Climate risk policy

Introduction

The Trustees consider that climate change represents a material financial risk to the Fund with the potential to disrupt economic, financial and social systems. However, the potential impact on the Fund is unknown given policy uncertainty and the unknown physical feedbacks from environmental systems. Risks to the Fund arising from climate change include, but are not limited to:

- Economic risks: risks that the assumptions made in valuing the liabilities are inappropriate;
- Demographic risks: risks that demographic experience is different to that assumed as a consequence of climate related impacts;
- Asset risks: risks that the performance of the Fund's assets is lower than assumed due to investments being affected by physical impacts from climate change or the transition to a lower carbon economy.

This policy sets out the Trustees' approach to addressing climate related risks within the Fund. This policy is reviewed regularly based on up to date evidence, including recommendations from the Intergovernmental Panel on Climate Change ("IPCC"), supporting the delivery of the Fund's overriding objectives.

In maintaining and acting on this policy, the Trustees will have an ongoing dialogue with its Actuary, Investment Adviser and Investment Managers. The Trustees will also seek input from third parties where appropriate.

Objectives

The Trustees' primary objective is to ensure that the Fund's assets are invested in a manner which meets their overriding objective to pay benefits to members as they fall due.

In supporting this objective, the Trustees aim to reduce the likelihood that climate-related risks impact negatively on the value or performance of the Fund's assets over the long term. The Trustees have translated this into a longer-term aim for 100% of assets to be compatible with net zero-emissions by 2050 or earlier, consistent with the Paris agreement. The Trustees believe this approach is consistent with delivery of their primary objective.

Beliefs

The Trustees have established a set of climate-related beliefs, which underpin their approach to incorporating climate risk considerations within the investment process. The Trustees beliefs are as follows:

- Climate risk represents a material financial risk to the Fund's ability to deliver sustainable investment returns over the longer term;
- Climate-related risks are systemic risks which can impact on all asset classes and sectors to varying degrees;
- Investment solutions aimed at managing and mitigating climate-related risks can also provide opportunities to long term investors such as the Fund;
- Climate-related risks are best managed through a combination of active engagement and diversification of asset class and sector, rather than divestment;
- Investment managers appointed to the Fund are responsible for engaging with investee companies and issuers on climate-related issues, as well as other Responsible Investment issues that could have a material impact on performance;
- The Trustees believe that collaboration with other asset owners can be an effective method for engaging with investment managers and raising awareness of climate-related issues on a wider scale basis.

Strategy

The Trustees recognise that all companies have some level of exposure to climate-related risks, particularly transition risks, but that price, policy uncertainty and investment timeframes are determinants of risk exposure.

Recognising their current investment arrangements and limited governance budget, the Trustees primary focus over the period of this policy will be on climate-related risk exposure within their equity and real asset holdings. Recent changes undertaken by the Trustees have reduced the carbon intensity of the Fund's equity portfolio by more than 50%. This was achieved by switching from funds tracking traditional market indices to a combination of sustainable and lower carbon approaches. The Trustees have also allocated 10% of Fund assets to renewable energy infrastructure and are currently considering a further 5% investment in impact focused property.

The Trustees review the strategy periodically to take into account up to date evidence and investment outlook, and for compatibility with the ambition established by the Paris agreement.

In accordance with their Responsible Investment policy, the Trustees will consider opportunities in the development of their strategy/structure to make investments in assets that are expected to benefit from the transition to a low carbon economy.

The Trustees will also consider the merits of undertaking scenario analysis around the potential economic impact of climate-related risks, to inform their decision making. The Trustees note that this is an evolving area, and such analysis is in its infancy.

Implementation

The Trustees' approach to manager selection is set out in their Responsible Investment Policy. The Trustees will ensure that all active managers integrate the consideration of climate-related risks into their investment process and will challenge managers to evidence their approach during regular meetings.

The Trustees' approach to stewardship is set out in their Responsible Investment Policy. The Trustees emphasise the importance of engagement on climate-related risks through its dialogue with its investment managers. In particular, the Trustees will encourage its managers to support engagement with investee companies on climate-related issues, including an increase in the disclosure on climate-related risks by companies to investors. Should the Trustees be dissatisfied with the approach taken by an investment manager, further action will be taken to understand the rationale for a particular course of action. If the Trustees are not satisfied after a period of monitoring and engagement, further action will be considered including reviewing the manager's long term role in managing assets for the Fund.

Monitoring

The Trustees recognise that the monitoring and assessment of exposure to climate-related risks is developing and the metrics and tools available to the Trustees may evolve. The Trustees will monitor changes in market practice to ensure that they are aware of changing best practice. The Trustees will monitor exposure to climate related risks across all assets in the portfolio where such monitoring is possible on an annual basis. The Trustees recognise that a single measure is unlikely to be sufficient to quantify climate-related risks for the Fund. Whilst it is anticipated that carbon intensity can be used as one such measure, the Trustees will also consider other measures depending on the availability of sufficient data and suitable analysis.

The Trustees will also carry out forward looking net zero journey plan analysis on an annual basis to help identify whether individual portfolio holdings are aligned with a net zero pathway. This analysis allows the comparison of projected pathways with that of the specific industry average and can be used as the basis of further engagement with the relevant manager and underlying company.

Reporting and transparency

The Trustees will publish details of their activity in relation to climate-related risks in accordance with their Responsible Investment Policy.

The Trustees have an ambition to report in future on progress on actions undertaken to address climate risk in line with the framework set out by the Taskforce for Climate-Related Financial Disclosures.