This is a guide for trustees who want to manage risks arising from climate change (climate risk) to their scheme.

**Governance**

- Make sure you have adequate knowledge and understanding. You could arrange or attend training on environmental, social, and governance (ESG) investment risks and opportunities, including climate risk.
- Assess how climate risk may impact your scheme. Ask your investment advisers to help you (including on taking an integrated risk management approach where your scheme funds defined benefits).
- Discuss your approach to ESG, including climate risks and opportunities, in trustee meetings at least annually.
- Include climate risk on your scheme’s risk register.

**Statement of Investment Principles (SIP)**

- Update your scheme’s investment beliefs on ESG and climate risk.
- Describe your approach to assessing and managing climate risk and how you incorporate these considerations into your scheme’s investment strategy.

**Working with investment advisers and managers**

- Discuss climate risk and how it relates to your investment strategy with your investment advisers as part of regular monitoring and oversight.
- Assess the competence of current and potential asset managers to measure and manage climate risk. For example, you could ask them what innovative work they are doing to align their investment strategy and products with a transition to a low-carbon economy.
- Discuss with your asset managers how you can better assess and understand your scheme’s exposure to climate risk. Carbon footprinting and scenario analysis are two of the tools you can use.
- Seek out low-carbon investment options where they deliver comparable investment returns that would enhance the diversity of your scheme’s portfolio.

1. **Actions for schemes with pooled funds**

- Ask your asset managers to confirm how they consider and manage climate risk, including their stewardship and engagement work. For example, you could ask them how they link their engagement and active ownership activities with their portfolio construction (see the EAPF’s manager search report for more examples). Consider whether their investment strategies are aligned with your fund’s investment beliefs and policies and look at other fund management options if they are misaligned.
- For passive investments, you could use funds that are tilted towards low-carbon equities and away from high-carbon equities. Look for funds with forward-looking engagement strategies aimed at encouraging companies in carbon-intensive sectors (such as power generation and industrial plants) to reduce their reliance on fossil fuels.
2. Actions for larger schemes with segregated mandates

- Document your expectations of asset managers in relation to ESG and climate issues.

- Ask your asset managers to adopt and report on voting and engagement strategies aimed at encouraging companies in carbon-intensive sectors (such as power generation and industrial plants) to reduce their reliance on fossil fuels. This should include clear objectives for these companies and an escalation strategy should they fail to meet them.

- Adopt targets for allocating a percentage of your portfolio within a set period to low-carbon assets across all asset classes (e.g. increasing investment in companies that aim to provide climate change solutions such as renewable energy or low-carbon transport).

- Adopt targets for reducing carbon-intensive holdings within a set period, including divesting from aspects of the fossil fuels industry seen as particularly risky and harmful to the environment, e.g. thermal coal and oil sands.

Stewardship and collective engagement

- Review investment managers’ approach to stewardship, including voting, and engagement activities. Consider putting policies in place to encourage companies to take an engaged, long-term approach to the governance, strategy and reporting of climate-related risk and opportunity.

- Ask your asset managers and investee companies to report against the framework published by the Task Force on Climate-related Financial Disclosures (TCFD).ii

- Consider supporting collaborative investor initiatives on collective engagement. Examples include the IIGCC, Climate Action 100+ or the Investor Disclosure Initiative.

Reporting and disclosure

- Report to members on what action the scheme has taken to implement its ESG and climate policies, using the TCFD framework.iii You could include this information in members’ annual benefit statements.

- You could include in your report the impact that your scheme’s investments are having on climate change: for example, how much renewable energy generated or carbon emissions avoided. This can help engage members with their savings, increasing contributions and getting better outcomes.


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iii | Ibid.