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Taking action on climate risk: improving governance and reporting by occupational pension schemes

Cardano Risk Management Limited Response

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Cardano Risk Management Limited ("Cardano" or "we") response to a consultation on "Taking action on climate risk: improving governance and reporting by occupational pension schemes" as published by the Department for Work and Pensions ("DWP") on 26 August 2020.

About Cardano

Cardano was founded in 2000 to help pension plans achieve their financial objectives in a steady, predictable way by applying robust investment and risk management techniques. The Group now employs 350 professionals (in London, Nottingham and Rotterdam) who work for institutional investors with assets of c. £350bn.

Our business began in the Netherlands where we pioneered risk management and LDI services to Dutch pension funds. We're passionate about helping pension funds manage their financial risks. We do this with our strategic advice and by implementing their LDI and derivative strategies – in a tailor-made fashion and as their partner – to ensure their balance sheet is robust. Today we service 28 clients, mostly Dutch pension funds, and manage ca. €14bn LDI-assets and €57bn derivative overlay from our Rotterdam office.

Since the formation of our UK office in 2007, Cardano has pioneered fiduciary management for UK DB funds. We currently have 23 UK fiduciary management mandates (and several large advisory clients). Schemes that use our fiduciary management service range in size of assets from under £100 million to well over £1 billion. We have a unique approach as we are a purpose-built pension investment manager with an advisory mind-set who offers a dynamic and opportunistic approach to risk management, asset allocation, manager selection and implementation. Our UK office has approximately £14bn AUM and £43bn AUA.

In 2010 Cardano Development was initiated. Cardano Development is committed to helping frontier economies develop and prosper, by introducing innovative financial risk management products and services to make people and businesses active in the local real economy more resilient and protected against risk. Cardano is legally and financially separated from Cardano Development, but the two groups remain connected through the joint Cardano brand name and personal involvement.

As the group looked to expand its impact within the pension's industry we acquired Lincoln Pensions in 2016 and NOW: Pensions in 2019. Lincoln Pensions is the UK's leading specialist covenant advisor with a nationwide offering providing a range of covenant related services to trustees and companies. Lincoln Pensions currently advises schemes with over £200 billion of assets and acts for both trustees and sponsors on some of the highest profile schemes. NOW: pensions is the UK's third largest auto-enrolment DC provider, serving over 30,000 businesses and 1.7 million pension savers.

Having these different sides to the Cardano Group, we are able to better serve a broader section of the pensions industry while we work towards a fair pension system that benefits everyone.

This submission is made by Cardano Risk Management Ltd. Lincoln have provided a separate response.

We confirm that you may publicly acknowledge our response to the Consultation.

Introduction

We very much welcome the DWP's proposals to bring in mandatory requirements for the majority (by number of members and assets) of the UK pension industry by 2023 to tackle climate change.

Implementing the UK's rightly ambitious net zero policy is difficult and expensive (much more so than the DWP estimate). That is precisely why clear and definitive legislation is required. Without it, there is

insufficient incentive for trustees, advisers and asset managers to develop the tools, obtain the data and create the systems that are required to effectively respond to the climate crisis.

We support the DWP's proposals. However, there are significant challenges for the industry in meeting the proposals. The main points we make in our submission are as follows:

- Cost estimates are *severely under-stated*. DWP estimate total costs of £1.6m in year 1, rising to £5.5m in year 2, thereafter reducing to £5m. We think costs are more likely to be £30m - £50m in year 1, rising to £50m - £100m in year 2 and stabilising thereafter (but these are very rough figures). Off an asset base of £1.6tr, the upper limit is still significantly less than 1 basis point, a fair price to pay (in our view)
- These costs will be shared between trustees, asset managers and investment advisers/fiduciary managers. Providers will raise fees, accept an erosion of margin and/or reduce costs in other activities
- We believe it is vital that these additional costs are considered alongside the Default Fund Charge Cap Call for Evidence which the DWP is currently reviewing
- Trustees won't be able to develop a coherent view of the climate risks (or scenario impact) by simply collating bottom up feedback from their various asset managers. The assumptions and approaches will be inconsistent and it will be extremely difficult to reflect diversification across investments
- Indeed, identification of climate risks and their impact on the portfolio is a task for a specialist who can combine climate change expertise with an investment management skillset. This expertise hardly exists in an integrated way in the investment industry in general, and will need to be developed
- The quality of data supporting this analysis still has a long way to develop and we would recommend an incremental process to reporting requirements (e.g. Scope 3 data unreliable at present)
- Further work is required by the industry regarding the treatment of non-equities as regards GHG emissions and the approach to aggregating measures across asset classes. Most DB funds now hold a minority of their assets in equities with greater exposure to bonds (including gilts) and derivatives. It's far from clear how a holistic GHG emission score for the portfolio as a whole should be calculated. We recommend an initial approach of reporting per asset class or strategy rather than for the portfolio in aggregate
- Given the number of practical issues that require solutions for the industry as a whole (climate scenarios, and risk assessment, framework to form an overall portfolio view) we would support the creation of a cross industry working group to consider these topics in more depth
- In any event, most trustees will need to employ a single firm (probably their investment adviser or fiduciary manager) to aggregate risk analysis, scenario impact and provide metrics at a portfolio level
- For many trustees, their greatest asset is the sponsor covenant. We strongly believe that the climate change measures proposed by DWP should be applied to the sponsor covenant as well

Response to questions

Question 1

We propose that the following schemes should be in scope of the mandatory climate governance and Task Force on Climate-related Financial Disclosures (TCFD) reporting requirements set out in this consultation:

a) trust schemes with £1 billion or more in net assets

b) authorised master trusts

c) authorised schemes offering collective money purchase benefits

Do you agree with our policy proposals?

Yes. We agree with an approach that would cover the majority of savers and pensions assets by 2023, with a commitment to review the scope in 2024.

Question 2

We propose that:

a) trustees of schemes with £5 billion or more in net assets on their first scheme year end date to fall on or after 1 June 2020 are subject to the climate governance requirements from 1 October 2021 and the trustees must publish a TCFD report within 7 months of the current scheme year end date or by 31 December 2022 if earlier

b) trustees of schemes with £1 billion or more in net assets on the first scheme year end date to fall on or after 1 June 2021 are subject to the climate governance requirements from 1

October 2022, and the trustees must publish a TCFD report within 7 months of the current scheme year end date, or by 31 December 2023 if earlier

c) **trustees of master trust or collective money purchase schemes which are authorised on 1 October 2021 are subject to the climate governance requirements with immediate effect,**

and the trustees must publish a TCFD report in line within 7 months of the current scheme year end date, or by 31 December 2022

After 1 October 2021:

d) **trustees of master trust or collective money purchase schemes which become authorised are subject to the climate governance requirements with immediate effect, and the trustees must publish a TCFD report within 7 months of the current scheme year end date**

e) **where schemes cease to require authorisation, the climate governance and TCFD-aligned reporting requirements fall away with immediate effect, unless they remain in scope via the asset threshold on the previous scheme year end date**

From 1 June 2022 onward:

f) **trustees of schemes not already in scope of the requirements and with £1 billion or more in net assets on any subsequent scheme year end date:**

- **are subject to the climate governance requirements starting from one year after the scheme year end date on which the £1 billion asset threshold was met**
- **must publish a TCFD report within 7 months of the end of the scheme year from which the climate governance requirements apply**

g) **trustees of schemes in scope of the requirements whose net assets fall below £500m on any subsequent scheme year end date cease to be subject to the climate governance requirements with immediate effect (unless they are an authorised scheme) but must still publish their TCFD report for the scheme year which has just ended within 7 months of the scheme year end date**

Do you agree with the policy proposals?

Yes. We support the approach to phasing in governance and reporting requirements for DB and DC schemes (£5bn+ first, followed by £1bn+). We also support applying a single standard to all authorised Master Trusts and collective DC schemes, as these types of funds are often marketed to third parties and are already subject to a regulatory regime that doesn't discriminate based on size.

Question 3

Subject to Government deciding to adopt any of the governance or reporting requirements proposed in this consultation, we propose to conduct a review in 2024 on whether to extend the measures to schemes with below £1 billion in net assets which are not authorised master trusts

or an authorised scheme offering collective money purchase benefits, and if so how and on what timescale.

This review would be informed by consideration of TCFD disclosures by occupational pension schemes to-date, their impact, and the availability and quality of both free and paid-for tools and services.

We would propose also to review any regulations and statutory guidance which had been put in place to identify whether any of this needs to be strengthened or updated.

Do you agree with these proposals?

Yes. We expect significant progress to be made over the next few years in terms of TCFD governance and reporting. Investment advisers and fiduciary managers will also develop tools to help trustees meet the requirements under consideration.

By 2024, a larger scale roll-out of climate governance and TCFD reporting should be much easier to achieve and could be applied more broadly to smaller schemes.

Question 4

We propose that regulations require trustees to:

a) adopt and maintain oversight of climate risks and opportunities

b) establish and maintain processes by which trustees, on an ongoing basis, satisfy themselves that persons managing the scheme, are assessing and managing climate-related risks and opportunities.

We also propose that regulations require trustees to describe:

c) the role of trustees in ensuring oversight of climate-related risks and opportunities

d) the role of those managing the scheme in assessing and managing climate-related risks and opportunities, only insofar as this relates to the scheme itself and the processes by which trustees satisfy themselves that this is being done

We propose that statutory guidance will cover the matters in the box above.

Do you agree with these proposals?

Yes, although it's not clear whether DWP is proposing to single out climate change from other trustee duties and place greater governance responsibilities on trustees in relation to climate risks.

Trustees are already responsible for their ESG policies, but often implement them through the selection, management and monitoring of agents (such as an investment adviser or fiduciary manager).

Our reading of the consultation proposal is that the governance model employed by many trustees (i.e. trustees setting a policy, but delegating implementation to a 3rd party) could continue in relation to climate risks. We believe that this is essential, as trustees benefit from the economies of scale in working with their advisers and fiduciary managers in this way. For example, where an adviser has recommended a fund manager to several of its clients, that adviser is likely to have more leverage in engaging with the fund manager (over their approach to climate risks) than each of the individual pension fund investors.

Question 5

We propose that regulations require trustees to identify and disclose the climate change risks and opportunities relevant to their scheme over the short, medium and long term, and to assess and describe their impact on their investment and funding strategy.

We propose statutory guidance will cover the matters outlined in the box above.

Do you agree with these proposals?

Yes, we agree that the identification and disclosure of climate change risks should be a regulatory requirement for in-scope schemes.

However, being able to do this effectively goes well beyond the skillset and capability of trustees (now and in the future). Being able to effectively identify climate change risks and assess their impact on the funding strategy requires a high degree of expertise in both:

- Technical understanding of and ability to model climate change, and
- Investment management (to assess the impact of climate change on financial assets)

These skillsets barely exist in an integrated form within the global investment community.

Trustees can't simply ask their underlying asset managers to produce this analysis, and then try to assemble the responses to gain a coherent picture for the portfolio because:

- Underlying assumptions and methodology will be vastly different (and possibly contradictory)
- The output will be very hard to combine across managers, as scenarios and risks will not be treated consistently or in a comprehensive way, and the likely correlation or diversification of risk will be very hard to estimate

For this reason, trustees will need to employ specialists (investment advisers, fiduciary managers and/or asset managers) to help them form a holistic view of their portfolio. These specialists will, in turn, need to invest in their resources and systems to able to provide this type of analysis. Given the time horizon implied for these types of assessment (often 10 years+), the trustees will be unable to assess the performance of these specialists for decades. This creates a weakness in the governance process; trustees are reliant on specialists who cannot be easily assessed until potentially it's too late.

To solve this problem, we would strongly urge DWP to support a framework that:

- Pools resources to produce commonly accepted views (both on climate change scenarios and the likely impact on broad asset classes)
- Provides clear guidance on acceptable parameters that can be used in climate risk assessments

Although there is much diversity amongst the investment strategies employed by pension scheme, there are only a limited number of asset classes in which trustees invest. Just as the PPF (and other regulators) mandates defined stress tests for commonly used asset classes, we believe that the industry would benefit from some centralised thinking in terms of climate change scenarios and their impact on asset classes.

We propose that a cross industry working is established to address these questions for the benefit of the industry.

We think DWP is right in allowing trustees to comply "as far as they can", but it will be important to demonstrate that the degree of compliance is improving year on year. We therefore propose that the trustee should ***also be required to disclose the proportion of their portfolio that has undergone rigorous climate change risk assessment and the impact on the funding ratio estimated.***

We strongly believe that climate change risk assessment ought to be applied to the sponsor covenant. This is often the most significant asset the trustees can access and understanding whether the covenant is affected in a similar or different way to the assets and liabilities of the scheme by climate change could be very significant.

Finally, we do very much support the concept that climate change presents risks *and* opportunities, and we agree that trustee climate change strategy ought to go beyond risk management and include the identification and pursuit of attractive investment ideas as well.

Question 6

We propose that regulations require trustees to assess the resilience of their assets, liabilities and investment strategy and, in the case of defined benefit (DB), funding strategy, as far as they are able, in at least two climate-related scenarios, one of which must be a 2°C or lower scenario and to disclose the results of this assessment.

We propose statutory guidance will cover the matters outlined in the box above.

Do you agree with these proposals?

Yes. However, we would express similar concerns as mentioned in our response to Q5.

Simply put, there is much work that the investment industry needs to put into this topic (as well as the associated topic of identifying climate change risks). This will require significant investment (in resources and systems), and it will be subject to ongoing refinement as our collective knowledge and understanding improves.

Whilst our knowledge and understanding is in its infancy, it may be beneficial to encourage a wide range of models and approaches being developed. However, over time, we believe that that an industry-wide solution (or a small number of credible alternatives) is developed for climate change scenarios. After all, all pension funds will be affected by the same climate conditions.

We would also add that the climate change scenarios should be applied to the employer covenant for DB schemes. This is often the most significant asset the trustees can access and understanding whether the covenant is affected in a similar or different way to the assets and liabilities of the scheme by climate change could be very significant.

Question 7

We propose that regulations require trustees to:

a) adopt and maintain processes for identification, assessment and management of climate-related risks

b) integrate the processes described in a) within the scheme's overall risk management

We also propose the regulations require trustees to disclose:

c) the processes outlined in part a) above

We propose statutory guidance will cover the matters outlined in the box above.

Do you agree with these proposals?

Yes.

Question 8

We propose that regulations require trustees to:

a) select at least one greenhouse gas (GHG) emissions-based metric and at least one non-emissions-based metric to assess the scheme's assets against climate-related risks and opportunities and review the selection on an ongoing basis

b) obtain the Scope 1, 2 and 3 GHG emissions of the portfolio, and other non-emissions-based data, as far as they are able

c) calculate and disclose metrics (including at least one emissions-based metric and at least one non-emissions-based metric) used to quantify the effects of climate change on the scheme and assess climate-related risks and opportunities

We also propose in regulations that trustees be required to disclose:

d) why the emissions data that is estimated does not cover all asset classes, if this is the case

We propose that trustees will not be mandated to use a specific measure to assess the effects of climate change on the scheme's portfolio.

We propose statutory guidance will cover the matters outlined in the box above.

Do you agree with these proposals?

We are in favour of trustees defining clear metrics and setting targets relative to them, and we think that the proposals represent a pragmatic way forward for trustees.

We are attracted to an intuitive metric and think the Implied Temperature Rise concept has a strong appeal, once it is more operationally viable.

We see three primary challenges to the proposals above (two of which are practical and one conceptual):

1. The availability of good quality data

   Whilst it is clear that tremendous progress has being made on the supply of new data around GHG and ESG metrics in general, we would highlight several challenges to the specific recommendations above

   - Scope 3 data is reported by very few companies at present and its measurement or estimation is highly subjective. Initial reporting requirements should probably exclude Scope 3, broadening to include this as data availability from company reporting improves

   - Data availability and quality directly provided by companies varies dramatically from region to region. This is relevant as most pension funds have global portfolios. For example, data provision from Chinese companies is vastly different from European companies

- We do think that government regulations can make a significant impact particularly if governments can coordinate in support of global standards on GHG and other sustainable metrics and demand that companies report to these standards globally
- We would highlight that different data providers may produce quite different metrics so reporting between schemes may not be comparable. Indeed, within a scheme if different managers use different data providers, aggregate results may not be very meaningful
- A further meaningful challenge on data will be in private market portfolios, which are not covered by most data providers

2. <u>The process of aggregating data across the scheme</u>

To produce meaningful results at a scheme-level will require aggregation of multiple portfolios (managed by different firms across different asset classes). We strongly believe that, to produce meaningful results, trustees will not simply be able to ask each asset manager to provide a report to them. Methodologies, assumptions, data sources etc will differ, making the outputs non-comparable. A standardised approach to data should be adopted and this will likely require the scheme or its investment adviser or fiduciary manager to acquire the necessary data and pay for the necessary analysis. We support this direction but acknowledge the costs involved

3. <u>How to aggregate GHG metrics across asset classes</u>

The main conceptual issue we see in producing reporting metrics regards how the emissions of non-equity related investments should be considered at a portfolio level.

GHG emission data exists for most listed corporate entities. The interpretation is clear if one owns the equity of the entity. However, most DB pension funds hold a minority of their assets in equity. Most are more significant investors in debt (gilts and corporate bonds). They also have significant exposure to derivatives (particularly in their LDI portfolios). The industry is not very advanced in its thinking of how to conceptualise the GHG emission of asset classes other than equity, or how to aggregate these measures across asset classes to describe an impact at the portfolio level.

A brief discussion of some of the issues follows, just to illustrate a few of the complexities that still need to be resolved.

How should investors regard the GHG emission impact of debt? Should the debt and equity issued by the same entity be treated *equally* in terms of the GHG emission impact? If that were to be the case, then several conceptual problems arise:

- “double counting” of GHG emissions – e.g. if one owns both the equity and debt of the same issuer
- difficulty in assessing banks – should a bank’s GHG emissions reflect the GHG emissions of all the companies to which it extends credit? and all the individuals to whom it has extended mortgages?

- how should the GHG emissions of gilts be measured? – if one is not distinguishing between equity and debt (in terms of GHG emissions), then the GHG impact of gilts ought to include the entire UK economy (because all UK taxpayers are "assets" of the UK government). This approach risks double counting the emissions of UK corporates which may already have been captured in equity and debt exposures
- If a pension fund uses derivatives (e.g. repo or swap) to gain exposure to gilts, would the exposure of the bank to the gilt and the exposure of the pension fund via the derivative to the gilt be double counted?

One potential solution could be for the reporting requirements to apply (initially at least) to each asset class individually (with comparisons made against asset class specific benchmarks) and not at the total portfolio level. Derivatives and LDI strategies could be separated out (see below). Clearly this is far from ideal but would avoid spurious "totals" being produced that lack meaning.

A more comprehensive solution might be to "allocate" GHG emissions across the capital structure according for some formula, or rule of thumb. This would work for combining corporate debt and equity but not for government debt for which there are currently few practical suggestions.

Derivatives pose an entirely different challenge. Many of the derivatives used in LDI portfolios effectively involve a long exposure to one form of debt and a short exposure to another form of debt (e.g. long fixed/short floating). The debt in question is an unsecured loan to or from a bank counterparty, with the net position being tightly collateralised (or in some cases margined by an exchange). Putting aside the question of the correct treatment of debt, the fact these contracts are tightly collateralised (usually with gilts/cash) turns long-term counterparty risk exposure to the banking counterparty into a much more short-term exposure. It is far from clear how investors should consider the GHG emissions arising from such exposures.

To illustrate the practical challenges, pension funds could well have the following exposures in their portfolio:

- £100m cash deposit with XYZ bank
- £100m equity in XYZ bank
- £100m unsecured debt in XYZ bank
- £100m notional interest rate swap contract with XYZ bank

How should the GHG emissions of each of the above exposures be measured?

Complexity increases further when one considers asset-backed securities and options.

None of these challenges should delay or invalidate the very legitimate objective of mandating pension funds in-scope to report on metrics. However, given the practical and conceptual issues identified above, we propose an incremental approach:

- Starting with scope 1 and 2 emissions initially and adding scope 3 once data is reliably available
- Starting with asset class level reporting before attempting to aggregate to portfolio level

In the early years, results should be treated with some scepticism due to data quality (a point we pick up on under our response to Question 11). Standards should be elevated as data quality improves and standardised methodologies are agreed and accepted across the industry.

We also propose that a cross industry working group is established to create a practical framework for developing a conceptual model whereby GHG emissions deriving from a range of asset classes can be aggregated so that scheme-level data can be produced.

Question 9

We propose that regulations require trustees to:

a) set at least one target to manage climate-related risks for one of the metrics trustees have chosen to calculate, and to disclose those targets(s)

b) calculate performance against those targets as far as trustees are able and disclose that performance

We propose statutory guidance will cover the matters outlined in the box above.

Do you agree with these proposals?

Yes, although we would suggest phasing in the requirement to set targets so that they apply one year after the initial metrics are adopted. It will take some time for trustees (and their advisers) to understand the practical consequences of setting targets (e.g. what needs to change to reduce the metric by how much?)

Question 10

We propose that, for all schemes in scope:

a) **the trustees should be required to publish their TCFD report in full on a publicly available website where the report is accessible free of charge**

b) **the trustees should be required to include in the Annual Report and Accounts a website link to the location where the full TCFD report may be accessed in full**

c) **the trustees must notify all members to whom they must send the annual benefit statement of the website address where they can locate the full TCFD report – this must be set out in the annual benefit statement**

d) **the trustees should be required to report the location of their published TCFD report to the Regulator by including the corresponding website address in their scheme return**

e) **the trustees should also be required to report the location of their published Statement of Investment Principles (SIP), Implementation Statement and excerpts of the Chair's Statement by including the corresponding website address or addresses in their scheme return**

Do you agree with these proposals?

Is there a better way to notify members of where to find this information?

For example, for DB schemes, might the summary funding statement required by regulation 15 of the Disclosure Regulations be a more appropriate way to signpost members to this information?

In principle, we support the proposals. Full transparency is a powerful tool to drive change and we support the industry learning that can be accelerated by having the market leaders share their knowledge with the industry.

However, we anticipate that it will probably take several years before methodologies are settled, data is comprehensive and a general context and interpretation is possible. We would encourage DWP to require that TCFD reports are written in plain English with assumptions clearly laid out so that TCFD reports are intelligible to lay readers.

Question 11

We propose that:

a) The Pensions Regulator (TPR) will have the power to administer discretionary penalties for TCFD reports they deem to be inadequate in meeting the requirements in the regulations

b) there will be no duty on TPR to issue a mandatory penalty, except in instances of total non-compliance where no TCFD report is published

c) in all other respects, we propose to model the compliance measures on the existing penalty regime set out in regulations 26 to 33 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015

d) failure to notify members via the Annual Benefit Statement or to include a link to the TCFD report from the Annual Report will be subject to the existing penalty regime set out in regulation 5 of the Disclosure Regulations

Do you agree with this approach?

We support a "light" penalty regime. We note that the regulations proposed by DWP go further than those of other countries (who have also signed up to Paris Agreement) and that the investment industry is still in its infancy in terms of understanding and measuring the impact of climate change. Trustees (and their advisers) will have a significant amount of learning and development to undertake to meet these requirements, and only truly non-compliant behaviour should be penalised.

Question 12

Do you have any comments on the new regulatory burdens to business and benefits, and wider non-monetised impacts we have estimated and discussed in the draft impact assessment?

We think the DWP has *severely under-estimated the costs of compliance*, probably by a factor as large as 50X.

The under-estimates run through-out the calculations. For example "initial familiarisation" with TCFD requirements is assumed to incur:

- 3 trustees
- 3 hours each
- At a cost of £29.11 per hour

Leading to a cost per scheme of familiarisation of £262 per Scheme.

In our experience, a typical large (£5bn+) scheme would likely incur the following:

- All trustees would be involved (6 – 8 per scheme)

- Probably with a training session led by an expert
- Guidance will be read, as well as thought pieces from scheme lawyers and investment advisers
- Several trustees will attend seminars on this topic and read articles in the pension press
- For a complex, new topic like TCFD reporting, it would be more reasonable to expect a total of 5 – 10 hours to be spent per trustee on familiarisation
- Most large schemes have at least one professional trustee. Together with the time cost/opportunity cost of the other trustees, a cost of £250 per hour is more realistic

These assumptions lead to a cost per scheme of familiarisation of £13,125 (50X the DWP estimate).

As a further illustration, consider the "metrics and targets", estimated by DWP to cost £2,500 per annum.

In our experience, trustees of a large (£5bn+) pension scheme would probably go through the following process (as a one-off) to establish the metrics they would use:

- Training session from an industry expert
- Commission specialist advice from their investment adviser considering the options available for emissions and non-emissions metrics and targets and the potential impact on the investment portfolio
- Consultation with the sponsor
- Discussion (probably on more than one occasion) to agree the metrics and process for production of the data

As an estimate, the initial process to agree metrics and targets is likely to cost £30k - £50k in advisory fees and trustee time cost.

Large pension funds (£5bn+) typically employ 10 to 30 investment managers. As a rough estimate a coordinated measurement of metrics is likely to cost £5,000 to £10,000 per fund invested, i.e. £50k to £300k per annum. These costs will be incurred by a combination of:

- The asset managers
- The investment adviser/fiduciary manager
- The trustees' in-house resources

Not all of these costs will be passed onto the trustees. Asset managers and investment advisers/fiduciary managers will absorb much of the cost (and either accept lower margins or cut costs elsewhere in their service offerings).

Note: As mentioned in our introduction, the fact that the cost of compliance has been grossly under-estimated does not, in our view invalidate the proposals, which we overwhelmingly support. Indeed, it is

precisely because climate change preparedness is very difficult and expensive that regulation is required to encourage change.

Question 13

Do you have:

a) any comments on the impact of our proposals on protected groups and how any negative effects may be mitigated?

b) any evidence on existing provision made by trustees in response to requests for information in alternative accessible formats

c) any other comments about any of our proposals?

No comments.

For questions or comment, email Will Martindale, Group Head of Sustainability at:
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