

INVESTING TO TAKE ACCOUNT OF CLIMATE CHANGE

March 2023

BCSSS and TCFD

Introduction to the Scheme

The British Coal Staff Superannuation Scheme (“The Scheme”) provides benefits for around 42,000 pensioners and deferred members.

The Scheme is run on behalf of the members by the Trustees (“The Trustee”) who have overall responsibility for investing the Scheme’s assets in order to pay members their benefits.

Coal Pension Trustees Investment Limited (“CPTI”) is responsible for providing investment advice and investment management services to the Trustee.

Investing to Take Account of Climate Change

It is critical for the Trustee to understand any financial risks and opportunities that the Scheme’s investment portfolio faces. In 2021, the Trustee prioritised climate change as a key investment focus.

CPTI, on behalf of the Trustee, is actively seeking growth opportunities in climate transition investments while managing climate risks in the portfolio. CPTI is also working on integrating climate factors into the Scheme’s investment strategy, including allocating to new asset classes or strategies that may benefit from expected energy transition changes, like commodities and infrastructure.

The Trustee reports every year on the Scheme’s approach to climate change through a TCFD report (Task Force on Climate-related Financial Disclosures). The report is very detailed and enables the members and other interested parties to monitor the Scheme’s activity.

The Trustee has now published its second TCFD report, for the year ending March 2023. It is accessible [here](#). Below we summarise the main points for members’ information.

Climate Change's Impact on Investments

Climate change will, and already has, impacted the Scheme's investments in many ways, both positive and negative. There are three areas of risk and opportunity that are material to the Scheme:

Physical risks

- These are the harmful effects of climate change, like extreme weather events, rising sea levels, heatwaves, floods, and droughts. These risks can damage homes, infrastructure, agriculture, and ecosystems.
- The Scheme's assets are at direct risk mostly through the physical assets it holds such as buildings and infrastructure which could flood or burn, but also through secondary impacts such as the changes that will come to insurance premiums, mortgage rates and consumer preferences in choosing where they live, work and make purchases.

Transition risks

- These are challenges that companies face when adapting to a low-carbon economy. These risks can include policy changes, pricing changes, changed supply and demand, stranded assets (those suddenly worth much less or viewed as undesirable).
- The Scheme has already experienced the impact of transition risks. In the UK, for example, all commercial buildings are required to have a valid EPC (energy performance certificate) rating of at least "E" under new regulation; one of the Scheme's properties was not compliant and the property manager is having to make changes with the tenant. Similarly, the Scheme owns infrastructure assets focused on gas where significant investment may now be required to convert to other fuels.

Climate opportunities and solutions

- The transition brings new technology and changing consumer preferences which lead to investment opportunities.
- The Scheme has already made investments in some of these opportunities, investing in renewable energy sources and commodities which will benefit from the transition.

While it is possible to identify and understand these impacts, it is very important to understand that there are still many uncertainties: it is difficult to know exactly when and where these risks and opportunities will arise; there is still a significant lack of data which makes this harder; and there is very little foresight in relation to regulation that can lead to substantial changes. Despite this, it is paramount that the Trustee is presented with all the relevant information on an ongoing basis.

Progress and Achievements through to March 2023

Overall, whilst significant work has been undertaken around climate risk and opportunities, the Trustee recognises there remains significantly more to do in order to transition the portfolio for a low-carbon world. This is true of the broader market as well and carefully pacing the portfolio transition to go neither too fast nor too slow is critical.

The Trustee has not set a net-zero target for the Scheme and instead is focused on gradually reducing exposure to climate risk and increasing investment in climate opportunities. While the carbon emissions of the portfolio have fallen through time, this may change with changes to asset allocation or as more data is collected.

The Trustee has set a target to improve the level of carbon reporting across the assets of the entire Scheme – through pressuring companies and managers to report carbon emissions there will be better understanding of this requirement and consequently better risk management.

This carbon data ranges from carbon emissions (the release of carbon dioxide (CO₂) and other greenhouse gases into the air) that the Scheme's investments have financed, to the intensity of the Scheme's emissions (a measure of how many emissions are produced per unit of something, like energy or economic output). This year the report also highlights how many of the investments are "Paris Aligned" (i.e., how much of the portfolio is on-track for a 1.5C global warming situation versus a much higher level of warming).

Significant progress has been made both in terms of collecting more data than last year (and it being real data, rather than estimated) as well as progress relating to reducing the Scheme's emissions.

By making Climate Change a theme, the Scheme is reducing exposure to risky climate-affected areas and increasing investments in promising areas. This has meant changes in the portfolio, including:

- Investing in a "Low Carbon Transition Readiness" portfolio which aims to invest more in companies that are better prepared for the shift to a low-carbon economy and less in those that are not as ready.
- Implementing new guidelines for certain long-term debt investments that mean the managers have to have at least 30% less emissions intensity than the wider market.
- Selling out of a portfolio that invested in Chinese companies partially because of the manager's lack of attention to climate-related risks and opportunities.
- Hiring a new property manager who have a strong track record and commitment to sustainable property investing.
- Identifying attractive opportunities to invest in, detailed examples of which can be found in Appendix 2 of the full TCFD report and a selection of which follow overleaf.

BCSSS Investment in Climate Opportunities

At the end of March 2023, total investment in climate opportunities for the Scheme was estimated to be around £580 million, spread across different types of investment. We have included some here:

Greencoat Solar Fund II



Lough Road Solar Farm; Greencoat Solar Fund II

In 2018, BCSSS invested £70 million in the “Greencoat Solar Fund II”, a fund created to acquire and oversee a collection of ground-mounted solar panels in the UK.

The goal was to generate steady income and protect against inflation over the long term. The fund has since amassed 119 assets, boasting a total capacity of 949 megawatts, providing power for 262,000 homes, and preventing the emission of 304,000 tonnes of carbon dioxide, all while producing a steady return on investment.

Contemporary Amperex Technology (CATL)

Contemporary Amperex Technology (CATL) is the world's largest maker of batteries for electric vehicles (EVs) and energy storage systems (ESS). They play a key role in the global shift towards EVs and renewable energy. In 2022, CATL shipped enough EV batteries for 3.7 million EVs and 47GWh of energy-storage system batteries, covering 38% of the global market.

To achieve sustainable decarbonisation, we need more EVs and renewables. Projections show EV adoption surpassing 40% by 2030, creating a demand for over 3TWh of batteries. Energy storage systems will also grow from 87GWh to over 1TWh due to increased attachment rates and standalone solutions. CATL's revenue grew over 140% in one year and the company has a strong long-term growth forecast, with over 20% growth in EV battery shipments and over 30% in energy-storage system batteries until 2030.

MasMovil

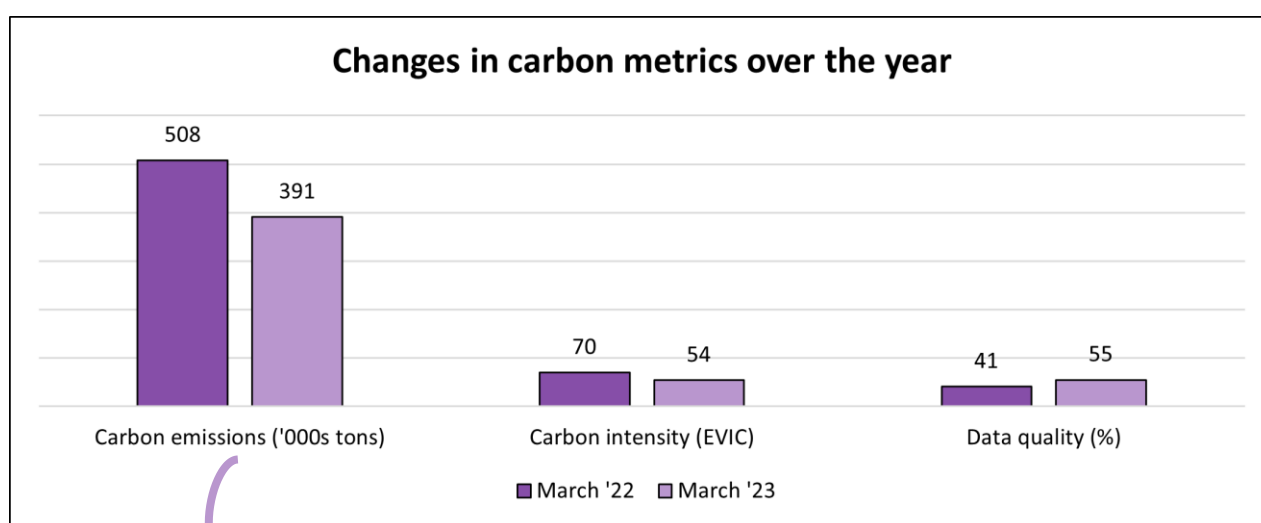
Private equity investments offer the Scheme a chance to invest early in promising companies that can yield high returns while addressing environmental challenges.

An example is MasMovil, a Spanish telecom company acquired in 2020. It became Europe's first telecom to be “B-Corp certified” in 2021 and achieved ISO 50001 energy efficiency certification in 2022, reducing energy use by 4.5% without affecting service quality. MasMovil commits to science-based targets, aiming for net-zero emissions by 2040, and requires its suppliers to adopt environmental management systems.

Carbon Footprint and Progress

Over the year the Scheme saw improvements across all carbon related metrics, with total carbon emissions (shown below in thousands of tons of CO₂ emissions) and total carbon intensity (shown below as emissions relative to the value of a company (EVIC)), both falling. As noted above, this may not continue through time – the Trustee is focused on investing in assets which will manage climate risk through time rather than simply on the starting numbers at the point of investment.

Data quality measures the amount of real data rather than estimated data around carbon emissions and this metric has improved (i.e., the Scheme has more data here than at the start of the year). The Scheme is targeting 90% data quality by the end of 2024, meaning there is a long way to go from the current 55% but improvements are being made.



The reduction in the Scheme's carbon emissions over the year is equivalent to 34,412 return trips from London to Hong Kong.

Future Plans and Commitment

There is still a way to go for the Scheme but encouraging progress has been made over the year toward transitioning the Scheme's investments so they are well-positioned to manage the risks and take advantage of the opportunities presented by the transition to a low-carbon world. Over the next twelve months, the goal is to continue to reduce the Scheme's exposure to areas of unrewarded climate risk, to continue investing in climate opportunities and to improve data coverage levels. The annual TCFD reports will continue to provide a transparent look at the Scheme's ongoing approach and progress in this area.

If you have any questions relating to something you've read in this summary, don't hesitate to contact bcsss.enquiries@coal-pension.org.uk.