Responsible Investment Advisory Group

Meeting of the 14th September 2022

Item 4 – Paper B
Actions and Agreements – Meeting of the 13th July 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
Valborg Lie	LGPS Central
Frances Deakin	LPP
Piers Lowson	Baillie Gifford
Kevin McDonald	ACCESS Pool
Joe Dabrowski	PLSA
Sam Gervaise-Jones	bfinance
Debbie Fielder	Clwyd Pension Fund
Oliver Watson	DLUHC
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
Bob Holloway	Pensions Secretary
Ona Ehimuan	Pensions Secretary

Item 1 – Welcome, introductions and apologies

The Chair opened by welcoming members to the meeting. The Chair particularly welcomed Ona Ehimuan to her first meeting. Apologies were received from Ned Whitehead (Redington), Caroline Escott (Railpen), Sarah Wilson (Minerva), Ashley Hamilton Claxton (RLAM), Gaudenz Probst (DLUHC) and Teresa Clay (DLUHC).

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

Members were informed of the recent changes in the Cabinet. The new Secretary of State was Greg Clark and both Michael Gove and Kemi Badenoch had left their posts. DLUHC explained to members that there were some uncertainties due to the current and incoming political changes, however it was expected that central government would continue to work over the summer. This included work on climate issues and Levelling Up. It was hoped that there would be no delay on consultations. It was also confirmed that the new Secretary of State was continuing to work on his predecessor's mandate. There was a question about whether there was any update regarding the exit payments/£95k cap, DLUHC explained there was no further update.

Item 4 – TCFD Reporting

The Chair introduced Paper B and stated that the main issue was to discuss how the group can shape parts of the expected consultation from DLUHC.

On measuring data quality, the Chair said that it had been previously agreed by the group that data quality was an important metric and asked whether there were any suggestions on a particular methodology to follow. DLUHC stated that there was a proposal at DLUHC to mandate a data quality metric. DWP (Department for Work and Pensions) regulations for private sector schemes did not mandate this metric, but anecdotal evidence emerging from the first round of reporting was that many schemes were choosing it as their optional metric. DLUHC felt that it was a useful metric.

The Chair enquired about methodologies used within the private sector. It was said that DWP issued some guidance for private sector schemes alongside the regulations, but the guidance was fairly high level, and it was largely left to schemes to interpret for themselves.

There were four main data categories that covered Scope 1, 2 and 3. These were: verified, reported, estimated and unknown data. There was also an option for not reported, which likely indicated that data existed but had not been disclosed for some reason. In these circumstances asset owners should be informed and empowered enough to ask the pertinent questions to ask in the case of both visible and missing data.

The group advised that reports could contain as many as 24 numbers per portfolio where there were reports across 3 years and the 3 "scopes", plus a 4th metric. DLUHC indicated that the report would be expected to be at whole fund level, not portfolio level, so funds need only report a single number for each metric.

There was a discussion around the need/desirability for standardisation across Scopes 1 and 2 – which are modelled, unlike Scope 3.

The group added that TPI was the methodology in use and supported at LGPS Central, however there was a need to extend the scope. The Environment Agency had also done some work on Scope 3 estimation. Once a preferred method was determined, it could be useful for fund managers to model Scope 3 and apply it to the entire portfolio. Alternatively, funds could ask managers just to supply the raw data with the fund then applying its own model to generate an overall Scope 3 estimate.

It was also said that although Scope 3 data would be estimated this would not necessarily be an issue, as estimated data does not mean that the data would be incorrect. It was explained that Scope 3 data would have to be estimated with standardised assumptions as it would be difficult to collect data across the entire fund. The absence of data could also make it difficult to demonstrate progress towards climate targets.

The Secretariat suggested that one option would be to allow funds to try different approaches initially and then assess which of these was the most successful, with methodology, the Scheme Advisory Board then recommending the most appropriate. The Chair suggested that it would be good to learn from the private sector as this would allow for faster adaptation.

On standardised data collection/reporting, the group felt that standardised templates would be helpful. There was a discussion about the use of data reporting companies, MSCI and Trucost were both mentioned as being used by LGPS pools and funds, and also discussion of whether or not it would be useful for the SAB to introduce standardised templates and a reporting tool – along the lines of the existing Cost Transparency Initiative templates and SAB database – for the LGPS to assist with collating data from asset managers.

The group added that with regards to achieving consistency, carbon emissions metrics are based on the portfolio, therefore the cleanest data source would be the portfolio itself, although this would require the collating body to analyse the data.

The question of what DLUHC sought to gain from fund level reporting, and whether simple league tables of performance would be created and funds judged on their emission levels was discussed. DLUHC explained that the aim of reporting was not to penalise or single out funds, or have a league table, but to empower LGPS funds to manage climate risk by making the best choices for their respective funds.

The group further added that data alone may not capture the full picture, as there are some investments that may have high carbon emissions to begin with, but reduce over time, such as investments in building wind turbines. The issue of the commoditisation of climate data was brought to the group's attention, citing the costs and fees charged to acquire and share this data as a logistical challenge. It was also mentioned that a lack of standardisation at corporate level is an underlying issue. It was mentioned that the FCA is working with the Transition Pathway Taskforce (TPT) on climate transition plans, and there is also the UK's Green Technical Advisory Group (GTAG) which will, in time, hopefully lead to more standardisation and robust and transparent reporting and data.

The group suggested that the Secretariat have a conversation with the pools before deciding whether a cross-scheme template was needed. Pools could also be tasked with speaking to their member funds to collate views on standardising methodologies. It was proposed that relevant reports produced by Baillie Gifford could be shared with the group for information, with feedback also offered on any draft templates shared.

On governance, the Secretariat commented that presently the level of expertise and resources varied across funds. Railpen's TCFD report had lots of analysis and it would be difficult for all funds to replicate this level of report. However, some felt that this would be the benchmark against which at least larger LGPS funds would be judged. It was felt that it would be helpful to have an expectation set for LGPS funds as to what a "good" report should look like, and what would be reasonable. The Chair added to this saying that conversations with stakeholders have shown that some struggle to understand some TCFD information. The trade unions would reflect on what they could do to help their members understand and draw conclusions from these reports.

The group was advised that the data part of the report is the easiest part, the more difficult part would be the narrative surrounding the data and this would have to be produced by the funds. For example, some felt that investing in real-world decarbonisation was more important than simply reducing the carbon footprint of the fund's portfolio.

Members of the group commented that the reports would need to include some explanation of what the target is, and the meaning of metrics reported. It was also said that this messaging would have to be appropriate for the audience, but that there were different audiences. There was discussion around the value of having two versions of the report with a shorter, plain English, version for scheme members. The PLSA said that this was something that many private sector schemes were doing.

Agreed – it was agreed that the SAB secretariat would look at various TCFD reports and select ones thought to be suitable examples of best practice. Baillie Gifford and the Environment Agency indicated that they would share their reports with the secretariat.

Item 5 – Levelling up

The Secretariat introduced Paper C and outlined that there was no expectation of an imminent consultation due to the current political landscape, however there was an expectation that the new government, once in place in the autumn, would continue the work previously undertaken. There was scope to increase investment in local projects and a question whether GLIL or the UK Infrastructure Bank would be able to identify and aggregate opportunities for LGPS funds and pools to consider. The distinction was drawn between funds who were actively engaged in managing infrastructure projects and those who just wanted to invest in an infrastructure fund (or fund of funds). The former was much more resource intensive.
The Chair remarked that a lot of funds would argue that they have already met the 5% target for investment in local projects that could be said to meet the levelling up missions. It was acknowledged that GLIL was focused on infrastructure but the group asked whether there were aggregators for other asset classes, preferably with

an understanding of the needs of LGPS funds. It was also stated that until there is a clear definition of levelling up, it would be difficult to build a suitable portfolio.

The group were advised that the Levelling Up White Paper talked about physical, social and intellectual capital - all of which might present investable opportunities. The Chair and other members emphasised the need for good communications around these kinds of investment. While some members would support them, work some funds had undertaken suggested a surprising level of negativity from members on things badged as "impact investment".

COSLA commented that these issues would need to be addressed with the Scottish SAB, as the government was including Scotland [and Northern Ireland] in the definition of "local". The Chair clarified that these issues had only been broached with the England and Wales SAB thus far, as the requirement to set a plan to achieve up to 5% Levelling Up investments currently only applies to England and Wales. Any discussion with the Scottish SAB would have to be led by the Scottish government once it has established its views on levelling up and the Scottish LGPS. DLUHC said it was happy to have a conversation with COSLA about the role of the Scottish funds and Government in this.

Item 6 – AOB and date of next meeting

The Chair asked for an update on the Palestinian/UK Lawyers For Israel issue. The mandate of Mr Lynk as UNHCR Special Rapporteur had come to an end and he had been replaced by Francesca Albanese. It was said that a letter was currently with Cllr McMurdo (LAPFF Chair) awaiting approval. The Chair said that the GMPF was starting to get letters about it, and it was currently difficult to say whether the issue would have a financial impact without clarification.

A member asked whether TCFD would be taking precedence with the new Secretary of State. DLUHC responded saying that there had been no major change in plans, however the Secretariat added that some of the current candidates for the premiership seemed to be skeptical of climate issues, which may cause some delays moving forward – depending on the outcome of the leadership election

The next meeting had already been scheduled for 14th September, **at 11am**.

Ona Ehimuan
Pensions Secretary - Governance and Digital
Scheme Advisory Board