TAKING ACTION ON ESG AND CLIMATE CHANGE

October 2020

caceis
INVESTOR SERVICES

CONTENTS

Executive Summary ... 3
Methodology ... 4
Results ... 5
Overview ... 5
The rise of ESG integration ... 6
Theme sentiment ... 7
Key drivers of change ... 8
Who is responsible? ... 8
Exposure assessments ... 9
Voting arrangements and pooled vehicles ... 10
Asset manager progress ... 10
Scheme challenges ... 11
The Climate challenge ... 12
Scheme dialogue on climate risk ... 13
Training requirements ... 13
Good Governance ... 14
Conclusion ... 15

EXECUTIVE SUMMARY

TRANSFORMING TOMORROW: RISING TO THE NEW NORMAL OF ESG AND CLIMATE CHANGE FACTORS AND RISKS

ESG is the acronym of our time. Embracing Environmental, Social and Governance (ESG) concerns within investment portfolios has never been higher on the agenda. Asset owners and investment managers are increasingly integrating ESG factors into their financial analysis and investment decision making.

Regulatory changes have ensured that UK pension schemes must now think about the consequences of ESG and climate change-related issues on investments within their portfolios as they are required to show more formally how they have taken ESG into consideration. Against the backdrop of regulatory change, climate change is increasingly under the spotlight and is an area that is growing in complexity. Where do pension trustee duties fit into this and how should trustees react to emerging government policy likely to mandate climate related risk reporting by pension funds?

To understand the current state of play among UK pension schemes, CACEIS partnered with the Pensions and Lifetime Savings Association (PLSA) to ask PLSA members representing pension schemes of all shapes and sizes about their attitudes towards ESG, climate change and more broadly, with a view to charting current thinking and how pension schemes are looking to the future in relation to their governance considerations on ESG and climate change. The survey also aimed to understand the areas which participants believe will be the most pertinent for pension schemes in the future and the fields where trustees may need further support or training.

From our survey, it is clear that allocations to distinct ESG-based themes within pension portfolios is on the rise. 54% of respondents highlighted that they intend to increase their exposure to ESG funds over the year, and a majority (82%) of respondents state that they are focused on selecting managers that can fully integrate ESG criteria into their investment process.

Key drivers cited by our survey respondents confirm that ESG is no longer a peripheral exercise thanks to investor demand (43%), regulation (45%) and greater certainty about the link between ESG risks and financial performance (43%).

Our survey highlighted a number of challenges to ESG integration and addressing climate change, with a lack of consistency (80%) around ESG focused standards being the biggest.

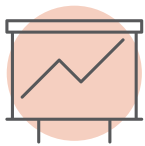
Additional headwinds include more access to data on climate change (73%) and consequently more knowledge, with 70% of respondents saying they need more understanding of how asset managers are implementing their own ESG policies. What's clear from the survey is that more work needs to be done to show pension funds how they can be supported on ESG issues, whether through training, resources, or industry collaboration.

Overall, however, our findings paint an encouraging picture of pension schemes and trustees stepping up to the new demands on their time. What is clear is that the journey towards greater integration of ESG and climate change looks set to continue. However, pension schemes and trustees require structured support to reach their own destination.

METHODOLOGY

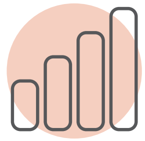
In August and September 2020, CACEIS, in partnership with the PLSA, surveyed the PLSA's members on the growing importance of ESG and climate change. In total, the survey attracted 93 responses. These were spread across different schemes across the UK.

WHAT TYPE OF SCHEME DO YOU REPRESENT?



50.54%

DB



12.90%

DC

36.56%

Both DB and DC

Around 44% of survey respondents were trustees, 11% professional trustees and 40% pension scheme managers. The remaining balance represented Pension Scheme CIO's and consultants.

DOES YOUR SCHEME FALL INTO THESE CATEGORIES?

17.58%

Master Trusts

17.58%

LGPS

MAIN RESPONDENTS

44%

Trustees

11%

Professional trustees

40%

Pension scheme managers

THE SURVEY REPRESENTED SCHEMES ACROSS THE SIZE SPECTRUM

£500m and under	£500m-£1bn	£1bn-£7bn	Over £7bn
24.74%	15.05%	44.09%	16.13%

RESULTS

OVERVIEW

In the UK, the integration of ESG across pension portfolios has gained momentum this year, thanks in part to rules introduced in October 2019 requiring schemes to disclose their policy on ESG and climate change relating to investments in their Statement of Investment Principles (SIPs). From October 2020, trustees will need to include further detail in their SIPs on their stewardship policy and arrangements with asset managers, including how asset managers are incentivised to align investment strategy and decisions with the trustee's investment policies, including ESG.

The Pensions Bill and the Department for Work and Pensions are proposing that larger schemes should provide climate risk disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. In its consultation paper entitled "Taking action on climate risk: improving governance and reporting by occupational pension schemes,"* published in August, the DWP set out why, when and how schemes would be expected to complete the task.

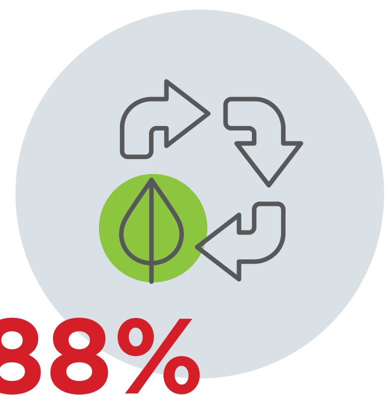
Against this background, pension schemes are increasingly looking to focus their policy on ESG integration criteria rather than allocating to standalone sustainable funds and are also considering how to factor in and measure climate change risks.

The survey found that almost 82% of respondents said they were focused on selecting managers that can fully integrate ESG criteria into their investment process. Furthermore, under 40% said they were concentrating on investing in distinct sustainable and ethical funds, while just 11% said they were excluding certain investments.

These findings chime with a recent European Asset Allocation Insights report, published by Mercer** earlier in the year, which found 88% of European defined benefit pension funds had plans to integrate ESG into their investment policy, up from 68% in 2019.

82%

of respondents are focused on selecting managers that can fully integrate ESG criteria into their investment process.



88%

of European defined benefit pension funds had plans to integrate ESG into their investment policy.

*https://www.gov.uk/government/consultations/taking-action-on-climate-risk-improving-governance-and-reporting-by-occupational-pension-schemes
**https://www.uk.mercer.com/our-thinking/asset-allocation-insights-2020.html

THE RISE OF ESG INTEGRATION

It is clear that allocations to distinct ESG-based themes within pension portfolios is on the rise. In our survey, just over 50% of respondents highlighted that their exposure to ESG funds or strategies had increased over the last year, 44% said it was the same, while just 1% said it had fallen.

Recognising the role that pension schemes can play in improving ESG outcomes was a driver for 42% of respondents that have increased investment in this area, demonstrating the high degree of awareness of their impact as asset owners.

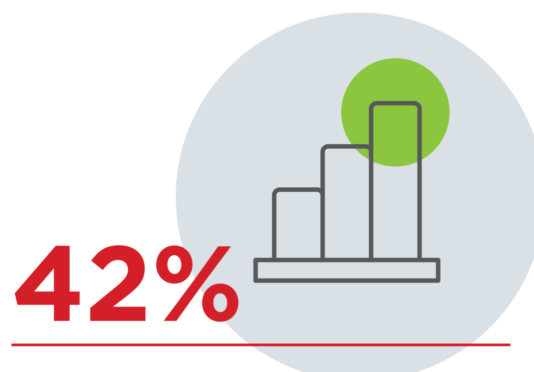
The survey found that pension schemes are particularly focused on climate change considerations, with 54% citing this as an area of focus with respect to their scheme's policy. Some have invested in ESG strategies or funds that help to bring their portfolios in line with the Paris Agreement's aim to keep global temperature increases this century well below 2 degrees Celsius above pre-industrial levels. There are further objectives to keep increases below 1.5 degrees Celsius above pre-industrial levels.

This trend can be seen more broadly, too. In July, the UKs' national multi-employer pension provider, Nest, unveiled a climate change policy to de-carbonise its default fund portfolio to reach net-zero emissions by 2050, and invest in climate solutions and renewable energy. It aims to halve carbon emissions in its portfolio by 2030 and align with the goals of the Paris Agreement. Defined Benefit schemes, such as BT, are also setting similar targets.

In August, Scottish Widows made its first* investment to align a chunk of its pension portfolios in its DC default fund with the transition to a lower carbon economy. The provider, which has six million customers, invested £2bn in BlackRock's Climate Transition World Equity Fund, which tilts towards the winners of the energy transition and reduces allocation to companies that are likely to lose out.

50%

of respondents highlighted that their exposure to ESG funds or strategies had increased over the last year.



42%

of respondents said that improving ESG outcomes was a driver for increased investment.

Hymans Robertson also announced in September** that it had cut its staff pension plan's carbon footprint by about 33% by launching a new investment strategy for its default arrangement.

Concerns about the environment was a factor in having increased exposure to ESG investing for 31% of respondents, followed by regulatory pressure at 27%. Almost a quarter (24%) said their members' expectations had increased around ESG. Just over 11% said advice from their consultant was a factor, with the same proportion saying guidance from asset managers was a driver, too.

However, interestingly, just over 30% said they were searching for better investment returns, which reflects the growing recognition that good ESG stewardship reduces long-term risk and can therefore lead to potentially better portfolio outcomes.

* https://www.pensionsage.com/pa/Scottish-Widows-invests-2bn-in-BlackRock-low-carbon-transition-fund.php
** https://www.pensionsage.com/pa/Hymans-Robertson-Pension-Plan-slashes-carbon-footprint-by-33.php

Research shows that sustainable funds tend to do better. For example, in a recent study, Morningstar* analysed the performance of sustainable funds and traditional funds in seven Morningstar Sector Categories over a 10-year period, ending 2019. It found that 58.8% of surviving sustainable funds outperformed their average surviving traditional peer group.

A key factor of ESG integration is the ability to assess non-financial risks of companies. These risks can be a key headwind to a company over the longer term, which may have the potential to destroy shareholder value.

THEME SENTIMENT

More than half of the pension schemes surveyed (54%) intend to increase their allocation to ESG funds or strategies over the coming year.

This positive trend can be seen elsewhere. In September 2020, Dutch pension scheme Pensioenfonds Detailhandel revealed it was making an investment in line with a new sustainable emerging markets equities index, developed in partnership with FTSE Russell and BlackRock.** Similarly, in June, the Universities Superannuation Scheme (USS), the UK's largest pension scheme with more than 400,000*** members and £68bn in assets, said over the next two years it would divest from companies where tobacco, coal mining and weapons manufacturing make up more than 25% of their revenues. This is one of the biggest examples of a pension scheme increasing its sustainable investing and came after USS was put under immense pressure from academics and other members.

Prior to this, in March 2020, USS, Japan's Government Pension Investment Fund and the California State Teachers' Retirement System announced a partnership for sustainable investing to pressurise companies and asset managers to integrate ESG factors throughout the entire investment process.†

Additionally this year, a group of international pension funds created an asset owner platform to assess companies against the United Nations' sustainability criteria (AustralianSuper, British Columbia Investment Management, and the Netherlands-based APG and PGGM). The artificial intelligence program, called the Sustainable Development Investments Asset Owner Platform, allows asset owners and their managers to connect around the shared objective of measuring and understanding their investments' contributions to the sustainable development goals (SDGs). ‡

31%

said concerns about the environment was a factor for having increased exposure to ESG.

24%

said their members' expectations had increased around ESG.

* https://www.morningstar.co.uk/uk/news/203214/do-sustainable-funds-beat-their-rivals.aspx
** Press-Release-New-SDG-Benchmark.pdf
*** https://www.pionline.com/esg/uss-exclude-financially-unsuitable-stocks-investment
† Financial Times
‡ https://www.institutionalinvestor.com/article/b1mcy0lc9y512y/These-Asset-Owners-Are-Trying-to-Make-Sustainability-Easier

KEY DRIVERS OF CHANGE

Regulatory pressure is growing on pension schemes of all kinds to take ESG risks seriously – and climate change risk in particular. From October 2020, UK schemes are required to publish online how they have implemented their statements of investment principles, including ESG policies.

However, it is clear from the survey that regulation is not the only driver. Trustees are beginning to understand the opportunities from ESG investing and to believe that their investment decisions can truly make a difference to members and wider society.

A landmark 2018 report from the Intergovernmental Panel on climate change put the climate change challenge into a stark new perspective, giving the deadline of 2030 for governments and private sector corporations to drastically cut emissions in order to avoid catastrophic consequences. This has led to a surge in activity from investor groups to bring more asset owners and asset managers together to achieve positive change.*

Market expectations are also growing around the need for asset owners to take positive action through their ownership of equities and their allocations to renewable energy and similar assets. This is reflected in the 43% of respondents who said their decision to allocate more to ESG investment was down to the "general direction of travel" from the market. New legislation since 2018 also led 45% to raise their ESG exposure.

Member sentiment is also playing a role – 29% of respondents said this was a factor in their ESG allocation decision. Groups such as ShareAction have been proactive in encouraging pension savers to ask questions of their providers about how their money is invested.

Performance is also a factor for 43% of respondents, reflecting a growing body of evidence that responsible and sustainable investing can be successfully implemented without sacrificing returns.

WHO IS RESPONSIBLE?

Three quarters of respondents believe trustee boards have ultimate responsibility for ESG allocations, reflecting a strong trend in regulation. Since October 2019, every UK pension scheme has been required to publish a SIP, including policies on ESG issues.

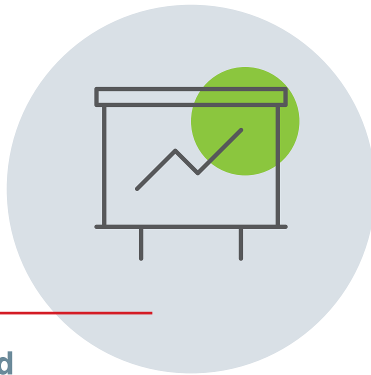
From October 2020, schemes must compile an annual update on the implementation of these policies, with a deadline of October 2021 for first publication. In addition, the Pension Schemes Bill 2019-21 includes new requirements for pension schemes to report on climate change and stewardship criteria. Trustees and scheme managers will be required to monitor risks and opportunities related to climate change.

While the final wording of the bill has yet to be decided at the time of writing, the Department for Work and Pensions has made it clear that it expects schemes to up their game on ESG monitoring and reporting.

A minority of respondents said asset managers had the ultimate responsibility for ESG allocations, while a handful said the responsibility was shared across trustees, employers, asset managers, fiduciary managers and advisers.

* https://www.ipcc.ch/2018/10/08/summary-for-policymakers-of-ipcc-special-report-on-global-warming-of-1-5c-approved-by-governments/

It is vital that trustees familiarise themselves with the rules being implemented by The Pensions Regulator and emerging from the Department of Work and Pensions, to avoid falling foul of requirements. Trustee boards are ultimately responsible for the outcomes for scheme members – and ESG criteria are intrinsically linked to these outcomes.



43%

of respondents said Performance is a factor.

EXPOSURE ASSESSMENTS

While trustee boards understand that they are ultimately responsible for setting and maintaining ESG policies, very few have dedicated resources in house. Just 16.7% have a specific person or team overseeing ESG – and this is the domain of the larger schemes. In contrast, heavy reliance is placed on asset managers (52%) and consultants (51%) – a factor that applies across schemes of all sizes – to help with ESG assessments and monitoring.

In recent years, asset managers have by and large embraced the case for ESG investing and incorporated sustainability factors into their investment processes. However, schemes must be careful to ensure their managers are not 'greenwashing' – paying lip service to ESG themes while not truly living up to the standards expected.

An independent perspective is key, especially in ensuring that a scheme's asset managers are in line with its ESG and climate change policies. Fortunately, there are several options available for schemes to help them get the most from their managers. Investment consultants have been scaling up their ESG resources in recent years, while rating agencies offer independent assessments of managers and strategies. In addition, organisations such as the UN's Principles for Responsible Investment and the UK's Stewardship Code have publicly available lists of signatories and regularly review these to monitor compliance with their respective codes of practice.

A few respondents reported relying on their fiduciary manager for their ESG reporting and monitoring. It seems that the multi-year trend towards fiduciary arrangements has not been significantly affected by the introduction of new tendering rules by the Competition and Markets Authority last year, meaning more schemes will likely look to their fiduciary manager for ESG information.

Surprisingly, few schemes said they relied upon their custodian. This is despite custodians arguably being best placed to monitor ESG criteria, as they are responsible for processing and storing all data related to a scheme's investment portfolio.

52%

reliance is placed on asset managers.

16.7%

have a specific person or team overseeing ESG.

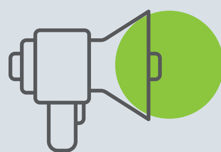
> 'And while the very largest schemes that run equity portfolios in-house can manage their stewardship and voting policies directly, most pension schemes have found this extremely difficult to achieve in practice.'

VOTING ARRANGEMENTS IN POOLED VEHICLES

Surprisingly, most respondents (57.7%) reported that they preferred asset managers to take the lead on exercising voting rights, yet a significant minority want to be able to exercise their own policies for their equity holdings. This creates some challenges from a governance and stewardship perspective because it makes it more difficult to align a pension scheme's policy on ESG and climate change to the investments it holds, especially if all voting rights are delegated to the asset manager.

And while the very largest schemes that run equity portfolios in-house can manage their stewardship and voting policies directly, most pension schemes have found this extremely difficult to achieve in practice, particularly small schemes investing in pooled funds whose fund managers have generally been reluctant to allow investors to direct how the votes associated with their investments are cast.

A big advocate in the area of pooled funds is Red Line Voting, an initiative from the Association of the Member Nominated Trustees. Their focus is to enable pension schemes to take a more active asset ownership role in areas like pooled fund voting aligned to ESG issues. Pension scheme trustees should ensure they have a clear policy on how they intend to exercise their voting rights in equity portfolios as this is one of the key areas of engagement for pension schemes.



57.7%

reported that they preferred asset managers to take the lead on exercising voting rights.

The Association of Member Nominated Trustees (AMNT) agrees that trustees should be adopting active responsible investment policies covering ESG matters and directing how their votes are cast at shareholder meetings of the companies in which they invest. To this end they have developed the Red Line Voting initiative that offers pension scheme trustees (and other asset owners) the opportunity to direct the voting of the UK-listed shares they own on behalf of their members to an extent never before possible for many. As well as ensuring engagement and voting instructions for fund managers that meet best practice and are workable, Red Line Voting enables more consistent implementation of the pension scheme's policy across all the fund managers it has employed.

ASSET MANAGER PROGRESS

While it is encouraging that a large percentage (43.5%) of respondents feel that asset managers are making progress on integrating ESG and climate change into their investment processes, it is clear there is much work still to do. More than half say they either do not think enough progress has been made, or they do not know – either way, asset managers' work on ESG is far from complete.

Consultancy group Redington's 2020 Responsible Investment Survey* reported that, while ESG integration was high on the agenda for most managers, the situation was less clear when it came to tangible actions. Nearly a quarter (24%) of asset managers told Redington they did not incorporate the measurement and assessment of climate-related risks and opportunities into their processes. In addition, Redington reported

* https://www.redington.co.uk/wp-content/uploads/2020/09/RI_Report2020.pdf

52%

of respondents rely on information from their asset managers in helping to assess the ESG components of their scheme.

that more than a third (36%) of managers could not provide an example of a climate change view or assessment leading to a 'buy' decision, and 40% could not do so for a 'sell' decision.

However, against this backdrop, 52% of respondents rely on information from their asset managers in helping to assess the ESG components of their scheme. As work on ESG and climate change integration continues within the asset management arena, it's important for pension schemes to introduce their own governance processes around these areas and seek independent sources of information on ESG and Climate factors.

Pension scheme trustees are expected to be able to measure and manage the ESG and climate change risks to their portfolios, and to take advantage of opportunities that will arise as the world transitions away from fossil fuels. It is clear, however, that pension schemes and trustees require more information on the tools and information available to them to assist in the decision making and governance process.

SCHEME CHALLENGES

A lack of industry consistency is the biggest barrier stopping pensions schemes addressing climate change and improving ESG, according to the survey.

This paints a picture of a sector that is concerned about climate change but is also held back by issues beyond their control. This is despite more than a year passing since trustees were legally mandated to explain long-term risks, including ESG factors, in their SIPs. Some 80% of schemes, asked to name their top two issues, cited this lack of industry-wide consistency.

This complexity has been a longstanding industry complaint. There are at least ten major ESG-focused standards or industry groups signing up UK pension funds at present, along with a spectrum of minor ones, too. These range from the global scale of the UN Global Compact through to national initiatives such as UK Stewardship Code. In addition, the ESG rating agencies that aim to put this style of investing on a rational basis can give the same company or fund very different ratings.

The second-biggest barrier to action on climate and ESG was a lack of data showing that ESG investing enhances performance or reduces risk, although this was given much-reduced importance and cited by only 33% of respondents.

It is possible concerns about performance have been alleviated by ESG and sustainable investments outperforming the broader market during the March market crisis, as shown by research by BlackRock and others.

80%

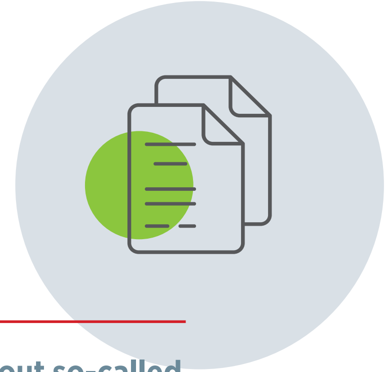
'No industry consistency in how ESG and climate change is addressed amid a plethora of codes and standards.'

Climate change
as being an impact on their scheme's investments

17% High impact

49% Moderate impact

22% Low impact



55%

need more data about so-called 'physical' and 'transition' risks and the impact they have on their scheme's investments.

THE CLIMATE CHALLENGE

Only 17% of respondents cited climate change as having a high impact on their scheme's investments. 49% felt it would be a moderate impact and 22% cited that climate change would have a low impact on their scheme. In fact, climate change risks – both physical and transitional – can potentially have a significant impact on companies depending on their industry and where their operations are based. Understanding these risks will be a big part of a scheme's governance framework. Given the uncertainties around whether governments will, for instance, take the necessary action to meet the Paris Agreement that aims to keep global warming well below 2°C above pre-industrial levels, this is easy to understand.

The survey also shows that many schemes lack the data to turn concern into action and this may be part of the challenge in determining the actual risk of climate change on a scheme's investments. Around 63% of respondents mentioned that they lack the information to translate such risks into their investments. This comes as no surprise because the missing piece of the puzzle is data showing how such risks apply to their portfolio: 74% of schemes said they lacked this vital intelligence.

Understanding the different forms of climate change risk is also a critical area highlighted by respondents. Around 55% said they needed more data about so-called 'physical' and 'transition' risks and the impact they have on their scheme's investments.

Reporting was also cited as a challenge, which is going to be key to the growing area of governance around ESG and climate change. In this area, 48% of respondents required more insight into the types of data and reporting that are available to measure Climate risk, such as carbon footprint. 34% emphasised the need for more visibility on the availability of tools to help them with their reporting requirements.

Creating more self-sufficiency in reporting on Climate risks could become a core focus for pension schemes. This is because many schemes are struggling to obtain the data from their own asset managers, with 70% of respondents highlighting that it's a challenge. This comes as no surprise, however, as climate change is a complex area that the financial services industry more broadly is building understanding.

MEMBER DIALOGUE ON CLIMATE RISK

49% of survey respondents cited better member outcomes as the main reason for increasing their scheme's ESG focus – new regulation came a close second. Aligned to this, 56% are looking to increase their exposure to ESG funds or strategies over the coming year.

Faced with ESG and climate change risk, UK pension schemes are talking to their consultants, managers and trustees. However, member views fall behind. This is reflected in the survey, where only 15% of respondents said they were having a dialogue with members about climate risks, despite rising evidence that scheme members care deeply about this issue. Here, 25% of survey participants signalled that increasing expectations from pension scheme members was a key factor in raising ESG exposure.

This all signals that many schemes are anticipating action or are driven by member expectations, but have yet to explain directly to members how it will impact their pension savings.

15%

were having a dialogue with members about climate risks.

TRAINING REQUIREMENTS AND INDUSTRY CONSISTENCY

Over the last decade, the role of trustees has become increasingly challenging with new legislation, more complex products and ever greater demands on their time. Set against this backdrop, the need for education has never been so pressing.

70%

Value training to help give a 'Greater understanding of how asset management players implement ESG and climate change factors.'

Furthermore, earlier in 2020, the UK Sustainable Investment and Finance Association called for more training of trustees because they were not meeting existing reporting obligations. The Pension Schemes Bill currently in parliament will place much heavier burdens on trustees to understand and plan for climate change, with fines for Trustees who fail.

Trustees are increasingly pivotal in helping move the ESG agenda forward. This is reflected in the 28% of survey participants who highlighted the need for more trustee training on areas of ESG and climate change.

When schemes were asked what kind of training or education would be of the most value, 70% picked "Greater understanding of how asset management players implement ESG and climate change factors", which appears to be a response to their concern elsewhere in the survey that they are struggling to get data from asset managers on how they are addressing climate change risks.

Some 57% said they wanted training that was industry-recognised. This focus on standards and a sector-wide approach appears to be a reaction to what schemes say is their biggest ESG challenge: 80% say that there is no industry consistency in how ESG and climate change is addressed amid a plethora of codes and standards. This is set against a backdrop of knowledge gaps, including where to get data on climate change risks and the tools available to pension schemes to help assess both ESG and climate factors.

ESG AND CLIMATE CHANGE RISK GOVERNANCE: OVERSIGHT AND IMPLEMENTATION

Implementing ESG and climate change policies to take into account the risks they pose is going to be a critical governance function for pension schemes going forward. It has an important role to play in protecting member outcomes.

Since October 2019, trustees have been required to state their policies relating to 'financially material considerations', including ESG criteria and climate change in their SIP. From October 2020, this must include details of the relationships with asset managers and how their ESG credentials are assessed – such as providing details about how the trustees discuss ESG with their asset manager.

However, 61.5% of survey respondents highlighted that their schemes will be relying heavily on their consultants for assistance with reporting and monitoring. Only a fifth indicated that they will seek independent verification of how their scheme's asset managers are integrating ESG. And more that 52% of respondents rely on their asset manager to assess the ESG component of their pension scheme.

Going forward, trustees will need to find solutions so they can form an independent viewpoint of ESG and Climate Risk factors and robustly document their policies on these material financial considerations. It also helps create alignment between schemes and their asset managers on these key risks and facilitates stronger dialogue.

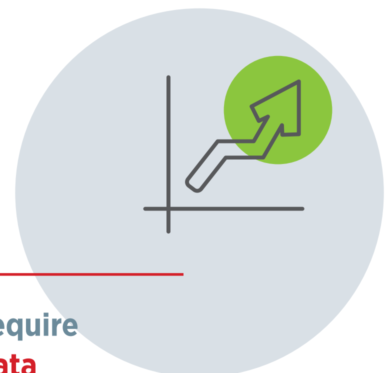
It's not surprising that using consultants or asset managers would be the initial stance given the fast pace of regulation in this area. Likewise, pension schemes and trustees still face some headwinds. Around 73% of respondents require more access to data on climate change and, consequently, around 70% highlighted that they rely on information from their asset managers about how they are addressing this important topic. And it's clear that more knowledge is required, with 70% of respondents saying they need more understanding of how asset managers are implementing their own ESG policies.

DID YOU KNOW?
Task Force for Climate Related Financial Disclosure (TCFD): Lays out guidelines on climate-related financial disclosure to assess the resilience of company business models to climate risk and opportunity. This framework has rapidly established itself as the industry standard in climate-related reporting.

We reported earlier that in-house resources (16.7% of survey participants) dedicated to ESG and climate change are mainly the domain of larger schemes. For schemes below £1bn, only 23% of respondents highlighted that they have sufficient information to translate climate change risks into their scheme's investments. Furthermore, 50% indicated they need access to more data to measure climate risk.

Addressing these gaps will be key to empowering greater oversight and implementation of ESG and climate change risks.

Against this backdrop, regulation in this area is moving at a fast pace and will require pension schemes and trustees to place greater emphasis on their own oversight – regardless of their size and structure – to stay in compliance. A handful of respondents surveyed reported that their schemes are using a combination of tools and approaches to gather data on ESG and Climate Risk. With the toolbox for trustees continually expanding, pension scheme boards should make



73%

of respondents require more access to data on climate change.

“Under TCFD, trustees should document how they identify and assess the materiality of climate-related risks and opportunities, document the main risks and opportunities for each time horizon and their potential impact, and explain their assessment of their scheme’s resilience to different scenarios, including relevant metrics.”

sure they are aware of what is available to them from various providers covering this area. Having access to these tools is an important step for schemes in setting their governance framework around ESG and Climate Risk.

Finally, in lockstep with the UK Government’s Green Strategy, larger pension schemes will be expected to disclose their climate-related risks in line with the recommendations of the Taskforce on Climate-related Financial Disclosures by 2022. This means trustees will need the necessary tools and knowledge to follow these new recommendations. Despite the initial focus on large schemes, we believe this has the scope to set the tone for climate change reporting across the pensions sector.

CONCLUSION

What’s clear from the survey is that more work needs to be done to show pension funds how they can be supported on ESG issues, whether through training, resources, or industry collaboration.

With ESG and benchmarking data increasingly being made more freely available, trustees and scheme managers have more information on which to base their decision-making than ever before. However, they will only be able to act on this information if they know how to interpret these data points, and then translate them into projections about the material impact these may, or may not, have on the scheme and its members.

At the same time, schemes clearly require more assistance on how best to engage with members on ESG issues. Any reluctance to engage on such matters could become a problem in the future if younger generations – as widely predicted – seek more control over the impact that their investments have.

Key to the resolution of many of these issues will be greater industry collaboration to develop defined parameters on the terminology used to describe individual strategies and approaches. With an agreed set of terms and approaches, schemes will likely have greater confidence to increase member engagement and make bolder choices that benefit the membership and meet their regulatory objectives.

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