INVESTING TO TAKE ACCOUNT OF CLIMATE CHANGE

September 2023

MPS Mineworkers' Pension Scheme

MPS and TCFD

Introduction to the Scheme

The Mineworker's Pension Scheme ("The Scheme") provides benefits for around 119,200 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 September 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 choosing whether and how fast to adapt 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. For example, the Scheme's properties in Aberdeen, a former oil and gas exploration hub, are seeing limited interest from buyers or renters as questions are raised on Aberdeen's future as an industrial hub. Future impacts of transition risk will depend on regulation, one possible area of risk is stranded asset risk, with properties that are not Paris Aligned being stranded. Interventions will be identified and implemented to reduce assets' carbon intensity.

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 renewables, grid electrification and commodities which will benefit from the transition.

While it is possible to identify and invest around expected impacts, 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 and continues to adapt the portfolio appropriately.

Changes and Achievements through to September 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 position 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 to maximise returns.

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 risk and consequently better management.

This carbon data ranges from carbon emissions (the release of carbon dioxide (CO_2) 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 in terms of collecting more data than last year (and it being real data, rather than estimated) and there has been a reduction in the Scheme's emissions (albeit as a function of asset allocation shifts rather than targeted).

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.

- 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.

- Committing to a UK Venture Capital Hydrogen Fund, which focuses on investing in and developing emerging businesses across the growing UK hydrogen ecosystem of production and storage, transportation and distribution, and end users.

- 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.

MPS Investment in Climate Opportunities

At the end of September 2023, total investment in climate opportunities for the Scheme was estimated to be around £663 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, MPS 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.

Amara

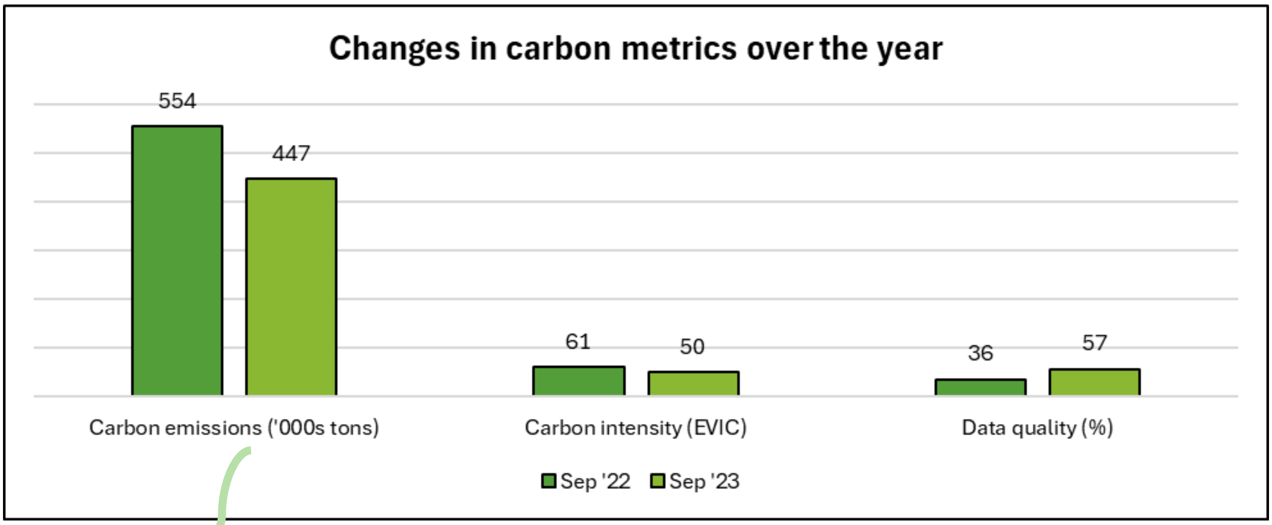
Private equity investments offer the Scheme a chance to invest early in promising companies that can yield high returns while addressing environmental challenges.

An example is Amara NZero, a subsidiary of Iberdrola. It focuses on the sustainable energy segment and is a key contributor to the transition to a low-carbon economy. It operates in Spain, Italy and Brazil and is growing in Mexico, the US and other countries, serving as a value-added supply chain partner for suppliers and clients, distributing full solar photovoltaic kits (panels, inverters, batteries and structures) to its client base. Other products include smart grids, electric vehicle charges and wind spare parts. It serves a base of more than 4,000 installers, the majority of which are SMEs supplying the residential and smaller commercial end-markets.

Carbon Footprint and Changes

Over the year the Scheme saw advances 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 57% but improvements are being made.



The reduction in the Scheme's carbon emissions over the year is equivalent to 79,850 return trips from London to New York.

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 mps.enquiries@coal-pension.org.uk.