

**PENSION BOARD
26 FEBRUARY 2021****UPDATE ON THE OUTCOME OF ENVIRONMENTAL, SOCIAL
& GOVERNANCE (ESG) AUDIT AND CLIMATE RISK REVIEW**

Recommendation

1. **The Chief Financial Officer recommends that the Board reviews the outcome of the ESG Audit, Sustainable Development Goals (SDG) mapping and Climate Risk review for Worcestershire Pension Fund (WPF) attached as Appendix 1.**

Background and update

2. The attached report (Appendix 1) that is planned to go to Pensions Committee on the 16 March 2021 aims to bring together the conclusions from the ESG Audit & SDG Mapping project for the Fund by Minerva and LGPSC Central initial Fund specific Climate Risk Report. However, it is worth re-iterating what we mean by Responsible Investment.

Responsible Investment

3. Responsible investment is an approach to investment that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long term returns.
4. It has relevance both during the selection of an investment and after an investment decision has been made, through on-going stewardship activity which covers considered voting and engagement with investee companies. Responsible investment is a core part of the Fund's fiduciary duty. It is distinct from 'ethical investment', which is an approach to selecting investments on the basis of ethical beliefs (beliefs about what is morally right and wrong). ESG Factors include:



ENVIRONMENTAL

- Climate risk
- Carbon emissions
- Energy usage
- Raw material sourcing
- Supply chain management
- Waste & recycling
- Water management



SOCIAL

- Community relations
- Employee relations
- Health & Safety
- Human rights
- Product responsibility
- Workforce diversity



GOVERNANCE

- Board structure
- Executive remuneration
- Bribery and corruption
- CEO/Chair duality
- Shareholder rights
- Vision & business strategy
- Voting procedures

The Funds Responsible Investment journey so far

5. The Funds journey so far has been as follows, which has resulted in the attached report for consideration by the Board

- Training on Responsible Investment, Sustainable / Impact / Ethical Investment, and the spectrum of capital 31 January 2020.
- Agreement by the Pensions Committee in March 2020 to conduct an ESG Audit as part of its agreed Strategic Asset allocation plan.
- Workshop to discuss and debate the Fund's investment beliefs for a sustainable approach to investing. This included an introduction to the 17 United Nations SDG's and members agreed to prioritise the following SDGs that they considered are likely to have the biggest investment impact:-
 - *SDG 9. Industry, Innovation & Infrastructure (covers off 11 sustainable cities)*
 - *SDG 7. Clean Energy (covers off 6 clean water and sanitation)*
 - *SDG 8. Decent Work & Economic Growth*
 - *SDG 13. Climate Action*
- Member led specific ESG Audit & SDG Mapping working group agreed at June Pensions Committee.
- Appointment of Minerva 29 September 2020 to conduct an ESG Audit & SDG Mapping project for the Fund. To specifically examine the existing Investment Portfolio holdings of the Fund and their relationship (positive/ negative) to the 17 Sustainable Development Goals, specifically highlighting the SDGs detailed above in c. and identify the risks and opportunities associated with the analysis.
- Pool engagement – LGPSC Central initial Fund specific Climate Risk Report discussed at the working group in October and November 2020 with LGPSC Responsible Investment and Engagement Team.
- Minerva report on baseline assessment of mapping the Fund's portfolio to the UN SDG's reported to the ESG Audit working group 18 December 2020 and all member workshop on the 5 January 2021
- Review and next steps for a sustainable approach to investing workshop with all members on the 5 February 2021

- i. Agreement by the ESG Audit working group to the recommendations from the 5 February workshop and the final report from Minerva on the Funds ESG and SDG mapping for submission to this Committee.

6. The Fund has completed a robust ESG Audit, SDG Mapping and Climate Risk review of its portfolio and on the whole the outcomes have been positive. The key points and suggested recommendations from both the Minerva and LGPSC reports have been considered in detail over the past 4 to 5 months resulting in a number of workshops to debate and discuss these further. The suggested way forward for the Fund and next steps has culminated in a number of recommendations which will be seeking Committee approval

7. These cover 5 key strands as follows and are detailed in the attached report in paragraphs 21 to 24, namely:

- Monitoring of Fund Managers
- New guidelines for future Fund Manager selection
- Working with LGPS Central
- Considerations for the future investment strategy
- SDG & Climate Reporting, and metrics"

8. The Minerva report is not available yet as the final report is awaited. However, Board members will have received a copy as part of the information for the ESG Audit workshops on the 5 January and February respectively and the final version will be to follow.

Supporting information

- Appendix 1 - WPF outcome of the ESG Audit, Sustainable Development Goals (SDG) mapping and Climate Risk review – Draft report to Pensions Committee
- Appendix 2 - Minerva Final ESG Audit & SDG Mapping report (To follow)
- Appendix 3 - WPF Taskforce on Climate-related Financial Disclosures (TCFD) Report (Also Appendix 2 to the draft Pension Committee Report)

Contact Points

Specific Contact Points for this report

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer), there are no background papers relating to the subject matter of this report.