Major UK pension funds worth nearly £900bn commit to net zero

Church of England, Lloyds and the National Grid among those pledging to meet 2050 target

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Major pension funds that own assets worth £870bn, including those of the Church of England, Lloyds Banking Group and the National Grid, have committed to cutting the carbon emissions of their portfolios to net zero by 2050 or earlier, in another sign of big investors' increasing focus on the climate crisis.

Pension providers Scottish Widows, Royal London and Nest and a clutch of public sector pension funds from the UK to Scandinavia and New York were also among the investors that have pledged to align their portfolios to the Paris climate goals of limiting global temperature increases to 1.5C.

The pledges were coordinated by the London-based Institutional Investors Group on Climate Change as it launched a set of tools that lays out how investors can achieve net zero portfolios following months of work.

The United Nations and the UK government backed the scheme, which is also being adopted by leading investor climate action groups in North America, Asia and Australasia. In a written foreword, Prince Charles said he hoped large investors would publish detailed plans for net zero.

Increased focus on the climate crisis from clients and governments has forced investors to confront the carbon emissions of the companies that they fund. Some investment leaders have already promised to aim for net zero emissions, including a December pledge by some of the world's largest asset managers such as Legal and General Investment Management and UBS Asset Management.

The new framework lays out tools for investors to work out how to reach net zero by 2050 or earlier, removing an obstacle to climate action for investors. The framework includes setting regular targets for direct and indirect emissions reductions, disclosure recommendations, and making sure that all assets are net zero or are on that path by 2040 at the latest.

Patricia Espinosa, executive secretary of the UN's Framework Convention on Climate Change, said: "I encourage others to join investors already showing leadership in using the net zero investment framework. The race to a net zero future is on and the benefits it offers are critically important."

The UK government has identified the climate crisis as a key focus of diplomatic efforts after the UK's departure from the EU. Glasgow will host the United Nations Cop26 climate conference in November.

Guy Opperman, the UK's pensions minister, said that national carbon reduction ambitions create "huge opportunities, but also risks, for institutional investors such as pension schemes".

Some investors have remained wary of embracing climate action because of a belief that it will harm their financial returns. However, Craig Mackenzie, head of strategic asset allocation at Aberdeen Standard Investments, an investment manager, said that a detailed assessment of pension funds' portfolios and strategies for cutting emissions had shown that there was a marginally positive financial effect.

"They key question a lot of big investors are asking about net zero is 'can it be done safely?'" Mackenzie said.

"The conclusion of that work is very positive. We can achieve very significant carbon reductions without significantly disturbing the financial characteristics of the portfolios."

About 60% of carbon emissions from global equities come from only 10% of companies by market value, Mackenzie said. If taken up by more large investors, the framework could also heighten pressure on large polluters such as oil companies, heavy industry and utilities to cut emissions. The framework formalises the steps – including voting against companies or divesting from the worst laggards – that investors will need to take.