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Are pension plan administrators legally required to consider climate change?

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According to the United Nations' Intergovernmental Panel on Climate Change's latest report, the science is now settled that human behaviour is the cause of climate change and it will have profound effects on our economy and natural world. In this episode, Osler's Andrea Boctor, partner and Chair of the Pensions and Benefits group, discusses with Ecojustice lawyer Andhra Azevedo about how pension plan administrators' fiduciary duty likely requires them to understand, assess, and manage climate-related risks.

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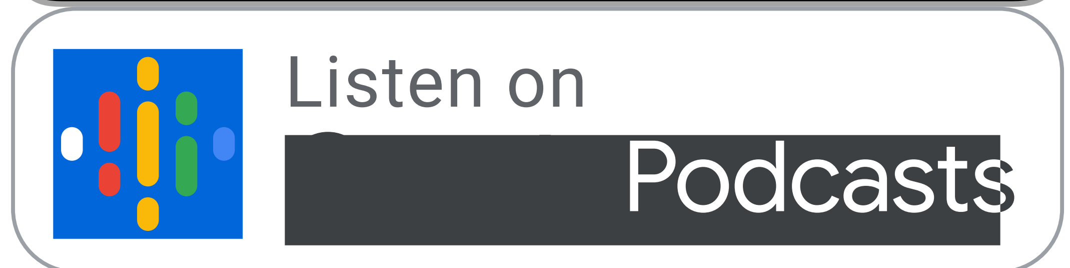

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Transcript

JOHN VALLEY: According to the United Nations Intergovernmental Panel on Climate Change's latest report, the science is now settled that human behavior is the cause of climate change. And that climate change will have profound effects on our economy and natural world.

In today's episode, Osler's Andrea Boctor, Partner and Chair of the Pensions and Benefits Group, discusses with Ecojustice lawyer Andhra Azevedo about how pension plan administrators' fiduciary duty likely requires them to understand, assess, and manage climate related risks. Over to you Andrea.

ANDREA BOCTOR: So today's podcast is going to be a bit of a geek session on fiduciary duty and what is required of pension plan administrators, with respect to climate change in light of that fiduciary duty.

A bit of a backgrounder for those of you not immersed in these concepts every day. Fiduciary duty comprises a few things. First, it's not a duty that just exists in the air. It's a duty to someone to do something. So in the case of a pension plan, it's a duty to beneficiaries to run the pension plan and invest its assets so that the plan is best able to pay the promised pension benefits.

Fiduciary duty for a pension plan administrator is really about the how of running the plan, not necessarily the results. We, therefore, often say that fiduciary duty is about prudent process. Take the example of a plan fund suffering a loss because of a bad investment. If the investment was made after following a solid process, there is unlikely to be a breach of fiduciary duty.

However, if, for example, the relevant information about the investment is not considered or irrelevant information is considered in making the investment, there may indeed be a breach of fiduciary duty. The duty of prudence is one of the hallmarks of fiduciary duty. Another aspect of fiduciary duty is the duty of loyalty. A person who owes a fiduciary duty must act in the best interests of the person to whom the fiduciary duty is owed.

In the pension context, the administrator owes a fiduciary duty to plan members, and must therefore act in their best interests. The administrator must, for example, invest plan assets so as to enable the payment of member pensions. Because paying a pension is a financial arrangement, the duty owed by pension plan administrators has been described, in some jurisprudence, as the duty to act in the financial best interests of members.

Other duties, such as the duty to avoid conflicts of interest and the duty to treat similarly situated members the same, being the duty to hold an even hand, also come into play. The law on fiduciary duty is hundreds of years old, and many, but not all of these concepts, have been static inner jurisprudence for a long time.

However, fiduciary duty was described to me once by an actuary friend of mine as the legal equivalent of Polyfilla that fills the gaps where statutory and other aspects of the common law have not progressed to where it needs to be to balance an unfair equation. I'm not sure it's quite that fluid, but these concepts are malleable, for sure.

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Our guest today is someone who I describe as pushing the boundaries of where pension legislation, regulatory guidance, and common law is today through arguments and scholarly works that seek to evolve fiduciary duty to deal with climate change. Andhra Azevedo is a lawyer for Ecojustice Canada and a fellow geek when it comes to fiduciary duty.

She's a former clerk for the Supreme Court of Canada, which means, of course, she's very smart. And she recently authored an opinion at Ecojustice at the request of an organization called Shift, Action, for Pension Wealth and Planet Health, who we will just refer to in this interview as Shift. And it was addressed to Canada's largest pension funds about how to manage their fiduciary duty when it comes to climate change. And that opinion got a lot of interest and attention. Andhra, welcome.

ANDHRA AZEVEDO: Thank you. Yeah, and thanks for that great introduction and intro to fiduciary duty. Hopefully that's helpful for the rest of the conversation.

ANDREA BOCTOR: Yeah. Well, first, why don't we start off by you telling us a little bit about yourself. Can you tell me how you ended up at Ecojustice? And a little bit about why you are interested in fiduciary duty?

ANDHRA AZEVEDO: Yeah, so I admittedly probably wanted to work at Ecojustice before I decided to go to law school. Climate change has– kind of always is the biggest systemic issue of our time. And it was something I always wanted to work on.

I have a bachelor's degree in environmental science. And while I was there I took an environmental law course, and was somewhat hooked. And that's how I ended up at law school, and then working at Ecojustice after doing some clerking, as you mentioned.

In terms of how fiduciary duty came into play, I think there's a few elements. One is while I was doing my bachelor's degree in environmental science, I also co-founded at the Simon Fraser University's Climate Action Club, which was focused on fossil fuel divestment at the time. Which was taking off across North America in 2013, 2014.

And so it was quite interesting, as a not having a law background at the time, hearing what fiduciary duty meant, what it limited, in this case the university endowment fund managers from doing and not doing. And just trying to figure that out from very much a layperson's perspective. And so then going to law school and starting to learn a bit more about how to figure that out.

And then coming to Ecojustice at a time when, I think, everyone right now in the last couple of years, especially, have seen the conversations around fiduciary duty and climate related financial risks really take off. And so, yes, it seems probably a little bit odd for people who know what Ecojustice does, for us to be engaging in, really, this kind of conversation that's very deep into pensions law and investment law. And seems somewhat out of the realm of environmental law.

But it's really driven by the fact that we are starting to see that overlap increase more and more. And I think particularly the driver of that in the last seven years has been the Paris Agreement outwardly saying that one of the goals of the Paris Agreement is to align financial flows with a low carbon future. And then from that, has started to drive this greater conversation about what does alignment mean? What are climate related risks when you're not aligning? Those kind of things.

ANDREA BOCTOR: Yeah, we certainly have seen a lot of our Canadian Pension plans align themselves with those targets. Maybe you could just tell us a little bit about Ecojustice to start as well.

ANDHRA AZEVEDO: Yeah, so Ecojustice is Canada's largest environmental law charity. And its goals are to use the power of the law, both through litigation and law reform, towards three main areas of focus. Which are defending nature, combating climate change, and fighting for a healthy environment for all. And we tend to focus on bringing strategic cases that will set precedent, and force policy shifts, and highlight chronic gaps in legislation.

And our clients can run the whole gamut, from Indigenous communities, grassroots activists, environmental organizations, as well as individual Canadians. Yeah, and I would say our work on climate finance issues, in particular, is relatively new, but something that we're expanding.

ANDREA BOCTOR: That's really interesting. You're at the right time and the right place, for sure. And lots of work being done in this area. So let's maybe now turn to Ecojustice's work with Shift. A few months ago you co-authored a report titled "Legal Backgrounder, Duties to Understand and Manage Climate Change. Nine of the largest Canadian public pension administrators and investment managers."

And that was very long well written opinion on fiduciary duty and pension plan administrators and institutional investors. The duties owed to consider climate. And it was sent to a lot of big fund administrators who all, I think, took real note of the quality of that opinion and the description of the duties in it. Can you tell me a little bit about how that came to be, the rationale behind the report, and some of its key findings?

ANDHRA AZEVEDO: Yeah. So I think we started from this understanding, this growing understanding that climate change is a systemic risk to the financial system. Most nicely summarized by former governor of the Bank of Canada and Bank of England Mark Carney.

Risk from climate change will prompt reassessments of the value of virtually every asset in the financial system. Will reward companies that adjust and punish those who don't. Which, I think, if that doesn't sound like a material financial risk that should be getting considered by prudent and reasonable investors, I don't really know what is.

And so starting with that perspective, we wrote the "Backgrounder" primarily to assist beneficiaries, nine of the biggest public sector pension funds, so that they could write to their pension funds. Helping to set out pension administrators duties, to manage climate risk, and to seek more information in trying to figure out how that risk was being assessed and managed.

Because right now we're at a state where disclosure, although growing, is still not entirely consistent across the board. And so sometimes it's hard to find that information. And as I mentioned, Ecojustice we're not pensions lawyers, by any means.

And so a lot of this "Backgrounder" was really– why we called it a backgrounder rather than fully an opinion was because we really started by reviewing the other opinions of pensions lawyers in Canada, and other common law countries that have already been written around fiduciary duties, around climate change.

And one of the main ones was about four months before we released our "Backgrounder" in May 2021, the Canada Climate Law Initiative published an opinion by McCarthy's pensions lawyer Randy Bauslaugh, Regarding pension administrators duties around climate change.

And so our goal in our own "Backgrounder" was to take that opinion, which is really grounded in very fundamental fiduciary duties, and apply it to what our understanding of climate science, and the rapidly evolving understanding of what it's going to take to meet climate goals.

And in addition to the legal opinion that we looked at, there's also been opinions that have all converged on this understanding of systemic climate risk being something that pension managers have to consider. As well as that they need to then assess that climate risk and manage it in a reasonable and prudent way. And those opinions have come from the UK and Australia and South Africa as well. As I'm sure many others as well, but those are the common law jurisdictions we looked at.

ANDREA BOCTOR: And so what were– what were the key findings that you would say summarized your "Backgrounder?"

ANDHRA AZEVEDO: Yeah. I think there's a lot of ways of summarizing the different duties. But as you mentioned, there's two main well-understood duties that pension administrators have towards beneficiaries, duties of loyalty and duties of prudence. And applying that to climate change, we set out four main duties.

Probably the first two are the least controversial. There's a duty to understand and assess climate related risks. I think that's relatively uncontroversial because it's well understood that pension administrators have a duty to assess any kind of material risk to the fund.

Second, a duty to reasonably manage those identified risks. Third, a duty to honestly and accurately disclose climate related risks and responses to risk to beneficiaries. And then fourth, a duty to avoid or properly manage conflicts of interests when making investment decisions about climate related risks.

And so I would say one, two, and four are probably relatively uncontroversial and well understood. Although I think we probably added content to what that means, that we could have further conversations about. And the third around duty to disclose is something that's probably not very well defined. And I think it's recognized as not being very well defined in Canadian pensions law, so can have a bit more of a conversation about that as well.

ANDREA BOCTOR: Yeah. Well, that's a great segue. Why don't we have that conversation. I think as a pension lawyer, we sort of think of these pension plans as creatures of the statutes from which they're registered. So the Income Tax Act, and the Pension Benefit Standards Act, or the Pension Benefits Act, depending on the jurisdiction of registration.

And there are disclosure regimes for members, member rights to access information under those statutes. And so as a pension lawyer, the first place we'd look to is the member entitled to it under the act. And specific investment related disclosures are not typically thought of as key to a member disclosure regime under pension standards legislation. And certainly not at the granular level of how risks are assessed and how different risks are measured.

And then you overlay the common law fiduciary duty to disclose. And those hardcore pension cases of the duty to disclose have typically required disclosure where there's highly relevant information that the member can make a decision based on. So courts have been quick to say, OK, yes, administrator, you have a duty to disclose this plan amendment that it was relevant to this member's decision making process in their retirement benefits.

But the courts haven't, as far I know, gone as far as to say you have a duty to disclose plan fund information. I'm really interested to know your thoughts on that, and how you get from the current statutory regime to the duty to disclose climate risks.

ANDHRA AZEVEDO: Yeah, no, I think that's a great point. I think there is some uncertainty around what those common law duties to disclose are. And, for sure, there's no broad statutory duty to disclose climate risks at this point.

The closest I think we get is with the obligation to disclose if you are considering ESG factors, and how those are being considered in the Ontario pensions benefits regulation. But that, obviously, doesn't actually require them to be considering those factors. And it's somewhat unclear even how far that has to go. And then from a common law perspective, I think, yeah, the duty to disclose risks has not been very well defined.

One thing I will note before going into a bit more of the nerdy detail around where these duties come from or could come from is that interestingly, the opinion for Randy Barlow– which I haven't asked him about this, but which came out before ours– also noted that Canadian Pension fiduciaries may have an obligation to disclose how they manage climate change, financial risks, and opportunities on an ongoing basis.

And so we took that suggestion and tried to figure out where that could come from. And somewhat like any of these arguments related to climate change risk in particular, of assessment, management, and disclosure, they haven't really been tested in Canadian court at all. They're starting to get tested elsewhere, but we're really just drawing from common law principles at this point.

So there was two main duties that we had around disclosure and information. There is, as you mentioned, this duty that is drawn from Canadian case law to disclose known significant risks to the fund, that go right to the heart of the security of the fund. And then the second is around a duty of honesty around what is being disclosed. So I'll walk through the first one.

So as you mentioned, courts– or at least in related cases– courts in Ontario have found that there can be a duty to provide information to plan members about known significant risks. And the significance of those risks are, yes, very high, the standard of what that is. It really depends on the level of significance of this risk, and how certain about that change or that risk that the pension fund actually is.

And then in trying to read around that issue, there's an article from Justice Gillies in 2011 which talks about this uncertainty around disclosure. And she suggests that, similarly, disclosure going to the security of the fund rather than going to discretionary choices about how the pension fund is invested are more likely to be required to be disclosed.

And so to clarify what our understanding was in the "Backgrounder," it wasn't that under this heading of duty to disclose, it's not so much that pension funds are going to be required under that duty to disclose climate policies. But rather, when they get to the point of understanding that there is a very significant risk that the pension fund is exposed to from climate change, that that might start getting very close to that threshold of needing to disclose that to plan beneficiaries.

And the example that we are using that seems to get closest to that threshold is that pension funds are starting to do this scenario analysis, which is this assessment of whether the fund as a whole is resilient to different climate scenarios.

And from those that are doing a bit more disclosure, we know that some of them are finding that when they run their fund through a four degree climate scenario, for example, it shows that actually they're having very significant impacts on returns. And that their fund may be is starting to not be resilient to that climate scenario.

And so the question is, is that starting to get close enough where if you're continuing to invest in that pathway and in that direct– setting yourself on the course, at least, to be aligned with that four degree temperature increase, for example, at some point do you have to disclose that to beneficiaries and explain to them what's happening?

Because that seems to start raising that question of you know the fund is not going to be resilient, at least currently, to that future scenario, and yet you're investing in a way that seems to be setting yourself to be going in that direction. Still, obviously, a lot of uncertainty around that, but that was how we took those common law principles and got to that conclusion about there being some level of a need to disclose really significant risks that come from climate change.

ANDREA BOCTOR: It's a really interesting observation. I think scenario analysis is something that a lot of the plans have done for quite some time. Doing it for climate change, in particular, is newer. But scenario analysis or stochastic modeling of the various different scenarios that a pension plan could face based on different economic circumstances over many, many years is something that has been a part of the administrator's toolkit for quite some time.

And usually those scenario analysis are done in order to bring the risk within a manageable range. So if your scenario analysis is leading you towards a scenario that you're not comfortable with, then you would try and take risk off the table in different ways.

And it's interesting to hear you say, well, maybe there's a disclosure obligation in connection with that scenario analysis, because I think that that's an interesting discussion to have. I wonder if it would relate to more than just climate change. The various other economic scenarios like, for example, inflation, which seems to be taking hold, and other economic circumstances could prompt that kind of disclosure.

It's interesting to see if maybe climate is the item that pushes that to the fore on disclosure. On disclosure, what is your view of what legislation you think we might see from government in an effort to fill this uncertainty or this perceived gap?

ANDHRA AZEVEDO: Yeah, no, I think having those disclosure standards in legislation is going to be key. Particularly as we see with a lot of the really big pension funds as they are already disclosing to some standard. Or attempting to, as best they can, interpret what, for example, the really mainstream disclosure standard right now would be the task force on climate related financial disclosures, which has set out a set of types of disclosures that should be made.

But at the same time, when you're voluntarily disclosing, there's a lot of flexibility around what you're disclosing and how much you're explaining. For example, to even go back to scenario analysis. Scenario analysis is a piece of the task force on climate related financial disclosures.

And yet often pensions, if they're not required to, are not going to disclose that because, yeah, it's part of their investment strategy. And they are quite hesitant to disclose that level of analysis, and when there's that level of uncertainty around those things.

I think in that case, it becomes really clear to have legislated standards that are consistent, that allow people to compare risks, somewhat, across the board. And I think to dig even deeper and maybe come at it– not that I have acted for any pension funds, but I imagine coming from a pension fund's perspective, it also becomes really important to have standardized disclosure for portfolio companies.

Because, really, if you don't have that, there's not much point in the pension funds themselves guessing what climate risk they're exposed to. They're really reliant on making sure that portfolio companies have good climate risk disclosure as well. And so I think we are starting to see, in the last couple of years, those big pension funds really push. And, hopefully, push for very rigorous disclosure from their portfolio companies, because that

sets them up to be able to also do the same.

ANDREA BOCTOR: You raise a really good point. If you don't get the information from your delegates or the companies in which you're investing, it's hard to pass that in– aggregate and then pass that information on to members.

I guess it raises two points. This stuff is pretty complicated. How do we get to a place where the disclosure around this is digestible for members? Ultimately it's the members for whom this disclosure is being made. Some of it's pretty complicated. How do we get to a point where this disclosure can be understood and digested by members?

ANDHRA AZEVEDO: Yeah I think that is a good question. And it makes me reflect on how much time it takes to review all of that disclosure often. I think it does start probably with having a really consistent standardized understanding of what is being measured.

So, for example, a lot of pension funds have adopted carbon footprint tools, which I think a lot of people understand. Probably a lot of people have done the online tests around what their own individual carbon footprint is.

But the problem with those tools right now is if you were even as a beneficiary going to try and compare, well, what's my pension fund's carbon footprint compared to another pension fund? That would not be a good way of being able to actually compare what's happening because pension funds are measuring different scopes of emissions.

So some of them might be measuring just the direct emissions that come from certain investments, but not, for example, if they're investing in an oil and gas company, often not going to be measuring the emissions that actually come from burning the oil and gas that is taken out of the ground. And whereas maybe another pension fund is doing that measurement.

When you do have that, the one pension fund that's doing that full scope analysis is going to have a radically different carbon footprint than, for example, this other fund. Making it look like it's doing a poor job of managing climate change risks, and when that's maybe not the case.

ANDREA BOCTOR: It's a really interesting link that we make between the emissions of the portfolio and managing climate risk in a prudent way. And I think about for myself as an investor looking to invest in a fund, I might choose to invest in a fund with a lower carbon footprint because that's my choice as an investor, and I want to make that decision that's healthy for the planet. As a pension plan administrator, help me make that link between the emissions target of the fund and prudent investment practice. Is it necessarily the case that lower emissions target is more prudent?

ANDHRA AZEVEDO: That's a good question. I think maybe to start, I use the carbon footprint example because it's just a helpful metric, I think, for people to understand. But, really, it's a proxy that is maybe not the ideal proxy for actually managing risk. I think it's a way of maybe demonstrating to beneficiaries how the exposure to different emissions has changed over time.

But in terms of that relationship between target and prudent investment management, the first piece is– in terms of actually assessing what is prudent, pension funds need to have– going back– assess their climate risk.

And then determined a way of managing that climate risk. And, really, setting a target is just a way of managing that risk. So if you understand that you've assessed your risk, and you

understand that this risk is going to increase over time, particularly as, hopefully, we, the world, moves towards meeting its climate goals.

Then it makes sense to have a trajectory for yourself over time that will make sure that you're reducing your own exposure to those increasing risks over time. It's not so much that you have to set a target. It's more that the target is a way of managing that risk and measuring that you're actually progressing along that pathway to measure that risk.

ANDREA BOCTOR: So that target is the proxy for the risk management.

ANDHRA AZEVEDO: Yeah, yeah. And it's a way of demonstrating, I think, that both internally, in terms of that process of managing risk, that you're actually moving in a way to reduce the risk that you're exposed to.

ANDREA BOCTOR: We have one client who looks at targets a little bit differently. And they made the assessment that governments are all striving to achieve these targets, therefore, there's real risk to us in regulations coming about and other changes happening in the marketplace.

If these targets are real things that governments intend to meet, we better be doing that too because otherwise our investments are face undue regulatory risk from policies aimed towards achieving those goals. Is that part of the calculation too?

ANDHRA AZEVEDO: Yeah, no, I think for sure. And, really, what I think that client is probably describing is what the task force on climate related financial disclosures has described as transition risk. Which is this broad category of describing any risk that comes from investing in something that's going to be affected by a multitude of things that are required to happen in order to meet climate goals.

So that's policy, that's litigation risk against certain companies that you might be invested in, as well as the market risk itself. As, for example, through either policy or just supply and demand, certain assets might become stranded, and then reduce– lower their value. As, for example, fossil fuel reserves can't be developed in the way that they were planned out.

ANDREA BOCTOR: Another item that was in your "Backgrounder," which I found really very interesting from a fiduciary law perspective, was the idea of public sector pension plans having a duty or possibly a broader duty to the public. Can you spend a little bit of time talking about that?

ANDHRA AZEVEDO: Yeah, for sure. And to just clarify what was meant there, is we use the term public fiduciary, which comes from an article by two pension lawyers Ed Waitzer and Doug Sarro in a 2012 article. Which isn't actually referring to a duty to the public, but it is talking about the size of a fiduciary and their responsibilities to take into consideration broader systemic issues because of how large they are.

So this idea that for a large public sector pension fund, they have to consider the impact they have on the system as a whole rather than considering just the risks around their individual investments, somewhat related to– even to go use other nerdy fiduciary duty terms– but universal owner theory, in some ways.

And this idea that because climate change is a systemic risk to all investments, then investors across the whole economy must consider not just each individual investment separately, but also the impacts of certain investments on the rest of their portfolio.

And so, for example, a lot of big pension funds are starting to conduct scenario analysis. And

this analysis of whether they're resilient to a future with two degrees of warming, three degrees of warming, four degrees of warming. And some of them are taking this interesting approach, which is they're determining, based on a series of benchmarks, I think is what they use the term for, which scenario is most likely to happen.

And since emissions kept going up, they might determine, well, four degree scenario is most likely to happen. We should just be making sure that we're ready to invest for a four degrees scenario. But we know from the analysis by central banks and financial analysts like Mercer, that if you truly are reaching a four degree scenario, these high warming scenarios, it's going to have a destabilizing effect across the entire financial system, with net negative impacts on most sectors.

And so when you're a big public sector pension fund, or any kind of very, very large investor, it raises the question around whether you're acting in the best interests of beneficiaries. If you are investing in line with a scenario that's going to cause destabilizing impacts to the whole economy, when it's very hard to figure out how that would be in the best long-term financial interests of the beneficiaries that you're supposed be– are going to be then retiring into a four degree world.

And so that's really what that piece around public fiduciary is really meant. And I've heard an interesting other related point from Nick Silver who's an actuarial in England, he's a consultant for a number of public sector pension plans.

And he described a related point, which is that these long-term large pension plans, with these almost infinite time horizons, something like CPP for example. Which is almost coming close to having a duty to the public just based on how many contributors and beneficiaries they have. But they are relying on the financial well-being of future contributors in order to pay the liabilities of current contributors and beneficiaries.

And so this further question of should they not just be considering the well-being, and making sure at least that they're not undermining or destabilizing the financial system they're relying on. But also considering that they need to make sure that those future beneficiaries or future contributors are actually financially doing OK to make sure that they can then pay out the current beneficiaries and contributors. That might have been too confusing for a podcast, but hopefully kind of explain that.

ANDREA BOCTOR: Well, it's a really interesting area of thought and study. What is your thought on how big an actor has to be to be systemically important enough to have to consider this. Is it not like a light switch? Is that everyone should be considering it in small and proportional ways, in proportion to their actions in the system?

ANDHRA AZEVEDO: Yeah, I'm not sure that there is a bright line in terms of how big pension fund has to be or how big an actor has to be. I know there's probably indicators. Just to switch from pensions to banks quickly, I know Canada identifies certain really significant banks. And creates higher obligations on them around how they invest and act in certain ways. So that would be one indicator, for example, of an actor that is probably having those systemic impacts.

For pension funds, I think it's interesting to reflect on what they already do and how they already see their role, because I find that somewhat of an indicator of how they already understand that they're a player in the broader system. For example, some of the really big pension funds, CPP being the biggest, will refer to the need to help sectors transition out, and this broader obligation to the economic system as a whole.

And so I think once you're considering those issues, then you also have to start considering

every other factor that really plays into, are you investing in a future that destabilizes that economic system that you're reliant on and have quite a large sway within?

ANDREA BOCTOR: I do have another question about maybe from big to small. So we do see large pension plans in Canada, systemically large, you might say. And then we have single employer defined benefit pension plans or defined contribution plans that are a few million dollars, maybe a few hundred million dollars not investing in their own assets.

They're investing through external managers, or they're allowing their employees and that defined contribution context to pick from amongst investments that are managed by external managers. How do you see the role of a pension plan administrator for the vast majority of plans out there that are not the big systemically important ones?

ANDHRA AZEVEDO: Yeah, so as you say, the focus of the opinion was really on those large public sector funds because of their economic importance and the number of beneficiaries. But similar to the approach of the rest of the "Backgrounder," it's really about pulling from what is already understood from common law principles around fiduciary duty in monitoring external managers.

And so plan administrators, if they're going to be using external managers, have duties to set the investment policy. And this would mean ensuring that at least the statement on investment policy and procedure refers to climate change as a risk, establishing generally an approach to that risk.

And then monitoring and supervising how that risk is being managed. So that might include asking external managers to assess and disclose the risk to a certain standard. Trying to figure out is part of this assessment of risk how that risk is being managed? For example, a lot of external managers will, in addition to big pension funds, are managing risk by engagement, so talking to companies or using their powers as shareholders to try and get those companies to move ahead on different climate plans.

And so part of monitoring is understanding what that engagement approach is and what the objectives are that external manager is trying to pursue. And then that should feed in to how those investment managers are selected, is in understanding how that risk is being assessed and managed.

ANDREA BOCTOR: That is probably helpful advice for many of the risks-facing pension funds, including climate but, obviously, given the importance of first and foremost climate. Well, Andhra, that was a really fantastic discussion. Thank you both so much for joining us on our podcast. I really enjoyed our discussion. And I look forward to further discussions to come.

ANDHRA AZEVEDO: Thank you so much.