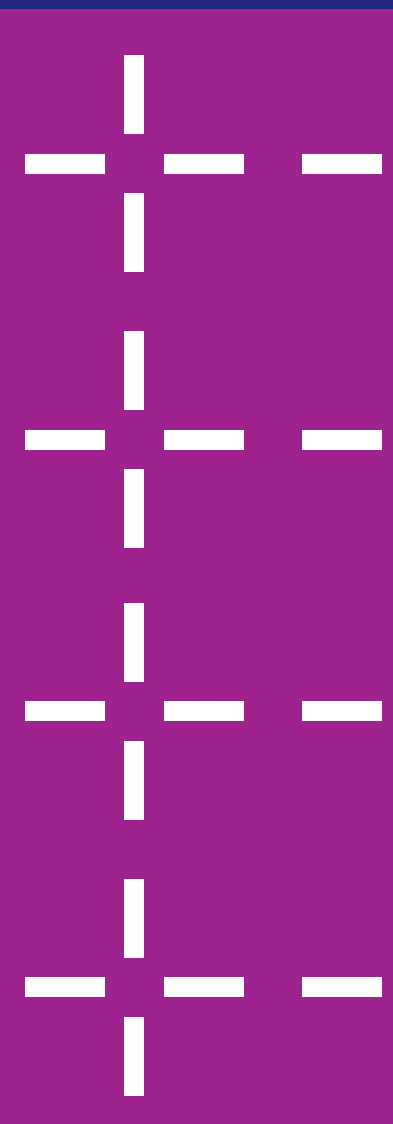


# Task Force on Climate-related Financial Disclosures (TCFD)



## Report 2023

1 October 2022 – 30 September 2023





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# Executive summary

This TCFD Report has been created to help you understand our climate-related risks, opportunities, and resilience plans. It explains the governance and actions taken by TPT's Trustee to identify, assess, and manage climate-related risks and opportunities in the 2022/2023 financial year (1 October 2022 to 30 September 2023).

Task Force on Climate-related Financial Disclosures (TCFD) reporting has been a statutory requirement since the UK's Department of Work and Pensions (DWP) Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (DWP TCFD Regulations) were introduced. The report is split into four sections which correspond to the four pillars of the TCFD framework: Governance; Strategy; Risk management; and Metrics and targets.



## Our approach and climate commitments

We've been investing for the benefit of our members, employers, and the planet since 2004. Our increasing scale gives us a real opportunity to generate better returns for our members, but also to make a real difference to the wider world. Savers want a return, but also to contribute to a better society.

Responsible investment (RI) is embedded in our decision-making process. We believe in making sure we have a resilient portfolio and act as a universal owner. As owners of such a large amount of assets, we must think about climate and sustainability in an integrative manner and manage the investment risks and opportunities associated with climate change. We want our investments to help build a sustainable future and work towards the solution of a lower carbon economy.

We integrate a range of environmental, social, and governance (ESG) factors into the way we invest our members' assets using our RI Framework. Of the environmental and social issues that we consider, we believe that climate change represents a material financial risk to the long-term value of our investment portfolio, and has the potential to reduce the security of our members' retirement benefits.

We're committed to achieving a net zero emissions portfolio by 2050. Our Climate Action Plan (CAP) details our road map to net zero. The plan is shaped by the following commitments:

- 1 Be active in influencing the transition to a low carbon economy including reaching net zero within our operations.
- 2 Achieve net zero by 2050, with a decrease in our carbon intensity of at least 25% by 2025 and 50% by 2030.
- 3 Increase our investment in climate solutions to at least 6% of return-seeking assets by 2030.
- 4 Continue to build a rigorous approach to incorporating climate change risks and opportunities into the way we invest members' assets.
- 5 Work together with companies, governments and standard-setters and disinvest when no alternatives are possible.
- 6 Regularly report back to members and wider stakeholders including through TCFD reporting.

# Summary of findings against requirements

The following tables provides an overview of our disclosures against the TCFD recommendations and the progress we made during 2022/23. We will continue to assess and develop our disclosures against the TCFD framework, considering relevant guidance, evolving best practices, and data availability.

Governance	Disclosure Requirement	Summary of Findings
Disclose the organisation’s governance around climate-related risks and opportunities.	Describe the board’s oversight of climate-related risks and opportunities.	<p>Our governance structure provides clear oversight of climate-related risks and opportunities, with the Trustee Board responsible for all aspects of running the Trust.</p> <p>The Trustee annually reviews and approves the climate-change policy and the wider Responsible Investment framework. The Statement of Investment Principles (SIP) is also reviewed and approved annually by the Trustee.</p>
	Describe management’s role in assessing and managing climate-related risks and opportunities.	<p>Day-to-day implementation is delegated to the Investment Management Team (IMT). The IMT is led by the Chief Investment Officer. Climate and responsible investment considerations are fully integrated into the IMT’s core investment functions. The IMT reports to the Investment Committee (IC)- climate change issues are part of the regular updates in the agenda. The Chief Investment Officer also sits on the Executive Board. Climate change reporting is integrated into the Executive Board’s key deliverables.</p>

Strategy	Disclosure Requirement	Summary of Findings
Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s business, strategy, and financial planning where such information is material.	Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	<p>Changes to macroeconomic factors caused by climate change have varying levels of impact across all asset classes and apply globally. We describe both transition and physical risks resulting from climate change and consider risks and opportunities over the short, medium, and long term.</p>
	Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning.	<p>We consider the impact of climate-related risks and opportunities on our portfolios and integrate climate factors into our investment decisions. We have developed an approach to ensure that climate-related risks and opportunities are embedded into the investment process and stewardship practices.</p>
	Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	<p>We consider the resilience of our strategy across different climate-related scenarios and believe that qualitative and quantitative analysis provides helpful insights into the potential risks and opportunities associated with adapting to the impact of climate change.</p> <p>Having undertaken scenario analysis and reported this in our previous report, and with no material changes within the strategy or with climate scenarios, the Trustee decided that it would not undertake a new climate scenario analysis for the 2023 TCFD report.</p> <p>In this year’s report, we provide a summary of the climate scenario analysis we performed in 2022.</p>

Risk management	Disclosure Requirement	Summary of Findings
Disclose how the organisation identifies, assesses, and manages climate-related risks.	Describe the organisation’s processes for identifying and assessing climate-related risks.	<p>Climate change represents a risk to the long-term value of our investment portfolio and has the potential to reduce the security of our members’ retirement benefits.</p> <p>Risk factors associated with climate are identified, managed, and integrated into the Risk Management Framework.</p> <p>Our Climate Change Policy also helps us to ensure that climate change risk is explicitly considered during the investment process, from understanding how exposed our portfolio is to the risks, to the way we actively engage with the wider investment community on climate change.</p>
	Describe the organisation’s processes for managing climate-related risks.	<p>The management of the business and the execution of the company’s strategy are subject to several risks. The company has policies, processes, and controls in place to manage and mitigate such risks.</p> <p>Our Statement of Investment Principles and our Investment Risk Management Framework are formally documented. The IC) oversees the effectiveness of the Investment Risk Management Framework.</p>
	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management.	<p>The approach to identifying, prioritising, assessing, and managing climate-related risks is the same as the method applied to all risk types across the Investment Risk Management Framework.</p> <p>The Investment Risk Management Framework consists of individual components that support the consistent and effective identification, consideration, and mitigation of risk. The key elements are: risk pillars; risk appetite; risk taxonomy; risk scorecard; risk registers; key controls; and risk events.</p>

Metrics and targets	Disclosure Requirement	Summary of Findings
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	<p>We report against four climate metrics:</p> <ul style="list-style-type: none"><li>- Absolute emissions metric;</li><li>- Emission intensity metric;</li><li>- Additional climate metric (non-emission factor);</li><li>- Portfolio alignment metric.</li></ul> <p>In last year’s report, we reported on data quality as our additional climate metric. Data quality is key to ensuring that decisions related to decarbonisation are both accurate and accountable.</p> <p>In this year’s report, we made improvements to our assessment and followed the Partnership for Carbon Accounting Financials (PCAF) framework. Data quality 1 indicates the highest quality, while data quality score 5 represents the lowest.</p>
	Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	<p>We reported Scope 1 and 2 emissions data in last year’s report. This year, we have also included Scope 3 emissions. The availability and reliability of Scope 3 data remain a challenging factor.</p> <p>In this year’s report, we have also reported emissions for Infrastructure given our significant exposure to this asset class (to note that listed equity, corporate fixed income, and real estate were already included in the previous report).</p>
	Describe the targets the organisation uses to manage climate-related risks and opportunities and performance against targets.	<p>Our climate targets are clearly defined in our Climate Action Plan. In this year’s report, we assess performance against these targets and compare changes in carbon intensity over the last reporting years.</p>

## Next steps

Climate change and responsible investing is an ongoing journey that is continuously evolving and that we’re relentlessly working on. Looking ahead, we plan to focus on the following strategic areas:

- Continue to grow our investments in renewable and green technologies;
- Develop a robust stewardship framework with a strong focus on climate action;
- Increase responsible investment reporting to better inform on the efforts and actions we are taking;
- Work with issuers, data providers, investors, and other stakeholders to improve data quality;
- Investigate the interplay of climate and nature



# Introduction

## Driving good solutions for people and planet

Making pension schemes perform better for everyone



75+ years of experience in the pensions sector



£9.6bn of assets under management (as at September 2023)



448,606 members across the UK

### About TPT

TPT Retirement Solutions (TPT) is one of the UK's leading providers of workplace pensions, with over 75 years' experience of managing Defined Benefit (DB) and Defined Contribution (DC) pension schemes. It has £9.6 billion of assets (as at 30 September 2023) under management and almost 450,000 members.

TPT is one of the only pension services providers to offer both DB and DC Master Trusts. We provide cost-efficient investments for our employers and members, using an approach that's supported by market-leading investment strategies and a long-standing commitment to responsible investing.

### Our mission

Our mission is to **make pension schemes perform better for everyone**, from employers and trustees who have their own schemes to members who are saving for the future.

Making pension schemes perform better for everyone includes not only better service provision for our members but also for our other stakeholders. This broader mission recognises all the work that TPT does and the impact we can have throughout pensions management. It also recognises our role as universal asset owners and the opportunity we have to make a difference to the world.

We believe that ESG factors can impact financial performance and that it is part of our fiduciary duty to incorporate this information into our investment decisions. We believe that this helps to reduce investment risk and, in some cases, enhances long-term portfolio returns.

This view is expressed formally as a statement (number 10) in TPT's Investment Beliefs. RI, therefore, forms an integral part of the governance and risk management framework used to protect the long-term value of the assets we manage on behalf of our members and beneficiaries.

Our approach to RI applies to both our DB and our DC Investments and is reflected in the SIP for both strategies.

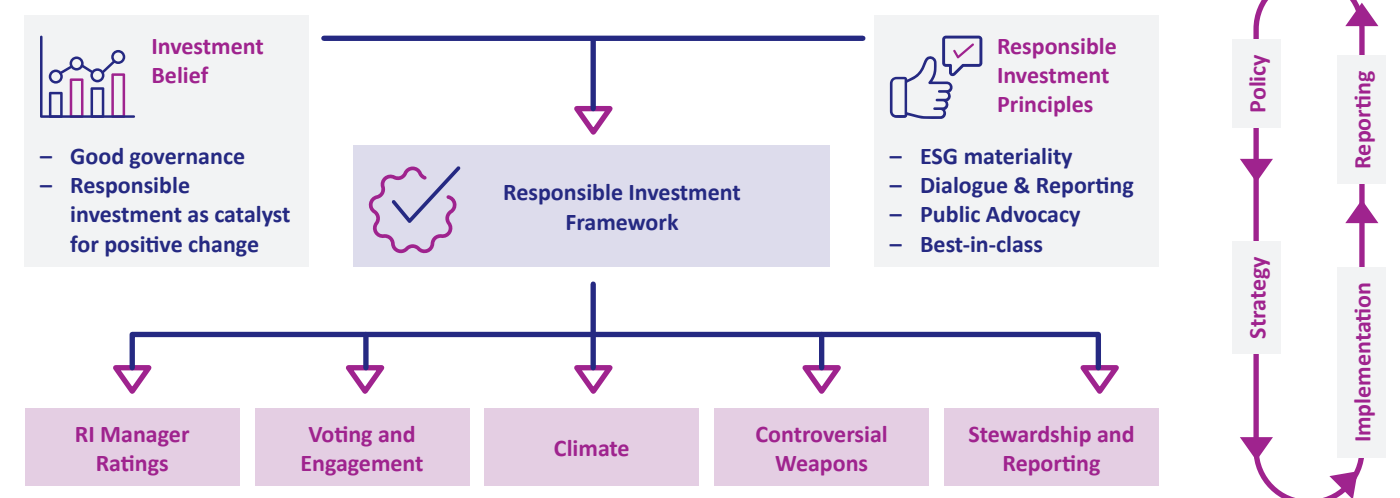
Our **Responsible Investment Framework** describes how we incorporate ESG into our investment decisions and the selection and monitoring of investment managers. It is reviewed annually and is available on TPT's website.

### Responsible investment

#### A holistic view of investing

We are committed to being a responsible investor. We've been integrating ESG considerations for the benefit of our members, wider society, and the planet since 2004. It is a key component of our investment decision-making process and ownership practices.

Figure 1. Responsible Investment at TPT



Our investment beliefs	
1	Assets are held to pay benefits and should be invested taking account of the characteristics of these benefits.
2	Risk should only be tolerated to the extent that the Trustee has confidence that the covenant of sponsoring employer(s) is sufficient to meet potential adverse consequences. The investment strategy may take account of the preferences of sponsoring employer(s), including ethical concerns, where these are consistent with risk tolerance and investment beliefs.
3	Asset allocation is a more important determinant of returns than manager or stock selection.
4	The potential to achieve a higher investment return requires taking higher risk (uncertainty in future returns). Higher risk assets (e.g. equities) are expected to outperform lower risk assets (government bonds) but are also expected to have higher variability of returns (volatility).
5	Diversification of risk assets, both within and across asset classes, reduces the variability of returns, both in absolute terms and relative to liabilities.
6	The real world is complex; judgement and qualitative research are important alongside quantitative analysis.
7	Illiquid assets, that provide sufficient reward to compensate for illiquidity, may be suitable investments. Sufficient liquidity to meet payments, including in stress scenarios, should be maintained.
8	Market opportunities to deliver returns in excess of an index may exist. However, identifying and implementing strategies that consistently deliver excess returns after costs is difficult.
9	Good governance improves the quality of investment decision-making. Transparency is an important enabler for good governance.
10	Responsible investment helps identify and mitigate risks. Responsible investment may also enhance portfolio returns.

Our responsible investment principles	
1	TPT aims to act as a good steward toward its stakeholders.
2	TPT views itself as a universal owner; it strives to positively contribute to the debates in the real economy: climate change, fair society, and good governance.
3	Environmental, Social and Governance (ESG) factors impact financial performance and create risk and opportunities.
4	Decisions relating to ESG matters should be made on a financial basis with an inclusive view of different ethical beliefs.
5	The Trustee prefers to engage with, rather than exclude, companies or sectors. Exclusion should be considered a last resort, e.g. when it becomes clear that engagement will not work.
6	The Trustee is responsible for the votes cast, even if voting is delegated to third- party investment managers. Therefore, the Trustee needs to appropriately oversee investment managers to assess whether they are voting in a manner consistent with its Voting and Engagement Policy.
7	We value collaboration with other investors and market participants to seek positive outcomes for the assets managed on behalf of our members.
8	TPT’s aspiration is that its approach to and implementation of Responsible Investment compares favourably with its peers.
9	Responsible Investment is an evolving subject and the Trustee’s principles and objectives should be reviewed regularly to ensure that they continue to be consistent with best practices and regulatory requirements.
10	Sufficient resources are required to fulfil the Responsible Investment objectives in the interests of the members.

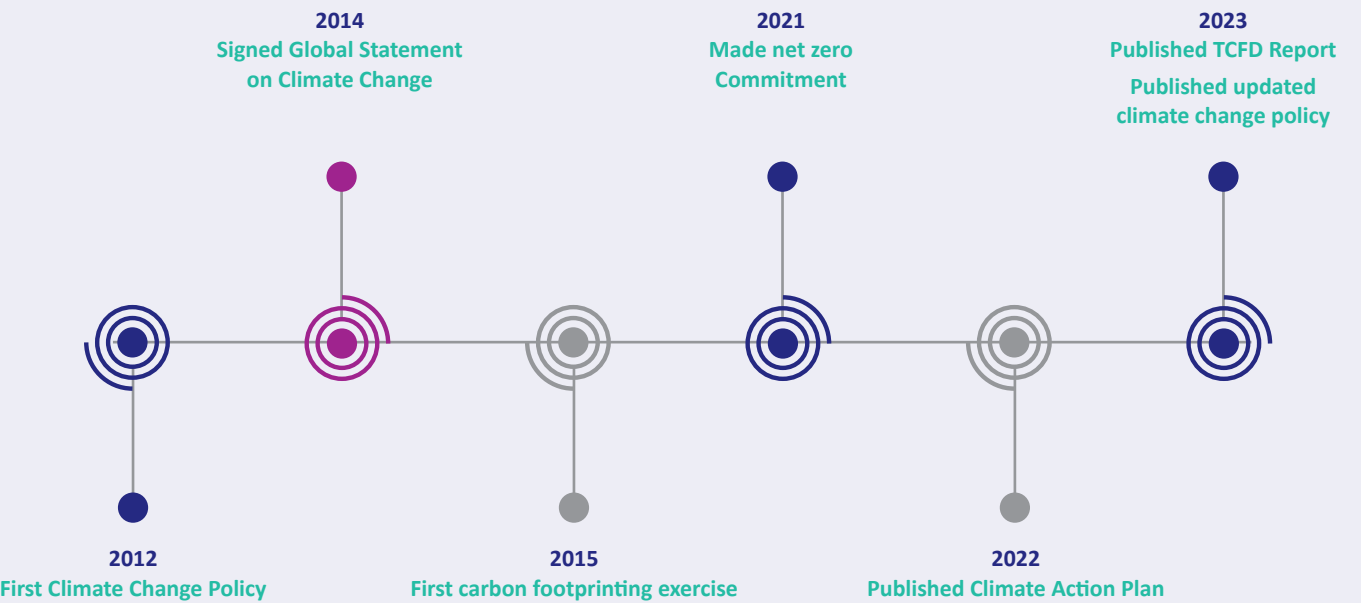
Climate change

We believe that climate change represents a risk to the long-term value of our investment portfolio and has the potential to reduce the security of our members’ retirement benefits. Our Climate Change Policy helps us to ensure that climate change risk is explicitly considered during the investment process, from understanding how exposed our portfolio is to the risks, to the way we actively engage with the wider investment community.

Climate considerations are integral to TPT’s RI Principles and our RI approach in portfolio construction and monitoring, advocacy, and reporting. We use the Net Zero Investment Framework (NZIF) as a reference for setting metrics and methodologies for decarbonising our investment portfolio as well as allocating investment in climate solutions. Our efforts also include active participation and engagement with the wider investment community and policymakers. We believe that industry-wide focus and transparency will help facilitate the transition to a net zero economy. We support the goals of the Paris Agreement and have signed the Global Investor Statements to Governments on Climate Change. We are a member of the Institutional Investors Group on Climate Change (IIGCC) and the UK Sustainable Investment and Finance Association (UKSIF). We are also a member of the Paris Aligned Asset Owners Group and sit on the Global Steering Group.

Our Climate Change Policy was updated in 2023 to integrate the latest best practices and recommendations and include our interim climate targets. The policy is available on TPT’s website.

Figure 2. Embedding climate considerations into our investment decisions for over 10 years





# Governance

Good governance is essential to ensure effective oversight of climate-related risks and opportunities – our Trustee Board has ultimate responsibility for all issues relevant to the scheme.

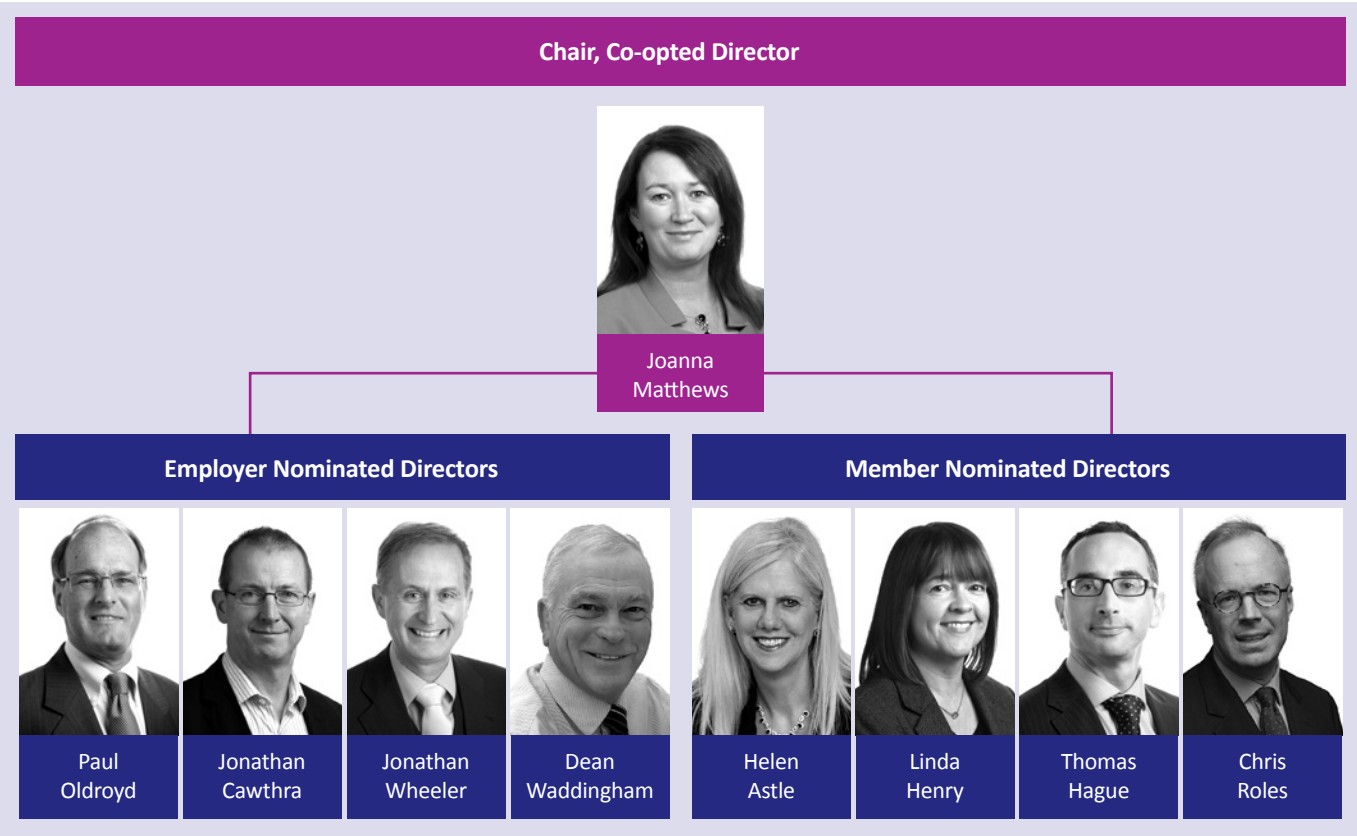


## Supervising our exposure to climate change

### Trustee Board

Verity Trustees Limited (VTL) provides the trustee services for our Master Trust, which incorporates the funds from our DC and DB Complete pension schemes. The members of the Trustee Board are responsible for keeping our members’ benefits safe and making sure the Master Trust is properly run.

Figure 3. Trustee Board Composition



## Investment Management Team

The Trustee delegates the implementation of its Investment Beliefs and Responsible Investment Principles to the Investment Committee (IC), which is supported in implementing its investment decisions by the Investment Management Team (IMT). The IMT is led by the Chief Investment Officer.

RI is fully integrated into the IMT’s core investment functions. The IMT reports to the IC; climate change issues are part of the regular updates in the agenda. The Chief Investment Officer also sits on the Executive Board. Climate change reporting is integrated into the Executive Board’s key deliverables.

## Subcommittees of VTL

### Investment Committee

This Committee is responsible for the implementation of the Trustee’s Investment Beliefs and Responsible Investment Principles.

### Audit, Risk and Compliance Committee

The Committee addresses such matters as internal controls, compliance, and the annual audit and the annual accounts of the Trusts.

### Appeals & Discretions Committee

This Committee determines appeals to the Trustee at the second stage of the Internal Disputes Resolution Procedure and considers discretionary benefit payments.

### Remuneration & Appointments Committee

The Committee approves the total remuneration strategy for all Trustee Board and Committee members.

### Funding Committee

The Committee makes scheme-specific funding and investment decisions for TPT’s DB pension schemes and oversees the valuation process for all of the Trusts’ DB pension schemes.

Figure 4. Governance structure





Processes

The Trustee is charged with annually reviewing policies on, and determining the status of, the Trust’s response to opportunities and risks arising from climate change and wider RI issues. The Trustee believes that our overall approach to RI helps to identify and mitigate risks and potentially enhances portfolio returns. The Trustee has:

- developed a range of Responsible Investment Principles, which delineate the chosen implementation approach to RI and stewardship matters;
- embedded a process that ensures new and existing investments are managed to take account of climate change risks and opportunities;
- followed the recommendation of TPT’s IC and approved the scheme’s overall climate-related strategy, including integration into investment strategy, scenario analysis, and metrics and targets;
- positioned climate change-related risk as one of the key risks that it must pay close attention to. These risks are discussed by the ICand Funding Committee, which are under the direct supervision of the Trustee Board.

Specifically, the Trustee handles issues requiring a group-wide perspective and, to this end, identifies important themes deserving intensive discussion, thereby managing these issues within an annual schedule. The Trustee actively addresses RI-related matters through dedicated sessions and deliberations at regular meetings.

Training

The Trustee Directors have considerable relevant experience and expertise with skills and knowledge that complement each other and provide a diversity of experience on the Trustee Board. Trustee Directors must complete the Pensions Regulator’s Trustee Toolkit and satisfy “Fit and Proper” regulatory requirements.

The Trustee follows an annual training programme to ensure all Trustee Directors have appropriate knowledge and understanding. The training programme is reviewed regularly by the Trustee Board to ensure it is up to date. It is designed to cover major developments and ensure that any knowledge gaps identified in the individual assessment (and rolling assessment) are addressed.

Climate and/or ESG training is provided at least annually. For the year under review, a session was organised in June 2023, focusing specifically on stewardship.

Selection and monitoring of managers

The Trustee has delegated the management of its investments to professional investment managers. These managers, which are regulated by the appropriate regulatory body in their country of operation (such as the Financial Conduct Authority in the UK), manage the investments within the restrictions set out in investment management agreements, which are designed to ensure that the objectives and policies set out in the SIPs are followed.

The mandates put in place by the Trustee specify how rights attaching to the Trust’s segregated investments are acted upon. These include active voting participation and a requirement to consider ESG factors when making investment decisions.

The Trustee has less influence over the underlying investments within pooled investment vehicles held by the Trust but reviews the managers’ policies and statements of compliance in respect of these matters.

As part of the Trustee’s selection process, investment managers and partners are required to demonstrate robust climate expertise to be included in the cohort of prospective managers. Their approach to stewardship, climate change, and ESG risks is assessed and discussed at review meetings. Investment managers are also asked to report regularly on their RI activities.

Figure 5. Incorporating ESG considerations into our investment management process and ownership practices

Investment Strategy & RI Manager Oversight	
✓	Appointing managers with strong RI policies and processes
✓	Investing in mandates with climate solutions credentials
✓	Integrating RI into legal documents
✓	Integrating RI as part of the due dilligence and monitoring processes
Internal Assurance	Reporting
<ul style="list-style-type: none"><li>– Manager meeting reviews</li><li>– Executive Board - Dashboard</li><li>– Investment Committee - IMT recommendation</li></ul>	<ul style="list-style-type: none"><li>– Implementation Statement</li><li>– TCFD Reporting</li><li>– Stewardship Reporting</li><li>– PRI</li></ul>

Responsible Investment Manager Rating System

Managers are assessed on their approach to RI on an ongoing basis based on a proprietary scoring system. TPT’s RI Manager Rating System comprises four areas: Values, Stewardship, ESG Integration, and Transparency. The scoring is translated into an A, B, C, or D rating (with A being the highest possible rating and D being the lowest). TPT reports RI ratings to the IC as an integrated part of its manager monitoring dashboard. External managers are reviewed at least annually on their performance and RI credentials. We continuously engage with our investment managers on our expectations for incorporating RI considerations and utilise appropriate escalation strategies if they fall short of our expectations.



Climate-related risks and opportunities have varying levels of impact across all asset classes – managing climate risks is central to our investment strategy.

Risks and opportunities and the impact on investment strategy

We believe that changes to macroeconomic factors, caused by climate change, have varying levels of impact across all asset classes and apply globally. Because we do not know when and how these changes will take effect or their exact impacts on the financial system, we use scenario analysis to consider the potential impact on our portfolios and to inform investment decision-making.

The key risks:

- **Physical risks** are driven by the effects of a gradual increase in global temperatures and the increase in severity and frequency of extreme weather events. Over the longer term, these are expected to come mainly in the form of natural events affecting investee companies and the impact of changing temperatures on mortality rates.

With risks come **opportunities** – these opportunities are likely to include assets that will benefit from the transition to a net zero economy. Assets such as renewable energy or the creation of new technologies developed to address the transition to net zero will provide new investment opportunities.
- **Transition risks** are driven by a combination of policy actions and technological innovations. These risks are generally expected to occur in the short and (in particular) the medium term. These risks mean some high-emitting economic sectors could see material decreases in their valuations.

In the table below, we have considered how climate change may affect some of the key asset classes employed by the Trustee through different risks and opportunities.

Table 1: Transition and physical risks relating to the Scheme

Asset Class	Transition Risks (Short and Medium Term)	Physical Risk (Long Term)	Opportunities
Listed Equities	Risk of asset impairment and stranded assets in fossil fuel energy stocks.	Eroded profitability and value of corporate assets in climate-vulnerable locations, increased risks to supply chains, water scarcity, logistical operations, supply disruptions, loss of services, increased insurance and regulatory costs.	Increased profitability of companies involved in clean-tech revolution.
Corporate Fixed Income	Reduced credit rating and potential default risk of issuers that finance high carbon assets and activities.	Eroded profitability and value of corporate assets in climate-vulnerable locations, increased risks to supply chains, water scarcity, supply disruptions, loss of services, increased insurance and regulatory costs.	More stable credit ratings and lower default risk associated with physical and transition risk for issuers that finance low-carbon assets and activities.
Real Estate	Properties with poor energy efficiency ratings or standards are likely to underperform more highly rated assets, e.g. older properties may require capital spending to improve energy efficiency.	Higher insurance costs and declines in value of properties that are at high risk from climate-related weather events.	Increased valuation of properties that have high environmental credentials (also referred to as the ‘greenium’).
Infrastructure	Policy changes and technological advancements could affect the value of infrastructure assets less suited to a low-carbon world, or render them redundant (e.g. coal power not compatible with carbon capture and storage).	Higher insurance costs (or uninsurable assets) and lower valuation of assets in climate-vulnerable locations.	Strong performance of renewable energy infrastructure assets, also encompassing renewable energy enabling and distribution assets.

Impact on the Scheme assets and liabilities

DB pension schemes must meet the statutory funding objective, which means the Trust must make sure it has sufficient assets to pay the pension benefits to members. The funding position of a scheme compares the market value of a particular scheme’s assets with the present value of its liabilities. This can be expressed as a ratio of the scheme’s assets to liabilities (referred to as the funding ratio) or the scheme’s assets minus liabilities (referred to as either a deficit or surplus). The Scheme’s Actuary determines the assumptions used in valuing the liabilities.

Climate change can affect DB schemes by:

- Impacting the investment returns that assets can achieve
- Changing mortality assumptions
- Changing the strength of the covenant provided by the sponsoring employer(s)

DC pension schemes must invest members’ contributions wisely to provide a retirement pot of sufficient size to support a member through retirement.

Climate change can affect DC schemes by:

- Negatively affecting the investment returns that the assets can achieve



Climate scenario analysis

In 2022, we appointed Ortec Finance to provide advice on how climate-related risk can affect Schemes’ assets and liabilities under different climate scenarios at dates in the future. It was the first quantitative climate scenario analysis conducted on TPT’s assets.

Under the TCFD Regulations, scenario analysis must be undertaken in the first scheme year during which the Trustee is subject to the requirements in the Regulations, and every third scheme year thereafter. In the scheme years where scenario analysis is not required, trustees must review their most recent scenario analysis and determine whether they should nevertheless undertake new scenario analysis to have an up-to-date understanding of the matters they are required by the Regulations to consider.

2022 Climate scenario analysis

In 2022, we conducted climate scenario analysis to stress-test the Trust’s DB and DC portfolios against climate-change risks. In this analysis, our baseline scenario was a ‘climate uninformed baseline’ where all currently existing policies and physical past impacts were assumed to have been priced in by markets, but no future physical risks were accounted for.

The Trust’s chosen climate scenarios were:

Orderly Net Zero by 2050	Disorderly Net Zero by 2050	Failed Transition
<ul style="list-style-type: none"><li>Orderly transition, 2°C or lower scenario</li><li>Emission reductions start now and continue in line with the Paris Agreement</li></ul>	<ul style="list-style-type: none"><li>Disorderly transition, 2°C or lower scenario</li><li>Little climate action in the short term, followed by sudden unanticipated tightening in 2025 as countries rush to get on track</li></ul>	<ul style="list-style-type: none"><li>Failed transition, pathway to 4+°C scenario</li><li>Continuation of historic emission trends and failure to transition away from fossil fuels</li></ul>

The Trustee adopted time horizons for considering the impact of climate-related risk and opportunities that apply to both our DB and DC schemes. These are set out in the table below.

Table 2. Scenario horizons

Time horizon	Years	Reason
Short term	10 years	The time horizon over which transition risks are expected to take effect.
Medium term	20 years	The expected ‘pricing-in’ dynamic expected to take effect, with the second repricing in the 2030s.
Long term	40 years	The time horizon over which a member’s monies are invested from joining the workforce through to retirement. Also, the time horizon representative of climate change risks and opportunities applicable to the ‘young’ vintage in our DC range. Physical risks are expected to take effect.

Both direct and indirect risks of climate change need to be considered. Direct risks of climate change take time to affect the economy and markets. If we only consider direct risks, we might underestimate the aggregate effects of climate change, making our analysis unrealistic and less useful for decision-making. Financial markets are constantly anticipating market shocks and sentiment. It is, therefore, useful to include an analysis of how markets price in the present value of these future risks and their expected impacts. This pricing-in of climate risk is a new and evolving area, with it sometimes being referred to as the third climate risk after transition and physical risk. The key assumption surrounding this pricing-in dynamic is that current market valuations have not fully priced in the impact of the change in the expected future economic growth caused by climate change. The indirect risks associated with each scenario are detailed below.

Orderly Net Zero by 2050	Disorderly Net Zero by 2050	Failed Transition
<ul style="list-style-type: none"><li>Gradual repricing of equity, fixed income and real estate from now until 2025</li><li>Due to perception of climate risk in coming 40 years</li></ul>	<ul style="list-style-type: none"><li>Sudden repricing of these assets in 2025</li><li>This is accompanied by a sentiment shock as investors panic</li></ul>	<ul style="list-style-type: none"><li>First pricing-in shock is in 2026–2030 due to perception of risk in coming 40 years</li><li>Second pricing-in shock in the late 2030s, taking physical risks beyond 2060 into account</li></ul>



Resilience of the investments and funding strategy

DB schemes

There are over 50 individual schemes (several of which are multi-employer schemes, which leads to a large number of underlying sponsoring employers) within the Trust. We have analysed internally the funding level on a scheme-specific basis and provided commentary on an aggregate basis for the 2022 report. The analysis found downside risk in expected returns (that is, the rate of return at which the Trust’s assets are expected to grow) in all three scenarios when compared to a climate uninformed baseline. This climate-uninformed baseline is the scenario in which climate-change risks are not considered in the long term. However, the magnitude of the downside risk to asset values changed across the short-, medium- and long-term time horizons as well as across the three climate scenarios.

We also split out the return-seeking assets of our DB portfolio into two sub-portfolios: the Growth Assets Portfolio and the Matching-Plus Portfolio. The purpose of the Growth Assets Portfolio is to deliver an equity-like return above the Scheme’s liabilities. The Matching-Plus Portfolio is expected to provide a return above the Scheme’s liabilities by investing in assets that provide a high degree of outcome certainty; this is generally achieved by holding a portfolio of investment-grade assets that deliver returns through yield. The level of risk, and therefore return, is expected to be lower than that found within the Growth Assets Portfolio. Splitting out the two portfolios allowed us to examine the nuances between the effects of climate change on ‘riskier’ assets, such as equities, compared to ‘safer’ assets, such as corporate fixed income. The analysis showed that the Scheme’s DB assets were most negatively affected by the ‘failed transition’ scenario and were especially impacted over time. It also illustrated that the assets in the Growth Asset Portfolio were more vulnerable to climate change than the investment-grade assets in the Matching-Plus Portfolio.

DC schemes

The climate scenario analysis for our DC schemes is different from the DB analysis since there are no liabilities in DC schemes, and we do not consider covenant risk. In a DC scheme, the risk of not having sufficient income to support retirement shifts from the employer to the individual member. In our 2022 analysis, we used four vintages of the Target Date Funds (TDFs) that are the most popular arrangements and represent a member’s journey through the accumulation stage, i.e. as the member is saving for their retirement. They are: 1) At retirement; 2) Pre-retirement; 3) Mid-life; and 4) Young.

As members move through the vintages, their asset allocation will change and they will de-risk as they approach retirement by moving out of equity and equity-like assets into investment-grade assets. This means that the climate-change risks and opportunities differ throughout the vintages and therefore the effect climate change has on asset returns within the vintages is also different. For example, with the ‘young’ vintage having the highest allocation to equities, and with equity values being most likely to be adversely affected by climate change, younger members' pensions are most likely to be adversely affected by climate change.

In the short term, all four vintages shared similar characteristics in terms of the shape of the impacts, but the magnitude of the impacts differed. The three scenarios played out similarly, but the asset returns changed in the different vintages. Taking the disorderly transition as an example, the market repricing that occurs in 2025 had a far greater effect on the ‘young’ vintage than on the pre-retirement vintage because of the ‘young’ vintage’s greater allocation to equities which are more affected by climate change. The long-term effects of climate change were most prominent in the ‘failed transition’ throughout all four vintages, with the effect being most notable in the ‘young’ vintage. This results in members’ pension pots being smaller and members potentially having to increase their contributions to make up for this. In the long run, the orderly transition scenario looked like the most acceptable scenario out of the three.

Key assumptions and limitations

Assumptions

The analysis undertaken in 2022 involved the projection of assets and liabilities over the short, medium, and long term using assumptions for future economic scenarios. The assets were projected on a gilts plus asset outperformance basis. The assumption for outperformance used a best estimate return for growth assets, matching asset and liabilities-driven investments that were adjusted year-on-year using data supplied by Ortec Finance.

The scheme liabilities were produced and projected based on: (a) our long-term funding target using a discount rate based on gilt yields plus 0.5% return, which assumed a low dependency investment strategy; or (b) gilts flat basis using a discount rate based on gilt yields with no allowance for asset outperformance. All other assumptions were derived prudently based on assumptions agreed at the most recent triennial funding assessment.

In the scenario analysis, we assumed no impact on liabilities from interest rates and inflation. We considered the impact on liabilities to be qualitative, affecting covenant strength and mortality rates. Apart from that, liabilities were assumed not to change, so there were no other changes in technical provisions needed.

To map the assets in our investment portfolio to the benchmarks provided by Ortec, we had to make several assumptions. These assumptions meant that our mapping was potentially imperfect.

Limitations

The analysis undertaken in 2022 was dependent on data supplied by third parties, such as member data supplied by the sponsors of the scheme, and was, therefore, limited by the accuracy and completeness of this data.

The scheme liability calculations used third-party propriety software, called PFaroe. The calculations were thus constrained by the limitations of this software. All projections were based on assumptions derived using market conditions at the calculation date. All assumptions were assumed to be borne out in practice.

All projections assumed the cost of future pension accrual was fully funded by future regular contributions.

Climate scenario analysis is relatively nascent and there is inherent uncertainty around the modelling of different climate scenarios. Climate-scenario modeling is also quite complex, and the interactions between climate, macroeconomic, and financial factors need to be expanded.

Projecting so far out into the future comes with increased uncertainty and the use of assumptions. The modelling was also done on a top-down basis, meaning that the analysis did not consider individual securities nor cover certain sectors that we are invested in.

The analysis did not consider climate tipping points. A tipping point is a critical threshold beyond which a system reorganises. As climate tipping points were not considered, physical climate risks were potentially underestimated.

The climate-uninformed baseline that we used is not an accurate reflection of our real-world baseline. However, it is hard to decipher to what extent climate impacts have already been priced into macroeconomic and financial factors.



Liabilities – covenant analysis

Employer covenant is one of the main risks that DB pension schemes are exposed to, and it is one of the most difficult to mitigate. Modelling climate risks for employers’ covenants is a nascent area, and its development is determined by the availability of data, which is often sparse.

The Trustee’s Covenant Team constantly monitors the robustness of the sponsors’ ability to meet their funding obligations and may reach out to sponsors if any issues arise between formal assessments.

Due to the number of individual schemes within the Trust, the Trustee’s climate change covenant review is driven by a scheme’s operating sector. We assess the likelihood of climate change affecting a sponsor’s ability to meet its obligations. This assessment considers macroeconomic factors, current regulatory standards, and supply chain considerations.

Standalone schemes

Three sectors are predominant among the Trust’s standalone schemes: social housing, national/international charities, and financial institutions.

- Housing associations: We note that housing associations comply with the EPC ‘C’ rating by 2030 and have made a public commitment to reach carbon neutrality by 2050.
- National/international charities: Most national/international charities report against the guidance set by Streamlined Energy and Carbon Reporting and others have disclosed their strategies for curbing operational carbon consumption.
- Financial institutions: We note that the majority have commenced disclosing against the TCFD requirements, and almost a quarter of them have published more detailed TCFD reporting.

Multi-employer schemes (MES)

The large majority of these schemes are housing associations, which need to respond to the requirements set for social housing providers. We also request disclosures of each scheme’s forecasted costs for complying with climate-change regulations over the next five years. The Regulator for Social Housing also assesses and rates the viability and governance of regulated organisations.

Liabilities – covenant analysis

Changes in mortality assumptions can affect the liabilities of UK DB pension schemes. Climate change can have direct and indirect impacts on mortality assumptions, but these are hard to predict.

- Direct impacts relate to the direct effects of climate change, such as an increase in temperatures resulting in additional deaths and so affecting the longevity assumption.
- Indirect impacts are the knock-on effects of climate change, for example, water supply disruption.

It is difficult to measure the size and timing of mortality effects, especially the indirect effects. Therefore, at the moment, we only consider changes in mortality rates qualitatively. We will look to include a quantitative analysis as soon as data improves to a satisfactory level. This area is under constant review by the Trustee.





# Risk Management

Climate-related risks present unique challenges – risk factors associated with climate are identified, managed, and integrated into our Risk Management Framework.

## Principal risks and uncertainties

The management of the business and the execution of the company’s strategy are subject to several risks. The company has policies, processes, and controls in place to manage and mitigate such risks. The holistic risk management framework aims to ensure that risks are effectively identified, managed, monitored, and reported across the group.

Several risk appetite metrics, key risk indicators, and key controls are utilised to support the ongoing and active management of risk. Where a metric, indicator, or key control failing highlights that the company may be operating outside of its risk appetite, remedial action plans are developed, implemented, and tracked to resolution to ensure that appetite is maintained.

The Company utilises a hierarchy of risk mechanisms to ensure that risks are identified and managed across all levels of the organisation. This incorporates principal risks, which are deemed the most significant and could potentially impact the achievement of strategic objectives, right through to process-level risk identification and management through control.

## Processes for identifying, assessing, and managing climate-related risks

Climate change is a factor that interacts with other risks to which the schemes are exposed. Risk factors associated with climate are identified, managed, and integrated into the Risk Management Framework. Our SIPs and our Investment Risk Management Framework are formally documented. As both physical and transitional climate risks could negatively affect a sponsoring employer’s ability to support a scheme, climate-related risks are embedded within the funding risk assessment when determining the sponsor’s covenant strength. The risks associated with climate change are reported and monitored via the Investment Risk Management Framework by key operational and oversight governance forums including the Executive Board, the Risk Committee, and ultimately the Audit, Risk, and Compliance Committee.

The IC is responsible for overseeing the effectiveness of the Investment Risk Management Framework.

As part of the Investment Risk Management Framework, the Trustee monitors the risk that the Trust may be overly invested in an asset, manager, sector, country, or region so that any downturn in such investments would negatively affect investment returns. Within this framework, we believe investment returns can be affected by climate-related risks and investment appetite towards the opportunities presented by climate change. Within the Trustee’s Investment Risk Management Framework, such risk is inherently identified as high but mitigated by the current procedures and policies that adequately address such risk. Similarly, the Trustee identifies the risk that it fails to comply with regulatory requirements or invest in a manner consistent with the Trustee’s SIPs, Investment Beliefs, and Responsible Investment Principles. This could result in regulatory scrutiny, sanctions, and reputational damage.

## Integrating climate-related risk management

The Trustee integrates consideration of investment risks at the portfolio level by adopting a climate change policy and an RI framework. We also assess how a scheme’s external managers integrate considerations of RI and climate within their investment and business activities. The Trustee annually reviews the climate-change policy and the wider RI framework. External managers are monitored annually on their investment performance and RI credentials.

Through the IC, the Trustee ensures that it remains satisfied with the external managers’ implementation of the Trustee’s Investment Beliefs, Responsible Investment Principles, and processes.

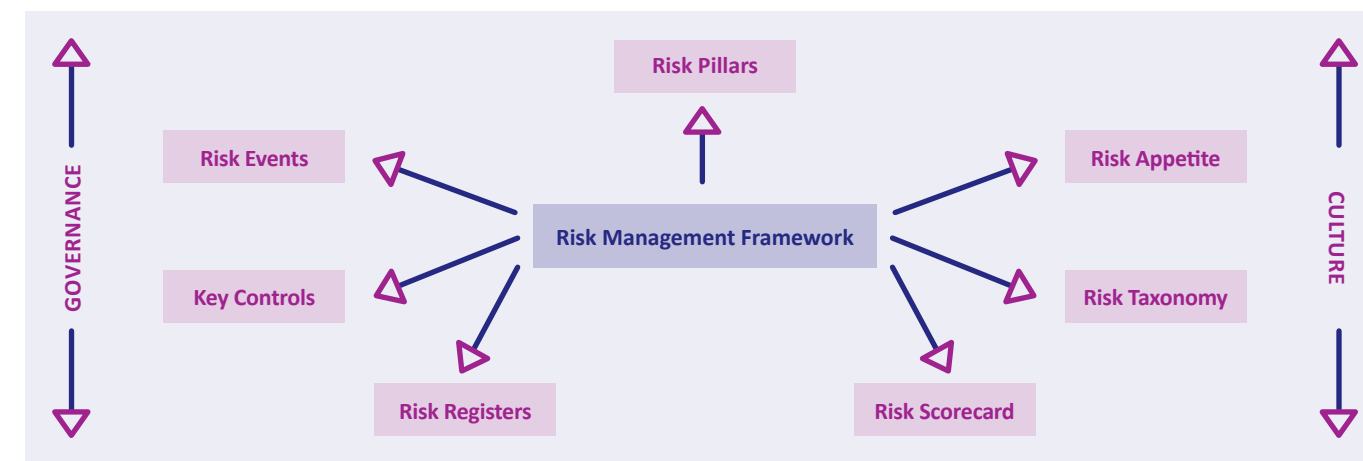
The SIP embeds the spirit of the Trustee’s policies and processes towards RI, climate, and stewardship. It is also

reviewed annually by the Trustee and communicated to the schemes’ members. Subsequently, the Implementation Statement serves as an annual account for the schemes’ members and related parties about how the Trustee discharges the policies and principles encapsulated in the SIP.

Overall, the approach to identifying, prioritising, assessing, and managing climate-related risks is the same as the method applied to all risk types across the Investment Risk Management Framework.

The Investment Risk Management Framework consists of individual components that support the consistent and effective identification, consideration, and mitigation of risk. The key elements are detailed in the graphic below.

Figure 6. TPT’s Investment Risk Management Framework



TPT’s Investment Risk Management Framework is further supported by enablers, specifically:

- **Risk horizon scanning** – Formalised consideration of the upstream risk environment, identifying potential risks that could impact TPT and its management of the Trust’s assets in the short, medium, and long term. Performed to ensure that potential risks are understood and tracked.
- **Change management risk assessment** – Formalised risk assessments performed at the inception point of significant change (e.g., new projects, processes, products) to capture new risks entering the TPT risk universe.
- **Risk management information (RMI) and reporting** – Risk information and insight provided to key stakeholders and forums to aid informed decision-making. Each element of the Investment Risk Management Framework is used to produce RMI and reporting, while techniques such as theme, trend, and root cause analysis provide useful insight.
- **Training and education** – Risk training and education are offered to key stakeholders, forums, and employees to ensure that the required standard of risk understanding is embedded throughout TPT. Risk management is used to identify specific training requirements, e.g. thematic risk event failings.

# I Metrics and targets

Climate metrics are used to better understand and address climate-related risks and opportunities – the integration of climate data guides us on what actions we should take to achieve our goals.

## Metrics for calculating climate change risks and opportunities

In line with Department of Work and Pensions (DWP) regulations, occupational pension schemes that are subject to TCFD reporting requirements must now report on four climate metrics to better understand and address climate- related risks and opportunities:

1. Absolute emissions metric
2. Emission intensity metric
3. Additional climate metric (non-emission factor)
4. Portfolio alignment metric

These climate change metrics help the Trustee to understand the carbon emissions in the Trust’s investment portfolio and identify climate-related risks and opportunities. Assessments are also compiled to measure whether the Trust is on track to achieving its net zero targets.

## Scopes 1, 2, and 3

Scope 1 emissions
Green house gas (GHG) emissions that a company makes directly — for example, from burning fuel in a fleet of vehicles.
Scope 2 emissions
GHG emissions that a company causes indirectly – for example, the purchase and use of electricity, steam, heating and cooling.
Scope 3 emissions
All the emissions associated, not with the company itself, but that the organisation is indirectly responsible for, up and down its value chain- for example, business travel or use of sold products.  Scope 3 emissions include all sources not within the scope 1 and 2 boundaries.

## Greenhouse gas summary

GHG emissions and intensities for the Trust’s DB and DC portfolios are outlined in the tables below.

Table 3. DB equity and fixed income climate metrics as at 30 September 2023

	AUM (£m) In scope*	Absolute Emissions (tCO2e)	Emission Intensity (tCO2e/ £m invested)	Implied Temperature Rise (° Celsius)
Scopes 1 & 2	511	13,745	26.90	1.87
Scope 3	423	124,563	294.23	

Table 4. DC equity and fixed income climate metrics as at 30 September 2023

	AUM (£m) In scope*	Absolute Emissions (tCO2e)	Emission Intensity (tCO2e/ £m invested)	Implied Temperature Rise (° Celsius)
Scopes 1 & 2	1,968	94,396	47.96	2.41
Scope 3	1,463	736,876	503.57	

Table 5. DB real estate climate metrics as at 31 December 2022

	AUM (£m) In scope*	Absolute Emissions (tCO2e)	Emission intensity (kgCO2e/m2)	Implied Temperature Rise (° Celsius)
Scopes 1 & 2	635	20.9	0.3	2.40
Scope 3	635	6,305	36.2	

Table 6. DB infrastructure climate metrics as at 30 September 2023

	AUM (£m) In scope*	Absolute Emissions (tCO2e)	Emission intensity (tCO2e/ £m invested)	% AUM with NZ target
Scopes 1 & 2	595	24,384	40.99	69.24%
Scope 3	469	54,317	115.74	

\*AUM for which emissions data is available.



Metrics and targets continued

Data coverage and quality

Table 7. Data quality (1-5) distribution based on market cap of asset owned

Portfolio	1	2	3	2	5
DB – Equity and fixed income – Scope 1	0.0%	68.9%	0.1%	3.5%	27.4%
DB – Equity and fixed income – Scope 2	0.0%	69.4%	0.0%	3.2%	27.5%
DB – Equity and fixed income – Scope 3	0.0%	60.7%	0.0%	13.0%	26.3%
DC – Equity and fixed income – Scope 1	0.0%	90.0%	0.1%	6.2%	3.7%
DC – Equity and fixed income – Scope 2	0.0%	89.9%	0.0%	6.4%	3.7%
DC – Equity and fixed income – Scope 3	0.0%	71.8%	0.0%	24.7%	3.5%
DB – Infrastructure – Scope 1	27.8%	72.2%	0.0%	0.0%	0.0%
DB – Infrastructure – Scope 2	27.8%	72.2%	0.0%	0.0%	0.0%
DB – Infrastructure – Scope 3	13.6%	85.8%	0.5%	0.1%	0.0%

The Trust’s climate metrics presented in this report relate to:

- Listed equity
- Corporate fixed income
- Real estate
- Infrastructure

Infrastructure was added this year following engagement with our investment managers on data collection. Given our exposure to this asset class, infrastructure was our key point of focus. We aim to include other asset classes as data improves.

Data quality and coverage remain a challenge. This is especially true for scope 3 emissions, which we reported this year for the first time. While scopes 1 and 2 data are generally available for public asset classes, this is not the case for scope 3 emissions, which typically represent the largest source of emissions. Although we recognise the need to address scope 3 emissions as part of our portfolio decarbonisation and Paris-alignment efforts, the lack of data means that it is difficult to fully capture the climate impacts of our investments.

The availability and quality of data also vary across asset classes (and within asset classes), geographies, and sectors. The data we currently have available only covers a proportion of our DB and DC portfolios. We aim to work with issuers, data providers, investors, and other stakeholders to improve data quality. This also means that the metrics we publish are not certain and might change in the future based on carbon data and measurement changes and improvements.

Performance against carbon intensity targets

Table 8. Performance against carbon intensity targets

	2019 Carbon intensity	2022 Carbon intensity	2023 Carbon intensity	Reduction (annualised) 2023 vs. 2019
DB – Equity and fixed income	Scopes 1 and 2: 88.4	Scopes 1 and 2: 24.1	Scopes 1 and 2: 26.90	-26%
DC – Equity and fixed income	Scopes 1 and 2: 101.7	Scopes 1 and 2: 39.9	Scopes 1 and 2: 47.96	-17%
	2019 Carbon intensity	2021 Carbon intensity	2022 Carbon intensity	Reduction (annualised) 2022 vs. 2019
Real Estate (DB)	Scopes 1 and 2: 0.3	Scopes 1 and 2: 0.3	Scopes 1 and 2: 0.3	Nil
	Scope 3: 48.24	Scope 3: 41.2	Scope 3: 36.2	-11%

The Trustee made a net zero commitment in June 2021 by signing the **PAII Asset Owner Commitment**.

Within this commitment we have agreed to:

- transition our investments to achieve net zero portfolio GHG emissions by 2050 or sooner;
- reduce emissions by 50% by 2030;
- reduce portfolio emissions by a minimum of 25% by 2025.

As we have noted, our ambition is for our investments to achieve net zero by 2050. Our interim target is to reduce Scope 1 and 2 emission intensity by 25% by 2025. We currently include listed equity, corporate fixed-income, and real estate assets in target setting (against our 2019 carbon emissions – i.e. our baseline year). Our target-setting methodology is consistent with that of the NZIF. We are considering how to extend these targets to include Scope 3 emissions and more asset classes. When reviewing targets, we will consider our performance, improving data quality and advances in the wider economy, which will influence the decarbonisation pathway we follow.

Table 8 shows that we continue to perform reasonably well against our carbon intensity reduction targets, although an increase in carbon intensity can be seen when compared to 2022. As noted in our previous report, we expect that the pace of intensity reduction will depend on several factors and also vary across different asset classes. The reduction for real estate is lower compared to equity and fixed assets given the time it takes to implement energy efficiency improvements within buildings (which may only be possible when leases expire).

The Trustee is also aware that changes in emissions do not solely reflect decarbonisation by constituent companies. Changes in the composition of portfolios, including rebalances and reweighting, also contribute to these shifts. In order to enhance its understanding of our performance against targets, the Trustee is looking at conducting an emissions-attribution analysis.

The ability to attribute emissions with precision is a key factor in understanding actual reductions in carbon emissions. The Trustee also aims to review its climate strategy more broadly ahead of the 2025 target deadline, including net zero approach, progress against targets, and action plan.

Metrics and targets continued

Methodologies and rationale behind the Trust’s approach

We have followed the GHG emissions accounting and reporting standard developed by the Partnership for Carbon Accounting Financials (PCAF) wherever possible. PCAF is an international industry-led initiative to measure and disclose GHG emissions financed by investments.

In terms of data collection, emissions data for listed equity and corporate fixed income was gathered via MSCI. Our managers provided emissions data for real estate and infrastructure. The following table provides detail on the chosen metrics and calculations.

TCFD Metric	Chosen metric	Description and calculation	Rationale
Absolute carbon emissions	Absolute carbon emissions (tCO2e)	The total GHG emissions attributable to a portfolio. Measured in tCO2e.  <b>Calculation*:</b> Value of investment / Total enterprise value x Company emissions  *In line with PCAF	Helps to track emissions reduction. Emissions reductions in our investment portfolio should primarily be achieved through a reduction in absolute emissions from the companies and assets in which we invest, rather than by avoiding or divesting from certain geographies, sectors, or companies.
	Carbon footprint (tCO2e/£m invested) for corporate assets and infrastructure	Total carbon emissions for a portfolio normalised by an appropriate factor related to the portfolio.  <b>Calculation*:</b> Absolute emissions / Current portfolio value  *In line with PCAF	
Carbon intensity	Carbon intensity (kg/CO2e/m2) for real estate assets	Total carbon emissions for a portfolio normalised by an appropriate factor related to the portfolio.  <b>Calculation:</b> Absolute emissions / Area in m²	Measuring emission intensity is important to help understand the portfolio’s emission composition. Carbon intensity can enable comparison between portfolios of different sizes and time horizons.
Additional climate metric	Data quality	PCAF-aligned data quality scores, which indicate how accurate a footprint is. Data quality score 1 indicates the highest quality, while data quality score 5 represents the lowest.  The criteria for data quality scores are specific to the individual asset. Detailed information can be found in the PCAF Global GHG Standard.  Metric provided by MSCI.	Carbon data is still quite nascent and there are issues around quality and transparency. It is, therefore, important to understand the quality of the data within our portfolio and what proportion of our assets our carbon metrics relate to.
Portfolio alignment metric	Implied temperature rise (ITR) for corporate assets and real estate	Temperature alignment based on the cumulative emissions of the investment portfolio with global temperature goals in degrees Celsius.  Metric provided by MSCI.	Considers companies’ transition plans and is an intuitive, forward-looking metric. This metric allows investors to assess compliance with globally agreed temperature thresholds, as set in the Paris Agreement.
	Net zero objective for infrastructure	Proportion of AUM with a net zero objective.  Metric provided by investment managers.	

Steps taken to achieve climate-change targets

**Net zero investment strategy**

We aim to provide best-in-class, cost-efficient investments that make a difference to the world and support the transition to a net zero economy. We integrate climate change into our investment decisions to achieve our targets. This includes changing our asset allocation and portfolio construction and also implementing a stewardship strategy with a strong voting and engagement policy.

Screening	Asset allocation
Our Climate Policy was updated in 2023 and it makes explicit reference to investments in <b>thermal coal, oil sands and arctic drilling activities</b> not being aligned with an ambition for net zero. Whilst investments in these activities were a very small part of our portfolio, throughout the year we engaged with our managers to apply an exclusion policy consistent with our revised policy.	Portfolio allocation to <b>green infrastructures and renewable energy</b> is part of our asset allocation approach. We have committed to increasing its investment in climate solutions to at least 6% of return-seeking assets by 2030. In 2016, we made our first dedicated allocation to renewable energy generation and renewable supporting technologies. In 2021, we invested in two additional renewable energy strategies.
Tilting	Stewardship
In 2021 we changed our passive equity implementation from a traditional market capitalisation approach to the Legal and General Investment Management (LGIM) Low Carbon Transition Global Equity Fund. Replacing our passive equities with a <b>climate tilt</b> resulted in a decrease in absolute portfolio emissions from the equity portfolio of c.79% in 2021 compared to 2019.	We believe our target emission reductions should be primarily achieved through real-world decarbonisation. We value the role that <b>active ownership</b> can play in meeting our targets and make use of our <b>engagement and voting tools</b> to help achieve our net zero objective.



Metrics and targets continued

Active ownership

We believe that we should act as a responsible owner of the assets we invest in on behalf of our members. An important part of this is making sure that we use our rights to influence corporate behaviour through voting and engagement and encourage governments and regulators to help drive the transition.

Voting

We follow the guidance of the Pensions and Lifetime Savings Association (PLSA) Corporate Governance Policy and Voting Guidelines, G20/OECD Corporate Governance Principles, and the International Corporate Governance Network (ICGN) Global Governance Principles, and we expect our managers to steward our assets via dissent votes when companies have not set up credible plans and governance for achieving net zero.

Although voting rights are delegated to investment managers, we may choose to exercise our voting rights (or wish to express interest in exercising our voting rights) when companies’ actions toward net zero are not deemed satisfactory and will hinder us from reaching our targets. In line with our RI Framework, manager voting is reviewed annually against our voting guidelines.

Engagement

The Trustee’s current engagement priorities target listed equity, corporate fixed income, real estate, and sovereign bonds. Our engagement is shaped by direct dialogue with companies and managers about our expectations and engagement with the wider investment community, policymakers, official bodies, and other financial participants to improve data quality, integrate new asset class frameworks, and identify opportunities presented by the net-zero transition.

Successful outcomes driven by engagement may require a long-term commitment of internal resources and interactions with other investors and companies. We review performance against engagement expectations annually. We retain the ability to modify our exclusion approach if evidence shows negative long-term alignment with net zero through our investments.





# Glossary

Term	Acronym	Data Coverage
Defined Benefit	DB	A Defined Benefit pension scheme is one where the amount you are paid is based on how many years you have been a member of the employer's scheme and the salary you have earned when you leave or retire. They pay out a secure income for life, which increases each year in line with inflation.
Defined Contribution	DC	Defined contribution pension schemes are occupational pension schemes where your contributions and your employer's contributions are invested and the proceeds used to buy a pension and/or other benefits at retirement.
Department of Work and Pensions	DWP	The Department for Work and Pensions is responsible for welfare, pensions, and child maintenance policy in the UK.
Environmental Social and Governance	ESG	The incorporation of Environmental, Social, and Governance issues into investment analysis and decision-making processes.
Greenhouse Gases	GHG	Gases that trap heat in the atmosphere.
Implied Temperature Rise	ITR	Measures temperature alignment based on the cumulative emissions of the investment portfolio with global temperature goals in degrees Celsius.
Net Zero Investment Framework	NZIF	Provides a common set of recommended actions, metrics, and methodologies through which investors can maximise their contribution to achieving global net zero emissions by 2050 or sooner.
Paris Aligned Asset Owners	PAAO	A collaborative investor-led global forum enabling investors to align their portfolios and activities to the goals of the Paris Agreement.
Partnership for Carbon Accounting Financials	PCAF	PCAF is a global partnership of financial institutions that work together to develop and implement a harmonised approach to assess and disclose the GHG emissions associated with their loans and investments.
Responsible Investment	RI	Responsible investment involves considering ESG issues when making investment decisions and influencing companies or assets (known as active ownership or stewardship). It complements traditional financial analysis and portfolio construction techniques.
Task Force on Climate-Related Financial Disclosures	TCFD	A reporting framework that helps organisations disclose climate-related financial risks and opportunities.





# Get in touch

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