Nico Aspinall Consulting

First anniversary conference

29 June 2017

Today’s order of play

Introduction and opening thoughts	Me
Keynote speaker	Russell Picot
Consultants’ Panel	Paul Herbert
	Steve Budge
	Laura Myers
Break	
Master Trusts’ Panel	Paul Todd
	Roy Porter
Final thoughts	Me
Drinks here	
Further drinks at the Gun	

What I want from you

Engage and interact as much as possible

Network, but don't sell!

Chatham house rules

DC only

Thanks to Northern Trust

One year on…

13 Clients – and everyone has been unique:

Product

Strategy

Marketing

Education

Two thought-pieces

One website: www.nicoaspinall.com

But more importantly…

I have paid the mortgage every month!

I have lost 1 ½ stone!

I spend ¼ of my time volunteering on climate change for the actuaries

I am constantly delighted and challenged by the new opportunities you give me

What have I learned?

Asset managers know what DC is, but think its like DB

Buyers are still more focussed on engagement and admin, but that's not a bad thing

You struggle with proliferation, pricing, access and differentiation

The market for true active in DC pre-retirement is in decline.

The market for investment IP in DC is just beginning.

Keynote address – Russell Picot

Special advisor to the

Task Force on Climate-Related Financial Disclosures

Task Force on Climate-related Financial Disclosures

Overview of Recommendations

June 2017

TCFD
TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES

BACKGROUND

The Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures (TCFD) on December 4, 2015 to develop recommendations for more effective climate-related disclosures that:

- could "**promote more informed investment, credit, and insurance underwriting decisions**" and,

- in turn, "would enable stakeholders to **understand better** the concentrations of **carbon-related assets in the financial sector** and the financial system's **exposures to climate-related risks**."

Industry Led and Geographically Diverse Task Force

The Task Force's 32 international members, led by Michael Bloomberg, include providers of capital, insurers, large non-financial companies, accounting and consulting firms, and credit rating agencies.

CURRENT CHALLENGES

In the current climate-related disclosure landscape, challenges are faced by:

- **Issuers** who generally have an obligation under existing law to disclose material risks, but lack a coherent framework to do so for climate-related risk,

- **Lenders, insurers, and investors** who need decision-useful climate-related risk information in order to make informed capital allocation and financial decisions, and

- **Regulators** who need to understand risks that may be building in the financial system

The Task Force aims to provide the solution:

a clear, efficient, and voluntary disclosure framework that improves the ease of both producing and using climate-related financial disclosures

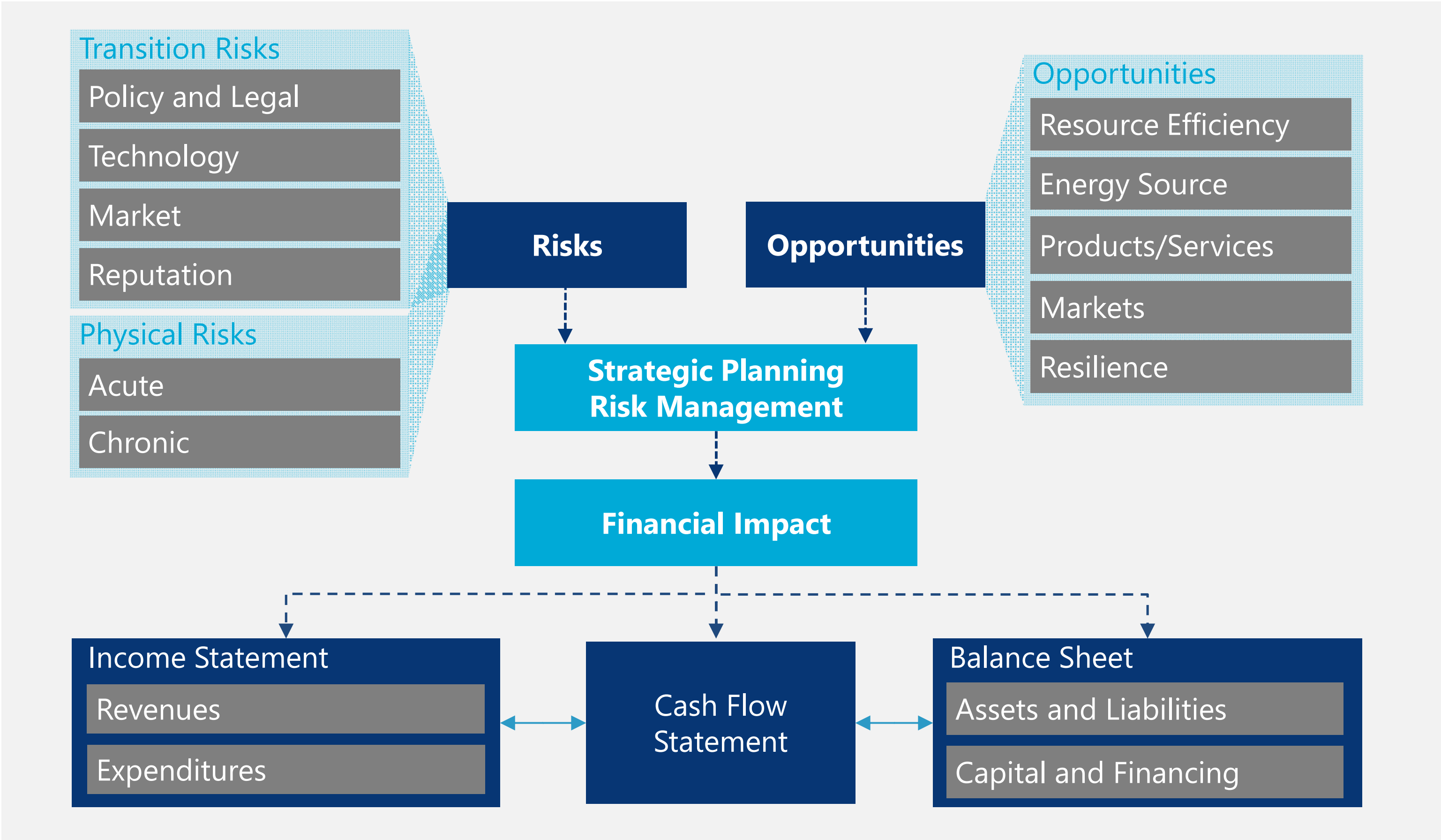
Climate-Related Risks and Opportunities

Type	Climate-Related Risks
Transition Risks	**Policy and Legal** – Increased pricing of GHG emissions – Enhanced emissions-reporting obligations – Mandates on and regulation of existing products and services – Exposure to litigation
Transition Risks	**Technology** – Substitution of existing products and services with lower emissions options – Unsuccessful investment in new technologies – Costs to transition to lower emissions technology
Transition Risks	**Markets** – Changing customer behavior – Uncertainty in market signals – Increased cost of raw materials
Transition Risks	**Reputation** – Shifts in consumer preferences – Stigmatization of sector – Increased stakeholder concern or negative stakeholder feedback
Physical Risks	**Acute** – Increased severity of extreme weather events such as cyclones and floods
Physical Risks	**Chronic** – Changes in precipitation patterns and extreme variability in weather patterns – Rising mean temperatures – Rising sea levels

Type	Climate-Related Opportunities
Resource Efficiency	– Use of more efficient modes of transport – Use of more efficient production and distribution processes – Use of recycling – Move to more efficient buildings – Reduced water usage and consumption
Energy Source	– Use of lower-emission sources of energy – Use of supportive policy incentives – Use of new technologies – Participation in carbon market – Shift towards decentralized energy generation
Products and Services	– Develop and/or expand low emission goods and services – Development of climate adaptation and insurance risk solutions – Development of new products or services through R&D and innovation – Ability to diversify business activities – Shift in consumer preferences
Markets	– Access to new markets – Use of public-sector incentives – Access to new assets and locations needing insurance coverage
Resilience	– Participation in renewable energy programs and adoption of energy-efficiency measures – Resource substitutes/diversification

Evaluating Financial Impact

Climate-related risks and opportunities can impact an organization's financial performance.



Development of Recommendations

In developing its recommendations, the Task Force:

- Considered the **challenges for preparers** of disclosures as well as the **benefits** of such disclosures to investors, lenders, and insurance underwriters
- Engaged in **significant outreach and consultation** with users and preparers of disclosures and other stakeholders, including two public consultations, individual discussions and focus groups with industry, webinars, and outreach events in multiple countries
- Drew from existing climate-related disclosure regimes and sought to develop a decision-useful framework to **align and supplement existing disclosure frameworks**
- Created **guidance** for all sectors and supplemental guidance for specific sectors

The Task Force expects that **reporting of climate-related information will evolve** over time as organizations, investors, and others contribute to the quality and consistency of the information disclosed.

Public Consultation and Feedback

The Task Force's report was published on December 14, 2016 for a 60-day **public consultation**.

- The Task Force received over **300 responses** to its online questionnaire, as well as feedback through comment letters and discussions with stakeholders. Feedback was received from respondents in 30 countries.
- Overall, **commenters were generally supportive** of the Task Force's recommendations; however, several provided specific and constructive feedback.
- Key themes from this feedback are included below. The Task Force addressed these themes in the final version of the report.

Materiality and Location of Disclosures
Clarifying which recommended disclosures **depend on materiality assessment** and providing flexibility for organizations to provide some or all disclosures in reports other than financial filings.

Scenario Analysis
Improving ease of implementation, and comparability of **scenario analysis** by specifying standard scenario(s) and providing additional guidance and tools.

Metrics for Financial Sector
Encouraging **further development and standardization of metrics for the financial sector**.

Metrics for Non-Financial Sectors
Improving comparability and consistency of the **illustrative metrics** for non-financial sectors, clarifying the links to financial impact and climate-related risks and opportunities.

Implementation
Providing **disclosure examples** to support preparers in developing relevant climate-related disclosures.

DISCLOSURE RECOMMENDATIONS

The Task Force developed **four widely-adoptable recommendations** on climate-related financial disclosures that are applicable to organizations across sectors and jurisdictions.

The recommendations are structured around four thematic areas that represent core elements of how organizations operate:

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Disclosure Recommendations *(continued)*

The four recommendations are supported by **specific disclosures** organizations can include in financial filings to provide decision-useful information about their climate-related risks and opportunities.

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Supplemental Guidance

In addition to guidance for all sectors, the Task Force developed **supplemental guidance** for financial and non-financial organizations to assist those organizations in implementing the recommended disclosures.

Financial Industries

- Banks
- Insurance Companies
- Asset Managers
- Asset Owners

Non-Financial Groups

- Energy
- Transportation
- Materials and Buildings
- Agriculture, Food, and Forest Products

In the supplemental guidance, the Task Force also provides **illustrative metrics** for select non-financial industries to help organizations consider the types of metrics best suited for their activities and operations.

Scenario Analysis

The Task Force encourages forward-looking information through scenario analysis—a useful tool for enhancing resiliency and flexibility of strategic plans.

Such information is important for investors and other stakeholders in understanding how vulnerable individual organizations are to climate-related risks and how such vulnerabilities are or would be addressed.

Reasons to Use Scenario Analysis for Climate Change

1	Scenario analysis can help organizations consider issues, like climate change, that have the following characteristics: – Possible outcomes that are highly uncertain (e.g., the **physical** response of the climate and ecosystems to higher levels of GHG emissions in the atmosphere) – Outcomes that will play out over the medium to longer term (e.g., timing, distribution, and mechanisms of the **transition** to a lower-carbon economy) – Potential disruptive effects that, due to uncertainty and complexity, are substantial
2	Scenario analysis can enhance organizations' strategic conversations about the future by considering, in a more structured manner, what may unfold that is different from business-as-usual. Importantly, it broadens decision makers' thinking across a range of plausible scenarios, including scenarios where climate-related impacts can be significant.
3	Scenario analysis can help organizations frame and assess the potential range of plausible business, strategic, and financial impacts from climate change and the associated management actions that may need to be considered in strategic and financial plans. This may lead to more robust strategies under a wider range of uncertain future conditions.

Location of Disclosure

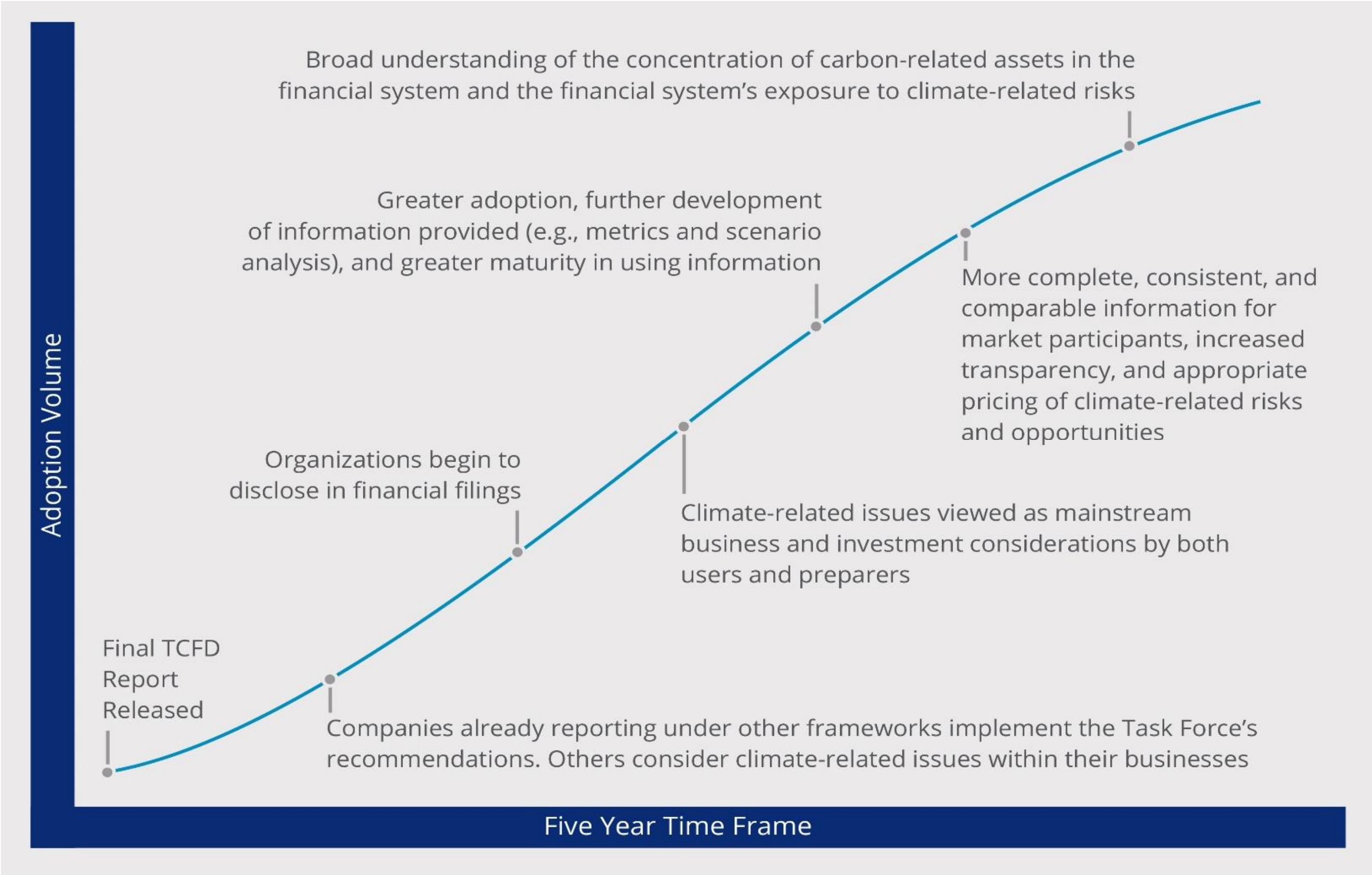
The Task Force believes Organizations should provide such disclosures in their mainstream (i.e., public) financial filings.

- The disclosures related to the **Strategy** and **Metrics and Targets** recommendations involve an assessment of materiality.
- The Task Force recommends disclosures related to **Governance** and **Risk Management** are provided in annual financial filings, independent of an assessment of materiality.
- Organizations in the four **non-financial groups that have more than one billion U.S. dollar equivalent in annual revenue** should disclose Strategy and Metrics and Targets in other reports when the information is not deemed material and not included in financial filings.

If certain elements of the recommendations are incompatible with national disclosure requirements for financial filings, the Task Force encourages organizations to disclose those elements in other official company reports that are issued at least annually, widely distributed and available to investors and others, and subject to internal governance processes that are the same or substantially similar to those used for financial reporting.

IMPLEMENTATION PATH

The TCFD expects that **reporting of climate-related risks and opportunities will evolve** over time as organizations, investors, and others contribute to the quality and consistency of the information disclosed.

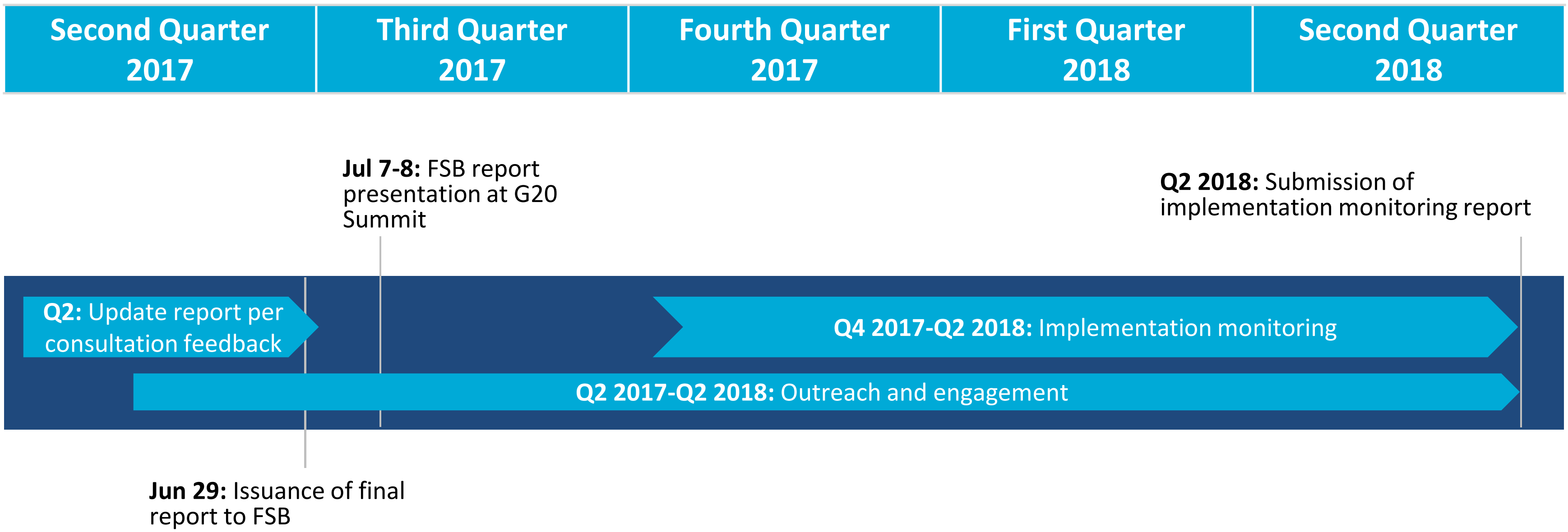


NEXT STEPS

The Task Force is in the process of evaluating feedback and potential changes to the report, which is scheduled to be finalized and released on June 29, 2017.

The FSB has extended the Task Force through September 2018 to support and monitor adoption.

Timeline



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Founder and President
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BHP Billiton

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S&P Global Ratings

Jon Williams
Partner, Sustainability and Climate Change
PwC

Special Adviser

Russell Picot
Chair, Audit and Risk Committee, LifeSight
Board Chair, HSBC Bank (UK) Pension Scheme Trustee
Former Group Chief Accounting Officer
HSBC

Questions?

Meet the consultants

Paul Herbert – WTW

Steve Budge – Mercer

Laura Myers – LCP

Meet the consultants

What is the role of ESG/sustainable investments in DC design, particularly in the context of the dominance of passive investment? Can schemes rely on engagement alone?

Meet the consultants

As DB assets decline and DC scheme assets grow, what are the catalysts in regulation and industry leadership that will broaden the range of assets that are offered and accepted by DC schemes?

Meet the consultants

What is the role challenger asset manager brands can play in the DC market? How do we get consultants to meet and rate us?

Meet the consultants

Do you think the hype around Master trusts is justified? What arguments can be made to highlight the benefits of retaining an employer lead proposition?

Meet the consultants

Are DGFs delivering?


BREAK
TIME
makeameme.org


YEAH YOU!!!!
GET BACK FROM BREAK!!!

Meet the Master Trusts

Paul Todd – NEST

Roy Porter – TPP

Please outline what you think the investment strategy in Master Trusts look like, what is the role of external managers?

Meet the Master Trusts

What are your predictions for how the DC post retirement market will develop? Where are the gaps?

Meet the Master Trusts

Is the price cap precluding higher returning investment strategies from the menu of DC investors? What has been the impact of the charge cap on DC investment innovation?

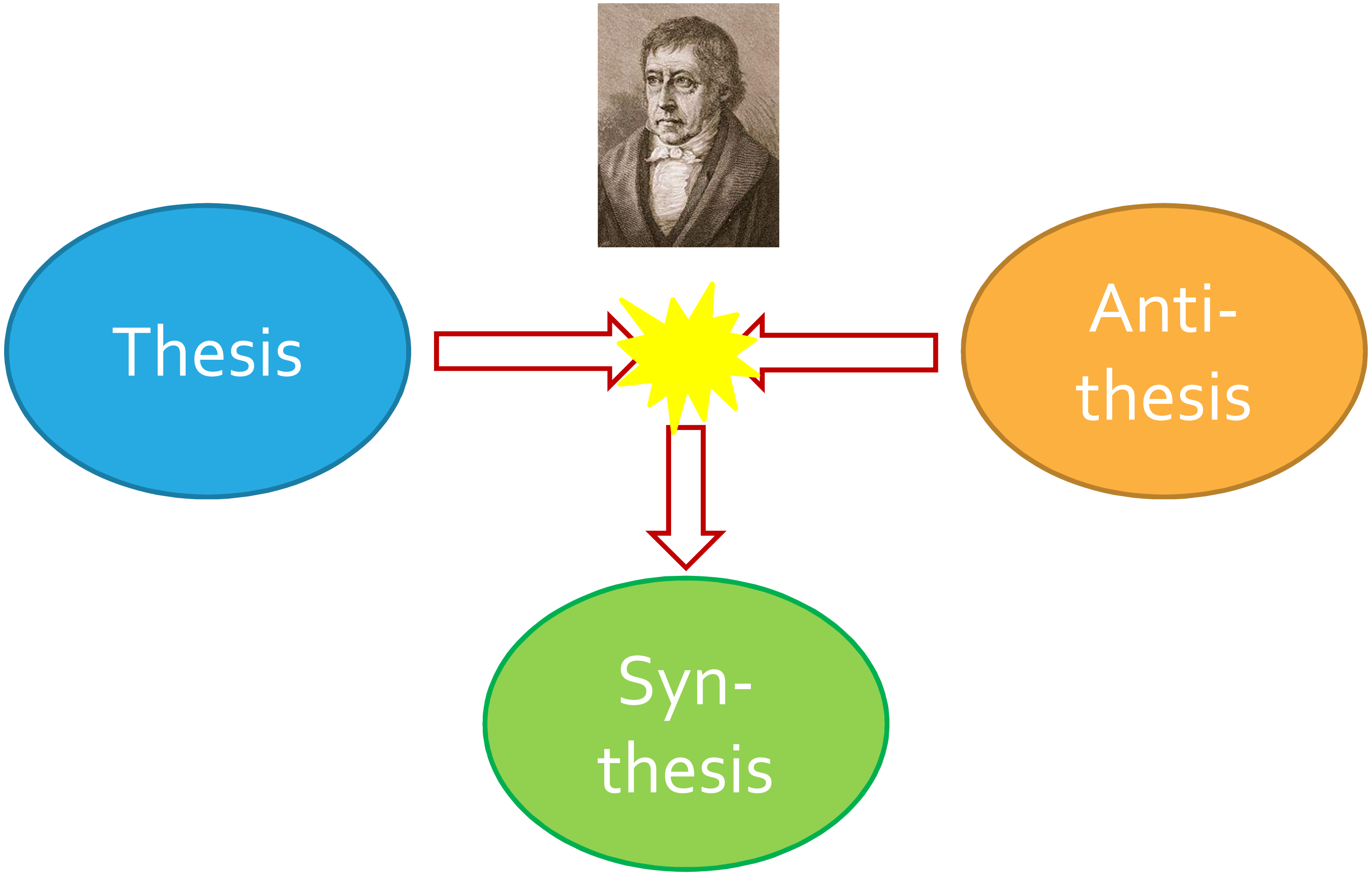
How are you seeking to manage transaction costs including broker commissions?

What constitutes "value for money"?

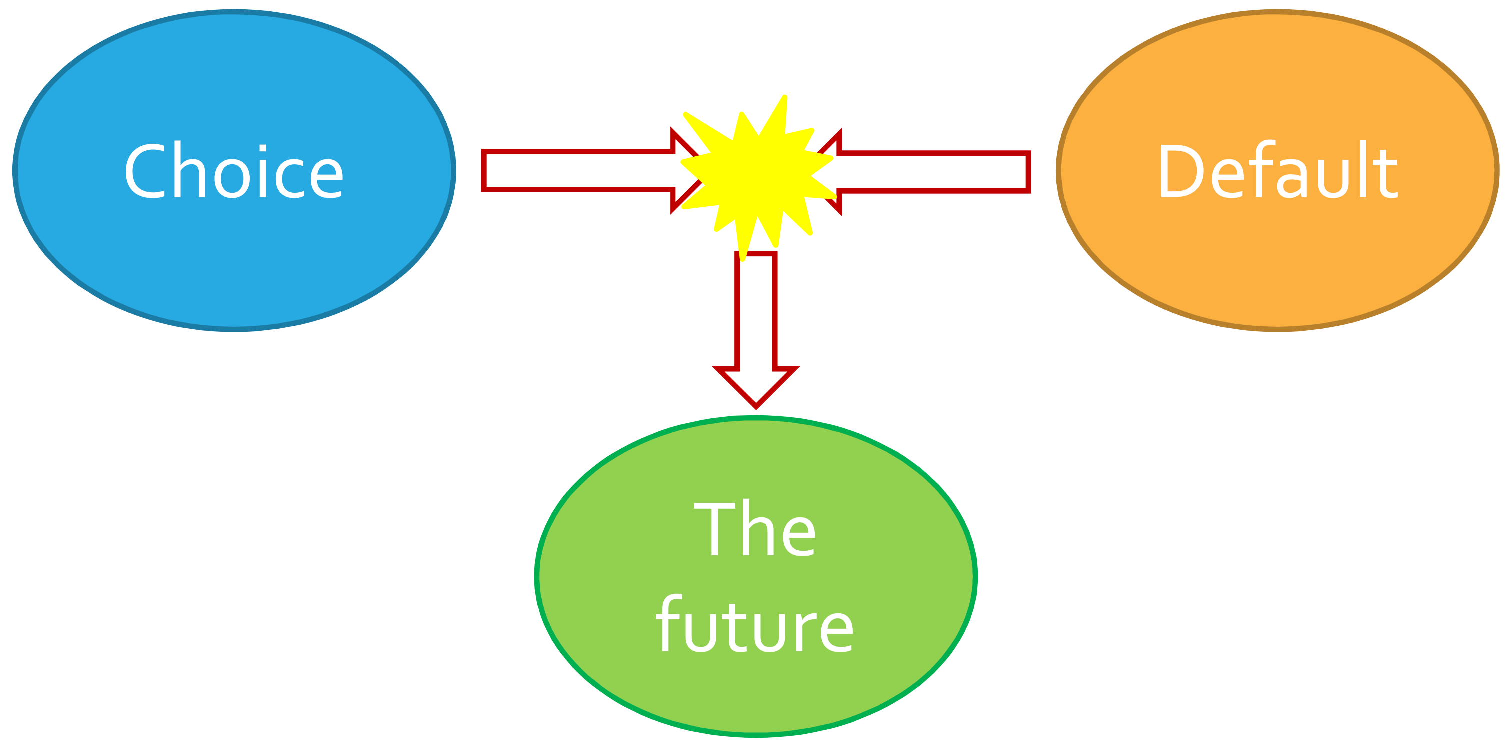
My final thoughts

Or the Hegelian dialectic of investment management

The Hegelian dialectic



Dialectic of DC design



Where next for investment design in DC?

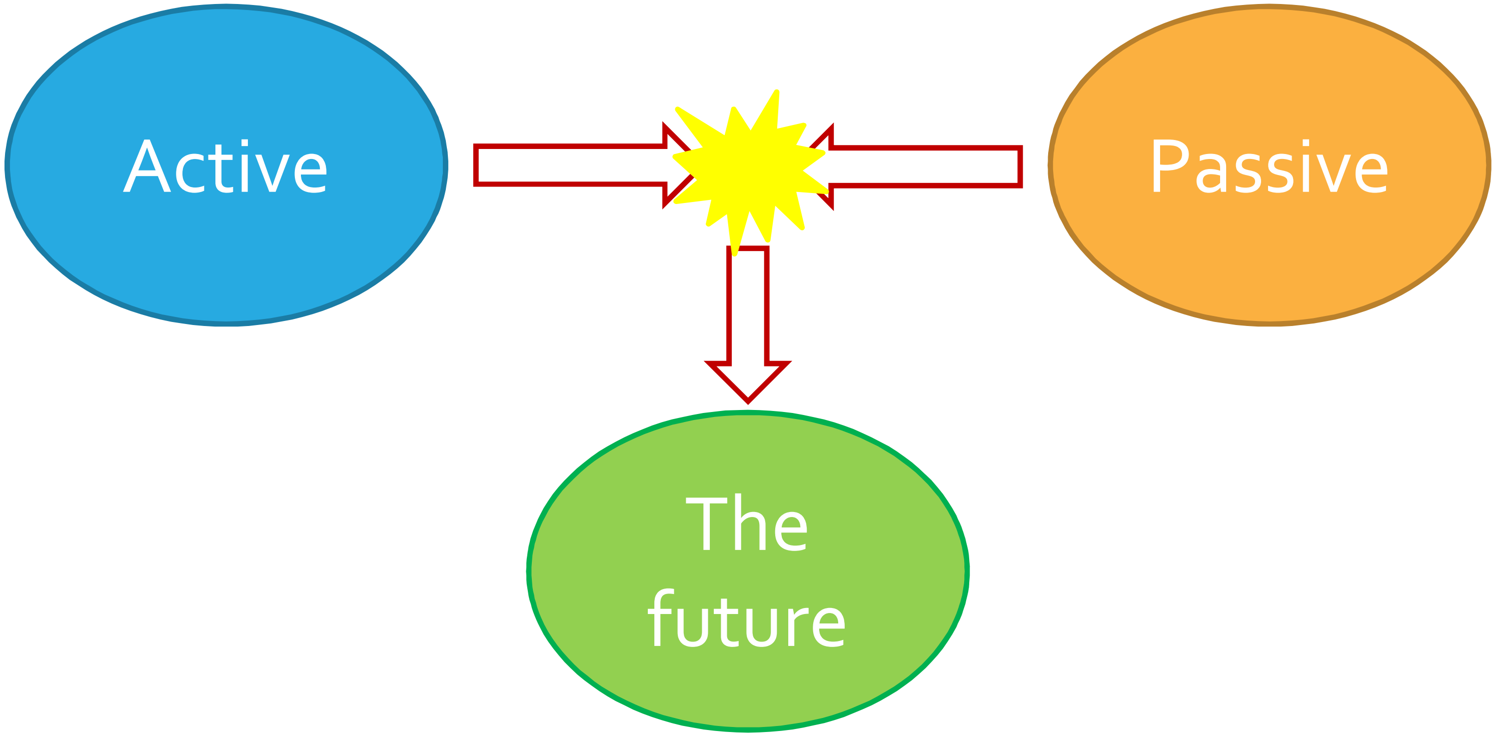
You cant retire by default, but defaults have all the focus.

The industry will discover how to engage people and build things they can engage with.

But the key will be risk pooling, not investment:

- De-risking outcomes doesn’t mean de-risking assets
- Specific risk is unlinked to returns
- Inheritance is a huge issue for a small number of people
- Systematic risks have to be faced (Climate Change)

Dialectic of investment management



Where next for investment management in DC?

Low cost consolidation is the future

Low cost has meant passive (market cap)

Passive is losing its lustre, but this will not bring back the good old days.

New indices will get the money:

- Factor investing
- ESG

This is not quite passive, not quite active.

Where next for active management in DC?

What can asset managers offer product providers?

1. IP in the form of custom indices
2. Implementation and transitions
3. Asset allocation service and models
4. Real/illiquid assets
5. Discretionary stock picking, but within risk limits

We're not here yet

Ten years before pension assets are consolidated – you can convert a DB business into a DC one and grow for a while.

To serve the investment needs of the future:

- Get more transparent on your process
- Be less precious about your margin, fees, and your PM's pay
- Start to separate IP from implementation

Wrap up

What would you pay for this conference?

Please donate this amount to charity

Grenfell Tower and cladding evacuations are leaving 100s or 1,000s of families in crisis.

I support shelter,

it would be great if you could too

Shelter

Thanks again to Northern Trust

Drinks and nibbles from 6pm at the Gun