28th March 2018

Mary Creagh MP
Chair of the Environmental Audit Committee
House of Commons
London
SW1A 0AA

Dear Mrs Creagh

**Green Finance inquiry - request for information**

Background to the New Airways Pension Scheme Trustee Limited (NAPSTL)
Environmental Social & Governance (ESG) activities

The Trustee Directors of NAPSTL have delegated to the Investment Committee (IC) the monitoring of the ESG programme and the IC in turn, delegates the day to day responsibility to BAPIML, the in-house Investment Manager, which has an established dedicated ESG resource. The Investment Manager reports back on the programme at least annually, make recommendations and seeks direction on areas to focus on in the forthcoming year.

Reports are available to members via the website: mybapension.com/scheme documents.

Following last year’s annual review, the Trustee Board has approved the creation of a separate ESG committee to manage matters on this important topic. The Committee will receive recommendations, agree policy and instruct BAPIML on how to implement the Trustee Directors’ responses to evolving situations such as TCFD. ESG matters are included in on-going training. BAPIML maintains a dedicated ESG team to collate information, act as a resource for Fund Managers, develop and implement the policy as well as participate in forums to further the debate and achieve an improvement in outcomes.

We have some comments on your overarching question before addressing the specific numbered questions.

_How the UK can mobilise the investment necessary to meet our climate change targets and factor sustainability into financial decision-making?_

Overall, schemes need to address specific risk, return and liquidity targets alongside suitability and diversification of assets in the light of the projected liabilities and cash flow requirements of the scheme. Investment policy in general has evolved over the years to include a broader array of assets as markets have increasingly created investments that can meet these financial goals and be consistent with the climate change targets amongst other ESG factors.
1. Do the trustees accept the TCFD conclusion that pension funds are potentially exposed to financial risks through climate change?

   - Climate risk does contribute to financial risk and forms part of the many risk factors considered in the investment process.

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

   - The ESG team’s core areas of focus are carbon emissions, water and electricity efficiency usage, and carbon footprint disclosure through the ESG portfolio monitoring tool. As stated below the availability of data can be a limiting factor at this stage and monitoring of climate-related financial risks is only as good as what can be measured.

3. Has your pension scheme formally considered climate change risk at board or investment committee level?

   - Within the Statement of Investment Principles under the Responsible Discussion Overlay (RDO), BAPIML may, on behalf of the Trustee, raise issues concerning the social, environmental or ethical aspects of the operations of an investee company. This currently includes climate risk.

   - Currently a report on the ESG activities of BAPIML is presented formally on an annual basis to the IC and the Trustee Board. Going forward a dedicated ESG sub-committee will receive the information and proposals which will be reported to the Trustee Board. We expect the next formal annual review to include climate risk.

4. If you have considered climate change related risks, what action 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 investment strategy made or planned, and the exercise of your ownership responsibilities on this issue (either directly, or through your investment managers).

Described below are some examples of where these factors are considered.

   - BAPIML has developed and implemented an ESG portfolio monitoring tool designed to assist the Fund Managers’ consideration of key ESG risks of investee companies. Each company is given an ESG score and ranked among its sector peers. This, over time, will provide Fund Managers with a database of ESG information for company analysis and will allow Fund Managers to monitor companies for potential ESG risks, and to engage with them where appropriate.

   - The Trustee authorised BAPIML to become a signatory to CDP (formerly the Carbon Disclosure Project). CDP runs a global disclosure system that enables companies to measure and manage their environmental impacts in a transparent and consistently reported format. In turn, BAPIML uses this data within the ESG Portfolio tool to manage opportunities and risks of investee companies.
• In the Real Assets portfolio the Scheme invests in a variety of relevant projects such as social infrastructure, a green fund, domestic rooftop solar and funding to a large green infrastructure project. This part of the portfolio seeks projects with very secure cash flows as it is part of the portfolio to match liabilities. Therefore the duration of the assets and any associated illiquidity needs to be carefully assessed.

• In Alternative assets, part of the return seeking asset portfolio, the Scheme invests in funds with significant exposure to “green” initiatives. These are funds with renewable energy companies and projects operating in the EU, funds with exposure to waste water treatment and solar energy companies and funds with non-domestic energy efficiency projects in the UK, such as efficient lighting, ground source heat pumps and biomass boilers.

• In the Property portfolio environmental standards and performance are monitored. Annual environmental audits are performed with a focus on waste management and gas regulations. Consideration is also given to pollution control. There is continued disclosure under the CRC Energy Efficiency Scheme with identification of any opportunities to reduce carbon dioxide emissions. Work is on-going to plan ahead to identify any properties which may benefit from Energy Savings Opportunity Scheme auditing.

There are no planned changes to the investment strategy in this regard but the Scheme is about to carry out its triennial valuation and changes to investment strategy will be considered at that time.

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

• A recommendation will be made to the ESG committee in due course once BAPIML has completed research on how complete the data sets are across the global equity portfolio. We expect to recommend incorporating reporting into the Annual Report & Accounts and the member website information at the appropriate time.

• The work of the Transition Pathway Initiative (TPI) provides an assessment of companies’ carbon management quality and carbon performance, ranks and charts them in line with the Paris pledges and 2 degrees scenario sectorial benchmarks. BAPIML believes the TPI is closely aligned with our ESG portfolio monitoring tool and ethos of engaging with investee companies, and its indicators and framework meets the recommendations of the TCFD. BAPIML will recommend support of this developing initiative to the ESG committee.

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?

• From an asset owner perspective, whilst substantial improvements have been made, more information is required on a consistent basis from companies. The TCFD recommendations should become standard practice for companies to work towards in order to obtain maximum participation.
7. Would guidance from Government or regulators on climate-risk reporting be helpful for pension funds?

- BAPIML is supportive of CDP and others’ work in the area, however there are a significant number of companies that are not providing the data required. As an asset owner, a full set of carbon performance data, on a consistent basis in order to do peer group analysis, is required. This is the biggest hurdle for investors incorporating ESG factors in general into investment decision making. The development of further monitoring is limited by the information available.

- The oil and gas sector is one example of where a lack of data availability and consistency meant a recent survey could only compare three out of six leading global oil and gas companies in its carbon performance assessment discussion paper.

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?

- We have reviewed the paper issued for pension actuaries. The ESG Committee will take into account advice from a range of advisers including actuarial advisers as part of the annual review which is due to be carried out in the autumn.

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.

- The Pensions and Lifetime Savings Association (PLSA) issued a framework in December 2017, “More light, less heat: A framework for pension fund action on climate change” which may be beneficial reading.

- The TPI, founded by likeminded asset owners, has a freely available online toolkit which permits the assessment of companies’ carbon management quality and carbon performance, ranks their overall position on a scale of level 1-4, and charts them in line with the Paris pledges and 2 degrees scenario sectorial benchmarks. This is a useful tool which enables investors to focus their investees’ engagement on environmental, social and governance issues.

Yours sincerely

Michelle McGregor Smith
Chief Executive Officer
British Airways Pension Investment Management Ltd.

c.c. Chair of New Airways Pension Scheme Trustees Limited.