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

Yes.

The Strathclyde Pension Fund (SPF) agreed its first Responsible Investment policy in 2000, acknowledging that environmental, social and governance issues could impact upon investment performance.

Since 2008 SPF has based its responsible investment policy on the (United Nations) Principles for Responsible Investment. SPF’s overall position is accurately reflected in the Principles’ opening statement:

*As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society.*

The Strathclyde Pension Fund Committee (the effective Trustee Board - though SPF is not a trustee fund) considers a detailed report every quarter on the Fund’s responsible investment activity including Climate Change activity.

Since 2015, SPF has agreed a number of strategic initiatives specifically addressing Climate Change risks (and opportunities).

The SPF Statement of Investment Principles is included for information at Appendix A.

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

SPF would broadly agree with the analysis of financial risk presented by the Task Force on Climate–related Financial Disclosures (TCFD).

SPF has a global investment strategy widely diversified by geography, asset class, sector and manager. Investments are mostly externally managed.

Given the diversified nature of the Fund’s strategy it will be exposed to all of the risks identified in the TCFD analysis, though the degree and timing of the impact cannot be accurately gauged.

SPF is primarily an equity investor, so the Fund’s primary concern is that its investment managers and the management of the companies in which they invest have fully assessed climate–related risks and the potential impact on asset valuations, in particular from:

- obsolescence, impairment or stranding of assets;
- changing consumer demand patterns; and
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- changing cost structures including increased emissions pricing, insurance and investment in new technologies.

We also recognise that there is uncertainty over the direction and speed of policy changes in this area. As a public sector fund, Reputational Risk is also a particular concern, though not for financial reasons.

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

Yes.

The Strathclyde Pension Fund Committee considers a detailed report every quarter on the Fund’s responsible investment activity including Climate Change activity.

In addition, since 2015, the SPF Committee has considered 4 separate reports specifically addressing Climate Change risks. These are summarised as follows.

**August 2015**

The Committee considered a report investigating the feasibility, cost and benefits of introducing partial or complete fossil fuel divestment for the Strathclyde Pension Fund. The Committee agreed that SPF should:

- re-state its commitment to active ownership and responsible investment;
- continue and where appropriate escalate its current responsible investment activities including engagement with companies and investment managers, and participation in the Local Authority Pension Fund Forum and Carbon Disclosure Project;
- continue to make appropriate investments in renewable energy and other impact areas through its New Opportunities Portfolio; and
- continue to monitor developments including the Paris climate change conference and alternative investment approaches.

**March 2016**

The Committee considered a report concluding a review of the Fund’s Responsible Investment strategy. The Committee agreed:

- to initiate a review of non-exclusion, passive, low carbon investment solutions); and
- that the Fund should investigate membership of additional industry forums or industry initiatives to support its engagement work around key issues such as climate change.

**September 2016**

The Committee considered a report reviewing the Fund’s progress in developing a climate change strategy.

**December 2016**

The Committee considered a report which presented summary findings of:

- carbon footprint analysis of the Fund’s listed equities;
- a review of non-exclusion, passive, low carbon investment solutions; and
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- an investigation of membership of additional industry forums or initiatives to support engagement work around key issues such as climate change.

The Committee agreed that the Fund should:

- review the carbon footprint of its listed equity holdings every two years and investigate the inclusion of other asset classes;
- use this data to progress engagement;
- join the Institutional Investors Group on Climate Change (IIGCC); and
- continue to monitor development of low carbon investment approaches but not adopt such a strategy at this time.

A copy of each of these reports is included at Appendix B.

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 the issue (either directly, or through your investment managers).

SPF has taken the following actions in response to Climate Change risks.

**Development of Specific Investment Strategies**

In December 2009, the Strathclyde Pension Fund Committee agreed an initial structure for a New Opportunities Portfolio (now the Direct Investment Portfolio (DIP)) with a broad remit to invest in assets for which there is an attractive investment case but to which the current structure did not provide access.

Key characteristics of DIP investments are that they are illiquid, opportunistic, sterling and UK-based, and with some added value through local, economic or ESG (Environmental, Social, Governance) impact.

The capacity of DIP has been gradually increased and now stands at up to 5% of total Fund Net Asset Value (currently £1 billion based on a total NAV of £20 billion).

Within DIP the 2 principal investment sectors have been Infrastructure and Renewable Energy. The latter comprises 11 separate investments with a total commitment value of £286m. These span a broad range of renewable energy activity including solar power, onshore and offshore wind power, anaerobic digestion, and community energy schemes.

SPF also carried out a review of non-exclusion, passive, low carbon investment solutions during 2016. This concluded that:

- Solutions currently available have limitations in terms of live performance history, consultant research and methodology.
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- They would entail direct investment management cost to the Fund and possibly an indirect cost in terms of performance and risk.
- Emissions data from companies is incomplete and can be unreliable. It is not a sound basis for a strategic investment decision or adoption of a passive investment solution at this time.
- The Fund should not adopt a low carbon passive investment approach at this time.
- Developments and solutions in this area should continue to be monitored.

Formal Advice

A key element in the development of SPF’s climate change strategy has been the measurement of carbon emissions and intensity. This was carried out in order to more fully understand the carbon risk sources and dynamics. To achieve this SPF engaged the leading carbon audit service provider, Trucost, to provide a carbon footprint of the Fund’s listed equity portfolios. The Fund is committed to repeating this foot-printing on a bi-annual basis and investigating the inclusion of other asset classes in addition to listed equities.

Exercise of Ownership Responsibilities

In terms of SPF’s Responsible Investment strategy, activity relating to Climate Change risk is carried out by:

- the Fund’s investment managers who are required to exercise the Fund’s voting rights, to incorporate analysis of ESG issues into their investment analysis and expected to engage on these issues with the companies in which they invest;
- Global Engagement Services (GES), a specialist responsible investment engagement overlay provider appointed by the Fund in 2012 and again in 2014; and
- the Fund itself through direct engagement, and collaboration with other investors including the Local Authority Pension Fund Forum (LAPFF), ShareAction, Institutional Investor Group on Climate Change (IIGCC), Carbon Action and other ad hoc alliances.

The Fund has expended considerable effort in supporting collaborative engagement initiatives that have a specific climate change remit.

The Fund is a founding member of Climate Action 100+. This is a five year initiative that will use carbon mapping data to target the worst corporate climate offenders directly, to curb their emissions, improve climate governance and strengthen disclosure. The Fund is also supporter of the RE100 Renewable Energy and EP100 initiatives and a signatory to Carbon Action and the Water and Forest programs of CDP.

Further details of these engagements and collaborative initiatives are included at Appendix C.
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5. Are you planning to adopt the TCFD recommendations in your scheme’s reporting? If so, please indicate your planned timing.

SPF is considering how best it can adopt the TCFD recommendations but has not yet made any commitment or agreed a plan to do so.

The Fund currently reports extensively on environmental, social and governance issues. This includes:

- a quarterly report on Responsible Investment Activity which is considered by the SPF committee and published on the Fund’s website at www.spfo.org.uk
- coverage within the Fund’s Annual Report, member newsletters, and at its AGM; and
- a compulsory annual PRI reporting and assessment survey.

The PRI survey assesses how a signatory has progressed in its implementation of the Principles year-on-year and relative to peers across asset classes. The Fund scored the maximum possible A+ in the 2017 assessment and comparison with the median scores for each survey module confirms that the Fund performs in the top tier of global PRI signatories.

To support investors in meeting the recommended disclosures and demonstrating their relevant activity, the PRI has integrated new climate-related indicators based on the TCFD recommendations into the 2018 Reporting Framework. Responses will be accessible in the form of a stand-alone climate transparency report which will assist signatories in aligning with the TCFD recommendations.

The Fund has completed the new voluntary climate-related elements of the 2018 survey and will reflect on the results with a view to incorporating the transparency report into Scheme reporting.

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

A voluntary approach may be sufficient to ensure widespread adoption but only with significant promotion and support from Government and regulators. Review and, where necessary, amendment to the existing framework of regulations and codes may be helpful to ensure that the recommendations are incorporated or, as a minimum, referenced and signposted.

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

There is a lot of material already available. Review, amendment and promotion of existing guidance might be more useful than further guidance or new publications.
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

Yes.

SPF’s actuarial advisers have drawn our attention to the risks relating to potential resource constraints and environmental changes and their impact on the Fund’s contributing employers and its investments.

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.

Further information is included in the following appendices.

**Appendices**

**Appendix A**
- Strathclyde Pension Fund: Statement of Investment Principles

**Appendix B**
- Strathclyde Pension Fund Committee reports regarding Climate Change
  - B i  ▪ August 2015
  - B ii ▪ March 2016
  - B iii ▪ September 2016
  - B iv ▪ December 2016

**Appendix C**
- Engagement and Collaborative Initiatives on Climate Change supported by SPF
  - C i ▪ Investment Managers
  - C ii ▪ GES
  - C iii ▪ Climate Engagement Initiatives
  - C iv ▪ IIGCC