

London Borough of Hackney Pension Fund

Responsible Investment – Stewardship and TCFD training

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Introduction

Purpose and addressee

- This paper, which is addressed to the Pensions Committee (“Committee”) of the London Borough of Hackney Pension Fund (“the Fund”), discussed the project plan to enable the Fund to further develop its overall approach to responsible investment, including steps that would be required in order to become a signatory to the 2020 UK Stewardship Code in 2022.
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Background

- The areas of Environmental, Social and Governance (‘ESG’) and Responsible Investment (‘RI’) within the investment of LGPS assets (and wider pensions and investment in general) has been experiencing increasing scrutiny over the past few years.
- The Committee are committed to being a responsible investor and have undertaken an in-depth strategy review which took into account the Fund’s climate objectives and considered their ESG and RI beliefs, SDG objectives, monitoring and implementation over the past couple of years.
- As part of demonstrating its commitment to addressing these issues, the Committee will today receive training on Stewardship and TCFD
- In addition this paper sets out what would be required were the Fund to set a target of becoming a signatory to the 2020 UK Stewardship Code in 2022, which is seen as the ‘gold standard’ for demonstrating good practice in these areas.
- This paper sets out a project plan/timetable of actions in relation to responsible investment and stewardship.

RI timetable

	Task
Already achieved	Investment beliefs and SDGs
	Investment strategy review
Today	Review BlackRock and LCIV’s approach to Responsible Investment and Engagement (including Beliefs, Climate Policy and Stewardship Policy, Voting Guidelines and reporting)
	Training on Stewardship and TCFD and initial view of Stewardship Code compliance
Next	Review Committee Investment beliefs and SDG aspirations. Draft Climate Policy/Responsible Investment Policy.
	Climate scenario testing of strategy and implications of net zero target dates
	Consider approach to Stewardship and TCFD reporting
	Ongoing reporting
	Review mandate benchmarks

TCFD and Stewardship – Timeline for achieving submissions

Key dates

Stewardship code

- The key date to be a 2022 signatory is 30 April 2022 for final submission covering the period 1 January 2021 to 31 December 2021 (to be confirmed).

TCFD

- Currently there are no requirements for LGPS to report under TCFD; however, a consultation is underway with likely requirements expected from 2022/23.

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TCFD



TCFD recommendations

- The Task Force established recommendations for disclosing clear, comparable and consistent information about the risks and opportunities presented by climate change.
- Their widespread adoption will ensure that the effects of climate change become routinely considered in business and investment decisions and will help better demonstrate responsibility and foresight in their consideration of climate issues, leading to smarter, more efficient allocation of capital, and helping to smooth the transition to a more sustainable, low carbon economy.
- The Task Force divided climate-related risks into two major categories: risks related to the transition to a lower-carbon economy; and risks related to the physical impacts of climate change. Recommendations were based on four thematic areas.



Governance

- The organisation's governance around climate-related risk and opportunities

Strategy

- The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

Risk management

- The processes used by the organisation to identify, assess and manage climate related risks.

Metrics and targets

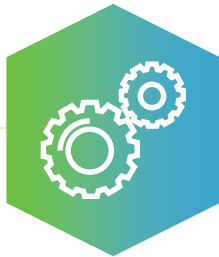
- The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Recommended disclosures

Governance

Describe the board's oversight of climate-related risks and opportunities.

Describe management's role in assessing and managing climate-related risks and opportunities.



Strategy

Describe the climate-related risks and opportunities identified over the short, medium and long-term.

Describe the impact of climate-related risks and opportunities on the strategy and financial planning.

Describe the resilience of the strategy, taking into consideration different climate-related scenarios, include a 2C or lower scenario.



Risk Management

Describe the processes for identifying and assessing climate-related risks.

Describe the organisation's processes for managing climate-related risks.

Describe how processes for identifying, assessing and managing climate-related risks are integrated into the overall risk management.



Metrics and Targets

Disclose the metrics used to assess climate-related risks and opportunities in line with strategy and risk management processes.

Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.

Describe the targets used to manage climate-related risks and opportunities and performance against targets



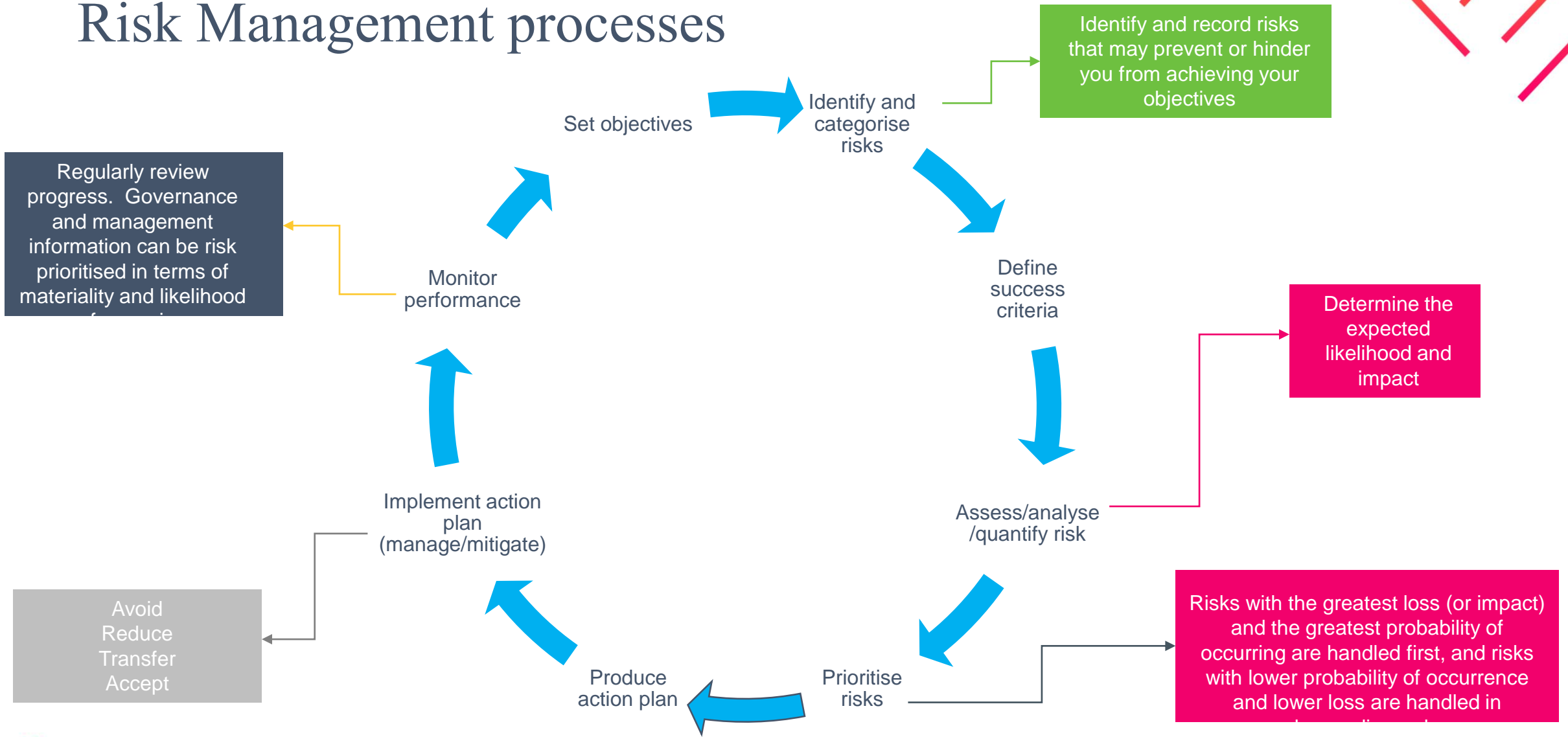
Key tasks

- Currently there are no requirements for LGPS to report under TCFD...
- ...however, consultation on this is now out with likely requirements coming in from 2022/23.
- Although there will be differences, likely to be largely aligned with guidance for private sector schemes.
- Some authorities have developed TCFD reporting and doing so, even if not fully aligned with final outcome of consultation will be a very useful step.
- There is material overlap with the broader development of an RI policy and the requirements for the stewardship code submission which should help.

Key tasks (based on private sector guidance include):

- Gap analysis of what is in place (or will be in place as a result of other activity) versus requirements for full reporting.
- Identify and assess the impact of climate related risks and opportunities that will impact the investment and funding strategy of the Fund over different time horizons.
- Scenario analysis to assess the resilience of the Fund's assets, liabilities and investment and funding strategy to climate related risks in at least two scenarios (including one scenario that reflects an annual temperature rise of 1.5 to 2 degrees Celsius).
- Develop and maintain processes for identifying, assessing and managing climate-related risks and ensure the integration of climate-related risks into overall risk management (e.g. risk registers).
- Identify key metrics to monitor (guidance is a minimum of two emissions based metrics – one absolute measure and one intensity based – and an additional climate change metric) and source of data required to calculate the chosen metrics on an annual basis.
- Set targets for chosen metrics and measure performance against targets annually, including a review of the targets/
- Draft TCFD reporting.

Risk Management processes



Regularly review progress. Governance and management information can be risk prioritised in terms of materiality and likelihood

Avoid
Reduce
Transfer
Accept

2020 UK Stewardship Code



2020 UK Stewardship Code overview

The code defines stewardship as “the responsible allocation, management and oversight of capital to create long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society”. The code for asset owners such as the Fund covers all asset classes and comprises 12 comply and explain principles (rather than prescribed requirements). Any submission is expected to contain information in the following format:

1. Context (why are we doing this?)
2. Activities (what are we doing and how are we engaging?)
3. Outcomes (what are the desired consequences and have these been achieved?)

Section 1: Purpose and governance

- *Principle 1: Signatories purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society*
- *Principle 2: Signatories governance, resources and incentives support stewardship*
- *Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first*
- *Principle 4: Signatories identify and respond to market wide and systemic risks to promote a well functioning financial system*
- *Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities*

2020 UK Stewardship Code overview (continued)

Section 2: Investment approach

- *Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them*
- *Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities*
- *Principle 8: Signatories monitor and hold to account managers and/or service providers*

Section 3: Engagement

- *Principle 9: Signatories engage with issuers to maintain or enhance the value of assets*
- *Principle 10: Signatories, where necessary, participate in the collaborative engagement to influence issuers*
- *Principle 11: Signatories where necessary, escalate stewardship activities to influence issuers*

Section 4: Exercising rights and responsibilities

- *Principle 12: Signatories actively exercise their rights and responsibilities*

Submission

- Organisations will have to submit an annual Stewardship Report explaining how they have applied the Code over a 12-month period. The Report must be reviewed and approved by the applicant's governing body, and signed by the chair, chief executive or chief investment officer.
- The FRC will evaluate Reports and notify organisations of the outcome of their application shortly before the first list of signatories is published (privately for failed submissions). Organisations that meet the reporting expectations will be listed as signatories to the Code on the FRC website with a link to their report.
- Once the applicant has been accepted as a Code signatory and the Report is approved by the FRC, the Report will be a public document and must also be made available on the signatory's website.
- The key date to be a 2022 signatory is 30 April 2022 for final submission covering the period 1 January 2021 to 31 December 2021 [to be confirmed].

Evaluating the current position on Stewardship Code



Evaluating the current position

The following table evaluates the Fund's position against each of the principles.

Purpose and Governance	Principle description	Stewardship objective	Current status	Resource requirement	Comments
P1	Purpose of Fund and investment beliefs	Understanding of the strategy and culture of the signatory	ISS updated annually and planned RI workshop	Low: as majority of information already available	Expected to be a one off exercise
P2	Internal governance structure and resources	Identification of the governance structure and resources	Documentation of the governance structure and personnel and training will be required much already exists	Low: this will be a matter of formalising and documenting the various governance roles	Much of this documentation already exists it will be a matter of making it code ready
P3	Management of conflicts of interests	Detail how any actual or potential conflicts are handled	Managers will need to be contacted about how conflicts are managed on behalf of the fund	Low: initial documentation of process needed	LCIV and managers will need to provide updated information on this principle for pooled assets
P4	Identification / monitoring of systemic risks	Detail role played in industry initiatives in improvement of financial system	Mainly for fund manager input although integration into risk register seems appropriate?	Low: another input from manager monitoring templates	Risk controls and fund rebalancing can be documented for this principle?

Evaluating the current position

Purpose and Governance	Principle description	Stewardship objective	Current status	Resource requirement	Comments
P5	Review of effectiveness	Requirement to review and monitor policies for effectiveness	A review process will need to be agreed with managers	Substantial: requirement in the build out phase also impacts P10	A review structure will need to be agreed with every manager employed by the fund
P6	Communication of stewardship approach to beneficiaries	Need to communicate why the stewardship activities adopted are appropriate for beneficiaries	Much of this can be derived from the ISS and then included in regular updates?	Low: in terms of additional workload, some enhancements may be required to website or newsletters	Part of regular communications?
P7	Integration of ESG/RI policy in appointment of managers	Need for the integration of ESG/RI policies into mandate awards and on going monitoring	Although this principle is partly implemented more work on evidencing will need to be carried out	Moderate: This work will form part of building of the manager reporting templates and manager selection processes	The on-going integration will be included in suitability notes. LCIV will ultimately be involved.
P8	Monitoring, accountability and holding to account of managers and service providers on RI/ESG policy issues	Requirement to hold managers to account confirmation that assets run in line with "RI policy"	RI policy to be discussed later this year. The existing process will need to be enhanced, documented and implemented	Substantial: Development of the enhanced monitoring process and reporting template will evolve into a regular review and engagement process with managers	Linked with P7 This can be thought of as the core BAU outcome of becoming a signatory to the code.

Evaluating the current position

Purpose and Governance	Principle description	Stewardship objective	Current status	Resource requirement	Comments
P9	Engagement with issuers	Signatories via representatives should engage with issuers	Details of manager engagement and outcomes will need to be documented and evidenced	Substantial: although the data will be provided by managers a substantial amount of collation and documentation required	Linked to P7 and P8 This one of the major on going tasks for signatories
P10	Collaborative engagement	Covering both direct Fund collaboration i.e. LAPFF and manager collaboration i.e. Climate 100+ UN PRI	Reporting and evidence process will need to be developed with managers	Moderate: the submission will need to provide specific examples of collaboration and outcomes	This will need to be incorporated in the manager monitoring template
P11	Escalation policy towards issuers	Explain the expectations for escalation set for asset managers of the fund	This has not been formally agreed and will need to be included in the review policies developed with managers	Low: the additional information required for this principle can be included in the manager templates	Thought will need to be given for how different asset types are treated in this regard
P12	Exercising of rights including voting policy	Signatories must actively exercise rights across all geographies	Consideration of approach required, across asset classes. Also an important role for LCIV	Moderate: a process and policy will need to be agreed with all managers including an on-going review process	This principle will form part of the extensive ESG/RI template used for monitoring external managers across multiple principles