May 2021

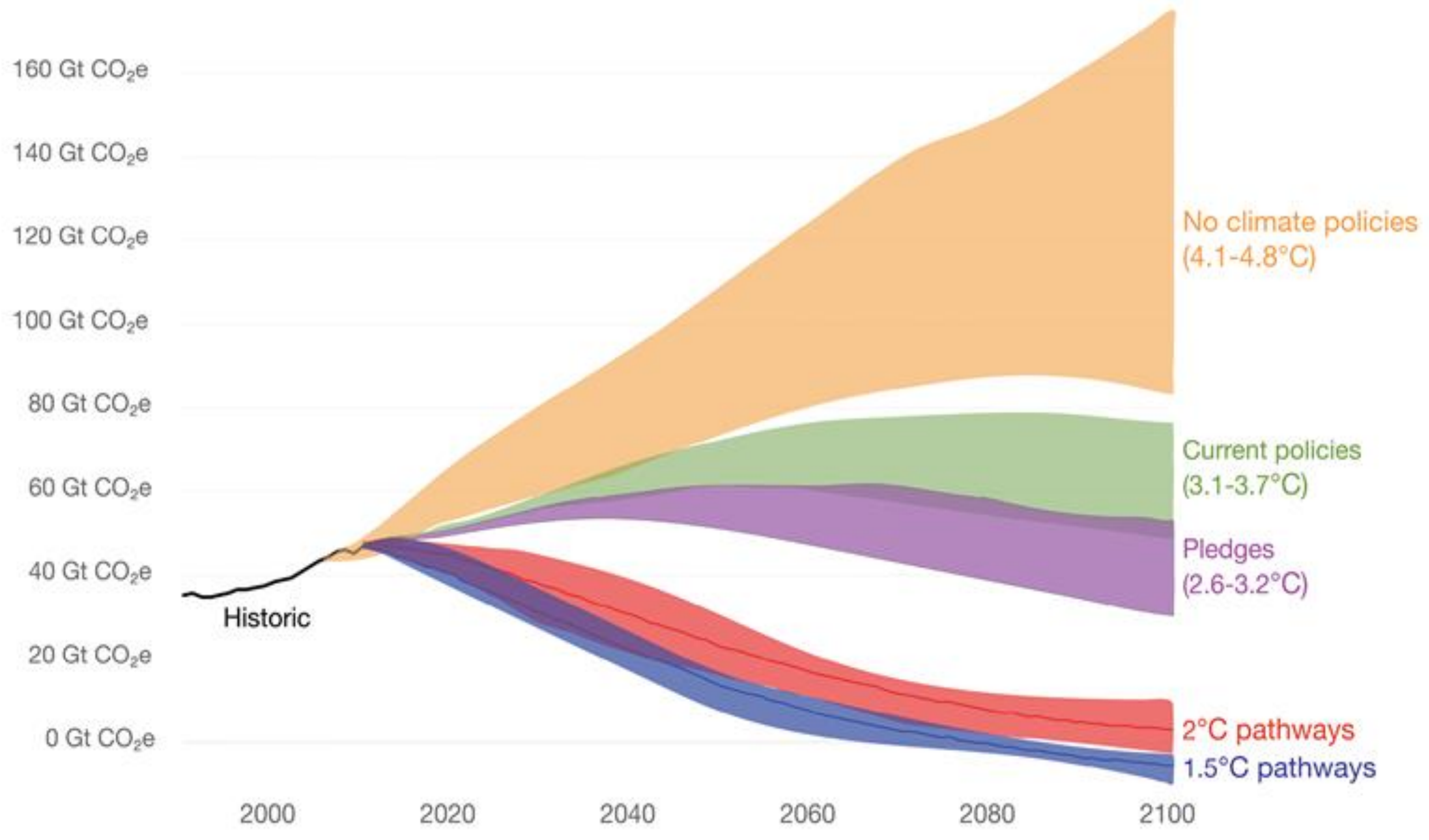
# Climate Change

## Focusing on Long Term Opportunities and Risks while meeting Short Term Milestones of Disclosures and Regulatory Requirements

# Why invest sustainably?

- ESG integration leads to **SUPERIOR RISK-ADJUSTED RETURNS**
- **IDENTIFYING NEW INVESTMENT OPPORTUNITIES**
- **CLIENT PREFERENCES** for sustainable investment
- Increasing **POLICY AND REGULATION**
- **REAL WORLD IMPACT** by directing capital to meet global sustainability goals

# Why is climate change urgent?



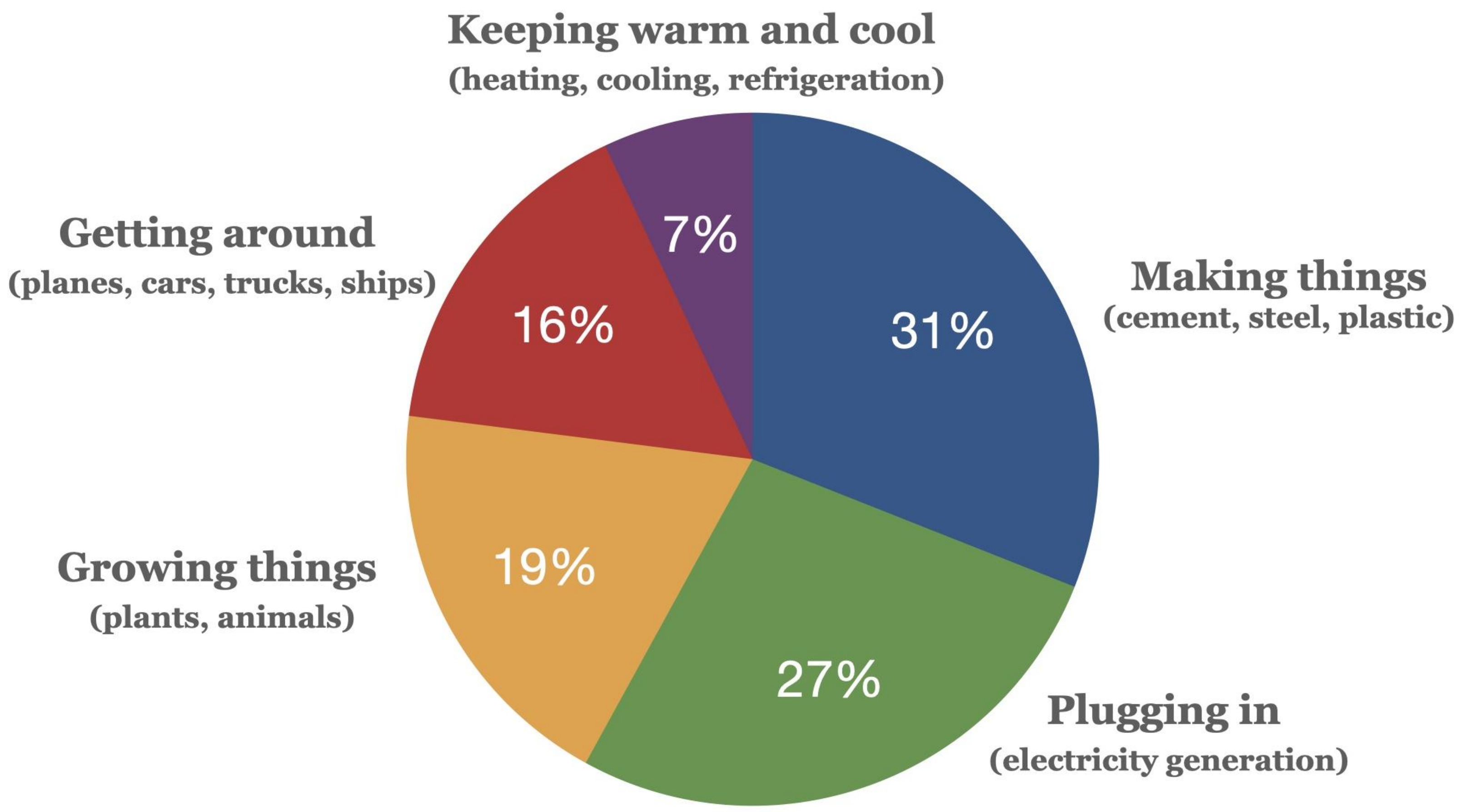

Source: Our World in Data

**Climate change is one of the key ESG issues concerning investors today**

**There is still a large lag between current policies and what is required to achieve the 1.5°C target**

**Regulatory changes could cause significant volatility in markets as investors and companies are forced to shift towards a low carbon economy**

# How much greenhouse gas is emitted by the things we do?




| | |
|---|---|
| Making things | 31% |
| Plugging in | 27% |
| Growing things | 19% |
| Getting around | 16% |
| Keeping warm & cool | 7% |

Source: Gates, How to avoid a climate disaster, 2020

# What are Scopes 1, 2 and 3 and $CO_2e$?

## SCOPE 1:

- These emissions result from sources directly owned or operated by the business. For example, does the business have a fleet of vehicles? Do they burn fossil fuel? Maybe the business has buildings with boilers

## SCOPE 2:

- These are emissions based on energy the business purchases to directly operate their enterprise. The most common across-the-board example is electricity consumption

## SCOPE 3:

- Emissions resulting from activities not directly owned by the business but are associated with its operation. Examples; business travel, waste management, commuting, third-party distribution

## CARBON DIOXIDE EQUIVALENT:

- Carbon dioxide equivalent, or $CO_2e$, is a metric measure used to compare the emissions from various greenhouse gases by converting amounts of other gases to the equivalent amount of carbon dioxide with the same global warming potential

Source: https://ec.europa.eu/eurostat/statistics-explained and https://www.southpole.com/sustainability-solutions/ghg-accounting

# Which metrics and targets do we use?

## Approach to metrics

- **Total GHG emissions**. This is the total greenhouse gas emissions, in CO2 equivalent, of the portfolio
- **Emissions intensity** metric. We look at total GHG emissions in CO2 equivalent per £m invested

## Approach to target setting

- We support global emissions **reduction of 50%** by 2030, with baseline year 2019
- This informs our asset-class decarbonisation targets

# And which scenarios?

## PARIS-ALIGNED TRANSITION – THIS IS OUR GOAL

- AIM/CGE 1.5 degrees assumes measures are taken that will keep the rise in temperature limited to 1.5 degrees

## LATE TRANSITION – THIS IS A FORECAST OF WHAT WE THINK WILL HAPPEN

- Late AIM/CGE 2 degrees assumes measures are introduced to tackle climate change, but are introduced too late to meet the Paris Agreement

## SLOW TRANSITION – THIS IS OUR BOOK-END SCENARIO

- AIM/CGE 3 degrees assumes current policies being continued. According to the UN, we are currently on track for 3 degrees warming

* AIM - Asia-pacific integrated model. CGE - computable general equilibrium model

# What's our conclusion?

- The financial risks and opportunities posed by climate change are not fully understood and not fully priced by financial markets
- If not addressed, this will lead to the misallocation of assets, the risk of asset stranding, and market volatility and dislocation
- The TCFD is an industry-led reporting framework that sets out recommendations for issuers and financial market participants to organise and standardise climate disclosures
- By introducing regulation, the DWP aims to level the playing field and raise minimum standards. Regulation will support trustees prepare for the climate transition
- We welcome the regulations. We are seeing trustees and practitioners embrace the spirit of the regulations
- There remains an information-gap, particularly on metrics, target setting and scenarios

# Appendix

# What is the TCFD?

**The TCFD was established in 2015 by the Financial Stability Board (FSB)**

- The TCFD was established as an industry-led reporting framework that sets out recommendations for issuers and financial market participants to organise and standardise climate disclosures
- TCFD has since been adopted by regulators

**It was set up as the group considered that the financial risks and opportunities posed by climate change are not fully understood and not fully priced by financial markets**

Corporate and financial institutions are not prepared for the transition to a low carbon economy

This will lead to the misallocation of assets, the risk of asset stranding, and market volatility and dislocation

# What’s the timeline?

**Q2 2021**

FCA expected to consultant on asset manager TCFD disclosure

**1 OCT 2021**

£5bn+ schemes and Master Trusts must disclose by:

The earlier of 7 months from scheme year-end date and deadline to report

**1 OCT 2022**

£1bn - £5bn schemes must disclose by:

The earlier of 7 months from scheme year-end date and deadline to report

**31 DEC 2022**

Reporting deadline for £5bn+ schemes and Master Trusts

**31 DEC 2023**

Reporting deadline for £1bn – £5bn schemes

**2024**

DWP expected to consult on < £1bn scheme disclosures

# What does TCFD mean for you?

| | |
|---|---|
| **What does the TCFD cover?** | The recommendations are structured around four thematic areas: Governance, Strategy, Risk management, Metrics and targets |
| **Which pension schemes does it apply to?** | • From **1st October 2021**, schemes **>£5 billion** are required to disclose **7 months** after scheme year end<br>• From **1st October 2022,** schemes between **£1 billion and £5 billion** are required to disclose **7 months** after scheme year end |

# Disclaimer