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

28 March 2018  

Dear Ms Creagh  

Green Finance Inquiry – request for information  

Thank you for your letter of 28 February 2018.  

We are happy to help with your Inquiry into Green Finance, examining how the UK can mobilise the investment necessary to meet our climate change targets and factor sustainability into financial decision-making.  

Electricity Pensions Trustee Limited ("EPTL") is the trustee of the Electricity Supply Pension Scheme ("ESPS"). The ESPS is one the largest UK private sector pension schemes with approximately 174,000 members and £42 billion of assets as at 31 March 2017. Of these members, approximately 24,000 are active members.  

Within ESPS there are currently 30 Groups, each being a segregated and actuarially independent section of the ESPS, effectively run as a standalone scheme. Each Group has its own principal and participating employers and set of trustees. The Group Trustees are responsible for paying benefits to members of the Group, setting the Group's investment strategy, monitoring investment performance and its effect of the actuarial funding level of the Group.  

EPTL has certain central functions, such as being custodian of the Scheme's assets and it makes certain investment funds available to Groups within ESPS. The legal documentation for investments include EPTL as a party, but the strategy adopted is set entirely by the Group Trustees as they are responsible for paying and safeguarding members' benefits. There is no central fund of assets that are not allocated to any Group.  

In these circumstances we consider it may be of more value to your committee for your questions to be posed to the Group Trustees of at least the largest Groups within ESPS. Therefore we have asked some of the largest Groups within ESPS to respond to the nine specific questions which you set out in your letter of 28 February 2018. We attach as an appendix to this letter the replies which we have received from 7 Groups representing some 80,000 members and controlling £23.15 billion of assets.  

Yours sincerely  

Joanna Matthews  
Chair of EPTL  

Registered at Cardiff No. 2479327 Registered Office: 42 – 50 Hermitage Road, Walton-on-Thames, Surrey KT12 1RZ  
Company Secretary: Paul Wallis
GROUP TRUSTEE A

Question 1.
The Group Trustee accepts that pension funds are potentially exposed to financial risks through climate change.

Question 2.
The Group Trustee considers there to be two aspects to climate-related financial risk for the Group:
- Impact on the long term covenant of the sponsoring employer,
- Impact on the investments held by the investment managers appointed by the Group.

At the time of the last actuarial valuation, the Group Trustee engaged a specialist covenant advisor to review the current and long-term support that the Group's sponsoring employer provides. Within this was consideration of how the sponsoring employer’s business prospects could change given its involvement in the energy supply industry. While reviews to date have not explicitly referenced climate change, it is expected to form part of future reviews given developments in this area. It is also noted that the sponsor is a listed supporter of the TCFD.

Question 3.
The trustees have considered climate change as part of a wider consideration of ESG-related risks.

Question 4.
The Group Trustee has reviewed their position on ESG and codified this in the Group's Responsible Investment Policy. Along with other matters relating to Responsible Ownership, the Group Trustee has delegated the day-to-day decisions on voting and ESG matters to their investment managers. They require the managers to take account of ESG matters in those day-to-day decisions and the managers are required to notify the Group Trustee of any changes in their corporate governance or ESG policies.

The Group Trustee's investment advisor, Aon, is a member of the Investment Leaders Group (ILG), convened by the University of Cambridge Institute for Sustainability Leadership. The ILG is a global network of pension funds, insurers and asset managers committed to advancing the practice of responsible investment. Aon are participating in various working groups which are endeavouring to shape the evolving landscape around best practice within responsible investment. The Group Trustee's Investment Committee has already allocated time at their forthcoming August meeting for Aon to share their expertise in this area and provide guidance to the Group Trustee around changes in best practice in the area of Responsible Investing.

The Group Trustee also examines annually the impact of various specific stress tests on the investment strategy being followed (e.g. high inflation, Brexit, recession etc.). The suite of stresses will include a Climate Change scenario as part of the next exercise.

Question 5.
We do not currently have plans to incorporate the TFCD recommendations in the Group's reporting.

Question 6.
The Group Trustee considers that voluntary adoption is sufficient while the industry resolves issues around a common set of definitions and metrics. In future, if metrics on portfolios' carbon output (for example) become available the Group Trustee would...
consider including these in the Group’s reporting.

**Question 7.**
We think that guidance (rather than a requirement) from Government and/or regulators would be helpful about how climate risk factors could be reported on by pension funds to assist trustees in considering and managing these risks.

**Question 8.**
We have not explicitly discussed climate change from an actuarial perspective. This is because:

- Actuarial modelling focuses most on the technical provisions and this includes margins for prudence in the key assumptions in relation to investment returns and life expectancy.
- When considering appropriate margins for prudence a wide range of risks are included, so although climate change has not been explicitly discussed there is scope for adverse outcomes within the plans. Covenant is a key element in assessing prudence and climate change was a risk considered in that context.
- The technical provisions have not been considered in detail since the publication from IFoA but it could be taken into account at the next triennial valuation in March 2019.

**Question 9.**
While we consider climate change risks as part of a wider assessment of Socially Responsible Investing, this is one of many risks that the Group Trustee has to assess and manage. The Group Trustee has a legal responsibility to invest in the best financial interests of members and beneficiaries, and our primary concern is to ensure that members receive the benefits due to them. The Group Trustee monitors a range of risks, focusing on and seeking to control those which pose the largest threat to meeting their objective of paying pension benefits as they fall due. The Group Trustee may take climate change into account as one of a range of ESG factors to be considered and where those factors could have a financial impact on an investment then of course the Group Trustee would give due weight to that factor when making investment (or disinvestment) decisions. The Group Trustee recognises that there may be financial benefit in adopting an investment strategy that favours environmentally sustainable investments. If faced with two alternatives which are expected to yield similar returns for the same risk, the Group Trustee would favour the more socially responsible investment but ESG factors, whilst important, are necessarily second order to the paramount consideration of acting in members' best financial interests.
**GROUP TRUSTEE B**

**Question 1.**
The Group Trustee has considered climate risk as part of their broader Environmental, social and governance (ESG) considerations. They review their ESG policy on an annual basis with a more in depth review typically on a three year cycle. Whilst climate change has been discussed the Group Trustee has not, as yet, reached a formal determination as to the extent of this element of risk and, more specifically, the extent to which our strategy should explicitly address the risk. The nature of the Group’s investment strategy is such that many of our investments are less directly impacted by climate change related risks, and the Trustee wants to establish an approach that is commensurate with the Group’s exposure.

**Question 2.**
Please refer to question 1 above.

**Question 3.**
Please refer to question 1 above.

**Question 4.**
Please refer to question 1 above.

**Question 5.**
This has yet to be considered and we will continue to monitor the guidance issued to Trustees, for example by the Pensions Regulator (tPR).

**Question 6.**
We would suggest that it is for Trustees to consider how best to discharge their fiduciary duty in this regard.

**Question 7.**
Any guidance from tPR is always helpful for Trustees.

**Question 8.**
Please refer to question 1 above.

**Question 9.**
Please refer to question 1 above.
GROUP TRUSTEE C AND D

Question 1.
Yes

Question 2.
Over-exposure to debt and equity of carbon-intensive industries and insufficient exposure to newer “greener” industries (although the CN Group ESPS has an allocation to Forestry).

Question 3.
The Group Trustees have considered climate risk as part of their broader ESG considerations and review their policy on a regular basis. No explicit climate change policy or mandate has been set. The Group Trustees have considered how climate change risk might affect the Principal Employer (which in the WPDG and CNG cases is, paradoxically, likely to be beneficial as the PEs adapt their networks to meet the needs of a greener economy).

Question 4.
We have not considered these risks to date in any formal way in relation to overall investment strategy because we have no way of quantitatively evaluating this particular issue. In any event, management of assets is delegated to 3rd-Party managers on the advice of our Investment Adviser. We have no direct influence on day-to-day investment decisions and without the tools to do so (see (5) and (6) below), could not constrain the product the manager operates without coming up against the issues highlighted in (7) below.

Question 5.
Not at present – there is no universal methodology for reporting/monitoring at Company level and no obligation on investment managers to aggregate and act upon such data if it was available. Whilst we are aware of one or two managers who take TCFD very seriously and build it into their investment criteria along with other ESG considerations for certain funds they operate, we believe these are isolated cases. Unless all such managers were obliged to report TCFD in a standardised manner (who in turn would have to rely on the disclosures of the companies they invest in), Trustees have no way of quantitatively evaluating this particular issue; Governments and regulators need to give us the tools to do this. As asset owners sitting at the top of the investment chain, we agree we have an important role to play in influencing the organisations in which we invest to provide better climate-related financial disclosures but our powers are extremely limited beyond making Climate Change a specific consideration as part of the wider ESG responsibilities delegated to our investment advisers and managers.

Question 6.
We suggest that Government and Regulators impose a “comply or explain” requirement for Companies to include TCFD in their statutory accounts. Similarly, as part of their licencing, Investment Advisers and Fund Managers and other financial intermediaries should be required to show how they are taking this into account on behalf of their clients. However (see (5) above), this would require inter-governmental co-operation to ensure common standards world-wide (similar to Tax Disclosures etc.).

Question 7.
Yes – but the guidance should be proportionate and should recognise the current reality that (i) most pension schemes have no direct influence on day-to-day investment decisions, (ii) it is widely held that Trustees cannot impose their own
ethical views on beneficiaries and (iii) Trustees and their advisers have no objective
evidence available to them at this stage with which to assess the financial risks.

**Question 8.**
No – although in the context of a pension scheme, the effects of climate change
(Heatwaves etc.) are more likely to increase mortality than decrease it.

**Question 9.**
Nothing further to add at this stage.
GROUP TRUSTEE E AND F

Question 1.
To a limited extent but the trustees expect managers to address this.

Question 2.
Global warming.

Question 3.
No.

Question 4.
No specific action taken.

Question 5.
No.

Question 6.
No view.

Question 7.
No.

Question 8.
No.

Question 9.
Outsourced to managers to address this.
GROUP TRUSTEE G

Question 1.
The Group Trustee accepts that pension funds are potentially exposed to financial risks through climate change.

Question 2.
The Group Trustees considers there to be two aspects to climate-related financial risk for the Group:
1. Impact on the long term covenant of the sponsoring employers; and
2. Impact on the investments held by the investment managers appointed by Group. From time to time, and in particular at each valuation or in event of a significant covenant event, the Group Trustee will formally assess the covenants of the sponsoring employers, taking specialist independent advice as appropriate. Potential covenant risks and hypothetical scenarios which could impact the strength of the covenants are covered in these assessments. The Group Trustee last conducted independent covenant reviews as part of the 2016 valuation and climate-related financial risks were not highlighted as major risks to the long term covenant.

Question 3.
The Group Trustee has not considered climate change in isolation, but it features as part of a wider consideration of ESG-related risks.

Question 4.
The Group Trustee’s position on ESG is set out in the Statement of Investment Principles and Annual Report & Accounts.
In summary, the Group trustee has delegated all social, environmental or ethical considerations in the selection, retention and realisation of investments, as well as voting and corporate governance to its investment managers. It has not specifically instructed the managers in the area of climate change or any other ESG-related risks.

Question 5.
The Group Trustee does not currently have plans to incorporate the TFCD recommendations in the Group’s reporting.

Question 6.
The Group Trustee considers that voluntary adoption is sufficient while the industry continues to develop its thinking in this area.

Question 7.
The Group Trustee would welcome guidance from the Government and/or regulators in the area of climate risk to help trustees of pensions funds identify and manage climate related risks.

Question 8.
Climate change has not been discussed explicitly with the Scheme Actuary for two main reasons:
1. Actuarial modelling focuses on the technical provisions and this includes margins for prudence in the key assumptions in relation to investment returns and life expectancy. When considering appropriate margins for prudence a wide range of risks are included, so although climate change has not been explicitly discussed there is scope for adverse outcomes within the plans.
2. The technical provisions were last considered in detail by the Group Trustee as part of the 2016 Actuarial Valuation. This was before the publication of the Risk Alert from the IFOA.

Question 9.
The Group Trustee’s primary responsibility is to ensure members receive the benefits due, and time and focus is spent on monitoring and controlling those risks in those...
areas which pose the largest threats to meeting that objective. The Group Trustee is open to further guidance being issued in the future to assist trustees in considering and managing these risks.