Wiltshire
Pension Fund

CLIMATE REPORT
2023

CLIMATE REPORT 2023

Wiltshire Pension Fund

INTRODUCTION

One of the most important Environmental, Social and Governance (ESG) factors to consider is climate risk. When it comes to climate risk, the Fund's goal is as follows:

> **"To protect the investments from climate change risk, and safeguard the financial future of the Fund."**

One of the Fund's investment beliefs is as follows:

> **"In order to protect the Fund's investments into the future, the Fund supports a global warming scenario of well below 2°C, and states an ambition to achieve net-zero carbon emissions across all investment portfolios by 2050."**

In March 2021, in the Fund's best financial interests, we made a decision to set a net zero by 2050 goal for the investment portfolios. All of our climate risk work is based on scenario modelling, which enables us to put numbers around the risk, and make decisions based on what is the best financial outcome for the Fund. We measure our decarbonisation progress against a baseline of our carbon footprint as at 31 December 2019.

> **"If the Fund is invested in companies which aren't prepared to adapt to the challenging landscape of the future, these companies will likely fail and the Fund will lose money"**
>
> Chris Moore, Investment and Accounting Team Lead at WPF, speaking in the Fund's film about purposeful pensions

9
Safeguard the assets

10
Strong, risk-adjusted returns

11
Responsible ownership and stewardship

12
Positive impact

15
Transparency and information sharing

LONG TERM THINKING

We always act with the long term in mind, whether we are setting our investment strategy, planning improvements, or working towards our net zero by 2050 goal

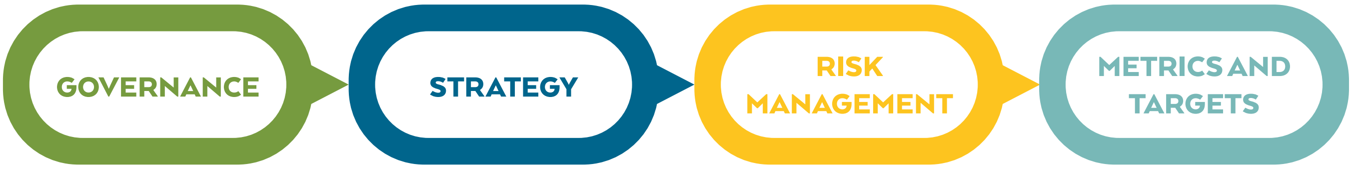
Christchurch solar farm, held in the Fund's secured income portfolio

WHAT IS TCFD REPORTING?

TCFD = Taskforce for Climate-related Financial Disclosures

To measure progress against net zero goals, we need systems in place and for there to be consistent methodologies and standards across industries, which is where TCFD comes in.

TCFD reporting sets out requirements for organisations to report on how they consider and manage climate risk, against the following 4 areas:



It is expected that TCFD reporting will become mandatory for LGPS funds soon. We've been reporting as early adopters since 2021, in order to be prepared for this requirement. This report meets the requirements of TCFD reporting, and includes additional information and case studies, to bring the work we do to life.

OUR JOURNEY TO NET ZERO

In order to properly assess the potential financial implications of the risk, and to help identify ways to mitigate the risks and take advantage of opportunities, we commissioned scenario modelling from both Mercer, the Fund's investment consultants, and Hymans, the Fund's actuary. The modelling results supported setting a net zero target, in the Fund's best financial interests, and also indicated that there were opportunities to provide a material financial benefit to the Fund by making dedicated allocations to sustainable equities and renewable infrastructure, both of which have now been approved. The modelling will next be repeated in 2024.

Actions taken following the modelling work done in 2020:

Setting a target of **NET ZERO BY 2050**

Establishing a dedicated strategic allocation to **SUSTAINABLE EQUITIES**

Establishing a dedicated strategic allocation to **CLIMATE SOLUTIONS & RENEWABLE INFRASTRUCTURE**

OUR BASELINE FOR CARBON REDUCTION

The Fund's baseline position for decarbonisation is calculated as follows:

Calculation Date: **31 DECEMBER 2019**

What has been included? **SCOPE 1 AND 2 EMISSIONS OF ALL EQUITY INVESTMENTS** excluding our listed infrastructure interim portfolio*

Carbon footprint (tCO2e/$m investment – measures the emissions impact of a portfolio per $1m invested): **39.9 TCO2E/ $M INVESTMENT**

**Note that emissions for our listed infrastructure interim portfolio are monitored, and the Fund actively engages with the manager to understand the position of the underlying companies, but the long-term nature of target setting supports the rationale for excluding this portfolio from the baseline*

WHAT DO WE MEASURE?

The Fund uses the **carbon footprint** metric to measure progress against the targets. This is the preferred metric due to the link to real world absolute emissions, also providing better comparability with other investors, as this is very likely to be the standard metric set out in upcoming legislation for LGPS funds.

HOW ARE WE DOING?

OUR CLIMATE COMMITMENTS

In order to get to net zero by 2050, we have made the following commitments:

1. We commit to a whole Fund carbon reduction target of **50% by 2030**

2. We commit to a listed equities carbon reduction target of **43% by 2025** and **69% by 2030**

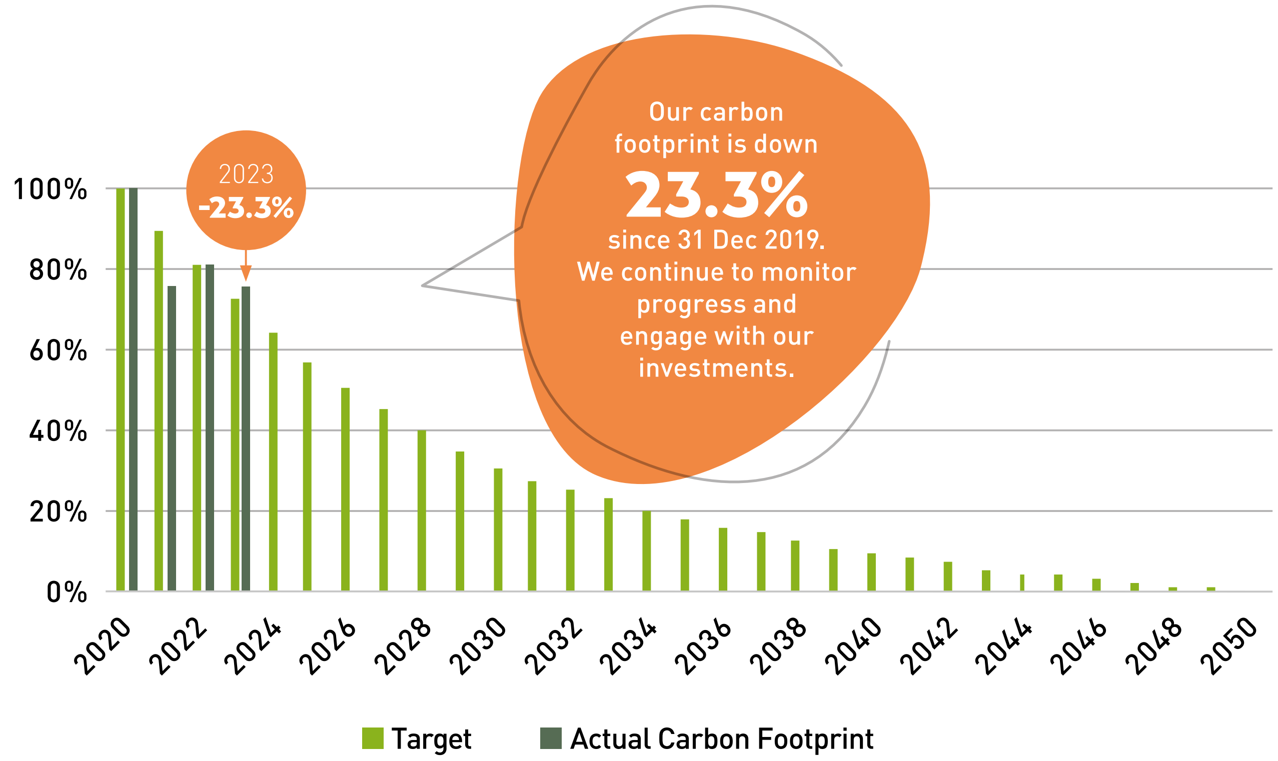
3. We commit to allocating **30% of the Fund to sustainable/low carbon green assets by 2025**, and **35% by 2030** (as measured by the long-term strategic asset allocation).

4. We commit to **all of our property investments being aligned with a net zero by 2050** target by 2030.

5. We commit to **engaging with our top 10 emitters and reporting transparently** on our findings

OUR DECARBONISATION JOURNEY SO FAR

We have set a target **pathway to decarbonisation**, however we acknowledge that progress will not be a smooth journey. The following graph shows our targets, and our actual progress to date:



We are currently slightly behind target, but as mentioned above we expect that our decarbonisation journey will not be completely smooth. In order to maintain momentum with our progress, we look at **individual holdings** which have a high carbon footprint to understand their position in our portfolio, and to be assured that they can be a valid part of our journey to net zero. This is covered in more detail later in this report.

We also look at things from a **top-down perspective** – we look at portfolios as a whole, and ensure that the managers for those portfolios are doing enough to challenge the companies they hold and to meet the decarbonisation targets which they have set.

The biggest factor affecting our carbon performance this year has been an **increase in the carbon intensity of the Global High Alpha portfolio**, managed by Brunel. This portfolio has a target of reducing its emissions by 50% (based on a 2019 baseline) by 2030, which is consistent with a 7% year-on-year reduction. However, this year the portfolio's carbon intensity increased by a significant amount. This is due to two main factors:

1. The war in Ukraine has led to **increased energy prices**, which has meant that energy companies have gone up in value. This means that they have increased in weight in our portfolios, and with their high emissions, this has had an impact on our overall footprint.
2. There is a new fossil fuel company now held in this portfolio, MEG. This high emitter has led to an **increased footprint**. We have tackled this issue with Brunel directly, and you can read more about our engagements on priority companies in this report.

86%
of our property fund investments have set a target of Net Zero by 2050 or earlier.

28.7%
of our long-term strategic allocation is to "green" assets – on track to meet our target of 30% by 2025.

The view from Cley Hill

ENGAGING WITH OUR TOP EMITTERS

SPECIFIC CLIMATE-RELATED PRIORITISATION

Last year we reported our **path to net-zero** and the engagement we are doing to understand the mitigation efforts from the highest emitters in our portfolios.

We use a variety of tools to assess which holdings to prioritise for engagement:

- Reviewing assessments by **Climate Action 100+** and the **Transition Pathway Initiative** to identify which companies have the poorest scores across the full range of metrics – these include scores on target setting, strategy, climate policies etc as well as the company's actual transition alignment.
- **Emissions data**, to identify which companies are the heaviest emitters.
- **Value of our holdings**, to prioritise the highest value holdings and achieve the highest impact.
- **Mercer's ACT reporting**, which highlights the companies which are contributing the most to our overall emissions.

These tools provide the foundations to our engagement, we analyse and challenge the data to build a well-rounded understanding of the highest emitters, to understand how future-proofed these holdings are. We may be happy to invest in a highly emitting company if our investment can help finance its transition to a low carbon economy. We may be less satisfied with the inclusion of a company which is unable or unwilling to transition, as this presents a financial risk to the Fund. Any concerns or discrepancies with the overall approach will be raised with the investment manager that manages the appropriate mandate. Through our engagement, we can understand what work is being achieved to reduce emissions. The position will be monitored on an ongoing basis.

By using these tools, we have outlined the Fund's top 10 companies for engagement in the table opposite.

THE TOP 10
companies listed on the next page account for
AROUND 40%
of the Fund's entire listed equity emissions.

	Company / Holding	Industry Sector	Have we engaged?	Are we satisfied with the investment rationale?	% of active equity carbon footprint*	Comment
1	OCI	Materials	Yes	Yes	7.4%	OCI's forward-looking corporate strategy is squarely focused on providing solutions to the energy transition. The majority of OCI's future capital expenditure will be invested in various lower carbon plants and facilities.
2	HOLCIM	Materials	Yes	Yes	5.9%	Focus on innovation as part of its low carbon approach. 20% of capital expenditure in 2022 was dedicated to carbon reduction projects in Europe. See case study on cement elsewhere in this report.
3	ANGLO AMERICAN	Materials	Yes	Yes, but will continue to monitor progress	2.0%	The company has a carbon transition plan, but this lacks detail. The company has set targets to increase their own renewable energy generation. Transition is a challenge for the whole sector and the investment manager plans to follow up on their engagement later this year (2023).
4	SDI Steel Dynamics, Inc.	Materials	Yes	Yes	4.2%	Steel Dynamics produce some of the world's lowest carbon intensity steel. Between now and 2025 Steel Dynamics are going to spend an estimated $2.5bn to build a state-of-the-art low-carbon aluminium mill & two slab centres.
5	Reliance Industries Limited	Energy	Yes	Yes, but will continue to monitor progress on governance	4.0%	Reliance aims to be net-zero by 2035. However, no targets have been set and scope 3 emissions are not being measured. There are concerns of poor governance, the company has commenced efforts to achieve the ambitious net zero goal.

	Company / Holding	Industry Sector	Have we engaged?	Are we satisfied with the investment rationale?	% of active equity carbon footprint*	Comment
6	SUNCOR ENERGY	Energy	Yes	No	3.8%	Wiltshire Pension Fund has explicitly asked Brunel to reconsider their investment rationale. See case study below for more details.
7	Shell	Energy	Yes	Yes, but will continue to monitor progress	3.8%	Shell is investing to improve the energy efficiency of operations, shifting their energy portfolio towards natural gas and low carbon projects, using renewable electricity to power operations, and investing in the development of carbon capture and storage solutions
8	LG	Industrials	Yes	Yes	3.7%	A key part of LG's corporate strategy is to focus on monetising the energy transition. LG's affiliate LG Energy Solutions is the number two manufacturer of EV batteries globally.
9	MEG ENERGY	Energy	Yes	No	2.6%	MEG faces significant transition risks similar to Suncor, however the investment manager considers this stock having a strong investment case over next 5 to 10 years. As an oil sands producer, it is fundamentally mis-aligned with a net zero future.
10	GLENCORE	Energy	Yes	Yes	0.6%	Glencore has reasonable targets to reduce emissions by 2026, 2030 and 2050. Due to coal mines still being highly cash generative, they will remain open – this will assist with funding their transition towards materials. Glencore's capital expenditure in materials is increasing, moving away from funding new energy projects.

We have asked Brunel to sell out of MEG

*Active equity carbon footprint based on the Fund's long-term strategic asset allocation

LG Corporation, a Korean holding company, operates in various industries, including chemicals, electronics, and household products – Wiltshire Pension Fund hold a market value of £1.3m in LG Corporation as at 31st March 2023, which is in our Emerging Market portfolio with Ninety One. LG's corporate strategy focuses on capitalising on the energy transition. The Fund is also invested in LG Energy Solutions (£1.8m as at the end of March 2023), an affiliate of LG, which is the world's second-largest manufacturer of EV batteries, generating nearly US$20 billion in sales in 2022 and investing around US$8 billion in new capacity in 2021/22. This makes LG one of the largest corporate investors in facilitating the global energy transition. Other LG affiliates, such as LG Chem and LG Electronics, are also investing significantly in EV battery components, materials, and component solutions. LG is making substantial improvements in its overall ESG practices, with plans to publish an Integrated ESG Report in Q3 2023 and formal net-zero targets in financial year 2024.

LG Corporation does not raise any immediate risks or concerns; thus, Wiltshire Pension Fund are pleased to see how investments can be made to form part of the climate solution, whilst securing strong returns.

As at March 2023, Wiltshire Pension Fund held £1.5m in **Suncor Energy**. Suncor self-describe their operations as "oil sands development, production and upgrading; offshore oil and gas; petroleum refining". It is a holding where Wiltshire Pension Fund have questioned its appropriateness in Brunel's portfolio for some time; we first engaged with Brunel on Suncor's activities in August 2021. Most recently, Suncor have bought an oil sands operation for $4bn. These operations clearly do not align with the Fund's net-zero ambitions, and we are unable to understand the legitimacy of the company's decarbonisation commitments (which are only operationally focussed) whilst actively expanding extractive operations.

Having made enquiries with the RLAM, the underlying manager who holds this company, they acknowledge that Suncor presents "significant ESG risks and high transition risks" but the rationale for maintaining Suncor in the portfolio is due to its ability to "demonstrate superior wealth creation and [is] attractively valued when this is considered. [There is a] strong investment case over next 5 to 10 years, with credible and explicit 2030 goals, which will have a significant impact on carbon reduction".

The goals set by Suncor only apply to the act of taking the oil out of the ground, not how it is then used. Suncor's renewable energy production has consistently remained minimal, in addition to little decline in revenues from oil since 2018, it is apparent that their approach to renewables may be a symbolic gesture.

It is Wiltshire Pension Fund's belief that this is simply not good enough, and that as an extractive oil company with no transition potential, Suncor is fundamentally mis-aligned with a net zero future, and presents an unjustifiable risk to the Fund.

Since writing this case study, we have learned that RLAM have decided to sell this holding. We are delighted with this outcome

"Wiltshire Pension Fund endeavours to invest to be part of the climate solution, and where our engagement highlights no improvement to reaching our net-zero targets, we will hold our managers accountable for the investment rationales and take proactive measures to ensure the highest standards of social and environmental impact can be achieved. Our final stage of escalation, where we feel we have exhausted all avenues, will be to request that the company is divested from our portfolio."

WHAT ABOUT OTHER ASSET CLASSES?

The decarbonisation path shown above is for equities only. We want to expand target setting across other asset classes, but for now **data availability is a big challenge**. We engage across all asset classes, and make an assessment of how each of our portfolios is doing.

HIGH LEVEL ASSESSMENT

The following table shows our assessment of our entire strategic asset allocation against various climate criteria. A full version of this assessment, with more detail and explanations, in available on our climate webpages. This table shows that, as expected, **we are making strong progress in our equity portfolios, and that there are still challenges with data availability in private markets**. We are working with all our managers to drive forward improvements.

Portfolio	Net Zero Target by 2050 or sooner	Metrics and Reporting	Data Coverage	Transtition Alignment (per Mercer, where available)	Combined Net Zero Score
Paris Aligned Passive Equity					
Global High Alpha Equity (Active)					
Global Sustainable Equity (Active)					
Private Equity					
Emerging Markets Equity					
Multi Asset Credit					
Private Lending/Debt					
Emerging Markets Debt					
Infrastructure (Unlisted)					
Private Infrastructure					
Infrastructure (Listed)					
Secured Income - Long Lease Property					
Impact Affordable Housing					
Property					
Secured Income - Operational Renewables					
Gilts					
Bank loans					

- Fully delivering against the Fund's climate objectives
- Very good progress made towards target setting/reporting and mettics/high level of coverage
- Strong foundations, working towards formal targets/metrics in development/ coverage improving
- Signficant progress needed by way of target setting, metrics and/or coverage, but no causes for concern
- Actively causing problems for the Fund's climate objectives
- Not available

CASE STUDY: A COLLABORATIVE APPROACH TO TARGET SETTING FOR AN EMERGING MARKETS MULTI-ASSET (EMMA) PORTFOLIO

We began our collaboration work to set net zero targets with **Ninety One**, who manage our EMMA portfolio, in February 2022. We then held further strategy evolution workshops in July and October 2022.

These workshops involved looking at investment processes, scorecards, target setting and reporting. The **EMMA strategy** includes equities and debt, in a roughly 50:50 split, as well as additional "tilts" to the portfolio, which are smaller exposures to certain themes. The outcome of this project was to agree the targets below.

We were delighted to collaborate with Ninety One on this review of the portfolio's objectives, and found that the strong challenge provided by ourselves, combined with Ninety One's deep knowledge of emerging markets has led us to a **pragmatic but suitably ambitious outcome**.

L–R: Grant Webster (91), Annika Brouwer (91), Jennifer Devine (WPF) and Daniel Smith (WPF) at a meeting to discuss the portfolio's goals and strategy

1. Investing with the aim of achieving emissions reductions (in the portfolio) consistent with the goal of global net zero emissions by 2050, and a fair share science-based pathway for emerging markets.
2. 75% of equity holdings (by emissions) to have a science-based commitments by 2030.
3. Engage on the portfolios highest emitters (equities), accounting for 65% of total emissions.
4. At least 80% of sovereign bonds to be classified as either "very high alignment" or "high alignment" categories of the Net Zero Sovereign Index by 2030 (with no exposure to Sovereigns in the lowest two Net Zero Index Categories).
5. A minimum 10% exposure to sustainable investments by the end of 2023, rising to 15% beyond.

CASE STUDY: AFFORDABLE HOUSING – A WIN/WIN FOR POSITIVE IMPACT AND FINANCIAL RETURNS

We made a strategic allocation to affordable housing with social impact being an integral part of the business case for investment. The investment case for affordable housing is clear, with demand far outstripping supply in the UK. There are also measurable benefits from a climate point of view. Examples of these are solar panels, heat pumps, electric vehicle (EV) charging points, access to green space and the overall ecological impact on the area. **These features make properties more attractive to potential tenants**, and can result in faster lets/sales.

67%
ENERGY PERFORMANCE C-RATED OR ABOVE

> **"We're getting more people into more affordable and more energy efficient homes"**
>
> Ben Fruhman, Affordable Housing Fund Transaction Manager at CBRE, speaking in the Fund's film about purposeful pensions.

One metric that demonstrates high energy efficiency standards of individual properties are Energy Performance Certificates (EPCs). High EPC scores not only mean properties are more sustainable, future-proof, and attractive to residents, with **energy bill savings and lower running costs**.

Two thirds of homes in our portfolio are C rated, or above.

Energy Performance Certificates tell you how energy efficient a building is and give it a rating from A (very efficient) to G (inefficient). They provide an indication of how much it is likely to cost to heat and light, and what its carbon dioxide emissions are likely to be.

CLIMATE CASE STUDIES: REAL LIFE EXAMPLES FROM OUR PORTFOLIOS

CASE STUDY: **FOCUS ON HIGH-EMITTING SECTORS – CEMENT**

"Why do we care about cement? The cement part of concrete accounts for approximately 70% of its carbon emissions. Concrete production accounted for more than 8% of all global greenhouse gases in 2021."

Clearly, this high-emitting area is important to investigate, as it has the potential to make a large contribution to our overall carbon footprint. We are happy to invest in high-emitting companies when we can finance them to make improvements and transition to a low carbon economy. We need to understand the investment case as **we need to mitigate the risks of being invested in companies which aren't prepared to adapt to the challenging landscape of the future, as these companies will likely fail and the Fund will lose money**.

Mercer's 2023 Climate Analysis Report highlights the highest emitting companies in our portfolios, so that we can target our engagement work. This list included two cement companies, Holcim and CRH (both held in Brunel equity portfolios).

We questioned Brunel on the investment case for holding these companies, asking whether they are forward-thinking companies who can form part of the solution, in spite of being high emitters right now. Since we want to generate real World change, **we are keen to support companies who are on a decorbonisation journey**.

HOLCIM

"Holcim accounts for 6% of our entire active equity carbon footprint, in spite of only being a small value holding at <£0.5m (0.09% of the total value of the active equity portfolios)!"

Holcim is held in the Global High Alpha portfolio (an active developed equities fund). The view from the manager was that "Holcim are a leading player in a hard-to-decarbonise sector, piloting the technologies needed for future low-carbon building materials."

We were keen to understand more about what the company is doing specifically, as well as how it compares to its peers. The manager felt that Holcim stands out from its peers due to the commitment to innovation as part of its low carbon approach. During 2022, 20% of the Holcim group's capital expenditure was on carbon reduction projects.

An example project is the development of carbon capture and storage for a Polish plant, with a goal to make the plant net zero by 2027. This will be the first net-zero cement plant in the world. You can read more about this project here.

Capital expenditure is something we look for, as it is important evidence to demonstrate that a company has a genuine commitment to decarbonisation (compared to just making statements but not taking action).

Holcim is also developing various products which have lower lifecycle carbon emissions. These include ranges of concrete and cement with 30% lower carbon emissions compared to standard products.

Construction and demolition waste can be used to create new low-carbon building materials – particularly for aggregates, a key ingredient of concrete. However, this recycled rubble is sometimes more porous. To overcome this limitation, Holcim is adding CO_2 from its own industrial processes to the reused concrete. This effectively seals the aggregate, reducing the porosity and required cement while increasing versatility. It also permanently sequesters CO_2.

We use various initiatives to assess company performance regarding climate. The Transition Pathway Initiative has given Holcim the top score of 4 for its management of climate risks (this looks at things like the company's strategy and risk management), and assesses the company as being aligned with a 1.5 degree temperature rise. Climate Action 100+ is also engaging with Holcim, so we can take some comfort that investors are actively working with Holcim towards a low carbon future.

The PAB index is created by weighting companies according to how well they perform on a climate basis – this is done by using several different metrics which look at both how a company is doing now (current emissions) and also looking forward by assessing a company's ability and willingness to decarbonise. Companies who are better placed to transition to a low carbon economy will have higher weights in the index, and vice versa.

CRH was held passively in the Paris Aligned Benchmark (PAB) Fund in December 2022, but was no longer held in March 2023. Brunel were able to provide useful insight into the factors contributing to a company's weight in the PAB index.

In essence, CRH scored poorly relative to other companies for its emissions, and this has a large bearing on its weighting in the portfolio. When the portfolio was rebalanced in February 2023, the weighting was reduced to 0%.

This is a good example where by investing in the PAB, the Fund is tilting investment away the most carbon intensive companies as they are screened out based on emissions by the index methodology.

WHAT NEXT?

Having investigated our holdings, we can see that our direct exposure to the high-emitting cement sector is contained to one holding at the current time, and this company is making efforts to decarbonise. We will monitor this holding to ensure it continues along its path.

However, cement is part of the economy in far broader ways than just direct manufacturing of the cement itself. We have an allocation of 5% of the Fund to impact affordable housing, which is in part targeting the outcome of increasing the housing stock in the UK. This portfolio is an obvious candidate for further investigation. Our next case study takes a look at new ways of house building, and how this can be modernised and made more sustainable.

CLIMATE CASE STUDIES:
REAL LIFE EXAMPLES FROM OUR PORTFOLIOS

CASE STUDY: **INVESTING IN INNOVATIVE, ZERO-WASTE CONSTRUCTION**

L-R Dan Smith (WPF), Jennifer Devine (WPF) Krystie Waterhouse (WPF)

12
Positive impact

10
Strong, risk-adjusted returns

INTRODUCTION

We recently had the exciting opportunity to visit a modular construction factory. One of our affordable housing managers, Man Group, are delivering 226 affordable modular homes at a site in East Sussex, all of which will be operationally net zero (WPF share approx. £7m). The purpose of our visit to the modular building factory, was to **explore and understand how sustainable practices can be embedded into the construction of affordable homes**.

WHAT IS MODULAR HOUSING

Modular housing, or factory-built housing, is a construction method that involves building sections or modules of a home in a factory setting and then transporting and assembling them on-site. Unlike traditional construction, where homes are built entirely on-site, **modular housing offers a more efficient and streamlined process**. Essentially, 'flat-pack' housing that comes together like Lego!

During our factory tour, we went on a journey from the raw materials, to seeing the walls, rooms, and modules coming together to form the finished product. **Each step of the process gave us the opportunity to enquire about methods and materials, and understand the environmental implications**.

EXAMPLES OF SUSTAINABLE PRACTICES AND EFFICIENCY

- Timber is sustainably sourced, and like-for-like trees are planted in the same location where trees were harvested, maintaining the ecological balance.
- Machines measure the timber and calculate the most efficient cuts, printing each piece with where it fits into the assembly, like a massive 3D jigsaw puzzle!
- 100% of the electricity used in the factory comes from renewable sources. **The factory is zero waste**.
- Due to the weight load of the modules being significantly lower than traditional homes, less concrete is required for foundations compared to traditional construction.

CONCLUSION

Our visit to the factory provided valuable insights into the innovative approaches being taken in the affordable housing sector, and **we are proud that through our affordable housing portfolio, we are supporting this innovation**. By embracing modern methods of construction and prioritising sustainability, inclusivity, and efficiency, modular housing is playing a crucial role in addressing the pressing challenges faced by the housing industry, contributing to **better outcomes for both people and the planet**.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

9–11% RETURN

226 HOMES IN EAST SUSSEX

OPERATIONALLY **NET ZERO**

ZERO WASTE CONSTRUCTION

INNOVATIVE MATERIALS

CLIMATE CASE STUDIES: REAL LIFE EXAMPLES FROM OUR PORTFOLIOS

CASE STUDY: **INVESTING IN THE FUTURE OF FARMING**

We have invested in a wide range of renewable assets, and have a target to increase this exposure. One such asset, which we hold in our secured income allocation (through a £100m portfolio of operational renewable assets, managed by Schroders Greencoat via the Brunel pool), is a collection of **carbon neutral greenhouses, located in the South East of the UK**.

Our exposure to carbon neutral greenhouses is £7m. These assets are **targeting a return of >8%**, which comes from Renewable Heat Incentive payments (a scheme which is now closed for new investments, but is secured for existing projects), and inflation-linked rental payments from the growers, who have signed 20-year leases. This leads to **secure, long-term, sterling, inflation-linked returns** for the Pension Fund.

As soon as we entered the greenhouse we were overwhelmed by the scale. The greenhouse we visited is the largest of its kind in the UK, at a staggering **12.5 hectares**. Inside the greenhouse, **334,000 pepper plants** grow up strings from tiny compost squares, where a calibrated amount of water, nutrients and CO_2 is delivered by a system of pipes. Larger pipes encircle the rows of plants, providing heat to the greenhouse. A busy fleet of self-driving carts head up and down the rows, entering the greenhouse empty and leaving full with a freshly picked harvest of peppers.

Rainwater is collected from the roof and last year this provided all the water needed for the plants. There are hives on site which provide the bees to pollinate the plants. And the **CO_2 for the plants is also produced on site**.

Inside the on-site energy centre, we learnt how the renewable heat is generated. At a nearby water treatment plant, once the water has been processed, clean water is released which is 6 degrees above ambient temperature. The energy centre uses heat pumps to boost this to 50 degrees C, and this water is then used to heat the greenhouse. The cooled water which is then released is better for local ecosystems. The **heat pumps are powered by electricity generated by combined heat and power**. The CO_2 produced in this process is stored in a giant cylinder and used to feed the plants.

Our visit to the greenhouse was an ideal way to discover more about our investment, hearing direct from the growers. This investment is an **ingenious marriage of established technologies**, enabling us to earn returns in a sustainable way, whilst promoting **better outcomes for the environment and the British food economy**.

100,000 PEPPERS PER DAY

12.5 HECTARES

>8% INFLATION-LINKED RETURNS

CARBON NEUTRAL HEATING

UK FOOD PRODUCTION

DIVESTMENT – THE CASE FOR AND AGAINST

WHAT IS DIVESTMENT?

Divestment = the intentional act of moving money and investments out of a company.

This is most often spoken about with regard to fossil fuel investments, and there is significant pressure on LGPS funds to divest from all fossil fuel companies. This pressure comes both from scheme members and wider campaigns.

Our statement on divestment is as follows:

DIVESTMENT

As a long-term investor, WPF's goal is to protect the investments from climate change risk, and safeguard the financial future of the Fund. We support a global warming scenario of well below 2°C, and have an ambition to achieve net-zero carbon emissions across all investment portfolios by 2050. We do not see a long-term place for fossil fuel investments in our portfolios, and will work towards being fully divested from these companies by 2030. In the short term we will continue to monitor our holdings in these companies, to ensure that any such investments are helping to finance real-World change. Alongside this, we will continue to invest in renewable infrastructure and climate solutions, to help create sustainable replacements for traditional fuel sources, and contribute positively towards ensuring energy security. This approach aims to ensure that the Fund's risk of exposure to stranded assets is well managed, and that the Fund can benefit from the investment opportunities presented by the transition to a low carbon economy. of all global greenhouse gases in 2021.

THE BACKGROUND

The Fund's position with regard to divesting from fossil fuels has historically been that we do not require our investment managers to exclude any specific holdings from our investment portfolios, instead favouring engagement. We accept that this can be a divisive and complicated area, and that **arguments have been made on both sides**. Some argue that it is better for investors such as WPF to remain invested as that is how we can drive change, and that if we are not invested then someone else will be, who may have worse intentions as an investor. Others argue that this is a fallacy, and that the strongest way to deliver change is to not be invested at all, and that if companies want our capital, they will make the required changes in order to become investable.

The Fund also holds the following investment belief:

> **"In order to protect the Fund's investments into the future, the Fund supports a global warming scenario of well below 2°C, and states an ambition to achieve net-zero carbon emissions across all investment portfolios by 2050."**

The Fund still holds a small amount of investments in fossil fuel companies, which we acknowledge could be seen to be in conflict with this belief, and could even be interpreted as potentially supporting the very scenario we are trying to avoid, which would be financially detrimental to the Fund, and therefore incompatible with the fiduciary duty to our beneficiaries.

WHAT IS A FOSSIL FUEL COMPANY?

An important factor to consider here is "what is a fossil fuel company?". The definition can range from purely extractive industries, all the way through to distribution and retail of fossil fuels. Investing in some of these companies might not be at odds be the Fund's wider goals – for example, a utility company could work to change its supply to renewables, and future-proof its activities. Or a distribution company could adapt its business to be part of a low carbon future. It can be hard to see how extractive companies can be part of the solution – but even here, they could form part of a forward-looking portfolio, if they were being supported to wind down operations, and distribute assets to investors. In reality, each investment situation will be different and will need careful evaluation and consideration.

Through the Fund's allocation to the Paris-aligned passive portfolio, some companies are removed from the investable universe if they meet certain criteria. These are as follows:

OUR FOSSIL FUEL COMPANY DEFINITION

- Companies with:
  - 1 % or more of revenues from exploration, mining, extraction, distribution or refining of hard coal & lignite
  - 10 % or more of revenues from the exploration, extraction, distribution or refining oil fuels
  - 50 % or more of revenues from the exploration, extraction, manufacturing or distribution of hydrocarbons, hydrogen and carbon monoxide mixtures present in gaseous state
- Electricity producers with carbon intensity of lifecycle GHG emissions greater than 100 gCO2e/kWh (50%+revenues)
- Any companies found or estimated by them or by external data providers to significantly harm one or more of the environmental objectives under the "Do No Significant Harm" definition
  - Currently this includes Pure play Coal and Pure play Tar sands companies

The Fund uses these exclusion criteria from the Paris-aligned benchmark as its definition of "fossil fuel companies", and monitors holdings on this basis.

WHAT ABOUT INVESTMENT POOLING?

Due to the nature of investment pooling, there can be barriers to implementing any divestment policy at the current time, due to the fact that pooled portfolios have to contain the same holdings for all client funds, and a consensus position would need to be sought. The Fund's position has been communicated to Brunel and other investment managers, and the Fund continues to work with Brunel and other client funds in order to advance the approach in this area.

SO, WHAT FOSSIL FUEL COMPANIES DO WE HOLD?

> **"The value of our holding in shares of companies which meet any one of the above criteria amounts to just under 1% of the total Fund value*"**

** as at 31 December 2022*

Many of these companies are covered in our "Top 10" analysis earlier in this report, and we are actively engaging with and challenging our investment managers on these holdings. During the next year we plan to publish a full list on our website, along with an analysis of whether our investment in these companies is helping to drive real World change, in line with our divestment statement.

15
Transparency and information sharing

EVOLVING CONSIDERATIONS – BIODIVERSITY

Biodiversity is rapidly gaining attention as an area that investors should be considering. The World Economic Forum's Risk Report 2023 puts "Biodiversity loss and ecosystem collapse" as the **4th biggest economic risk facing the world over the next 10** years. Our net zero by 2050 target and wider investment beliefs mean that this is an area where we will need to take action.

At this stage, this is an emerging area, and we are still **gathering facts and information**. Our **Responsible Investment Policy 2023** will contain more information on how we will approach this topic.

WHAT ABOUT OUR OWN EMISSIONS?

The Pension Fund team is part of Wiltshire Council, which has set its own target of net zero by 2030 and its own **Climate strategy**. It reports on the Carbon Emissions Baseline and Reduction Pathways of Council as an entity; **Anthesis Report Wiltshire Council**.

12
Positive impact

Our administration software provider, **Heywood, has recently become carbon neutral**, and uptake of the member portal, **My Wiltshire Pension** over the last couple of years has reduced the **member communications carbon footprint** significantly.

MEMBER AND EMPLOYER VIEWS – TAKING ACTION

Climate risk is an **important issue** for both our employers and our members. **We have listened**, and member and employer views formed part of the decision-making process in setting a net zero goal.

A recent survey of employers showed that in the majority of responses, employers believe that it is important that the Fund's investment strategy should, where possible, try to reflect the wider goals and philosophy of the employer organisations.

A recent survey of the Fund's membership showed that from the 2,251 responses, 86% of members answered "Yes" or "Maybe" to the questions "Is it important to you that the Fund invests in low carbon and/or sustainable assets?"

CLIMATE AWARENESS CASE STUDY

In the run-up to COP27, the 2022 UN Climate Change Conference, we launched a campaign to engage with the scheme membership. This involved the following:

- Producing a one-page factsheet with key facts and figures (similar to 2021) on how the Fund is responding to climate change risk.
- Using this factsheet as part of an email campaign to alert the scheme members to what action is being taken.

The **factsheet and climate webpage** can be found on the website. This was a successful campaign, with an open rate of 48% shown on Mailchimp, with more members reached through the comms sent out by employers and growing numbers using the Member Self Service portal (My Wiltshire Pension). Overall, **at least 9,400 members read the factsheet**.

12
Positive impact

15
Transparency and information sharing

Christchurch solar farm, held in the Fund's secured income portfolio

WILTSHIRE PENSION FUND ON CAMERA

In late 2022, we were invited to participate in the PMI (Pensions Management Institute) project – Purposeful Pensions, made in partnership with Zinc Media.

> **"The new multi-part documentary series investigates how investing your money with purpose can help businesses grow, support the world in becoming more sustainable, and help to deliver a more comfortable and meaningful income in retirement."**
>
> Purposeful Pensions website.

We were proud to explain our approach to responsible investment, and the film showcases two investments in our portfolio, a solar farm and an affordable housing development, both of which you can read about in our **Responsible Investment and Stewardship Highlights 22/23 report**. We hope that the film is informative for others in the pensions industry, and will help inspire people to want to work for Wiltshire Pension Fund in the future.

WATCH THE FULL FILM AND OTHERS FROM THE PROJECT HERE

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) INFORMATION

To meet the full requirements of TCFD reporting, this section includes some further details on how Wiltshire Pension Fund carries out the identification, analysis and management of climate related risks. It is reported under the four themes of: governance, strategy, risk management, metrics and targets, highlighting items not covered earlier in the report.

GOVERNANCE

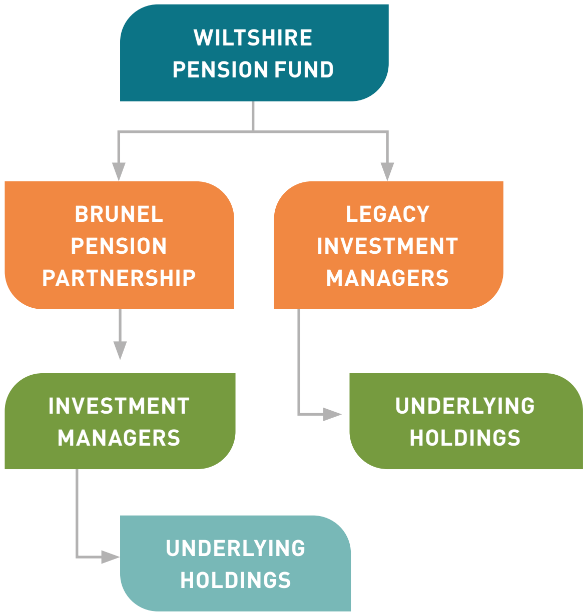
Describe the organization's governance around climate-related risks and opportunities.

Responsibility for the Fund's investment and responsible investment strategies sit with the Wiltshire Pension Fund Committee. The work of the Committee is support by the Local Pension Board who are responsible for securing compliance with the Regulations, and review the work of the committee with this purpose. The investment strategy and responsible investment strategy are the two key documents which set out how the fund responds to the risks of climate change and use the opportunities to seek new investment opportunities.

The Committee receive suitable training on climate related risks and scenario modelling to inform the approval of the strategies. They are supported by an independent investment advisor and a retained investment advisor. The committee receives quarterly updates against responsible investment targets and investment performance, which includes information on voting and engagements. The impact of climate change is identified as a specific risk on the funds risk register and is reviewed monthly. Fund officers are delegated responsibility to progress activity against the objectives of the strategies and report back to the committee and board on these matters.

Over 70% of the Fund's investments are administered by Brunel Pension Partnership (BPP), the LGPS pool for Wiltshire Pension Fund. Wiltshire is a shareholder and client of the pool. Assets held within an LGPS pool company have an additional layer of governance between Wiltshire Pension Fund. Officers actively participate in working groups to shape and direct the activities of the pool, to meet the investment strategy of the fund.

The Fund's relationships with the underlying holdings in the investment portfolios are set out as follows:



Describe management's role in assessing and managing climate-related risks and opportunities.

Day-to-day responsibility for management and implementation of the Fund's strategies in relation to climate risk is delegated to Officers of the Fund. Officers draw upon expertise of advisors, frameworks and collaboration initiatives. These include the Fund's Investment Consultant (Mercer) and Actuary (Hymans), Brunel Pension Partnership and collaboration with other LGPS funds, and the Institutional Investors Group on Climate Change (IIGCC).

Wiltshire Pension Fund investments are managed by external managers, these appointments are assessed against ESG factors, which include climate, during the procurement process. Brunel conduct extensive assessment and reporting of responsible investment factors for investments held in the pool.

STRATEGY

Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

The primary risks of the Wiltshire Pension Fund related to climate are those to the investment portfolios and stranded assets. Companies, assets, or investment strategies that are carbon intensive are potentially more likely to be exposed to regulation, rising costs as a result of taxation, changing consumer behaviour and be at a competitive disadvantage.

Short to medium term factors identified were cost of investing in new technology and policy risks during the transition from high to lower carbon. Longer term risks were the availability of natural resources and the impact of natural catastrophes.

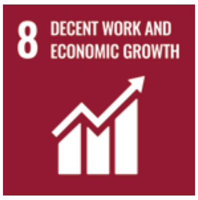
Opportunities include investment in sustainable equities which has been implemented through a 12.5% allocation to Paris-aligned passive equities and a 6% allocation to active sustainable equities. A new 7% allocation to climate solutions and renewable infrastructure is in the process of being implemented following the triennial investment strategy review, this portfolio looks to benefit from the investment opportunities arising from the transition to net zero across listed and unlisted asset classes.

Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

The Pensions Committee has completed several training sessions on responsible investment, including climate change related topics such as impact investing and the UN **Sustainable Development Goals (SDGs)**. Following discussion of the goals in the context of the Fund, the Committee agreed on three SDG areas for prioritisation on discussing engagement activity, investment opportunities and risk mitigation with asset managers:

i. Climate

ii. Economic growth



iii. Education

The organisation's strategy and financial planning have been impacted directly by climate related risks and resulted in the following:

- climate change scenario modelling (Mercer, Investment consultant) (2020) on both the existing strategic asset allocation, and one with a more sustainable tilt.
- investment in sustainable equities (2021) was identified as an opportunity as a result of the modelling.
- investment in a climate aligned benchmark, FTSE PAB (November 2021).
- funding modelling to look at different levels of policy response to climate risk (Hymans, Fund actuary), used by the Committee to help understand the financial implication of climate change risk and to develop the investment strategy.

The Fund became a signatory to the updated FRC Stewardship Code 2020 (in 2021) and reports against the principles.

Communication with Fund membership and employer engagement have continued during the year with development of the investment pages of the Fund website, climate factsheets, and employer strategic focus groups.

Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

The current strategic asset allocation, with a more sustainable tilt, was adopted for its better outcomes under a range of warming scenarios of 2, 3 and 4°C. Under each scenario the new allocation the fund has adopted investment returns were improved compared to the previous allocation. It also showed better investment returns under a warming scenario of 2 °C or under. These findings led to the Committee agreeing the investment belief and net zero target.

Mercer's ACT tool has been used to set interim targets for 2025 and 2030 and monitoring progress along the net zero pathway. Highlighted companies for climate engagement, which has begun, will help to test the strategy's resilience through time.

RISK MANAGEMENT

Describe the organization's processes for identifying and assessing climate-related risks.

Wiltshire Pension Fund considers climate related risks at both macro and micro levels. Governance processes and policies are used to manage risk at a whole fund level, this is enacted through making strategic allocations to a sustainable mix of well diversified assets which will provide the appropriate level of return to meet the pension liabilities.

It is then appointing investment managers who effectively incorporate climate risk assessments into their investment process. These external investment managers take responsibility for identifying and assessing climate-related risks at the stock selection level.

The fund makes use of Mercers ACT tool alongside other data sources such as TPI and Climate Action 100, to identify high risk holdings and question managers on their selection.

Brunel views engagement with companies, asset managers and policy makers as a key part of the approach to managing climate change risks. Engagement implementation is undertaken by asset managers, Brunel's dedicated engagement provider Federated Hermes EOS, and by Wiltshire Pension Fund via collaborative forums such as the LAPFF, with its legacy managers.

Describe the organization's processes for managing climate-related risks.

In 2022, the Fund's risk register was reconfigured and embedded into the operational framework. In addition to its operational focus, the risk register also retained a strategic focus to better manage the nature of each risk from its identification through to its mitigation. Risks are monitored by officers and represented to the Committee for oversight; Climate related risk is addressed through stewardship activity and reported at investment focussed meetings as part of the responsible investment standing agenda item.

Brunel use a number of ESG and carbon datasets in portfolio management. The largest fund holding for Wiltshire is the Paris Aligned Benchmark equity fund. This uses an exclusions screen based on activity, climate factors and fossil fuel revenues to select, weigh and rebalance companies in its developed markets universe.

For active equity portfolios, Brunel has a robust approach to incorporating climate change factors in its voting decisions, including on specific climate-related shareholder resolutions. In 2023, Wiltshire Pension Fund began reviewing legacy manager voting. Officers are active members of the Brunel Responsible Investment Sub-Group and engage with Brunel in developing RI policy and reporting.

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

Wiltshire Pension Fund uses a risk register to record and monitor its risk as described above. Climate risk is identified on the risk register as a high priority but reduced to a medium residual risk after mitigating controls are considered. The failure to manage climate risk effectively via the investment strategy could result in lower investment returns over the long term. Measuring the pathway to net zero, developing Responsible Investment Policy, and progressing towards set targets will reduce the residual assessment over time.

METRICS AND TARGETS

Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

In previous years, equities were the only asset class with readily available carbon metrics. Equity holdings represent approximately 42% of the total assets under management.

Metrics and coverage for other asset classes are being developed and Wiltshire Pension Fund have engaged with managers across all asset classes and strategies to assess how climate factors are incorporated into investment philosophy and portfolio strategy, and whether net zero target have been set.

The Fund has made a strategic allocation to affordable housing, and EPC scores are collated in our impact report on the portfolio.

For property, all current underlying managers and funds participate in the Global ESG Benchmark for Real Assets (GRESB), have made TCFD commitments, and nearly all underlying funds have made net zero commitments.

For private markets, Green Revenues is not a fully developed concept, but Brunel have completed 'Sustainable Investment Exposure' classifying committed capital against the FTSE Russell Green Revenues Methodology. Use of the same sector and subsector classification ensures some consistency between the public and private markets. For Renewable Infrastructure, 'Green Revenues' are 98%, and for General Infrastructure, this is 73%. Further analysis of the remaining 2% and 27% shows diversified utilities, mass transit, and other sub sector classification.

The Climate solutions and renewable infrastructure portfolio to be implemented later in 2023 will use metrics to assess and manage the portfolios as positive impacts are integral to the investment case.

MERCER ANALYTICS FOR CARBON TRANSITION (ACT)

Output from Mercer's ACT report includes carbon footprint and transition alignment metrics. The methodology used is backward looking (Carbon footprint and carbon intensity) as well as forward looking (transition strategy and value at risk) and individual stocks are measured which are aggregated to portfolio level. This can then be used to assess risk and focus engagement where it would be most effective.

Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.

Mercer established a baseline as at 2020 (31 December 2019) for all listed equities portfolios. The table below on the progress towards targets shows mandate-level TCFD metrics as at 2023 (31 December 2022).

PROGRESS TOWARDS TARGETS 2023

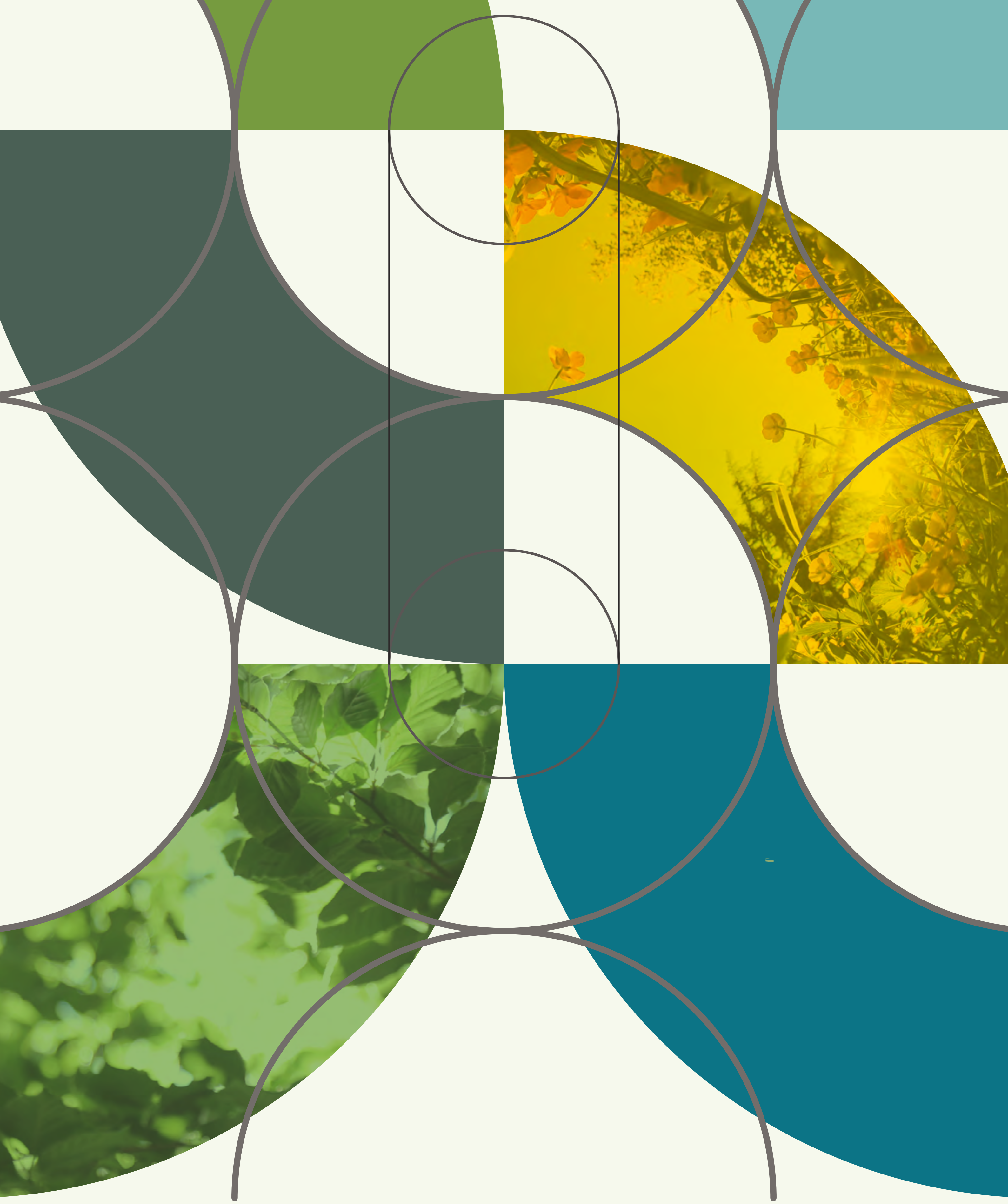
Asset Type	Portfolio	SAA Weight % (versus last year)	Carbon Footprint Coverage	Carbon Footprint (tCO2e/$million investment) Scope 1 + 2	Implied Temperature Rise (°C)	SBTI Alignment
Global Equity	Brunel – Global High Alpha	6.0	96.9%	**32.5**	2.5	**36.8%**
		(8.0)		(19.6)		(27.1%)
	Brunel – Global High Sustainable	6.0	95.7%	**26.2**	2.3	**37.1%**
		(8.0)		(29.5)		(28.4%)
	Brunel – Developed Paris Aligned	12.5	97.8%	**20.2**	2.0	**48.0%**
		(15.0)		(19.1)		(41.6%)
Emerging Market Equity	Ninety One – Emerging Multi-Market Asset	4.7	96.5%	**61.3**	3.2	**6.4%**
		(5.0)		(96.1)		(3.1%)
Listed Infrastructure	Magellan	4.1	96.1%	**143.2**	3.0	**48.1%**
		(4.8)		(141.6)		(34.8%)
Total		33.3	97.0%	**44.5**	2.5	**38.2%**
				(45.)		(31.0%)
Comparator – MSCI ACWI		–	99.7%	**59.0**	2.8	**36.1%**
				(50.0)		(31.2%)

Data provided by Mercer

Indicator of improved emissions performance
Indicator of worsened emissions performance
2022 figures shown in brackets

Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

The Fund has plotted a pathway to net zero by 2050 and has adopted targets based on a decarbonisation curve which frontends carbon reductions (Transition Leaders curve), as this allows plenty of early work to be done to identify easy wins and increases the chances of meeting a sub-2°C warming scenario. Progress against this can be see in the How are we doing? Section earlier in the report.



Wiltshire
Pension Fund