

TEESSIDE PENSION FUND
Administered by Middlesbrough Council

AGENDA ITEM 7

TEESSIDE PENSION BOARD REPORT

15 NOVEMBER 2021

DIRECTOR OF FINANCE – IAN WRIGHT

Risk Register Review

1. PURPOSE OF THE REPORT

- 1.1 To advise Members of the Teesside Pension Board (the Board) of an additional risk that has been added to the Pension Fund Risk Register and to provide Members with an opportunity to review the Risk Register

2. RECOMMENDATION

- 2.1 That Members note the report.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no specific financial implications arising from this report.

4. RISK REGISTER – CLIMATE CHANGE

- 4.1 The Pension Fund's Risk Register is an attempt to document the various investment, funding, governance, administration, demographic, economic and other risks there are that could prevent or make it harder for the Fund to achieve its long term objectives. The Pension Fund Committee is presented with a copy of the Risk Register at its March meeting each year as part of the Pension Fund's Business Plan and the Board reviews this each year as part of its April meeting.
- 4.2 When the Fund's Funding Strategy Statement was updated in June this year, an additional risk was added in relation to climate change and the impact that could have on the Fund's assets and liabilities. This risk has now been formally included within the Fund's Risk Register, an updated copy of which is included at Appendix A.
- 4.3 Climate change has the potential to have wide-ranging impacts on all aspects of human society, including economies, trade, the value of companies and all classes of financial assets. As such, it is sensible to include it as a separate stand-alone risk instead of allowing it

to be covered by existing risks like “Global Financial Instability” or “Investment Class Failure”.

4.4 The full description of the climate change risk is as follows:

The systemic risk posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities to investors. The Fund's policy in relation to how it takes climate change into account in relation to its investments is set out in its Investment Strategy Statement and Responsible Investment Policy. In relation to the funding implications, the administering authority keeps the effect of climate change on future returns and demographic experience, e.g. longevity, under review and will commission modelling or advice from the Fund's Actuary on the potential effect on funding as required.

4.5 Likely sources and risk triggers are:

Global climate change, the financial impact of both the change and the policies implemented to tackle the change.

4.5 Potential impacts and consequences of this risk are:

Significant changes to valuations of assets and asset classes. Potential for some assets owned by companies to become effectively worthless ‘stranded assets’, significantly impacting company valuations. Opportunities will also arise, for example in respect of sectors seen as positively contributing to the transition to a low carbon economy

5. NEXT STEPS

5.1 The Risk Register will continue to be presented to the Committee and Board at least on an annual basis.

5.2 In relation to climate change risk, the Fund will continue to work with its advisers and investment managers (including Border to Coast) in order to better understand its exposure to this risk, how this can be mitigated and how to take advantage of any opportunities that may arise as global markets increasingly take account of this risk.

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