Climate Related Disclosures

Report prepared in alignment
with the recommendations of the TCFD

Money Purchase Section of the Cheviot pension

An authorised Master Trust

July 2024

INTRODUCTION

Impact of climate change

Climate change is defined as a change of climate, directly or indirectly attributed to human activity, that alters the composition of the global atmosphere, and which is in addition to natural climate variability, observed over comparable time periods (UN Framework Convention on Climate Change).

The Task Force on Climate-related Financial Disclosures (TCFD) has now disbanded[1] following the fulfilment of its goals "to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks." The International Financial Reporting Standards will now cover the framework for international ESG reporting, risk management and climate related financial disclosures.

The TCFD believed that better information would allow companies to incorporate climate-related risks and opportunities into their risk management and strategic planning processes. As this occurs, companies' and investors' understanding of the financial implications associated with climate change will grow, empowering the markets to channel investment to sustainable and resilient solutions, opportunities, and business models.

Cheviot's response

This report sets out the Trustee's response to the TCFD requirements in respect of the Money Purchase Section of the Cheviot Pension, an authorised Master Trust. The Section provides the Cheviot Lifeplan[2] which transitions members through four core funds as they approach retirement when cash is also introduced. The underlying funds are also available as self-select funds together with nine other funds which include risk-rated options, a range of asset classes, retirement options and options where financial return is not the sole criterion.

This report is Cheviot's third TCFD report. It sets out the actions and analysis undertaken by the Trustee in line with the recommendations for improved reporting and transparency in relation to climate related risks and opportunities as set out by the TCFD in respect of the Money Purchase Section. The Money Purchase Section provides wholly defined contribution benefits and therefore there are no relevant covenant issues.

The report reports on the scheme year January 2023 to December 2023. The Trustee's approach is proportionate to the assets under management (circa £161m as at 31 December 2023) and the use of an investment platform which significantly restricted direct engagement with managers or the underlying companies during 2023. The report meets the requirements of the guidance and requirements set out in relation to climate related risks.

The Trustee appointed a new investment adviser and fiduciary manager in February 2024 for all schemes and sections in the Trust. Van Lanschot Kempen Investment Management (UK) Limited (**VLK**) was appointed as fiduciary manager following a detailed assessment period. VLK were chosen due to its track record of delivering strong risk adjusted returns over the long term for their clients as assessed by an external consultant, Ernst & Young.

VLK's approach to sustainability was a key driver for its appointment to the Section which has found it difficult to access sufficient robust data from the underlying managers. VLK is the oldest independent financial institution in the Netherlands and its commitment to sustainability stems from its European roots. Its core approach to sustainability is described as exclusion, ESG integration, and active ownership. The Trustee is confident that VLK will improve compliance and engagement and enable Cheviot to manage and monitor its commitment to reaching net zero going forward more effectively than under the previous arrangements.

[1] 12 October 2023
[2] The default fund for the purposes of the legislation

INTRODUCTION

Cheviot's investment beliefs

The Board adopted a bespoke net zero commitment by 2050, taking into account the Paris Agreement's objectives. It also reflects the Board's fiduciary responsibilities to members and employers and the need for governments and policymakers to deliver on their commitments to achieve the temperature goals of the Paris Agreement. This report is underpinned by the Trustee's core investment beliefs in relation to climate change, recently updated to reflect VLK's appointment:

- The Trustee believes that climate change will be a financially material factor now and increasingly so in the future and must be reflected in asset allocation decisions.
- Considering these materially financial factors are consistent with the Trustee's fiduciary responsibilities.
- Progress towards the net zero commitment including establishing the baselines position of the portfolio and interim targets is essential.
- Long term investors have an opportunity to influence managers and companies in relation to climate change issues.
- Where practical, assets will be invested in funds which focus on ESG and climate change issues.

This report has been approved by the Investment Committee using delegated powers from the Trustee. The members' factsheet is attached at the end of the document.

Sir Derek Morris

Sir Derek Morris
Chair, Cheviot Trustees Limited
30 July 2024

Section 1 – GOVERNANCE

Climate oversight

1.1 As an authorised Master Trust, Cheviot has a strong governance structure which is documented in a detailed Governance Policy. The Trustee's investment beliefs set out in the Governance Policy include climate change issues and an Appendix setting out the Trustee's climate change policy. The detailed policy on climate change is under review following the appointment of VLK and the move to fiduciary management.

1.2 The policy sets out the Investment Committee's approach to evaluating and monitoring climate related risks and opportunities (CRRO) under delegated powers from the Trustee. The policy covers the four areas identified by the TCFD as crucial to the management of climate change risks.

- Governance structure, including training and assessment of the capabilities of its advisers and service providers on climate related risks and opportunities
- Strategy for assessing the impact of climate related risks and approach to opportunities over different time periods
- Risk management
- Metrics and targets.

Governance

1.3 The Trustee concluded that the Investment Committee was best placed to undertake the level of detailed consideration required in respect of climate change issues. The Investment Committee has delegated powers in this area and provides quarterly updates to the Board. It also consults the Board on key decisions.

1.4 Climate change is a substantive standing item on Investment Committee agendas and its members must have sufficient experience and understanding to review this area. Members of the Investment Committee undertook extensive training in 2021 and 2022 and continue to consider all aspects of the identification, assessment and management of risks to and opportunities for the Trust from the effects of climate change, with training provided as required. The members of the Investment Committee assess their own skills annually and regularly challenge advisers.

Trustee Knowledge and Understanding

1.5 Discussions and training have continued in 2023. Members of the Investment Committee have also attended external training sessions provided by alternative providers. Climate change is a standing item on Investment Committee agendas. All Trustees receive regular updates on climate-related actions at each quarterly Board meeting. The Trustee produced an annual planner for climate-related actions to ensure all Trustees are aware of the ongoing requirements and all Trustees attended a training session on this planner and the associated requirements at an Education Day in January 2023.

Assessment of advisers

1.6 There are appropriate agreements in place with all advisers and service providers. The Investment Committee will assess the experience and support of the investment advisers and other advisers and service providers in this area at least annually against the ICSWG checklist where necessary. All advisers are required to provide an annual declaration that training consistent with the relevant professional requirements has been undertaken, including adequate climate-related risk training for the activities being undertaken for the Section. The Investment Committee ensures that information about the scheme that is relevant to the identification, assessment and management of risks and opportunities relating to climate change is shared between the persons tasked with those involved in governance activities related to climate risk management.

1.7 The relevant advisers and service providers assessed by the Investment Committee over 2023 in this regard are:

Section 1 – GOVERNANCE

Adviser	Role
Cheviot Management	Governance Support and Financial Information
Isio[3]	Independent investment oversight
Mobius Life Limited	Platform Provider
Zedra	Independent Trustees, in their capacity of supporting with various governance and operational matters
Schroders Solutions	Investment Consultant and Asset Manager[4]

1.8 The key advisers in relation to identifying, assessing and managing any climate-related risks during 2023 were the Trustee's investment advisers, Schroders Solutions. The investment adviser objectives agreed with Schroders incorporated specific items relating to the assessment of climate related risks and opportunities and the provision of relevant climate scenario analysis to ensure compliance with TCFD reporting.

1.9 Schroders are committed to responsible investment and are UN Global Compact and UN Principles of Responsible Investments signatories, for which Schroders has been granted the highest score of A+. Schroders also have a firm wide commitment to Net Zero, are members of the Net Zero Asset Managers Initiative and are one of the first large financial institutions to have their 1.5 degree aligned target validated by the Science Based Targets Initiative. Schroders are committed to improving clients' portfolios from a sustainable perspective.

1.10 Schroders' expertise has been demonstrated throughout the various discussions. The Investment Committee has attended various external seminars on climate change issues and some members have experience of advice from other advisers in the area. The Investment Committee raised questions regarding the information presented to them during the scheme year. The Investment Committee members are confident in their ability to assess and challenge Schroders if required.

1.11 During 2023, the Investment Committee reviewed the TCFD annual planner regularly including considering the new statutory guidance[5] and the challenge of engaging with managers when using an investment platform. It also considered the ongoing Trustee obligations in detail in conjunction with Schroders and Arc Pensions Law, the Trustee's legal advisers for investment matters. The problems with obtaining appropriate and relevant information from managers contributed to the decision to move to a fiduciary management structure and to VLK specifically. Data relevant to TCFD reporting will be included in quarterly reports going forward.[6]

1.12 The Investment Committee encourages and expects all asset managers to provide details of their climate related strategy, recognising that the use of pooled funds and an investment platform limits the Section's ability to directly engage with managers or underlying companies. Based on publicly available information, the Investment Committee can see that all managers employed at the end of the scheme year had made a Net Zero Commitment at firm level and published policies on their website:

Manager	Commitment to Net Zero at company level	Further information
LGIM	Yes	Legal & General Investment Management – The Net Zero Asset Managers initiative LGIM - Reaching net zero: LGIM's approach
BlackRock	Yes	BlackRock – The Net Zero Asset Managers initiative 2030 Net Zero Statement | BlackRock
Insight (via BNY Mellon)	Yes	Insight Investment – The Net Zero Asset Managers initiative

[3] Isio is being replaced by Ernst & Young as the external adviser to the Trust.
[4] All included in the annual advisers' declaration process.
[5] Governance and reporting of climate change risk: guidance for trustees of occupational schemes.
[6] Subject to assets being moved to VLK's preferred managers.

		Insight Investment's net-zero pledge
Invesco	Yes	Invesco – The Net Zero Asset Managers initiative 2022 Global TCFD Report | Invesco UK

1.13 Other advisers, including the Scheme Actuary, have confirmed that they have sufficient expertise in relation to climate related issues to undertake their role. This declaration is included in the existing annual process for confirming fit and proper status and competency training and experience.[7] The Finance Manager attends all Investment Committee meetings and training sessions.

[7]The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, Schedule 1, Part 2, 27(b)

Section 2 STRATEGY

Background

2.1 The Investment Committee considered the Climate Action Tracker 2100 warming projections based on pledges and current policies. It particularly noted that for global warming to peak at 1.5% by 2100, emissions need to reach net zero by 2050. It also considered the impact of population growth and the Paris Agreement, and the actions agreed by governments, whilst recognising that the proposed policies and actions required a broad global response to be effective.

2.2 The discussions concluded that:

- Climate-related risks are systemic and therefore it is not possible to hedge against them
- Climate change will impact the global economy fundamentally
- Climate change risk is an essential part of our strategic investment decision making.

Scenario analysis

2.3 The Investment Committee have considered three different climate scenario models which brought together climate science and economics.[8]

2.4 The scenarios align with the TCFD requirements: Orderly Paris, Disorderly Paris, and Failed Transition (where Paris refers to a global warming scenario between 1.5% and 2% and Failed Transition refers to nearly 4%). These scenarios are in line with the Pensions Climate Risk Industry Group (PCRIG) and cover a spectrum of plausible climate pathways that model potential directions of future climate policies and interventions. The pathways differ in terms of policy and technology changes, physical risks, and pricing in mechanisms. The Investment Committee believes that climate change will fundamentally impact on how the global economy performs and identified the key risks as transition risks, physical risks, impact on GDP and the impact on financial markets.

2.5 Climate scenario analysis is a complex and detailed process and there are some important limitations to modelling. The scenarios are hypothetical and not forecasts or predictions and therefore very sensitive to inputs. Similarly, the analysis assumes that the investment strategy is constant and set whereas it will evolve and change in reaction to progress or otherwise towards the objectives of the Paris Agreement.

2.6 The scenario analysis set out the potential relative impact on the core Money Purchase Section funds used in the Cheviot Lifeplan[9] compared to a baseline target return assumption. The climate scenario shocks are the median from a range of possible outcomes. The analysis did not allow for changes in asset allocation over time. The analysis was conducted over three periods: five years (short-term), ten years (medium-term) and forty years (long-term). These time periods were reviewed and determined appropriate by the Investment Committee following advice from Schroders. These periods were selected to identify the climate-related risks and opportunities to members close to retirement, members starting to de-risk before retirement and younger members with a much longer investment time horizon.

2.7 The key outcomes of the scenario analysis were:

- A Failed Transition[10] provided the most positive outcome in the very short term but as physical risks begin to increase, returns fall significantly in the mid to late term. This will impact members over the forty-year time horizon.
- Paris Disorderly[11] analysis indicated that the impact over the short-term could be severe and sudden and pose a real risk to DC members approaching retirement over the next 5-10 years.

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[8] The November 2023 Investment Committee agreed to re-run the scenario analysis in 2024 for the Triennial review.
[9] The default option under the regulations.
[10] No transition - Paris Agreement goals not met, failure to transition away from fossil fuels, physical climate related risks are severe and increase over time, causing widespread social and economic disruption.
[11] Disorderly transition - Paris Agreement met but an abrupt transition, little climate action in the short term, following by a sudden and unanticipated tightening of policy to get on track with Paris. Policy and technology shock likely.

- Paris Orderly[12] had a significantly lower impact over timeframes longer than five years and resulted in better expected returns for members.

2.8 The scenario analysis indicated that across all scenarios long term returns are negatively impacted by the risk posed by climate change. However, the lowest estimated impact was from the orderly transition to 1.5 degrees by 2050 i.e., the Paris Aligned scenario. Therefore, the Trustee concluded that aligning to the Paris Agreement is likely to have the least detrimental impact on long term investment returns. The Trustee concluded that the investment strategy should align to a Net Zero transition to reach Paris Alignment over time and the Investment Committee will now be working with VLK to incorporate this within their investment strategy.

2.9 The Investment Committee considered whether to rerun the scenario analysis within the scheme year. There were some changes in 2023 to asset allocation for the blends used in the default strategy. These were:

- Increasing the Equity allocation of the BlackRock ACS World ESG Equity Tracker and GBP Hedged in the Growth Blend.
- Reducing interest rate sensitivity within the Cautious and Retirement Planning blends.

2.10 The Investment Committee concluded, based on advice from Schroders[13], that it was not necessary to rerun the scenario analysis in 2023 as there were no material changes requiring additional scenario analysis.

2.11 The Investment Committee undertook a review of the inclusion of ESG considerations in respect of the selection of investment managers and the approach of the underlying managers to ESG which includes the managers' alignment to the Paris Agreement. It identified several actions to improve the quality of its disclosures including further engagement with managers and further engagement with Mobius Life. It noted the investments made to the BlackRock ACS ESG World Equity Tracker in respect of the Cheviot Lifeplan. The selection of this fund improved the portfolio's ESG and carbon metrics while delivering returns with a low tracking error to MSCI World.[14]

2.12 The Investment Committee continue to review the allocations in the Cheviot Lifeplan in the context of climate risks and alignment with the Paris Agreement and to consider opportunities to increase resilience with the equity portfolio by allocating to more climate transition/Paris aligned equity funds when possible. It is also focusing on engagement with managers (recognising the limitations of pooled fund investment) and considering stewardship and collaborative engagement initiatives.

2.13 The Trustee has made a bespoke net zero commitment rather than an industry standard. The intention is to recognise the interdependency of any individual commitment and government policy and the requirement for the Trustee to act in accordance with its fiduciary responsibilities to members.

[12] Orderly transition - Paris Agreement met through emission reductions starting now and continuing in a measured way in line with the Paris objectives and the UK'S government commitment to reducing emissions in the UK to net zero by 2050.
[13] This advice has been forwarded.
[14] VLK have access to a bespoke ESG equity fund, built to reflect the pillars on which its sustainability strategy are based.

Net zero commitment

As stewards of our members' capital, we have a responsibility to deliver investment returns and manage risk over the long term in line with our fiduciary duties. We recognise the climate crisis that is facing the globe. The transition to a lower carbon world will impact every inhabitant, economy, and investment, either positively or negatively. Our fiduciary duties require us to identify the risks and opportunities that are present and invest accordingly.

A world where global warming is not contained to significantly below 2 degrees above pre-industrial levels is expected to impact overall portfolio returns and risks. Countries across the globe are making Net Zero Commitments. This will be followed by new policies and regulations that will impact the companies we invest in and lend to, and the associated risks and returns our portfolio can deliver.

The Trustee will manage its investments in line with achieving net zero emission greenhouse gas emissions by 2050. Our commitment is based on governments and policymakers delivering on their commitments to achieve the temperature goals of the Paris Agreement.

The Trustee will keep this under review to ensure it aligns with members' interests and trustee fiduciary duties.

Cheviot Trustees Limited
Adopted July 2022

Section 3 RISKS, METRICS AND TARGETS

Background

3.1 Cheviot has a robust risk assessment process in place in which the impact and probability ratings of climate-related risks are integrated into the existing risk management framework. Risks are overseen by the relevant Committee, in this case, the Investment Committee. The climate related risk is assessed as a red risk (impact 4 and probability 4) given the uncertainty of the situation, current likelihood of a Failed Transition and the financial impact that would result for different sections of the membership over different timescale. This categorisation of risk has impacted the Scheme's prioritisation and management of risk due to significant potential of loss and likeliness to occur. The analysis is based on the scenario analysis undertaken which assessed the impact of climate change in the context of transition risks, physical risks, impact on GDP to each asset class and the potential impact on financial markets. As a result of this rating, climate related issues are now an essential part of all asset allocation advice.[15]

Climate change and ESG risks

3.2 The Investment Committee has concluded that climate related risks (including both physical and transition risks) should be treated as a standalone risk, whilst recognising that they will impact on the Section's ability to meet its return targets due to the potential physical risks to assets brought about by climate change and potential transitional risks to investments. The climate related risks are rated as red risks. The Investment Committee will develop a more granular risk assessment when more data is available, recognising that the assessment needs to be proportionate.

3.3 The Investment Committee oversees climate-change and ESG risks as part of its usual risk management process at every meeting. The risk register is reviewed at quarterly meetings and more regularly if required. It includes a risk relating to the potential for physical and transition risks relating to climate change to have a detrimental effect on investment markets and member pot sizes. Failure to meet the Paris Agreement has a particularly negative effect. The risk register notes the ongoing review of the portfolio against climate risk metrics to understand the portfolio risk and facilitate mitigation where possible. Resilience to climate risk scenarios (including both physical and transition risks) is considered as part of the investment strategy portfolio construction (which is reviewed at least triennially).

3.4 The Trustee reviews key risks quarterly, including all red risks. Advisers review risks at least annually but in practice the investment consultants attend all Investment Committee meetings and so are part of the risk assessment discussion. The Investment Committee is mindful of the risks of greenwashing and of the need to ensure that the quality of the data and conclusions reported about funds and the underlying companies is sufficiently accurate and granular to provide objective information. The Investment Committee keeps this under close review.

3.5 Reports from the investment adviser include ESG ratings where appropriate. Climate change remains a substantive standing item to enable the Investment Committee to develop its strategy and identify and assess any new opportunities or risks and to prioritise and manage risks.[16] Improving the data to enable the Investment Committee to assess progress towards a Paris aligned portfolio continues to be a priority.

3.6 The Trustee recognises that stewardship can be used to help manage the climate-related risks to the Scheme. The use of an investment platform makes engagement with the underlying managers difficult. The Trustee wrote to all underlying managers in February 2024 (having previously also written to them in 2022) asking them to provide details of their climate related strategy, their stewardship policies and their aspiration to align to the Paris Agreement.[17] The response was once again disappointing with some managers refusing to provide information as we do not have a direct relationship with them and others providing very limited information.

3.7 The Investment Committee received training on stewardship in 2022 and considered six different stewardship priorities, consistent with the Schroders Engagement Blueprint. The training reflected the

[15] Going forward, asset allocation decisions are delegated to VLK (monitored by the Investment Committee).
[16] Going forward, this is delegated to VLK.
[17] The data was requested in February 2024 and received in April 2024.

challenge presented by investing through a platform and the lack of direct engagement with managers. Given these challenges, the Investment Committee concluded that a narrow approach to stewardship was most appropriate. Climate and governance were selected as appropriate stewardship priorities. This was reflected in the identification of votes and engagements considered "most significant" and reported in the implementation statements.[18]

Metrics

3.7 The Investment Committee considered the best way to understand how exposed the Scheme is to climate and carbon risk to inform a strategy to mitigate the risks as best as possible and identify any opportunities, considering various metrics (absolute emissions, emissions intensity, portfolio alignment and additional climate change). The Investment Committee agreed the following metrics as part of their ongoing governance and reporting as being objective and measurable in the context of the assets held.[19]

	Description	Measurement
Total Carbon Emissions of the portfolio (Absolute)	Total emissions associated with a portfolio	Tons CO_2e carbon footprint x investment size
Carbon footprint (Intensity)	Total emissions normalized by the size of the portfolio	Tons CO_2e/£m invested
Temperature Alignment score of the portfolio	A measure of the global warming temperature outcome implied by companies' activities and targets	Currently very onerous to obtain sufficient information to measure this but the Investment Committee aspires to be able to use this as being more forward looking than the carbon emission metrics.
Improving data	Data reporting Scope 1, 2 and 3 emissions[20]. Number of underlying companies with a science-based target.[21]	Percentage

3.8 The Investment Committee considered the available data collated by the investment platform provider, Mobius Life, presented by Schroders Solutions. There are still significant gaps in the data required from the underlying managers and investment platform provider, particularly in relation to Scope 3 emissions. The Trustee has not been able to obtain full information on data coverage or quality. This is disappointing but the Trustee believes the data gaps should be improved on when the transition to VLK is complete based on conversations with VLK and their experience.

3.9 The following metrics have been collated from the underlying managers by Mobius Life and aggregated by Schroders Solutions. The data for the 2023 scheme year was not obtained during the scheme year but was instead obtained and calculated during the 2024 scheme year. This is due to how the platform provider reports its data. This continues to be a focus of engagement with the platform provider, and it is hoped that data collection will improve with the appointment of VLK. Where managers were not able to report total carbon emissions, these have been calculated from the Carbon Footprint numbers provided. Footnote references in the chart are shown below.

Metric	2022[1]			2023		
	Emissions	Data Coverage (%)[1]	Normalised emissions (scaled to	Emissions	Data Coverage (%)[1]	Normalised emissions (scaled to

[18] These will be reviewed in light of the expected improvement in available data following the appointment of VLK as fiduciary manager.
[19] The metrics are consistent with those recommended by the DWP.
[20] Scope 1 emissions are direct greenhouse emissions that occur from sources that are controlled or owned by an organisation. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company.
[21] Science-based targets provide companies with a clearly defined path to reduce emissions in line with the Paris Agreement.

				100% data coverage)			100% data coverage)
Scope 1 &2	Total Carbon Emissions (EVIC)	11,088	81%	13,664	11,495	78%	14,835
	Carbon Footprint (Tonnes CO_2/£m invested)	86.4	81%	106.5	80.6	78%	103.8
Scope 3	Total Carbon Emissions (EVIC)	23,341	41%[2]	N/A[3]	44,446	29%[2]	N/A[3]
	Carbon Footprint (Tonnes CO_2/£m invested)	181.9	41%[2]		450	29%[2]	

1. *Where managers have been unable to provide a data coverage metric it has been assumed the coverage is similar to equivalent funds or prior knowledge of the asset class has been used to make a reasonable assumption. Data coverage is reported as a proportion of total assets.*
2. *Scope 3 data coverage figures were received at a fund level for 2023, allowing for a more accurate coverage calculation methodology. The 2022 data coverage figure for Scope 3 reflects the proportion of the Section's investments represented by funds that had provided Scope 3 data.*
3. *Normalised emissions not calculated for data with <50% coverage of the portfolio.*

3.10 The Trustee asked all managers to provide a temperature alignment score together with an explanation of the methodology used to calculate to enable it to report this as their Paris Aligned metric. No managers were able to provide the methodology, meaning that the temperature scores provided are difficult to interpret and aggregate. Therefore, to report on the fourth metric, the Trustee has taken a high-level approach considering the overall commitment of the managers to Net Zero and the individual strategy level commitments.

3.11 Based on the holdings at the end of the Scheme year:

- 100% of managers have made a firm level commitment to Net Zero (see paragraph 2.11 above)
- 0% of strategies have a strategy level commitment to Net Zero.

3.12The lack of commitments at a strategy level is primarily due to the nature of the investments, which are mostly passive in nature. VLK will be transitioning assets to a passive fund managed by State Street against a custom global equity benchmark developed by the Transitions Pathway Initiative, State Street and VLK. This benchmark applies a wide set of exclusion criteria and incorporates climate risk by assigning a higher weight to companies with a well-defined climate transition agenda to move to a lower carbon footprint (and vice versa). This requires a forward-looking assessment of a company's management quality and their policies for limiting greenhouse gas emissions and transitioning to low carbon. The fund aims to reduce carbon emissions in line with the 1.5- or 2-degrees pathway for each sector (aligned with the Paris Agreement).

Targets

3.13 The Investment Committee has set an overarching target of achieving Net Zero by 2050, provided it does not conflict with their fiduciary duties to members. The Investment Committee decided not to set absolute emissions reduction targets but to focus on the forward-looking metric of Implied Temperature Rise (ITR) of the portfolio.

3.14 The Investment Committee has not yet been able to obtain consistent data on ITR to allow it to set the baseline for this metric but when this is set, it aims to see the ITR reducing linearly each year. This will allow them to set interim targets related to ITR. In the meantime, the shorter-term target is to improve the data coverage and quality, both to include more of the Scope 3 emissions than is currently available, and also to improve the consistency of the ITR metric. The Trustee would like to use Science Based Targets for the ITR metric where possible but will engage with their underlying managers to utilise a consistent metric that is most widely available.

3.15 The Investment Committee set the base date for the emissions-based metrics at 31/12/2021. This also aligns with the Scheme's year end. The Investment Committee believed it would not be appropriate to measure performance against targets at an earlier date because the impact of the pandemic on global carbon emissions would represent an unrealistic starting point.

3.16 The data provided in relation to Carbon footprint enables the Investment Committee to establish the current position and monitor the position going forward in respect of Scope 1 and 2 emissions. Data is still limited for Scope 3 emissions and the Investment Committee understands the measure of carbon footprint may increase once Scope 3 emissions are included.

Performance

3.17 Although the level of data for the Trustee's preferred metric of implied temperature score is not available, the Trustee noted that the Scope 1 and 2 normalised carbon footprint emissions have risen as a result of the higher level of investment, but carbon footprint has fallen over the year from 31/12/2022 to 31/12/2023. Data coverage has decreased from 81% to 78%. There was also a reduction in the proportion of managers that are reporting Scope 3 emissions. The Trustee believes an improvement in data coverage is required both to improve the credibility of the metrics and to enable the Trustee to track them over time.

3.18 The response from managers has continued to be disappointing, with some managers still refusing to provide information as we do not have a direct relationship with them and others still providing very limited information. We have worked with Mobius Life to understand the information they were requesting and, where gaps remain, through direct engagement with the managers on their information gathering approach.

3.20 The Investment Committee expects the appointment of VLK to improve engagement with managers significantly. Although Cheviot's assets will still be held on the platform, VLK has direct relationships with the core managers and will be able to provide relevant data much more easily.

SUMMARY FOR MEMBERS

THE CHEVIOT PENSION

THE IMPLICATIONS OF CLIMATE CHANGE

Climate change[1] 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, counties 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

Whilst Cheviot has incorporated climate change and other ESG issues into its decision making, it has found it difficult to assess the data required to measure progress effectively. The Board therefore appointed a new investment adviser and manager this year, Van Lanschot Kempen. VLK's approach to sustainability was a key driver for the appointment.

The approach is managed under three core pillars: exclusion - not investing in companies involved in controversial activities or conduct, ESG integration - ensuring sustainability risks are adequately considered in investment analysis and processes and active ownership - using its influence to improve corporate behaviour and specific ESG issues and achieve positive change.

The Trustee is confident that VLK will help it improve compliance and engagement, and enable Cheviot to manage and monitor its commitment to reaching net zero going forward more effectively.

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 2023 continued to be dissapointing and limited, however it is hoped that data collection will improve with the appointment of VLK as our fiduciary manager.

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 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.

Approved 30 July 2024