PRUDENTIAL

Staff Pension Scheme

Defined Contribution Section

Disclosures in respect of TCFD for the period ending 31 March 2024

October 2024

Your journey

Prudential Staff Pension Scheme – Disclosures in respect of TCFD for the period ending 31 March 2024

Executive Summary

This is the Trustee's third TCFD report, which sets out how climate related risks facing the Prudential Staff Pension Scheme (PSPS) are being managed. It covers both the Defined Benefit ("DB") and Defined Contribution ("DC) Sections of the Scheme, and describes the Trustee Board's oversight of climate-related risks and opportunities in line with the Climate Change Policy.

The report also sets out a number of metrics (carbon emissions, carbon footprint, implied temperature rise and data coverage) for the Scheme's assets, in line with DWP Guidance, which have been adopted by the Trustee to assess climate risks.

For the DC Section the metrics have improved since the last report for most funds and particularly for the default arrangement:

- Data coverage has expanded since initial calculation of metrics with inclusion of Scope 3 emissions. Most funds have Scope 1 & 2 and Implied Temperature Rise data coverage of over 90% but there are still some laggards. Within the underlying funds, the general trend is upwards in terms of the data coverage.
- Many of the PSPS Funds have seen reductions in their carbon emissions, with lower carbon footprints.
- For funds with reported data, the aggregate overall Implied Temperature Rise has dropped modestly to 2.0 degrees from 2.1 degrees. Similarly, the weighted average Scope 1 & 2 carbon footprint of funds with data has also fallen.
- Changes introduced by the Trustee as part of their last review of the DC Section's investment strategy has contributed to a reduction in overall Carbon Footprint and in particular for the default lifestyle arrangements.
- The weighted average Scope 1 & 2 carbon footprint of funds with data has fallen from 87.7 tCo2/£m to 76.5 tCo2/£m
- The beneficial impact of changes implemented by the Trustee has been highlighted as a case study. It has produced significant improvements in the DC Section's overall carbon footprint and level of emissions and improved these metrics for the default lifestyle strategy.

For the DB Section the data coverage has improved since the last report and emissions have fallen:

- Improved data quality is reflected in the updated figures for the Scheme year and improved data coverage is noted. Whilst the coverage of listed assets (equities and corporate bonds) is improving, private and securitised assets are more challenging to report on.
- Limited Implied Temperature Rise data is available, but for the mandates with data the reported position is between 2.3 degrees and 2.7 degrees.
- Overall greenhouse gas emissions have fallen, mainly due to decrease in assets rather than reduction in carbon footprint.
- The Trustee has added an allocation to the Greencoat Renewable Income strategy which is expected to have a positive impact on reducing climate risk. This has been highlighted as a case study.

The Trustee has agreed the following medium-term and long-term targets for both the DB and DC Sections in relation to managing climate-related risks and opportunities:

- Reduce carbon footprint over time and reduce carbon emissions over time with a longer-term target of reaching net zero by 2050.
- Aim to improve carbon emissions data coverage for listed equity and public fixed income to 100% by 2025.

The original aim of setting the coverage target (in 2022) was to encourage managers to source and achieve good data to facilitate meaningful decisions by the Trustee (and the industry). The Trustee has made progress with its DB and DC managers in improving the data coverage . It is clear to the Trustee that meeting a 100% target by will not be achievable in the near future, largely due to data not being available for certain types of investment. As such the Trustee will remove this target from next Scheme year and instead focus in continuing to engage with managers individually where they can to achieve an improvement in data production and ultimately reduction in emissions.

The Trustee has also undertaken scenario analysis (in 2022) to assess the resilience of both the DB and the DC Sections' strategies over the short-, medium- and long-term time horizons to a number of different climate scenarios (including an "accelerated transition" scenario, "delayed transition" scenario and a "head in the sand" scenario).

- For the DB Section, the scenario analysis provides a range of expected impacts on the Scheme's solvency funding level between +1.7% and -4.3%. This positive expected outcome for the Scheme principally reflects the negative impact that climate change is expected to have on life expectancy.
- For the DC Section, in general, older members are expected to be relatively less exposed from wider market disruptions caused by emerging transition and physical climate risks.
- Conversely, younger members will be more exposed to a delayed climate transition because the timing of transition and physical climate risks will be borne when they have accumulated sizeable levels of retirement savings.

Introduction and background

The Task Force on Climate-related Financial Disclosures (TCFD) was commissioned in 2015 by Mark Carney in his remit as Chair of the Financial Stability Board. The TCFD was asked to develop voluntary, consistent climate-related financial disclosures that would be useful in understanding material climate-related risks. In 2017 the TCFD released its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. For the pensions industry, relevant guidance has been produced by the Pensions Climate Risk Industry Group (PCRIG).

From October 2023 the TCFD has officially been disbanded and the International Financial Reporting Standards (IFRS) will take over. Over time, the IFRS is expected to offer a newer, more detailed framework for international ESG reporting, risk management and climate related financial disclosures.

From 1 October 2021, pension schemes over £5bn in size such as Prudential Staff Pension Scheme were required to start reporting in line with the TCFD recommendations. Further statutory guidance has also been issued by the Department for Work and Pensions.

The Task Force divided climate-related risks into two major categories: risks related to the transition to a lower-carbon economy; and risks related to the physical impacts of climate change. The TCFD report noted that climate-related risks and the expected transition to a lower carbon economy affect most economic sectors and industries, however, opportunities will also be created for organisations focused on climate change mitigation and adaptation solutions. The report also highlights the difficulty in estimating the exact timing and severity of the physical effects of climate change.

The Task Force structured its recommendations around four thematic areas that represent core elements of how organisations operate: governance; strategy; risk management; and metrics and targets. The four overarching recommendations are supported by recommended disclosures that build out the framework with information that will help investors/stakeholders understand how reporting organisations assess climate related risks and opportunities. The disclosures are designed to make TCFD-aligned disclosures comparable, but with sufficient flexibility to account for local circumstances.

TCFD compliance

We have completed a gap analysis (in 2022) against the recommended disclosures of the Task Force on Climate-related
Financial Disclosures. Our progress is disclosed below, under the four TCFD headings.

Governance

Disclosure 1: Describe the board's oversight of climate-related risks and opportunities.

Summary (DB and DC)

The Trustee has prepared and agreed a formal Climate Change Policy for the Scheme that outlines its approach to climate-related issues and further details on oversight of climate risks and opportunities. The policy also sets out roles and responsibilities relating to climate-related issues and how these are brought to the Trustee Board's attention.

The Trustee has assessed the requirements of the disclosure and put in place an appropriate budget for advisers and others to assist. An explicit budget has been allocated to fulfil the climate disclosure requirements and this will be reviewed annually to ensure sufficient resource.

The Trustee recognises that the overall responsibility for managing the Scheme, including managing the Scheme with respect to climate-related issues and oversight of any delegated responsibilities, lies with the Board. The Trustee is supported by several specialist committees and by third-party advisors covering actuarial, investment, DC, covenant, and legal aspects, amongst others. A formal Terms of Reference document governs the relationship between the Trustee and each of the Scheme's committees, setting out roles and responsibilities, and how each committee reports to the Trustee Board.

The Trustee receives regular investment training sessions provided by its investment consultants and other service providers (including legal advisor and Scheme Actuary) where relevant. These training sessions are carried out on an ad-hoc basis as and when a need for training arises, and provided to new Trustee Directors when they join the Trustee Board. The Trustee assesses its advisors on a periodic basis, including in relation to the incorporation of climate change related risks and opportunities into their advice. The annual objectives set by the Trustee for the Scheme's investment advisors include an explicit objective in relation to ESG and climate change matters.

DB Section

As noted above, the Trustee retains ultimate responsibility for setting appropriate frameworks and for key strategic investment decisions, such as the Scheme's net-zero target detailed later in this report. However, the Trustee delegates certain implementation and monitoring responsibilities for the DB assets to the DB Section Committee ("DBSC"). The DBSC has delegated responsibilities relating to investment matters for the DB Section, including in identifying, assessing and managing climate-related risks and opportunities.

The DBSC is responsible for implementing the Scheme's approach with regards to embedding climate change into investment processes and for reviewing this on an ongoing basis, as industry practices evolve. In performing this role, the DBSC takes a number of steps to ensure that its overall approach remains appropriate:

- The DBSC closely monitors and holds accountable any parties providing it with advice. This includes an annual objective setting and appraisal process for the DB investment consultant, incorporating consideration of climate related matters.

- The DBSC receives periodic training on climate related matters, including in relation to broader industry developments (see below), which allows it to benchmark its approach.

- The DBSC receives regular presentations from the Scheme's investment managers, including discussion of how climate related risks and opportunities are taken into account in the management of the Scheme's assets.

The DBSC will consider a range of sustainable investment topics and initiatives and make recommendations to the Trustee Board where appropriate. The DBSC typically meets and reports up to the Trustee on a quarterly basis and provides a summary of the key issues that it has discussed. Trustee approval for certain decisions is requested as appropriate and the Trustee has oversight of the production of this report.

Over the recent periods, the DBSC and DC Section Investment Committee has undertaken an in-depth training session on climate change and metrics. The assessment of climate risk and identification of potential opportunities, as well as other climate-related issues such as policy direction, have been built into the Trustee's ongoing training plan and self-assessments. The Trustee has also incorporated Climate Risk into its overall Risk Register, which provides a framework within which all risks faced by the Scheme are quantified and sets out how they will be mitigated over time.

The Trustee recognises that climate change is a fast-evolving and complex area which therefore requires ongoing discussion and education. Over the last Scheme year, both the Trustee and the DBSC have received training on climate risk and the requirements of the climate disclosure regulations. The DBSC receives additional training as required and regularly discusses factors (including ESG) impacting the Scheme's investments, with the Scheme's investment consultant WTW and its investment managers as appropriate. WTW delivered several sessions focussed on ESG and sustainable investments covering regulator feedback on climate disclosure reports, evolutions in climate metrics, data improvements and how scope 3 carbon emissions should be considered.

The Trustee has also received training sessions on climate scenario analysis, where it agreed the framework and methodology it intended to follow for its reporting. Please see the rest of this report for more information.

Disclosure 2: Describe management's role in assessing and managing climate-related risks and opportunities.

Summary

The Trustee has identified the management of climate related risks and opportunities as a priority for the Scheme. The Trustee considers climate risks and opportunities as set out in the Statement of Investment Principles (which is typically reviewed annually) and detailed in the annual Implementation Statement. The Trustee also considers these risks in general as part of the monitoring of the assets.

Key risks are noted within the Scheme's Risk Register and opportunities are minuted for further action when appropriate.

DB Section

There are a number of responsibilities delegated to the investment managers (M&G, BlackRock, Greencoat, Greenoak and Orchard) for the DB Section of the Scheme's assets. These asset managers are monitored on an ongoing basis by the Trustee. The Trustee's investment consultant WTW, assists with the ongoing monitoring of the

investment managers, including rating the approach of the managers with respect to sustainable investment related issues.

The Trustee receives quarterly investment reports from the DB investment advisor (WTW) that are discussed at the DBSC meetings. In addition, the Trustee reviews and discusses in detail an annual sustainable investment report prepared by WTW, which summarises:

- The consultant's assessment of the ESG capabilities (including climate) of the Scheme's underlying investment managers.
- The key ESG exposures (including climate) within the portfolio.
- The corporate governance policies of each investment manager and how these have been implemented over the year.

The DBSC reflected positively on the assessment reviewed during the Scheme year but continues to encourage further work from the investment managers on improving data and enhancing stewardship activities.

The Trustee receives ad-hoc information from underlying investment managers, with targeted meetings arranged on an as need basis to discuss specific topics. The DBSC and Trustee Board have a robust process in place whereby the information provided by the investment consultant and by the investment managers is reviewed, challenged, and discussed during DBSC and/or Trustee Board meetings.

The Trustee notes that the DB Section investment consultant also engages with managers on ESG and climate issues on the Scheme's behalf, as well as policy makers and the industry as a whole.

DC Section

There are a number of responsibilities delegated to the investment managers (M&G, Baillie Gifford, MFS, L&G, Schroders, RBC, BlackRock, Wellington, Nordea and Fulcrum) for the DC Section of the Scheme's assets. These asset managers are monitored on an ongoing basis by the Trustee. The Trustee's DC Section Investment Advisers assist with the ongoing monitoring of the investment managers, including rating the approach of the managers with respect to responsible investment including climate related issues.

Climate risks and opportunities are identified by the DC Section Investment Advisers through their discussions with each investment manager and through the climate scenario analysis which is carried out periodically. The Trustee has set the DC Section Investment Advisers an objective to help the Trustee to implement an investment strategy which adds value through the integration of ESG (including climate change) and stewardship considerations in their investment manager appointments. The DC Section Investment Advisers are assessed against their objectives annually and the objectives themselves are reviewed regularly to ensure they remain appropriate.

Oversight of the DC Section Investment Advisers and external managers is undertaken via their regular reporting, including ESG and climate-specific reporting to the Trustee. This reporting is discussed and challenged by the Trustee at quarterly meetings.

As part of their Strategic Reviews of the DC Section and reviews of the DC Section's investment managers the DC Section Investment Advisers consider associated climate related risks and opportunities and advises the Truste accordingly and the Trustee has

a process at its meetings and at meetings of the DC Section Investment Committee and DC Section Committee to review, challenge and discuss the advice.

The Trustee notes that the DC Section Investment advisers also engage with managers on ESG and climate issues on the Scheme's behalf, as well as policy makers and the industry as a whole.

The Trustee undertook an investment strategy review in the Scheme year 2022/23 to assess appropriateness of the DC strategy and alignment to the agreed climate-related investment beliefs. The Trustee considered the asset managers' approach to climate-related issues as part of this review and agreed some changes to the Scheme strategy which were implemented in May 2023. A number of changes were made to further improve sustainability and climate related issues including increasing the exposure to funds managed on a sustainable basis within the lifestyle strategies and self-select options and including an Impact Fund.

Strategy

Disclosure 3: Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term.

Summary

The Trustee notes that climate-related risks and opportunities will evolve over time as more information and new investment products come to the fore.

Given the likely time horizon over which members' benefits are expected to be paid by the Scheme, the Trustee has agreed short, medium, and long term time horizons of 5, 10 and 30 years respectively. The Trustee notes that the 30-year time horizon roughly aligns to 2050, the date by which countries bound to the Paris Agreement have agreed to meet net-zero requirements.

Climate-related risks can be broadly classified into two categories.

Transition to a low carbon economy, including (but not limited to):

- **Policy changes**, e.g. carbon pricing, seek to create the changes needed in society.
- **Technology development**, e.g. renewable energy, and adoption enable the changes to be implemented.

Physical impacts, including (but not limited to):

- **Chronic changes**, e.g. sea level rise, agricultural systems, impact economic and social systems.
- **Acute changes**, e.g. storms, wildfires create damage and give rise to costs of adaptation and reconstruction.

		Short term	Medium term	Long term
Risks	**Strategy level**	Increased regulation Stock price movements	Technological change Consumer preferences	Resource availability Physical damage to real assets as a result of

			Increased pricing of greenhouse gas emissions	extreme weather events Employer covenant risk
	Asset class/sector level	Listed equities Growth assets Oil-dependent issuers	Carbon-intensive corporate issuers Energy-intensive industry	Infrastructure Property Agriculture Food Commodities Insurance
Opportunities		Increased member engagement as topical issue	Successful investments in new technology	Investment opportunities in infrastructure, renewable energy and other lower-carbon investments

As well as risks, there can be opportunities such as increased member engagement as ESG and Climate change are topical issues, successful investments in new technology and investment opportunities on infrastructure, renewable energy and other low carbon investments.

DB Section

Some of the identified risks and opportunities over the short, medium and long term for the DB Section include Environmental, Social and Governance risks and political risks. The table below provides comment on some of these risks as recognised for the DB Section in the Statement of Investment Principles.

Risk	Comments
Environmental, Social and Governance (ESG) risks	Is measured by reference to the Trustee's assessment of the policies operated by the Scheme's investment managers and the expected impact of portfolio holdings. It is managed by the Trustee engaging with the Scheme's managers where appropriate to try to ensure that their policies are in line with the Trustee's approach. The management of ESG risks within the Scheme will have relevance to managing Climate Risk.
Political Risk	Is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention. It is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy and by the diversification of the assets across many countries. Political risk has an impact on policy change relating to Climate.
Principal Employer Risk	Is measured by the level of ability and willingness of the principal employer to support the continuation of the Scheme and to make good any current or future deficit. It is managed by assessing the interaction between the Scheme and the principal employer's business, as measured by a number of factors, including the creditworthiness of the

	principal employer and the size of the pension liability relative to the financial strength of the principal employer. Climate change could potentially impact on the strength of covenant of the principal employer

Case study: In 2022, the Trustee appointed a new investment manager, Greencoat Capital LLP. The manager invests in a portfolio of renewable energy assets through a multi-investor pooled fund in order to take advantage of climate-related opportunities whilst supporting the energy transition. Following a meeting with the manager prior to commitment, the Trustee was comfortable that the manager's approach is consistent with its policies and its long-term carbon emissions reduction target. This investment was fully drawn down in 2023.

DC Section

Some of the identified risks and opportunities over the short, medium and long term for the DC Section include Environmental, Social and Governance risks and climate risks. The table below provides comment on some of these risks as recognised by the DC Section.

Risk	Comments
Environmental, Social and Governance (ESG) risks	The extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations. Management of ESG risks within the Scheme will have relevance to managing Climate Risk
Climate Risk	The extent to which climate change causes a material deterioration in asset values as a consequence of factors including, but not limited to: policy change, physical impacts and the expected transition to a low-carbon economy.

However, as well as risks, there can be opportunities such as increased member engagement as ESG and Climate change are topical issues, successful investments in new technology and investment opportunities on infrastructure, renewable energy and other low carbon investments.

Disclosure 4: Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

Summary

The Trustee has estimated the costs of the additional work undertaken to meet the requirements under the TCFD as well as additional actions that it may wish to undertake as part of the Scheme's financial planning and budget. However, there is an expectation that these costs will be negated through the reduced risk and improved position of the Scheme over time through lower impacts of climate change as well as taking advantage of climate-related opportunities.

DB Section

As set out below, the Trustee has undertaken climate change scenario analysis to help it to understand the potential impact of the risks associated with climate change on the DB Section of the Scheme. This has indicated that in view of the well-funded position, the funding of the Scheme's guaranteed DB benefits remains robust in all scenarios. Alongside this, the Trustee has recognised the potential investment opportunities associated with the mitigation or management of climate change and will seek to selectively access these where they are considered to be in members' best financial interests. A case study of such an investment with Greencoat made during the current year is set out earlier in this report.

In line with embedding climate-related issues into the Scheme's Integrated Risk Management (IRM) framework, the Trustee will also consider the impact of climate risk on the DB Scheme's liabilities. This will include possible margins of prudence to make allowance for the economic impacts of climate change as well as the effect of the long-term effects of climate change on assumptions such as longevity and mortality.

The Trustee engages with its appointed covenant adviser on the impact that climate-related risks and opportunities may have on the covenant of the principal employer over the short-, medium- and long-term time horizons as outlined under the strategy disclosures.

DC Section

The Trustee regularly monitors the investments held by the DC Section of the Scheme and considers climate risks and opportunities, and its impact on the Scheme, as a part of this monitoring process.

The Trustee undertook an investment strategy review in the Scheme year 2022/23 to assess appropriateness of the DC strategy and alignment to the agreed climate-related investment beliefs. As part of this review, the Trustee documented the consideration they give to climate-related issues, opportunities and risks both at a strategy level and individual asset class level.

Scenario analysis undertaken on behalf of the Trustee by the DC advisers has assessed the impact of climate related issues and is set out later in this report. This analysis considers the risk impact evolution over time. Over the shorter and medium term the risk impact on members (impact on pension pots) is low. Over the longer term (for example, members retiring in 40 years) the impact on pension pots could be higher (around 6% potential impact on pension pots).

As part of their consideration of climate related issues and opportunities and risks both at a strategy level and individual asset class level the Trustee decided to increase the level of sustainability in the default lifestyle strategy of the Scheme by increasing the allocation to funds managed sustainably and also specifically including an allocation to an Impact equity fund (i.e. a fund with an explicit aim to achieve social and environmental goals). These changes were implemented in May 2023.

Disclosure 5: Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, include a 2C or lower scenario.

Summary (DB and DC)

The Trustee is required to undertake analysis to explore the potential impact of different future climate scenarios on the DB and DC Sections of the Scheme, which can capture the impact of transition and physical risks. The Trustee last completed scenario analysis as at 31 December 2022. The Trustee will update the analysis, in line with The Pensions Regulator guidance, in line with triennial strategic reviews of the Scheme's investment strategy, or earlier if market assumptions have changed materially.

The Trustee undertook scenario analysis to assess the resilience of both the DB and the DC Sections' strategies over the short-, medium- and long-term time horizons to a number of different climate scenarios.

For the scenario analysis the Trustee considered a number of separate scenarios which are in part defined through their success, or otherwise, in meeting the Paris Agreement target.

The scenarios (described later in this report) differ in the size of the physical risks, based on the resulting temperature impacts, but also in the size of the transition risks.

The output of this analysis is set out in the later sections of this report.

According to the analysis:

- For the DB Section, under each of the four scenarios the funding of the Scheme's guaranteed benefits is robust to the modelled impact of climate change over all time horizons, with the impact of the largest shock being significantly lower than the solvency basis surplus. This reflects the low-risk asset position held by the Scheme and the significant steps already taken to hedge longevity risk.
- For the DC Section, the scenarios considered would not have a significant impact on the Scheme over the short and medium terms but are likely to have some impact in some scenarios over the medium and longer term. The Trustee will consider the output from scenario analysis work undertaken as part of the ongoing investment strategy review for the DC Section. This will involve consulting the Trustee's assessment of climate-related risks and opportunities and embedding the beliefs around climate-related risks and opportunities within the decisions made regarding asset allocation, as well as identifying an appropriate asset allocation that would help reduce the risk to the Scheme based on the scenario analysis output.

The Trustee updates the climate scenario analysis at least every 3 years and more frequently should any of the factors have changed materially to warrant an update to the analysis. Over the Scheme year, the Trustee considered whether to undertake updated scenario analysis and determined that this was not required as there were no material changes to the funding objectives and strategy of the Scheme. This included limited changes to the Scheme's asset allocation, membership, sponsor covenant and the underlying climate scenarios available to test the robustness of the funding strategy. The Trustee recognises that there are concerns that the scenarios used by many investors may not capture the potential severity of climate change and will work with the investment consultants and other advisers to consider how best to address this for future analysis.

The Trustee also believes that the sponsor covenant will remain robust to the scenarios considered and able to support the Scheme if the downside events considered were to transpire.

Risk management

Disclosure 6: Describe the organisation's processes for identifying and assessing climate-related risks.

Summary

Climate change is a potential long-term material financial risk for the Scheme which could impact the DC and DB investments, the Company and the world into which members will retire. The financial risks and opportunities arising from the impacts of climate change may include:

- Physical Climate Risk - The physical impacts of a changing climate on businesses directly or indirectly through their supply chain. This could include increasing temperatures, changing weather patterns, sea level rise and severe weather events.

- Transition Climate Risk - The impacts of the global transition towards a low-carbon economic system. This could include changes in industry regulation, consumer preferences and technology that will impact current and future investments.
- As well as providing competition to existing businesses, both physical and transition climate risks may create new investment opportunities.

At a simple level, the Trustee's risk management process comprises identification, assessment, monitoring and control of risk. The Trustee currently takes a top-down approach, which uses its investment beliefs together with the Climate Change Policy as the starting point for the risk management process in relation to climate change.

The risks to the Scheme as a consequence of climate change are discussed by the Trustee and documented in the Scheme's Risk Register.

The Trustee notes that evaluation of climate-related risks and opportunities is based on relevant information and tools being available, as well as the quantification of climate-related risks and opportunities being a developing area based on continuously emerging information.

DB Section

The Trustee uses the following analysis to assess climate related risks and opportunities:

i) Top-down analysis: The climate change scenario analysis described in the previous section provides a top-down view of the potential impact of climate change on the Scheme.

ii) Bottom-up security analysis: The DB Section of the Scheme will also undertake risk analysis at the individual asset level. This is known as a bottom-up analysis. In this instance, the Scheme's investment managers (M&G, BlackRock, Greenoak, Orchard & Greencoat) are responsible for the identification and assessment of climate related risks and opportunities. This approach will use available information to assess the potential impact of climate-related risks to investment performance and the output is considered by the DB Section Committee on an annual basis.

iii) Bottom-up manager analysis: On an annual basis the DB Section Committee considers analysis from the Scheme's investment consultant setting out its assessment of the policies, processes and actions in relation to each mandate within the Scheme. Where areas of concern are identified, the DB Section Committee will engage with the relevant manager.

DC Section

The DC Section of the Scheme will also undertake risk analysis at the individual asset level. In this instance, the Scheme's investment managers (M&G, Baillie Gifford, L&G, MFS, Schroders, RBC, BlackRock, Wellington, Nordea and Fulcrum) are also responsible for the identification and assessment of climate related risks and opportunities. This approach will use available information to assess the potential impact of climate-related risks to investment performance.

Disclosure 7: Describe the organisation's processes for managing climate-related risks.

Summary

The Trustee considers climate related risks on an ongoing basis and formulates its approach into a climate policy, the SIP and the Scheme's risk register.

The Trustee considers climate related risks in formulating the investment strategy in both the DB and DC Sections, which are considered on a periodic basis and also on an ongoing basis in monitoring the investments. The Trustee takes training as required on climate related risks and opportunities. In appointing, managing and monitoring the Scheme's investment managers, the Trustee reviews how the investment managers integrate and take account of climate related risks in making investment decisions. The Trustee also monitors the emissions of the Scheme and sets objectives related to the emissions that are realistic and balance the Trustees objectives to invest the Scheme assets in line with the Statement of Investment Principles of both DB and DC sections and in line with managing climate related risks. Ownership of risks and the corresponding controls is also allocated to the investment managers who will invest the Scheme's assets.

The Scheme's approach to stewardship is also a key aspect of the management of climate-related risk. The Trustee expects their investment managers to consider and take appropriate steps to manage climate-related risks within their funds, including engagement with underlying investee companies on their management of climate risks. The Trustee engages with its investment managers to ensure they take such considerations into account within their decision making.

The Trustee has a process by which it fulfils the requirements on climate metric reporting. The Trustee considers reporting from asset managers and advisers on the climate risks associated with the underlying investments and overall investment strategy. They consider relevant metrics and scenario analysis (using adviser modelling tools) to assist estimating the nature of climate risks

DB Section

The Trustee regularly reviews the DB Section's underlying managers and actively seeks their input on how they manage the Scheme's investments in relation to climate issues. The Trustee also receives an annual report from their investment consultant setting out its review of the investment managers' capabilities, including the extent to which climate considerations are embedded in their investment processes and, where relevant, an assessment of the managers' engagement and voting activities at a mandate level. Where this assessment indicates that the managers are not in compliance with the Trustee's policies or that improvement is required, the Trustee will raise this with the manager in order to seek improvement.

The Trustee considers that stewardship is a key tool for managing risk and improving the financial outcomes of the Scheme. The Trustee also acknowledges that stewardship can be multi-faceted and therefore it makes sense to have a small number of stewardship priorities to focus engagements in the short term.

Over the year, the Trustee undertook an exercise to set specific stewardship priorities, as required by statutory guidance provided by the Department for Work and Pensions ("DWP"). As part this process, the Trustee considered the approach taken by the Scheme's underlying investment managers and those topics most frequently spotlighted across UK asset owners. Following due consideration, the Trustee decided to select climate change and diversity & inclusion as the key areas of focus.

The Trustee's policy is to delegate the day-to-day sustainable investment considerations (including environment, social and governance factors – including climate change) and stewardship activities (including voting and engagement) to the Scheme's investment managers. The Trustee ensures that the Scheme's underlying investment managers engage on important ESG related topics on behalf of the Scheme.

One of the Scheme's investment managers, M&G, who manages the majority of the Scheme's portfolio, applies exclusions to all its funds applying to companies that are involved in the manufacture, development, and trade of cluster munitions and anti-personnel landmines. In March 2021, M&G implemented a new coal policy, which is to phase out investment in thermal coal by 2030 for companies in OECD end EU countries, and 2040 for developing countries.

Over the Scheme year, M&G have invested heavily in proprietary and third-party tools to increase transparency in periodic and ad-hoc reporting, using this to produce an ESG scorecard. M&G have also undertaken various engagements concerning environmental and other issues with a large number of issuers to which the Scheme has exposure.

DC Section

The Trustee receives annual reports from their investment consultant on engagement and voting activities of investment managers and monitors performance in line with the agreed beliefs and resulting expectations for investment managers as well as any requirements within mandates in place on a quarterly basis. Where investment managers are not performing in line with expectations, the Trustee engages further with the manager to understand why and works to improve the performance, further to which the Trustee undertakes a formal review if this does not occur.

Disclosure 8: Describe how processes for identifying, assessing and managing climate-related risks are integrated into the overall organisation's risk management.

Summary

Climate risks are identified by the Trustee, its advisers and the appointed investment managers as appropriate.

Appropriate controls and mitigating actions are determined and put in place as part of the process to add these risks to the Risk Register. The Audit and Governance Committee review and assess the risks to the Scheme and consider climate-related risks as a part of this process.

The Trustee also considers the approach taken to the principal employer to climate change as set out at:

https://global.mandg.com/~/media/Files/M/MandG-Plc/documents/responsible-investing/climate-change/MG-approach-to-climate-change_0420.pdf

DB Section

The DB Section Committee is responsible for overseeing the DB Section investment management policy and, as a part of this process, considers the risks surrounding the specific investments used by the Scheme.

DC Section

The DC Section Investment Committee is responsible for overseeing the DC Section investment management policy and, as a part of this process, consider the risks surrounding the specific investments used by the Scheme.

Metrics and targets

Disclosure 9: Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes.

Summary

Carbon equivalent risk metrics will expect to form an important part of the Scheme's investment decision-making process to measure, manage and disclose climate risk.

The selected metrics will also aid the Trustee in identifying opportunities for further engagement with investment managers and underlying investee companies.

The Trustee has considered advice from their advisers when selecting which metrics to use in measuring the climate-related risks and opportunities present for the Scheme.

The metrics chosen by the Trustee are:

- Total Carbon Emissions (absolute emissions based)
- Carbon footprint.
- Implied temperature rise; and
- Data Quality.

The Trustee acknowledges that there are limitations in data available from investee companies on emissions of greenhouse gases. The Trustee will seek to obtain information, where it is currently missing, for future assessments. In the meantime, the results of the above metrics have been understood to be reflective of the portfolio, but the limitations of data availability is noted when using the metrics for decision-making purposes.

DB Section

The DB section also invests in private assets where the data is not available because the entities to whom it lends to are too small and/or not required by law to disclose data. The Trustee will monitor developments and engage with its investment managers in this space so these funds can be included in the analysis in future reports.

DC Section

A number of funds within the DC Section invest in government bonds, for which there is currently no consensus metric for monitoring against climate targets. The Trustee will monitor developments in this space so these funds can be included in the analysis in future reports.

Disclosure 10: Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.

Summary (DB and DC)

The calculated metrics for each section of the Scheme are presented in detail later in this report for the period covered by this report.

The Trustee monitors the metrics on an annual basis and identifies whether performance has improved or deteriorated over time. Where performance has deteriorated, the Trustee will look to engage further to understand the reasoning and undertake any appropriate remedial actions. The metrics will also be used to monitor the Scheme's performance in line with climate-related targets (see Disclosure 11).

The Trustee has been unable to obtain full information to calculate metrics for all funds in which the Scheme is invested but notes that this has improved since the initial report and will continue to seek to obtain information for future assessments. The Trustee acknowledges that at this point, limited data is available on an industry-wide comparison basis and the Trustee has relied heavily on the benchmark set for each fund and the market knowledge of its advisers in understanding how well the funds are performing and whether further improvements could be made at this stage.

Scope 3 emissions data are important to help build a better picture as portfolios are decarbonised. However, the Trustee believes that current reported scope 3 emissions information is largely inadequate for certain purposes including making accurate climate-informed investment decisions. Despite this, the Trustee has reported scope 3 emissions for the Scheme's mandates where these have been provided by the Scheme's investment managers.

Data providers, like MSCI, have tried to solve for this problem by providing scope 3 datasets using proprietary models and internally vetted methodologies. However, current solutions rely significantly on top-down sector emissions data with limited use of bottom-up data (which is company-specific). Models that rely on sector information limit users' ability to distinguish companies from peers. While there is sizable support from the investment industry and others for better disclosures, there continues to be considerable doubt around the reliability of scope 3 data available.

The Trustee has included Scope 1, 2 and 3 emissions within this report. Given the above considerations, the Trustee believes any scope 3 emissions disclosures should be disaggregated from Scope 1 and 2 emissions.

Disclosure 11: Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Summary (DB and DC)

Like most investors, the Scheme is supportive of the development of target-setting methodologies, and of the increasing completeness of carbon datasets. The Trustee wishes to set meaningful and challenging climate targets for its investment portfolio and work is underway to assess options within the limitations of currently available data.

The Trustee has agreed the following targets in relation to managing climate-related risks, opportunities and performance:

- Reduce carbon footprint over time and reduce carbon emissions over time with a longer-term target of reaching net zero by 2050.

- Aim to improve carbon emissions data coverage for listed equity and public fixed income to 100% by 2025.

These targets have been selected because the Trustee recognises the importance of moving towards a net zero target and because it recognises the significant limitations around the availability and quality of underlying climate data, and that improving this area will be key to ensuring future assessments of climate-related risks and opportunities are as meaningful as possible.

The metrics reported later in this report are consistent with progress being made in respect of the first objective stated above. During the Scheme year, the Trustee reviewed progress made by investment managers over 2023 in relation to the Scheme's selected TCFD metrics and net zero goals with the support of the investment consultant WTW. The Trustee recognises that although progress has been made in relation to the second objective relating to data emissions coverage, gaps still remain in relation to listed public equity and fixed interest, particularly for non-corporate fixed interest assets. As a result, the Trustee has engaged with the investment manager M&G and encourage them where possible, to work with data providers as part of M&G's engagement and stewardship plan for methodological improvements in sustainability, other climate metrics and especially data coverage for listed assets.

It is clear to the Trustee that meeting a 100% data coverage target by will not be achievable in the near future, largely due to data not being available for certain types of investment. As such the Trustee will remove this target from next Scheme year and instead focus in continuing to engage with managers individually where they can to achieve an improvement in data production and ultimately reduction in emissions.

Climate scenario and portfolio analysis

Climate-related risks can be broadly classified into two categories:

Transition to a low carbon economy, including (but not limited to):

- **Policy changes**, e.g. carbon pricing, seek to create the changes needed in society.
- **Technology development**, e.g. renewable energy, and the level of technology adoption which might facilitate the transition to a lower carbon economy.

Physical impacts, including (but not limited to):

- **Chronic changes**, e.g. sea level rise, nature and biodiversity loss, agricultural systems impact economic and social systems.
- **Acute changes**, e.g. storms, wildfires create damage and give rise to costs of adaptation and reconstruction.

The Trustee is required to undertake analysis to explore the potential impact of different future climate scenarios on the DB and DC Sections of the Scheme, which can capture the impact of transition and physical impacts. The Task Force recognised that the use of scenarios in assessing climate related issues and their potential financial implications is relatively recent and that practices will evolve over time but believed that such analysis is important for improving the disclosure of decision-useful, climate related financial information. At least two of the scenarios must be aligned with the objectives of the Paris Agreement (i.e. a reduction in global warming potential to between 1.5°C and 2°C above pre-industrial levels), and one scenario should be based on a more pessimistic outcome. With the support of its advisers, the Trustee has undertaken climate scenario analysis at the asset class level to estimate the effect of different climate scenarios on retirement outcomes for different members. Details of the scenario analysis carried out for the DB and the DC Sections of the Scheme are described below and background on the methodology for the DC Section is set out in Appendix 2.

Please note that the scenario analysis was undertaken in 2022 using data as at 31 December 2021 and in line with the Pension Regulator guidance has not been updated this year. The Trustee, with advice from advisers, does not believe that updating the scenario analysis would have produced any meaningfully different results from the analysis conducted in 2022. In the absence of any significant changes, the Trustee will conduct scenario analysis every 3 years in line with the Regulator's guidance.

Scenario analysis – DB Section

For the scenario analysis for the DB Section of the Scheme, the Trustee considered four separate scenarios which are in part defined through their success, or otherwise, in meeting the Paris Agreement target.

The scenarios (described in the table below) differ in the size of the physical risks, based on the resulting temperature impacts, but also in the size of the transition risks. The Climate Emergency scenario, where decisive action is taken, and the Inevitable Policy Response scenario, where transition is more disorderly due to delays in meaningful action, represent bigger transition risks than the Global Co-ordinated Action scenario.

Scenario	Description
Lowest common denominator	A "business as usual" outcome where current policies continue with no further attempt to incentivise further emissions reductions. Socioeconomic and technological trends do not shift markedly from historical patterns. Temperature rise hits c.3.5°C with low transition risk but high physical risk.
Inevitable policy response	Delays in taking meaningful policy action result in a rapid policy shift in the mid/late 2020s. Policies are implemented in a somewhat but not completely co-ordinated manner resulting in a more disorderly, but still just, transition to a low carbon economy. Temperatures rise by around 2°C meaning low-medium physical risk but transition risk is high.
Global Co-ordinated action	Policy makers agree on and immediately implement policies to reduce emissions in a globally co-ordinated manner. Companies and consumers take the majority of actions available to capture opportunities to reduce emissions. Compared to the "Inevitable policy response", we see similar temperature rises of around 2°C with low-medium physical risk again; the co-ordinated nature of the response sees less transition risk (low-medium).
Climate emergency	A more ambitious version of the Global Coordinated Action scenario where more aggressive policy is pursued and more extensive technology shifts are achieved, in particular the deployment of Net Emissions Targets at scale. This scenario sees a medium level of transition risk and low physical risk due lower temperature rises (around 1.5°C)

Summary of DB Section Fund

	31 December 2021 position
Assets (£m)	7402
Liabilities (£m)*	6834
Surplus (£m)	568
Funding Level	108%

*Liabilities measured on a solvency basis

In the analysis, the Trustee considered from a top-down perspective the possible impact on the Scheme of the four alternative climate scenarios. In each case, it was assumed that the full impact (on both assets and liabilities) is immediately priced in, resulting in an instantaneous change in the funding level. In practice, it is more likely that any impacts will evolve more gradually over time, though asset markets can move quickly once possible costs are understood. The table below shows the expected impact on the Scheme's solvency funding level with the "change in funding level" representing the change from the funding level at the date of the analysis (31 December 2021) of 108%:

Scenario	Lowest common denominator	Inevitable policy response	Global co-ordinated action	Climate emergency
Change in funding level	1.7%	-4.1%	-4.3%	-4.1%

Under each scenario the funding of the Scheme's guaranteed benefits is robust to the modelled impact of climate change, with the largest shock being significantly lower than the solvency surplus. This reflects the low-risk asset position held by the Scheme and the significant steps already taken to hedge longevity risk.

Scenario analysis – DC Section

For the DC Section of the Scheme, the Trustee has explored the following real-world scenarios as part of this analysis (which, although named differently, are similar to those for the DB Scheme):

Scenario	Description
Head in the sand	No or little policy action from governments for many years. Growing fears over ultimate consequences leads to market uncertainty and price adjustments. Ineffective and piecemeal action increases uncertainty. Transition impacts exceeded by physical risks. Little or no expectation of reducing global warming to <2°C. When modelling this scenario, the Trustee has assumed a greater likelihood of market disruption in the long-term driven by transitional impacts and material physical climate impacts.
Delayed transition	No significant action in the short term, meaning response must be stronger when it does happen. Shorter and sharper period of transition. Greater (but delayed) transition risks but similar physical risks in the long term. A relatively high expectation of reducing global warming to <2°C. When modelling this scenario, the Trustee has assumed a greater likelihood of market disruption in the medium term driven by mainly transitional impacts. The likelihood of material long-term physical climate impacts is slightly higher under this scenario.
Green revolution	Concerted policy action starting now e.g. carbon pricing, green subsidies. Public and private spending on "green solutions". Improved disclosures encourage market prices to shift quickly. Transition risks in the short term, but less physical risk in the long term. A relatively high expectation of reducing global warming to <2°C.

When modelling this scenario, the Trustee has assumed a greater likelihood of market disruption in the short term driven by mainly transitional impacts. The likelihood of material long-term physical climate impacts is lowest under this scenario.

These scenarios were chosen as they satisfy the guidance provided by the Department for Work and Pensions and provide an intuitive way to help understand the range of potential impacts different climate scenarios may have in terms of member outcomes. By taking a broad view, across a range of stressed scenarios, the Trustee feels it has the ability to take action (where appropriate) to respond to and mitigate against the most severe potential impacts.

The assumptions underpinning these scenarios are provided in Appendix 2. At the time of writing there is no industry consensus on how to model different climate scenarios. The Trustee has therefore relied on the views of its advisers, underpinned by their research and development. The Trustee expects its advisers to continually test whether their approach represents good practice relative to the wider industry and to be proactive in suggesting revisions to improve over time.

The main limitation is that the future is unknown, and as for any forward-looking modelling, requires assumptions to be made. These assumptions may or may not be borne out in practice, so the outputs from this analysis should not be relied upon as an exact assessment of potential member impacts which could be better or worse than indicated. This limitation cannot be removed but managed over time by monitoring.

For Defined Contribution arrangements such as the DC Section of the PSPS, impacts should in the first instance be considered as the impact on retirement outcomes for different cohorts of members. This is in line with the requirement to define short, medium and long-term in the context of assessing climate risks. These time periods are defined as follows:

- **Short term**: Members aged around 60 who can start to draw on their pension savings, but may be expected to retire fully in at least 5 years.
- **Medium-term**: Members aged around 50 today with at least 15 years until they are expected to retire.
- **Long-term**: Members aged around 25 today with at least 40 years until they are expected to retire.

The following table sets out the results of the climate scenario analysis for these different cohorts of members. It should be noted that these are all stressed scenarios, and therefore generally reveal a 'worse' position relative to central expectations:

Impact on retirement outcomes for different climate stresses	Short term Members retiring in at least 5 years	Medium term Members retiring in at least 15 years	Long term Members retiring in at least 40 years
Head in the sand	unchanged	unchanged	-6%
Delayed transition	unchanged	unchanged	-6%
Green revolution	unchanged	unchanged	unchanged

In general, older members are expected to be relatively well shielded from wider market disruptions caused by emerging transition and physical climate risks. This is because they are invested across a range of markets, providing diversification. Conversely, younger members will be more exposed to a delayed climate transition because the timing of transition and physical climate risks will be borne when they have accumulated sizeable levels of retirement savings.

The Trustee has concluded that it is unlikely that strategic asset allocation decisions (such as the choice between investing in equity or bond markets) will lead to improved mitigation of real-world climate risks for members, without compromising on their long-term retirement outcomes. The Trustee believes that climate risks

and opportunities will be better managed through implementation decisions, which could improve financial outcomes within asset classes, and effective stewardship with underlying companies to drive real world changes.

Climate metrics

Climate metrics

Emissions-based metrics

The Trustee is required to adopt at least one absolute emissions and one intensity-based emissions metric to support its assessment of climate-related risks and opportunities plus two other metrics, one of which must be forward looking. After considering the available data and advice, the Trustee has decided to use the following emissions-based metrics:

Metric	Description
Total GHG Emissions	This is a measure of absolute carbon emissions and represents the estimated Scope 1 + Scope 2 (and where possible Scope 3) greenhouse gas emissions from a portfolio. This is expressed in terms of thousand tons of CO_2 equivalent emitted by the companies invested in by the portfolio, weighted by the size of the allocation to each company.
Carbon footprint, *measured in tonnes of CO_2e per £million invested (EVIC)*	A measure of a portfolio's carbon intensity. This is expressed in terms of tons of CO_2 equivalent emitted per million pounds invested, weighted by the size of the allocation to each company. Is measured using Scope 1 + Scope 2 emissions and also, where possible, Scope 3 emissions.

Other climate metrics

The Trustee is required to adopt at least one non-emissions-based climate metric to support their assessment of climate-related risks and opportunities. After considering the available data and advice, the Trustee has decided to use the following non-emissions-based metric:

Metric	Description
Proportion of Scope 1, 2 and 3 emissions data coverage	This metric aligns with a recognition that there are limitations in the availability and quality of carbon emissions data for all portfolio holdings. This metric helps to measure progress in making improvements in coverage over time.

Additionally, the Trustee must also report on one forward looking metric and the Trustee has decided to use the following portfolio alignment metric,

Metric	Description
Portfolio Alignment Metric	Implied temperature change from current portfolio. This metric is forward looking and sets out the extent to which investments are aligned with the Paris agreement target of limiting the increase in the global average temperature to 1.5ºC above pre-industrial levels. The Implied Temperature Rise metric gives the implied temperature rise attributed to a portfolio (in degrees Celsius) from a portfolio's aggregate carbon emission projections compared against climate scenario projections.

DC Section

The following table sets out the climate metrics adopted by the Trustee for the period ending 31 March 2024 for the DC Section:

	Total Assets £	Scope 1 & 2 Total GHG Emissions (tCO2e)	Scope 3 Total GHG Emissions (tCO2e)	Scope 1 & 2 Carbon footprint (tCO_2e/£m Invested)	Scope 3 Carbon footprint (tCO_2e/£m Invested)	Proportion of Emissions Data Coverage (Scope 1 & 2)	Proportion of Emissions Data Coverage (Scope 3)	Implied Temperature Rise	Coverage (ITR)
PSPS Global Equity - active	240,989,752	16,666	13,289	70.4	629.0	97.5%	70.3%	2.1	96.0%
- MFS Meridian Global Equity fund (37.5%)	*90,371,157*	2,951	12,490	32.7	187.9	99.8%	73.5%	1.9	99.8%
- Baillie Gifford Long Term Global Growth fund (25%)	*60,247,438*	208	799	3.7	22.3	93.2%	59.5%	1.9	93.2%
- LGIM RAFI Fundamental Global Reduced Carbon Pathway Equity Index fund (37.5%)	*90,371,157*	13,506	no data	152.5	no data	98.0%	no data	2.3	94.1%
PSPS UK Equity - active	98,564,868	6,251	51,657	70.4	712.0	90.4%	74.8%	1.7	86.9%
- Lindsell Train UK Equity fund (30%)	*29,569,460*	183	2,647	6.5	111.8	95.1%	80.1%	1.4	95.1%
- Baillie Gifford UK Equity (30%)	*29,569,460*	1,290	9,357	51.9	449.2	84.0%	70.4%	1.7	75.8%
- Schroders Life UK Equity Portfolio (40%)	*39,425,947*	4,778	39,654	132.1	1359.2	91.7%	74.0%	1.9	89.1%
PSPS Emerging Markets Equity - active	12,242,281	528	2,190	43.8	212.4	98.3%	84.2%	1.9	98.3%
- RBC Emerging Markets Equity fund (100%)	*12,242,281*	528	2,190	43.8	212.4	98.3%	84.2%	1.9	98.3%
PSPS Impact Equity - active	5,664,638	130	2,564	24.1	810.1	95.6%	55.9%	1.8	95.6%
- Wellington Global Impact fund (100%)	*5,664,638*	130	2,564	24.1	810.1	95.6%	55.9%	1.8	95.6%
PSPS Diversified Growth - active	14,850,831	316	1,593	115.3	839.2	39.0%	31.5%	1.9	38.4%
- Schroders Life Sustainable Future Multi-Asset fund (one-third)	*4,950,277*	117	576	157.0	1165.3	15.1%	10.0%	1.9	14.4%
- M&G Episode Allocation Fund (one-third)	*4,950,277*	82	469	163.3	1208.1	10.2%	7.8%	2.2	9.7%
- Nordea Diversified Return Fund (one-third)	*4,950,277*	117	549	25.7	144.3	91.9%	76.8%	1.7	91.2%
PSPS Diversified Liquid Alternatives - active	1,288,860	146	359	252.7	1001.8	45.0%	27.8%	2.3	43.5%
Fulcrum Diversified Liquid Alternatives fund	*1,288,860*	146	359	252.7	1001.8	45.0%	27.8%	2.3	43.5%
PSPS Total Return Bond – active	13,238,547	1,050	4,247	126.7	746.9	62.6%	43.0%	2.1	57.7%
- M&G Total Return Credit Investment Fund (100%)	*13,238,547*	1,050	4,247	126.7	746.9	62.6%	43.0%	2.1	57.7%
PSPS Overseas Equity - passive	66,688,797	8,056	38,104	121.1	755.4	99.8%	75.9%	2.1	99.7%
- BlackRock Aquila World ex UK Equity Index Fund (88%)	*58,686,141*	5,105	34,298	87.2	743.9	99.8%	78.6%	2.1	99.7%
- BlackRock Aquila Emerging Markets Equity (12%)	*8,002,656*	2,952	3,805	369.8	839.3	99.7%	56.7%	2.5	99.4%
PSPS UK Equity - passive	32,109,696	4,137	35,385	136.6	1381.0	94.3%	79.8%	2.1	92.4%
- M&G Pooled Pensions UK Equity Passive fund (100%)	*32,109,696*	4,137	35,385	136.6	1381.0	94.3%	79.8%	2.1	92.4%

	Total Assets £	Scope 1 & 2 Total GHG Emissions (tCO2e)	Scope 3 Total GHG Emissions (tCO2e)	Scope 1 & 2 Carbon footprint (tCO_2e/£m Invested)	Scope 3 Carbon footprint (tCO_2e/£m Invested)	Proportion of Emissions Data Coverage (Scope 1 & 2)	Proportion of Emissions Data Coverage (Scope 3)	Implied Temperature Rise	Coverage (ITR)
PSPS Corporate Bonds - active	15,655,498	568	3,880	48.5	464.0	74.8%	53.4%	1.9	66.7%
- M&G Pooled Pensions All Stocks Corporate Bond fund (100%)	*15,655,498*	568	3,880	48.5	464.0	74.8%	53.4%	1.9	66.7%
PSPS Sustainable Equity - passive	70,705,124	2,396	27,967	37.1	533.0	91.3%	74.2%	1.9	91.2%
- LGIM Future World Global Equity Index fund (100%)	*70,705,124*	2,396	27,967	37.1	533.0	91.3%	74.2%	1.9	91.2%
PSPS Islamic Global Equity Fund - passive	451,247	12	105	26.4	269.1	99.4%	86.2%	1.9	99.4%
HSBC Islamic Global Equity Index fund	*451,247*	12	105	26.4	269.1	99.4%	86.2%	1.9	99.4%

Source: Underlying holdings data has been sourced from Fund Managers. Climate metrics are based on analysis of data provided by MSCI using Hymans Robertson LLP's in house proprietary tool. Valuations based on data provided by The Prudential Assurance Company Limited (excludes reserve account). Carbon emissions associated with government bonds and short term money market instruments are not included in the data provided by MSCI and used by Hymans Robertson. As such, the Trustee has been unable to gather data for the M&G Index-Linked Gilts Passive, M&G Index-Linked Gilts active, M&G Long term Gilts Passive and M&G Fixed Interest Funds. Total DC assets £648m. Prudential With Profits not included in analysis as no data available.

Note: Total GHG Emissions calculated as Portfolio Value £m * Carbon Footprint * Data Coverage.

Data as at 30 September 2023.

Progress in metrics 2024 v 2023

Data coverage has widened since initial calculation of metrics with inclusion of Scope 3 emissions although coverage of individual funds still lags the target of carbon emissions data coverage for listed equity and public fixed income of 100% by 2025. This year the Trustee has been also able to show the data coverage for Scope 3 emissions as well as for Scope 1 and 2 and Implied Temperature Rise ("ITR") coverage.

Total DC Assets were £648m at 30 September 2023 and the Trustee obtained data on pooled funds totalling £573m with coverage of £526m for Scope 1 & 2 emissions (92% or 81% of overall assets) and ITR coverage of £520m (91% or 80% of overall assets). This is an improvement on 85% data coverage for Scope 1 & 2 emissions in the last report (76% of overall assets) and 84% for ITR (75% of overall assets).

Many funds have Scope 1 & 2 and ITR data coverage of over 90% but there are still some laggards. Within the underlying funds, the general trend is upwards in terms of the data coverage.

For funds with reported data, the aggregate overall ITR has dropped modestly to 2.0 degrees from 2.1 degrees. Similarly, the weighted average Scope 1 & 2 carbon footprint of funds with data has also fallen from 87.7 tCo2/£m to 76.5 tCo2/£m. Many of the PSPS Funds have seen reductions in their carbon emissions, with lower carbon footprint.

	Scope 1&2 Carbon Footprint tCO2e/£m Invested	
	30/09/2024	30/09/2023
PSPS UK Equity - active	70	78
PSPS Global Equity - active	70	51
PSPS Emerging Markets Equity - active	44	44
PSPS Impact Equity - active	24	new fund
PSPS Diversified Growth - active	115	153.5
PSPS Diversified Liquid Alternatives - active	253	new fund
PSPS Total Return Bond – active	127	126
PSPS Overseas Equity - passive	121	168
PSPS UK Equity - passive	137	162
PSPS Corporate Bonds - active	48	75
PSPS Sustainable Equity - passive	37	58
PSPS Islamic Global Equity Fund - passive	26	new fund

In 2023, as part of its review of the DC Section strategy, the Trustee introduced new funds to improve the overall sustainability of the DC assets. It is noticeable that where new funds have been added to PSPS Funds, these have generally improved the carbon scores (i.e. lower carbon footprint and emissions) and also where new standalone funds have been added (the Global Impact and Islamic Fund) these funds have low scores. The new underlying fund within the Sustainable Equity – passive fund has also improved the carbon score (lower carbon footprint) for that Fund significantly. The Nordea fund which has been added to the Diversified Growth Fund has also had a significant impact in improving the scores for that fund. Similarly, the Overseas Equity – passive fund has improved scores following the switch to two underlying BlackRock funds.

Case Study – DC Section - Impact of lifestyle change

With the greater allocation to the Sustainable Equity – passive Fund (57.5%) and addition of the Impact Equity – active Fund (5%), the Growth phase of the Multi-Asset Lifestyle has a significantly reduced carbon footprint, moving from 111 tCO2/£m in the last analysis to 48.9 tCO2/£m at end September 2023. Similarly, further on in the glidepath, at 10 years from retirement, the carbon footprint for the strategy has fallen from 142.9 tCO2/£m to 80.4 tCO2/£m (due to a higher degree of sustainable equity investment at this point than previously and also the Diversified Growth Fund carbon footprint has fallen). At 3 years from retirement, it has fallen from 134 tCO2/£m to 105.5 tCO2/£m.

The Global Equity – active Fund does have a higher carbon score (carbon footprint) following the replacement of the KB Global Equity Fund with the LGIM RAFI Fundamental Reduced Carbon Fund – given it's tilting toward value stocks this means the RAFI fund has a slightly higher carbon footprint but overall the blend of the Global Equity – active fund has a reasonably low score (and lower than a global equity index). The LGIM Fund does target a reduced carbon score over time so this should see a reduction over time.

It is notable that the active management reflects stock picking including stocks better aligned with reducing emissions and helping combat climate change and the active equity funds tend to have lower carbon scores (lower carbon footprint) than the conventional passive UK and overseas equity funds. Notably, the Sustainable Equity – passive and Islamic Global Equity – passive funds have lower carbon footprints than the other 2 passive funds (Overseas Equity and UK Equity – passive funds).

Although dependent on asset size and data coverage, in respect of assets reported on, the total greenhouse gas emissions for the DC Section were 40,256 tCO2 (Scope 1 &2). This compares favourably with the total emissions of 41,342 tCO2 when last reported as at 31 March 2023. This is a positive improvement given that assets have grown in this time (total assets £648m at this point compared to £626m in the previous calculation) and coverage has improved with assets with data coverage of £526m in the current analysis compared to £475m in March 2023.

DB Section

The following tables sets out the climate metrics adopted by the Trustee for the period ending 31 March 2024 for the DB Section:

Emissions metrics

	Total GHG Emissions (tCO2e)						Carbon footprint (tCO2e/£m Invested)			
	Scope 1 & 2		Scope 3		Sovereign (Scope 1+2+3)		Scope 1 & 2		Scope 3	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
DB Assets	68,729	36,510	525,579	251,618	n/a	557,854	46	32	282	219

Data as at 30/9/23 sourced from investment managers

The emissions shown are the sum of the emissions from Funds with reported data and the carbon footprint is the weighted average of the carbon footprint for Funds with data.

The Trustee's long-term objectives for the DB assets is to achieve a net zero Carbon Footprint (Scope 1 and 2 emissions, excluding sovereign bonds) by 2050.

The table above shows the weighted average Carbon Footprint for each mandate held by the Fund (with reported data and ignoring funds without data) as reported by the investment managers (prior year and current year). Overall reported emissions and carbon footprint have reduced over the period shown

Over the period shown, there was an increase in the reported carbon footprint within the Alpha Opportunities, Active Matched and Buy & Maintain portfolios. The Trustee understands that this has principally been driven by improved data quality and coverage for these portfolios following the changes to M&G's data providers. The Trustee notes that it is not unusual for an improvement in data quality to lead to an associated increase in reported emissions and will continue to monitor progress across the Scheme's mandates.

Emissions data and data coverage has improved to include those attributed to UK Government bonds as reported by the Scheme's LDI manager. UK Government bond emissions have been calculated in line with the PCAF methodology (https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf). As noted earlier, sovereign bond emissions have been excluded from the agreed net zero target for the Scheme reflecting a number of factors:

- The underlying methodology for calculating and attributing sovereign emissions is materially different to that used for corporate emissions.
- The Trustee primarily holds UK Government bonds as assets to hedge the Scheme's liabilities.
- The Trustee recognises that it has limited capacity to engage with governments on climate metrics.
- The level of climate-related financial risk arising from these assets is perceived to be much smaller.

Whilst a broad consensus is gradually emerging, methodologies for calculating emissions remain subject to change over time (particularly in areas such as sovereign emissions). This needs to be considered carefully in any attempt to assess the trend of a metric over time.

Implied Temperature Rise and Data Coverage

	Implied Temperature Rise		Data Coverage (Corporates and Real Estate) Scope 1+2		Scope 3		Data Coverage(Sovereign) Scope 1+2+3	
	2022	2023	2022	2023	2022	2023	2022	2023
DB Assets	2.6		46% (15%)	58% (24%)	48% (17%)	51% (16%)	0%	99% (62%

Data as at 30/9/23

Implied Temperature Rise and Data Coverage for DB Assets calculated as a weighted average of Implied Temperature Rise and Data Coverage of Funds with data (for data coverage the figures in brackets are data coverage as a percentage of total assets).

In respect of the sovereign emissions and carbon footprint data, this relates to funds representing

Climate targets

Targets are necessary to monitor progress towards longer term net zero and carbon reduction goals as well as the objectives of the Paris Agreement. The Trustee is required to establish at least one climate-related target based on the selected climate metrics. The IIGCC published their Net Zero Investment Framework Implementation Guide in March 2021. The guide is aimed at investors, with recommended actions, metrics and methodologies to maximise progress towards achieving net zero global emissions by 2050 or sooner. The IIGCC suggest adopting < 10 year targets at the portfolio level and to review and update these at least every 5 years. The Trustee has adopted targets as set out in Disclosure 11 earlier in the report. The Trustee will review its targets over the next Scheme Year including interim targets.

Appendix I: Glossary and definitions

Carbon footprint, *measured in tonnes of CO_2e per £million invested*

Carbon Intensity is a normalised measure of the emissions allocated to a portfolio,

$$\frac{\sum\left(\frac{Current\ value\ of\ investment\ in\ Entity}{Entity's\ Enterprise\ Value\ including\ Cash} \times (Entity's\ Scope\ 1+2\ GHG\ emissions)\right)}{Current\ portfolio\ value\ (£m)}$$

or

$$\frac{\sum\left(\frac{Current\ value\ of\ investment\ in\ Entity}{Entity's\ Enterprise\ Value\ including\ Cash} \times (Entity's\ Scope\ 3\ GHG\ emissions)\right)}{Current\ portfolio\ value\ (£m)}$$

ESG

Environmental, Social and Governance

EVIC

Enterprise value including cash. This is a measure of overall corporate value including equity shares, debt and cash.

Financial Stability Board

The Financial Stability Board is an international body that monitors and makes recommendations about the global financial system. It was established after the G20 London summit in April 2009 as a successor to the Financial Stability Forum.

Greenhouse Gases ("GHG")

Greenhouse gases are gases in the Earth's atmosphere that are capable of absorbing infrared radiation and thereby trap and hold heat in the atmosphere. The Kyoto protocol covers six categories of greenhouse gas (GHG) emissions: carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphurhexafluoride (SF_6).

IIGCC

The Institutional Investors' Group on Climate Change. The IIGCC aims to support and enable the investment community in driving significant and real progress by 2030 towards a net zero and resilient future.

Paris Agreement

The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 nations at COP 21 which was held in Paris on 12 December 2015. The Paris Agreement came into force from 4 November 2016. Further support for the principal goals of COP 21 were agreed in the Glasgow Climate Pact made in November 2022 at COP 26.

Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

Scope 1 Greenhouse Gas Emissions

Scope 1 emissions are direct emissions produced by the activities of the emitter.

Scope 2 Greenhouse Gas Emissions

Scope 2 emissions are indirect emissions generated by the electricity, heat, or steam consumed and purchased by the emitter.

Scope 3 Greenhouse Gas Emissions

Scope 3 emissions are other indirect emissions, such as 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 not covered in Scope 2, outsourced activities, waste disposal, etc.

TCFD

Task Force on Climate-related Financial Disclosures

Total Financed Carbon Emissions *in tonnes CO_2e*

Total Financed Carbon Emissions measures the emissions that are allocated to a portfolio, based on the investors share of the capital (Enterprise Value) in each Entity within the portfolio.

$$\sum\left(\frac{Current\ value\ of\ investment\ in\ Entity}{Entity's\ Enterprise\ Value\ including\ Cash} \times (Entity's\ Scope\ 1+2\ GHG\ emissions)\right)$$

Or

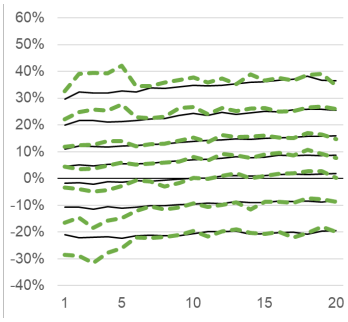
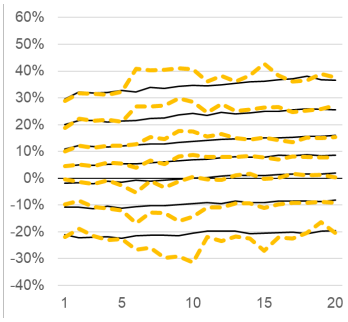
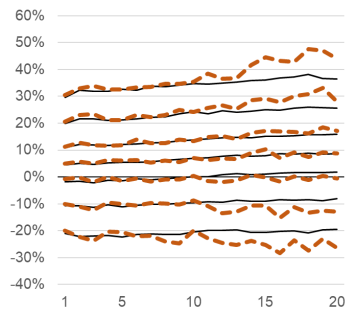
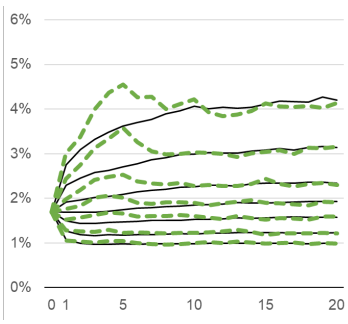
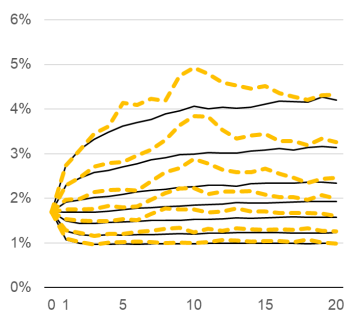
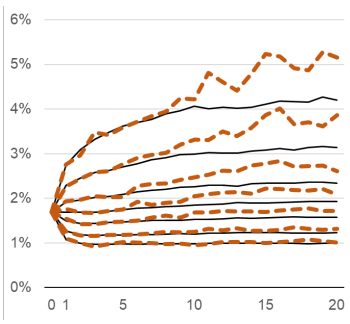
$$\sum\left(\frac{Current\ value\ of\ investment\ in\ Entity}{Entity's\ Enterprise\ Value\ including\ Cash} \times (Entity's\ Scope\ 3\ GHG\ emissions)\right)$$

Appendix 2: Climate Scenario analysis methodology

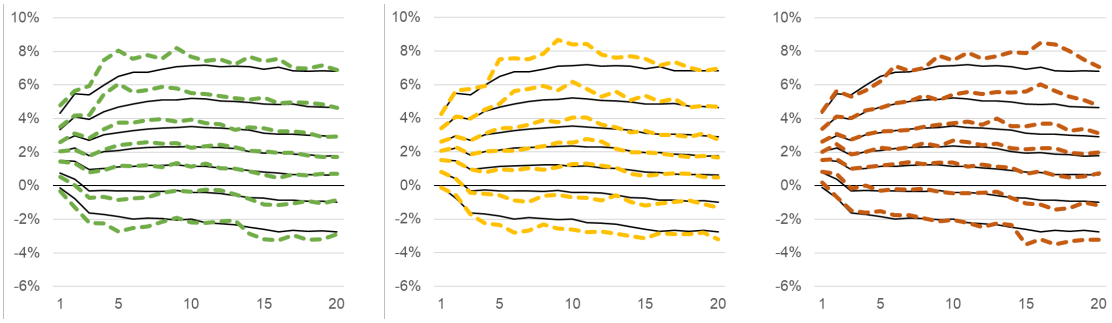
We recognise that there is no single methodology for exploring the potential impact of different climate scenarios on members' long-term outcomes. For the purpose of the analysis undertaken to date, the Trustee relied on the methodology developed by our investment advisers.

For the DC Section, their approach draws on stochastic analysis of future potential outcomes, with emphasis on pathways demonstrating greater levels of market volatility/disruption during periods aligned with the climate scenarios described above. The following table illustrates the impact of each scenario on global equity returns, credit spreads, CPI inflation and real yields. In all instances the horizontal axis represents time (years) and the vertical represents the annual percentage return / yield:

The charts show a representation of periods of heighted volatility under each climate scenario against the status quo over time. On the x-axis, are the number of years from 31 March 2024, and on the y-axis is the % value of equity returns/ credit spreads/ inflation/ yields. The base scenario is represented a distribution of solid black lines, showing the following percentiles from bottom to top {1%, 5%, 16%, 50% (median), 84%, 95%, 99%} for equity returns (say). This gives a feel for the distribution of expected values over time under the base scenario. As an overlay, we show a bold dashed line on each chart, which represents the respective distributions under the chosen climate scenario. Again this gives a feel for the distribution of values, but under the climate scenario. Therefore the difference between the solid lines and the dashed lines are effectively the impact of applying the climate scenario. As an example, you will see in the Green revolution charts, the solid and dashed lines deviate more in the early years (<10 years from now), where the impact of the climate scenario is felt most heavily in the first 10 years. Under the Delayed Transition/ Head in the Sand scenarios, the deviation from the status quo happen further in the future, as less immediate action is taken.

	Green revolution	Delayed transition	Head in the sand
Global equity returns			
Credit spreads			

CPI inflation



Real yields