"The Green Elephant in the Sustainable Investment Room"

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This blog by Charlotte Tyrwhitt-Drake is part of a weekly series from the Pensions for Purpose team.

Mandatory climate related financial disclosures by 2025, a green gilt issue, a green taxonomy. Put them together and what have you got? A recipe for telling us what we are already doing or, on the green gilt point, what others in Europe have already been doing for years. What do we need? Targets and a measurement framework.

While disclosing the damaging consequences of what we are doing to the planet creates transparency, it does not create or fund the change we need to reach our commitment of reaching net zero carbon emissions by 2050. Without corporate climate targets which companies can be scrutinised on, mandatory disclosure rules will have limited impact. Only half of public companies around the world publish data on carbon emissions and even those yield relatively patchy results. We need to understand emissions in the context of the entire supply chain (Scope 3 emissions) to understand the full carbon footprint of a company.

According to Carsten Jung, formerly an adviser at the Bank of England and currently working with the Institute for Public Policy Research, we have a £29 billion gap in public investment which will not be filled by Rishi Sunak's announcement on green gilts. We need a collective move through public and private investment, in recognition of the significant systemic risks but also opportunities posed by a transition to a sustainable economy. Only through economic scale can we really reach our net zero ambitions.

So, you are a pension fund that knows these disclosures are coming down the track; that climate change poses a material risk to our economy, society and the environment; and that there will be opportunities as we transition from fossil fuels. How do you put your capital into the larger pot required to reach those net zero ambitions while focusing on paying members?

Consider setting yourself some targets:

- Start to map your carbon exposure across your portfolio ahead of 2025 by engaging with your investment consultant and managers;
- Set a target of achieving net zero carbon emissions by a specific date, with specific indicators across your portfolio, e.g. reducing fossil fuel exposure year on year by X% and creating an engagement policy around this target;
- Monitor your progress on a regular basis to understand how your policies are impacting your portfolio exposure considering the timeframes of the different asset classes, e.g. private investments will have a longer time frame;
- Use the regular reviews to tweak your investment policies over time;
- Consider how your investment consultant and managers are incentivised and aligned in relation to your climate goals.

So, who is the Green Elephant in the Sustainable Investment Room you may ask? It's us, our collective responsibility from an investment perspective to all pull towards this goal which unites us. If we do not the economic, social and environmental consequences are unfathomable.

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