WIRRAL COUNCIL

PENSIONS COMMITTEE

22 JUNE 2021

REPORT TITLE:	**TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURE (TCFD) REPORTING**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

The purpose of this report is to provide Members with information on the Fund's current arrangements in relation to Taskforce on Climate-related Financial Disclosure (TCFD) requirements.

RECOMMENDATION/S

That the Pensions Committee be recommended to note the report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

1.1 It is important that Members are aware of anticipated regulatory changes and the pension fund's reporting arrangements.

2.0 OTHER OPTIONS CONSIDERED

2.1 Not relevant for this report.

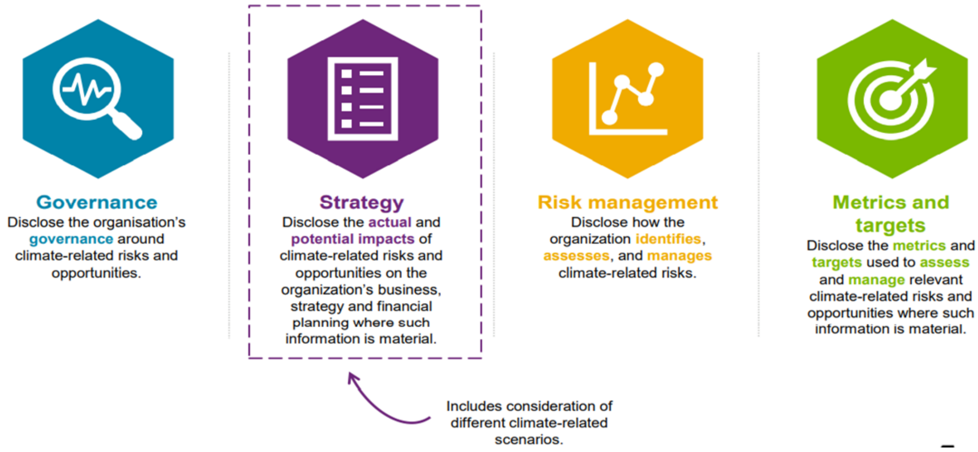
3.0 BACKGROUND INFORMATION

3.1 Members will be aware from reports to this Committee that the Fund has been actively developing its approach to the management of climate risk and a number of actions have been taken and implemented over the past five years.

3.2 One of the provisions in the recently enacted UK Pensions Schemes Act 2021 was requirement for trustees to ensure there is effective governance of schemes with respect to the effects of climate change, and to publish information relating to the effects of climate change on the scheme. This provides the legal framework for requiring trustees to make disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This applies only to pension funds in the private sector. It is expected that MHCLG will consult on TCFD for the LGPS later on this year with reporting required in annual reports from March 2023.

3.3 Addressing the systemic challenges of climate risk has been at the forefront of the Fund's responsible investment work. The Financial Stability Board's (FSB) Taskforce on Climate-related Financial Disclosure (TCFD) provides a global framework to translate non-financial information into financial metrics. The Fund has included a TCFD statement in its previous two annual reports and intends to continue with that practice with this year's report which is in preparation.

3.4 The TCFD has structured its recommendations around four pillars:



3.5 Some of the priority actions suggested for asset owners in the near term include:

Governance: review governance arrangements to ensure there is effective board level oversight and internal management processes are in place to effectively manage the climate-related risks and opportunities.

Strategy: begin the process of analysing portfolio resilience to climate-related scenarios, including a 2 degree or less outcome.

Risk management: assess the potential financial materiality of climate-related risks on the investment portfolio and evaluate the actions that need to be taken to mitigate these risks, as well as capturing new opportunities.

Metrics: measure GHG emissions where data are available or can be reasonably estimated, for each fund or investment strategy.

Engagement: engage with companies and external fund managers, to encourage greater transparency and alignment with the TCFD recommendations.

Disclose: publicly disclose all of the above actions and outcomes in annual reports and the climate risk in PRI's reporting framework.

3.6 The appendix to this report provides an extract from the Fund's annual report in relation to TCFD reporting. It is anticipated that mandatory reporting requirements will be more stringent.

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising directly from this report.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report.

6.0 RESOURCE IMPLICATIONS: STAFFING; ICT AND ASSETS

6.1 Once introduced formally, the reporting requirements will place additional demands on staff and information technology systems in measuring, collating and reporting data.

7.0 RELEVANT RISKS

7.1 A failure to provide Pensions Committee with information on legislative changes and the Fund's activities could hinder the Committee in fulfilling its statutory requirements.

8.0 ENGAGEMENT/CONSULTATION

8.1 There has been no consultation planned or undertaken for this report. There are no implications for partner organisations arising from this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from the report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 Reporting under TCFD guidelines is an important element of the Fund's approach to the management of climate risk .

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APPENDICES

Appendix 1 – extract from MPF 19/20 annual report.

BACKGROUND PAPERS

https://www.fsb-tcfd.org/publications/

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

Merseyside Pension Fund - TCFD Statement as at 31 March 2020

Governance

The Pensions Committee (as the Fund's governing body) has mandated that MPF's investment strategy be brought into line with the goals of the 2015 Paris Climate Accord. It has delegated authority to the Director of Pensions to develop and implement the climate risk strategy (as informed by relevant guidance especially from partner organisations such as IIGCC, PRI and the LAPFF) and receives regular reports on progress.

Strategy

MPF's strategy is based on the view that climate change is a systemic risk and thus, a material long-term financial risk for any investor that must meet long-term obligations. The Fund has completed work on reviewing its investment beliefs and strategic framework (including asset allocation policy) to ensure that climate risk considerations are appropriately integrated.

Climate scenario analysis was undertaken by Aon (the Fund's strategic adviser) to model the resilience of MPF's investment strategy in four scenarios, as described in Aon's Climate Change Challenges paper. Under Aon's No Mitigation scenario (+4 degrees of warming), the severity of the risk was starkly illustrated:

- in 20 years, MPF's assets could be worth £9.5 billion less than assumed in the base case, equivalent to 26 years of projected 2020 pensioner out-go;

- 6% p.a. under-performance of the equity portfolio relative to the base case equity return over 20 years, equivalent to a 3.7% p.a. hit to overall expected returns over 20 years.

Risk Management

MPF acknowledges the description of climate risk provided by TCFD, as comprising transition and physical risks. The focus of risk management activity has been primarily on the mitigation of transition risk via ongoing decarbonisation efforts.

Targets and Metrics

Analysis of the equity portfolio, undertaken as at 31 December 2019, showed moderate carbon risk exposure measured at 6.8% lower than the portfolio's strategic benchmark (Scope 1 & 2 emissions):

Portfolio carbon foot-print - 172.0 tonnes of CO2E/$M sales

Benchmark carbon foot-print - 184.5 tonnes of CO2E/$M sales

Source: Aon/MSCI

The Fund will continue to allocate to the low carbon economy through the unlisted, illiquid segment of its strategic benchmark: primarily, via the allocation to infrastructure where renewable energy and other low carbon aligned areas offer significant opportunity. The allocation to infrastructure is set to increase significantly (from 7 to 11% approx.) as part of the Fund's revised strategic asset allocation.

Climate stewardship

As active members of the global Climate Action 100+ initiative, MPF has been supporting a number of prominent engagements with 'high carbon' companies with the objective of driving strategic change in these businesses to align them with the goals of the Paris Agreement. In addition to this, MPF was a co-filer of a climate resolution at a leading European bank's AGM that called for its lending practices to be brought into line with a net zero carbon pathway and increase the pace at which the financing of future carbon emissions will come to an end.