Mary Creagh MP  
Chair of the Environmental Audit Committee  
14 Tothill Street  
London  
SW1P 3JA

28 March 2018

Dear Ms Creagh MP,

I am setting out below, on behalf of the Trustee of the National Grid UK Pension Scheme (“the Scheme”), answers to the Environmental Audit Committee’s questions posed in your letter of 28th February 2018.

Before addressing each of the nine questions, it is helpful to provide you with some context. All of the Scheme’s assets (around £19.5 billion as at 31st December 2017) are managed externally. The Trustee Executive team includes a Chief Investment Officer and a number of other investment professionals which provide guidance to the Trustees on investment strategy and exercises oversight on the external investment managers. The answers in this letter do, therefore, reflect the collective initiatives of both the Trustees and the Trustee Executive team.

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

   We acknowledge that climate change is one of a number of financial risks that the Scheme has to address. The Scheme considers the financial risks associated with climate change as part of a wider range of Environmental, Social and Governance (ESG) related risks. A key challenge for the Trustees in managing the Scheme’s assets is in weighing up the different risks facing the Scheme and the potential returns available from accepting them (or equivalently, the cost of removing or reducing the risk).

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

   We are examining climate related financial risks as part of our consideration of the components of ESG issues. Those Trustees on our Investment Committee have recently undertaken training on the subject from both our Trustee Executive and Legal & General Investment Management (LGIM). LGIM are responsible for a larger proportion of our externally managed assets than any other of our investment managers and we note the emphasis that they are giving to climate related financial risk. We have not identified one specific climate related financial risk which concerns us most.

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

   ESG is having an increasing prominence on the agenda of both the Board and the Investment Committee. As briefly mentioned under question 2 above the Trustee has...
undertaken training on ESG. ESG has been identified as a priority issue for further work by the Board over the coming year when we expect to complete an update of the Scheme’s current Responsible Investment Policy.

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).

ESG issues form an important part of our framework for setting our investment strategy, in the selection of each of our external investment managers and in the monitoring of the Scheme’s investments. For example:

- The Trustees have taken advice from their investment consultants and major investment managers as part of their broader discussions on the Responsible Investment Policy.
- The investment assumptions used when setting our investment strategy take into consideration, amongst many other aspects, the “headwinds” created by climate change.
- How ESG issues are integrated into their decision making represents an important component of our decisions on the selection of external investment managers. However, thus far we have not given specific emphasis to their credentials on managing climate related risks.
- In respect of how ESG issues impact the Scheme’s individual investments, we have delegated the day-to-day decisions of this to our external investment managers who, acting within the parameters of their mandate, are well placed to assess the ESG credentials of each of the companies within their portfolio.
- We recognise that the Trustee has a fiduciary duty to take ESG issues into account and this is reflected in the decisions which the Trustees and our Trustee Executive team are making.

The Scheme has not yet decided to invest in any mandate which specifically targets climate related risks (eg LGIM Future World Fund).

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

National Grid is signed up to the TCFD recommendations and we do intend considering the TCFD recommendations for our Scheme’s reporting. This consideration will likely take place in 2018 but any implementation would happen beyond this period.

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?

We believe a voluntary approach for UK pension funds is the preferable first step as this would be expected to enable best practice to emerge without being impeded.
7. **Would guidance from Government or regulators on climate-risk reporting be helpful for pension funds?**

There are already many sources of guidance available on the wider issues of ESG and sustainability, and we observe also an increasing focus on climate risk and reporting. Whilst it would be helpful and beneficial to receive a statement from Government or regulators setting out their views on climate risk reporting, we do not believe that it is an imperative.

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?**

The strength of the Scheme’s covenant is impacted by the Sponsor’s approach to sustainability. The Scheme has three sections. Two sections are sponsored by National Grid employers and the other by Cadent Gas. National Grid and Cadent Gas are active in managing sustainability risks. As previously noted, National Grid are supportive of the TCFD recommendations and they also have an environmental sustainability strategy called “Our Contribution” within which climate commitment is named as one of the three key themes. Cadent Gas, which accounts for a little over a third of the Scheme’s liabilities, published their Long Term Development Plan 2017 in which they highlight their views on creating a secure, sustainable and affordable energy supply.

Climate change risks have not been explicitly discussed with the actuarial advisor. The impact of climate change on the UK climate, and therefore the seasonal pattern of UK mortality rates, is uncertain. The seasonal pattern of UK mortality rates and the uncertainty of mortality improvements in the future are taken into consideration as part of our funding discussions.

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 primary responsibility of the Trustee Board is to pay members benefits in full when they fall due. We recognise the importance of enhancing the longer term value of the Scheme’s investments to meet this objective.

Yours sincerely,

Nigel Stapleton
Chair of Trustees