

TCFD reporting: inconsistent data, unreliable information and questions about fiduciary duty lingers on for pension funds

- **Most pension funds are not yet using TCFD to inform and drive their climate investment strategy.**
- **Pension funds would benefit from clearer guidance from UK government on balance between climate change and risk-adjusted returns.**
- **75% of pension funds use investment consultants to interpret data for Task Force on Climate-related Financial Disclosures (TCFD) reporting.**
- **TCFD reporting concerns left unaddressed runs risk of being seen as a compliance obligation only.**

London, 8 February 2023: Pensions for Purpose, the fast-growing organisation which helps pension funds invest for impact, has released [a new white paper sponsored by Redington](#), the leading independent investment consultant, providing insights and highlighting challenges concerning the TCFD reporting process for pension funds.

The research reveals the importance pension funds place on the proper training of board members on climate risk management, but found challenges persist around unreliable or limited data, credibility of carbon offsets and inconsistent metrics between asset classes. Complexities around climate risk calculations were also cited.

The research paper aims to improve the understanding of TCFD reporting for pension funds and highlight areas for improvement. It covers the four critical areas of TCFD regulation: Governance, Strategy, Risk Management, and Metrics and Targets.

Anastasia Guha, Global Head of Sustainable Investment for Redington said: “Climate risk is an investment risk in the portfolio - that's why the regulations were put in place - to get pension funds to use the TCFD framework to uncover what level of climate risks they are exposed to and set targets to reduce these. However, it's easy to fall into a compliance mindset so we encourage asset owners going through the TCFD process to always concentrate on what matters most, to look for actionable data and advice in this area, and not to let this become an expensive box-ticking exercise.”

Governance

Karen Shackleton, Chair and Founder of Pensions for Purpose said, “Many pension funds stress the importance of training the board on climate risk management, with investment consultants often being seen as the best trainers.”

The research shows 75% of pension funds use their investment consultants to interpret data for TCFD reports, while the remainder either ask their asset managers for the data or go directly to data source providers for improved data integrity.

Climate change has also raised questions about fiduciary duty, with some advocating for risk-adjusted returns and others for considering the long-term impact on the world.

“More government guidance for TCFD reporting on climate risk, as part of their investment risk assessment, would help trustees balance the pursuit of risk-adjusted returns with climate responsibility,” Shackleton added.

Strategy

The report found that most pension funds are not yet using TCFD to inform and drive their climate investment strategy, "Partly due to limitations in data and partly due to the infancy of TCFD reporting, with some only viewing it as a compliance obligation," said Shackleton.

The reasons cited for this include unreliable data, the infancy of TCFD reporting and a feeling that the rules place too much emphasis on the pension fund instead of companies. Carbon offsets are not widely used in TCFD reports due to questions about their credibility and, while most pension funds see scenario analysis as useful, it currently has limited application. "The UK's Department for Work and Pensions made TCFD reporting mandatory to drive change in climate action but there was no strong evidence of this, from the pension funds that we interviewed," said Karen.

Risk Management

The report also notes there is a mismatch between assessment and mitigation of climate risks. Karen Shackleton commented that, "pension schemes are finding the effort to calculate climate risk disproportionate to the effort to address it."

Metrics and Targets

Cameron Turner, the research analyst on the report, said "The primary issue in using TCFD reports for pension funds is data. The challenges include inconsistent data between asset classes and difficulties in comparing data from different asset managers, conflicting views on whether to calculate scope 3 emissions, worries over improvements in data quality increasing the reported carbon intensity of the portfolio, skewed emissions data due to market-value-based emissions intensity metrics, and the use of rolling back data which can alter it."

20 corporate pension schemes contributed to the research along with five LGPS, two asset managers and two investment consultants.

ENDS

NOTES TO EDITORS

Link to research: [One year on - TCFD reporting for pension funds](#)

About Pension for Purpose:

Pensions for Purpose exists as a bridge between asset managers, pension funds and their professional advisers, to encourage the flow of capital towards impact investment.

Impact investments are investments that align with the environment and society. Pensions for Purpose seeks to empower pension funds through our online member platform, from which we deliver training, afternoon teas and events, member forums and a unique Knowledge Centre.

About Redington:

Redington is a purpose-driven firm on a mission to help make 100 million people financially secure – for the benefit of people and planet.

As an independent investment consultancy, we provide a full range of outcome-oriented advice, high-conviction manager research, sustainable investment expertise, clear reporting, and cutting-edge technology to some of the largest institutional investors and wealth managers across the UK, and Europe.

Our philosophy is to begin with the end in mind – ensuring everything we do is aligned with our clients’ objectives. Our tried and tested framework-based approach to advice helps our clients make better-informed decisions that are focused on achieving the best possible outcomes for their end beneficiaries.

About Anastasia Guha, Global Head of Sustainable Investment at Redington:

Anastasia Guha is Global Head of Sustainable Investment at Redington and responsible for leading the firm’s global sustainability strategy. She joined Redington in June 2021.

She is a sustainable investment specialist with over 15 years’ experience, 10 of which were at the United Nations-supported Principles of Responsible Investment, where her most recent role was as Director of Northern Europe Middle East and Africa, leading a team supporting over 200 asset owners in their implementation of ESG criteria in investment strategy, allocations and stewardship decisions. Prior to the PRI she worked at Euromoney Institutional Investor and Fidelity.

She sits on the advisory group at Pensions for Purpose and is a working group member on the Glasgow Financial Alliance on Net Zero (GFANZ).

About Karen Shackleton, Chair and Founder of Pensions for Purpose:

Karen has worked in the finance sector for over 30 years. As well as being Founder of Pensions for Purpose, she is Deputy Chair of the Strategic Investment Board for the Ministry of Justice and a non-executive director and Chair of the Board of Resonance Ltd, a social impact investment company. She sits on the Advisory Council of the Impact Investing Institute.

Karen also provides independent investment advice to the London Boroughs of Islington, Camden, and Hounslow through MJ Hudson. She was the Chief Executive/Managing Director of AllenbridgeEpic Investment Advisers from 2010 to 2013. Prior to that, she had ten years’ experience as a fund manager and director for County NatWest and BZW Investment Management (now BlackRock).

About Cameron Turner, Research Analyst for Pensions for Purpose

Cameron graduated from Durham University with a degree in International Relations. In his final year he studied ‘Climate, Nature and the Global Economy’ and the critical role of global finance in the net-zero transition.

Prior to Pensions for Purpose, Cameron worked as an ESG analyst for Emerging Finsights, where he analysed quantitative and qualitative data to produce a monthly ESG article. He also worked as an intern for Excel Capital where he produced an ESG policy for an alternatives investment subsidiary, VEX Partners.

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