## Scheme Priorities 2025

In a year when pension scheme resources will be pushed to the limit, it is important that any climate action taken by schemes is as effective as possible. With the temperature target of no greater than 1.5% above pre-industrial levels now being breached, it is important for Trustees to have a plan to both manage climate risk and, if possible, contribute to the solution. We also recognise that the smallest schemes have little influence on their own and often do not have access to the options available to medium and large schemes.

This note summarises our collective thoughts on areas we think schemes could address to make best use of their time. The definition of size of scheme is a rough guide as there is a lot of cross over on actions being taken by schemes.

Large – Extremely well resourced. Multiple sub committees. May have full time staff as well as advisors and may manage own assets.

Medium – Well resourced. May have sub committees and multiple advisors. Segregated and pooled mandates.

Small – Rely on advisors. Mainly in pooled funds. Includes micro schemes, sub £10m that will probably have one advisor and one pooled fund manager.

## Large schemes

Large schemes may be doing some or all of the following on the ESG front:

1. TCFD reporting, including specific climate modelling

   Some large Schemes are heavily involved in the development of climate modelling. These schemes should continue to work with the organisations and institutions developing these models.

   However, numerous publications have pointed toward the fact that most climate modelling that has been performed by pensions schemes, using traditional ALM techniques is not fit for purpose. These schemes, as long as they understand the climate problem, should challenge their consultants on the need for redoing any of that climate modelling and, instead, use the narrative that is allowed in legislation and direct resource elsewhere.

   Also, there is industry discussion about replacing TCFD with Transition plans, that are more actionable and negate the need to have multiple financial disclosure documents covering Climate, Biodiversity and Social factors. You should get involved with the discussion and debate and help bring this about.

2. Investing in impact investment

   Schemes should continue to look for making an investment in impact and should push their managers and consultants on two fronts:

   - The due diligence process i.e. not always needing a long track record for new investments, especially for climate transition and adaptation and/ or nature.
   - The effort being put into making investment accessible for smaller and medium sized schemes.

3. Monitoring the ESG credentials of their managers
   Concentrate on how their managers are working with other industry participants to put pressure on policy makers

4. Stewardship program (probably pre-dates ESG and has other objectives)
   As most stewardship programs were not set up for climate and ESG reasons, reassess what they are achieving on the climate front to ensure that they are seeking real change and action and not just collecting data and adding to the reporting burden of managers and corporations.

**Medium schemes**

Medium schemes may be doing some or all of the following on the ESG front:

1. TCFD reporting, including specific climate modelling
   See comments above on large schemes, including the comments about transition plans.

2. Quizzing new managers on ESG capabilities

   Continue to check the ESG credentials of any new managers/ fund and, in particular, ask about policy advocacy and work.

3. Implementing or considering implementing voting policies

   If this is for ESG/ climate change reasons then make sure the policy is targeted and is addressing the urgent needs of climate change/ nature and is not trying to do voting for the sake of voting or reporting.

**Small schemes**

Small schemes will probably be producing implementation statements and statements in their SIP on voting and stewardship and wondering how they can possibly manage the voting on all of the companies that they hold. We encourage them to speak to their consultants on the following issues.

- There is industry discussion on revising some of the reporting requirements that do not add value, eg implementation statements for the smallest schemes. Encourage your consultants to get involved and to help shape the future of reporting to enable small schemes to spend what little time they can put into ESG in the most effective way.
- Small schemes cannot possibly monitor the voting on all of their holdings. However, there is an industry initiative that is looking to maximise the voice of small schemes on specific, targeted issues, at no cost to the schemes but for the benefit of influencing company decisions. Ask your consultant to ensure the scheme is aware of this, when launched, and if they are not aware point them to the TSWG.

Notes:

The TSWG is a group of Professional Trustees, members of the Association of Member Nominated Trustees and other interested Trustees. It has been formed with the aim of accelerating good investment practice around sustainability across the pensions industry. Climate change will be a key early focus of the Committee.

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