The Taylor Wimpey Pension Scheme (Scheme) Taskforce on Climate-Related Financial Disclosures (TCFD) Statement – Year Ended 31 December 2023

Executive Summary

This report has been produced by the Trustee of the Taylor Wimpey Pension Scheme (the **"Scheme"**) and its advisers under the requirements of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021. As part of these regulations, the Scheme is legally required to produce formal disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (**"TCFD"**). This report covers the period from 1 January 2023 to 31 December 2023.

This report covers the following four areas of the Climate Change Governance framework:

- **Governance**: the arrangements that have been put in place around climate-related risks and opportunities.
- **Strategy**: the actual and potential impacts of climate-related risks and opportunities on the strategy, covenant and financial plans of the Scheme.
- **Risk Management**: how the Scheme identifies, assesses, and manages climate-related risks.
- **Metrics and Targets**: the metrics and targets used to assess and manage climate-related risks and opportunities.

Governance

The Trustee of the Scheme retains ultimate responsibility for the management of climate-related risks and opportunities, with day-to-day oversight delegated to the Investment sub-committee (**"ISC"**). The Trustee requires the Scheme's appointed fund managers to be cognisant of climate-related risks and opportunities. The Trustee has tasked its investment consultant, Redington, to engage with the managers regarding this on its behalf, bringing any relevant update to the Trustee's attention. The Trustee receives regular training relating to sustainable investment, with a focus on issues related to climate change. Over the Scheme year topics included stewardship as an effective tool to manage climate-related risk and developments in climate-related metrics and methodology.

Strategy

The Trustee considers climate-related risks and opportunities across short, medium and long-term time periods relevant to the Scheme's investment and funding strategy. These risks are primarily assessed via climate scenario analysis of the Scheme's assets, liabilities and an assessment of the Sponsoring company's exposure to climate-related risks and opportunities. To stay abreast of evolving methodologies relating to climate scenario analysis, the Trustee chose to refresh the Scheme's asset side scenario analysis to be based on the assumptions of the Network for the Greening of the Financial System (**"NGFS"**) stress tests. The results of this climate analysis are reported as at the Scheme's year-end, 31 December 2023. Based on the output of this analysis, and that of the Scheme's actuary (XPS) and covenant adviser (Penfida), the Trustee is comfortable that the funding strategy is sufficiently resilient to the climate risks it may face.

Nevertheless, the Trustee has considered changes to the investment strategy to limit exposure to climate-related risk and take advantage of climate-related opportunities. In order to do this, the Trustee considered the levers it could pull to manage climate-related risk, which included the following:

- **Making strategic changes:** In light of the 2022 gilts crisis, the Trustee reviewed the investment strategy and agreed to reduce the Scheme's allocations to illiquid and semi-liquid mandates, in favour of more liquid funds, in order to facilitate quicker portfolio rebalancing, should this be required. This included the appointment of two new mandates – Man Progressive Diversified Risk Premia (**"DRP"**) and

Federated Hermes Unconstrained Credit Fund, chosen in part for their ability to integrate climate and other ESG considerations, and stewardship capabilities.

- **Actively engaging with managers:** In order to effectively hold the Scheme's managers to account on their ability to manage climate-related risks, the Trustee worked to improve its stewardship practices over the year. To do this, the Trustee articulated an updated Stewardship and Engagement Policy, noting climate change as a key theme, and devised a consistent set of questions for each manager to complete on their own stewardship and engagement practices. The questions were first used at the regular manager meetings held over the year. When the Trustee finds the managers' responses to questions regarding climate-related issues lacking, the meetings are used to challenge them to improve.

Risk Management

The Trustee has integrated climate-related risk into the Scheme's wider risk management framework. As referred to in the Statement of Investment Principles (**"SIP"**), the Trustee engages with its investment managers on an ongoing basis to understand their approach to ESG integration and specifically their assessment of climate-related risks. The Trustee receives annual climate-related reporting from Redington, which provides relevant information to identify and assess climate-related risk on a fund-by-fund basis, as well as quarterly reporting on the Scheme's exposure to climate-related risk at a portfolio level.

Metrics and Targets

On an annual basis, the Trustee monitors and reports the Scheme's total greenhouse gas emissions[1], carbon footprint[2], the Partnership for Carbon Accounting Financials (**"PCAF"**) data quality score[3] and the output of the portfolio alignment Science Based Targets Initiative (**"SBTi"**) metric[4]. These metrics will be reported on as at the Scheme's year-end (31 December 2023), within this report.

The Trustee has previously outlined the Scheme's aspirational net zero target, with an interim target of 50% reduction in carbon footprint by 2030. Whilst the Trustee continues to support the goals of the Paris Agreement and will continue to monitor progress towards net zero, over the scheme year the Trustee has agreed a new "actionable" target for the Scheme. Specifically, the Trustee agreed that by 2030, 70% of portfolio financed emissions should have science-based net zero targets.

As at 31 December 2023, 13% of the Scheme's financed emissions have set science-based net zero targets, but the Trustee is encouraged by the increase of data from their investments compared to last year. The Trustee will use this data to target engagement with the Scheme's managers, with the aim of supporting real-world decarbonisation.

The following pages summarise the Trustee's current position compared to the recommendations set out by the TCFD as set out in the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

[1] Represents the total share of Scope 1, Scope 2 and Scope 3 CO2e emissions a fund is responsible for.

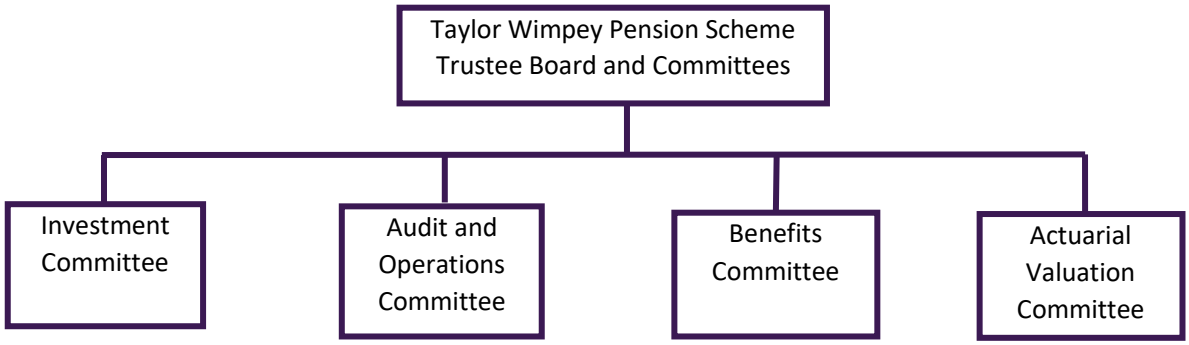
[2] Measurement of the Scope 1 and 2 , and separately Scope 3 CO2e emissions of a fund per million pounds of EVIC.

[3] The Partnership for Carbon Accounting Financials ("PCAF") data quality score monitors the reliability of companies' emissions data.

[4] SBTi examines whether a voluntarily-disclosed company's decarbonisation target is aligned with a relevant science-based pathway. The scores are binary with a yes or no assessment.

1. Governance

In all investment matters, it is the Trustee that is ultimately responsible. This includes matters relating to ensuring the effective governance of climate-related risks and opportunities. However, most of the investment matters for the Scheme are delegated to the ISC. The Scheme also has other sub-committees as shown in the diagram below.



The Trustee has discussed and agreed its climate-related beliefs and overarching approach to managing climate change risk. The details of these are set out in the Trustee's climate-related beliefs document.

The Trustee takes independent investment advice to help assess climate-related risks and opportunities. The role of the investment adviser is to provide investment-related strategic and practical support to the ISC and the Trustee Board in respect of climate-related risks and opportunities. This includes provision of regular training and updates on climate-related issues and climate change scenario modelling. The Trustee will continue to review the climate competency of its advisers and those who support the Trustee in relation to climate management to ensure adequate processes are in place. ESG advice, including advice on climate risk, is one of the objectives for the Scheme's investment consultant, against which the consultant is reviewed annually.

The Trustee encourages open and frequent communication between all relevant parties who work on the management of climate-related factors and others working on the Scheme. The majority of the Scheme's advisers and service providers – the Scheme's actuary, investment consultant, covenant adviser, and investment managers have worked together in the preparation of this report. This process has encouraged the sharing of data, analysis, and regular communication between all of these parties.

The Trustee receives training sessions on sustainable investment with an emphasis on climate change throughout the year to assess relevant risks and opportunities. The Trustee expects its advisers to bring important and relevant climate-related issues and developments to the Trustee in a timely manner. Over the year to 31 December 2023, the Trustee received training on stewardship as an effective way to manage climate-related risk. In addition to this, the Trustee also undertook training on updating the Scheme's climate metrics, target and scenario analysis to ensure the Scheme remains in line with evolving best practice.

The Trustee also receives quarterly updates on relevant discussions that have taken place at all of the Scheme's sub-committee meetings – including at quarterly ISC meetings. At its meetings, the Trustee has ensured that robust discussion has taken place regarding TCFD items to ensure that there is a clear understanding of the analysis and the advice it has received.

The Trustee also receives climate-related scenario analysis on different parts of the Scheme as set out below.

Scheme component	Provider of climate scenario analysis
DB assets	Redington (Investment Adviser)
DB liabilities	XPS (Scheme Actuary)
DB covenant	Penfida (Covenant Adviser)

Taylor Wimpey Pension Scheme

2. Strategy

The Trustee considers climate-related risks and opportunities and their potential implications for the Scheme's investment and funding strategy over the short, medium, and long term. To do this, it receives scenario analysis relating to the Scheme's assets, liabilities, and covenant. This helps to ensure that climate-related factors are incorporated throughout the Trustee's funding and risk management process, from strategic asset allocation to manager selection and portfolio monitoring, as well as considering potential risks to the covenant of the Scheme.

The Trustee is conscious that, given the diversified nature of the Scheme's investment portfolio, the source of climate-related risks and opportunities is likely to be varied. The main known risks to the Scheme are transition risk and physical risk, which are described below. It is important to note that these are not the only risks that schemes will face and there are many others that are either unknown, or not yet considered in climate analysis due to the difficulty in quantifying the risk.

- **Transition Risk:** Transition risk refers to the potential price impact on the Scheme's assets as a result of policy actions taken to encourage economies to decarbonise, with risks being different depending on the shape of the pathway towards a low-carbon global economy. Policy actions are expected to affect asset values through channels such as carbon prices, and the greater adoption of renewable energy. Portfolios that continue to have high exposures to carbon-intensive businesses may be exposed to higher levels of transition risk. The transition to a low-carbon economy is also expected to produce opportunities for investing in businesses that are poised to benefit from the transition, such as producers of renewable energy.

- **Physical Risk:** Physical risk refers to the potential price impact on the Scheme's assets as a result of changes in weather patterns and extreme weather scenarios, as well as from other physical effects of climate change such as rising sea levels. These include floods, hurricanes and droughts, or chronic effects, such as sustained increases in temperatures, air humidity and ocean acidity. These risks can affect the value of physical assets – in particular, property and infrastructure located in certain geographies such as coastal areas. An example of the knock-on effects of these risks is lower economic growth due to damage done to infrastructure as a result of increased natural disasters, for instance tsunamis and earthquakes. This could then lead to higher price inflation, as well as other macroeconomic tensions.

The regulations require the Trustee to consider climate-related risks and opportunities over different time horizons. Therefore, the Trustee considers the potential impact of these on the Scheme's funding strategy over the short, medium, and long term. For example:

- Short-term risks and opportunities may include stock price movements resulting from increased regulation directed at addressing climate change (i.e. mostly transition risk).
- Over the medium term, it is expected that there will be changes in consumer spending habits following changes in technology, such as the uptake in electric vehicles or a reduction in overseas travel (i.e. some transition and some physical risk).
- Longer-term risks may include physical damage to real assets as a result of rising sea levels for coastal property or infrastructure assets; there may be opportunities for outperformance for organisations that put in place strategies to mitigate these potential risks well in advance of them materialising (i.e. mostly physical risk).

The table below sets out the time horizons chosen by the Trustee.

Time Horizon	Years	Rationale
Short Term	1 year (2025)	This is in line with the Scheme's primary funding objective, to reach a fully funded, low dependency position by 2025.
Medium Term	5 years (2029)	This is aligned with the date on which the Scheme is expected to reach 110% funded on its low dependency basis.
Long Term	11 years (2035)	This is aligned with the date the Scheme is expected to reach a position to conduct a buy-out transaction with an insurer (although the Trustee notes this time horizon is subject to change depending on market conditions).

Asset scenario analysis

This analysis is considered alongside other factors when the Trustee sets the strategic asset allocation. This helps to determine whether investment strategy changes are likely to have a positive or detrimental impact on the Scheme's climate risk profiles. Moreover, this analysis – identifying the largest contributors to the Scheme's overall climate risk – will be used to drive engagement efforts carried out on behalf of the Trustee. The Trustee has considered changes to the investment strategy to limit exposure to climate-related risks and take advantage of climate-related opportunities. In order to do this, the Trustee considered the levers it could pull in terms of managing climate risks and implementing a net zero strategy, which included the following:

- **Making strategic changes.** In light of the 2022 gilts crisis, the Trustee reviewed the investment strategy and agreed to reduce the Scheme's allocations to illiquid and semi-liquid mandates, in favour of more liquid funds, in order to facilitate quicker portfolio rebalancing, should this be required. To achieve this, the Trustee appointed two new mandates – the Man Progressive Diversified Risk Premia Fund and the Federated Hermes Unconstrained Credit Fund.

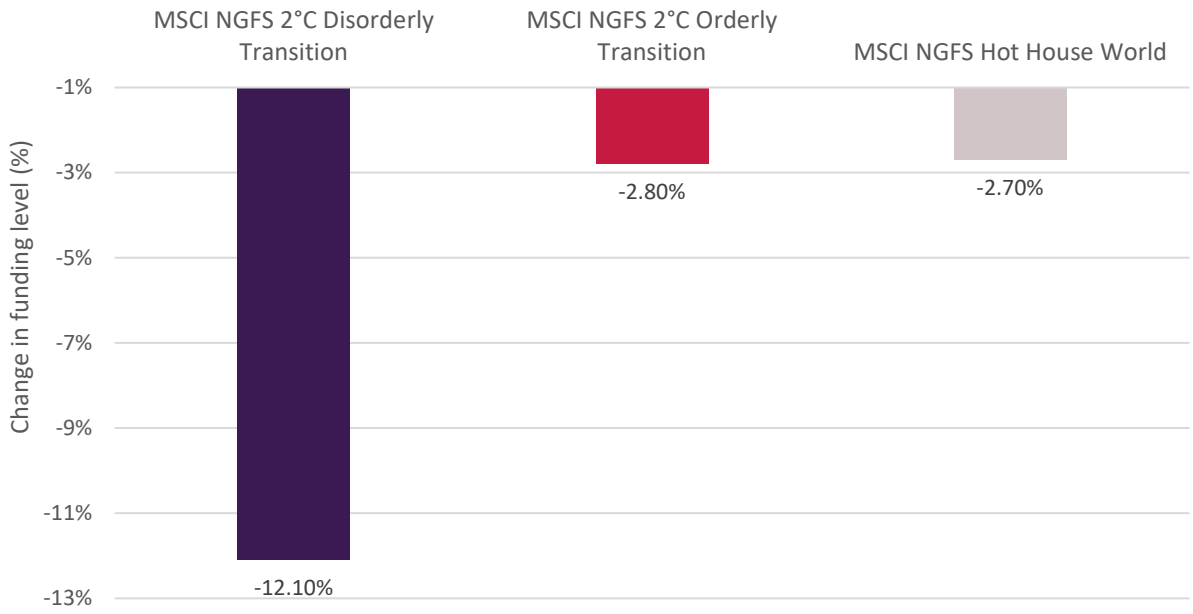
  When selecting these new managers, the manager's process for ESG integration, as well as stewardship capabilities, were heavily weighted factors in the Trustee's decision-making process. The Trustee, for example, elected to invest in the Man Progressive DRP fund, rather than Man's traditional DRP offering which does not factor in sustainability considerations to the same extent. Likewise with Hermes, the Trustee selected the manager due to its superior stewardship capabilities relative to comparable managers. This reflects the Trustee's view that stewardship is an effective tool to manage climate-related risks.

- **Actively engaging with managers**. Over the Scheme year, the Trustee worked to improve its own stewardship practices, articulating its expectations of the Scheme's managers in an updated Stewardship and Engagement Policy which identifies climate change as a key theme. The Trustee regularly meets with its managers to assess and challenge them on their ESG activities. To improve the efficacy of these meetings, the Trustee developed a consistent set of questions for each manager to complete on their stewardship practices, ahead of their attendance. These include generalised questions on each manager's approach as well as specific questions on how managers have engaged with issuers on climate change.

The chart below shows the impact of climate risk on the funding level of the Scheme under the different climate scenarios tested. The impact on the funding level is greater in the disorderly transition scenarios, and less so in the orderly transition scenarios, suggesting a slightly lower exposure to physical risk. This is a helpful indication for the Trustee on where to focus its stewardship and engagement efforts – with managers and their issuers' ability to manage the transition related-risks of climate change.

In particular, the Trustee notes that the largest decrease in funding level is shown under the 2°C Disorderly Transition. To both mitigate the likelihood of this scenario occurring, and improve the Scheme's resilience if it did occur, the Trustee intends to engage with the Scheme's managers and their issuers to align with the goals of the Paris Agreement, in turn reducing the Scheme's exposure to transition-related climate risk. This intention is reflected in the Trustee's target for 70% of portfolio financed emissions to have set science-based net zero targets by 2030.

The Trustee is clear that, although the Hot House World scenario would have the lowest impact on the Scheme's funding level, this scenario is not in the best interest of members, given its detrimental impact on people and the environment.



Source: Redington as at 31 December 2023.

Climate scenarios

Over the Scheme year, the Trustee received training on developments in climate scenario analysis methodology, in particular an introduction to the Network for Greening the Financial System (**"NGFS"**) stress tests. Following this introduction, and advice from its Investment Adviser, the Trustee has chosen to refresh the asset-side scenario analysis to be based on the NGFS assumptions, rather than those from the Prudential Regulation Authority's (**"PRA"**) Life Insurance Stress Tests which were used previously. The new scenarios represent an improvement on the current methodology as they are updated more frequently, are more granular and rigorous at company / instrument level and also capture upside potential from climate opportunities rather than focusing only on downside risk. The Trustee appreciates that there are still limitations with NGFS scenarios and as such will keep abreast of methodologies as they evolve and update this analysis as and when necessary.

The NGFS scenarios were selected as they represent a range of possible future climate scenarios, which allow the Trustee to assess potential impacts on the funding strategy under different climate outcomes. The Trustee notes there is a high degree of alignment between the below scenarios and the previous PRA scenarios. The stresses are designed to show what the impact on the value of the Scheme's invested assets would be in the following scenarios:

- 2 degrees Disorderly Transition – Assumes annual emissions do not decrease until 2030. Strong policies are needed to limit warming to below 2°C. CO2 removal is limited.
- 2 degrees Orderly Transition – Gradually increases the stringency of climate policies, giving a 67% chance of limiting global warming to below 2°C.
- Hot House World (NDCs) – Some climate policies are implemented in some jurisdictions, but globally efforts are insufficient to halt significant global warming. The scenarios result in severe physical risk including irreversible impacts like sea-level rise.

The results of the scenarios, as shown in the graph above, provide the Trustee with an overview of how resilient the investment strategy is with regards to various different climate change outcomes. Whilst the expected fall in funding level for the Scheme under a 2 degrees Disorderly Transition is larger than the fall recorded for a comparative scenario in last year's report, the Trustee notes this is largely due to the calculation of the output (the previous figure was annualised). The Trustee remains comfortable that the investment strategy is sufficiently resilient to climate risks it may face.

To further understand the impact of climate change on the Scheme, the Trustee has engaged with the Scheme's actuarial adviser, XPS, to understand how the various climate scenarios described above will impact the liabilities of the Scheme. Of the three major risks that affect the Scheme's funding level, interest rate and inflation risks are expected to have a minimal impact due to the high level of hedging in place provided by the liability driven investment (**"LDI"**) portfolio. However, as longevity risk is predominantly unhedged, the variable life expectancy of members will have unmitigated effects on the Scheme's funding level. Subsequently, XPS have conducted a scenario analysis to assess the mortality impact of climate change into the assessment of the Scheme's broader funding strategy.

XPS reviewed this scenario analysis and are comfortable that it continues to provide an up-to-date understanding of how climate scenario will impact the Scheme's liabilities. Their analysis is included in full in the appendix.

In addition, the Trustee has engaged with its covenant adviser, Penfida, to understand how Sponsor strength would be impacted by various climate scenarios, recognising that the potential impact on the covenant of the effects of climate change may influence the near-term or longer-term funding strategy of the Scheme. The analysis provided helps the Trustee to consider the risks versus the mitigating actions taken by the Sponsor, also assessing any opportunities that arise from the transition to a low-carbon economy, which the Sponsor may take advantage of.

Penfida reviewed this scenario analysis and are comfortable that it continues to provide an up-to-date understanding of how climate scenario will impact Sponsor strength. Their analysis is included in full in the appendix.

Summary

Based on the findings of the scenario analysis, the Trustee is comfortable that the funding strategy is sufficiently resilient to the climate risks it may face.

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3. Risk Management

Climate-related risks and opportunities are considered in terms of the physical risks to assets that are expected to result from climate change, and in terms of the transition risks associated with the global shift to a low-carbon economy.

Identification of Climate Risk

The Trustee takes both a 'top-down' and 'bottom-up' approach to identifying climate-related risks. In practice, this approach is conducted through two primary methods:

- The use of 'top down' scenario analysis – as outlined in the previous section; and
- 'Bottom up' climate metrics analysis.

Climate Risk monitoring

To monitor these risks, the Trustee has integrated climate change into the Scheme's wider risk management and receives additional climate-related reporting from Redington on a quarterly basis (portfolio level reporting) and annually (detailed fund-by-fund reporting). This reporting contains relevant climate metrics as set out under the Department for Work and Pensions ('DWP') adoption of the recommendations of the TCFD, and includes total absolute carbon emissions, carbon footprint, the Trustee's selected non-emissions based metric (data quality), and output of the portfolio alignment SBTi metric.

The Scheme's investment adviser is expected to advise on, and provide objective assessments of, differing approaches to responsible investment to help the Trustee decide on a responsible investment strategy and adopt appropriate responsible investment objectives for the Scheme. During the year the Scheme's Investment Consultant brought forward a proposal for an updated target and change to emissions metrics to better align the Scheme with best practice and focus more on real world decarbonisation. This is discussed in more detail in the metrics and targets section of the report. The responsibilities of the investment adviser were set out in more detail in Section 1: Governance.

The Trustee also aims to take advantage of climate-related opportunities where this is expected to improve the risk/return profile of the Scheme. This will highlight asset classes that may perform well in different climate-related scenarios. At the level of individual investments, the Trustee expects the appointed investment managers to consider climate-related opportunities when making investments and engage with portfolio companies in order to encourage them to take advantage of relevant opportunities. As previously mentioned, in the selection of the two newly appointed investment managers during the period, their ability to integrate climate risk management into their overall strategy was a key factor in the Trustee's decision-making process.

Engagement and voting

The Trustee believes that engagement and voting are core components of sound risk management. Engagement is aimed at ensuring companies manage the physical and transitional risks that climate change poses. Direct engagement with underlying companies in which the Trustee owns shares and/or debt is carried out by the Scheme's investment managers. The Trustee's ability to influence investment managers' stewardship activities will depend on the nature of the investments held. As the majority of the Scheme's assets are invested in pooled funds – where the Trustee holds units in a fund rather than having any direct ownership rights – the Trustee has limited scope to directly influence managers' stewardship activities.

However, improving its own stewardship capabilities was a key focus for the Trustee in 2023. The Trustee received training on stewardship as an effective climate-risk management tool before articulating its expectations for the Scheme's managers in an updated Stewardship and Engagement Policy. The policy noted climate change as a stewardship priority for the Trustee.

Taylor Wimpey Pension Scheme

Building on this training the Trustee continued to engage with its managers over the year, meeting with three of the Scheme's existing managers to, amongst other topics, discuss their ESG and stewardship capabilities. To improve the efficacy of these meetings, the Trustee developed a consistent list of stewardship questions to question managers on ahead of each respective manager engagement. A subset of the questions relate to the Trustee's chosen theme of climate change. For example, "*How many times over the last year have you engaged with an issuer in the portfolio, in collaboration with other investors, on the topic of climate change?*". If the Trustee is disappointed with the manager's response, the meeting is used to challenge them to do better regarding their own engagement on climate-related matters.

The Trustee's policy is to delegate responsibility for engagement with investee companies to its investment managers, which includes the exercising of rights (including voting rights) attaching to investments made by the investment managers. Each investment manager is expected to exercise voting rights in accordance with their guidelines. The Trustee encourages its managers to engage with investee companies and promote adherence to best practice in corporate governance.

When selecting a new investment manager, ESG integration, as well as stewardship and engagement, are factored into the Trustee's decision-making process to the appropriate level for the specific asset class in question.

4. Metrics and Targets

Metrics

The DWP's guidance for pension schemes submitting TCFD reporting suggests that the following metrics are chosen: an absolute emissions metric (total greenhouse gas emissions), a carbon intensity metric (carbon footprint), an additional non-emissions based metric, and a portfolio alignment metric.

The Trustee has chosen the following metrics:

DWP suggested metric	Metric selected	Rationale
Absolute emissions	Total financed emissions	This is the absolute emissions metric recommended by the DWP.
Emissions intensity	Carbon Footprint	This is the emissions intensity metric recommended by the DWP.
Additional metric	Data Quality	This metric provides insight into the reliability of underlying climate data, thereby enhancing the reliability of the output from the Scheme's other metrics.
Portfolio Alignment	Science-based target initiative (SBTI)	This metric examines whether a voluntarily disclosed company decarbonisation target is aligned with a relevant science-based pathway. There is evidence that companies that have set science-based targets are delivering emissions reductions in line with their ambitions, making this a key metric to monitor to drive positive change.

The chosen metrics are reviewed at least annually to ensure they remain relevant and appropriate for the Scheme. Over the year the Trustee agreed to update its third metric (the optional "non-emissions" based metric) from a measure of climate-related risk exposure (the output of the "PRA slow transition test") to begin monitoring the Scheme's data quality (the "PCAF data quality score"). The rationale for doing so was that monitoring data quality will provide insight into the reliability of underlying climate data, thereby enhancing the reliability of the output from the Scheme's other metrics. The Trustee also notes that the Scheme's exposure to climate-related risk will continue to be monitored and recorded in this report through the output of the Scheme's scenario analysis.

The Trustee recognises the nascency of climate metrics in an investment context and acknowledges that there may be other situations in the future whereby the Trustee may consider replacing its metrics with ones that are more appropriate. For example, if there are changes in methodologies or in the regulatory requirements, following changes in data quality/availability, or the emergence of more robust metrics/methodologies.

Going forward, the Trustee will use the results to identify the climate-related risks and opportunities which are relevant to the Scheme. These might include, for example, engaging with fund managers who have material carbon intensity levels or with other industry participants, exploring low-carbon alternative investment options, and updating investment guidelines for managers where the Trustee has discretion to make such changes (similar to some of the work already done, as described previously).

For the purpose of this analysis, emissions from gilts and cash are currently excluded due to methodological challenges. However, the Trustee understands that this is a fast-moving area and therefore may revisit this in future as best practice develops. This would in turn change the results of the analysis presented in this report materially. The Scheme's non-investable assets (such as the insurance arrangements and the Pensions Funding Partnership), have also been excluded on the basis the Trustee has no control over these assets.

1. Total financed emissions

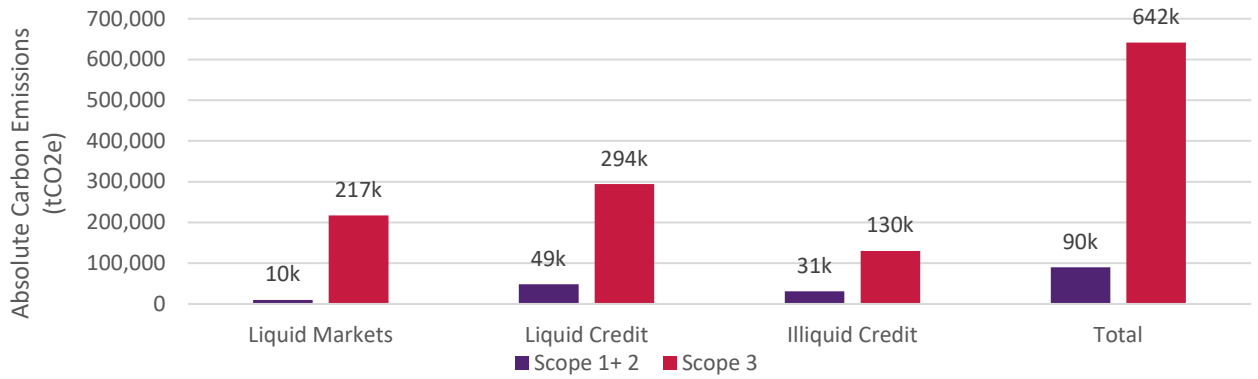
The Trustee has chosen total financed emissions as the main metric for absolute emissions – the metric shows the total greenhouse gas emissions that are financed by the Scheme's investments, also known as category 15 (investment emissions) in the Greenhouse Gas ('GHG') Protocol.

There are three scopes of carbon emissions:

- **Scope 1** emissions are direct emissions from an entity's owned or operationally controlled sources;
- **Scope 2** emissions are those from the use of electricity purchased by an entity;
- **Scope 3** emissions are indirect emissions from the use of company's products, or any other emissions across its supply chain.

Financed emissions are calculated as the proportional share of the Scope 1 and Scope 2 GHG emissions for each relevant investment, based on the size of the investment relative to the Enterprise Value Including Cash ('EVIC') of the respective company – the EVIC is a measure of a company's total value.

Chart showing the total (absolute) financed emissions for the Scheme as at 31 December 2023



Source: Analysis by Redington as at 31 December 2023, using data from MSCI.

Key takeaway: The Scheme's exposure to liquid credit is the largest contributor to the Scheme's total financed ('absolute') emissions, both in terms of scope 1 + 2 and scope 3.

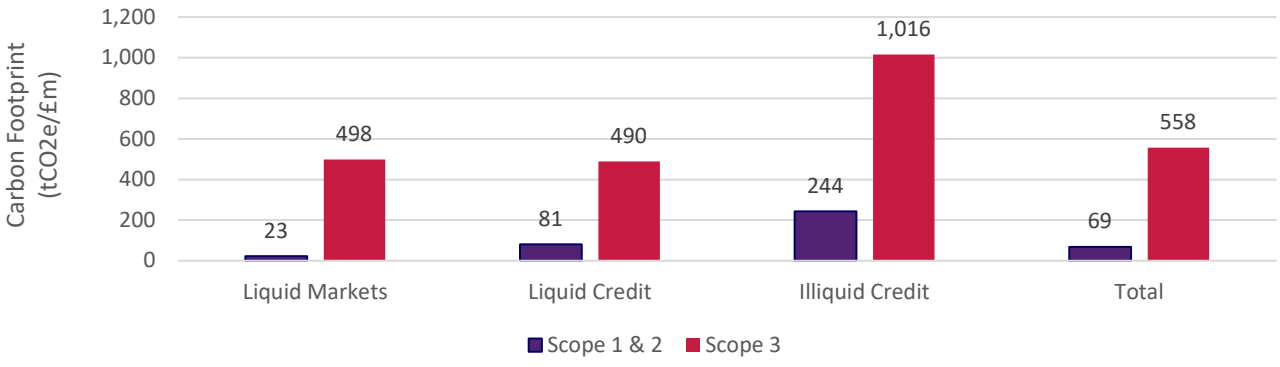
2. Emissions intensity

The Trustee monitors carbon footprint as its emissions intensity metric. Carbon footprint measures the carbon efficiency of a portfolio in terms of emissions per million pounds invested. It normalises the total financed emissions for the value of the portfolio. In other words, it shows the emissions per millions of pounds invested; the metric is therefore comparable between investments of different sizes.

At a portfolio level, the emissions intensity measures are calculated as the average of the emissions intensity of the underlying holdings, weighted by the value of each holding. A portfolio with a high emissions intensity will have a steeper route towards decarbonisation than a less intensive one. Hence, measuring the emissions intensity across the Scheme is useful in order to gauge how difficult (or easy) it will be to progressively decarbonise its portfolios.

Differences in portfolio emissions intensities are driven by differences in sector and company exposure. Portfolios with higher exposures to high-carbon sectors such as utilities, non-energy materials, energy and industrials tend to exhibit higher emissions intensities. The Trustee has set an aspirational net zero target in relation to this metric, noting it is subject to the Trustee's fiduciary and financial objectives.

Chart showing the total carbon footprint for the Scheme as at 31 December 2023



Source: Analysis by Redington as at 31 December 2023, using data from MSCI.

Key takeaway: per million pounds invested, the Scheme's illiquid credit funds continue to have the highest emissions. The Trustee notes the allocation to this asset class is due to decrease over the coming years as the funds wind up, which will naturally reduce the portfolio-level carbon footprint.

3. *Additional Climate Metric*

Over the year the Trustee reviewed and updated its third optional "non-emissions" based metric. For the reasons outlined in the introduction to this section, the Trustee now monitors the PCAF data quality score.

The PCAF data quality score monitors the reliability of companies' emissions data. The scoring system ranges from one to five, with one representing the highest data quality, which involves independently verified emissions data, and five indicating the lowest quality, characterised by estimated emissions data derived from industry peers.

Below are the results for each of the Scheme's mandates as at 31 December 2023. Please note that a PCAF Data Quality Score is only available where line-by-line data is available for the respective fund.

Fund	PCAF Data Quality Score
AQR Diversified Risk Premia Fund	2.3
Man Progressive Diversified Risk Premia Fund	2.3
Beach Point SCF X Fund	N/A
CQS Credit Multi Asset Fund	2.3
Federated Hermes Unconstrained Credit Fund	2.1
Insight High Grade ABS Fund	N/A
Schroders (STW) Long Duration Credit Portfolio	2.2
HPS Private Loan Opportunities Fund	N/A
KKR Private Credit Opportunities Partners II Fund	N/A
Magnetar Constellation Fund	N/A
Total Portfolio	**2.2**

Source: Redington as at 31 December 2023, using data from MSCI.

Key takeaway: A data quality score of c.2.0 is an indication that a good proportion of emissions data is sourced either directly via reported emissions or using the high-quality estimate based on companies' energy consumption and production data. This is considered high quality emissions data. The Trustee is encouraged that the majority of the Scheme' credit mandates – and a large proportion of the Scheme's portfolio – score in this area.

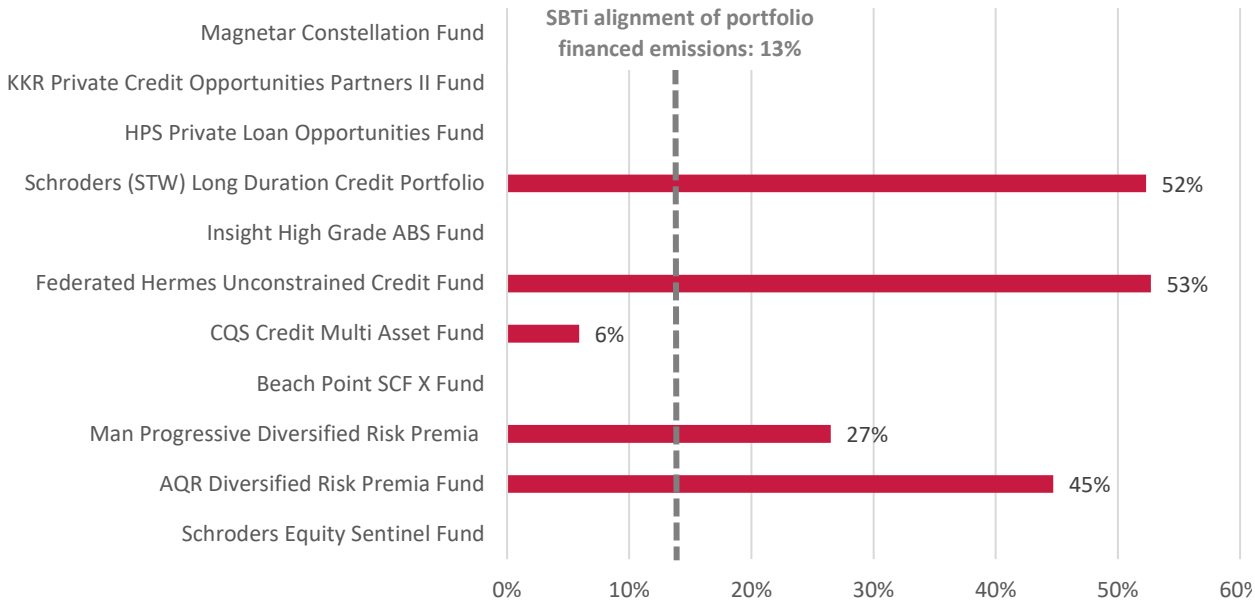
4. *Portfolio Alignment*

The Trustee has agreed to adopt the Science Based Target's initiative as the Scheme's portfolio alignment metric, which captures a company or issuer's progress against a self-developed decarbonisation target using science-based methodology. The target can be aimed at one or all of; the short term, long term or Net Zero, with each company being scored with a binary yes or no assessment on the following target categorisations: "SBTi Approved 1.5 C", "SBTi Approved Well Below 2 C" or "SBTi Approved 2 C". Each of the categorisations denote the implied global temperature increases that coincide with the decarbonisation target.

Whilst the Trustee is aware that the "SBTi Approved 2 C" categorisation will be gradually phased out in line with the initiative's raised ambition to 1.5C, the Trustee will continue to report under the "SBTi Approved 2 C" categorisation to capture companies currently on a 2C path until they increase their target ambition to 1.5C

in the next few years. The SBTi rating of a fund shows what percentage of the companies the fund invests in have set a decarbonisation target using science-based methodology.

Chart showing the SBTi alignment of the Scheme's funds as at 31 December 2023



Source: Analysis by Redington as at 31 December 2023, using data from MSCI.

Key takeaway: In contrast to last year where only two managers provided sufficient data to calculate an SBTi rating – CQS & Schroders with ratings of 5.5% and 12.1% respectively – the Trustee was able to calculate that c.13% of portfolio financed emissions have set science-based targets, based on data from 5 funds.

Target

As outlined in last year's report, the Trustee has set an aspirational net zero target, with an interim target of 50% reduction in carbon footprint by 2030. Over the year, the Trustee reviewed the suitability of this target to ensure it remains aligned with the best practice and the Trustee's climate-related ambitions.

Following advice and discussion with the Scheme's Investment Adviser, the Trustee agreed to switch the Scheme's primary target to one based on alignment, using the SBTi metric. Specifically, the Trustee agreed that by 2030, 70% portfolio financed emissions should have science-based net zero targets. The 70% threshold has been developed in line with industry best practice, building upon the Institutional Investors Group on Climate Change (IIGCC) Net Zero Framework.

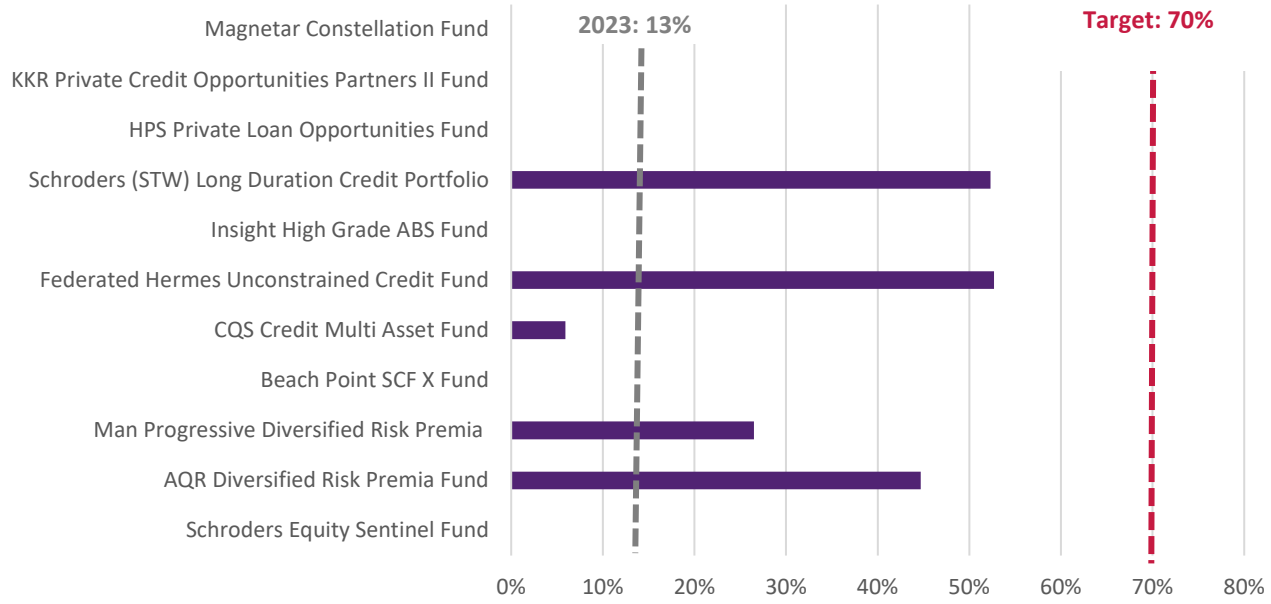
In choosing an updated metric against which to set a target, the Trustee prioritised one which was 'actionable' and would help reduce emissions within the broader economy, not only portfolio decarbonisation. In line with the Trustee's renewed focus on effective stewardship, the Trustee aims to achieve its target via engagement with the Scheme's managers to increase the number of investee companies that set science-based targets.

The Trustee continues to support the goals of the Paris Agreement and has agreed to maintain its aspirational net zero target. Further detail on progress against each target is outlined below.

1. *Portfolio alignment target*

The below chart outlines how the Scheme's investment strategy compares to the 70% target, at the fund-by-fund level, as well as at the overall portfolio level.

Chart showing the Scheme's progress towards 70% SBTi alignment as at 31 December 2023



Source: Analysis by Redington as at 31 December 2023, using data from MSCI.

Key takeaway: As at 31st December, the Scheme is currently behind its 70% target, but given the target date of 2030, this is not currently considered to be a concern.

The Trustee is encouraged that there has been a significant improvement in data coverage for this metric since last year, collecting enough data to calculate SBTi alignment for 5 funds as opposed to 2 last year.

Given that the Trustee intends to achieve this target through effective engagement with the Scheme's managers, monitoring progress as per the above chart is a useful way to focus the Trustee's stewardship efforts. For example, CQS is noted as being behind the other managers compared to the Scheme's other liquid credit mandates.

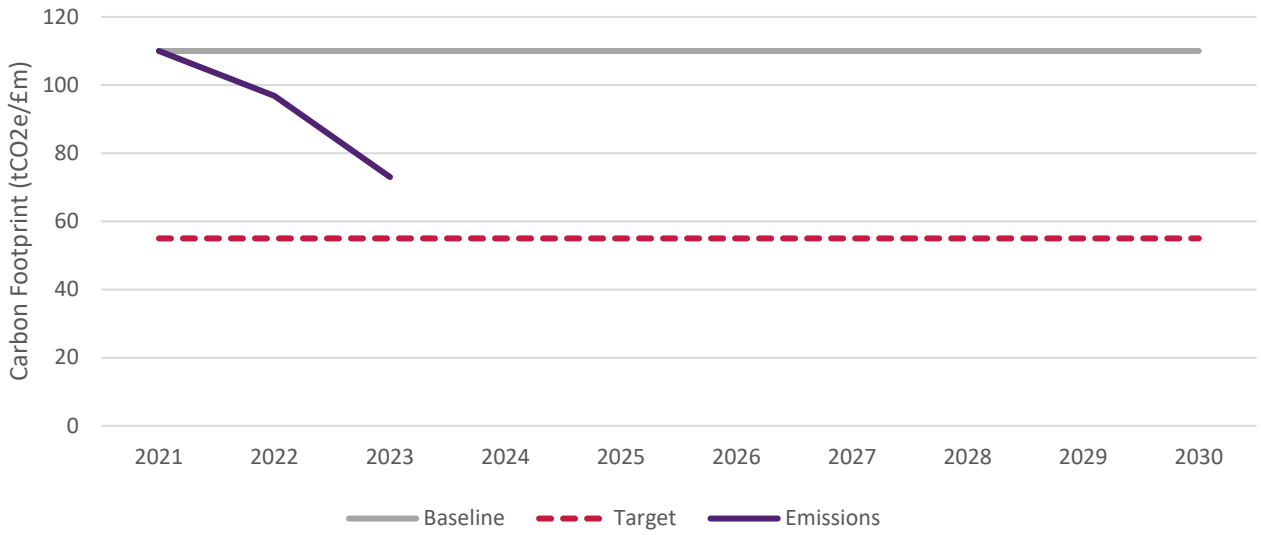
2. *Aspirational Net Zero target*

The Trustee has set an aspirational net zero target, with an interim target of 50% reduction in carbon footprint by 2030, excluding LDI and non-investable assets, using a base year of 2021 to monitor progress against the target annually.

Recognising the limitations in accurately measuring scope 3 emissions, the Trustee has agreed to amend its net zero target to focus on emissions where data is more reliable – i.e. scopes 1 and 2. The Trustee will continue to monitor the Scheme's scope 3 emissions in the Metrics section of this report.

The Scheme's progress against its net zero aspiration is outlined below.

Chart showing the Scheme's carbon footprint reduction vs. baseline and target as at 31 December 2023



Source: Analysis by Redington as at 31 December 2023, using data from MSCI

Key takeaway: The carbon footprint of the Scheme's investments has fallen from the baseline and is making good progress towards the Trustee's target reduction of 50% by 2030.

Note: All analysis is provided by the Scheme's Investment Consultant, Redington Ltd ("Redington"), and the data in the report is sourced from MSCI©.

Taylor Wimpey Pension Scheme

APPENDIX A: Scenario Analysis

Longevity Scenario Analysis

XPS provided analysis on the longevity risks and opportunities that climate change presents. The key climate risks that are expected to impact future life have been broken down into physical, economic, and behavioural impacts.

- **Physical**: Physical impacts include extreme weather events and a rise in vector and water-borne diseases and the largely offsetting impact of hotter summers and warmer winters.
- **Economic**: Macroeconomic impacts include lower economic growth, a higher cost of living and reduced healthcare expenditure which can all reduce life expectancy.
- **Behavioural**: Mitigating behaviours include a change in dietary habits and a greater uptake of active travel which increase life expectancy.

Taking into account the membership characteristics of the Scheme, XPS considered how each of the key climate risks may affect future life expectancy under the respective climate scenarios.

Physical

As a result of climate change, it is predicted that winters in the UK will be warmer and wetter and summers hotter and drier. Extreme weather events will also be more frequent and severe. In the UK very few deaths are directly from temperature extremes such as hypothermia and heat stroke. Instead, temperature-related deaths are largely attributable to cardiovascular and respiratory diseases. The vulnerable and elderly are most exposed to temperature related deaths, however the overall impact will depend on our ability to adapt to changes in temperatures. Air pollution is considered the largest environmental risk to public health in the UK. Long-term exposure to air pollution is linked to cardiovascular and respiratory diseases and the damaging effects of air pollution are felt most by vulnerable populations, low-income areas and those living in areas with high levels of pollution.

Under the No Transition scenario, the net effect of the physical impacts may lead to a reduction in life expectancy due to disruption from extreme weather events and an increase in diseases. The impacts are more material as the Scheme matures. Overall, Scheme members are living in areas that are less deprived than the UK average, and so physical impacts on life expectancy have the potential to be negligible under a Slow Transition and a Fast Transition.

Economic

The impact of both climate change and the cost of implementing mitigating action could have significant macroeconomic impacts. These include lower economic growth, the pressures of a higher cost of living and reduced healthcare expenditure. In an aging population, increased healthcare expenditure is necessary to see sustained improvements in life expectancy. Should money be diverted away from healthcare and instead used to fund the necessary changes in infrastructure and technologies and to pay for repairs from extreme weather events then improvements in life expectancy are likely to suffer. Negative economic impacts have the potential to outweigh the impact of better air quality (assuming that emissions are reduced) and milder winters.

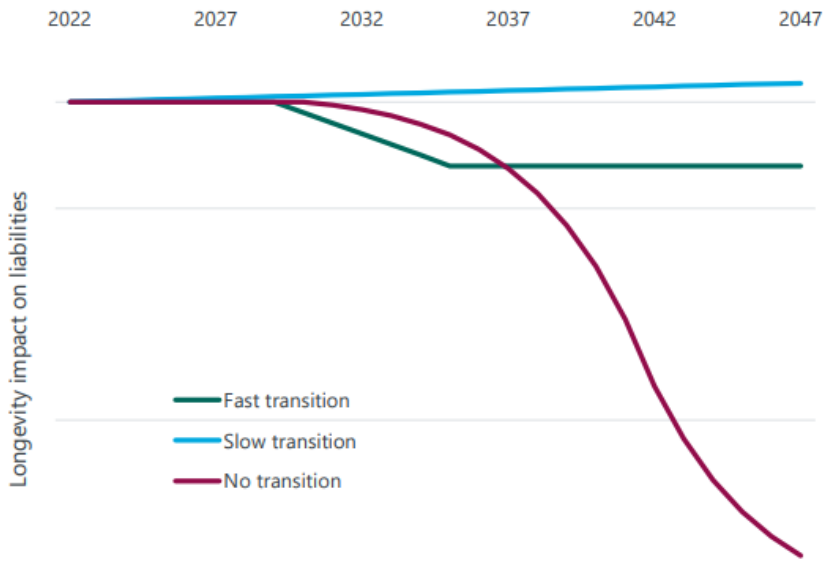
Under the No Transition scenario, there is the potential for a reduction in future life expectancy over the long term, mainly driven by a reduction in healthcare expenditure. This is expected to be most significant for younger members. Under a Fast Transition there is a potential for a slowdown in longevity improvements in the short term where there is expected to be some disruption. There is not expected to be an impact under Slow Transition.

Behavioural

Over half of the emissions reductions required to meet net-zero will require a change to individuals' behaviours. These include travel habits, dietary choices and choosing low-carbon technologies such as electric cars. A combination of increased awareness of climate-risks, government policies and an understanding of the health benefits will contribute to a beneficial change in individuals' behaviours and a positive impact on UK life expectancies. XPS assume that the impacts of green strategies are monitored to avoid any unintentional consequences.

In the No Transition scenario there may be an expectation of no change or a worsening in behaviour and lifestyles which in isolation may slightly decrease life expectancies for Scheme members. Under a Slow Transition there may be the expectation of the inverse and so an improvement in future life expectancy. There is not expected to be an impact under Fast Transition.

The chart below shows an illustration of the expected progression of the impact on the Scheme over time considering the scenarios and their assumptions in isolation.



The graph is illustrative only and does not show what the actual impact or relative quantum may look like for each scenario. Instead, it is to illustrate how XPS would expect the impact of each scenario to materialise over time.

Under the Slow Transition the impact on the funding level is expected to materialise smoothly over time.

Under the Fast Transition there is no initial impact on the funding until the Transition takes place. At this point there is a sharp impact on the funding level as a result of the negative impacts on the health of the population as a result of the disruption.

Under the No Transition there is no initial material impact on the economy as no actions are taken. Over time the negative impacts of climate change see rapid decreases in life expectancy and hence an increase in funding level.

Having reviewed the results provided, the Trustee notes that under each scenario, the longevity impact on liabilities is likely not to lead to a significant deterioration of the funding position under any of the three scenarios outlined.

Covenant Scenario Analysis

In addition, the Trustee has engaged with its covenant adviser, Penfida, to understand how Sponsor strength would be impacted by various climate scenarios, recognising that the potential impact on the covenant of the effects of climate change may influence the near-term or longer-term funding strategy of the Scheme. The analysis provided helps the Trustee to consider the risks versus the mitigating actions taken by the Sponsor, also assessing any opportunities that arise from the transition to a low-carbon economy, which the Sponsor may take advantage of.

As a natural resource intensive housebuilder, Taylor Wimpey faces a number of risks relating to the ongoing climate change crisis and has developed goals and strategies for managing the risks and opportunities borne from climate change. Whilst Taylor Wimpey's own risk assessment of climate risk identified regulation, policy and taxation as being of high materiality, the covenant adviser noted that the Company is seeking to mitigate the potential impacts of this risk by preparing for regulatory changes through its R&D programme, engaging with policy makers to share its views on proposed changes and with other authorities and stakeholders to ensure compliance with policies and requirements. For example, Taylor Wimpey has a Net Zero Transition plan, along with a rating of AA by MSCI, which reflects its position as an ESG leader. Given the significant headroom in the covenant, the length of covenant reliance of the Scheme and the high ESG rating of the Sponsor, and the actions that are currently being undertaken / considered by Taylor Wimpey to address the potential climate change risks, the covenant adviser believes climate change related risks from a covenant perspective are Low to Medium in the short to medium term and Medium in the long term.

In the same report, the Trustee's covenant adviser noted that Taylor Wimpey also has multiple climate-related opportunities. As policy requirements around heating and insulation impact the second-hand market, new build homes will become increasingly attractive. There are also reputational benefits from meeting and exceeding customer expectations in relation to climate change and home energy efficiency makes homes more attractive to customers. Demand for new homes could also increase due to the growth in green mortgages. The Trustee notes that no material new information on climate change in relation to Taylor Wimpey has come to light since the time its covenant adviser completed their June 2023 covenant review.

In light of the above, the Trustee is currently satisfied that the Sponsor is developing strategies to address the anticipated risks and opportunities arising from climate change. Therefore, the Trustee sees no reason at present to alter the Scheme's funding strategy as a result of this covenant analysis. Instead, it will continue to review the approaches of the Sponsor in light of the risks and opportunities that their businesses are exposed to, performing formal analysis triennially or sooner following meaningful changes that could affect the covenant strength or the Scheme's funding strategy. The Trustee also acknowledges that there may be scope to further develop covenant analysis in the future and will continue to monitor for developments in methodology that can be incorporated into the Trustee's risk management process.

APPENDIX B: Carbon Emissions Analysis

Where possible and where there is reasonable data coverage, the Trustee monitors 'line-by-line' emissions reporting for funds. These tend to be more generic, long-only asset classes such as listed equity and corporate credit. However, for funds with less than 50% coverage and illiquid assets, the Trustee monitors 'asset class level' carbon estimates in the absence of reliable, reported line-by-line emissions data from MSCI. The Trustee notes using asset class modelling of emissions for assets where this data is not available enables a more holistic view of the Scheme's total portfolio emissions, albeit recognising that the modelled data is not perfect.

The asset class modelling of emissions has been provided by Redington and is based on asset class 'building blocks'. These are either calculated directly using a given index's underlying holdings emissions (such as using MSCI ACWI as a proxy for a broad equity fund) or in some cases these indices are used and extrapolated to other asset classes based on given assumptions (such as using the emissions of infrastructure firms within an index to proxy an infrastructure fund).

Emissions metrics will be calculated in line with the GHG Protocol Methodology, the global standard for companies and organisations to measure and manage their GHG emissions. The GHG Protocol provides accounting and reporting standards, sector guidance and calculation tools. It has created a comprehensive, global, standardised framework for measuring and managing emissions from private and public sector operations, value chains, products, cities and policies to enable greenhouse gas reductions across the board.