27 March 2018

Dear Ms Creagh

Re: Green Finance inquiry – request for information

The BBC Pension Scheme (the Scheme) is a defined benefit scheme, which provides benefits for employees of the British Broadcasting Corporation (BBC) and other participating employers. At 31 March 2017 the value of the Scheme's investments was £15.8bn. The trustees of the Scheme believe that with ownership comes responsibility and they are committed to exercising their influence and control to promote the long term sustainability of the Scheme's investments. The trustees believe that the Scheme's Environmental, Social and Corporate Governance strategy has an important role to play in safeguarding and enhancing the long term value of the Scheme's assets.

1. Do the trustees accept the TCFD conclusion that pension funds are potentially exposed to financial risks through climate change?

The trustees recognise climate change could be a long term risk for the fund and has the potential to impact the Scheme's investments.

2. Which climate-related financial risks are you most concerned about?

We are principally concerned with the possibility that disruption or instability caused by climate change could have a negative impact on investment returns, and consequently the Scheme's ability to pay pensions as they fall due.

3. Has your pension scheme formally considered climate change risk at Board (or Investment Committee) level?

The trustees review the Scheme's main risks, including climate change, regularly at Investment Committee and Board meetings. The trustees have documented their approach to managing climate change risk in the Scheme's Statement of Investment Principles.

4. If you have considered climate change related risks, what actions have you taken in response to these risks? We are interested, for example, in the development of specific investment strategies on this issue, whether you have taken formal advice, any changes in your investment strategy made or planned, and the exercise of your ownership responsibilities on this issue (either directly, or through your investment managers).
The trustees have taken advice on climate change risk. They have taken steps to gain a better understanding of the Scheme’s exposure to climate change and to integrate climate considerations into the management of the Scheme’s assets.

In 2015 the Scheme partnered with Mercer and 17 other participants in an extensive research study – “Investing in a Time of Climate Change” – to gain insight into the investment implications of climate change. The scheme-specific report gave an overview of the Scheme’s exposure to climate risks and opportunities, and how these interact with the asset classes and sectors to which the Scheme has exposure.

The report provided the estimated long term return implications under four climate scenarios, including a 2°C scenario, in-line with the subsequent recommendations of the TCFD, with commentary on the implications for the BBC Pension Scheme. The performance of the Scheme’s current asset allocation and investment strategy was found to be robust across the different scenarios. The findings indicate that the Scheme’s aggregate exposure to the risk of climate change is well diversified, based on the study’s assumptions, and is smaller than the Scheme’s existing exposure to equity, interest rate and longevity risks.

The Scheme also engaged Trucost in 2016 to estimate the carbon footprint of the Scheme’s equity holdings.

The trustees recognise that more extreme scenarios involving rapid climate change could have highly unpredictable consequences for financial markets and seeks to act as a responsible asset owner to help avoid these. As part of this process, the trustees seek to ensure that climate related factors are taken account of in the investment process undertaken by our fund managers.

Hermes Equity Ownership Services (Hermes EOS) is retained by the Scheme to engage with companies in which the Scheme invests to encourage them to maintain high standards of governance and to operate in a socially and environmentally responsible way. Hermes EOS exercises votes in accordance with its Responsible Ownership Principles and such higher standards as agreed with the Trustees, unless they believe that doing so would not be in the best financial interests of the Scheme.

Hermes EOS develops policies on socially, ethically and environmentally responsible investing and encourages these practices in the course of engagements where these will enhance or protect companies’ long-term prospects. This includes climate change which Hermes EOS views as the largest externality affecting the global economy over the long term.

The Scheme has made a number of infrastructure and renewable energy investments where these have been compatible with the Scheme’s financial objectives.

The Scheme is a signatory to the UN Principles for Responsible Investment (PRI) and a member of the Institutional Investors Group on Climate Change (IIGCC). The Scheme signed the Global Investor Statement on Climate Change in 2014 and has recently become a Supporter of the Climate Action 100+ initiative, which Hermes EOS is participating in on the Scheme’s behalf.

5. Are you planning to adopt the TCFD recommendations in your Scheme’s reporting? If so, please indicate your planned timing.

The trustees are aware of the TCFD recommendations for asset owners and are taking advice on how best to incorporate them into our annual reporting. The annual UN PRI reporting framework now includes indicators on climate change. We will be able to provide some information this reporting year, and expect this to progress in future years, given the likely evolution of practice in this area.
6. How would you suggest the Government and regulators implement the recommendations on climate-risk reporting? Is a voluntary approach sufficient to ensure wide-spread adoption?

We are not currently in a position to answer these questions, but have been speaking to Hermes EOS and the Pensions and Lifetime Savings Association about them.

7. Would guidance from Government or regulators on climate-risk reporting be helpful for pension funds?

At this early stage, practice in this area is still developing. It is challenging for a pension scheme to report meaningful aggregate metrics on climate risk on a regular basis before consistent reporting standards have emerged.

The Pensions Regulator provides guidance on responsible investment and incorporation of environmental, social and governance issues into trustees’ decision-making. We have found it valuable to consider the impact of climate change and would welcome further voluntary guidance which might be of help to pension funds when navigating these issues.

8. Have you discussed climate change with your actuarial advisors, having regard to the Risk Alert that the Institute and Faculty of Actuaries issued to its members last year?

We have discussed climate change with the Scheme’s actuarial adviser, who has advised us that existing margins for prudence cover the estimated financial impact of climate change related risks. We will take further advice as practice in this area develops.

9. Please share with us any other information you think may be relevant as we develop our understanding of the approach UK pension funds are taking to climate change and, more generally, green finance.

We have set out all of our relevant considerations in response to the previous questions.

Yours sincerely,

Bill Matthews
Chair of Trustees