Climate change report

A report for members by the Trustee of the 2013 Next Group Pension Plan

Plan year to 30 September 2024

Why have we written this report?

The UK became the first G20 country to make it mandatory for Britain's largest companies and financial organisations to disclose their climate-related risks and opportunities. The Trustee of the Plan published their first climate change report last year. This will be the last climate report published by the Plan as a result of the Trustee decision to secure the liabilities of the Plan in full with an insurance company.

On behalf of the 2013 Next Group Pension Plan, Chair of the Trustee of the Plan

Overview

The 2013 Next Group Pension Plan (the "Plan") is an occupational defined benefit pension scheme. The Trustee's primary objective is to meet benefit payments of the Plan as they fall due and in order to achieve this objective it has secured these pensions with insurance companies. This was an action identified in the 2023 report as the best action the Trustee could take to mitigate climate risk.

In its journey to this point, the Trustee considered many factors, including the risks and opportunities introduced by the prospect of climate change, which were covered in detail in last year's report.

The Trustee has recognised the importance of climate change as an issue that poses major systemic risks to society, the economy and the financial system as a whole. This includes the transitional and physical risks related to climate change that could affect both the assets of the Plan and the Plan's sponsor's business performance and reputation, such as regulatory changes, customer preferences, extreme weather events, supply chain disruptions, and increased costs.

Before the Plan secured the promised benefits with an insurance company (through a bulk annuity purchase, often referred to as a 'buy in'), the Plan's financial position might have been materially influenced by climate change. This could have happened in two ways: physical risks that impair the value of assets, and transition risks that lower the returns of companies as they incur the costs of transitioning to a low carbon economy (or face penalties if they do not). The Trustee used to have a process to seek to identify these risks and take appropriate measures to reduce them. Now those benefits have been secured, this risk has been mitigated as far as the Trustee is able.

This report describes how the Trustee identified, assessed and managed climate-related risks and opportunities to the Plan during the Plan year to 30 September 2024. It covers the processes in place both prior to and after the full buy in but will be the last climate report the Trustee will publish given the full buy in. For a broader indication of the Trustee's policies in relation to investments, please see the Statement of Investment Principles ("SIP"). For details of the Trustee's activity in relation to the environmental, social and governance policies outlined in the SIP, including examples of voting action taken on the Trustee's behalf, please see the Implementation Statement, shared on page 53 of the Annual Report and Financial Statements. Both are available online and we have provided links below.

- Statement of Investment Principles: https://nextpensionscheme.co.uk/documents/SIP_for_2013_Next_Plan_Feb_2024.pdf?language_id=1
- Implementation Statement in Report and Financial Statements: https://www.nextpensionscheme.co.uk/

Contents

Approved by the Trustee for the Plan year to 30 September 2024.

Published alongside the Plan's annual report and accounts for the year to 30 September 2024 and available online.

Executive summary

This report describes the activities and approach taken by us (the Trustee) to understand and reduce the climate-related risks faced by the Plan and our consideration of any investment opportunities as part of the transition to a lower carbon economy. **The Trustee notes that actions taken in relation to climate change, including efforts to move towards achieving any targets set, have always been taken on the condition that they are also appropriate from a wider strategic perspective with the Trustee's overall objectives in mind.**

The following points are a summary of the detailed report that follows:

- We believe that appropriate management of climate-related risks and opportunities for the Plan's investments should improve outcomes for our members through better long-term returns and lower risk.
- We have therefore allocated time and resource to this topic in recent years, integrating climate considerations into the Plan's risk register and considering which fund manager mandates should have specific carbon reduction targets. We remain focussed on delivering our key objective of delivering members' benefits and to achieve that we have now completed a full buy in, insuring all of the benefits of the Plan with insurance partners. We are reassured that our insurance partners, Just and Pension Investment Corporation (PIC) ensure that climate related risks and opportunities are properly identified and managed accordingly.
- During the year to 30 September 2024, we considered how climate risks and opportunities might affect the funding level of the Plan under different climate scenarios. We no longer expect any losses to the Plan under any of these scenarios as we anticipate that the insurance companies are sufficiently robust and well capitalised to continue paying the pension benefits as they fall due, even in the most detrimental of these scenarios.
- We have sought to collect data on four climate-related metrics: total emissions, carbon footprint (emissions per £m invested), portfolio alignment (a measure of alignment with a transition to a Net Zero economy) and data quality.
- We also previously set a target against the third metric – portfolio alignment – which aimed to increase the number of investments in the Plan's portfolio that have approved Science Based Targets ("SBTs"). By 31 December 2025, we were targeting 65% and 30% portfolio alignment for equities and bonds respectively. We no longer have any equity investment. The Plan holds some residual gilts and the insurance policies, which themselves are supported by bond like exposures (further details on this is set out in the Targets section of this report) so the Trustee now only considers the 30% alignment target for bond like assets relevant going forward. The baseline for this target is 31 December 2022 when 14% of the Plan's bonds were SBT-aligned. Under the current investment arrangements, weighting alignment scores by the value of each portfolio, the estimated alignment is 29%, very close to the ultimate target. This is being pulled up by the assumed 100% alignment of gilt holdings, and it is the progress that PIC can make from their current 25% alignment to the target 30% alignment that will impact most, given that approximately 90% of the liabilities are insured via PIC.
- Collecting metrics has helped us to identify climate exposures. We are now reliant on disclosure from our insurance company partners. We have data gaps – while there is good disclosure from the insurance partners of their overall climate exposures in their own TCFD reports, Just have not provided us with information relating specifically to assets backing the Plan liabilities insured with them. We have therefore estimated this using the disclosures available from Just and PIC. Additionally, it is widely recognised that there remain shortcomings in the quality and completeness of the emissions data available for many assets, unlisted assets being a key stumbling block, an area insurance companies invest significantly in.

The purpose and structure of this report

The purpose of this report is to describe the Plan's governance framework for managing climate-related risks and opportunities for the Plan and how it has been implemented in the year to 30 September 2024. It is the Plan's second and final report in line with the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD), as required by the 2021 Climate Change Governance and Reporting Regulations.

This report covers the TCFD's thematic areas of:

- Governance – the Plan's governance around climate-related risks and opportunities;
- Strategy – the potential impacts of climate-related risks and opportunities on the Plan and the resilience of the Plan's investment strategy and DB funding strategy under different climate-related scenarios;
- Risk Management – the processes used by the Plan to identify, assess, and manage climate-related risks;
- Metrics and Targets – the metrics and target used to assess and manage relevant climate-related risks and opportunities to the Plan.

Governance is covered in Section 1 of the report; Strategy and Risk Management are covered in Section 2 and 3 and Metrics and Targets are covered in Section 4. There is a Glossary in Appendix 4, and the other appendices provide more detailed information on various topics.

Governance

Management of climate-related risks and opportunities – roles and responsibilities

The Trustee has ultimate responsibility for ensuring effective governance of climate change risks and opportunities in relation to the Plan. The Trustee identifies, assesses and manages them. Historically, and at the start of this reporting year, there was an Investment Committee ("IC") in place which oversaw the investments and reported to the board. Following the buy in of the liabilities, which meant the scheme assets were largely held in bulk annuity policies, with only a relatively small value of residual assets held in passive gilt funds with Legal & General, it was agreed by the Trustee that this committee should be dissolved,

Prior to the buy in, and in reorganising the assets for the buy in, the IC and full Trustee board was advised by LCP. Post buy in the LCP appointment remains in place, albeit their objectives were reviewed to reflect the now relatively small value of investible assets and the fact that these are solely invested in pooled gilt funds. This section documents the governance processes that the Trustee has put in place to ensure that it has oversight of the climate-related risks and opportunities relevant to the Plan. No climate-related governance activities are undertaken by parties other than the Trustee and their committees.

In September 2023, the Trustee agreed a Statement on Governance of Climate Change Risks and Opportunities, which clearly laid out the division of responsibilities between the parties noted above to maintain appropriate oversight of the climate-related risks and opportunities relevant to the Plan. This ensured the Trustee could be confident that its statutory and fiduciary obligations were met. The approach to Governance has been simplified since the Plan completed a full buy in, insuring its liabilities. This is appropriate and proportionate because the Trustee now has only residual assets that it invests directly

Plan context

The assets held by the Plan are:

	£ Million as at 30 September 2024 *
L&G passive gilt fund holdings	43
Just policy value	58
Pension Insurance Corporation (PIC) policy value	484

* Based on the valuation as set out in the annual report and financial statements

The Just and the PIC policy insure the pension payments expected from the Plan. The L&G passive gilt fund holdings are expected to be sufficient to cover any additional premium needed to equalise GMPs between genders, following the Lloyd's Judgement, any other 'true ups' and to cover scheme expenses prior to wind up.

Chair of the Trustee

It is the Chair of the Trustee's responsibility, with support from the Plan Secretary to ensure that sufficient time is allocated for consideration and discussion of climate matters by the Trustee and its advisers. Prior to the buy in the Chair worked with the Investment Committee (IC) Chair on this. Significant time was spent on climate matters and it was a material part of the IC activity. Governance time on climate matters has reduced, in line with proportionality, now the Plan has completed a full buy in. The changes to the governance structure are noted below

The Trustee's role

In broad terms, the Trustee, working with its advisers, is responsible for:

- ensuring that the Trustee Directors have sufficient knowledge and understanding of climate change to fulfil their statutory and fiduciary obligations and are keeping this knowledge and understanding up to date. This includes knowledge and understanding of the principles relating to the identification, assessment and management of climate-related risks and opportunities for the Plan;
- considering the climate-related impact into its investment beliefs and the Plan's investment policies;
- putting effective climate governance arrangements in place;
- determining the short, medium and long term periods to be used when identifying climate-related risks and opportunities for the Plan;

- identifying and assessing the main climate-related risks and opportunities for the Plan over these time periods and documenting the management of them;
- considering scenarios as appropriate which illustrates how the Plan may be affected under different climate pathways, including the potential impact on its assets and liabilities, and the resilience of its investment and funding strategies;
- incorporating climate-related risks and opportunities into strategic decisions relating to the Plan's funding arrangements;
- incorporating climate-related risks and opportunities into the Plan's risk register;
- allowing for climate-related risks and opportunities when assessing and monitoring the strength of the sponsoring employer's covenant;
- ensuring that the Plan's actuarial, investment, and covenant advisers have the appropriate competency and clearly defined responsibilities in respect of climate change and will take adequate steps to identify and assess any climate-related risks and opportunities which are relevant to the matters on which they are advising;
- considering and documenting the extent to which the advisers' responsibilities are included in any agreements, such as investment consultants' strategic objectives and service agreements;
- communicating with Plan members and other stakeholders on climate change where appropriate, including public reporting in accordance with *The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021*, and *The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013* (together "TCFD reporting"[1]) when required.

From time to time, the Trustee may have delegated consideration of some climate-related matters to its IC, as outlined below.

Investment Committee ("IC")

The IC was dissolved during the year, once a full buy in of the liabilities was achieved in January 2024. Prior to that, in broad terms, the IC was responsible for:

- considering the climate-related impact of strategic decisions relating to the Plan's investments;
- ensuring that the Plan's investment managers were managing climate-related risks and opportunities in relation to the Plan's investments, and had appropriate processes, expertise and resources to do this effectively; and
- selecting and regularly reviewing metrics to inform the Trustee's identification, assessment and management of climate-related risks and opportunities, and setting and monitoring targets to meet these metrics over time, where appropriate.

In addition to the above, the IC assisted the Trustee, where appropriate, concerning the fulfilment of its responsibilities outlined in the section above, including the investment aspects of:

- identifying and assessing the main climate-related risks and opportunities for the Plan over the short, medium, and long term, and documenting them accordingly;
- incorporating the impact of climate-related risks and opportunities into the Plan's risk register;
- considering and documenting the extent to which the advisers' responsibilities were included in any agreements, such as the strategic objectives and service agreements of LCP as investment adviser; and
- communicating with Plan members and other stakeholders on the risks and opportunities of climate change where appropriate, including TCFD reporting.

Following the dissolution of the IC, to the extent still applicable, these activities returned to the responsibility of the full Trustee board.

[1] Note that, for convenience, this Governance Statement refers to the reporting requirements under the climate regulations (which are based on the recommendations of the Taskforce on Climate-related Financial Disclosures) as "TCFD reporting", although in practice it is recognised that the recommendations of the TCFD may change over time and may not always be aligned with the statutory requirements applying to the Plan.

The Trustee's climate-related investment beliefs and policies

The Trustee has agreed a range of climate-specific investment beliefs and policies. These are incorporated in its Statement of Investment Principles ("SIP"), which sets out the policy of the Trustee on various matters governing decisions about the investments of the Plan.

The Trustee's key climate-related investment beliefs are as follows:

- Environmental, social and governance ("ESG") factors should be considered when making investment decisions;
- investment managers may be able to improve risk-adjusted returns by taking account of ESG factors, since companies with strong ESG performance are expected to deliver better returns in the medium to long term;
- climate change is a financially material systemic issue that presents risks and opportunities for the Plan over the short, medium and long term; and
- voting and engagement are important and can create long term value which is in the best interest of Plan members and therefore we encourage managers to improve their voting and engagement practices by communicating our stewardship priorities and expectations to them annually, and also asking them about these topics when they give presentations to us.

The Trustee's key climate-related policies which are the same as disclosed in last year's climate report are as follows:

- The Trustee influences the Plan's approach to ESG and other financially material factors through its investment strategy and manager selection decisions. It expects the Plan's investment managers to take account of financially material factors (including climate change and other ESG factors) within the parameters of the mandates agreed with them. It seeks to appoint managers that have the skills and processes to do this, and annually review how the managers are taking account of these issues in practice.
- Whilst the Trustee notes that it has limited influence over managers' investment practices where assets are held in pooled funds, it encourages its managers to improve their practices within the parameters of the fund.
- Within each asset class, the Trustee's policy is to consider investment options that give increased weight to ESG factors. The Trustee has chosen to invest part of the equity allocation in a passively managed fund that tracks a market index of equity stocks with reduced exposure to climate-related risks and increased exposure to climate-related opportunities. The listed infrastructure allocation is also allocated to a fund with an explicit focus on low carbon infrastructure investments.

While these policies did not explicitly call out selection of insurance arrangements, these principles were following when considering insurance partners for the buy in transaction.

Ensuring adequate oversight of climate-related risks and opportunities

It is essential that the Trustee has sufficient knowledge and understanding of climate change, and related risks and opportunities, to fulfil their statutory and fiduciary obligations. The Trustee review their skills and experience in this area when reviewing their knowledge and understanding needs. They consider what training might be required for any decisions likely to be required over the coming year.

The Trustee consider how best to have adequate oversight of investments and climate-related risks and opportunities. When the Plan had more complex investment arrangements the Trustee believed that by delegating certain responsibilities to the IC and by allocating specific time at its quarterly meetings to discuss and consider climate risks and opportunities, ensured a structure that allowed significant dedication to climate matters. Following the completion of the buy in and the investment of the residual assets in passive gilt funds, the Trustee believes that consideration of the metrics set out in this report, along with the TCFD (climate) reports of the two insurance companies with whom it holds policies, is sufficient oversight.

In our last climate report the Trustee was able to disclose many examples of the items it had considered in relation to climate risks and opportunities. During this reporting year the Trustee's main investment activity was divesting from its growth assets to move everything to fixed income funds ahead of the payment of the premium and then making the payment for the bulk annuity policy to complete the buy in. In terms of its focus in relation to climate related risks and opportunities, the Trustee focus was considering the resilience to climate change of its selected insurance company for the buy in.

In preparation for the production of this climate report, the Trustee discussed what would be the appropriate metrics for this year and progress against targets, to the extent that they remain appropriate. Typically, the IC would have received advice and recommendations from the investment adviser on climate risks and opportunities and the investment adviser continued to advise the trustees on ESG and wider climate ratings of its fund managers until the point of divestment. The Trustee received advise on the climate resilience of its insurer as part of a covenant assessment ahead of the transaction.

Ensuring appropriate adviser arrangements

Appendix 1 details the advisers that were in place during the year, along with the advisers' responsibilities, as set out in the Statement on Governance of Climate Change Risks and Opportunities.

The Trustee has ensured that appropriate climate-related considerations are reflected in the objectives of its advisers, as relevant. When appointing new advisers, the Trustee takes steps to satisfy itself that the adviser has suitable climate credentials.

The Trustee and the IC satisfied themselves that their advisers take adequate steps to identify and assess climate-related risks and opportunities which are relevant to the matters on which they advise by:

- setting clearly defined responsibilities and expectations in respect of climate change, where appropriate;
- documenting their responsibilities, where relevant, in agreements such as the strategic objectives for the Plan's investment adviser;
- ensuring they are adequately prioritising climate-related risk.

The Trustee reviews advisers against objectives set on an annual basis. The Trustee has processes for assessing the competency of the advisers, including (but not limited to) reviewing the advisers against specific climate objectives where relevant. Reviews of the investment adviser against the Trustee's objectives take place annually, typically in November, and there were no concerns this year.

The Trustee is also supported by Next pension staff. Next staff provide secretarial services to the Trustee. The Trustee is not reliant on the expertise of Next pension staff, as they do not make decisions on behalf of the Trustee nor advise the Trustee, however the Trustee does ensure that the scheme secretary attends the same training as received by the Trustee. During the year the Trustee additionally received support from Pegasus Governance Services, a Law Debenture company. Pegasus staff are subject to a rigorous continuing professional development program. This includes training sessions on ESG and climate provided by investment and actuarial consulting firms as well as internal knowledge sharing sessions where Law Debenture's Trustee Directors share with Pegasus the best practice they are seeing cross the industry.

Oversight activities and processes

The Trustee considers a range of different information about the climate change risks and opportunities faced by the Plan to enable them to fulfil their responsibilities set out above.

Annual review

At one or more meetings each year and to the extent it remains appropriate, the Trustee or a sub group of the trustee will review, revise (where appropriate) and approve:

- its governance arrangements in relation to climate change;
- whether to retain or replace any targets set in relation to these metrics.
- whether it is appropriate to carry out scenario analysis that illustrates how the Plan's assets and liabilities might be affected under various climate change scenarios, noting that such analysis is required at least every three years and if there is a material change of investment strategy;
- the advisers' climate competency and assess how they have performed against their climate responsibilities.
- its draft TCFD reporting;

Previously at one or more meetings each year, the IC and Trustee reviewed, revised (where appropriate) and approved its investment beliefs and the Plan's investment policies in relation to climate change. However since the Plan assets are now almost wholly invested into bulk annuity contracts with just a small residual held in gilts, this review will in future be an ad hoc review as and when relevant.

The Trustee reviews its advisors annually and to the extent it is still relevant will also consider the advisers' climate competency and assess how they have performed against any climate responsibilities.

Whenever reviewing agreements with external advisers, or appointing new advisers, the Trustee will consider and document the extent to which the advisers' climate-related responsibilities are included in the agreements and/or any adviser objectives set.

The Trustee also considers the extent to which it requires trustee training and support when it considers its own knowledge and skills gaps. Since the covering the liabilities with a bulk annuity purchase, the trustee has not identified a need for any further training on climate related matters. Previous training sessions are included in the box below:

Strategy

Identification and assessment of climate-related risks and opportunities relevant to the funding position of the Plan

Periods for assessing climate-related risks and opportunities

The Trustee has previously considered climate-related risks and opportunities over various time periods that it believed were relevant to the Plan at the time. Those time periods, and updated comments on them are set in in the table below.

Time period	Original rationale for time period	Key risks	Key opportunities
Short term	**3 years** – aligned with triennial actuarial valuation cycle	Solvency deterioration of Pensions Investment Corporation (PIC), with whom most liabilities are insured, or Just with whom some pensions were previously insured.	The Plan has no direct control over the investments made by PIC or Just, which limits its ability to invest in climate opportunities. but it did consider the climate strategy of PIC before transacting with them.
Medium term	**8 years** – the period over which we expect the most impact on markets if the transition to low carbon is implemented as expected to meet the Paris goals.	Solvency deterioration of Pensions Investment Corporation (PIC), with whom most liabilities are insured, or Just with whom some pensions were previously insured. Implications of transition to low carbon economy on gilt prices, and therefore the value of the residual asset holding of the Plan.	Climate-aware corporate bond mandates could provide an investment opportunity for the fixed income assets to climate risks, however given the expected short timeframe during which the trustee will hold fixed income, gilts are currently deemed more appropriate than corporate bonds.
Long term	**15 years** – the long term time horizon the IC previously used for modelling	The trustee previously identified that there was a risk that the cost of buy-out may increase as insurers allow for climate related risks in their pricing and reserving bases. This risk was mitigated by completing a full buy in of liabilities early in the year. The long term risk for scheme members will ultimately be insolvency of PIC or Just. This is mitigated by the Solvency II regime, regulation by the PRA and the experience and resource of both PIC and Just in managing these climate related risks.	The trustee does not expect to benefit from opportunities over the long term, when the scheme will be wound up, but recognises that its insurance partners might.

Pension benefits are now fully insured with PIC and Just contractually obligated to pay pension amounts, as they fall due, to the scheme, for the administrator of the Plan to in turn use to pay the pensioners. Once the Plan is wound up, PIC and Just will pay pensions directly and members will be dependent on those insurance companies. The Trustee considers 15 years to still be an appropriate long term horizon. This is broadly the period to 2050. In identifying an 8 year time horizon as relevant, this was the period to roughly 2031, which was identified as a critical period in assessing the success of the transition and meeting of interim targets. As the Plan is fully insured and no longer reliant on company funding, it now considers this as the short term, rather than the triannual valuation cycle. PIC defines a medium term period as 2040, and the Trustee considers this as appropriate to adopt for the definition of medium term itself going forward.

Climate scenarios considered and why the Trustee chose them

Scenario analysis is a tool for examining and evaluating different ways in which the future may unfold. Under the TCFD reporting requirements that apply to pension funds, the Trustee is required to carry out new scenario analysis when it changes its investment strategy. The Trustee considers the purchase of a bulk annuity contract to cover the liabilities of the scheme as a material change in strategy. However, as a consequence of this decision the Trustee does not have material assets to invest or model, instead holding an insurance policy.

When considering the possible impact of climate change on the Plan's expected solvency, the Trustee previously sought to consider, via asset and liability modelling, the impact of three scenarios on the Plan. The Trustee chose these scenarios (developed by Ortec Finance and Cambridge Econometrics), after consultation with its investment adviser.

The future security of the Plan under different climate scenarios is now linked to the solvency of its annuity providers, Just and PIC. In considering transacting with PIC last year, the Trustee sought advice on the climate strategy pursued by PIC and has considered PIC's resilience to climate change based on the scenarios PIC disclosed in its own TCFD report[2]. The Trustee has also reviewed the TCFD disclosures included in Just's annual Report and Financial Statements[3].

The scenarios the Trustee previously identified and the nearest 'equivalent' scenario identified by PIC and Just, are set out in the table below, which includes a comment on why the Trustee originally chose the scenario and the applicability of the scenarios used by its bulk annuity providers. The Trustee recognises that the intricacies of climate systems present considerable difficulties in modelling the impacts on pension plans' assets and liabilities. This is particularly true in a 'High Warming' scenario where over 4°C of warming might be observed. Due to the unprecedented nature of such warming, it is challenging to encompass all potential consequences within the modelling process. Simplifications in the modelling, such as not allowing for tipping points, mean the actual impact on pension schemes is likely to be more significant than is currently being modelled. As long as these limitations are understood, the scenarios still provide valuable insights to inform climate risk assessment and management.

[2] https://www.pensioncorporation.com/content/dam/pic/corporate/documents/investors/-pic-and-picg-financial-results-and-reports/results/2023/PIC-climate-report-TCFD-2023.pdf.downloadasset.pdf
[3] https://www.justgroupplc.co.uk/~/media/Files/J/Just-Retirement-Corp/investor-docs/financial-reports-and-presentations/2024/43596-just-ar23-rgb-web-1.pdf

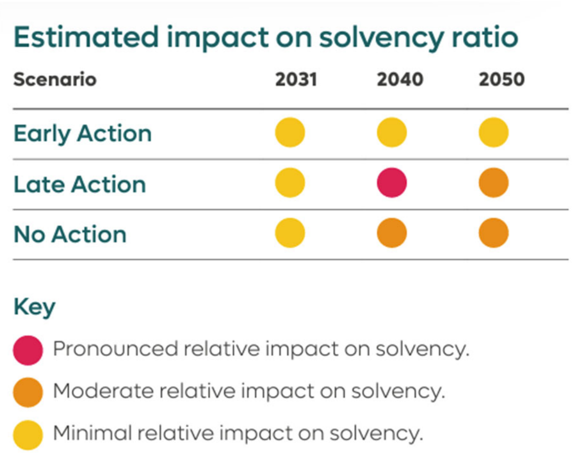
Trustee scenario	Why the Trustee chose it	PIC 'equivalent' scenario	Just 'equivalent' scenario	Comment on relevance of PIC/Just scenario
High Warming Global net zero carbon emissions not reached by 2050; only existing climate policies are implemented, and temperatures rise significantly.	The Trustee chose this scenario to explore what could happen to the Plan's finances if carbon emissions continue at current levels and this results in significant physical risks from changes in the global climate that disrupt economic activity.	**No additional action** No further action is taken on climate change, leading to increased physical impacts of climate change and warming of 3.3°C by 2050. There are permanent impacts on living and working conditions, GDP growth is permanently lower and macroeconomic uncertainty increases.	**Hot House World** Assumes only current implemented policies are preserved leading to higher physical risks. Emissions continue to grow until 2080 leading to around 3 degrees of warming and irreversible changes such as rising sea levels.	These are to all intents and purposes the same scenario and the Trustee will consider the PIC and Just scenario analysis output in considering the impact of this scenario.
Net Zero Financial Crisis Global net zero CO_2 emissions achieved by 2050 via rapid and effective climate action but financial markets are slower to react and then react abruptly.	The Trustee chose this scenario to look at the risks and opportunities for the Plan if global net zero carbon emissions is achieved by 2050, but financial markets are volatile as they adjust to a low carbon economy.	**Late action** The implementation of climate policy is delayed to the 2030s leading to a sudden and disorderly transition that successfully limits climate change to 1.8°C warming by 2050 but causes material short-term market disruption.	**Disorderly** Net zero reached by 2050 but with higher costs due to divergence with more stringent policies across all sectors, primarily focusing on the transportation and buildings sectors. Emissions are in line with a climate goal, giving at least a 50% chance of limiting global warming by the end of the century.	These scenarios all recognise a situation where global warming is kept below the maximum target of 2°C but bring with them market turmoil. The Trustee is comfortable that this year it can consider the possible outcome under the PIC and Just scenario identified, in place of the Net Zero Financial Crisis scenario.
Limited Action Policymakers implement limited new climate policies and fall short of meeting the Paris Agreement goals, resulting in a combination of transition and physical risks	The Trustee chose this scenario to see how the Plan's finances could play out if climate policies did not meet the defined goals and how this would impact the wider economy.	No equivalent	No equivalent	The Trustee sees this as a likely base case and not an extreme scenario, and is therefore content to focus on the above two scenarios this year, which meets the requirements of TCFD reporting for pension funds. However, PIC also report a third scenario

Climate scenario analysis results

The Trustee concluded that it did not have to consider scenario analysis for the gilt holdings nor its sponsor covenant as these will not be relevant to the Plan beyond the short term, give the Plan wind up will follow the full buy in.

Given that most liabilities are insured with PIC the results of the PIC scenario analysis are most material, but the Trustee also considers the Just results as important are some members will be reliant on the solvency of Just for their pension payments after wind up.

The results of the PIC analysis are:



Source: Pension Insurance Corporation 2023 TCFD report

As is clear from the PIC traffic light disclosure, it is Late Action (disorderly transition) that PIC identify as the most detrimental scenario. This scenario has a market crisis in 2031, identified by the Trustee as the short term, but they identify that credit downgrades may continue to 2040, delaying the worst impact on their reported solvency until 2040, the medium term that the Trustee considers. However under this scenario PIC anticipate the beginning of a market recovery ahead of 2050. Despite the modelling output, over the very long term they identify this scenario as significantly less damaging than No Action scenario, so they are still taking steps to mitigate climate change. As a result, PIC have restrictions on investments linked to coal extraction and burning and Tar Sands (companies with more than 10% revenues from these sources excluded from investible universe) and are cautious on oil, making no new investments in companies that exclusively focus on upstream activities.

The Just analysis discloses a climate value at risk (CvaR) under each scenario for the long term (CVAR attempts to quantify the probable maximum reduction in terms of solvency ratio). A copy of this is included below. It is the credit portfolio that will back the bulk annuity policy held by the plan, but it is the overall solvency of Just that the Trustee is interested in, so it has reviewed and included the results for the lifetime mortgage portfolio too.

SUB-PORTFOLIO	DIVERGENT NET ZERO 2050	NET ZERO 2050	CURRENT POLICIES (HOT HOUSE WORLD)
Credit portfolio[1]	-10.5% CVaR	-6.4% CVaR	-4.3% CVaR
Lifetime Mortgage portfolio	-3.1% PVaR	-3.1% PVaR	-0.3% PVaR

Source: Just Group, results as at 30 June 2023 disclosed in its annual report

In the context of a solvency ratio for Just of 196% at end of June 2024 (source: Fitch) these CVaR are clearly a risk that Just could withstand. The Just analysis does not disclose a CVaR for each of the Trustee's short, medium and long term horizon, but does share a qualitative assessment of how risks will emerge over different time zones that the trustees have considered.

While PIC did not disclose a CVaR, the Trustee considers it likely it is facing a similar level of risk to that faced by Just. The PIC solvency ratio is 233% (source: Fitch), so again it appears like it would be highly resilient.

While the Trustee has no control of the asset strategy of PIC or Just and hence no direct control of its climate risks. The extent to which these climate-related risks and opportunities could impact the value of the Plan's assets and liabilities is now very limited. The detrimental impact of the Limited Action and Net Zero financial Crisis scenario would only impact on the Plan if it threatened the solvency of the insurance companies and the anticipated CVAR versus solvency ratio indicates no risk of insolvency arising from climate risks. The Trustee takes comfort from the planning ahead that PIC and Just have undertaken and the climate risk management mitigations that are disclosed in their reports. As a consequence, the Trustee believes that PIC and Just will be resilient over its time frame, even in the case of a worst case scenario modelled.

Consideration of the sponsor covenant and climate related risks

The insurance of the full liability, with a residual reserve, means that the Plan is not expected to require support from the Company, but it has previously considered the climate-risk on the company covenant and its ability to support the scheme in a worst-case scenario and felt comfortable that while Next could be detrimentally impacted by climate risk this would not impair its ability to support the scheme.

The Trustee’s covenant adviser Cardano updated their assessment of Next PLC in November 2023 and as part of this assessment, whilst they assessed the covenant as strong, they did note that the decarbonisation of the economy could require significant investments over the longer term to adapt the current business models. Their advice also referred to a long period of covenant reliance but suggested the covenant could potentially be challenged by the emergence of ESG factors if the Plan did not transfer to a third party insurer.

Risk management

Processes for identifying and assessing climate-related risks

The Trustee previously implemented a number of processes and tools for identifying, assessing and managing climate related risks and opportunities for the Plan, and took steps to integrate these within the overall risk management of the Plan. Some of the key measures that were in place prior to full buy in in January 2024, are outlined below:

- The Trustee and IC received climate related training to understand how climate-related risks might affect pension schemes and their investments in general;
- The Trustee undertook climate scenario analysis which showed how the Plan's assets and liabilities might have been affected under a range of climate scenarios. This was disclosed in last year's report;
- The IC reviewed its investment adviser's assessments of the Plan's current and prospective investment managers' climate practices, including how they incorporated climate-related factors into their investment processes and how effectively they managed climate related risks;
- The Trustee invested Plan assets into two low-carbon funds to better protect against climate-related risk.
- The Trustee reviewed the Plan's risk register to maintain an understanding of the changing risk to the Plan's journey.

In addition, the IC periodically invited managers to attend meetings to provide updates on their approaches to identifying and assessing climate-related risks.

Once the full buy in was completed the Plan had no assets except residual gilt holdings, and so the investment risk management function has been proportionately adapted. Monitoring of the residual gilt holding is now carried out by the board at quarterly trustee meetings and the investment adviser's objectives have been revised to bring any relevant risk management issues to the attention of the board. The IC has been dissolved.

The role of stewardship in managing climate-related risks and opportunities

The Trustee expected the Plan's investment managers to engage with investee companies on climate-related (and other) matters. The Trustee recognised that investment managers' climate competence and practices are crucial for managing the climate-related risks to the Plan's assets, so the Trustee assessed and monitored these on an ongoing basis

In February 2023, the Trustee agreed its stewardship priorities for the Plan, which were climate change, human rights including modern slavery, and corporate transparency. The Trustee subsequently communicated these stewardship priorities to the managers. The only asset manager that the Trustee now has is Legal & General Investment Management with whom they hold the residual gilts in pooled vehicles. The Trustee is satisfied that the stewardship priorities of L&G embrace all of its own Stewardship priorities. The Trustee is also aware that its investment adviser, LCP, engages with L&G, encouraging them to improve and extend their stewardship practices to UK government, on account of the holdings they have in gilts on behalf of their clients

Tools used to identify and assess risks and opportunities

The Trustee sought to identify and assess climate-related risks and opportunities facing the Plan arising from both the physical impacts of climate change and the transition to a low carbon economy. It used the following tools to help:

- **Climate scenario analysis** was used to understand the macroeconomic impact of different climate scenarios on the Plan's investment and funding strategy.
- The Trustee's investment adviser provided reporting for the Plan's portfolios containing various **climate-related metrics**, which helped illustrate the current exposure to certain climate transition risks.
- The Trustee, with the help of its advisers, **assessed and monitored the Plan's investment managers** to ensure it was adequately managing risks to the Plan's assets, including those relating to the physical and transition risks from climate change. This included r**egular monitoring** of the managers' responsible investment practices with the aid of the investment advisers' assessments.

The Trustee also undertook training to maintain and deepen its understanding of climate-related risks and opportunities, and hence support its identification and assessment of those faced by the Plan.

Given the simplicity of the Plan's investment arrangement by the end of the year (just the residual gilt holding and bulk annuity insurance policies) the Trustee now relies on its investment and other advisers to alert it should there be any emerging climate-related risks and opportunities relevant for its circumstances.

How the assessment of climate-related risks fits into the wider risk management picture

The Trustee maintains a risk register, which covers the key risks of the Plan's activities. In July 2023, the Trustee reviewed the risk register and ensured that climate considerations were reflected within it and has continued to monitor and update these risks as appropriate.. Inclusion within the risk register helps the Trustee to put climate risk into the context of other risks being run, and prioritise mitigation actions according to those risks which pose the most significant potential adverse impact.

The risk register is reviewed regularly to consider if any further risks need adding or amending, to assess any significant priority risks to manage and to ensure regular action is maintained in monitoring and mitigating these risks. The Trustee's current assessment, based on consideration of their impact and likelihood, is that climate-related risks are not a material source of risk but are one of many risks faced by the Plan, and therefore should continue to be monitored in the context of broader investment risks and opportunities.

How the Trustee helped manage the key risks and opportunities identified

The Trustee put measures in place to help manage climate-related risks and opportunities. Examples of these are outlined below:

- The Plan invested in a diversified low risk investment strategy to help reduce exposure to risk generally. This also reduced the exposure to climate risks impacting any individual asset class.

- The Trustee had a policy to protect against a high proportion of the interest and inflation risks that could impact the value of the Plan's liabilities. Therefore, any potential impact on interest rates and inflation from climate change (and indeed from other factors) are significantly mitigated. Prior to full buy in this was implemented through gilt holdings, the insurance policies also protect the Plan against these risks.

- The IC, with the help of its advisers, invested the Plan's assets within two low-carbon funds, equities, and listed infrastructure to better improve the carbon footprint of the Plan's assets. These were sold to rise capital for the insurance premium.

- The Trustee set an initial target to have 65% and 30% of the Plan's holdings in listed equity and corporate bonds to have set a science-based emissions reduction target ("SBT"), which measures how aligned companies are with a transition to a low-carbon economy, by the end of 2025. Now that the plan does not hold any equity like investments, only the bond target is relevant.

Metrics and targets

The Trustee's choice of metrics

The Trustee has chosen four climate-related metrics to help them monitor climate-related risks and opportunities to the Plan. The Trustee chose to report these metrics as they are ones recommended in the DWP's statutory guidance. These were first reported in last year's climate report and the Trustee sought to collect the same data for reporting in this year's climate report.

These are listed below and reported overleaf (as far as the Trustee was able to obtain the data).

Metric	High-level methodology
Absolute emissions: Total greenhouse gas emissions[1]	The sum of each company's most recent reported or estimated greenhouse gas emissions attributable to the Plan's investment in the company, where data is available. Emissions are attributed evenly across equity and debt investors. Reported in tonnes of CO_2 equivalent. This methodology was chosen because it is in line with the statutory guidance.
Emissions intensity: Carbon footprint	The total greenhouse gas emissions described above, divided by the value of the invested portfolio in £m, adjusted for data availability. Emissions are attributed evenly across equity and debt investors. Reported in tonnes of CO_2 equivalent per £1m invested. This methodology was chosen because it is in line with the statutory guidance.
Portfolio alignment: Science-based targets (SBT)	The proportion of the portfolio by weight of holdings with science-based targets to reduce their greenhouse gas emissions, demonstrated by a target validated by the Science Based Targets initiative (SBTi)[2] or equivalent. This measures the extent to which the Plan's investments are aligned to the Paris Agreement goal of limiting global average temperature rises to 1.5°C. Reported in percentage terms. The Trustee chose this "binary target" measure because it is the simplest and most robust of the various portfolio alignment metrics available.
Additional climate change metric: Data quality	The proportion of the portfolio for which greenhouse gas emissions data is verified, reported, estimated or unavailable. "Verified" emissions refers to data reported by the emitting company and verified by a third party. "Reported" emissions are reported by the emitting company but not verified. This approach was chosen because it is in line with the statutory guidance. In practice, none of the parties providing data could distinguish verified emissions from unverified emissions, so only "reported" emissions are shown overleaf.

[1] More information about greenhouse gas emissions is provided in Appendix 2, including their classification into Scopes 1, 2 and 3. The Trustee has shown only Scopes 1 and 2 this year, given significant data gaps in scope 3 information from investment managers. Scope 3 will be added into next year's report.
[2] Science-Based Targets initiative.

The data has been collated using the most up to date data available to the Trustee in December 2024, when the preparation ot this report was initiated

The data was sourced from the investment manager, Legal & General, for the gilt exposure and from the insurance partners for the buy ins.

Climate related metrics obtained for the Plan

Portfolio	Provider	1. Total emissions (tonnes CO_2e)[1] *(Scope 3)*	2. Carbon footprint (tonnes CO_2e per £m invested)[1] *(Scope 3)*	3. Portfolio alignment (% assets with SBTi targets)	4. Data quality (% reported / estimated / unavailable)[1]	Source
Government bonds funds	**Legal & General**	**2,310**	**53**	**100**	**74 / 0 /26**	Legal & General
Buy-in	**PIC**	**50,550** *(206,512)*	**109** (449)	**25%**	**51 /49 /0**	PIC (estimated is based on scaling up reported)
Buy-in	**Just**	**6,058** (24,707)	**102** (275)	**16%**	**0/100/0**	Trustee estimate based on Just/PIC disclosures

Notes:
Gilts metrics are calculated on a different basis to other metrics. calculations. Total greenhouse gas emissions have been calculated as {"value of your investment in gilts" divided by "value of the UK's public debt"} multiplied by "total greenhouse gas emissions produced in the UK" using publicly available data sources. The carbon footprint has been calculated as "total greenhouse gas emissions produced in the UK" divided by "value of the UK's public debt". This is a measure of the UK's reliance on greenhouse emissions. *Scope 3 is not applicable for government bonds, given the different methodology behind sovereign debt emission.*
PIC provided data for emissions, carbon footprint and portfolio alignment for the Next portfolio. The figure for data quality are taken from PIC's TCFD report on their entire matching adjustment portfolio, making the assumption that the Next portfolio is in line with this.
Just did not provide any data specific to Next, despite last year's engagement. Total emissions for Just are an estimate based on PIC data scaled for the lower value of liabilities insured with Just. Coverage, carbon footprint, portfolio alignment and data quality are from Just's TCFD report, making the assumptions that the Next portfolio is in line with their total credit portfolio.

Conclusions from assessment of the metrics

The Trustee considered the metrics collected for the Plan's exposures with the following highlights:

- **Total emissions:** Total scope 1 and scope 2 emissions for the Plan are estimated at 2,523,963 tonnes of CO_2e. This includes estimates for both buy ins and the gilt funds. This cannot be compared to last year's reported number, which did not include all the Plan's assets.

- **Alignment:** The weighted average alignment score from the above data is 29%. The alignment of the PIC portfolio is most important to the Trustee (noting the gilt portfolio will not be held for the long term). The PIC alignment of 25% pleased the Trustee, being significantly higher than the 14% alignment for the Plan's previously held corporate bonds.

- **Data coverage:** The Plan's buy-in provider Just was unable to provide data relevant for the assets backing the Next insurance contract again this year. All they provided was a link to the publicly available TCFD report, rather than any data relevant to the Plan's policy. This is disappointing as LCP as investment adviser on behalf of the Trustee, engaged with Just last year to understand the reasons for this and seek to improve this availability for this year. Elsewhere data quality is reasonable and improving.

The Trustee's chosen target

The Trustee has the following target:

Target	Coverage at reference point	Reference base year
The Plan's target for bond like assets (now the entirety of the portfolio) is for the SBTi or equivalent alignment levels to increase to at least 30% by end 2025.	SBT baseline level for the Plan's corporate bonds was 14%.	31 December 2022

This target was chosen as the metric is forward-looking and focussed on the transition that needs to occur in the future in order to achieve net zero aims globally. Originally the Trustee had a separate alignment target for equity assets and bond assets, but now considers only the previous corporate bond target as none of the assets are invested in equity, directly invested assets are held in bonds and insurance companies use bond like assets to back their annuity business. Whether the Trustee target is achieved will be dependent on the actions of its insurance company partners, but if they do it will be supporting collective action to meet the Paris Agreement goals, hence reducing longer-term systemic risks from the physical effects of climate change. The Trustee also believes that the insurance companies aligning with this target would also mean they have reduced their exposure to disorderly climate transition risks in the shorter-term by keeping up with/slightly ahead of a general market trend. The Plan's only directly held assets are gilt funds. Gilts held within these funds can be considered to be 100% aligned because the UK Government has a legally binding requirement to meet the Paris goals, albeit current policies are inadequate to meeting this objective and more action is required.

Performance against the target

The climate reporting carried out for the Plan during the year included an assessment of the current alignment with the above target. Broadly 29% of the Plan's exposure to bond like assets has an SBTi target, based on information provided by the Plan's insurance partner.

Steps taken to achieve the target

The investment adviser and the chair of the Trustee, Law Debenture, encourages the use of effective voting (where applicable) and engagement with portfolio companies to encourage achievement of net zero, engaging with both the manager and the insurance providers on this topic, using their influence with portfolio companies to increase the use of SBT.

Appendix 1 – Other parties' and advisers' roles

We have included a list of the key advisers in-place that supported the Trustee over the year below:

- **Actuarial adviser** – Mercer/ Lane Clark & Peacock LLP (LCP)
- **Strategic Investment Consultant** – Lane Clark & Peacock LLP (LCP)
- **Covenant adviser** – Cardano
- **Legal advisers** – Gowling WLG LLP

The roles of these advisers have had, as described in the Statement on Governance of Climate Change Risks and Opportunities, are laid out below.

In broad terms, the Plan's investment adviser has been responsible, as requested by the Trustee, for:

- providing training and other updates on relevant climate-related matters;
- helping the Trustee to formulate its investment beliefs in relation to climate change and reflecting these in the Plan's investment policies and strategy;
- advising how climate-related risks and opportunities might affect the different asset classes in which the Plan might invest over the short, medium and long term, and the implications for the Plan's investment strategy and journey plan;
- advising on the appropriateness and effectiveness of the Plan's investment managers' processes, expertise and resources for managing climate-related risks and opportunities, given the Trustee's investment objectives and beliefs, and engaging with the managers to improve their climate-related integration over time (given the Plan now only has gilts the need for this support is now limited);
- advising on the inclusion of climate change in the Plan's governance arrangements and risk register;
- previously, undertaking scenario analysis which illustrates how the Plan may be affected under different climate pathways, assisting the Trustee with interpretation and use of the results, and advising on when it might be appropriate to update the analysis (this year the Trustee did not seek advice from LCP on this, but instead considered the modelling undertaken by its insurance partners to consider the Plan's resilience to different climate scenarios);
- assisting the IC in identifying, monitoring and using suitable climate-related metrics and targets in relation to the Plan's investments, including liaising with the Plan's investment managers regarding provision of the metrics;
- historically, leading on the preparation of the Trustee's TCFD reporting, working with the Trustee, the IC and the other advisers as appropriate. Given the circumstances this year, the Trustee prepared the TCFD report.

In addition to the investment roles and responsibilities identified above, the Trustee expect its **other advisers** to support its approach to monitoring risks and opportunities relating to climate factors as follows:

- The Trustee's **covenant adviser** has helped the Trustee form a view of the impact of climate factors on the covenant supporting the Plan over the short-, medium- and long-term. For last years report this included comment on Next Plc, during this year it included a view on Pensions Insurance Corporation (PIC).
- The Trustee's **actuarial advisers** have helped the Trustee form a view of the impact of climate factors on the Plan's funding strategy over the short-, medium- and long-term.
- The Trustee's **legal adviser** have advised the Trustee of its legal obligations in relation to taking account of climate factors and any associated reporting obligations.

In broad terms, the Plan's **investment manager** (Legal & General) is responsible for:

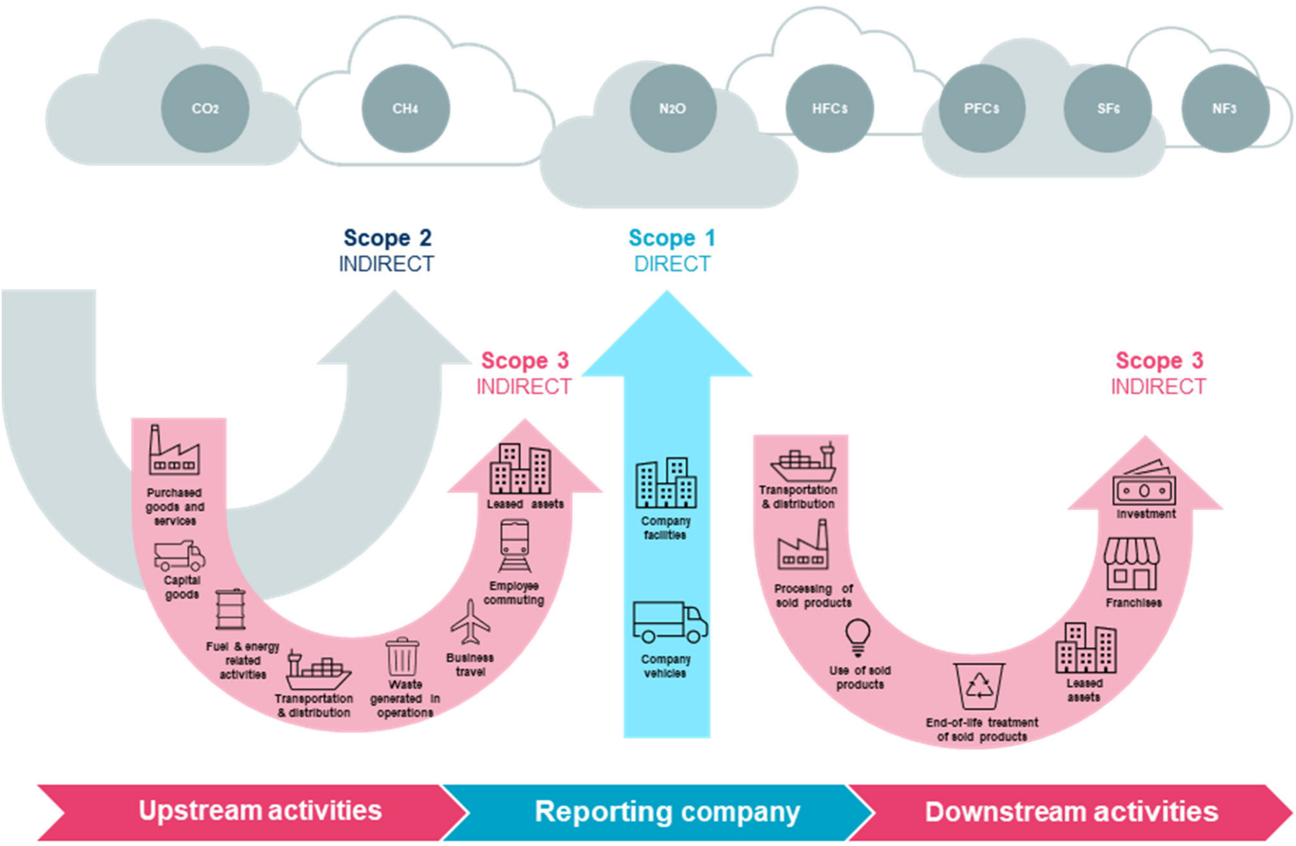
- identifying, assessing and managing climate-related risks and opportunities in relation to the pooled funds in which the Plan investment, in line with the investment management arrangements agreed with the Trustee and/or IC;
- exercising any rights (including voting rights) attaching to the Plan's investments (which, given they are gilt funds are not likely to be material) , and undertaking engagement activities in respect of those investments, in relation to climate-related risks and opportunities in a way that seeks to improve long-term financial outcomes for Plan members;
- reporting on stewardship activities and outcomes in relation to the Plan's investments, wherever feasible;
- providing information on climate-related metrics in relation to the Plan's investments, as agreed from time to time, and using its influence to improve the quality and availability of these metrics over time

Appendix 2 – Greenhouse gas emissions explained

In the metrics section of the report, the emissions metrics relate to seven greenhouse gases – carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6) and nitrogen trifluoride (NF_3). The figures are shown as "CO_2 equivalent" (CO_2e) which is the amount of carbon dioxide that would be equivalent to the excess energy being stored by, and heating, the earth due to the presence in the atmosphere of these seven greenhouse gases.

The metrics related to greenhouse gas emissions are split into the following three categories: Scope 1, 2 and 3. These categories describe how directly the emissions are related to an entity's operations. Scope 3 emissions often form the largest share of an entity's total emissions, but are also the ones that the entity has least control over.

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



Source: GHG Protocol

Appendix 3 – Further information on climate-related metrics

This appendix provides more detail on the metrics reported in the Metrics and Targets Section.

Corporate bonds

Emissions are typically attributed to investors using “enterprise value including cash” (ie EVIC, the value of equity plus outstanding debt plus cash).

The total GHG emissions figures typically omit any companies for which data was not available. For example, if the portfolio was worth £200m and emissions data was available for 70% of the portfolio by value, the total GHG emissions figure shown relates to £140m of assets and the portfolio’s carbon footprint equals total GHG emissions divided by 140. In other words, no assumption is made about the emissions for companies without data.

The science-based targets metric equals the % of portfolio by weight of companies that have a near-term carbon emissions reduction target that has been validated by the Science Based Targets initiative (SBTi).

Emissions data coverage and quality

Where coverage of the portfolio analysed is less than 100%, this may be because it:

- Does not cover some holdings (eg cash, sovereign bonds, bonds that have recently matured, shares in companies no longer listed when the analysis was undertaken);
- Does not include emissions data for some portfolio companies because the company does not report it; and/or
- Databases do not include EVIC data for some portfolio companies, so emissions cannot be attributed between equity and debt investors.

The last of these reasons is usually the main explanation for the fairly low coverage of bond portfolios.

Disclaimer

This report may contain certain information (the “Information”) sourced from and/or ©MSCI ESG Research LLC, or its affiliates or information providers (the “ESG Parties”) and may have been used to calculate scores, ratings or other indicators. Although ESG Parties and any related parties obtain information from sources they consider reliable, the ESG Parties do not warrant or guarantee the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by ESG Parties. None of the Information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data or Information herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

UK government bonds

GHG emissions for government bonds (gilts) are calculated on a different basis from the other asset classes, so cannot be compared with the other emissions figures shown.

The emissions figures were calculated by Legal & General, the Trustee's investment manager using publicly available data sources. As suggested in the statutory guidance, Scope 1+2 emissions have been interpreted as the production-based emissions of the country.

In line with guidance from the Partnership for Carbon Accounting Financials (PCAF) issued in December 2022, emissions intensity is calculated as:

$$\frac{UK\ GHG\ emissions}{PPP - adjusted\ GDP\ for\ the\ UK}$$

GHG emissions are then been calculated as:

$$Emissions\ intensity\ x\ value\ of\ the\ Scheme's\ investment\ in\ gilts.$$

PPP - PPP is a theory of long-term equilibrium in exchange rates based on relative prices. For example, if the price of a basket of goods in the UK is £100 and the same basket costs $200 in the USA, then the PPP exchange rate would be £1:$2. The PPP rate and the actual market exchange rate can differ.

GDP - the value of all goods and services produced in a country over a given period, typically a year.

Appendix 4 – Glossary

Actuarial valuation – an actuarial valuation is an accounting exercise performed to estimate future liabilities arising out of benefits that are payable to members of a DB pension scheme, typically once every three years. In the actuarial valuation exercise, a liability payout at a future date is estimated using various assumptions such as discounting rate and salary growth rate.

Alignment – in a climate change context, alignment is the process of bringing greenhouse gas emissions in line with 1.5°C temperature rise targets. It can be applied to individual companies, investment portfolios and the global economy.

Asset class – a group of securities which exhibit broadly similar characteristics. Examples include equities and bonds.

Bond – a bond is a security issued to investors by companies, governments, and other organisations. In exchange for an upfront payment, an investor normally expects to receive a series of regular interest payments plus, at maturity, a final lump sum payment, typically equal to the amount invested originally, or this amount increased by reference to some index.

Buy-in – DB pension scheme trustee may choose to “buy-in” some of their scheme’s expected future benefit payments by purchasing a bulk (ie one covering many individuals) annuity contract with an insurance company. This allows the trustee to reduce their scheme’s risk by acquiring an asset (the annuity contract) whose cash flows are designed to meet ie “match” a specified set of benefit payments under the pension scheme. The contract is held by the trustee and responsibility for the benefit payments remains with the trustee. Common uses of buy-in arrangements have been to cover the payments associated with current pensioners or a subset of those members. Contracts to meet payments to members who are yet to become pensioners can also be purchased.

Buy-out – DB pension scheme trustee may choose to “buy-out” some or all of their scheme’s expected future benefit payments by purchasing a bulk (ie one covering many individuals) annuity contract from an insurance company. The insurer then becomes responsible for meeting pension benefits due to scheme members (effected by allocating to each scheme member an individual annuity contract). Following a full buy-out, (ie one covering all scheme members) and having discharged all of the trustee’s liabilities, the pension scheme would normally be wound up.

Carbon emissions –These refer to the release of carbon dioxide, or greenhouse gases more generally, into the atmosphere, for example from the burning of fossil fuels for power or transport purposes.

Carbon footprint – In an investment context, the total carbon dioxide or greenhouse gas emissions generated per amount invested (eg in £m) by an investment fund. Related definitions are used to apply the term to organisations, countries and individuals

Climate change mitigation – steps taken to limit climate change by reducing greenhouse gas emissions, for example by shifting to renewable sources of energy – such as solar and wind – and by using less energy and using it more efficiently.

Covenant – the ability and willingness of the sponsor to make up any shortfall between a DB scheme’s assets and the agreed funding target.

Credit – long-term debt issued by a company, also known as corporate bonds. Corporate bonds carry different levels of credit risk which is indicated by their rating and credit spread.

Defined Benefit (DB) – a pension scheme in which the primary pension benefit payable to a member is based on a defined formula, frequently linked to salary. The sponsor bears the risk that the value of the investments held under the scheme fall short of the amount needed to meet the benefits.

Debt – money borrowed by a company or government which normally must be repaid at a specified point in the future.

Environmental, social and governance (ESG) – an umbrella term that encompasses a wide range of factors that may have been overlooked in traditional investment approaches. Environmental considerations might include physical resource management, pollution prevention and greenhouse gas emissions. Social factors are likely to include workplace diversity, health and safety, and the company’s impact on its local community. Governance-related matters include executive compensation, board accountability and shareholder rights.

Equity – through purchase on either the primary market or the secondary market, company equity gives the purchaser part-ownership in that company and hence a share of its profits, typically received through the payment of dividends. Equity also entitles the holder to vote at shareholder meetings. Note that equity holders are entitled to dividends only after other obligations, such as interest payments to debt holders, are first paid. Unlike debt, equity is not normally contractually repayable.

Fossil fuels – fuels made from decomposing plants and animals, which are found in the Earth's crust. They contain carbon and hydrogen, which can be burned for energy. Coal, oil, and natural gas are examples of fossil fuels.

Funding position – a comparison of the value of assets with the value of liabilities for a DB pension scheme.

Gilts – bonds issued by the UK government. They are called gilts as the bond certificates originally had a gilt edge to indicate their high quality and thus very low probability of default

Greenhouse gas (GHG) emissions (scopes 1, 2 and 3) – gases that have been and continue to be released into the Earth's atmosphere. Greenhouse gases trap radiation from the sun which subsequently heats the planet's surface (giving rise to the "greenhouse effect"). Carbon dioxide and methane are two of the most important greenhouse gases. See also Appendix 1.

Gross Domestic Product (GDP) – this is the value of all goods and services produced in a country over a given period, typically a year.

Investment mandate – see pooled mandate and segregated mandate

Integrated risk management – Integrated risk management is an approach used by DB pension scheme trustees to identify, manage, and monitor the wide range of risks (relating to investment, funding, and covenant) which might impact the chances of meeting their scheme's overall objectives.

Liabilities – obligations to make a payment in the future. An example of a liability is the pension benefit 'promise' made to DB pension scheme members, such as the series of cash payments made to members in retirement. The more distant the liability payment, the more difficult it often is to predict what it will actually be and hence what assets need to be held to meet it.

Net zero – this describes the situation in which total greenhouse gas emissions released into the atmosphere are equal to those removed. This can be considered at different levels, eg company, investor, country or global.

Paris Agreement – the Paris Agreement is an international treaty on climate change, adopted in 2015. It covers climate change mitigation, adaptation, and finance. Its primary goal is to limit global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels.

Physical risk – these are climate-related risks that arise from changes in the climate itself. They include risks from more extreme storms and flooding, as well as rising temperatures and changing rainfall pattens.

Pooled mandate – a feature of a collective investment vehicle whereby an investor's money is aggregated (ie "pooled") with that of other investors to purchase assets. Investors are allotted a share of those assets in proportion to their contribution. Ownership is represented by the number of "units" allocated – eg if the asset pool is worth £1m and there are 1m units then each unit is worth £1. Pooled funds offer smaller investors an easy way to gain exposure to a wide range of investments, both within markets (eg by buying units in a UK equity fund) as well as across markets (eg by buying units in both a UK equity fund and a UK corporate bond fund).

Portfolio alignment metric – this measures how aligned a portfolio is with a transition to a world targeting a particular climate outcome, such as limiting temperature rises to well below 2°C, preferably to 1.5°C, as per the Paris Agreement. Assessments using these metrics consider companies' and governments' greenhouse gas (GHG) emissions reduction plans and likelihood of meeting them, rather than current, or the latest reported, GHG emissions.

Purchasing Power Parity (PPP) – the PPP is a theory of long-term equilibrium in exchange rates based on relative prices. For example, if the price of a basket of goods in the UK is £100 and the same basket costs $200 in the USA, then the PPP exchange rate would be £1:$2. The PPP rate and the actual market exchange rate can differ.

Responsible Investment (RI) – the process by which environmental, social and governance (ESG) issues are incorporated into the investment analysis and decision-making process, and into the oversight of investments companies through stewardship activities. It is motivated by financial considerations aiming to improve risk-adjusted returns.

Science-based targets – targets to reduce greenhouse gas emissions that are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement.

Science-Based Targets initiative (SBTi) – an organisation that sets standards and provides validation for science-based targets set by companies and investors.

Scenario analysis – a tool for examining and evaluating different ways in which the future may unfold.

Scope 1, 2 and 3 – a classification of greenhouse gas emissions. See Appendix 1.

Segregated mandate – a segregated investment approach ensures that an investor's investments are held separately from those of other investors. This approach offers great flexibility – for example, the investor can stipulate the precise investment objective to be followed and can dictate which securities can or cannot be held.

Stakeholder – an individual or group that has an interest in any decision or activity of an organisation. The stakeholders of a company include its employees, customers, suppliers, and shareholders.

Statutory obligations – statutory obligations are those obligations that do not arise out of a contract, but are imposed by law.

Stewardship – stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. It is often implemented via engagement with investee companies and exercising voting rights.

Stranded assets – assets that have suffered an unanticipated loss of value before the end of their expected useful economic life. The term is most often applied to fossil fuel investments in the context of climate policy, where legislative and market developments may result in assets being worth less than the value recorded on company balance sheets.

Sustainable investing – an approach in which an assessment of the environmental and social sustainability a company's products and practices is a key driver in the investment decision. ESG analysis therefore forms a cornerstone of the investment selection process.

Taskforce on Climate-related Financial Disclosures (TCFD) – a group of senior preparers and users of financial disclosures from G20 countries, established by the international Financial Stability Board in 2015. The TCFD has developed a set of recommendations for climate-related financial risk disclosures for use by companies, financial institutions and other organisations to inform investors and other parties about the climate-related risks they face.

Transition risk – these are climate-related risks that arise from the transition to a low-carbon economy and can include changes in regulation, technology, and consumer demand.