

Is net zero the stewardship challenge of our generation?

How pension funds can contribute to a wider economic transition

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By Bruna Bauer



During this final Paris Alignment Forum all-stakeholder event, our speakers, **Nina Pimblett**, Sector Guidance Lead at the *Transition Plan Taskforce (TPT)* and **Chandra Gopinathan**, Senior Investment Manager in the Public Markets team at *Railpen*, considered the implications for pension funds now the *TPT*'s final disclosure framework has been published.

What steps is your pension fund taking to contribute to a transition across the wider economy, is the question the *TPT* proposes to all organisations.

Recognising its international alignment, the *TPT* replicates the definition established under *International Financial Reporting Standards (IFRS) S2 Climate-related Disclosures*, which defines a transition plan as 'an aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions.'

Nina highlighted how best-practice transition plans can clearly articulate a pension fund's strategic ambition. This includes outlining their objectives and priorities for contributing to the transition towards a climate-resilient economy.

What is the *TPT* and its relevance?

The *TPT* traces its origin back to COP26 when the Chancellor announced its establishment as a key component of the UK's overarching goal of becoming a net-zero aligned financial centre. With the growing adherence to public net-zero commitments, there was a need for standardised

and high-quality transition plans to underpin capital allocation decisions. In this sense, the *TPT* emerged as part of the broader regulatory and legislative landscape concerning sustainability disclosure.

In 2021, the *Financial Conduct Authority (FCA)* implemented climate disclosure requirements in line with the *Taskforce on Climate-related Financial Disclosures (TCFD)* recommendations. Listed issuers must provide *TCFD*-aligned disclosures, conducting detailed assessments following the *TCFD*'s all-sector guidance for transitioning to a low-carbon economy. *FCA*-regulated asset managers and owners are also obligated to make *TCFD*-aligned disclosures, with the *Department for Work and Pensions (DWP)* introducing reporting obligations for UK corporate pension funds.

"*TCFD* has established a great foundation for corporates and investors. We see transition plans as a logical extension to *TCFD* incorporating ISSB standards and taxonomy led disclosure. A transition plan gives to any company (or pension fund) a roadmap on how your business is going to evolve, as we move towards a low-carbon economy," said Chandra.

Framework pillars

Three pillars underpin transition plans, in line with (or according to) the *TPT* Disclosure Framework. Each includes individual elements:

- **Ambition** – reflects the urgency to act. How can your pension fund contribute to an aligned and rapid transition? It comprises one element, foundations – the pension fund's key assumptions and the overall objective to be achieved.
- **Action** – translates your objective into concrete and short-term steps. It embraces two elements:

implementation strategy – actions you are implementing within your operation, financial planning and policies to enable the transition plan, and engagement strategy – how you are going to work with your network (value chain, industry, civil society and government) to integrate the plan within a larger goal.

- **Accountability** – enables your pension fund to deliver a robust report. It includes metrics and targets to track your progress and governance – how are you ensuring that your fund is moving in the right direction to achieve the ambitions of your plan?

According to Nina, when establishing ambition, pension funds should adopt a "strategic and rounded approach" by considering three connected channels:

- Decarbonising the entity.
- Responding to the fund's climate-related risks and opportunities.
- Contributing to an economy-wide transition.

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CHANDRA GOPINATHAN,
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Steps to establish a transition plan

According to Chandra, these are the elements for asset owners to consider:

- **External manager strategy** – incorporate climate

transition considerations in the manager selection, appointment and monitoring process.

- **Implementation** – aggregate existing efforts in governance and policies towards climate solutions. In addition, align investments and allocations with climate goals, incorporating metrics and financial targets.
- **Engagement strategy** – engage with portfolio companies, asset managers, investee companies, policymakers, regulators and members/beneficiaries.
- **Incorporate impact** – assess the impact on nature, biodiversity, society and communities within your investment portfolio.

Insights from the audience

Challenges and opportunities for asset owners in transition planning

Pension data challenges	Call for standardisation	TCFD reporting	Importance of transition plans
Stale data and metrics are unused or unavailable.	Advisers face challenges in data processing.	Importance of moving beyond box ticking, focusing on vital metrics in discussions with managers.	Evaluation of companies within the portfolio for transition targets.
Lack of uniformity and data not in a readily usable form.	Industry advocates for standardisation for ease of operations.		Emphasis on improved transition plans to demonstrate progress going forward.
Data is unavailable publicly on the pension side.			

How can asset owners, asset managers and investment consultants work together in an aligned fashion to develop effective transition plans?

Transparency	Data and disclosure	Resources challenge, budgeting and time allocation	Optimism for future reports
Managers need to be transparent about the limitations of strategies concerning Scope 1, 2, and 3 emissions.	Right data availability is crucial for effective strategies.	Shortage of resources at all governance levels poses a challenge.	Incremental improvements in reporting and data are expected to facilitate future reporting efforts.
Challenges in providing mapping and high-level policies reflecting diverse fund directions.	Current disclosures could be improved; challenges in avoiding overemphasis on benefits without standardised data across the industry.	Funds spend significant time on climate change; potential to leverage this for budget discussions. Resource challenges are expected to intensify with the increasing demand for different data formats.	

Question and answers

Q How do investee companies respond to the *TPT* framework?

A Nina Pimblett:
“When we released the initial framework for consultation, we gathered feedback from a diverse range of companies, and the results showed 85% of them agreed with the framework. It is important to note that a transition plan goes beyond just setting decarbonisation targets; the strategic and rounded

approach also involves capturing climate opportunities and mitigating climate risks. In essence, it serves as a value-creation exercise, addressing critical aspects that are essential for maintaining a competitive advantage in the long-term.”

Q How can we address the challenge of imbuing culture throughout the entire organisation, considering it's not just about having a few champions but making it work collectively?

A Chandra Gopinathan:
“We recognise the difficulty of instilling a culture, especially considering the variation between different entities like listed companies, asset managers and asset owners. It's crucial to integrate discussions on culture into the training of trustees, enhancing climate knowledge, and considering operational and investment portfolio emissions. By engaging in discussions around trade-offs and fiduciary duty, we aim to align this cultural shift with broader conversations.”

How big a shift will it take from the way investments are currently considered

Overall

The shift is perceived as augmenting the assessment process rather than necessitating a fundamental change in investment strategy.

The transition shouldn't require a fundamental shift; rather, it adds another set of data to assess a company's potential success in executing its business plan.

Impact on strategy

The transition will highlight differences in the execution capabilities of companies, leading to a valuation differential.

PENSIONS FOR PURPOSE'S PERSPECTIVE

Pensions represent a cross-generational commitment. In this sense, the *TPT* consolidates the efforts of pension funds in sustainability disclosure. Beyond helping funds to set a transition plan, it proposes a value-creation and stewardship exercise, guiding both asset owners and managers to pave the way towards a low-carbon economy.

How does your pension fund's strategic ambition contribute to a broader economic transition? In answering this question, pension funds can foresee the challenges and opportunities to operate in a world of rising regulations and non-financial mandatory disclosure, especially in the UK context.

Despite its voluntary nature, the UK's trajectory in sustainability disclosure underscores an imminent shift towards mandatory regulations.



Click to read the synopsis and watch the recording of the event.

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