Mineworkers' Pension Scheme

CLIMATE RISKS & OPPORTUNITIES: A MEMBER SUMMARY

September 2024

MPS and TCFD

INTRODUCTION TO THE SCHEME

The Mineworkers' Pension Scheme ("The Scheme") provides benefits for around 114,000 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

The duty of the MPS trustees is to deliver strong financial returns for members during the lifetime of the Scheme. 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 given the likelihood of it affecting Scheme returns.

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 third TCFD report, for the year ending September 2024. It is accessible here. Below we summarise the main points for members' information.

Climate Change's Impact on Investments

Climate change has already and will continue to impact 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:

TRANSITION RISKS

- Challenges that companies face when deciding whether and how quickly to adapt to a low-carbon economy.
- Risks include: policy changes; pricing changes; shifts in supply and demand and stranded assets (assets losing value or becoming undesirable).
- The Scheme has already experienced transition risks, for example it owns a student accomodation building in Wembley which is classified as "stranded" and will either need a lot of investment into things like replacing gas boilers or will need to be sold.
- Future transition risks will depend on regulations.

PHYSICAL RISKS

- These are the harmful effects of climate change, including: extreme weather events, rising sea levels, heatwaves, floods and droughts.
- These risks can damage homes, infrastructure, agriculture and ecosystems.
- The Scheme's investments face direct risks through physical damage to buildings and infrastrcture (e.g. flooding and wildfires).
- The Scheme has already experienced physical risks, with a solarfarm site being in-accessible for months because of severe flooding.
- Secondary impacts include: changes in insurance premiums, shifts in mortgage rates, evolving consumer preferences.

CLIMATE OPPORTUNITIES AND SOLUTIONS

- The transition brings new technologies and changing consumer preferences which lead to investment opportunities.
- An investment opportunity could be a whole theme such as renewable energy, or it could be a single company such as an electric vehicle manufacturer.
- The Scheme has already made investments in some of these opportunities, investing in renewables, grid electrification and commodities which will benefit from the transition.

Identifying and investing based on expected impacts is challenging due to uncertainties around timing, location, and limited data. Additionally, regulatory changes are hard to predict. However, it's essential that the Trustee receives ongoing, relevant information to adapt the portfolio accordingly.

Changes and Achievements through to September 2024

The climate transition continues to make bumpy progress across different countries and sectors of the economy. The Trustee must carefully balance the transition of its own portfolio in line with this to avoid moving too fast or too slow, which would be to the detriment of members.

The Trustee has not set a Net-Zero target for the Scheme and instead is focused on managing climate risks in the portfolio and allocating to climate opportunities where appropriate given the timeframe of the Scheme. While the carbon emissions of the portfolio have fallen through time, they have in fact increased marginally over the reporting year due to changes to asset allocation – in particular allocating to infrastructure in the public equities portfolio and to emerging market bonds has increased emissions, albeit these sectors of the economy are also on a transition path.

The Trustee has set a target to improve the level of carbon reporting across the assets of the entire Scheme to allow the Trustee to better understand the risks within the portfolio. Through continuing to work with managers and data providers this data coverage has continued to increase over the year.

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). 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).

Over the year, The Trustee made strides in understanding the Scheme's exposure to physical risks (although this remains an area with data and modelling challenges). The Scheme's real estate manager partnered with Climate X, a leader in physical climate risk modelling, to better understand exposure across different scenarios. Physical risk is particularly important in real assets which are directly impacted by extreme weather such as flooding or storms.

MPS Investment in Climate Opportunities

Where relevant for the Scheme's return objectives the Scheme will make investments that seek to benefit from climate transition. Some examples of these are listed below:

COMMODITIES

In 2022, The Trustee decided to invest in a commodities portfolio designed to capture the opportunities created by the global shift toward a low-carbon future as well as a likelihood of persistent higher inflation. This portfolio focuses on the growing demand for sustainable resources, such as metals which are essential for renewable energy infrastructure – the portfolio also invests in agricultural commodities which are likely to see price rises due to both inflation and volatile weather.

While the portfolio invests in energy commodities it looks to overweight commodities where demand is expected to be higher in the future and avoid those with the highest stranded asset risk.

Managed by Wellington, this portfolio also looks to engage to improve the wider commodities infrastructure where possible. Through active engagement with industry players, Wellington promotes transparency and sustainability, working on innovations like responsibly sourced gas and cutting-edge carbon credits. This approach ensures the portfolio drives real-world change while capturing climate-driven investment opportunities.

POWER GRID OF INDIA

The scheme invests in Power Grid of India and companies like it within a dedicated climate transition portfolio.

The backbone of India's energy system, Power Grid helps deliver electricity across the country, keeping the lights on in millions of homes, factories, and offices. Now, India is gearing up for a major shift: over the next 10 years, the country plans to add an incredible 500GW of renewable power to its grid by 2030.

As a major player in the transmission of electricity, Power Grid will be at the heart of this transition, helping move renewable energy from where it is generated to where it is needed. To support this, India plans to invest Rs 2.8 trillion (about US$34 billion) into upgrading its transmission systems over the next decade. As the largest company in this space, Power Grid is well positioned to benefit from this investment.

EMERGING MARKET DEBT

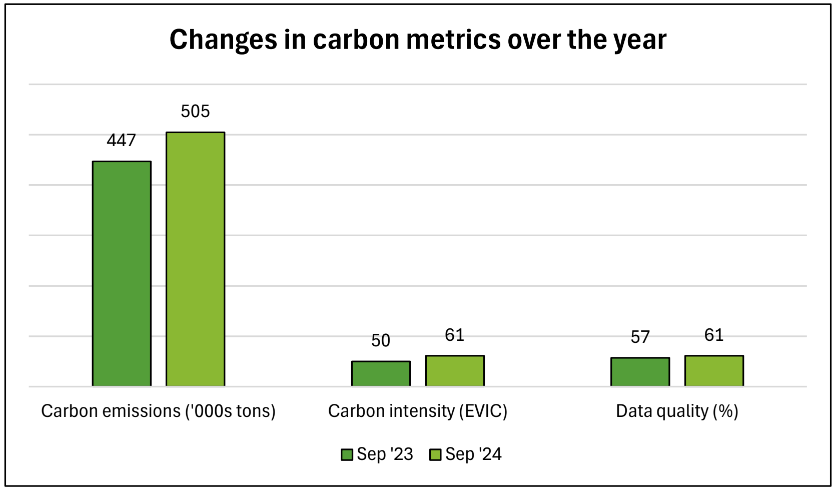
In 2023, the Scheme invested in an Emerging Market Debt portfolio, which is made up of both corporate bonds (loans made to companies) and sovereign bonds (loans made to governments). About 15% of the portfolio is invested in "climate opportunities".

This includes special types of bonds called green bonds and sustainability-linked bonds. Green bonds raise money specifically for projects that help the environment, like building wind farms or improving energy efficiency. Sustainability-linked bonds go a step further by rewarding companies for meeting certain climate targets.

Portfolio Carbon Footprint and Changes

Over the year the Scheme saw an increase in 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 rising. The Trustee is comfortable with this as it 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 2027, meaning there is a long way to go from the current 61% but improvements are being made.



CONCLUSION FOR 2024

The Climate Transition has been subject to significant political debate over 2024, and this is likely to continue. At the same time company and government investment in renewable energy and electrical infrastructure has continued apace given the drive to build energy security and power the AI buildout. We do not expect the pace of investment or the volatility around the discourse to change. The Scheme continues to carefully consider its investments in light of climate risk and opportunity. The Scheme uses minimal exclusions and instead focuses on actively understanding and managing risks as well as engaging with managers, regulators and other asst owners. The annual TCFD reports will continue to offer a clear and transparent overview of the Scheme's ongoing strategy 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.