



Master Trust

TCFD reporting





Introduction

Since the introduction of climate change reporting requirements for certain pension schemes in 2021, commercial Defined Contribution (DC) Master Trusts have arguably led the way in producing detailed reporting on their management of climate risks and opportunities.

Whether that is driven by the marketing capabilities of such a document, greater interest from younger members, or the longer time horizons of DC Master Trusts in comparison to Defined Benefit (DB) pension schemes (and therefore arguably greater exposure to climate risks), one can only speculate.

However, the reality is Master Trusts are experiencing many of the same difficulties that private sector schemes are in writing such reports, in particular:

- **How can we engage members?**
- **How can we effectively show the progress we are making?**
- **How can we effectively communicate our plans for the future?**

Master Trusts are also having to contend with producing Task Force on Climate-related Financial Disclosures (TCFD) reports for a variety of stakeholders; members, regulators and pressure groups.

In our latest review of TCFD reporting, we provide insights into approaches taken by commercial Master Trust providers, highlighting best practice when addressing multiple stakeholders and considering ways to improve member engagement.

Our review covers 16 providers, considering information that is publicly available only. We have reflected on DC sections only where possible.

All providers reviewed are in their second year of statutory climate reporting. Some providers have produced more than two reports, having opted to report voluntarily prior to the introduction of mandatory reporting from 1 October 2021.



Communication

Ease of use

Signposting

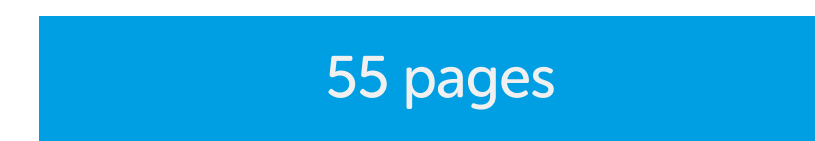


have an index page

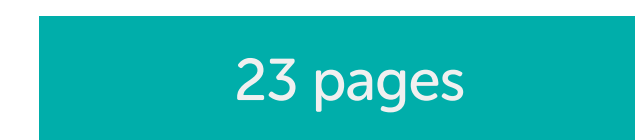
Only six use hyperlinks in the index.
Consider how easy it is for users to navigate through the report.

Length

The average length of all Master Trust TCFD reports:



The shortest:



The longest:



The Pensions Regulator (TPR) recently reported the average TCFD report for all pension schemes as 38 pages. The above implies Master Trust TCFD reports are typically longer. Master Trusts should question if they are providing excessive detail.

Terminology



reports have a glossary

Three reports have separate member summaries.
All but one report has a chair foreword and/or an executive summary or introduction to give context to the report.

KEY TAKEAWAY

A report that is easier to read can help convey your message and demonstrate credibility

Scene setting

For this section of the review we looked at summary information provided

Scope



A further two reports cover the fund range considered.

In total, only nine reports set out some details on the nature of the scheme, including asset size and/or membership statistics within the introductory pages.

Almost all providers cover the regulations they are adhering to.

However, an explanation of the nature of the scheme and the investment ranges considered is useful for all readers.

Progress



Despite all reports reviewed being second year reports, only nine of 16 have set out progress against targets set in the introduction.

One report references a change of target over the year within the introduction.

Consider providing greater information on progress against specific targets set to show the positive work the trustee board is undertaking. In addition, highlight key actions taken over the year to help meet the target set.



Accessibility

Commercial screen reader technology

Whilst all reports could be read aloud (either in full or in part) using screen reading technology, every report had at least one issue with the output from a screen reader, including:

- tables read out as a series of headings and numbers;
- graphs read out as a series of labels only; and
- a lack of gaps in headings and main body of the text.

The Royal National Institute of Blind People (RNIB) provides top tips for accessible digital communication:

[Tops Tips for accessible digital information and communication](#)

Search engines

All reports reviewed were available online.

However **only six of the reviewed reports were accessible through the first link from a Google search.**

Common issues included:

- search engines providing links to the previous years' reporting; and
- search engines providing links to the providers webpage only.

The regulations state that, if published on the scheme's or employer's website, it should not include text which prevents the page from being indexed*.



Risk to

Members

Time horizons

Trustees should set out what they consider to be the relevant short, medium and long-term time horizons for the Scheme

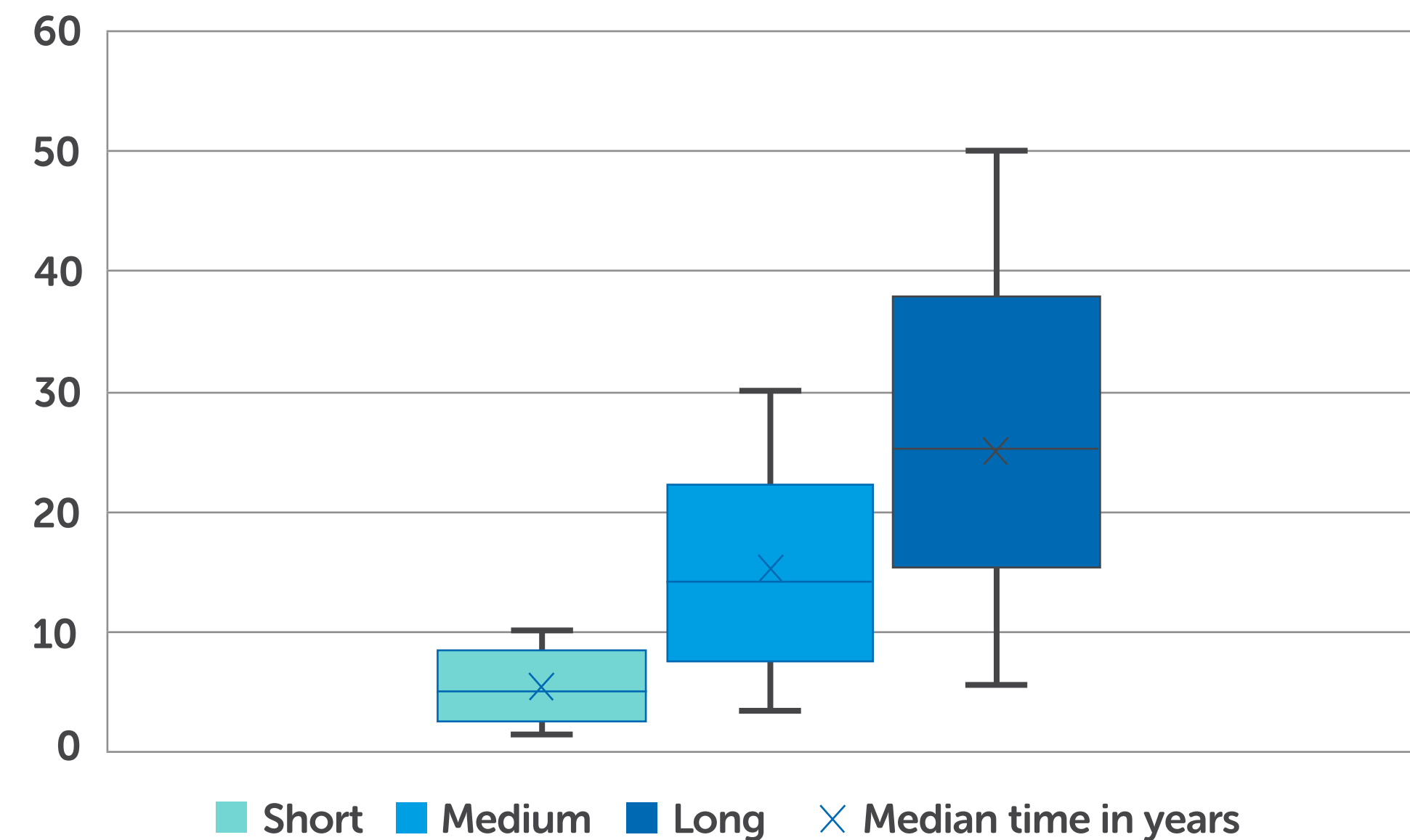
Master Trusts adopt a variety of different short, medium and long-term time horizons as shown in the box plot to the right.

We see the most variety in the long-term time horizon, with one provider considering a time horizon over 5 years and other considering a time horizon out to 50 years.

For DC arrangements, the Pensions Regulator noted in their most recent TCFD review that “time horizons should be sufficiently long to reflect the period members’ savings will be invested to and through retirement”.

Of the 16 TCFD reports we reviewed, only **seven explained how their choice of time horizons should be related to different membership profiles.**

Range of time horizons





Scenario analysis

Relevance to membership

The presentation of the output from scenario analysis varied from a qualitative explanation of conclusions through to detailed numerical analysis.

Best practice observed included:

- output that can be interpreted by members of different ages, e.g. one report showed output for a 25, 35, 45, 44 and 65 year old;
- where numerical output is shown, this is in an understandable format, e.g. impact on pot size; and
- clear and simple assumptions shown and a simple explanation of the limitations of scenario analysis.

Refreshing analysis

Regulations require scenario analysis to be undertaken every three years.

However, pension scheme trustees must review annually whether circumstances have changed, such that they should re-do scenario analysis before the end of the three years.

Noting all schemes are in their second year of statutory reporting, **10 out of 16 providers have updated their scenario analysis.**

Six of the 10 do not say why they have updated the analysis.

Reasons given for updates include changes to the investment strategy, updates to climate scenarios and improved data coverage for scenario analysis

KEY TAKEAWAY

For more complex aspects of the reporting, keep language clear and concise



Reported

metrics and targets



Metrics reported



Absolute emissions

- All providers have been able to provide scope 3 data to some degree.
- All reports disaggregated scope 3 emissions.
- Despite all schemes having produced at least two successive reports, **very few are showing progress of emissions year on year.**

Emissions intensity

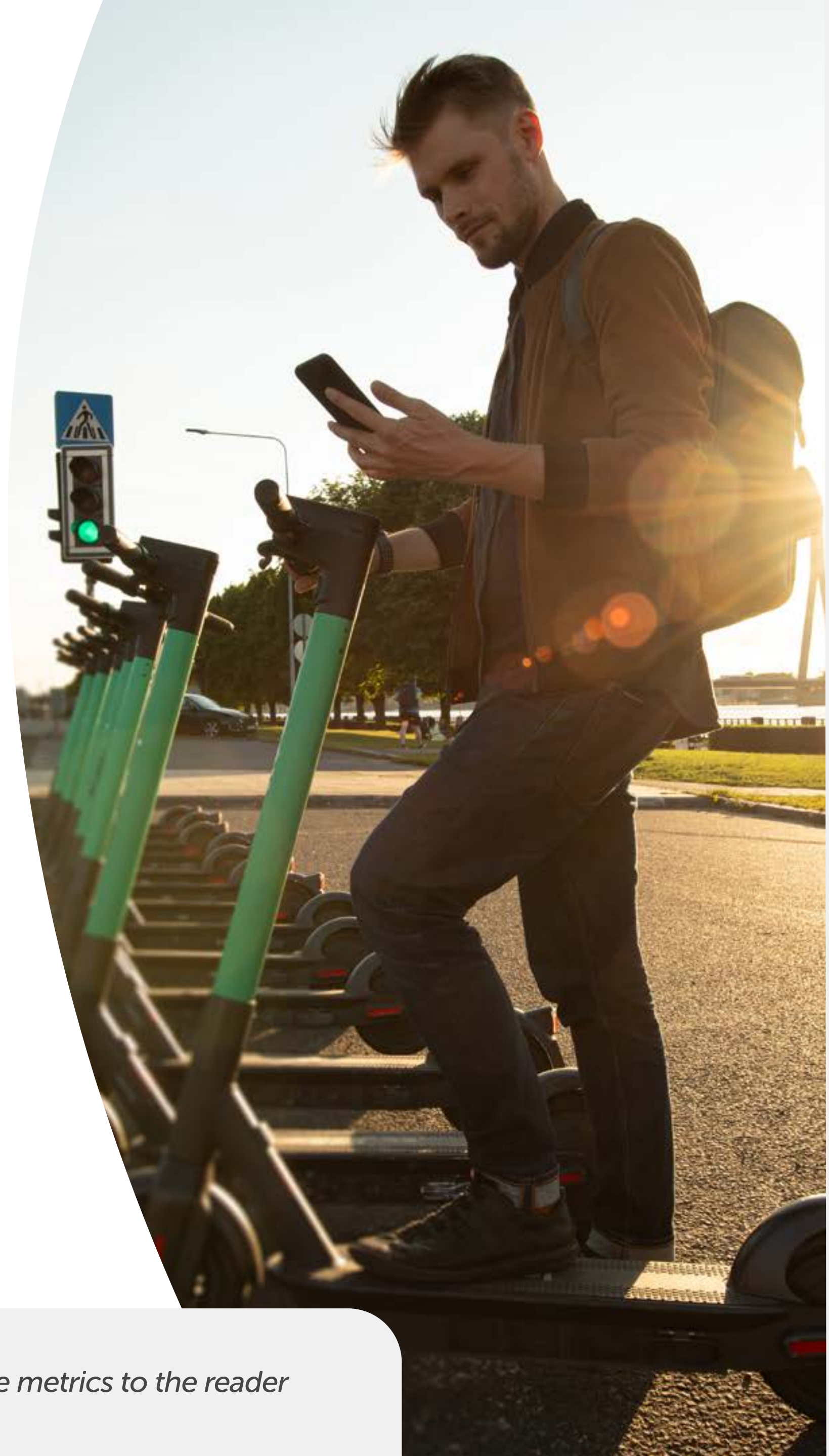
- All providers are reporting a carbon footprint measure.
- **15 out of 16 providers** classed carbon footprint as absolute emissions normalised by fund value. The sixteenth classed carbon footprint as absolute emissions normalised by enterprise value (EVIC).
- Three providers are also reporting an additional measure (WACI).

Non-emissions metric

- **11 of the providers** are reporting a data quality or data coverage metric.
- Definitions of data quality vary from simply the percentage of data available, to a breakdown of the percentage of data verified, reported, estimated or not reported.
- Other chosen metrics include the number of climate related engagements in a year and the capital allocated in climate solutions.

Portfolio alignment

- Seven reports have adopted the implied Temperature Rise (ITR) measure, whilst a further six have adopted the Science Based Targets Initiative (SBTi).
- Other approaches have been to include the percentage of the portfolio to pre-defined categories of alignment.
- One report has adopted the deviation from the International Energy Agency's Sustainable Development Scenario.



KEY TAKEAWAY

Consider showing progress year on year to show relevance of the metrics to the reader

Reporting targets and progress

All but two reports have a target focused on emissions reduction

For those targeting emissions reduction, there are differences in reporting progress. Some are using a baseline reporting year (typically 2019) whilst some are showing year on year progress. We believe a combined approach could be of most benefit to readers, with an explanation of changes year on year and actions to be taken going forward.

Of the two providers not targeting emissions reduction:

- One is looking to improve data coverage
- The other is looking to engage with a specific number of holdings on climate – this target has already been met but no reference to a change of target was made

Two providers have changed their target since the prior year. This can make sense if you have already met a specific target.

A few reports have multiple targets. Other than interim targets for emissions reduction goals, multiple targets can be confusing for readers trying to monitor progress.



Climate innovation



Climate opportunities

- All reports reference investment or consideration of investment in climate opportunities
- The degree to which investment opportunities relating to the climate transition varies:
 - One report references the cost of accessing climate opportunities as a barrier.
 - Opportunities referenced by others include: green bonds, social bonds and private market investments in renewable energy and solar.

Readers will be looking for the positive actions you are taking to make an impact and enhance returns. Consider this in your explanation of opportunities considered.





Key Takeaways

Key takeaways

In this review, we have provided insights into approaches to TCFD reporting taken by commercial Master Trust providers; highlighting best practice when addressing multiple stakeholders and considering ways to improve member engagement.

We propose:

- TCFD reporting should be easy to use – this includes clear language, scene setting and ease of navigation.
- Reports should be made relevant to members – this includes showing time horizons that are relatable.
- Show the positive steps you have made by documenting your progress – this should be on your targets, your emissions and the opportunities you are considering.



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