23 March 2018

Dear Ms Creagh MP,

Re: Green Finance inquiry – request for information

Thank you for your letter dated 28 February 2018 regarding the Green Finance enquiry by the Environmental Audit Committee. In what follows, I am addressing the Committee’s questions on behalf of Barclays Pension Funds Trustees Limited (the “Trustee”), the sole corporate trustee of Barclays Bank UK Retirement Fund (“UKRF” or “Fund”).

The answers below describe the Trustee’s approach to climate change risk in the context of the Trustee’s regulatory and fiduciary responsibilities for managing the UKRF on behalf of its members; and in the context of the Fund’s wider Responsible Investment (“RI”) approach and consideration of Environmental, Social and Governance (“ESG”) factors, which are a subset of all the financial risks to which the Fund is exposed.

The Trustee has appointed a primary manager, Oak Pension Asset Management Limited (OPAM), to act in a fiduciary capacity in relation to the UKRF, with duties including but not limited to the appointment and supervision of a number of third party investment managers. OPAM has been delegated by the Trustee to oversee certain aspects of the implementation of its RI policy and reports progress to the Trustee on a regular basis.

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

   The Trustee accepts the conclusions outlined in the final report of the Financial Stability Board Task Force on Climate-related Financial Disclosures (“TCFD”) on the basis that greater disclosure will allow better measurement and management of risk.

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

   The Trustee considers climate-related financial risks and their potential implications for the UKRF within the Fund’s wider RI approach and consideration of ESG factors. Regarding climate change, key risks are:

   a. **Transition Risk** associated with the shift towards a low-carbon economy. Changes associated with a transition to a lower-carbon economy present risk of financial losses today, arising from adjustments to the value of listed and unlisted securities.

   b. **Physical Risk** and impact of climate change to land, buildings or infrastructure owing to physical effects of climate-related factors.

   c. **Policy Risk** – Firstly, there is policy risk at the global level with uncertainty around observance of international agreements on climate change (e.g. Paris). Second, there is uncertainty at the national level.
level when governments amend levies and other incentives to support the transition to a low carbon economy. Greater certainty at the global and national levels is desirable. Less policy uncertainty and more visibility on forward looking changes and associated timelines at the global and national levels are desirable.

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

The UKRF considers climate change risk, along with the Fund’s wider Responsible Investment approach and consideration of ESG factors, at Board level. The Trustee’s regulatory and fiduciary responsibilities, combined with the UKRF’s commitments as a signatory to the Principle for Responsible Investment (“PRI”) and the UK Stewardship Code, have led the Fund to develop a standalone RI policy. This policy is owned by the Trustee and is reviewed on an annual basis to reflect ongoing changes and improvements to the UKRF strategy, along with the increasing Responsible Investment risks and requirements.

The Trustee signed up to PRI in 2015 and since then climate-related risks have become an increasingly important part of the PRI reporting and disclosure process. The UKRF adheres to the six principles of the PRI, and reports its activities and developments annually in line with the PRI reporting framework.

The UKRF will be reporting on the TCFD recommendations and the climate-related disclosure indicators within the 2018 PRI Reporting Framework. This Framework offers the option to voluntarily report on new climate indicators which are aligned with the TCFD recommendations.

Members of OPAM actively participate in the Prince’s Accounting for Sustainability Project (which aims to inspire action by finance leaders to drive a fundamental shift towards resilient business models and a sustainable economy) and the Willis Towers Watson Thinking Ahead Institute, a not-for-profit think tank that aims to effect positive change for the investment industry as a whole.

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 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 the issuer (either directly, or through your investment managers).

The Trustee recognises its position as an asset owner with ultimate responsibility to its members and beneficiaries, and acknowledges that effective stewardship can help protect and enhance the long-term value of its investments to the ultimate benefit of these beneficiaries. As such, the consideration of ESG factors is incorporated in all elements of the Fund’s investment approach, from strategic asset allocation, through manager selection, to portfolio monitoring:

- Strategic asset allocation.
  - As part of the strategic asset allocation process, ESG risks and opportunities are considered, ensuring that asset and liability risk/return assumptions appropriately account for such issues. The UKRF currently adopts “lower for longer” investment return assumptions that inherently acknowledge a number of significant headwinds (including climate risk), leading to future economic outcomes that are likely to remain subdued relative to historical realised returns. The long-term sustainability of the Fund’s investment strategy is of primary importance, and scenario analysis is used to stress test the portfolio under different conditions.

- Manager selection.
  - All UKRF assets are invested through external investment managers. In selecting the managers, their policy on, and approach to, ESG issues is an important factor in the process. The Trustee delegates responsibility for the exercise of ownership rights to its investment managers, while regularly reviewing the investment managers’ policies and monitoring their application. Although
the Trustee RI policy applies to all its investments, expectations are tailored according to the different asset classes and investment strategies employed by the UKRF.

- For the UKRF Defined Contribution (“DC”) scheme members, the Trustee provides an environmentally responsible investment option that members can choose as part of the self-select fund range. The appropriateness of this investment option for members to invest in and its adherence to ESG factors are reviewed on a regular basis.

- Monitoring:
  - Through its appointed manager, OPAM, the Trustee oversees and monitors the implementation of its RI policy through regular reporting and review at the Trustee Board level.

The UKRF increasingly accounts for sustainability into its investment decision making. Over the last few years, the Fund has established exposure in several investments (as an equity or debt provider) that not only acknowledge climate risk and contribute to meeting climate change targets, but are also financially sound investments (from a return and risk perspective) and consistent with the Trustee’s long-term strategy.

Climate resilience and energy efficiency are important considerations in the management of the UKRF property portfolio. The UKRF is a participant of the UK’s climate change and energy saving scheme (Carbon Reduction Commitment) designed to reduce emissions in non-energy intensive sectors in the UK.

Looking ahead, the UKRF is currently engaged in a research initiative to measure future climate-related risks within the Fund, utilising (re-)insurance-related climate risk analysis tools. The main objectives of this work are to:

  a. Deepen understanding of the nature of climate-related risks and identify tractable methods and metrics.
  b. Deepen understanding of the composition of physical climate and natural hazard risk within the portfolio.
  c. Use (re-)insurance-related techniques and tools to evaluate, to the extent possible, the UKRF’s financial exposure to climate and natural hazards, using accessible portfolio-related data and comparing against other risks faced by the Fund.
  d. Assess the absolute (and relative to liabilities) exposure to natural catastrophe risk.

Ultimately, this research will attempt to identify any obvious mitigating actions that can be taken by the Fund, and/or exposures that should be avoided in the future along with stress tests of natural hazard scenarios in key locations, climate extremes, and the climate change impact on the current portfolio and the Trustee forward looking investment strategy.

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

The Trustee is planning to adopt the TCFD recommendations in the Fund’s reporting. The Trustee intends to report on the PRI’s voluntary climate-related indicators in its Reporting Framework aligned with the TCFD recommendations. This will further inform climate strategy and investment practices; align with TCFD recommendations; and implement industry best practice.

Furthermore, in its forward agenda, the Trustee has already planned an in-depth review of ESG and climate risk during H2 2018. The objective of the review is to identify areas for ongoing improvement in the Trustee holistic oversight of ESG strategy and risk, through the development of focused measurement and reporting. The Trustee will consider the core elements of the TCFD recommendations such as Governance, Strategy, Risk Management, Metrics and Targets.
6. How would you suggest the Government and regulators implement the recommendations on climate-risk reporting? Is a voluntary approach sufficient to ensure widespread adoption?

The combination of a voluntary approach to implementing the recommendations on climate-risk reporting with increasingly more detailed and demanding requirements should ensure that the TCFD recommendations on climate-risk reporting are widely adopted. The Trustee believes there are significant financial implications resulting from climate-related risks and, as such, it is in the best interests of businesses and their stakeholders to consider and address these risks within their long-term strategy and day-to-day operations.

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

The Trustee believes that guidance from the Government or regulators on climate risk reporting would be helpful for pension funds, ensuring clarity on reporting expectations, along with consistency and comparability of reports.

There is already significant and growing guidance on broader ESG and climate risk issues in the public domain. Clear, consistent and proportionate guidance from Government and regulators drawn up in conjunction with the industry would be very helpful.

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

The Trustee has discussed climate change with the UKRF actuarial advisers, who are of the view that the Pensions Regulator’s (“tPR”) integrated risk management framework (of considering Sponsor Covenant, Funding and Investment) provides a helpful way in which to assess the risk alert issued by the IFoA.

- **Sponsor Covenant:** Adoption of the TCFD recommendations by the sponsoring employer provides helpful additional data points and information for the Fund’s covenant advisors to assess. Barclays Bank was a participating member of the TCFD and welcomed the recommendations published in June last year for the financial services sector. Barclays publicly committed to addressing the recommendations over the next two years and has set up an internal Forum to drive this process, consisting of senior stakeholders from the various businesses and functions. To initiate this process, Barclays engaged a third party in Q3 2017 to conduct a gap analysis of the current disclosures against the categories of TCFD recommendations, compared to that of peer banks. The review resulted in a number of recommendations, the proposed approach to which is informing the activities of the Barclays TCFD Forum. Barclays has also joined the UN Environment Programme Finance Initiative pilot on TCFD, which aims to develop a framework against which the banking industry can develop approaches to climate stress testing and scenario analysis for both physical and transaction risk.

- **Funding:** It is acknowledged that the impact of climate change on the UK climate – and therefore the seasonal patterns of realised and expected mortality rates and the UKRF longevity risk – are uncertain. Prudent actuarial assumptions and ongoing measurement and management of all UKRF risks, including longevity, can mitigate this risk.

- **Investment:** The UKRF currently adopts “lower for longer” strategic expected return assumptions that inherently acknowledge a number of significant headwinds (including climate risk), leading to future economic outcomes that are likely to remain subdued relative to historical realised returns.

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 our relevant considerations in response to the other questions.
Thank you for giving us the opportunity to respond to the above questions.

Yours sincerely,

Peter Goshawk

Chairman of the Trustee Board
The Barclays Bank UK Retirement Fund