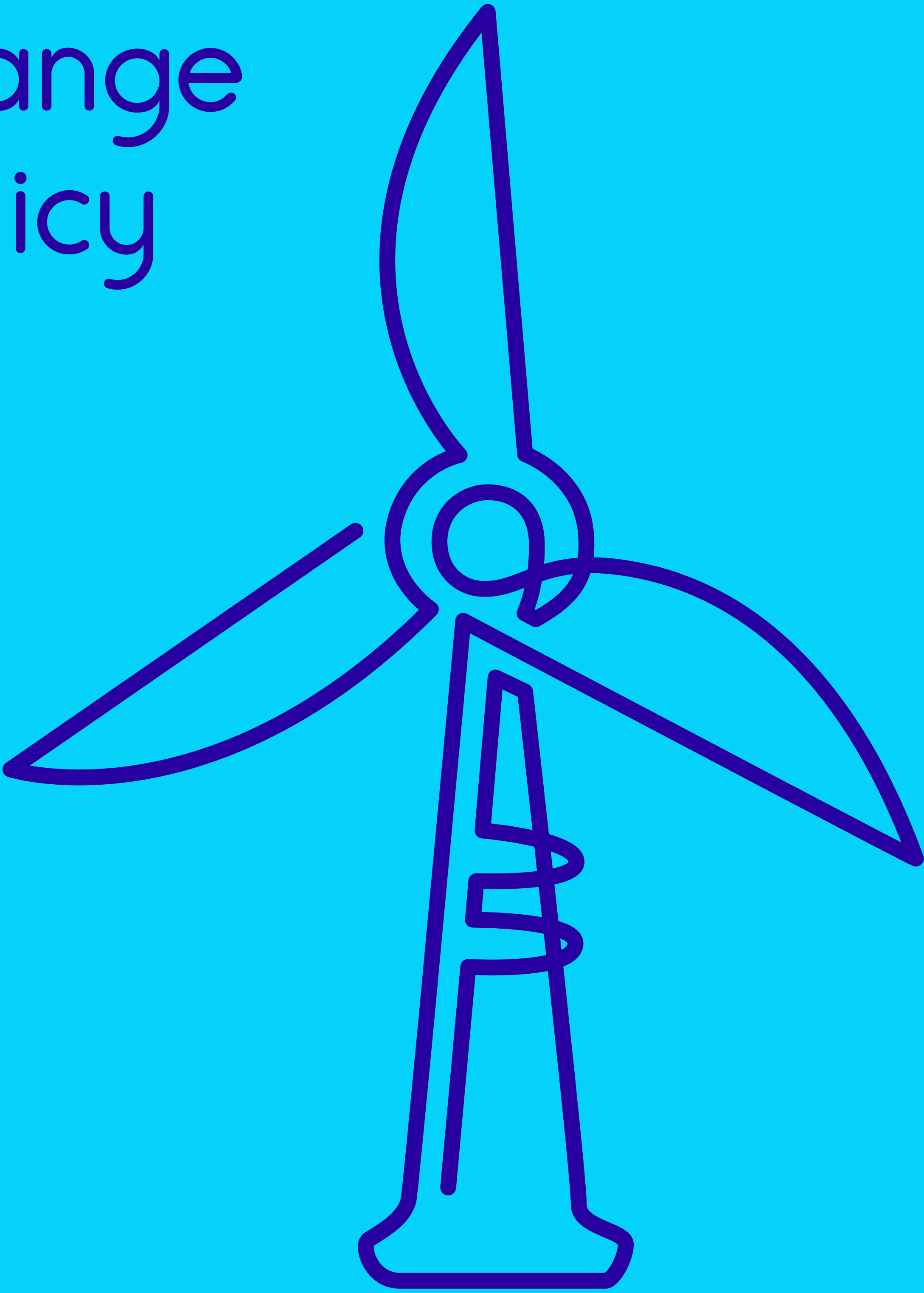
the people's pension

Climate change policy

April 2023



Profit for people

Overview

The People's Pension (the Scheme) is a defined contribution (DC) master trust open to all UK employers. The Scheme has over 6m members and is growing by more than £3bn in contributions annually. As an open and growing master trust, it has a long-term investment outlook. The Trustee of the Scheme (Trustee) acts as fiduciary over the savings held in the Scheme.

Man-made climate change is one of the biggest threats facing our world today. Limiting global temperature rise to near 1.5°C has required and will continue to require an unprecedented political and economic transition to avoid the worst impacts of climate change. Against this evolving policy and economic backdrop, there is a role that investors can – and should - play in capitalising upon the opportunities and protecting against the financial risks of the transition to a 'net zero' economy.

The Trustee considers climate change to be the most financially material environmental, social and governance (ESG) risk that the Scheme faces. Therefore, it has a fiduciary duty to address this risk as part of its investment decision making. This Climate Change Policy (Policy) details the approach that the Scheme will follow in fulfilling its commitment to capitalising on the opportunities and mitigating against the financial risks associated with climate change across the assets it manages on behalf of its members. As reflected in this Policy, the Trustee has identified the importance of considering and managing climate risks and opportunities as part of its portfolio construction, alongside a robust stewardship programme that prioritises not only investee companies but wider industry and policymakers. Key details of the implementation of this Policy will be provided in the Scheme's annual Taskforce for Climate-related Financial Disclosures (TCFD) report.

This Policy was approved by the Trustee in February 2023. Given the pace of market and policy development with regards to climate change, this Policy should be considered a 'living' document and, as such, will be reviewed and updated at least every 3 years or following any significant change in approach or policy.

This Policy is divided into the following sections:

Menu

Click here to go back to the main contents page at any time

Click here to go straight to a particular section

Section 1 – Introduction

Climate-related regulatory landscape for trustees

As a master trust, the Scheme is obligated to adhere to the **Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021**, which came into force on 1 October 2021. These regulations require trustees to take steps to identify, assess and manage climate-related risks and opportunities and report on what they have done. These reporting requirements align with the recommendations of the **Taskforce on Climate-related Financial Disclosures (TCFD)**. In October 2022, these regulations now include the requirement to calculate and report on a portfolio alignment metric to indicate how well the scheme's assets are aligned with the climate change goal of limiting global warming to 1.5˚C above pre-industrial levels.[1] In June 2022, the Department for Work and Pensions (DWP) published its first **Guidance on Reporting on Stewardship**, which encourages trustees to hold their fund managers to account for their stewardship approach by comparing them against the stewardship priorities that the trustees have set (eg, climate, as reflected by this Policy), and to report back on that engagement accordingly in the Implementation Statement.

Associated policies and reporting

This Policy should be read in conjunction with the following associated Scheme policies and reporting:

- The Trustee recognises the interconnectedness of climate change with other environment, social and governance (ESG) risks and opportunities that the Scheme faces (eg, biodiversity, human capital management as part of a 'Just Transition'). As a result, this Policy should be considered a subset of the Scheme's overarching **Responsible Investment Policy**, which outlines our approach to ESG and stewardship considerations.
- **Statement of Investment Principles**, in which this Policy and the Responsible Investment Policy are included in the Appendix.
- In terms of climate-related reporting, the **Taskforce for Climate-Related Financial Disclosures (TCFD) report**, which is required to be updated annually, outlines further details regarding the Scheme's climate-related governance, strategy, risk management and metrics and targets (Figure 1 below). The Scheme's yearly **Implementation Statements,** located within the Appendix of the Scheme's Annual Report, cover its climate-related stewardship activities.

Figure 1

Governance
The organisation's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning

Risk Management
The process used by the organisation's to identify, assess and manage climate-related risks

Metrics and targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Source: TCFD, 2017

[1]Governance and reporting of climate change risk: guidance for trustees of occupational schemes (publishing.service.gov.uk)

Section 2 – Scientific and economic implications of climate change

Man-made climate change is one of the biggest threats facing our world today. The World Economic Forum (WEF) has ranked climate change as a top 10 global risk for the past 10 years,[2] and is currently the number 1 risk we face as a species, according to its annual Global Risks Report.[3]

The **Intergovernmental Panel on Climate Change** (IPCC) has recently stated that we have now reached between 0.8-1.3 °C of warming.[4] According to the IPCC, if we continue with current levels of emissions, we will reach 1.5˚C by about 2040 and 2.7˚C by the end of the century. The global carbon budget, that is, how much greenhouse gas that humanity can still emit in order to limit warming to 1.5˚C, will be depleted in 5-10 years based on 2021 emissions. Warming will continue until carbon emissions reach net zero. As depicted in Figure 2 (on the next page) every fraction of a degree of warming makes a difference in terms of global impact.

[2] Home > Global Risks | World Economic Forum (weforum.org)
[3] Global Risks Report 2023 | World Economic Forum | World Economic Forum (weforum.org)
[4] AR6 Climate Change 2021: The Physical Science Basis — IPCC uk)

Figure 2

	1.5°C	2°C	Impact of 2°C compared to 1.5°C
Loss of plant species	8% of plants will lose 1/2 their habitable area	16% of plants will lose 1/2 their habitable area	2x worse
Loss of insect species	6% of insects will lose 1/2 their habitable area	18% of insects will lose 1/2 their habitable area	3x worse
Decline in coral reefs	80% of coral reefs will decline	99% of coral reefs will decline	19% worse
Extreme heat	14% of the global population exposed to severe heat every 1 in 5 years	37% of the global population exposed to severe heat every 1 in 5 years	2.6x worse
Sea-ice-free summers in the Arctic	At least once every 100 years	At least once every 10 years	10x worse

Source: Climate Council, adapted from WRI (2018) based on data from IPCC (2018). 80% for coral reefs represents the average of the range of 70 to 90% presented in the original source material.

As can be seen in Figure 3 - which is the latest update produced by **Climate Action Tracker** in November 2022 - significant steps need to be taken to reduce greenhouse gas emissions if the Paris Agreement goal is to be achieved. This illustrates estimated ranges for temperatures based on different collections of global policies, pledges, and targets.

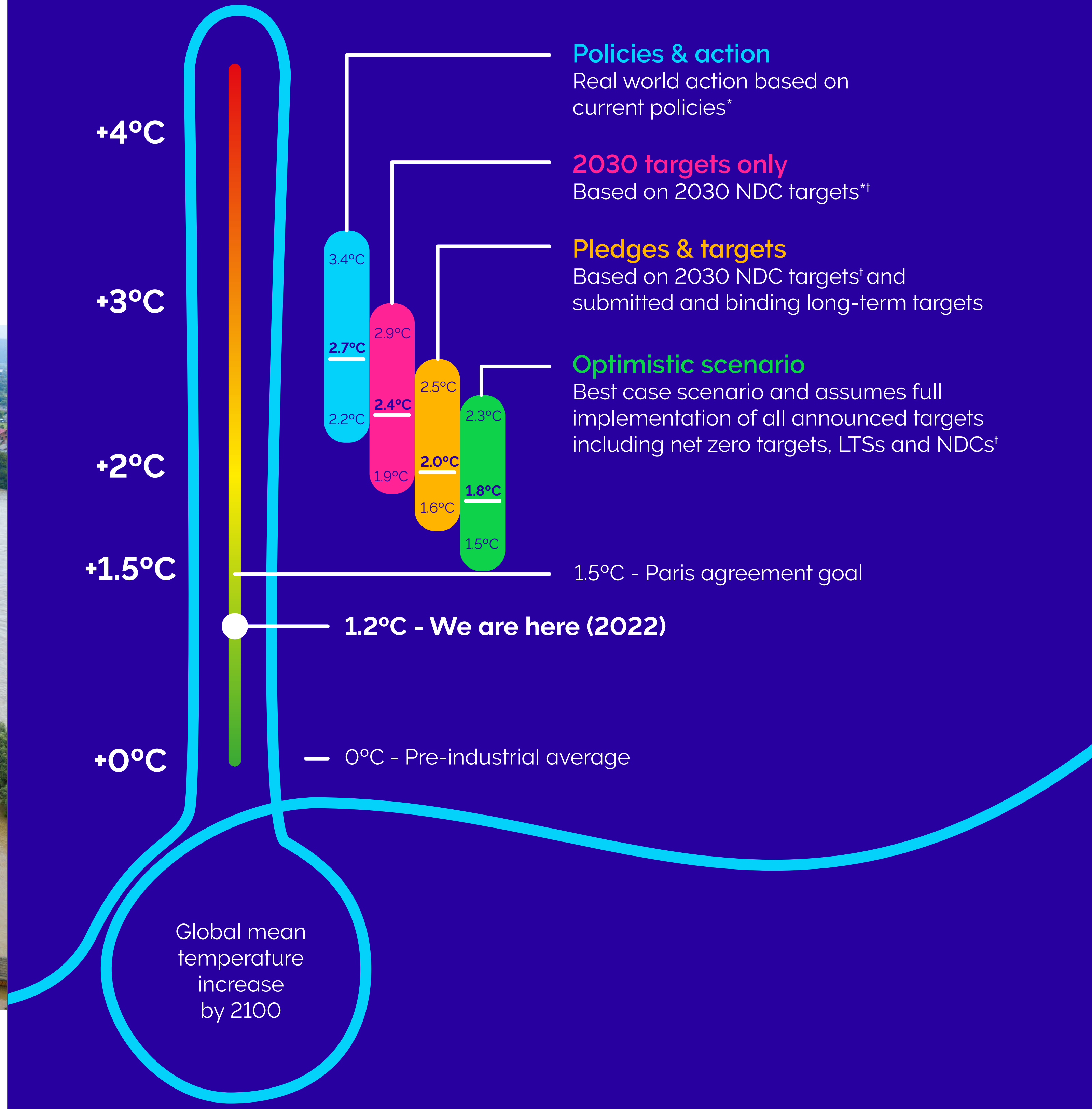
According to Lord Nicholas Stern, Head of the 2006 **Stern Review on the Economics of Climate Change**, "net zero will require the biggest economic transformation ever seen in peacetime".[5]

A challenge of this scale and magnitude has required unprecedented leadership and collaboration from governments (eg, Paris Agreement), businesses, and civil society, and the pressure for a coordinated approach will only increase as time goes on. Key factors that could have the potential to generate, accelerate, slow or disrupt the transition to a net zero economy include changes in public sector (generally government) policies, legislation and regulation; changes in technology; and changes in market and customer sentiment. Against this evolving policy and market backdrop, there is a role that investors can – and should – play in capitalising upon the opportunities and protecting against the financial risks of the net zero transition.

[5] Net zero will require the biggest economic transformation ever seen in peacetime, says Nicholas Stern - Grantham Research Institute on climate change and the environment (lse.ac.uk)

Figure 3

Global warming projections by 2100



*Temperatures continue to rise after 2100
†If 2030 NDC targets are weaker than projected emissions levels under policies & action, we use levels from policy & action

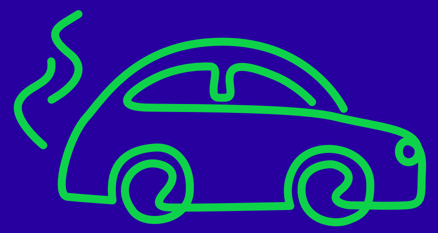
As set out in our TCFD reporting, the Trustee has identified 3 main financial risks associated with climate change. These are physical risk, transition risk, and liability risk, as depicted in the diagram below.

Over the short and medium term, the expectation is that transition risks will have the biggest impact on performance as countries and companies look to reduce their reliance on fossil fuels to achieve net zero. While it is difficult to forecast over the long term, physical risk may well become the dominant risk due to shifting climate patterns. For companies that do not put in place suitable plans for the transition to a greener economy, the risk of climate litigation (or 'liability risk') will be higher.

From a fiduciary duty perspective, a further exploration of why climate is important to the Scheme is provided in the next section.

Physical risk:

These result from potential for more frequent or severe extreme weather events (droughts, flooding, prolonged hot and cold periods) as well as the steady increase in global sea levels and changing prevailing climate. These could cause disruption to businesses holding or relying on physical infrastructure.



Transition risk:

These are associated with the economy moving towards a low carbon economy. Some sectors are going to require significant investment in new infrastructure or face penal incentives from government and civil society that harm their current business model.

Liability risk:

These come from people or businesses seeking compensation for losses they may have suffered as a result of physical or transition risks. These may be third-party liabilities (ie those seeking compensation for damages of physical risks) or direct liabilities (ie those seeking compensation for financial losses).

Section 3 – Why climate is important to the Scheme

Climate-related investment beliefs

The Scheme has developed a set of investment beliefs that guide our approach to investing our members' money. The three main climate-related beliefs are as follows, with supporting beliefs and investment implications provided in the Appendix:

- Incorporating ESG factors in our investment decisions has the potential to improve portfolio returns and risk profiles over the long-term, as well as influence change in corporate behaviour.
- Climate change risk is a systemic risk that cannot be eliminated through diversification alone.
- Complete divestment from all carbon-intensive sectors at this time would not be in the best interest of our members, as it could negatively impact the eventual size of their pension pots.

Fiduciary duty and climate change

The Trustee of The People's Pension (Trustee) acts as fiduciary over the savings held in the Scheme. Our Responsible Investment Policy sets out at a high level the steps the Scheme needs to undertake to carry out its fiduciary duty in respect of ESG issues. The first step is an overall prioritisation of ESG issues to select the ones most likely to be considered financially material to member outcomes. Where the Trustee believes the risk is material and that there is sufficient insight from data into how to protect or benefit member investments, the Trustee is obliged to act. Climate change has been identified by our members as an important issue.

In its 2019 Climate Change Policy, the Trustee stated its ambition to align its investment portfolio with a 1.5°C pathway. In light of the evolving market and political landscape on climate, it is considered prudent to regularly assess whether the net zero ambition remains in alignment with our fiduciary duty to act in our members' best financial interests. Therefore, the following assessment has been undertaken in preparation for this updated Policy:

- whether there is sufficient market and policy signalling to suggest that a net zero transition is still broadly occurring; and
- whether that transition still has the ability to impact Scheme asset values.

Driven by our climate-related investment beliefs and the research that underpins them,[6] the Trustee has determined that it remains prudent to retain our net zero ambition and to review this position and this Policy at a minimum every 3 years, or sooner if there are significant market or policy developments. Given the above assessment, it would be considered within the Trustee's fiduciary duty to:

- reward companies that have better plans in place to address the impact of climate change on their business (e.g. invest more into)
- consider the risk that asset prices do not accurately reflect the risks involved with climate change, and,
- provide some protection against a severe climate-related shock that impacts on financial stability across global economies (see Figure 4 on the next page).

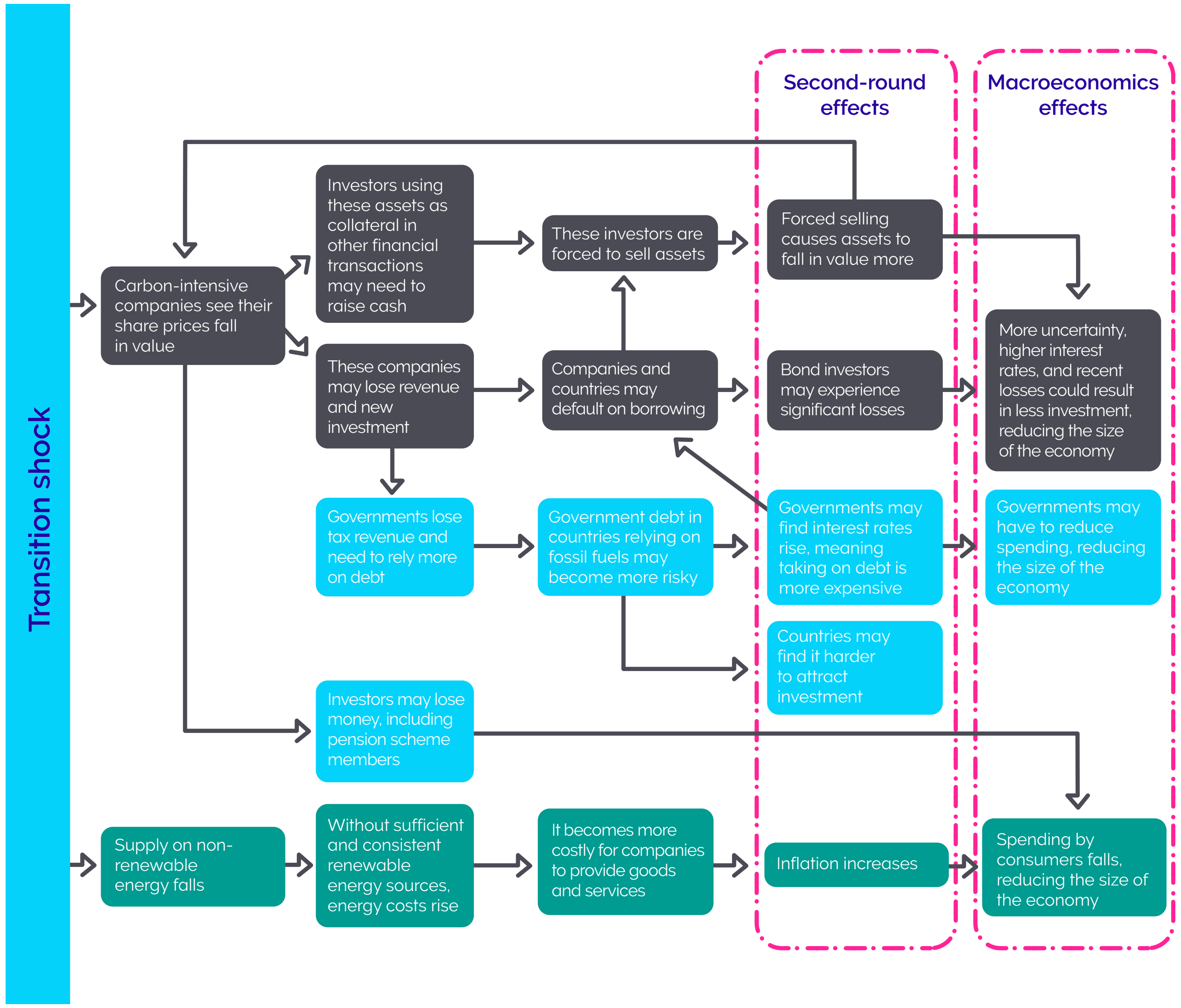
The Scheme's portfolio is particularly exposed to the latter two financial risks because of its index exposure, as it is not in a position to be forced sellers of assets due to market repricing or other transition shock events.

As a result of this assessment, the Scheme has developed a strategic framework to address the climate-related risks and opportunities that it faces. This is outlined in Section 4.

[6] Refer to Appendix for further details

Figure 4 below provides examples of potential pathways we could see as a result of transition shocks e.g. sudden falls in prices of carbon-intensive assets.

Figure 4



Source: Vivid Economics, March 2020

Section 4 – Strategic Framework

Menu

The strategic framework is divided into three pillars: **Portfolio Construction, Stewardship** and **Reporting.** To support our net-zero ambition, the Trustee has committed to:

Portfolio Construction

- Consider and manage climate risks and opportunities as part of the Scheme's portfolio construction (Principle 1)

Stewardship

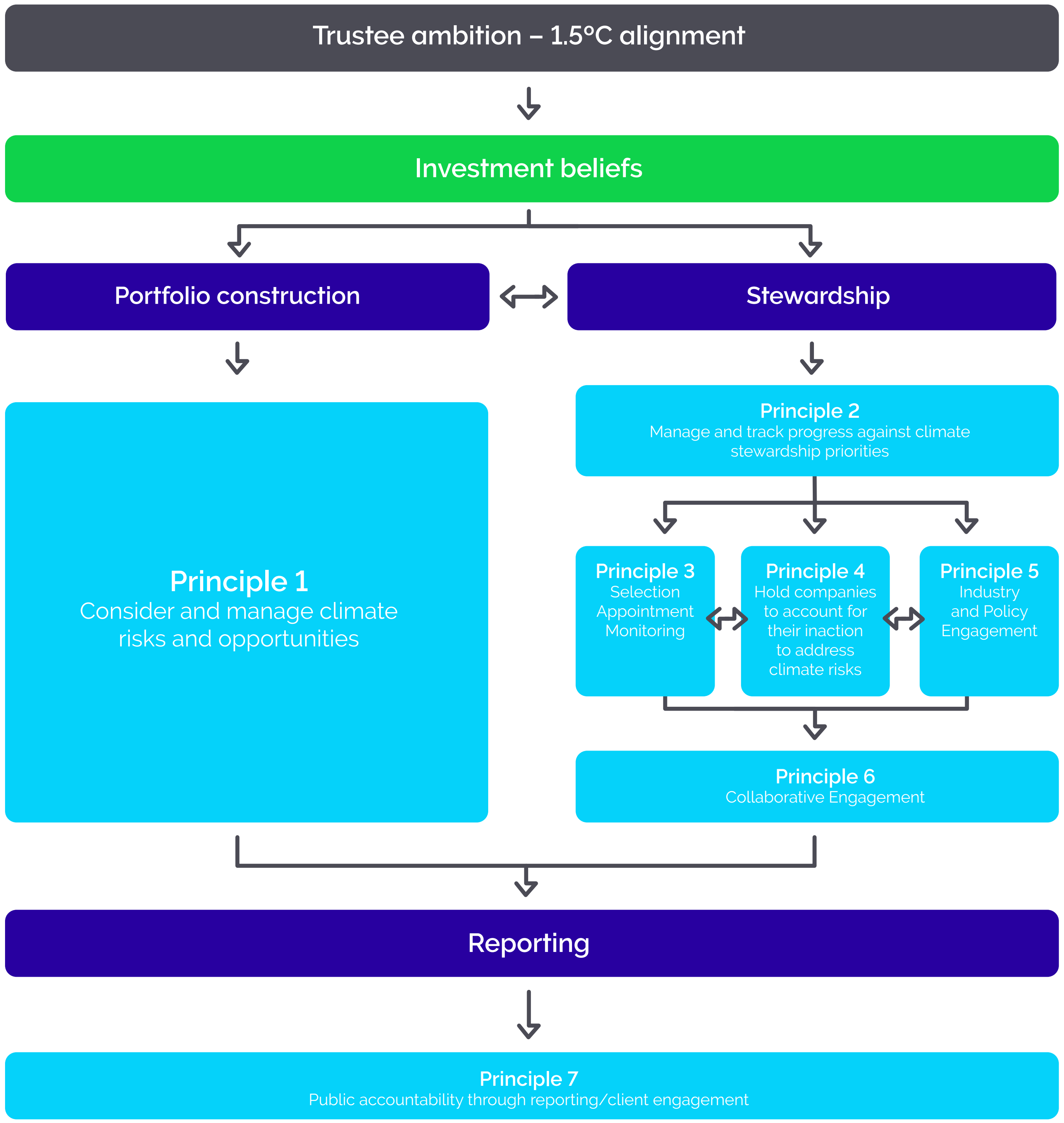
- Manage and track progress against our climate stewardship priorities (Principle 2)
- Integrate climate risk into how the Scheme selects, appoints and monitors its fund managers and other service providers (Principle 3)
- Hold investee companies to account for the actions they are taking to address climate change risks (Principle 4)
- Engage with the wider investment industry to ensure that it is fit for purpose to achieve our ambition (Principle 5)
- Collaborate with other like-minded investors and stakeholders to increase influence (Principle 6)

Reporting

- Annually report on the Scheme's progress through appropriate reporting (Principle 7)

Figure 5 outlines how the strategic pillars and the underlying climate change principles interconnect with each other.

Figure 5



Pillar 1: Portfolio Construction

Principle 1: Consider and manage climate risks and opportunities as part of our portfolio construction

Based on our investment beliefs, Principle 1 lies at the heart of this Policy. In recognition of its importance and based on portfolio analysis, the Trustee committed in its 2021/22 TCFD report to:

- consider the impact of transition risk when making asset allocation decisions;
- construct portfolios to reflect and manage climate factors that could positively or negatively affect investment returns;
- Integrate greenhouse gas (GHG) levels and their path in the future into the weights of portfolio assets; and,
- prioritise our equity investments when managing transition risk and opportunities.

The Scheme will seek to address transition risks for the rest of our assets, as well as physical risks, as data improves. In the short to medium term, the Scheme intends to explore climate opportunities in the illiquid space.

Further details regarding our strategic intent and implementation plan for this pillar will be presented in forthcoming TCFD reports.

Pillar 2: Stewardship

Introduction

The Stewardship pillar is a key complementary pillar to Pillar 1 (see Figure 5). As the net-zero transition requires a complete systemic reengineering of our economy, then by extension, it also requires a systemic approach.[7] Therefore, Portfolio construction cannot be relied on in isolation. Stewardship by the investment community is essential to driving the necessary real world economic changes required.

The scale of the restructuring required means investors around the world must recognise the limitations of company engagement and consider engaging industry bodies and governments directly. Moving forward, stewardship is likely to require more resources to meet the scale and importance of the challenge.

[7] Further details regarding this systemic approach to stewardship is provided in the following document: NZAOA_The-future-of-investor-engagement.pdf (unepfi.org)

Principle 2: Manage and track progress against our climate stewardship priorities

The identification of key climate stewardship priority areas will help to focus our activities under Principles 3 to 5. Our key climate stewardship area of focus is improving data quality/company disclosure.[8] This is the target the Trustee has set in its 2021/22 TCFD Report. Over time, this will provide additional feedback, enhancing the quality of our approach under Principle 1 (Portfolio Construction).

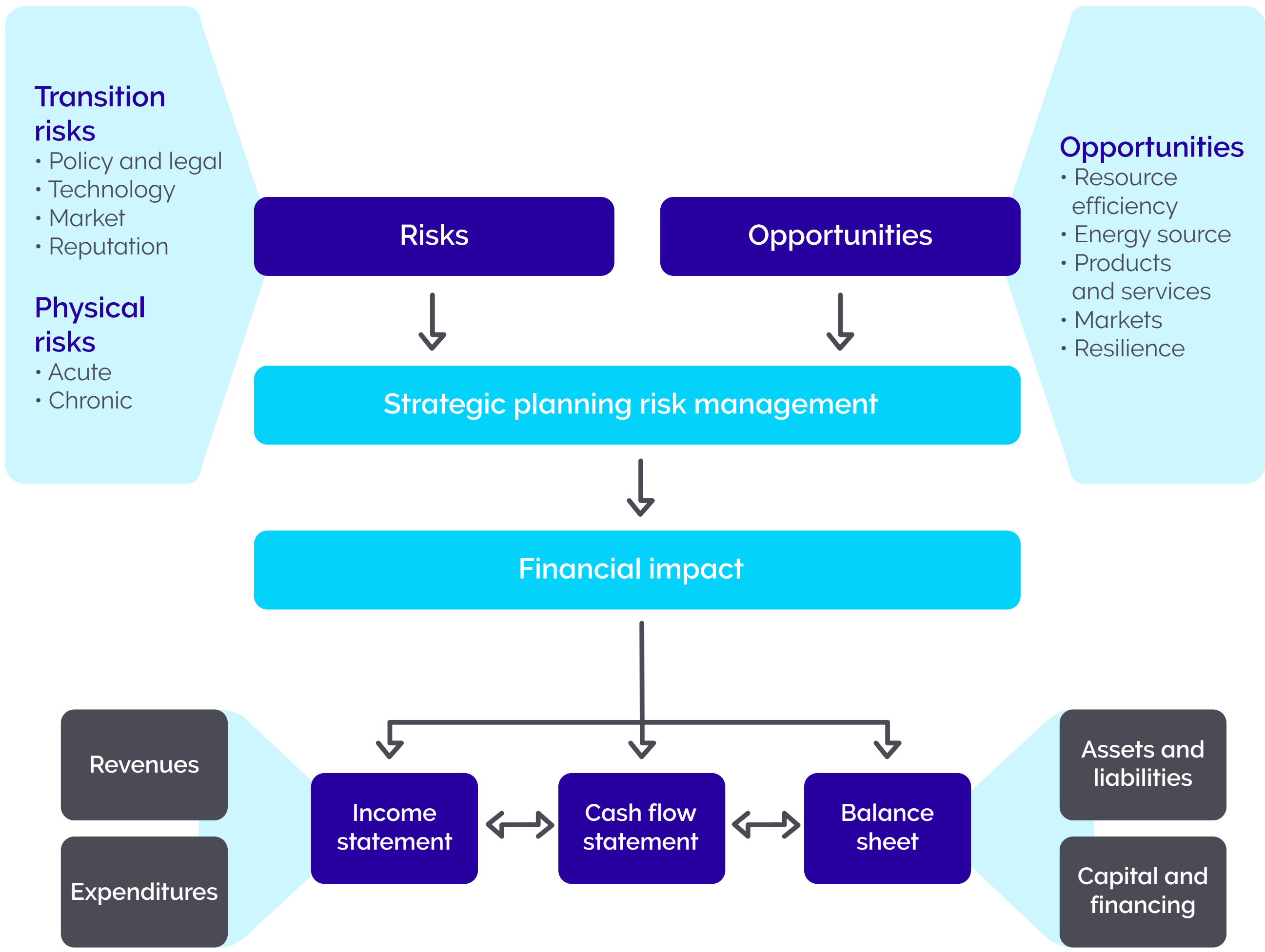
Key company disclosures under this priority area that deserve particular attention include but are not limited to:

- The integration of climate risk into financial accounts, as financial statements that leave out material climate impacts misinform investors, who may not fully appreciate the climate-related risks and opportunities of their assets[9] (Figure 6).
- Just transition, as it is important to consider how companies are considering the social dimensions of the net zero transition, noting that it is included as part of the Paris Agreement.[10]
- Climate lobbying to gain insight into whether companies' lobbying activities are contravening the goals of the Paris Agreement. This will also serve to amplify activities under Principle 5.

Climate stewardship priority areas will be reviewed and, if deemed necessary, updated at least every 3 years with this Policy or as market developments dictate.

Figure 6 below illustrates the need for better financial reporting that takes into account the impact of climate-related risks and opportunities.

Figure 6



Source: TCFD, 2017

[8] Notably within climate transition plans and TCFD disclosures
[9] https://www.iigcc.org/download/investor-expectations-for-paris-aligned-accounts/?wpdmdl=4001&masterkey=5fabc4d15595d
[10] Relevant excerpt from Paris Agreement – "Taking into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities."

Principle 3: Integrate climate risk into how we select, appoint and monitor our fund managers and other service providers

The Scheme will continue to evaluate the climate competency and capabilities of service providers, particularly our asset manager and the Scheme's independent investment adviser, to reduce the risks those entities could pose to the portfolio. This will be reported on at least annually as part of the TCFD report and Implementation Statement.

In the event that the fund manager or service provider ceases to meet the Trustee's requirements on climate change, the Scheme will work with them to improve their capabilities. Should this collaboration be viewed as unsuccessful by the Trustee, their appointment may be reviewed or terminated.

Principle 4: Hold investee companies to account for the actions they are taking to address climate change risks

The Scheme's current structure lends itself to primarily focusing on asset manager engagement, as this is where the Scheme would have the most leverage in driving change at a company level. Any company-level engagement that the Scheme chooses to undertake would be decided on an exceptions basis, informed by the gap between our own climate expectations outlined in Principle 1 and 2 and our fund managers' stewardship approach. Where possible, the Scheme would seek to leverage existing investor collaborative engagement platforms such as the **Principles for Responsible Investment** (PRI) and the **Institutional Investors Group on Climate Change** (IIGCC).

Principle 5: Engage with the wider investment industry to ensure that it is fit for purpose to achieve our net zero ambition

In recognising the importance of other investment actors in achieving our net-zero ambition, the Trustee is committed to engaging with:

- data and index providers, rating agencies and investment consultants to drive better climate change disclosure; and,
- policy makers and regulators on driving regulation related to the net zero transition in recognition that neither investors nor companies alone can achieve it.

Principle 6: Collaborate with other like-minded investors and stakeholders to increase influence

Working with other organisations that can help the Scheme be more effective (eg, PRI) is included as part of the Scheme's overarching Responsible Investment Policy.

The Trustee supports collaborative initiatives that are focused and well organised and that add more power to our stewardship approach. Collaborative engagement will be sought if there are particular issues the Scheme has in relation to Principles 3, 4, and 5, recognising that it may have more success when dealing with asset managers, service providers, data providers, and policy makers collectively.

The Scheme's IIGCC membership helps the Trustee act in line with this principle through its forums for investor collaboration on key industry-wide challenges to achieving net zero. It also contributes to Principle 5 through its **Policy Programme** (which allows us to join investor collaborations targeting government and policymakers).

Pillar 3: Reporting

Principle 7: Annually report on our progress

The Trustee will oversee the net-zero ambition and the Scheme's investment team will implement this Policy.

As previously stated, the Policy will be fully reviewed at minimum every 3 years (or before if ongoing monitoring reveals it is necessary) to ensure it remains in alignment with our fiduciary obligations as outlined in Section 2 of this Policy. The Trustee will receive an annual deep-dive assessment on the implementation of this Policy and the Scheme's activities will be publicly reported on as part of our annual TCFD and Implementation Statement reporting, as well as other reporting as deemed necessary.

Appendix

Glossary

Greenhouse gases (GHGs)

There are 4 primary GHGs linked to global warming: carbon dioxide (CO_2), methane, nitrous oxide and fluorinated gases. The Greenhouse Gas Protocol, an international accounting tool, categorises GHG emissions into three scopes. Scope 1 covers direct emissions from the reporting company's owned or controlled sources. Scope 2 covers indirect emissions from purchased electricity, steam energy, heating and cooling that have been consumed by the reporting company. Scope 3 includes all other indirect emissions that occur in the reporting company's value chain.[11]

Institutional Investors Group on Climate Change (IIGCC)

A European membership body for institutional investor action on climate change. Its work focuses on corporate governance, investor practices and public policy.[12]

Intergovernmental Panel on Climate Change (IPCC)

The United Nations intergovernmental body for assessing the science of climate change. The IPCC's assessment reports supported the creation of the Paris Agreement. [13]

Just Transition

'Just Transition' was included as part of the Paris Agreement to ensure that workers and communities are not left behind as the world's economy responds to climate change. The **Investing in a Just Transition initiative** is led by the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science (LSE) and the Initiative for Responsible Investment at the Harvard Kennedy School.[14]

Net zero

The term "net zero" means cutting greenhouse gas emissions to as close to zero as possible, with any remaining emissions being re-absorbed from the atmosphere. A 'gross-zero' target would mean reducing all emissions to zero. This is not realistic, so instead the net-zero ambition recognises that there will be some emissions in hard-to-abate sectors for which the transition to net zero is either technologically or financially difficult (eg, steel, cement industries). Therefore, the emissions associated with these hard-to-abate sectors would need to be offset through negative emissions technologies or some other mechanism. Negative emissions technologies are mechanisms for the absorption and storage of carbon and other atmospheric greenhouse gases (eg, carbon capture).

Paris Agreement

The Paris Agreement was reached at COP21 in 2015. Its aim is to ensure global warming in the 21st century remains well below 2°C above the average level recorded for the period 1850 to 1900 and to support efforts to limit global warming to 1.5°C. The Agreement also takes into account a 'Just Transition,' meaning "taking into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities."[15]

Principles for Responsible Investment (PRI)

A United Nations-supported international network of financial institutions working together to implement its 6 aspirational principles. Its goal is to understand the implications of sustainability for investors and support signatories to facilitate incorporating these issues into their investment decision-making and ownership practices. In implementing these principles, signatories contribute to the development of a more sustainable global financial system.[16]

Responsible Investment

The integration of financially material environmental, social and governance ("ESG") factors into investment processes, including stewardship.

Stewardship

The Financial Reporting Council (FRC) defines stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.[17]

[11] ghgprotocol.org
[12] IIGC.org
[13] ipcc.ch
[14] Climate Change and the Just Transition: A Guide for Investor Action | Center for Public Leadership - Harvard Kennedy School
[15] unfccc.int
[16] www.unpri.org
[17] UK Stewardship Code | Financial Reporting Council (frc.org.uk)

Key research

In establishing the Scheme's renewed net zero commitment, based on the view that the market is currently mispricing climate risk and that there is a risk to asset values of a market repricing event, the Scheme has looked to the Bank of England, financial regulators, academic research, and views from investor groups and consultants. Key research is highlighted below.

Net zero commitment

Blackrock Investment Institute. Positioning for the net zero transition. June 2022. **BII Global insights (blackrock.com)**

Climate Action Tracker. CAT Net Zero Target Evaluations. November 2022. **CAT net zero target evaluations | Climate Action Tracker**

European Commission. The European Green Deal. 11 December 2019. **EUR-Lex - 52019DC0640 - EN - EUR-Lex (europa.eu)**. Also: **EU strikes deal to boost carbon market, Europe's biggest climate policy | Reuters**

Government of Canada. Canadian Net-Zero Emissions Accountability Act. 29 June 2021. **Canadian Net-Zero Emissions Accountability Act - Canada.ca**

International Energy Agency. An updated roadmap to Net Zero Emissions by 2050 – World Energy Outlook 2022. October 2022. **An updated roadmap to Net Zero Emissions by 2050 – World Energy Outlook 2022 – Analysis - IEA**

IPCC. IPCC Sixth Assessment Report. Press Release - The evidence is clear: the time for action is now. We can halve emissions by 2030. 4 April 2022. **Press release (ipcc.ch)**

UK Cabinet Office and The Rt Hon Alok Sharma KCMG MP. World Leaders Launch Forests and Climate Leaders' Partnership at COP27. 7 November 2022. **World Leaders Launch Forests and Climate Leaders' Partnership at COP27 - GOV.UK (www.gov.uk)**

UK Department for Business, Energy & Industrial Strategy. Net Zero Strategy – Build Back Greener. 19 October 2021. **Net Zero Strategy: Build Back Greener - GOV.UK (www.gov.uk).**

Rt Hon Chris Skidmore MP. Mission Zero: Independent Review of Net Zero. 13 January 2023. **MISSION ZERO - Independent Review of Net Zero (publishing.service.gov.uk)**

United States Department of State and the United States Executive Office of the President, The Long-Term Strategy of the United States: Pathways to Net-Zero Greenhouse Gas Emissions by 2050. November 2021. **The Long-Term Strategy of the United States, Pathways to Net-Zero Greenhouse Gas Emissions by 2050 (whitehouse.gov)**

Mispricing climate risk

Climate-Related Market Risk Subcommittee, Market Risk Advisory Committee of the U.S. Commodity Futures Trading Commission. Managing Climate Risk in the U.S. Financial System. 9 September 2020. **Managing Climate Risk in the U.S. Financial System (cftc.gov)**

Financial Conduct Authority. Joint Statement by the FCA, PRA, TPR and FRC on the publication of Climate Change Adaptation. 28 October 2021. **Joint statement by the FCA, PRA, TPR and FRC on the publication of Climate Change Adaptation Reports | FCA**

Global Association of Risk Professionals. 2021 Third Annual Global Survey of Climate Risk Management at Financial Firms. September 2021. **GRI_ClimateSurveyReport_082721.pdf (garp.org)**

KPMG. Can Capital Markets Save the Planet? October 2021. **Can capital markets save the planet? (assets.kpmg)**

London School of Economics. 15 years on from the Stern Review: economics of climate change, innovation, growth – video. 26 October 2021. **15 years on from the Stern Review: economics of climate change, innovation, growth - video - Grantham Research Institute on climate change and the environment (lse.ac.uk)**

Principles for Responsible Investment. Financial markets are mispricing climate risk. 21 November 2019. **Financial markets are mispricing climate risk | Blog post | PRI (unpri.org)**

Sky News. Bank of England governor: Climate risks 'not reflected in market prices of most financial assets'. 1 June 2021. **Bank of England governor: Climate risks 'not reflected in market prices of most financial assets' | Business News | Sky News**

Stroebel & Wurgler. What Do You Think About Climate Finance? August 2021. **What Do You Think About Climate Finance? | NBER**

Appendix

Market repricing and transition shocks

Bank of England. Breaking the tragedy of the horizon – climate change and financial stability. 29 September 2015. **Breaking the tragedy of the horizon - climate change and financial stability - speech by Mark Carney | Bank of England**

Carton & Natal. Further Delaying Climate Policies Will Hurt Economic Growth. 5 October 2022. **Further Delaying Climate Policies Will Hurt Economic Growth (imf.org)**

European Parliament. Deal reached on new carbon leakage instrument to raise global climate ambition. 13 December 2022. **European Parliament Press Room - Press Release 13-12-22**

European Parliament. Climate change: Deal on a more ambitious Emissions Trading System (ETS). 18 December 2022. **Climate change: Deal on a more ambitious Emissions Trading System (ETS) | News | European Parliament (europa.eu)**

Grantham Research Institute on Climate Change and the Environment. Preventing a 'climate Minsky moment': environmental financial risks and prudential exposure limits. March 2022. **Preventing a 'climate Minsky moment': environmental financial risks and prudential exposure limits | Exploring the case of the Bank of England's prudential regime - Grantham Research Institute on climate change and the environment (lse.ac.uk)**

Inevitable Policy Response. IPR 2022 Policy Gap Analysis. 16 November 2022. **IPR 2022 Policy Gap Analysis | Thought leadership | PRI (unpri.org)**

Network for Greening the Financial System. Technical Supplement to the First NGFS Comprehensive Report. July 2019. **ngfs-report-technical-supplement_final_v2.pdf**

Vivid Economics. Low Carbon Transitions and Systemic Risk. March 2020. **Low-Carbon Transitions and Systemic Risk - Vivid Economics**

Amplification effects of technological innovation and renewable cost curves

International Energy Agency. World Energy Outlook 2022. October 2022. **World Energy Outlook 2022 (windows.net)**

Rocky Mountain Institute. The Energy Transition Narrative. September 2022. **The Energy Transition Narrative – RMI**

Menu

Climate-related investment beliefs

Climate-related investment belief	Investment implications
Incorporating ESG factors into our investment decisions has the potential to improve portfolio returns and risk profiles over the long-term and influence change in corporate behaviour.	The Scheme considers climate change to be the ESG issue most likely to be material to member outcomes and should be integrated into every stage of our investment process. In considering climate in our investment process, the Scheme wishes to: • Reward companies that are transitioning better than others in the belief that this will provide superior risk-adjusted returns. • Mitigate the risk that climate is mispriced in the market, which may result in asset loss through a future repricing event(s) triggered by policy and technological signalling. • Provide protection against the extreme downside performance linked to climate-related transition shock(s), which could impact financial stability.
Climate change risk is a systemic risk that cannot be eliminated through diversification alone.	The Scheme believes that climate change risk is currently mispriced in the market. Any future market repricing will have an impact across geographies and sectors, which, given our indexed exposure, will have a material impact on our portfolio. Key market repricing events, as well as the global stocktake and disclosure of Nationally Determined Contributions (NDCs), are expected around 2025. Further research on market mispricing and repricing is provided in the Bibliography section.
Complete divestment from all carbon intensive sectors at this time would not be in the best interest of our members, as it could negatively impact the eventual size of their pension pots.	The Scheme wishes to capitalise on those companies that are transitioning better than others, as by doing so it believes it will achieve superior risk-adjusted returns. It also recognises the role that key high-impact sectors have to play in the energy transition. Complete divestment also negates the value that stewardship can bring to delivering real-world outcomes.
The investment time horizon of most of our members is long term, and, reflecting this, the default strategy should hold a relatively high proportion of "growth facing" assets.	The long-term investment horizon of most Scheme members allows the portfolio to tolerate greater volatility by holding higher risk/higher return assets to meet their objectives. It also allows shorter-term noise (as reflected by a disorderly transition) to be looked through in the search for long-term value.
Market returns are usually best captured via passive investments.	As Scheme's belief is that climate risk is mispriced by the market, this implies a move away from market capitalisation to mitigate that risk. In the absence of conclusive evidence regarding the effectiveness of pure active management, the Scheme will seek to mitigate the transition risk exposure by indexing the portfolio against a benchmark constructed to reduce the exposure to the climate-related market repricing risk.
Risk has many dimensions, and it is therefore best to view it through several different lenses.	Any portfolio construction and stewardship approach the Scheme takes needs to take a multi-factor approach to assessing transition risk (not just emissions, which are backwards looking).

Menu

For more information:

T. 0330 333 4593

E. info@thepeoplespension.co.uk

thepeoplespension.co.uk