

# The Taylor Wimpey Pension Scheme (Scheme) Taskforce on Climate-Related Financial Disclosures (TCFD) Statement – Year Ended 31 December 2024

## 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 2024 to 31 December 2024.

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 adviser, Redington, to engage with the managers regarding this on its behalf, bringing any relevant updates 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 the limitations of climate scenario analysis methodologies, in particular how the models may underestimate the physical risks associated with climate change. Following this training, and in the absence of an agreed improved methodology within the industry, the Trustee has placed increased importance on a qualitative assessment of climate risks that may not be evident through the models.

## 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. One way in which these risks are assessed is through climate scenario analysis of the Scheme's assets, liabilities and an assessment of the Sponsoring company's exposure to climate-related risks and opportunities. The Trustee has reviewed the output of the Scheme's scenario analysis completed as at December 2023 based on the Network for Greening the Financial System ("**NGFS**") assumptions.

Mindful of the limitations associated with the above methodologies, the Trustee considered this analysis alongside other qualitative factors in the Trustee's management of climate-related risks and opportunities. Over the Scheme year, this included the following:

- **Making changes to the portfolio:** Over the year, the Trustee appointed the ICG Total Credit Fund, where stewardship and ESG considerations formed a key role in the selection process for the manager.
- **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 continued to improve its stewardship

practices over the year, meeting multiple managers over the year and questioning them on their own stewardship and engagement practices. For example, the Trustee ask managers to disclose how many underlying companies they engage with on climate-related issues, and when the Trustee finds the managers' responses to questions regarding climate-related issues lacking, it challenges them to improve and follows up as required.

### ***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 its investment adviser, Redington Limited ("**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<sup>1</sup>, carbon footprint<sup>2</sup>, the Partnership for Carbon Accounting Financials ("**PCAF**") data quality score<sup>3</sup> and the output of the portfolio alignment Science Based Targets Initiative ("**SBTi**") metric<sup>4</sup>. These metrics are reported at the Scheme's year-end (31 December 2024) within this report.

For the Scheme's target, the Trustee has agreed that by 2030, 70% of portfolio financed emissions should have set science-based net zero targets. The Trustee aims to achieve this target by engaging with the Scheme's managers to encourage their own investee companies to set net zero targets, in turn driving real-world change. As at 31 December 2024, 6% of the Scheme's financed emissions are SBTi-aligned. This has decreased over the year (2023: 13%). As this decline was predominantly driven by a manager change over the year, and not backsliding by existing managers, the Trustee remains comfortable in its approach and will continue to use this data to support engagements going forward. That said, the Trustee is also aware of the potential impact policy headwinds may have on voluntary initiatives such as SBTi.

The Trustee continues to support the goals of the Paris Agreement and monitors the Scheme's progress to an aspirational net zero target, and an interim target of a 50% reduction in carbon footprint by 2030. When this target was agreed, it was on the assumption that the low-carbon transition would happen at a reasonable pace. With a lack of decarbonisation progress so far, and an apparent lack of supportive policy to accelerate the transition in the near term, the Trustee is aware that it is likely to take longer for the global economy to reach net zero.

The implication of a slower transition to net zero is that the physical impacts of climate change are likely to occur sooner and with greater severity – measuring and managing physical (as opposed to transition) climate-related risks will therefore become more important. As such, whilst the Trustee remains highly supportive of rapid decarbonisation to net zero, and has retained the Scheme's targets for the purpose of this report, the Trustee will continue to consider their suitability and assess the Scheme's resilience to physical climate risks in a scenario where the low-carbon transition fails or is materially delayed.

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.

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<sup>1</sup> Represents the total share of Scope 1, Scope 2 and Scope 3 CO2e emissions a fund is responsible for.

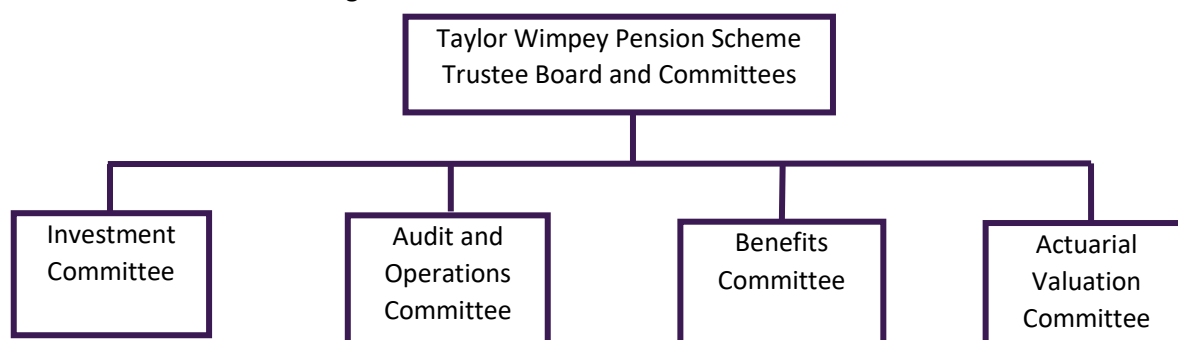
<sup>2</sup> Measurement of the Scope 1 and 2, and separately Scope 3 CO2e emissions of a fund per million pounds of EVIC.

<sup>3</sup> The Partnership for Carbon Accounting Financials ("PCAF") data quality score monitors the reliability of companies' emissions data.

<sup>4</sup> 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 Investment Sub-committee ("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 adviser, 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 adviser, 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 2024, the Trustee received training on topics such the limitations of climate scenario methodologies as well as a 'horizon scanning' session on future sustainable investment trends, 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)

## 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). Albeit noting that the current global warming trajectory could bring the physical risks associated with climate change forward.
- 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 triennial valuation cycle.
Medium Term	5 years (2029)	This is aligned with the date which the Scheme is expected to reach 110% funding on its low dependency basis.
Long Term	11 years (2035)	This is in line with the expiry of the Pension Funding Partnership (PFP), an additional layer of funding support provided by the Scheme's sponsor.

### *Climate scenario analysis*

As per the statutory requirements, the Trustee must undertake scenario analysis to assess the potential impact of climate change on the scheme's assets and liabilities. At the same time, the Trustee is aware of the limitations of the current climate scenario methodologies. Therefore, in the absence of an improved alternative methodology, the following section outlines the most recent scenario analysis undertaken by the Trustee whilst also noting its limitations and providing a qualitative assessment of the risks to supplement it.

To aid the consideration of climate-related risks and opportunities, the Trustee undertook asset-side scenario analysis as at 31 December 2023, using the assumptions of the Network for Greening the Financial System ("NGFS") stress tests. These 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 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 (Nationally Determined Contributions) – 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 Trustee has reviewed the output of this analysis completed last year and believes it remains appropriate in terms of providing an indication of the Scheme's exposure to climate-related risk with the investment strategy in place. There have been no significant changes to the Scheme's strategic asset allocation, nor does the Trustee believe there have been material improvements in data availability and climate scenario methodology. Therefore, the Trustee considers the scenario analysis at 31 December 2023 to be broadly representative of the position of the Scheme at 31 December 2024, and does not see material value in refreshing the analysis. Noting the statutory requirement to update the scenario analysis at least triennially, the Trustee will review this decision again in the next iteration of this report.

As such, the latest scenario analysis completed at 31 December 2023, as well as the Trustee's interpretation of it, is presented below.

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 could 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 scenario analysis to assess the mortality impact of climate change in the assessment of the Scheme's broader funding strategy.

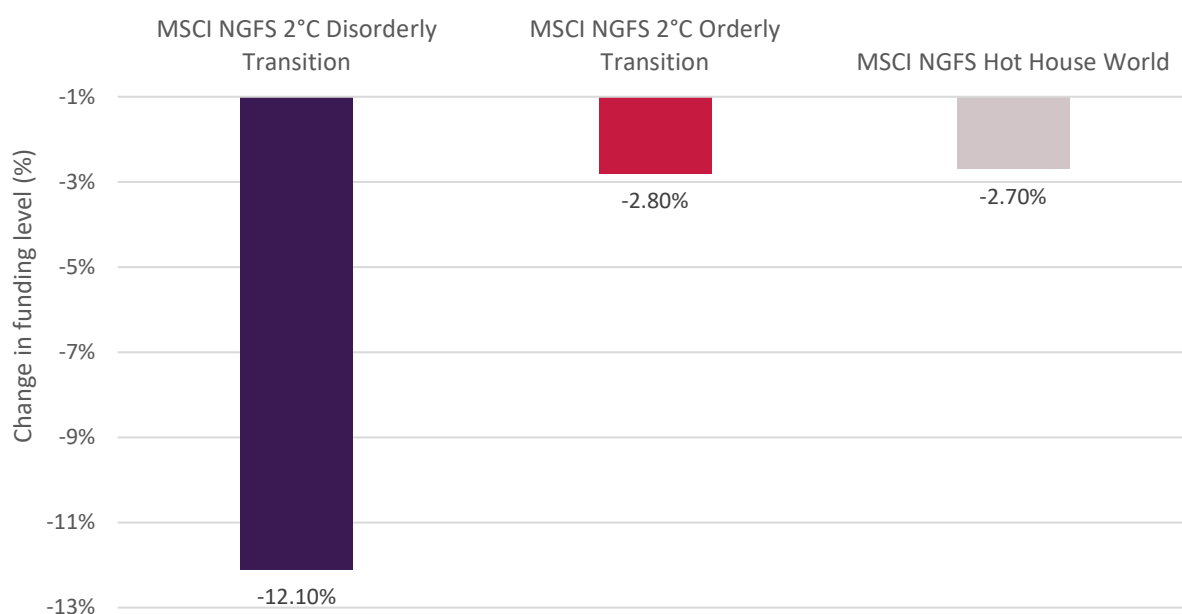
After reviewing this scenario analysis, XPS and the Trustee were comfortable that it still provides a reasonable indication of the impact which climate-related risk may have on the Scheme's liabilities and did not need to be refreshed. XPS' analysis is included in full in Appendix A.

In addition, the Trustee has engaged with its covenant adviser, Penfida, to understand how the Sponsor's strength might be impacted by various climate scenarios, recognising that the potential impact on the covenant of the effects of climate change may influence the near- 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.

After reviewing this scenario analysis, Penfida and the Trustee were comfortable that it continues to provide a reasonable indication of the impact which climate-related risk may have on the Sponsor and did not need to be refreshed. Penfida's analysis is included in full in Appendix A.

The Trustee notes that due to methodological constraints, all three of the advisers were not able to fully align with their climate scenario stresses. However, the Trustee does not expect this misalignment to have a significant impact on decision-making and its advisers will endeavour to adopt the same stresses wherever possible in their analysis. Additionally, the Trustee recognises that the wider industry is actively working towards developing uniform scenarios to address these challenges effectively.

#### *The Trustee's interpretation of the Scheme's scenario analysis*



Source: Redington as at 31 December 2023.

The chart above shows the impact of climate risk on the funding level of the Scheme under the different climate scenarios tested. As noted in last year's report, 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 has so far focused on engaging 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.

However, the Trustee is aware that there has been a lack of global decarbonisation progress and there is an apparent lack of supportive policy to accelerate the transition in the near term. As such, it is prudent to start considering potential physical risks – which are most significant in the Hot House World scenario – and the Scheme's resilience to these in more detail. In this regard, the Trustee is also aware of the increasing scrutiny of climate scenario methodologies. In particular, that current models may not accurately reflect the risks climate change poses to the planet and society by overlooking climate tipping points and underestimating potential temperature rises. Therefore, whilst the Hot House World scenario is modelled as having the lowest impact on the Scheme's funding level, the Trustee is clear this scenario would not be in the best interest of members. To this end, the Trustee expects assessing the Scheme's resilience to physical climate-related risks to be a priority in the coming year.

Mindful of the limitations associated with the above methodologies, this analysis is considered alongside other qualitative factors in the Trustee's management of climate-related risks and opportunities. Over the Scheme year, this included the following:

- **Making changes to the portfolio** Over the year, the Trustee agreed to transition towards a portfolio that allocates more towards contractual sources of returns. In light of this, the Scheme reduced its exposure to equity markets over the year in favour of investments into liquid credit assets. Over the year, the Trustee appointed the ICG Total Credit Fund, following a full redemption from the Federated Hermes Unconstrained Credit Fund. Stewardship and ESG considerations formed a key role in the selection process.
- **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 continued to improve its stewardship practices over the year. The ISC met with three of the Scheme's existing managers over the period and requested that the managers cover their approach to managing climate-related risks and opportunities as part of their presentations. Ahead of each meeting the ISC shared a consistent set of questions for each manager to complete on their own stewardship and engagement practices. When the Trustee finds the managers' responses to questions regarding climate-related issues lacking, the ISC challenges them to improve and follows up post engagement to assess whether progress has been made. Recognising the increased severity and likelihood of physical risks associated with climate change, the Trustee is updating its questionnaire to consider how managers assess and manage physical climate-related risks.

### **Summary**

The analysis carried out would suggest that the strategy is sufficiently resilient in the scenarios tested. However, the Trustee acknowledges the limitations of climate scenario methodologies and therefore considers this analysis alongside a qualitative assessment of the risks.

In particular, the Trustee is aware that the current global trajectory is increasing the likelihood of a Hot House World scenario, and that the models may underestimate the time horizon and severity of the physical risks associated with this scenario. As such, assessing the Scheme's resilience to physical climate-related risks is expected to be a priority for the Trustee going forward.



### 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' (i.e. portfolio-level) scenario analysis – as outlined in the previous section; and
- 'Bottom up' (i.e. fund-specific) 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 absolute carbon emissions, carbon footprint, the Trustee's selected non-emissions based metric (data quality), and the 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 sustainable investment to help the Trustee decide on a sustainable investment strategy and adopt appropriate sustainable investment objectives for the Scheme. 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. In the selection of the Scheme's newly appointed investment manager, ICG, 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.

The Trustee continued to engage with its managers over the year, meeting with CQS, Schroders and Man to discuss, amongst other topics, their ESG and stewardship efforts. As mentioned last year, to improve the efficacy of these meetings, the Trustee developed a consistent list of stewardship questions for managers ahead of each engagement. A subset of the questions relates to the Trustee's chosen stewardship 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.

For example, the Trustee believes substantive engagements should be aimed at making change rather than simply an information gathering exercise. Whilst all the managers the Trustee met this year were able to



reference climate-related engagements with their investee companies, they either reported more engagements "for information" or were unable to categorise engagements "for change". The Trustee used their meetings with the managers to encourage them to make more engagement "for change" and will continue to do so in future meetings.

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) attached 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. Over the year, the Trustee appointed one new manager, the ICG Total Credit Fund, where the manager's stewardship and ESG credentials were a key selection factor in the process.

## 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 assesses the reliability of underlying emissions data.
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.

The chosen metrics are reviewed at least annually to ensure they remain relevant and appropriate for the Scheme. Whilst there have been no changes to the current metrics over the year, the Trustee has chosen to begin reporting both the total emissions and emissions intensity of the Scheme's sovereign bonds (i.e. the Scheme's LDI portfolio). This reflects the growing industry consensus around a methodology for calculating sovereign emissions, with the Trustee disclosing the sovereign emissions in line with the DWP guidance, calculated using methodology based on PCAF guidance.

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.

In particular, the Trustee is conscious that for the Scheme's chosen portfolio-alignment target, SBTi targets, are set voluntarily by companies. The Trustee is also aware that without policy to incentivise decarbonisation, achieving these targets may be costly and potentially unprofitable for the companies involved. Therefore, without appropriate supportive policies in place, companies may not submit targets and this metric may become less useful for the Scheme over time. The Trustee will consider this when reviewing its choice of metrics over the coming Scheme year.

The Trustee uses the results as a tool to help identify the climate-related risks and opportunities which are relevant to the Scheme.

The Scheme's non-investable assets (such as the insurance arrangements and the Pensions Funding Partnership), have been excluded on the basis the Trustee has no control over these assets.

## 1. Total (absolute) financed emissions

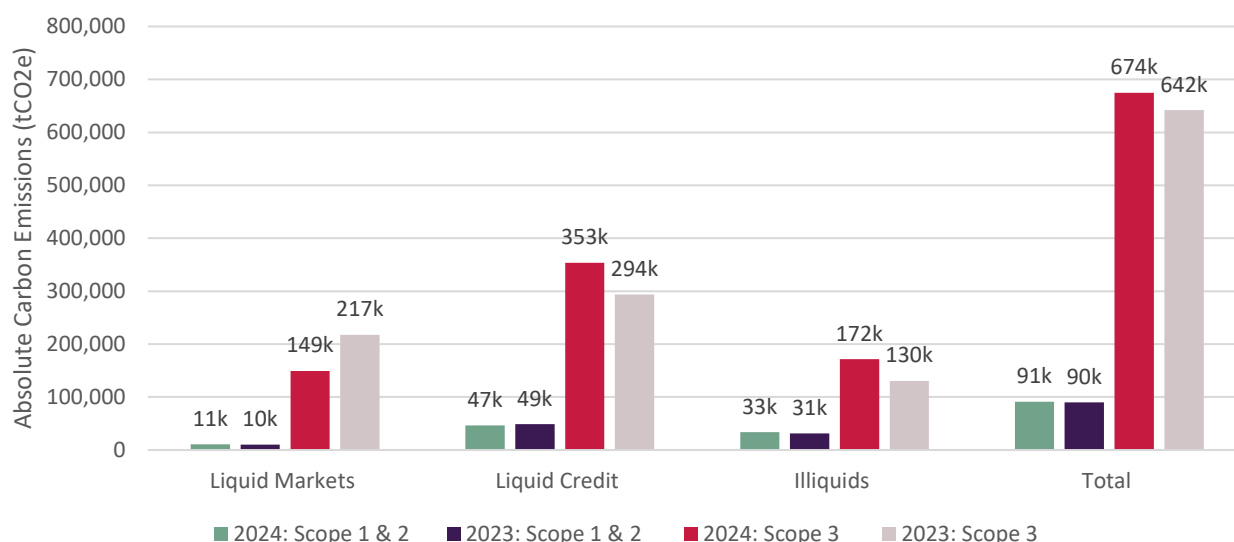
The Trustee has chosen total (absolute) financed emissions as the main metric for absolute emissions – the metric shows the total greenhouse gas emissions that are financed by the Scheme's investments, also known as category 15 (investment emissions) in the Greenhouse Gas ("GHG") Protocol.

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 a 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 and 31 December 2024**



Source: Analysis by Redington as at 31 December 2024, using data from MSCI. The data in the above graph covers c.63% of the Scheme's portfolio.

**Key takeaway:** Similar to last year, 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. In total, the Scheme's Scope 1 & 2 emissions increased slightly over the year, with a larger increase in Scope 3 emissions overall.

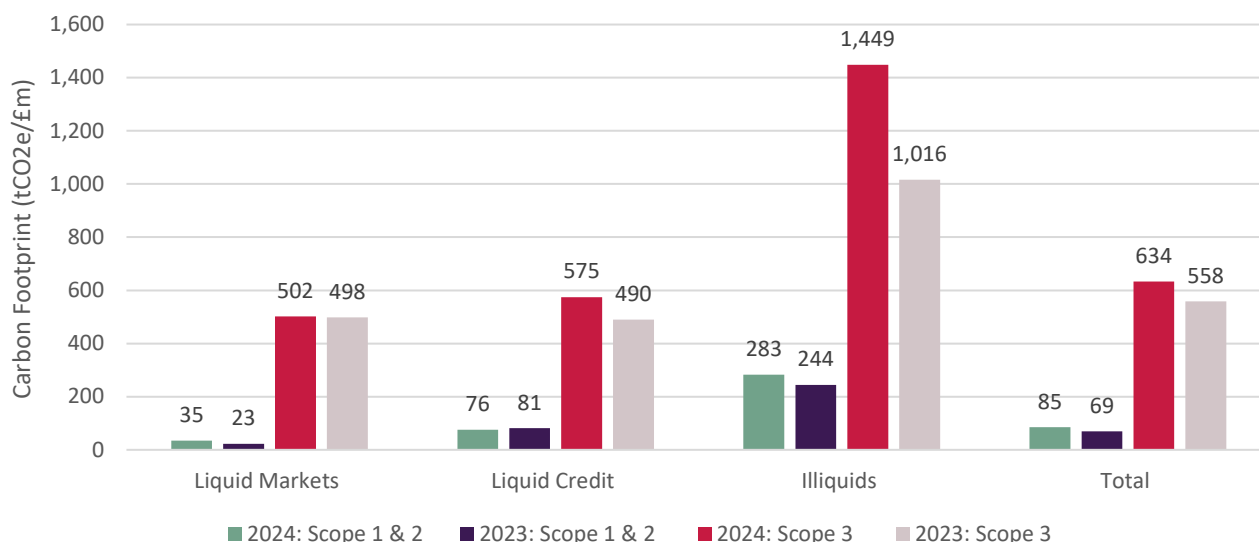
## 2. Emissions intensity

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.

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 and 31 December 2024**



Source: Analysis by Redington as at 31 December 2024, using data from MSCI. The data in the above graph covers c.63% of the Scheme's portfolio

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

### 3. Sovereign Emissions

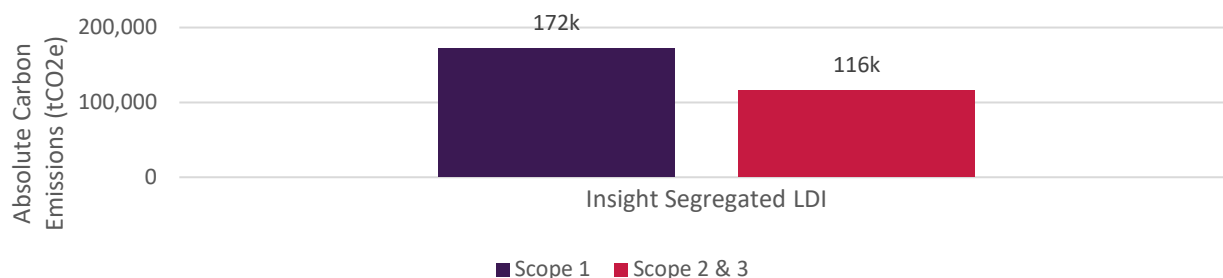
As outlined in the introduction to this section, the Trustee now monitors the sovereign emissions for the Scheme as well as the corporate emissions shown above.

For countries (and therefore sovereign bonds) slightly different categories are used to corporate emissions:

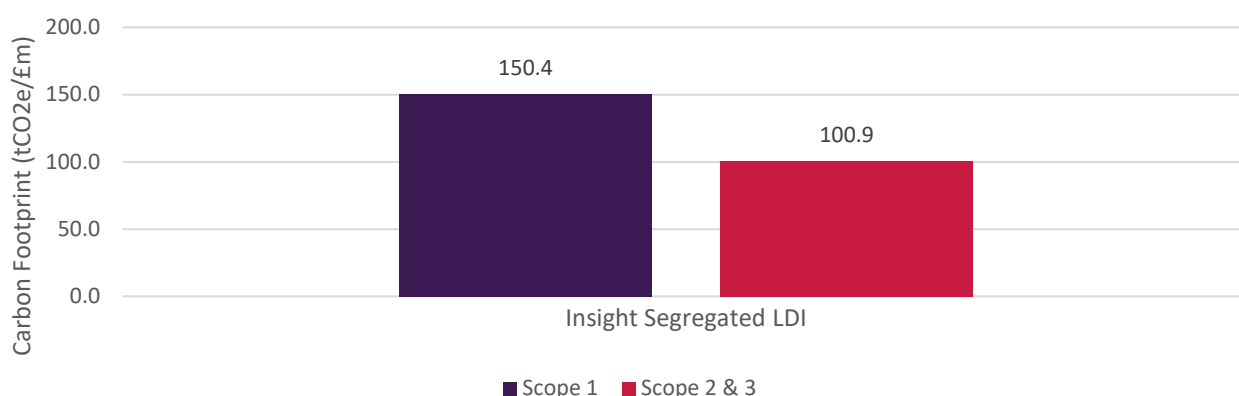
- **Production emissions:** the emissions of everything produced in a country; this is broadly equivalent to scope 1 emissions.
- **Import emissions:** the emissions of what a country imports from other countries; this is equivalent to scope 2 & 3 emissions. In practice, for large economies, scope 2 emissions are trivial in comparison to the other scope.

The share of a country's emissions is attributed by dividing a portfolio holding by a country's purchasing-power-parity- (PPP) adjusted GDP. The output of this is shown in the charts on the next page.

**Chart showing the sovereign Scope 1 and 2 & 3 (absolute) financed emission for the Scheme as at 31 December 2024**



**Chart showing the sovereign Scope 1 and 2 & 3 carbon footprint for the Scheme as at 31 December 2024**



Source: Analysis by Redington as at 31 December 2024, using data from MSCI. The data in the above graphs covers c.28% of the Scheme's portfolio.

**Key takeaway:** In line with expectations, the Scheme's sovereign emissions exposure is weighted much more heavily to scope 1 emissions (production emissions) than scope 2 and 3 (import emissions).

#### 4. Additional Climate Metric

The Trustee monitors the PCAF data quality score as its third, non-emissions based metric. 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 2024. In cases where there is insufficient corporate coverage for emissions data, an asset class proxy is used, resulting in a PCAF data quality score of grade 5 for that asset class.

**Table showing the PCAF data quality score for the Scheme's managers for Scope 1 & 2 data at 31 December 2024**

Asset Class	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Weighted average
Schroders VCE Fund	-	-	-	-	100.0%	5.0
AQR DRP Fund	-	-	-	-	100.0%	5.0
Man PDRP Fund	-	-	-	-	100.0%	5.0
Beach Point SCF X Fund	-	-	-	-	100.0%	5.0
CQS CMA Fund	-	25.1%	-	3.1%	71.8%	4.2
ICG Total Credit Fund	-	5.8%	-	2.3%	92.0%	4.8
Insight High Grade ABS Fund	-	-	-	-	100.0%	5.0
Schroders (STW) Portfolio	-	49.4%	-	13.3%	37.3%	3.4
HPS PLO Fund	-	-	-	-	100.0%	5.0
KKR PCOP II Fund	-	-	-	-	100.0%	5.0
Magnetar Constellation Fund	-	-	-	-	100.0%	5.0
<b>Total</b>	<b>0.0%</b>	<b>12.4%</b>	<b>0.0%</b>	<b>3.0%</b>	<b>84.6%</b>	<b>4.6</b>

**Table showing the PCAF data quality score for the Scheme's managers for Scope 3 data at 31 December 2024**

Asset Class	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Weighted average
Schroders VCE Fund	-	-	-	-	100.0%	5.0
AQR DRP Fund	-	-	-	-	100.0%	5.0
Man PDRP Fund	-	-	-	-	100.0%	5.0
Beach Point SCF X Fund	-	-	-	-	100.0%	5.0
CQS CMA Fund	-	20.3%	-	8.1%	71.6%	4.3
ICG Total Credit Fund	-	4.9%	-	3.3%	91.8%	4.8
Insight High Grade ABS Fund	-	-	-	-	100.0%	5.0
Schroders (STW) Portfolio	-	41.9%	-	20.8%	37.3%	3.5
HPS PLO Fund	-	-	-	-	100.0%	5.0
KKR PCOP II Fund	-	-	-	-	100.0%	5.0
Magnetar Constellation Fund	-	-	-	-	100.0%	5.0
<b>Total</b>	<b>0.0%</b>	<b>10.4%</b>	<b>0.0%</b>	<b>5.0%</b>	<b>84.6%</b>	<b>4.6</b>

Source: Redington as at 31 December 2024, using data from MSCI. The mandates in the above tables make up c.63% of the Scheme's portfolio. This analysis only assesses corporate data and therefore does not apply to sovereigns.

**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. A good portion of the CQS and Schroders STW mandates have good quality data (Grade 2).

The Trustee appreciates the limitations associated with emissions data coverage and the calculation methodology for multi-asset and illiquid mandates. The Trustee will stay abreast of industry developments in this area, encouraging the Scheme's multi-asset and illiquid managers to contribute where possible.

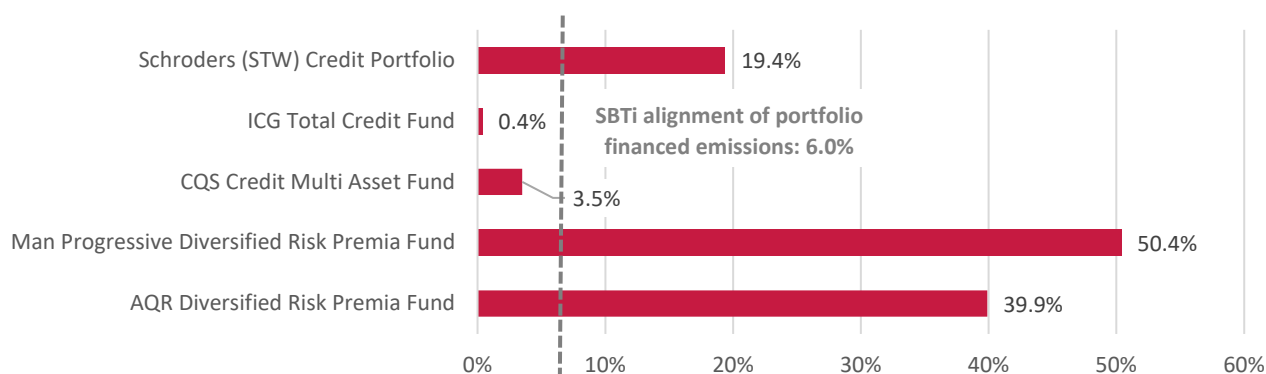


## 5. Portfolio Alignment

The Trustee adopts the Science Based Target's initiative (SBTi) 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 SBTi score is the proportion of emissions from companies that are classified as being Paris-aligned, calculated for those holdings with SBTi data. As SBTi only assesses companies, this will automatically exclude sovereign bonds (including gilts).

The SBTi score is all based on look-through data where it is available and is never proxied. The scores consider only the long holdings within a fund, and short positions are ignored. As a result, for asset classes where sufficient data coverage on a fund level is lacking, the SBTi alignment is 0%.

### Chart showing the SBTi alignment of the Scheme's funds as at 31 December 2024



Source: Analysis by Redington as at 31 December 2024, using data from MSCI. Please note that over the year, the methodology used to calculate financed emissions-weighted SBTi alignment was updated over the Scheme year, to assume that, where no emissions data is available, there is no SBTi-approved target. Previously the score only represented the part of the portfolio for which there was emissions coverage, assuming this was representative of the portfolio. The updated approach is therefore more prudent.

**Key takeaway:** 6.0% of the Scheme's financed emissions are from companies with an SBTi accredited decarbonisation plan

## Targets

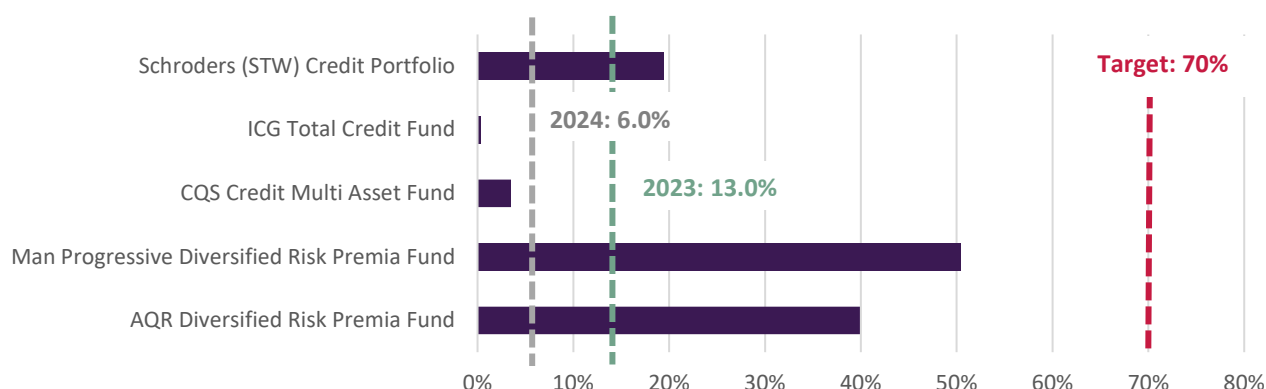
### 1. Portfolio alignment target

To support the Scheme's net-zero aspirations, and in an effort to manage the Scheme's transition risk and support emissions reductions within the broader economy, the Trustee has set a target for 70% of portfolio-financed emissions to have science-based net-zero targets by 2030. As more of the underlying companies within the Scheme's portfolio set science-based targets, it is expected that emissions will gradually fall towards net zero. Based on current best practices, the Trustee has agreed to measure progress towards this target using the SBTi metric, although this is subject to change in the future. The 70% threshold has been developed in line with industry best practices, building upon the Institutional Investors Group on Climate Change (IIGCC) Net Zero Framework.

In line with the Trustee's focus on effective stewardship, the Trustee aims to achieve this target through engagement with the Scheme's managers, encouraging them to engage with their investee companies to set science-based targets. Whilst a manager's approach to stewardship is considered when making asset allocation changes, the Trustee does not intend to achieve this target by allocating to mandates with a high SBTi alignment score as doing so would not be expected to lead to any meaningful real-world decarbonisation.

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 2024**



**Key takeaway:** Over the year the Scheme's overall SBTi alignment has decreased from 13% to 6%. This means that less of the Scheme's financed emissions are from companies with an SBTi accredited decarbonisation plan. In addition to the increased prudence of the methodology used as footnoted above, the main driver of this decrease was portfolio turnover, as the Scheme redeemed from the Hermes Unconstrained Credit Fund, a mandate with previously high SBTi alignment, and turnover within the Schroders STW portfolio as the mandate transitioned to an all-maturities benchmark.

The Trustee is, however, also aware that a lack of supportive policy to incentivise the transition to a low-carbon economy may limit future target-setting by companies. As such, whilst the Trustee will continue to monitor this target and engage with its managers to drive progress, it is understood that this target could face meaningful headwinds in a world without supportive policies and may need to be reviewed.

### 2. Aspirational Net Zero target

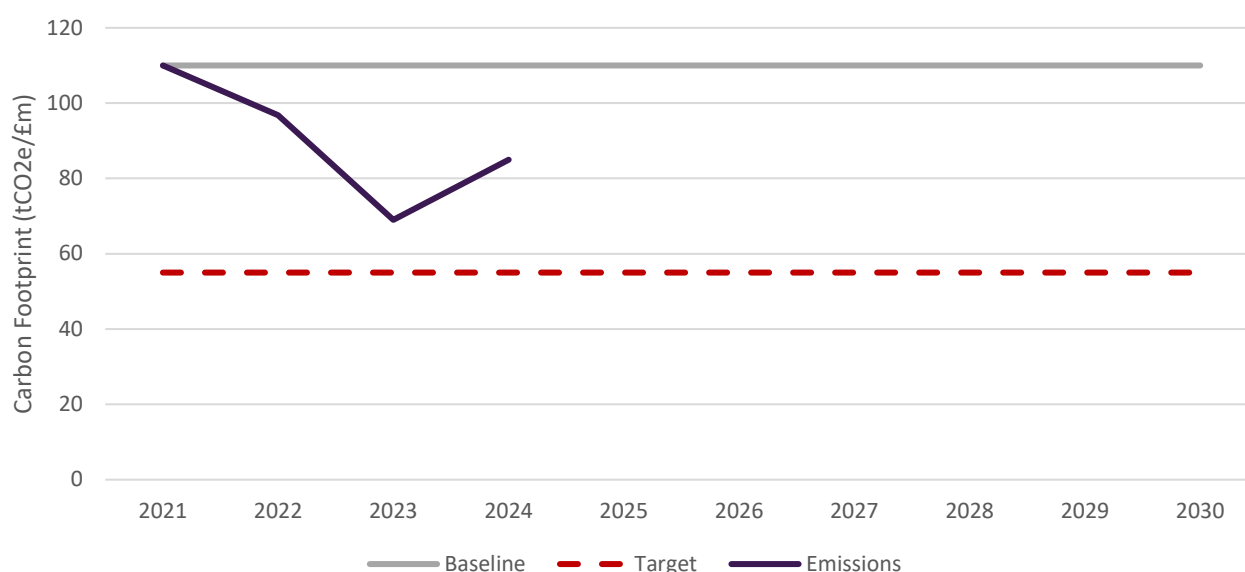
The Trustee has set an aspirational net zero target, with an interim target of 50% reduction in carbon footprint by 2030, excluding LDI and non-investable assets, using a base year of 2021 to monitor progress against the target annually.

When this target was agreed, it was on the assumption that the low-carbon transition would happen at a reasonable pace, making a net zero economy achievable. With a lack of decarbonisation progress so far, and an apparent lack of supportive policy to accelerate the transition in the near term, it is likely to take longer for the global economy to reach net zero.

The Trustee remains highly supportive of rapid decarbonisation to net zero, believing this is in the best long-term interests of members, but recognises that supportive global policies are needed to facilitate this transition. Without such support, the Trustee may need to reassess its targets to prepare for a scenario where decarbonisation of the world economy takes longer and physical risks increase.

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 2024**



Source: Analysis by Redington as at 31 December 2024, using data from MSCI

**Key takeaway:** Over the year the Scheme's carbon footprint increased slightly, primarily driven by modelling changes to the Scheme's diversified risk premia mandates, funds for which the Trustee reports proxied data.

The Trustee acknowledges that, due to factors such as modelling assumptions and the influence of financial factors including company valuations, carbon intensity metrics are inherently volatile. As such, it is important to monitor the long-term trend of the Scheme's carbon footprint as opposed to annual fluctuations.

Whilst the Trustee is encouraged to have seen this fallen from its baseline, it is also aware that the global economy as a whole is not currently decarbonising. As a result, it is expected this reduction has been largely driven by factors such as asset allocation changes and the impact of company valuations, as opposed to a reduction in emissions.

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

## 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.

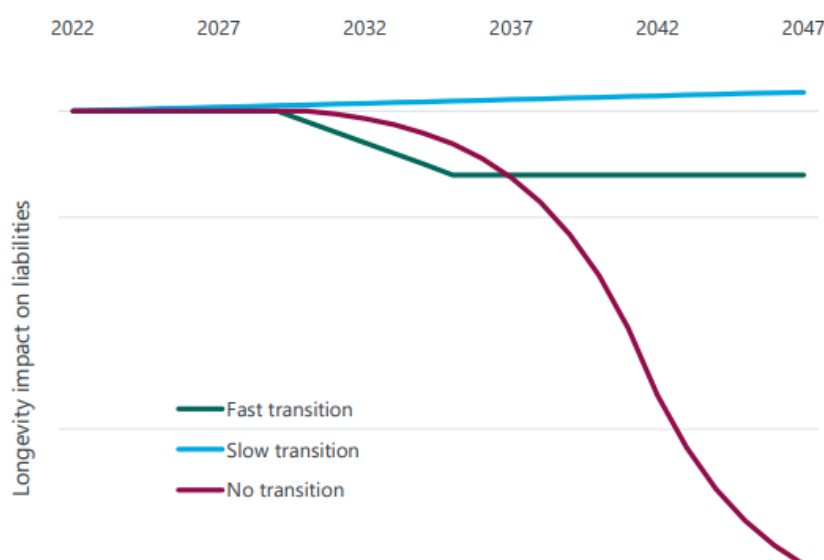
Under the No Transition scenario, there is the potential for a reduction in future life expectancy over the long term, mainly driven by a reduction in healthcare expenditure. This is expected to be most significant for younger members. Under a Fast Transition there is a potential for a slowdown in longevity 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 the strength of the Sponsor (Taylor Wimpey UK Limited) 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 last comprehensive analysis was performed by Penfida in June 2023 as part of their triennial covenant review. 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 AAA 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.

## APPENDIX C: Data and Calculation Methodology

All analysis in this report is provided by the Scheme's Investment adviser, Redington Ltd ("Redington"), and the data in the report is sourced from MSCI®.

The following appendix sets out the methodology used, which is then used to inform Redington's advice and the preparation of this TCFD report.

### *Data Suppliers*

- Our principal data supplier is MSCI ESG Research, whom we have used since 2017 to integrate more quantitative inputs into our manager research process. MSCI's experience and innovations were reasons behind our choice then and today.
- MSCI source data from multiple sources. For individual securities this includes market information and company accounts. Where emissions data is not available it is often estimated from sector or industry data. It also includes science-based climate scenario models from the Network for Greening the Financial System (NGFS) for both Implied Temperature Rise (ITR) and climate scenarios.

### *Carbon Metrics*

- We calculate the carbon emissions for liquid funds using underlying holdings data, where available, in line with PCAF's Global GHG Accounting and Reporting Standard for the Financial Industry. Aggregated metrics are calculated on the portion of holdings that has ESG data coverage, with the remaining holdings proxied using the covered portion of the fund. Proxying uncovered portions of a fund in this way enables us to provide a more complete strategic overview of the portfolio's position.
- Where underlying holdings data or ESG data is not available, ESG metrics are proxied using our centrally modelled, generic asset class universe, mapped in line with our risk and return modelling assumptions. The modelling of this generic universe is reviewed annually and approved centrally by our Investment Strategy Committee. Where the asset class proxy is unavailable, a judgement has been made based on the nature of the fund on a best endeavours basis.
- Our data processing systems are reviewed centrally on a quarterly basis by our in-house developers and ESG Analytics team. Automated and manual checks on the calculation and aggregation of the ESG metrics are completed by the client team.
- We appreciate that the largest companies are the most likely to publish ESG data, based on the way the regulations have been set out. Therefore, we expect that there may be some bias in the data available but believe that our approach remains in line with other market-leading approaches.
- For sovereign emissions we show production and import emissions in line with the Department of Work and Pensions guidance. This is slightly different from PCAF which prefers production and consumption emissions. For both of these we have attributed emissions use PPP-adjusted GDP as recommended by PCAF.
- Sovereign emissions numbers only cover LDI which for most schemes represents the majority of their sovereign bond holdings.

### *PCAF Data Quality Score*

PCAF Data Quality Score: a score from 1 to 5 of the quality of the data according to the PCAF Data Quality Scale:

1. Reported emissions, based on the Greenhouse Gas Protocol, that have been verified by a third-party auditor.
2. Unverified reported emissions or estimates based on the company's energy consumption, in line with the GHG Protocol.

3. Estimated emissions based on the company's production data.
4. Estimated emissions based on economic data – e.g. revenue, company value and amount lent/invested.
5. Estimated emissions based on economic data – e.g. sectoral revenues and asset turnover ratios.

At present, MSCI does not distinguish between a score of 1 and 2. Therefore, the highest score currently achievable is a score of 2, although we expect this to change as these numbers start to be routinely audited.

#### ***Economic scenarios***

The scenarios are based on the REMIND model and are supplemented with the IPCC physical stresses. These are then applied on an asset level by MSCI. Generally, only one of the Disorderly Transition Scenarios will be shown.

Our Name	Hot House	Orderly Transition	Disorderly Transition 2°C
Narrative	Business as usual with unexpected warming	2°C orderly transition	2°C disorderly transition
MSCI Transitional Stress	NDCs	Below 2°C	Delayed Transition
MSCI Physical Stress	5°C IPCC SSP5	2°C REMIND NGFS ORDERLY	2°C REMIND NGFS