

18 November 2019

Charles Riley
Clerk to LGPS Central Joint Committee
Cheshire West and Chester Council
4 Civic Way
Ellesmere Port
CH65 0BE

Dear Mr Riley

JCC meeting Stafford 13 December 2019

Following the change to the JCC Terms of Reference adopted at the previous meeting, and the process identified in Appendix 2, please find my question for the next JCC at Stafford.

I am asking this question personally, as an individual retired member of CPF.

As a pensioner of Cheshire Pension Fund thank you for the opportunity to ask questions at these JCC meetings. I also welcome the 10 October LGPS Central announcement on the “World Equity Climate Multi-Factor Fund” which recognises that our pension funds and investments support those fossil fuel industries that have done so much damage to our environment. However I am concerned that without targets for divestment and re-investment, which are open and published on the LGPS Central website, this Fund may become just aspirational and may contribute little towards Responsible Investing, and ESG values.

Will LGPS Central publish specific, measurable, monitored, objectives for this new Fund, which are numeric and time based targets, rather than just use the phrases “tilting away” and “moving towards”, as in that LGPS Central announcement.

Please can you confirm that this question is “accepted” for 13 December, as detailed in Appendix 2, as I hope to attend the meeting in Stafford. Also that the question and the answer to be listed on the LGPS Central website.

I am also a member of the CPF Members Forum, which a number of fellow pensioners formed last year www.cpfmembersforum.com to ask our fund for an AGM, and open discussions pages for members-only on the CPF website.

Please reply by email to

Thank you in advance.

LGPS Central Joint Committee Meeting 14 February 2020

Question from a partner fund member:

As a pensioner of Cheshire Pension Fund thank you for the opportunity to ask questions at these JCC meetings. I also welcome the 10 October LGPS Central announcement on the "World Equity Climate Multi-Factor Fund" which recognises that our pension funds and investments support those fossil fuel industries that have done so much damage to our environment. However I am concerned that without targets for divestment and re-investment, which are open and published on the LGPS Central website, this Fund may become just aspirational and may contribute little towards Responsible Investing, and ESG values.

Response: The LGPS Central Climate Factor Fund launched in October 2019 is an innovative investment fund, which seeks to deliver investment performance above that of the traditional market tracking FTSE All World Index, with a reduced carbon footprint.

It may be helpful initially to recap the index management approach.

- Investment indices provide a standard against which the performance of investment funds is measured.
- Investment managers may select shares to hold based on their view on individual companies or they may choose to hold shares in proportion to an index.
- Index structure and parameters are set by the index provider not by the investment manager although clearly the manager and client select the index to be used.
- In a traditional index, investment managers will hold shares in companies in the index in direct proportion to the value of that company's shares (the market capitalisation) in the index. This is a purely arithmetical approach. So, if for example Microsoft Corporation's market capitalisation value is \$1bn and the total value of all companies in the FTSE All World Index is \$100bn, then Microsoft represents 1% of the index and the a fund tracking that index will hold shares to this weighting.

The LGPS Central Climate Factor Fund tracks the FTSE All World Climate Balanced Comprehensive Factor Index. By contrast to the traditional FTSE All Share Index, FTSE Russell, the index provider, recalculates the market capitalisation of companies in the FTSE All Share Index in two stages, by reference to

- Five performance related factors, which are Quality, Value, Momentum, Low Volatility and Size. These factors have been chosen as historic data suggests they are the main measurable characteristics of companies whose share price outperforms the main index, and
- Further re-weighting companies with reference to three green factors: carbon emissions, fossil fuel reserves and green revenues.

The cumulative impact of these two stages results in a different index weighting for individual companies than that derived purely from their market capitalisation value.

Historical Performance

Over the past 8 years, when compared to the main FTSE All World Index, the FTSE All World Climate Balanced Comprehensive Factor Index has reduced an investee fund's carbon exposure in a number of ways:

- Reductions in carbon emissions (metric tons/\$m revenue) of between 15% and 52% with an average reduction of 40%.
- Reductions in fossil fuel reserves (metric tons/\$m revenue) of between 48% and 90% with an average reduction of 75%.
- In addition the proportion of revenues earned by the companies in the fund vs those in the main index was higher by between 61% and 139% with an average of 97%.

Therefore, there is good evidence from recent performance that the Climate Factor Fund will deliver significant and tangible environmental benefits when compared to the performance of mainstream funds tracking the main index. The Cheshire Pension Fund has made a significant investment in the new climate factor fund with the aim of the investment playing a critical role in our approach to managing climate related investment risk.

Clearly the impact of the index factors will vary over time, and FTSE Russell are constantly reviewing the effectiveness of their re-weighting in reducing exposure to carbon emitting companies, while at the same time maintaining strong investment performance. Their review will include whether fixed carbon reduction triggers are appropriate in constructing the index.

In addition LGPS Central Ltd, in conjunction with Cheshire and West Midlands funds, has put in place a mechanism whereby, if the index results in reductions of exposure to carbon emissions below 30% and fossil fuel reserves below 50%, LGPS Central will engage with FTSE Russell to explore the reasons for this fall and discuss strategies for improvement.