

Response to ‘Planetary Solvency – finding our balance with nature’

The IFoA has recently published the paper above, highlighting the urgency of action needed to prevent our climate deteriorating even further and multiple tipping points being breached. It calls for policymakers to stand up and be counted and to provide the framework for corporations and individuals to help in the restoration of the climate and nature.

Pension schemes are custodians of nearly £2tn of assets and whilst they cannot solve the climate crisis, they can play a significant part in the solution. However, pensions funds consist of both mega schemes, that have the resource to take significant actions and allocate significant resources, and smaller schemes that invest in a collective way and have very little, if any, resource to help in this area. The Trustee Sustainability Working Group has been established to enable Trustees to see the wood from the trees and to work with policymakers and pension schemes to both accelerate action on climate and help target the resources that pension schemes have to address the climate problem.

The IFoA paper, once again, makes it clear how urgent this action is needed, given the tipping points that have already reached and the increase in average global temperature that has now occurred. For pension Schemes, the governance burden has never been higher, with items including the Pensions Dashboard, the new ESOG, and the new funding code, amongst others, taking up large amounts of Trustees’ limited time. Those responsibilities are in addition to increasing risks like Cyber risk and opportunities like AI on the horizon.

In addition, the US has pulled out of the Paris agreement and major asset managers have followed suit, leaving voluntary groups such as the Net Zero Asset Managers Initiative. This further calls into the ‘engagement first’ approach to managing climate risk and the sustainability of the broad market indices used by pension schemes.

Shortly, the TSWG will be communicating its view on how Trustees of all Schemes could prioritise their resources to continue to tackle the climate emergency during 2025. However, we encourage all pension scheme Trustees to not lose sight of the urgency of the climate problem and to seek to work, as investors, for a better planet and not use the issue mentioned above to move ESG, and in particular, climate action, off their agenda.

We also encourage the consulting community and investment manager community to move beyond a focus on emissions to consider the financial risks inherent in a world that does not transition. Innovation is needed to ensure the assets schemes are investing in, eg global index tracking funds, remain resilient.

This is the first communication from the TSWG and we would encourage all Trustees to look out for further communications. We have set up a LinkedIn page and will be posting all of our communications there.