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The first wave of TCFD reporting by DC Master Trusts

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Introduction to the DCIF

Defined Contribution Investment Forum

- Consortium of 14 asset managers researching DC issues
- Publishes research and thought leadership on DC investment
- TCFD work presented today was in two parts:
  - A series of interviews with industry participants
  - An analysis of the TCFD reports of DC Master Trusts
- Find out more at dcif.co.uk

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Reminder of TCFD

Taskforce for Climate-Related Financial Disclosures

Governance

Strategy (Scenario analysis)

Risk management

Metrics and Targets

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Interviewing the industry and stakeholders

Policy & regulation
- DWP
- tPR

Master Trusts
- NEST
- Fidelity

Managers
- JP Morgan
- First Sentier
- Invesco
- abrdn
- Baillie Gifford

Consultants
- Hymans Roberson
- Barnett Waddingham

Trade body
- UK SIF

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Interviewing the industry and stakeholders

- The purpose of TCFD – achieved
- The timing is messy but necessary
- Data is the biggest concern
- Scenario analyses may be misleading
- The role of the pension scheme is to engage

- Members are very unlikely to read TCFD reports
- Carbon offsetting
- Biodiversity and TNFD
- The risk of putting impact into the periphery
- Who is the TCFD report written for?

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Reports analysed

- The Aon Master Trust – Aon
- Aviva Master Trust – Aviva
- Cushon Master Trust – Cushon
- The Crystal Trust – Crystal
- Legal & General* – L&G
- LifeSight – LifeSight
- Mercer Master Trust – Mercer
- National Employment Savings Trust – NEST
- NOW: Pensions Trust – Now
- National Pensions Trust – NPT
- Scottish Widows Master Trust – ScotWid
- The SEI Master Trust – SEI
- Smart Pension Master Trust – Smart
- The People's Pension – TPP

*WorkSave Master Trust and Legal & General WorkSave Master Trust (RAS)

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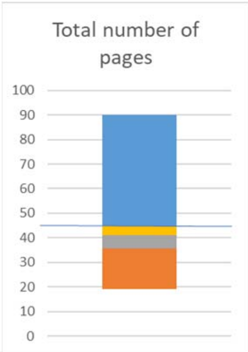
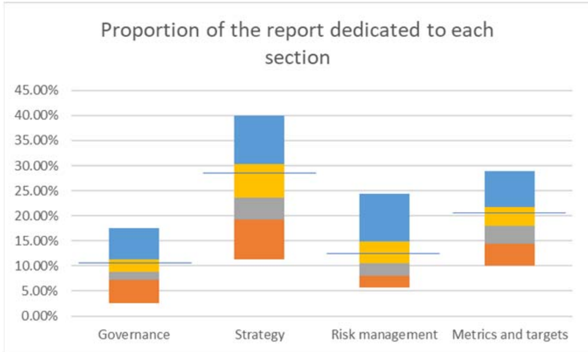
Overview

Large variations in the length and style of the reports.

Governance the shortest section and strategy (inc Scenario analysis) the longest.





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Governance

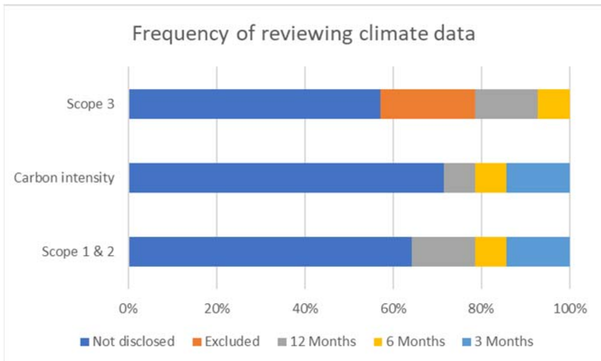
Half of schemes described no delegations from the Board.

Five schemes delegated to their investment committee only.

NOW include "Audit, Risk and Compliance"; and Crystal include "Operational & Compliance and Development"

Only Mercer and L&G mention the executive committees from delegations to the sponsor.

Few schemes described how often they look at climate data.



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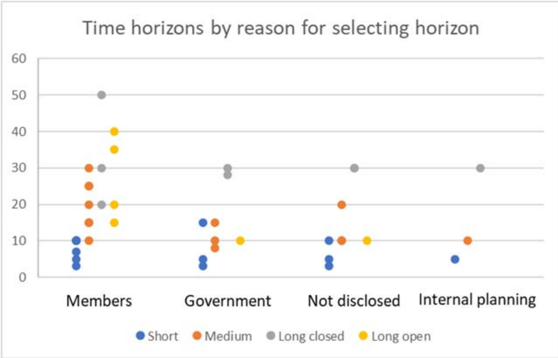
Strategy

- 43% made changes to asset allocation
- 93% made changes to weights within allocations
- 64% make exclusions
- 7% use carbon offsetting

No schemes looked at the covenant of their employers

There was a large variation in time horizons considered.

Much of the variation is explained by the reason for selecting the horizon with those thinking about members selecting the longest



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Scenario analysis

Framing impacts

- 50% used returns
- 29% used member pot sizes
- 7% used both
- 7% used emission pathways and carbon budgets
- 7% used subjective scoring

Impossible to compare impacts between schemes:

- Different time horizons
- Different scenarios
- Different methodologies

If the purpose is to make these comparable by the public, government needs to intervene.

Very confusing to read any one of the reports. What does a CVaR of 27.86% mean?

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Risk management

Only 57% included a risk matrix.

14% had only two risks ie “physical” and “transition”.

7% had 32 risks.

No real discussion of whether risks were accepted or what controls were applied.

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Measures

Scope 3:
- 21% included Scope 3 emission in their reporting.

Emissions intensity
- 65% used footprint as their primary measure
- 35% used WACI as their primary measure

Are the figures useful?
- NEST disclose equities at 85 tonnes CO2e/£m and cash at 2,983 tonnes CO2e/£m
- TPP provide a 160% range depending on what provider you pick

Not possible to compare like with like. Today, if you diversify away from equities you increase your emissions, but is this true?

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Targets

Net zero:
- 28% have not set a net zero target.
- Most are at 2050 – this is too far ahead for the regulated target.

2030 target
- Most schemes made emissions intensity reduction in 2030 their target
- Range was from 60% to 45% vs 2019.

Non-emissions-related targets:
- Data coverage
- Engagement and voting
- Paris-alignment of portfolios

Sense that non-emissions-related targets are more tangible, while being harder to communicate.

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Conclusions of the analysis

What have I learned?
- Difficult job to pull this together in the first year. Reports reflect a lot of work.
- Comparability is very low.
- Very hard to assess whether schemes are on-track for COP goals or ahead or behind their peers.
- More focus on risk and communicating plans in future years required.

Who is the TCFD report written for?
- Very hard to answer this question. Every scheme would probably have a different answer.
- Was the effort in writing report vs doing the work on managing climate risk necessary?

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Recommendations

- Centralise emissions data approaches
- Centralise scenario analysis and improve comparability

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Questions **Comments**

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