Trustees need better data for the journey to net zero

Summary
• Trustees need better data from all their partners to enable scheme assessments and comparisons.
• 23 per cent of trustees say climate change will have a 'high impact' on their investments.
• 25 per cent of schemes are actively pursuing net zero targets.

Pension scheme trustees are increasingly aware of the impact that climate change could have on their portfolios – but they need more and better-quality data to support meaningful action

Pension scheme trustees need much higher quality data on environmental, social and governance (ESG) matters to achieve climate and other goals, according to a survey by asset servicing firm CACEIS Investor Services, in association with *Pensions Age.*

Trustees from schemes of all sizes, including 7 per cent larger than £15 billion, across DB and DC arrangements were surveyed. The majority (55 per cent) were from corporate DB schemes.

The lack of standardised ESG data was cited as a major cause for concern by 57 per cent of trustees, meaning they were not able to make ESG comparisons. This was cited as the biggest or second-biggest concern when asked about the challenges in getting access to data.

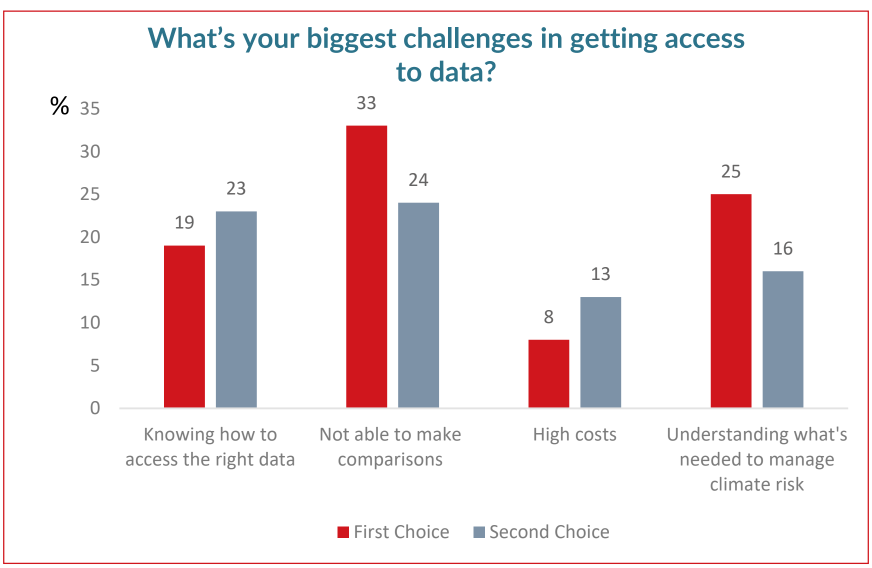
Standardised data is an important step in linking real-world climate challenge to metrics that pension schemes can use to help manage climate risks.

The survey found widespread reporting concerns: 72 per cent of trustees wanted better reporting of ESG and carbon data; 70 per cent required more information from asset managers; and 69 per cent needed better access to climate data of their investments. Sixty per cent said they needed more information about both physical risks, the impairment of assets resulting from climate change, and transition risks, arising from the shift to a low-carbon economy.

Overall, only 32 per cent of respondents said they had sufficient information to understand how climate risk could impact their investments, with 44 per cent saying it was insufficient.

"For pension schemes, climate risk governance is an increasingly important part of responsible investing," says CACEIS UK product specialist, Scott Foster. "Although UK pension schemes are in a unique position to drive change and capital flows, access to reliable data and self-sufficiency in assessing climate risks is needed to empower change and avoiding green washing.

"These survey results highlight that many schemes are still struggling with access to aggregated high-quality data, and lack the tools required to enhance the decision-making and governance processes. Closing this data gap must be a priority as regulatory and financial risks build up."



Impact on investments

The most important driver for looking at ESG and climate risk was managing investment risk, cited as the primary reason by 44 per cent of trustees, followed by regulatory requirements, by 31 per cent. These factors were also cited by 20 per cent and 28 per cent respectively as the second most important driver.

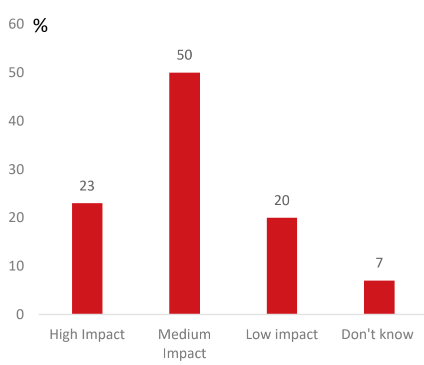
The survey also revealed trustees' main climate-related concerns for their portfolios. For 37 per cent the biggest concern was transition risk. For 27 per cent, regulatory risks were the biggest concern, while 13 per cent were more focused on physical risks.

Concerns edge up

Trustees' concern about of the impact of climate change on their scheme's investments intensified this year, although there remains a notable gap between climate impacts and investment risks. Now 23 per cent of trustees think that it will have a 'high impact', up from 17 per cent last year.

The proportion that assesses it will have a 'medium impact' increased marginally (50 per cent, up from 49 per cent) and 'low impact' decreased slightly (20 per cent, down from 22 per cent). The amount that did not know decreased from 12 per cent to 7 per cent, suggesting greater engagement with the issue.

What impact do you think climate change will have on your scheme's investments?



The relatively low percentage predicting a 'high impact' on portfolios does not tally with the extensive coverage climate change has had in the year leading up to COP 26. For example, in 2019 alone 300 billion working hours were lost globally and by 2040 3.9 billion people will be exposed to major heatwaves, according to Chatham House.

The survey found that managing climate change risk was 'very high' on 25 per cent of schemes' agendas and 'somewhat high' on a further 54 per cent. The remaining 21 per cent considered it to have a 'low impact', which seems a high proportion even if some schemes have a short time horizon remaining.

Regulatory reporting

The UK government embedded the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) into UK law with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

The new law requires trustees of occupational pension schemes to identify, assess and manage climate-related risks and opportunities, starting with those with assets above £5 billion in October 2021 followed those with above £1 billion a year later. In the survey, 33 per cent were planning to act on the TCFD recommendations and 34 per cent were 'thinking about it', including some schemes larger than £5 billion.

Trustees were asked how their pension schemes verify and manage climate risks. Only 11 per cent said they independently verify ESG risks, with 42 per cent relying on consultants and 38 per cent relying on their asset managers. Just 2 per cent relied on custodians, despite them being well-placed to provide strong governance oversight.

Likewise, only 10 per cent of respondents said they had a dedicated resource to screen ESG and climate risks, with 43 per cent relying on consultants and 34 per cent on asset managers.

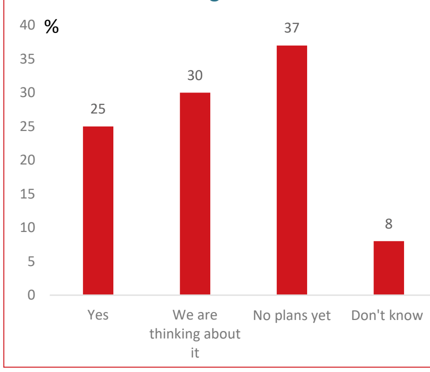
Climate risks impact schemes of all sizes, yet independent verification remains the purview of large schemes; the survey found the majority of schemes that undertake independent verification had assets of more than £1 billion.

CACEIS UK managing director, Pat Sharman, points to a "misalignment between pension schemes and asset managers". She adds: "For me, this reinforces the importance of pension schemes creating their own independent viewpoint of how their investments are impacted by the physical and transition risks of climate change."

Net zero targets

In the G20 group of advanced economies, 18 governments and one-third of companies have committed to targeting net zero emissions by 2050, according to the Energy & Climate Intelligence Unit. However, the survey found only 25 per cent of schemes are actively pursuing net zero. Another 30 per cent said they were 'thinking about it', while 37 per cent said they had no plans to do so.

Is your scheme going to adopt net zero targets?



"Companies are updating their plans to decarbonise in the future and reach net zero," says Sharman. "As an industry we need to be proactive in using this information to manage our investment decisions."

Sharman adds that data challenges "shouldn't stop the pensions industry taking action" as the quality of data was "improving rapidly".

Written by Brian Gorman, a freelance journalist

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