

Task Force on Climate-related Financial Disclosures (“TCFD”)

Time to consider

Durham Pension Fund

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welcome to brighter

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We can't self-isolate from climate change

Mark Carney
UN Special Envoy for Climate Action and
Finance
May 2020

What are climate-related risks and opportunities?

An investment perspective



The Investor Zone

The Climate Zone



Risk Factors



Transition

SPENDING -
TECHNOLOGY

POLICY



Physical Damages

AVAILABILITY OF
NATURAL RESOURCES

IMPACT OF NATURAL
CATASTROPHES

Opportunities from the low carbon transition

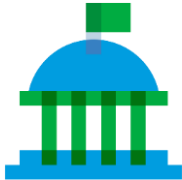
Sector performance divergence – energy and utilities most impacted

Physical risks increasingly dominate over longer term

Sudden asset re-pricing risk

Why consider climate risks and opportunities?

A pension fund perspective



Aligns with Council's Climate
Emergency declaration

Regulatory climate disclosures proposed timelines

DWP consultation on TCFD

Value of fund assets at scheme year ending after...	First reporting period	First disclosure deadline (in Report and Accounts and on a public website)
1 June 2020 are \geq £5bn	Period from 1 October 2021 to scheme year end after that date	Earlier of: <ul style="list-style-type: none"> • 7 months after scheme year end post 1 October 2021 or by • 31 December 2022
1 June 2021 are \geq £1bn	Period from 1 October 2022 to scheme year end after that date	Earlier of: <ul style="list-style-type: none"> • 7 months after scheme year end post 1 October 2022 or by • 31 December 2023
All other schemes	No requirement at present but DWP will carry out a review in 2024 before determining how and when to extend rollout to smaller pension schemes	

- In our view, there is a strong likelihood that the broad pensions industry will support the adoption of TCFD for large occupational pension schemes
- MHCLG is expected to make provision for the LGPS broadly in line with these regulations. In our view, it would be surprising if similar regulations were not applied to the LGPS, given that TCFD is recognised as best practice

How to look at climate-related risks and opportunities

TCFD framework

The [Taskforce on Climate-related Financial Disclosures \(TCFD\)](#) recommends a framework for disclosing how climate-related risks and opportunities are measured, monitored and managed by companies, asset managers and asset owners.



The framework aims to:

- ✓ Improve climate-related data quality
- ✓ Increase focus on climate change
- ✓ Enable more informed decisions
- ✓ Provide a consistent framework for comparison

We recommend that the TCFD framework is used to understand, manage and monitor the Fund's exposure to climate risks and opportunities

TCFD Reporting

Enhancing the Fund's reputation

The Committee & Board is already doing a lot of what is involved with TCFD reporting

Governance

- Review your climate-related investment beliefs.
- Prioritise actions and understand the roles and responsibilities.

Strategy

- Consider climate change scenario analysis on investment and funding strategy.
- Understand the sponsor's exposure to climate risk and how they are adapting.

Risk Management

- Include climate risk in the scheme's risk register.
- Asset managers: how are they voting/engaging on climate change?
- Annual review of Mercer manager ESG ratings for your managers.
- Consider sustainable asset allocations.
- Consider low carbon or ESG indices.

Metrics and targets

- Carry out carbon foot-printing on equity and corporate bond portfolios.
- Consider non-emissions based metrics, such as green revenues.
- Consider setting target(s) to manage climate-related risks.

Formally adopting TCFD reporting could further enhance the Fund's governance and reputation

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