Northern Ireland Local Government Officers' Superannuation Committee

Climate Risk Statement

1 Introduction

1.1 Climate change is a global challenge for governments, corporations and institutional investors alike. Through this statement, NILGOSC acknowledges that the changing climate will have a significant impact on the global economy, corporations and society, whether through direct physical impacts, tighter regulations or reputational damage suffered by those who fail to adequately address the issue of global warming.

1.2 As the Local Government Pension Scheme for Northern Ireland with approximately 130,000 members, NILGOSC expects to be paying pensions to its beneficiaries into the next century and aims to deliver a sustainable Fund, both financially and as a responsible investor. NILGOSC therefore considers it to be in the long-term interests of its members to promote climate risk mitigation and adaptation in the implementation of its investment strategy. By working together with like-minded investors, NILGOSC seeks to create an investment environment which contributes to a low carbon economy.

1.3 This statement sets out the climate risk framework in which NILGOSC will operate.

2 Investment Beliefs

2.1 NILGOSC has a fiduciary duty to act in the best long-term interests of its members and recognises that environmental, social and governance issues can materially impact on the financial performance of its investments. It has incorporated such considerations into its risk management and investment decision making framework.

2.2 NILGOSC believes that climate change presents a material financial risk to the Fund and will therefore take climate risk considerations into account as part of its investment policy. NILGOSC considers that this approach is consistent with its legal duty to act in the best long-term interests of its members and to deliver the long-term returns necessary to ensure an affordable and sustainable pension fund.

2.3 NILGOSC supports the aims of the Paris Agreement and will work with others to encourage the action necessary to limit global temperature rise to 2°C degrees or below as per the Agreement. It demonstrates its support through the various engagement activities it undertakes on top of the investment decisions.

2.4 NILGOSC has classified climate risks into 3 main categories, which are applicable across the range of asset classes in which it invests. Different asset classes will be susceptible to different risks and some will be more sensitive than others even within a particular asset type or sector.

(i) Policy risk – the impact of policy decisions and regulatory change on global economies, companies and individual investments.
(ii) Physical risk – the impact of extreme weather, flooding, droughts and rising sea levels on industry, physical assets, companies and infrastructure.
(iii) Technology risk – the risk that key low/no carbon technologies do not deliver as planned.

2.5 NILGOSC believes that robust management of these risks, together with sound governance practices and responsible behaviour can contribute significantly to the long-term performance of investments.

2.6 NILGOSC believes that active engagement is the most effective way to bring about change, both at a policy level and in respect of individual investments. NILGOSC considers divestment can be a blunt instrument which removes the ability to engage effectively with a company or government. NILGOSC does not therefore exclude investments or divest solely on environmental, social and governance grounds.

3 Our Approach

3.1 NILGOSC invests in a range of asset classes and sets out its decision making framework in its Statement of Investment Principles and Statement of Responsible Investment. To supplement these statements, this Climate Risk Statement sets out how NILGOSC addresses climate risk at both a policy/procedural and portfolio level.

Procedural Level

3.2 NILGOSC has developed a suite of procedures and policy documents which set out how climate risk is incorporated into its investment processes and practice. This will vary across asset types however the high level principles remain consistent.

3.3 NILGOSC delegates the selection of individual investments held to its externally appointed fund managers and does not impose restrictions on environmental, social or governance (ESG) grounds alone. NILGOSC has however instructed its active fund managers to take account of climate risk considerations in its decision-making process, provided the primary financial obligation is not compromised. Where climate change produces a financial risk for a particular investment, NILGOSC expects this to be a fundamental part of the investment decision making process and will monitor such decisions accordingly.

3.4 All active fund managers are instructed to engage, on NILGOSC's behalf, with those companies where ESG policies fall short of acceptable standards. NILGOSC requires all its external managers to provide regular reporting on such engagement activity and assesses its compliance through its quarterly balanced scorecard monitoring process.

3.5 NILGOSC seeks to ensure that the fund managers and consultants it appoints have the necessary expertise in assessing climate risk. NILGOSC assesses these capabilities at the selection and appointment stage through the tender process and applies mandatory ESG criteria. NILGOSC will only appoint fund managers and consultants who have demonstrated that they meet an acceptable threshold for ESG capabilities. In making investment decisions, NILGOSC will encourage its fund managers to address climate risks and opportunities in their investment research, analysis, decision making and engagement activities.

3.6 NILGOSC has instructed its investment consultant to consider the impact and opportunities of climate change in the provision of advice, including the proactive consideration of opportunities to invest in low carbon assets.

3.7 NILGOSC has developed a bespoke Proxy Voting Policy which sets out its expectations for good corporate governance, including how companies manage their impact on society and the environment, This policy sets out how NILGOSC addresses sustainability related resolutions, including specific reference to climate risk and climate related financial disclosures.

3.8 As a means of demonstrating its commitment to responsible investment practices, NILGOSC has adopted the United Nations Principles of Responsible Investment. This global benchmark is applicable across all asset classes and provides a forum for NILGOSC to collaborate with other like-minded investors on engagement initiatives. As a signatory, NILGOSC reports on its implementation of the Principles for Responsible Investment through the UNPRI reporting framework on an annual basis.

3.9 NILGOSC will continue to work together with other like-minded investors on initiatives which seek to reduce the threat and impact of climate change. NILGOSC is a signatory to the Global Investor Statement to Governments on Climate Change and has encouraged its fund managers to do the same. This statement calls on world governments to achieve the Paris Agreement goals; accelerate private sector investment into the low carbon transition; and to commit to improve climate related financial reporting. Other climate change related initiatives are listed on the Engagement and Initiative section of the NILGOSC website: http://www.nilgosc.org.uk/engagement-and-initiatives1

Portfolio Level

3.10 The assessment of climate related risks and opportunities will vary across asset classes, sectors and individual portfolio holdings. NILGOSC seeks to ensure that climate risk is taken into account across its investment portfolio on a consistent and proportionate basis.

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3.11 NILGOSC is an active investor and seeks to use its influence to engage with policy makers, governments, asset managers and individual investee companies in respect of its equity, fixed income, property and infrastructure holdings. NILGOSC recognises that many companies have begun the transition to a lower carbon world, including many companies whose traditional business model has been carbon intensive. NILGOSC is supportive of companies seeking to diversify their business into renewables and low carbon technologies and will support calls for greater disclosure of climate change risks and robust company strategies aligned with the Paris Agreement. NILGOSC considers such action to be consistent with its fiduciary duty and is essential to achieve the goals of the Paris Agreement.

3.12 NILGOSC utilises its ownership rights globally to ensure that corporations provide accurate and timely disclosure of the material risks and opportunities associated with climate change. Through the exercise of its voting rights and through targeted engagement, NILGOSC aims to encourage companies to be transparent and accountable in respect of their impact on the environment, for example through the setting of targets and timeframes for the reduction of greenhouse gas emissions. NILGOSC expects the remuneration committees to consider ESG factors when setting the remuneration of company directors.

3.13 NILGOSC considers the disclosure of climate risks and opportunities to be essential if shareholders are to determine whether the companies in which they invest are adequately addressing the changing climate. NILGOSC supports calls for greater disclosure of greenhouse gas emissions and the impact of climate change on a company's business activities through the targeted exercise of its voting rights. NILGOSC actively supports the Financial Stability Board Task Force on Climate-related Financial Disclosures and uses its voting rights to encourage investee companies to comply.

3.14 Where such disclosure is lacking, or where there are shortcomings in the steps taken to address climate risks and opportunities, NILGOSC will seek to engage with such companies either directly or by joining together with like-minded investors in UNPRI facilitated or similar collaborative initiatives. NILGOSC has also instructed its fund managers to engage with investee companies on its behalf and monitors performance through its quarterly balanced scorecard monitoring process.

3.15 NILGOSC will continue to work together with other like-minded investors on initiatives which seek to reduce the threat and impact of climate change. NILGOSC is a signatory to the Global Investor Statement to Governments on Climate Change, Carbon Disclosure Project initiatives on climate change, water and forests and the Climate Action 100+ initiative. The latter is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change and was highlighted as one of 12 key global initiatives to tackle climate change. The companies include 100 'systemically important emitters', accounting for two-thirds of annual global industrial emissions, alongside more than 60 others with significant opportunity to drive the clean energy transition. A full list of climate change related engagements and initiatives are listed on the Engagement and Initiative section of the NILGOSC website: http://www.nilgosc.org.uk/engagement-and-initiatives1

3.16 NILGOSC encourages its real asset managers to consider investment opportunities in low carbon infrastructure and real estate where appropriate. NILGOSC recognises that real assets have a greater negative sensitivity to physical damage and resource availability and through its infrastructure investments will seek to increase its exposure to renewable assets.

3.17 NILGOSC also encourages its real asset managers to adopt sustainable asset management practices with respect to its infrastructure and property holdings and monitors progress through the quarterly monitoring process.

4 Review

4.1 This document is reviewed every three years and will be updated sooner if required.

Reviewed: 19 Nov 2019
Next review due: Nov 2022