



# TCFD report for year ending 31 December 2022

Heinz Pension Plan

Produced by: The Trustee of the Heinz Pension Plan

Date: March 2023

# Introduction

Climate change is affecting the planet, causing extreme weather events, impacting crop production and threatening Earth's ecosystems. Understanding the impact of climate change and the Plan's vulnerability to climate-related risks will help us to mitigate the risks and take advantage of any opportunities.

The TCFD is an initiative that developed some best practice guidance for climate-risk reporting. New UK regulations require trustees to meet climate governance requirements and publish an annual TCFD-aligned report on their pension scheme's climate-related risks.

Better climate reporting should lead to better-informed decision-making on climate-related risks. And on top of that, greater transparency around climate-related risks should lead to more accountability and provide decision-useful information to investors and beneficiaries.

This document is the first annual TCFD report for the Heinz Pension Plan (the "Plan"). It has been prepared by the Trustee for the year ended 31 December 2022.

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## What is TCFD?

The Financial Stability Board created the Taskforce on Climate-related Financial Disclosure ("TCFD") to develop recommendations on the types of information that entities should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing risks related to climate change.

The TCFD has developed a framework to help public companies and other organisations, including pension schemes, more effectively disclose climate-related risks and opportunities through their existing reporting processes.

# Executive summary

To produce this TCFD-aligned report, we have worked with our investment consultant to carefully consider the potential impact climate change could have on the Plan's investments and how we identify, manage, and mitigate those risks.

The report is divided into the four pillars of TCFD: governance, strategy, risk management, and metrics and targets.

These four pillars covered in the statement are detailed below:

- **Governance:** The Plan's governance around climate-related risks and opportunities.
- **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the Plan's strategy and financial planning.
- **Risk Management:** The processes used 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.

These are the core areas of business practice and disclosure the TCFD recommends should be reported on. In carrying out this exercise, we have ensured that climate-related matters are adequately embedded in our governance, strategy, and risk management processes, and are transparently reported.

The following pages summarise the Trustee's current position with regards to the TCFD recommendations and those set out in the Regulations. The Trustee has been supported by the Plan's investment consultant Aon Solutions UK Limited ("Aon") with the production of this TCFD disclosures report and the data contained within it.

## Governance

The Trustee recognises the importance of climate change for the Plan and its beneficiaries.

The Trustee itself takes responsibility for ensuring that climate related risks and opportunities are integrated into the Plan's investment strategy, implementation and reporting.

The Trustee requires that its investment managers and advisers take account of climate related risks and opportunities in the roles that they perform for the Trustee and the Plan.

## **Strategy**

From the Trustee's qualitative analysis, it became apparent that climate related risks and opportunities impact all the different asset classes in which the Plan invests. Alongside this, climate change provided numerous investment opportunities for the different asset classes.

The quantitative analysis indicated that the Plan has a good degree of resilience relative to climate related risks, based on the three different scenarios modelled. This is due to the high levels of LDI assets (which generally have low climate risk), and the relatively low proportion of equities (which generally have higher climate risk).

## **Risk Management**

The Trustee has integrated climate related risks into its various documents and processes. For example, the Trustee has a clear policy on Environmental, Social and Governance ("ESG") considerations within its Statement of Investment Principles, which includes the steps it takes to monitor and assess ESG related risks and opportunities. In addition to this, the Trustee receives data on voting and engagement from its managers annually (as outlined in its Engagement Policy Implementation Statement, which is produced annually).

The Trustee has outlined a number of steps it has taken to integrate climate-related risks into its risk management framework and processes. This can be found on page 29-31. The full Climate Risk Management Plan can be found in the Appendix.

## **Metrics and Targets**

The Trustee has gathered the carbon metrics data from a range of different sources, including its investment managers, investment advisers and other data vendors. As required, the Trustee has, as far as it has been able to, collated the data for four metrics: the total greenhouse gas ("GHG") emissions, carbon footprint, alignment with Net Zero, and data quality (optional fourth metric).

The Trustee is keen to understand the carbon emissions in the Plan's portfolio, but note that at the current time, data is limited for certain asset classes. The Trustee expects that in the future better information will be available from managers as the industry aligns to expectations and best practice standards. Alongside this however, the Trustee is aware that it is likely that its reporting of greenhouse gas emissions and carbon footprint may "increase". The Trustee does not view this as a real increase, and notes that the increase is an expected output as the availability and coverage of data expands as the Trustee engages with the Plan's managers that were initially unable to supply full emissions data.

The Trustee has set a GHG emissions reduction target on the Plan's assets, to achieve a 50% reduction in GHG emissions from the 31 December 2021 baseline by 31 December 2030 (i.e. reporting year 2031). This implies a 7.5% reduction in emissions each year. The Trustee will continue to monitor the progress of the underlying investment managers against the Plan's target.

We hope you enjoy reading this report and understanding more about how we are managing climate-related risks and opportunities within the Plan.

## **Phil Ashton**

On behalf of the Trustee of Heinz Pension Plan



# Governance

# Governance

## Climate mission statement

The Trustee believes that the risks associated with climate change can have a materially detrimental impact on the Plan's investment returns and on the strength of the employer covenant within the timeframe that the Trustee is concerned about. As such, the Trustee integrates assessments of climate change risk into its investment decisions and expects its investment managers to actively incorporate ESG risks where they are financially material. Climate change as a risk factor will feature prominently when the Trustee reviews its investment strategy.

The Trustee will also liaise with the employer to understand its approach to climate change and take action where necessary.

In addition, climate-related factors may create investment opportunities. The Trustee will seek to capture such opportunities where they are appropriately aligned with the Trustee's strategic objectives and fiduciary duty.

## Role of the Trustee

The Trustee is collectively responsible for oversight of all strategic matters related to the Plan. This includes approval of the governance and management framework relating to environmental, social and governance ("ESG") considerations and climate-related risks and opportunities.

The Trustee has discussed and agreed its climate-related beliefs and overarching approach to managing climate change risk. Details are set out in the Statement of Investment Principles ("SIP"), which is reviewed annually by the Trustee.

The Trustee assesses climate-related risks and opportunities over multiple time horizons. The Trustee has decided the most appropriate time horizons for the Plan are:

- short term: 1-3 years
- medium term: 4-10 years
- long term: 11-20 years

The Trustee recognises that climate-related risks and opportunities do not affect every asset class identically and takes this into account when considering climate-related impacts across the Plan. Where appropriate, the Trustee considers transition and physical climate-related risks separately.

The Trustee receives training on an annual basis (or more frequently if required) on climate-related issues to ensure that it has the appropriate knowledge and understanding to support good decision-making.

The Trustee expects its advisers to have the appropriate knowledge on climate-related matters, to apply this knowledge to the advice that they provide to the Trustee, and to bring important climate-related issues and developments to the Trustee's attention in a timely manner. The Trustee has communicated these expectations to its advisers and will include these factors into its regular reviews of its advisers.

The Trustee also expects its investment managers to have the appropriate knowledge on climate-related matters, to apply this knowledge to their investment decisions where appropriate, and to bring important climate-related issues and developments to the Trustee's attention in a timely manner. The Trustee has communicated these expectations to its investment managers. The Trustee will take account of its investment consultant's views of each investment manager's ESG-integration capabilities when appointing or reviewing managers and will include a consideration of climate-related risks and opportunities in its regular portfolio and performance-review meetings with its investment managers.

The Trustee is responsible for the implementation and day-to-day oversight of the Plan's climate change risk management approach.

## **Role of external advisers**

**Investment consultant:** the Trustee's investment consultant, Aon, provides investment related strategic and practical support to the Trustee in respect of the management of climate-related risks and opportunities. This includes provision of regular training and updates on climate-related issues, climate change scenario modelling and ESG ratings.

**Scheme Actuary:** the Scheme Actuary, Mike Tyrer (Aon), will help the Trustee assess the potential impact of climate-related risks on the Plan's funding where appropriate.

**Covenant advisor:** the Trustee's covenant adviser Gerald Smith (FRP Advisory) will help the Trustee understand the potential impact of climate change risk on the sponsor covenant of the principal employer of the Plan.



# Strategy



# Assessing climate-related risks and opportunities

Assessing the climate-related risks and opportunities the Plan is exposed to is key to understanding the impact climate change could have on the Plan in the future.

The Trustee has carried out a qualitative risk assessment on each asset class the Plan is invested in. From this the Trustee has identified which climate-related risks and opportunities could have a material impact on the Plan.

The Plan's investment portfolio is diversified across a range of different asset classes including equities, credit, Liability Driven Investment ("LDI") and cash.

Given the number of asset classes used in the Plan, the Trustee has completed this exercise to the best of their ability.



## Risk categories

In the analysis, the climate-related risks have been categorised into physical and transitional risks.

**Transitional risks** are associated with the transition towards a low-carbon economy. For example, shifts in policy, technology or supply and demand in certain sectors.

**Physical risks** are associated with the physical impacts of climate change on companies' operations. For example, extreme temperatures, floods, storms or wildfires.



## Ratings

The analysis uses a RAG rating system where:

**Red** denotes a high level of financial exposure to a risk.

**Amber** denotes a medium level of financial exposure to a risk.

**Green** denotes a low level of financial exposure to a risk.



## Time horizons

The Trustee assessed the climate-related risks and opportunities over multiple time horizons. The Trustee has decided the most appropriate time horizons for the Plan are:

- short term: 1-3 years.
- medium term: 4-10 years
- long term: 11-20 years

When deciding the relevant time horizons, the Trustee has taken into account the liabilities of the Plan and its obligations to pay benefits.

# Climate-related risk assessment

## Equity

UBS Climate Aware World Equity Fund

Time horizon	Physical risks		Transition risks			
	Acute	Chronic	Regulatory	Technology	Market	Reputation
Short	A	A	G	G	G	G
Medium	A	A	G	G	G	G
Long	A	A	A	A	A	A

Source: Managers

### Physical risks

The current methodology of Climate Aware Strategies focuses on climate transition risks by focussing on companies aligning their businesses to ambitious carbon emission reduction scenarios, embrace climate technologies and reduce exposure to fossil fuels. As the methodologies for assessing physical risks are in a maturing stage, a more in depth-analysis can be expected for Climate Aware Strategies in the following years.

### Transition risks

It is believed that Climate Aware Strategies have a lower exposure to reputation risk as they can make use of voting and engagement to focus on companies likely to be lagging in their transition to a low carbon economy. Due to uncertainty in assumptions, long-term risks are difficult to model.

## LDI

BlackRock Government Bonds

Time horizon	Physical risks		Transition risks			
	Acute	Chronic	Regulatory	Technology	Market	Reputation
Short	G	G	G	G	G	G
Medium	G	G	A	G	G	A
Long	A	A	A	A	A	A

Source: Managers

It is believed that developed market governments are to be least impacted in terms of expected returns by climate risks. This is because governments in developed markets are members of climate change mitigation initiatives and have set carbon reduction targets. Therefore, they are unlikely to be greatly affected by risk premium adjustments and reallocations.

## Buy & Maintain Credit

BlackRock Investment Grade Credit

Time horizon	Physical risks		Transition risks			
	Acute	Chronic	Regulatory	Technology	Market	Reputation
Short	A	G	A	A	A	A
Medium	R	A	A	A	A	A
Long	R	R	R	R	R	R

Source: Managers

The manager has provided its view of a typical broad credit market buy & maintain mandate. In its view, climate related risks are likely to be more pronounced over the longer term for buy & maintain strategies since this kind of portfolio cannot be traded to navigate risks as they emerge. Therefore, it is particularly important to take account of potential risks at the time of evaluating and purchasing bonds.

The particular mandate that Heinz have specified already includes a requirement to reduce the portfolio's GHG emissions by 30% by 2030, and the Trustee intends to increase the ambition of this requirement. It is expected that this emissions-reduction aspect will help the Plan to significantly reduce the medium- and long-term risk exposure that exists in the broader market.

## Liquid Credit

Aon Investment Limited ("AIL") Diversified Liquid Credit Strategy

		Orderly Transition			No Transition		
		Short	Medium	Long	Short	Medium	Long
Fixed Income	Sovereigns - DM						
	Sovereigns - EM						
	Global IG						
	Global HY						
	Corporate EMD						
	ABS						

Source: Aon

## Physical risks

It is believed that in the extreme case where the world does not transition to a low carbon economy, most asset classes will be exposed to high physical risks in the long term mainly caused by the increase to the overall global warming temperature.

### Transition risks

It is believed that in the case of an immediate, coordinated action to tackle climate change, in the short run, most asset classes will be subject to many green policies and legal requirements such as through the increase in carbon taxes set by governments. However, it is believed that as these requirements become more widely adopted, the policy & legal risk falls in the medium and long term. In terms of technological risks, emerging markets are subject to the biggest risk out of all the other asset classes held within the mandates. Following public awareness of climate change risks from an immediate and coordinated action against climate change, there is an increase in demand for renewable energy affecting countries and markets with a high reliance on oil production.

### Climate-related opportunities

The Trustee has identified some climate-related opportunities:



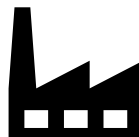
#### Cleaner energy

Green power generation,  
clean technology innovation,  
sustainable biofuels



#### Environmental resources

Water,  
agriculture,  
waste management



#### Energy and materials efficiency

Advanced materials,  
building efficiency,  
power grid efficiency



#### Environmental services

Environmental  
protection,  
business services

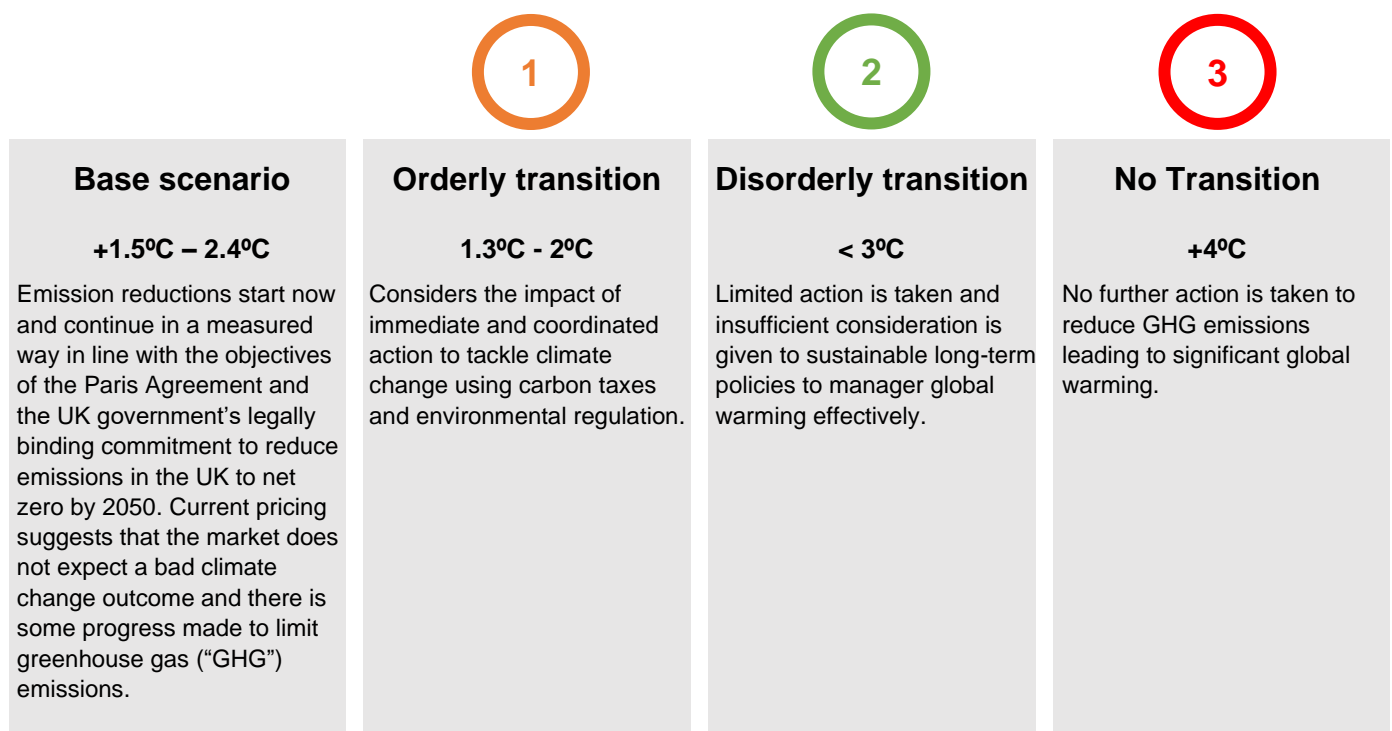
The Trustee also relies on its investment managers to take into account climate related risks and opportunities applicable for their mandates.

# Portfolio resilience and scenario analysis

The Trustee has undertaken climate change scenario analysis to better understand the impact climate change could have on the Plan’s assets and liabilities.

The analysis looks at three climate change scenarios. Each scenario considers what might happen when transitioning to a low carbon economy under different conditions. The Trustee has chosen these scenarios because it believes that they provide a reasonable range of possible climate change outcomes. These scenarios were developed by Aon and are based on detailed assumptions. They are only illustrative and are subject to considerable uncertainty.

The “base case” scenario against which the three climate change scenarios are compared is derived from the forward-looking views that are implied in market levels as at the date of the analysis (31 March 2022).



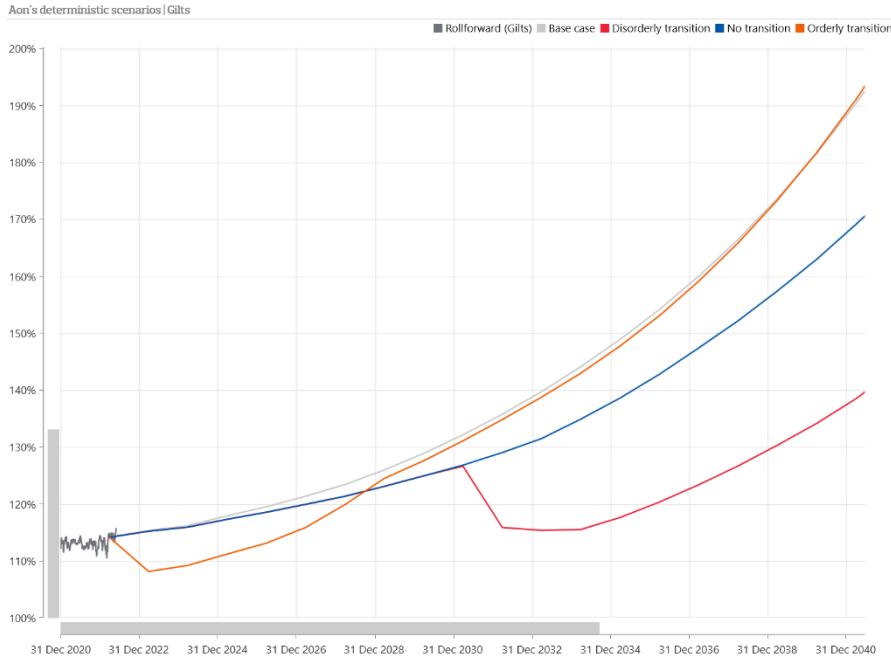
# Impact Assessment

The Plan's investment portfolio exhibits good resilience. This is due to the high levels of LDI assets (which generally have low climate risk), and the relatively low proportion of equities (which generally have higher climate risk).

**Short term (up to 3 years):** The principal funding risk is volatility of the funding level. Under the orderly transition scenario, the Plan experiences falls in the funding level of around 7% in the short term before recovering. Deterioration of the funding level may require the Plan to maintain risk for longer in order to stay on track to achieve the funding target or extend the timeframe for achieving this.

**Medium term (4-10 years) and long term (11-20 years):** The worst-case scenario for the Plan is the disorderly transition. Although initially the funding level improves in line with the base case, after 8 years the funding level deteriorates sharply and does not recover to Base Case levels. However, even in this scenario, the funding level remains above the 100% funding target on the self-sufficiency basis.

## Funding level projections under each climate scenario



Source: Aon. Scenario projections as at 31 March 2022



# Risk management

# Our process for identifying and assessing climate-related risks

The Trustee has established a process to identify, assess and manage the climate-related risks that are relevant to the Plan. This is part of the Plan's wider risk management framework and is how the Trustee monitors the most significant risks to the Plan in its efforts to achieve appropriate outcomes for members.



## **Qualitative assessment**

The first element is a qualitative assessment of climate-related risks and opportunities which is prepared by the Trustee's investment adviser and reviewed by the Trustee.



## **Quantitative analysis**

The second element is quantitative in nature and is delivered by means of climate change scenario analysis, which is provided by the Trustee's investment adviser and reviewed by the Trustee.

Together these elements give the Trustee a clear picture of the climate-related risks that the Plan is exposed to. Where appropriate, the Trustee distinguishes between transition and physical risks. All risks and opportunities are assessed with reference to the time horizons that the Trustee has identified as relevant to the Plan.



# Our process for managing climate related risks

The Trustee recognises the long-term risks posed by climate change and has taken steps to integrate climate-related risks into the Plan's risk management framework.

The Trustee has taken the following steps to integrate climate-related risks into their risk management framework and processes (see appendix full Climate Risk Management Plan).



## Training

The Trustee receives regular training on responsible investment to understand how ESG factors, including climate change, could impact the Plan's assets and liabilities.



## Monitoring

As part of ongoing monitoring of the Plan's investment managers, the Trustee uses ESG ratings provided by the Plan's investment adviser, Aon, to monitor the level of ESG integration within managers.



## Annual ESG assessment

On an annual basis, the Trustee requests that investment managers provide their responsible investment policy; details of how ESG is integrated within their decision-making process; and details of outstanding ESG issues within portfolios.



## Integrated into risk framework

Climate-related risks are included in the Plan's wider risk management framework, which is overseen by the Trustees on a regular basis




## ESG focussed investments

The Trustee is currently invested in a Climate Aware Equity Strategy. The Plan also invests in a Buy & Maintain credit portfolio which targets a substantial reduction in GHG emissions by 2030. The Trustee's investment adviser keeps the Trustee informed on investment opportunities that could contribute to the Trustee's ESG aims.

The Table below summarises the investment managers' responses in relation to their tools for assessing and managing climate-related risks for the Plan's investment portfolios.

Manager	TCFD report	Climate-related risks analysis	Industry initiatives	Carbon reporting	Temperature alignment
UBS	✓	In progress	✓	✓	✓
AIL	In progress	✓	✓	✓	✓
BlackRock	✓	✓	✓	✓	-

Source: Managers

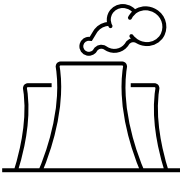


# Metrics and Targets

# Our climate-related metrics

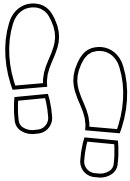
The Trustee uses some quantitative measures to help it understand and monitor the Plan's exposure to climate-related risks.

The Trustee's investment adviser, Aon, collected information from the Plan's managers on their greenhouse gas emissions. Aon collated this information to calculate climate-related metrics for the Plan's portfolio.



## **Total Greenhouse Gas emissions**

The total greenhouse gas ("GHG") emissions associated with the portfolio. It is an absolute measure of carbon output from the Plan's investments



## **Carbon footprint**

Carbon footprint is an intensity measure of emissions that takes the total GHG emissions and scales it to take account of the size of the investment made.



## **Data quality**

A measure of the proportion of the portfolio that the Trustee has high quality data for.



## **Portfolio alignment with Net Zero**

A metric which gives the alignment of the Plan's assets with the climate change goal of limiting the increase in the global average temperature to 1.5°C above pre-industrial levels. It is measured as the percentage of underlying portfolio investments with declared net-zero or Paris-aligned targets that have been verified by the Science based Target initiative (SBTi).

Source: Aon. Managers

## The Scheme's climate-related metrics

In the table below are the climate-related metrics for the Plan's assets. The metrics are shown separately for the Liability Driven Investments ("LDI") because the methodology used is different so aggregating the metrics would not make sense.

	<b>Total Greenhouse Gas emissions (Scopes 1 and 2)</b>	<b>Carbon footprint (Scopes 1 and 2)</b>	<b>Data quality</b>	<b>Portfolio alignment with Net Zero</b>
Total (excluding LDI)	<b>57,316</b> tCO <sub>2</sub> e	<b>68</b> tCO <sub>2</sub> e/£m	<b>76%</b>	<b>29%</b>
Total including LDI (excluding derivatives)	<b>137,322</b> tCO <sub>2</sub> e	<b>86</b> tCO <sub>2</sub> e/£m	<b>80%</b>	<b>NA</b>
Total including LDI (including derivatives)	<b>252,341</b> tCO <sub>2</sub> e	<b>148</b> tCO <sub>2</sub> e/£m	<b>81%</b>	<b>NA</b>

*Source: Investment managers / Aon. Data has been calculated as at 31 December 2021. Carbon calculations relating to government bonds have been estimated as total UK GHG emissions/UK Public Debt (excluding public sector banks)*

## Detailed breakdown

The table below shows a more detailed breakdown of the emissions from each asset class in the Scheme's portfolio (where available).

Manager	Fund Name	Valuation as at 31 December 2021 (£)	Allocation (%)	Total GHG Scopes 1 & 2 (tCO <sub>2</sub> e)	Carbon Footprint Scopes 1 & 2 (tCO <sub>2</sub> e/£m invested)	Data Quality (%)	Proportion of holdings with SBTi-validated targets (%)
<b>UBS</b>	Life Climate Aware World Equity Hedged	443,204,420	26.0%	11,180	25	99%	32%
<b>CBRE</b>		4,353,321	0.3%		Immaterial		
<b>AIL</b>	Diversified Liquid Credit Strategy	332,720,855	19.5%	6,501	72	28%	15%
<b>BlackRock</b>	QIF Buy & Maintain Credit	327,560,403	19.2%	39,635	121	94%	40% <sup>1</sup>
<b>Total (excluding LDI)</b>		<b>1,107,838,999</b>	<b>65%</b>	<b>57,316</b>	<b>68</b>	<b>76%</b>	<b>29%</b>
<b>BlackRock</b>	QIF LDI (Physical)	495,000,000	29.1%	80,005	181 <sup>2</sup>	89%	NA
<b>BlackRock</b>	QIF LDI (Synthetic)	-	-	115,019	181 <sup>2</sup>	87%	NA
	Cash	100,764,086	6%	-	N/A	-	-
<b>Total (including LDI)</b>		<b>1,703,603,085</b>	<b>100%</b>	<b>252,341</b>	<b>148</b>	<b>81%</b>	<b>NA</b>

Source: Investment managers/Aon. Data as at 31 December 2021 unless specified otherwise.

1. 31 March 2022 data
2. Estimated as total UK GHG emissions/UK Public Debt (excluding public sector banks) (t/£m)

## Data

The Trustee notes that there is not yet an industry-wide standard on calculating some of these metrics and that different managers may use different methods and assumptions when providing data to the Trustee.

These issues are common across the industry at the current time and highlight the importance of TCFD-aligned reporting to improve transparency. The Trustee expects that in the future better information will be available from managers as the industry aligns to expectations and best practice standards.

## Measuring greenhouse gas emissions

Measuring greenhouse gas emissions is a key way for pension schemes to assess their exposure to climate change. Greenhouse gases are produced by burning fossil fuels, meat and dairy farming, and some industrial processes. When greenhouse gases are released into the atmosphere, they trap heat in the atmosphere causing global warming and contributing to climate change.

Greenhouse gases are categorised into three types or 'scopes' by the Greenhouse Gas Protocol, the world's most used greenhouse gas accounting standard.

### Scope 1

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All direct emissions from the activities of an organisation which are under their control; these typically include emissions from their own buildings, facilities and vehicles

### Scope 2

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These are the indirect emissions from the generation of electricity purchased and used by an organisation

### Scope 3

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All other indirect emissions linked to the wider supply chain and activities of the organisation from outside its own operations – from the goods it purchases to the disposal of the products it sells

Currently, only Scopes 1 and 2 GHG emissions need to be reported but this does not include all the GHG emissions associated with the Plan's investments. Scope 3 emissions are often the largest proportion of an organisation's emissions, but they are also the hardest to measure. The complexity and global nature of an organisation's value chain make it hard to collect accurate data. Reporting on Scope 3 emissions will be a regulatory requirement to report on in the second year of reporting for the Plan's 2023 TCFD report. For more information please see the appendix.

## Looking to the future

# Our climate-related target

Climate-related targets help the Trustee track its efforts to manage the Plan's climate-change risk exposure.

The Trustee has set a GHG emissions reduction target on the Plan's assets, to achieve a 50% reduction in GHG emissions from the 31 December 2021 baseline by 31 December 2030 (i.e. reporting year 2031). This implies a 7.5% reduction in emissions each year.

Where the Plan invests in UK Government bonds (Gilts) as part of its LDI strategy, these are excluded from the emissions reduction target.



**GHG Emissions  
Reduction Target**

**50% reduction**

in the GHG emissions of the Plan's non-Gilt assets by 2030 using 31 December 2021 as a baseline.

**31 December 2021 GHG  
Emissions (excl Gilts)**

**57,316**

tCO<sub>2</sub>e (Scopes 1&2)

The Plan's performance against the target will be measured and reported on every year. Over time, this will show the Plan's progress against the target. 54,327 tCO<sub>2</sub>e is the stated GHG emissions baseline figure which the Trustee will measure the set target against. The overall data quality figure for the Plan (excluding LDI) is currently not 100%. This means that as data quality improves (particularly for fixed income) it is possible that initially the Plan's overall GHG emission figure increases due to more complete data and improved reporting.

## What is the Trustee doing to reach the target?

The Trustee has engaged with the Plan's managers in respect of the Plan's non-Gilt assets. Those managers have already set net zero targets for the funds and portfolios in which the Plan is invested, as set out below.

Manager	Net Zero Target Date	2030 objective
UBS Climate Aware World Equity	2050	Carbon intensity to be half that of the reference index
AIL Diversified Liquid Credit	2050	50% <sup>1</sup> reduction from 2019 date baseline
BlackRock Buy & Maintain Credit	2050	50% <sup>2</sup> reduction from 2021 date baseline

<sup>1</sup> AIL's current target (50% reduction by 2030) applies to all funds at an aggregate level and is not fund specific.

<sup>2</sup> The current target is a 30% reduction by 2030 however the manager has indicated that a 50% reduction should be achievable and is currently in dialogue with the Trustee to capture this in the mandate.

As the UBS Climate Aware World Equity Fund is a pooled vehicle, it is not possible to set individual client carbon intensity targets. UBS aims for the Fund to have a carbon intensity 50% below that of the market. This does not perfectly align with the Plan's target, however the manager believes that the Plan's target (of a 50% reduction in GHG emissions from the 2021 baseline by 2030) is plausible based on the Fund's current trajectory, all other things being equal. The Trustee will continue to engage with UBS and monitor their progress against this aim.



Whilst AIL has set a 50% emissions reduction target by 2030 (from a 2019 baseline) this target applies to all funds at an aggregate level rather than being specific to the Fund the Plan invests in. Therefore, the Trustee will continue to engage with AIL on setting a fund-specific target for the next TCFD reporting year.

BlackRock's Buy & Maintain portfolio currently has a target to reduce emissions by 30% from a 2021 baseline by 2030. However the manager has indicated that increasing that target to 50% by 2030 should be possible and they are currently in negotiation with the Trustee to make this adjustment to the mandate.

Whilst the above manager targets do not align exactly with the Plan's own 2030 target, all managers have confirmed that the target of a 50% reduction from the 2021 baseline by 2030 is feasible within their own targets. Hence, the Trustee believes that these fund-level targets give a reasonable likelihood of achieving the Plan-level target and therefore no additional changes to the asset allocation or investment mandates will be made at this time.



# Appendices

# Appendix – climate scenario modelling assumptions

The purpose of the model is to consider the long-term exposure of the Plan to climate-related risks and the pattern of asset returns over the long term. In particular, the model considers different climate change scenarios and the approximate impact on asset/liability values over the long-term.

The scenario modelling assumes a deterministic projection of assets and Gilt +0% liabilities using standard actuarial techniques to discount and project the Plan's expected future cashflows.

- i. It models the full yield curve as this allows for a more accurate treatment of the liabilities and more realistic modelling of the future distribution of interest rates and inflation. It also allows the Trustee to truly assess the sensitivities of the assets and liabilities to changes in interest and inflation rates.
- ii. The modelling parameters vary deterministically for each scenario.
- iii. A broad allowance for expenses which are paid by the Plan has been made.

The liability update and projections are considered appropriate for the analysis. However, they are approximate and a full actuarial valuation carried out at the same date may produce a materially different result. The liability update and projections are not formal actuarial advice and do not contain all the information you need to make a decision on the contributions payable or investment strategy.

The model intends to illustrate the climate-related risks the Plan is currently exposed to, highlighting areas where risk mitigation could be achieved through changing the portfolio allocation.

- i. Other relevant issues such as governance, costs and implementation (including manager selection and due diligence) must be considered when making changes to the investment strategy.

Investment risk is only captured in the deviance from the Base Case, but this is not the only risk that the Plan faces; other risks include covenant risk, longevity risk, timing of member options, basis risks and operational risks.

The model has been set up to capture recent market conditions and views; the model may propose different solutions for the same strategy under different market conditions.

This report, and the work relating to it, complies with 'Technical Actuarial Standard 100: Principles for Technical Actuarial Work' ('TAS 100'). The model complies with TAS 100.

## Key Assumptions

	<b>Temperature risk by 2100</b>	<b>Reach net zero by</b>	<b>Carbon price (2030/2050)</b>	<b>Introduction of environmental regulation</b>
No transition	+4C	After 2050	\$40/\$50	None
Disorderly transition	<3C	After 2050	\$65/\$340	Late and aggressive
Abrupt transition	1.5C – 2C	2050	\$135/\$280	Aggressive
Orderly transition	1.3C – 2C	2050	\$100/\$215	Coordinated
Smooth transition	<1.5C	2045	\$80/\$165	High coordination

## Other modelling assumptions for assets

Aon fiduciary fees have been allowed for as follows:

- Diversified Liquid Credit Strategy (SF29) – 0.09%
- Sustainable Multi-Asset Credit (SF18) - 0.10%

The UBS – Life Climate Aware World Equity fund has been modelled as MSCI ESG Universal Index

# Appendix - Climate Risk Management Plan

Activity	Processes	Owner	Input	Frequency of review	Action
<b>Governance</b> (incorporating content and commitments set out in the Governance statement)					
TCFD Documentation	Approve TCFD document wording	Trustee	Investment adviser	Annual	Aon to <b>provide</b> and Trustee to <b>approve</b> at the March meeting and on an annual basis thereafter.
Training	Receive training on climate-related issues	Trustee	Advisers	Annual	<b>Schedule</b> within <b>existing</b> training plan
Advisers	Review adviser objectives to ensure advisers have appropriate climate capability, and bring important, relevant and timely climate-related issues to the Group Trustee' attention	Trustee	Advisers	Annual	<b>Incorporate</b> climate objectives into <b>existing</b> annual review
Investment strategy	Ensure investment proposals explicitly consider the impact of climate risks and opportunities, and seek investment opportunities	Trustee	Investment adviser	Ongoing	<b>Instruct</b> Aon to factor climate-related considerations into <b>future</b> investment proposals and advice
Actuarial and covenant	Ensure that actuarial and covenant advice adequately incorporate climate-related risk factors where they are relevant and material	Trustee	Scheme Actuary, Covenant adviser	Triennial	<b>Ensure</b> this is considered in <b>next</b> funding valuation process, and <b>future</b> valuations
Managers	Engage with the investment managers to understand how climate risks are considered in their investment approach, and stewardship activities are being undertaken appropriately	Trustee	Fund managers, Investment adviser	Annual	<b>Considered</b> in the Climate Risk Assessments (See appendix)

# Appendix - Climate Risk Management Plan (Cont'd)

Activity	Process	Owner	Input	Frequency of review	Actions
<b>Strategy</b>					
Climate Scenarios	Undertake quantitative scenario analysis to understand the impact of climate related risks	Trustee	Investment advisor	First year, Triennial thereafter	<b>Completed</b> in Q2 meeting
Risks and opportunities	Identify the climate-related risks and opportunities for investment & funding strategy and assess their likelihood and impact	Trustee	Advisers	Annual	<b>Completed</b> in Q2 meeting
<b>Risk management</b>					
Risk prioritisation	Consider the prioritisation of those climate-related risks, and the management of the most significant in terms of potential loss and likelihood	Trustee	Advisers	Annual	<b>Completed</b> in Q2 meeting
Scheme documentation	Include consideration of climate-related risks in the Scheme's other risk processes and documents, such as the risk register and the SIP, and regularly review these	Trustee	Advisers	One-off, ongoing thereafter	Trustee to <b>review</b> wording in the SIP and <b>incorporate</b> climate-related risks into risk register
Covenant	Seek to understand the climate-related risks to the employer over the short, medium and long term	Trustee	Covenant advisor	Annual	<b>Discuss</b> if the Trustee wishes to obtain this from the Company or engage with their covenant advisor. Include in annual covenant reviews thereafter
<b>Metrics and targets</b>					

Metrics	Obtain data for metrics	Trustee	Investment adviser, fund managers	Annual	To be completed in full by Q4 meeting
Targets	Review continued appropriateness of metrics	Trustee	Investment adviser	Annual	To be <b>agreed</b> and <b>set target</b> at this meeting

## Appendix – Greenhouse gas emissions in more detail







Greenhouse gases in the atmosphere, including water vapour, carbon dioxide, methane, and nitrous oxide, keep the Earth's surface and atmosphere warm because they absorb sunlight and re-emit it as heat in all directions including back down to Earth. Adding more greenhouse gases to the atmosphere makes it even more effective at preventing heat from leaving the Earth's atmosphere.

Greenhouse gases are vital because they act like a blanket around the Earth making it the climate habitable. The problem is that human activity is making the blanket "thicker". For example, when we burn coal, oil, and natural gas we send huge amounts of carbon dioxide into the air. When we destroy forests, the carbon stored in the trees escapes to the atmosphere. Other basic activities, such as raising cattle and planting rice, emit methane, nitrous oxide, and other greenhouse gases.

The amount of greenhouse gases in the atmosphere has significantly increased since the Industrial Revolution. The Kyoto Protocol<sup>1</sup> identifies six greenhouse gases which human activity is largely responsible for emitting. Of these six gases, human-made carbon dioxide is the biggest contributor to global warming.

Each greenhouse gas has a different global warming potential and persists for a different length of time in the atmosphere. Therefore, emissions are expressed as a carbon dioxide equivalent (CO<sub>2</sub>e). This enables the different gases to be compared on a like-for-like bases, relative to one unit of carbon dioxide.

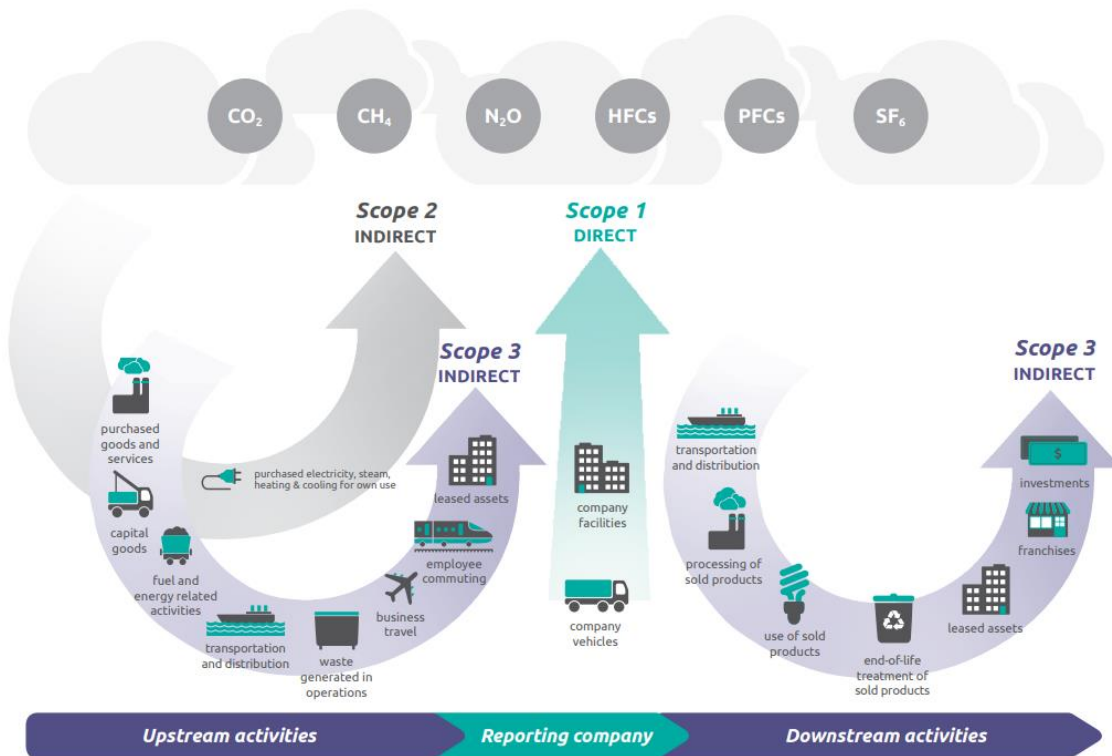
### Six main greenhouse gases identified by the Kyoto Protocol

					
Carbon dioxide	Methane	Nitrous oxide	Hydro-fluorocarbons	Per-fluorocarbons	Sulphur hexafluoride
CO <sub>2</sub>	CH <sub>4</sub>	N <sub>2</sub> O	HFCs	PFCs	SF <sub>6</sub>

<sup>1</sup> [https://unfccc.int/kyoto\\_protocol](https://unfccc.int/kyoto_protocol)

Greenhouse gases are categorised into three types or 'scopes' by the Greenhouse Gas Protocol, the world's most used greenhouse gas accounting standard.

Overview of GHG Protocol scopes and emissions across the value chain



Source: Greenhouse Gas Protocol, [Corporate value chain \(scope 3\) Accounting and Reporting Standard](#), 2011



# Glossary

- Governance** refers to the system by which an organisation is directed and controlled in the interests of shareholders and other stakeholders.<sup>2</sup> Governance involves a set of relationships between an organisation's management, its board, its shareholders, and other stakeholders. Governance provides the structure and processes through which the objectives of the organisation are set, progress against performance is monitored, and results are evaluated.<sup>3</sup>
- Strategy** refers to an organisation's desired future state. An organisation's strategy establishes a foundation against which it can monitor and measure its progress in reaching that desired state. Strategy formulation generally involves establishing the purpose and scope of the organisation's activities and the nature of its businesses, taking into account the risks and opportunities it faces and the environment in which it operates.<sup>4</sup>
- Risk management** refers to a set of processes that are carried out by an organisation's board and management to support the achievement of the organisation's objectives by addressing its risks and managing the combined potential impact of those risks.<sup>5</sup>
- Climate-related risk** refers to the potential negative impacts of climate change on an organisation. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise). Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations.<sup>6</sup>
- Climate-related opportunity** refers to the potential positive impacts related to climate change on an organisation. Efforts to mitigate and adapt to climate change can produce opportunities for organisations, such as through resource efficiency and cost savings, the adoption and utilization of low-emission energy sources, the development of new products and services, and building resilience along the supply chain. Climate-related opportunities will vary depending on the region, market, and industry in which an organisation operates.<sup>7</sup>

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<sup>2</sup> A. Cadbury, [Report of the Committee on the Financial Aspects of Corporate Governance](#), London, 1992.

<sup>3</sup> OECD, [G20/OECD Principles of Corporate Governance](#), OECD Publishing, Paris, 2015.

<sup>4</sup> TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017

<sup>5</sup> Ibid

<sup>6</sup> Ibid

<sup>7</sup> Ibid

<b>Greenhouse gas emissions (“GHG”) scope levels<sup>8</sup></b>	<p>Greenhouse gases are categorised into three types or ‘scopes’ by the Greenhouse Gas Protocol, the world’s most used greenhouse gas accounting standard.</p> <p>Scope 1 refers to all direct GHG emissions.</p> <p>Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam.</p> <p>Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include: the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g., transmission and distribution losses), outsourced activities, and waste disposal.<sup>9</sup></p>
<b>Value chain</b>	<p>refers to the upstream and downstream life cycle of a product, process, or service, including material sourcing, production, consumption, and disposal/recycling. Upstream activities include operations that relate to the initial stages of producing a good or service (e.g., material sourcing, material processing, supplier activities). Downstream activities include operations that relate to processing the materials into a finished product and delivering it to the end user (e.g., transportation, distribution, and consumption).<sup>10</sup></p>
<b>Climate scenario analysis</b>	<p>is a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. In the case of climate change, for example, scenarios allow an organisation to explore and develop an understanding of how the physical and transition risks of climate change may impact its businesses, strategies, and financial performance over time.<sup>11</sup></p>
<b>Net zero</b>	<p>means achieving a balance between the greenhouse gases emitted into the atmosphere, and those removed from it. This balance – or net zero – will happen when the amount of greenhouse gases add to the atmosphere is no more than the amount removed.<sup>12</sup></p>

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<sup>8</sup> World Resources Institute and World Business Council for Sustainable Development, [The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard \(Revised Edition\)](#), March 2004.

<sup>9</sup> PCC, [Climate Change 2014 Mitigation of Climate Change](#), Cambridge University Press, 2014.

<sup>10</sup> TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017

<sup>11</sup> Ibid

<sup>12</sup> Energy Saving Trust, [What is net zero and how can we get there? - Energy Saving Trust](#), October 2021

