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UK’s largest private pension scheme to allocate $6.4B of AUM to hitting net-zero targets

Article

The news: The **Universities Superannuation Scheme’s (USS)** investment management arm announced **£5 billion ($6.4 billion) of its £82 billion ($110.62 billion)** assets under management (AUM) will now have a **climate tilt**. The USS is the UK's largest private pension scheme, provided by staff of UK higher education institutions.

More on this: The USS announced its **net-zero 2050 target in May last year**—and is shifting £5 billion ($6.75 billion) of its global developed markets' equity allocation to its new climate index to help accomplish this.

- The USS developed its climate transition benchmark with index provider Solactive and it will be managed by **Legal & General Investment Management**.
- The climate transition benchmark will screen out from the portfolio the companies that rank poorly on the four UN Sustainable Development Goals related to climate change.
- And it will include companies that can show a roadmap for **lowering greenhouse gas emissions and meeting decarbonization targets**.
- The USS said that it will **reduce portfolio greenhouse gas emissions by around 30% relative to the broad equity market** and **decrease carbon intensity by a further 7%** each year.
- Crucially, the index will include Scope 1, 2, and 3 emissions: Scope 1 and 2 relate to direct emissions, and 3 includes indirect emissions from companies' supply chains, for example, which are four times as significant.
- Oil giant **Exxon Mobil** came under fire for excluding Scope 3—its biggest source of carbon emissions—from its net-zero ambitions.

Why does this matter? Pension schemes can play a significant role in meeting global climate change targets. But the absence of a common global ESG taxonomy creates data inconsistencies that make it difficult for investment managers to assess the sustainability of companies within their portfolios. B2B fintechs can help address this problem.

- Investment managers play a critical role in allocating capital to sustainable projects—and **pension schemes make up the largest group of institutional investors, managing $35 trillion as of 2020.**
- Yet the lack of common global definitions of sustainable activities creates inconsistencies across the ratings companies receive from providers and consequently, in fund managers' portfolios.
- This increases the risk of greenwashing, which could cause investor confidence to plummet, diverting away capital from critical sustainable projects.

- Fintechs can give investment managers analytical capabilities that help them to screen companies against various benchmarks, identify common factors, and develop their own ratings.
- UK-based fintech **Forefront Future's** investment screening solution, which ascertains if companies meet customizable and complex ESG metric standards, is one example.