

THE CHEVIOT PENSION

THE IMPLICATIONS OF CLIMATE CHANGE

Climate change¹ 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, countries 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

The impact of climate change is now an essential part of the decision making process about which assets to hold. The Trustee continues to aim to strike a balance between the level of risk and return of the underlying investments and includes climate change issues in that assessment.

The Trustee intends over time to move to funds which take more account of climate change and are aligned to the Paris Agreement.

The Investment Committee has also considered the best way to understand how exposed the Money Purchase Section is to climate and carbon risk. It has decided to focus on a forward looking measure of the Implied Temperature Rise of the investments. It does not yet have sufficient data to set a baseline for this measure but will set a target when the data is available. In the meantime, its target is to improve the data coverage and quality.

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 2022 continued to be limited and the Investment Committee is engaging with the platform provider to improve the data received in the future.

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 first 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.