

EARTH TO TRUSTEES

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CONTENTS

- ▶ Introduction to ClientEarth and the Company & Financial Team
- ▶ Climate change and pensions – does the law play a role?
 - ▶ What are we doing about it?
 - ▶ What should we be seeing in the investment decision-making process?
 - ▶ What changes are we seeing?
- ▶ Forward-looking predictions
 - ▶ Law Commission recommendations
 - ▶ EU exit and IORP II

INTRODUCTION TO CLIENTEARTH

- ▶ Non-profit environmental law organisation
- ▶ Using law, science and policy to address key environmental challenges
- ▶ Areas of work include climate change, energy, environmental justice, biodiversity, forests and health

COMPANY & FINANCIAL TEAM

- ▶ Using corporate and financial laws to drive greater integration of climate-related financial risk into the management decisions of companies and financial institutions
- ▶ Work streams: pensions, shareholder resolutions, directors' duties, corporate reporting, corporate lobbying ...
- ▶ Pensions work stream:
 - ▶ Who: trustees, asset managers, investment consultants, actuaries ...
 - ▶ What: occupational and personal pensions, public sector pensions
 - ▶ Where: various, including regulators
 - ▶ How: via members, using existing and emerging law
 - ▶ Why: financial risk!

CLIMATE CHANGE AND PENSIONS – DOES THE LAW PLAY A ROLE?

- ▶ Occupational Pension Schemes (Investment) Regulations 2005
- ▶ Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
 - ▶ Accompanying guidance from the Department of Communities and Local Government
- ▶ Law Commission reports (2014, 2017)
- ▶ Pensions Regulator investment guidance

LEGAL OPINION

“If the risks associated with climate change are financially material to a particular investment decision then it is clear, we think, beyond reasonable argument that the law permits and requires the trustees to take those risks into account when making that investment decision.”

Keith Bryant QC and James Rickards (2016)

HOW ARE WE USING THE LAW

- ▶ Supporting members:
 - ▶ Legal letters
 - ▶ ShareAction partnership
- ▶ Working with industry:
 - ▶ Trustees, administering authorities and personal pension providers
 - ▶ Professional advisors
 - ▶ Shareholder action
- ▶ Legal opinion
 - ▶ Keith Bryant QC and James Rickards

HOW ARE WE USING THE LAW CONT'D

- ▶ Referrals to financial regulators:
 - ▶ The Pensions Regulator (TPR) – misconceptions about climate risk and legal duties to consider this risk
 - ▶ Financial Conduct Authority (FCA) – similar referral about personal pension providers, forthcoming

TPR REFERRAL - MISCONCEPTIONS

- ▶ Climate change does not pose financial risks and/or is only an ethical investment issue **X**
- ▶ By delegating day-to-day investment decisions to external investment managers, trustees/administering authorities have discharged their legal duties to address climate risk **X**
- ▶ By delegating stewardship engagement activities to the Local Authority Pension Fund Forum, administering authorities have discharged their legal duties to address climate risk **X**
- ▶ Administering authorities do not need to think about climate risk anymore because this will now be dealt with at the pool level **X**
- ▶ Scheme members should not concern themselves with this issue as any losses caused by poor management of climate risk will be met by the taxpayer **X**

CLIMATE RISK IN THE INVESTMENT DECISION-MAKING PROCESS



BUSINESS AS USUAL IS CHANGING

- ▶ Increased industry awareness – climate risks and opportunities in investment strategies/policies on the rise
- ▶ Guidance on climate risks and opportunities:
 - ▶ IIGCC (2015)
 - ▶ Mercer (2005, 2010, 2015)
 - ▶ Institute and Faculty of Actuaries (2017)
 - ▶ Local Authority Pension Fund Forum (2017)
 - ▶ PLSA (2017)
- ▶ Increased regulatory awareness of industry practice
 - ▶ TPR
 - ▶ FCA

FORWARD-LOOKING PREDICTIONS

Law Commission recommendations
EU exit and IORP II



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ENVIRONMENT AGENCY PENSION FUND – CASE STUDY

- ▶ Our objective is to ensure that our Fund's investment portfolio and processes are compatible with keeping the global average temperature increase to remain below 2°C relative to pre-industrial levels, in-line with international government agreements
- ▶ Three pillars
 - ▶ Invest
 - ▶ Decarbonise
 - ▶ engage

Environment Agency
Pension Fund

October 2017

Policy to address the impacts of climate change



ENVIRONMENT AGENCY PENSION FUND – CASE STUDY

- ▶ Governance
 - ▶ Ownership
 - ▶ Strategic asset allocation
 - ▶ Training
- ▶ Strategy and risk
 - ▶ Portfolio construction
 - ▶ Climate change in risk register
 - ▶ Integration into all asset classes
 - ▶ Positive investments
 - ▶ Enhanced index tracking/ climate quant



ENVIRONMENT AGENCY PENSION FUND – CASE STUDY

▶ Metrics

- ▶ Carbon foot printing
- ▶ Fossil fuel exposure
- ▶ Others asset classes - WIP

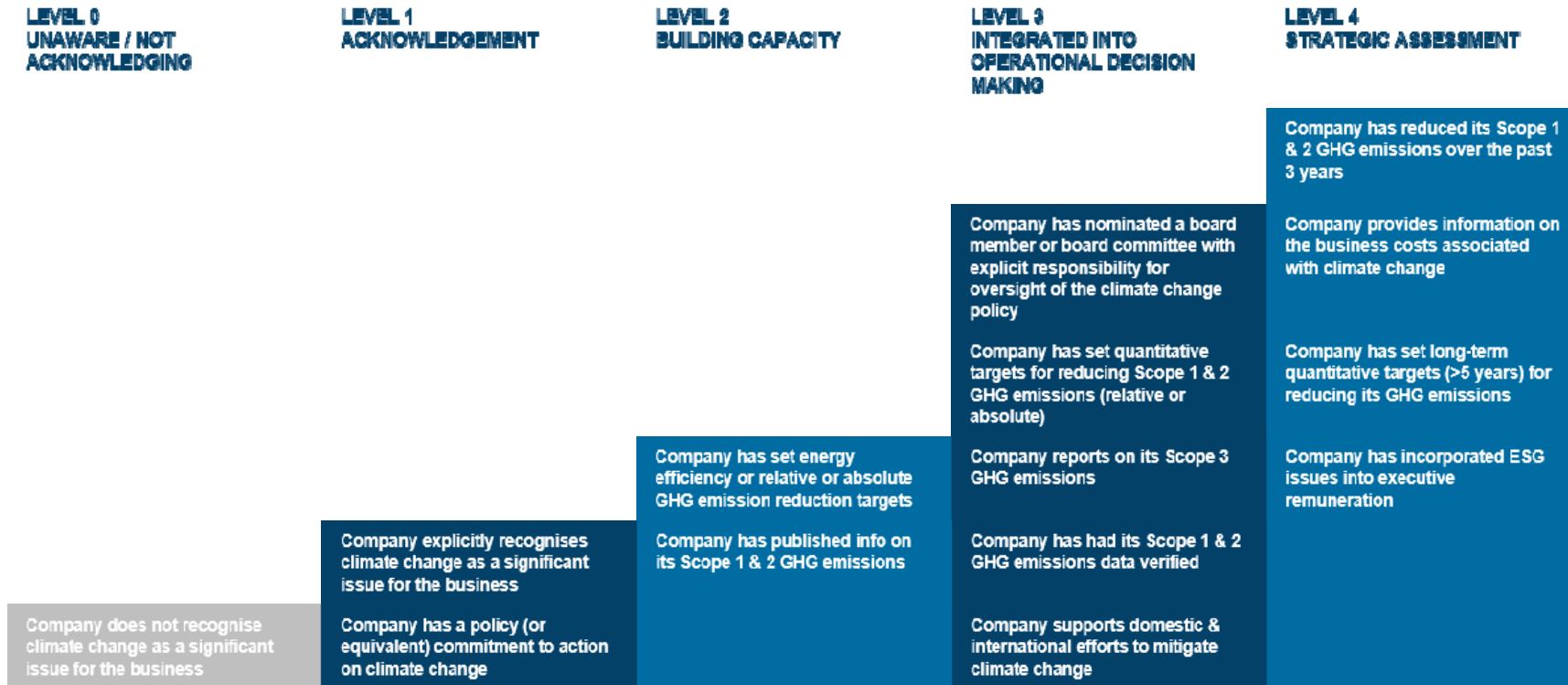
▶ Disclosure and reporting

- ▶ Annual report and financial statements
- ▶ TCFD – framework with additional case studies
- ▶ Beneficiary communications
- ▶ Embedded within reporting on Sustainable Development Goals



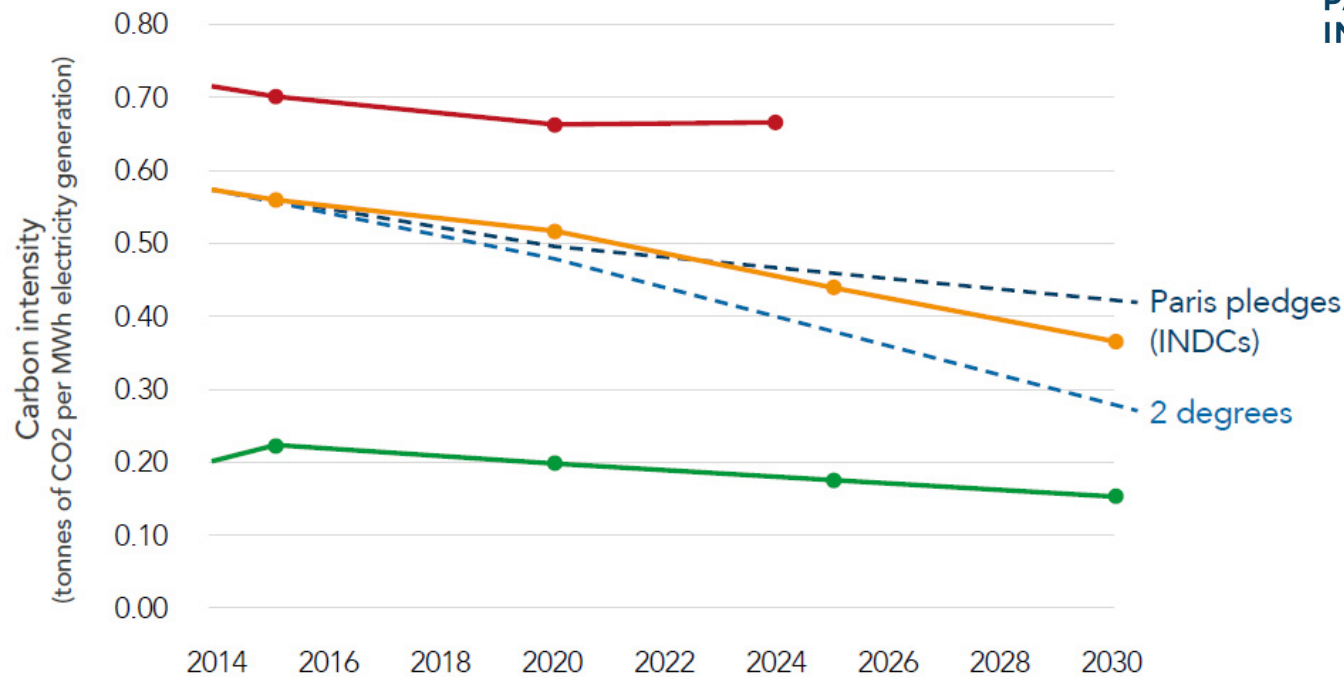
TRANSITION PATHWAY INITIATIVE

Management quality



Source here: <http://www.lse.ac.uk/GranthamInstitute/tpi/>

CARBON PERFORMANCE



- Company A's current carbon intensity and future targets are not aligned with the Paris pledges or 2 degrees
- Company B's current carbon intensity is aligned with the Paris pledges or 2 degrees, but its future target is only aligned with the Paris pledges
- Company C's current carbon intensity and future targets are aligned with 2 degrees

Source here: <http://www.lse.ac.uk/GranthamInstitute/tpi/>

GOING FORWARD – BRUNEL

- ▶ New £28bn asset pool for 10 LGPS funds
- ▶ Includes the EAPF
- ▶ Climate aware
 - ▶ Fund manager selection
 - ▶ Carbon foot printing
 - ▶ Fossil fuel exposure
 - ▶ Low carbon opportunities
 - ▶ Others asset classes
- ▶ Disclosure and reporting
 - ▶ Brunel - TCFD compliant Annual Report and Financial Statements
 - ▶ Facilitate clients ESG reporting, including TCFD
 - ▶ Focus on stakeholder communications
 - ▶ Embedded within reporting on Sustainable Development Goals



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**PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION**

TRUSTEE CONFERENCE 2017

Clear decisions; transparent outcomes



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