Dear Mary Creagh,

We are writing in relation to your enquiry on pension funds and climate risk, and your recent letter to the top 25 pension funds in the UK to request information on how they are managing climate risks across their investments. Although the London Pension Fund Authority (LPFA) was not on this list, we believe the LPFA is taking a lead on managing climate risks, and can offer an example which other pension funds can follow.

As you may be aware, the LPFA started the process of divesting its remaining assets from fossil fuels last year, and have committed to a policy which is one of the strongest and most ambitious divestment plans of any world city. In 2017, the LPFA agreed a full climate change policy. The LPFA's policy makes it clear that where their fiduciary duty allows, the Fund will not consider new active investments in fossil fuel companies directly engaged in the extraction of coal, oil and natural gas as sources of energy which are ignoring the risks of climate change and unable to demonstrate planning for the global transition to a low-carbon economy and for future emissions reduction targets under the Paris Agreement or other appropriate initiatives.

Where such investments are in place all reasonable efforts will be made to divest away where opportunities for engagement and reform of the company or project are not possible or do not exist.

A key objective, as set out in the Mayor's draft London Environment Strategy, is to ensure London is a zero-carbon city by 2050, in line with the Paris Climate Agreement, which requires an accelerated shift to responsible investment.

As the LPFA is at the forefront of Local Government Pension Schemes which have reduced fossil fuel holdings and invested in green projects, the LPFA is actively demonstrating the potential investment capacity of pension funds to drive sustainable and green industries and accelerate the low carbon transition to a greener and fairer economy.

All the actions the LPFA have taken, which position London as a global leader on divestment and responsible investment, have been undertaken in accordance with LPFA’s trustees’ fiduciary duty, and we are keen that other cities and local authorities are able to follow the lead of the LPFA. Indeed, LPFA’s Chairman recently spoke alongside New York and Paris at the C40 Financing Sustainable Cities Forum 2018 sharing that London has moved from setting a policy to implementing it.
We therefore welcome the Government’s forthcoming consultation to amend the UK’s current investment regulations to allow pension schemes to mirror members’ ethical concerns and address environmental problems. We believe this is critical to creating an enabling environment for others to pursue informed divestment and are confident that the change in investment regulations proposed would help accelerate divestment and responsible investment by London’s councils, public sector bodies and institutions, as well as encourage new responsible investment commitments across the capital.

We should not delay in removing this perceived barrier to greater clean and green investment by pension funds across the UK.

You will find the LPFA’s detailed response to the questions posed to the top 25 pensions funds in the attached appendix.

Yours sincerely,

Sadiq Khan
Mayor of London

Sir Merrick Cockell
Chairman, London Pensions Fund Authority

Appx.
Appendix: Responses to the Green Finance Enquiry – Request for Information

1. Do the trustees accept the TCFD conclusion that pension funds are potentially exposed to financial risks through climate change?
LPFA accept the TCFD conclusions around pension funds being potentially exposed to financial risks through climate change and this is one of the principal reasons for introducing our climate change policy in line with our wider approach to responsible investment and ESG issues.

2. Which climate-related financial risks are you most concerned about?
The potential risks are wide ranging but for LPFA one of the key risks is the extent to which companies are planning for transition in line with the Paris Agreement and similar initiatives. The extent to which companies in which we invest are aligned with for instance the TPI (Transition Pathway Initiative) and preparing for the transition to a low-carbon economy will be an important part of our toolkit in assessing future investment decisions.

3. Has your pension scheme formally considered climate change risk at Board (or Investment Committee) level?
As you are probably aware, we have adopted a formal policy on Climate Change and have worked closely with the LPP on implementing this with regular reports and updates on progress and planning provided to the LPFA Board.

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 the 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)?
As per our policy on climate change our focus is in identifying the risks associated with the various asset classes we hold and then to determine the appropriate ways to quantify and manage these risks in the context of our responsibilities as managers of the Fund.

5. Are you planning to adopt the TCFD recommendations in your scheme’s reporting? If so, please indicate planned timings.
The LPFA Chair has signed a statement of support for the FSB Taskforce on TCFD. This statement expresses our support for better disclosure of climate related risks and enables signatories to work together as a group towards the adoption of any recommendations. The Fund is also a supporter of Climate Action 100+.

6. How would you suggest the Government and regulators implement the recommendations in the on climate-risk reporting? Is a voluntary approach sufficient to ensure widespread adoption?
We feel any TCFD recommendations would benefit from practical support from governments and regulators via appropriate channels. The desired outcome is for businesses to adopt the recommendations and to report in a standard/comparable/transparency way which increases the quality and coverage of information on the scope and sophistication of their governance of climate change risk and opportunity. Minimum disclosure requirements reflecting TCFD recommendations could be considered as part of listings rules and financial reporting requirements. It would be desirable for the assessment of how effectively companies are meeting minimum standards to become subject to objective external scrutiny and assessment going forward, which is why the TCFD recommendations target annual reporting as the disclosure route, stressing both Board ownership and external audit as part of the signoff process.
7. Would guidance from government or regulators on climate-risk reporting be helpful for pension funds?
Guidance would be helpful where this reinforced the TCFD recommendations and maintained the emphasis on climate change as a material financial risk for pension funds which should be being considered by pension fund trustees as part of their fiduciary duty.

8. Have you discussed climate change with your actuarial advisers, have regard to the Risk Alert that the Institute and Faculty of Actuaries (IFoA) issues to its members last year?
We hold regular discussions with our actuary around our investment and funding strategy and they are also aware of the work we are doing around climate change and risk as part of those discussions.

9. Please share with us any information you think may be relevant as we develop our understanding of the approach the UK pension funds are taking to climate change, and more generally, green finance.
From an LGPS perspective it is important to recognise the ongoing challenges and benefits associated with asset pooling (collective ownership of assets and the associated need for jointly agreed/aligned policies) which needs to be acknowledged as part of the landscape of the LGPS response to climate change. A strong partnership approach will be essential for helping the views/needs of different funds to be met from commonly held investment products, and equally there are potential benefits to be realised if there is a consensus amongst these funds through co-operative bodies such as the Local Authority Pension Fund Forum (LAPFF).