

FIRST DRAFT – TCFD Consultation Response

Question 1: Do you agree with our proposed requirements in relation to governance?

- We feel that placing legal duties on the pools would be a more pragmatic and cost-effective form of implementation of the governance requirements. For Administering Authorities (AA's) that have adopted a full-pooling model, effectively outsourcing their investment management function to the pool, the proposed requirements may lead to inefficiency. Pools already have strong governance and ESG procedures in place, and for AA's to place greater reliance on this will lead to better efficiencies and economies of scale. We feel this may even encourage funds with a low commitment to pooling to increase that commitment. Putting additional duties directly on the AA will cause additional consultancy and advisory cost commitments externally that may be more efficiently serviced by the pools.

Question 2: Do you agree with our proposed requirements in relation to strategy?

- Generally yes, as the AA's are in control of the strategic direction of the fund (ISS/FSS policy documents). We do feel, however, that placing greater legal duties on the pools will help to build that from an allocation and manager selection perspective enabling overall strategy to be consistent with operational investment decision making and with no contradiction.

Question 3: Do you agree with our suggested requirements in relation to scenario analysis?

- Yes, this seems pragmatic, but could lead to inefficiencies if AA's are all procuring their own consultants independently to carry out such analysis. If pools were to have a legal duty to undertake this analysis for all of its underlying holdings (then splitting up those up per client), this will not only generate economies of scale but actually encourage full pooling which will save AA's having to procure additional work externally for non-pooled assets. We feel that putting additional duties on the pools will serve a cross-purpose of financial savings as well as supporting the departments underlying mandate to increase pooling across the LGPS

Question 4: Do you agree with our proposed requirements in relation to risk management?

- Yes, but we would encourage CIPFA to publish prescriptive guidance that can be followed by the LGPS funds. We currently use CIPFA's 2018 model "managing risks in the LGPS" and would encourage this be updated to encapsulate the proposed TCFD risk management processes.

Question 5: Do you agree with our proposed requirements in relation to metrics?

- Yes, but we would encourage these to be reviewed regularly and updated if new more appropriate metrics become available.

- We would encourage pools to ensure the agreed metrics are mandated as part of manager selection and asset allocation decisions as this is where we place reliance. Again, mandating this within pools selection processes will likely encourage increased pooling commitment and reduce inefficiencies across the LGPS.

Question 6: Do you agree with our proposed requirements in relation to targets?

- We completely agree with the statement “There is no expectation that AAs should set targets which require them to divest or invest in a given way, and the targets are not legally binding.” – as the Fund’s fiduciary duty to pay pensions when they fall due must always take precedent. Funds will be able to set more aggressive targets depending on their funding level and affordability, with those on the lower end of the funding spectrum having to prioritise returns.

Question 7: Do you agree with our approach to reporting?

- With the contents, yes, with the responsibility for producing the report we feel that more ownness could be placed on the pools. For funds that have effectively outsourced the investment management function to the pool, this will require additional hiring internally to facilitate the production of the comprehensive report, this can be avoided by placing the commitment on the pools to report on behalf of their clients/shareholders.
- We do have concerns that some of the reporting is backward-looking and this should not be a burden that is done for its own sake but instead as a guide for future action and transition plans, we therefore feel that more emphasis could be put in the strategy requirements rather than the reporting requirements.

Question 8: Do you agree with our proposals on the Scheme Climate Risk Report?

- Yes – subject to CIPFA risk guidance being updated as detailed in our response to question 4

Question 9: Do you have any comments on the role of the LGPS asset pools in delivering the requirements?

- Generally, more legal requirements could be placed on the asset pools. As discussed in our response to the other questions and the general theme across this consultation response, increasing the requirements on pools will likely reduce inefficiencies, increase value for money and promote a more consistent approach than having each of the 86 AA’s separately implement the TCFD requirements.
- We are not suggesting that AA’s be absolved of any duty in this regard, but instead that pools have a greater legal and reporting responsibility meaning AA’s can rely upon the work of the pools. This will likely encourage increased pooling commitment, especially important for those AAs that are resistant to pooling

Question 10: Do you agree with our proposed approach to guidance?

- Yes, but CIPFA guidance around risk management as well as the statement of accounts / scheme annual reports (if applicable) would be helpful in addition.

- We feel that it is imperative that duplication is minimised, for example, pools are required by the FCA to produce their own TCFD reports and the guidance proposal under this question refers to a SAB template. This means different reports based on different templates which may lead to wasteful duplication. It is important that the SAB template very closely follows any FCA template if it is not a carbon copy.

Question 11: Do you agree with our proposed approach to knowledge, skills and advice?

- Yes, but the statement “AAs will need to satisfy themselves that the advice is high quality and provided by appropriately qualified people” could be more practically ensured by placing legal responsibility on the pools. If this cannot be done directly, then a joint procurement approach should be strongly encouraged – either by the pools or another cross-LGPS initiative.

Question 12: Do you have any comments on the impact of our proposals on protected groups and on how any negative impacts may be mitigated?

- No, though equalities impact assessments are undertaken as a requirement alongside all LGPS reports and would therefore be considered in detail as reporting develops.