

## Case Study:

# Getting ready for TCFD

When it comes to managing climate risks, including meeting regulatory requirements, it can be really useful to learn from the experiences of others. In this note, we share how the Trustee of a large Pension Scheme responded to the Taskforce for Climate-Related Disclosures (TCFD). We also outline the support and advice we provided, in the hope you find this useful.

### Preparing for TCFD

Regulations came into force on 1 October 2021 that require pension scheme trustees to adopt governance and reporting processes in line with the framework developed by the TCFD. As a large defined benefit scheme, the Trustee was eager to ensure that the Scheme was well prepared for these regulations.

Alongside a focus on meeting the regulations, the Trustee also wanted to use the opportunity to identify and focus on areas where a meaningful impact could be made towards improving the sustainability of the Scheme's asset strategy.

### The Challenge

The Pension Scheme is a mature, well-funded scheme with a sophisticated asset strategy. For these types of assets, it can be harder to understand and measure climate-related risks and opportunities than is the case for traditional equity and credit mandates. Consequently, a large part of the work we and the Trustee have done to date has focused on understanding what is possible in these mandates.

The Trustee asked Hymans Robertson, as the investment adviser to the Scheme, to help plan and implement the actions that would ensure the Scheme met the new requirements from 1 October 2021, including completing its first TCFD report by 31 October 2022.

### The TCFD framework

The new regulations require pension schemes to take actions and make disclosures in line with the following four pillars of the TCFD framework:

- **Governance:** Implementing and disclosing the scheme's governance around climate-related risks and opportunities.
- **Strategy:** Identifying and disclosing the actual and potential impact of climate-related risks and opportunities on the scheme.
- **Risk management:** Implementing and disclosing how the scheme identifies, assesses, and manages climate-related risks.
- **Metrics and targets:** Selecting, measuring, and disclosing the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

For more information on the TCFD requirements and how we can help schemes meet their obligations, please see our interactive [TCFD guide](#).

# The Solution

## Training and sharing knowledge

We arranged climate-specific training to ensure all members of the Trustee board understood the investment considerations of climate change and the new requirements. The training included sessions with trustees from other large pension schemes, who shared knowledge and suggestions about how best to respond to the new regulations. The Trustee found that learning from the experiences of others was invaluable. In addition, dialogue with the Sponsor helped the Trustee to understand the Sponsor's approach to addressing climate change and to learn from their experiences.

## Responsible Investment Sub-Group

The Trustee decided that a dedicated Responsible Investment (RI) Sub-Group should be set up, consisting of members of the Trustee board, the pensions team, and the Hymans Robertson investment team. The RI Sub-Group was tasked with ensuring that the Trustee could meet the requirements of the TCFD regulations, and also that the Trustee continued to act in line with the wider beliefs and principles set out in its RI Policy.

## Project management: making goals a reality

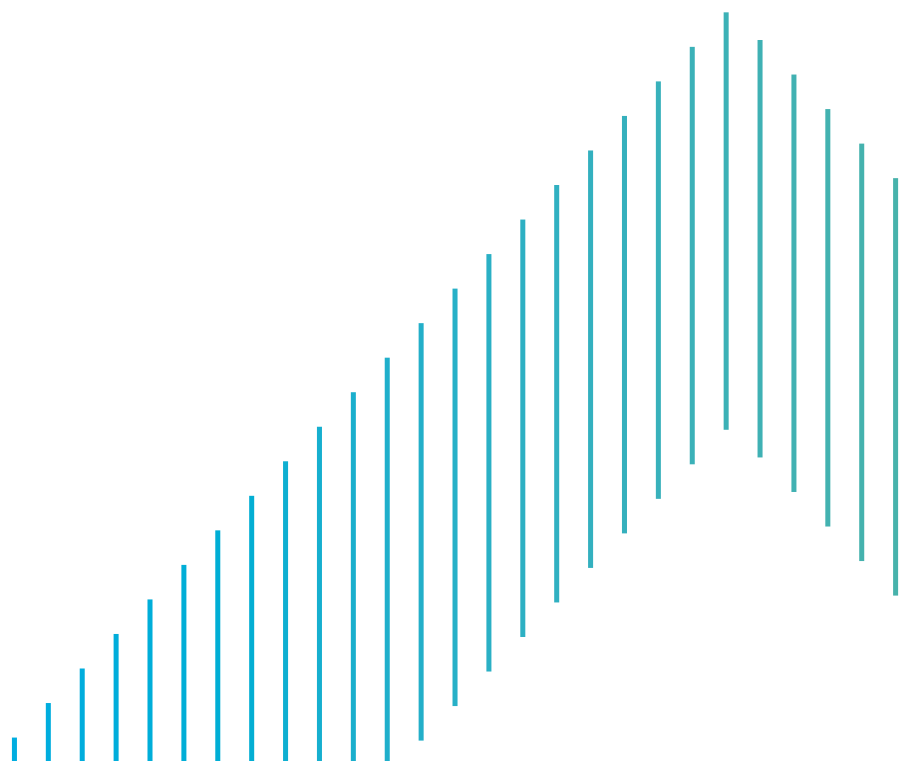
When it comes to achieving the Scheme's goals, careful project management is critical. We produced a detailed project plan setting out the actions the Sub-Group and Trustee would need to take to comply with the new regulations, alongside their current RI commitments. Actions were planned around Sub-Group meetings, with opportunities to report back to the Trustee and to seek their approval of key decisions at each Trustee meeting.

## Understanding the baseline position

As a well-funded, de-risked Scheme, using sophisticated asset classes, information on climate risk and data (such as greenhouse gas emissions) is much less readily available. The RI Sub-Group met with each of the Scheme's managers to discuss their processes in depth, and to ascertain how ESG factors, in particular climate change, are integrated into their investment decisions. The Sub-Group also asked about the quality and availability of information the managers could provide, to assist the Trustee in making its TCFD disclosures.

A key finding from these meetings was understanding the options available for estimating missing climate data, and the differing approaches managers are taking when making estimates.

As you'd expect, the vital information gathered from these meetings was summarised and recorded. This documentation is a key resource to set out the data available, the different climate-related risks and opportunities identified within each mandate, and the Trustee's agreed approach within each asset class.



# The journey so far

The Sub-Group has continued to learn from others and to share their experiences, with a representative attending a round-table event we organised for large schemes.

## Producing the first TCFD report

The scheme will be required to produce its first TCFD report in 2022. To achieve that, the Sub-Group has grouped the requirements of the TCFD in two stages:

### 1. Governance and risk-management requirements

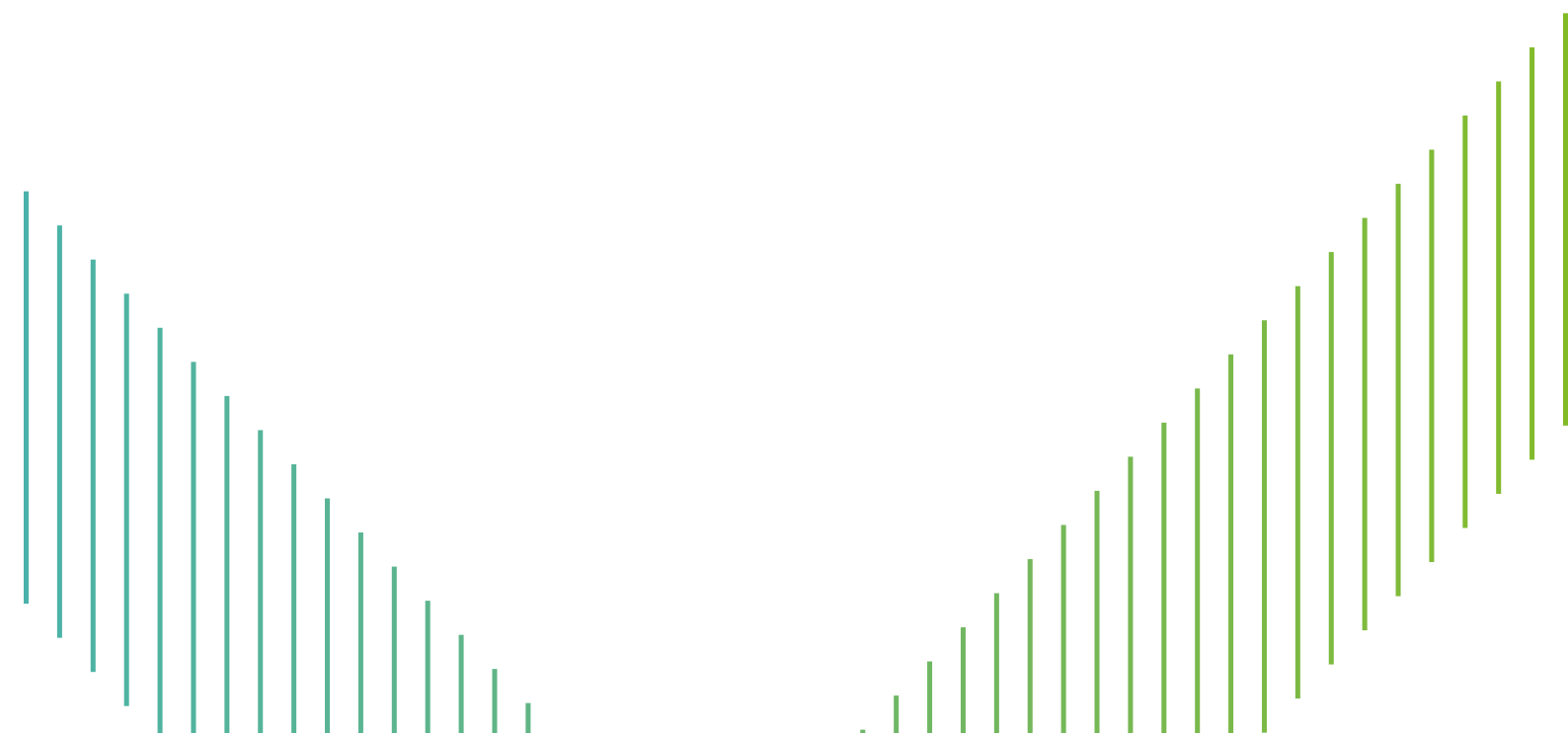
Trustees must ensure there are appropriate governance structures, processes, and policies in place to identify, measure, and manage climate risk. To meet those requirements, we worked with the Sub-Group to:

- Revisit and update the Trustee's RI policy
- Assess the current roles and responsibilities of all parties involved with Scheme management. These have been documented, setting out how each party (the Trustee, Pensions Investment Committee, RI Sub-Group, Pensions team, Scheme sponsor, advisers and managers) is involved in identifying, measuring and managing climate risk
- Assess the current processes in the day-to-day running of the Scheme and risk management (e.g. valuations and covenant reviews, setting strategy, selecting and appointing managers)

### 2. Strategy, metrics and targets

Trustees are required to identify, measure, and document the climate risks and opportunities within the scheme. The following work is underway to meet these requirements:

- We have provided training to the Sub-Group on the options for climate-related metrics and targets. In addition, as part of our manager meetings, we documented the data available from each investment manager and, consequently, the Trustee's ability to set climate-related targets within each mandate. Based on this work, the Sub-Group and Trustee have agreed which metrics they will monitor and are working on a proposal for the climate-related targets that will be set.
- The Trustee will carry out climate-scenario analysis as part of the Scheme's strategy review alongside its upcoming actuarial valuation, using a modelling tool developed by Hymans Robertson. Using this, we will work with the Sub-Group to identify and document the climate risks within the strategy and the Trustee's plan to manage these. The Trustee will agree the targets to be set and the priority order for managing climate-related risks, taking into account the Scheme's long-term objectives and journey plan.
- The documents and analysis resulting from this work will be used to make the required disclosures as part of the Scheme's first TCFD report.



# The Outcome

With a clear project plan and input from Hymans Robertson's specialist teams, including the Responsible Investment, Manager Research, and Insight and Analytics teams, we have gained a deep understanding of the Scheme's current position. Based on this, we have been able to start setting targets and agreeing future actions to manage climate risk that are linked to the Scheme's longer-term objectives. The Scheme is now well on the way to meeting all of the TCFD requirements.

## Next on the agenda

Climate change and responsible investment are a work in progress for the Scheme. Given the limited data currently available for some of the Scheme's investments, a priority for the Trustee will be to encourage and promote better data disclosure. That includes clearly setting out the Trustee's expectation that managers will take the lead to drive this forward. Using the information and understandings we have built up over the past year, Hymans Robertson and the Sub-Group will continue to work with the investment managers to improve data disclosure, set and agree targets in relation to climate change, and to encourage steps towards further management of ESG risks.

## For more information

If you would like to further understand how we can assist schemes with their management of climate risk and preparations for TCFD, please contact us, or your usual Hymans Robertson consultant.



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