

OXFORDSHIRE LOCAL PENSION BOARD – 26 APRIL 2019

RISK REGISTER

Report by the Director of Finance

Introduction

1. This report presents the latest risk register to the Pension Board following consideration by the Pension Fund Committee at its meeting on 8 March 2019 of the previous advice provided by this Board.

Climate Change Risk

2. At the last meeting of this Board, there was a discussion on the impact of future financial returns of the challenges caused by climate change. The Board recommended to the Pension Fund Committee that they added a specific risk associated with the reduction in investment performance attributable to a failure to properly take climate change into account when making investment decisions.
3. The Board further agreed to recommend to the Committee that this risk could be mitigated by switching from the current asset allocation to passive equities to the passive low carbon portfolio established by Brunel.
4. The Committee considered the recommendations from the Pension Board in light of the further officer advice provided within the Committee report. This advice accepted that the risk to long term investment performance from a failure to properly account for various environmental, social and governance (ESG) factors was not reflected in the current risk register. However, it was the view of the officers that this risk was across all ESG issues and should not be restricted solely to the risks associated with climate change.
5. The officer advice also stated that the risks associated with climate change could not simply be mitigated by switching to a low carbon portfolio. There is considerable research into the risks associated with climate change which impact across the full range of companies, including risks to the supply chains, and the physical risk to properties from flooding. These risks apply to both carbon and low carbon companies. Key to mitigating climate change risks therefore is a requirement to actively engage with each potential investment company to understand the risks specific to them and how these risks are being dealt with by management.
6. The Committee discussed the various issues raised and debated whether the current high profile attached to climate change risks was sufficient to justify singling out climate change risk as a specific risk within the risk register. The consensus of the meeting was that each of the ESG factors had the potential to lead to a significant reduction in investment performance if not properly taken into account when making investment decisions, and as such a generic

risk covering all ESG factors should be added to the risk register. This has been added at Risk 6 on the attached register.

7. In terms of mitigation, the Committee were happy that the main mitigation of these risks was requiring all Fund Managers to take ESG factors into account in making all investment decisions, and to actively engage with management to deliver change where necessary. It was agreed though that at present, there was insufficient evidence to monitoring the success of the Committee's ESG Policy and the activity of the Fund Managers. It was noted though that Brunel would be producing ESG monitoring reports, with the first report expected to cover the quarter to end of March 2019, and therefore available for the June 2019 meeting of the Committee.

RECOMMENDATION

8. **The Board is invited to note the latest risk register and offer any further comments to the Pension Fund Committee.**

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