

Gwynedd Pension Fund: Divesting from Fossil Fuels (February 2021)

We have recently received a number of requests for an ambitious timetable for total de-investment of fossil fuels, but as trustees of pension funds it is more responsible for us to plan appropriately, take real action, and influence where possible for the benefit of our environment.

The Gwynedd Pension Fund has a fiduciary duty to all scheme employers, their staff and pensioners. It is this 'fiduciary duty', which informs the decisions of the Pensions Committee. The Fund does not divest solely for non-financial reasons, not least because this could lead to legal challenge.

The Pension Fund's assets are invested to provide financial returns to ensure the financial security of staff and pensioners. Returns also reduce the cost to employers, which in turn reduces the cost to Council Tax payers, or avoids cutting local services. This is an important social responsibility of which the Pensions Committee is well aware.

However, managers and the Pensions Committee have been working for some time to ensure that the Gwynedd Pension Fund, our advisers and asset managers look to invest in sustainable assets. We have asked our asset managers to engage with companies on their plans for a low carbon future. Through this, the Pension Fund has put pressure on companies to increase efforts in this important area.

The Pensions Committee, at various seminars and meetings, has regularly discussed environmental, social and governance ('ESG') issues. At the November 2018 meeting, the Pensions Committee decided to revise the Fund's Investment Strategy Statement to set out our responsible investment principles. This Environmental, Social and Governance Policy outlines the -

“Need to consider the specific risks arising from climate change when considering investments.”

Further, responsible investment is an issue that is addressed at every meeting of our investment panel, where we discuss with companies that invest on our behalf. These investment companies have ongoing plans to improve our carbon footprint and we are working with them and the Pensions Committee to implement these plans. Current examples include:

- Black Rock (12% of Gwynedd fund) - A further low carbon reservoir has been developed which screens fossil fuels before low carbon optimization, thus reducing carbon by an additional 44% (Pensions Committee decision, 14 October 2020).
- Bailie Gifford (6% of Gwynedd fund) - Part of our investment with the Wales Pension Partnership who have developed a fund that disinvests from fossil fuel extractors and fossil fuel service providers (Pensions Committee decision, 21 January 2021).

- Global Opportunities Fund (16% of Gwynedd fund) Wales Pension Partnership has commissioned a 'decarbonisation overlay' by Russell Investments which reduces the carbon footprint by 25%. Also, it is possible the same 'overlay' could be implemented on our next transfer to the WPP emerging markets (3% of Gwynedd fund) in autumn 2021.
- ESG GRESB Benchmark- this is a global benchmark for environmental, social and governmental factors within the property field. Our Fund has a 10% allocation to property investments and our property managers, USB and Black Rock have kept their first and second position in its peer group for their 'ESG GRESB' score in 2020.

In addition to implementing these particular schemes, we will continue to invest responsibly by engaging with companies and our asset managers.

Responsible investment is important to all LGPS funds, and we are able to work together through the Local Authority Pension Fund Forum (LAPFF). The LAPFF aims to promote the highest standards of corporate governance to protect the long-term value of local authority pension funds. The Forum engages directly with hundreds of companies and their chairs. This is done by building trust and having a two-way dialogue on corporate responsibility in the areas of stewardship, climate risk, social risk and governance risk. We are stronger together, and because the LAPFF recognizes that **'climate change is a significant and urgent investment risk'**, LAPFF is a very useful forum to ensure a positive impact.

Hopefully this summary will convince you that the Gwynedd Pension Fund is not complacent about the climate change agenda, but that the solution has to be more sophisticated than simple disinvestment from fossil fuels.



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