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

28 March 2018  

Dear Mrs Creagh,  

Re: Green Finance inquiry – request for information  

Thank you for your letter of 28 February 2018. We are pleased to respond to the Environmental Audit Committee’s inquiry into Green Finance and we understand that our response will be used as written evidence by the Committee and will be published.  

RBS Pension Trustee Limited (RBSPTL) is the trustee of The Royal Bank of Scotland Group Pension Fund (RBSGPF) which is a defined benefit pension scheme for current and former employees of certain companies within The Royal Bank of Scotland Group. RBSGPF was closed to new members in 2006. Our response relates only to RBSGPF and not to any other pension scheme within The Royal Bank of Scotland Group.  

Any information and opinions expressed in this response should be attributed to RBSPTL only and not to the sponsoring employers of RBSGPF or any other company in, employee or officer of The Royal Bank of Scotland Group.  

As a corporate trustee, RBSPTL operates through a board of directors. The board comprises independent directors, directors nominated by sponsoring employers and directors appointed from members of RBSGPF. Accordingly, the board has a diverse range of skills, views and industry experience.  

The primary goal of RBSPTL is to pay the pension benefits promised to its members. This is a long term goal and it is subject to a large number of risks outside of the control of RBSPTL. RBSPTL continues to develop its understanding of the risks of climate change to its primary goal, recognising that the manifestation and impact of those risks is complex.  

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

Yes. RBSPTL believes there is sufficient evidence to support this conclusion and recognises that these financial risks could result in weaker growth and lower asset returns across the RBSGPF portfolio as well as more significant deterioration in the value of individual portfolio assets which are acutely affected by climate change.  

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

In common with other defined benefit pension schemes, RBSGPF is exposed to the long-term viability of its sponsoring employers. Therefore, RBSPTL is concerned about any climate-related financial risks which negatively impact the ability of its sponsoring employers to continue to contribute to RBSGPF.  

RBSPTL oversees a large portfolio of financial assets and is therefore sensitive to any climate-related impact on the value of those assets. Values could be negatively impacted by idiosyncratic risks or more systemic risks related to sector, geography or financial stability. The RBSGPF portfolio is well-diversified and there is significant scope for RBSPTL to change its asset allocation from time to time, accordingly RBSPTL is more concerned about deterioration in asset values more generally causing it to have greater reliance on its sponsoring employers in future.
3. Has your pension scheme formally considered climate change risk at Board (or Investment Committee) level?

Yes. RBSPTL has considered climate change risk at its Investment Committee, specifically how the current investment programme accounts for climate change risk and how climate change risk is addressed as part of its stated objective to be a responsible owner of its assets. RBSPTL has a responsible ownership policy approved by the RBSPTL Board which is discussed further below.

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).

Climate change risk is among a wide range of risks RBSPTL seeks to monitor, control and mitigate. Accordingly, RBSPTL considers possible climate change risks where appropriate in the development of its investment strategy.

RBSGPF assets are managed by third party investment managers which are expected to consider all relevant risks in their investment processes including climate change risk. In its manager selection processes RBSPTL has taken account of managers’ stated approaches to climate change risk for a number of years.

The RBSPTL responsible ownership policy requires active engagement with investee companies guided by the principles of the UN Global Compact including those related to the environment. Engagement is carried out by a third party on behalf of RBSPTL with a view to addressing climate change risk as part of a broader programme covering environmental, governance and social issues. As an example of this engagement work in action, RBSPTL supported the Aiming for A Coalition in its shareholders resolutions to promote greater disclosure around climate change risk by key companies. It is anticipated that this engagement work will encourage the adoption of the recommendations of the Task Force on Climate-related Financial Disclosures in future.

In setting investment mandates for managers RBSPTL may incorporate specific obligations for managers to consider possible direct climate change impacts on the assets they manage for RBSGPF. As an example RBSPTL property mandates now prohibit investment in certain flood risk areas. That does not mean that RBSGPF would never invest in properties in those areas, but will only do so after due consideration of the increased risk and appropriate mitigations for that risk. For larger, less liquid assets RBSPTL is focussed on asset resilience in different downside scenarios including scenarios that account for negative climate change impacts.

RBSPTL and its investment managers take into account environmental performance of particular assets and contribute to benchmarks and/or seek accreditation where possible. For example, real estate investment managers are required to report on environmental performance of commercial buildings owned by RBSPTL to the Global ESG Benchmark for Real Assets. As another example, RBSPTL is an investor in forestry assets in respect of which its investment manager seeks relevant sustainability accreditation. In future, where a sensible framework for environmental reporting exists and where environmental performance of assets can be improved in an appropriate way, RBSPTL will encourage this.

Climate change and wider environmental issues may also create an investment opportunity for RBSGPF. RBSGPF is investing in renewable power and is currently an owner of onshore wind farms and anaerobic digestion plants in the United Kingdom. RBSPTL remains open to other types of renewable energy opportunities globally that meet its risk and return requirements.
5. Are you planning to adopt the TCFD recommendations in your scheme’s reporting? If so, please indicate your planned timing.

The TCFD recommendations are under consideration. RBSPTL is seeking to determine what meaningful information can be provided in relation to a global portfolio with relatively small exposures to diverse and liquid assets.

Transparency is useful in the context of investment decision-making; therefore, RBSPTL is supportive of TCFD recommendations being adopted by companies in which RBSGPF invests as this should result in appropriate adjustments to cost of capital and asset values.

The purpose of disclosures for an asset owner such as RBSGPF would be to inform stakeholders such as members, sponsoring employers and regulators as to the possible impact of climate risk on the RBSGPF portfolio. However, as RBSPTL is alone responsible for investment strategy it would continue to make unilateral decisions notwithstanding greater transparency.

No specific date has been set for deciding to adopt the TCFD recommendations or not. If adopted, disclosures would not be possible before publication of the RBSGPF 2020 year end accounts.

6. How would you suggest the Government and regulator implement the recommendations on climate-risk reporting? Is a voluntary approach sufficient to ensure widespread adoption?

Widespread implementation of TCFD recommendations by issuers should occur on a voluntary basis in response to investor demand. RBSPTL would not advocate compelling asset owners to implement the recommendations until a standard approach has been developed.

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

RBSPTL would welcome such guidance if time and resource allows. Also helpful would be a view as to how Government believes owners of financial assets should be responding to climate-risk in the implementation of investment strategy within the context of a primary responsibility such as that of RBSPTL to pay all member benefits. Reporting is a secondary activity to the primary objective of managing climate risk.

The TCFD recommendations anticipate that changes in regulation in response to climate change risk will have a significant impact on certain asset prices, we would advocate Government engagement with asset owners such as pension funds where possible when forming future climate-related policies which will likely have a material impact on the value of long-term investments.

8. Have you discussed climate change risk with your actuarial advisers, having regard to the Risk Alert that the Institute and Faculty of Actuaries (IFoA) issued to its members last year?

RBSPTL’s actuarial and investment adviser attended a recent Risk and Audit Committee meeting to discuss this risk alert and how climate change risk is being factored into investment scenario analysis. Consideration was also given as to how asset owners might make meaningful disclosure around climate change impact on their portfolios.

RBSPTL is open to recommendations from all its advisers and stakeholders as to how climate change risk can best be accounted for in its investment strategy.
RBS Pension Trustee Limited

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.

RBSPTL agrees with the guidance that it should consider environmental risks where financially material and believes this is clear and consistent with its fiduciary duties to its members.

It is important to note that climate-related risks are part of a broader universe of risks to which RBSGPF is subject, all of which must be given appropriate weight in the development of an investment strategy aimed at supporting its primary goal.

RBSPTL will continue to seek evidence as to the impact of climate-related risks, including by asking companies in which it invests to comply with TCFD recommendations. RBSPTL will also consult regularly with its sponsoring employers to ensure they are accounting for climate-related risks in their businesses though recognising that RBSPTL’s ability to mitigate sponsor risk is limited.

Action by asset owners cannot be expected to substitute for the development and implementation of effective government-led policy (such as effective carbon pricing).

We hope our responses are helpful to the work of your Committee.

Yours sincerely,

Ronald Bowie
Chairman
RBS Pension Trustee Limited