Guide for assessing climate competency of Investment Consultants – January 2021

This guide sets out five themes against which trustees should expect their Investment Consultants to demonstrate their climate competency. Examples of positive and best practice indicators are included against each theme to help judge competency. The indicators are deliberately stretching with the aim of raising investment consultants' standards and it should be acknowledged that some of these indicators will be aspirational.

As with assessing asset managers, trustees should ask their Investment Consultants for evidence of action to support their reported competencies. Trustees should test the depth of application and integration of these climate competencies in the services they receive from their Investment Consultants. This guide is not exhaustive.

This guide has been prepared by the Investment Consultants Sustainability Working Group (ICSWG), with helpful input from independent parties including ShareAction, The Pensions Regulator and the UN PRI. The ICSWG is a collaboration between 17 firms formed in 2020 taking action to support and accelerate sustainable investment initiatives in the UK.

The ICSWG members are:

Aon

Barnett Waddingham

bfinance

Buck

Cambridge Associates

Cardano

Hymans Robertson

ISIO

LCP

Mercer

MJ Hudson Allenbridge

Momentum

Redington

River and Mercantile

SEI

Willis Towers Watson

XPS Investment

COMPETENCY THEME	POSITIVE INDICATORS	BEST PRACTICE INDICATORS
1. Firmwide climate expertise and commitment	• Clear governance structure and responsibilities stated to ensure appropriate oversight of climate-related factors into client services • Assigned senior leader (partners / board member) responsibility for the oversight of climate-related issues • Firm-wide strategic response to manage climate-related risks and opportunities and steward an orderly transition which is publicly available (for example, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures) • Specialists with depth of climate expertise • UN PRI signatory • Signatory to the UK Stewardship Code 2020 (from mid-2021) • Conflicts policy which addresses potential conflicts related to advice on climate as a result of differences between the • investment consultant’s commercial interests and the trustees’ climate objectives, or business relationships between the investment consultants and the asset managers or trustees	• Performance assessment of the investment consulting firm’s consultants and senior leaders is aligned with helping clients achieve their climate-related objectives • Signatory of (or affiliated to) other climate related initiatives • Produce climate risk management thought pieces • Inclusion of climate-related issues in regular client communications • Demonstrate an awareness

2. Individual consultant climate expertise	• All investment consultant colleagues receive regular and appropriate climate-specific training by both internal and external experts • Seek to understand client needs and views on climate change, and where relevant educate clients on climate-related risks to their investments • Able to identify and assess climate-related risks and opportunities • A working understanding of how to apply and disclose against the recommendations of the Taskforce on Climate-related	• Demonstrable record of helping clients: - develop climate related beliefs and understanding of key issues - shape voting policy to include explicit guidance on climate-related voting, including policies on shareholder proposals, and influencing asset managers to accept these - develop climate-related targets (such as Paris alignment, decarbonisation and other targets) in line with recommendations of the Taskforce on Climate-related Financial Disclosures - develop climate-related policy frameworks - integrate climate-related considerations across all asset classes - shape their investment strategy, incorporating climate-related risks, pricing opportunities and climate-related impacts - with practical recommendations to reduce their climate-related risk exposure and/or develop strategies to steward an orderly transition to a net zero and resilient economy - with guidance on climate-related reporting - fully integrate climate considerations into manager selection and monitoring - keep abreast of and meet regulatory expectations.

3. Tools and software	• Have a database of climate metrics for investments covering for example: - Carbon intensity - Carbon emissions - Alignment with goals of the 2015 Paris climate agreement and implied temperature rise - Climate Value at Risk - Exposure to 'green' revenues • Help clients monitor climate-related metrics • Use freely available tools such as PACTA or PRA stress test data to help clients assess climate risk • Help clients set and monitor appropriate climate-related targets.	• Capability to conduct scenario analysis for assets, liabilities and sponsor covenant to help clients understand how climate change might affect investment returns and value at risk over the short, medium and long-term • Consideration of an orderly transition, disorderly transition and failed transition scenario with their associated direct transition and physical risks as well as systemic risks that could arise • Where relevant, help clients consider real world impacts on climate change of their investment choices.
4. Thought leadership and policy advocacy	• Encourage better standards of corporate governance of climate-related risks, for example through positive contributions to public consultations on guidance and regulation of climate-related risks • Supportive of public policy initiatives on climate change • Collaboration as part of climate industry groups.	• Engage with regulators on latest climate-related policies • Engage with the developers of climate reference scenarios • Contribute meaningfully to system decarbonisation and achieving the goals of 2015 Paris climate agreement • Active monitoring of related developments, for example, nature-related financial risks such as biodiversity loss.

5. Assessment of investment managers and engagement with them	• Engage with investment managers about their climate practices (eg integration into investment decisions, voting and engagement) • Climate change is integrated into manager research and a topic of discussion at research meetings • Provide assessment of investment managers' firmwide approaches to climate change risk management, including through both asset allocation and stewardship.	• Provide assessment of investment managers' fund specific approaches to climate change risk management • Disclose details of methodologies and framework for assessing investment managers' approaches to managing climate-related risks and opportunities • Investment managers' approaches to managing climate-related risks and opportunities feed into the consultant's ratings of investment managers • Prepared to exclude fund recommendations on sustainability criteria • Encourage improvement in investment managers' climate competencies including on stewardship, and set expectations on best practice • Encourage investment managers to become signatories to the UK Stewardship Code 2020.