



Net Zero

Investment Consultants Initiative 2022

Firm Profile:

Barnett Waddingham

Barnett Waddingham is a leading independent UK professional services consultancy working with clients across investment, pensions, risk and insurance. We work in partnership with our clients to clarify and solve their complexities, in the right way. Our primary purpose is to provide clients with clear and accessible advice and services, through a personal, quality, tailored approach. We seek to build stable and long-term partnerships with clients, supported by our low staff turnover thanks to our ongoing investment in our experts and our particular culture.

Services

We offer a full range of professional services to pension schemes, charities, foundations, corporates, insurance companies and friendly societies. These services include advising investors on setting investment objectives and policies, designing investment strategies, selection and monitoring of fund managers, oversight and evaluation of fiduciary managers, establishing effective governance frameworks and considering sustainability and climate change. All our work is advisory as we do not manage money nor manage or provide our own funds. We are striving to embed the consideration of sustainability and climate change in the advice we give our clients and view this as an important goal for the coming years.

We also provide a broad range of actuarial services to pension schemes, insurance companies and friendly societies. We provide full administration services to pension schemes as well as specialist pensions management and governance services. Our risk advisory and management decision analytics experts support clients across the business. We are a leader in the provision of self-invested personal pensions (SIPPs), through BW SIPP LLP, small self-administered pension schemes (SSASs), specialist executive pension plans (EPPs) and other retirement arrangements.

Our Sustainable Investment (SI) team ensures our investment consulting practice has the knowledge and ability to advise clients on all investment matters related to sustainability, like climate change, stewardship and advising on net zero. Our investment consultancy pension client base comprises (at the end of May 2022):

477 UK pension schemes, £85bn assets under advice, with clients ranging in size from £1m to multi-billions of pounds.

In addition to pension funds, we also advise charities and foundations on their investment strategies and companies on their invested assets. This provides us with perspective across a range of asset owners, beyond only pension schemes.

Commitment 1. Integrate advice on net zero alignment into all our investment consulting services as soon as practically possible and within two years of making this commitment

We do not have a 'house view' in relation to any of our advice. As with any of our advice, when discussing climate change and net zero alignment, our advice will be driven by our clients' views.

We recognise that clients' understanding of the complexities of net zero can vary enormously. BW's Sustainable Investor Insight research in late 2021 asked 91 investors about net zero and found 36% had no clear understanding of what net zero means and the impact it will have.¹ In determining our advice we use a framework based around knowing your ABCs (Aims, Beliefs and Constraints). Based on the success of this approach, in 2022 we integrated a sustainability section, including specific reference to climate change and net zero targets. Our focus here, with maintaining the ABC terminology, is on three elements:

- 1. Aim to do no harm** – what steps are being taken to measure and reduce emissions, what transition pathways are suitable and how are the assets aligned with these, what engagement is being undertaken and how is its success being measured?
- 2. Benefit from the opportunity** – what positive contribution to the transition to a low carbon economy are the assets making?
- 3. Control the controllable** – ensure the governance structure recognises the changing landscape that we live in from an investment opportunity and product perspective, as well as the regulatory landscape.

This approach has been used for a number of our existing clients, and has allowed us to create strategies and portfolios that are aligned to our clients' sustainability objectives.

1. www.barnett-waddingham.co.uk/comment-insight/research/sustainable-investor-insights-survey/

We are aiming to roll out the use of this framework for the rest of our clients over the coming months.

Furthermore, for clients wishing to pursue sustainable/net zero investments we assist clients by helping them best align with their objectives and have engaged with fund managers with regards to creating products and services to align to clients' needs. Our success in this area can be measured in the fact that clients of ours have been seed investors and early adopters of climate management solutions, such as Paris Aligned funds, with leading UK and global investment houses.

Whilst the work of engaging with clients on net zero continues we are currently developing software which builds on clients' TCFD requirements to help them answer the question 'how do I compare with my peers?' and 'am I positioned where I think I am?' by using the answer to these as an opening point for discussion we will be able to use the ABC agenda above in a more responsive environment to generate proactive discussions around net zero.

Commitment 2. Work with our institutional asset owner clients to identify the investment risks from climate change, highlight the importance of net zero alignment and, where applicable, support our clients in developing policies that align their portfolios to a net zero pathway

We have worked with clients to assist them in developing an effective system of governance including sustainability and climate policies. These policies set out a client's "ABCs", as well as recognising their risks and opportunities with regards to sustainability and climate matters. Furthermore, we have also helped clients develop stewardship policies that include stewardship activities around climate change.

Specific to net zero policies, we have assisted a number of clients in developing policies. We do not use a single framework or initiatives, as we believe that different frameworks and initiatives may suit different clients based on their unique characteristics. When setting policies, we consider the client's wider objectives, their governance budgets and what is practical and feasible for the client. Planned software development will enable net zero

and climate risk management in general to be discussed and delivered for clients of all sizes and who access their investments both directly and via pooled funds.

Commitment 3. Support efforts to decarbonize the global economy by helping our clients prioritize real economy emissions reductions, reflecting the target of 50% global emissions reduction by 2030 or sooner using existing decarbonization methodologies

Further to our answers to commitments 1 and 2, we are working with an increasing number of clients to develop net zero policies which, in turn, target zero emissions by 2050 (or sooner) and a 50% reduction by 2030 (as per the methodology of the main initiatives). We have now collated the data needed to allow clients to track their progress against their objectives.

We do not have house views when recommending solutions to clients. Instead, our approach is to recommend the approach most suited to their needs. This remains the case when consulting on net zero. By following this approach our commitment to targeting the reduction in emissions and ability to provide clients with information on the most appropriate decarbonisation methodologies is done with the clients' aims, beliefs and constraints in mind. Furthermore, with the passage of time, these same criteria act as a backstop for assessing the ongoing suitability of any methodology adopted.

Commitment 4. Set science-based emissions reduction targets across all our direct operational emissions, Scope 1 and 2, in line with 1.5°C emissions scenarios

As a firm, we measure and offset our Scope 1 and 2 emissions, with a target to be net zero including Scope 3 emissions by 2025. We already measure and offset our commuting emissions, a portion of our Scope 3 emissions. We are doing the right thing and reducing our carbon footprint and then using high quality, nature-based offsets to achieve neutrality, planting willow trees in the UK. We are also promoting and underlining the importance of sustainability and climate to our stakeholders (our clients, managers we work with, our suppliers, etc).

Commitment 5. Assess and monitor asset managers on their climate investment beliefs, competencies and ability to deliver on net zero commitments, both in their investment decisions and stewardship, and reflect this in any rating or recommendation

We assess and monitor managers' climate beliefs, competencies, activities and stewardship to feed into our manager ratings as well as ongoing monitoring of clients' portfolios. We consider the quantity and quality of sustainable investment research of which we believe the manager is capable at firm level and also at fund level, as well as the extent to which they use their voting rights and engagement opportunities to influence companies' business activities. This provides a sustainable investment rating, along with sub-ratings for each of the three elements (covering sustainable investment research, sustainable investment integration and stewardship) so that investors have full transparency on the manager's performance.

We also assign funds a Climate Risk and Climate Opportunity Score to show an investment's "climate risk impact" on expected return and a fund's ability (in terms of the assets it may invest in) to take advantage of opportunities that may arise from climate change. We research manager and master trust provider net zero commitments to provide a view to our clients. Building on the discussions we have on 'Benefit from the opportunity' we also recognise the importance of ensuring we are positioned to help clients in this area. To do this we have met with over 100 managers offering sustainable funds, including those relating to the energy transition.

Commitment 6. Where we advise clients on their policies, support clients to develop policies that align with net zero commitments where applicable

Case Study: Net zero support

We have been supporting one of our clients as they develop a plan that will allow them to implement their net zero ambition. While their ambition is clear, they have also wanted to ensure that their proposed approach is evidence-based and sufficiently robust to meet their governance requirements. We have been able to support the development of their proposals by providing access to our in-depth research, critical challenge on their proposals and insight into industry best practice and thought leadership. We have also separately supported the trustees with TCFD training and a bespoke review of their TCFD reporting.

Commitment 7. For investment mandates where we have full discretion as part of our fiduciary services, align with the Net Zero Asset Managers initiative

We do not undertake discretionary services.





Commitment 8. Where suitable net zero methodologies do not exist, work collaboratively for the benefit of our clients to address these challenges, seeking harmonised methodologies, including through the Paris Aligned Investment Initiative, Net Zero Asset Owner Alliance and Science Based Targets Initiative

We provided feedback to the Glasgow Financial Alliance for Net Zero (GFANZ) working group on portfolio alignment as well as input through the UK's Investment Consultant's Sustainability Working Group (ICSWG). We also plan to become members of the Institutional Investors Group on Climate Change.

We are also members (as well as award winners) of Pensions for Purpose. Our regular participation at their Paris Aligned Investment forums helps ensure we remain at the forefront of industry developments in this area, enabling us to introduce clients to new developments at an early stage.

Commitment 9. Engage with regulators and policymakers to facilitate the transition to net zero carbon emissions, addressing any barriers to our clients adopting and achieving their net zero targets

We are engaging with regulators and policymakers, and participate in consultations issued by regulatory bodies, helping both to maintain awareness of emerging risks

and help shape the way that our clients respond, and seek to influence emerging policy and regulation to support sustainable investment. We do this through one-to-one discussions, participation in roundtables, and responding to consultations both as BW and also as part of collaborative groups like the ICSWG and the Institute and Faculty of Actuaries (IFoA).

In 2021 we responded as part of ICSWG to DWP's climate change governance and disclosure consultations, TPR's climate guidance consultation, Law Commission 14th Programme of Law Reform, PLSA Responsible Investment Quality Mark (RIQM) and CFA Institute standards. BW led on drafting some portions of the submissions and collaborated in reviewing all consultation responses.

Through our interactions with regulators and policy makers we continue to highlight the need for all investors, not just the larger ones, to be able to achieve net zero.



Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

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