Responsible Investment Advisory Group

MEETING OF THE 17th MAY 2023

Item 3 Paper A

VIRTUAL MEETING

Actions and Agreements – Meeting of MARCH 15TH 2023

Those attending –

Name	Organisation
Sandra Stewart	Greater Manchester Pension Fund – Chair
Debbie Fielder	Clwyd Pension Fund
Tim Mpofu	Haringey Pension Fund
Oliver Watson	DLUHC
Frances Deakin	LPP
Graham Cook	The Phoenix Group
Piers Lowson	Baillie Gifford
Ashley Hamilton Claxton	RLAM
Sarah Wilson	Minerva
Edwin Whitehead	Redington
Valborg Lie	LGPS Central
Krista D'Alessandro	PLSA
John Neal	UNITE
Frances Deakin	LPP
Tom Harrington	Greater Manchester Pension Fund
Jonathan Sharma	COSLA (Scottish SAB Secretariat)
Joanne Donnelly	Scheme Advisory Board Secretary
Jeremy Hughes	Senior Pensions Secretary
Ona Ehimuan	Pensions Secretary
Gareth Brown	Pensions Analyst

Item 1 – Welcome, introductions, apologies and declarations of interest

The Chair opened by welcoming members to the meeting. Apologies were received from George Graham (SYPA), Jon Rae (Welsh LGA), Kevin McDonald (ACCESS Pool), Marion Maloney (Environment Agency) and Sam Gervaise-Jones (bfinance). Apologies were also received from Joe Dabrowski (PLSA); Krista D'Alessandro attended the meeting in his place. Stephen Smellie (Unison/Scottish SAB) was absent without apologies.

There was a declaration of interest from Graham Cook who explained that he was now working in the private sector and would be contributing to the Group as a representative of the Phoenix Group. This would continue the contribution from a broader industry perspective that was formerly provided by Railpen's involvement in RIAG.

Item 2 – Actions and Agreements from 9th November Meeting

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

Item 3 – DLUHC update
Ollie Watson (OW) thanked the Group for the work they had put into the SAB response to the Climate Risk Reporting consultation. The regulations were unfortunately not in place at this time however work was being done to prioritise this issue with Ministers. There was no certain implementation date at this point, but it would not be 1 April 2023 and could be delayed for a whole year. Implementing a framework for climate risk reporting in the LGPS remained government policy, though. OW recognized that many funds were already engaging with the issue in the absence of government guidance.

Jeremy Hughes (JH) asked whether the Department was considering a part year introduction of climate risk reporting, perhaps just for the governance requirements. The Group felt that it would be possible to have earlier implementation of governance requirements, however, reporting requirements would need a longer lead in time. The Chair noted that reporting requirements would need certainty over the date of implementation and a considerable lead in time from the Department so that funds could align supply chains for information and systems. Otherwise, there was a real risk of wasted resources for funds. Sarah Wilson (SW) noted that insufficient notice would also create downstream pressure on information suppliers who may need to create bespoke LGPS reporting products. Service providers would not be able to meet LGPS funds' demand without notice of at least 6 to 9 months (optimal 1-2 years due to workflow planning and staff shortages). SW said that TPR should be mindful of these issues when investigating breaches in data reporting.

It was noted that the Budget documents referred to a potential new target for LGPS funds investing in venture capital. OW confirmed that although it was not specifically mentioned, the 5% "Levelling Up" investment target remained government policy. OW confirmed that further details of this would be included in the upcoming investment consultation.

Item 4 – Climate risk reporting in the private sector – Review of first year reports
JH introduced Paper B to the Group. The paper contained observations made by TPR by reviewing the first year of climate risk reports in the private sector. They were shared in confidence at a meeting with members of the Occupational Pensions Stewardship Council. JH also noted that TPR had been asked to specifically acknowledge that compliance costs were greatly in excess of the original DWP Impact Assessment's estimates.

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Edwin Whitehead (EW) informed the group that Redington had also received feedback from TPR on reports written by their clients. TPR were happy that the information had been submitted on time but noted that reports tended to focus on processes as opposed to risk management and that the reports tended to make use of generic wording. It was also noted that there was a disconnect between identified risks and actions to mitigate them. EW shared the link to a Pensions for Purpose paper which he had helped to write. The paper looked at how pension funds are using Task Force on Climate-related Financial Disclosures (TCFD) reports to inform strategy, the challenges they faced and which metrics they favoured.

Graham Cook (GC) added that there was a risk of TCFD reporting becoming disconnected from funds' investment strategies; the Chair agreed that it was important for funds to be careful and take steps to keep the two connected.

OW asked the Group if there had been any media interest in published reports. The Group were not aware of many explicit examples (USS was one), however it was noted that the risk of negative media attention had been considered quite heavily when aggregating data for the reports. This sometimes led to reports that were more complicated and less accessible, which had an impact on transparency. It was noted that campaign groups like Shareaction and Extinction Rebellion seemed to have narrower focusses (on use of voting rights and disinvestment from fossil fuels respectively) and did not seem to be taking much of an interest in TCFD reports.

SW explained to the Group that curating the data would take time and that expectations at this stage of the reporting lifecycle should be managed. She observed that missing data was data in itself, but the priority should be to reflect on data that has been obtained and to develop action plans to support stewardship and investment strategies. SW noted that private equity asset classes posed additional challenges and would need more work in the future. She suggested that funds share examples of good practice in this area.

The Group felt it would be good for a summary of TPR's feedback to be sent to funds. It was agreed that this would be done subject to the approval of TPR.

Agreed – That the Secretariat would create a summary of the feedback to be shared with funds subject to TPR's approval[1].

Item 5 – Climate Risk Reporting Readiness Survey Analysis
GB introduced Paper C to the committee. The paper showed the results from a survey of LGPS funds in England, Wales and Scotland on their preparedness to implement climate risk reporting in financial year 2023/24. The survey was sent to investment and pension manager contacts in each fund and ran from 5 October to 2 November 2022. There were 51 responses from at least 38 out of 86 administering authorities (there were multiple responses from some authorities).

[1] POST MEETING NOTE: TPR has now published its review of the first round of reports, so this action will not now be taken forward.

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The responses showed that the majority of funds were prepared for the new obligations, but there was a substantial number which didn't seem to be making the necessary preparations.

SW emphasised that the SAB should err on the side of over-communication with funds and that some of the concerns about reporting could be alleviated by clarity and guidance from the Department on what funds are expected to do. She also said there was a need to differentiate the funds' role and the managers' role in providing climate risk data and analysis. Funds should be taking the lead on specifying their needs and identifying deficits in the system that prevent data reporting within the sector and demanding action from their service providers.

The Group also felt that there were very high demands being made of quite a small cohort of officers engaged in this area. Funds needed to be realistic and appreciative of their work and be alive to the risks of burnout.

Item 6 – Standardisation of Climate Risk Reporting markers
JH introduced Paper D to the committee. When the Group was discussing the SAB's response to the climate risk reporting consultation, it was thought that the approach should not be overly prescriptive and that funds should be allowed to trial different approaches to allow for the most appropriate to emerge over time. However, since then the Secretariat has received feedback from a number of funds that given the complexity of some areas, and the difficulties in getting adequate specialist advice, some guidance would in fact be greatly appreciated. Paper D contained thoughts on what might be done and where the Group could add value without stifling innovation in the sector.

Piers Lowson (PL) suggested that for managers like Baillie Gifford, who work with the vast majority of pools and many funds, it would be helpful to all parties if there were an agreed series of core metrics, with the flexibility to agree additional features on top if desired. Graham Cook (GC) agreed that some shared definitions would be good, but you would not want to limit the evolution of data reporting over time. He felt that some standardisation of climate scenarios would also be helpful. SW agreed saying that devising a 'data dictionary' could be constraining unless it was dynamic and could be used to support different approaches. SW noted that the UK Government itself used various definitions of Net Zero and that using the data to make appropriate judgements in investment decisions was the most important matter.

The Chair observed that some standardisation could help to communicate what LGPS were doing. While the legal responsibility for complying with the new duties will lie with funds, it would be good for the Group to give its views on appropriate approaches to data reporting.

Frances Deakin (FD) said that it felt to her like we were all on the same playing field but there were no agreed rules. With the prior-mentioned likely delay in implementation of the regulations by DLUHC, a sub-group would be helpful to convene expertise and build a good, common approach to execution. The approach might differ by asset class, as while equities were quite straightforward other asset classes (especially private equity) were more difficult. Valborg Lie (VL) also supported the creation of a working group but asked whether a quick survey of pools could also be done to see how much commonality there already was and whether there was an appetite to work together to eliminate unnecessary differences. The Group agreed that this would be useful.

Agreed - That the Secretariat put together a working group on the standardisation of climate risk reporting metrics and conduct a survey prior to this to inform the scope of the group

Item 7 – Discussion of preferred definition of UK infrastructure/Levelling Up investments

JH introduced the issue explaining that there had been a discussion at the main Board about whether, with the delay in DLUHC bringing forward its proposals, there was an opportunity to define what we felt the definition of "Levelling Up" investments should be, particularly in relation to infrastructure. A discussion had been held with the Chair prior to the meeting and it was agreed that those organisations/think tanks which had helped shape the Levelling Up White Paper could be invited to the next meeting to discuss the issue with the Group.

Agreed – That the authors of the Levelling Up White Paper (Impact Investing Institute, The Good Economy, Policy Exchange) be invited to the next meeting.

Item 8 – Discussion on LGPS approach to Taskforce on Nature-related Financial Disclosures (TNFD)

JH introduced this item saying that there seemed to be increasing discussion of the need to incorporate TNFD reporting alongside climate risk reporting by pension schemes in the future. PL offered to invite a colleague of his to repeat to the Group a briefing they had done for Pensions for Purpose on TNFD. GC made a similar offer on behalf of the Environment Agency. The Group agreed to take up PL's offer and have a further discussion on TNFD and biodiversity in the future.

Item 9 – AOB and date of next meeting

VL informed the Group that this would be her last RIAG meeting as she was leaving her role at LGPS Central. The Chair and Joanne Donnelly thanked VL for her significant contributions to RIAG over the years and wished her the best in her future endeavours.

The date of the next meeting is 17th May 2023.

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