



The Co-operative Pension Scheme (Pace)

Climate change risk in Pace Complete

One of the Trustees' key responsibilities is to understand and manage any risks which might affect the assets in Pace Complete. Managing risk is a natural part of investing and, with the support of our advisors, we've recently looked at how climate change might affect Pace Complete assets in the future. This builds on our revised Responsible Investment (RI) Policy for Pace, which we published in January 2017.

Climate change is perhaps the biggest challenge our environment will face in the coming years and it's also expected to have an impact on some financial assets. As governments introduce 'green' regulations or consumers' appetites change, it's likely that some companies and industries will be more affected than others. This could change the value of the assets held by pension schemes, so it's a risk we need to be aware of and manage.

We therefore asked our investment advisor, Mercer, to consider how exposed Pace Complete is to climate change risk. We asked them to look at Pace's investments and to consider how much the return on those assets might be affected by global efforts to limit warming to two degrees Celsius (2DC). This scenario was chosen as it represents the current global ambition regarding climate change, as set out in the 2015 Paris Agreement.

Mercer's assessment showed that Pace has a very low exposure to climate-related risks. This is largely because we've reduced our allocation to equity investments as part of our overall strategy to reduce risk in the Scheme's assets. Equities are investments which are based on shares in companies, and could potentially result in a more direct exposure to climate change risk than other types of investment.

Mercer's assessment also showed that the current investment strategy for Pace Complete will further reduce its exposure to climate-related risks, with the impact of a 2DC scenario being to reduce the annual expected return on Pace's assets only very marginally¹ over the next ten years. This is significantly lower than most UK pension schemes.

Next steps on responsible investment

As well as looking at the potential impact of climate change on Pace's assets, we've identified a list of companies which are involved in activities that we believe may conflict with the values of members of Pace or the Co-op Group. Where possible, we are seeking to avoid investing in:

- Companies involved in the manufacture or transfer of indiscriminate weapons or the manufacture or transfer of armaments to oppressive regimes.
- Government bonds issued by states which deny their citizens basic human rights.
- Companies involved in extractive industries with poor environmental standards.

¹ By c. 0.04% per year

Feedback

We welcome members' feedback and will consider this as we continue to develop our policy for Responsible Investment. If you have feedback on the RI policy, please let us know by email: staffpensions@co-operative.coop

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