TCFD report summary for savers

1 April 2022 to 31 March 2023

Our second TCFD report summary sets out the investment decisions we've made to address climate change-related risks and opportunities within the investments we manage for our members. This includes how we consider, target and measure the actions we're taking.

Our progress

This year (to 31 March 2023), we're reporting against four climate change metrics. Our summary includes Scope 3 emissions, in addition to Scope 1 and 2 emissions*.

Metric 1 is the total greenhouse gas emissions of our corporate equity exposures. The results for this year are 142,900 tons of Scope 1 and 2 greenhouse gas emissions (from 164,700 tons in the previous reporting year), 307,800 tons of Scope 3 upstream emissions (from 259,900 tons), and 879,500 tons of Scope 3 downstream emissions (from 776,800 tons).

Metric 2 is the carbon footprint of our corporate equity exposures. The results are 63.1 tons of Scope 1 and 2 greenhouse gas emissions per million pounds invested (from 71.3 tons last reporting year), 135.9 tons of Scope 3 upstream emissions (from 112.5 tons) and 388.4 tons Scope 3 downstream emissions (from 336.4 tons).

Metric 3 is the investments made with an explicit sustainability objective. This includes green, social, and sustainable bonds, lower-carbon ESG-screened equities, and environmentally aware cash investments. We've increased our investments in these areas, and this year's result is therefore 81.7% (improved from 56%).

Metric 4 is the percentage of assets under management of corporate equity investments that are 1.5°C aligned (our ideal climate target). This is a new metric for 2023 and the result is 24.4%.

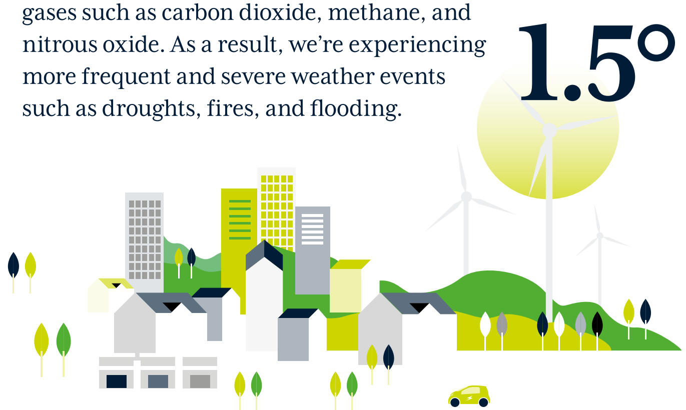
Why do we produce a TCFD report?

The Task Force on Climate-related Financial Disclosures (or TCFD for short) was set up by the government to encourage businesses and investors to report the financial risks from climate change. The UK was the first G20 country to make it mandatory for pension schemes like ours to disclose their climate change-related risks and opportunities, in line with TCFD recommendations.

Because climate change is top of our agenda, we're very happy to share this information, as well as our plans and progress. You can read our full report here.

The impacts of climate change on our planet

Climate change is leading to a rise in temperatures around the world. It's caused by human activity emitting greenhouse gases such as carbon dioxide, methane, and nitrous oxide. As a result, we're experiencing more frequent and severe weather events such as droughts, fires, and flooding.



The impacts of climate change on your pension investment

We're responsible for identifying, assessing and managing the climate change-related risks and opportunities that could affect the pension scheme. Our Climate Change-related Risks and Opportunities (CCRO) policy, helps us to ensure that we (and the specialists that help us manage these investments), have the right knowledge, skills and understanding to do so.

Before we can assess the risk of climate change to your investments, we need to understand what the temperature rise will be, but of course this is a global issue and outside of our direct control.

Our ideal climate target is to align with the Paris Agreement of limiting the rise in global temperatures to 1.5°C (the level science tells us the planet can safely absorb). This means we're committed to reducing the Scope 1 and 2 greenhouse gas emissions of your investments to net zero by 2050 at the latest ^. We also have an interim target of reducing emissions to half their 2019 levels by 2030.

However, we need to plan for what happens if 1.5°C is not met. As required by the regulations, and due to the uncertainty surrounding climate change, we undertake analysis to understand what the financial losses might be in different warming scenarios.

*Greenhouse gas emissions are categorised into groups or 'Scopes' by the GHG Protocol Corporate Accounting and Reporting Standard. For more details, see our full report.

^Net zero means not adding to the amount of greenhouse gases in the atmosphere.

Possible climate change scenarios

We've worked out the effect of three warming scenarios on pension savings of £70,000 (the amount a typical woman has at retirement, according to our *Fair Pensions for All* report). Each possible scenario shows the expected loss for a different degree of warming.

Scenario 1. In this scenario enough measures are taken worldwide to limit the rise in global warming to 1.5°C (our target). **This scenario could mean a loss of 13%, or £9,100.**

Scenario 2. Some measures are taken worldwide, but not enough to meet our target, resulting in a rise in global warming of 2°C. **This scenario could mean a loss of 9%, or £6,800.**

Scenario 3. Current policies continue, resulting in a rise in global warming of 3°C. **This scenario could mean a loss of 11%, or £7,800.**

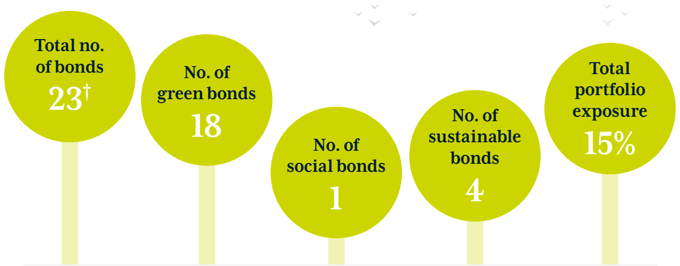
You may be wondering why the loss for scenario 1 is higher than the others. This is because the cost of moving to lower carbon ways of working (such as changing to renewable energy sources and introducing electric vehicles) is higher in the short-term.

Please note, in the higher warming scenarios, the physical risks of climate change will be more severe. Current modelling limits time horizons to around 15 years. We therefore believe the losses underestimate the physical risks to the portfolio of higher warming scenarios, particularly over the long-term. We'll continue to work with our service providers to improve the methodology to model physical risks beyond 15 years.

What we're doing to address climate change

Incorporating climate change and other environmental, social, and governance (ESG) factors into our investment decisions makes financial sense for your investments and is integral to long-term success. It can lead to better investment outcomes and new investment opportunities.

We've been investing in green, social, and sustainable bonds for over five years. These bonds finance a range of projects, from solar and wind energy production to low carbon transport and residential buildings. Our allocation to these bonds is as follows:



Over the past two years, we've also significantly increased our lower-carbon investments, including equity investments in lower-carbon companies. As well as this, we've ended our direct commodity exposure to fossil fuels.

How we oversee these plans

We've implemented a stewardship policy which helps ensure the responsible oversight of the companies we invest in. It means engaging with companies with the aim of supporting them (and if necessary requiring them) to decarbonise. This is an important part of our strategy.

Examples of engagements might include:

- Engaging a drinks manufacturer using satellite data to assess exposure to, and management of, changes in land use and deforestation in the supply chain.
- Engaging an oil and gas company, in collaboration with other investors, on Scope 1, 2 and 3 emissions reductions targets and Paris alignment.

How we influence the government

Widespread decarbonisation of the economy is in our members' best interests. We regularly respond to government consultations on sustainability topics, for example, this year we responded to the 2023 Transition Plan Taskforce consultation. We also take part in the Department for Work and Pensions' Occupational Pensions Stewardship Council.

How we engage with our members

It's important to us that our members are engaged in discussions on what we do for them, including in relation to climate change. In Q1 2023, we met with members and employers for a series of responsible investment focus groups, run by an external research company. For details of the focus group findings, please see our full report.

What's next?

We'll continue to monitor the greenhouse gas emissions of our investments and engage our employers and members on the approach we're taking.

† increased from 20 last year

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