Transparency is key in climate action, say LPFA

A fireside chat with LPFA and Redington followed by a roundtable discussion

October 2022

www.pensionsforpurpose.com

Peter Ballard, Funding and Risk Director at the London Pensions Fund Authority (LPFA), spoke to Jill Davys, head of LGPS at Redington, at Pensions for Purpose's Joint Paris Alignment Forum and Place-Based Impact Investing Forum online asset owner event, sponsored by Redington.

LPFA's approach to responsible investment

Peter began by noting that responsible investment (RI) has been the primary focus at LPFA in the past year, having made their net-zero commitments in September 2021. He mentioned that it is the topic taking up the most airtime in both board and committee meetings.

Peter identified two key areas keeping LPFA busy with regards to RI: transparency and net zero. Jill also probed into LPFA's collaborations and impact investing strategy.

Transparency

Transparency has been a critical area for LPFA because of increasing engagement with their members. They recently sent out a survey to members which garnered 3,000 responses. The findings of this survey clearly showed RI is almost universally important to members. However, as a broad term, it is not significant to all members in the same way and sometimes the desires of members can be conflicting. What was evident from the member engagement is that transparency is crucial.

Due to the calls for greater transparency, LPFA have set up a transparency dashboard on Tumelo so their members can learn more about their pension fund's listed equity holdings. Peter highlighted that, during a recent fund member forum discussion, members even questioned the LPFA on their holdings of individual stocks. This is creating additional pressure for LPFA to respond to that level of detail. As we can see, the increased transparency is demanding even greater transparency, creating a virtuous cycle in which members can put more pressure on their pension fund to invest responsibly and sustainably.

From the LPFA's experience, it seems the additional pressure from members, which comes with increased transparency, can help to provoke pension funds into giving RI more weight. Going forward, for LPFA, the challenge lies in making sure increased transparency comes with a translatable narrative that is understandable for laypeople and information shared doesn't overload or confuse members.

Net-zero by 2050

As mentioned earlier, LPFA made their net-zero commitment last year and they are going to be publishing their Climate Action Plan in early November. While Peter was unable to discuss plan specifics, he said it will include targets up to 2050 and be science-based, using appropriate metrics and incorporating implied temperature rise.

He also mentioned there has been a steep learning curve for the LPFA team producing the plan and it wouldn't have been possible without the assistance of various collaborators, including Redington and the IPCC.

Collaboration

Peter emphasised the core value of LPFA's collaborations in amplifying their voice, creating greater opportunities for RI investment, helping the small team to learn.

The Climate Action Plan, Peter said, would not have been possible without support from Redington and the IPCC, given that LPFA have just recently hired a Responsible Investment Manager. LPFA is also a member of the UK Stewardship Council who assist with improving fund member communications which is becoming progressively more important as transparency grows.

Impact investing strategy

Jill questioned Peter on LPFA's impact investing strategy. Peter outlined the two lenses with which LPFA's impact strategy operates: local (place-based) and UK-wide (government levelling-up agenda). Although they are yet to implement a specific impact-investing policy, Peter maintained impact investment avenues are being explored. Looking forward, given a potential impact-investing policy, Peter highlighted that the board would set the direction.

In terms of local impact investment, LPFA was the chief architect of the London Fund, working alongside the Local Pensions Partnership Investments (LPPI) and London CIV to help solve some of the housing and infrastructure problems facing the capital. Within the UK government's levelling up agenda, LPFA mainly direct their impact investment towards infrastructure through their partnership with GLIL.

Roundtable discussion

Transparency

When asked what kind of information it is best to share with members, Peter responded that case studies of individual stocks are helpful but transparency is not about one investment. He said members want to hear about what LPFA is doing holistically in relation to RI for example how the pool (LPPI) is voting on company resolutions.

Peter clarified that engagement with members is for the purpose of transparency (a responsibility for public sector bodies like LPFA), not for the direction of investment decision-making. Engagement with RI principles is about LPFA's responsibility to be a well-run fund.

Silvia Knott-Martin of London CIV then talked about how they are approaching transparency, both with their stewardship outcomes report and their narrative creation with the use of data visualisation, also using Tumelo.

Public versus private market investment

Jaime Alvarez of Brunel Pension Partnership referred to his role in private markets and the distinction between the selection of managers and the potential for stewardship that comes with the public markets.

He was asked whether he has seen that private markets firms are coming forward with transparency, despite the lack of regulatory requirements compared with the public markets. He answered that portfolio managers don't want to disclose strategies, but they are feeling pressure from LPs to make ESG commitments and provide quality information and data. He noted that the best managers provide more relevant, accurate data.

Corporate pension schemes vs LGPS

Tom Pilcher of Redington was asked whether corporate schemes are declaring net-zero plans as targets can often be declared as 2030 or 2040 without any preconceived strategy. He responded saying the LGPS schemes have been thinking about it for longer but many corporate schemes are now publishing their plans. He also noted it is easier for corporate schemes to hit net-zero targets because their assets tend to be more return seeking, carbon intensive and heavier on gilts. Although gilts probably aren't zero carbon, there is no industry-wide standard method to quantify their carbon emissions. Tom highlighted three implications of carbon net-zero plans for asset allocation:

- Schemes need to work out how to invest assets differently.
- They must set out an engagement plan with existing asset managers.
- They can use divestment as a last resort, although this is not a viable route to global net-zero.

Jill then clarified that most corporate schemes have aligned with national objectives to be net-zero by 2050, whereas LGPS have more pressure from local authorities. A representative from an unnamed corporate pension scheme also referred to the difficulties with defined benefit schemes implementing net-zero plans as opposed to defined contribution schemes.

Paul Hewitt, LPFA's newly hired RI manager, asked Tom how the task force for climate related financial disclosures (TCFD) reporting for corporate schemes has impacted net-zero action plans because LGPS schemes are yet to be included in the TCFD regulations. Tom responded that unfortunately some schemes are approaching it as a tick box exercise; however, many are using the regulatory requirement as a helpful tool to quantify where the scheme stands on its net-zero targets. The next step with annual calculations is to set net-zero targets. Some of Tom's clients have set internal targets and are planning on make these public.

Peter added that the challenge for LGPS' is making the distinction between the reporting they have to do with incoming TCFD regulations and the reporting they want to do to give members a narrative of their RI strategy.

Concluding remarks

Jill concluded by emphasising the significance of communication with stakeholders. She mentioned the recent TCFD regulations which have brought RI to the fore in corporate schemes can only be good.

Peter concluded with his excitement to have a dedicated RI manager, in Paul, on board with the team at LPFA.