

MEETING:                   **PENSION BOARD**

DATE:                       **24 SEPTEMBER 2019**

TITLE:                      **LOW CARBON EQUITY INVESTMENT**

PURPOSE:                 **TO EXPLAIN AND SCRUTINIZE THE INVESTMENT**

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1. A meeting of the Pension Fund's Investment Panel was held in Caernarfon on 16 May 2019, when a presentation was received by Hymans Robertson on the options for a low carbon investment within BlackRock's mandate to invest passive equity on behalf of the Gwynedd Fund.
2. The Panel's opinion was that 12% of the total pension fund should be invested with BlackRock in their Low Carbon fund (global equity). As the BlackRock funds are in the 2016 passive equity procurement undertaken by the Wales Pension Funds it is not necessary to go through a procurement process.
3. In the meeting on 29 July, the Committee confirmed this investment. The attached press release provides some relevant details.
4. The Gwynedd Pension Fund and Gwynedd's scheme managers have **a fiduciary duty to all scheme employers, their staff and pensioners. This duty primarily guides the Pension Committee's decisions.** The Fund does not disinvest for purely non-financial reasons, not least because this could lead to a legal challenge.
5. The Pension Fund's assets are invested to provide a financial return to ensure the financial security of its members and to reduce the costs to the employers, which then reduces the cost to the tax payers of Gwynedd, Conwy and Môn. This is an important social responsibility of which the Pensions Committee and the Pension Board are acutely aware.
6. We have discussed environmental, social, and governance ('ESG') issues regularly and the Fund's responsible investment principles (as revised in November 2018) are formally noted in Section 6 of the Fund's Investment Strategy Statement. See the link below:  
  
<https://www.gwyneddpensionfund.wales/en/Investments/Investment-Strategy-Statement.pdf>
7. This Environmental, Social and Governance Policy outlines the need to consider the specific risks that arise from climate change when considering investments.

8. Gwynedd Pension Fund have invested in a fund managed by BlackRock to track the MSCI Low Carbon Index. This fund will reduce exposure to carbon emitting companies whilst tracking the MSCI World Index, **reducing carbon exposure up to 80%, rather than disinvesting arbitrarily.**
9. The MSCI Low Carbon Index is a benchmark for investors who wish to manage potential risks associated with the transition to a low carbon economy. The index aims for a tracking error target of 0.3% (30 basis points) while minimizing the carbon exposure. By overweighting companies with low carbon emissions (relative to sales) and companies with low potential carbon emissions (per dollar of market capitalization), the index reflects a lower carbon exposure than that of the broad market.

Key Metric	MSCI World Index	MSCI World Low Carbon Target Index
Net Returns (in GBP)		
Q2 2018 – Q2 2019 (%)	10.3	10.7
Q2 2017 – Q2 2018 (%)	9.3	8.4
Q2 2016 – Q2 2017 (%)	21.6	22.0
Q2 2015 – Q2 2016 (%)	14.4	14.1
Since 28 Nov 2014 (annualised, %)	12.1	12.1

10. No such index currently exists for responsible investment with regard to other environmental, social, or governance ('ESG') factors, such as armaments investments. Of course, Gwynedd Pension Fund's management will be mindful of those issues, and would consider other appropriate investment vehicles, if and when these are available, which might allow the Pensions Committee to consider further responsible investment in the future.

## Appendix

Press Release - Gwynedd confirms low carbon investment