THE SOCIETY OF PENSION PROFESSIONALS
making pensions work

Circular 2894

MINUTES INVESTMENT COMMITTEE MEETING
20TH OCTOBER 2021 AT 10.00
VIA A TEAMS MEETING

Present:	Neil	Davies (Chair)	Barnett Waddingham LLP
	John	Belgrove	Aon
	Michel	Bernard	Amundi (UK) Ltd
	Gareth	Craft	Linklaters LLP
	Simon	Daniel	Eversheds Sutherland
	Robert	Eamey	PineBridge Investments Europe Limited
	Fred	Emden	Society of Pension Professionals
	Tony	English	Mercer Limited
	Matt	Gibson	LCP
	Adam	Gillespie	XPS Pensions Group
	Robin	Hames	LGT Vestra LLP
	Robin	Herd	M&G
	Jill	Johnston	Aegon Asset Management
	Timothy	Jordan	PIMCO
	John	MacDonald	Kempen Capital Management (UK) Limited
	Ashley	Manning-Brown	Columbia Threadneedle Investments
	Charles	Marandu	SEI Investments (Europe) Ltd
	Ralph	McClelland	Sacker & Partners LLP
	Debra	McDonagh	Willis Towers Watson
	Mark	McKelvey	ABRDN PLC
	Hiten	Nandha	PricewaterhouseCoopers LLP
	John	Nestor	M&G
	Kate	Rickards	Pictet Asset Management
	Anil	Shenoy	Janus Henderson Investors
	Jasmine	Smiley	Fidelity International
	Jos	Vermeulen	Insight Investment
	Felix	Weston	Squire Patton Boggs (UK) LLP
	Natalie	WinterFrost	Law Debenture Pension Trustees
In attendance:	James	Duberly	BBC
	Jack	Wood	Squire Patton Boggs (UK) LLP

1. APOLOGIES

Apologies were received from Clifford Sims and Michael Burns. Felix Weston was substituting for Clifford Sims and Timothy Jordan for Michael Burns.

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2. WELCOME

The Committee welcomed a number of new members joining for the first time.

3. MINUTES OF THE COMMITTEE MEETING HELD ON 21ST JULY 2021 (CIRCULAR 2860)

The Committee approved the minutes that had been circulated.

4. MATTERS ARISING

1) To note – SPP response on TPR's consultation on governance and reporting of climate-related risks and opportunities

The Chair noted that the Society's response to TPR's consultation on governance and reporting of climate-related risks and opportunities had been submitted. The main points highlighted by the response were areas in which the guidance could be clearer, that better examples could be used and inconsistencies cleared up.

2) Prepare for BBC presentation

The Chair invited members of the Committee to contribute questions that they would like to ask James Duberly later in the meeting. The Committee agreed that it would be useful to hear about any tips for dealing with the significant workflow smaller schemes will need to undertake to comply with the regulations next year. These schemes will not be as well-resourced as the BBC and any advice on what these schemes should be doing now in preparation would be useful.

The Committee agreed that it would be beneficial to discuss what compromises had to be made to reach a credible disclosure, recognising that there would have been some variation in the quality of the data available.

The Committee noted to ask Mr Duberly whether he had any thoughts on the additional metrics that he wished to include in the disclosures. As there seems to be flexibility on the metrics and targets, the Committee agreed it would be useful for Mr Duberly to discuss what input they have had as an executive on the metrics and the extent to which they have been forced to rely upon those put to them by their advisers.

The Committee noted that the government has recently published a roadmap to sustainable investing that puts more constraints on reporting and to ask for Mr Duberly's comments on the roadmap. The Committee also noted that it would be useful to discuss the approach to green gilts and reporting on sovereigns, which could prove problematic issues.

5. JAMES DUBERLY, BBC – TCFD, COMPLIANCE WITH THE INVESTMENT REGS

James Duberly, director of pensions investments at the BBC pension scheme, gave a talk sharing the ways in which the BBC has approached some of the issues they faced in complying with the investment regulations. Mr Duberly noted that this is still very much a work in progress.

Mr Duberly gave a brief overview of the BBC pension scheme to set the scene, noting that they have a small internal investment team, comprising just five people. The scheme therefore relies quite heavily on external fund management and consultants.

On the subject of climate change, Mr Duberly outlined the BBC's current approach. They have existing references to climate change as a long-term risk for the fund in its SIP/RI policy and risk register and have commitments to monitor climate change risks. Mr Duberly noted that, whilst they have not formally made a net zero commitment, it has been a topic of considerable discussion and their chair has signed to A4S to make that commitment in principle to net zero.

The Committee asked how Mr Duberly felt about the recent Money Matters report and if any members had queried about it. Mr Duberly responded that the report had received quite low publicity levels and has mostly been covered in trade press, rather than broadsheets, which the BBC would be more sensitive to. The BBC has not received any member enquiries relating to the report.

In relation to TCFDs, Mr Duberly noted that they have attempted including them in the annual report for the past couple of years. They have had comments on strategy and governance and conducted client scenario analyses, but have not included metrics. This is a work in progress for the next annual report next summer.

Mr Duberly shared some figures from the scenario analyses that they have conducted with two different consultants. One was a long-term asset only analysis based on various different scenarios, undertaken in 2015 and repeated in 2019. The other study conducted a slightly different methodology and included rough estimates of the effect on liabilities, undertaken in 2019 and repeated in 2020. Although data from the different analyses produced slightly conflicting results, Mr Duberly commented that the results were still found to be useful as there was a level of consistency across the quantum of the results and they helped in approaching climate risk with some objectivity when making investments.

The Committee asked about the assumptions that were included in the scenario analysis which demonstrated a reduction in liabilities resulting from greater global warming. Mr Duberly commented that, without overstating the quantitative accuracy of the analysis, the general assumption is that more rapid climate warming will decrease life expectancy and could potentially benefit the scheme's funding position.

Mr Duberly proceeded to note that a carbon metric represented a gap so far in the data that they have collated for TCFDs, but which they hope to include next year. Mr Duberly noted that it is a particularly complicated project to understand the overall carbon emissions from the whole portfolio. In response to the Committee's question on the source of this data, Mr Duberly noted that data would be collected from multiple sources, including managers, as one provider is unlikely to be able to provide all the required information. The BBC are not planning on conducting their own internal data project. Mr Duberly noted that they are considering setting an absolute emissions metric, a carbon intensity metric, and possibly a data quality metric.

In response to a question from the Committee, Mr Duberly commented that a metric around the amount of engagement that managers are having on these issues might also be beneficial. A very simple metric of understanding the extent to which managers are committed to net zero transition is a useful piece of information to gather internally.

Mr Duberly emphasised that this is a work in progress. They are always trying to keep the annual report as simple and concise as possible (ideally under 50 pages) and to keep disclosures in a separate stewardship statement that is used for PRI submissions. The plan is likely to expand the TCFD reporting next year to include metrics.

In response to the Committee's query regarding member communication strategy, Mr Duberly noted that they have a detailed annual report which they try to make as readable as possible, as well as a summary report which goes to all the membership that features ESG issues. Information sessions are also held with members as part of the communications.

The Committee asked Mr Duberly whether the focus on TCFDs might come at the cost of social factors. Mr Duberly responded that, as the regulatory focus is on the climate side and due to the need for compliance, this can detract attention from other areas. However, their voting engagement covers social and governance issues in the same manner, but it is a challenge to bring sensible quantitative measurements across the broad range of fund assets.

The Committee asked whether Mr Duberly had any advice for smaller schemes on preparing to comply with these regulations. Mr Duberly noted that they have tried to maintain consistency of wording across all the main scheme documents in a central repository. This makes it easier to control the consistency in the different communications that are going out. Their model is to work with external advisers and take legal advice where they do not have the expertise.

The Committee asked for Mr Duberly's opinion as to whether it would be advantageous for smaller schemes to also engage a number of consultants for different perspectives on aspects of modelling. Whilst acknowledging that it is not necessarily something that a scheme requires, Mr Duberly did find that that the process was beneficial in providing confidence that the scale of the numbers were approximately justifiable and to compare analyses.

In relation to the recently published government paper on green finance, the Committee asked Mr Duberly whether he thinks these regulations, if adopted, will force the scheme into impact investing at some stage. Mr Duberly commented that they are very keen to have a positive impact from their investment and they will adapt to the regulations in place. They have always wanted to be long-term stewards of the assets held, which they hope to continue.

The Committee was interested to hear from Mr Duberly his experience in pursuing information about the ESG impact in private investments, in particular fixed income private investments, real estate and infrastructure. Mr Duberly responded that there are often many anecdotes about property managers putting bees nests into open spaces or social housing work. It is an area in which they would like to do more work, with sustainable goals and metrics.

Finally, the Committee asked for Mr Duberly's thoughts on the gilts and LDI aspect of their portfolio. Mr Duberly commented that, internally, they determine a carbon intensity figure for gilts, by comparing a stock of gilts against UK carbon emissions, but are as yet undecided on the extent to which that will be included in external communications.

With the thanks of the Committee, Mr Duberly left the meeting.

6. <u>TO WHAT DEGREE IS THERE STILL A TENSION BETWEEN FIDUCIARY DUTY AND ESG RESPONSIBILITY?</u>

The Chair invited a member of the Committee to provide a brief background to the topic, before opening the conversation to comments from the Committee. The Committee member introduced the topic by discussing the report published by the Law Commission in October. The guidance makes clear that non-financial factors may be taken into account in investment decisions provided that it does not involve a risk of significant financial detriment to the fund. It was commented that the three key stakeholders (the Government, corporates and investors) will need to move in unison to progress towards net zero and that it is difficult for investors to take the lead in this movement. The member noted that this tension between financials and ESG is finely balanced.

The Committee discussed whether this question is concerned with what the law currently is or rather what the law should be. On the one hand, members of the Committee noted that the law as currently stands, albeit quite difficult to apply, is clear. The industry has come on leaps and bounds in applying it in the last few years, making decisions on financial materiality without getting too muddled on investment issues. The Committee noted that Cowan v Scargill still informs the extent of trustee duties and is still clearly set out in the regulations that apply to investment decisions; new case law that reframes the trustee duties would be beneficial and clarify what trustees can and cannot take into account.

The Committee noted the example of green bonds, where it could be argued that a prudent trustee would take into account the positive social impact of the particular investment. The investment may impact returns, but would positively impact the world in which we live. It would take brave trustees to interpret prudence in this manner.

On the other hand, members of the Committee commented that the issue can be reframed as clients not engaging properly and not using the latitude already available to them to invest in more ESG friendly assets within their existing fiduciary duties. It would be a Pandora's box to ask trustees to establish what is normative and what is not. Some trustees can hide behind thinking that certain investments might have a detrimental financial impact. The Committee queried at what point the priorities would switch, and that an ESG strategy is prioritised first and then having a positive impact comes afterwards.

The Committee discussed the differences in dealing with DB or DC assets, noting that it is possibly easier to address the challenge in DB assets, where the responsibility falls on the employer to make up for any shortfall. With DC assets, it is more difficult to keep individuals on board when discussing the environmental benefits of their investments but the impact that this may have on their returns.

7. <u>SPEAKERS FOR NEXT FEW MEETINGS</u>

The Chair invited members of the Committee to make suggestions for speakers and topics for forthcoming meetings, noting that the next meeting date will likely be in January.

The Committee raised several topics and speakers that would be useful to discuss at future meetings, including:

- Although it was noted that the next meeting might be too soon, it would useful to hear from the Regulator when the next phase of the DB funding code consultation is undertaken.
- A speaker who attended COP 26 events to discuss the outcomes and their reflections from those meetings.
- A discussion on outsourced CIOs. Certain Committee members commented that they have relevant contacts that they can reach out to.
- A speaker from the DMO.
- A discussion on the regulations and issues that will arise with significant amounts of money likely to be going to insurers over the next decade.
- A discussion on the climate transition indices under the new regulations.

8. <u>AREAS FOR FUTURE COMMITTEE DISCUSSION</u>

The Chair noted that topics will be similar to those discussed in relation to future speakers and will consider any other agenda items next time.

9. <u>TO NOTE – TASKFORCE TACKLES PENSION SCHEME GOVERNANCE</u>

The Chair emphasised that this is not a consultation and there is no work to be undertaken, but just to be noted.

10. <u>EVENTS UPDATES AND POLLING SUGGESTIONS</u>

Fred Emden reminded the Committee of the following SPP events:

- 21st October 2021: GMP Equalisation event.

- 1st November 2021: a discussion about any tax announcements which are made in the Budget.

- 10th November 2021: rescheduled event involving the Shadow Minister, Matt Rodda.

- 17th November 2021: an update on the interim report from the working group on small pots.

- 23rd November 2021: technology developments in the pension space with Tumelo, ABAKA, and Pension Dashboards Programme.

- 2nd December 2021: event on members' costs and charges disclosure initiative.

- A three-part event or three separate events are being considered longer term that may focus on ESG risk in covenants, perspectives on actuarial assumptions, and investment portfolios.

11. ANY OTHER BUSINESS (PLEASE NOTIFY IN ADVANCE)

None

12. NEXT MEETING

To be confirmed. The current dates being considered are the 19th and 26th January 2022, but this will be confirmed once agreed.

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4th November 2021