

Press Cutting

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Trustees need to engage more on climate change risk



"Trustees and the wider pensions community should be asking themselves not 'what are we required to do?', but 'what can we do?'"

“ Fact. We are using up the world's natural resources at an alarming rate. Coupled with mega trends such as rapid population growth, climate change and affluent lifestyles, it has created a major threat to financial stability, leading to commodity and share price volatility and affecting asset values. Only last month, Bank of England governor Mark Carney warned that climate change could have a "catastrophic impact" on the global financial system.

In 2016, the London School of Economics predicted climate change alone would wipe \$2.5trn (£1.8trn) off global financial assets. Whereas keeping climate change below 2°C would see the value of financial assets falling by \$315bn less, even when the costs of cutting emissions were included, enough to pay off the UK's total defined benefit (DB) deficit three times. In money terms, the benefits far outweigh the costs of tackling climate change. At current emission rates, warming of 1.5°C above pre-industrial levels will be reached in just 17-18 years (35-41 years for 2°C), so time is really of the essence.

The financial and business case for adapting is clearly positioned. However, while many companies are developing more sustainable and resilient business models, the awareness and response rate at the top of the investment chain has been slower.

There is no doubt that taking a longer-term view of investment strategies leads to more profitable and resilient portfolios. Assets exhibiting better environmental, social and governance (ESG) credentials outperform peers, provide a lower cost of capital and reduce share price volatility.

The key role that pension fund trustees play in influencing the approach and – just as significantly – the 'sentiment' felt across the investment chain cannot be downplayed. Simple but powerful steps can, and should, be taken by all asset owners. With more than £1.5trn of assets under management, and liabilities subsisting for decades, UK DB pensions are in a strong position to

influence positive change around climate-related risks and opportunities – in short, to grab the sustainable bull by its horns.

While trustees' fiduciary duties are well established in financial terms, the importance of climate change risk is less widely understood. There is sometimes a sense that "we know it's important, but we're not sure what we're required to do".

Trustees and the wider pensions community should be asking themselves not "what are we required to do?", but "what can we do?"

Lack of awareness or information is no longer an excuse for inaction. The Accounting for Sustainability Project (A4S) works with pension scheme chairs and investment committees to equip them with the conviction and tools to transform financial decision-making. It works to empower all financial players with the knowledge, experience and conviction to adapt their business models to become resilient and sustainable.

A4S has created an 'Asset Owners Network' to convene like-minded (and not-so-like-minded) chairs of pension funds to work out why we need to use our position to shape a sustainable investment chain, as well as how we go about doing it. The inaugural meeting of this network met at Clarence House last month and a range of actions and opportunities were discussed – focusing on the role of the chair and trustees, and adoption of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Initiatives like A4S and the TCFD improve the flow and quality of information available to trustees and business leaders across sectors and regions, providing the catalyst for more consistent and comparable information, and therefore better-informed decisions.

Armed with this information, asset owners can no longer be excused for taking a back seat. Instead, they should play a leading role in ensuring market forces drive more efficient allocation of capital and support a smooth transition to a sustainable, low carbon economy. **■**

Rory Murphy is chair of trustees at the Merchant Navy Officers Pension Fund