Dear Mary

Re: Green Finance Inquiry – request for information

Further to your letter dated February 2018 and the queries set out therein, I set out below the responses of the Trustees of the Parliamentary Contributory Pension Fund (the “Fund”).

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

   Yes. We agree with the conclusion that pension funds are potentially exposed to financial risks resulting from climate change.

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

   The Trustees’ primary concern is their fiduciary duty to pay their members’ pensions. To the extent that climate-related financial risks pose a threat to our ability to do so, we are concerned with both transition risks and physical risks. We do not place a hierarchy on these risks.

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

   Yes. The Trustees updated its Statement of Investment Principles (“SIP”) in 2016 to include a Responsible Investment statement and to strengthen its statement on ESG.
The SIP now states:

"the Trustees recognise that ESG issues can impact the Fund’s returns, and the Trustees aim to be aware of, and monitor, financially material ESG-related risks and issues through the Fund’s investment managers."

**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).**

The Trustees formulate and review their ESG policies with advice from their investment consultants. Given the Trustees' belief that ESG (including climate change) can have a material impact on the long-term performance of its investments, the risk of climate change is expected to and does form part of their investment consultant’s input. This feeds through to the Trustees’ approach to the appointment and monitoring of their managers.

The Trustees favour engagement over divestment. Accordingly, the Fund’s voting activity is reported and discussed at each Trustee meeting and information is added to the Members’ website. The Trustees engage with and challenge their managers on voting activity. Over the past year the Trustees have run a carbon footprinting exercise with their two actively-managed portfolios and put in place a Voting and Engagement policy.

As set out in the attached statement, the Trustees’ approach is as follows:

- **The Trustees** recognise that their duty is to act in the best financial interests of the Fund’s beneficiaries.

- **The Trustees** believe that environmental, social and corporate governance ("ESG") issues including fossil fuels and climate change can have a material impact on the long-term performance of its investments.

- **The Trustees** encourage engagement by their investment managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value.

- **The Fund’s investment managers** are expected to take account of ESG-related risks and issues as part of their investment analysis and decision-making process. Further, the Fund’s investment managers are expected to incorporate reporting on ESG-related issues into their regular reporting. This includes information on voting and engagement, in addition to details on how they are
This includes information on voting and engagement, in addition to details on how they are assessing and managing ESG-related risks in relation to their respective mandates.

- The Trustees aim to be aware of, and monitor, financially-material ESG-related risks and issues through their investment managers, by reviewing each individual manager’s activities in relation to ESG issues on an ongoing basis through regular reporting (as noted above). The Trustees take Responsible Investment factors into account when monitoring and selecting investment managers.

- The Fund and all of its investment managers are signatories to the FRC’s UK Stewardship Code. The Trustees monitor the investment managers’ compliance with the UK Stewardship Code and their track record of engaging with companies on issues such as climate change risk, fossil fuels and broader ESG issues on an ongoing basis.

- All of the Fund’s investment managers are signatories to the UN Principles of Responsible Investment (“PRI”). The Trustees monitor the investment managers’ compliance with the PRI.

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

TCFD, in so far as it applies to asset owners, is aimed at owners with assets in excess of £2 billion. The Parliamentary Contributory Pension Fund is a relatively small fund with assets of approximately £730 million. The Trustees do not feel that the TCFD recommendations are suitable for the Fund at this time.

The Trustees, with advice from their investment consultants, are reviewing their ESG policies on an ongoing basis and the recommendations of the TCFD will form part of discussions over 2018/2019.

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?

Given the identity of the Fund, the Trustees do not think that it is appropriate for them to comment on Government policy.

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

The Trustees would welcome the provision of guidance on climate-risk reporting for pension funds, noting that any reporting requirement should be proportionate given the ongoing development of suitable risk measurement metrics.
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 Fund actuary’s responsibility relates to pension scheme liabilities and funding rather than risks associated with the Fund’s assets. The Trustees are aware of the Risk Alert and also the IFoA’s: ‘Resource and Environment Issues: A Practical Guide for Pensions Actuaries’ and have raised the issue of climate change with the Fund actuary. The Fund actuary has confirmed that the issues raised in the “Risk Alert” were considered in setting the assumptions for the latest valuation of the Fund. The Trustee is also aware that the IFoA is continuing to develop guidance for actuaries in this area.

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.

No comment.

Yours sincerely

[Signature]

Brian Donohoe
Chair of Trustees