THE CHEVIOT PENSION

THE IMPLICATIONS OF CLIMATE CHANGE

Climate change[1] is rarely out of the news. It refers to changes to the climate which result either directly or indirectly from human activity. The recent record breaking temperatures this summer in Europe provide a sobering view of the future and are an example of the current impact of climate change caused by carbon emissions.

WHAT IS THE PARIS AGREEMENT?

The Paris Agreement was a landmark international treaty on climate change adopted by 196 Parties in Paris, on 12 December 2015 and entered into force on 4 November 2016. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees celsius, compared to preindustrial levels. To achieve this, counties aim to reduce greenhouse gas emissions as soon as possible to achieve a climate neutral world by 2050.

IMPACT ON RETIREMENT INCOME

The Investment Committee has continued to consider climate related risks and opportunities as part of its investment strategy. After considering various different projections of the future impact of climate change, it believes that it will be a financially material factor now and increasingly so in the future.

If countries do not meet the objectives of the Paris Agreement, the impact on your pension savings is likely to be significant in the mid to longer term. This is because the physical risks of climate change such as floods, coastal erosion, rising sea levels, etc are very likely to impact on the wider financial structure and future investment returns.

If countries meet the Paris Agreement objectives but only at the end of the period to 2050, this is also likely to lead to severe and sudden impact on markets. Equities, or company shares, are the assets likely to be most affected by climate change but generally are expected to provide higher returns over the long term. More resilient assets, such as government bonds and cash produce lower returns.

CHEVIOT'S RESPONSE

Whilst Cheviot has incorporated climate change and other ESG issues into its decision making, it has found it difficult to assess the data required to measure progress effectively. The Board therefore appointed a new investment adviser and manager this year, Van Lanschot Kempen. VLK's approach to sustainability was a key driver for the appointment.

The approach is managed under three core pillars: exclusion - not investing in companies involved in controversial activities or conduct, ESG integration - ensuring sustainability risks are adequately considered in investment analysis and processes and active ownership - using its influence to improve corporate behaviour and specific ESG issues and achieve positive change.

The Trustee is confident that VLK will help it improve compliance and engagement, and enable Cheviot to manage and monitor its commitment to reaching net zero going forward more effectively.

NET ZERO COMMITMENT

The Board has approved a commitment to target net zero emissions by 2050, reflecting the Paris Agreement's objectives, as it believes this is in members' financial interests. The commitment is based on the Trustee's duty to act in the best financial interests of the members and reflects the need for governments and policymakers to deliver on their commitments to achieve the temperature goals of the Paris Agreement. The net zero commitment can be found here.

DATA CHALLENGES

To measure the scheme's progress towards a net zero commitment, the Investment Committee has agreed to measure the absolute emissions, carbon footprint and temperature alignment (a measure of the global warming temperature outcome implied by companies' activities and targets) of the scheme's investments.

The data available at the scheme's year end of 2023 continued to be dissapointing and limited, however it is hoped that data collection will improve with the appointment of VLK as our fiduciary manager.

CLIMATE CHANGE REPORT

The Trustee's full report on its work on the impact of climate change is available here.

1 This factsheet is a summary of Cheviot's Task Force on Climate-related Financial Disclosures (TCFD) report. The TCFD consists of 32 members from across the G20 and aims to improve the reporting of climate related risks and opportunities. By identifying climate related risks and opportunities, the Trustee can include them in their investment strategy.