Warwickshire Pension Fund
Climate Risk Policy

March 2021

The Committee considers that climate change represents a materially 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 Committee’s approach to addressing climate related risks within the Fund.

Climate change and the expected transition to a low carbon economy is a long-term financial risk to Fund outcomes and is considered to be part of the Committee’s fiduciary duty.

The Committee will assess its portfolios on climate change risk where it is practical to do so and incorporate this into its investment decision making process. The Committee will monitor and review its fund managers in relation to their climate change approach and policies.

The Committee will participate in collective initiatives collaborating with other investors including other pools and groups such as LAPFF on climate risk related issues.

The Committee 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.

Where, over a considered period, there is no evidence of a company making visible progress towards carbon reduction or to address climate associated risks, divestment may be considered.

Implementation

The Committee will actively support engagement activity that seeks to achieve:

- Increased disclosure of information on the climate related risks that could affect the value of an investment;
- Transparency of an investment’s carbon exposure and how such companies are adjusting for the transition to a low carbon economy.

Monitoring/Reporting

The Committee recognise that the monitoring and assessment of exposure to climate-related risks is developing and the metrics and tools available to the Committee may evolve.

The Committee will monitor changes in market practice to ensure that they are aware of changing best practice.

The Committee will commence monitoring the exposure to climate related risks within its portfolio, this could include, measuring exposure to carbon reserves, overall carbon intensity and alignment with future climate scenarios.

The Committee will consider climate-related risks when agreeing employer funding strategies at each formal actuarial valuation. Climate change has the potential to affect long term funding outcomes due to its impact on economic variables, such as inflation, and on longevity. These risks can be built into the asset liability modelling that underpins the funding strategies.

Transparency

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