

Climate change policy advocacy in master trusts

Our views on best practice

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At LCP, we believe some of the biggest risks we face today, including climate change, are systemic in nature. Investors should use their influence to undertake systemic stewardship to not only protect individual holdings within their investment portfolios but also help protect the economy and the stability of financial markets.

All participants in the investment chain have a role to play in addressing systemic risks via systemic stewardship, including asset owners, asset managers, advisers and insurers.

This note sets out our views on one specific area of systemic stewardship: best practices for UK policy advocacy on climate change by commercial master trusts.

Scope of this paper

Systemic stewardship can consist of a range of different activities such as policy advocacy, engagement with industry bodies and collaborative activity. It can also relate to many different systemic risks. However, we have focussed specifically on master trusts and UK policy advocacy in this note, given the important and growing role master trusts play in the UK defined contribution (DC) market and the potential influence that these asset owners have. We have focussed specifically on climate change, given this is one of the greatest systemic and existential risks that our clients face.

We recognise that master trusts are managed and organised in different ways depending on the nature of business of the underlying pension provider. For this reason, references to a master trust cover both the non-executive master trust board and the executive team(s) for the master trust, unless specifically stated.

We favour a pragmatic approach

We recognise that master trusts' policies and frameworks in this area are likely to extend beyond UK climate policy. For example, they may encompass engagement with governments in other jurisdictions and other areas of government policy. In addition, some of the disclosures we outline below may be integrated into wider stewardship or sustainability reporting, rather than standalone documents. For the avoidance of doubt, such approaches are compatible with our best practice principles. We also note that master trusts take different approaches – some manage engagement activities themselves, others rely on their parent company or third parties. We believe all are valid approaches if supported by a strong governance framework that ensures active oversight of and engagement with any third parties used for this activity.

We also recognise that master trusts may undertake some climate engagement in collaboration with others, for example as members of industry groups. Such collaboration may help them meet our best practice principles, although we would expect to see evidence of substantive contributions to the collaborations.

Climate-related systemic stewardship activities

We have set out below our views on best practice principles in relation to UK policy advocacy on climate change for master trusts. We expect to evolve our thinking over time and make updates accordingly.

Clear policy views:

- Master trusts should state their views on climate policy clearly and publicly. These views should:
 - recognise that climate change is a systemic risk;
 - recognise the materiality of climate change to member outcomes;
 - be aligned with the latest climate science (in particular, with the goal of achieving net zero global greenhouse gas emissions by 2050);
 - support the importance of a just and nature-positive transition;

- encourage governments to set clear, credible, consistent net zero plans, so investors can invest in the net zero transition with confidence;
 - highlight where policy ambition and implementation falls short of what is needed to meet governments' climate commitments (for example under the UK Climate Change Act 2008 and the Paris Agreement); and
 - recognise the need for investment in climate adaptation and resilience as well as the net zero transition.
- If policy views are published by the parent company it should be clearly stated that the master trust board is aligned with these views.

Strategy for climate policy engagement:

- Master trusts should have a climate policy engagement strategy detailing:
 - their approach to undertaking climate policy engagement;
 - any internal communication strategies;
 - key avenues of influence;
 - who carries out the engagement (eg internal or external asset managers);
 - desired outcomes of engagement; and
 - key principles and codes of conduct that underlie the framework.
- The engagement strategy should involve engaging on real economy climate policies, not just policies specifically related to financial services regulation on climate change.
- Master trusts should disclose a summary of their approach to climate policy engagement.

Governance framework:

- Master trusts should have a governance framework in place to implement their climate policy engagement strategy.

- Clear oversight mechanisms should exist, with master trust board or executive management level ownership of the process.
- Oversight should ensure that direct and indirect engagement activity is in line with the master trust's stated climate policy views and commitments.
- If policy work is delegated, the framework should include a mechanism for this work to be fed back to, and discussed with, the Trustee.
- This governance framework should be documented, and the document should be made publicly available.

Resourcing:

Master trusts should be adequately resourced to deliver their climate policy engagement strategy, in terms of number, expertise and seniority of people, either in house or through the use of third parties.

Methods of engagement:

Climate policy engagement strategies should cover various avenues such as:

- thought pieces;
- sponsorship of research;
- public statements;
- participation in panel discussions;
- responses to consultations (which should be made publicly available);
- bilateral and roundtable conversations with policymakers and regulators; and
- collaborative activity with other investors, NGOs and/or academics.

Parties to engage with:

Master trusts should engage with an appropriate range of stakeholders such as:

- government ministers and civil servants;
- select committees;

- Debt Management Office; and
- regulators and central banks.

Disclosure of activity:

- In addition to publicly disclosing their climate policy views, approach and governance frameworks, master trusts should:
 - maintain an internal record of all their policy interactions;
 - publicly disclose their main engagement activity and any outcomes as far as they are able to¹.
- Any activity that cannot be publicly disclosed and so remains private should still be consistent with publicly stated policy positions.

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¹We note the confidential nature of some policy engagement activities and that it is unlikely to be possible to isolate the impact of the master trust's engagement from other factors.

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