

Addressing climate change: An action plan for DB schemes

October 2020

The financial consequences of the climate crisis are already being felt and, if unchecked, its future impact will dwarf anything experienced to date. Action on climate change can no longer be delayed.

As major long-term investors, pension schemes and their members' future financial wellbeing are at risk. The scale and complexity of the issue mean that a tick-box exercise will not suffice. The good news now is that there is a range of practical steps available to help address the risks – and opportunities – generated by climate change.

Here, we pull together those steps into a nine-point action plan that will enable DB trustees to:

- understand climate-related risks and opportunities and assess their financial materiality;
- manage these risks and opportunities appropriately; and
- demonstrate to your members, the regulator and others that you are taking the meaningful action required.

For help tailoring this action plan for your scheme, please contact your usual LCP adviser.

Topic	Action	Questions to consider
Training 	Ensure you have sufficient knowledge of climate topics	<ul style="list-style-type: none"> • Are you familiar with concepts such as physical impacts, transition impacts, stranded assets and carbon footprinting? • Do you understand their relevance to pension scheme investments and funding strategy? • Do you know what is expected of DB schemes regarding climate change, and how these requirements are likely to develop?
Scenario analysis 	Investigate the financial impacts of different climate pathways	<ul style="list-style-type: none"> • What might be the impact of (say) a 2°C and a 4°C climate scenario on your scheme's investments, funding position and covenant strength? • How does uncertainty about the magnitude and timing of climate impacts (including on insurer pricing) affect your journey planning? • What contingency plans could you put in place?
Sponsor dialogue 	Discuss how climate change is reflected in your sponsoring employer's business strategy	<ul style="list-style-type: none"> • How might the sponsor be affected by transition and physical impacts, and over what timescales? • Is the sponsor taking effective action to reduce its climate risks and pursue opportunities? • Are there any reputational risks arising, for example, from inconsistencies between your climate approach and that of the sponsor?
Investment beliefs 	Include climate change explicitly in your investment beliefs	<ul style="list-style-type: none"> • How do you expect physical and transition impacts to affect the economy and financial markets? • To what extent do you think these impacts are already reflected in asset prices? • Which investment approaches do you consider appropriate for addressing climate change, eg active vs passive, engagement vs divestment?

Topic	Action	Questions to consider
Manager oversight 	Probe the approach to climate change in your investment manager selection and monitoring	<ul style="list-style-type: none"> • How is the manager addressing climate risks and opportunities? • Is the manager's approach effective and consistent with your investment beliefs? • What plans does the manager have for evolving its approach?
Climate-aware investments 	Consider low carbon alternatives	<ul style="list-style-type: none"> • Do your managers offer low carbon alternatives for your current strategies? • For passive strategies, should you track a low carbon index? • Are there opportunities to invest in climate solutions, eg renewable energy, energy efficiency, sustainable transport?
Metrics and targets 	Monitor and improve your portfolios' climate exposure	<ul style="list-style-type: none"> • For each portfolio, what is your exposure to greenhouse gas emissions, fossil fuel reserves and climate solutions? • How does each portfolio's exposure compare to the average and leading strategies in its asset class? • What targets could and should you set to improve these exposures over time?
Risk register 	Document climate risks and develop mitigating actions	<ul style="list-style-type: none"> • Which climate-related risks does your scheme face over the short, medium and long term? • How might these risks affect your sponsor's covenant, your investments and funding position, and how might the effects interact? • Are you taking sufficient action to mitigate the risks?
Disclosure 	Report to members and others on your progress	<ul style="list-style-type: none"> • Will your public disclosures about your climate approach (eg in your Statement of Investment Principles) stand up to scrutiny? • Should you include information about climate change in member-friendly communications? • Will you be required to produce detailed disclosures of your climate approach and, if not, will you do so voluntarily?

Want to find out more?

If you would like further information, please contact the partner who normally advises you.



Claire Jones
*Partner and Head of
Responsible Investment*

Claire.Jones@lcp.uk.com
+44 (0)1962 873 373



Ian Gamon
Partner

Ian.Gamon@lcp.uk.com
+44 (0)1962 872 718



Sapna Patel
Investment Consultant

Sapna.Patel@lcp.uk.com
+44 (0)20 7432 0679



Emma Douglas
Investment Consultant

Emma.Douglas@lcp.uk.com
+44 (0)20 3824 7246

This note is not, nor is it intended to be, a comprehensive guide to the topics discussed. The note should not be relied upon as advice, nor taken as an authoritative statement of the law. Lane Clark & Peacock LLP can take no responsibility nor accept any liability for your use of material in this document and no decisions should be taken as a result of this document.

At LCP, our experts provide clear, concise advice focused on your needs. We use innovative technology to give you real time insight & control. Our experts work in pensions, investment, insurance, energy and financial wellbeing.

All rights to this document are reserved to Lane Clark & Peacock LLP ("LCP"). This document may be reproduced in whole or in part, provided prominent acknowledgement of the source is given. We accept no liability to anyone to whom this document has been provided (with or without our consent). Lane Clark & Peacock LLP is a limited liability partnership registered in England and Wales with registered number OC301436. LCP is a registered trademark in the UK (Regd. TM No 2315442) and in the EU (Regd. TM No 002935583). All partners are members of Lane Clark & Peacock LLP. A list of members' names is available for inspection at 95 Wigmore Street, London W1U 1DQ, the firm's principal place of business and registered office. The firm is regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities. The firm is not authorised under the Financial Services and Markets Act 2000 but we are able in certain circumstances to offer a limited range of investment services to clients because we are licensed by the Institute and Faculty of Actuaries. We can provide these investment services if they are an incidental part of the professional services we have been engaged to provide.