



A4S

**ASSET OWNERS
NETWORK**

OUR APPROACH TO SCENARIO ANALYSIS

Practical example: BBC Pension Trust



THE PRINCE OF WALES'S
CHARITABLE FUND





INTRODUCTION

The BBC Pension Trust is a defined benefit pension scheme with over 47,000 members and assets under management of £17.3 billion.

WHAT

Scenario analysis was a critical first step in addressing the impact of climate change on our investment strategy, and it has informed our approach to other areas such as governance and risk management. We started by taking part in a 2015 Mercer study, which modelled the impact on asset returns across all asset classes for three warming scenarios: 2°C, 3°C and 4°C. Mercer updated and expanded the analysis in 2019, incorporating stress testing of transition risks to examine what could happen if the transition happened sooner than expected.

Taking part in these studies helped develop our understanding of climate scenario analysis and how to translate this information back into our investment strategies. So in 2019 we introduced climate scenario analysis into our existing annual scenario analysis, which we outsource to our investment consultant. As well as looking at asset returns, we model the impacts on scheme liabilities and our funding position. In future years, we plan to disclose the results in our annual report.

Having a scenario analysis at the beginning of our TCFD journey has proven to be a valuable investment. The process has given us a strong business case to enhance our overall governance processes and approach, which has in turn strengthened our climate-related risk management. We have gained a good understanding of our exposure to climate risks and a strong base on which to develop other aspects of our TCFD reporting.



HOW

Getting the right expertise:

As we have a small in-house team, we commission our investment consultant to conduct our annual scenario analysis, which now includes climate scenarios. We then review the quantitative data and analysis we receive, asking questions when we see surprising results. Our investment consultant uses two climate scenarios: a below 2°C scenario and a ‘business as usual’ scenario above 2°C. These are based on a combination of pathways used by the Intergovernmental Panel on Climate Change (IPCC). Getting independent, expert input has allowed us to focus our resources on using that input to improve our policies and processes, and it adds credibility to our reports.

Reporting to the trustees:

Our investment committee commissions the scenario analysis report each year. Our investment consultant then prepares a tailored report that they present to the committee for review and discussion. Following this, the investment committee reports to the trustee board, taking salient points from the

scenario analysis report and adding them into an annual review paper on responsible investment. The trustee board is responsible for authorizing our responsible investment policy. To help trustees review the scenario analysis, we have training sessions for the wider trustee board, supported by our investment consultants who come in to present their reports.

Understanding our climate-related risk:

It’s not only the data that comes out of scenario analysis that is useful. For us, much of the value comes from the discussions with trustees, consultants and asset managers that have been sparked by the annual scenario analysis process and its results. Our work on scenario analysis has enabled us both to embed climate-related risk management into our work and to dive deeper into our asset managers’ policies and processes on climate-related risk.

Making changes:

Following recommendations from scenario analysis reports, we have updated our risk register, our investment beliefs and our responsible investment policy. Embedding climate change considerations into our ongoing governance and risk management processes means that climate change considerations will always inform our work. Going through the scenario analysis process has also reinforced our commitment to collaborative climate initiatives such as the Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+.



NEXT STEPS

We already publish TCFD disclosures within our annual report . Now we're looking at how we can develop this further in our 2021 report, such as including information about our climate scenarios and how we do our modelling.

Scenario analysis is now part of our annual governance process and included in annual business planning for our investment committee. So we will continue to renew our scenario analysis periodically, and use this to inform discussions about our responsible investment priorities.

TOP TIPS

Get started

We found it helpful simply to get started on what we could and go from there. Beginning TCFD work with scenario analysis can also help you to improve your governance structures and develop your thinking about climate-related risk, which will pay off later.

Bring in external advisers

If you don't know how to start, ask the people that advise you. A lot of consultants work in this area and can offer support with analysis and reporting. Think carefully about their advice and ask questions about anything you don't understand.

Don't overcomplicate it

Quantitative analysis is helpful, but this is a complex area and the numbers are imprecise. So don't get tied up in an overly complex analysis. Be mindful of the assumptions you've made, and treat the numbers as a tool to guide your thinking about managing climate risk for your portfolios.

Talk to your asset managers

Scenario analysis also offers a useful framework and evidence for talking to your asset managers about climate change. It can empower you to exercise more oversight over asset managers' work and the extent to which they operate in line with the Principles for Responsible Investment (PRI).

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The Prince's Accounting for Sustainability Project (A4S)



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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.](#)