



"Climate Science Basics for Pension Funds"

May 2021

This blog by Mike Rogers is part of a weekly series from the Pensions for Purpose team.

What is the Paris Alignment Forum?

The Paris Alignment Forum is an industry-wide member forum hosted by Pensions for Purpose to facilitate meaningful industry discussions on how to achieve Paris Alignment or net zero in pension fund portfolios. It is free and open to all. A key role of the forum is to give members access to high quality training led by climate change practitioners and others in the industry.

What training opportunities are available?

The new climate governance requirements coming into force on 1 October this year for large pension schemes require Trustees and their advisors to demonstrate that they are "staying informed" on climate-change risk and opportunities and also they must show how they have done this in their statutory climate-change reporting. Our training courses are designed to enable participants to demonstrate their activity in this area. These online events are open to asset owners and advisors and are limited to a maximum of 15 attendees to ensure that participants can discuss and debate the challenges and opportunities that they are experiencing.

The Paris Alignment Forum has started this season by hosting two Climate Change Basics courses in April and May. We will be running further training courses over the coming months, covering climate-change scenario testing; choosing climate metrics and setting targets (all urgently required by 1 October for large pension schemes). These courses are suitable for any individual involved in the governance of pension fund or other assets. Bespoke training can also be arranged for groups of trustees from one pension fund or made available to clients of independent trustee firms or other providers. Please contact mike.rogers@pensionsforpurpose.com for details of our forum events.

What are the on-line training events like?

The events are small, focussed and informal with free-flowing discussion. The remainder of this article gives a flavour of the last two training sessions on Climate Change Basics.

"The level of insight was beyond what I have heard to date - moving beyond the rhetoric and diving into the substantive research on this subject" **Course Participant**

It is widely recognised that climate change represents both risks and opportunities for pension funds. The intention of the Climate Change Basics course is to go back to fundamentals to look at the data behind climate change and enable participants to ask questions. Pensions for Purpose would like to thank the participants of both sessions for their lively engagement in the session and this note captures some of the discussion and comments.

Climate change basis – course content

The course covered the following key areas:

- Linkage between global temperature and carbon dioxide
- The bathwater analogy: CO2 ppm (parts per million) is the “bathwater level” and emissions are the taps
- The linkages between net zero emissions, CO2 ppm and global temperature increases
- The role of other greenhouse gases (e.g. methane)
- The path to net zero and impact of abatement technologies (e.g. solar, wind) vs new carbon removal technologies
- The role of hydrogen technology as a store of energy
- Scope 1, 2 and 3 emissions
- Approaches to greening finance – the role and effectiveness of engagement, voting, disinvestment and exclusion in managing risk and return and achieving good climate outcomes
- TCFD reporting
- Economic thinking

What was discussed?

As well as covering the wide range of topics above, participants had the opportunity to dig deeper. Examples of some of the key elements that came up in discussion were:

Not all hydrogen is green – Hydrogen has an important place to play in the transition; particularly as a store of energy perhaps from excess wind or solar production in future. Nevertheless, some production methods today release carbon (so called grey hydrogen); some producers offset this carbon (blue hydrogen).

How green are solar panels? – Production of solar panels uses carbon so the “carbon payback” is important. In the past it used to be several years before solar panels had produced enough electricity to offset the carbon used in their production. Increased efficiency means that the carbon payback period is now much shorter.

How is historic CO2 concentration measured? – Participants discussed charts showing temperature levels and carbon concentration; debating the scientific approaches to finding carbon levels in the 1800’s


Net zero by 2100 or 2050? - Many investors are setting 2050 net zero targets; discussion ensued around whether this was realistic, whether pension funds could adopt this and whether they had the influence to achieve such a target.

Challenges around scope 1, 2 and 3 reporting – is there scope to greenwash carbon disclosures, how will this be policed, thinking of emissions like VAT – how much additional carbon is emitted at each step in a product or service’s lifecycle

Engagement vs disinvestment – which is the better approach? Disinvesting means a carbon emitter continues to emit but raises its cost of capital. Engagement means holding emitting companies but enables investor activism

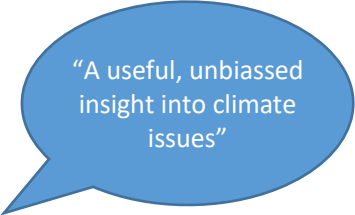
“This session did so well in exposing me to people who know a lot more than I do about a subject am very interested in, whilst at no point making me feel ignorant or inadequate. A great encouraging learning environment”. **Course Participant**

What was the feedback?



"A very thorough exposition of the linkage between climate science and the financial aspects that are relevant to pension funds. I strongly recommend it."

Feedback was overwhelmingly positive with participants giving high marks for training expertise (4.9 out of 5) and clarity (5 out of 5).



"A useful, unbiased insight into climate issues"

An objective of the sessions is to equip asset owners to critique all aspects of climate change governance and strategy including reporting and investment opportunities. Participants felt that the session was directly relevant to their work in investment and pensions (4.6 out of 5).

Would you like to join us?

If you would like to join us for another of these events and/or be part of our member forum on Paris Alignment please get in touch with Mike Rogers. Mike.Rogers@Pensionsforpurpose.com

To find out more about the Paris Alignment forum please click [here](#) and to sign up to receive information about future forum events, please click [here](#).

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