

The Lafarge UK Pension Plan for the Year ending
30th June 2023

Trustee's Report in respect of
the Occupation Pension
Schemes (Climate Change
Governance and Reporting)
Regulations 2023

<https://www.isio.com/scheme-documents/the-lafarge-uk-pension-plan/>

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Section 1: Introduction and Chairpersons' Foreword

A foreword from the Chairpersons of the Investment Strategy Committee of the Lafarge UK Pension Plan

We have prepared this report in respect of the Occupation Pension Schemes (Climate Change Governance and Reporting) Regulations 2023 for the Plan year ending 30 June 2023.

The Trustee recognises the importance of climate change and the potential for it to have a material impact on the Plan. Over the last 18 months we have been provided with training by our advisors and our fiduciary manager to better understand how to assess to the Plan's exposure to climate change and the actions that can, and are, being taken to manage this risk.

As part of these Trustee discussions we have agreed a goal to reduce the Plan's carbon footprint to net zero by 2050 at the latest. We will work with our fiduciary manager to ensure that this is reflected in the way in which the Plan's assets are invested and managed, including seeking opportunities to accelerate the pace of reduction. Recognising the crucial importance of engagement in achieving this goal, as well as in managing shorter term risks to the Plan's funding position, the Trustee (through our fiduciary manager) employs EOS Hermes to engage with companies to ensure that appropriate actions are taken by those companies.

The Plan's assets include exposure to a number of assets which are expected to benefit from the energy transition, including renewable energy generation assets. We will continue to engage with our advisors and fiduciary manager to explore further opportunities to push towards net zero, while also recognising the need to balance the Plan's exposure to a wide variety of risks and the Trustee's fiduciary duty to act in the best interests of the Plan's beneficiaries.

The Trustee is cognisant that the Plan's ability to achieve its goals is reliant upon the actions of all stakeholders, including governments, regulators, asset owners and individuals. We encourage our advisors to engage with all these stakeholders through appropriate forums and we are pleased to note their commitment to this.

This report details the approach the Trustee takes to managing climate-related risks and opportunities, the actions taken to date and the Trustee's assessment of the Plan's exposures. We note that data in this area is continuing to evolve and improve and the information set out is on a best endeavours basis. We will continue to work with our third party providers to improve the availability and quality of data going forward.

We look forward to sharing details of the actions taken by the Trustee in future.

Alan Baker and Karine Uzan Mercié

Chairpersons of the Investment Strategy Committee of the Lafarge UK Pension Plan

Introduction

The Trustee of the Lafarge UK Pension Plan (hereinafter referred to as the “Trustee” and the “Plan”, respectively) presents its annual report under the Occupational Schemes (Climate Change Governance and Reporting) Regulations 2021 (the “Regulations”) for the year ended 30th of June 2023. The principal employer of the Plan is Lafarge.

The Plan is now subject to the requirement to produce disclosures in line with the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD), as transposed into UK law in 2021. The aim is to improve and increase reporting of climate-related financial risks and opportunities.

The TCFD framework requires disclosures in four broad categories:

- **Governance:** around climate-related risks and opportunities
- **Strategy:** the actual and potential impact of climate-related risks and opportunities on the strategy and financial plans of the Plan
- **Risk management:** how the Plan identifies, assesses, and manages climate-related risks
- **Metrics and targets:** the metrics and targets used to assess and manage climate-related risks and opportunities

This report sets out the Trustee’s approach to compliance in each of these four areas. This report covers the DB Section of the Plan only. The DB assets (and liabilities) have recently been sectionalised by the Trustee to allow for better risk management of the two DB Sections (“LRPS” and “Non-LRPS”). The Plan’s sensitivity to climate-related scenarios and the exposures under the various metrics that the Trustee has agreed have been provided for each of the Sections. The Plan also has Additional Voluntary Contributions (“AVC”) which are invested in line with wider Section assets. The information set out on climate-related risks and how these are managed for the DB Section can therefore be interpreted as applying to these AVC assets also.



Section 2: Governance

The Trustee has identified climate change, alongside other Environmental, Social and Governance (ESG) factors, as an important risk and opportunity which requires oversight and management over the long-term.

The Trustee has received investment training provided by our Fiduciary Manager (“WTW”) on climate risk and the requirements of the Taskforce for Climate Related Disclosures (TCFD) requirements. Given the pace of progress around sustainable investment (SI), trustee training on climate and ESG has increased over recent years and is expected to remain a priority going forwards.

The Trustee’s key overarching investment policies (including those in relation to climate) are detailed in the Trustee’s Statement of Investment Principles (SIP) which can be found online at the following link: <https://www.isio.com/scheme-documents/the-lafarge-uk-pension-plan/>

Whilst the Trustee may delegate certain aspects of its investment arrangements, the Trustee retains ultimate responsibility for setting the Plan’s strategy, policies, and actions in this area and the Trustee ensures that such third parties are closely monitored and held accountable for the work they do on behalf of the Plan. The main parties to which the Trustee delegates some form of responsibility for implementing its policies in relation to climate change and SI more widely are:

- To ensure the effective management of the Plan, the Trustee has established a number of sub-committees including an Investment Strategy Committee (ISC). The ISC is responsible for implementing the Trustee’s investment strategy including the selection, retention, and removal of investment managers. The ISC acts within a Terms of Reference, which set out its duties and reporting obligations.

Under its terms of reference, the ISC is responsible for carrying out tasks as appropriate under the four pillars of the TCFD requirements. This includes (but is not limited to) setting the overall approach for climate risk management, working with the Plan’s advisors to agree reported metrics and targets, and monitoring the underlying managers’ policies in relation to Sustainable Investment (including climate). The ISC has received additional training in this area to ensure it is suitably qualified to discuss and take decisions about sustainable investment. The ISC typically meets four times per year and reports to the Trustee following these meetings.

- **Fiduciary Manager (FM)** – The Trustee has appointed WTW as its FM, responsible for ensuring climate change is considered as part of ongoing portfolio construction, the selection of the underlying investment managers and the conduct of its stewardship activities. WTW’s approach to climate change and SI was a key determinant factor in their selection and a focus point of the Trustee’s ongoing monitoring. WTW holds membership of important industry bodies such as the Net-Zero Asset Managers Initiative as well as being a signatory to the UK Stewardship Code. The consideration of sustainable investment is fully embedded in their investment processes. WTW works closely with the ISC and provides regular assessment of its views on the underlying managers’ capabilities and performance in relation to ESG and stewardship, and a quantitative assessment of the Fund’s portfolio across a number of ESG criteria, including climate.

The Trustee has set the FM objectives against which they are assessed annually which includes reference to assisting the Trustee in assessing, managing and measuring climate risks and opportunities.

- **Oversight Provider** – The Trustee also employs an Oversight Provider, ISIO, who assists the Trustee with monitoring and holding the FM accountable for their actions around climate change. As part of its oversight activities, ISIO compares WTW’s SI-related activities against those of other fiduciary managers.
- **Investment Managers** – Responsible for managing climate change risks and opportunities within their mandates, consistent with their investment guidelines. This includes the selection of assets as well as the managers’ ongoing stewardship activities. The FM assesses the investment managers’ approach to ESG integration and stewardship activities before investing on the Trustee’s behalf, and on a periodic basis as part of its ongoing manager research activities.
- **Other advisors** – The Trustee also takes advice from the Plan Actuary, Legal Advisor and Covenant Advisor regarding the extent to which climate change may affect the funding strategy of the Plan and the ability of the sponsor to support the Plan. Alongside this, to further satisfy itself, the Trustee also receives updates from the Sponsor on evolutions to their strategy to manage climate change risks and opportunities.

The Investment Strategy Committee of the Trustee board meets at least four times a year and climate change is typically discussed at least twice a year. The Trustee recognises that climate change is a fast-evolving and complex area which therefore requires ongoing discussion and education. Over the last 12 months, the Trustee has received training from the FM on the Department for Work and Pensions (DWP) climate regulations, climate metrics, climate scenario analysis and a regular deep dive into SI from the FM.

The Trustee has a strong belief that stewardship (voting and engaging with the underlying companies the Plan invests in) is an important way in which the Trustee can meaningfully influence outcomes. The Trustee has identified climate change as one of its current stewardship priorities. The Trustee delegates part of the implementation of this policy to the FM and underlying investment managers but retains overall responsibility and accountability for the policy. The Trustee considers the implementation of this policy on an annual basis.

Case Study – EOS at Federated Hermes

As outlined in our SIP, the Trustee recognises that the long-term financial success of our investments is influenced by a range of factors which includes appropriate management of environmental, social and corporate governance issues (including climate). As such, we typically invest with investment managers with the expectation of a long-term relationship, and we expect investment managers to take a similar approach with the companies that they invest in. The FM engages with our investment managers where appropriate on their approach to stewardship and engagement.

The FM also employs EOS at Federated Hermes, a stewardship service provider, to support the efforts of the appointed investment managers in their company-level engagement on a wide range of topics. EOS also carries out public policy engagement and advocacy on behalf of the Trustee. As at 31 December 2022 EOS represented \$1.34trn of assets under advice. The FM has been working closely with EOS for many years, and a senior member of the WTW Investment Team chairs EOS’ Client Advisory Board. The FM engages with EOS on behalf of the Trustee to help shape its engagement approach and voting policies. Over 2022, this included:

- Engagements with 1,138 companies on a total of 4,250 issues and objectives.
- 33 responses to consultations or proactive equivalents and 75 discussions with relevant regulators and stakeholders.

- Voting recommendations on 134,188 resolutions, including 24,461 votes against management.
- Active participation in a range of global stewardship initiatives.

Another example is Climate Action 100+ (CA100+), an investor initiative aiming to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. It targets 167 companies globally. EOS is among over 615 investors, totalling \$65tn under management, who have signed up to CA100+. EOS led or co-led the engagement on over 25 focus companies and is collaborating with other investors on over 30 companies as part of this initiative.

EOS has undertaken climate engagements with major oil and gas companies through CA100+. As part of this strong momentum, CA100+ issued its net-zero benchmark for the world's largest carbon emitters in March 2021. EOS helped to design the benchmark, which set clear engagement priorities.

Section 3: Strategy

Appropriately managing the risks and opportunities associated with climate change from a strategic perspective is a key part of the Trustee's role. The Trustee recognises that climate change could have a material impact on the potential success of the overarching funding strategy and therefore seeks to ensure that this matter is given appropriate consideration. To support this, the Trustee undertakes climate change scenario analysis to test the resilience of the Plan's funding strategy under a range of plausible climate scenarios. Importantly, the Trustee recognises that climate change could have a material impact on the investments of the Plan, the life expectancy of the Plan's members and the support provided by the Sponsor's covenant. All three aspects are therefore considered as part of this analysis. This scenario analysis was undertaken for the first time in 2022. The Trustee's intention is to repeat this analysis at least every three years or sooner should there be a material change in either the Plan's circumstances or the assumptions underlying the analysis.

To appropriately assess the impact of the climate change scenario analysis, the Trustee has agreed the following time horizons over which climate risks and opportunities should be considered:

- **Short Term** – to 2025: this is defined as the end of the next Actuarial Valuation cycle, during which the funding strategy will be revisited in detail.
- **Medium Term** – to 2032: this is the timeframe over which significant climate action is expected, climate transition risks are expected to emerge and is aligned with the Trustee's agreed net-zero objective.
- **Long Term** – Post 2032: this is the timeframe consistent with the duration of the Plan's liabilities and the point at which a significant proportion of member benefits will have been paid out.

The Trustee has identified the following categories of climate-related risks and opportunities:

Regulatory risk	Reputational risk	Transition risk	Physical risk
<ul style="list-style-type: none"> • Regulators are increasing pressure on pension schemes to explicitly consider climate change • Example: <ul style="list-style-type: none"> • Implementation Statement • DWP Pensions bill • Mandatory TCFD reporting 	<ul style="list-style-type: none"> • The increasing spotlight on pension schemes and climate change increases the risk of being "named and shamed" • Example: <ul style="list-style-type: none"> • 2018 EAC report on 25 biggest UK schemes 	<ul style="list-style-type: none"> • The indirect impact arising as a result of changes in society and economies to combat or adapt to climate change • Example: <ul style="list-style-type: none"> • Assets: Some industries become obsolete (e.g. coal), reinvent themselves or others emerge (electric vehicles) • Liabilities: Improvements in mortality from healthier lifestyles 	<ul style="list-style-type: none"> • The direct impact arising as a result of chronic and/or acute changes in climate and extreme weather events • Example: <ul style="list-style-type: none"> • Assets: Damage to physical assets underpinning securities (e.g. real estate and infrastructure) • Liabilities: Excess deaths arising from extreme weather

The Trustee has assessed how the categories identified are relevant to the agreed short-, medium- and long-term time horizons.

	Short Term	Medium Term	Long Term
Timeframe	Post end of next Triennial Actuarial Valuation cycle (2025)	To end of 2032	Post-2032
Primary types of risk	<ul style="list-style-type: none"> Regulatory Reputational Transition 	<ul style="list-style-type: none"> Reputational Transition 	<ul style="list-style-type: none"> Transition Physical
Key risk exposure	<p>The Trustee is exposed to regulatory risks, including fines, if it does not comply with evolving regulatory requirements.</p> <p>The Trustee (and sponsor) are exposed to reputational risks if the Trustee's policies are misaligned with peers and/or sponsor.</p> <p>The Trustee is predominately exposed to transition risks through the passive equity and passive corporate bond portfolios.</p>	<p>The Trustee (and sponsor) are exposed to reputational risks if the Trustee's policies are misaligned with peers and/or sponsors.</p> <p>The Trustee is exposed to transition risks through the passive equity and passive corporate bond portfolios.</p> <p>Given the long-term nature of these risks, there is a high level of uncertainty in terms of the likely effect and the potential magnitude of their impact.</p>	<p>The Trustee would be exposed to transition risks through its holdings in various asset classes (including equity, credit, property and infrastructure).</p> <p>The Trustee would also be exposed to physical risk through its holdings in various assets, with this risk increasing over time. Assets most likely to be impacted including property and infrastructure.</p> <p>Given the long-term nature of these risks, there is a high level of uncertainty in terms of the likely effect and the potential magnitude of their impact.</p>
Potential opportunities	<p>Encouraging existing funds to consider and where possible reduce exposure to transition risks engage with companies to develop a strong transition plan.</p> <p>There may also be opportunities to benefit from investments which may benefit from the energy transition, such as renewable energy-related firms.</p>	<p>Encouraging existing funds to consider and where possible reduce exposure to transition risks engage with companies to develop a strong transition plan.</p> <p>There may also be opportunities to benefit from investments which may benefit from the energy transition, such as renewable energy-related firms.</p>	<p>The Trustee, through its fiduciary manager, would work with its investment managers and other ESG parties to engage with those companies invested in to better manage transition and physical risk.</p> <p>In addition the Plan's assets could be directed towards areas believed to be less likely to be affected by transition or physical risks, and/or towards areas which might benefit from this. The Trustee expects to get greater clarity on these risks and opportunities over time and will consider how best to respond to that additional information.</p>

Working with its FM, the Trustee seeks to mitigate the risks and take advantage of opportunities which may occur so as to improve the likelihood of the Plan meeting its short- and medium-term funding and investment goals.

These time horizons, risks and opportunities are key inputs into the Trustee’s climate scenario analysis. The Trustee, in conjunction with the FM, Plan Actuary and Covenant Advisor, has conducted this scenario stress testing and presented the results within this section. The key climate scenarios that the Trustee has considered are:

	Lowest Common Denominator	Inevitable Policy Response	Global Coordinated Action	Climate Emergency
Description	A ‘business as usual’ scenario where current policies continue with no further attempt to incentivise further emission reductions.	A delay in meaningful action but a rapid shift in policy in the mid/late 2020s. Policies are implemented but not in a very co-ordinated manner.	Policy makers agree on and immediately implement policies to reduce emissions in a globally co-ordinated manner.	An immediate, ambitious and coordinated response in which aggressive policy is pursued and more extensive technology shifts are achieved.
Temperature rise vs pre-industrial levels	3.5°C	2.0°C	2.0°C	1.5°C
% of Renewable energy by 2050	30-40%	80-85%	65-70%	80-85%
Transition risk level (shorter term)	Low	High	Low – Medium	Medium – High
Physical risk level (Medium-longer term)	High	Low – Medium	Low	Low

The scenarios were created to reflect the differing paths that could be taken to meet, or fail to meet, the temperature rise target agreed as part of the Paris Agreement. The Paris target is to limit global temperature rises to well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. The scenarios differ in the size of the physical risks, based on the resulting temperature impacts, but also in the size of the transition risks. In the view of the Trustee, the four scenarios selected reflect an appropriate range of plausible decarbonisation pathways, and are relevant in the context of the Plan’s journey and funding plans. The Trustee recognises that there is the potential for more extreme outcomes than reflected in the chosen scenarios.

Below the Trustee has illustrated the impact of the climate change scenarios on the Plan’s funding level based on the Plan’s position as at 30 June 2022. The key results from the climate scenario analysis are outlined below. The Trustee has considered these over a timeframe that is consistent with the Plan’s longer term time horizon (c.10 years). The Trustee recognises that assuming such climate scenarios are priced in gradually, year by year, is an unrealistic expectation and in practice this is likely to be far less linear. The Trustee has therefore also included a one-off shock which seeks to illustrate the impact if climate change was to be reflected instantaneously. This assumes that markets immediately price in the transition and physical risks over the next 20 years and that the market initially overreacts to this news in struggling to price in the actual impact. Whilst this is potentially unrealistic, the Trustee thinks this helpfully stress tests the assumptions made in the analysis and helps consider how robust the funding strategy might be. The Trustee also recognises the uncertainty in the underlying assumptions and that, in reality, the shocks experienced could be larger.

In some climate scenarios, our modelling process implies reduced life expectancies (relative to other scenarios and/or Plans' central mortality assumptions) and therefore a relative reduction in the Plan's liabilities. This is a plausible potential outcome arising from the negative impacts of increasing climate change. This can suggest a relative improvement in the expected funding position for the Plan even when combined with associated reductions in the value of the Plan's assets. However, it is important to recognise that an assessment of what is in the best interests of the Plan and its members is a much broader question than the impact on funding level alone. Key considerations may be a reduction in the quality (and length) of members' lives, and the quality of the environment that they will retire into. Consequently, the results of any such modelling should not be assumed to reflect any complacency or acceptance (either implicit or explicit) that the Trustee considers global inaction or business-as-usual with respect to climate change to be in the best interests of the Plan or its members. The Trustee believes that climate change is a systematic risk of unprecedented scale and severity. Actions to address it are a collective priority, given the risks it presents to individual pension plans, the ongoing resilience of the savings universe, and the planet as a whole.

Impact of Climate Shocks on the LRPS Plan's Funding Level – June 2022

Scenario	Asset Shock (£m)	Liability Shock (£m)	Change in Funding Position (£m)	Change in Funding Level
Lowest Common Denominator	-88	-62	-26	-2.6%
Inevitable Policy Response	-102	-30	-72	-5.5%
Global Coordinated Action	-57	43	-100	-6.4%
Climate Emergency	-79	-8	-71	-5.2%

Impact of Climate Shocks on the Non-LRPS Plan's Funding Level – June 2022

Scenario	Asset Shock (£m)	Liability Shock (£m)	Change in Funding Position (£m)	Change in Funding Level
Lowest Common Denominator	-128	-45	-83	-4.8%
Inevitable Policy Response	-149	-16	-133	-7.5%
Global Coordinated Action	-84	51	-135	-7.2%
Climate Emergency	-116	5	-121	-6.7%

As a result of the combined analysis, the Trustee's assessment is that the investment and funding strategy of the Plan is resilient against climate risk, and that the Plan is expected to be relatively well protected against the impact of climate change both as a gradual impact and a sudden shock. This was driven by three key factors:

- **The Plan's relatively strong funding position** – This was 85% for LRPS and 97% for Non LRPS (on a gilt flat basis) at the date of the analysis conducted.
- **The allocation to climate positive investments** – The Plan has a material allocation to investments which are expected to benefit from the transition to a low-carbon economy. These include investments in wind, solar and opportunistic renewable energy investments.
- **The Plan has a longevity swap** – The Trustee has already mitigated some of the life expectancy risk within both sections of the Plan, with a large longevity swap.

Although the analysis provided the Trustee with some reassurance on the robust nature of the Plan's funding strategy, it did clearly highlight that climate change could have a material impact on the Plan's outcomes. This reiterated to the Trustee that it warrants continued focus as part of the Trustee's broader SI strategy and should remain a priority area for portfolio monitoring, stewardship activities and manager engagement.

As mentioned earlier, the Trustee intends to update this analysis at least every three years and will be testing annually whether this needs to be done more frequently, including if there have been material changes to the scenarios used or the Plan's funding strategy.

Section 4: Risk Management

Climate change is a key risk and opportunity and therefore receives particular attention as part of the Trustee's ongoing risk management processes. The Trustee thinks about how it integrates climate into this in three ways:

Governance

The Trustee has documented its approach to climate change within the Plan's SIP. The Trustee recognises that whilst it can delegate some of its responsibilities in this area, it retains overall responsibility.

Top-down

The climate change scenario analysis shown in the previous section, provides the Trustee with a holistic overview of the potential impacts of climate change and how they may affect the Plan's funding strategy (across assets, liabilities, and covenant). This is an important risk management tool for a top-down risk and opportunity assessment.

The Trustee has agreed a Carbon Journey Plan targeting net zero emissions by 2050 at the latest.

Bottom up

As mentioned, the Trustee also conducts more granular analysis to manage the risks and opportunities associated with climate change. This includes the calculation of various climate change related metrics for the underlying securities within the portfolio to understand how the exposure of different managers and mandates differ, and how these risks and opportunities are managed. This includes metrics such as absolute carbon emissions, carbon footprint and exposure to climate solutions. These provide the Trustee with a more detailed understanding of the Plan's exposures.

Case Study – FM approach to Risk Management

The Plan's FM considers climate to be a financial risk and that the transition to net zero is a systematic and urgent global challenge which necessitates specific risk management and collective action. To achieve this, the FM has placed emphasis on the importance of:

- A combination of decarbonising existing investments and new investments in long-term climate solutions
- Using multiple 'levers' including changes to risk management and asset allocation, manager selection, and index design
- The critical importance of effective stewardship and policy level engagement

In line with this, the FM has developed the following Carbon Journey Plan framework which is consistent with the Trustee's overall goals. This is outlined below.

Lever	Description	Relevance to the Plan
Free rider	The carbon intensity of major equity indices has been falling in recent years (albeit this depends on the metric used for measurement). As global governments introduce further measures to encourage the reduction of carbon emissions, the carbon intensity of corporate exposure could fall through no specific action of investors such as the Plan.	Based on current trends, the carbon footprint of the Plan's corporate exposure (equities and corporate bonds) could fall by 30-40% over the next 10 years, reducing the Plan's portfolio emissions.
Mandate changes	<p>Making changes to mandates given to investment managers can encourage or instruct a lower carbon portfolio to be held.</p> <p>Examples include exclusions (e.g. Thermal coal), benchmark design (e.g. Climate tilted indices) and limitations (e.g. Through guideline limitations)</p>	The Fiduciary Manager considers the use of these methods when allocating to new managers and works with many of the Plan's managers to design specific mandates which integrate these features.
Engagement	<p>Increased engagement with portfolio companies (across the portfolio including equities and corporate bonds) may increase the rate of decarbonisation.</p> <p>The impact of this will likely be difficult to disaggregate from the free rider effect.</p>	<p>The FM engages with the Plan's investment managers where progress is warranted in this area. In addition, as outlined earlier in the report, the FM has partnered with EOS to undertake company level engagement in relation to some of the Plan's investments (e.g. Global equities and bonds).</p> <p>However, in practice, the materiality of engagement as a source of future carbon reduction will depend on engagement from the wider pension scheme / investment industry.</p>
Impact investing	Impact investments made by pension schemes into carbon neutral or negative assets can reduce or offset carbon emissions from elsewhere in the portfolio.	The Plan has an allocation to investments which are expected to benefit from the transition to a low-carbon economy. These include investments in wind, solar and opportunistic renewable energy investments. We do not expect impact investing to be a key contributor to the carbon journey plan target.
De-risking	A pension scheme's carbon risk is expected to fall as schemes de-risk into LDI.	We would expect some reduction in carbon from this area as the Plan de-risks towards settlement.

Section 5: Metrics and Targets

Introduction and overview

A key facet of the Trustee’s ongoing monitoring and management of climate change is having good data on the Plan’s exposure in this area. Although there are limitations with some of the metrics presented and the completeness of data, the Trustee still has a strong belief that these can helpfully inform the ongoing monitoring and management of the Plan. The Trustee considers metrics across the SI spectrum, but the focus within this statement is those in climate change. The metrics disclosed have been selected from the following categories:

- An absolute emissions metric
- An emissions intensity metric
- An alignment metric
- One additional climate change metric

It is also important to be clear which emissions are captured within the above metrics and therefore the Trustee have referred to the categories of emissions as follows:

- Scope 1 emissions: all direct emissions from the activities of an entity or the activities under its control
- Scope 2 emissions: indirect emissions from electricity purchased and used by an entity which are created during the production of energy which the entity uses
- Scope 3 emissions: all indirect emissions from the activities of the entity, other than scope 2 emissions, which occur from sources that the entity does not directly control.

Due to the nature of the emissions, scope 3 emissions are significantly more difficult to calculate than scope 1 or scope 2 emissions for any given entity. It is also the case that, for some assets, even scope 1 and scope 2 emissions are difficult to calculate. The Trustee has included Scope 1 and 2 emissions within the metrics displayed in this report but will look to include Scope 3 emissions as far as the Trustee is able as part of next year’s report.

Data on the exposure of the Plan’s LDI holdings (around 44% of assets as at 30 June 2023 for each Section) are also included although the Trustee recognises that the methodology in respect of the carbon exposure of these assets is continuing to evolve and, based on the methodology used, results in some double-counting of carbon exposure. These figures are therefore quoted separately.

Overview of analysis

The following table details the rationale for choosing these metrics:

Metric	Definition	Rationale
Total Carbon Emissions (“tCO2e”)	An ‘absolute emissions’ metrics which gives a measure of carbon emissions attributable to the Fund. This is calculated in line with the Greenhouse Gas (GHG) protocol methodology and currently includes only Scope 1 and 2 emissions. The underlying emissions data has	Determined by the regulator

	<p>been sourced from MSCI and, in line with the protocol, includes all the major GHG gases with a conversion into carbon emissions equivalent quantities. We have used each entity's enterprise value, including cash (EVIC) to attribute carbon emissions.</p>	
<p>Carbon Footprint (tCO₂e / \$ invested)</p>	<p>An 'emissions intensity' metric which gives a measure of how many equivalent tonnes of carbon emissions each million invested causes. This uses a comparable methodology as the total carbon emissions referenced above for underlying data and emissions attribution for companies.</p>	<p>It provides a direct measure of absolute emissions, which ultimately impact global outcomes and provides a simple comparable measure across portfolios of different sizes</p>
<p>Percentage of assets with approved Science based targets ("SBTi")</p>	<p>A 'portfolio alignment' metric which is a forward-looking measure of the percentage of assets with targets validated by the Science-Based Targets Initiative.</p>	<p>It provides a consistent verification of a company's alignment to the Paris agreement.</p>
<p>Climate Solutions</p>	<p>Percentage of the portfolio that may be considered EU Taxonomy eligible based on the criteria set out in the taxonomy</p>	<p>Provides a balance of the risks and opportunities presented by the transition to a low carbon global economy with the potential to enhance investment returns through investment in such assets.</p>

Summary of exposures (excluding LDI assets):

LRPS	30 June 2023
Total Carbon Emissions ("tCO ₂ e") – excl. sovereigns	29,455 tonnes
Total Carbon Emissions ("tCO ₂ e") – inc. sovereigns	39,382 tonnes
Carbon Footprint (tCO ₂ e / \$m invested) – excl. sovereigns	64 tonnes
Carbon Footprint (tCO ₂ e / \$m invested) – inc. sovereigns	86 tonnes
% of assets with approved Science based targets (SBTi)	16.0%
Exposure to climate related Solutions	11.8%

Non- LRPS	30 June 2023
Total Carbon Emissions ("tCO ₂ e") – excl. sovereigns	37,780 tonnes
Total Carbon Emissions ("tCO ₂ e") – inc. sovereigns	48,876 tonnes
Carbon Footprint (tCO ₂ e / \$m invested) – excl. sovereigns	66 tonnes
Carbon Footprint (tCO ₂ e / \$m invested) – inc. sovereigns	85 tonnes
% of assets with approved Science based targets (SBTi)	14.3%
Exposure to climate related Solutions	12.4%

Summary of LDI emissions data attributable to the Plan:

LRPS - Carbon data*	30 June 2023
Total Carbon Emissions (“tCO2e”)	117,690 tonnes
Carbon Footprint (tCO2e / £m invested)	191.7 tonnes

*Covering £405.8m or 43.6% of the Plan’s total assets as at 30 June 2023. Source: Insight Investment

Non-LRPS - Carbon data*	30 June 2023
Total Carbon Emissions (“tCO2e”)	178,718 tonnes
Carbon Footprint (tCO2e / £m invested)	191.7 tonnes

*Covering £595.2m or 44.2% of the Plan’s total assets as at 30 June 2023. Source: Insight Investment

Includes index linked Gilts and conventional Gilts. The data is shown for the gilts which the Plan physically owns, gilts on repo and Total Return Swaps, hence the data is assessed on the liabilities hedged rather than market value of the Plan’s LDI portfolio. Insight have calculated the carbon emissions based on the annual UK greenhouse gas emissions data for 2022 adjusted to the total UK government debt as at 30 June 2023.

Data quality

In calculating absolute emissions and carbon footprint, the Trustee was able to obtain data on the following (all percentage based on total assets excluding liability driven investments (LDI)):

	Non-LRPS	LRPS
Manager-provided data	12%	11%
Proxied data	70%	73%
No Data	18%	16%

Of the TWIM Funds, 99% of the Global Equity Focussed Fund and 22% of the Alternative Credit Fund’s holdings had data obtained from managers. For the remaining TWIM funds (Diversifying Strategies Fund, Hedge Advantage Fund and Secure Income Fund) the data was predominantly proxied. For some of the private market and hedge fund assets where data is unavailable from MSCI, the Trustee has proxied the exposure with the characteristics of a fund of funds invested in the relevant asset class. All the underlying carbon emissions data has been sourced from MSCI. CO2e represents a single unit of measurement for total greenhouse gas emissions (often referred to as CO2 and equivalents) and includes the seven gases mandated under the Kyoto protocol.

On the Trustee’s behalf, the FM is working actively with its investment managers to improve the quality of the data supplied for these purposes over time. The Trustee will monitor how these metrics evolve over time on an annual basis and understand the drivers for change.

Targets

As referenced, the Trustee has also identified carbon footprint as the metric on which to set a target. The Trustee has agreed to align with WTW's Carbon Journey Plan for delegated investment portfolios, targeting net zero emissions by 2050, with 50% reduction in emissions by 2030. The targets will be measured against a base date of June 2023, of which the metrics are highlighted in the above table. The Trustee recognises that this is a very ambitious target and their ability to achieve it will be heavily dependent on the actions taken by other stakeholders including governments, regulators, companies other investors and individuals.

This target is to reach net zero emission by 2050 at the latest. The Trustee is reassured that the FM has also made a commitment that is consistent with this objective and a key part of our responsibility will be monitoring the FM's progress against this objective over time, and continuing to push the FM to reach this target ahead of 2050. The Trustee intends that this goal will be achieved through engagement (with the Plan's underlying managers and companies invested in), impact investing (in assets such as green energy), strategic changes (investing in assets with lower climate risk) and also as a result of the 'free-rider' effect. This recognises that although the Trustee has and will take positive actions, the Trustee won't be able to achieve this goal alone and will require the continued collaboration of the global community to combat climate change.

Case Study – FM approach

The FM has identified the challenges posed from managing portfolio performance alongside the carbon journey plan which led to a combination of setting top-down targets for long-term value creation alongside bottom-up evaluations of the portfolio's performance. In line with the Climate Financial Risk Forum's guidance, they are considering the impact of the Trustee's portfolios on climate change as well as the impact of climate change on the Plan's portfolios, in the form of a climate dashboard.

Having made substantial progress for target setting and measurement approaches, going forward increased focus will be on assessing climate-related performance and ensuring ESG and climate-related information is readily available to support the investment-decision making process

Below is an extract of the FM's climate dashboard:

Category	Use case	Current metric	Notes
Impact of climate change on the portfolio	Transition Risk	Climate Transition Value at Risk	
	Physical Risk	Proportion of portfolio exposed to significant physical risks	Quantifying physical risk is a major focus, led by our Climate Quantified program and our leadership of the Coalition for Climate Resilient Investment
Impact of the portfolio on climate change	Decarbonisation	Financed emissions – emissions / \$ invested	We assess total emissions and carbon footprint, also looking to exclude the impact of market movements to focus on actual underlying decarbonisation
	Alignment	% assets Paris aligned	We draw on multiple lenses here, including Science Based Targets Initiative (SBTi), Transition Pathway Initiative, Climate Action 100+. We also utilise the guidance and methodologies outlined in the Net Zero Investment Framework.
	Mobilising transition finance	Exposure to climate solutions	Aligned to EU Taxonomy and IIGCC methodologies.
Cross-cutting	Engagement	Climate engagement activities, voting records, public policy advocacy and collaboration.	Engagement through multiple mechanisms – asset-level engagement, voting, public policy and advocacy and collaboration. See the Stewardship Section.

Going forward

The Trustee is continuing to monitor the evolving climate measurement landscape with the expectation that the robustness of the metrics will improve over time. The Trustee looks forward to sharing updates on our progress in monitoring and managing climate risks and opportunities over time.