Thinking Ahead Institute

Event summary

[Asset owner conversations]

Date: 26 and 28 April 2021

Topic: Climate impact reporting

Participants:

Brian Kilpatrick – HSBC
Dan McDonald – DHL
Brenna Pavey – QSuper
Jeroen Rijk – PGB
Akaash Sachdeva – HESTA
Chris Stangroome – OPAM
Nacho Valinani – PC30
David Hoile - WTW
Paul Deane-Williams – TAI
Tim Hodgson – TAI
Jess Gao – TAI

Summary of talking points

Challenges with climate data and climate related risk analysis

- Climate data has increased in volume and complexity over the past few years, but there are still significant data gaps affecting investors' ability to understand and identify some of the key climate-related risks
- Matrices and tools are still being developed and improved to analyse climate-related risks, but come with significant limitations. Investors need to be aware of the problems associated when using these tools
- It is desirable for the climate dashboard to help define the critical drivers for likely transition outcomes; capture key issues associated with underlying portfolio; and produce a clear message that can be easily understood to assist the decision-making process.

The importance of climate reporting and associated issues

- Climate reporting, which is critical to asset owners, has been fast developing but needs significant improvements. It should allow asset owners to understand the weak areas of their portfolio, facilitate conversations with asset managers and enable better communications with other stakeholders

- Climate reporting should be forward looking, signal organisations' future plans and demonstrate their impact/achievements on meeting climate objectives
- The process of producing the report helps organisations to understand their short-term and long-term objectives, and whether these are both well aligned with the organisations' climate beliefs
- There was an appeal for more standardised climate reporting that allows investors to make informed decisions based on consistent data. Currently, it is very inefficient and demanding on asset owners to meet different reporting standards
- By delivering and communicating climate reports, organisations are asserting influence and making positive impact on tackling climate change.

Other challenges and opportunities

- Potential conflicting requirements from the regulators (Australia specific). Asset owners are required to consider longer-term, climate-related risks and investment opportunities but are being assessed quarterly on their investment performance at the same time
- Divestment triggered by wanting to meet a fund's climate objectives may not lead to positive impacts on the financial system and could potentially slow the transition process
- There may be unintended consequences on the overall health of the economy and society by overly focusing on one sustainability factor (i.e climate)
- Asset owners with both DB and DC funds are facing extra challenges when establishing their climate beliefs and setting up investment strategies. Questions were raised in terms of how asset owners can better balance a small but growing DC fund with a big but legacy DB fund
- There are opportunities for asset owners to develop a better communications framework which could meet requirements for both internal communication, with investment teams and committees, as well as external communication with other stakeholder, such as members and regulators.

About the Thinking Ahead Institute

The Thinking Ahead Institute is a global not-for-profit member organisation whose aim is to influence change in the investment world for the benefit of savers. The Institute's members comprise asset owners, investment managers and other groups that are motivated to influence the industry for the good of savers worldwide. It has over 50 members with combined responsibility for over US$12 trillion and is an outgrowth of Willis Towers Watson Investments' Thinking Ahead Group.