Dear ….

Thank you for your correspondence which raises a number of important points. I realise that there have been various communications sent to a variety of people associated with the Dyfed Pension Fund and I, as Leader of Carmarthenshire County Council, am responding on behalf of all my colleagues members and the Senior Officers including the Chief Executive and Director of Corporate Services.

Let me assure you that the Executive Board and I, the pension committee and officers are taking both the requests of the Council and climate risk very seriously. We know there are a range of views on climate change, for example, some of us will want to make change faster than others, some will have more questions than others and there will be many different views about how to proceed. We respect differences of opinion and are aiming to be as inclusive as possible.

We are all on a journey, we want to do the best we can do on climate change, within our remit. The pension committee's first legal duty is to the members of its scheme which brings its own constraints. The committee is one small player and it also has other issues it needs to take into account (e.g. social and governance issues). Investment portfolios have also changed over the years within the Local Government Pension Scheme with the Fund now investing in pooled funds and not segregated funds which was the case previously.

As the host authority for the Wales Pension Partnership (WPP), the all-Wales investment pool, we have also written to the Future Generations Commissioner for Wales on WPP's strategy in this area.

Climate change is an important part of a wider responsible investment agenda, as articulated in the Dyfed Pension Fund's Investment Strategy Statement.

However:

- Within Carmarthenshire County Council's constitution the responsibility for pension fund matters, on behalf of approximately 50 employers in the Fund, lies with the Pension Fund Committee. The Dyfed Pension Fund is therefore effectively a separate entity, with different accountabilities as set out in the Fund's Governance Statement. The Fund does have fiduciary responsibility to maximise return for risk – including climate risks – and the Council's call to divest is being seriously acted upon by the Committee whilst recognising its legal fiduciary responsibilities.
- We delegate investment responsibility to professional managers, and, in the interests of value for money, often in "commingled" funds – we need to work with managers and with other investors in those funds to execute any such changes in strategy.
- We have a global investment mandate, and, while these managers absolutely can look at local investment opportunities, if we were to instruct/prioritise these against better investments elsewhere, it would breach our fiduciary duties.

Having said this, the Committee are taking the risk associated with climate change very seriously, and here is what has been done already:

- Our equity managers ((WPP) and BlackRock) have excluded or intend to exclude companies with material exposure to thermal coal production from all their portfolios.
- They engage with companies via our professional advisors e.g. Robeco, BlackRock and the Local Authority Pension Fund Forum (LAPFF) as opposed to directly disinvesting. Divestment simply transfers the problem, typically to a less

scrupulous investor, and retaining some investment precisely allows us to have a voice in influencing/impacting change in the companies concerned.

- The Fund has allocated 5% of it's assets to the BlackRock Strategic Alternative Income Fund, which includes investments in green energy investments, many in the UK. The power produced by the wind and solar projects within this Fund will prevent the release of 315,494 metric tonnes of CO_2 emissions every year.

These developments have been shared and discussed with the Dyfed Pension Fund Board, the scrutiny body for the Dyfed Pension Fund.

The pension committee is currently working on and considering:

- Reducing our exposure to climate-related risks by moving some assets to lower carbon strategies both within WPP and within our main equity manager, BlackRock. The potential Baillie Gifford fund within WPP will include fossil fuel stock screening. The BlackRock fund will offer a 78% reduction in carbon intensity and screens out companies with material exposure to fossil fuel reserves and all thermal coal.
- Allocating some of our potential private market investments within the WPP to impact investing which has a measurable social and environmental impact.
- Quantifying our progress on carbon reduction, so as to be able to report it annually and to sell the largest contributors i.e. decarbonisation.
- Enhancing our risk analysis – including scenario risk analyses - in line with guidance for Task Force on Climate-related Financial Disclosures (TCFD) reporting.

As I said earlier, the Pension Fund Committee is taking this issue very seriously. I am sure you can see that the actions that the Fund is taking in moving forward with developing a lower carbon portfolio gives you the reassurance that we are managing the respective investment risks along with the fiduciary duty to the Fund's membership.