

# Taskforce for Climate Related Financial Disclosures

**Compass Group Pension Plan**  
SEPTEMBER 2023

This document has been prepared for the Trustee of the Compass Group Pension Plan

## Introduction and background

### Background

From 1 October 2021, the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations (“the climate change governance reporting regulations”) introduced new reporting requirements in line with the Task Force on Climate Related Financial Disclosures (“TCFD”) recommendations.

The Taskforce on Climate-related Financial Disclosure (“TCFD”) is an initiative that developed best practice guidance for climate-risk reporting. New UK regulations require the trustees to meet climate governance requirements and publish an annual TCFD-aligned report on their pension scheme’s climate-related risks.

Better climate reporting should lead to better-informed decision-making on climate-related risks, and greater transparency around climate-related risks should lead to more accountability and provide useful information to investors and beneficiaries.

### The Plan

The Plan’s “relevant” assets as at 5 April 2021 were in excess of £1bn, meaning that the Plan is required to comply with the climate change governance reporting regulations from 1 October 2022.

As part of the climate change governance reporting regulations, the Trustee must produce and publish a TCFD report within seven months of the scheme year in which they are subject to the regulations. This is the Plan’s first such report, which covers the period 1 October 2022 to 5 April 2023.

Thereafter, the Trustee will produce a report annually, which will be published online, within seven months of the Plan year end and be included within the Scheme’s annual report and accounts.

The TCFD developed four recommendations on climate-related financial disclosures. These are governance, strategy, risk management and metrics and targets.

### **Governance**

The organisation’s governance around climate-related risks and opportunities.

### **Strategy**

The actual and potential impacts of climate-related risks and opportunities on the organisation’s business, strategy, and financial planning.

### **Risk management**

The processes used by the organisation to identify, assess, and manage climate-related risks.

### **Metrics and targets**

The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

## Executive Summary

### Climate mission statement

The Trustee recognises that climate change can pose material financial risks and that the risks associated with climate change could impact investment returns within the timeframe that the Trustee is concerned about. The Trustee therefore seeks to integrate climate change risks into its investment strategy and integrated risk management approach. In managing these risks, the Trustee aims to protect the interests of members and beneficiaries, while aiming to improve the long-term future of the global environment, as far as they are able to. Where possible, the Trustee will also seek to capture climate-related investment opportunities.

### Strategy

The Trustee has completed climate change scenario analysis for the Plan. Overall, the Plan exhibits a good degree of resilience under all the scenarios modelled. This is due to the low allocation to growth assets and high levels of hedging against changes in interest rates and inflation.

### Risk management

The Trustee has undertaken both quantitative and qualitative assessments to identify and assess the physical and transition climate-related risks to which the Plan is exposed. The Trustee will undertake these activities on a regular basis going forward as part of its wider climate risk management plan, the principal processes of which are described in this report.

### Metrics and targets

The Trustee has agreed to report on Total Greenhouse Gas (GHG) Emissions, Carbon Footprint, Climate Value-at-Risk and a Binary Target Measurement metric, in its annual TCFD report going forward. The Trustee has also set a target to improve the emissions Data Quality of the Plan's growth assets.

The rest of this report provides further detail. Please refer to the Glossary for further information on the terms used.

### Climate mission statement

Through the Plan's low risk investment strategy, the Plan's exposure to climate-related risks is already lower than most other pension schemes, especially those with riskier investment strategies.

The Trustee recognises that climate change can still pose material financial risks. In their approach to managing these risks, they aim to protect the interests of members and beneficiaries, whilst also recognising that, as a large institutional investor, the Trustee can help to improve the long-term future of the global environment through its investment decisions (as far as they are able to as an investor in pooled funds, without direct influence on how the Plan's investment managers invest or vote on behalf of investors).

Through the actions of its appointed investment managers and advisers, an engagement-led approach allows the Trustee to be an active participant in improving corporate behaviour, upholding high standards of corporate governance, and encouraging responsible ownership practices.

The Trustee also believes that the risks associated with climate change could impact investment returns within the timeframe that the Trustee is concerned about. Because of this risk, the Trustee seeks to integrate assessments of climate change risk into its investment risk management and strategy.

Furthermore, the Trustee believes that climate-related factors are likely to create investment opportunities. Where possible, and where appropriately aligned with the Trustee's strategic objectives and fiduciary duty, the Trustee will seek to capture such opportunities through its investment portfolio.

### Role of the Trustee

The Trustee is collectively responsible for oversight of all strategic matters related to the Plan. This includes approval of the governance and management framework relating to environmental, social and governance ("ESG") considerations and climate-related risks and opportunities. Given its importance, the Trustee has collective responsibility for setting the climate change risk framework, rather than naming one individual to be responsible for its response to climate risks and opportunities.

The Trustee has discussed and agreed their responsible investment (including climate-related) beliefs and overarching approach to managing ESG (including climate change) risk. Details are set out in the Statement of Investment Principles ("SIP"), which are reviewed and (re)approved annually (or sooner in the event of a significant change in investment policy).

The Trustee assesses climate-related risks and opportunities over the following investment time horizons:

- short term: 1 to 3 years
- medium term: 4 to 10 years
- long term: 11 to 20 years

In particular, the Trustee believes that climate change will impact the Plan over the long term. The Trustee therefore aims to generate better expected risk-adjusted returns by making decisions with a longer-term outlook, even though issues that manifest over longer horizons can be difficult to manage. Where appropriate, the Trustee considers transition and physical risks separately.

The Trustee receives training on climate-related issues on an annual basis or more frequently if required, to ensure that it has the appropriate degree of knowledge and understanding on these issues to support good decision-making. The Trustee expects its advisers to bring important and relevant climate-related issues and developments to the Trustee's attention in a timely manner.

## Role of the Investment Committee

The Trustee has delegated implementation and day-to-day oversight of the climate change risk management framework to the Investment Committee ("IC"), which is a subcommittee of the Trustee. The Trustee regularly monitors and reviews progress against the climate change risk management approach.

The IC seeks to ensure that any investment decisions appropriately consider climate-related risks and opportunities within the context of the Plan's wider risk and return requirements and are consistent with the climate change policy as set out in the SIP. The IC regularly monitors and reviews progress against the climate change risk management approach. The IC keeps the Trustee apprised of any material climate-related developments through regular updates as and when required.

Key activities delegated to the IC include:

- ensuring investment proposals explicitly consider the impact of climate risks and opportunities
- engaging with the investment managers to understand how climate risks are considered in their investment approach
- working with the investment managers to disclose relevant climate-related metrics as set out in the TCFD recommendations
- working with the investment consultant to ensure that stewardship activities are being undertaken appropriately on the Trustee's behalf
- ensuring that actuarial and covenant advice adequately incorporate climate-related risk factors where they are relevant and material.

## Role of the Trustee's advisers

### Investment consultant

The Trustee's investment consultant, Aon, provides strategic and practical support to the Trustee in respect of the management of climate-related risks and opportunities and ensuring compliance with the recommendations set out by the TCFD. This includes provision of regular training and updates on climate-related issues and climate change scenario modelling to enable the Trustee to assess the Plan's exposure to climate-related risks.

### Plan Actuary

The Plan Actuary, Matt Farraker, will help the Trustee assess the potential impact of climate change risk on the Plan's funding assumptions.

## **Covenant adviser<sup>1</sup>**

The Trustee's covenant adviser, RSM, will help the Trustee understand the potential impact of climate change risk on the sponsor covenant of the principal employer of the Plan, Compass Group plc.

## **Role of the DC providers<sup>2</sup>**

The Plan's DC providers, Legal & General and Scottish Widows, will be responsible for day-to-day management of the DC assets and will help the Trustee understand how they can support in providing the necessary information and data required to meet the requirements of the TCFD.

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<sup>1</sup> Subject to agreement.

<sup>2</sup> Subject to agreement.

## Strategy

### Assessing climate-related risks and opportunities

Assessing the climate-related risks and opportunities the Plan is exposed to is key to understanding the impact climate change could have on the Plan in the future.

The Trustee, with input from investment managers, has carried out a qualitative risk assessment on each asset class the Plan is invested in. From this the Trustee has identified which climate-related risks and opportunities could have a material impact on the Plan.

The Plan's DB investment portfolio is diversified across a range of different asset classes including credit, property, and liability driven investment (LDI). The LDI assets comprise over 70% of the total DB portfolio, reflecting significant de-risking activity undertaken over the last few years.

There is also a DC Section through which members invest in a lifestyle strategy or a range of self-select funds with Legal & General or the Scottish Widows With-Profits Fund. Relative to the DB portfolio the DC assets are small, therefore the climate-related risks and opportunities associated with the DC assets are less material.

Given the number of asset classes and strategies that the Plan invests in, the Plan's investment managers completed a best endeavours exercise to analyse the climate-related risks of the strategies they manage on the Trustee's behalf. The analysis includes the Plan's investments in equities managed by LGIM which the Plan held during the 2022/23 Plan year, which were subsequently redeemed before the end of the 2022/23 Plan year.

Based on the analysis completed, the following key points were identified:

- The managers who did engage provided insightful commentary on and assessment of climate risks.
- There were no mandates where significant concerns were raised needing immediate action.
- There were significant differences in the way managers assessed climate risk, which may represent methodological rather than real differences in risk exposure.

### Risk categories

In the analysis, the climate-related risks have been categorised into physical and transitional risks.

**Transitional risks** are associated with the transition towards a low-carbon economy. For example, shifts in policy, technology or supply and demand in certain sectors.

**Physical risks** are associated with the physical impacts of climate change on companies' operations. For example, extreme temperatures, floods, storms, or wildfires.

## Ratings

The analysis uses a RAG rating system where:

**Red** denotes a high level of financial exposure to a risk.

**Amber** denotes a medium level of financial exposure to a risk.

**Green** denotes a low level of financial exposure to a risk.

## Time horizons

The Trustee assessed the climate-related risks and opportunities over multiple time horizons. The Trustee has decided the most appropriate time horizons for the Plan are:

- short term: 1 to 3 years.
- medium term: 4 to 10 years
- long term: 11 to 20 years

When deciding the relevant time horizons, the Trustee has taken into account the liabilities of the Plan and its obligations to pay benefits.

## Climate-related risk assessment

### Equities

Time horizon	Physical risks		Transition risks			
	Acute	Chronic	Policy and Legal	Technology	Market	Reputation
Short (1-3 years)	G	G	G	G	G	A
Medium (4-10 years)	A	G	A	A	A	A
Long (11-20 years)	A	A	R	A	R	A

**Source:** LGIM

Transition risks are the main climate-related risks associated with global equities over the short, medium, and long term. LGIM commented that climate-related controversies can have significant impact on shareholder confidence, and as they often involve some of the largest companies, their impacts can be felt even at a global equity portfolio level in relation to reputational risks.



Although it is believed that there is a low likelihood of material financial risk from climate-related regulations changing over the short term, LGIM states that with a net zero future, a significant deployment of negative emissions technologies will be required. Carbon prices are likely to reach high levels in the long term and are likely to lead to highly material financial implications on global equity indices.

Lastly, LGIM also believes that most Paris-aligned pathways envision a large drop in demand for fossil fuels, especially coal and oil and internal combustion engine vehicles, with potentially large financial repercussions at a global equity index level depending on companies' mitigating actions up until that point.

## Property

### CBRE Global Alpha

Time horizon	Physical risks		Transition risks			
	Acute	Chronic	Policy and Legal	Technology	Market	Reputation
Short (1-3 years)	G	A	G	G	A	G
Medium (4-10 years)	G	A	A	A	A	A
Long (11-20 years)	G	A	A	A	A	A

**Source:** CBRE

### *Physical risks*

The Plan invests in the Global Alpha strategy managed by CBRE. Global Alpha has a low average exposure to acute climate-related risks and a medium exposure to chronic risks. The geographic and sectoral diversity of the portfolio provides a degree of protection from financial losses associated with physical risks through diversification. CBRE also encourage underlying managers to explore insurance coverage for any relevant climate risks.

## Transition risks

Based on both the Fund’s GRESB<sup>3</sup> performance and net zero carbon target, short term policy and legal risk has been classified as low. Over the medium and long term there is a potential for new regulations to be introduced and the manager’s ongoing horizon scanning work remains an important part of risk mitigation over these timescales.

Short term technology risk is also deemed to be low, as there is an understanding of the available technologies to drive energy efficiency, the adoption of renewable energy and the ultimate transition to an operational net zero future. In the medium and long term, the risk is deemed to be medium based on the costs related to decarbonising buildings, and the challenge in assessing technology risks for real estate in an objective way. Based on both the Fund’s GRESB performance and net zero carbon target, short term reputation risk is deemed to be low, whereas medium- and long-term reputation risks which primarily relate to those associated with climate-related performance are deemed to be medium. CBRE mitigate these risks in part through their ESG assessment Framework.

### Aviva Lime Property Fund

Time horizon	Physical risks		Transition risks			
	Acute	Chronic	Policy and Legal	Technology	Market	Reputation
Short (1-3 years)	G	G	G	A	G	G
Medium (4-10 years)	G	G	A	A	A	G
Long (11-20 years)	G	A	A	A	A	A

**Source:** Aviva

### *Physical risks*

The Plan invests in the Lime Property Fund managed by Aviva. The fund has a low exposure to acute physical risks and a medium to low exposure to chronic risks. Aviva believes only one of the assets they own is exposed to a significant level of risk in the portfolio. To cope with this risk as a whole, Aviva performs on-site flood risk assessments to evaluate and plan an appropriate response.

<sup>3</sup> GRESB is a third-party organisation that provides ESG data to financial markets.

## *Transition risks*

In the short term, policy and legal risk for the fund is expected to be low as there are very few assets with EPC ratings below E needing immediate attention. Engagement with occupiers and remedial works are underway. Over the medium term, some assets in the fund would need modernisation. Finally, over the long-term, monitoring pressure to decarbonise actual emissions would require close collaboration with occupiers.

Technology risk is medium due to a transition from gas to air/ground source heating becoming more relevant. Over the medium term this is likely to become a minimum expectation for refurbishments. This is likely to create supply chain challenges due to design and construction supply chain being less familiar with specifying and installing the technology. In the long-term, mass installations of ASHP technology will need accompanying supply chain skills and capacity.

Market risk in the short-term is low due to occupier market beginning to factor in sustainability to asset allocation. However, in the medium term, Aviva expects heightened interest from occupiers and valuers in the integration of sustainability into asset selection and valuation. Additionally, in the long-term, Aviva expects a far more demanding occupier landscape with sustainable design standards increasing.

Reputation risk is medium to low as Aviva expects underlying consumer trends to affect ongoing profitability of the occupier market, needing continued close analysis of credit strength.

## Credit

	Physical risks		Transition Risks	
Time horizon				
Short (1-3 years)	G	G	G	G
Medium (4-10 years)			G	G
Long (11-20 years)			G	G

**Source:** M&G

The Plan invests in a corporate bond fund managed by M&G. In the short term, the impact of climate-related risks is minimal and credit ratings remain broadly unaffected. In the medium term, some higher quality assets such as AAA-AA bonds with relevant exposure appear to move further down the credit ratings by a notch or two. Over the longer term, creditworthiness appears to deteriorate, with some companies moving further down the credit rating spectrum.

### *Physical risks*

Even in a scenario where policy drives emissions reductions, physical impacts are likely to continue to increase. M&G stated that chronic physical risks under a continued business as usual scenario are typically modelled to dramatically increase, beginning around 2035, and showing significant impacts around 2050/2060. However, M&G's climate scenario analysis identified a limited number of assets that were impacted by climate in those timeframes, and which were identified as higher risk.

### *Transition risks*

In the short term, M&G believes that corporates that are well positioned from a pre-emptive perspective will be competitively advantaged and prepared to face policy and legal requirements. Regarding market risks, M&G stated that the main long-term risk and opportunity is that the financial sector may be focussed systemically on altering the composition of their portfolio to reduce climate emissions (as opposed to actual corporate decarbonisation).

## **LDI**

The LDI portfolio is less affected by climate risk compared to the Plan's other assets. The LDI portfolio is in place to match movements in the Plan's liabilities, and therefore we have excluded these based on the limited impact we expect for climate risks and opportunities.

## Climate-related opportunities

The Trustee expects potential opportunities to arise in the Plan's assets associated with (but not limited to) the following themes:

- Clean energy: Green power generation, clean technology innovation, sustainable biofuels.
- Environmental resources: Water, agriculture, waste management.
- Energy and material efficiency: Advanced materials, building efficiency, power grid efficiency.
- Environmental services: Environmental protection, business services.

The Trustee expects their investment consultants to raise any such opportunities (as relevant to the Plan) to the Trustee's attention in a timely manner.

## Portfolio resilience and scenario analysis

The Trustee has undertaken climate change scenario analysis to better understand the impact climate change could have on the Plan's assets and liabilities.

The analysis looks at two climate change scenarios. Each scenario considers what might happen when transitioning to a low carbon economy under different conditions. The Trustee has chosen these scenarios because it believes that they provide a reasonable range of possible climate change outcomes. These scenarios were developed by Aon and are based on detailed assumptions. They are only illustrative and are subject to considerable uncertainty.

The Trustee established a "base case" scenario against which the two climate change scenarios are compared. The table below describes the scenarios that have been modelled, including the projected rise in global temperatures by 2100 in each scenario.

### **Base scenario, projected rise in global temperatures of +1.5°C to +2.4°C**

Emission reductions start now and continue in a measured way in line with the objectives of the Paris Agreement and the UK government's legally binding commitment to reduce emissions in the UK to net zero by 2050.

### **Orderly transition, projected rise in global temperatures of +1.3°C to +2°C**

Immediate and coordinated action to tackle climate change is taken using carbon taxes and environmental regulation.

### **Disorderly transition projected rise in global temperatures of less than 3°C**

Limited action is taken, and insufficient consideration is given to sustainable long-term policies to manage global warming effectively.

## Impact assessment

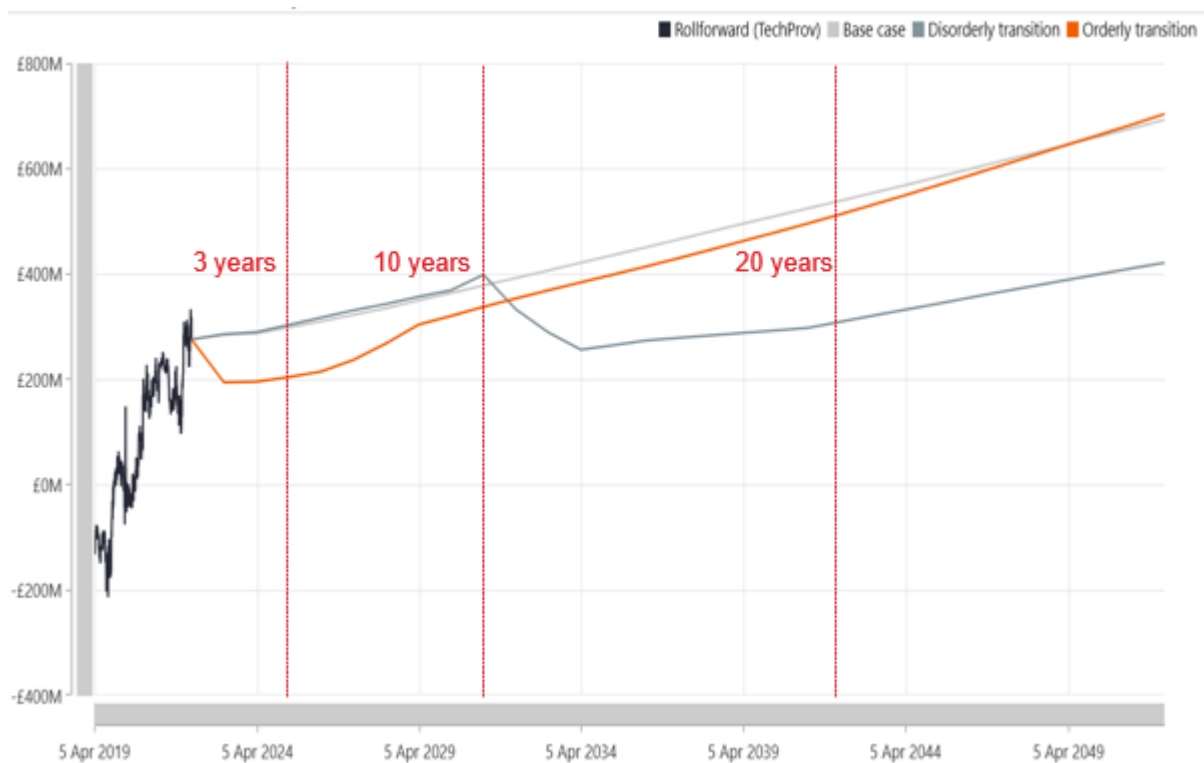
The Plan's investment portfolio exhibits reasonable resilience under the climate scenarios modelled. This is mainly due to the low-risk strategy and high levels of hedging against changes in interest rates and inflation.

The worst-case scenario for the Plan is the disorderly transition. This is following very limited action to reduce GHG emissions in earlier years, resulting in a much larger impact once action is belatedly taken. This results in very poor asset returns over the longer term, particularly when comparing against the other scenarios.

Under the disorderly transition scenario, although initially the funding surplus improves in line with the base case, after 10 years the surplus deteriorates sharply and slowly recovers by the end of the 30-year modelling period. This leaves the Plan materially worse off in terms of surplus relative to the base case, albeit still with a significant surplus.

The orderly transition scenario represents the biggest short-term risk for the Plan. This is due to high inflation and poor growth performance in early years having a pronounced negative impact on asset returns; however, this is followed by a material recovery in later years.

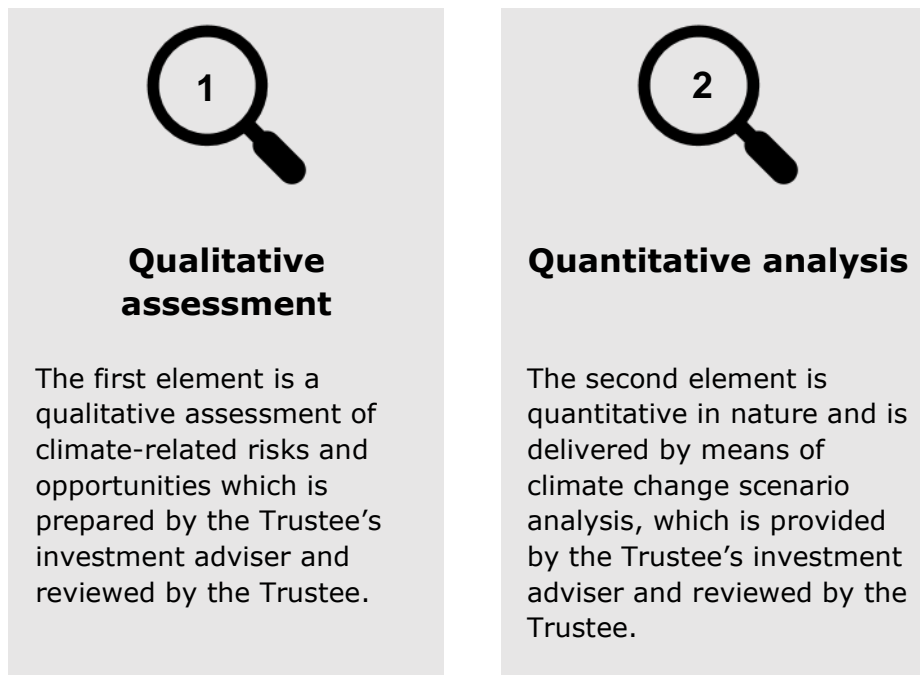
### Funding surplus projections under each climate scenario



**Source:** Aon. Scenario projections as at 31 March 2022 based on technical provisions assumptions.

### Our process for identifying and assessing climate-related risks

The Trustee recognises the Plan's exposure to physical and transition climate-related risks. The Trustees have therefore established a process to identify, assess and manage the climate-related risks that are relevant to the Plan. This is part of the Plan's wider risk management framework and is how the Trustee monitors the most significant risks to the Plan, in its efforts to achieve appropriate outcomes for members.



As part of this, the Trustee administered a manager questionnaire to better understand and assess the impact of these climate-related risks on the Plan's investments. The questionnaire was based on the "top" questions as outlined in guidance from the Pensions Climate Risk Industry Group<sup>4</sup>. These questions are designed to assist the Trustee with its assessment of each managers' capabilities and approach to climate management.

All the investment managers contacted displayed some understanding of climate-related risks and:

- Have produced (or are in the process of producing) their TCFD reports, setting out their approach to managing climate-related risks.
- Undertake (or expect to shortly undertake) climate-related risk analysis.
- Have a commitment to temperature alignment portfolios in which the Plan invests.

Overall, the managers have adequate frameworks and processes in place to ensure they integrate climate-related risks and opportunities within their mandates. In addition, the managers are participating in a number of industry initiatives.

<sup>4</sup> [Aligning your pension scheme with the Taskforce on Climate-Related Financial Disclosures recommendations - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/671117/Aligning_your_pension_scheme_with_the_Taskforce_on_Climate-Related_Financial_Disclosures_recommendations_-_GOV.UK_(www.gov.uk).pdf)

In summary the Trustee is comfortable with the managers' ability to act in the best interests of the Plan and to account for climate-related risks and opportunities in the portfolios that they manage.

## Our process for managing climate-related risks

The Trustee recognises the long-term risks posed by climate change and has taken steps to integrate climate-related risks into the Plan's risk management framework.

The Trustee has taken the following steps to integrate climate-related risks into their risk management framework and processes.

<b>Training</b>	The Trustee receives training on responsible investment to understand how ESG factors, including climate change, could impact the Plan's assets and liabilities.
<b>Advisers</b>	The Trustee reviews its adviser objectives to ensure advisers have appropriate climate capability, and bring important, relevant, and timely climate-related issues to the Trustee's attention.
<b>Investment strategy</b>	The Trustee ensures investment proposals explicitly consider the impact of climate risks and opportunities.
<b>Actuarial and covenant</b>	The Trustee ensures that actuarial and covenant advice adequately incorporate climate-related risk factors where they are relevant and material.
<b>Managers</b>	The Trustee engages with the investment managers to understand how climate risks are considered in their investment approach, and stewardship activities are being undertaken appropriately
<b>IRM framework</b>	Climate-related risks are included in the Plan's wider risk management framework, which is overseen by the IC on a regular basis.
<b>Plan documentation</b>	The Trustee includes consideration of climate-related risks in the Plan's other risk processes and documents, such as the risk register and the SIP, and regularly reviews these.
<b>Covenant</b>	The Trustee seeks to understand the climate-related risks to the employer over the short, medium, and long term.



## Metrics and targets

### Our climate-related metrics

Through the Plan's low risk investment strategy, the Plan's exposure to climate-related risks is already lower than most other pension schemes, especially those with riskier investment strategies.

The Trustee uses some quantitative measures to help it understand and monitor the Plan's exposure to climate-related risks.

The Trustee has agreed that its investment adviser, Aon, will collect information from the Plan's managers on their greenhouse gas emissions. This information will be used to calculate climate-related metrics for the Plan's portfolio. The Plan's metrics are as follows:

#### DB assets

	LDI	Plan assets ex LDI	
<b>Total Greenhouse Gas emissions (tons CO<sub>2</sub>e)</b>	176,432	38,629	The total greenhouse gas ("GHG") emissions associated with the portfolio. It is an absolute measure of carbon output from the Plan's investments
<b>Carbon footprint (tons CO<sub>2</sub>e/£m)</b>	94.8	51.7	Carbon footprint is an intensity measure of emissions that takes the total GHG emissions and weights it to take account of the size of the investment made.
<b>SBTi<sup>5</sup>-aligned Binary Target Measurement</b>	Not available	4.1%	Measures the alignment of an investment portfolio with a given climate outcome, based on the % of investments in that portfolio with declared net zero or Paris-aligned targets. The Plan will become more closely aligned with these targets as the percentage increases over time.
<b>10-year Climate Value-at-Risk (£m)</b>		£59m	A measure of the sensitivity in the Plan's investments to downside climate-related risks.

**Source:** Aon / managers. The value of the Plan's total DB assets as at 31 March 2022 was approximately £2.6bn.

<sup>5</sup> [The Science Based Targets Initiative](#)

## DC assets

	Over 15-year gilts	Plan assets ex gilts	
<b>Total Greenhouse Gas emissions (tons CO<sub>2</sub>e)</b>	95	331	The total greenhouse gas ("GHG") emissions associated with the portfolio. It is an absolute measure of carbon output from the Plan's investments
<b>Carbon footprint (tons CO<sub>2</sub>e/£m)</b>	94.8	109.1	Carbon footprint is an intensity measure of emissions that takes the total GHG emissions and weights it to take account of the size of the investment made.
<b>SBTi<sup>6</sup>-aligned Binary Target Measurement</b>	Not available	48.0%	Measures the alignment of an investment portfolio with a given climate outcome, based on the % of investments in that portfolio with declared net zero or Paris-aligned targets. The Plan will become more closely aligned with these targets as the percentage increases over time.

**Source:** Aon / managers. The value of the Plan's total DC assets as of 31 March 2022 was approximately £6m.

## Data observations

At the time of writing some of the Scheme's managers were not able to provide all the requested data, therefore, the reported emissions metrics do not include all the Scheme's GHG emissions. The Trustee is disappointed that not all the requested information is available at the time of writing. However, the Trustee recognises that data availability issues are common across the industry at the current time. The Trustee expects that in future, better information will be available from managers as the industry aligns to expectations and best practice standards.

## Measuring greenhouse gas emissions

Measuring greenhouse gas emissions is a key means to enable pension schemes to assess their exposure to climate change. Greenhouse gases are produced by burning fossil fuels, meat and dairy farming, and some industrial processes. When greenhouse gases are released into the atmosphere, they trap heat in the atmosphere causing global warming and contributing to climate change.

Greenhouse gases are categorised into three types or 'scopes' by the Greenhouse Gas Protocol, the world's most used greenhouse gas accounting standard.

<sup>6</sup> [The Science Based Targets Initiative](#)

## Scope 1

All direct emissions from the activities of an organisation which are under their control; these typically include emissions from their own buildings, facilities, and vehicles

## Scope 2

These are the indirect emissions from the generation of electricity purchased and used by an organisation

## Scope 3

All other indirect emissions linked to the wider supply chain and activities of the organisation from outside its own operations – from the goods it purchases to the disposal of the products it sells.

Scope 3 emissions are often the largest proportion of an organisation's emissions, but they are also the hardest to measure. The complexity and global nature of an organisation's value chain make it hard to collect accurate data. Trustees are therefore not required to obtain Scope 3 emissions in the first scheme year that they are subject to the climate change governance and reporting requirements<sup>7</sup>.

### Looking to the future – Our climate-related target

The Trustee has agreed to set a target for improving the data quality metric of its non-LDI and UK government bond assets. Without meaningful data from the investment managers, it is very hard for the Trustee to measure our climate-risk exposure. So, it is important to set a target to improve the quality of GHG emissions data from the managers. The Trustee has a strong aspiration to consider other targets in future once the data is of better quality, such as a reduction in carbon emissions, a dedicated net zero goal, or alignment with the objectives of the Paris Agreement.

The target excludes the LDI and UK government bond assets, as the data quality is largely outside of the Trustee's control and is effectively related to the emissions of the UK's issuance of government bonds.

#### DB assets



2026 Data quality target (excluding LDI) 90.0%

2022 Data quality metric (excluding LDI) 60.5%

#### DC assets



2026 Data quality target (excluding UK government bonds) 95.0%

2022 Data quality metric (excluding UK government bonds) 91.0%

Note that at the time of writing the data quality of the DC assets excludes emissions associated with the Plan's with profits funds.

<sup>7</sup> [Governance and reporting of climate change risk: guidance for trustees of occupational schemes \(publishing.service.gov.uk\)](https://www.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/91242/governance-and-reporting-of-climate-change-risk-guidance-for-trustees-of-occupational-schemes.pdf)

The Plan's performance against the target will be measured and reported on every year. Over time, this will show the Plan's progress against the target. The Trustee acknowledges that whilst the Scheme's scope 1 and 2 emissions data is already of good quality, the data quality metric may be impacted when scope 3 emissions data is introduced, which the Trustee is required to collect annually from next year (in addition to scope 1 and 2). The Trustee will therefore revisit the target next year once scope 3 data has been obtained.

## **What is the Trustee doing to reach the target?**

To improve data quality, the Trustee will engage with the Plan's investment managers to improve the availability and reporting of emissions data for each asset class in which the Plan is invested. Through ongoing pressure from asset owners collectively and new regulatory requirements for asset managers, the Trustee expects data quality to improve over time and will engage further with the managers if progress does not meet the Trustee's expectations.

## Glossary

**Governance** refers to the system by which an organisation is directed and controlled in the interests of shareholders and other stakeholders.<sup>8</sup> Governance involves a set of relationships between an organisation's management, its board, its shareholders, and other stakeholders. Governance provides the structure and processes through which the objectives of the organisation are set, progress against performance is monitored, and results are evaluated.<sup>9</sup>

**Strategy** refers to an organisation's desired future state. An organisation's strategy establishes a foundation against which it can monitor and measure its progress in reaching that desired state. Strategy formulation generally involves establishing the purpose and scope of the organisation's activities and the nature of its businesses, taking into account the risks and opportunities it faces and the environment in which it operates.<sup>10</sup>

**Risk management** refers to a set of processes that are carried out by an organisation's board and management to support the achievement of the organisation's objectives by addressing its risks and managing the combined potential impact of those risks.<sup>11</sup>

**Climate-related risk** refers to the potential negative impacts of climate change on an organisation. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise). Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations.<sup>12</sup>

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<sup>8</sup> A. Cadbury, [Report of the Committee on the Financial Aspects of Corporate Governance](#), London, 1992.

<sup>9</sup> OECD, [G20/OECD Principles of Corporate Governance](#), OECD Publishing, Paris, 2015.

<sup>10</sup> TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017

<sup>11</sup> Ibid

<sup>12</sup> Ibid

**Climate-related opportunity** refers to the potential positive impacts related to climate change on an organisation. Efforts to mitigate and adapt to climate change can produce opportunities for organisations, such as through resource efficiency and cost savings, the adoption and utilization of low-emission energy sources, the development of new products and services, and building resilience along the supply chain. Climate-related opportunities will vary depending on the region, market, and industry in which an organisation operates.<sup>13</sup>

**Greenhouse gas emissions ("GHG") scope levels<sup>14</sup>** Greenhouse gases are categorised into three types or 'scopes' by the Greenhouse Gas Protocol, the world's most used greenhouse gas accounting standard.

Scope 1 refers to all direct GHG emissions.

Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam.

Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include: the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g., transmission and distribution losses), outsourced activities, and waste disposal.<sup>15</sup>

**Value chain** refers to the upstream and downstream life cycle of a product, process, or service, including material sourcing, production, consumption, and disposal/recycling. Upstream activities include operations that relate to the initial stages of producing a good or service (e.g., material sourcing, material processing, supplier activities). Downstream activities include operations that relate to processing the materials into a finished product and delivering it to the end user (e.g., transportation, distribution, and consumption).<sup>16</sup>

**Climate scenario analysis** is a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. In the case of climate change, for example, scenarios allow an organisation to explore and develop an understanding of how the physical and transition risks of climate change may impact its businesses, strategies, and financial performance over time.<sup>17</sup>

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<sup>13</sup> Ibid

<sup>14</sup> World Resources Institute and World Business Council for Sustainable Development, [The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard \(Revised Edition\)](#), March 2004.

<sup>15</sup> PCC, [Climate Change 2014 Mitigation of Climate Change](#), Cambridge University Press, 2014.

<sup>16</sup> TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017

<sup>17</sup> Ibid

**Net zero** means achieving a balance between the greenhouse gases emitted into the atmosphere, and those removed from it. This balance – or net zero – will happen when the amount of greenhouse gases add to the atmosphere is no more than the amount removed.<sup>18</sup>

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<sup>18</sup> Energy Saving Trust, [What is net zero and how can we get there? - Energy Saving Trust](#), October 2021