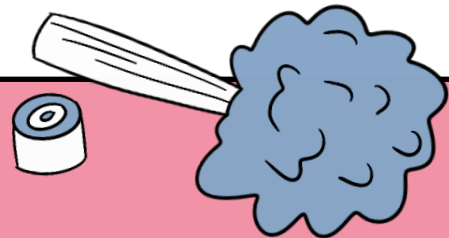


Make My Money Matter Climate Action Report

November 2022



Introduction

With over £3 trillion in UK pensions – and an industry responsible for financing [330m tonnes of carbon emissions each year](#) – the pensions sector represents a critical frontier for climate action.

From driving emissions reductions in investee companies to combatting deforestation, from investing in climate solutions to phasing out support for new fossil fuel expansion, the pensions industry has a central role to play in delivering climate action on the journey towards net zero by 2050.

And in recent years, the industry has begun to embrace this opportunity. Since Make My Money Matter launched our campaign in 2020, over £1.3 trillion of UK pension money is now in schemes committed to net zero with a halving of emissions before the end of the decade.. This represents important progress, showing growing recognition within the industry of the need to address

climate risk and embrace transition opportunities through clear, timebound commitments.

But as we face a worsening climate crisis, alongside increased demand from members and employers for pensions to be proud of, what matters now is rapid action that delivers real impact for people and planet.

That's why Make My Money Matter is launching our first ever Climate Action Report, highlighting progress made by industry leaders, but also critical gaps that schemes must address in 2023 and beyond if they are to achieve real world impact.

By addressing these gaps, schemes can help tackle the climate emergency, seize the opportunities of financing a just transition and protect member returns against the ever-increasing investment risks posed by the climate emergency.

**Richard Curtis,
Co-Founder at Make
My Money Matter**



“We need pensions with purpose - we need to make our money matter in building a better world. By putting the £3 trillion in UK pensions to work in service of the planet, and pivoting from climate commitments to real action, the pensions industry can maintain the momentum generated over the past 12 months, and make sure our money is building a world fit for our retirement. There is no point inheriting a pension in a world on fire”

Scope of the report

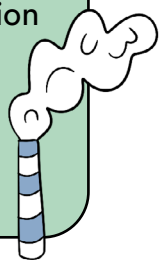
We have identified five important measures that we believe all pension schemes should consider as fundamental to leveraging their power and achieving real-world impact as they transition to net zero. While not exhaustive, these indicators are based on industry best practice and expert guidance, geared towards urgent, achievable and real-world climate impact. They are:

1

2025 targets:

Commit to, and deliver on, short-term targets for emissions reduction.

Achieving a halving of emissions by 2030 requires an average annual reduction of over 7% between 2020 and 2030, and every year that passes without adequate progress makes the required decline steeper. The global carbon budget remaining in order to hit climate targets is cumulative and so there must be urgent action now.



2

Restrictions on fossil fuel expansion:

Set policies that align to the International Energy Agency (IEA) Net Zero by 2050 road map which requires no new fossil fuel expansion beyond projects already committed as of 2021, and a complete phase-out of coal.

While we will continue to require fossil fuels as we transition to a low carbon world, we cannot have new expansion if we are to have a chance of limiting global warming below 1.5°C and avoiding dangerous climate and nature tipping points. Instead, there must be a rapid scale-up of renewable energy, alongside efficiency measures, underpinned by a phasing out of existing fossil fuels. Asset owners should use their voice and set expectations, including voting policies, that act to stop new expansion in their assets.



3

Action on deforestation:

Commit to the elimination of deforestation from pension fund portfolios.

In order to limit global warming, we need to eliminate deforestation, as it accounts for around 15% of global carbon emissions. At COP26 over 100 global leaders committed to end and reverse deforestation by 2030, and a number of financial institutions committed to eliminating agricultural commodity driven deforestation by 2025. Our research shows that there is over £300bn in UK pensions invested in companies with a high risk of driving deforestation. Pension schemes must map and disclose risks and commit to eliminate deforestation in their assets.



4

Investments in solutions:

A rapid increase in the scale of investments in climate solutions.

Last year the IEA stated that to reach net zero emissions by 2050, annual clean energy investment worldwide must more than triple by 2030 to around \$4 trillion. Therefore, alongside tackling destructive activity such as fossil fuel expansion and deforestation, the pensions industry must take advantage of the enormous opportunities presented by the transition, respond to growing expectations of their members and rapidly scale up investments in climate solutions.

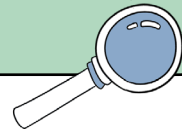


5

Active stewardship:

Consistent and co-ordinated stewardship of investee companies and other assets – especially high emitters - including a robust voting policy, aligned to achieving global temperature goals.

As major investors, pension providers – both individually, and collectively - must use their power by introducing more robust stewardship practice. Although stewardship may be undertaken by a scheme's asset managers, this is no excuse for the asset owner not to set clear expectations on climate, including voting policies that are aligned to a 1.5°C pathway.



Approach

To develop our Climate Action Report, Make My Money Matter engaged a series of leading experts – from the pensions industry, academia and civil society – and referenced existing climate benchmarks and frameworks. We used these insights to identify our five key indicators, which, while not exhaustive, represent a clear set of expectations of the industry in terms of climate leadership and real-world impact.

We then translated this list into a questionnaire aligned with these indicators to assess action (see appendix for full details). This questionnaire was sent to the 20 largest defined contribution (DC) workplace pension providers based on their DC assets. We chose to focus on DC pensions because this is where millions of people are now saving for their futures and from where future growth will come.

These providers are Aegon, Aon, Aviva, Cushon, Fidelity, Hargreaves Lansdown, Legal and General, LifeSight, Mercer, National Pension Trust, Nest, Now: Pensions, Prudential, Royal London, Scottish Widows, SEI, Smart Pension, Standard Life, The People's Pension and TPT Retirement Solutions. They collectively represent well over £500bn in DC assets and over 15 million active members (see appendix for full details).

We also conducted desk-based research to supplement the questionnaire replies using publicly available resources produced by the pension providers, detailing their approaches and progress. This research was undertaken between July-October 2022 and is reflective of the most up to date information available at that time. We received a 90% response rate from the providers.



**Carolin Hoegger,
Pension Member
with one of the 20
providers**

“We pay into our pension fund each month and trust that the fund will invest that money in a way that won’t leave the world worse off.

It’s clear that this hasn’t been happening – everyone must take action to make sure their money is creating a better future.”

Key findings

Our research shows some emerging areas of progress from the industry; a majority of providers have begun to reduce their overall financed emissions, while a similar number have outlined plans to increase investments in climate solutions.

Despite this, our findings show that based on the five measures identified, there needs to be a major step up in action in 2023 if the UK pensions industry is to fully play its part in limiting global warming to below 1.5°C.

Of the 20 providers:



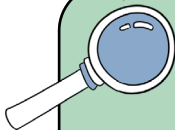
60%

have not published
2025 targets to reduce
emissions.



None

have explicit policies
aiming to end fossil
fuel expansion.

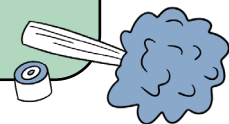


50%

do not have explicit
voting policies aligned
to achieving global
temperature goals.

80%

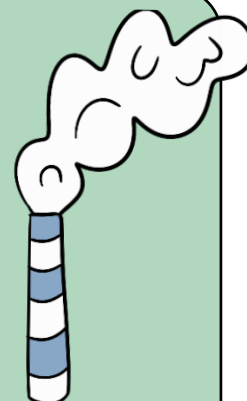
have not made
public commitments
on eliminating
deforestation from
their portfolios.



Areas of leadership

Short Term Targets

Aviva, Cushon, Legal & General, LifeSight, Nest, Smart Pensions, Standard Life and TPT Retirement Solutions have demonstrated progress on net zero delivery through a public commitment to net zero including a halving of emissions 2030 at the latest, emissions reductions targets by 2025, and reporting a reduction in the carbon intensity of their portfolios.



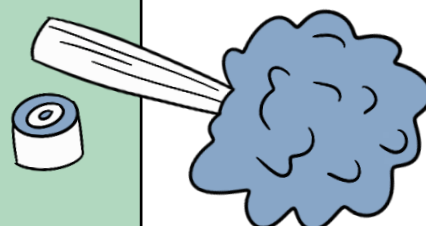
Voting Policies

Research identified good examples of voting policies aligned to global temperature goals, that enable them to engage with portfolio companies with clearly defined escalation routes. Examples of particularly strong voting policies include Aviva, Nest, Royal London and Scottish Widows.



Tackling deforestation

Aviva, Fidelity, Legal & General and LifeSight have demonstrated leadership on eliminating deforestation from their portfolios either as signatories to the [Financial Sector Commitment letter on Eliminating Commodity-Driven Deforestation](#) or through a public commitment to aim to meet the letter's objectives.



Key recommendations

This analysis shows that despite some initial signs of progress, action across the industry remains insufficient in scope, scale and speed.

As a result, more must be done – with increased pace and ambition – to ensure the UK pensions industry delivers on climate action and drives real world impact in the transition to net zero.

Specifically, Make My Money Matter is calling on UK pension schemes to:

1. Publish interim, short-term targets to deliver on goals.

- All pension schemes must set short-term emission reduction targets and outline clear strategies stating how they will deliver on their net zero goals, and how they will hold themselves to account on these actions. These plans must be transparent and communicated to members, so they are able to see progress.

2. Align with the science and use their power to end fossil fuel expansion activity.

- All pension schemes must put in place an explicit policy and set clear expectations when assessing transition plans and engaging with companies involved in fossil fuel expansion, that such activity is not compatible with reaching net zero by 2050. In doing so, they must have clear escalation routes for those instances where companies do not align with the science. Failure to do so will fundamentally undermine the credibility of their net zero agenda and risk leaving members burdened with investments in stranded assets.

3. Use their power to engage with, and hold to account, the high emitting companies within their portfolios.

- All pension schemes must set clear 1.5°C aligned voting policies, outlining expectations of investee companies, for example in relation to their climate plans, disclosure, and action. Within this, schemes must have escalation plans for companies and asset managers if their expectations are not met. Collectively, UK pension schemes must do more to work together – in partnership with their asset managers – to speak with a unified and consistent voice. In doing so, they can leverage their collective power to drive scaled impact.

Key recommendations

4. Eliminate deforestation from their portfolios.

- Research from Make My Money Matter shows there is £300bn of UK pensions invested in companies at high risk of driving deforestation, while 72% of the public expect their pension funds to take urgent action on the issue.
- Given the scale of exposure to deforestation risk, and the impact of the practice on the planet, all pension schemes must take immediate action to start eliminating deforestation by mapping and disclosing risk, setting effective policies, monitoring and engaging investee companies and asset managers, and disclosing progress against goals.

5. Rapidly increase their investments in climate solutions.

- The net zero transition is only possible if there is a major scale up in investment in climate solutions. Despite some pockets of progress, the overall UK pension industry effort is limited, with an absence of collective leadership and clarity. As a result, the industry is not unlocking the necessary new capital to find the solutions to aid our transition to net zero.
- As a result, all pension schemes must set and communicate ambitious targets on growing the percentage of their portfolio invested in climate solutions.



The UK government and regulators to support the pensions industry in delivering on climate action.

While it is critical that the pensions industry leads on this agenda, we understand that the ability of schemes to achieve scaled impact is linked to their broader operating environment, including the policy and regulatory framework in which they are acting. It is therefore important to acknowledge the role that the Government and regulators can play in supporting the industry on this journey by mandating net zero for all UK pension schemes, working with industry to unlock significant investment in climate solutions, and, alongside TCFD reporting, requiring the mapping and disclosure of deforestation risk in portfolios.

Conclusion

Over the past year, we have seen a growing movement to make money matter; net zero targets have become a new standard, initial progress is emerging on tackling financed emissions and schemes are beginning to look ahead to unlocking investments into the solutions that will drive the transition.

However, in 2023, the pensions industry must go further to drive meaningful climate action that achieves real-world impact with pace and ambition.

By taking such steps, the UK pensions industry can capitalise on the momentum it has built, the credibility it has established and the opportunity it has forged to drive real, meaningful and long-term impact – both for planet, and the people whose money is being invested.

Make My Money Matter hopes this report acts as a wakeup call for all schemes that have made

climate commitments, and the many schemes who are yet to even take that first step, highlighting the actions schemes must undertake – and unequivocally outlining the pace, breadth and ambition they must adopt – if they are to deliver robust climate leadership in 2023.

By focussing on interim targets to reduce emissions, new policies on fossil fuel expansion, stronger individual and collective stewardship strategies, tackling deforestation and unlocking investments in climate solutions, the UK pension industry can ensure it retains a position as a global leader on climate action, all while protecting their members' assets from the risks of climate change.

We know this agenda is popular with customers, vital for the planet and profitable in the long-term. So now is the moment for action.

After all – what's the worth in saving for retirement in a world on fire?

Tony Burdon,
CEO at Make My
Money Matter

“12 months on from COP26 in Glasgow, climate action from the UK pensions industry remains insufficient and fragmented.

We hope this report acts as an urgent wake up call to the pensions industry – highlighting the absence of clear, co-ordinated and consistent climate action to date – while showcasing the critical steps that must be taken to get back on track.”

Appendix

Methodology

We selected the 20 largest DC workplace pension providers based on their DC assets. These providers are Aegon, Aon, Aviva, Cushon, Fidelity, Hargreaves Lansdown, Legal and General, LifeSight, Mercer, National Pension Trust, Nest, Now: Pensions, Prudential, Royal London, Scottish Widows, SEI, Smart Pension, Standard Life, The People's Pension and TPT Retirement Solutions. They collectively represent well over £500bn in DC assets and over 15 million active members according to the [Corporate Adviser Master Trust & GPP Defaults Report](#).

We contacted these 20 providers with the questionnaire below to track their progress against key indicators in delivering action on climate. We received a 90% response rate. We also conducted research to supplement the questionnaire using publicly available resources from the pension funds. We again contacted the providers in instances where we sought clarification of their answers.

1. Have you publicly committed to Net Zero targets which include at least halving emissions by 2030?
2. Have you published short-term 2025 emissions reduction targets? And if so, what are those targets?
3. In the last 12 months, has there been a reduction in the carbon intensity of your portfolio, (e.g. tCO₂/£m invested)? If so, by how much?
4. Have you published phase-out dates for coal financing? If so, what are they?
5. Have you published a policy on ceasing finance of fossil fuel expansion, which aligns to the IEA's Net Zero by 2050 roadmap which states "beyond projects already committed as of 2021, there are no new oil and gas fields approved for development in our pathway, and no new coal mines or mine extensions are required".
6. Have you published a policy or made a public commitment on eliminating deforestation in your portfolio?
7. Has your allocation to investments in climate solutions increased over the past 12 months? If so, by how much?
8. Do you plan on increasing your allocation in investments over the coming 12 months? If so, by how much?
9. Have you published a voting policy that is aligned to achieving the 1.5 degree global goal? (e.g. stating that you will vote against an investee company/directors if it does not have a credible climate transition plan in place)
10. Have you implemented and acted upon those policies during the last year? If so, what have you done?

Scheme replies

	Do you have a published 2025 emissions reduction target?	Do you have a published policy on ceasing finance of fossil fuel expansion?	Do you have a published policy or commitment to eliminate deforestation from your portfolio?	Do you have a voting policy aligned to global temperature goals?	Do you plan on increasing your allocation in investments in climate solutions?
Aegon					
Aon					
Aviva					
Cushon					
Fidelity					
Hargreaves Lansdown					
Legal & General					
LifeSight					
Mercer					
National Pension Trust					
Nest					
Now: Pensions					
Prudential					
Royal London					
Scottish Widows					
SEI					
Smart Pension					
Standard Life					
The People's Pension					
TPT Retirement Solutions					

Additional context

Scheme Replies

- We received a 90% response rate, with Mercer and SEI failing to provide a response to the questionnaire above.
- In these instances, we have relied upon publicly available resources in order to track the progress of these providers against the outlined indicators.

Fossil Fuel Expansion

- The IEA's Net Zero by 2050 roadmap states "beyond projects already committed as of 2021, there are no new oil and gas fields approved for development in our pathway, and no new coal mines or mine extensions are required".
- All providers have received a 'red' rating as none of them had an explicit policy on this.

Voting

- The questionnaire specified a published voting policy that is aligned to achieve the 1.5°C global goal. While some providers outlined how climate change and ESG impact their stewardship policies, in many cases this was not translated into a clear, consistent voting policy aligned to global goals.
- In instances where the provider has shown firstly, a clearly outlined policy on voting, and secondly, how that policy is aligned with global temperature goals the provider has received a 'green' rating.
- In instances where the provider has failed to show this adequately the provider has received a 'red' rating.
- Within the 10 providers rated green, 7 specifically reference a 1.5°C limit and 3 reference different targets, for example the Paris Agreement and keeping warming below 2°C. The climate emergency necessitates us to focus on limiting temperature rises to 1.5°C, and as such, we suggest pension schemes should consider this best practice within their voting policies.

Climate Solutions

- The definition of climate solutions from the Net Zero Asset Owner Alliance's Target Setting Protocol is: "Climate solution investments are investments in economic activities considered to contribute substantially to climate change mitigation (solutions substantially reducing greenhouse gases by avoiding, removing emissions/by sequestering carbon dioxide already in the atmosphere)/ climate change adaptation (where that activity substantially contributes to enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change)". This was shared with the providers as part of the questionnaire.
- We found that responses to this question were inconsistent and took the decision to score based on whether the provider specifically mentions climate solutions in relation to its investment strategy.
- In terms of future increases in climate solutions, the question required a stated ambition to increase over time – and assumed that for example if a provider set a target to double climate solutions investment by 2030 then this would necessitate an increase in the next 12 months.