Dyfed Pension Fund – Carbon Footprint

PFC Meeting – 3rd December 2021

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Context – Investment Strategy Statement

"The investment objective is therefore to **maximise returns subject to an acceptable level of** risk (including climate and other ESG risks) whilst." **increasing certainty of cost for employers, and minimising the long term cost of the scheme**

"Climate Change The Fund recognises the importance in addressing the financial risks associated with climate change through its investment strategy, and believes that:

• **Climate change presents a systemic risk** to the overall stability of every economy and country, with the potential to impact on the members, employers, and all of the holdings in the Fund's investment portfolio.

• Considering the impacts of climate change is not only the legal or fiduciary duty of the Fund but is also consistent with the long term nature of the Fund. **The Fund's investments need to be sustainable** to be in the best interests of all key stakeholders. To this end, **the Fund is committed to transition its investments towards net zero GHG emissions over the medium term**. The Pension Fund will regularly report on progress, including establishing intermediate targets.

• **Engagement is the best approach** to enabling the change required to address the Climate Emergency. **However selective risk-based disinvestment is appropriate** to facilitate the move to a low carbon economy.

• As well as creating risk**, it also presents opportunities** to make selective investments that achieve the required returns, whilst at the same time make a positive social and environmental impact, such as environmental infrastructure and clean energy and energy efficiency products and services."

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Action Plan – Actions completed

2020 – 2021

- DPF set a baseline as at 30 September 2020.
- Weighted average carbon intensity metric chosen on basis of availability/ consistency.
- DPF started 10% below market benchmark.
- Major equity rebalance executed in Q1 2021 (below), delivering a further 10% reduction (before market movements).

Asset Class Allocation (%)	Starting Allocation	Change	Resultant Allocation (31/3/21)
US Equity (active)	11	- 11	0
UK Equity (passive)	21	- 4	17
Low-Carbon Global Equity	0	+10	10
WPP Global Equity	26	+ 5	31
Total Equity	75	-	75

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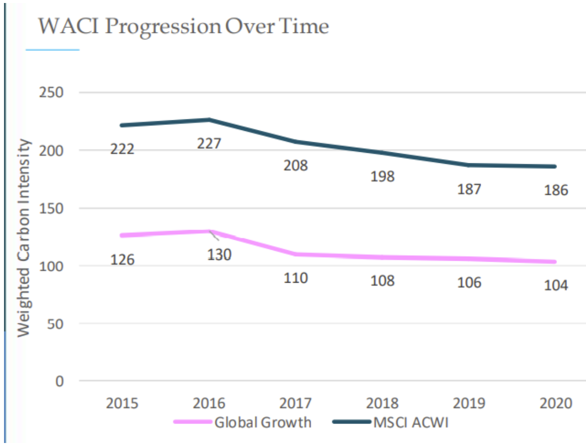
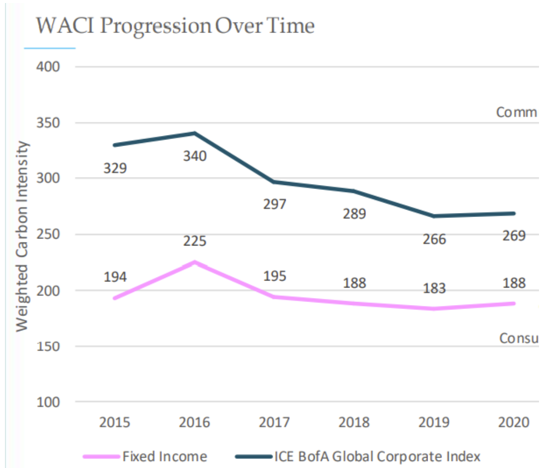
2021 – 2022 Plan

- WPP fund transitioning to “Paris-Aligned” variant (Baillie Gifford) in Q4
- Planned rebalancing of SAA will
  - Increase investment in SAIF (20% renewable energy, 20% other essential infrastructure)
  - reduce high-Carbon regional equity holdings
- Ongoing work on WPP infrastructure Fund
  - Manager selection criteria include ESG focus.
  - DPF intends to allocate 5%.
- WPP initiated ESG reporting, incl. weighted average carbon intensity : as at Dec 2020



WPP Global Growth Equity



WPP Global Credit

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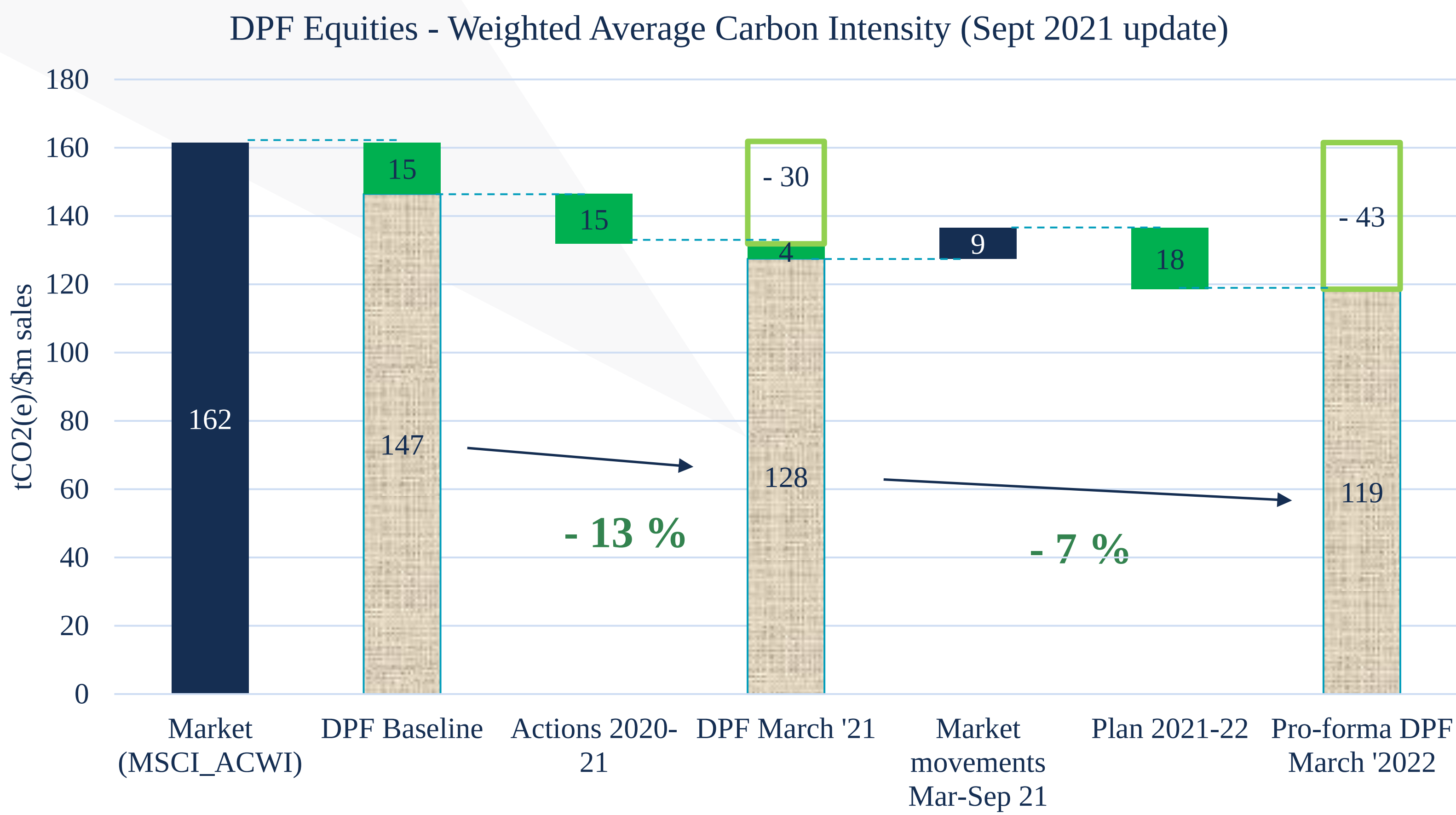
Measuring our Progress – Equity Weighted Average Carbon Intensity (WACI).



Annual reductions exceed "Paris-Aligned" target of -7%p.a

Source :Manager reports, Northern Trust, MJH analysis. Pro-forma numbers assume transition out of selected regional equity portfolios and switch of Baillie Gifford WPP portfolio to Paris-Aligned strategy. WACI data and AUM as of Sept '21. Market movements include changes in AUM and in manager's WACI during the period.

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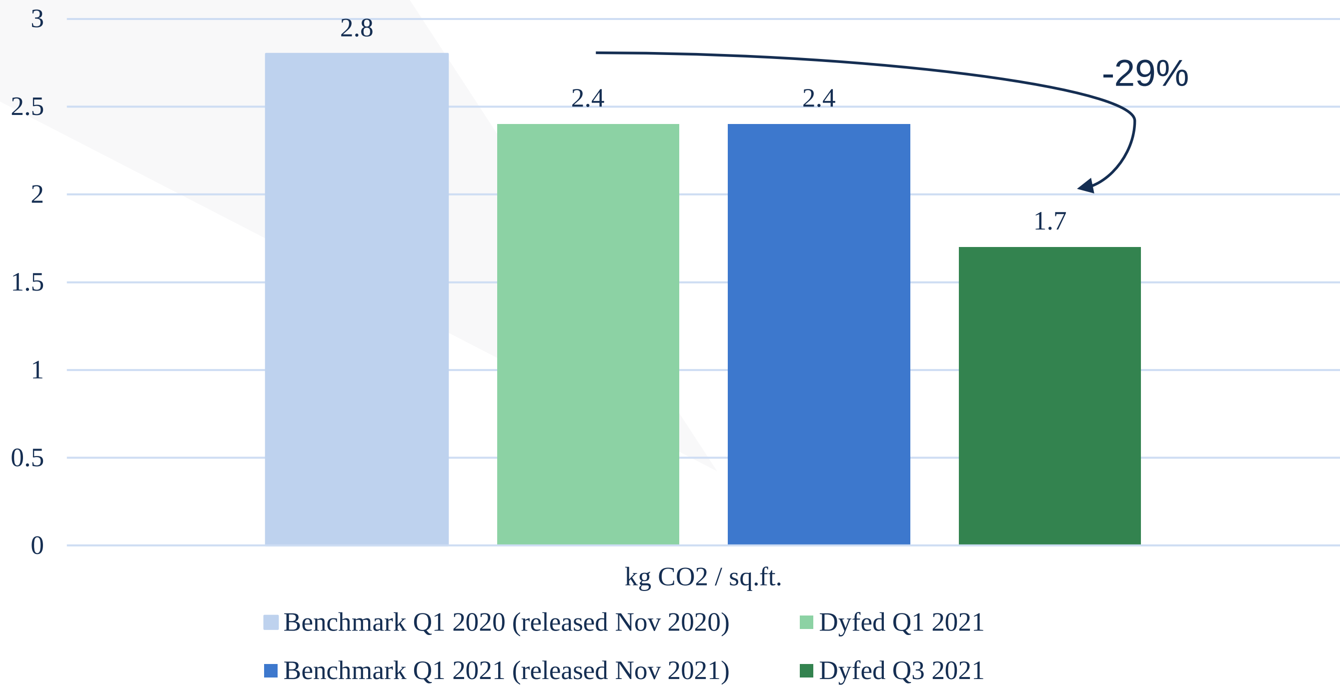
Measuring our Progress – Real Estate



Annual reductions exceed "Paris-Aligned" target of -7%p.a

Source :Manager reports (Schroders). As of Sept 21.

The MSCI/AREF All Balanced Weighted Average intensities have been calculated by taking the average intensity of each property sub-sector from GRESB and weighting it according to the benchmark sector allocations. The portfolio intensities per square foot have been calculated by taking the intensities for each holding who report data and multiplying these intensities by the percentage that the respective holding makes up of your portfolio, summing up all of the results. 79.2% of your portfolio (by value) has reported data. For the remaining 20.8% we have used the property sub-sector average intensities, i.e. Local Retail Fund do not report ESG data and we have used the Standard Retail sector average intensities for kWh and CO2,to represent the Local Retail Funds' intensities. The Multi-Let Industrial Fund does not report ESG data and we have used the industrial sector average intensities to represent the fund.

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Next Steps – Climate Agenda

- Broaden universe of assets covered by our measurement (Private markets)
- Continue to refine the metrics
  - eg take account of scope 3 emissions.
  - Incorporate off-setting renewable investments.
- Preparation for TCFD (Task Force for Climate-Related Financial Disclosure)
- Ongoing review of SAA, with the aim of reducing Carbon footprint, while continuing to meet funding goals.
- Increased communication to stakeholders

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Summary

- DPF laid solid governance framework, leading up to last year.
- Last year, DPF set a baseline and is measuring both equity and corporate debt investments.
- The Fund's Carbon footprint starts off below that of the market.
- This year, your Committee has delivered a reduction in carbon-intensity ahead of the Paris-aligned target.
- Plans are in place to deliver a declining Carbon-footprint over the coming year.

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