

FORTHCOMING RESEARCH REPORT

# Pension Fund Trustees and Climate Change



## ADVANCE INFORMATION

*Pension Fund Trustees and Climate Change*, ACCA research report no. 106, by Jill Solomon, will be published by ACCA in July 2009.

The report will be available free of charge from the ACCA website.

[www.accaglobal.com/research](http://www.accaglobal.com/research)

### About the author

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## THE RESEARCH

**Pensions are among the most significant consumer products and investments purchased by society. Protecting pensions against material financial risk is crucial to the maximisation of social welfare.**

There is a substantial and growing practitioner and policy-driven literature on the relevance of climate change to institutional investment, calling for pension fund trustees to incorporate it into their investment strategy decision. Trustees are in a unique position, with significant power to affect corporate behaviour through the strategy they implement in their pension funds, as pension funds own the largest proportion of UK listed company shares. We therefore investigated trustees' attitudes towards their role and responsibilities in relation to climate change, to discover whether they are harnessing their power to effect change.

This report summarises the views of 20 interviewees, in order to explore some of the emerging themes. The findings suggest a substantial gap between theory (in terms of recommendations from the literature) and trustee practice regarding climate change.

This study is the first to address trustees' attitudes towards climate change and its potential impact on pension fund investment. Further, it represents a first attempt to gather interview evidence on trustees' views. The findings of the full study provide rich, in-depth evidence on trustees' attitudes towards their role and responsibilities regarding climate change.

## KEY FINDINGS

**Interviewees indicated that climate change did not generally feature on the agenda of their trustee meetings and that they considered it to be a relatively unimportant environmental, social and governance (ESG) factor.**

Trustees interviewed were generally unaware of their fund managers' activities concerning climate change and displayed a low level of accountability to their members in relation to climate change, rarely engaging with members on their responsible investment policy. Although most of our interviewees felt climate change could be a material issue for their funds, their understanding of how climate change could impact on shareholder value and financial return was partial.

One salient outcome of the research process was that trustees recognised an urgent need to improve their knowledge and understanding of climate change issues and the way in which they can impact on pension fund performance. They acknowledged their (unrealised) potential in affecting corporate behaviour through their actions regarding climate change. The interviewees felt that the interview process itself would incite them to consider climate change in a more active manner. They also made a series of suggestions as to how they intended to change their behaviour regarding climate change.

We also found evidence of a significant size factor in our interviews, as trustees from the larger funds were more aware of the connection between climate

change and financial return, and were generally more knowledgeable regarding the relevance of ESG issues to pension fund investment.

This study also carries broader implications for pension fund governance and accountability. One of the most significant outcomes of the research was evidence of weakness in accountability chains between trustees and fund managers, trustees and members, and trustees and the sponsor companies. Although we focused specifically on climate change issues, the interviews indicated that the lack of accountability and governance was not limited to the issue of climate change but applied to all areas of socially responsible investment.

Despite the increasing focus by the institutional investment community on ESG factors, trustees were not engaging with their fund managers, or their pension fund members on their SRI policy. Even the leaders among our sample acknowledged a lack of communication in these areas. There is an evident lack of accountability and governance between the various intermediaries involved in pension fund investment which contrasts starkly with the highly developed accountability chains between companies and their shareholders/stakeholders through social and environmental reporting.

## RECOMMENDATIONS

### **There is an urgent need for a code of practice for the pension fund community.**

As a result of these findings we make recommendations on two levels.

First, on a theoretical and academic level we suggest that there is an urgent need for further research into the accountability and governance links between the intermediaries involved in pension fund investment, specifically between trustees and their pension fund members, fund managers and their sponsor company.

Second, on a practitioner level, there is an urgent need for a code of practice, or at least a set of principles representing best practice in accountability and governance for the pension fund community, in relation to climate change specifically but also emphasising other extra-financial issues. The Myners Principles, although representing an important improvement to pension fund

governance, did not focus on ESG accountability within the trustee community. Myners illuminated trustees' lack of expertise across all areas of trusteeship. The broader, 'soft', qualitative issues covered by ESG investment require attention by trustees and other members of the pension fund community. However, in the broader context, if trustees lack expertise in mainstream financial investment their lack of specific knowledge in relation to climate change risks and opportunities is not surprising. A code of best practice on governance and accountability aimed at trustees would help to resolve this situation. A code of best practice for trustees on climate change, produced with government backing as a mainstream policy document is suggested as a means of forcing trustees to address the material issues of climate change seriously and urgently.