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Our Ref: Taking Action against Climate Risk
Your Ref:

Climate Governance and ESG team

By email to pensions.governance@dwp.gov.uk

1 October 2020

Dear Climate Governance and ESG team,

RE: Taking Action on Climate Risk in the Local Government Pension Scheme

Surrey County Council (Surrey) welcomes the opportunity to respond to the draft guidance on taking action on Climate Risk issued by the Minister for Pensions and Financial Inclusion.

Surrey is the Administering Authority for the Surrey Pension Fund (the Fund) as part of the Local Government Pension Scheme (LGPS). The Fund has assets of over £4.3billion and includes nearly 300 employers.

We are supportive of much of the guidance and appreciate the desire to lead the way for a financial services sector to address Climate Risk.

Introduction

Surrey supports the stated purpose of the Consultation to measure the carbon footprint of portfolios as well as potential risks with different temperature levels. It also welcomes the decision to keep members informed through their Annual Benefit Statements.

Chapter 1: Trustees' duties to consider climate change

5. The Fund agrees that current pricing methods for stocks focus more on extrapolation of shorter term cash-flows, so doesn't take into consideration the longer term risk of Climate Change. A sudden shift in investor expectations can have a dramatic impact on market prices,

bearing similarities to the market fluctuations as a result of the COVID-19 Pandemic, although the impact could potentially be longer lasting or even permanent.

11. Trustees are urged to take the lead in integrating Climate Risk into their portfolio, as opposed to waiting on policy changes. Surrey also supports this view. A Pension Fund Trustee's fiduciary duty requires them to take into account any significant factors, which can impact future financial returns. The consultation does well in highlighting that this goes beyond 'traditional' factors such as interest rate, exchange rate and inflation.

35. Although the decision to make TCFD mandatory amongst larger pension schemes is welcomed, the Government should actively encourage smaller schemes to also start making voluntary TCFD disclosures, for the benefit of their members, Trustees and wider public.

67. The Fund appreciates that providing TCFD disclosures should not in any way lead to increased pressure to divest, and this decision still lies ultimately with Pension Fund Trustees.

72. The Surrey Fund supports the methodology of portfolio warming as a means to measure likely temperature rise levels based on a scheme's current portfolio along with other methods to assess physical and transition risk. This would therefore allow Trustees to view how at risk their portfolios are in relation to carbon policy changes, at a sector and potentially geographic level.

Chapter 2: Scope & Timing

5. The Surrey Fund, recognises that although the implied cost of £15k per year would not be seen to be material in comparison to the actual costs of investment, carrying out these analyses yearly may be excessive and may not add value from year to year. Biennial and triennial reporting may be more appropriate.

29. The Surrey Fund supports the size of funds in scope for TCFD reporting (first and second wave) as well as the timing of the end of 2022, and 2023 respectively.

46. The Fund also welcomes the extended deadline for schemes with assets ranging from £1bn to £5bn. This will prevent the reporting being a tick-box exercise and will allow funds the time to provide meaningful disclosures.

59. The Fund agrees with the approach to keep TCFD reporting consistent from year to year for those schemes which may fall in and out of the threshold for the benefit of consistent reporting for their stakeholders.

75. The proposal to review effectiveness of TCFD reporting in 2024 and how it impacts Trustee decision making is welcomed to ensure there are positive outcomes being achieved from this.

Chapter 3: Climate Governance and TCFD

26. The proposal to carry out a scenario analysis along with choosing of metrics and targets to be completed at least annually is something that Surrey Pension Fund does not agree with and seems excessive. The reason being most investment strategies along with fund manager selection would not vary considerably from year to year. A more pragmatic approach would be to carry out this analysis at least every two years or triennially so there can be overlaps and integration during investment strategy reviews.

27. The Fund does not see quarterly emissions reporting as being feasible nor would this be readily available. Although this may enhance fund manager selection, the Fund does not see this frequency of reporting being possible.

47. The requirement to demonstrate and report on the various climate related risks and opportunities at a portfolio level and how this is factored into a scheme's investment strategy or funding strategy is welcomed.

58. The Fund commends the proposal to carry our scenario analysis on 2 Degrees or lower, but there should include an option of 3 degrees, seeing as this is the current projection of global temperature rise based on carbon emissions. This is for information purposes only, as opposed to target setting.

Chapter 4: Disclosing TCFD

9. The Fund also agrees that making TCFD reporting publicly available by default would enhance the quality of reporting. We also agree that a summarised version would be useful in the Annual Report but the full TCFD report should be published separately.

31. The Fund supports the view to require trustees to post links to TCFD in the annual benefit statement.

Chapter 5: Penalties and Impacts

13. The Fund is happy with the minimum mandatory penalty of £2,500 for non-compliance, with the option to review penalties once TCFD reporting becomes more common.

Yours sincerely

Anna D'Alessandro
Director of Corporate Finance