



ASSET OWNERS
NETWORK

STRENGTHENING STEWARDSHIP
THROUGH TCFD REPORTING

Case study: Border to Coast Pensions Partnership



PENSIONS PARTNERSHIP





WHAT

Set up in 2018, Border to Coast Pensions Partnership is a pension pool of 11 local government pension schemes (LGPS) in the UK. These pension schemes are our 'Partner Funds', which collectively have around £60 billion of investments for more than one million LGPS members and 2,700 employers.

Shortly after we were established, we supported the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We published our first TCFD report alongside our annual report for 2019/20, our first full financial reporting year.

By adopting the TCFD recommendations, we became better equipped to identify and manage our climate-related risks and opportunities. This led us to put in place a climate change policy, commit to a net zero by 2050 target and become a signatory to the Net Zero Asset Managers initiative. We published our Net Zero Implementation Plan in October 2022.

A stronger understanding of our climate-related risks and opportunities has also informed our policies and processes for stewardship, including engagement and voting.

WHY

As an asset manager, we are regulated by the UK's Financial Conduct Authority (FCA). We recently came under the scope of the FCA's TCFD reporting requirements, with TCFD reporting required by June 2024. However, we started our TCFD reporting far earlier than this.

Climate change represents a major systemic risk that can affect the value of our investments and therefore affect our Partner Funds' ability to pay pensions over time. For us, managing our climate-related risks and opportunities is therefore essential to our purpose – delivering sustainable long-term returns for our Partner Funds – and aligns with our fiduciary duty. The TCFD recommendations gave us a useful framework to build on our understanding, monitoring and managing of these risks and opportunities across our portfolios, also helping us to identify where and how we could do more.

Embracing TCFD has been about far more than publishing TCFD reports or simply meeting regulatory requirements. Climate change has always been part of our analysis when making investment decisions, but TCFD reporting has increased our focus on managing climate-related risks and opportunities. We have continued to develop our approach to assessing investee companies' strategies and plans for reducing carbon emissions. This in turn, has led us to engage more actively and effectively with companies on climate, thereby enhancing our investment decisions.

HOW

Our work on managing climate risks has been championed by our CEO. The responsible investment team, which sits within the investment team reporting to our Chief Investment Officer, prepares our TCFD reports. The board approves the TCFD reports and also oversees the identification and management of climate-related risks and opportunities, with support from the board risk committee. To prepare our first report, the responsible investment team engaged with colleagues across the organization so that we had good coverage across the four pillars of the TCFD framework (governance, strategy, risk management, and metrics and targets). Input came from the investment, compliance, risk and governance teams as well as the executives.

“The knowledge that we built when completing the initial report was significant – and the amount of work also can’t be underestimated. It’s challenging, but it’s really necessary and worthwhile for you to go through that process.”

Jane Firth, Head of Responsible Investment, Border to Coast Pensions Partnership

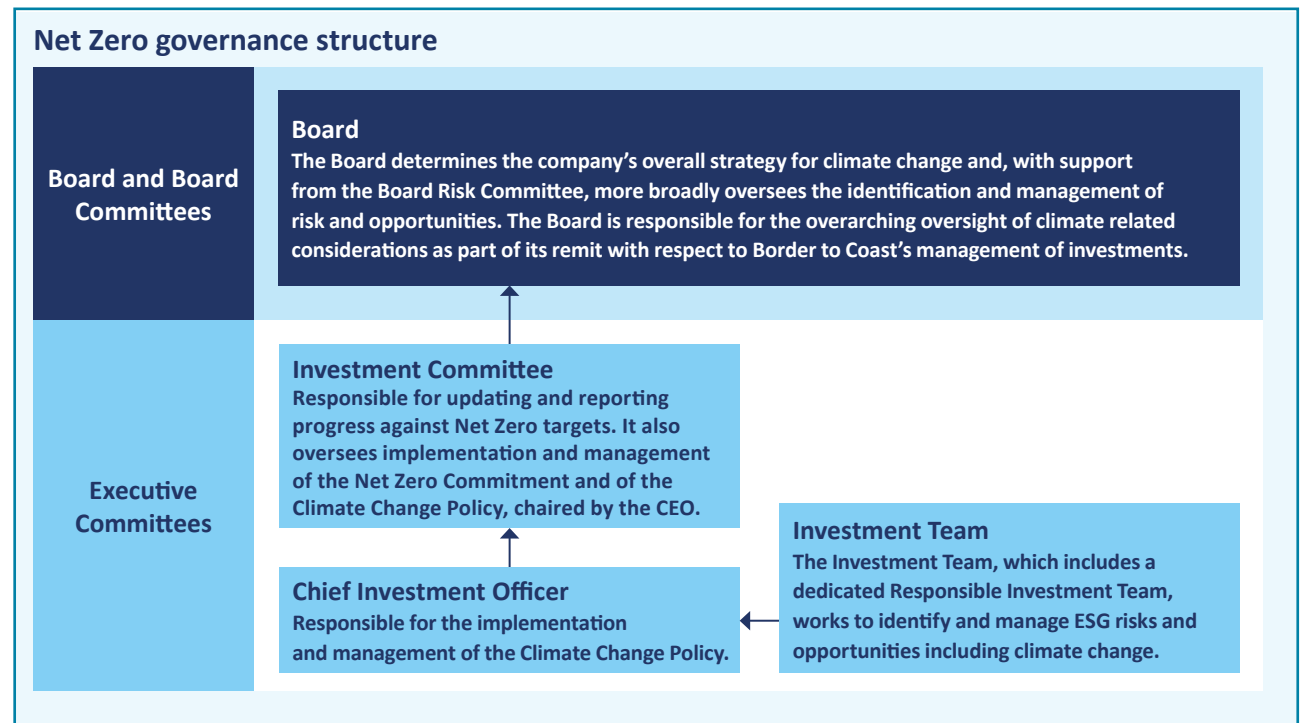


Figure 1: Border to Coast’s net zero governance structure (extract from Net Zero Implementation Plan)

The process of cross-functional collaboration when preparing our first TCFD report helped us identify areas for improvement and significantly built our knowledge across the organization. In 2021, with support from an external consultant, we developed our climate change policy. The policy was a driver for our net zero commitment, and it documents how climate change is integrated into our strategy and governance, risk management, investment strategy, engagement and advocacy, and disclosures and reporting.

Throughout our work on TCFD, we have conducted workshops and training for our staff, our board and our Partner Funds. These sessions have helped us to make sure that everybody understands what we are trying to achieve and why. We held specific sessions on TCFD reporting and net zero for our Partner Funds, including workshops on metrics and targets, to enable us to develop a consistent approach across the pool.

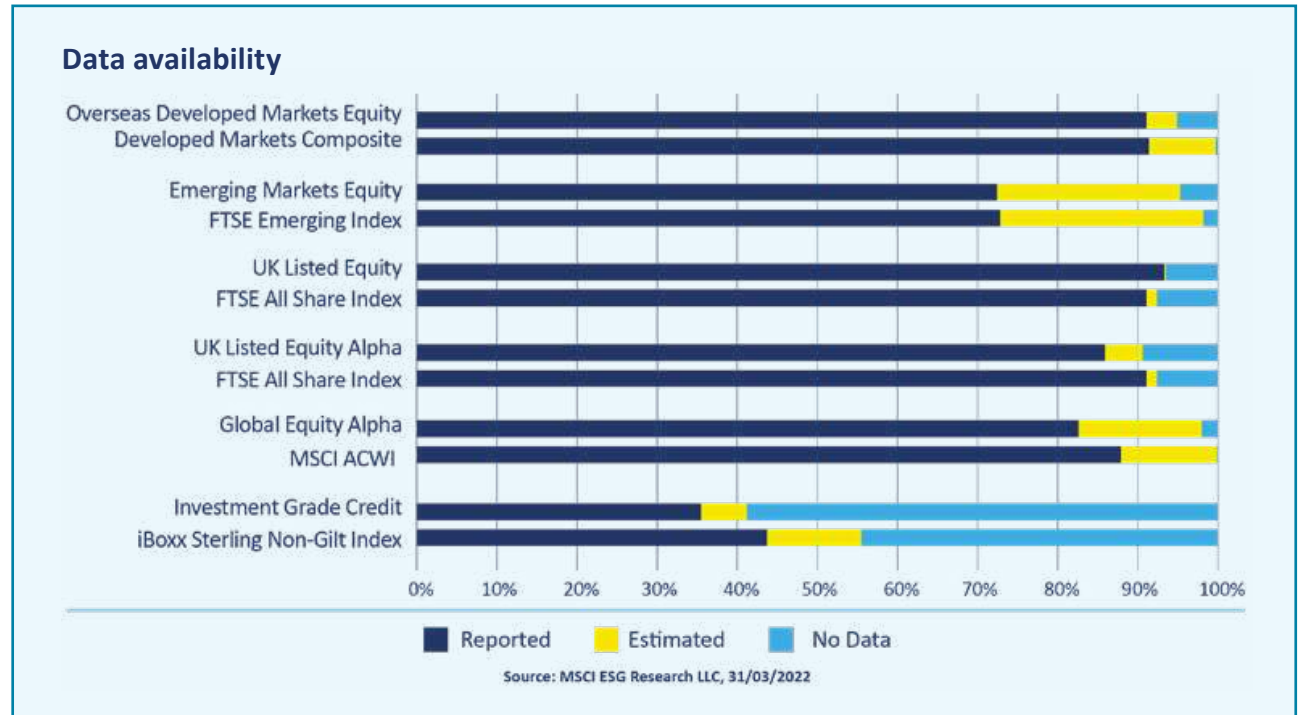


Figure 2: Data availability for Border to Coast asset classes (extract from 2021/22 TCFD report)



UNDERSTANDING CARBON DATA

Shortly after we were established, we engaged a third-party data provider to get access to carbon and other environmental, social and governance (ESG) data. Although we had not yet started exploring TCFD reporting specifically, our intention was to understand climate risk across our investment portfolio.

To get the best use out of the data, we needed to understand it. We worked with our data provider to consider the methodologies they had used, analysed the data, and evaluated its quality and availability. We held in-depth discussions across our investment team with our portfolio managers and our data provider about the carbon data and metrics. Our analysis gave us a clearer picture of how we could use the data to assess climate-related risks and opportunities across our portfolio.

Ultimately, we decided only to report on asset classes where we had confidence in the quality of the data, and this is the approach that we have taken when setting our net zero metrics and targets. We are transparent about data availability in our TCFD report. We report on carbon metrics for our listed equity and fixed income portfolios. For other asset classes, including multi-asset credit mandates or sovereign bonds, we think

that the data challenges are currently too great to produce reliable carbon reporting.

As carbon data is backward-looking, it only provides a partial picture, so we also use more forward-looking metrics. When assessing and monitoring investee companies, we use Transition Pathway Initiative (TPI) data and the Net Zero Company Benchmark dataset from Climate Action 100+. We also use TPI data in our TCFD report.

DRIVING CHANGE WITH TCFD REPORTING

The work we have done on TCFD – and on the climate change policy and net zero commitment that followed – has led to climate change being one of our priority engagement themes, with an enhanced voting policy and targets for engagement coverage. We have identified the biggest emitters across our funds and engage with them to understand their strategies and transition plans. This then guides our voting and engagement on climate-related issues.

1. **Enhancing engagement with our asset managers**

A stronger understanding of climate-related risks and opportunities within our portfolios helps us to hold our external asset managers to account. We recognize that a number of sectors face more challenges than others in transitioning to a net zero economy – and that some of these sectors will play an important role in that transition. Given this, our goal is to engage constructively with asset managers, making sure we operate in line with our values, investment philosophy, climate change policy and net zero commitment.

We expect the asset manager to have a clear investment rationale for holding a stock in a high-emitting company. We ask managers to provide the rationale for the top emitters across portfolios, which includes an assessment of climate-related risks and opportunities.

As well as providing challenge over specific holdings, we also encourage our external asset managers to make their own firm-wide net zero commitments.



2. Leveraging our voting power

Over time, we have strengthened our approach to voting on climate-related issues. Voting is a key element of our overall stewardship approach, which includes engaging with investee companies. It is part of an ongoing dialogue in which we make our expectations clear. Voting against a resolution – and making it clear why we have done so – signals that we do not think the company has made enough progress.

The development of our approach can be seen in our voting record. In 2021, companies first started to put their net zero transition plans to a shareholder vote. At that time, we tended to support most companies who had put forward their transition plans and used this as a starting point for engaging with companies about their plans. Where transition plans were weaker, we highlighted the improvements we would need to see ahead of the next AGM to continue supporting the company's plans.

In 2022, we only voted in support of one transition plan resolution. Unfortunately, in the majority of cases we did not see enough progress in the plans presented to shareholders. For the biggest emitters, we notified the companies in advance that we would be voting against the transition plan and explained why. There were some challenging conversations, but this reflected our commitment to addressing our

own climate-related risks and achieving our net zero goal. For us, it is important that we use our voice and our vote in this way.

3. Reporting – beyond TCFD

Our TCFD reporting has helped us evolve our overall approach to reporting on climate and ESG more broadly. This has helped us to keep our Partner Funds and wider stakeholders, such as pension fund beneficiaries, updated on a more regular basis.

For example, we produce quarterly stewardship reports, which include information on our voting and engagement activities. An annual responsible investment and stewardship report then provides more information on our voting activity. This annual report also covers our values, governance and approach to responsible investment as well as an overview of our stewardship for the year. For the listed equity and fixed income funds we operate, we also prepare quarterly ESG and carbon reports. These reports show performance against ESG and carbon metrics over time, so stakeholders can see the trends.

This is an evolving process, and we work closely with our Partner Funds. They are the reason we exist, so it is important to make sure that our reporting continues to meet their needs.

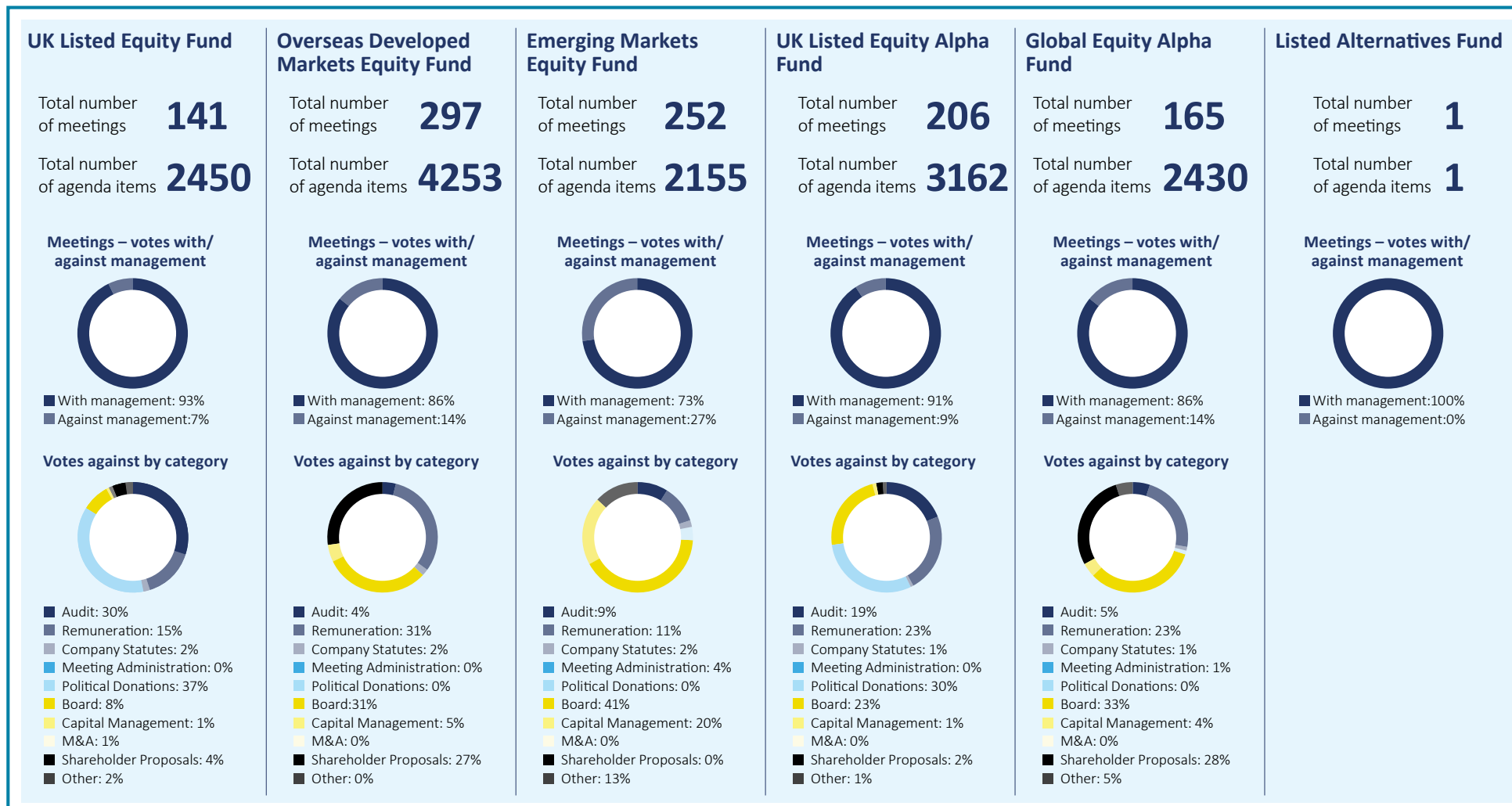


Figure 3: Border to Coast’s annual votes by fund (extract from Responsible Investment and Stewardship Report 2021–2022)



NEXT STEPS

We are developing our approach to scenario analysis. Scenario analysis can be useful for understanding the potential risks and opportunities when looking at portfolios, but methodologies are still developing, with tools and products evolving as data quality and disclosure from companies continues to improve. We have procured climate scenario analysis tools and are in the process of assessing which climate scenarios we will be using.

Our responsible investment team is continuing to grow. This year we have appointed a Stewardship Manager to develop our engagement further and a Climate Change Manager to support our net zero implementation plan and how we work with asset managers and companies on climate-related issues.

We continue to develop our reporting on climate-related risks and opportunities. As part of this work, we have set up a working group with our Partner Funds to consider how we can best support them in their own TCFD reporting requirements.

We are also continuing our work to understand and address data challenges. This involves collaborating with asset managers and working with the industry and our third-party data provider to expand data coverage and encourage non-listed companies to disclose data.

TOP TIPS

SEEK OUT SUPPORT

It's easy to get overwhelmed, but there's a lot of support available in the sector when it comes to adopting the TCFD recommendations. You can access a lot of support and guidance by tapping into these networks. If you're a local government pension scheme fund, reach out to your pooling partner. Initiatives like A4S and the Occupational Pensions Stewardship Council also have many useful and freely available resources on TCFD.

START SMALL

There are lots of elements to TCFD implementation and you don't have to do everything at once. The most important thing is to get started. Narrowing your focus when you begin can help the process feel more manageable.

DRAW ON EXISTING SERVICE PROVIDERS

Make use of your existing relationships with service providers: they are there to help you. We found that our external voting and engagement partner, and our external asset managers, were very willing to work with us on integrating climate-related risk and opportunities into our work.

GO BEYOND BOX-TICKING

Getting the most out of the TCFD framework means seeing it as more than just a simple reporting exercise that you can tick off each year. We found that the framework gave us a useful structure for strengthening our identification and management of climate-related risks and opportunities. This work then enabled us to support our partners and improve our engagement with investee companies on climate.

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www.accountingforsustainability.org

More pension case studies on adopting the TCFD recommendations:



www.accountingforsustainability.org/esg-toolkit-reporting-and-disclosure



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