A delicate balance

Nico Aspinall considers how to balance both financial and environmental outcomes when investing

In a May 2019 report, the governments of the UK, Wales and Scotland published a report called *Net Zero*. It calls for zero UK greenhouse gas emissions by 2050 – although swift and significant policy changes are required if these recommendations are to be met.

From an investment perspective, the Bank of England Governor Mark Carney has been consistent in saying that climate change poses a clear and present danger to financial stability. And Pensions Minister Guy Opperman has called on pension schemes of every hue to collaborate and help tackle it.

At The People's Pension, newly authorised by The Pensions Regulator, we absolutely agree that climate change presents a very real risk to the returns sought by pension schemes in future.

Our strategy on how best to address climate change risk – and spot the opportunities from it – is informed by listening to two reputable organisations. After all, we're investors, not climate scientists, and we need expert opinion and input here.

One is the United Nations body for assessing the science related to climate change: the Intergovernmental Panel on Climate Change (IPCC). Its latest landmark report looks at a world where average temperatures sit 1.5° C above pre-industrial levels – and what can be done to stay within that limit.

The other is the Committee on Climate Change – the advisory body to the UK government on Climate Change and author of the *Net Zero* report.

The first action we took was lowering our exposure to fossil fuels. We did this last year by bringing in new funds to The People's Pension's default and we're going to carry on tilting the portfolio away from 'old tech' fossil fuels and towards assets with a better chance of growth.

Secondly we have updated our statement of investment principles with a specific explanation of how we address environmental, social and governance (ESG) risk – available late September.

Every DC scheme has to do this, not just because it's part of broader government policy to corral resources towards tackling climate change, but also because there should be a growing acceptance that Mark Carney is right – climate change is a clear and present danger, which should have a response. I'd say that's good for advisers in two ways.

First, it should provide more confidence that the pensions sector is addressing the issue and indeed meeting member expectations of them.

And on that point, we're surveying our own members to find out more on which responsible investment issues concern them most: *www.thepeoplespension.co.uk/responsible-investment*

Second, these updated statements should highlight more points of difference between schemes – because each will have their own view on how best to arrive at the correct destination.

Over time, we'll be making more assessments about the companies we're exposed to with a reliance on fossil fuels – and acting on them. So we'll look at, say, exposure to car manufacturers to see if they're delivering on promises to electrify their product range and decarbonise their supply chains.

As a shareholder with scale, we can influence that in a number of ways, and one of the things that's front of mind is whether a given company's plans to change align with our own timing.

This is a forward-thinking approach based on the assumption that more information on climate risk will become available from companies, stock exchanges and data providers – the people who provide the reams of information investors rely on.

At the moment, climate data is patchy – some of it is clearly useful, other data are mere estimates.

For example, I'd like to be able to tell you that all international utility companies publish regular reports on the greenhouse gases emitted by their buildings, supply chain and consumer product use. I can't because only some do – but we're seeing improvements and, as datasets improve, we can make more positive decisions about climate risk, whether that means excluding companies with reliance on fossil fuels or including companies ahead of the curve.

As a master trust authorised by The Pensions Regulator, we believe master trusts have the opportunity to lead the whole pensions sector on climate risk.

The structure of a trustee board, with a legal duty to act in the best interests of scheme members, means they have the ability to do innovative things – with a requirement to publish that approach for others to see.

To find out more about what The People's Pension can offer your clients, go to www.thepeoplespension.co.uk/responsible-investment/PA or please get in touch on tel. 0333 230 1310.

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