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Climate Change Disclosure: TCFD Report

First steps in applying the recommendations of the Taskforce on Climate Related Financial Disclosure (TCFD)

July 2019

We believe that the scope and long-term significance of climate change as an investment issue merits specific attention as part of our Responsible Investment approach.

In August 2018 we added an Annex on Climate Change to LPPI's Responsible Investment Policy. Within it, we recognise climate change as a systemic risk which arises from the physical effects of sustained changes in weather patterns due to global warming, and from human interventions to mitigate and manage these changes by adapting to new circumstances through regulation, technological innovation, or other cultural shifts (transition). We believe that climate change poses a long-term and material financial risk to client portfolios and will impact every sector and asset class they invest in globally, though the route, scale and timing of this impact is both complex and uncertain.

Climate change has the potential to destroy value where business risks are not being recognised and integrated into effective strategic planning but also presents opportunities for value creation where products and services can be developed which solve problems and meet societal needs. Our objective is to be able to identify, quantify, measure, act, monitor and report to clients on our management of climate change risk on their behalf. This is a significant undertaking with numerous challenges, and we recognise that we are at an early stage of an ongoing task to evolve our capabilities, access insightful data, set appropriate measures and monitor and report on our progress.

LPP is a supporter of the TCFD's framework for consistent comparable and reliable corporate disclosure on climate change related information. This is reflected in our Chairman's statement of support through an initiative by Accounting for Sustainability initiative (A4S) which commits to working with others to encourage the adoption of TCFD's voluntary disclosure standards.

A4S ACCOUNTING FOR SUSTAINABILITY

FSB TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

PENSION FUND CHAIRS STATEMENT OF SUPPORT

In signing this statement, we affirm our commitment to support the voluntary recommendations of the industry led Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD).

We believe that climate change will have significant impacts across many sectors and that we, as Chairs of pension funds and their pooling partners, Chairs of investment committees of pension funds and endowments ("Chairs"), have an important role to play in ensuring transparency around climate related risks and opportunities.

We commit to working together, as a group of Chairs, towards adoption of the recommendations.

We encourage other Chairs and business leaders to join us in this united effort to improve disclosure across sectors and regions. The Task Force's recommendations will catalyse more consistent, comparable and reliable disclosure of climate related information that will facilitate more informed business and investment decision making.

These disclosures are an important step forward in enabling market forces to drive efficient allocation of capital and support a smooth transition to a low carbon economy.

In signing this letter, we are proud to express our support for better disclosures of climate related risks and opportunities and we urge other business leaders to do the same.

Source: https://www.accountingforsustainability.org/content/a4s/corporate/en/activities/tcfd/statement-of-support.html

The decision to begin reporting on LPPI's activities in line with TCFD recommendations is an extension of this commitment and in making it we acknowledge we are taking first steps. It will take time to progress towards full disclosure.

The Task Force's framework for climate-related financial disclosure is structured around four thematic pillars and a series of recommended disclosures.

Core Elements of Recommended Climate-Related Financial Disclosures

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

(Source: Final Report: Recommendations of the TCFD, Figure 2, p. v).

The information we share below offers insights into our work to date and supplements the details shared in our RI Policy (Annex on Climate Change) other sections of our Annual Report and Accounts and our reporting to the Principles of Responsible Investment.

Governance	
Recommended Disclosure (a) Describe the board's oversight of climate-related risks and opportunities.	Climate related risks and opportunities are considered as an integral part of LPPI's approach to Responsible Investment which is focussed on ESG integration. The governance of our RI approach has oversight from LPPI Board through the receipt and consideration of reports, papers, policies, terms of reference, and the review of statutory and other public reporting on stewardship and RI activities. During 2018/19 climate change has been identified as an investment issue meriting specific attention as part of LPPI's Responsible Investment approach. The development of first steps in climate change policy and of initial priorities for action by LPPI are familiar to and supported by LPPI Board members. Ongoing progress will continue to feature within reporting as RI strategy around climate change is evolved by the investment business.

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Recommended Disclosure (b) Describe management's role in assessing and managing climate-related risks and opportunities	LPPI Board has delegated operational oversight of Responsible Investment (including climate change) to LPP Stewardship Committee which meets quarterly under the chairmanship of LPPI's Chief Investment Officer. Membership includes the CEO of LPP Group and the Head of Responsible Investment at LPPI. Stewardship Committee members consider and contribute to the development of RI Policy by LPPI and also oversee its practical implementation under the aegis of wider roles and responsibilities. LPP's Executive Committee (Group CEO, CIO, Chief Risk Officer, and other functional leads) receive and review Stewardship Committee papers and are conversant with the evolution of RI policy as it relates to climate change. ExCom members support policy implementation by wider business functions as appropriate. The CIO oversees all investment staff and chairs LPPI's Investment Committee (IC) which is both a decision-making body and a gatekeeper in relation to the investment procedures which implement RI policy in practice. IC convenes as the senior management team for the investment business and IC members receive reports and papers relating to individual investment decisions (where assets are managed directly) and the selection, appointment and performance of external managers (where assets are managed externally). Supported by the Head of Responsible Investment, IC members own the practical implementation of existing RI policy. They are directly involved in both the evolution of appropriate policy on climate change and the integration of this policy into the actions of the asset class teams they oversee and the requirements LPPI makes of external managers.
Strategy	
Recommended Disclosure (a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	We are at an early stage of evaluation and we recognise that the risks and opportunities posed by climate change are myriad and of uncertain timing. We have begun our assessment with a consideration of sectors most likely to be impacted by transition risk. This has prompted an explicit focus on extractive fossil fuel companies as the sector most likely to face significant direct impact from the global transition to lower carbon and associated changes in policy, regulation, disruptive technology and consumer preference. Whilst our exposure to traditional energy is

	relatively low it is the most emissions intensive sector in our Global Equities Fund (GEF). We are using the Transition Pathway Initiative (TPI) to inform our thinking about other sectors likely to be heavily impacted by transition risk and have identified utilities and building materials as the second and third most emissions intensive industries in our GEF. We recognise that our interests in property and other physical infrastructure are subject to transition risk through the increasing likelihood of stronger environmental policy and enforcement through regulation. Governments have made commitments to achieve emissions reduction targets under the Paris Agreement and are likely to increase current standards and impose stronger restrictions to accelerate progress and remove choice where voluntary standards and incentives are failing to achieve sufficient progress. The physical risks posed by climate change relate to the location of assets and key markets and their immediate vulnerability to disruption by severe weather events (storm/flood) but also encompass the impact of longer-term systemic risks (temperature increase, sea-level rise, water scarcity) on access to natural resources, production cost, business viability and market stability. We recognise that our portfolio could be adversely impacted by physical risk events both through directly owned assets and wider interests in diverse global companies, many of whom will place critical reliance on physical buildings, plant and other infrastructure or on scarce natural resources, either directly or via their supply chains.
Recommended Disclosure (b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	We recognise that all companies may ultimately be impacted by climate change, but for some, climate related risks may not be direct, straightforward to discern, or possible to predict or quantify with reasonable certainty. Our approach to RI is to integrate ESG considerations on a case by case basis. An evaluation of the risks and opportunities faced from climate change form an integral part of this strategy. We are fundamentally a long-term investor seeking to protect value and achieve sustainable investment growth through a diversified portfolio of assets. Identifying where and how climate change may foreseeably have an impact on existing or prospective investments is a complex and ongoing task which we have begun to address and will continue to evolve and integrate into our strategy over time. Our first steps have been to; • supplement LPPI 's Responsible Investment Policy with a specific Annex on Climate Change; • add questions on climate change risk management to the Responsible Investment Due Diligence

	Questionnaire we require all prospective managers (all asset classes) to complete; • identify the nature and scale of our exposure to sectors most likely to be impacted by transition in order to understand, evaluate and begin to monitor our risk; • encourage better disclosure by companies and seek clearer insights from delegate managers.
Recommended Disclosure (c) Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Our strategy is to assess the risks faced from climate change as an integral part of our approach to RI which focusses on ESG integration. This approach suits the complexity and multi-dimensional nature of climate change and the challenge it poses for strategy integration. Our evaluation of risks will mature and evolve over time and has the capacity to adapt dynamically to new investment and business contexts created by regulatory, economic and technological changes within the transition pathway. Our strategy centres on understanding and evaluating risks in order to be able to take informed investment decisions and incorporates using ownership influence to encourage companies to recognise and plan for the impact climate change will have on their business and operating model including new opportunities it may present. These attributes are similarly relevant under all scenarios, whether 2°C or lower.
Risk Management	
Recommended Disclosure (a) Describe the organization’s processes for identifying and assessing climate-related risks.	The way in which risks are identified and assessed is influenced by factors including asset class, sector, investment vehicle and whether an investment is internally or externally managed. Where investments are being made directly and under internal management, climate change risks and opportunities are assessed as part of the detailed due diligence which precedes decision-making by IC. Consideration is given to a range of risks relevant to the asset and sector and spans both physical and transition risks to the business, its supply chain and current/future markets. Where assets are under external management, evaluation and decision-making is undertaken by delegate managers on our behalf. We routinely seek information from managers on how they assess and address climate risk in decision-making. Their

	insights inform our approach and shape our requirements of them for information which can help us to understand, quantify and monitor risks and integrate ongoing learning into our risk management processes. In common with other investors we face significant challenges in relation to data to identify and evaluate physical and transition risk factors when assets are not directly owned. This reflects the diversity of investment vehicles through which we have interests in assets globally, the degrees of separation where investments are through funds or fund of funds, and the extent and quality of disclosure by companies on their evaluation and management of the risks they face. We continually seek out data sources and tools which can provide insights on the types of risk faced, the sectors most exposed and the quality of corporate climate change risk management. We are informed and assisted by the work of a range of organisations including IIGCC, TPI, Climate Action 100+, Carbon Tracker and CDP. In working towards a more systematic approach we have begun to use data from CDP, TPI, MSCI and Bloomberg to evaluate public companies.
Recommended Disclosure (b) Describe the organization's processes for managing climate-related risks.	We have grown our understanding of the routes through which asset values may be affected by climate change over time but are at an early stage of identifying and quantifying (mapping) the investment risks faced in practice. Where we identify specific risks for current investments (interests in extractive fossil fuel companies for example) we introduce quantification and monitoring to provide better information from which to understand, evaluate and plan an appropriate response. Our ultimate objective is to maximise risk adjusted returns on behalf of client pension funds rather than to avoid risks altogether. Our approach is to integrate ESG considerations case by case to ensure we can achieve adequate assurance that we are taking well informed decisions and are being appropriately rewarded for the risks we accept. Our investment approach supports an open universe without artificial restrictions on the sectors and opportunities which may be considered but, as an extraordinary step, we have introduced an exclusion preventing investment in thermal coal by LPPI's Global Equities Fund which reflects the particular risks faced by this sector. Coal is the most carbon intensive fossil fuel and the traditional energy source most likely to face declining demand in the face of rising renewable output at a reducing cost. We are in regular dialogue with the external managers who invest on our behalf and are increasingly emphasising the importance of anticipating, evaluating and managing the risks from climate change within the opportunities they consider, the

	decisions they take, and the assets they manage on our behalf. We are participating in a range of collaborative initiatives which are bringing investors together to exert collective influence through joint engagement. We prioritise engagement opportunities which focus on specific positive outcomes through targeted dialogue with companies, regulators and policy makers. Through our shareholder voting we urge companies to adopt sustainable business practices and have opposed management and supported appropriately drafted shareholder proposals which address the need for greater ambition on climate change mitigation or increased transparency around strategy and targets. We are seeking to benchmark our portfolio and its constituents against appropriate measures where these are available and we actively welcome insights and examples of best practice from other investors which we can adapt and build into our approach as it evolves.
Recommended Disclosure (c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	Climate change risks are identified, assessed and managed as part of our wider approach to RI which is based on ESG integration. Where we select and manage assets internally, we undertake fundamental analysis which incorporates an evaluation of sustainability. Investment proposals are considered by our Investment Committee and material ESG considerations are formally documented as part of our review process. As learning on climate change progresses, we will integrate new insights and approaches to ensure significant considerations are directly informing proposals and decision-making. In selecting external managers, we review the recognition and integration of climate change and look for direct evidence of insights and capabilities. We have included specific questions on climate change management within our Responsible Investment Due Diligence Questionnaire which we require all prospective managers (all asset classes) to complete. Where our assessment of potential risk recommends investment restrictions or specific reporting needs, we work with individual managers to identify and agree our requirements and build these into investment management agreements.
Metrics & Targets	
Recommended Disclosure (a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	We are using a variety of data sources (CDP, MSCI and Bloomberg) to give us insights and assist us in identifying and quantifying exposure to climate related risks. Currently our principal metrics focus on the quantum and makeup of existing investments in "green" (renewal energy and other sustainable /ecological) and "brown" sectors (fossil fuel extraction, and traditional energy and utilities). We calculate

	these metrics quarterly, monitoring and tracking changes over time as part of understanding where and how exposures feature within and across different asset classes, funds and mandates. Our other key metrics reference the Transition Pathway Initiative and specifically the scores awarded to companies for management quality.
Recommended Disclosure (b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	GHG emissions data have multiple weaknesses including their efficacy as an indicator of investment risk and their accuracy/completeness (due to the quality of company disclosure). We have recently commissioned a first full review of the greenhouse gas emissions of our GEF which confirms a significantly lower carbon footprint for the GEF compared to the benchmark (MSCI ACWI). We are currently reviewing the detailed results and the components contributing to this positive position. Related analysis charting the position of the GEF against different decarbonisation pathways also indicated positive alignment with decarbonisation pathways for both 2°c and 1.75°c Insights gained from reviewing emissions data at a granular level will inform our evaluation of the main sources of emissions intensity (sectors and companies) and guide further analysis. Headline GHG data offer an initial baseline for comparison with future emissions measurement which will help us to review the trajectory of the GEF's overall intensity and offer insights into the sectors which are the largest contributors to total emissions (and driving changes over time).

Recommended Disclosure (c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	We have set qualitative targets around our investment in fossil fuel extraction. These reference the effectiveness of corporate governance by individual fossil fuel companies based on TPI Management Quality Scores. Setting targets is an exploratory step intended to maintain a clear focus on extractive companies and the investment risks they pose, the likelihood of value loss and the quality of corporate planning for climate related challenges. We track the overall value of the GEF's exposure to companies within TPI coverage on a quarterly basis as a general indicator of transition risk exposure. The TPI population is in a process of active expansion however; sector and company coverage have increased significantly over the past 12 months and expansion is set to continue. We have additionally set an explicit target for any extractive fossil fuel company in our GEF to achieve a minimum TPI Management Quality score (where in TPI coverage). In 2018 the target was TPI 2 (building capacity) and in 2019 this increased to TPI 3 (operational integration). We require managers to be able to explain the basis of their evaluation of climate change risk for individual extractive companies and a minimum target (comply or explain) provides a clear methodology for dialogue and challenge. We are partnering with a provider of greenhouse gas emissions data to understand the position of sectors and individual companies, source portfolio analytics and explore the alignment of our Global Equities Fund with a 2°c pathway in order to reference our position relative to the goals of the Paris Agreement.

Important information

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