Warwickshire Pension Fund Climate Risk Policy

Aim and scope

The Pension Fund Investment Sub-Committee (the "Committee") considers that climate change has the potential to disrupt economic, financial and social systems and therefore represents financially material risks to the Fund. The Committee also believes that decarbonisation will create significant investment opportunities. However, the potential impact on the Fund is unknown given uncertainties around the physical response of environmental systems to climate change and society's policy, technological and economic response to it.

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 ("physical risks") or the impacts of policy, economic, societal, technological, or other changes relating to the transition to a lower carbon economy ("transition risks").

Climate change and the 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.

This policy sets out the Committee's approach to addressing climate-related risks and opportunities within the Fund.

Implementation

The Committee has overall responsibility for the management of climate-related risks and opportunities and takes these issues into consideration in setting investment strategy, making new investments and monitoring portfolio performance.

Climate-related risks are monitored through the Fund's overall risk management process and the Committee regularly reviews the level of exposure and the actions being taken to mitigate the risks. The Fund monitors the level of exposure to climate-related risks and opportunities on an annual basis. Current metrics used include the level and intensity of Greenhouse Gas ("GHG") emissions, exposure to fossil fuel reserves and the level of investment in companies providing decarbonisation solutions.

The Committee considers climate-related risks and opportunities in setting the Fund's investment strategy. This includes testing the resilience of the strategy to different climate-related scenarios, noting the uncertainty in the future path of climate change.

The Committee also considers 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.

The Fund delegates management of climate-related risks and opportunities relating to individual investments to its investment managers, including Border to Coast ("BTC"). The Committee has reviewed and approved the climate risk policies of BTC [and the Fund's third-party investment managers]. The Committee monitors the implementation of these policies, supported by BTC which provides oversight of selected third-party managers regarding their approach to managing climate change.

The Committee recognises that all companies have some level of exposure to climate-related risks, particularly transition risks. Stock selection decisions are delegated to the Fund's investment managers who, in deciding whether or not to invest, take into consideration factors such as the level of risk, the prospective return and investment timeframes

The Committee has a preference for engaging with portfolio companies on decarbonisation rather than divestment. It believes that the positive changes brought about by effective stewardship will enhance outcomes for the Fund as well as for society and the wider economy. Where, over a considered period, there is no evidence of a company making visible progress towards GHG emissions reduction or to address associated climate risks, divestment will be considered.

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 on how portfolio companies are adjusting to a low carbon economy.

The Fund also participates in joint initiatives collaborating with other investors including other pools and groups such as the Local Authority Pension Fund Forum ("LAPFF") on climate risk related issues.

Monitoring/Reporting

The Committee recognises that the monitoring and assessment of exposure to climate-related risks and opportunities is developing and is committed to extending the scope and improving the robustness of the metrics and tools used.

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

The Fund expects all its investment managers to disclose their latest policies on climate change and cover climate-related risks and opportunities in their regular reporting. The Committee will monitor investment managers compliance with their stated climate change policies and will take remedial action if issues are identified.

Disclosure

The Fund will report on the implementation of this Climate Change Policy, including stewardship activities undertaken on behalf of the Fund, on an annual basis. The policy will also be reviewed annually.

The Fund is committed to being transparent and accountable in terms of climate change. As such the Fund will publish its Climate Change Policy and reporting online.

March 2023