



By Rachel Lewis

Is the bar set high enough?

A review of best practice and public sector investment strategies

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This blog reflects on the discussion held at the June 2023 Global Impact Forum (GIF) asset owner event with Lindee Wong, Director of Climate and Biodiversity at [Tikehau Capital](#) and Jill Davys, Head of LGPS at [Redington](#).

The conversation included whether pension funds can deliver on their net-zero targets, what best practice could look like and a review of local government pension scheme (LGPS) investment strategy.



This asset owner event was a fireside chat hosted by Martin Pattinson, Director at *Pensions for Purpose*, with questions from Global Impact Forum sponsor *Tikehau Capital*'s Lindee Wong, Director of Climate and Biodiversity, to Jill Davys, Head of LGPS at *Redington*. With Jill's recent background of managing a fund at *London Borough of Sutton*, both speakers were able to provide a comprehensive and varied outlook across the local government pension scheme (LGPS) sector. Discussion included the climate transition,

decarbonisation initiatives and Task Force on Climate-related Financial Disclosures (TCFD) reporting requirements. The speakers delved into how LGPS pools and partner funds have responded to climate emergency challenges through an environmental and biodiversity lens. They posed the question:

What strategic approach does the LGPS have to embed climate solutions and impact investment into their broader portfolios, and in private markets allocations specifically?

Setting the scene of data challenges and metric reporting, Lindee asked Jill:

Q & A What do you think the lessons learned so far have been and how do net-zero targets fit into the overall framework on risks and opportunities set by the TCFD?

Jill responded that, notably, the LGPS sector is still waiting on TCFD-set regulations. Currently, funds are not required to report and, although several proactive ones have already started, many are still waiting for the regulations to be clarified and wholly implemented before committing to the reporting process.

She also commented on how many funds, particularly closed end defined benefit schemes, are now established 'with the end in mind'. They set net-zero targets which are unlikely to be measured because the intention is for the fund to be bought out before the deadline. As well as ambitious targets this leads to misaligned attitudes; goals are set primarily to bolster their 'green' reputation, without much intentionality behind them.

For the LGPS sector, which is less subject to this 'end in mind' approach, it is important funds are not swayed by inflated targets and instead set realistic, achievable goals. Meeting climate change objectives is the fundamental aim of the journey and the earlier a fund starts the more rigorous the framework they can establish. Rather than solely relying on meeting the end-goal targets (such as 2050 net-zero aims), funds should be willing to go into fine detail, set interim targets and pay them equal heed.

Jill reminded the audience, under European regulations, it is permissible to use estimated and proxy data in reporting. Lindee corroborated Jill's view and highlighted the option for LGPS funds to use Partnership for Carbon Accounting Financials (PCAF) which provides a framework for data quality and allows reported data.

The conversation then moved to scope emissions. While it is relatively easy to report on scope 1 and 2 emissions against the listed equity book, and somewhat simpler to report on corporate bonds, scope 3 is more difficult to gather data and report on. Baseline data will be central in tackling these challenges, creating a robust threshold which will no longer rely on assumptions. To obtain the baseline data, funds require physical information - for example, the kilogramme quantities of material purchased and how those result in downstream emissions. Once they have access to this, reporting will become easier and, hopefully, more readily completed.

However, rather than focusing purely on data and metrics, Jill positioned 'governance and strategy' as a significant pillar. A fund manager's priority should be to establish whether a pension fund has been properly set up to address governance within its strategy. Ultimately, and as a takeaway from the event, she argued "it's



more about the direction of travel and understanding what's in your portfolio than having perfect data".

Framing the discussion on a wider scale, Lindee asked:

Q What do you think pension funds can achieve to benefit environmental and social objectives besides climate change?

Jill provided two clear responses:

Firstly, implementing a just transition which supports a local economy to develop itself.

Secondly, recognising the extent to which biodiversity is inextricable from climate change mitigation and, much like land use change and pollution, a topic which cannot be treated in isolation.

While TCFD is well-known, Taskforce on Nature-related Financial Disclosures (TNFD) is 'round the corner' and will soon become a similarly prominent discourse. Much like proactivity in data reporting, funds would be wise to recognise this industry trend.

Finally, and perhaps the underpinning question of the event, Lindee asked Jill:

Q Are we setting the bar high enough for asset owners?

The speakers questioned the myopia some pension funds seem to have where climate change transition is concerned. Are targets too far ahead or are there simply too many other short-term priorities which supercede data reporting? Has this attitude culminated in a 'tick box' mentality, a minimum viable compliance approach and an over-reliance on often generic implementation statements?

Similarly, there has been little awareness of the link between biodiversity and climate change. These are often treated as separate issues, which has fed into a lack of meaningful change.

Looking to the future, Jill posited that if individuals were able to select where their monies were invested within their pension fund, it could provide one solution which, in turn, creates momentum for more authentic environmental, social and governance (ESG) investment.

During the Q&A, a delegate asked:

Q Will clients who set net-zero targets for before 2050 be less positively impactful? Would clients with a 2040 net-zero target engage less collaboratively and impactfully?

Jill felt the degree of collaborative engagement depends on clients' motivations. It could mean the asset owner is more engaged in problem-solving and strives to be a leader, doing the maximum to reach the targets while recognising their ambition. Those who have set early targets are likely to be more focused on the decarbonisation of their portfolio than engagement. However, engagement could be the natural successor in how they go about it. In her opinion, early targets do not necessarily mean clients will be less impactful, rather they will be more driven.

Q What is next? Predictions and concluding remarks?

Jill predicted, over the next few years, there will be pressure to policy makers and companies to deliver their 2050 targets. She stressed the need for pension funds to be proactive in gathering data and creating genuine, science-based targets.

Lindee agreed and argued that, in general, more policy is needed. This regulation needs to be collective and co-constructed, and - perhaps one of the most notable, recurring takeaways from the discussion - the industry requires interim, granular targets to successfully achieve their goals.

There is a move to more regulation, frameworks and policy with the introduction of TCFD and TNFD measures, but measurement and momentum remains a problem. The solution, it seems, could sit with these precise targets. ●



 [Click here to read the synopsis and watch the recording of the event.](#)

● **Rachel Lewis is Event Coordinator at Pensions for Purpose.**

