

Quarterly newsletter – Q1 2022

Review of 2021 and looking forward to 2022



Whether you are a regular attendee at our events or simply want to lend your support, we would like to thank each one of you for belonging to the forum. In particular, we would like to thank everyone that led our events as a keynote speaker or by sponsoring events.

Special thanks go to the forum sponsors, [Redington](#) and [Invesco](#). In this newsletter, Redington write about the key developments to look out for from COP26 and Invesco look at the way that markets responded to COP26.

The start of a new year is a good time for us to pause and take stock. From a standing start in April 2021, the Paris Alignment Forum membership has over 370 members and in this newsletter we reflect on the achievements of the past year and the challenges that lie ahead of us in 2022 and beyond.

Our aim is to empower asset owners to make informed decisions around climate-change. We do this by bringing together asset owners (pension trustees, executives, professional trustees) together with asset managers, investment consultants, climate specialists, government, and regulators. The more individuals and organisations that join the debate, the faster change will happen so please do spread the word by forwarding on this newsletter to anyone that you think might be interested in our work.

The year ahead

Our first event of the year is our all-stakeholder online meeting which looks back at COP26 and plots the path ahead for pension funds.



All-stakeholder event

**Wednesday 9 February 2022,
15.30-17.00 GMT**

**The road from COP26 – what does it mean for
pension schemes?**

[Click for more](#)[Register](#)

We are delighted that Kerry Perkins from Accounting for Sustainability (A4S), Tega Harding from ITS Ltd and Cllr Doug McMurdo, chair of the Local Authority Pension Fund Forum and member of the Bedford Pension Fund Committee, will be leading the keynote discussion.

We will release our full Q1 schedule on our [forum web page](#) later in January.



2021 - the year in review

The Paris Alignment Forum has covered a lot of ground during 2021 hosting 18 online events since we started in April.

3 All-member events 3 Asset owner forums 5 Interactive training courses 7 Online afternoon teas 2 PAF Award winners

It is hard to pick highlights for the year but the awards event in November stands out. It was a delight to recognise our two Paris Alignment Forum Pension Fund winners. Our purpose is to encourage continuous improvement in climate action and it was a privilege to acknowledge two pension funds who are leading the way:



TfL Pension Fund

*Best Climate Change
Member Communication*



Brunel Pension Partnership

*Best Climate Change Governance
& Strategy Statement*

If you missed our online events the first time, it isn't too late: materials and presentations are still available on the Pensions For Purpose website – see the [appendix](#) to this note for event details and links. We've also tagged below some of the key themes that we explored together so you can navigate quickly to areas of interest.

Net zero frameworks

Many leading pension funds have announced net zero policies. We were delighted to invite Daisy Streatfield from the IIGCC to talk about the IIGCC's net zero framework for asset owners at our [all-stakeholder](#) online launch event. In May, Richard Butcher, Chair of the PLSA joined us for an [online afternoon tea](#) discussion around the PLSA's report "A Changing Climate: How pension funds can invest for the future".

Climate regulation

Climate governance and reporting regulations came into force this year for large pension funds. These regulations were the subject of discussion at many of our asset owner events throughout the year. Also the DWP announced its consultation in October and we welcomed Thomas Rhodes and Melanie Jarman from the DWP to our [November all-stakeholder](#) meeting for a lively discussion, particularly around the merits of measuring alignment with a 1.5°C world.

Climate science

Keeping up with the climate science is challenging. Our online interactive training events covered a range of topics including an introduction to [climate science and finance](#) for those new to the area or wishing to develop their knowledge. We also looked in detail at specific areas such as [carbon capture technology](#) in our December afternoon tea and the challenges of constructing a "real-world" Paris Aligned portfolio in our [September all-stakeholder](#) meeting.



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**Climate reporting****Many pension funds are already reporting on their portfolios' climate data.**

Our Paris Alignment Forum Award Winner, TfL Pension Fund, provides some exemplary reporting together with excellent context around the chosen metrics. As the Climate Reporting regulations roll-out, more pension funds will need to report. At our [asset owner forum in October](#) we looked at the thorny issue of who should pay. We also hosted a deep-dive training event later in October [looking in detail at carbon data](#), its limitations and availability of data might constrain or distort investment choices.

Stewardship**Effective stewardship is recognized as a cornerstone of climate-change strategies.**

Many of our events touched on stewardship, including our [November training event](#) where we explored how natural language data processing is helping a systematic manager pick leaders and laggards in climate change.

Investment strategy**Strategy is a key theme of the TCFD disclosures.**

At the PAF asset owner events, pension funds shared experiences of setting climate-aligned investment strategy. In September, we asked [whether there is a "silver bullet"](#) when it comes to setting a Paris Aligned strategy and, while we concluded that there is none, we explored the steps needed in various asset classes from public equity and credit markets to private markets. We also looked at how climate change should be embedded into the structure of a [buy and maintain credit](#) portfolio in our training session in November while, at our December afternoon tea, we looked at a four-pillar framework for creating a [real-world Paris-aligned strategy](#).

Opportunities**Decarbonising the economy is the biggest investment transition since the industrial revolution.**

The process of transitioning to a low carbon economy will require enormous amounts of capital to be deployed to carbon solutions. Our training sessions and afternoon teas have explored some of these investments including [carbon capture](#) at our December afternoon tea and [investment in the electricity grid infrastructure](#) at our online morning coffee in October.

Paris Alignment Forum sponsors

The Paris Alignment Forum is sponsored by Redington and Invesco. Below, Redington summarise what went on at COP26 and ask whether it was a success and Invesco ask what the market impact was of COP26.

Redington's perspective

COP26 – what went on and was it a success?

This is an excerpt from a more detailed article – click [here](#) for the full article.

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What are the key developments?

Although COP26 didn't deliver on everything hoped for, meaningful progress was made on several fronts, and it's clear that real-world policies on climate action will continue to accelerate.

Paris Rulebook

There were big expectations for progress on the Paris Rulebook – a legally binding international treaty that details the mechanisms through which countries can achieve their net-zero objectives. Negotiations around the Rulebook have been long and tedious, failing to reach an agreement in the previous two COPs. However, in Glasgow, all parties agreed on carbon-emissions accounting and international carbon-trading mechanisms - a significant development. These improvements are crucial in steering governments and private sector actors towards action (ie. the implementation of their commitments).

Policy commitments

Three important policy commitments were made in Glasgow:

- **Global deforestation pledge:** over 130 countries have pledged to halt deforestation by 2030. The signatories include Brazil, Canada, Russia, China, Indonesia, the Democratic Republic of the Congo and the US. Together, these signatories represent c. 85% of the world's forests. The pledge is accompanied by close to \$20bn of public and private funds.
- **Global methane pledge:** more than 100 countries have pledged to reduce methane emissions by at least 30% by 2030. 11 of the 20 largest methane emitters have signed the deal. China, Russia and India declined.
- **Coal phase-out:** over 20 countries have made commitments to phase out coal. This included just five of the world's top 20 coal power-using countries. Financial institutions also committed to ending unabated coal financing (coal-power generation without carbon-capture technology). The Pact includes reference to coal; however, the wording was unfortunately watered down by China and India who requested "phase out coal" was replaced by "phase down coal". There is also reference to a "phase out of inefficient fossil fuel subsidies".

Equity

There was a lot of talk about equity this year – ie. how rich countries can support vulnerable countries who face high costs for action on climate despite having contributed very little to the problem. Rich nations reaffirmed a pledge to channel \$100bn a year to less-wealthy countries for climate adaptation and mitigation strategies. A similar pledge was made 12 years ago but funding levels didn't reach the stated objectives – let's hope this time is different!

Corporate disclosure standards

The UK government announced plans to mandate net-zero transition plans for financial institutions and listed companies under the UK's Sustainability Disclosure Requirements, which is to be adopted by 2023. The government will establish a high-level Transition Plan Taskforce to develop a 'gold standard' for transition plans, associated metrics and reporting by the end of 2022. More widely, the IFRS Foundation announced the formation of an International Sustainability Standards Board, which will develop disclosure standards on climate and other sustainability issues.

So, was COP26 a success or a disappointment?

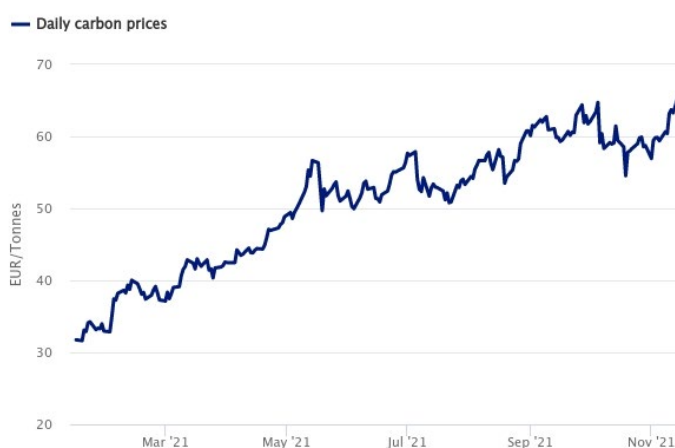
Voices are divided; perhaps it's too early to tell. The tagline of the conference was "to keep 1.5°C alive". And although the commitments and policies agreed to at COP26 are all crucial steps for humanity, bringing 1.5°C somewhat within reach, they fail to make it a reality. Even if all pledges and commitments are met, the current best-estimate trajectory is between 1.8°C and 2.4°C of warming. The key developments and the Pact make clear that the role of finance in keeping the 1.5°C goal within reach is more critical than ever. Action must be taken to convert commitments into outcomes. We have 98 months to halve emissions.

Invesco's perspective

COP26 and carbon reduction: lessons from the market

Ask someone if the 2021 United Nations Climate Change Conference (COP26) was a success or a failure and you'll likely get different answers. But how are markets responding to COP26 and will the economics, rather than the politics, ultimately be more decisive?

While it's still early days, initial evidence of how coal and fossil fuel indices have performed over the period would indicate that markets are increasingly alive to the risks inherent in financing companies in these sectors, compared with clean energy companies that have outperformed the market. The EU's carbon price also hit an all-time high of well over \$60/tonne⁽¹⁾, signalling that the market may be expecting tighter regulation going forward.



Sources: Ember, Intercontinental Exchange
Data as of 24 November 2021

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It is worth comparing how markets performed in response to COP26 with how markets performed after the Paris Agreement was adopted in December 2015.

A Bank of England (BoE) analysis from 2016 found that “these events had a negative but statistically insignificant effect on the abnormal returns for oil and gas companies, but a positive and significant effect for renewable energy companies”⁽²⁾. This stands in contrast to COP26, where the effect on oil and gas companies seems to have been stronger than for renewable energy.

What might explain this effect?

Policy levers to address climate change can broadly be divided into two types: carrots, that support green activities; or sticks, that punish polluting ones.

A simple read would suggest that the market post-Paris Agreement believed that policymakers would come bearing carrots rather than sticks, and therefore saw opportunities for clean technologies, but was slower to price in additional downside risk for fossil fuel companies. The BoE, for example, considered that one reason was “that investors may be uncertain about both the future course of climate-related policies and their impact on the value of fossil fuel companies”.

However, the new narrative around net zero and increasing policy action, such as the EU’s Fit for 55 package⁽³⁾, seems to underscore that policymakers are increasingly willing to use sticks to help to achieve their carbon reduction goals, making the transition risks for holding polluting companies more palpable for investors.

Of course, there are a myriad of other factors that influence market dynamics, and it would be simplistic to suggest that expectations around future policy action are the sole or even determinant factor at play.

However, it is clear that COP26 is the latest stop on this long journey to achieving the goals of the Paris Agreement, and reinforces the overall trend of shrinking cost of equity for green stocks and the growing cost of equity for brown stocks.

To further this momentum, we think it is essential that governments quickly turn promises made at COP26 into action.

Footnotes

⁽¹⁾ <https://www.ft.com/content/c1a78427-f3d5-4b4f-9878-c3e1dffee2ba>

⁽²⁾ <https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2016/lets-talk-about-the-weather-the-impact-of-climate-change-on-central-banks.pdf?hash=C49212AE5F68EC6F9E5AA71AC404B72CDC4D7574&la=en>

⁽³⁾ Fit for 55 forms part of the European Green Deal and aims for an emissions reduction target of net 55% by 2030 compared to 1990 levels, from the current 40 % emissions reduction target.



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Appendix – list of 2021 Paris Alignment Forum events



All-stakeholder online launch event

The IIGCC net zero framework for pension funds - *IIGCC*

13 April 2021

Daisy Streatfield from the IIGCC was our keynote speaker at the Paris Alignment Forum's inaugural event. She introduced the IIGCC Net Zero Investment Framework and this was followed by a Q&A and breakout discussions in small groups.

[Find out more](#)



Online interactive training

Climate change basics for business and finance: emissions and investment

26 April 2021

The objective of the session was to give delegates a basic understanding of climate science and how this is influencing investment thinking.

[Find out more](#)



Online afternoon tea

Five-step climate action plan for pension funds - *PLSA*

11 May 2021

In this session we presented a five-step climate action plan and we were joined by Richard Butcher, Chair of the PLSA. Richard discussed some of the key recommendations from the PLSA's report on climate change.

[Find out more](#)



Online interactive training

Climate change basics for business and finance: emissions and investment

24 May 2021

This was our second training session for members of the forum. It was a repeat of the session on 26 April 2021 which was oversubscribed. The objective of the session was to give delegates a basic understanding of climate science and how this is influencing investment thinking.

[Find out more](#)



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Asset owner forum

Introducing climate action into investment strategy – *Smart Pension*

14 June 2021

This was a Chatham House peer-to-peer discussion for pension funds and asset owners. We were delighted to welcome David Brown, a Trustee of Smart Pension Master Trust and Professional Trustee to discuss climate action policy, TCFD disclosures and setting measurable objectives.

[Find out more](#)



Asset owner forum

How to approach climate reporting and target setting – *London Borough of Islington*

6 September 2021

This was our second Chatham House peer-to-peer discussion for pension funds and asset owners. We welcomed Joana Marfoh of London Borough of Islington pension fund for a ‘fireside chat’. Joana explained how they are reporting on climate action and their approach to setting targets and this was followed by a lively discussion.

[Find out more](#)



Online afternoon tea

Impact investing to achieve net zero carbon – *Tikehau Capital*

14 September 2021

This session focused on impact opportunities for reducing carbon emissions in private debt, public fixed income, private equity and real estate. The event included an introductory presentation by Tikehau Capital followed by a Q&A and discussion.

[Find out more](#)



Online interactive training

Is there a “silver bullet” to achieving a Paris Aligned Investment Strategy?

– *Gresham House*

16 September 2021

The aim of this session was to understand alternative investment solutions, within a real assets portfolio, that support the ambitions of the Paris Agreement. The meeting covered pathways to net zero, categories of change and case studies of assets supporting the transition to a low carbon economy. The training was delivered by Gresham House’s Heather Fleming, Rebecca Craddock-Taylor and Peter Bachmann.



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All-stakeholder online event

Lowering the temperature path of your portfolio – *BMO Global Asset Management*

27 September 2021

In this all-stakeholder session, we looked at the challenges around moving from backward-looking metrics (such as absolute carbon emissions) to forward looking measures such as implied temperature pathways. There was vigorous debate around the need for forward-looking measures set against the challenges of measurement, sensitivity to assumptions and ensuring that portfolio-level action results in real-world emission reductions.

[Find out more](#)



Online morning coffee

Decarbonising with impact – *Federated Hermes*

29 September 2021

In this session we discussed more impactful ways that we can make a difference to our climate through listed equity portfolios and in fixed income portfolios. Panelists included Nachu Chockalingam, Senior Credit Portfolio Manager, and Caroline Cantor, Equity Investment Director from Federated Hermes.

[Find out more](#)



Online morning coffee

Investing for net zero? Direct investment into new clean technologies is an imperative to get us there – *CGF*

12 October 2021

It is not enough to encourage companies in existing listed portfolios to reduce their emissions. The reality is, we will not get to net zero unless investors also put money into creating and scaling up new technologies and solutions to provide, develop and commercialise the technology required to reach net zero. This session looked at potential opportunities for investors.

[Find out more](#)



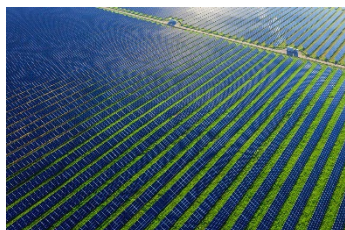
Interactive online training

Carbon data and measurement explained – *Natixis Investment Managers/Mirova*

18 October 2021

In this session, speaker Jean-Pierre Dmirdjian of Mirova described both the technical and organisational challenge related to defining carbon metrics, including measuring Scope 1, 2 & 3, along with avoided emissions; how this drives investment decisions; relationship with TCFD.

[Find out more](#)

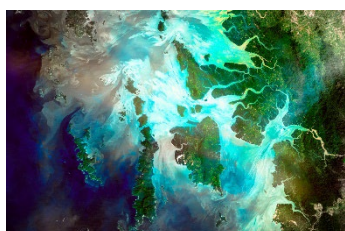
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Asset owner forum

Climate change and pension schemes –
there's a price to pay! – *Dalriada Trustees*

25 October 2021

This was a Chatham House peer-to-peer discussion for pension funds and asset owners. The costs of investing in a climate aware manner are disproportionately felt by asset owners. If climate change is “a code red for humanity” and a financially material risk for trustees – shouldn't the costs be spread more fairly through the financial chain? Jessie Wilson of Dalriada Trustees introduced this session by discussing increased costs and other practical hurdles.

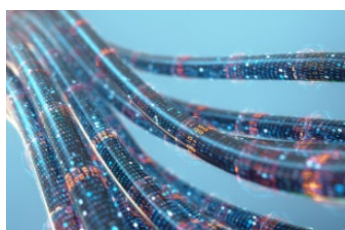
[Find out more](#)

Online afternoon tea

Implementing net zero alignment in
investment grade credit portfolios – *Invesco*

9 November 2021

This afternoon tea session took place during COP26 and it focused on one of the most important asset classes for mature pension funds – long term, cashflow generating, buy and maintain credit. We explored the exposures to climate change in such portfolios and the fiduciary duty to manage these risks. The debate went well beyond traditional risk management, identifying how to align a global buy and maintain credit portfolio with the goal of net zero without sacrificing the diversification, yield and cashflow generation profile of the portfolio.

[Find out more](#)

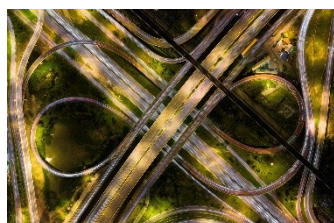
Interactive online training

What is the likelihood of companies meeting
their net zero goals? And how to identify the
laggards – *Acadian Asset Management*

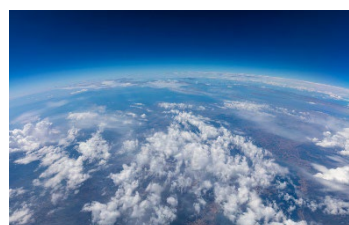
24 November 2021

This training session explained how a systematic approach using advanced data techniques, such as natural language processing, can identify the likelihood of a company meeting its net zero goal. We discussed the stewardship role a systematic manager can play in ensuring company alignment to a net zero transition. Learning outcomes were understanding of the unique data sources that are available; the differences between ESG data from different providers; understanding the tools to identify companies who are likely to be climate laggards.

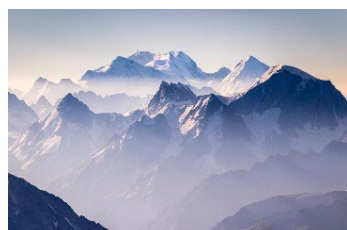
[Find out more](#)

**Invesco****REDINGTON****All-stakeholder online event****DWP Climate and Investment Reporting
Consultation - DWP****26 November 2021**

The DWP launched its consultation on proposals including the introduction of a fourth climate metric to assess alignment with a 1.5°C world; non-statutory guidance around the Statement of Investment Principles and statutory guidance around the implementation statement. The presentations by Tom Rhodes and Mel Jarman from the DWP were followed by a lively debate in breakout rooms.

[Find out more](#)**Online afternoon tea****Is it possible to construct a Paris Aligned
portfolio in the real world - Natixis
Investment Managers/Mirova****1 December 2021**

In this afternoon tea session, we discussed what it means to construct a real-world Paris Aligned portfolio. It is well known that it is possible to hold a net zero portfolio right now but that does little to contribute to real world economic transition. What can asset owners do to do more?

[Find out more](#)**Online afternoon tea****The carbon capture conundrum: is carbon
capture realistic or an excuse for doing
nothing? – Aviva Investors****8 December 2021**

In our last event of the year, we looked at carbon capture. We heard from Aviva Investors about the need for carbon capture solutions (CCS) in 1.5°C scenarios and we looked at nature-based and technological solutions, taking a deep dive into forestry.

[Find out more](#)

This is your Forum – tell us what you want

We would like your feedback on what you would like from the forum and invite you email [Mike](#) or [Karen](#). We are particularly interested to hear about the way we cover COP26, future training events, provision of on-demand training materials, and your preferences for on-line vs in-person events.



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Pensions for Purpose

[Pensions for Purpose](#) exists as a bridge between asset managers, pension funds and their professional advisers, to encourage the flow of capital towards impact investment. Our aim is to empower pension funds to seek positive impact opportunities and mitigate negative impact risks.

This newsletter is an update on Paris Alignment Forum activities which is published quarterly. If you would like to unsubscribe from the newsletter, or wish to leave the forum, please contact [Mike Rogers](#).