



ACCOUNTING FOR
SUSTAINABILITY

EMBRACING TCFD: PRACTICAL STEPS TO ADOPTING AND BENEFITING FROM THE TCFD FRAMEWORK

OCTOBER 2022



ABOUT A4S

- **Founded:** By His Majesty The King when he was The Prince of Wales, in 2004
- **Purpose:** Transform finance to deliver a sustainable future
- **Who we work with:** Engage at the most senior level across the end-to-end finance system
- **What we do:**
 - Inspire finance leaders to adopt sustainable and resilient business models
 - Transform financial decision making to enable an integrated approach, reflective of the opportunities and risks posed by environmental and social issues
 - Scale up action across the global finance and accounting community

OUR WORK WITH PENSION TRUSTEES

- Asset Owners Network
- Shaping what good looks like:
 - [ESG Toolkit for Pension Chairs and Trustees](#)
 - [Webinars](#) and [roundtable sessions](#)
 - Support collective voice on topics including TCFD, Net Zero, ISSB sustainability disclosure draft
- Collaborate with pension bodies and associations



WHAT IS THE TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) AND HOW DOES IT AFFECT PENSION SCHEMES IN THE UK?



- The TCFD was set up in 2015 by the Financial Stability Board and released its initial recommendations in 2017 for more effective climate-related disclosures
- Looks at how climate change will affect the organization (not the other way round) ie for organizations to identify and disclose the risks and opportunities to the organizations due to climate change.
- Following the Occupational Pension Schemes Act 2021:
 - From 1st October 2021, occupational pension schemes with assets under management (AUM) of more than £5 billion must have produced and published (within seven months of the end of the scheme year underway on 1st October 2021) the scheme’s first annual TCFD report.
 - From October 2022, occupational pension schemes with AUM of more than £1 billion are captured on the same basis.

1 st October 2021	> £5billion AUM
1 st October 2022	> £1billion AUM
?????????	< £1billion AUM

AND WHY IS THIS IMPORTANT?

- **Fiduciary duty** to provide long-term, risk-adjusted returns to our members is threatened by the impact of climate change both now and in the future.
- **Opportunities** as the global economy transitions to net zero and adapts to climate change, capital can be directed to new technologies, business models and asset classes.
- **Transition risk** from the realignment of the economic system towards low-carbon, climate-resilient or carbon positive solutions (eg via regulations or market forces).
- **Physical risk** as a result of extreme weather (eg damage to buildings and infrastructure) which can halt supply chains and/or close operations in vulnerable locations.
- **Litigation risk** (eg compliance with pension regulations; potential litigation faced by investee companies failing to mitigate, adapt or disclose; and potential litigation against pensions themselves).

WHAT ARE THE TCFD RECOMMENDATIONS FOR PENSION SCHEMES IN SCOPE?

- **Governance** – establish, maintain and disclose the trustees’ governance procedures around climate-related risks and opportunities.
- **Strategy** – disclose the actual and potential impacts of climate-related risks and opportunities on the pension scheme where that information is material.
- **Risk Management** – disclose how the trustees identify, assess, and manage climate-related risks.
- **Metrics and targets** – disclose the metrics and targets the trustees use to assess and manage climate-related risks and opportunities where that information is material.
- **Scenario analysis** – used to help trustees assess and manage the financially material risks that climate change may pose to their scheme.
- **Relevant knowledge requirements** – trustees must have an understanding of the principles relating to the identification, assessment and management of climate-related risks and opportunities to the scheme.

HOW CAN THE TCFD RECOMMENDATIONS HELP SMALLER SCHEMES?

- **Meet broader legal duties to manage climate-related risks** – TFCF provides a useful framework to work out governance needs and strategy development.
- **Assess the relevance of climate change (even for DB schemes winding up)** – climate related risks could affect the value of assets eg corporate debt and annuity pricing. TCFD helps trustees see their vulnerability in the short, medium and long term.
- Using climate scenario analysis can help you **assess your scheme’s resilience to different future outcomes** and how your assets or liabilities may be affected by different outcomes.
- **Strengthen an integrated risk management approach with scenario analysis** – using scenario analysis to look at potential climate impacts on investment, covenant and funding, will help you to understand how climate change will affect the employer’s ability to meet future contribution requirements.
- The risk framework as set out in the TCFD recommendations and PCRIG demonstrates the importance of have a **climate-related risks management process**. All trustees should revisit their risk registers and add climate-related risks as a consideration – risks to both the scheme’s investments and (for DB) funding and sponsor covenant.
- **Streamline!** – the TCFD framework is a global and cross industry accepted framework. By including the need to disclose in line with TCFD as part of fund manager selection criteria, it will ensure a certain amount of consistency of reporting across all 3rd party managers (therefore no need to translate disparate data into one format).
- **Communicate with members** - making your members aware about how you are considering climate-related risks and opportunities and how they are being managed will help build trust and public confidence with your members. Many pension schemes have conducted member surveys to see how important these issues are – they showing up as of high interest/concern.



TOP TIPS FOR SMALLER SCHEMES

- Use the TCFD framework to enhance overall governance processes and approaches
- Leverage peer networks and initiatives, like A4S, to share and learn from peers
- Don't overcomplicate it and set measurable goals
- Get the whole Board involved and bought-in – start with the [ESG Maturity Map for Pension Trustees](#)
- Talk to your sponsor – many will have already adopted TCFD
- Talk to your service providers about following the TCFD framework



TAKE ADVANTAGE OF FREE RESOURCES AVAILABLE

- PCRIG is detailed and lists free scenario analysis tools to use
- The Pension Regulator's [guidance on governance and reporting of climate-related risks and opportunities](#)
- Transition Pathway Initiative
- A4S's [ESG Toolkit for Pension Chairs and Trustees](#) - Succinct and short guidance and pension case studies on:
 - TCFD elements eg scenario analysis, identifying metrics etc
 - Wider issues eg getting the most out of your service providers, embedding a net zero strategy, embedding sustainability into the employer covenant process

TOP TIPS FOR PENSION SCHEMES – GETTING STARTED

- Understand where you are at and get key decision makers on the same page > [A4S's ESG Maturity Map](#)
- Leverage your peer networks and join existing collaborations, such as:
 - [A4S's Asset Owners Network](#) (Pension scheme chairs)
 - [Occupational Pensions Stewardship Council](#)
 - [UN-convened Net Zero Asset Owners Alliance](#)
 - [Principles for Responsible Investment](#)
 - [Transitions Pathway Initiative](#)
- Use established processes, eg:
 - TCFD framework and scenario modelling – help understand your exposure to climate risk and identify your net zero targets and metrics
 - IIGCC's [Net Zero Investment Framework](#) – test out different asset class approaches
 - Established internal processes eg investment beliefs / mandates – embed identified objectives and milestones



LEVERAGE YOUR POSITION TO EMBED ESG FACTORS INTO THE INVESTMENT PROCESS (ABOVE AND BEYOND REGULATORY REQUIREMENTS)*

- Set criteria to the manager procurement process, eg this could include:
 - Demonstrating their own TCFD implementation
 - Having a net zero transition plan
 - Being a signatory of UK Stewardship Code / net zero alliance etc
- Investment mandates – long-termism and long-term metrics
- Embrace the power of stewardship. Find out more:
 - Occupational Pensions Stewardship Council
 - Findings from the Taskforce on Pension Scheme Voting Implementation
 - A4S case studies on stewardship – eg [Alecta](#), [Church of England Pensions Board](#)
- Get active! (Shareholder resolution; respond to consultations; participate in collective initiatives)

*For further 'Top Tips' go [to A4S website](#)





ACCOUNTING FOR
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ESG TOOLKIT FOR PENSION CHAIRS AND TRUSTEES AN OVERVIEW



WHAT AND WHY

- A toolkit of resources that bring to life what good looks like.
- Aims to inspire action on next steps to mature the scheme's ESG integration approach.
- A 'live' document with new resources continually being added.
- Supports trustees in discussions with fellow trustees, consultants and fund managers about practical actions they should take.
- Transferable to different jurisdictions and sizes (where appropriate).
- Also useful for service providers, actuaries and pension managers.



Access the toolkit [here](#)

KEY COMPONENTS

1. An ESG maturity map with suggested steps that schemes can take to progress on their ESG integration journey.
2. Practical examples of pension schemes to bring 'what good looks like' to life.
3. Guidance material to highlight the practical steps eg embedding ESG factors into different asset class portfolios.

1

ESG MATURITY MAP: EXAMPLE BEHAVIOURS FOR PENSION TRUSTEES
Embedding ESG considerations into pension schemes' investment decisions, reporting and engagement across the investment chain

On the journey to embedding environment, social and governance (ESG) considerations into a pension scheme's strategy and processes, where do you find your scheme in today's journey? What actions could you take to deepen your approach further? The levels outlined below are non-exhaustive, as you cannot achieve Level 4 without completing previous levels in full. A Level 0 - Compliance only, can be found at the end of this document, which outlines the minimum requirements that a Board of a UK pension scheme in scope must comply with.

Use this as a guide or as an interactive workshop tool, the maturity map will help you set a pension trustee agenda with your trustees to consider what your approach is, to be progressed, to be deepened, to be transformed to different asset classes, portfolios, outcomes.

	Level 1 - Understanding	Level 2 - Adapting	Level 3 - Deepening	Level 4 - Leading
Identifying how to achieve sustainable outcomes	The Board: The Board has made a commitment and published a statement of intent on ESG integration and the role of ESG in the investment process.	The Board: The Board has identified the ESG issues that are most material to the investment process and has published a statement of intent on ESG integration and the role of ESG in the investment process.	The Board: The Board has identified the ESG issues that are most material to the investment process and has published a statement of intent on ESG integration and the role of ESG in the investment process.	The Board: The Board has identified the ESG issues that are most material to the investment process and has published a statement of intent on ESG integration and the role of ESG in the investment process.
Embedding ESG into the investment process	The Board: The Board has identified the ESG issues that are most material to the investment process and has published a statement of intent on ESG integration and the role of ESG in the investment process.	The Board: The Board has identified the ESG issues that are most material to the investment process and has published a statement of intent on ESG integration and the role of ESG in the investment process.	The Board: The Board has identified the ESG issues that are most material to the investment process and has published a statement of intent on ESG integration and the role of ESG in the investment process.	The Board: The Board has identified the ESG issues that are most material to the investment process and has published a statement of intent on ESG integration and the role of ESG in the investment process.
Reporting and engagement with stakeholders	The Board: The Board has identified the ESG issues that are most material to the investment process and has published a statement of intent on ESG integration and the role of ESG in the investment process.	The Board: The Board has identified the ESG issues that are most material to the investment process and has published a statement of intent on ESG integration and the role of ESG in the investment process.	The Board: The Board has identified the ESG issues that are most material to the investment process and has published a statement of intent on ESG integration and the role of ESG in the investment process.	The Board: The Board has identified the ESG issues that are most material to the investment process and has published a statement of intent on ESG integration and the role of ESG in the investment process.

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ENGAGING ASSET MANAGERS TO SUPPORT NET ZERO

BTPS
 Engaging asset managers to support net zero practical example - BT Pension Scheme.pdf

ALIGNING OUR MEMBER EXPECTATIONS WITH OUR INVESTMENT STRATEGIES

TESCO
 Aligning member expectations with investment strategies

AN APPROACH TO STEWARDSHIP

THE CHURCH OF ENGLAND PENSIONS BOARD
 Approach to stewardship practical example Church of England Pensions Board.pdf

TCFD REPORTING

West Midlands Pension Fund
 TCFD reporting practical example - West Midlands Pension Fund.pdf

DEDICATING ASSETS TO SUSTAINABLE OUTCOMES

Environment Agency Pension Fund
 Dedicating assets to sustainable outcomes - Environment Agency Pension Fund.pdf

DELIVERING A NET ZERO INVESTMENT STRATEGY

nest
 Delivering a net zero investment strategy - NEST.pdf

3

SPONSORS OF PENSION

Sustainable Investing in pensions - Top Tips for Sponsors of Pension Schemes.pdf

EMBEDDING ESG INTO A FIXED INCOME PORTFOLIO

Fixed income investments
 A summary guide for pension trustees - Fixed income

EMBEDDING ESG INTO A PRIVATE EQUITY PORTFOLIO

Private equity investments
 A summary guide for pension trustees - Private equity

EMBEDDING ESG INTO A LISTED EQUITIES PORTFOLIO

Listed Equity Investments
 A summary guide for pension trustees - Listed equity

EMBEDDING ESG INTO A REAL ESTATE PORTFOLIO

Real estate investments
 A summary guide for pension trustees - Real estate

EMBEDDING ESG INTO AN INFRASTRUCTURE PORTFOLIO

Infrastructure investments
 A summary guide for pension trustees - Infrastructure

1. ESG MATURITY MAP

- Outlines ‘what good looks like’ and embeds ESG considerations into investment decisions, reporting, and engagement across the investment chain.
- Assesses what the scheme is currently doing and what steps can be taken to progress across 4 levels of maturity.
- For example:
 - Level 1: a Board could confidently speak about the role of asset owners in driving better corporate behaviour around ESG integration.
 - Level 3: a Board member would be expected to attend at least one investee company AGM per year, asking ESG-related questions as part of the engagement process.

ESG MATURITY MAP: EXAMPLE BEHAVIOURS FOR PENSION TRUSTEES

Embedding ESG considerations into pension schemes' investment decisions, reporting and engagement across the investment chain

On the journey to embedding environment, social and governance (ESG) considerations into a pension scheme's strategy and processes, where do you think your scheme is along that journey? What actions could you take to deepen your approach further? The levels outlined below are non-exhaustive. In your current scheme, Level 4 without completing previous levels is full. A Level 0 - Compliance only can be found at the end of this document, which outlines the minimum requirements that a Board of a UK pension scheme in scope must comply with.

Used as a guide or as an interactive workshop tool, the maturity map will help you as a pension trustee assess what your scheme is currently doing and what steps you can take to progress. It is designed to be translatable to different jurisdictions.

[Download the maturity map here](#)

	Level 1 - Understanding	Level 2 - Adopting	Level 3 - Deepening	Level 4 - Leading
Accounting trends to drive sustainable outcomes	<p>The Board:</p> <ul style="list-style-type: none"> Has confirmed to the Board that the Board has made enquiries and practical efforts to understand ESG considerations across the investment chain. 	<p>The Board:</p> <ul style="list-style-type: none"> Has confirmed to the Board that the Board has made enquiries and practical efforts to understand ESG considerations across the investment chain. 	<p>The Board:</p> <ul style="list-style-type: none"> Has confirmed to the Board that the Board has made enquiries and practical efforts to understand ESG considerations across the investment chain. 	<p>The Board:</p> <ul style="list-style-type: none"> Has confirmed to the Board that the Board has made enquiries and practical efforts to understand ESG considerations across the investment chain.
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Engaging with investee companies	<p>The Board:</p> <ul style="list-style-type: none"> Has confirmed to the Board that the Board has made enquiries and practical efforts to understand ESG considerations across the investment chain. 	<p>The Board:</p> <ul style="list-style-type: none"> Has confirmed to the Board that the Board has made enquiries and practical efforts to understand ESG considerations across the investment chain. 	<p>The Board:</p> <ul style="list-style-type: none"> Has confirmed to the Board that the Board has made enquiries and practical efforts to understand ESG considerations across the investment chain. 	<p>The Board:</p> <ul style="list-style-type: none"> Has confirmed to the Board that the Board has made enquiries and practical efforts to understand ESG considerations across the investment chain.
Reporting and disclosure	<p>The Board:</p> <ul style="list-style-type: none"> Has confirmed to the Board that the Board has made enquiries and practical efforts to understand ESG considerations across the investment chain. 	<p>The Board:</p> <ul style="list-style-type: none"> Has confirmed to the Board that the Board has made enquiries and practical efforts to understand ESG considerations across the investment chain. 	<p>The Board:</p> <ul style="list-style-type: none"> Has confirmed to the Board that the Board has made enquiries and practical efforts to understand ESG considerations across the investment chain. 	<p>The Board:</p> <ul style="list-style-type: none"> Has confirmed to the Board that the Board has made enquiries and practical efforts to understand ESG considerations across the investment chain.

For UK occupational schemes with assets equal to or exceeding £1 billion

1. ESG MATURITY MAP: LEVEL 0

Level 0 – compliance only.

This table sets out the minimum requirements that a UK pension scheme must currently comply with or needs to start processes in order to comply with near-term regulations as set out in the UK Pension Schemes Act 2021.

Requirement – The Board must:	Deadline	Type of scheme
Include ESG and stewardship policies in its Statement of Investment Principles (SIP) and publish this online.	By 1st October 2020 (if not earlier)	DB and DC / Hybrid
Publish 'implementation statements' explaining how it has implemented its SIP policies, including in ESG and stewardship, as well as provide further information on its asset manager and investment engagements.	First annual report from 1st October 2020 and no later than 1st October 2021	DC / Hybrid
Include a description of the voting behaviour by or on behalf of the trustees including the use of proxies within the published Implementation Statement.	By 1st October 2021	DC / Hybrid
Publish an Implementation Statement explaining how it has implemented its SIP policies, including policies around voting and stewardship.	First annual report from 1st October 2020 and no later than 1st October 2021	DB
Following the coming into force of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 on 1 October 2021, the Board in scope must:		
Disclose – within its governance policies – how it maintains oversight of climate-related risks and opportunities which are relevant to the scheme; as well as the role of any person who undertakes governance activities, or who advises or assists the Board with respect to governance (excluding legal advisers), in identifying, assessing and managing climate-related risks and opportunities – and the process by which the Board satisfies itself that the person is undertaking such identification, assessment and management.	From 1st October 2021, with the scheme's first annual TCFD report produced and published within seven months of the end of the scheme year underway on 1st October 2021 - Occupational pension schemes with assets under management (AUM) of more than £5 billion, authorised master trusts and collective money purchase schemes. From October 2022, on the same basis – Occupational pension schemes with AUM of more than £1 billion.	
Identify and then assess the impact of climate-related risks and opportunities which it considers will have an effect over the short term, medium term and long term on the scheme's investment strategy and, where relevant, the funding strategy.		
Undertake – as far as it is able – scenario analysis using at least two scenarios where there is an increase in the global average temperature, (one of which is with an average temperature rise of between 1.5°C and 2°C above pre-industrial levels); and then disclose the results.		
Disclose in a publicly available report, effective processes to identify, assess and manage climate-related risks, and ensure that this is integrated into the Board's overall risk management of the scheme.		
Select, use and disclose at least two emissions-based metrics and one additional climate-related metric to calculate in relation to the scheme's assets.		
Set a target for the scheme in relation to at least one of its chosen metrics and report annually on progress against the target.		
Have knowledge and understanding of the principles relating to the identification, assessment and management of risks and opportunities to its scheme arising from the effects of climate change; and implement trustee training where needed.		

- Level 0 outlines the minimum requirements that a Board of a UK pension scheme must comply with, as set out in the UK Pensions Schemes Act 2021.

1. ESG MATURITY MAP: IN PRACTICE

- A4S has written an accompanying guide to help trustees ‘workshop’ the maturity map with their Board.

Key features of the workshop guide:

- A step-by-step activity format and tips for maximizing engagement in a virtual context.
- An outputs template to record consensus on level of maturity per area, challenges identified and agreed next steps.
- Resource links table to signpost you to peer-case studies and guidance material.
- A commitments table to commit to progress with milestones and definitions of success.

Appendix 4 – commitments table

A key output of the maturity map workshop will be to establish specific commitments that reflect your own specific priorities, strengths and resources, as a pension scheme. We recommend that your commitments are ambitious, clearly defined and measurable, so you will be able to track progress on a regular / annual basis.

Commitment	Milestones	What will success look like?
What do you want to achieve this year? What priority area (left hand column of maturity map) does it relate to?		

Appendix 3 – resource links to date (within the A4S ESG Toolkit for Pension Chairs and Trustees)


Action area	A4S - Case study examples	A4S - Guidance material	External resources
Sustainable default funds	NEST		IIGCC + PAII - Net Zero Investment Framework 1.5°C Implementation Guide
Proportion of scheme assets invested to drive ESG outcomes	Environment Agency Pension Fund		Impact Investing Institute and Pensions for Purpose - Impact Investing Principles for Pensions
Integrating ESG into investment decision-making (frameworks and governance)		Embedding ESG into different asset classes	CFA Asset Owner Summit SDG-ESG Infrastructure Investment Framework
Engaging with beneficiaries	Tesco Pension Fund	Top Tips for Sponsors of Pension Schemes	Cambridge Institute for Sustainability leadership - Walking the talk: Understanding consumer demand for sustainable investing
Engaging with sponsors		Top Tips for Sponsors of Pension Schemes	
Engaging with consultants			Investment Consultants Sustainability Working Group - Guide for assessing climate competency of Investment Consultants
Engaging with asset managers	BT Pension Scheme		PLSA – Engaging the Engagers – A practical toolkit for schemes to achieve effective stewardship through their managers PRI – Investment Manager Monitoring Guide
Stewardship	The Church of England Pensions Board		FRC – The UK Stewardship Code 2020 - Review of early reporting PLSA – Stewardship Guide and Voting Guidelines 2020 UNPRI – A Practical Guide to Active Ownership in Listed Equity
TCFD reporting	BBC Pension Scheme HSBC Bank (UK) Pension Scheme West Midlands Pension Fund	Top Tips for Finance Teams on implementing the TCFD recommendations	DWP - Aligning your pension scheme with the Taskforce on Climate-Related Financial Disclosures recommendations



Access the Workshop Guide [here](#)



2. PRACTICAL EXAMPLES

- A growing bank of case studies produced in collaboration with a variety of pension schemes (DB, DC, small, large, public, private, single/multi-employer).
- ‘In the voice’ of pensions schemes, focusing on practical steps for trustees, and including top tips for taking similar action.



DELIVERING A NET ZERO INVESTMENT STRATEGY

Practical example: National Employment Savings Trust (NEST)



WHAT

Nest Corporation is the trustee for the UK's biggest pension fund by members, National Employment Savings Trust (Nest). This pension scheme was created as part of the UK government's automatic enrolment reforms for workplace pensions.

In July 2020, we announced a new climate change policy, which sets out our ambition to align our entire investment strategy with limiting global warming to 1.5°C. To achieve this, we expect to halve our greenhouse gas emissions by 2030 and reach net zero greenhouse gas emissions by 2050 at the latest.

We have made specific commitments that we will achieve this in the following:

- Asset allocation
- Fund manager selection
- Stewardship
- Public policy

An immediate step was to develop market equity a fund to climate aware strategies. £5.5 billion of members' aware fund positively tilts mitigating and adapting to as those producing renewable green technology and those reduction plans in place. 74 per cent of our entire immediate effect on the of more than 9 million of our members.

Practical example: National Employment Savings Trust (NEST)

NEXT STEPS

One challenge for us is tracking our progress towards net zero carbon emissions. The methodology should align with our 1.5°C pathway and measure our progress across all asset classes. It's an area that we're still working on.

Building on our work in developed equity, we would like to take a similar approach with emerging market equity. We want to make sure that underlying investments for this asset class are also on the right path for creating a 1.5°C world. This here is not as strong, though. After examining the quality of the data, we will whether and how to adapt our approach.

We would like to create space for a two-way dialogue with our members and exploring fintech solutions. At the moment, we are mostly informing members what we're doing. Member feedback could help us to prioritize where we core resources. It could even improve our engagement with companies, by showing our voters represents the views of a large number of members who cared and express a preference.

Practical example: National Employment Savings Trust (NEST)

TOP TIPS

- SET OUT YOUR INTENT**
Be clear about your goals and what you want to achieve. You don't have to know how you're going to deliver on every aspect. We found it helpful to set out our intentions publicly so that we had something to start working towards.
- CHOOSE THE RIGHT FUND MANAGERS**
Having the right team of fund managers makes a huge difference. Help them to understand why thinking about climate change risk and other ESG factors is important. We've found that our fund managers have been very open to these ideas, but they needed the right push from their clients.
- BE AN ACTIVE SHAREHOLDER**
By engaging with the companies that you're invested in, you can use your influence to bring about real change. It also makes a difference to talk about being an active shareholder. Talking openly about your experience and collaborating can encourage others in the industry to take a similar approach.
- CHECK THE NUMBERS**
It's vital to be evidence-based when you are making decisions about sustainable investing and pension funds. Make sure that you have good numbers and strong evidence. This will help you to demonstrate the rationale for what you're doing and to follow through in a meaningful way.
- SPEAK TO YOUR SAVERS**
Communicating with members about sustainability will become increasingly crucial for pension funds. Input from savers is also a way to develop a stronger licence to operate.

Practical example: National Employment Savings Trust (NEST)

BANK OF PRACTICAL EXAMPLES

TOPICS COVERED


- Engaging with service providers
- Stewardship
- TCFD reporting (including a deep dive into metric and target setting and scenario analysis)
- Setting Net Zero investment strategies
- Establishing opportunity funds
- Engaging with beneficiaries



Access the bank of practical examples [here](#)

3. GUIDANCE MATERIAL

- A growing bank of resources for chairs and trustees to integrate ESG into their decision-making and processes.
- Aim to facilitate discussions in-house and across the investment chain, highlighting key actions and steps that can be taken.



EMBEDDING ESG FACTORS INCOME INVESTMENTS

A summary guide for pension trustees

Fixed income is a diverse asset class that can serve a range of purposes in pension scheme portfolios. Investment-grade sovereign and corporate bonds offer a source of relatively stable, contractual cash flows, and do not typically exhibit the volatility inherent in global equity markets. Long-dated bonds also play a key role in matching long-term liabilities for a range of institutional investors. There are also higher risk and return options, including high-yield debt securities issued by organizations or countries with low credit ratings. These securities can offer attractive ongoing returns to compensate for the higher risk of default, and investors would benefit from improved credit ratings in the future.

Relevance of ESG considerations in achieving these objectives

It is now widely acknowledged that environmental, social and governance risk factors can affect both sovereign and corporate issuers' creditworthiness, and thus ultimately their ability to meet their debt obligations (ie not to default). Governance factors have historically been incorporated into credit analysis. Increasingly, however, social and environmental factors are also being considered in the context of evaluating the quality of the debt instruments, and the ability of a borrower to meet its debt obligations.

In the context of government debt, the importance of assessing governance risk factors such as political stability, institutional strength and the rule of law, is well recognized. In parallel, however, environmental risk factors, such as climate disasters, energy and food security are increasingly seen as influencing economic factors such as tax revenues and a government's ability to attract foreign investment. ESG factors, in impacting a country's economy, can also influence underlying inflation and interest rates – core metrics to consider when assessing the potential interest rate risk of any bond investment.

ESG maturity map


The A4S ESG maturity map, part of its [ESG Toolkit for Pension Chairs and Trustees](#), sets out example behaviours for integrating ESG into fixed income investment decision making. At the beginning of a pension scheme's journey, trustees might seek to

Level 1 Understanding	<p>Example behaviours</p> <ul style="list-style-type: none"> The Board: <ul style="list-style-type: none"> can confidently discuss the role that ESG can play in determining credit ratings, defaults and bond pricing (from the perspective of both corporate and sovereign debt), and how this can have a significant influence over future pension values and ability to pay long-term retirement income beneficiaries can confidently discuss the types of engagement it can have with companies whose debt it owns (especially where it has large debt holdings), despite not having ownership rights can confidently discuss the different approaches asset managers can take to integrate ESG factors into debt investing, and that investing in sustainability-linked bonds – eg green bonds, sustainability bonds, etc – is only one avenue of incorporating ESG considerations into debt investments has considered and documented how it will integrate ESG into debt investment decisions and risk management practices, particularly on credit ratings, defaults and bond pricing
Level 3 Deepening	<p>Example behaviours</p> <ul style="list-style-type: none"> The Board: <ul style="list-style-type: none"> has implemented a framework for integrat ESG factors into debt investments, covering both direct and / or fund-level investing by external managers has tested an approach to engagement around ESG issues for investments made external managers has a process for continual assessment of external managers' ESG investment capabilities in corporate and sovereign debt through regular reporting against a clearly defined set of metrics has considered and implemented or documented reasons for not implementing the procurement of green, social or sustainability bonds as part of its asset mix uses the influence and rights as a debtholder to engage with company management on ESG issues

Practical actions that trustees can take

Area	Action
Education	<ul style="list-style-type: none"> Arrange for all trustees to be educated about the ESG risks and opportunities associated with investing in fixed income, including: <ul style="list-style-type: none"> How ESG factors affect credit ratings, interest rate risk and defaults, and therefore bond yields and pricing; The different factors within ESG that impact corporate and sovereign fixed income; The opportunities associated with investing in sustainability-linked bonds, and how these can be integrated into the schemes asset mix.
External manager expectations	<ul style="list-style-type: none"> Ensure there is a consistent approach to assessing new and existing external managers on capabilities around fixed income ESG investing, by examining: <ul style="list-style-type: none"> Quality of ESG-related research across both corporate and sovereign fixed income investing; Quality of annual disclosures to UN Principles of Responsible Investing on fixed income investing; ESG strategies currently used across fixed income offer; Use of ESG analysis and data by fixed income portfolio managers; Whether the manager uses engagement as a tool to achieve desired outcomes in its fixed income investing.
Direct fixed income investing	<ul style="list-style-type: none"> Oversee the development of a framework for embedding ESG factors into the direct fixed income investment process, covering sovereign, investment-grade and high-yield corporate debt. Work with credit rating agencies and ESG data providers to identify data and analysis that can be incorporated fixed income yield and price analysis. Establish whether the scheme could and should invest in bonds which aim to achieve positive environmental and social outcomes, such as green bonds.
Engagement	<ul style="list-style-type: none"> Include fixed income in the scheme's overall approach to stewardship. Use the influence and rights as a debtholder to engage with company management on ESG issues (especially at both issuance and the inclusion of specific ESG-related covenants). Work with external managers to ensure any externally managed fixed income portfolios are aligned with the scheme's overall strategy.
Collective action	<ul style="list-style-type: none"> Collaborate with other large debtholders, as well as aligning engagement goals with equity investors, to increase influence and persuade companies to take action on relevant and material ESG issues. Collaborate with other pension schemes to articulate market demand for green or sustainable government bond issuance.
Measurement and reporting	<ul style="list-style-type: none"> Actively explore ways for the scheme to generate ESG metrics from the real estate portfolio, such as: <ul style="list-style-type: none"> Social metrics – people employed through construction, social tenants housed and social businesses provided with commercial / office space; Environmental metrics – including carbon emissions, trees planted and water recycled.

This summary guide for pension trustees is part of an [ESG Toolkit for Pension Chairs and Trustees](#) by The Prince's Accounting for Sustainability Project.



SUSTAINABLE INVESTING IN PENSIONS

TOP TIPS FOR SPONSORS OF PENSION SCHEMES

THE PENSION LANDSCAPE

The importance of sustainable investing continues to grow in the UK pensions landscape. Regulatory policy has acknowledged the financially material impacts of environmental, social and governance (ESG) factors on investment decisions; defined benefit (DB) and defined contribution (DC) pension scheme consolidation is changing the size and shape of assets under management; and there is some evidence of a growing demand from members, enabled by increased reporting and online technology (dashboards, apps, etc), for investments to reflect their values.

In spite of the shock that the COVID-19 pandemic has delivered to the global economy, with both pension schemes and sponsors adjusting to the crisis, the focus on sustainable investing has not dissipated. The pandemic highlighted the fragility of the financial assumptions on which we rely to invest and secure our employees' wellbeing in retirement, reinforcing the need for effective risk management, governance and a long-term outlook.

The pandemic has demonstrated just how rapidly nature can impact society and the economy. For many this has reinforced the urgency of the response needed to avert the climate crisis, an even greater existential threat that needs to be addressed if individuals – your employees – are going to retire into a thriving society on a healthy planet. In managing this threat, we must take on board the lessons learnt from COVID-19 on preparedness and long-term planning.

TIPS ON ENGAGING YOUR MEMBERS

- It is very much a two-way process**
If we raise expectations then we need to follow this up and do something with the answers that members give us.
- Go digital**
All our member engagement is now online which has allowed us to generate member surveys relatively easily, quickly and cheaply with a large part of our membership.
- Break the response data down**
Across different demographics and membership type to be able to tailor future correspondence accordingly.
- Use relatable language**
Break down 'ESG' into the language and issues your members are reading and talking about.
- Use communication experts to help frame and order questions**
As non-experts in this field it's easy to set leading questions inadvertently.
- Plan for the responses**
Successful member engagement will generate interest and more queries so make sure you have enough resources in place to meet the demand.
- Bring members' money alive!**
Use case studies to show where members' money is invested and the types of impact it is making.
- Signpost members to relevant information and education campaigns**
So members can learn more about these issues and what it might mean for their own financial planning.

Robert Gould, Chair of the Environment Agency Pension Fund

FEEDBACK

"A4S's ESG Toolkit for Pension Chairs and Trustees will help you navigate through a changing landscape."

Emma Howard-Boyd, Chair of the Environment Agency and Co Chair of A4S's Asset Owner Network

"A4S's ESG Maturity Map helps put the trustees back in control of the agenda. It enabled me and my peer trustees to challenge and probe further into previous statements and responses from our investment consultants."

Marcus Hurd, Professional Trustee, ndapt

"We used the A4S Maturity Map in a Climate Training session with our Board. It was extremely useful to give the Trustees a picture of where we were, vis-a-vis other schemes, and where we might aspire to be across different parameters. It provided a good framework to prompt a thought-provoking discussion around our status, our goals and our specific areas of focus when it comes to climate risk."

Catherine Claydon, Chair of BBC Pension Scheme and British Steel





A4S ACCOUNTING FOR SUSTAINABILITY



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www.accountingforsustainability.org/pensions-toolkit



The A4S Asset Owners Network is a grouping of pension fund chairs and trustees to discuss integrating sustainability into investment decision making. [Click here to find out more.](#)