This section provides background to the governance pillar and outlines the disclosure requirements of TCFD. Guidance on the implementation of the governance pillar for fund managers is provided, which includes an example of an effective governance structure. Practical actions are shown for fund managers starting out on their climate change journey, and for those more advanced, to implement effective climate change governance.

The guidance notes, tools and templates relevant to this section include:

- **Climate change policy**
- **Board roles and responsibilities**
- **Management roles and responsibilities**

**Key Messages**

- Governance is a key component of a fund manager's climate change framework. It defines the roles, responsibilities, and decision-making mechanisms by which fund managers deliver on their climate-related commitments.
- Governance is required at a fund level – both for the operation of the fund and for investment decision making – and at the portfolio company level.
- Fund manager governance structures are likely to differ based on size and geography. Fund managers should consider the most appropriate structure for themselves, including leveraging existing governance structures and processes, such as those used for managing ESG.
- An appropriate governance structure must define the roles and responsibilities for climate change for the board, fund management (executive and operational), investment teams, and investment committee.

# 1 Background and TCFD requirements

Governance is a key component of a company's climate change framework. It defines, in the form of a board-approved charter and governing policies, the roles, responsibilities and decision-making mechanisms by which organisations define and deliver on their climate-related commitments.

Board oversight on climate change-related risks and opportunities, coupled with clearly-defined senior management responsibilities, are necessary if those risks and opportunities linked to climate change are to be effectively identified, assessed, and managed. Boards should stay informed on climate-related matters to appropriately oversee and consider management's assessment of climate-related risks and opportunities. The TCFD recommendations emphasise that having appropriate board attention and management support to properly understand and manage climate change risks and opportunities, is one of the best ways to ensure accountability. The TCFD guidance on disclosures relating to the governance pillar is as follows [19]:

View Table

# 2 Practical Guidance and tools

2.1 Introduction

Governance is required at a fund level – both for the operation of the fund and for investment decision-making – and at the portfolio company level. A strong governance structure sets the tone for how climate considerations are incorporated in the fund manager's strategies and risk management, but also in portfolio companies. This includes ensuring climate change roles and responsibilities filter down through the fund manager to those portfolio companies.

We recognise that fund managers are generally partnerships with management committees, investment committees and LP advisory committees, rather than boards. Further, the structures of fund managers may include cross-border arrangements, with one jurisdiction being more regulated on climate than another. It is important for fund managers to consider the spirit of the guidance which indicates that climate change should be considered at the top level of decision making, and therefore those with the influence to implement change are those that should be responsible. Within the TCFD Toolkit, we use board/board subcommittee to refer to the most senior decision-making processes which may include management committees, investment committees, and others.

- 2.2 Governance structure
  Governance structures in fund managers are likely to differ based on size and geography. Fund managers should consider the most appropriate structure for themselves. This should include leveraging existing governance structures and processes, such as those used for managing ESG. An example of a fund manager structure for climate change governance is outlined in Figure 10 (adapted from the TCFD Implementation Considerations for Private Equity [9]).

  **Figure 10: Example governance structure**

  View Figure 10

  The TCFD identifies cross-functional and organisation wide collaboration as a key principle in integrating climate change-related risk management. Specifically, the TCFD states *"Integrating climate-related risks into existing risk management requires analysis and collaboration across the company. The principle of interconnections means all relevant functions, departments, and experts are involved in the integration of climate-related risks into the company's risk management processes and in the ongoing management of climate-related risks."* [28]

  At a high-level, the key responsibilities include:

  **The board and executive committees,** who need to be appropriately empowered on climate change, and are responsible for considering climate-related risks and opportunities when overseeing the fund manager's strategy. They also oversee target setting related to climate-related risks and opportunities, and monitor progress against goals.

  The **management** level is responsible for assessing and managing climate-related risks and opportunities in new transactions and for the existing portfolio companies. Management has clear roles and responsibilities on climate change and a structured process to evaluate and inform stakeholders on climate risks and opportunities.

  The **investment teams** are responsible for considering climate risks and opportunities as part of their investment decisions and are supported by management in this process.

The investment committee is responsible for evaluating climate change risks and opportunities as part of any new transaction.

More detail on roles and responsibilities are provided in the templates **Board roles and responsibilities** and **Management roles and responsibilities**.

- 2.3 Guidance actions

Fund managers can use the following practical steps for developing an appropriate governance mechanism for identifying, managing and reporting climate-related risks and opportunities. These have been adapted from those provided by Ceres, World Economic Forum (WEF) recommendations and the TCFD for Private Equity guide [9] [29]. The actions have been categorised into two levels:

1. **Discovery to developing actions:** Actions for fund managers that are less mature and are starting out on their climate journey. The actions will support fund managers that have rated themselves on the self-assessment maturity matrix as a 1 (Unaware) or 2 (Discovery).

2. **Advanced to transformative actions:** Actions for fund managers looking to become more mature. The actions will support fund managers that have rated themselves on the self-assessment maturity matrix as a 3 (Developing) or 4 (Advanced).

It is important to note that the actions don't necessarily need to be implemented strictly in sequence as certain steps and actions can be developed in parallel or over time as the fund manager matures.

**Table 5: Developing a governance mechanism for identifying, managing and reporting climate-related risks and opportunities**

Click to view Table 5