

The road from COP26 – what does it mean for pension schemes?

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PENSIONS FOR PURPOSE
Paris Alignment Forum

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Pensions for Purpose's quarterly All Stakeholder event for the Paris Alignment Forum, sponsored by Redington and Invesco.



Paris Alignment Forum All-Stakeholder Events

The Paris Alignment Forum runs quarterly events which are open to all members. In our first event of 2022, Kerry Perkins, Head of Capital Markets at Accounting for Sustainability (A4S) reflected on COP26 and set the scene for the year ahead. Tegs Harding, ITS and Doug McMurdo, Bedford Pension Fund, joined Kerry to provide some practical insights into the “on the ground” activity that private sector schemes and local authority pools are pursuing and how pension funds can work together.

Keynote address

The road from COP26 – what does it mean for pension schemes?

Kerry Perkins

Kerry is Head of Capital Markets and Accounting for Sustainability (A4S) which was established by HRH The Prince of Wales in 2004 to transition finance deliver a more sustainable future. A4S do this by engaging at senior level to encourage more resilient business models. Key areas of work in pensions are the [Asset Owners Network](#) and the [ESG Toolkit](#) for Pension Chairs and Trustees. The main points from Kerry's address are set out below.

Was COP26 was a success or a failure?



- It helped increase momentum for the climate transition
- There was a surge in climate aligned finance commitments, e.g., \$130 trillion assets committed
- IFRS International Sustainability Standards board paved the way to more consistent reporting
- Bi-lateral agreements outside COP26 on methane and deforestation
- Formal negotiations included the first ever mention of coal and requirement to revisit 2030 targets by the end of this year, doubling of adaptation funding
- However, tension between developed and emerging economies was notable and the change from “phase out” to “phase down” of unabated coal was disappointing.

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What can we expect this year?



- We will move from headlines to detail this year: e.g., detail around 2030 interim targets
- Pro-active finance of real economy transformation: we may see a record-breaking year for new green investment products
- Stewardship and active ownership will play a key role
- The focus will move to the Just Transition – considering economic and social impacts. For example the Scottish Government’s [Just Transition Commission](#) and the All Party Parliamentary Group on local authority pension funds inquiry into [Responsible investment for a just transition](#).
- Rising “people-led” movement through organisations such as [Make My Money Matter](#).
- The regenerative economy: understanding the interconnectedness of economies, nature and people. For example, [COP15 on Biological Diversity](#) this year.

Practitioner experience

Top tips for pension schemes

Kerry Perkins Tegs Harding, and Doug McMurdo



Kerry concluded her address by setting out some top tips for pension schemes. She highlighted free resources such as the [A4S ESG Maturity Map](#) and the [ESG Toolkit](#) for Pension Chairs and Trustees.

Kerry then welcomed Tegs and Doug to outline their own ‘on the ground’ experience and top tips.

Tegs discussed how she has seen private sector schemes successfully address the climate transition and ESG considerations. Key steps are included in the table opposite. Importantly she explained how small schemes can also take action, for example in evolving their equity portfolios and adopting ESG index approaches.

Doug demonstrated how public sector schemes and local authority pools are addressing the climate transition. He emphasised the importance of articulating investment beliefs and sticking to them... and using them at every stage in the investment process. He also

Top tips

Get started!

- Work out where you are
- Use resources such as A4S’s [ESG Maturity Map](#)
- Set a governance framework – consider an ESG sub-committee

Set a policy

- Work with the sponsor
- Use existing frameworks e.g. TCFD and IIGCC net zero framework.
- Work with other pension funds to share and leverage work

Set priorities

- Gap analysis of portfolio vs policy

Integrate and build

- Manager selection criteria
- Build into investment

Make someone accountable

- Who is accountable for what?
- Set reporting metrics and targets

Communicate

- Tell members what you’re doing and what you plan to do

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discussed the approach to a Just Transition, referencing the work of the All-Party Parliamentary Group for Local Authority Pension Funds on the Just transition ([APPG – A Just Transition](#)).

Q&A Session



The session was opened to the floor for a Q&A. Key questions that were discussed included:

- **Is more cross-industry collaboration needed?** There was a sense that many parts of the industry are very similarly minded but still working in silos and pension fund members can be better served if funds work together. For example, public sector funds and pools, private sector DB funds, DC Master trusts and charities have much to learn from each other.

“Without working together, there is a risk that the financial sector is perceived as not caring which couldn’t be further from the truth”

The [Asset Owner Network](#) run by A4S represents one forum where the pensions industry can contribute to the melting pot of ideas, share stories and exert influence.



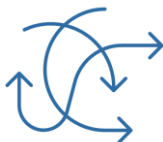
- **How can sponsors and Trustees work together?** In the same vein as cross-industry collaboration, it was recognised that pension fund sponsors may have invested in developing climate policies and net-zero frameworks and Trustees can often leverage off that work.

Breakout room discussions

Our sponsors Invesco and Redington hosted six small-group breakout discussions. The discussions included asset owners, consultants and asset manager representatives and provided a great opportunity to share experience and engage in vigorous debate. Discussions focussed round three questions:



1. What are the main challenges facing you in 2022 in terms of progressing climate action for your pension fund, or for strategies that you offer to pension funds?



2. What tangible actions might a pension fund take to address these headwinds, in advance?

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3. Are there ways in which public sector and private sector pension funds could work together to leverage their knowledge and experience on climate action?

Key points from the breakout discussions were outlined in feedback to the main forum and included:

Data challenges

- Consistent access to robust data across the industry is a challenge and pension funds advocated going direct to companies where data is lacking.

Real economy vs portfolio decarbonisation and the importance of engagement

- Strong feedback from participants was that real economy decarbonisation is needed to generate genuine change rather than “ticking boxes”. To achieve this, owning and holding carbon intensive industries is necessary to influence and encourage genuine change (not just sell their carbon intensive assets).

Need to voluntarily take the lead

- A common theme was around changing mindsets and, rather than reacting to regulation, all parts of the industry need to voluntarily take the lead.

Acknowledging that there may be a first mover investment advantage

- Climate-change is a threat and a risk for pension funds; at the same time, the climate-transition could represent an opportunity and there may well be a “first mover” advantage for those investors that move quickly. Indeed, a number of asset managers now talk about the “climate transition alpha” – additional returns from skilled climate risk management.

Measurement and the relevance of traditional measures such as tracking error relative to a market cap index

- It is still common to measure portfolio performance relative to market cap indices using metrics such as tracking error. The question was raised around the relevance of traditional approaches like this. Traditional approaches may no longer be fit for purpose because they don’t embed current thinking around the environment as a limited resource and the interaction between social and economic systems.

Getting investor “clout”

- There is a need to find a way for smaller funds to unify their voting so that they can exert as much clout as possible. There have been encouraging developments in this area following the work of the [Taskforce On Pension Scheme Voting Implementation](#).



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BLOG: Paris Alignment Forum: *All-Stakeholder Event*

Would you like to join future events?

The Paris Alignment Forum hosts a range of events including online interactive training; afternoon tea discussions; Chatham House asset-owner discussions as well as the quarterly all-stakeholder meeting. Please see the [Paris Alignment Forum Home Page](#) for details of future events.

If you are an asset owner or independent trustee/adviser, and would like to join us, please by complete the Affiliate application form [here](#). If you are an asset manager/consultant/lawyer or climate specialist, and would like to receive information about future Paris Alignment Forum events, or if you would like to consider sponsorship, please e-mail [Mike Rogers](#).

Mike Rogers

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