



# 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 2023**



## 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) consists of 31 members from across the G20, representing both preparers and users of financial disclosures. The TCFD is chaired by Michael R. Bloomberg, founder of Bloomberg L.P. Its goals are “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 TCFD is committed to market transparency and stability. It believes that better information will 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<sup>1</sup> 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 second 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 2022 to December 2022. The Trustee’s approach is proportionate to the assets under management (circa £142m as at 31 December 2022) and the use of an investment platform which significantly restricts direct engagement with managers or the underlying companies. The report meets the requirements of the guidance and requirements set out in relation to climate related risks.

## Cheviot’s investment beliefs

The report is underpinned by the Trustee’s core investment beliefs in relation to climate change:

- The Trustee believes that climate change will be a financially material factor now and increasingly so in the future.
- Failure to meet the Paris Agreement will have a significant negative impact on members, investments and the wider financial structure.
- Long term investors have an opportunity to influence managers and companies in relation to climate change issues.

As a result of its work and improved understanding in this area during the last 18 months, the Board has approved a bespoke net zero commitment by 2050, reflecting 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.

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<sup>1</sup> The default fund for the purposes of the legislation

## INTRODUCTION



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**

## Section 1 – GOVERNANCE



### Climate oversight<sup>2</sup>

- 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.
- 1.2 The policy sets out the Investment Committee's approach to evaluating and monitoring climate related risks and opportunities (CRRO)<sup>1</sup> under delegated powers from the Trustee.<sup>2</sup> 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 2022. Most 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 attended a training session on climate change actions at an education day in January 2023 and receive regular updates at each Board meeting.

### Assessment of advisers

- 1.6 The Investment Committee will assess the experience and support of the Investment and other advisers and service providers in this area at least annually against the ICSWG checklist where appropriate. All advisers are required to provide an annual declaration that training consistent with the professional requirements has been undertaken, including adequate climate-related risk training for the activities being undertaken for the Trust. 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 that include climate risk management. At the November 2022 Investment Committee meeting, the Trustee approved an assessment to be used to measure the climate change competency of its advisers using the themes of the ICSWG checklist. Although this was not developed in time for the scheme year, the Trustee plans to use it going forward to satisfy itself that its advisers take adequate steps to identify and assess any climate-related risks and opportunities.

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<sup>2</sup> As required by the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, Schedule 1, Part 2, 27(a)

## Section 1 – GOVERNANCE



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

Adviser	Role
Cheviot Management	Governance Support and Financial Information
Isio	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

1.8 The key advisers in relation to identifying, assessing and managing any climate-related risks are the Trustee's investment advisers, Schroders Solutions. The investment adviser objectives agreed with Schroders have been revised to incorporate 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 and the Head of Sustainable Solutions, Barbara Wilson, has been leading on advising the Trustee and Investment Committee in respect of this report.

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. For example, during 2022 the Investment Committee:

- challenged the compatibility of an industry standard net zero commitment with the Trustee's fiduciary responsibilities and concluded that a bespoke commitment was more appropriate
- asked for more information about the impact that any net zero commitment would have on current investment strategy
- introduced an expectation that managers will be committed to net zero and aspire to reflect this in their funds
- challenged the wording proposed in relation to "greenwashing"
- agreed to introduce a small ESG equity component to the blended funds, balancing the perceived benefits of the fund against the additional costs

1.11 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 Trust's ability to directly engage with managers or underlying companies. Based on publicly available information, the Trustees can see that all managers employed at the end of the Scheme year had also made a Net Zero Commitment at firm level and published policies on their website:

## Section 1 – GOVERNANCE



Manager	Commitment to Net Zero at company level	Further information
LGIM	Yes	<a href="#">Legal &amp; General Investment Management – The Net Zero Asset Managers initiative</a> <a href="#">LGIM – Reaching net zero: LGIM’s approach</a>
BlackRock	Yes	<a href="#">BlackRock – The Net Zero Asset Managers initiative 2030 Net Zero Statement   BlackRock</a>
Insight (via BNY Mellon)	Yes	<a href="#">Insight Investment – The Net Zero Asset Managers initiative</a> <a href="#">Insight Investment's net-zero pledge</a>
Invesco	Yes	<a href="#">Invesco – The Net Zero Asset Managers initiative 2022 Global TCFD Report   Invesco UK</a>

1.12 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.<sup>3</sup> The Finance Manager attends all Investment Committee meetings and training sessions.

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<sup>3</sup>The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, Schedule 1, Part 2, 27(b)



### 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 considered three different climate scenario models which brought together climate science and economics in February 2022.
- 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%). 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<sup>4</sup> 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 in 2022 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<sup>5</sup> 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<sup>6</sup> 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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<sup>4</sup> The default option under the regulations.

<sup>5</sup> 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.

<sup>6</sup> Disorderly transition - Paris Agreement met but an abrupt transition, little climate action in the short term, following by a sudden tightening of policy to get on track with Paris. Policy and technology shock likely.



- Paris orderly<sup>7</sup> 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 are working with Schroders 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 2022 to asset allocation for the blends used in the default strategy. These were:
- Introducing the BlackRock ACS World ESG Equity Tracker fund, replacing 10% of the existing passive equity allocation within the portion of each blend which retains a static asset allocation.
  - Increasing the risk profile of the Growth and Moderate blends, by increasing the equity allocation
  - Reducing interest rate sensitivity within the Cautious and Retirement Planning blends.
- 2.10 It concluded it was not necessary to rerun the scenario analysis in 2022 on the following basis.
- The strategy changes implemented were unlikely to impact the overall conclusion of the scenario analysis. In particular, the increase in equity allocation would be offset to a degree by the reduced carbon exposure from the new Blackrock ESG fund.
  - The reduction in interest rate sensitivity in the Cautious blend would not have a material impact on the output, as the climate impact on shorter dated UK government bonds is very similar under a 10-year term.
  - The Trustee recognises that the scenario analysis is based on assumptions which may not play out in practice and has limitations in the modelling. The additional cost for re-running the scenario analysis each year did not feel proportionate to the insight this would provide for these small asset allocation changes.
- 2.11 The Investment Committee undertakes an annual review of the inclusion of ESG considerations in respect of the selection of investment manager and the approach of the underlying managers to ESG which includes the managers' alignment to the Paris Agreement.
- 2.12 The Investment Committee reviewed the results of the scenario analysis which were in line with the Trustee's belief that supporting the Paris Agreement was the best outcome for members. The strategic implications identified were:
- The primary driver for the difference in impact between funds is the equity allocation, equities being the least resilient asset class with high exposure to US and to sectors that are more exposed to both transition and physical risk.
  - High yield bonds were more exposed to physical risk over long time horizons compared to investment grade bonds.
  - Gilt and cash are the most resilient assets but produce lower returns which are inconsistent with good retirement outcomes for members.

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<sup>7</sup> 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.





- Transition risks may occur sooner than anticipated (impacting members approaching retirement over the next 5-10 years significantly as they disinvest their funds).
- 2.13 The Investment Committee agreed 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 collaborative engagement initiatives. The high yield bond allocation in the Moderate fund will be considered in 2023 particularly in the context of assessing the underlying investment managers on their approach to managing risks.
- 2.14 The Investment Committee concluded that climate change should be part of the asset allocation process in future with the potential for regional and sectoral decisions becoming more material. As a result, after much discussion and debate, the Investment Committee agreed to adopt 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.

### 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 202



### Background

- 3.1 Cheviot has a robust risk assessment process in place which assesses the impact and probability ratings and climate-related risks are integrated into the existing risk management framework. Risks are overseen by the relevant Committee. The climate related risk is assessed as a red risk (impact 5 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.

### 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 scheme'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. 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 challenging. The Trustee wrote to all underlying managers in 2022 asking them to provide details of their climate related strategy, their stewardship policies and their aspiration to align to the Paris Agreement. The response was disappointing with some managers refusing to provide information as we do not have a direct relationship with them and others providing very limited information. We have therefore focused on working with Mobius to understand the information they were requesting and where gaps still remain. The Investment Committee is considering its options but is likely to engage specifically with the investment platform provider as the most effective and proportionate approach to stewardship.

### 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.

## Section 3 - RISKS, METRICS AND TARGETS



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.<sup>8</sup>

	Description	Measurement
Total Carbon Emissions of the portfolio (Absolute)	Total emissions associated with a portfolio	Tons CO <sub>2</sub> e carbon footprint x investment size
Carbon footprint (Intensity)	Total emissions normalized by the size of the portfolio	Tons CO <sub>2</sub> e/£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 <sup>9</sup> . Number of underlying companies with a science-based target. <sup>10</sup>	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, although this has improved since last year. We have not been able to obtain full information on data coverage or quality. This continues to be a focus of engagement with the platform provider.
- 3.9 The following metrics have been collated from the underlying managers by Mobius Life and aggregated by Schroders Solutions. The data for the 2022 scheme year was not obtained during the scheme year but was instead obtained and calculated in 2023 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. No data was reported for sovereign bond funds. 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		2021 <sup>1</sup>			2022		
		Emissions	Data Coverage (%) <sup>2</sup>	Normalised emissions (scaled to 100% data coverage)	Emissions	Data Coverage (%) <sup>2</sup>	Normalised emissions (scaled to 100% data coverage)
Scope 1 & 2	Total Carbon Emissions (EVIC) <sup>3</sup>	10,558	67%	15,808	11,088	81%	13,664
	Carbon Footprint (Tonnes CO <sub>2</sub> /£m invested)	84.3	67%	126.1	86.4	81%	106.5
Scope 3	Total Carbon Emissions (EVIC) <sup>3</sup>	N/A	0%	N/A <sup>4</sup>	23,341	41%	N/A <sup>4</sup>
	Carbon Footprint (Tonnes CO <sub>2</sub> /£m invested)		0%		181.9	41%	

<sup>8</sup> The metrics are consistent with those recommended by the DWP.

<sup>9</sup> 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.

<sup>10</sup> Science-based targets provide companies with a clearly defined path to reduce emissions in line with the Paris Agreement.



1. *The 2021 metrics have been restated from last year's figures, following manager adjustments in their reported metrics.*
  2. *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.*
  3. *Normalised emissions not calculated for data with <50% coverage of the portfolio.*
- 3.10 This year, the Trustees 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 1.11 above)
  - 0% of strategies have a strategy level commitment to Net Zero.
- 3.12 The lack of commitments at a strategy level is primarily due to the nature of the investments, which are mostly passive in nature. The Investment Committee will continue to keep this under review and consider whether they should make proactive change to the passive allocations to align these with the Paris Agreement, given the costs involved in moving and potential increase in management charges.

### 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 as these measures are backwards looking 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 Carbon footprint may increase once scope 3 emissions are included.

### Performance

- 3.17 Although the level of data for the Trustees preferred metric of implied temperature score is not available, the Trustees were encouraged to see that the Scope 1&2 normalised carbon footprint emissions have reduced by 16% over the year from 31/12/2021 to 31/12/2022 and that the data coverage has improved from 67% to 81%. There is also an improvement in the proportion of managers that are reporting Scope 3 emissions, although this is still relatively low.

## Section 3 – RISKS, METRICS AND TARGETS



3.18 The Trustee believes an improvement in data coverage is required both to improve the credibility of the metrics and enabling the Trustee to track them over time. This was the focus of engagement with the service providers during 2022. The Trustee wrote to all underlying managers in 2022 asking them to provide details of:

- their climate related strategy
- their stewardship policies
- their management of the risk of greenwashing
- their measurement of underlying climate related risk
- their aspirations for alignment to the Paris Agreement.

3.19 The response was disappointing, some managers refusing to provide information as we do not have a direct relationship with them and others providing very limited information. We have therefore focused on working with Mobius to understand the information they were requesting and where gaps still remain through direct engagement with them on their information gathering approach.

3.20 The Investment Committee will continue to engage with the platform provider on improving the data available to improve reporting and measurement going forward and embedding the agreed targets into the governance and risk management processes.



## THE CHEVIOT PENSION

# THE IMPLICATIONS OF CLIMATE CHANGE

Climate change<sup>1</sup> 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, countries 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

The impact of climate change is now an essential part of the decision making process about which assets to hold. The Trustee continues to aim to strike a balance between the level of risk and return of the underlying investments and includes climate change issues in that assessment.

The Trustee intends over time to move to funds which take more account of climate change and are aligned to the Paris Agreement.

The Investment Committee has also considered the best way to understand how exposed the Money Purchase Section is to climate and carbon risk. It has decided to focus on a forward looking measure of the Implied Temperature Rise of the investments. It does not yet have sufficient data to set a baseline for this measure but will set a target when the data is available. In the meantime, its target is to improve the data coverage and quality.

### 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 2022 continued to be limited and the Investment Committee is engaging with the platform provider to improve the data received in the future.

### CLIMATE CHANGE REPORT

The Trustee's full report on its work on the impact of climate change is [available here](#).

<sup>1</sup> This factsheet is a summary of Cheviot's first 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.