Responsible Investment Advisory Group

VIRTUAL MEETING

Actions and Agreements – Meeting of the 14TH SEPTEMBER 2022

Those attending –

Name	Organisation
Sandra Stewart	Greater Manchester Pension Fund – Chair
Graham Cook	Environment Agency
George Graham	South Yorkshire Pensions Authority
Tim Mpofu	Haringey Pension Fund
Caroline Escott	Railpen
Frances Deakin	LPP
Piers Lowson	Baillie Gifford
Ashley Hamilton Claxton	RLAM
Sarah Wilson	Minerva
Edwin Whitehead	Redington
Kevin McDonald	ACCESS Pool
Karen Hurst	PLSA
Sam Gervaise-Jones	bfinance
Debbie Fielder	Clwyd Pension Fund
Tom Harrington	Greater Manchester Pension Fund
Jonathan Sharma	COSLA (Scottish SAB Secretariat)
John Neal	Unite
Joanne Donnelly	Scheme Advisory Board Secretary
Jeremy Hughes	Senior Pensions Secretary
Ona Ehimuan	Pensions Secretary

Item 1 – Welcome, introductions and apologies

The Chair opened by welcoming members to the meeting. Apologies were received from DLUHC representatives as a result of observing the national mourning period for Her Majesty The Queen. Apologies were also received from Jon Rae (Welsh Local Government Association) and Valborg Lie (LGPS Central).

Item 2 – Actions and Agreement from 18th May Meeting

It was agreed that the actions and agreements paper represented a true and fair account of the meeting.

Item 3 – DLUHC Update

DLUHC representatives were not present to provide an update.

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Item 4 – TCFD Reporting

Jeremy Hughes (JH) introduced Paper B and stated that the main purpose of this discussion was to get an initial steer on how the Scheme Advisory Board should respond to the consultation from DLUHC on climate risk reporting. JH's report contained four key questions for discussion. Before addressing the questions, the group was invited to give general thoughts and opinions.

The Group regretted that this consultation had been so delayed as it was felt that this gave a poor and inaccurate impression of local government's work to date to tackle climate change. The Group also felt that central government had not done enough to help funds achieve their obligations, by taking economy wide actions on tax and emissions. The requirement to make disclosures only "as far as able", which was proposed to be transposed into the LGPS regime from the private sector arrangements, was felt by some to be too wide an exemption.

The Group also expressed a need for the international nature of LGPS investments to be recognised in the reporting regime. They invested in 52 different jurisdictions, some of which had very different approaches to climate change and reporting requirements, and that could impact on funds' ability to report consistently the impact of their investments.

The Chair said that there will need to be a recognition of LGPS funds' fiduciary duty to make returns on their investments; though Net Zero is highly important, and climate change is a risk factor, the fiduciary duty of funds will always be paramount. Others emphasised more the need for ESG concerns to be taken into account when looking at investments, which is consistent with the Law Commission's guidance, set out by the Scheme Advisory Board in 2017.

The group felt it was necessary to highlight the reality of the costs and resources needed to comply with climate risk reporting obligations. The Group recognized that the response of the FCA, FRC and Accounting Standards Board will likely be critical in achieving accurate data reporting. However until there is an agreed industry standard, it will be difficult to aggregate data from different sources.

The discussion turned to focus on the key questions listed in the report. With regard to Question 1, it was asked whether the Group felt that funds should be asked to produce "Transition Plans". It was noted that at COP26 the Government had said that transition plans would be required at some point. There was some discussion of whether the existence of a transition plan was necessary in order to make targets meaningful, and whether they would be helpful or unhelpful should interest groups challenge funds they felt were not taking sufficient action on climate change.

Edwin Whitehead (EW) added that he felt TCFD is about how climate related risks affect investment opportunity. Prudent investment management and clarity of language around risks and opportunity is important in striking the balance between climate risks and fiduciary duty.

A question was raised on the progress of the Boycott, Divestment and Sanctions (BDS) Bill announced at the Queen's Speech, and the related High Court case brought by the Palestinian Solidarity Campaign. JH informed the group that Government still intended to bring forward a bill on BDS, which may impinge upon and potentially override funds' existing fiduciary duty in some way. With regards to clarifying the parameters of fiduciary duty itself, the Government has declined the invitation to do that as one of the recommendations from the Scheme Advisory Board's Good Governance project.

On Question 2, the group expressed a range of opinions, however on balance they leaned more towards retaining some flexibility in target setting, use of metrics and scenario analysis.

It was recognized that there was some flexibility in the way the metrics were framed and JH asked whether all funds should agree on using the same metrics when reporting. This would allow easier production of a scheme wide report and narrative. Whilst the rationale behind this suggestion was acknowledged, the group again leaned more towards some variance in metrics being allowed. Until there was consensus on a particular set of metrics there were merits in allowing a diversity in reporting metrics to be trialled.

There were questions asked about the clarity of the Paris alignment metric in particular. The methodology for assessing assumed temperature rises was not settled and there were real issues for public understanding of that metric. The Group had concerns about whether aggregating an LGPS wide score on any of the metrics would be possible, or useful. They also questioned whether there was a definite need for SAB to provide scheme level totals and how those could be meaningfully interpreted by stakeholders.

On the SAB scheme level report, it was also felt that it should focus more on a narrative and not over-analyse what was recognized as far from satisfactory data. It was also agreed that drawing conclusions from the data collected and even establishing the methodology used to collect the aforementioned data would take at least two years. Analysis would also only be meaningful once there were a number of data points and it was possible to look at trend lines in the metrics.

On Question 3, discussion was held on the design of templates for TCFD reporting. Members felt that the templates should retain as much continuity with existing templates as possible. Sarah Wilson (SW) said that she would be willing to spend some time assisting with the templates. The Group was also reminded that once a template had been decided it may take 6-9 months for investment managers to integrate them into their own reporting systems so that they could easily generate reports.

It was agreed that a working group would be formed to determine the best template for LGPS funds reporting of metrics to SAB. Volunteers for the working group were Sarah Wilson, Ashley Hamilton Claxton, Graham Cook, George Graham, Piers Lowson and Sandra Stewart.

On Question 4, the discussion revealed that there would be a need for extra resources and communications to effectively roll out climate risk reporting. DLUHC had stated that they were expecting the estimated cost of compliance to be similar to that which DWP has estimated for private sector schemes in its Impact Assessment for the TCFD Regulations (£14k). The Group felt that DWP's figure would be a gross estimate and it would likely be many times that amount for an LGPS fund. The Group agreed to run the survey at Annex B of the paper. JH asked for any last suggestions on the wording to be sent through after the meeting.

It was agreed that the Secretariat would run the survey at Annex B and report the findings to the next meeting.

The Chair suggested that communications on what funds needed to do should be delivered partially via LAPFF as they have access to a large number of funds. It was mentioned that there was a need to separate the procurement and expertise needed to implement the new system of reporting and the resource needed to continue the work into the future. SW suggested that it may be useful to collaborate with universities that have sustainability institutes to provide training, such as Anglia Ruskin and Cambridge.

It was noted that as well as training for in-house staff, investment consultants and advisers would need to have additional expertise, and it was reported that the FRC already has a workstream on quality of climate change advice. Sources of support and training were discussed, including whether Norfolk's procurement framework already included any specification of this.

There was also discussion of how climate data reports would be viewed by auditors. Would the data in them be seen as professional reports from the investment managers? Or would the pension fund be expected to evidence that they gave a fair and accurate picture of the actual climate impact of those investments? Auditors were still deciding how to approach this and there was a risk that if auditors wanted to check this data then it would lead to a considerable increase in audit costs, and further delays in audit timescales. It was mentioned that it might be worth considering using auditors that have demonstrated expertise in climate auditing (such as ISO audit). This was noted as an area of overlap with the work of the Compliance and Reporting Committee.

Agreed – it was agreed that a working group be established to determine the best templates for climate risk reporting and that JH would schedule a meeting to begin this workstream.

Item 5 – Levelling up

There were no updates with regards to Levelling Up.

Item 6 – AOB and date of next meeting

Joanne Donnelly asked if any member of the group were willing to present at the next LGPS Live webinar, which would be covering the climate risk reporting consultation. It was agreed that members would check their diaries and contact JD if they were available on Weds October 5th. A similar request was made in relation to the responsible investment slot at the LGPC Governance Conference, which was being held in January in Cardiff and is organised by the Pensions Team at the LGA.

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The next meeting had already been scheduled for 9th November at **11am**.

Ona Ehimuan
Pensions Secretary - Governance and Digital
Scheme Advisory Board