IIGCC webinar:

TCFD implementation for pension schemes

24th June 2021
IIGCC is an investor-led network of more than 300 asset owners and managers. From 22 countries, including a strong UK presence, together we represent over €37 trillion in assets.

Our membership includes over 40 UK-based pension schemes, with over £715 billion in assets under management.

Our mission is to support and enable the investment community in driving significant and real progress by 2030 towards a net zero and resilient future.

IIGCC does this by providing asset owners and managers with a collaborative platform to encourage public policies, investment practices and corporate behaviour that address long-term risks and opportunities associated with climate change.
## Agenda

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<td>14:00</td>
<td>Welcome</td>
<td>Stephanie Pfeifer, CEO, IIGCC</td>
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<tr>
<td>14:05</td>
<td>Overview of final TCFD rules and next steps for pension scheme trustees</td>
<td>Tom Rhodes, Department for Work and Pensions (DWP)</td>
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<td>14:15</td>
<td>Evolving regulatory approaches to TCFD</td>
<td>Mel Jarman, The Pensions Regulator (TPR)</td>
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<td>14:25</td>
<td>Case study: implementing scenario analysis</td>
<td>James Duberly, BBC Pension Fund</td>
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<td>14:40</td>
<td>Case study: developing metrics and targets</td>
<td>Laura Hobbs, Brunel Pensions Partnerships</td>
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<td>14:55</td>
<td>Discussion and Q&amp;A</td>
<td>All participants</td>
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<td>Moderator: Daisy Streatfeild, Investor Practices Programme Director, IIGCC</td>
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<td>15:15</td>
<td>IIGCC support for members – TCFD implementation</td>
<td>Leo Donnachie, Sustainable Finance Lead, IIGCC</td>
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<td>15:25</td>
<td>Wrap up and close</td>
<td>Stephanie Pfeifer, CEO, IIGCC</td>
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Taking action on climate risk: improving governance and reporting by occupational pension schemes

Tom Rhodes – DWP Policy Advisor, Climate Change and Responsible Investment
Pension schemes and climate risk

This is not about ethics. This is not about the Government directing trustees to achieve its own policy objectives. This is not about divestment.

**This is about risk.**

The transition to net zero, to which the UK and many other economies are committed to achieving by 2050, will trigger *systemic realignment in the global economy*, with the potential for permanent devaluation of current investments.

The TCFD framework is a key mechanism by which to ensure that trustees are taking account of climate risk by *embedding it into their governance* and risk management processes as well as their investment and funding strategies.
Why climate change?
Climate risk has the potential to radically reshape pension portfolios

% asset price change - 2019 to 2030
[Mercer - Climate change the sequel]

The fan of possible outcomes is so wide, that any market pricing of climate risk now can only be a best guess. The price of getting that guess wrong is severe.
Proposal overview – overarching points

**Scope & Timescales**

- 1st phase - all occupational pension schemes that are Master Trusts or hold £5 billion* in net assets –
  - Duties apply from 1 October 2021 [in scheme year]
  - Reporting duties within 7 months of scheme year end date.
- 2nd phase – all occupational schemes with £1 billion** in net assets –
  - Duties apply from 1 October 2022 [in scheme year again]
  - Reporting duties within 7 months of scheme year end date.

* In annual report accounts produced for first scheme year end date after 1 March 2020 - excludes buy-ins.
** As above but after 1 March 2021.

**Penalties**

- Mandatory penalty for failure to complete any form of TCFD report.
- Discretionary penalties for other breaches.
- Compliance notices in first instance for trustee knowledge and understanding breaches.
- Power to issue 3rd party compliance notices.
Proposal overview – investment

Scenario analysis (as far as they are able)

- Include at least TWO scenarios, at least ONE corresponding to 1.5-2°C temperature rise.
- Considering assets, liabilities, investment strategy and funding strategy.
- In first year – and every 3 years thereafter.
- In intervening years – determine whether fresh scenario analysis appropriate – taking into account increased availability of data, changed investment/funding strategy, new/improved scenarios etc.

Metrics & Targets (as far as they are able)

- Calculate and publish ONE emission-based metric, ONE emissions-intensity based and ONE additional metric.
  - Emissions-based – total emissions recommended
  - Emissions intensity – carbon footprint recommended
  - Additional recommended metric
    - Portfolio alignment metric
    - Climate value at risk
    - Data quality

As far as they are able?

- all such steps as are reasonable and proportionate in the particular circumstances taking into account—
  - costs, or likely costs, which will be incurred by the scheme;
  - time required to be spent by the trustees, or any person to whom the trustees have delegated responsibility.

Level of analysis

- For scenario analysis and metrics
  - Single section DB, or single fund DC - whole scheme.
  - Scheme with more than 1 DB “section”: at the level of each section – can group similar sections. DC schemes - each popular arrangement (£100m+ AUM or 10% of the DC assets)
- Governance and risk management - scheme-wide
- Targets – no specific requirements.
## Proposal overview – governance and reporting

**Governance**
- Establish and maintain oversight of risks/opportunities.
- Establish and maintain processes to satisfy selves that others identifying, assessing and managing climate-related risks/opportunities – includes advisers other than legal advisers.

**Risk management**
- Establish and maintain processes to identify, assess and manage climate-related risks.
- Ensure management of climate-related risks is integrated into their overall risk management of the scheme.

**Strategy**
- Identify climate-related risks and opportunities over short, medium, long term [decided by trustees] on investment strategy and funding strategy.
- Assess impact of those risks and opportunities on investment and funding strategy.

**Trustee knowledge and understanding**
- Individual knowledge and understanding of the identification, assessment and management of risks and opportunities arising to schemes from the effects of climate change, including risks arising from steps taken because of climate change (by governments or otherwise).

**Disclosure**
- Annual disclosure – made publicly available – indexed by search engines, no sign-in required.
- Separate but linked from annual report.
- Report in a way that would allow a reasonably engaged and informed member to interpret and understand.
- Include a plain English summary for other members.
Key Dates

Statutory guidance

**Governance and reporting of climate change risk: guidance for trustees of occupational schemes**

This guidance aims to improve both the quality of governance and the level of action by trustees must take in identifying, assessing and managing climate risk.

From: Department for Work and Pensions
Published 8 June 2021

Documents

- **Governance and reporting of climate change risk: guidance for trustees of occupational schemes**
  - PDF, 300KB, 50 pages
  - This file may not be suitable for users of assistive technology.
  - [Request an accessible format](#)

Details

From 1 October 2021 the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 introduce new requirements relating to reporting in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. These aim to improve both the quality of governance and the level of action by trustees in identifying, assessing and managing climate risk.

This draft guidance does not have any effect unless the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 and the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations 2021 come into force.

Published 8 June 2021

- Statutory Guidance published on gov.uk alongside Government’s consultation response 8 June 2021
- Regulations laid in Parliament 8 June 2021
- Regulations debated in Parliament July 2021
- Regulations come into force 1 October 2021
Presentation from:

Mel Jarman, The Pensions Regulator (TPR)
TPR & TCFD

Melanie Jarman, Lead Policy Analyst
June 2021
What to expect and when

• Will be regulating new TCFD-aligned requirements
• Due to consult on our approach – two parts:
  ➢ Guidance on new requirements
  ➢ Climate change appendix to monetary penalties policy
• First week of July
• Eight weeks
• Questions will focus on gaps, or clarifications needed
Draft guidance on new requirements

• Sits underneath DWP’s statutory guidance – read together
• Gives examples of steps to take to demonstrate good governance of climate-related risks and opportunities
• Case studies
• Round up of what you need to report
Climate change appendix to monetary penalties policy

- New penalty regime
- Mandatory penalty
- Discretionary penalties – penalty bands
- As far as able
Next steps

• Publish consultation in early July

• Stakeholder events:
  ➢ roundtables for industry and professional body stakeholders - July
  ➢ virtual workshops – August
  ➢ offer to provide speakers for specific events
Case study – scenario analysis:

James Duberly, BBC Pension Fund
CLIMATE SCENARIO ANALYSIS

24 June 2021
About the BBC Pension Scheme

- 60,000 members
- £20bn assets
- Small internal investment team
- All assets managed externally
- Longstanding commitment to responsible investment
- Target of full funding in 2028 on self-sufficiency basis
Climate change
Our current approach

• Existing references to climate change as a long term risk for the fund in SIP/RI policy and risk register
• Commitment to monitor climate change risks
• Managers required to take ESG factors into account in investment decisions
• Implicit support of Paris Agreement through membership of IIGCC and Climate Action 100+
• TCFD disclosures included in annual report from 2019
• Carbon metrics and targets project underway
Scenario analysis – Consultant 1
2015, repeated in 2019

• Long term asset only analysis based on three scenarios
  Transformation (2°C)
  Coordination (3°C)
  Fragmentation (4°C)
• Increase in renewables exposure between 2015 and 2019
• Impact on 10 year annual return:

<table>
<thead>
<tr>
<th>Return Impact</th>
<th>2015</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>2°C</td>
<td>-0.2%</td>
<td>+0.2%</td>
</tr>
<tr>
<td>3°C</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>4°C</td>
<td>-0.1%</td>
<td>0.0%</td>
</tr>
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➢ Transition risks higher than physical over 10 year horizons.
Scenario analysis – Consultant 2
2019, repeated in 2020

- 10 year asset and liability based on two scenarios:
  Global coordinated action (<2°C)
  Least common denominator (>3°C)
- Asset return impact calculated as a negative stress and assumes costs not in the price
- Higher return impact in 2020 vs 2019 study
- Impact on 10 year annual return (2020):

<table>
<thead>
<tr>
<th>Return Impact</th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;2°C</td>
<td>-0.2%</td>
<td>+0.4%</td>
</tr>
<tr>
<td>&gt;3°C</td>
<td>-0.4%</td>
<td>-0.6%</td>
</tr>
</tbody>
</table>

- Liability effect could be larger than asset effect.
Scenario analysis
Conclusions and tips for other schemes

• Different assumptions lead to different results
• Message more complicated than we expected
• Consistency in quantum of results
• Helps us approach climate risk with some objectivity in Scheme docs and when making investments

Tips for other Schemes
• Get started (if you haven’t already)
• Use external advisers
• Don’t overcomplicate
• Talk to your asset managers
Case study – metrics and targets:

Laura Hobbs, Brunel
Today
- Celebrating success
- Client focused in practice
- Covid impacts on RI
- Deeper dive
- Diversity and Inclusion
- Human Capital – Mental health and Modern Human Slavery
- Questions and answers – part one
- Climate Change – Net Zero Investment Framework
- Communicating progress
- Questions and answers – part two
Climate Change

Brunel has committed to becoming Net Zero by 2050
- Paris Aligned Net Zero Investment Framework
- Decarbonisation of Portfolios
- Investment in climate solutions
- Integration of climate related risk into manager selection
- Corporate engagement
- Taskforce for Climate related financial disclosures (TCFD)
Key Targets

Seek a 7% reduction year on year in the carbon intensity of our listed equity portfolios (vs the benchmark)

50% reduction in Portfolio carbon intensity by 2030 and Net Zero by 2050 (ambition for sooner)

**Fossil fuel revenues and exposure** no greater than benchmarks

**Climate governance** of material holdings to be at least TPI Level 4 or above by 2022.

**Engagement** with material holdings to persuade them to advance at least one level against the TPI management quality framework
Key Climate Data

We have integrated ESG and climate related risk metrics into our portfolio monitoring and management tools.

We assess at a company, manager and portfolio level:

- Carbon footprint
- Weighted average carbon intensity
- Fossil fuel revenues
- Fossil fuel reserves
- Disclosure rates
- TPI data
- Product involvement
## Key Metrics – WACI year on year

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Carbon intensity 2020 vs December 2019 Benchmark Baseline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunel Aggregate Portfolio</td>
<td>-33.1%</td>
</tr>
<tr>
<td>Brunel UK Active Portfolio</td>
<td>-29.6%</td>
</tr>
<tr>
<td>Brunel Global High Alpha Portfolio</td>
<td>-52.4%</td>
</tr>
<tr>
<td>Brunel Emerging Market Equity Portfolio</td>
<td>-29.4%</td>
</tr>
<tr>
<td>Brunel Active Low Volatility Portfolio</td>
<td>-41.9%</td>
</tr>
<tr>
<td>Brunel Passive Low Carbon Portfolio</td>
<td>-51.9%</td>
</tr>
<tr>
<td>Brunel Passive Smart Beta Portfolio</td>
<td>-24.5%</td>
</tr>
<tr>
<td>Brunel Passive UK Portfolio</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Brunel Passive World Developed Portfolio</td>
<td>-18.7%</td>
</tr>
<tr>
<td>Brunel Global Sustainable Equity Portfolio*</td>
<td>n/a</td>
</tr>
<tr>
<td>Brunel Global Smaller Companies Portfolio*</td>
<td>n/a</td>
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[Circular icons]: Meeting target, Action underway

*Portfolios launched in 2020. We are in the process of establishing an appropriate benchmark date.*
Brunel UK Active Equity Portfolio - Working with our managers to achieve decarbonisation

Brunel UK Active Equity Portfolio saw a 45% emissions intensity reduction from March 2019 to December 2020.

Working closely with Invesco to decarbonise their quant strategy.
Key Metrics – Fossil Fuel Related Activities

Extraction-related activities:
- Crude petroleum and natural gas extraction
- Tar sands extraction
- Natural gas liquid extraction
- Bituminous coal underground mining
- Bituminous coal and lignite surface mining
- Drilling oil and gas wells
- Support activities for oil and gas operations

Fossil fuel reserves:
- Coal (metallurgical, thermal or other)
- Oil (conventional or unconventional)
- Gas (natural and shale)
- Oil and/or gas (where no further information)

Brunel Global High Alpha Portfolio

Industry Breakdown of Fossil Fuel Related Activities

Energy
- Natural Gas Power Generation
- Petroleum Power Generation
- Coal Power Generation

Support activities for oil and gas operations
- Natural gas liquid extraction

Extractives
- Drilling oil and gas wells
- Crude petroleum and natural gas extraction
- Tar sands extraction
- Bituminous coal mining
Key Metrics – Fossil Fuel Reserves Exposure

Brunel Portfolios
Key Metrics – Potential Future Emissions from Reserves

Brunel Emerging Market Portfolio

Engagement with managers led to a reduction in carbon intensity and an increase in relative efficiency.
Key Metrics – Disclosure Rates

- Brunel Aggregate: 56% Full disclosure, 26% Partial Disclosure, 18% Modelled
- Brunel Active UK: 60% Full disclosure, 38% Partial Disclosure, 2% Modelled
- Brunel Active Global High Alpha: 61% Full disclosure, 21% Partial Disclosure, 8% Modelled
- Brunel Active Emerging Markets: 40% Full disclosure, 29% Partial Disclosure, 12% Modelled
- Brunel Active Low Volatility: 67% Full disclosure, 21% Partial Disclosure, 12% Modelled
- Brunel Passive Low Carbon: 63% Full disclosure, 23% Partial Disclosure, 14% Modelled
- Brunel Passive Smart Beta: 62% Full disclosure, 24% Partial Disclosure, 14% Modelled
- Brunel Passive UK: 66% Full disclosure, 32% Partial Disclosure, 2% Modelled
- Brunel Passive World Developed: 63% Full disclosure, 23% Partial Disclosure, 13% Modelled
- Brunel Global Sustainable Equity: 48% Full disclosure, 20% Partial Disclosure, 31% Modelled
- Brunel Global Smaller Companies: 14% Full disclosure, 14% Partial Disclosure, 66% Modelled
Key Metrics – Client Reporting

Clients receive

- Annual carbon metrics report with key carbon metrics
- Extensive carbon data sheet for each company they are invested in
- WACI and fossil fuel related activities on a quarterly basis
Key Metrics – Management Quality and TPI

Level 0 - Unaware of, or not acknowledging climate change as a business issue
Level 1 – Acknowledging climate change as a business issue
Level 2 – Building capacity
Level 3 – Integrated into operational decision-making
Level 4 – Strategic assessment

For more information see www.transitionpathwayinitiative.org
Next Steps

- Decarbonisation of passive Portfolios
- Recently launched fixed income portfolios
- Have identified some thoughtful metrics for our MAC managers
- Positive contribution reporting against Sustainable Development Goals
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Q&A moderated by Daisy Streatfeild, Investor Practices Director, IIGCC
IIGCC support for members to implement TCFD

Resources:

- **Addressing climate risks and opportunities in the investment process:**
  - A practical guide for trustees and board of asset owner organisations.

- **Navigating scenario analysis:**
  - A guide for institutional investors – plus service provider overview.

- **Managing Physical Risk:**
  - A guide on assessing and managing physical risks in a portfolio.
  - ‘Investor Expectations’ of companies on physical risk to support engagement and improve disclosure (in development)

Activities:

- **Metrics and target setting support**
  - Net Zero Investment Framework

- **Policy advocacy**
  - Advocating for consistent and decision-useful climate-related disclosures across the investment chain
Potential IIGCC activities to support TCFD implementation:

- **Additional guidance and resources:**
  - Updated guidance on service providers/investment consultants who can support TCFD implementation
  - Resource pack to support scenario analysis

- **Activities to support implementation**
  - Series of roundtables with experts and practitioners to build capability (e.g. on scenario analysis)
  - Workshop with third party service providers
  - Additional work on appropriate metrics/targets for asset owners

- **Policy advocacy and engagement**
  - Ongoing policy advocacy on TCFD
  - Showcasing industry initiatives (e.g. Climate Financial Risk Forum)
Thank you

For more information on IIGCC membership, please contact Jayne Dunlop (j dunlop@iigcc.org)

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