



net zero

ESG

The journey to net zero



► **Pension schemes and providers are increasingly taking steps to go beyond integrating environmental, social and governance (ESG) considerations into their investment strategies, with several organisations making a commitment to become fully net zero in close succession. Sophie Smith reports**

Providers taking the plunge

► Scottish Widows

Scottish Widows is targeting net zero across its entire portfolio of investments by 2050, with more immediate aims to halve the carbon footprint of its £170 billion investments by 2030.

The insurer will invest “billions” in climate solutions, including renewable energy, low-carbon buildings and energy efficiency technology by 2025, and has plans to publish further targets for its overall investment in climate solutions and the carbon footprint of existing investments later this year.

It will also use its influence through stewardship activity to drive the transition to a low-carbon future in the real economy, highlighting action that drives change in the real economy as the only way to achieve net zero goals. The plans have been praised by Pensions Minister, Guy Opperman, who highlighted it as a first amongst insurers, and applauded the fact that targets have been applied across the entire investment portfolio.

► Aviva

Aviva is hoping to become a net-zero carbon emissions company by 2040, in what it has described as the “most

demanding target of any major insurance company in the world today”. The group is taking immediate action on coal, pledging to divest from all companies that make more than 5 per cent of their revenue from coal unless they have signed up to the Science Based Targets initiative by the end of 2022, and to stop underwriting insurance for this same subset by the end of 2021.

The group will also increase green investments, with a further £10 billion of assets from its auto-enrolment default funds and other policyholder funds to be invested into low-carbon strategies by 2022. It also plans to invest a further £6 billion in green assets and £2.5 billion in low carbon and renewable energy infrastructure by 2025, as well as delivering £1 billion of carbon transition loans. Whilst emissions reductions will make up the “vast majority” of its shift to net zero, the insurer also plans to invest in nature-based solutions to remove residual emissions in 2040, including a “first step” £100 million commitment by 2030.

► Hymans Robertson

Hymans Robertson is aiming to be ‘lifetime net zero’ by 2025, meaning that the firm would have offset all of its carbon emissions, dating back to its

founding in 1921, by the mid-2020s. Alongside this, the company is aiming to be net-carbon zero from 2021, in line with its pledge to halve its carbon footprint by 2025, and is also helping employees offset their own carbon footprints by matching contributions.

► Aegon UK

Aegon UK is looking to achieve net-zero carbon emissions across its auto-enrolment default pension funds by 2050, after highlighting an “urgent need to take action” against climate change. The company is also looking to explore the practicability of halving the emissions associated with default funds by 2030.

► Net Zero Asset Managers initiative

Thirty of the world’s largest asset managers, representing £6.8 trillion in assets under management, are working together to ensure their investment portfolios have net-zero carbon emissions by 2050 as part of the Net Zero Asset Managers initiative.

The 30 firms signed up to the initiative will work with asset owner clients on decarbonisation goals, setting an interim target for the proportion of assets to be managed in line with net zero and reviewing that target at least every five years until 100 per cent of assets are included. Further commitments include setting interim targets for 2030 for assets to be managed in line with the net-zero goal, consistent with a fair share of the 50 per cent global reduction in CO₂. Signatories will also submit disclosures in line with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

Pension Schemes paving the way

► National Grid UK

The National Grid UK Pension Scheme is looking to achieve a portfolio of assets with net-zero carbon emissions no later than 2050, or “earlier if possible”,





highlighting climate change as the “defining issue of our time”. The scheme is looking to divest from thermal coal-related assets by 2022, a sector that in which it says there is no “plausible path” to sustainability.

It is also working to engage and collaborate with the entities in which it invests and will, where appropriate, take steps to divest should engagement prove unsuccessful. In addition to this, the scheme will be monitoring the asset managers running investment mandates and requiring them to include climate-related implications in their investment processes and engage with companies on its behalf.

► BT Pension Scheme

The BT Pension Scheme, which is the largest UK company pension scheme, is targeting net-zero greenhouse gas emissions across its £55 billion portfolio by 2035.

The scheme is reinvesting the majority of its assets over the next 15 years in companies that have lower emissions, whilst also increasing investment in transition solutions.

Investment mandates are being aligned with the net-zero goal over time and the scheme is expecting to select and retain managers it believes can achieve its targets, also requiring managers to report against a net-zero climate scorecard. Managers are also working to engage and set net-zero emissions objectives, although “insufficient efforts” to reduce emissions after a period of engagement “may result in divestment”.

A campaign to lead the charge

Organisations are not only considering their own carbon impact, however, as increasing pressure is being placed on the pensions industry by campaign groups.

Make My Money Matter (MMMM), which is now backed by over 30 pledge partners, has launched a campaign to encourage pension schemes to sign up to be net zero and deforestation free across their portfolios, for instance.

This included a satirical short film, directed by BAFTA-winning director, David Kerr and starring Jason Isaacs as ‘Guy Byrne-Woods’, the CEO of Forestry Felling Syndicate, to support the launch of its related petition.

► Nest

A MMMM pledge partner, Nest first announced a new climate policy targeting carbon neutrality by 2050 in July 2020, with plans to invest around 45 per cent of its portfolio, around £5.5 billion, into climate-aware strategies. The provider is removing £1.2 billion from the biggest carbon emitters, equal to removing 200,000 cars from the road, as part of its broader aim to reach net zero across its investments by 2050 or earlier, with the expectation that carbon emissions will be halved by 2030. It is also taking steps to divest from companies involved in thermal coal, oil sands and arctic drilling, targeting full divestment by 2025, unless they have a plan to phase out all related activity by 2030.

► Smart Pension

Smart Pension is aiming to achieve net zero “well ahead” of 2050, alongside plans to halve carbon emissions ahead of 2030.

Having partnered with MMMM on its net-zero commitment, the master trust is introducing an allocation to a new social impact fund, which will capture investment opportunities that offer solutions to environmental and social challenges. Smart is developing technology to provide members with

greater influence over ESG issues and working on a “number of initiatives” to strengthen its fund range.

► Northern Local Government Pension Scheme

The Northern Local Government Pension Scheme (NLGPS) is targeting net-zero carbon emissions for 2050, having also become a MMMM pledge partner. The collaboration will support the scheme’s broader ambition to invest 100 per cent of its assets in line with the Paris Agreement, with further ambitions to explore the feasibility of setting a 2030 target for net zero.

► South Yorkshire Pensions Authority

Another MMMM pledge partner, the South Yorkshire Pensions Authority is targeting carbon neutral status for its investment portfolio by 2030, becoming one of the first Local Government Pension Scheme administering authorities to adopt a climate change policy and to adopt the reporting requirements of the TCFD. The authority set the target at a meeting in September 2020, giving authority officers six months to report back with an action plan on how the goals will be achieved.

► Cushon

Cushon, a MMMM pledge partner, has launched the Net Zero Now Pension, thought to be a world first, thanks to its immediate net-zero goal.

The provider has reduced the emissions financed by the funds as far as possible via ‘off the shelf’ solutions from fund managers, and, to ensure there is no impact on returns, will pay to offset any residual emissions out of its own money. For these offsets, it has worked with Vertree to select a range of Verified Carbon Standard projects, with 75 per cent of these being triple, double or single gold rated under the Climate, Community and Biodiversity standard.

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