

Task Force on Climate-related Financial Disclosures report

2023





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This report has been produced to demonstrate how The People's Pension ("the Scheme") identifies, assesses, and manages climate-related risks and opportunities on behalf of members of the pension scheme. The report covers the Scheme year to 31 March 2023 and is the second report of its kind.

The Scheme invests on behalf of approximately 6m members, receiving contributions of more than £3bn annually, and has a long-term investment outlook. Careful assessment of the climate-related risks and opportunities is considered a key priority in this context.

This report has been prepared in line with guidance from the Department for Work and Pensions (DWP) and the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). It is therefore split into 4 key themes – governance, strategy, risk management, and metrics and targets.

A summary of the key elements of the report is shown below, with more detail provided in the full report that follows.

Governance

The People's Pension Trustee ("the Trustee") has ultimate responsibility for the governance of the Scheme. The Trustee has an Investment Committee ("the Committee"), closely supported by the People's Partnership investment team, to oversee the investments of the Scheme. One key part of that oversight covers responsible investment, which includes climate change. Climate change is a priority issue for the Scheme, as it is likely to impact every business sector and geographical area. The Committee meets at least quarterly to discuss and review strategy, investment governance, and operations.

The Committee is closely supported by the People's Partnership investment team, along with its asset managers and the Trustee's independent investment advisers, who are reviewed for their climate competency. There is an expectation that all of these groups are able to integrate climate considerations into their investment advice as well as draw on specific climate-related expertise where necessary.

Strategy

As set out in the Scheme's climate change policy, the Trustee believes there are 3 main financial risks associated with climate change. These are: physical risk, transition risk, and liability risk. Over the short and medium term, the expectation is that transition risks will have the biggest impact on performance as countries and companies look to reduce reliance on fossil fuels to achieve net zero. While it is difficult to forecast over the long term, physical risk may well become the dominant risk due to shifting climate patterns. For companies that do not put in place suitable plans for the transition to a greener economy, the risk of climate litigation (or 'liability risk') will be higher.

The Trustee has committed to considering climate-related opportunities as part of the Scheme's portfolio construction. There is potential for great growth opportunities if the Scheme invests in companies and assets that benefit from the transition to a net-zero economy. In the short term, this is likely to come from tilting the weights of the portfolio towards companies with the best management teams or companies that can build market share in green sectors. Over the medium to long term, there could even be opportunities in 'negative emissions' technology that are likely required to achieve net zero. Research is ongoing as to how to access these opportunities for the benefit of the Scheme's members.

The Trustee has looked at what performance could look like in different future scenarios to illustrate the risks and opportunities facing the Scheme's members. The Trustee relies on models and input from a range of different providers. As with any developing area of research, the models being developed to provide insight into the financial impact of climate change may require significant updates. In this reporting year, there was an update to the model used to provide analysis of the climate-related impact in different temperature scenarios, which changed how costs are calculated and the calculation end date. As a result of the model update, the Trustee believed it to be appropriate to conduct scenario analysis again ahead of the three-year deadline. As was the case with the analysis in the initial reporting, the updated scenario analysis continues to suggest transition risks are greatest under the scenario of a disorderly transition to 1.5°C. This represents a scenario where industry and governments around the world delay action on climate change, so the policies required lead to a greater shock to the global economy.

In response to the analysis published in the initial TCFD report in 2022, the Trustee, supported by the People's Partnership investment team, and its service providers have given increased attention to the ability of the Scheme to invest in a way to manage risks and access opportunities. The focus of the Trustee over the course of the last year has been to assess the options for addressing climate risk within the portfolios and ensuring alignment of the portfolio with the 1.5°C pathway. The expectation is for this to include considerations of potential changes to how companies are weighted in the portfolio. The Trustee expects to report on these changes and the impact they can have on portfolio metrics in future TCFD reports.

Risk Management

Climate change is a key risk within the existing risk management framework for the Scheme. The Trustee has a good understanding of the climate-related risks that could affect performance. In alignment with the climate change policy, the Scheme's strategic framework on climate is divided into 3 pillars:

- **Portfolio Construction** – researching and implementing asset allocation changes to manage climate-related risks and access opportunities.
- **Stewardship** – setting stewardship priorities and holding investee companies, asset managers, and data providers to account, as well as engaging with the wider industry to help drive the necessary real world economic changes required for net zero.
- **Reporting** – annually reporting the Scheme's progress through reporting such as this.

The Trustee believes the risk management framework helps manage the assets in the best financial interests of the Scheme's members.

The Scheme's climate change policy is based on scientific consensus and the objective of keeping warming below 1.5°C compared to pre-industrial levels. A lot of work still needs to be done, both at a portfolio level and through engagement with high-emitting companies.

Metrics and Targets

We show climate-related metrics separately for 2 portfolios that currently make up approximately 99% of the assets within the Scheme's portfolio. This is also the level at which the Trustee makes investment decisions:

- **Growth Pool** (equities, listed infrastructure, listed real estate)
- **Income Pool** (government bonds, corporate bonds, debt securities)

The investment pools where approximately 99% of the Scheme's members invest their pensions consist of 4 funds, so to help members understand the metrics associated with their holdings, we have also reported metrics for these 4 funds.

The investment profiles are:

- **'Adventurous' profile** – (up to 100% shares) Fund and Pre-Retirement Fund
- **'Balanced' profile** – (up to 85% shares) Fund and Pre-Retirement Fund
- **'Cautious' profile** – (up to 60% shares) Fund and Pre-Retirement Fund

The Scope 3 emissions (those associated with the supply and distribution chains) have been reported on for the first time in this report, as well as an additional metric to show portfolio alignment to the goal of the Paris Agreement.

Collecting data on climate-related risks and opportunities involves significant challenges at present. Many companies do not report their carbon emissions, which means investors must rely on estimates. Even with the use of estimates, coverage can still be poor for some asset classes. The quality of data varies greatly for different types of assets too (eg, equities versus bonds). There are also questions about the reliability of the data when different providers arrive at different emissions levels for the same security.

Significant work has been done to obtain and report the data shown in this report. As detailed in the full report, the Trustee does not believe that it is appropriate at this time to set a portfolio-level, emissions-based target until data quality has improved. This emphasises the need for improvements to data quality before the full scope of global and portfolio emissions can be captured. The Trustee is hopeful that some of these challenges may be alleviated in the short term, but there is no guarantee. The Trustee will continue to keep a close eye on developments. Since the initial reporting period, there has been ongoing engagement with the Scheme's asset manager to drive improvements in data coverage.

Given the challenges around collecting data, the Scheme has set a target to work with others in the industry to improve data quality (starting with data coverage) in the hope that this will help the Scheme make better investment decisions and support the long-term growth of its pension savings.



The People's Pension

The People's Pension is a defined contribution (DC) master trust open to all UK employers that invests on behalf of approximately 6m members, receiving contributions of more than £3bn annually. As an open and growing master trust, the Scheme has a long-term investment outlook.

The People's Pension Trustee Limited ("the Trustee"), the Trustee of The People's Pension Scheme ("the Scheme"), has prepared this report to provide an insight into the action the Scheme is taking in managing climate-related risk and accessing opportunities. The Scheme's administrator is People's Partnership.

As trustees of a pension scheme there is a duty to consider all material financial risks when making investment decisions. The Trustee believes that climate change is and will increasingly be a financial risk that needs to be managed. In addition to this, there are likely massive opportunities for growth that the Scheme's members could benefit from as the global economy transitions to net zero.

Alongside the financial risks that must be considered when investing, there is also an awareness that, with such long investment horizons, younger members are likely to be retiring into a world in which the most drastic climate change impacts are expected to materialise if appropriate action is not taken. In addition to this, it is noted that the precise risk exposure for each member is likely to vary based on their age when investing in one of the Scheme's lifestyle arrangements¹, as the balance of fixed income and growth assets changes as a member approaches retirement. Younger members will be invested over a longer time horizon and have a higher proportion of growth assets, meaning they are expected to be more exposed to climate change risks and opportunities.

The Scheme's primary asset manager is State Street Global Advisors (SSGA). An asset manager's commitment to considering climate change risk and opportunities within their investment approach is a key factor in the decision-making process when assessing who will be managing the Scheme's investments.

¹ <https://thepeoplespension.co.uk/investing-your-pension/>
² <https://thepeoplespension.co.uk/wp-content/uploads/2019/03/TPP-Responsible-Investment-Policy-v2-Nov-2018.pdf>
³ <https://thepeoplespension.co.uk/wp-content/uploads/2019/10/Climate-change-policy.pdf>

Commitment to sustainability

The Scheme has published a responsible investment policy² and a climate change policy³ to outline the approach to understanding and mitigating environmental, social and governance (ESG) risks within the portfolio. The Scheme has a separate climate change policy to reflect the prioritisation of climate change, as it is likely to be the most financially material of the ESG issues, and will affect every business sector and geographical area.

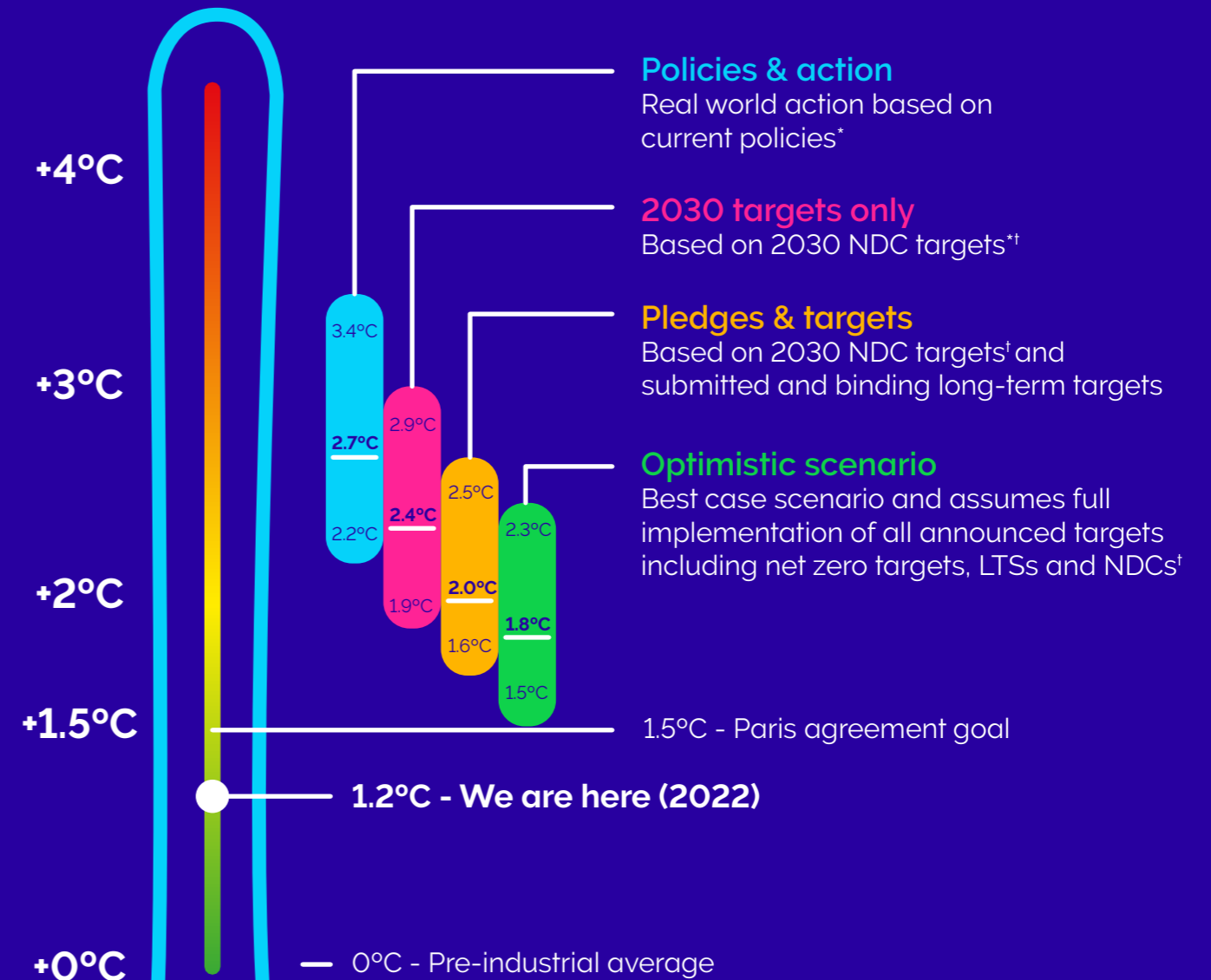
Without global mitigation, climate change is likely to dramatically impact the portfolio and the Scheme's members. The Scheme's climate change policy is aligned with the scientific consensus that keeping warming below 1.5°C compared to pre-industrial levels is essential.

Climate change

Climate scientists agree there is a link between greenhouse gas emissions and climate change. The effect of greenhouse gas emissions is cumulative and, very importantly, not localised, making tackling climate change a global issue. The Paris Agreement, which was agreed upon by 192 countries at COP21, sets goals to limit climate change to, at most, 2°C above pre-industrial levels and to make efforts to limit the temperature increase to 1.5°C.

Significant steps need to be taken to reduce greenhouse gas emissions if these goals are to be achieved, as can be seen from the chart below, which is the latest update produced by Climate Action Tracker in November 2022.

Global warming projections by 2100



Global mean temperature increase by 2100

*Temperatures continue to rise after 2100
 †If 2030 NDC targets are weaker than projected emissions levels under policies & action, we use levels from policy & action

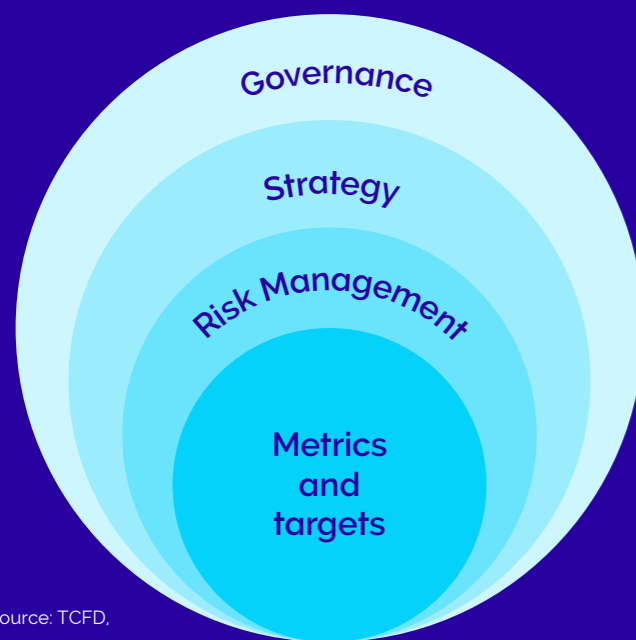
The chart shows that stated global temperatures have already risen 1.2°C above pre-industrial levels. Evidence suggests this is currently increasing at a rate of 0.2°C per decade and may accelerate if sufficient action is not taken.

Against that backdrop, climate change will change the way people live, and with that, there is a need for the companies that the Scheme lends to and invests in to have business models that recognise these changes. It is inevitable that these companies will need to respond to the changes themselves and the likely future tightening of policies by governments.

Task Force for Climate-Related Financial Disclosures (TCFD)

The TCFD⁴ is an initiative aimed at developing consistent, climate-related financial disclosures across different areas of the economy to highlight the risk that climate change poses and to drive action to address it. It aims to create a global set of standard metrics for sustainability-related reporting and disclosures. The Scheme is a public supporter of the TCFD and its recommendations.

The TCFD recommendations are set out across 4 key themes: Governance, Strategy, Risk Management, and Metrics and Targets.



Source: TCFD.

Governance

The organisation's governance around climate-related risks and opportunities

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning

Risk Management

The process used by the organisation's to identify, assess and manage climate-related risks

Metrics and targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

This report has been produced in accordance with the requirements of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the regulations), including the 2022 amendment that requires the calculation and reporting of a portfolio alignment metric to indicate how well the Scheme's assets are aligned with the climate change goal of limiting global warming to 1.5°C above pre-industrial levels. This is the second annual report providing detail

on the actions the Scheme has undertaken in relation to climate change, taking the lead from the recommendations of the TCFD.

This report is structured around the areas shown in the diagram above – that is, Governance, Strategy, Risk Management, and Metrics and Targets. In each of the sections, it starts by showing the key recommendations made by TCFD for what should be included in reports.

⁴ <https://www.fsb-tcf.org/about/>

This section aims to:

- a) Describe the Trustee's oversight of climate-related risks and opportunities.
- b) Describe the roles and responsibilities of the various parties involved in assessing and managing the Scheme's climate-related risks and opportunities.

Roles and responsibilities

The overall governance of the pension scheme is outlined in the Scheme's Statement of Investment Principles⁵ (SIP). The fiduciary responsibility sits with the Trustee.

The Trustee has an Investment Committee ("the Committee") to govern the investments of the Scheme, which considers responsible investment within its terms of reference. The Committee is made up of 3 members of the Trustee Board. The Committee meets at least quarterly to discuss and review investment governance, operations, and strategy. The Committee reviews all investment-related risks, including climate risk, at least twice a year. Having climate risks and opportunities on at least half of the quarterly agendas is proportionate to the importance that the Trustee places on the issue.

Agenda items on climate risks and opportunities that would be brought to the Trustee for consideration include, but are not limited to:

- Changes to climate-related investment beliefs
- Any material updates to the climate change policy, which would include portfolio construction, stewardship, and reporting
- Investment strategy changes, which influence climate risks and opportunities.

Appointed by the Trustee are investment service providers who provide advice, recommendations, training, implementation, and administration services to the Scheme.

⁵ <https://thepeoplespension.co.uk/downloads/statement-of-investment-principles/>

The Board of People's Investment Limited is responsible for overseeing the People's Partnership internal investment function, which includes the Scheme and other pension schemes that the People's Partnership oversees. The members of the Board have decades of industry experience and provide key insight to assist the Trustee in making investment decisions.

In practice, People's Partnership works alongside the other investment service providers (refer to Figure 1 below) to research and plan for how to implement a proposed change to the portfolio (whether this is at a policy or strategy level).

The Board of People's Investment Limited review this work in its role managing the People's Partnership investment function. In their advisory capacity, Barnett Waddingham review all proposals to ensure they are able to provide advice to the Trustee that the proposals are suitable, whether that be the full Trustee Board or the Investment Committee. A decision is then made by the Trustee or the Committee on how to proceed.

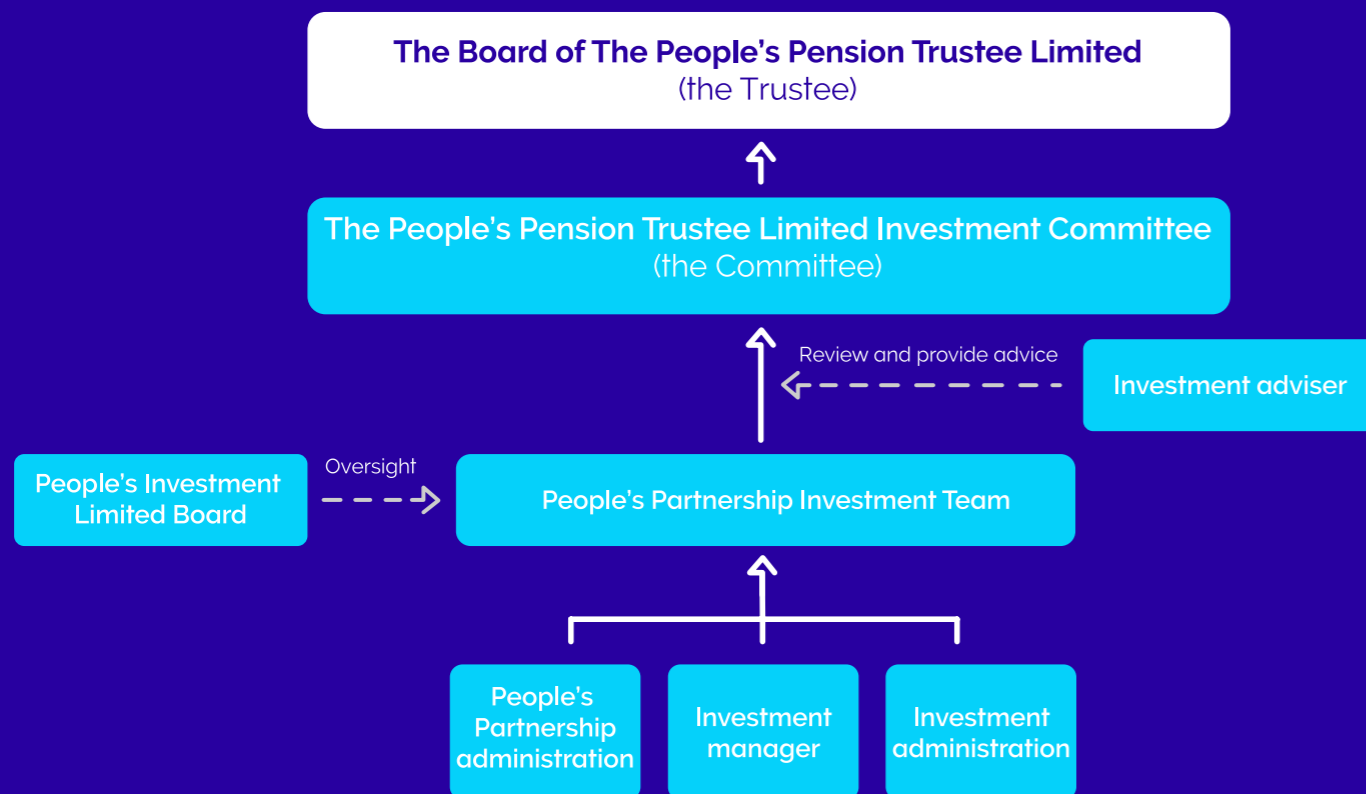


Figure 1: The Scheme governance structure.

While there is still debate around the best way to address climate change, the Trustee has published in the climate change policy support for the global goal of keeping warming compared to pre-industrial levels below 1.5°C. In fact, the Scheme has proactively set a climate change policy aligned with this objective. This is reflected in the Statement of Investment Principles.

The Trustee has made the Chief Investment Officer for People's Partnership responsible for ensuring investment decisions take account of the Scheme's climate change policy. The Chief Investment Officer then reports on these matters to the Trustee.

Training

How the Trustee and the Committee have increased their climate change knowledge

Climate change risks and opportunities have been established as the priority responsible investment issue for the Scheme. To ensure knowledge on the subject is maintained and improved, regular training is conducted throughout the scheme year. This training and discussion involves a mix of structured training sessions from experts, joint workshops with representatives from the Trustee, the Committee, and People's Investment Limited, as well as shorter presentations on market and policy updates.

Within the period covered by this report, discussions, workshops, and training have included:

- A full break-down of the regulations and associated guidance on TCFD reporting.
- Updates and launches of frameworks designed to assist Trustee's TCFD-related reporting.
- Updates on reporting requirements (TCFD, SIP and Implementation Statement).
- Barnett Waddingham's annual summary of climate risk, stewardship, and wider ESG credentials of the Scheme's investment managers, including formal ratings.
- How portfolios and indices can be constructed to integrate a new generation of climate data.
- Climate change benchmark standards.

During these sessions, discussions were had between the Trustee and presenters on:

- How the Scheme's climate-related investment beliefs can be used to drive portfolio construction, including the value of stewardship in that exercise.
- The impact of aligning the Scheme's portfolio to 1.5°C on quantitative indicators such as tracking error.
- How the Scheme is positioned in the market for integrating climate risk relative to peers.
- The concerns and requests of campaign groups and where this could be addressed as part of the Scheme's climate change strategy.
- The importance of schemes setting consistent and achievable targets.
- At what stage should elements like Scope 3 data and physical risk be included.

Time and resources

The People's Partnership investment team led by the Chief Investment Officer meet with the Committee on a quarterly basis to deliver analysis, seek decisions, and provide regular reporting updates. Because of the importance of climate change to the Trustee, particularly in response to the analysis conducted as part of the TCFD process, climate change risks and opportunities were discussed consistently throughout the year in both scheduled quarterly and ad-hoc meetings and workshops.

The decision has been made not to consider the climate impact of the employers which use the Scheme as their workplace pension scheme. As a large Master trust with over 100k employers that span all sizes and from all sectors, the belief is that the Scheme is diversified enough to not include this as part of the analysis.

Within the 2022-23 period, the Committee met to discuss the following topics relevant to climate-related risks and opportunities:

- Review the prior year's TCFD reporting.
- Approving a new strategic framework for the Scheme, which focuses on both how to manage risks and access opportunities and how to manage and track the progress of stewardship. This was included in the update to the climate change policy published in April 2023.
- The Scheme's overall investment climate risk as well as the climate risk of the Scheme's investment funds.
- A summary of the available research on the market's mispricing of climate risks.
- The climate change beliefs of the Trustee, the portfolio exposure to climate-related risks, and how these can be addressed through portfolio construction and stewardship.

The focus of the Trustee over the course of the last year, supported by the People's Partnership investment team and its service providers, has been to assess options for addressing climate risk for a greater proportion of the portfolio and improving alignment with the 1.5°C pathway. This primarily includes reviewing how companies are weighted in the equity portfolio. The Trustee expects to report on these changes in future TCFD reports.

Ensuring service providers are truly experts

To enable the Trustee to make high-quality decisions, the fact-finding and analysis are delegated to the Chief Investment Officer for People's Partnership, who receives input from the Trustee's independent investment adviser, Barnett Waddingham. Barnett Waddingham will also provide advice to the Trustee on the suitability of any proposed changes to the portfolio based on the fact-finding and analysis. The day-to-day management of the Scheme's assets is delegated to the Scheme's primary asset manager, State Street Global Advisors (SSGA). To ensure that service providers such as Barnett Waddingham and SSGA can provide the firm-wide expertise and commitment required for addressing climate change risk (and opportunities), yearly reviews of each are conducted to assess climate competency. To check the climate competency of the Scheme's independent investment adviser, the recommendations of the Investment Consultants Sustainability Working Group (ICSWG)⁶ are followed.

The Trustee is comfortable with the climate competency of Barnett Waddingham and, therefore, has used their services to ensure SSGA also meets the high standards of climate competency through regular manager reviews. As indicated in the Scheme's Statement of Investment Principles⁷, in the event that the asset manager ceases to meet the Trustee's desired aims, including stewardship and the management of climate-related risks, using the approach expected of them, the Trustee engage with the asset manager. Should the collaboration with the asset manager be deemed unsuccessful by the Trustee, their appointment may be reviewed or terminated. The asset managers have been informed of this by the Trustee. In the future, should a mandate be offered to a new asset manager, the ability to manage the Scheme's assets to address climate-related risks and take advantage of opportunities will be a key deciding factor. The Trustee will continue to review industry best practice and ensure that their service providers maintain their current high standards.

This section aims to:

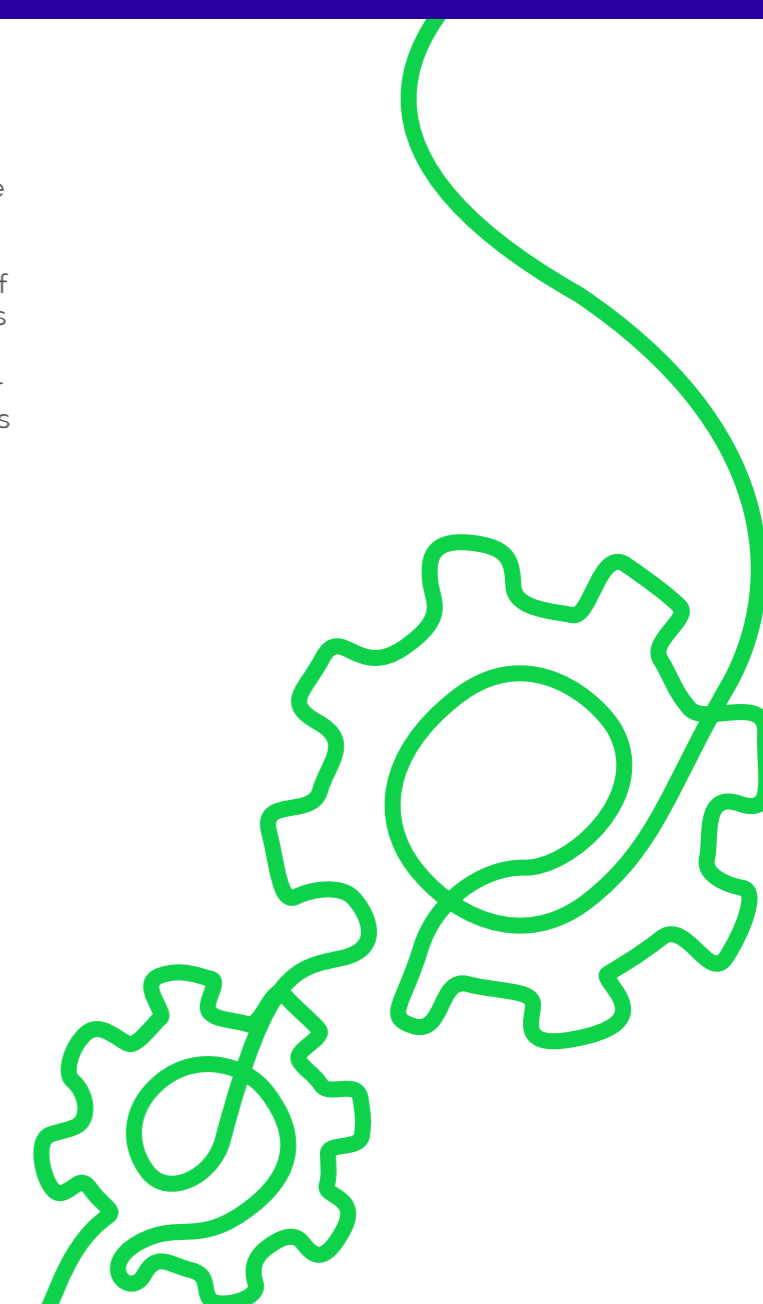
- Describe the climate-related risks and opportunities identified over the short, medium, and long-term.
- Describe the impact of climate-related risks and opportunities on the Scheme's strategy and financial planning.
- Describe the resilience of the Scheme's strategy, taking into consideration different climate-related scenarios.

What are climate-related risks?

As set out in the Scheme's climate change policy, the Trustee believes 3 main financial risks capture the range of risks that are likely to manifest because of climate change. This is based on work by the Bank of England's Prudential Regulatory Authority. The 3 risks are:

- **Physical risks:** These result from the potential for more frequent or severe extreme weather events (droughts, flooding, prolonged hot and cold periods), as well as the steady increase in global sea levels and the changing prevailing climate. These could cause disruptions to businesses holding or relying on physical infrastructure.
- **Transition risks:** These are associated with the economy moving towards a low-carbon economy. Some sectors are going to require significant investment in new infrastructure or face costly incentives from government and civil society that will harm their current business model.
- **Liability risks:** These come from people or businesses seeking compensation for losses they may have suffered because of physical or transition risks.

All 3 risk types can inform investment decisions. However, the extent to which investors can reliably measure them varies given the availability of data and the need to make assumptions for how the future will pan out. This is an area the Trustee is keeping under review.



⁶ Trustee Guide: Climate Competency - <https://www.icswg-uk.org/resources>
⁷ Statement of Investment Principles - <https://thepeoplespension.co.uk/investment-downloads/>

Measuring and managing climate-related risks

Physical risk

Physical risk involves the analysis of models that estimate a company's vulnerability to extreme weather events. This will often take the form of analysing the potential damage to a company's assets based on their location and the costs associated with interruptions to business – such as supply chain issues due to extreme weather or a more long-term change because of changing weather patterns.

Physical risk analysis is considered less robust than transition risk analysis due to, among others, the large number of assumptions needed for weather patterns, an incomplete dataset for the location of assets, and current limitations in data availability for a range of potential increase scenarios. As time passes and the significance of physical risk grows, the Trustee expects the quality of the data available to improve, both in terms of the coverage of assets and the data being reported by the investee companies, rather than requiring estimation.

Physical risk is more likely to materialise over the long term, but this is not to say that physical risks won't be present in the short and medium term.

Even today, we are increasingly seeing impacts on coastal infrastructure and housing, rising average temperatures, and increases in costs caused by natural disasters. There are large differences in how physical risks are manifesting in different regions around the world.

Physical risk is currently the hardest to manage. Measuring physical risk relies on detailed analysis of how vulnerable companies are to extreme weather events. This could be based on the location of their offices, for instance, to estimate how likely flooding is. However, in an interconnected world, it is also important to consider how each company's whole supply chain could be affected. This analysis relies on many assumptions for the future, and it is challenging to get reliable data.

As a result, it is difficult for the Trustee to make investment decisions that meaningfully address physical risks. However, over the short term, transition and liability risks are likely to be more important to the Scheme's investments. As time passes and physical risks become more prominent, the Trustee expects the quality of the data and their ability to manage physical risks coherently to improve.



Transition risk

There are several ways in which transition risks can be measured. Some examples are:

- **Power generation exposure:** how much do the Scheme's investments rely on fossil fuels compared to renewables?
- **Fossil fuel reserves:** through investments, does the Scheme own significant fossil fuel reserves that could become unprofitable as renewable energy becomes more popular?
- **Policy risk:** how much money is invested in companies that would be particularly affected by carbon prices or that conduct business in countries that are falling behind their targets for reducing emissions?

Over the short and medium-term the Trustee expects transition risks to be the most financially material climate-related risk. Within these 2 time periods, it will become increasingly clear how well countries and companies around the world are performing against their objectives to reduce emissions. This includes formal targets set by parties to the Paris Agreement, and for the UK, the target to reduce emissions by 78% by 2035 is legally binding.

A popular objective is to halve emissions by 2030. As the deadline looms, it is likely that more attention will be paid to potential solutions, and governments will eventually be forced to act more decisively. It seems likely there will be more risk of forceful, abrupt, and disorderly policy changes that will expose financial instruments to significant transition risk. This belief is shared with the working group of experts known as the 'Inevitable Policy Response' commissioned by the UN-backed Principles for Responsible Investment (PRI).

The longer term is harder to predict and is dependent on how governments, companies, and wider society respond in the short and medium term to the call to action to decarbonise to stay below 1.5°C of warming. There is a clear link between physical and transition risks in this respect. Should the economy transition early, there may be higher transition risks but lower physical risks. If, however, the transition is slow or does not occur, transition risks may be lower, but the physical risks outlined by the Intergovernmental Panel on Climate Change (IPCC) may be much higher, including rising sea levels, destruction of ecosystems, and damage to infrastructure. This in turn can lead to financial losses for investee companies because of asset loss or damage, the inability to insure locations, and loss of land.

Initial steps have been taken to reduce the transition risk within the portfolio, including reducing emissions intensity, reducing the potential future emissions coming from fossil fuel reserves, and putting ESG exclusions in place that remove investment in companies found to be violating environmental global norms. Further work is required, and research is currently ongoing on how to increase the extent to which transition risk is managed by the Scheme's strategy. The Trustee intends to follow the framework set out in the climate change policy to achieve this.

Liability risk

Liability risk is much harder to measure than the others, but a qualitative approach can be used. The quantitative scenario analysis described below does not include liability risk for this reason. As this risk is based on parties seeking compensation, there is an expectation that the companies responsible for a large percentage of historic emissions, and those with particularly high emissions going forward, will be most impacted. The Trustee has noted the increasing number of climate litigation cases, particularly in the US. Improving company disclosures on sustainability, driven by developments such as the recent release of new accounting standards by the International Sustainability Standards Board, may lead to even more cases.



Tipping points

Across all time horizons, the Trustee also recognises that society could reach climate 'tipping points'. These are events that could trigger a cascade of irreversible changes to the climate and ecosystems of the planet. Sustained increased temperatures leading to disintegration of ice sheets and permafrost, coral reef die-off, and dieback of the Amazon rainforest have all been noted by the IPCC as potential cascading risks⁸. The climate system is so interconnected that any one of these events could trigger another event, with irreversible damage across sectors and regions as well as further warming and an increased likelihood of more damaging conditions. There is evidence of such events emerging already. Without action in the short to medium term, it may not be possible to reverse or at least limit the damage caused by the global-scale feedback loops which will make it more challenging to manage the risks over the long term.



Climate-related opportunities

In addition to risks when investing for the future, there are also likely to be positives. There are great growth opportunities available by investing in companies and assets that are poised to benefit as we transition to a net-zero carbon economy. A key question that will need to be answered is which companies may emerge as the leaders and innovators that will be able to take advantage of the opportunities presented by the changes. The Trustee is looking at how, as an asset owner, it can position the Scheme's asset allocation for the benefit of members.

Over the short term, the Trustee are focusing on the management quality of the companies they invest in. This will give an indication of how well they manage their emissions and put plans in place to reduce them. The investment team is also exploring the use of 'green' revenue data as well as methodologies that have been developed to specifically score companies on risk exposure and transition plans. These should shed light on how companies are mitigating climate-related risks and which companies are well positioned to benefit from the transition. An example of how this may play out is energy companies increasing their renewable energy capacity in anticipation of a premium being paid for renewable energy for customers to reduce their Scope 2 emissions. As the data allows, these considerations will apply to all the assets held by the Scheme.

Over the medium term, similar trends are expected. In addition to the opportunities available by investing in companies with high quality management indicators and high levels of green revenue, there is also the potential for the value of company assets to grow if they are considered an indicator of the company's low carbon innovation ability and future green revenue, such as owned patents.

Over the long-term, it is harder to state where the opportunities will come from. Where the economy stands currently, it seems likely that the closer we get to 2050 – the point at which experts believe the economy needs to be net zero – there will be a greater need for zero emissions technology throughout the supply chain and even negative emissions technology. Negative emissions technology removes emissions from the atmosphere.

The public companies the Scheme already invests in may be the ones that develop these solutions, but it is equally likely that the companies producing these technologies in the future are currently not formed yet or are in an early funding stage. Negative emissions technologies are likely to be of particular importance to industries that believe they are unable to completely decarbonise, but these industries cannot stall their transition in hopes of a future solution that may not be viable.

As a pension scheme with a diversified asset allocation, the Scheme will likely currently be invested in companies that are most at risk from the transition, as well as those that have the greatest growth potential from the transition. The Trustee intends to continue researching these risks and opportunities and to use the responsible investment decision-making process to position the portfolio to achieve the best outcome for the Scheme's members. This could involve: tilting the weights of companies to increase (or decrease) the exposure to green revenue (or emissions); excluding companies with exposure to particularly risky assets; and engaging with companies and the Scheme's managers in order to reduce risk and increase growth opportunities. However, the significant uncertainty around how climate-related risks and opportunities will manifest highlights the importance the Trustee places on keeping other sources of investment risk and opportunity in mind.

⁸ IPCC, 2022: Summary for Policymakers. In: Climate Change 2022: Impacts, Adaptation, and Vulnerability. Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change - <https://www.ipcc.ch/report/sixth-assessment-report-working-group-ii/>

Timescales

The description of the risks and opportunities from climate change above shows not only how complex they are, but also how they will manifest in different ways over different time periods. The different time periods the Trustee looks at when making investment strategy decisions are explained here. While not directly referenced below, the Trustee must also take into account the average age of Scheme members and the likely period in which they are expected to retire. As an open and growing pension scheme with a young member base, the long-term time horizon and beyond should be given particular consideration because of retirement age and the potential impacts of climate change.

While the below timescales are representative of the periods associated with each risk and key milestones set by experts, the Trustee recognises that, in reality, climate change and the steps needed to monitor and manage it are continuous. The timescales used will remain under review and be adjusted as necessary.

Short-term (0-3 years)

The Trustee reviews its climate change policy at least every 3 years, or more regularly if new information emerges. This seems like an appropriate short-term time scale to be used when analysing the potential risks and opportunities present in the portfolio.

	Physical risk	Transition risk	Liability risk
Short-term	✓ There is already evidence of increases in severity and frequency of events as a result of shifts in climate patterns. At current levels, these are less severe than expected should emissions continue to rise.	✓✓✓ We are already seeing increased climate regulation and reporting requirements impacting businesses. As we get closer to 2025, we would expect policymakers to enact further policies that would make emissions more costly.	✓ There have been some instances of climate litigation, but much like physical risk, this is expected to increase should emissions continue to rise. Litigation may become more prevalent if companies fail to meet or renege on past commitments.

The investment strategy of the Scheme is reviewed annually and considers emerging risks and opportunities relating to climate change. However, the Trustee believes that the short-term time horizon should be longer than 1 year to align closely with points at which there is likely to be policy action from governments. The 3–5 year cycle, over which countries will begin assessing their performance against past commitments and updating targets, is likely to be a period in which policy decisions are made. 2025 is the next year in which countries are required to update their nationally determined contributions (NDCs) as part of the Paris Agreement. These NDCs are targets each country sets for mitigating greenhouse gas (GHG) emissions. This timeframe allows for the Scheme's strategy to be reviewed with a better understanding of proposed government action.

As access to reliable data improves, the Trustee expects there to be changes to its plans and policies. There is optimism that the data available in the market will continue to develop, and this improvement will materialise in the short term, but this is a difficult task that may require a longer time horizon.

In recognition of the need to address climate change, the Trustee has determined that it remains prudent to retain a net zero ambition and continue to align the climate change policy with the 1.5°C target established by experts.

Engagement is a key pillar of the Trustee's climate policy. The Trustee believes stewardship of the Scheme's assets, in collaboration with other investors, is essential.

The Trustee's climate change policy also sets out the belief that complete divestment from all carbon-intensive sectors is not in the best interest of the Scheme's members, at least in the short term. Engagement with these companies could be the most effective method to help them develop the necessary strategies to reduce emissions and, in turn, decarbonise the economy. It is also possible that companies in high-emitting sectors will be the ones to access the funding and have the expertise to scale up 'green' projects to the required levels for net zero. A blanket exclusion policy could incentivise companies to sell off 'dirty' assets to investors who do not have the reporting requirements, public scrutiny, or incentive to take action on climate change. For example, to decommission a coal-fired power plant and instead increase its useful life, increasing the power plants lifetime emissions.

Medium term (4-7 years)

In their 2023 report⁹, as part of their sixth assessment period, the IPCC reaffirmed their statement that to stay below 1.5°C of warming compared to pre-industrial levels, emissions need to be cut by almost half by 2030 compared to 2019 levels.

	Physical risk	Transition risk	Liability risk
Short-term	✓✓ As time progresses, the potential for physical risk also increases, assuming emissions do not reduce at the required levels.	✓✓✓ For the level of reduction required by 2030, there will need to be significant transition in this time period, and we can expect increasingly abrupt, and potentially disorderly, policy changes as nations that have been stalling action come to the realisation that action is needed as soon as possible.	✓✓ As we get closer to the key milestones that have been proposed by the IPCC and others and company disclosures on sustainability improve, we can expect increased attention on countries and companies that are failing to transition. High profile wins on climate litigation could lead to a cascade of additional lawsuits against other companies viewed to also be failing to transition
Medium-term	It is possible that if the current rate of warming continues, 1.5°C could be breached within this time period.	Through analysis of climate scenarios, the Trustee anticipates a meaningful price on carbon will be implemented in at least some of the major markets. This may place certain business models under significant financial pressure.	

With so many parties setting interim targets for reducing emissions around the year 2030, the Trustee has chosen the period up to this year as the medium-term timescale. Over this timescale, there should be a better understanding of what action needs to be taken based on progress versus these interim targets. The Trustee recognises the need to reduce emissions, and investments will reflect this and the move to a low-carbon economy. Engagement and voting, together with collaborative engagement, will continue.

The Trustee expects to keep its medium-term timescale linked to 2030 over the next few years because of the IPCC's requirement for emissions to be halved by this date and the popularity of this date for companies and investors setting interim targets. The Trustee will keep this under review.

⁹ IPCC, 2023: Summary for Policymakers. In: Climate Change 2023: Synthesis Report. A Report of the Intergovernmental Panel on Climate Change. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, H. Lee and J. Romero (eds.)]. IPCC, Geneva, Switzerland, 36 pages. - <https://www.ipcc.ch/report/ar6/syr/>

Long-term (8-28 years)

Over the long-term period, the Trustee expects there to be very large differences globally and in markets. Physical risk will become much more significant, especially if the transition has not progressed as required based on IPCC modelling.

The IPCC has said that to have at least a 50% chance of not exceeding 1.5°C of warming compared to pre-industrial levels, the global economy needs to be net zero by 2050. This objective also implies the world has a finite 'carbon budget' for emissions, demonstrating how important it is that there is a significant increase in the pace of emissions reductions. The Trustee believes there are likely to be financial impacts of physical risk on the assets owned as well as on the wider macro-economic conditions globally.

	Physical risk	Transition risk	Liability risk
	✓✓✓	✓✓	✓✓
Long-term	Most of the physical impacts of climate change are expected to occur over the long term. Shifts in climate patterns materialise over a longer time period, and with this comes increased risk associated with changing working conditions, insurance risks, and impacts on supply chains.	The impact of transition risks is difficult to estimate over the long term, as it depends on how far the economy and/or individual companies have transitioned. While we expect actions taken in previous years (carbon prices) to increase pressure to achieve a net-zero global economy, it is possible that more drastic action is needed as we approach 2050.	As the physical effects of climate change manifest, climate litigation may become increasingly popular as businesses and individuals look for compensation for their losses.

The Scheme's climate change policy will continue to be aligned with the scientific consensus of when the economy and, therefore, its portfolio need to decarbonise. As 2050 has been set as a key milestone for net zero, the Trustee has decided that the long-term period will be the period up to this year.



Investment Strategy

All three climate-related risks mentioned above can impact assets held within the portfolio as well as the Scheme's service providers. This could in turn impact the value of assets held by the Scheme for the benefit of members. The Trustee's belief is that having a well-diversified portfolio reduces the risk of any one company or security failing having a significant impact on the value of the whole portfolio. Climate change risk is, however, a systemic risk that cannot be eliminated through diversification alone. Careful consideration is needed when making investment decisions, in particular when considering deviations from traditional 'market cap' solutions, which may reduce the number of securities but do so in a way that reduces climate-related risk or increases exposure to climate-related opportunities. The Trustee are also aware that climate risk is not the only investment risk that affects the value of members' pension savings, and this is given due consideration when climate-related investment decisions are made. When making investment decisions, thorough analysis (both quantitative and qualitative) is conducted to ensure the risk vs. reward of a change are understood. This means that the Trustee does not currently make top-down strategic asset allocation decisions based on climate-related risks and opportunities but focuses on the investment style and fund selection for each asset class.

As has been discussed in this report, it is important for us to understand the competency and capabilities of service providers, particularly the Scheme's asset manager and the Trustee's independent investment adviser, to reduce the risks those entities could pose through their influence on investment strategy design and stewardship activities.

When making investment decisions, the Trustee is mindful of the 'just transition'. As a pension scheme with approximately 6m members with a wide range of personal circumstances, it is important to consider the social dimensions of the transition to a net zero economy, which are included as part of the Paris Agreement¹⁰. This is an important consideration that requires engagement with both investee companies, and the investment institutions with whom the Scheme does business.

¹⁰ Relevant excerpt from Paris Agreement - "Taking into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities."

Climate change resilience

Scenario analysis is an important tool that can be used to assess the impact climate change could have on the performance of the portfolio.

Due to uncertainty over the quality (use of estimates and poor coverage) of climate data at this time, the Scheme has decided to use multiple sources for this analysis to allow us to better understand how the portfolio could be affected under several warming scenarios. Due to the general difficulty in obtaining data for fixed income compared to equities, the decision was made to run the analysis primarily on two investment pools that cover over 99% of the assets within the Scheme's portfolio, excluding cash.

Cash is generally held in what is known as money market funds. These invest in short-term, high-quality, and easily sellable securities. Because of the short-term nature of the assets held in cash funds (usually maturing in less than a year) climate data is generally not available. The cash allocation has therefore been excluded from the analysis on the basis of a lack of available data.

The 2 groupings are: growth assets (Growth Pool), that includes equities, listed real estate, and listed infrastructure; and fixed income assets (Income Pool), that includes fixed income securities such as corporate and government bonds. The Growth Pool and Income Pool are not funds that members can select, but they are building blocks for a number of the funds available to members.

In addition to the growth and income pools, analysis of the funds used in the Scheme's investment profiles has also been provided. Over 99% of members invest their savings in these profiles. Scenario analysis has been provided at both the asset class and fund level to show how asset allocation decisions can result in different levels of modelled risk. The Scheme's default arrangement (the 'balanced' profile) begins investing in the "Global Investments (up to 85% shares) Fund" and gradually moves the member into the "Pre-Retirement Fund" as they reach retirement age. The adventurous and cautious profiles act in the same way but begin with the "Global Investments (up to 100% shares) Fund" and "Global Investments (up to 60% shares) Fund" respectively. The investment profiles involve investing more in cash and fixed-

income assets as the member approaches retirement. The DWP defines popular arrangements as those that are £100m or more of the Scheme's assets or that account for 10% or more of the assets used to provide money purchase benefits. No other funds other than those provided meet this definition.

The analysis suggests that growth assets are more exposed to climate risks but also have greater potential for exposure to climate-related opportunities. With the nature of the climate risks for growth and fixed income assets varying by timescale, the precise risk exposure for each member will vary based on their age, particularly where they invest in a lifestyle arrangement, such as the default option.

The exposure to climate-related risks and opportunities of different cohorts of members will depend primarily on the mix of growth and fixed income assets within their individual portfolio. For all 4 of the funds used in the Scheme's investment profiles, the greater the allocation to growth assets, the greater the exposure to transition risks. Therefore, younger members are expected to have greater exposure to climate risk as the strategy allocates more to growth assets when members are further from retirement and in pursuit of higher returns.

Scenario analysis was conducted using data provided by Institutional Shareholder Services (ISS), MSCI, and the Transition Pathway Initiative (TPI). Only the output from the MSCI modelling is reported below. The modelling from ISS and TPI lends weight to the MSCI conclusions and helps provide the Trustee with greater insight into the factors impacting the portfolios.

Climate scenario analysis – methodology (MSCI)

Scenario analysis was conducted using data and tools provided by MSCI¹¹. The MSCI modelling can be used to understand transition risks and opportunities across several available scenarios, as well as the physical risk of a portfolio in a 3°C+ scenario. This analysis provides a quantitative and forward-looking assessment of how performance might be affected for investors. It is designed to be closely aligned with the TCFD recommendation of conducting scenario analysis. The Trustee believes that the use of climate data, even in its currently incomplete form, is a flawed but useful exercise in order to attempt to identify, measure, and ultimately manage risks and access opportunities.

MSCI updates their models on a semi-regular basis to account for new data, improved coverage, and updates to methodologies. Within this reporting period, MSCI has added around 1700 companies to their data coverage, updated their climate-related opportunities model, and an update to include the regularly updated output from the institutions developing the scenarios. MSCI also updated the transition risk portion of their Climate Value-at-Risk model in a significant way. The Trustee therefore believes it is appropriate to update the scenario analysis, despite the fact that it is only strictly required once every 3 years. The Trustee believes it is important to maintain an up-to-date understanding of the latest analysis.

In terms of the most significant changes:

- The first significant change is a move to using scenario data to create sector decarbonisation pathways for the entire calculation period that removes the need for cost extrapolation beyond 2030.

- The second significant change is a move from using an end year of 2100 to an end year of 2050. This was implemented due to significant uncertainty in policies after 2050, as a large percentage of transition plans and emissions reduction spending is targeted to be concluded by 2050 as countries and companies set their 'net zero targets'.

As a result of these model updates, the risk values provided below are less negative than shown in the previous TCFD report. Climate data and analysis are developing at a rapid pace, to the point where a change to a model or the inclusion of a new data set can have a significant impact on metrics. As a result of this change, the analysis detailed below is not easily comparable to the analysis shown in the first TCFD report. The Trustee acknowledges that these less negative values do not mean that the Scheme has reduced exposure to climate risk.

Last year, 3 scenarios were selected to assess the portfolio. These scenarios have been retained for this reporting period. The 3 scenarios use the Regional Model of Investment and Development (REMIND) and scenarios developed by the Network for Greening the Financial Sector (NGFS). More detail on the publicly available NGFS scenarios can be found on their website.¹²

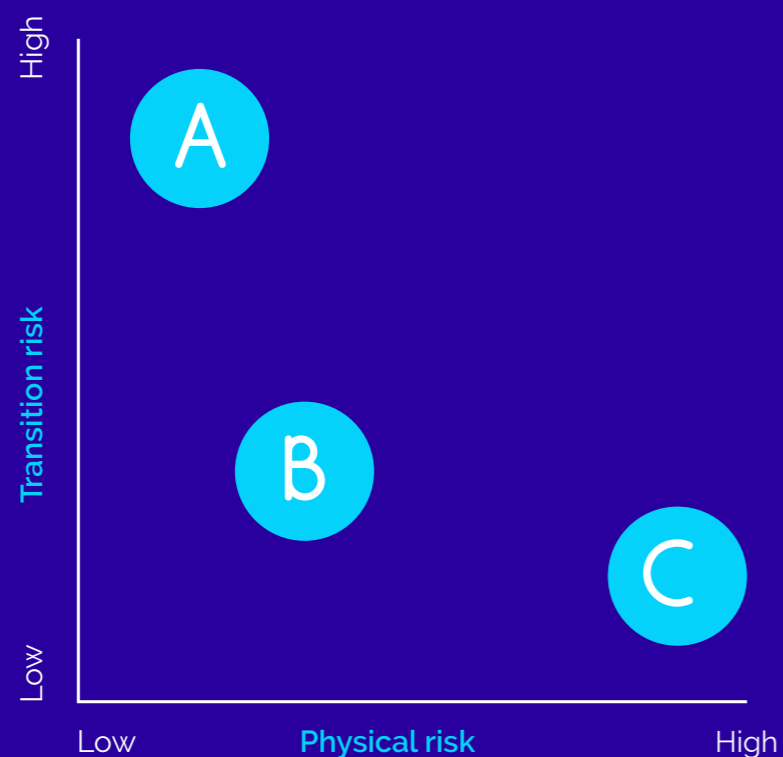
The chosen scenarios allow for a good base of knowledge for what could happen to the portfolio. However, all the scenarios are based on assumptions, which may or may not be realistic. By choosing both orderly and disorderly transition scenarios, the aim is to give a sense of how the nature of the transition could impact the portfolio.



Scenario A	1.5°C – Disorderly Transition This assumes an immediate reaction from policymakers (but one that varies across sectors), fast technological change, limited use of CO2 removal, and some variation in policy across different regions. The model assumes a 90% reduction in emissions is achieved by 2045 and that by 2050, the price of carbon will reach around \$780 USD per ton of CO2 in comparison to approximately \$3 USD used for 2020.
Scenario B	2°C – Orderly Transition This assumes an immediate and smooth reaction from policymakers, moderately fast technological change, an increase in CO2 removal to a moderate level, and a reasonably consistent response from different regions. The model assumes a 90% reduction in emissions by 2055 and that by 2050 the price of carbon will reach around \$200 USD per ton of CO2 in comparison to approximately \$3 USD used for 2020.
Scenario C	3°C This assumes very little response from policymakers more than current policies, slow technological change, limited use of CO2 removal, and little variation in regional policy because of the lack of progress. The model assumes a 90% reduction in emissions is not achieved at any point before 2100 and that by 2050 the price of carbon will reach around \$35 USD per ton of CO2 in comparison to approximately \$3 USD used for 2020.

Scenario analysis provides a useful tool for understanding potential sources of risk and opportunity in the years to come, but it needs to be accepted that there is significant uncertainty as to the output of the analysis, size of estimates, and variations across regions.

The following stylised chart aims to give a high-level sense of how the level of physical and transition risks differs across the 3 scenarios.



Comment on climate scenario model output

The pattern of performance across the 3 scenarios is similar for both the Growth Pool and the Income Pool, albeit the performance of the Growth Pool is more volatile.

In terms of transition risk, the potential loss increases as the level of warming drops. The greatest risk occurs in scenario A (1.5°C), but at the same time, the opportunities for developing technology increases. This seems to be a reasonable assumption since keeping warming below 1.5°C is likely to require a higher carbon price as a deterrent, with more incentives for companies to develop and use green technologies.

The financial modelling carried out by MSCI involves discounting expected future costs and revenue impacts back to the date of analysis to give a present value of costs and potential revenue. This is then compared to the market value of each company to estimate the 'Climate Value-at-Risk'.

Scenario	Category	Growth Pool	Income Pool
A	Transition Risk	-20%	-2%
	Technology Opportunities	+4%	+0%
B	Transition Risk	-4%	-0%
	Technology Opportunities	+1%	+0%
C	Transition Risk	-3%	-0%
	Technology Opportunities	+1%	=0%
3°C+	Physical Risk	-13%	-2%

Table 1: Present value of portfolio impact up to 2050 from transition risks and opportunities across 3 scenarios, and physical risk in a 3°C+ scenario. Values have been rounded to 0dp.¹³

¹³ The percentages in the following tables represent the present value of the future costs (or potential gains) expressed as a percentage of the portfolio, should the scenario be realised. The transition risk output takes into account direct emissions (Scope 1) as well as indirect emissions (Scopes 2 & 3). Technology opportunities are estimated using modelled future low-carbon revenue, and company specific patent data.

Scenario	Category	Up to 100% Shares	Up to 85% Shares	Up to 60% Shares	Pre-Retirement
A	Transition Risk	-19.9%	-19.5%	-18.8%	-15.8%
	Technology Opportunities	+4.4%	+4.3%	+4.2%	+3.6%
B	Transition Risk	-3.9%	-3.8%	-3.6%	-3.0%
	Technology Opportunities	+0.8%	+8%	+0.8%	+0.7%
C	Transition Risk	-2.7%	-2.6%	-2.5%	-2.1%
	Technology Opportunities	+0.6%	+0.6%	+0.5%	+0.5%
3°C+	Physical Risk	-13.0%	-12.7%	12.3%	-10.4%

Table 2 Present value of popular fund arrangement impact up to 2050 from transition risks and opportunities across 3 scenarios, and physical risk in a 3°C+ scenario. Values have been rounded to 1dp¹³

Despite the impact of the modelling changes described above, the story remains the same as last year. Transition risk is greatest under the disorderly transition to 1.5°C scenario. Most of the differences between scenarios A and B result from differences in how orderly the transition is.

The scenario analysis above provides results up to 2050, which is aligned to the timescale used for the long term. This analysis highlights the need to consider transition risks when making future asset allocation decisions, since there is no guarantee that an orderly transition will be achieved. Many commitments have been made to achieve net zero by 2050, but there also needs to be particular emphasis when engaging with these companies and governments on ensuring their strategies for achieving net zero involve cooperation and acting to provide an orderly transition in order to protect from the worst of the transition risks. We also cannot guarantee that the transition will be complete by 2050.

While the physical financial risk of a 3°C+ scenario seems small in comparison to the potential financial impact of transition risk, the model does not pick up the full extent of the financial losses that could take place. For example, the modelling does not consider species and habitat loss, lives lost to extreme weather, the impact of insurance premiums, supply chain risks, or the costs of adaptation. Along with the comments about tipping points above, this suggests it would be reasonable to assume much higher losses in such a scenario.

Actions being taken because of climate scenario modelling output

The analysis continues to suggest that the Growth Pool is more exposed to transition and physical risks and has greater potential to invest in climate-related opportunities. This would suggest that managing the climate-related aspects of these assets should be prioritised. The increased availability of data for equities also aids this conclusion, as there are fewer data concerns when making investment decisions. In response to the analysis conducted as part of the initial TCFD reporting, the Committee and the Board of People's Investment Limited participated in workshops to discuss the long-term strategic climate change framework for the Scheme. The output from these meetings has resulted in an updated climate change policy, including a strategic framework for managing climate-related risks and accessing opportunities. A summary of the strategic framework can be found in the risk management section of this report, as well as the climate change policy.

Further analysis on physical risk in different temperature scenarios was not available for this report, but there is an expectation that additional physical risk analysis will be available for future reporting periods.

Limitations of the scenario analysis data

Modelling future climate scenarios involves many assumptions and relies on imperfect data. Financial models can often benefit from experience, but the nature of climate risk, with such a wide and unknown range of potential outcomes, means doing so in this instance is less reliable. This is also a relatively new area of research, and model updates are likely to be frequent, as can be seen with the MSCI model this year. This report has already commented on the poor quality and availability of data as well as challenges in making assumptions, particularly around physical risks. As such, it is difficult for the Trustee to make asset allocation decisions based on this analysis alone.

Noted below are some issues experienced with data coverage from multiple providers. Data quality and coverage are issues for all providers, and this information is provided only to show the challenges for a user of the data, not to draw attention to any particular provider's data limitations.

MSCI is currently only able to provide physical risk in a 3°C scenario, meaning there is no ability to aggregate the transition and physical risk under other temperature scenarios. This capability is being worked on.

MSCI does not provide the percentage of the portfolio or market value where data is reported by the company versus where it needs to be estimated.

The limitations of ISS's sovereign bond coverage are one of the reasons that the Income Pool had coverage of just around 25% in their analysis last year. While there has been improvement, ISS continues to have coverage issues when it comes to reporting on the climate metrics of sovereign debt, which make up a significant portion of the portfolio's fixed income allocation. As such, it would have been difficult to use the analysis for fixed income and is, therefore, insufficient for making investment decisions at this time. In order to gather satisfactory metrics for sovereign bonds, an additional data provider was used, but this did not include scenario analysis.

The TPI provides useful insight into the companies within high-emitting sectors, and, therefore, those that are particularly important to decarbonise to achieve a net zero economy. This is a resource-intensive task and currently the TPI carbon performance data set

includes approximately 350 companies, and the management performance includes approximately 600 companies. While the results of their scenario modelling are not reported here, this means that there is carbon performance data for just around 9% and management quality data for just around 18% of the Growth Pool. Due to the level of emissions from these companies, it is anticipated that the data will help inform engagement in the future. Despite being a small data set, it is a useful tool to assess transition risk at a company level in high-emitting sectors.

Across all providers, fixed-income data coverage is currently poor. The Trustee expects this to improve in future reporting periods, but it is likely there will always be challenges due to the range of fixed-income instruments available in markets. At a high level, it is always going to be difficult to compare corporate issuers of debt to sovereign issuers of debt, in addition to the challenge of a consistent methodology being developed to assess the country-level risk associated with sovereign debt. Sovereign debt is particularly challenging because there are multiple potential options for attributing country-level emissions onto the bonds. A territorial approach, which considers all emissions from a country, is potentially double counting emissions from companies headquartered in that nation. A government approach considering emissions from the public sector will potentially undercount. The Trustee is engaging with providers on how best to calculate emissions for sovereign debt going forward.

Mandatory TCFD-style reporting is a positive step forward for the investment industry. However, at this early stage, there is acceptance that the industry is still learning and collaborating on how best to carry out decision-useful analysis. There is a belief that the data availability and methodologies used for scenario analysis will improve rapidly as things progress to future reporting periods.

In fact, there has been an improvement in the availability of data this year in response to engagement with the Scheme's asset manager to ensure the issues discovered in the first reporting period were not repeated. This report will elaborate on the data improvements in the metrics and targets section. The Trustee has noted the remaining gaps in coverage for some assets, and improving this will be a key engagement point between us and the Scheme's service providers going forward. This is reflected in the target set by the Scheme.

This section aims to:

- Describe the process for assessing and identifying climate-related risks.
- Describe the Scheme's processes for managing climate-related risks.
- Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the Scheme's overall risk management.

Identifying and assessing climate-related risks

As mentioned in the previous section, the decision was made to split the portfolio into the categories of Growth Pool and Income Pool, which account for around 99% of the portfolio. The Scheme seeks to identify and assess climate-related risks at this level, as well as at individual security level where appropriate.

The Scheme receives Climate Impact Assessment reporting from ISS, Carbon Footprint reporting from S&P Trucost, and Climate Risk Reports from MSCI on at least an annual basis as part of the TCFD reporting, as well as on an ad hoc basis. This reporting is reviewed and aggregated by the People's Partnership investment team before being provided to the Trustee. For the assets that are covered by each provider, the Scheme receives an assessment of exposure to certain climate-related risks. This includes:

- emissions exposure, including top contributors and emissions split by scope and sector
- the percentage of companies in the portfolio that have committed to aligning with international climate goals
- exposure to fossil fuels, the fuel mix of power generation, and green revenue
- climate-related Value-at-Risk metrics
- proprietary risk ratings.

These tools, alongside the Trustee's own research, allow for a security-level understanding of how climate change risk may impact the portfolio (albeit this must be understood in the context of any limitations to each data source).

The Trustee undertakes training on investment topics on an ongoing basis. This regularly includes climate change topics in line with the prioritisation of climate change as an ESG risk. Training throughout the year has been noted in the Governance section, and these sessions will continue to include similar topics, in addition to training and knowledge sharing on new developments as required. Within the reporting period, the Committee were taken through a review of academic research as well as statements made by financial regulators, investment groups and consultants to understand the market sentiment on the extent to which climate risk is not being priced accurately in the market. The assessment of a sudden market repricing or other transition shock events is being prioritised by the Scheme due to the Scheme investing primarily using index-tracking funds.

Processes for managing climate-related risks

The Trustee has determined within the reporting period that it remains prudent to retain its net zero ambition for the Scheme and has developed a strategic framework to address the climate-related risks and opportunities that it faces. This has been driven by the Trustee's climate-related investment beliefs and the research that underpins them. This is detailed within the Scheme's climate change policy but is summarised below.

The strategic framework is divided into 3 pillars: Portfolio Construction, Stewardship, and Reporting, and split into 7 principles. The Trustee has committed to:

Portfolio Construction

- Consider and manage climate risks and opportunities as part of the Scheme's portfolio construction (Principle 1).

Stewardship

- Manage and track progress against our climate stewardship priorities (Principle 2).
- Integrate climate risk into how the Scheme selects, appoints and monitors its fund managers and other service providers (Principle 3).
- Hold investee companies to account for the actions they are taking to address climate change risks (Principle 4).
- Engage with the wider investment industry to ensure that it is fit for purpose to achieve our ambition (Principle 5).
- Collaborate with other like-minded investors and stakeholders to increase influence (Principle 6).

Reporting

- Annually report on the Scheme's progress through appropriate reporting (Principle 7).

Portfolio construction lies at the heart of the Scheme's climate change approach and will seek to address transition risks for the Scheme's assets as well as physical risks as data improves. Stewardship is a complementary pillar to portfolio construction. Stewardship by the investment community is essential to driving the necessary real-world economic changes required to reach net zero. Stewardship is also crucial to ensure that the disclosure and quality of data improve to allow for effective risk management, portfolio construction and climate-related reporting by asset owners.

The Trustee believes the output from the scenario analysis as well as the metrics disclosed in this reporting act as a valuable additional source in addition to the wider sources of information available to the Trustee when assessing how to manage the climate-related risks of the scheme. More detail on scenario analysis is provided in the Strategy section of this report, with the climate metrics for the investment pools and popular arrangements provided in the Metrics and Targets section.

As previously stated, the Trustee currently has a climate-related investment belief that complete divestment from all carbon-intensive sectors at this time would not be in the best interest of our members, as it could negatively impact the eventual size of their pension pots. The Scheme does not currently apply climate-specific exclusions, with the exception

of companies that are found to be in violation of the UN Global Compact's environmental principles. The use of exclusions as part of the portfolio construction process remains under review.

The Scheme's assets are primarily managed passively – that is, the asset manager (SSGA) aims to track the performance of an index. The Trustee, therefore, expects the Scheme's asset managers to identify and assess climate-related risks within their own funds. While there are occasions where divestment would be supported, the primary route to change when investing in passive funds is through engagement (also known as stewardship) or through changes in portfolio construction through investing in funds tracking a different index. The Scheme, for example, invests around 20% of the growth pool into a fund tracking a low carbon index, which reduces emissions intensity and fossil fuel reserves by 50% compared to the market cap parent index.

SSGA has confirmed that climate change remains a priority for them as a business, and it remains on their list of stewardship priorities for 2023. They have themselves committed to the Net Zero Asset Managers Initiative and are members of Climate Action 100+, which is a global initiative led by investors to foster the clean energy transition by engaging with the highest emitting companies and sectors.

SSGA cast votes on the Scheme's behalf and, in 2022 voted on over 150 climate-related shareholder proposals, supporting 44% of these. SSGA supported over 80% of Say on Climate proposals that ask companies to: make annual disclosure of emissions; have a plan in place to manage those emissions; and allow shareholders to vote on the appropriateness of the plan.

SSGA shares the Trustee's belief that climate change poses a systemic risk to the companies that the Scheme invests in. A key requirement to understand that risk is increased disclosure, particularly in a standardised framework such as that provided by the TCFD recommendations. As part of their engagement, SSGA continues to advocate for the adoption of TCFD reporting and may take voting action against companies included in major indices in North America, the UK, Europe, and Australia if they fail to meet disclosure requirements. This list of markets was expanded in 2023 to also cover Japan, Hong Kong, and Singapore, as a way of showing the expectation that companies in these markets will report against the recommendations of the TCFD.

Case Study: Just Transition

In 2022, SSGA included "just transition" as one of several key factors in their disclosure expectations for effective climate transition plans. In addition to this, they conducted a series of engagements with companies in high-carbon emitting sectors to better understand current trends and disclosure practices on the topic of a just transition.

The dialogue centred on how companies are identifying and managing risks and opportunities in the low-carbon transition associated with workforce transformation, customer affordability, stakeholder engagement, and supply chain management, among others.

Outcome: SSGA intends to share the insights and takeaways of the campaign at a later date. Some early takeaways include:

- Companies leading on just transition have a clear understanding of its importance as a centrepiece within their climate transition strategy.
- Successful oversight of a just transition and its associated risks requires thoughtful engagement with the board and management.
- Effective risk management for a just transition is well served by clear stakeholder identification and engagement processes.

SSGA will continue to integrate just transition considerations into engagements focused on climate transition plans throughout 2023.

Case Study: ConocoPhillips

In 2022, SSGA continued a multi-year engagement effort with ConocoPhillips on the topic of Methane. The oil and gas industry represents one of the largest contributors to global methane emissions and investors need to understand how companies are responding to regulatory, reputational, and financial risks associated with methane.

In the reporting period, SSGA engaged with ConocoPhillips to learn about its detection, monitoring, and reduction efforts and to continue engagement on improving methane data quality and measurement-based reporting. Discussions were had on ConocoPhillips joining the Oil and Gas Methane Partnership (OGMP) 2.0. OGMP 2.0 is a multi-stakeholder initiative launched by UNEP and the Climate and Clean Air Coalition that provides a comprehensive reporting framework to improve transparency and the quality of methane emissions disclosure.

Outcome: In Q3 2022, ConocoPhillips formally joined OGMP 2.0. The company publicly committed to report methane emissions from both operated and non-operated assets and to incorporate source-level and site-level measurements in line with OGMP's guidance. The company also set a new medium-term target to achieve near-zero methane emissions by 2030. SSGA intends to continue engagement with the company on its methane management and reporting efforts.

Boards should regard climate change as they would any other significant risk to the business and ensure that a company's assets and long-term business strategy are resilient to the impacts of climate change.

In SSGA's stewardship programme, their focus begins with governance, as they believe that strong, independent and effective boards of directors can better incorporate sustainability into long-term strategy. A well-governed company will likely also have strong environmental and social credentials.

Through their engagements, SSGA has found that few companies can effectively demonstrate good climate governance. As such, they have set out 4 areas about which they believe companies in carbon-intensive sectors must provide information to provide meaningful climate-related disclosure:

1. Interim greenhouse gas emissions reduction targets to accompany long-term climate ambitions.
2. Discussion of the impacts of scenario planning on strategy and financial planning.
3. Incorporation of climate considerations in capital allocation decisions.
4. Scope 1, 2, and material categories of Scope 3 greenhouse gas emissions.

Integrating climate-related risk into overall risk management

The integration of climate-related risk is an area the Trustee is continuing to develop. To date, the focus has been on understanding the Scheme's exposure to climate risks and exploring ways in which the risks can be mitigated. Building on the work reported above, the Trustee will continue to integrate the following into their investment risk process:

- a) Scenario analysis – to help identify strengths and weaknesses in the portfolios under different scenario outcomes.
- b) Greenhouse gas emissions levels and their path in the future will be measured and may influence the weightings in indices the Scheme seeks to track as part of its growth and income pools.

The Trustee has included investment climate change risk as a strategic risk for the Scheme. As noted previously, the Trustee accepts that climate change is likely to be the most financially material of the ESG risks and should be considered alongside the other investment risks affecting members' pension savings. This is reflected in the risk score included in the overall Scheme risk management register. As part of the Scheme's overall risk management process, climate change and the steps being taken to address it is discussed by the Committee at least every 6 months, in addition to any training, paper reviews, and decisions.

As mentioned in the Scheme's climate change policy, the Trustee's belief is that risk has many dimensions, and it are therefore best to view it through several different lenses. This refers to both ensuring climate-related risk is addressed through a multi-factorial approach, as well as integrating climate-related risk into the Scheme's overall risk management alongside other sources of investment risk.

Detail has been provided in the Governance section above on the steps taken by the Trustee to ensure they and their service providers have a good understanding of climate change concepts and the potential impacts of climate change.

This section aims to:

- a) Describe the metrics used by the Scheme to assess climate-related risks and opportunities in line with its strategy and risk management process.
- b) Describe Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.
- c) Describe the targets used by the Scheme to manage climate-related risks and opportunities, and performance targets.

Metrics

As part of the climate change research and analysis, several different metrics are used to understand the climate-related risks and opportunities for the whole portfolio as well as individual securities.

Climate metrics are obtained from ISS, S&P Trucost, and MSCI. The analysis has been split into the Growth Pool and Income Pool, which cover around 99% of the Scheme's assets. The limitations of the scenario analysis also apply to this section, as it affects the climate data coverage of the assets.

In situations where a company does not report their emissions, there is a need for the data provider to estimate the levels of emissions for scopes 1, 2, and 3. These estimations, or even the company-reported emissions, are not guaranteed to be correct, and as such, there are limitations to the accuracy of the collection and estimation of all climate-related metrics, which could impact the results of the analysis provided in this reporting.



Metric Type	Metric	Description and methodology
Absolute Emissions	Total Carbon Emissions (tCO ₂ e)	Allocated emissions to all financiers (EVIC). Measures the total carbon emissions for which an investor is responsible. Emissions are apportioned based on EVIC. This choice is aligned with the recommendation provided by the Department for Work and Pensions (DWP).
Emissions Intensity	Carbon Footprint (tCO ₂ e/£M invested)	Allocated emissions to all financiers (EVIC) normalised by £m invested. Measures the carbon emissions for which an investor is responsible per million invested. Emissions are apportioned based on EVIC. This choice is aligned with the recommendation provided by the DWP.
Emissions Intensity (Sovereigns)	Carbon Intensity (tCO ₂ e/£M GDP)	Measures a portfolio's exposure to carbon-intensive economies, defined as the portfolio weighted average of sovereigns' GHG Intensity (emissions/GDP). This choice is aligned with the options for sovereign bonds provided by the DWP.
Portfolio Alignment	Binary target measurement (SBTi)	The Science Based Targets initiative (SBTi) drives ambitious climate action by enabling organisations to set science-based emissions reduction targets, which can then be validated by SBTi. The metric is the percentage of companies in the portfolio with SBTi-approved targets as measured by MSCI. This choice is aligned with the recommended options provided by the DWP.
Non-emissions-based metric	Data Quality (Data Coverage)	This measure aims to represent the proportion of the portfolio for which the Trustee has data. Because of the difficulty in obtaining full coverage for the Scheme's assets, this metric shows the percentage coverage given by the climate data provider. In these initial stages, the focus will be on improving the coverage of the assets the Scheme invests in. At the same time, in order to obtain the best quality data available, engagement with investee companies to ensure they are reporting the necessary climate data is required. Improving climate reporting will remain a key engagement topic to reduce the reliance on estimations going forward. This choice is aligned with the recommended options provided by the DWP.

EVIC = Enterprise Value including Cash + Company market capitalisation + Preferred Stock + Minority Interest + Total Debt.

Using ISS data, the Growth Pool has coverage of around 96%, which is an improvement on last year. Through engagement with SSGA, who provides the ISS analysis, it was possible to ensure that all asset classes within the Growth Pool were covered this year. It was discovered in the initial reporting period that, due to the fund structure, the infrastructure assets within this pool were not able to be included in the scenario analysis or the metrics provided. Correcting this issue was identified as the priority for the growth assets this year and was successful.

As noted earlier, the ISS coverage for sovereign debt was poor last year. The Income Pool has significant exposure to sovereigns, meaning the coverage was below 25% for the fixed income assets in the first report. The low level of coverage for sovereign debt remained significant. Therefore, the decision was made to use S&P Trucost for the fixed income assets, which have significant exposure to sovereign debt. In this reporting period:

- ISS reporting was used to gather data on assets within the Growth Pool and the Sterling Corporate Bonds.
- S&P Trucost reporting was used to gather data on Global Aggregate Bonds, UK Conventional Gilts, and US Treasuries.
- MSCI reporting was used to gather data on all assets.

Of the Growth Pool assets covered by ISS, around 72% of the number of holdings have reported reliable emissions rather than estimated emissions (around 92% of the market value has reported emissions). For the Income Pool, ISS was used only for the Sterling Corporate Bonds, where disclosure sits at around 98% of the number of holdings (around 99% of the market value of assets covered by ISS). However, coverage for sterling corporate bonds was just 83%.

S&P Trucost was used for the remaining elements of the Income Pool due to their large exposure to sovereign debt. S&P Trucost had coverage of 98%+ for US Treasuries and UK Conventional Gilts; the Global Aggregate Bonds were lower at between 84%-91% depending on if the index or SSGA fund was taken.

The sovereign debt emissions data from S&P Trucost uses a territorial approach to quantify a country's emissions. As mentioned previously, this

introduces some double counting, but it does provide a measurement of an economy's dependency on carbon-intensive industries and therefore acts as a proxy for financial risk.

Using MSCI's data, the Growth Pool coverage is around 98%, which is closer to the level the Trustee would be comfortable with for decision making. However, they do not provide information on whether emissions have been estimated (rather than reported by companies themselves), so a direct comparison cannot be made.

MSCI is able to provide coverage of around 67% of the sterling corporate bonds for the emissions metrics that can be calculated for corporate bonds, with an additional around 81% coverage of the remaining Income Pool using the different methodology that calculates emissions intensity for sovereign debt. The total coverage for the entire Income Pool varies between 15% and 69%, depending on the metric used.

Improving data coverage in future reporting periods will be a key engagement point with data providers. There has been significant progress in the short amount of time since the Trustee began analysing the portfolio in line with the TCFD recommendations, but there is still improvement needed, notably within the data and analysis provided for fixed income assets.

The introduction of a new data provider to improve the coverage of sovereign debt has meant that the overall coverage of fixed-income assets has improved, but this does introduce new challenges. In the initial TCFD report, it was decided to split gilts from the remainder of the Income Pool to improve the reporting for fixed income. In this report, the decision has been made to split out the Sterling corporate bonds as the data came from a different provider to the remainder of the Income Pool. These changes to the data provider and the way the income pool is shown in the reporting limits the ability to compare metrics from last year to this year. The Trustee's ambition is that there will be greater consistency between reporting years, and comparability will be improved in future reporting periods.

The 2022-23 reporting period is the first in which the Scheme is reporting a portfolio alignment metric, which means a metric that gives the alignment of the assets with the climate change goal of limiting the increase in global temperature to 1.5°C above pre-industrial levels. In its guidance for occupational schemes, the DWP provided options for trustees to report "as far as they are able". One of the options was the binary target measurement, that measures alignment based on the percentage of the investments in the portfolio with related net zero or Paris-aligned targets. The Science Based Targets initiative (SBTi) was referenced as an example of a tool that provides this data. The percentage of companies in a portfolio with SBTi-approved targets is provided by MSCI. At the end of 2022, about a third of the global economy's market capitalisation were setting targets or committing to do so via SBTi. Using a metric based on SBTi-approved targets allows the Trustee to report portfolio alignment based on targets approved by a global body, providing independent assessment of company targets based on the latest climate science.

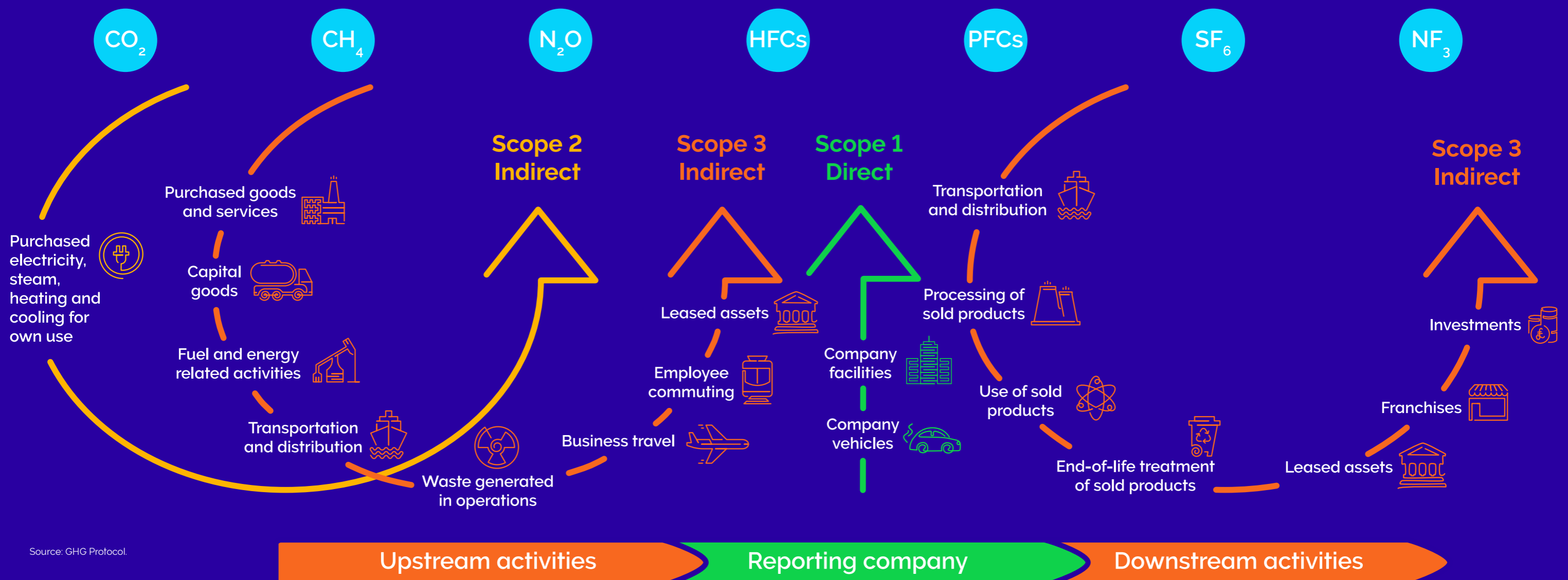
As shown in the graphic below from the Greenhouse Gas Protocol, Scope 3 emissions are significantly more complicated than Scope 1 and 2. Reporting accurate Scope 3 emissions requires an understanding of both upstream and downstream supply chains, as well as emissions from products sold. A company's Scope 3 emissions are however, very important to understand because they can be responsible for the majority of the emissions the company is responsible for.

In this second TCFD reporting year, the regulations state that Trustees must obtain Scope 3 emissions data "as far as they are able". Scope 3 emissions data has been provided below, where available, from data providers. Investee company reporting of Scope 3 emissions is uncommon, and as such, the data provided relies significantly on estimation, and therefore it should be viewed with caution. Engagement with providers will be undertaken to better understand the barriers leading to this lack of transparency.

How are greenhouse gas emissions classified?

Greenhouse gases are categorised according to their 'Carbon dioxide equivalence' and their source. The graphic below shows the different contributors a business has to overall emissions:

- Scope 1** - direct emissions associated with the production of its goods.
- Scope 2** - indirect emissions associated with the energy needed to produce its goods.
- Scope 3** - indirect emissions associated with the businesses' supply and distribution chains.



Source: GHG Protocol.

The table below shows the metrics for the Growth and Income Pools. Because of the large differences between data providers, it has been decided not to aggregate values across different data sources, resulting in the ranges provided, and Sterling Corporate Bonds (SCB) being provided separately.

Metric Type	Metric	Range of values across different data providers
Total Carbon Emissions Scope 1 + 2 (tons of CO2e)	Growth Pool	967,083 - 1,188,622
	Income Pool Components	
	Income Pool minus SCB	N/A - 234,178
	SCB	27,498 - 27,941
Total Carbon Emissions Scope 3 (tons of CO2e)	Growth Pool	5,922,928 - 9,310,172
	Income Pool Components	
	Income Pool minus SCB	N/A - 1,509,093
	SCB	232,381 - 262,137
Carbon Footprint Scope 1 + 2 (tons of CO2e / £M Invested)	Growth Pool	67.8 - 86.4
	Income Pool Components	
	Income Pool minus SCB	N/A - 53.1
	SCB	35.9 - 44.3
Carbon Footprint Scope 3 (tons of CO2e / £M Invested)	Growth Pool	415.3 - 676.8
	Income Pool Components	
	Income Pool minus SCB	N/A - 342.3
	SCB	342.2 - 368.5
Emissions Intensity (Sovereigns) (tCO2e/£m GDP)	Sovereign constituents of Income Pool minus SCB	258.6 - 502.8
Binary target measurement (SBTi)	Growth Pool	37.2%
	Income Pool Components	
	Income Pool minus SCB	2.6%
	SCB	31.1%
Data Coverage (Scope 1 + 2)	Growth Pool	96.3% - 98.0%
	Income Pool Components	
	Income Pool minus SCB	87.7% - 90.7%
	SCB	67.9% - 83.4%
Data Coverage (Scope 3)	Growth Pool	97.6% - N/A
	Income Pool Components	
	Income Pool minus SCB	6.3% - N/A
	SCB	65.4% - N/A

The following table provides detail on the funds that make up the 3 investment profiles offered by the Scheme¹⁴, which include the default option (balanced profile). These funds are also popular self-select options. The data for this has been provided only by MSCI and therefore does not require a range.

Metric	Portfolio	Value
Total Carbon Emissions Scope 1 + 2 (tons of CO2e)	Global Investments (up to 100% shares) Fund	42,351
	Global Investments (up to 85% shares) Fund	1,090,454
	Global Investments (up to 60% shares) Fund	2,916
	Pre-Retirement Fund	182,390
Total Carbon Emissions Scope 3 (tons of CO2e)	Global Investments (up to 100% shares) Fund	259,381
	Global Investments (up to 85% shares) Fund	6,733,279
	Global Investments (up to 60% shares) Fund	18,234
	Pre-Retirement Fund	1,203,596
Carbon Footprint Scope 1 + 2 (tons of CO2e / £M Invested)	Global Investments (up to 100% shares) Fund	67.8
	Global Investments (up to 85% shares) Fund	66.8
	Global Investments (up to 60% shares) Fund	65.3
	Pre-Retirement Fund	59.4
Carbon Footprint Scope 3 (tons of CO2e / £M Invested)	Global Investments (up to 100% shares) Fund	415.3
	Global Investments (up to 85% shares) Fund	412.6
	Global Investments (up to 60% shares) Fund	408.5
	Pre-Retirement Fund	392.1
Binary target measurement (SBTi)	Global Investments (up to 100% shares) Fund	37.2%
	Global Investments (up to 85% shares) Fund	31.1%
	Global Investments (up to 60% shares) Fund	25.0%
	Pre-Retirement Fund	14.4%
Data Coverage (Scope 1 + 2)	Global Investments (up to 100% shares) Fund	98.0% (Corporate)
	Global Investments (up to 85% shares) Fund	81.4% (Corporate) + 13.9% (Sovereign)
	Global Investments (up to 60% shares) Fund	64.8% (Corporate) + 27.8% (Sovereign)
	Pre-Retirement Fund	36.0% (Corporate) + 52.0% (Sovereign)
Data Coverage (Scope 3)	Global Investments (up to 100% shares) Fund	97.6% (Corporate)
	Global Investments (up to 85% shares) Fund	81.0% (Corporate) + N/A (Sovereign)
	Global Investments (up to 60% shares) Fund	64.4% (Corporate) + N/A (Sovereign)
	Pre-Retirement Fund	35.6% (Corporate) + N/A (Sovereign)

¹⁴Please note, total emissions for each fund are directly tied to the amount invested in each investment option, meaning there is little comparison ability available for this metric
<https://thepeoplespension.co.uk/investing-your-pension/>.

As has been mentioned previously, data quality refers to both the coverage of data as well as the reliability of the data. Due to this being poor for some assets, data coverage has been used as the data quality metric for this reporting. For some assets, this is almost 100%, and for others, it is much further away. However consideration must still be given to the reliability of the data. Generally, the data for fixed-income assets is harder to collect and/or assess. Emissions associated with sovereign debt can be calculated in a number of different ways and are not necessarily comparable to corporate fixed income assets (as shown by the additional sovereign-specific intensity metric). The engagement with service and data providers will include discussion on how to improve all aspects of data quality, not just better coverage through estimation models. There is also work needed at an industry level to arrive at a consensus for calculation methodologies to aid comparability.

Target

The Scheme's climate change policy is aligned with the scientific consensus of keeping warming below 1.5°C compared to pre-industrial levels. During the reporting year as part of the regular review, it was confirmed that it remains prudent to retain this net zero ambition. How this will be implemented is still under review, and any shorter-term targets to achieve the ultimate goal will be assessed and reviewed as part of the Scheme's governance, strategy and risk management processes.

The Trustee has a fiduciary duty to consider all material financial risks and to act in the best interests of Scheme members. While it has improved since the first reporting period, the data available has been deemed to still not be appropriate to set a portfolio-level emissions-based target. Setting a target using insufficient data could encourage bad portfolio-level investment decisions going forward, as future asset allocation decisions may be forced in order to reach a target rather than based on true investment beliefs.

The Trustee takes setting a target seriously and believes that before publicly stating an emissions-based target, there needs to be a plan in place to meet that target, and there needs to be a high level of trust in the data being used. Setting a target with incomplete data poses the risk of having either an unachievable or not ambitious enough target once data coverage has improved. Competition between data providers will be beneficial to improving coverage, and this should increase as more pension schemes become subject to the regulations and seek information from these providers. Only when an appropriate level of confidence in the data used for decision making has been achieved will an emissions-based target be set, with a plan in place of how it will be achieved within a stated period. Therefore, in this second report, the following target has been maintained, with a slight change in wording to add clarity:

The Trustee hopes to achieve a level of 95% coverage of all equity and fixed income assets within the next 3-5 years from the initial reporting period (2022). The Trustee and People's Partnership will monitor and adapt this as the market develops.

The task for the Trustee is to apply pressure to current service and data providers and continue researching the availability of climate-related data that meets the Scheme's requirements, should that be available with other providers. This will involve setting expectations for data coverage with service providers and requesting an action plan on how and when they intend to improve. Having a single asset manager (SSGA) is a benefit here because it means they are aware of the Scheme's full holdings and can plan accordingly to ensure the data coverage for the entire portfolio improves to the level expected. This would potentially be more difficult with multiple managers working on improving coverage on overlapping portions of the portfolio as well as having conflicting estimations of emissions for the same companies.

In this reporting period, there has been significant improvement in data coverage in response to engagement. If this continues, the Trustee has an ambition to be able to set an emissions-based target in advance of the end of the current target's 3-5-year window. Within the reporting year, SSGA was able to correct the issue from last year's reporting, which meant that data could not be provided for the listed infrastructure portion of the growth assets. This year, metrics have been provided on the entire Growth Pool collectively, as opposed to having a 'Growth Pool minus infrastructure' and 'infrastructure' as separate categories last year. In response to concerns about the poor coverage of fixed income in the first reporting period, SSGA also added an additional data provider to their reporting to allow for better reporting of sovereign debt. A single number assessing what has been achieved against the target has not been provided for this report. Changes in methodology, how assets are grouped in the above tables, and the data providers used make it difficult to compare like for like. The intention is for this to be possible in future reporting years where there are fewer significant changes to how the metrics and targets are calculated and reported.

The Trustee intends to follow their strategic framework on climate to help meet the target that has been set. The key climate stewardship area of focus is improving data quality and company disclosures within company transition plans and

TCFD disclosures. This also involves engaging with managers and data providers to ensure they are improving in this area in a way that enhances the Trustee's ability to use this data for portfolio construction decisions. The Trustee also intends to use membership with collaborative investor groups such as the Principles for Responsible Investment (PRI) and the Institutional Investor Group on Climate Change (IIGCC) to leverage investor demand to improve company reporting, as well as pushing service and data providers to improve their offerings.

There is an acceptance that there may be challenges for some assets in meeting this target. Fixed income, for example, can include many different types of securities. This is also a consideration when researching investment into new asset classes where disclosure may be poor (eg, illiquid assets). In the event that the target cannot be met for any asset class that the Scheme invests in, further work will be conducted to understand the reason for the difficulty in obtaining the data and engage with the relevant parties on any obstacles. This coverage target should be viewed as a temporary solution that will be reviewed at each reporting period to allow for an emissions-based target to be set once it is deemed appropriate to do so.





For more information:

T. 0330 333 4593

E. info@thepeoplespension.co.uk

thepeoplespension.co.uk