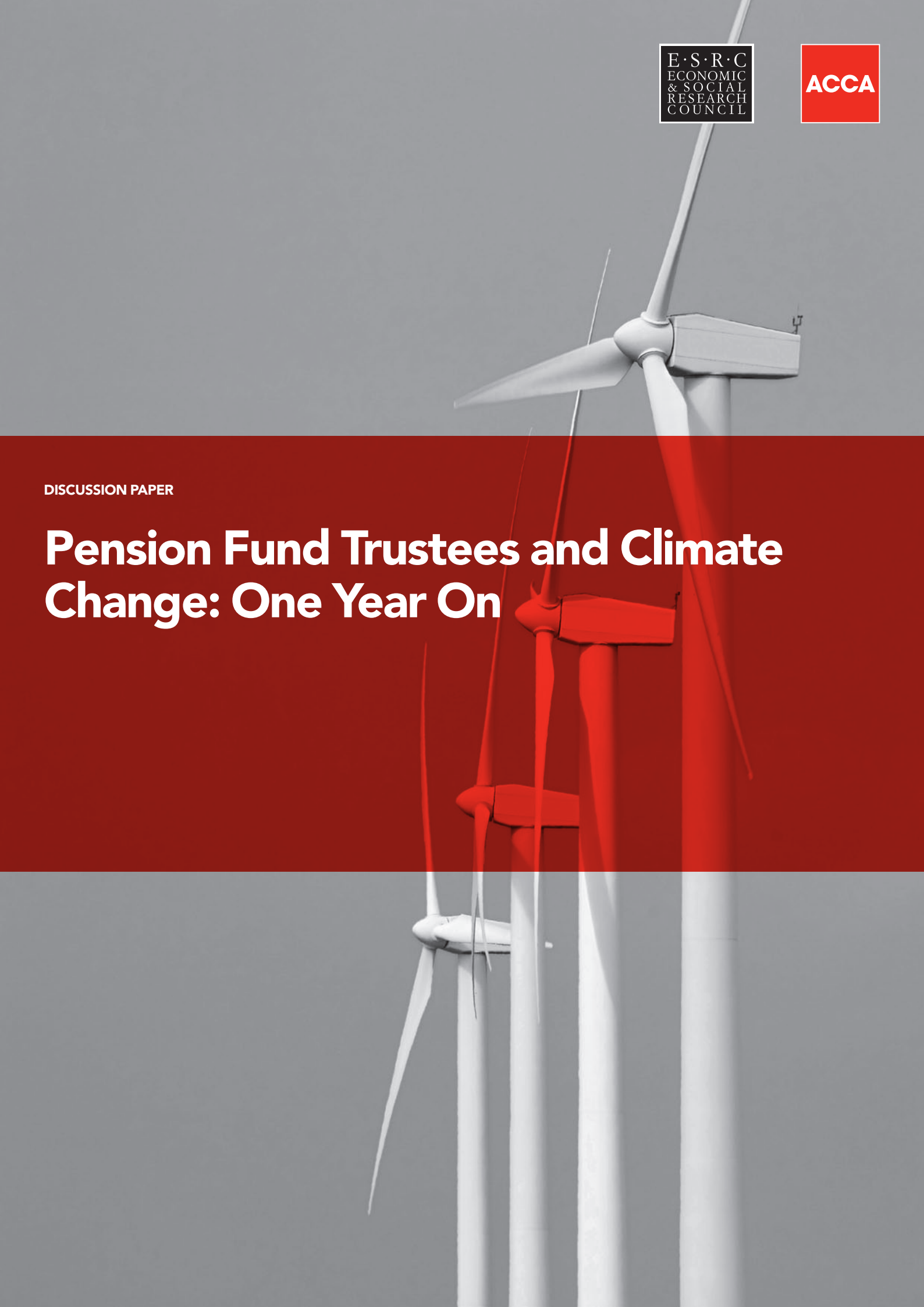


DISCUSSION PAPER

Pension Fund Trustees and Climate Change: One Year On

ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 122,000 members and 325,000 students throughout their careers, providing services through a network of 80 offices and centres. Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities. Our focus is on professional values, ethics, and governance, and we deliver value-added services through our global accountancy partnerships, working closely with multinational and small entities to promote global standards and support.

We use our expertise and experience to work with governments, donor agencies and professional bodies to develop the global accountancy profession and to advance the public interest.

Our reputation is grounded in over 100 years of providing world-class accounting and finance qualifications. We champion opportunity, diversity and integrity, and our long traditions are complemented by modern thinking, backed by a diverse, global membership. By promoting our global standards, and supporting our members wherever they work, we aim to meet the current and future needs of international business.

Contents

Pension Fund Trustees and Climate Change: One Year On

Jill Solomon
King's College London, University of London

Certified Accountants Educational Trust (London)

ACKNOWLEDGEMENTS

I am particularly grateful to the pension fund trustees who have taken part in this project, both in the first phase of interviews and in the second phase. I am grateful to them for the time they have given to the project, and the honesty with which they have responded to the questions, especially given the controversial nature of climate change. Further, I would like to say that, where the report may raise criticisms of attitudes within the pension fund industry towards climate change, there is no intention to offend the participants: I have attempted to present the findings in an objective way and, again, wish to express my thanks to those who took part.

I am also extremely grateful to Hannah Clarke, who assisted in the interviews. Thanks also to Caroline Oades for her support throughout the project and to John Jones for his technical assistance in bringing the report to publication. I would like to thank Mike Jones for his comments on this report.

ABOUT THIS PAPER

This discussion paper reports the findings of a small, follow up study to a project conducted circa one year earlier and published by ACCA as *Pension Fund Trustees and Climate Change*, research report no 106. The follow-up study involves ten interviews conducted in Spring/early Summer 2009, which are not intended to be representative, but rather provide an indication of change in perceptions in a year of economic tumult and rising environmental concerns. Please note that the document is presented as a discussion paper, and not as part of ACCA's Research Report series.

1. Introduction

With unemployment soaring, bankruptcies climbing, and stock markets in free-fall, it may at first glance seem sensible to ditch the fight against climate change and put environmental investments on hold. But this would be a devastating mistake of immediate, as well as inter-generational, proportions.

ACHIM STEINER, UN UNDER-SECRETARY GENERAL, EXECUTIVE DIRECTOR OF THE UN ENVIRONMENTAL PROGRAMME (UNEP).

The latest evidence from the global scientific community indicates that previous estimates of the speed and potential impact of climate change have been conservative. An emergency summit held in Copenhagen in March 2009 brought together scientists from all over the world and drew attention to new research findings which indicate much higher temperature rises than previously anticipated and greater sea-level rises, as well as other, previously overlooked effects, such as acidification of the oceans. The summit, 'Climate Change: Global Risks, Challenges and Decisions Congress', was intended to pave the way for the global summit to be held in Copenhagen in December 2009. The evidence presented at the March summit suggested that urgent action is needed, as predictions made in 2007 by the United Nations (UN) have now been overturned. The UN had indicated that if the average worldwide temperature rise could be limited to 2°C then the most dangerous effects of climate change could be avoided. In fact, the latest scientific evidence suggests that carbon emissions are rising quickly and that it seems extremely unlikely that the global temperature rise can be limited to 2°C The UK Met Office has run a computer simulation which concludes that there is only a 50:50 chance of keeping the temperature rise to 2°C. Indeed, information reported on the Met Office website states that if greenhouse gas emissions continue to rise at current rates, then global temperatures could rise by more than 6°C over this century.[1] If the temperature rises above 2°C, the Met Office warns of catastrophic impacts.

At the Copenhagen congress in March 2009, scientists suggested that the UN's 2007 predictions (IPCC 2007) on the rise in sea levels could be seriously underestimated. A statement released by climate scientists attending the event explained that the upper range of sea level rise by 2100 could be about one metre, possibly more. The scientists are now suggesting that sea levels will rise twice as quickly as the UN predicted in 2007. The latest evidence feeding into these new predictions include new findings relating to the ice that is melting from the Greenland and Antarctic ice sheets. This melting appears to be progressing at a far greater pace than previously thought. A rise of one metre or more will have a devastating impact on populations living in low-lying coastal areas and island communities, such as large areas of Bangladesh, Burma, Egypt, and the Pacific Islands. Large areas of the British coastline could also disappear with rises of this level, including London, Hull and Portsmouth. Another serious effect of global warming, which has not been publicised widely, is the impact on sea water. This has been called the 'other CO_2 problem' because it has been sidelined, compared with the effects on land of global warming. The rising CO_2 levels are resulting in acidification of the oceans, as increasing amounts of CO_2 in water increase its acidity.

Amid this new body of disturbing evidence, the institutional investment community has produced reports identifying the ways in which climate change can, and will, affect investment return in a material way. For example, the report *Managing the Unavoidable* (Sullivan et al. 2008) identifies investment in sectors dependent on large fixed assets, such as tourism, water, property, construction, energy and infrastructure, as being especially vulnerable, because of climate change-induced effects such as erosion and damage. It also identifies other sectors, namely healthcare, agriculture, forestry and insurance, as investments that will be greatly affected by climate change. The United Nations Environment Programme Finance Initiative suggested that under one particular scenario analysed, losses from climate-induced disaster could exceed US$1 trillion in a single year by 2040 (UNEP FI 2006, quoted in Sullivan et al. 2008).

1 This and other information is available on the website of the UK Met Office: http://www.metoffice.gov.uk/

This report represents the second phase of an investigation into the role and responsibilities of pension fund trustees in relation to climate change. The first phase of the project involved interviewing 20 trustees. The findings indicated that there was a generally low level of awareness of the material relevance of climate change risk (and opportunity) to pension fund investment, among the trustee community. The trustee community were interested, but seemed overwhelmed by the responsibilities they faced and found climate change an extra factor which they did not have the time, knowledge or skills to deal with. Despite a number of high-profile practitioner reports detailing the ways in which climate change affects pension funds, and the important role that trustees should play in ensuring that these issues are accounted for, the majority of trustees interviewed were unaware of the reports and struggled to understand their role in climate change. Nevertheless, on the whole our report emphasised their open-minded attitude towards this aspect of their responsibility and revealed a keen interest among the trustees in increasing awareness and in gaining a clearer understanding of the issues.

In this new report, we revisit half the original sample, in order to ascertain whether their attitudes have changed over the past 12 months, since the initial survey, and whether they have altered their activities in relation to climate change issues in their funds. Further, given the credit crunch and financial crisis, which have gripped the global economy and pension funds in the UK and elsewhere, we sought to discover whether current financial problems were overwhelming trustees' interest in climate change risk. A primary aim of this second phase of the report is to draw out recommendations for policy makers regarding trustees and their role in climate change, and identifying any barriers that exist to prevent them from carrying out their responsibilities in relation to climate change.

This follow-up report is structured as follows. Chapter 2 summarises new practitioner research published since the first report was drafted. In Chapter 3 we briefly outline the methodology applied in this research project. Chapter 4 provides the findings of the second phase of interviews and the report concludes with a discussion in Chapter 5. In this discussion there is an attempt to provide some policy recommendations to aid pension fund trustees who wish to become more active in relation to climate change risk and opportunity.

2. Climate change and trustees: latest evidence

The report arising from the first phase of this research project contains a lengthy and detailed summary of the extant academic and practitioner literature. To avoid unnecessary repetition the present report is restricted to reviewing the most recent publications and initiatives, showing how they add to, and elaborate on, earlier findings and research.

Further to the report produced by UKSIF (2007), a new report (UKSIF 2009) found evidence of progress in addressing responsible investment, from a survey involving 32 pension funds.[2] That report found that there were a number of 'responsible investment champions' who appear to be led by members of the pension fund trustee community. Specifically, the report claims that almost all the trustees of the larger pension funds now believe that environmental, social and governance (ESG) factors can have a material impact on the fund's investments in the long term (UKSIF 2009: 17). The report makes specific reference to the role of trustees in climate change and recommends that responsible investment leadership should come from trustees. It also suggests that at least one member of the trustee board should be a skilled Responsible Investment champion.

FairPensions, which campaigns for responsible investment, is currently launching a 2009 campaign to secure reductions in greenhouse gas emissions by pressing investment fund managers to engage with investee companies on climate change issues. Elements of this campaign include focusing on pension fund managers, engaging with companies and encouraging pension fund members to lobby their pension funds on climate change.

A collaboration between four institutional investors produced a report focusing on the implications of climate change for institutional investment, entitled *Managing the Unavoidable: Understanding the Investment Implications of Adapting to Climate Change* (Sullivan et al. 2008).[3] This report represents an attempt to draw the links between climate change and institutional investment to the attention of the professional investment community. It focuses on the responsibilities of investee companies in relation to their approach to climate change risks and opportunities. The report emphasises the need for companies to ensure that climate change is integrated into their business risk management framework. In addition, the report draws attention to the essential role investors should play in researching the potential impact of climate change on their investee companies, but emphasises that, 'the need for further research should not be used as an excuse for inaction' (Sullivan et al. 2008: 10).

An overriding theme of the report is recognition of the need for institutional investors to focus decision making on improving long-term and sustainable investment performance.

SUMMARY OF THE FIRST REPORT'S FINDINGS

The 20 trustees interviewed in the first phase of this research, carried out 12 months earlier, 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 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 this subject, rarely engaging with members on their responsible investment policy. Although most of our interviewees said that climate change could be a material issue for their funds, their understanding of how it could affect shareholder value and financial return was limited.

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 affect pension fund performance. They acknowledged their (unrealised) potential in affecting corporate behaviour through their actions relating to climate change. The interviewees suggested that the interview process itself would encourage 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. There was also evidence of a significant size factor from the interviews, as trustees from the larger funds were more aware of the connection between climate change and financial return, and were generally more knowledgeable about the relevance of ESG issues to pension fund investment. The first phase also carried 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. Even the leaders among our sample acknowledged a lack of communication in the ESG area.

From the evidence gathered, the first report made several recommendations. First, on a theoretical and academic level, we suggested 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 companies. Second, on a practitioner level, the first report recommended a code of practice, or at least a set of principles representing best practice in accountability and governance for the pension fund community, specifically in relation to climate change but also emphasising other

2 The research involved a questionnaire survey of 238 corporate pension funds of UK listed companies in the FTSE4Good and/or the Carbon Disclosure Leadership Index. This methodology could lead to bias in the findings, given that the 'best performers' in the corporate sector were approached. This possible bias could be exacerbated by the small sample of respondents, as it could be argued that those who responded were the most interested in the topic under consideration.

3 Henderson Global Investors, University Superannuation Scheme, RAILPEN Investments, and Insight Investment, collaborated to produce this report.

extra-financial issues. The Myners Principles (Myners 2001), although representing an important attempt to improve pension fund governance, do not focus on ESG accountability within the trustee community. Myners illuminates 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. In the broader context, if trustees' lack experience in mainstream financial investment, their lack of specific knowledge about climate change risks and opportunities is not surprising. The first report suggested that a code of best practice on governance and accountability aimed at trustees would help to resolve this situation. It recommended a code of best practice on climate change, explaining the linkages between climate change and pension fund investment, which should have government backing, as a means of encouraging trustees to address the material aspects of climate change in a serious and urgent manner.

3. Methodology

This research project adopts a methodology deriving from soft system methodology and action learning research. This means that the researcher is involved in the research process in a more subjective manner than in positivist-oriented interview research, where structured questions are asked of interviewees, with the aim being to derive data from the process, but to avoid affecting the views of the participants. Active learning research tends to be iterative in nature, with the researcher returning to the same interviewees, in order to discover ways of dealing practically with a problematised situation. In this case, the issue problematised by the researcher and the participants throughout the process is the integration of climate change issues into pension fund investment, especially the role of the pension fund trustee in relation to this integration. As we saw from the first phase of this research project (Solomon 2009), the research process affected the interviewees substantially, raising their awareness of the importance of climate change issues and resulting in unease among the 20 trustees interviewed about the passive nature of their role in relation to climate change.

Basing the methodological approach on action research, this second phase involved returning to half of the trustees interviewed in the first phase of the research to address their views on the impact of the research on them by asking the extent to which their behaviour in this area had changed in the 12 months since their first interview. There are also other issues explored in the second phase including: the impact of the global financial crisis on the trustees' attitudes and activities relating to climate change and their pension fund; and an assessment of their current role and responsibilities in this area.

Through this iterative process of interviewing and reflective learning by both the researcher and the interviewees, it is hoped that policy implications and recommendations may crystallise from the findings, to inform the future development of trustee practice in relation to climate change. It is hoped that the findings will represent the needs and wishes of the trustees, as they are derived from their views, as well as the requirements of other stakeholders of the pension fund community.

4. Findings

In this chapter, the findings from the interviews are summarised according to a series of themes, namely: climate change, materiality and trustees' fiduciary duty; the relative importance of climate change for pension funds; relationships between pension fund trustees and their fund managers and members, in relation to climate change; the global financial crisis, climate change and the trustees' role; obstacles to the consideration of climate change by pension funds; suggestions from the trustees for improving climate change consideration in their pension fund; and the reactions of the interviewees to the findings of the first report.

CLIMATE CHANGE, MATERIALITY AND TRUSTEES' FIDUCIARY DUTY

We asked the trustees if their views on whether climate change can have a material impact on their pension fund had altered since they were first interviewed. Seven of the interviewees stated that their view had not altered, although some of these added that they had always considered it to be material, and this was why their view had not changed. Their comments suggested that they generally believed climate change to be material but that their view had not altered over the last year.

> *I've always been of the view that climate change can have a material impact on...the economy as a whole, and...our investments, of the pension scheme in particular.* (T10)

Three trustees explained that their views had changed, and that they now viewed climate change as a more material factor than before. They suggested this was because their level of awareness had been raised, and that there was more evidence publicly available:

> *there's just more and more evidence coming forward than climate change is going to have a major effect on the planet. It's going to have a major effect on the ability...for companies to produce profits, which obviously impacts on the shares of the pension scheme. So there's no doubt, you know, things like water, the lack of water for crops and for electricity generation and all those sorts of things are going to have a material impact on, you know, the money that we earn to make money for the pension scheme. So there's a definite...view there that things have changed.* (T6)

Climate change was not viewed simply as a material risk but also as a material opportunity for pension funds:

> *there are massive, massive opportunities there for pension funds to make some money...in green technologies...so now that's a win-win as far as I'm concerned.* (T6)

Nonetheless, another trustee explained that, despite reading the report from the first phase of this project, he was finding it difficult to appreciate the linkages.

> *I remember...there seemed to be some argument that it could be...the opposite of...applying your fiduciary duty... if you fail to take account of climate change. Now of course I didn't go and read the detail of the report that supported that argument, but I do struggle with it.* (T7)

Reading his explanations, it seemed that he viewed socially responsible investment as an exclusion strategy and did not seem to appreciate the ability of fund managers to engage on climate change issues. In other words, he was unfamiliar with the currently accepted approach in socially responsible investment (SRI) whereby investors focus on best in sector, across all sectors, rather than excluding whole sectors completely.

We also asked them whether their view as to whether climate change is encapsulated in their fiduciary duty had changed since the first interview. Eight stated that their view had not changed, although again, some of these trustees restated that they had always seen it as part of their fiduciary duty. One trustee did feel that his view had changed, as his awareness of the importance of climate change had grown.

RELATIVE IMPORTANCE OF CLIMATE CHANGE FOR PENSION FUNDS

We asked the trustees how important they felt the consideration of climate change issues was for their pension fund. One trustee declared that climate change was a very important consideration.

> *I think it's very important...I believe that...the effects on pensions, the effects on business...for climate change, is going to be more...I really do think that this needs to move the agenda a bit more.* (T6)

Another trustee suggested that it had reduced in importance, with two others suggesting that it was less important than other factors. Clearly, the current global financial crisis was identified as a reason why climate change may have fallen in relative importance.

> *It's been the financial climate that has dominated any of our discussions this year...so climate change has been not even considered by anybody really.* (T3)

Three trustees claimed that it was not particularly important, although they suggested that it would become increasingly so. Only one trustee stated that climate change was not at all important to his pension fund.

TRUSTEES, THEIR FUND MANAGERS AND CLIMATE CHANGE

There appears to have been some change in the trustees' level of engagement with their fund managers on climate change issues, although this is by no means dramatic. A small number of the trustees had started to engage more directly with their fund managers on what actions they were taking regarding climate change. When asked whether they had, over the last 12 months, instructed their fund managers, three trustees said that they had, but five stated they had not, and one did not know.

> *I don't know at all whether it's something they're engaged with...I just don't know the answer to that...I'm not aware of, and have certainly never been told about, any specific discussions they've had on climate change with companies.* (T8)

We also asked the trustees whether they knew the extent to which the one-to-one meetings between their fund managers and the investee companies had incorporated climate change into their discussions. Only two trustees mentioned specific cases.

> *For example she* [fund manager] *talked to us about some of the discussions she'd been having with...one of the... banks in which the fund is invested and their whole... approach to climate change and what their strategy was for...addressing this particular issue. So what that was giving...the trustees was far more insight...on a practical day-to-day basis, how this issue is impacting the decision-making that's being made...on behalf of the trustees.* (T1)

> *We expect our investment managers to be transparent in their views on how they go forward with certain issues and only as late as yesterday, we actually had some investment manager monitoring where one of our investment managers is...investing in companies that have green technologies.* (T6)

Despite these indications of engagement, the majority of trustees suggested that they were unaware that any climate change issues were arising in the process of engagement and dialogue between their fund managers and their investee companies: 'climate change is a very minuscule part of that. It might come up in a sentence in a whole meeting'. (T3)

Further, when asked whether, over the last 12 months, they were aware of any climate change issues that had arisen, either in the process of engagement and dialogue or on the agenda for voting in their investee companies, there was a negative response.

Overall, although awareness has been raised, it has not necessarily translated into a more proactive relationship with fund managers on climate change issues. Apart from a couple of cases provided by the trustees, the level of engagement between trustees and their fund managers on climate change impacts were minimal, which is consistent with the findings of the first phase of this research project.

TRUSTEES, THEIR PENSION FUND MEMBERS AND CLIMATE CHANGE

We asked the trustees if they had engaged with their pension fund members on climate change issues over the last 12 months. Again, there was a completely negative response. Here, the blame (if there is any) seems to lie very much with the members themselves, as no trustee said that they had received feedback on potential climate change impacts from their members. One trustee, when discussing the results of a questionnaire survey they had conducted with the whole fund membership said:

> *we gave people plenty of opportunity to comment about what else they would like to hear about* [from the trustees]*...but from memory, I'm struggling to recall any specific request for more detail around our SRI policy and our approach to climate change.* (T1)

Basically, the members do not seem to be raising climate change as an issue for their pension funds at all. One commented: 'I'm not aware of any member...raising a climate change issue with us' (T3), while another said: 'there are some people who take an interest, but I wouldn't say they've actually asked what the...trustees' policy is on climate change, or the effects on investments' (T6).

One trustee pointed out that any lack of accountability on their part regarding climate change is a direct result of a lack of members' interest: 'where is the demand for this accountability? It's clearly not coming from our stakeholders!' (T5).

This finding is consistent with the conclusions of the first phase of this research, although the lack of members' interest has come out more emphatically in this second phase of interviewing. Perhaps it is the members, not the trustee community, whose awareness needs to be raised? As stated in Freshfields Bruckhaus Deringer (2005), trustees will and can act on ESG issues only where there is consensus among the membership on an issue (or where they believe the issue to be material). Perhaps agitating members on climate change, so that they lobby their trustees, may be an effective means of engendering change. Indeed, one trustee commented that:

> *I suppose the membership* [are] *perhaps even less aware than I was as a trustee...obviously* [this is] *something we need to be thinking about in terms of how we raise that awareness.* (T1)

KNOWLEDGE OF EXISTING REPORTS

In our first report, we investigated the trustees' knowledge of reports in the practitioner community that link climate change to pension fund investment. As part of the longitudinal analysis in this research, we asked exactly the same question. Table 4.1 shows how the responses in the second phase compare with those from the first phase.

Table 4.1: Are trustees aware of existing reports and studies on climate change and pension fund investment?

	Yes	No	No answer
Responsible Investment in Focus: How Leading Public Pension Funds are Meeting the Challenge (UNEP FI 2007).	0% (15%)	100% (85%)	
The Association of British Insurers Guidelines on Responsible Investment (ABI 2007).	30% (30%)	70% (70%)	
The Stern Review: The Economics of Climate Change, (Stern 2006).	40% (55%)	60% (45%)	
Principles for Responsible Investment (UN PRI Initiative 2006).	20% (10%)	70% (90%)	10%
Responsible Investment Trustee Toolkit (Higgs and Wildsmith 2005).	10% (10%)	90% (90%)	
European SRI Study (Eurosif 2006).	0% (10%)	100% (90%)	
Climate Change and Shareholder Value (Carbon Trust 2006).	10% (10%)	90% (90%)	
A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment (Freshfields Bruckhaus Deringer 2005)	30% (15%)	70% (85%)	
A Climate for Change: A Trustee's Guide to Understanding and Addressing Climate Risk (Carbon Trust 2005).	10% (5%)	90% (95%)	
Potentially Material Social, Ethical and Environmental Risks by Industry Sector for Pension Fund Trustees (Just Pensions 2005).	0% (10%)	100% (90%)	

Note: The bracketed percentages represent the findings from the first phase of the study.

There is little difference in knowledge of the reports between the two phases of the research. Interestingly, although the level of awareness of the above documents was low, many of the trustees referred to the new report, Managing the Unavoidable (Sullivan et al. 2008) in the second phase of interviews. This suggests that they may not have read papers about pensions and climate change from the past but that they are reading the latest publications.

GLOBAL CLIMATE CHANGE AND THE GLOBAL FINANCIAL CRISIS

One aim of the second phase of this research project was to discover the extent to which the current global financial crisis had affected the trustees' attitude towards their role and responsibility regarding climate change. Our expectation a priori was that the massive impact of the financial crisis and the credit crunch on pension funds was likely to have overshadowed any consideration of climate change issues. The results were, however, surprising. Specifically, we asked the trustees whether the current global financial crisis had changed their attitude towards the importance of climate change to pension fund investment. Eight of the trustees said that the current financial crisis had not altered their attitude towards climate change and pension fund investment, with only two interviewees saying that it had. One trustee commented that:

> *I think that what the global financial crisis has highlighted is how fast, how quickly, how deep change can be, and how our worlds can be turned upside down. We all think everything is going wonderfully well and something happens, and...you'll find yourself in a position that is...a whole new kind of world, new territory that you're having to manage a way through. And, I see climate change as... being potentially one of these things that could have a similar impact...if there's a catastrophic event...that flows through...the...broader economy...then one can now, I suppose, more readily appreciate what some of the implications might be.* (T1)

We also asked the trustees whether, in general terms, they thought that the global financial crisis was as important as the climate change crisis, less important, or more important. Against our a priori expectation, three of the trustees stated that the global financial crisis was less important than climate change and two commented that it was as important.

> *I think it's* [the global financial crisis] *actually less important...we will get through the current global crisis however long that takes...whereas the issue of climate change is never going to go away and it's going to have, if we don't start doing things now, it's going to be compounded and even it we stopped...all the carbon emissions that are going up into the atmosphere today there would still be a knock-on effect years down the line. So I think the issue of climate change and the effects on pension schemes is something that's going to go on for many, many years to come – far more than any current global financial crisis. (T6)*

Less important...(sighs)*...I think the global credit crisis is more immediate and therefore needs addressing as a matter of urgency, whereby climate change...is much longer term.* (T9)

Only three trustees felt that the global financial crisis was more important than climate change, and even these interviewees qualified this view with the feeling that this was only in the short term. Indeed, the main theme arising from the trustees' comments was one of timing. The majority felt that the global financial crisis, however catastrophic, was essentially a short-term issue, whereas climate change was currently growing in importance and, over the long term, would only become more relevant. One said: 'it's [global financial crisis] as important...they're on different timescales, aren't they? If it [global financial crisis] is a short- to medium-term thing, whereas climate change is much more long term' (T2). Another added: 'there are timing issues...On the assumption that the global economy will recover...then the effects of climate change will start to take...precedence' (T1)

One trustee suggested that for pension funds, which invest over the long term, climate change had to be of greater importance than any short-term upheavals in the financial markets.

> ***Pension fund investment is a long-term thing*** *and therefore...when we have our pension trustee hats on, we have to look into the long term...we look at, say...50 years ahead or something...because that's the kind of length of time that people working now will be drawing their pension until, in fact probably more than 50 years, but let's just say 50 years. Then, in 50 years there will doubtless be, um, significant changes occurring in the world as a consequence of climate change...****nobody knows...the scale of what those changes would be and the effect they're going to have on things like pension assets...but it could be dramatic, it could be a very big effect in the longer term****, so that's why I say in the longer term it could be very, very big indeed, the effects, whereas the financial crisis is something that I would expect is a manageable thing.* (T8, emphasis added)

Indeed, there was a suggestion that the global financial crisis was distracting attention from climate change and that this was a negative consequence of the current crisis.

> *The financial crisis is casting a shadow over everything else and I think that's probably where our fiduciary duty lies...but beyond that,* ***I don't think enough attention is being given to climate change****. I mean it's going to change the entire landscape.* (T2, emphasis added)

These comments from the trustees represent a potential need, acknowledged in recent reports, for: 'pension funds and fund managers to reassess the timeframes over which investment decisions are made and over which investment performance is evaluated' (Sullivan et al. 2008: 10).

THE GLOBAL FINANCIAL CRISIS AND THE TRUSTEE'S ROLE

We also asked our interviewees whether, in a general sense, the global financial crisis had altered their view of their role and responsibilities as pension fund trustees. Interestingly, four of the trustees said that the current financial crisis had changed their view of these matters. It seemed, from their comments, that the crisis had made them reflect far more on the importance of their role as custodians of pension members' investment.

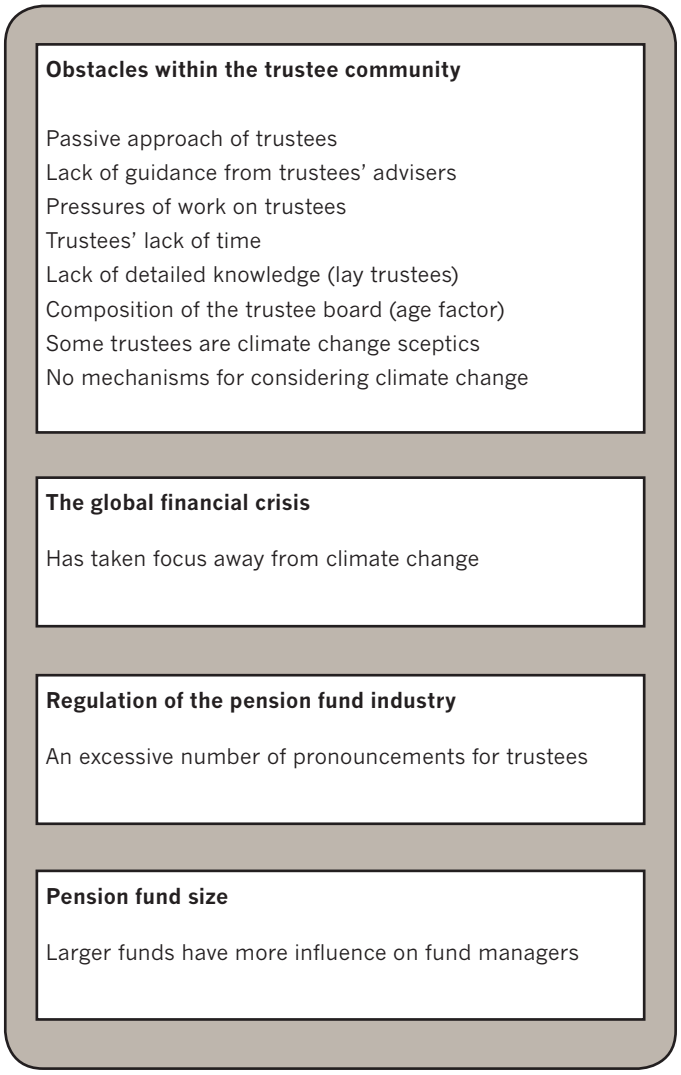
> *Bad times focus the mind even more than good times... when investments are performing reasonably well, as they did for a substantial period, it is a little easier to take a... more relaxed view of responsibilities, your responsibilities as a trustee....When the investments are performing very badly, and that leads to a worsening of the deficit in the fund...then the mind is very strongly focused on the management of that deficit and the ability of the sponsoring company to make deficit funding contributions.* (T7)

Another commented that his perception of his role had not altered but that the crisis had reinforced the importance of his role: 'in principle, no, but what it's done, it's underlined how important that role and responsibility is, but it hasn't actually changed it, it's just reinforced it in one's own mind that this is really quite a responsibility because of the potential risk to the fund from the financial crisis' (T8).

OBSTACLES

We asked the trustees what obstacles they considered might be limiting the ability of their pension funds to take climate change impacts into consideration. Our interviewees responded by proffering a wide range of factors. These are summarised in Figure 4.1. The current economic crisis was mentioned by many of the trustees as a significant factor impeding the consideration of climate change by their fund: 'I certainly think the current economic crisis is something that...we're certainly very, very focused on, which you can imagine...so...currently market conditions are the major obstacle' (T6).

Figure 4.1: Obstacles to trustees' ability to consider climate change



The regulation of the pension fund industry was highlighted as a significant obstacle: 'if you take the current...financial crisis, the pensions regulator, I think, has issued three or four strong messages to trustees in the last six months. One would have been fine...so there's a regulation problem, which is possibly squeezing out [giving] more attention to the climate issue (T5)

Our interviewees highlighted a number of obstacles from within the trustee community. For example, some trustees also identified the passive approach of their own trustee community as an obstacle, and suggested that trustees needed to be more proactive.

> *What obstacles are there? Well, if the trustees of the pension fund and the advisers were, let's say, more proactive...if we were being presented with articles, with presentations, concerning climate change, and we thought it was relevant to the pension fund, then maybe we would take climate change into account...*[and take it] *more seriously than we are doing at the moment. But nobody on our pension fund and none of our advisers are really highlighting climate change as an issue and therefore it does not have a profile.* (T8)

Further, our interviewees suggested that trustees had other priorities and that pressures of work prevented trustees from addressing climate change issues. The limited time that trustees have was raised as a significant obstacle, as well as the lack of relevant expertise. This is held up as a perennial obstacle that prevents trustees from embracing a whole range of issues, as illuminated by Myners (2001). One interviewee commented: 'trustees, as I say, have limited time...you see pensions, like a lot of things in life, suffer from massive agency problems. The agency problem I'm alluding to here is pension trustees are very much part-timers. Quite a lot of them are lay trustees as well' (T5).

There also seemed to be concern that the make up of the trustee board could represent an obstacle to consideration of climate change.

> *The trustees themselves...we've got...two pension trustees who...are current pensioners... and they, I don't want to be ageist, but the majority of them are quite senior people in terms of age and I don't think they really get the issue...even if they do see climate change...as a serious issue, they think that it's so far down the line they don't feel the pressure to react to it now. And they also probably see that...if they were to react...they can't see a way of reacting to it that wouldn't cost us in the short term.* (T10)

Although the majority of trustees in the first report claimed that they had delegated responsibility for investment to their fund managers and that they had complete confidence that if climate change were a material factor, the managers would take it into account, one trustee in the second phase of interviews raised fund managers' attitudes as an obstacle.

> *We had a meeting...where we...called in some of our investment managers...And I said, 'well, don't you think that...in the next few decades that we're going to see increasing pressures from climate change from the environment, from insecurity, all the things associated with climate change...', and his response was, 'Oh, I think Nicholas Stern's report is just a load of politics'... And I would have sacked him on the spot. But...the other trustees are not, sort of, as exposed to...climate change* [in the way] *that I am.* (T10)

This is an especially worrying quotation, as it suggests that fund managers, to whom trustees have delegated responsibility, are not necessarily as reliable as the trustees may think. Certainly, findings from the first phase of this research indicated that trustees had a tendency to wash their hands of responsibility for climate change as they said their fund managers dealt with it as part of their remit. This may not be the case at all. Perhaps, the more trustees start to engage with their fund managers on climate change issues, inter alia, the more they will discover their intervention is necessary to ensure that fund managers are engaging with investee companies on issues that concern the trustees.

There was also an indication that climate change sceptics remained within the trustee community as some trustees were thought to perceive climate change as an over-publicised media event.

> *I think one of the other things may well be that there are some people out there that feel that this is all a bit of... well, I think a publicity stunt is the wrong sort of words, but...they may not buy into the views of myself that climate change is something that...is serious.* (T6)

One trustee expressed a climate change sceptic's viewpoint particularly well.

> *My criticism of the climate change people is that they really do need to be open to some alternative views, engage with those alternative views, don't just be holier than thou and say, you know, 'the evidence is so one-sided how come you do not agree with us?' I'm sorry, there are other things at work out there and climate change may be one of them and I think a balanced debate needs to address those kind of issues also.* (T5)

Another trustee, however, did suggest that trustees, certainly in his pension fund, were unlikely to be strong climate change sceptics: 'just based on my knowledge of them as people, I'd be very surprised if any of them were in the category of saying, 'We don't believe in climate change, it's all a great myth', you know, I don't see too many George Bushes sitting around a trustee table' (T7).

The size of funds was mentioned as an obstacle, as smaller funds did not necessarily have the resources to take climate change into account. This supported the findings of the first report. Also, it was suggested that fund managers did not listen to trustees from smaller funds.

One trustee pointed out that there were no mechanisms available for integrating climate change into the trustee's role.

> *At the moment, the pension fund does not regard them* [climate change issues] *as particularly important...nor do I see a route by which they could be...because I can't see the mechanisms available to us to enable us to do that.* (T7)

In the same way that the trustees identified a wide range of obstacles to consideration of climate change, they also suggested a large number of ways in which climate change consideration in their funds could be improved. These suggestions are summarised below and should lay the foundations for trustee-led policy recommendations.

TRUSTEES' SUGGESTIONS FOR IMPROVING THE CONSIDERATION OF CLIMATE CHANGE IN PENSION FUND INVESTMENT

We asked the trustees whether they felt that consideration of climate change in their pension fund's investment strategy could be improved. Recommendations for improving the consideration of climate change in pension fund investment arising from their views are presented in Figure 4.2. Five interviewees felt that that there could be improvements. There was a strong recommendation that trustee awareness needed to be raised continuously and that this could involve training sessions.

> *The first thing to do is something I've been talking to the chief executive about and the chairman of the scheme... is we need to highlight this issue with our fellow trustees...This is something that really needs to be raised with trustees more, and that there* ***should be more training for trustees****, that is something I've spoken to the chairman about.* (T6, emphasis added)

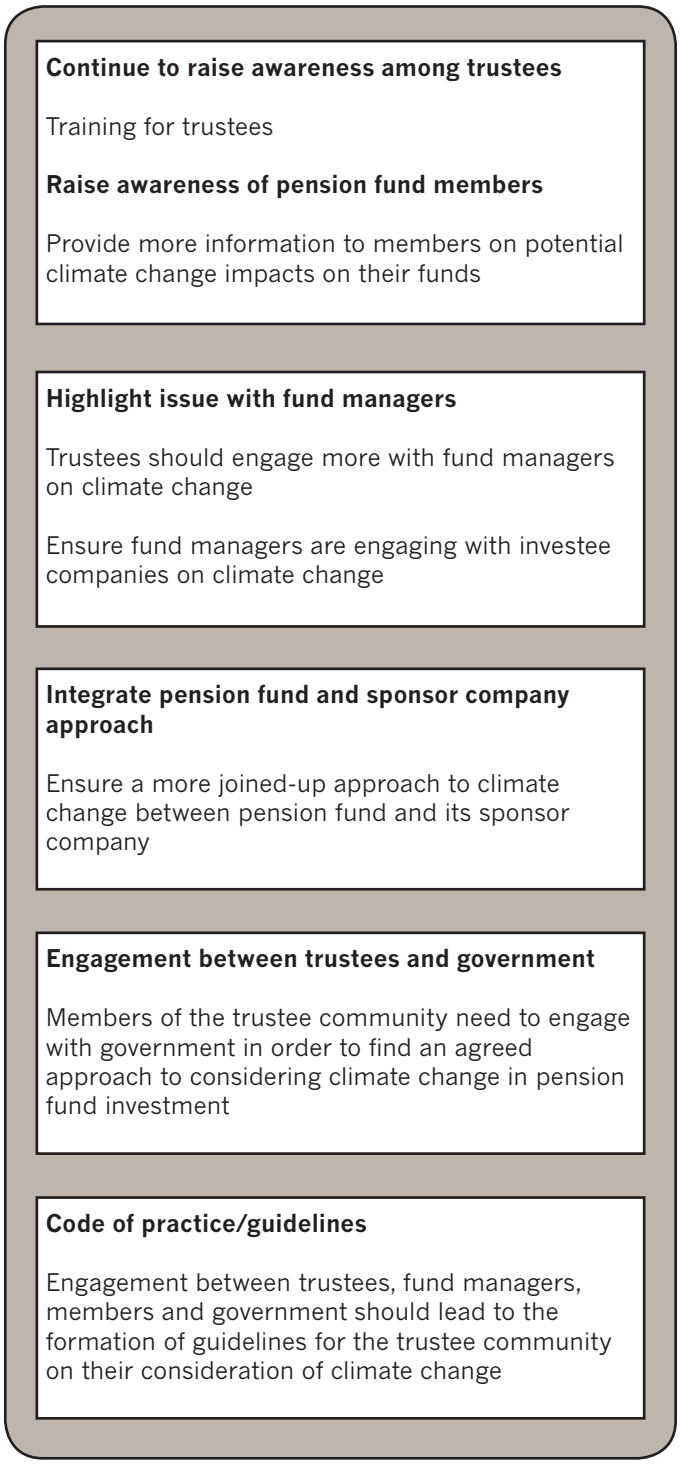
There was also the suggestion that trustees should be engaging more directly with their fund managers to ensure that climate change is being dealt with in a meaningful way.

> *Moving forward with our investment managers as well and making sure that companies that we invest in don't just say that they've got an environmental policy...but that they are actually* ***doing*** *something about it. What are they actually physically doing? And I think that's something that we need to be more proactive on.* (T6, emphasis from interviewee)

Only two of the trustees stated that their strategy could not be improved in this regard.

An important, related, issue raised by one trustee was that following delegation to fund managers, trustees had relinquished power to influence climate change consideration directly (as found in the first phase of this research) but that they had an important role to play in the initial appointment of the fund manager.

Figure 4.2: Recommendations for improving the consideration of climate change in pension fund investment



> *We appoint managers every once in a while...**the time to take a stand on environmental or socially responsible investment is when we're appointing managers**...I don't know at what point we'd decide this, or we're going to pull out of what we're in and appoint new managers, on the basis of SRI or environmental factors...if we got to the point where we were appointing new ones **it's certainly something that we'd raise then and I'd be keen on it**[s] **being more than just a tick box question**.* (T2, emphasis added)

One trustee pointed out that trustees should be working with government on climate change issues: 'perhaps... pension schemes should be getting together and saying, "look, we need to have a voice in government somewhere and speak to ministers about these particular issues, you know, and what we can do together"' (T6).

This is an important consideration, as it suggests that there should not be a top-down approach to any government policy in this area, but that changes in approach should be established through dialogue between trustees and government. Only two of the trustees stated that their strategy in relation to climate change could not be improved.

ASYMMETRY BETWEEN PENSION FUND AND SPONSOR COMPANY'S ATTITUDES TO CLIMATE CHANGE

Our first report suggested there could be asymmetry between the attitude of pension fund trustees towards the importance and relevance of climate change, and that of the sponsor company. It seemed that although the sponsor company may be implementing green policies and focusing on social and environmental accountability and sustainability, the trustees of the associated pension fund were not at all engaged with these issues in relation to the company's pension fund. This mismatch was noted by one of the interviewees in the second phase of the research.

> *The company has got very strong business ethics...that's led us to have a big push on sustainability and...look at the way we influence our supply chain, and what our internal behaviours are...**so as a company they're doing all the right things...but the trustees are to the side of the company**, and I do wonder whether...I ought to be pushing my involvement in the sustainability side of the company...I wouldn't say I've got a conflict of interest here...but I'm on the other side of the fence...because I've been acting on the company's behalf to...make the trustees look at the issue...because the company's got these policies, and the company's got to interact with the trustees, you know, pushing it that way.* (T10, emphasis added)

This is a salient issue, as the implication is that there should be a more 'joined-up' approach, between companies and their associated pension schemes, to issues such as climate change.

REACTION TO THE FINDINGS OF THE FIRST REPORT

The first draft of the first report was sent by email to all 20 interviewees who had participated in order to allow them to comment on the research. In the second phase of interviews, some interviewees commented on the findings from the first phase of the research. It was interesting to gauge their reactions to the findings of that first phase of this research project. Although we were only able to revisit half the initial sample, there was a diversity of views among the ten trustees we interviewed. There was certainly no consensus, although it seems fair to say that there was a majority view. Seven of the trustees we interviewed were positive about the findings of the first report and about the importance of climate change to their funds. They were also keen to explain the ways in which the first phase of the research affected their attitude and behaviour.

> *Certainly in terms of...the whole...topic that we discussed last time, you know, climate change and the extent to which we as a trustee board were taking that into consideration and how we were doing that, I mean that* ***really was a catalyst, for me personally and also for the trustee board to look at the whole issue****, in a kind of far closer...detail than had previously been the case.* (T1, emphasis added)

> *It made me think more. And I must admit* ***there have been conversations...with other trustees****, as to whether we should be doing something. But have we done anything? The answer's 'no'.* (T9, emphasis added)

This suggests that even if climate change has not necessarily been placed on the agenda of formal trustee meetings, the research project has encouraged trustees to discuss the issue between themselves.

These seven interviewees suggested that their awareness of the importance of climate change had been raised and that they were now far more knowledgeable about the ways in which climate change risks and opportunities could and would affect their pension fund assets.

> *Getting an understanding of our approach and how we meet our responsibilities...and also having, I suppose,* ***just the antenna up****...and* [becoming] *aware of some of these...issues and how they affect the pension scheme investment...I'm much more aware now than I was 12 months ago'* (T1, emphasis added).

These interviewees also itemised ways in which their behaviour as trustees had changed and how their raised awareness had translated into action. This is especially important, as the first report identified (in Figure 4.2 of that report) the ways in which trustees said they intended to alter their role in climate change.

> *Well, I think one of the things that's happened since we spoke last year was...I got the person at* [fund management company] *who...looks after this issue on behalf of the trustees...*[this person] *came and gave a presentation to the investment committee, which is a subcommittee of the trustee board and...that was very helpful in terms of...explaining the* [fund manager's] *approach to the whole question of socially responsible investment, including the question of climate change.* (T1)

Interestingly, trustees' increased awareness had, in some cases, led them to discover that their fund managers were actually dealing with climate change issues, but they had not previously realised this.

> *I mean what* [fund manager] *was able to...reassure or* (laughs) *inform the trustees of, was that this is something that* [fund management company] *have in fact been doing and...it's very much integrated as part of the overall kind of corporate governance team.* (T1)

One of the trustees seemed to be asking for advice from the research and guidance on how to tackle climate change issues as a trustee.

> *You just have to go to a few of the sustainability and climate change conferences to see some serious scientists saying, 'actually, we're sleepwalking into disaster here, and it's going to really affect the economy, and it's going to be sooner than we think'.* ***Well, what can you do about that as a trustee? I wish this was more interactive and you could tell me what you think I should be doing*** (laughter) ***because, you know, I really don't know.*** (T10, emphasis added)

Three of the trustees we interviewed were more cautious, indicating that although they were concerned about climate change as a societal issue, they were still uncertain about the way it could affect pension funds. They by no means had closed minds, but remained unconvinced that climate change was an important issue for them. One of these three trustees commented on his surprise at the findings of the first report.

> *I was amazed that I must have been in a minority of a very small number who was saying that climate change is* [unimportant]*...We're not here to save the world; we're there to save the members. So I was shocked at the outcome of the report. Not that it changed my views or influenced me, but that it actually fell on the side of pension funds taking climate change into account.* (T4)

Despite strong suggestions that the first report and interview process had raised trustees' awareness of climate change issues, there were still several trustees who stated that climate change never entered the agenda at trustee meetings, reflecting the findings of the first report. In other words, although some of the trustees may have talked about the issue among themselves, they had not necessarily brought it into the mechanism of meetings.

There was one interviewee who reacted negatively, indeed angrily and with indignation, to the findings of the first phase of this research. An interesting aspect of his criticisms was that he provided a host of reasons why it was not trustees, but rather members of the institutional investment community, who should be taking action.

> *I know* [named researcher's] *research tends to be critical of trustees and what I'm saying to you is I think the problem lies elsewhere. It's not that the trustees aren't interested in this area...**it's that the so-called pensions professionals, the fund managers...they're not really as open to fresh thinking as they should be**.* (T5, emphasis added).

Interestingly, as we saw earlier, this problem within the fund manager community was mentioned by another trustee in relation to obstacles to consideration of climate change. Indeed, it seems that the fund managers may not be as conversant with the relevance of climate change to investment as trustees may have thought.

The first report criticised the lack of time and training that trustees had for issues such as climate change, reflecting the findings of the Myners Report (2001) on trustees' duties more generally. This trustee took particular exception to this aspect of the first phase of the research and did not value the findings of the Myners Report.

> *The Myners Principles are not a very important measure in the context of global pension funds...the researcher is tending to suggest the trustees' lack of experience...**I'm a trustee and I'm fed up with being beaten up about, 'it's our fault', 'we are the ones who have caused this', that is rubbish! That is absolute rubbish**. The people who should take responsibility for this are the professionals, the agents, the fund managers, the people who work in pensions full time, day to day, the consultants, the advisers, and the people that have been running individual companies and banks and regulators and things like that. **So to blame us and to twist this by saying we're just lacking in expertise is wrong, it's very unfair**.* (T5, emphasis added)

He then stated that:

> *I'm not saying we take no responsibility because we do have responsibility. We are the owners **but we very much rely on our agents, on our delegates, to do things**.* (T5, emphasis added)

This trustee strongly opposed the recommendations of the first report to encourage greater accountability, and possibly a code of practice for trustees on climate change.

> *In a perfect world in which we had unlimited budgets we could do lots of things for our members, but the demand is not there...so when I hear about lack of accountability and governance...she* [the researcher] *talks about getting recommendations, government backing, I despair, you know. I've described the pensions world, it's overregulated, and we really could do with a bit of a break. This adds to our problems. It would be very unwelcome and depending on how this is publicised I may have to come out more strongly...the research seems to be suggesting let's have a code of practice. We've got **millions** of codes of practice. We're fed up with them. We don't want any more. We certainly don't want another one out of this so I just think that idea should be just **binned** and somebody needs to get a grip on what's being thrown at trustees in terms of codes of practice, guidance, guidelines, all this kind of nonsense. It's not helping, it is creating overload.* (T5, emphasis from interviewee)

This trustee's view does not seem to be representative of the population of trustees. As the trustee commented himself:

> *if he* [another interviewee from phase one] *and I are in the minority of the 20 we just have to accept that. That's happened sometimes as part of research, we're a minority of views rather than a majority of them.* (T5)

5. Concluding discussion

It is hoped that this report goes further than simply re-assessing the trustees' views towards their role and responsibilities concerning climate change, one year later, and following the onset of the global financial crisis. The report also, in this section, builds on the information provided by the interviewees to identify obstacles to trustees' incorporation of climate change into their role, and goes on to make recommendations for policy makers.

COMPARING THE FINDINGS OF THE FIRST PHASE WITH THE SECOND PHASE

The first task of this concluding section is to draw a comparison between the findings of this phase of the project and the findings from the first phase. Given the interactive methodology applied, it is hoped that the first phase of the project, having problematised climate change, did in itself engender change in the attitudes of the trustees interviewed.

The first report identified a significant lack of awareness, knowledge and understanding within the trustee community regarding the impact of climate change on pension funds. This second report shows that many of the trustees now say that their level of awareness regarding the importance and relevance of climate change to their pension funds has been raised. There seem to be a number of reasons for this raised awareness. One factor is the increasing importance of climate change at a societal level, as evidenced by articles in the media and the consensus of the scientific community. This factor relates directly to the trustees' own personal interest in climate change issues. Another reason is the production of more publications linking climate change and pension funds within the pension fund industry. Lastly, although we would not want to claim any significant success, it seems that the first phase of interviews did to some extent raise awareness among those whom we interviewed. Of course, this would have a direct effect only on those trustees whom we interviewed. There is a possibility that other trustees' views may change, indirectly, as a result of this research project, but currently we have no evidence in this regard.

An important issue was whether the change in awareness had translated into action. The first report identified a number of ways in which the trustees said they intended to alter their role regarding climate change. These included: reading relevant documentation; requesting briefing notes from fund managers; instructing fund managers to engage with climate change issues; asking investment advisers for advice on their role in climate change; discussing potential impacts of climate change with fellow trustees; and putting climate change on the agenda for trustee meetings. Although there is no overwhelming evidence that the ten trustees interviewed in the second phase of this research project had taken up all these suggestions, they had acted on some. In this report, we have shown that some of the trustees, albeit a minority, have acted following their earlier interviews. For example, some stated that they had discussed climate change with their fund managers and discussed climate change impacts with their fellow trustees, sometimes informally rather than within formal trustee meetings. Nonetheless, we did not find strong evidence that they have put climate change on the agenda at meetings, except in a couple of cases. On balance, the increased awareness has to some extent translated into action.

The first report identified a number of obstacles to trustees' integration of climate change into their role. These were: that trustees are too busy to consider climate change; lack of knowledge about climate change impacts; lack of evidence; lack of data; fear of being first; lack of guidance from sponsor companies; lack of guidance from advisers; and lack of interest from members. Interestingly, in this second phase of the research, the obstacles identified by the trustees were different. Some obstacles identified in the first report were reinforced in the second phase of research, specifically, the lack of time available to trustees and lack of guidance from the fund's members. On the other hand, none of the trustees in the second phase of the interviews placed emphasis on lack of knowledge, lack of available data, or fear of being first. These obstacles seem to have receded over the past 12 months, as trustees have become more conversant with climate change as an issue for pension funds. This could be a result of the research itself, but could also be due to other external factors, as discussed above.

There were, however, new obstacles identified by the ten trustees, which seemed to shine the spotlight more on the internal workings of the trustee community. For example, the constitution of the trustee board was raised as a serious impediment to considering issues such as climate change. It was suggested that the presence of current pensioners and older trustees on the board hindered climate change considerations from being taken seriously, as their age and the fact that some were already receiving pensions seemed to focus attention on the short term rather than the long term. There was also a great focus on the passivity of the trustee community in relation to climate change. Another obstacle identified in this report was, inevitably, the impact of the global financial crisis, as it had distracted attention from climate change issues. Nonetheless, there was a majority view that, although the financial crisis is extremely relevant in the short term, the investment community should not take their attention away from climate change, as this was a critical long-term factor.

Overall, the trustees' perceptions of the obstacles seem to have altered and become more penetrating, which may reflect their greater understanding of the issues. One observation is that the trustees are far more familiar with the climate change issue in their conversations, than they were in the first phase of the research, and that they seem to be considering the potential impacts of climate change on their funds in a more thoughtful and reflective manner than they were a year earlier.

The most important aspect of identifying obstacles is to find ways of removing or circumventing them. The trustees suggested a number of improvements in the ways in which they could enhance the consideration of climate change in their role.

POLICY RECOMMENDATIONS

The first report recommended a code of practice or policy document for trustees on climate change. From studying the views of the trustees in this second phase of this research, slightly modified recommendations may be made, which integrate the trustees' own views and suggestions.

In terms of raising awareness of the relevance of climate change within the trustee community, it seems that more training is needed, as suggested by some of the interviewees. The UKSIF (2009) survey found that four-fifths of funds with a responsible investment policy said that their trustees received specific investment training or advice on responsible investment from at least one source. This finding needs to be set in the context of a small number of survey respondents from the pension funds of more responsible listed companies. There is still room for improvement in relation to training. Indeed, one of the trustees in this study was calling out for more training, more guidance and more information.

Another important issue raised by this research is the lack of awareness among pension fund members. In order to elicit changed attitudes to climate issues within the institutional investment community, members need to lobby their trustees. Unless members appear interested and engaged with climate change, trustees are unlikely to prioritise the issue. Government and the institutional investment community need to raise awareness by contacting members and explaining the ways in which climate change may affect their future pension entitlements, and the need for them to ensure that their pension administrators are dealing with climate change effectively within their funds.

This research also illuminated problems within the fund management community. Some interviewees suggested, worryingly, that their investment fund managers, hitherto seen as in charge of delegated ESG risks, may not be as committed to considering potential climate change impacts, and engaging with investee companies on these impacts, as previously thought. This is why the trustees need to engage directly with their fund managers to discover the extent to which they are engaging with companies on climate change and to instruct them to consider climate change more effectively.

Another recommendation for pension fund policy is that the composition of trustee boards requires careful consideration. The balance on the board should reflect not just short-term interests but also long-term ones. In response to comments from the trustees interviewed, there should be an appropriate mix of senior and more junior members of the board of trustees. However politically incorrect this recommendation may appear, according to the interviewees' views given in confidence in this study, there perhaps needs to be a lower proportion of more elderly trustees on boards, if more long-term issues such as climate change are to receive adequate attention. There also need to be representatives from the sponsor companies, who should a lead a more coherent approach to climate change, such that the sustainability policies of the company are reflected in its pension fund.

In relation to recommending a code of practice on pension fund trustees and climate change, this second phase of the research has, to some extent, reviewed the recommendations of the first report. This reconsideration is partly in response to some strong negative criticisms from one trustee in particular, but also follows consideration of the thoughtful suggestions of other interviewees. It seems that a didactic, top-down approach from government, in the form of a code of practice, may not be appropriate and that a more successful approach would involve active engagement between trustees and government on climate change and pension fund investment, in order to produce a workable code of practice, or set of guidelines for trustees, which incorporates the views of the trustees. Climate change is not a political issue but a societal issue requiring team work. A guidance document which issued from engagement and negotiation would be more likely to be adopted in spirit by the trustee community than would a top-down document, representing more unwanted and unsolicited regulation. Action needs to be taken but for action to result in meaningful change and greater accountability, that action needs to be considered and agreed between the parties involved.

Overall, this second phase of the research has produced some optimistic findings, in the sense that the level of awareness of the relevance of climate change to pension fund investment has been raised within the trustee community. Further, trustees appear to be considering climate change in a deeper and more thoughtful way than before. It is hoped that this report, in conjunction with the first report, may help to establish a roadmap for policy in the area of climate change and pension fund investment, which incorporates the views and needs of the trustee community, and which attempts to remove and circumvent the many obstacles identified by trustees that impede progress in this critically important area of institutional investment.

Although the global recession is serious and its duration uncertain, the world must nevertheless continue to focus on the far-reaching threat of climate change. Indeed, if we are smart, public policy can serve the twin goals of stimulating growth and fighting global warming.

JEROEN VAN DER VEER, CHIEF EXECUTIVE OF ROYAL DUTCH SHELL

References

ABI (Association of British Insurers) (2007), *The Association of British Insurers Guidelines on Responsible Investment* Disclosure, January (London: ABI).

Carbon Trust, The (2005), *A Climate for Change: A Trustee's Guide to Understanding and Addressing Climate Risk* (London).

Carbon Trust, The (2006), *Climate Change and Shareholder Value* (London).

Eurosif (2006), *European SRI Study* (Paris).

Freshfields Bruckhaus Deringer (2005), *A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment* (Geneva: Asset Management Working Group of the UNEP Finance Initiative).

IPCC (Intergovernmental Panel on Climate Change) (2007), *Climate Change 2007: The Physical Science Basis* (New York: Cambridge University Press).

Just Pensions (2003), *Pension Fund Investments: Potentially Material Social, Ethical and Environmental Risks by Industry Sector for Pension Fund Trustees* (London: UKSIF).

Just Pensions (2005), *Full Set of Sector Notes* [online PDF], 'Potentially Material Social, Ethical and Environmental Risks by Industry Sector for Pension Fund Trustees', <http://www.uksif.org/cmsfiles/uksif-jp-sn-fullset.pdf>, accessed 07 August 2009.

Higgs, C. and Wildsmith, H. (2005), *Responsible Investment Trustee Toolkit* (London: Just Pensions).

Myners, P. (2001), *Institutional Investment in the United Kingdom: A Review* (The Myners Report) (London: HM Treasury).

Solomon, J. (2009), *Pension Fund Trustees and Climate Change*, ACCA research report no. 106 (London: Certified Accountants Educational Trust).

Stern, N. (2006), *The Stern Review: The Economics of Climate Change* (London: HM Treasury).

Sullivan, R., Russell, D. and Robins, N. (2008), *Managing the Unavoidable: Understanding the Investment Implications of Adapting to Climate Change* (London: Henderson Global Investors, Insight Investment, RAILPEN Investments, Universities Superannuation Scheme).

UNEP FI (United Nations Environment Programme Finance Initiative) (2006), *Adaptation and Vulnerability to Climate Change* (Geneva).

UNEP FI (United Nations Environment Programme Finance Initiative) (2007), *Responsible Investment in Focus: How Leading Public Pension Funds are Meeting the Challenge* (Geneva: UNEP FI and UKSIF).

UN PRI Initiative (2006), *Principles for Responsible Investment* [online text], an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact, <http://www.unpri.org/principles>, accessed 07 August 2009.

UKSIF (UK Social Investment Forum) (2007), *Responsible Business: Sustainable Pension: How the Pension Funds of the UK's Corporate Social Responsibility Leaders are Approaching Responsible Investment* (London: UKSIF Sustainable Pensions Project).

UKSIF (UK Social Investment Forum) (2009), *Responsible Business: Sustainable Pension: How the Pension Funds of the UK's Corporate Social Responsibility Leaders are Approaching Responsible Investment* (London: UKSIF Sustainable Pensions Project).

TECH-TP-OYO

ACCA 29 Lincoln's Inn Fields London WC2A 3EE United Kingdom / tel: +44 (0)20 7059 5000 / www.accaglobal.com