceful in their approach to long term stewardship and sustainability. This position of "engagement versus exclusion" is one of the Fund's beliefs and guiding principles, as outlined in its Responsible Investment Framework¹.

As outlined in its Framework, the Fund is committed to conducting the following activities to address potential climate change impacts to its portfolio:

- Encouraging improvement in the level of disclosure by companies of material climate change impacts through collaborative initiatives, for example via our partnership with the Local Authority Pension Fund Forum (LAPFF) and the Aiming for A' investor coalition, the Carbon Disclosure Project (CDP), and the Institutional Investors Group on Climate Change (IIGCC);
- Supporting – and where applicable co-file – reasonable shareholder proposals to disclose/justify a company's approach to climate change risk (as evidenced by the Fund's recent co-filing of shareholder resolutions at BP and Shell respectively);
- Reviewing its fund managers to understand their approach to incorporating climate change considerations and encourage improvements in identifying and assessing the potential impact of climate change;
- Contributing to public policy with regard to climate change as it relates to investment considerations through participation with organisations such as the IIGCC. In support of this aim, the Fund is a signatory to the Global Investor Statement on Climate Change;
- Increasing awareness of climate change as it applies to investment decision making through participation in relevant industry forums and collaborative initiatives; and,
- Keeping up to date on the latest research and thinking on the financial materiality and interconnectedness of climate change within and across asset classes.

In terms of opportunities, it should be noted that the Fund does have some investments in renewable and low carbon energy production and will continue to consider such investments where the risk/return profile fits the pension fund's investment strategy. Details of these investments can be found in the Fund's 2015 Annual Report (Page 44, 45) here: <http://www.wmpfonline.com/CHttpHandler.ashx?id=7083&p=0>. Further information on the Fund's responsible investment approach can be found here: <http://www.wmpfonline.com/ri>.

Ends

¹ <http://www.wmpfonline.com/CHttpHandler.ashx?id=7181&p=0>

Notes for Editors:

The West Midlands Pension Fund is one of the largest funds of the LGPS in England and Wales. As at 31 March 2015, it provided pension services to 277,558 current and former employees of the seven West Midlands district councils and 473 participating employers. The Fund was valued at £11.4 billion on that date and employed 116 FTE members of staff.

The West Midlands Pension Fund strives to be a best practice organisation, delivering a customer-focused service, while providing value for money to its stakeholders.

More information and case studies on the West Midlands Pension Fund's social investments in the region can be found in the Annual Report and Accounts 2014/15 at www.wmpfonline.com/annualreports

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