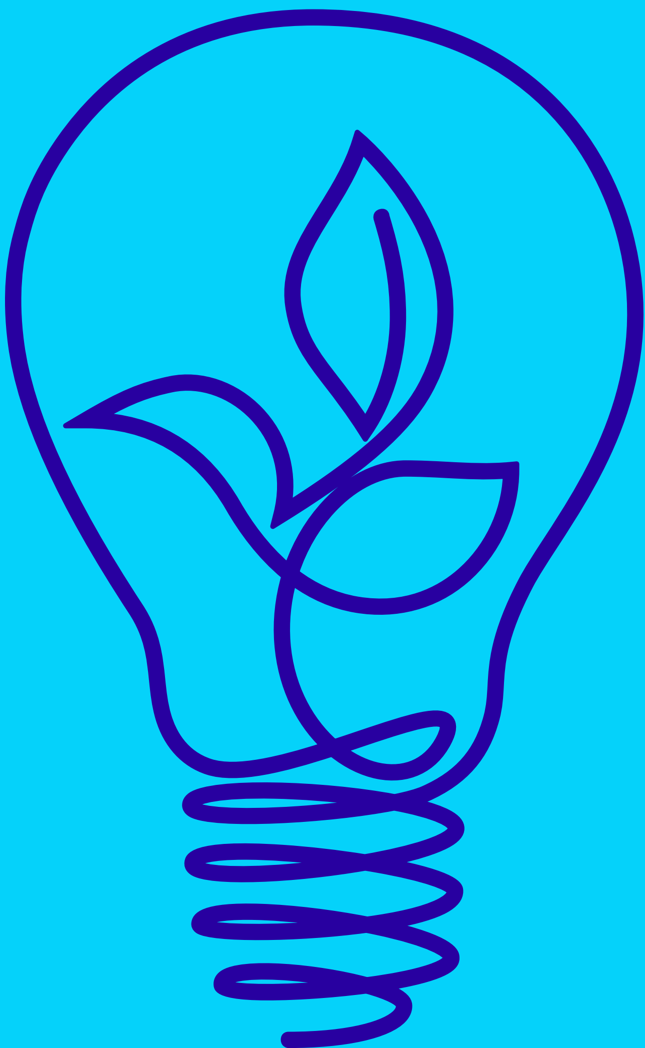
Task Force on Climate-related Financial Disclosures report - member summary

2023/24



Profit for people

Member summary

Why is climate change important to you and your pension?

Climate scientists have for a long time agreed that there is a link between greenhouse gas emissions and climate change. As more and more greenhouse gases fill the atmosphere, they trap extra energy closer to the Earth's surface, causing the planet to heat up. Now this doesn't mean that temperatures in the UK will be hotter every year; there will be ups and downs, but it does mean that the average global temperature will be much hotter than if human activity wasn't releasing those greenhouse gases.

In 2015, 195 nations agreed to combat climate change and to work together to limit global warming and to pursue efforts to limit the temperature increase to 1.5˚C above pre-industrial levels. Climate scientists have predicted that in order to do so, the global economy needs to be "net zero" by the year 2050. This conference was held in Paris, which is why it is known as the Paris Agreement.

Net zero emissions means reducing greenhouse gas emissions as much as possible and removing any remaining emissions that are still being released.

By achieving this, society as a whole will no longer be contributing to the total amount of greenhouse gases in the atmosphere.

Pre-industrial is the period between the years 1850-1900 that scientists use as a starting point to judge the impact that fossil fuel burning has had on Earth's climate.

Investing your pension means you are buying ownership in companies around the world, as well as lending money to companies and governments and charging them interest. If those companies are performing well and paying back the loans, the value of your pension can go up, but it can also go down if those companies start to fail.

We want companies to demonstrate that they have a strategy and are taking the risk of climate change seriously when investing your pension savings, because if they don't, we think it could have a negative impact on the company and decrease the value of the investment. However, on the other side of that, if they have a well-thought-out climate strategy, the business may perform very well, and that could increase the value of the investment.

Did you know?

Climate scientists predicted that in 2023 we were already at 1.3˚C of warming above pre-industrial levels.

There is a lot of work to be done globally since we are currently on track for a 3˚C planet.

As your pension scheme, we want to work together with the companies and other financial institutions to help transition the global economy to net zero.

Following the Paris Agreement, a group of experts was brought together to develop a guide for what companies should be publicly reporting about the impact of climate change on their business. This Task Force on Climate-Related Financial Disclosures (TCFD) released their recommendations in 2017. Those recommendations were used as the basis for the UK regulations (and many other countries) that require companies and pension schemes to report their activities in the following areas:

- **Governance** – who is responsible for managing the risk associated with climate change on your pension?
- **Strategy** – what types of climate risk are we looking at?
- **Risk Management** – how is climate change risk being managed?
- **Metrics and Targets** – what is the carbon footprint of your pension, and what are we targeting?

A short summary of each section is provided below.

Who is responsible for managing the risk associated with climate change on your pension?

The People's Pension has a Board of Directors ("**the Trustee**") who are responsible for running the scheme and for looking after all the pots of money held by The People's Pension. Some of those trustees also sit on the Investment Committee, which is responsible for overseeing the specifics of how your pension pot is invested. This committee is tasked with making sure investment risks, including climate risk, are managed appropriately.

The Chief Investment Officer for People's Partnership has been given responsibility for ensuring investment decisions are aligned with The People's Pension's **climate change policy**.

The Trustee is kept up to date with the latest training and discussions on climate change and spends time making sure their advisers and managers do the same.

To find out more about how The People's Pension is run, please see the Governance section of the full report.

What types of climate risk are we looking at?

Based on the work by the Bank of England, we think that there are 3 main ways that climate change can impact the value of the companies your pension invests in:

Physical risk - more frequent extreme weather events causing disruption, eg, a flood stopping a factory from operating.

Transition risk - the costs to transition to net zero, eg, money needed to shift from gas to solar energy.

Liability risk: compensation paid for a company's part in worsening climate change, eg, an energy company being sued.

Over the short-term (3-years) and medium-term (15-years), we expect the biggest risk will come from the costs to transition to net zero. Over the long term (30 years), we expect physical risk to be the main driver of financial risk if the increase in global temperature is not controlled.

As well as risks, there could be benefits to the transition to net zero, and we want to be invested in the companies that can access those opportunities.

The Trustee does not believe climate change is being adequately considered in global markets, so it is continually looking at ways that it can manage the investments to manage the climate risks.

When looking to the future, we analyse what risks your pension may be exposed to based on scenarios where the world:

- stays below 1.5˚C,
- stays below 2˚C, or
- reaches 3˚C+ above pre-industrial levels.

A key takeaway from this analysis is that to limit the investment risk, global governments and companies need to act now and ramp up their efforts gradually, rather than waiting until it's too late and introducing separate, rushed strategies.

Your savings are working towards a net zero target.

In February 2024, we moved approximately £15bn into strategies that are designed to significantly reduce their carbon footprint and to further reduce in line with net zero by 2050.

This means your savings benefit from investing in companies transitioning to net zero and reduces the risk of investing in those that aren't.

To find out more about our climate strategy, please see the Strategy section of [the full report].

How is climate change risk being managed?

We spend a lot of time and resources on managing the climate risks associated with your pension to ensure it receives the importance it requires when we are looking at all potential risks to a member's pension pot.

The People's Pension's **climate change policy** outlines our efforts to attempt to manage the risks and access the investment opportunities of climate change. The primary tools for doing this are:

Portfolio construction – how we invest the portfolio.

Stewardship – how we work with companies and other stakeholders on climate issues.

Reporting – how we publicly report and engage on what we are doing.

Our asset manager, State Street Global Advisors, will have hundreds of meetings a year with companies and vote at thousands of company meetings. In some cases, voting against the board of those companies when they are not reporting in line with the TCFD recommendations.

In April 2024, we released our new **Responsible investment policy**, where we explain what we will be prioritising going forward, how we expect our asset manager to vote on our behalf based on climate change-related requirements, and our expectations for asset managers, companies, and policymakers.

To find out more about how we are managing climate risk, please see the Risk Management section of [the full report].

In 2023, State Street Global Advisors voted against

132 company directors

for not disclosing in line with the TCFD.

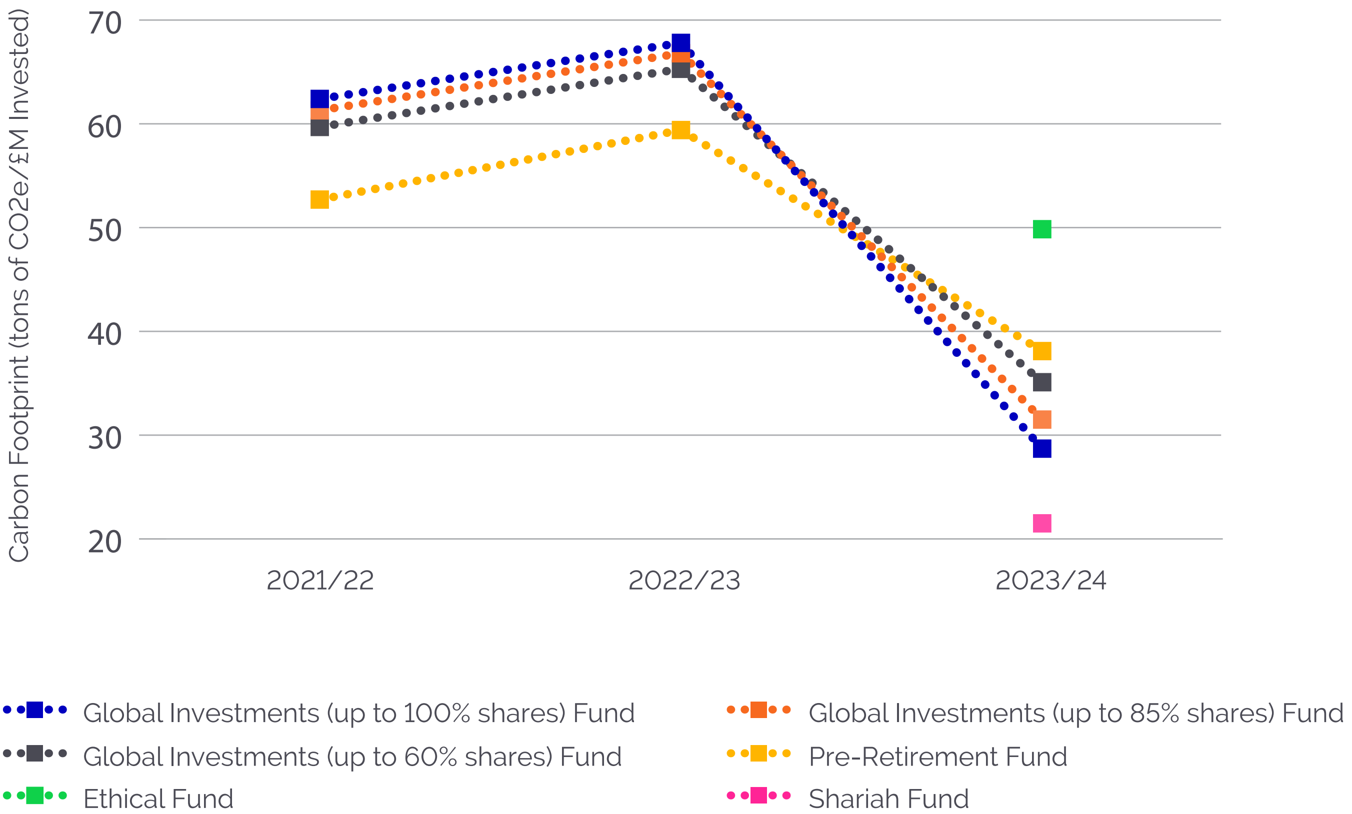
What is the carbon footprint of your pension, and what are we targeting?

The People's Pension has a target of having net zero greenhouse gas emissions by 2050 for its investments, with additional short and medium-term targets aligned with that goal. To help us on this journey, we measure a range of climate-related metrics every year and publish them in our TCFD report.

Metric	Description
Total Carbon Emissions	The emissions that a fund is responsible for through its investments.
Carbon Footprint	Emissions of a fund or portfolio for every £1 million invested. This makes it possible to compare companies or pensions.
Science-based targets	Percentage of the fund invested in companies that have set targets that have been approved to be aligned with the goal of keeping warming below 1.5˚C.
Data Quality	Percentage of the fund where good climate data is available.

Regularly measuring the carbon footprint of a fund allows us to understand which parts of the portfolio are releasing more emissions while accounting for the size of the investment. Over time we are targeting for this number to decrease, showing that the portfolio and the companies we are investing in are responsible for fewer emissions per £m invested.

Carbon Footprint by Fund (Scope 1 + 2)



The chart above shows the evolution of the carbon footprint of the Scheme's most popular funds. The default option is made up of the Global Investments (up to 85% shares) Fund and the Pre-Retirement Fund. The Ethical Fund and Shariah Fund are reported for the first time this year.

These numbers relate to the emissions from a company's day-to-day operations (Scope 1), and the emissions associated with its energy use (Scope 2). Emissions associated with the company's supply chains (Scope 3) are less reliable so are generally reported separately.

Please note: The strategy of the Ethical Fund is due to be updated in September 2024 to be fossil fuel free and have an annual decarbonisation trajectory aligned with 1.5°C. Visit our website for further information.

The values provided above are for the scheme year 1 April 2023 to 31 March 2024 and are not a reflection of the current metrics for the Ethical Fund.

To find out more about the specifics of our metrics and targets and to see information on the other metrics listed, please see the Metrics and Targets section of the full report.

Menu

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