Pensions Aspects

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Edition 52 | December 2023

The impact of climate change on the pensions industry

Time for Governance-led Sustainability

Designing decarbonisation strategies

Celebrating The Pinnacle Awards

Pensions Management Institute
Moving pensions forward

Foreword

A Year of Pensions: A reflection of the past year with a view ahead

Tim Middleton
Director of Policy and External Affairs, PMI

We have finally come to the end of what has been a dramatic year for pensions, and it is worth pausing to take stock of the significant changes that have taken place.

One of the more interesting developments was legislation to expand scope for the establishment of Collective Defined Contribution (CDC) schemes. Whilst such arrangements remain controversial within the industry, they enjoy the confidence of both of the principal political parties, and it would appear that their role in workplace pension provision is now assured. Over time, a critical development would be the establishment of a CDC Master Trust, which would allow an automatic enrolment scheme to use defaults through induction and both accumulation and decumulation phases.

In contrast, one area which saw sharp disagreement in the political arena was tax relief for pensions. Whilst Jeremy Hunt had been expected to increase the Lifetime Allowance (LTA), his Budget wrongfooted all observers by announcing the abolition of the LTA altogether. Labour's immediate response was to commit to the LTA's reapplication. It would be interesting to see if a newly-elected Labour Government will carry out this pledge.

A major disappointment was the postponement of the launch of pensions dashboards. However, setting a new date of 31 October 2026 was surely the most pragmatic course of action and will give this exciting new initiative a far greater chance of success.

One development that has been the subject of universal industry approval was The Pensions (Extension of Automatic Enrolment) Act 2023, which received Royal Assent on 18 September. This long-awaited reform will see employees brought into auto-enrolment from age 18, and the removal of the lower earnings threshold will mean that those schemes using Qualifying Earnings as the basis for contributions will receive a significant boost to the amount invested. This will be of particular benefit to those with lower salaries, as a far greater proportion of their earnings will now be pensionable. However, the industry still hopes for further reforms with higher minimum contributions at the top of its wish list.

Perhaps the most interesting development was Jeremy Hunt's Mansion House reforms. These saw consultations relating to Defined Benefit (DB) funding, small pots, member choices on decumulation and regulatory changes for trustees. However, the most significant development was Mr Hunt's desire for the Local Government Pension Scheme (LGPS) and the Defined Contribution (DC) sector to invest in unlisted equities. Mr Hunt wishes registered pension schemes to pump £75 billion into the UK's start-up companies, and while the prospect of enhanced returns may seem tempting, the risks associated with investing in such a volatile asset class will be of concern to many trustee boards.

So, as 2023 ends, we prepare for what promises to be another eventful year in 2024. During this past year, we have seen so much happen - and fail to happen – and with a General Election expected in the New Year there is ample scope for further change to come.

And I said to the man who stood at the gate of the year:

"Give me a light that I may tread safely into the unknown".

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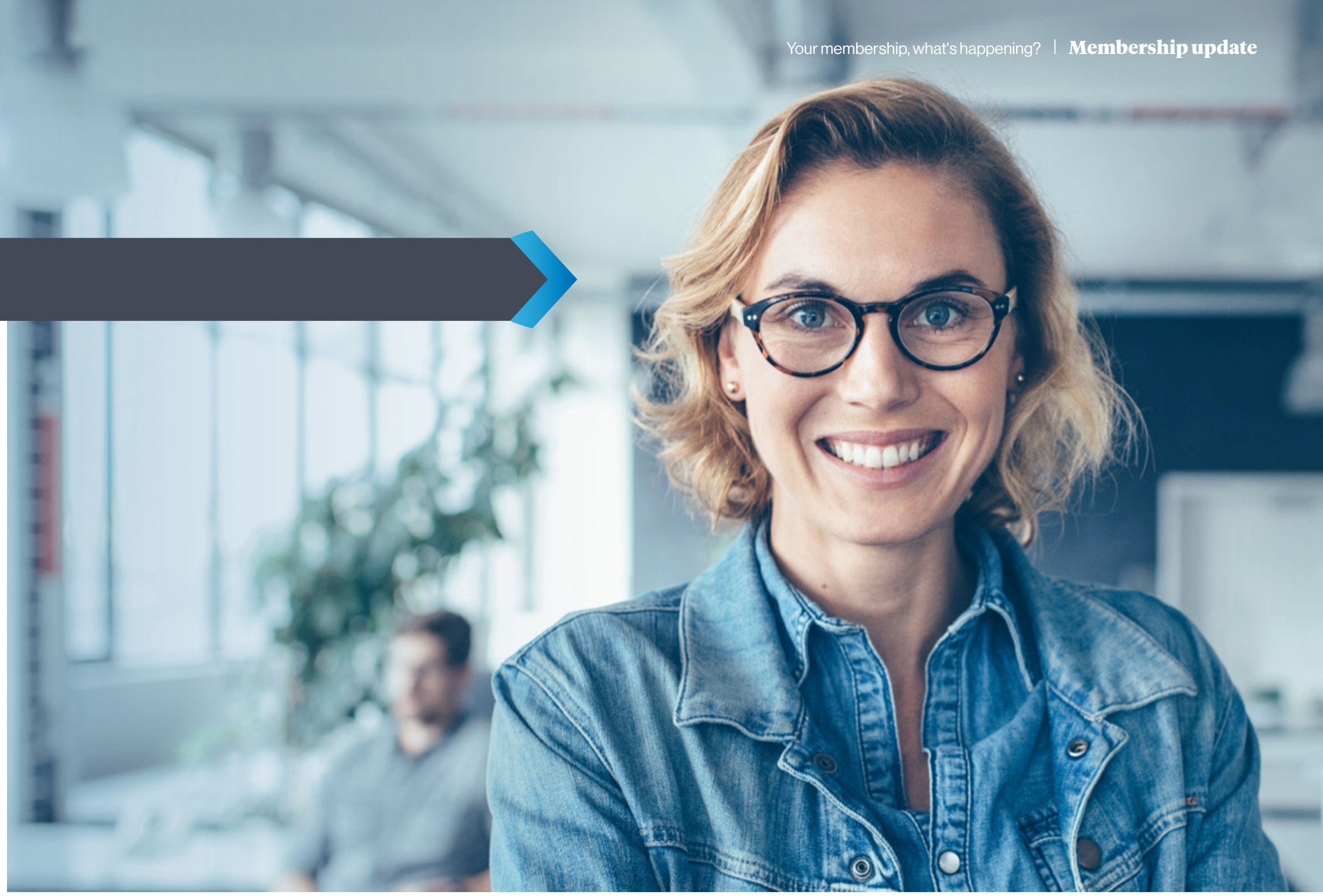
Membership update

Your membership, what's happening?



Your membership with the PMI

Thank you to all our members who renewed their membership for this year's membership cycle from the 1 September 2023 until 31 August 2024.

Your continued membership with the PMI allows us to allows us to support your professional development by enhancing your potential with respected employers and peers within the profession. We can help you to expand your network by attending our flagship events free of charge such as the upcoming ESG and Climate Summit 2023 and plenty more events all around the UK in 2024.

If you have not renewed, your membership will be lapsed and you will not be able to access your member benefits.

Please ensure your contact information is up to date via your 'My PMI' member portal. If you have any problems accessing the PMI member portal, please contact us.

CIPP- Affiliate Membership

We have partnered with the Chartered Institute of Payroll Professionals to deliver enhanced value to members of both organisations. The partnership will also support PMI members with payroll functions in their role and help those wishing to expand their own professional understanding of this area. All existing PMI members who would like the additional CIPP benefits included can have the CIPP - Affiliate membership bolt-on added for an extra £50 per annum.

Benefits include:-

- Access to CIPP Advisory Service – 12 enquiries per year
- Online Professional in Payroll, Pensions and Reward magazine
- Discount on CIPP training courses
- Payroll-related collateral
- Networking opportunities on CIPP's Specialist Interest Group
- CIPP's payroll jobs board
- Free attendance at online BeKnowledgeable webinars

To find out more about these CIPP benefits and the CIPP please check out CIPP's website here.

CPD 2023 Reminder to Associate and Fellow members

Continuing Professional Development (CPD)

Fellows and Associates are reminded that their 2023 CPD will be due on the **1st January 2024**. Meeting the PMI CPD requirement is compulsory (except where retired/non-working). Under our CPD Scheme, PMI members are required to record **at least 25 hours during the year**. Please log on to your member portal and update your CPD record.

Failure to complete may result in your membership being downgraded and you will lose your entitlement to exclusive APMI and FPMI member benefits such as the use of your designations, voting rights and opportunity to be elected to PMI's governing structures.

If you do need to make up any shortfall in 2024 please get in touch with us so we can advise you.

If you wish to record a self-declaration for CPD completed under the auspices of another professional institute, please download the self-declaration form – https://www.pensions-pmi.org.uk/media/i3kn2zv0/cpd-self-declaration-2020-121120.pdf and return this to the Membership team.

New Benefits

From 2024, complimentary access to the Trustee Group network for Fellow and Associate members.

Students who are completing the Certificate in Pension Trusteeship (CPT) can request complimentary access for the first year of their studies. Request your free membership for 2024 here.

Exclusive offer for PMI Trustee Group members

PMI Trustees can now access Aon's Pension Cyber Scorecard for trustee-based pension schemes.

Aon's cyber scorecard assessment is an invaluable tool that will give trustees and scheme managers a detailed assessment of where their scheme stands and a sound basis for decision-making. It is free for PMI Trustee Group members to use and has no expiry date. To find out more and sign up please check our dedicated webpage here.

Portfolio Institutional Subscription

We have partnered with Portfolio Institutional to offer all Associate and Fellow members a free monthly subscription to their magazine. More than 6,000 copies of their print magazine are distributed each month to pension fund trustees, asset managers, investment consultants and related industry readers. To find out more and request a free subscription click here.

Membership Initiatives update

Mentoring and Development Programme (Sponsored by People's Partnership)

We are thrilled to announce that the fourth programme has been a great success so far with **over 28 pairs** on track to complete the one year long programme which will finish 31 March 2024.

Applications will soon open for the next programme which will run from 1 April 2024 until 31 March 2025. If you are interested in signing up as a mentee or mentor please check out our dedicated webpage here.

A huge thank you to all our mentors. For many this is or third- and fourth-time taking part in our Mentoring Programme. Without the support from our senior members, we would not have the resources to continue running such a successful member initiative.

Recommend a colleague?

Know someone who would benefit from PMI membership but has not yet signed up?

Ask them to get in touch and if we can successfully onboard them you can both be eligible for a membership renewal price freeze at 2023 prices for your next renewal cycle.

PMI Academy Update

Retirement Provision Certificate Qualification, Competency Framework & Study Skills website

The PMI would like to highlight the Retirement Provision Certificate qualification as one of interest to potential new learners who are considering sitting an exam with the PMI. Furthermore, we would also like to highlight our Competency Framework page to help guide learners, and our new Study Skills website, to aid with revision techniques in preparation for our exams.

Retirement Provision Certificate:

The PMI would like to highlight the Retirement Provision Certificate as a qualification future/current learners may be interested in sitting with us.

The qualification is our 'gateway' qualification that covers a variety of topics and is not solely for pensions professionals, as it has been designed to meet the needs of a wide variety of people. This includes people who are: starting out a career in pensions, or related areas; those whose work involves one particular aspect of retirement provision, such as investment, legal or accounting and those whose job requires an overview of the principles underpinning retirement provision.

We encourage any new learners who are new to pensions to consider this qualification, mainly based on the broad nature of the exam. Additionally, the fact that it is a single-unit qualification means that a successful pass is all that's needed for full completion of the qualification. The qualification does also link into three of our five PMI Pathways (Technical/Trusteeship/Practical).

For those interested in sitting the Retirement Provision Certificate at our next available exam date, you may do so by clicking the link **here**. The information is as follows below:

Exam date:
26 March 2024, running from 09:30 – 11:30
Closing date for bookings:
26 January 2024 @ 16:00

Competency Framework:

Our Competency Framework page is a useful tool for learners/employers to review before making a decision as to which exam(s) they should sit. The technical competencies within the framework have been developed in consultation with the industry to reflect the needs and requirements of the profession. The document sets out the standards; explains how they can be used and by whom and directs readers to sources of information, learning material and qualifications.

Our Competency Framework page can be accessed **here**.

Study Skills website:

The PMI Qualifications team recently launched its Study Skills website, which is designed to aid learners with their revision techniques in preparation for their upcoming exam.

We understand that revising for an exam isn't always the most straightforward process and each individual will have a preferred method of revising that suits them best. The Study Skills website is designed to help offer tips and advice and to help guide learners to find the revision methods that work best for them, to study more efficiently and effectively.

The website isn't exclusively for PMI members. It is open source and can be used by anyone studying for any exam, as the principles within it can be extrapolated to exams in general. However, we hope it is of valuable use to our learners in helping them prepare for any future exams they sit.

The link to the Study Skills website can be found **here**.

Events

The view ahead for PMI Events 2024

PMI is hosting a range of pensions-industry-leading events for 2024. With industry specialists delivering the best insights and knowledge to flagship events such as The Pinnacle Awards, excellent networking opportunities and extensive partner exhibition and sponsorship packages. For further details please select from the list below or see pensions-pmi.org.uk/events for the full programme.

Defined Benefit (DB) Pensions Conference
13 March 2024

DC and Master Trust Symposium 2024
25 April 2024

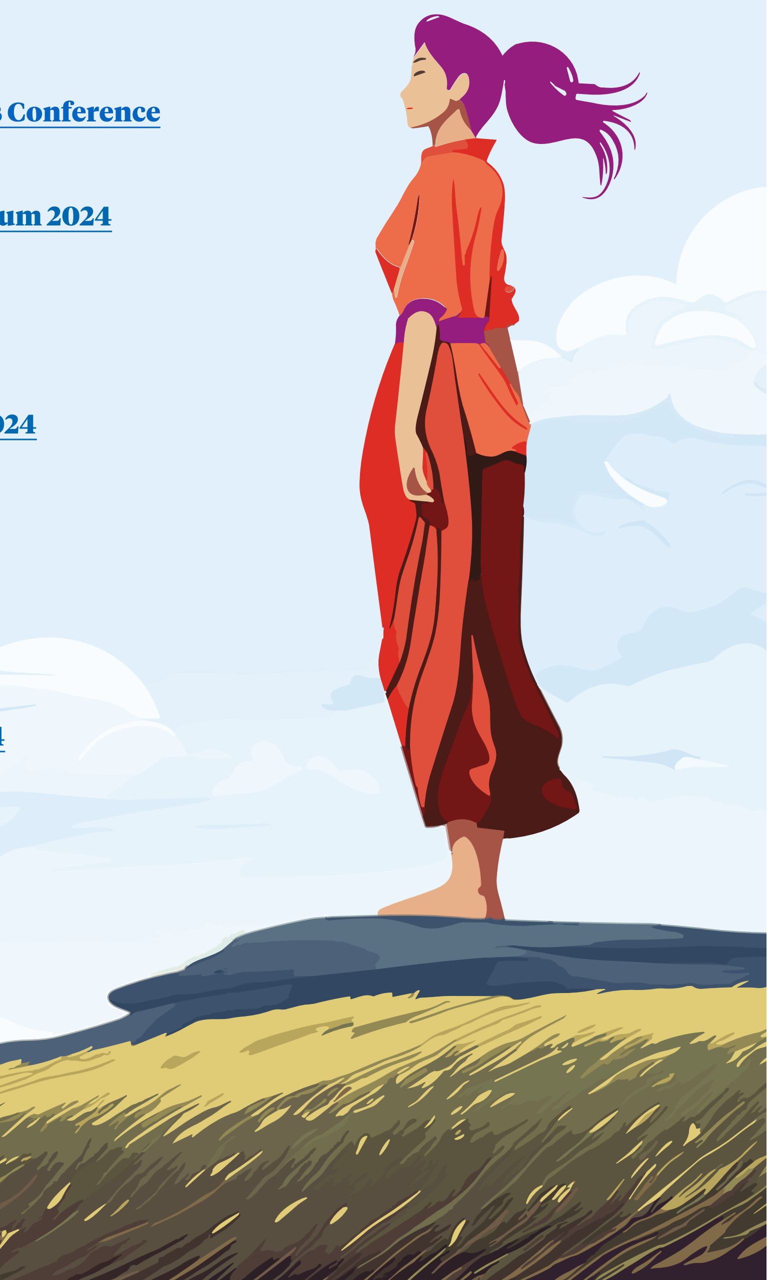
Annual Conference 2024
04 July 2024

PensTech & Admin Summit 2024
03 October 2024

Trustee Workbench 2024
07 November 2024

Pinnacle Awards 2024
November 2024

ESG & Investment Forum 2024
04 December 2024



CONGRATULATIONS TO THE EXCEPTIONAL INDIVIDUALS AND ORGANISATIONS WHO HAVE ACHIEVED THE PINNACLE OF EXCELLENCE IN THE WORLD OF PENSIONS AND INVESTMENTS.

The PMI Pinnacle Awards stand as a testament to your unwavering commitment, innovative solutions, and remarkable contributions to the industry. These well-deserved accolades recognize your dedication to shaping the future of financial security. Your achievements inspire us all to aim higher and strive for excellence. Join us in celebrating these outstanding winners who have set new standards for the world of pensions and investments. We look forward to celebrating more of you next year!

PEOPLE CATEGORIES

WINNERS

FRONTLINE HERO OF THE YEAR
Dian Smith
MAYER | BROWN

LEADER OF THE YEAR
Mark Grant
CMS

LIFETIME ACHIEVEMENT AWARD
Kim Gubler
KGC associates

STAR IN THE MAKING
Chloe Leslie
ndapt

TEAM OF THE YEAR
XPS Continuous Improvement Team
XPS Pensions Group

INNOVATION CATEGORIES
WINNERS

INNOVATION IN LEARNING, DEVELOPMENT AND TALENT RETENTION
Pensions Academy
Brightwell

INNOVATION IN SYSTEMS & TECHNOLOGY
Gemini
intellica

INNOVATION IN NEW PRODUCT OR SERVICE
DrumRoll
BARNETT WADDINGHAM

INNOVATION IN TRUSTEESHIP
Emerging Markets Just Transition Investment Initiative
Church of England

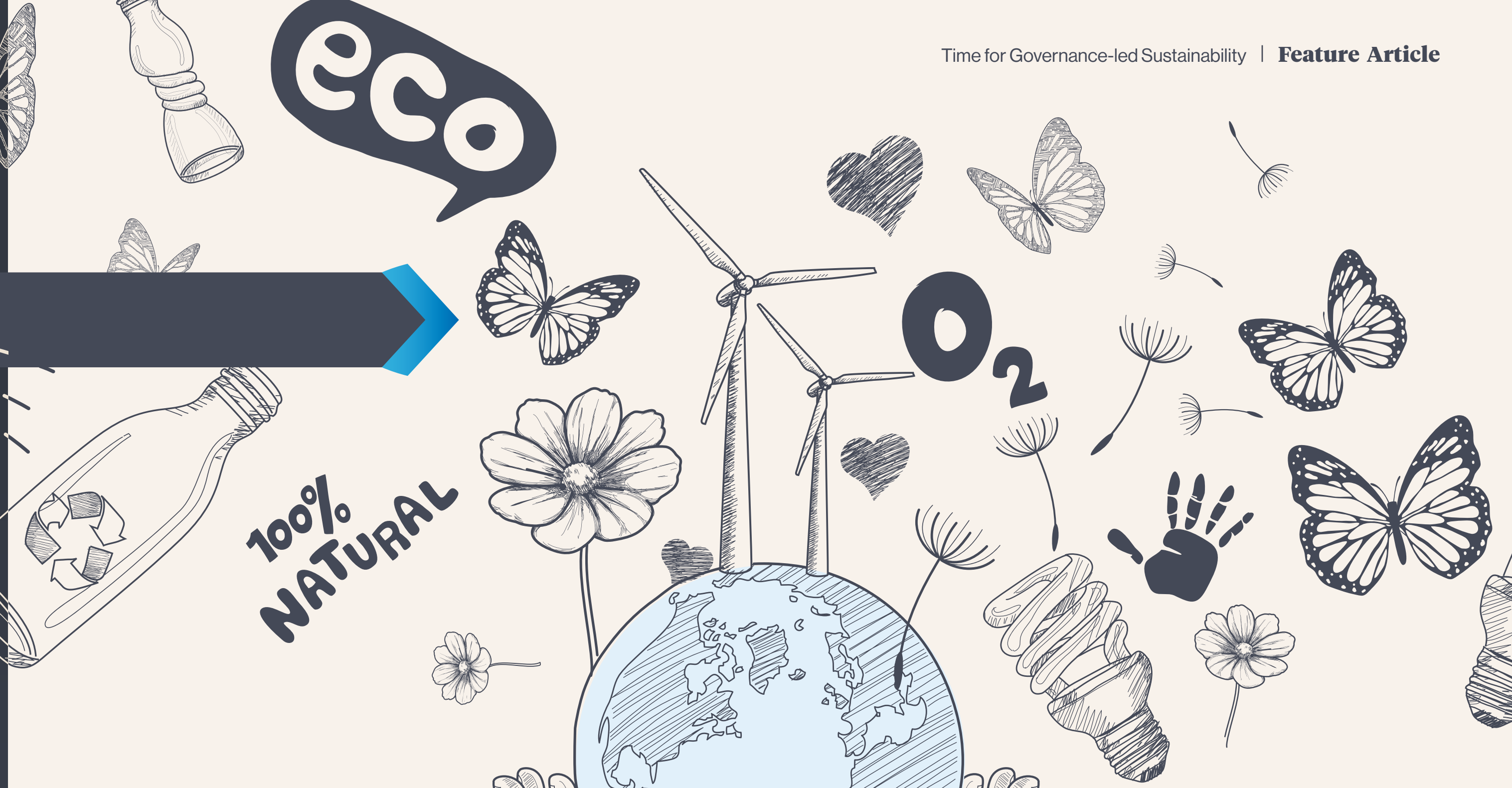
IMPACT CATEGORIES
WINNERS

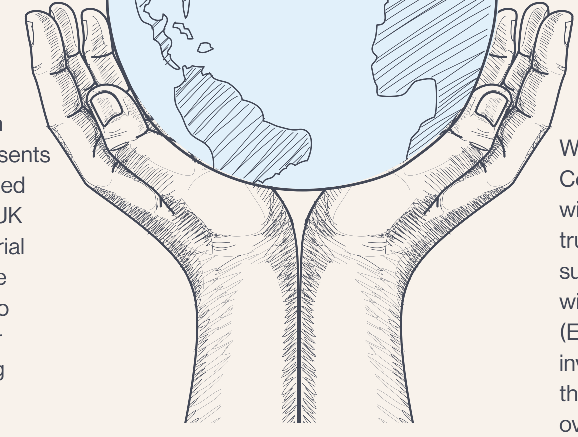
IMPACT ON CLIMATE
caceis INVESTOR SERVICES

IMPACT ON THE PROFESSION
IMPACT LENS Research, led by Karen Shackleton
PENSIONS FOR PURPOSE

IMPACT ON SOCIETY
Dormant Assets Scheme Expansion
Reclaim Fund Ltd

IMPACT ON CUSTOMER EXPERIENCE
Rothesay





Insight Partner Article

Time for Governance-led sustainability

Lucy Cresswell
Partner and Senior Pension Management Consultant, Barnett Waddingham

Colin Mayger
Partner,
Barnett Waddingham

Climate change represents the 'biggest threat modern humans have ever faced' and has shifted from a distant threat to an ever-increasing reality.

Climate change has now shown how the economy and social prosperity are unequivocally connected to environmental stability, illustrated by:

Food security – Drought and flooding will reduce crop yields and affect livestock leading to an increase in food price inflation. It was noted that the 2022 summer heatwave increased food inflation in Europe by 0.67% and projected future warming will likely increase food prices up to 3.2% per year by 2035. It is estimated that food systems are responsible for around one-quarter of global greenhouse gas emissions. Therefore, any action to curb emissions may result in significant disruption to the industry.

Infrastructure – It is predicted that Europe will experience a 60-80 cm sea level rise by the end of the century. Around one-third of Europe's population lives within 30 miles of the coast and generates c.30% of Europe's GDP.

Migration – Extreme weather events are likely to further increase migration. Currently, the UN Human Rights Council estimates that 21.5 million people per year are already migrating due to climate change and it is estimated that this number could rise to 1.2 billion by 2050.

Litigation – Court cases have more than doubled since 2017, with litigation becoming a powerful tool for driving climate action. As of December 2022, there have been more than 2,180 climate-related cases filed in 65 jurisdictions.

Extreme weather events – We've seen increases in devastating events such as wildfires and landslides across the world over the last twelve months, all brought on by extreme weather conditions. The last eight years have been the hottest ever recorded, and figures show that we are already at 1.2°C above pre-industrial levels and have a 50% chance of breaching 1.5°C (Paris Agreement goal to limit temperatures) within the coming decade.

Closer to home, the UK has also felt the impact of climate change over recent years. Hotter summers have seen a record temperature of 40.3°C recorded by the Met Office in July 2022. Milder winters have led to increased rainfall patterns and flooding activity which continues to have an impact on wildlife, agriculture, and water resources. Furthermore, the UK is highly dependent on the global economy, resulting in exposure to indirect risks, such as trade disruptions.

What can UK pension schemes and trustees do?

In 2022, the total value of UK Pension Schemes was c.£2.8trn, which represents one of the largest pools of accumulated wealth in the world. This means that UK pension schemes could have a material impact on addressing climate change by utilising their collective influence to drive better practice and ensure their members' assets are not contributing to the climate crisis.

The UK was the first country in the world to put the Taskforce on Climate-related Financial Disclosure (TCFD) into law. The aim is to help schemes consistently measure, manage, and report their climate-related risk exposures. This has forced schemes to take a serious look at their portfolios and their assets' impact on the environment. This has represented a big step forward, but given the unfamiliarity and complexities of reporting, trustees' focus has often been directed more towards scenario analysis and metrics and targets, potentially at the expense of governance and risk management activities.

Establishing a clear sustainable governance framework will ensure that:

- trustees are putting their resources, advisors, and assets to the best use;
- finer details aren't being overlooked;
- trustees have time to focus on the big picture;
- time and money is being spent where it can be most effective; and
- schemes can address climate-related risks that are relevant to the scheme and its members.

The Pensions Regulator has recommended that schemes that are not yet subject to TCFD reporting requirements should consider their approach to addressing climate risk. We believe that the benefits may include:

Responsibility – Assigning and documenting specific roles and responsibilities for trustees, committees, and advisors ensures accountability and ownership.

Reputation – Demonstrates to key stakeholders the scheme's commitment to transparency, accountability and embedding sustainable practices.

Better decision-making – Provides a structured and systematic approach to considering and reporting on climate-related risks and opportunities.

Consistency – Ensures that reporting made over time is consistent, reliable, and comparable to allow stakeholders to assess progress made.

While the Pensions Regulator General Code may not emphasise climate risk within wider governance activities, it offers trustees an opportunity to incorporate sustainable governance and risk activities within the Effective Systems of Governance (ESoG) framework in areas other than investment governance, therefore ensuring that it becomes an integral part of the overall governance structure, enhancing its effectiveness and long-term sustainability.

Climate-related risk now represents a material financial risk to members' assets, but potentially offers opportunities too. Trustees should be confident that they have the right governance and risk management structures in place to address these challenges and capture potential opportunities. Even for schemes that have already made progress in addressing climate risk, it is prudent to periodically step back and review the governance structures and ensure that the scheme is keeping up to date with emerging best practices, current and future risks, and regulatory expectations.

Unfortunately, there is no single solution to combat climate change, and coordinated government action on implementing policies seems to lag behind the desired pace. However, by dedicating time to climate governance and risk management activities, UK Pension schemes can leverage their substantial influence and assets for the benefit of their members.

Insight Partner Article

Mitigating the risks of Climate Change through ESG action

Michael Bushnell
Managing Director, Cardano Advisory

In the world of pensions, do we really know where climate change stops and ESG begins (before we even add in the concepts of sustainability and responsible investment)?

Even for those working in the area of sustainability, the use of terms and the best way to present them to clients can be confusing. Clarifying the terms helps to illustrate why they are not interchangeable:

CLIMATE CHANGE: a phenomena of global temperature increases, affecting regional and global weather systems and climate

ESG: non-financial factors linked to the business or undertakings of an organisation or investment, typically grouped into Environmental, Social and Governance (ESG) areas

How do climate change and ESG factors interact?

Climate change is a specific phenomenon, one that will be primarily addressed by limiting temperature increases through reductions in greenhouse gas emissions, not directly through broader changes in companies' ESG approaches. However, climate change will impact the world's environment, society and regulation, requiring changes in our approach to ESG issues to mitigate those changes.

While 'ESG' has been part of investment considerations for many years, practical impacts have often been limited. Recognising the relationship between climate change and ESG issues gives us a chance to reinvigorate and reinforce our existing approaches.

Illustrating the potential impact of climate change on ESG considerations

Considerations	Low warming, rapid transition to a low-carbon economy	High warming, limited transition to a low-carbon economy
Environmental	- Reforestation to offset emissions increases - Increased regulation of land-use - Industrial or agricultural processes banned	Staff social activities
Social	- Migration prompted by new industry development likely - Demand for perceived 'climate-leading' products increases - Increased finance cost for perceived 'climate laggards'	- Water shortages impact industry and population distribution - Significant changes in agriculture and food availability - Biodiversity loss and increased risk of new pathogens
Governance	- ESG corporate oversight needed - Climate litigation risks increase - Transition plans and reporting pressures increase	- Need for flexibility in decision-making, supply chain and operational structures increases - Strong regional or industry trends in investment likely

Accepting that pension trustees are trying to avoid risk to ensure delivery of member benefits, what does a climate change lens tell us about our approach to ESG factors when setting investment policy or assessing employer covenant support?

Structural exposure is a real risk

Some companies will have exposure to risk simply as a result of the nature of their operations and locations, regardless of how well managed they are.

Location-specific risk (for example) might arise from an exposure to long-term climate or regulatory change, with some parts of the globe more exposed than others. If a business is reliant on a particular location, this increases the risk that volatility in weather might cause material and un-modelled disruption.

Identifying structural exposure in the covenant and investment strategy of a scheme allows reconsideration of investment preferences, e.g. to target opportunities that will do best when the covenant is most at risk. This is particularly relevant for those schemes considering running-off and looking to infrastructure or buy-and-maintain credit-heavy investment approaches.

Assessments of resilience must consider ESG factors

ESG factors are leading indicators of financial impacts which have yet to appear in financial information: social preferences may take years to impact an organisation that works to long-term contracts; migration may result in irrecoverable staffing shortfalls at factories which are only visible when orders eventually cannot be fulfilled; water shortages may shut down power plants at short notice, causing sudden increases in electricity supply costs and profit declines in manufacturers.

The scale of ESG risks and opportunities facing companies as they confront the coming decades of climate change is material. By ensuring that they properly incorporate ESG factor reviews into their approach to investment and covenant, trustees can ensure they place reliance only on those entities which have the best approach to ESG and therefore the best opportunity of avoiding these financial impacts.

Perceptions matter

The adoption of products and technologies (from food trends to cloud computing) is often led by reputation and perception as much as it is by quality or benefits to the user compared to alternatives.

Increasingly, this perception is being shaped by the ESG impact of companies. This trend is only likely to be accelerated by climate change and associated regulatory responses, which makes relative winners increasingly hard to determine. Much of the coming change in the economy is therefore likely to be led by a mixture of science, public support and regulatory support for capital. This process has historical precedent in previous periods of technological innovation (from railways in the 1800s to PC chips at the turn of the millennium).

As we move forward, ensuring that they are best positioned to understand and benefit from an increased focus on ESG factors should be increasingly high on trustees' agendas.

Next steps for trustees and advisors

Trustees have had to report their stance on ESG factors since at least the requirement to incorporate these into their Statement of Investment Principles in 2018. Since the roll-out of TCFD reporting to the largest pension schemes, trustees will also have started to report around climate change risks.

Now, we need to follow through on this positive start, recognising the importance of ESG factors to company performance and how this might be exacerbated by climate change, forming practical policies which aim to maximise future member outcomes, and supporting each other with ideas and strategies.

The pensions industry needs to rise to these challenges. There will be teething problems but change can be incredibly positive. After all, the move from 60:40 splits of investment portfolios was not easy and neither was the growth in covenant assessment, but members will be thankful for many years to come. Let's recognise the positive impact of ESG factors which can drive big change for the better.

Insight Partner Article

Natural capital and biodiversity

David McNeil
Head of RI Research and Innovation, Insight Investment

While considering climate change risk in pension scheme portfolios has become common, natural-capital risk has received less scrutiny. The Taskforce on Nature-related Financial Disclosures (TNFD) is a new market-led disclosure framework for measuring the impact of companies on nature, and their dependence on nature. It has now set out its recommendations, which are likely to shape future regulations and investment practice.

The TNFD framework has had detailed input from academia, policymakers, financial institutions, corporates and other stakeholders; and formal endorsement by the G7 and G20, and the IFRS International Sustainability Standards Board, which is developing global standards on ESG disclosure.

The TNFD framework consists of:

1. a standardised series of metrics and indicators for analysis and disclosure of the impacts on companies of nature, and dependencies of those companies on nature, drawing on several thousand existing reporting indicators for global ESG standards;
2. core recommended and optional disclosures aligned to the pillars of the Task Force on Climate-Related Financial Disclosures (TCFD), encouraging firms to produce integrated 'climate and nature' reporting over time; and
3. an integrated risk and opportunity assessment methodology, LEAP (Locate, Evaluate, Assess and Prepare).

Interaction with existing reporting standards and data is at the heart of TNFD. A major challenge is the scarcity of data on how nature may impact an organisation's performance, or the longer-term financial risks that may arise from how the organisation, positively or negatively, impacts nature.

Challenges for investors

The TNFD's guidance for financial institutions identifies core metrics focused on screening of **exposure to material sectors** as the starting point for analysis followed by **exposure to sensitive locations**. This highlights challenges for investors when considering nature-related factors in line with the framework.

- **Nature-sensitive sectors differ from climate-sensitive sectors:** Investors may need to take a different approach to screening, engagement and asset-allocation decisions.
- **Nature-related disclosures from corporates will lag behind investor demand:** A phased approach to implementation, and reliance on modelled or estimated data, may be necessary over the short-to-medium term.
- **Nature-related risks are many and varied:** Sources of nature-related financial risk are diverse (see table opposite), and insurability of assets is also a growing risk.

Sources of nature-related financial risk

	Credit risk	Market risk	Operational risk
Transition risk	Losses due to sanctions, damages or increased taxes	Long-term raw material price increases as a result of biodiversity loss	Supply-chain disruption, reputational damage
Physical risk	Revaluation of debt-servicing capacity and required collateral	Rating downgrade/fall in valuation stemming from physical risk exposures	Asset damage/ impairment from heightened exposure
Litigation risk	• Litigation pertaining to breach of legal frameworks • New regulatory rules limiting activities with a negative impact (e.g., EU Deforestation Regulation) • Damages due to false reporting of biodiversity risks • Damages due to greenwashing		
Systemic risk	Insurance coverage becomes prohibitively expensive for some sectors, regions	Spill-over effects from biodiversity loss into commodity markets	Insurance coverage becomes prohibitively expensive for some sectors, regions

Source: WWF, PwC, Sustainable Fitch.

What to expect: TNFD implementation

Over 1,000 institutions have endorsed the TNFD framework as members of the TNFD Forum, with a further 200 organisations piloting the TNFD standard. Early outputs from these pilots point to the challenges of limited data, but also the potential to scale the framework more widely as data improve.

We expect this process to accelerate over the coming two years:

- **In the short term (one to six months) – Data expansion:** The first disclosures by companies and investors will rely heavily on top-down assessment of impacts and dependencies until data mature. We expect the TNFD framework to increasingly be mandated within national regulations, as has occurred with the TCFD framework. This will likely lead to expanding data coverage across the investable universe of investment strategies.
- **In the medium to long term (six to 18 months) – Data maturity:** We expect data and disclosures to increase in maturity and coverage, meaning investors would be more able to enhance bottom-up credit analysis of companies to inform investment decision-making and engagement.
- **In the long term (beyond 18 months) – Increasing issuance:** Additional disclosures, once mandated more widely, could create additional investment opportunities in the form of increasing issuance of use-of-proceeds bonds that focus on nature-aligned projects, and in turn investment strategies that focus on nature-aligned impact allocation as the investment universe of nature-aligned bonds expands.

What investors want: credible nature and biodiversity bonds

Only around 14% of use-of-proceeds bonds issued in 2022 included projects with a relevance to nature and biodiversity, according to Bloomberg.

Such issuance has been dominated by sovereign, supranational and agency issuers (SSAs), pointing to the key influence of state actors and public-policy decisions on nature and biodiversity management outcomes. Issuance of sovereign frameworks directly addressing nature outcomes has increased since the introduction of the Kunming-Montreal Global Biodiversity Framework (GBF), agreed in late 2022. We expect this trend to intensify given the key influence of SSAs on nature and commitments to increase the flow of nature finance under the GBF.

For corporates, a full assessment of value chain impacts and dependencies could help identify opportunities for projects supporting nature outcomes. We expect this to also increase the investable universe of nature-focused bonds available to investors.

Feature Article

Designing decarbonisation strategies

Jenny Mill
Climate Change Strategist, Schroders

As the world grapples with the urgent need to address climate change, pension funds will be close to the epicentre of the disruptions that will stem from decarbonisation efforts. With their significant financial resources and long-term investment horizons, pension funds are unavoidably exposed to climate risks. They have an opportunity to tackle the implications proactively.

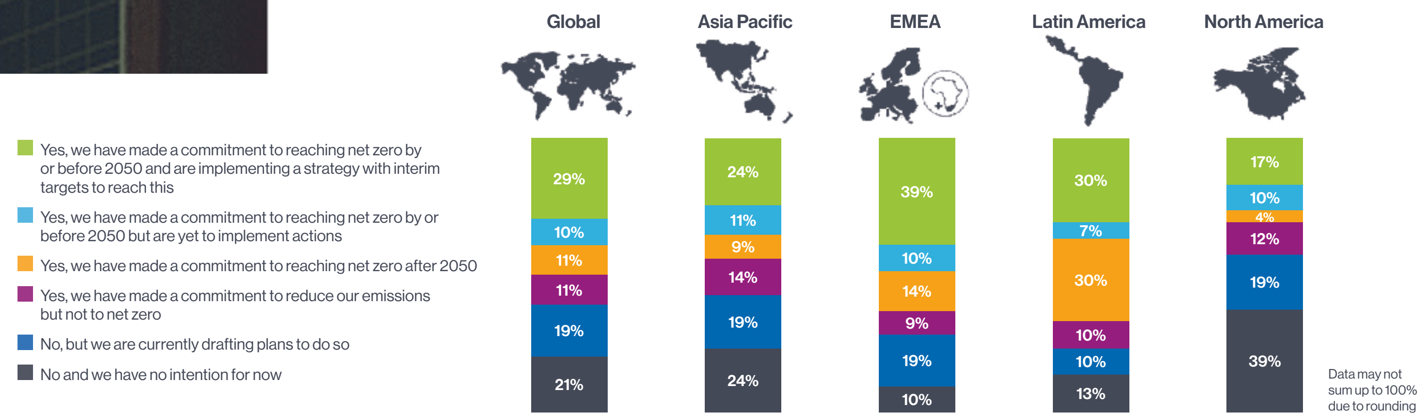
Net Zero commitments need to be backed up with plans

Pension funds will need to manage the impact that climate change will have on their portfolios, both from the low-carbon transition and from the physical risks of climate change. Equally, however, some pension funds are choosing to consider their portfolios' impacts on the climate and have established targets to reduce the carbon exposures of their investments toward long term net zero goals. Those dual goals are not in tension; thoughtful approaches to portfolio transition can help to identify risks and capitalise on opportunities from the low carbon transition that can unlock value overtime..

Momentum behind Net Zero

Globally, more institutional investors than ever are making commitments to reach Net Zero. The Schroders Institutional Investor Survey 2023 found that 50% of institutional investors have made a commitment to reach Net Zero, of which the majority are targeting 2050 (39%). While there are disparities regionally, with the share highest in EMEA, it's clear that more organisations globally are committing to Net Zero.

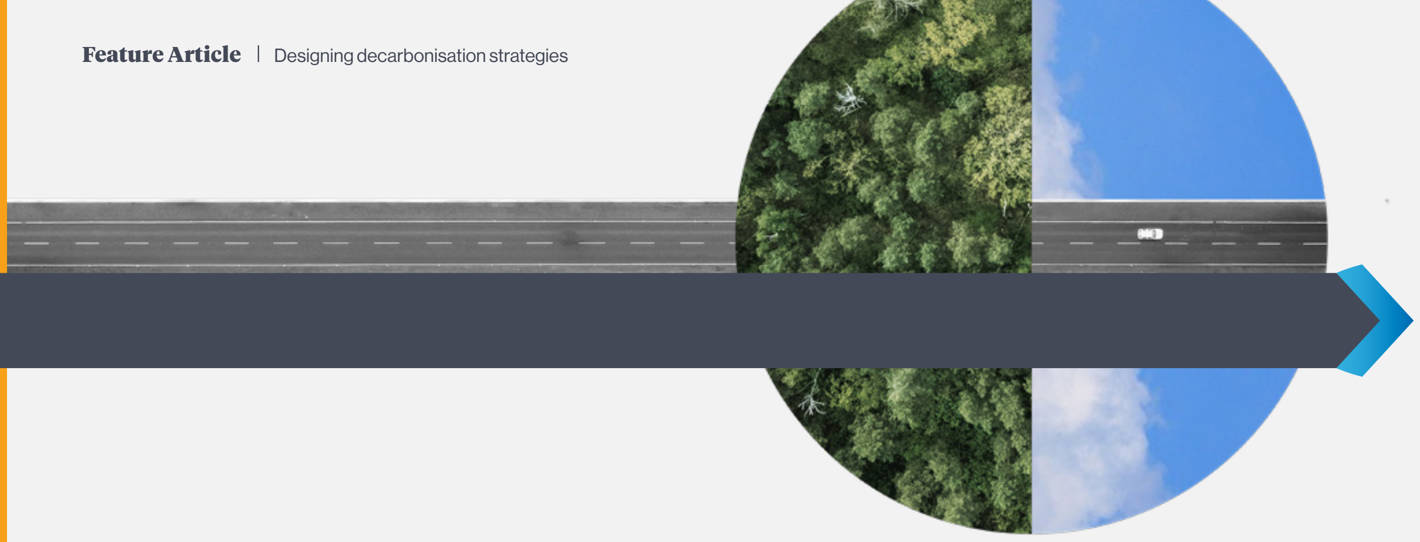
Q. Has your organisation made a commitment to achieving net zero greenhouse gas emissions from your portfolio by 2050, or another date?



However, commitments need to be backed up by plans setting out how they will achieve their ambition, and our survey shows that so far only 29% have developed and implemented a strategy to meet their targets.

Agreeing your motivations and priorities

For pension funds agreeing your motivation and priorities could be influenced by the investment preferences of your beneficiaries. More pension funds are taking steps to engage beneficiaries on their sustainability preferences, including their climate and Net Zero preferences. Regulations and disclosure requirements are also creating a growing need for pension funds in some countries to assess portfolio climate exposures and to articulate their strategies to manage them.



Decarbonisation strategies can be tailored to reflect different goals.

Before setting out a strategy, it is therefore important to determine the key motivations which can drive decision-making, including manager selection, and help you to communicate your needs and expectations with investment managers or advisors.

Considering the decarbonisation strategy

A decarbonisation strategy needs to set out not just what you are trying to achieve but how you plan to achieve it. If an investor wants to decarbonise a portfolio quickly, arguably the easiest option would be to simply apply exclusions for high-emitting sectors or companies, divesting any current positions. However, the investment effect is only to narrow the investment universe and the impact on real world emissions reductions will be minimal.

By contrast, a more active approach has the potential to have transformative decarbonisation impact in the real economy. By engaging the companies within a portfolio to set emissions reduction targets, publish transition plans and demonstrate progress to decarbonise overtime, investors can play an active role in the transition, remaining invested in companies and benefiting from the value that can be unlocked as companies cut emissions, as well as supporting reductions in real world emissions.

On the other side of the spectrum, pension funds should consider whether their portfolios are capitalising on the opportunities associated with the low-carbon transition, including renewables and clean technologies. A transitioning portfolio will typically increase its allocation to such opportunities, as technologies scale to meet increasing demand overtime. In doing so, valuation is a key consideration given the fluctuations in valuations of clean technology stocks and assets we have seen in recent years.

Implementing Net Zero transition strategies will require elements of each of these options, and pension funds should work with their advisors and managers to understand and plan for how their portfolios use these levers. Managers responsible for asset allocation or security selection should be able to deliver against decarbonisation objectives. If choosing an active approach, the manager needs to provide you with the confidence that they can deliver your decarbonisation objectives while generating risk-adjusted returns.

The development of more passive approaches to decarbonisation, such as indices which track the EU Climate Transition Benchmark (CTB) and EU Paris Aligned Benchmark, offer a straightforward answer to decarbonisation year-on-year to 2050, though at the expense of growing constraints on investment universes and often with limited impact on companies' own emission reduction contributions.

Preparation for and Contribution to Net Zero

Many pension funds are becoming increasingly focused on climate change, for different reasons and in different circumstances. By engaging investment advisors and managers to meet decarbonisation targets in a way that meets their aims, pension funds can proactively prepare for the impacts of a climate transition on portfolios, while also actively contributing to that transition.

Feature Article

Unlocking dormant assets to break the financial exclusion trap

Adrian Smith OBE
Chief Executive, Reclaim Fund Ltd

One of the key discussions that has featured in each of the major party conferences this year is financial inclusion, and how public and private sector can work together to give people more choice and control over how they manage their money. According to a leading organisation dedicated to improving financial inclusion, Fair4All Finance, 17.5 million people are financially vulnerable, from young people starting out in life through to credit-squeezed families and those experiencing a less than golden retirement. That's 26% of our population, a shocking statistic for a prosperous country.[1]

The scale of financial exclusion

I've led Reclaim Fund – or RFL – ever since we first started life in 2011. RFL is an arms-length body owned by HM Treasury acting independently of government with our own Board of Directors. We're based in Crewe, in the north west of England. We operate the Dormant Assets Scheme, which unlocks the value of dormant assets to benefit communities across the UK, whilst guaranteeing the right for people to reclaim their money at any time.

Over more than a decade with RFL and through my personal work with the Plunkett Foundation, I've seen at first hand the challenges faced by people caught in a financial trap. This can be through poor physical or mental health, life events or emotional shocks such as birth, bereavement, relationship breakdown or losing a job. It could be a lack of savings, insurance or pensions safety nets, or it could be that people do not have financial knowledge or understanding of the options available. Often people experience many of these challenges together, and it can feel almost impossible to find a way out.

When people don't have access to mainstream financial services, they are also excluded from the safety nets that are there to protect them. Without access to credit, they seek help from illegal lenders, and are trapped in a cycle of debt and often catastrophically high interest rates. More than 3 million people have borrowed from an unlicensed or unauthorised lender over the past 3 years.

Breaking the cycle

But crucially, I've also seen how the financial services sector can help to break the cycle of spiralling debt, despair and financial vulnerability. Since 2011, banks and building societies have been eligible to join the Dormant Assets Scheme which is run by RFL. After a certain period, accounts that cannot be reunited with their original owners are eligible to transferred to RFL, which in turn takes on the liability for future reclaims in the event that a policyholder or their beneficiary comes forward in the future. RFL holds money to cover future reclaims and transfers the remainder to the National Lottery Community Fund ('TNLCF') which, in England[2], distributes dormant asset funds to four spend organisations that fund social investment, youth and – crucially for many financial services providers - financial inclusion through Fair4All Finance.

To date, 43 financial institutions have joined the voluntary Dormant Assets Scheme, including high street banks and building societies such as Lloyds, Barclays, NatWest, HSBC and Nationwide. Together, they have enabled over £900m to be distributed to good causes, including financial inclusion. Through Fair4All Finance, for example, they have enabled £26m to be invested in organisations that are projected to increase the availability of affordable credit by £500m by 2025. They have enabled vulnerable customers to save £29m in interest and have helped to create a virtuous cycle of responsible lending. For example, every £1 lent by Fair for You, one of Fair4All Finance's flagship investees, generates £16.68 in social value. You can find out more about Fair for You and the people who benefit **here**[3].

Expanding the opportunity

In 2022, the government passed new legislation to expand the Dormant Assets Scheme from banks and building societies more widely across dormant financial assets, notably to pensions providers. In June 2023, we opened the Scheme to the insurance and pensions sector, and welcomed Aviva plc as our first participant, shortly followed by Legal & General. Expanding the Scheme to new financial services sectors has the potential to double the amount of money to distribute to key priorities such as financial inclusion. In September, the government published a statement of intent to confirm that future dormant assets funding[4] would be divided equally across financial inclusion, social investment, youth and a community wealth fund. That means we could unlock a further £200m or more to help the most financially vulnerable people in our society become more secure and in better control of their own futures.

The Dormant Assets Scheme is now open to insurance and pension providers, with eligibility extending to investment and wealth managers, and shares in UK plcs in due course. We would welcome a conversation on how your organisation can help unlock dormant assets to benefit communities across the UK and help the most financially vulnerable. We would also be delighted to welcome you to our Dormant Assets 2023 event which takes place in London on November 28th and will showcase the Scheme and the impact on beneficiaries. Please email **dormantassets@reclaimfund.co.uk** to register for a free place.

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1. Based on 67.33 million population, World Bank, 2021.
2. In Scotland, Wales and Northern Ireland, the TNLCF distributes money directly in line with social and environmental priorities determined by the devolved administrations.
3. https://vimeo.com/821308791?share=copy
4. Statement refers to dormant assets spend in England.

Feature Article

Asset owners drive net zero investing

Thomas Kuh, PhD
Head of ESG Strategy, Morningstar Indexes

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The urgency of addressing climate change grows as its impact becomes more obvious. Analysis from Morningstar Sustainalytics shows the global economy on a 2.9°C warming trajectory, consistent with other projections pointing to a significant overshoot of the 1.5°C target. Many pension fund managers recognise the risk climate change poses to their portfolios and the future world their beneficiaries may inhabit and are responding with net zero investment strategies and engagement activities.

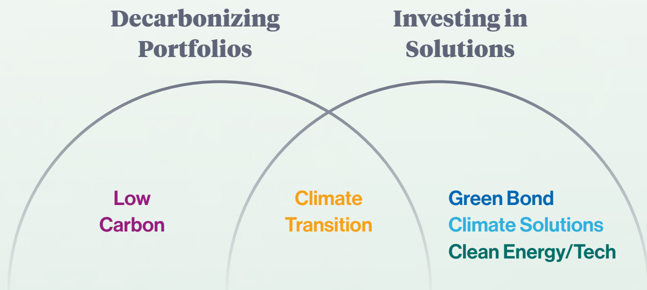
What is net zero? According to the World Economic Forum, "The term net zero applies to a situation where global greenhouse gas emissions from human activity are in balance with emissions reductions. At net zero, carbon dioxide emissions are still generated, but an equal amount of carbon dioxide is removed from the atmosphere as is released into it." Achieving targets refers to reducing greenhouse gas (GHG) emissions to net zero by 2050 to meet the 2015 Paris Agreement objective of limiting atmospheric warming to 1.5°C.

Net zero sits atop the ESG agenda of asset owners as a material investment consideration, according to Morningstar's Voice of the Asset Owner survey of 500 global institutional investors. More than half of respondents identified environmental factors as Much More or More material to their investment decisions in the last year, compared with social (38%) and governance (43%). Among environmental factors, net zero was cited as the most material by a significant margin.

Climate-Related Investment Strategies

A decade ago, asset managers launched the first broad market Low Carbon strategies based on benchmarks optimised to significantly reduce exposure to carbon-intensive companies while controlling financial risk. Their purpose is to reduce the potential risk associated with exposure to CO2 emissions and stranded assets. So it is intended to minimise risk exposure in the portfolio, although there is no transmission mechanism to actually reduce carbon emissions.

At the other end of the spectrum from portfolio decarbonisation are investments in Climate Solutions that drive decarbonisation of the economy. In contrast to Low Carbon approaches which reduce exposure to carbon-intensive assets, these investments represent opportunities presented by companies facilitating the transition. This includes investment in clean energy and enabling technologies, such as EVs, charging infrastructure and battery storage.



Source: Morningstar Research

In the middle are Climate Transition strategies, which invest in a combination of companies whose business models are aligning with the transition to a low-carbon economy and those providing solutions. This category includes funds tracking Paris Aligned Benchmarks (PAB), introduced by the EU in 2019. PABs are intended to align with a 1.5°C pathway, starting from a minimum of 50% portfolio decarbonisation relative to the underlying market, exclusion of fossil fuels, and an annual 7% reduction in benchmark carbon intensity.

The EU understood that the most consistent and efficient way to achieve its multiple objectives is using rules-based benchmarks. Indexes facilitate climate investment by providing a means to compare the climate characteristics of portfolios to those of the market benchmark, in addition to their use as the basis of passive investment funds.

Asset Owners Weigh In

Asset owners are now calling on index providers to refine net zero benchmarks, signalling a new stage of climate investing. They are leading the charge to change the objectives of climate strategies to focus on reducing carbon emissions in the real economy, not simply lower GHG exposure in portfolios.

In the past year, two influential asset owner groups have articulated their expectations for net zero benchmarks. Reports published by the Net Zero Asset Owners Alliance (NZAOA) and the Institutional Investors Network on Climate Change (IIGCC) offer a vision for the next generation of net zero benchmarks. Key among the asks are: prioritising real-world emissions reductions, ensuring transparency of benchmark rules, not automatically excluding high-emitting sectors (except thermal coal), accounting for sectoral and regional differences, and incorporating forward-looking data.

These principles point to investment strategies that differ from the prevailing PAB framework in important ways. Most importantly, they represent a shift to assessing how companies are managing their pathway to net zero, away from reducing portfolio exposure to carbon-intensive companies.

Asset owners' desire for greater benchmark transparency is driven by an interest in less complex benchmarks that are easier to understand. Operationally, this may induce index providers to move away from using optimisation to gain clarity about the selection, weighting and net zero trajectory of individual equities. It will help constituent companies understand their status in an index and support engagement by investors. It will also enable pension funds to communicate more effectively with beneficiaries about their climate strategies and progress toward net zero. 29

What's Ahead?

Achieving net zero targets is a daunting task for governments, companies and investors, made more difficult by the social impact of climate change, as well as technology, policy and data challenges. Heeding investors' call, Morningstar Indexes is developing a new global climate benchmark. It will draw on Morningstar Sustainalytics' expertise and data, including its Low Carbon Transition Rating, which assesses forward-looking information like science-based targets, as well as capital expenditures and business model transformation to position firms to be competitive in a low-carbon economy.

Going forward, we anticipate climate investing will rapidly grow. We also expect that investors will seek to address issues like biodiversity and a just transition that intersect with the climate agenda. But the net zero imperative will continue to frame the narrative.

Feature Article

From 'Not Sure' to 'Net Zero' in four steps

Andy Lewis
Partner, Travers Smith LLP

For pension schemes, net zero typically means an investment strategy which targets nil net greenhouse gas (GHG) emissions from the portfolio by a certain point in time (often 2050). A net zero scheme can still hold GHG-emitting assets, but these need to be balanced with other assets that offset the emissions, for example through carbon capture.

Back in October I was honoured to take part in a panel about net zero at the PMI's inaugural Northern Conference in Leeds. It was a great discussion with a highly engaged audience from across the industry, and it got me thinking about what the key steps might be for a scheme's net zero journey. As a lawyer, I think there are four:

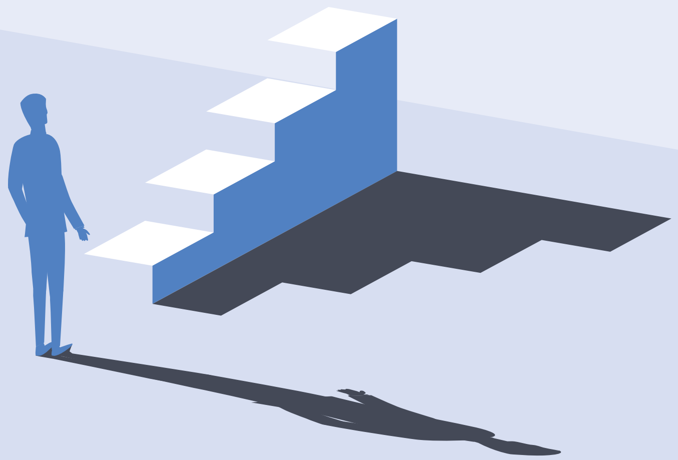
1. **Duties**
   A net zero strategy must be consistent with legal duties for investing scheme assets, otherwise there will be a clear risk of successful legal challenge. I would suggest that net zero can be lawful where it is supported by careful judgment and reasoning. There needs to be a positive investment case that net zero supports the fundamental goal of investing to provide members' benefits over time. For schemes covered by climate governance (TCFD) regulations there is an even more direct legal imperative. Here, a target is expressly required, and Government comply-or-explain guidance says that net zero by 2050 is not enough on its own: these schemes will also need milestone targets along the way.

   As I said at the conference, fundamentally this is about 'enlightened self-interest' on the part of each scheme. As the panel also discussed, it can be important to consider whether assets that contribute to net zero might have other negative knock-on effects or financial risks (such as those associated with environmental degradation or exploitation of labour arising from a 'green' business extracting precious metals for its products).

2. **Data**
   Data is a prerequisite for understanding scheme assets' GHG emissions. There are known practical challenges here, and some assumptions may be needed at present. But, as we noted on the panel, industry practice and regulations will increasingly promote emissions data disclosures across the economy, and so reporting is expected to improve.

3. **Disclosures**
   Net zero commitments are often publicly disclosable in legal policy statements or annual reports. It is therefore sensible for schemes to work on the basis that they will be strongly publicly accountable for what they say about net zero. It can help to be both clear and realistic about what a scheme intends to do, by when, and what level of commitment is being given.

4. **Developments**
   Science and economics are still developing, and we are all learning in real time. The shifting sands of the current UK Government's net zero policies might be a new cause of concern for some but, I would suggest, seem unlikely to change the fundamental direction of travel in the global investment markets that pension schemes operate in. But it does make good sense for schemes to keep net zero policies under regular review, and to be clear about this with their stakeholders. That way, there should be nothing inherently wrong or reputationally damaging about evolving a scheme's net zero approach where new information comes to light.



Feature Article

From risks to opportunities, a simple change of view can benefit people and the planet

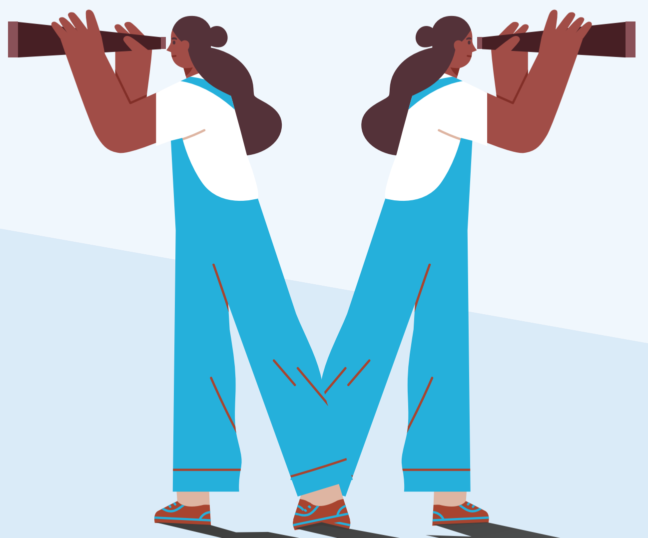
Peter Bachmann
Managing Director, Sustainable Infrastructure at Gresham House

Viewing environmental, social, and governance (ESG) challenges as opportunities rather than risks enables pension trustees to create a world people actually want to retire into – all while delivering stronger financial returns.

The long-term time horizon of UK pension funds makes them ideally suited to driving prolonged, positive impacts in ways that other investors cannot.

Take sustainable infrastructure, for example. This sector is poised to play a key role in tackling societal challenges, as well as the climate and biodiversity emergencies. Yet, these lucrative assets take a number of years to build, making them unsuitable investments for those driven by short-termism.

Pension funds are best placed to profit from them, and they are already generating better financial returns than their non-sustainable counterparts – benefitting people, planet, and pension pots.



As custodians of trillions of pounds, many trustees are keenly aware of their ability to make a difference, as well as the evolving interests, needs and expectations of their stakeholders. Indeed, Local Government Pension Schemes are already at the forefront of investing for good and quantifying the positive impact of their investments.

However, cynical attitudes towards ESG challenges across the sector are holding back its potential. Such views appear particularly problematic in the boardrooms of large insurance schemes - pools of capital with the most potential to drive positive change, that is, by redirecting their funds into impactful assets. Their beginning to measure and monitor the positive impact of their investments would send a strong signal to the industry about their intent.

As long as their decision makers' choose to view ESG issues as risks to be managed, pension funds will struggle to drive investment into the kinds of sustainable products and services that will be critical for our societies and the environment to flourish, from vertical farming to waste-based biofuel solutions.

By investing in the kinds of assets that generate tangible good in the world, decision makers' show their stakeholders that they are willing to lead their industry. By choosing to act now they demonstrate that they no longer view ESG challenges as risks to be managed, but as opportunities to be seized – for their stakeholders and our planet.

PMI Activities

Everything changes but you...

Dr. Keith Hoodless
Director of Lifelong Learning, PMI

Why is ESG described as a challenge rather than business as usual but done differently?

Environmental, Social, and Governance (ESG) considerations, along with the pressing issue of climate change, have significant implications for pensions and individual businesses. Education plays a crucial role in addressing these challenges by raising awareness, promoting responsible practices, and driving innovation. Here are some key areas to consider, where I have discussed the challenge and how education can help provide the solution. I think for the pensions sector currently we need to focus more on the last one and organisations need to engage better with Apprenticeships and initiatives such as the PMI Pathways to help future-proof the needs of the sector.

Investment and Asset Management:

Challenges: Pension funds and individual investors face challenges in aligning their investments with ESG criteria and addressing climate risks. Traditional investment strategies may not consider these factors, leading to potential financial losses due to stranded assets. Businesses may also struggle to adopt sustainable practices and technologies, while pension funds may hesitate to invest in green industries due to perceived risks or lack of knowledge.

Education: Education is vital for investors to understand the impact of ESG factors on investment returns. Training programmes and resources can help individuals and businesses make informed investment decisions that consider ESG risks and opportunities. Education can promote innovation by fostering a culture of sustainability within organizations. It can also inform investors about the potential of green technologies and industries, encouraging investments in environmentally friendly ventures.

Regulation and Compliance:

Challenges: Evolving ESG regulations and disclosure requirements can be complex for businesses and pension funds to navigate. Non-compliance can result in legal and reputational risks.

Education: Training programmes and workshops (TCFD,TNFD) can help businesses and pension fund managers stay updated on regulatory changes and best practices for compliance. This education can also emphasize the importance of transparency and reporting in ESG matters.

Stakeholder Engagement:

Challenges: Engaging with stakeholders, including employees, customers, and communities, on ESG and climate issues can be challenging. Misalignment in values or a lack of understanding can lead to conflicts.

Education: Training and communication efforts can facilitate meaningful dialogues with stakeholders. Businesses and pension funds can educate their stakeholders about their ESG initiatives, fostering transparency and trust.

Talent Attraction and Retention:

Challenges: Attracting and retaining talent interested in ESG and sustainability can be challenging for businesses.

Education: Promoting ESG and sustainability in the workplace, including through educational initiatives, can make a company more appealing to prospective employees and help retain existing talent.

Education is a critical tool for addressing the challenges that ESG and climate change pose to pensions and individual businesses, and the PMI goes a long way in promoting that. By providing knowledge and fostering awareness, the education and training it provides, along with its Training, Qualifications and Apprenticeships, empower stakeholders to make informed decisions, adapt to changing regulations, and contribute to a more sustainable and responsible future.

If you need any help or guidance in the education and training that the PMI can offer you or your organisation in the area of ESG then email us at enquiries@pensions-pmi.org.uk

Month in Pensions: Administration

Rethinking climate risk governance

Colin Mayger
Partner, Barnett Waddingham

As the importance of addressing climate change becomes increasingly evident, regulators are placing greater emphasis on climate risk governance within the financial sector.

The Task Force on Climate-related Financial Disclosures (TCFD) has been at the forefront of this movement, urging organisations to assess and disclose their climate-related risks. The Pensions Regulator (TPR) has made it clear that even schemes not caught by the full TCFD reporting requirements should consider their approach to addressing climate risk. So what should trustees be thinking about?

Solid foundations

The foundation of climate risk management is good governance. It is the first element of the TCFD framework and forms a basis for all subsequent actions and decision-making. It is crucial to address governance as a primary step to:

- help establish clearly defined objectives;
- ensure that all relevant stakeholders are involved and engaged from the outset;
- avoid unnecessary work and ensure tasks and responsibilities are allocated to the appropriate people; and
- establish appropriate processes and resources to meet the objectives.

In short, establishing a clear governance framework sets any project up for success.

Ahead of TPR's General Code you may already be reviewing your governance policies and processes. While the General Code may not have a huge focus on climate risk, it presents an ideal opportunity to embed climate risk governance within your Effective System of Governance (ESoG) framework, ensuring that it becomes an integral part of the overall governance structure, enhancing its effectiveness and long-term sustainability.

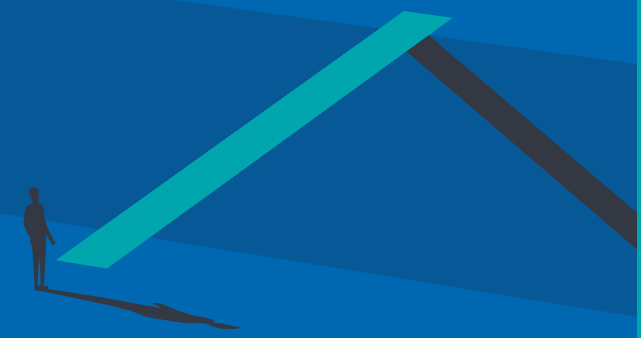
The next steps

Even for schemes that have already made progress in addressing climate risk, taking a step back and assessing the governance in place is advised. Climate risk governance should periodically be reviewed to keep pace with emerging challenges and regulatory expectations.

Similarly, although trustees are not expected to become climate science experts, they should strive to acquire a certain level of knowledge on general climate science concepts and terminology. This knowledge will equip trustees to understand the advice they receive, actively participate in discussions, and make informed decisions.

That training should ultimately carry across and support trustees in a pension scheme context. Discussions on climate risk can become dominated by capital allocation considerations (i.e. investments). This is no doubt important, but it is vital to acknowledge its impact on all aspects of Integrated Risk Management (IRM). Trustees should seek pensions-focused training that explores the broader implications of climate risk on a DB pension scheme, say, including potential impact on sponsor covenant and future funding strategies.

If you would like to hear more about the training that Barnett Waddingham can provide or would like assistance with a review of your ESoG, please speak to your usual BW contact.



Month in Pensions: Legal

It's not easy being green:

Environmental, social and corporate governance (ESG) and climate change issues for trustees

Sophia Russell
Associate, Sackers

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The extent to which ESG and climate change issues must be considered by pension scheme trustees has developed dramatically in recent years. Below we provide a brief overview of the key considerations in light of recent developments.

How do trustees' general duties apply?

Pension scheme trustees have general duties to consider when making changes in the interests of ESG and climate change issues.

For example, trustees must consider their fiduciary duties to scheme members. Therefore, there is the need for a clear link between climate-related considerations and the financial implications for investors. Trustees are also increasingly being required to improve their stewardship activities and consider how to entrench social factors within their investment decisions.

What else do trustees need to consider?

We have seen an avalanche of legislation and guidance in respect of ESG and climate change for trustees in recent years. Changes to legislation included new requirements for trustees to specify their policies in relation to "financially material considerations" (including ESG-related issues and climate change) and stewardship in their statement of investment principles (SIP) from October 2019. SIPs were also required to set out the extent to which "non-financial matters" (such as member views on ethical matters) were considered. From 1 October 2020, trustees of certain schemes were also required to produce an annual "implementation statement" setting out how they acted on policies in the previous year's SIP.

Arguably the most significant change in recent times has been the introduction of the Pension Schemes Act 2021 (the Act), which applied the Government's Green Finance Strategy (first published in 2019) to pension schemes. Regulations made under the Act, broadly following the recommendations of the Taskforce on Climate-related Financial Disclosures, focus on improving climate change risk governance and reporting by trustees, requiring compliance from the largest schemes from 1 October 2021. Trustees of schemes in scope are required to produce and publish an annual report summarising the governance arrangements they have put in place to manage climate-related risks.

What can we expect in the future?

The FCA has consulted on new Sustainability Disclosure Requirements (SDR) for FCA regulated investment managers and fund providers. Once the policy statement is published, this is likely to have (at least) an indirect impact on pension schemes via scheme investments. In time, trustees themselves may be brought directly within the scope of such reporting obligations. The publication of the Taskforce on Nature-related Financial Disclosures framework in September 2023 is also likely to affect pension schemes, though its precise impact is yet to be seen.

As ESG issues continue to have an impact across the economy, there will be more legislation and guidance from both government and industry bodies to assist trustees in their ESG obligations. Trustees will need to be alert to such changes in the years to come.

Feature Article

Are you really tracing lost customers, or just playing customer snap?

Paul Aggett
Chief Executive, Vestigium Services

Many financial organisations maintain they are undertaking regular tracing of gone away or lost customers, which usually means employing a third party who has their own list of names and addresses and who provide matches with the information provided. **This is not tracing – this is just playing snap with customers' names and addresses.**

The disadvantages are significant and considerable if the intention is to really find and re-engage with customers:

- Successful matches are returned with a percentage of how likely the new address is to be correct. This percentage may be higher than 60% but is often less. This means that you are mailing around half of people at the wrong address – a waste of your time and money.
- When Pensions Dashboards come in, there is a risk of matching with the wrong member with inaccurate matching.
- For many older cases, if the address on file is wrong, no match with the DDRI can be made. Also anyone who died before 2008 did so before the database was started.

Vestigium Services Limited undertake real tracing by properly searching for the customer using AI complemented by human intervention to 99.9% accuracy providing certainty and reducing costs.

Case Study for an insurance company

Despite carrying out regular mortality testing and tracing using data providers as noted earlier, our client had a significant number of policies which these providers had been unable to find. Having discussed the differences between our approach and their existing provider, the firm decided to try us out on our success fee basis.

Vestigium found 69% of a test file of customers within a week.

Of the above 33% were deceased.

For those who were deceased we provided confirmation of the death and proposed next steps for finding the beneficiaries of the policies.

For the small proportion who we were unable to find, we have placed their details on our repository, where we anticipate finding further cases each year in future.

For the policyholders/members where we have found a new address, they have now been reunited with their lost financial assets. A great outcome for them.

For the deceased policyholders/members, we can start to look for the beneficiaries of the policy to share the proceeds with them.

For the company, they are no longer being charged annually for looking for the policyholder in the wrong place and have released reserves.

A WIN-WIN-WIN SITUATION

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Vestigium Services Limited is an innovative customer tracing solutions organisation with a blue-chip client base. Information on the full range of services, including Living as Stated Health Check and Forensic Tracing, can be found on our website: www.vestigium-services.com, or contact paul.aggett@vestigium-services.com

EPMI Column

Reconnecting with the UK

Jonathan Silverberg EPMI
Senior Manager, Fiduciary, BWCI Group

After 15 years abroad, I returned to the UK to continue my pensions career.

I started out in 1990 to become a pensions actuary. I always thought that pensions was the most interesting actuarial career, and wanted to be part of a profession that performed a valuable social purpose.

My first job was in the actuarial department of a large employee benefit consultancy, where I was lucky enough to work with a talented actuary who taught me principles of actuarial funding, benefit design, and calculating the liabilities and costs of scheme benefits. Most of the valuation work was centralised using complex valuation systems but I learned how to review results from a high level for reasonableness.

Subsequently, I changed jobs and moved into more of a consultancy role. Pension consulting is a great supplement for an actuarial trainee. It doesn't fit everyone's bucket list, but I found it interesting to apply what I learned and see the effects first hand from the viewpoint of an employer. For example, I remember discussing the MFR basis in its first form with employers perplexed to see surpluses improve but ongoing costs increase.

The benefit of spending so much time doing actuarial valuations that you start to see membership profiles and bond yields in your head, so I was able to estimate how changes impacted schemes very quickly! And this served me well in my next job as global pensions manager where I acted as a specialist in pension governance and accounting.

Although I completed half the actuarial exams, I realised I wasn't going to qualify. No matter how far you've gone in your career, it's never too late to change direction so I left actuarial practice and moved to pensions management.

In this role, I assisted corporate management assess the impact of pension costs on the group's reporting and profits, especially during years when bond yields were very low. The group adopted Sarbanes Oxley compliance so I had to create a pensions governance framework that would fit local jurisdictions in a way that added value to corporate oversight without adding extra work to our local pension teams.

One drawback of a global role was struggling to decide where to look for continued learning. And this is where the PMI's EPMI qualification is so useful. Rightly, the PMI required me to summarise my experience and the benefits that the award would bring. But in earning it, I gained recognition for the skills and knowledge I had acquired over time.

Being back in 'British waters', at BWCI in Guernsey, has given me the motivation to look at the PMI academy. I'm hoping to study the Diploma in International Benefits.

EPMI Column

A personal odyssey

Banafsheh Ghafoori
Managing Consultant - Client Relationship & Strategy Lead, Like Minds UK Ltd

"The final salary pension's dead." That's what my university professor told me in the early 00s, when breaking the news that it's something I'd probably never be involved in. I look back with a smile and think how lucky I am that they were wrong.

When I reflect on my career, I am always amazed at how I ended up in a role I never knew existed let alone considered to be a career path. And I now think, why isn't this industry spoken about more? Why don't we encourage more people to join us?

I left university with a degree in Accounting & Finance with dreams of becoming a Tax Consultant. So, when I landed a temporary role at Hewitt Associates (now Aon) as a pension administrator, I never thought I'd still be part of the pension industry nearly 20 years later.

My time as a pension administrator opened my eyes to the variety and opportunities this industry gives you. But with friends who were qualifying as chartered accountants, I wanted to have something to my name too. So, I quickly signed up to complete a PMI qualification.

I took on the Diploma in Pension Calculations and this helped me understand the different elements of pension administration and how they all linked together. It also gave me exposure to the different areas of the industry I hadn't yet experienced.

However, this exam actually meant much more to me. Not only could I apply what I was learning to my day-to-day job, it also gave me a better understanding of why we did what we did. A passion that I've carried with me throughout my career.

Once I completed the qualification, I decided to gain knowledge and understanding through experience rather than qualifications. This is why gaining the EPMI was so valuable to me. It has helped me continue to build my knowledge but also elevated my professional network. It also connects with others who share my passion in helping people. The resources available allow me to read, listen and learn about the technicalities and thought leadership which then enables me to provide solutions to my clients.

Unknown to most, the knowledge gained from the very first qualification is still used in my current role in supporting clients with engagement and communication problems. However now with the EPMI I can successfully highlight my professional competence, to give confidence to my clients and colleagues that I have knowledge and experience. And gaining a wider network along the way.

How pension schemes' climate journey is gathering pace | TPR Column

TPR Column

How pension schemes' climate journey is gathering pace

Louise Davey
TPR's Interim Director of Regulatory Policy, Analysis and Advice

In just a few months our climate change strategy will be three years old.

We do not underestimate the scale of the challenge climate change poses to savers' retirements, but I do want to reflect on the progress we've made since we first published our plan.

Annual reporting

The Pension Schemes Act 2021 wrote climate change governance and reporting into pensions law in the most comprehensive way to date.

Now, trust schemes with relevant assets under management of £1 billion or more must report annually on their governance of climate-related risk and opportunities. All authorised master trusts had to meet these governance and reporting requirements for scheme years ending after 1 October 2021.

To aid trustees, we published guidance in 2021, last updated September 2022, and an illustrative example charting how an example scheme might approach meeting the regulations.

And this year, our promised **review of climate disclosures** found several areas of improvement for schemes and some emerging good practice..

Climate change is likely to continue to pose a financial risk to savers' pensions for the foreseeable future, so all trustees in scope of the regulations, and their advisers, should read our review and consider how they can improve their governance and reporting of climate-related risks and opportunities.

Continuing enforcement

Over the course of 2023 to 2024, we will review a cross-section of reports to identify further good practice and areas for improvement.

We will scrutinise a selection of reports for compliance and expect the quality to improve year on year as knowledge and practice evolves.

We will communicate the findings as part of an industry-wide statement in 2024, which we expect trustees to use to inform and improve future reports.

But we should be clear, we will not shy away from imposing a penalty where it is right to do so.

We will and must act by using the mandatory fining regime set out in law in respect of the requirement to publish the climate change report, on a publicly available website, accessible free of charge.

Trustees are ultimately responsible for publication even where third parties are carrying out tasks on their behalf and must ensure they have proper oversight.

Compliance with the basics

We said in our strategy that we expected to see all schemes in scope publish their annual climate change report.

And we highlighted we wanted to see trustees publish their statement of investment principles (SIP) and implementation statement (IS) if their scheme is within the scope of these requirements.

We believe these disclosures, along with the annual climate change reports, represent compliance with the basics.

In February, we launched a campaign to ensure trustees were meeting these basics. It saw us check whether relevant schemes had published their SIP and IS. Our regulatory team has already contacted trustees of schemes in cases where we have not seen clear compliance with the publication duties.

We continue to review what further enforcement action may be necessary as we review a cross-section of SIPs and ISs. The outcome of our review will be shared with industry to highlight good practice.

Smaller schemes

Although there is no legal requirement for trustees of trust schemes with relevant assets below £1 billion to implement governance and reporting in relation to climate-related risks and opportunities, trustees may wish to do so voluntarily if that fits in with their other duties, for example, with their duty in relation to value for members.

Influencing the debate

We also said in our strategy that we wanted to influence debates around pensions and climate change.

Recently, we were keen to offer a perspective on concerns over the scenario analysis used by schemes in their reports.

This debate provided a timely opportunity to take stock, look ahead and recognise many trustees are only just taking their first significant steps on their climate journey.

But it is important trustees continue to develop their knowledge and understanding of climate-related risk.

Trustees do not need to be climate experts but should have an appropriate level of knowledge and understanding of climate-related risks and opportunities.

They should undertake regular training and ask for additional training if they do not feel comfortable making decisions based on the information they have been provided with.

Pace of change

There is still much work for the pensions industry to do in terms of building resilience and assessing climate-related risks and opportunities.

In the three years since we published our strategy there have been significant steps forward, but we expect good practice to evolve at pace.

Trustees should make sure they have the capacity and capability to keep up.


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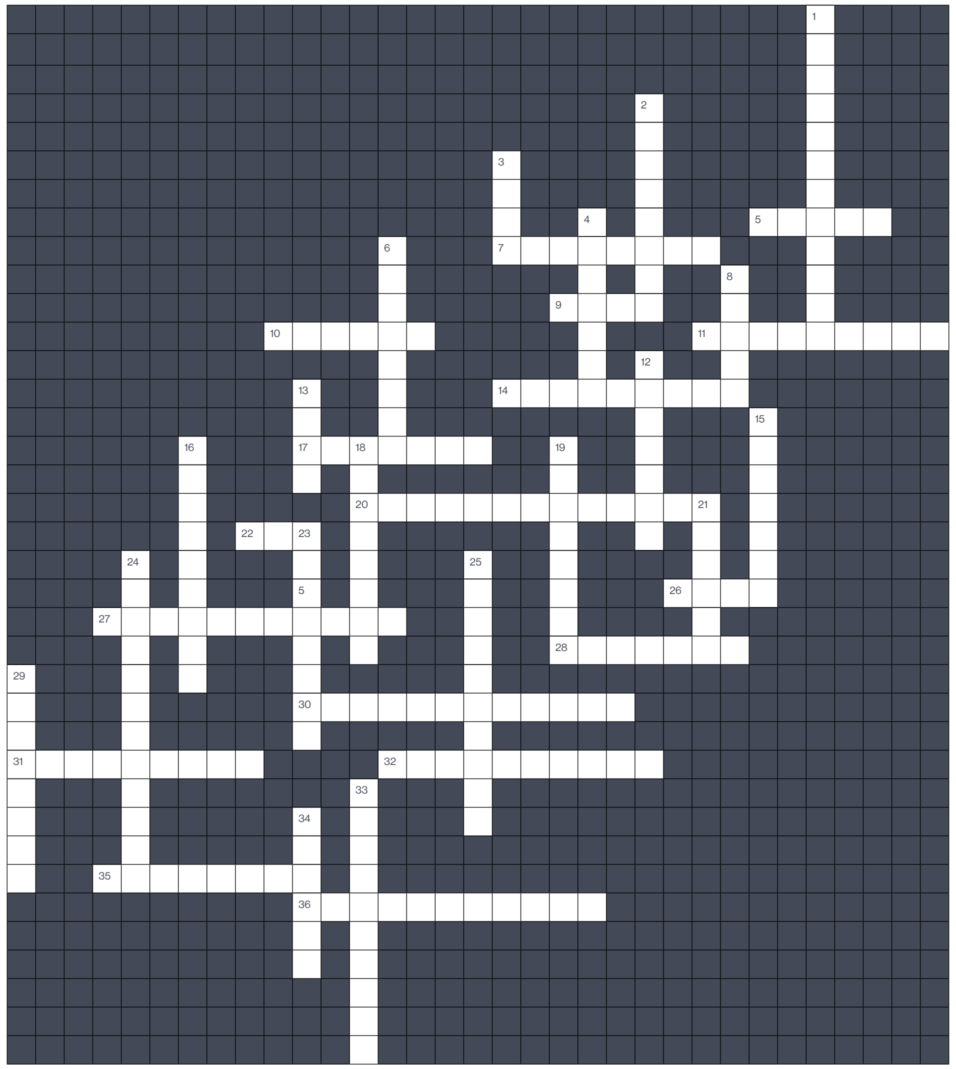
Pension Conundrum

Pension Conundrum

Crossword

Across

5. The pattern on the surface of a tyre (5) **7.** Onlooker (8) **9.** A celestial body (4) **10.** An opportunity or possibility that is not certain or predictable (6) **11.** Relating to government, policies, or the affairs of a nation (9) **14.** Having received official permission or established by a formal document (9) **17.** A portion of a larger financial investment (7) **20.** Relating to an organisation or authority that transcends national boundaries (13) **22.** Keen (5) **26.** A feeling of optimism and expectation for a positive outcome (4) **27.** Caught off balance or disoriented, as in a surprise move (10) **28.** Someone who falls behind or is slow to catch up (7) **30.** A lack of consensus or difference of opinion (13) **31.** A method of reasoning or a ceremony for initiation (7) **32.** Meeting the necessary requirements or standards (10) **35.** Not done in a straightforward manner (8) **36.** Leaving no doubt or ambiguity (11)



Down

1. The act of delaying or rescheduling an event (12) **2.** The transfer of funds from one investment or account to another, often in a retirement context (8) **3.** A person admired for their courage and noble qualities (4) **4.** The atmospheric conditions in a specific location at a given time (7) **6.** Governmentally imposed economic limitation (8) **8.** Digital storage space (5) **12.** The process of gaining full ownership or control of something (7) **13.** A movable barrier used to control passage (4) **15.** Farthest from the ordinary or usual (7) **16.** A regularly given amount of money (9) **18.** Support, guidance, or protection provided by an organisation (8) **19.** From an outside source (8) **21.** To work or toil (6) **23.** A mark of recognition, approval, or honour (8) **24.** The official authority to make legal decisions (11) **25.** Not represented or described as a model or example (10) **29.** Not found in a directory or phone book (8) **33.** Mirrored image (10) **34.** The inherent or essential qualities of something (6)

Answers from Issue 51

Across

1.Bulk **5.**Purview **7.**Cleansed **10.**Benefit **11.**Prudent **12.**Bond **13.**Inclusion **17.**Immense **19.**Navigate **20.**Graphic **23.**Chart **24.**Preparation **26.**Career goals **28.**Contingent **31.**Well funded **33.**Hinge **34.**Record **36.**Standard **38.**Latitude **40.**Declaration **41.**Take note **42.**Matters **45.**Buffet **6.**Wade

Down

2.Lacking **3.**Opine **4.**Discount **6.**Refreshing **8.**Fireside **9.**Burden **14.**Nature **15.**Steadying **16.**Rush **18.**Mirror **21.**Reconsider **22.**Constellate **25.**Insurers **27.**Require **29.**Totem **30.**Guest list **32.**Arose **34.**Reinsurance **35.**Called **37.**Driven **39.**Duties **42.**Mentee **43.**Toolkit **44.**Ship

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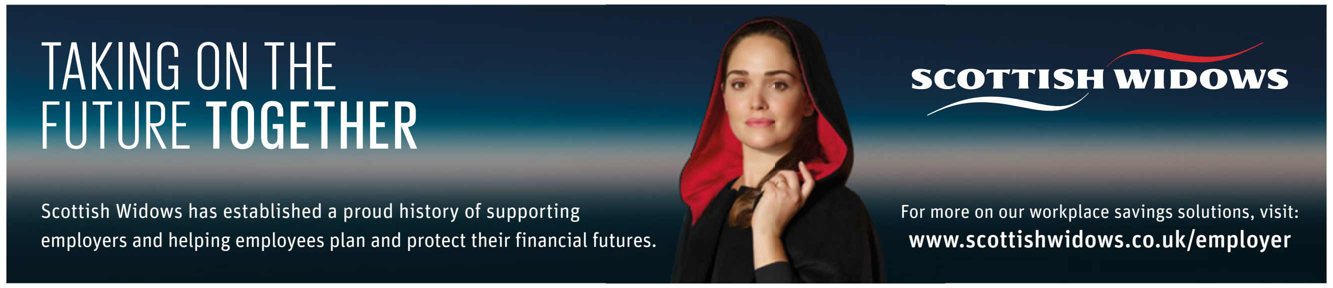
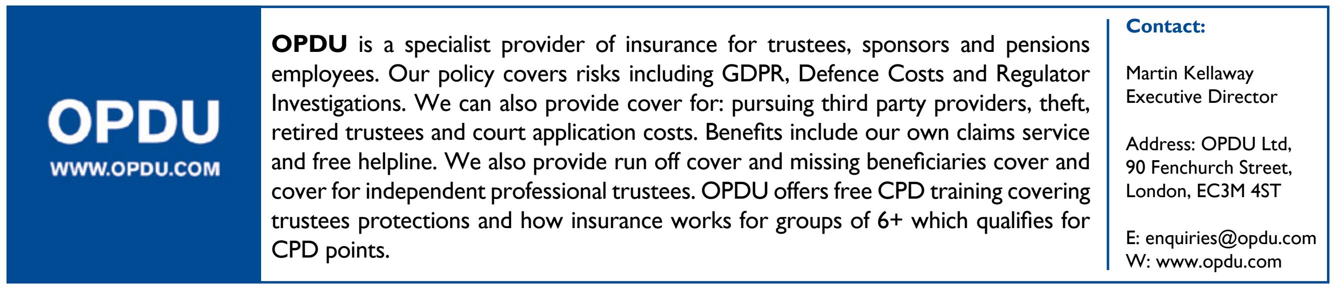


Trustees Liability Protection Insurance



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