

# TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) REPORT

Eli Lilly Group Pension Plan

1 January 2023 – 31 December 2023

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## Executive Summary

The Trustee of the Eli Lilly Group Pension Plan (the “Plan”) has prepared the following report in response to the requirements for pension schemes under the Department for Work and Pensions’ Climate Change Governance and Reporting Requirements (June 2021) and statutory guidance (October 2022), which build on the recommendations from the Taskforce on Climate-Related Financial Disclosures (“TCFD”).

This document is the Plan’s second annual report. It has been prepared by the Trustee for the year ended 31 December 2023.

This report sets out how the Trustee identifies and manages climate-related risks and opportunities in the context of its broader regulatory and fiduciary responsibilities to its members. This report also aligns to the guidance published by The Pensions Regulator (“TPR”) which assessed climate-related reporting between 2022 and 2023, with feedback for pension schemes to introduce in order to raise the industry standards.

The Trustee supports the recommendations set out by the TCFD on the basis that they will allow the Trustee to assess, monitor and mitigate climate-related risks on behalf of its members. The TCFD report explains how the Plan is currently aligning with each of the four pillars set out in the regulations (and in line with the recommendations of the TCFD). The Trustee believes that climate change is likely to be a financial risk that will affect all the Plan’s investments to some degree.

The four pillars covered in the report are set out below:

### **Governance:**

The Trustee has developed its governance structure in order to gather information and form an assessment of the Plan’s exposure to climate-related risks, and its level of resilience. By seeking input from its appointed advisers, the Trustee will review and reflect upon its exposure to these risks on a regular basis, with the objective of safeguarding members’ future benefits.

There have not been any notable changes to the Plan’s governance structure during 2023. The Trustee will continue to receive training on climate-related risks and opportunities to help in its understanding of how climate change may impact the Plan.

### **Strategy:**

In 2022, the Trustee explored climate-related risks and viewed these were not a material threat to the Plan’s sustainability. The Plan’s managers identified a range of climate-related risks, which differed by asset class. The diversification of the Plan’s assets contributes to its overall level of resilience to these risks.

The analysis conducted in 2022 concluded that the Plan’s funding level is expected to be resilient to the range of climate scenarios tested, albeit exhibiting higher volatility over the long term under the most severe downside scenario tested. The Trustee acknowledges the criticisms and restrictions that are

evident around scenario analysis methodology in the industry. In particular, the Trustee recognises the scenarios do not incorporate climate tipping points and as such do not account fully for climate-related risks the Plan could face. Given there have not been significant changes in the Plan's investment strategy over 2023 or developments in industry methodology over the year, the Trustee has not renewed the analysis conducted in 2022. Unless required by regulation, the scenario analysis will only be refreshed in 2025, once industry best practice has evolved.

### **Risk Management:**

The Trustee recognises the Plan is exposed to climate change-related risks. In 2022, the majority of the Plan's material managers (six out of the nine managers) engaged with the Trustee's process to interrogate the risks and opportunities of climate change. The Trustee integrated this process into its ongoing risk management processes and will monitor developments over time.

The Trustee remains comfortable that these managers have sufficient processes in place to monitor climate-related risks and opportunities, and to manage these risks effectively. The Trustee is comfortable with the investment managers' consideration of climate change-related risks and opportunities. During October 2023, the Trustee met with Insight, where ESG factors, including Climate Change, were key topics of discussion. For example, how the manager considers incorporating ESG considerations into the LDI investment process. Following the Plan year-end, the Trustee has adopted Climate Change as a stewardship priority to help focus its stewardship efforts as detailed in the Plan's latest Statement of Investment Principles (the "SIP").

### **Metrics and Targets:**

The proportion of the portfolio for which the Trustee was able to gather carbon emissions data increased significantly to **c.67%**, meaning the **Plan has reached its target** (set last year) of 61% data coverage by 2027. The main driver of the increase is that more managers have been able to provide emissions and carbon footprint data, which has increased the overall data coverage, with similar improvements in reporting across the industry. The Trustee will continue to engage with managers and anticipates there will be further improvements over time as industry methodology becomes more standardised. Further, the appropriateness of the target will be reviewed over the coming year.

The Trustee will continue to engage with its managers that were unable to supply emissions data for this analysis, with the assistance of the Plan's advisers, noting the nature of the Plan's assets may restrict the ability to obtain improved data. The Trustee also anticipates that in the future, better information will be available on an industry-wide standard, especially for illiquid mandates, which can be reflected in the coming years' reporting.

In relation to the Plan's assets, the Trustee measures the following four metrics:

- **Absolute emissions metric:** Total Greenhouse Gas Emissions (Scope 1,2 and Scope 3 emissions where available). It is an absolute measure of carbon output from the Plan's investments.
- **Emissions intensity metric:** Carbon Footprint – i.e. total carbon dioxide emissions for the portfolio per million pounds<sup>1</sup> invested. An intensity measure of emissions that takes the total GHG emissions and weights it to take account of the size of the investment made.

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<sup>1</sup> Carbon footprint data was obtained directly by managers and in some cases denominated in differing currencies and converted to GBP.

- **Alignment Metric:** Science Based Target Initiative (“SBTi”) portfolio alignment metric. The percentage of portfolio assets with declared Net-Zero or Paris-aligned targets validated by the SBTi.
- **Additional non-emissions-based metric:** Data Coverage (previously referred to as Data Quality). A measure of the proportion of the portfolio for which emissions data has been obtained.

The following pages summarise the Trustee’s current position with regards to the TCFD recommendations and those set out in the Regulations. The Trustee has been supported by its Investment Consultant, Redington (appointed in April 2023), with the production of its second TCFD report and collecting the data within it.

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## Introduction

The Trustee of the Eli Lilly Group Pension Plan has prepared the following report in response to the requirements for pension schemes under the DWP's Climate Change Governance and Reporting Regulations requirements (June 2021) and the DWP's statutory guidance (October 2022), which build on the recommendations from the Taskforce on Climate-Related Financial Disclosures ("TCFD").

TCFD is an initiative that developed some best practice guidance for climate-risk reporting. In accordance with the UK regulations set out in 2021, the Trustee is required to meet climate governance requirements and publish an annual TCFD-aligned report on their pension scheme's climate-related risks and opportunities<sup>2</sup>.

This document is the second annual report on climate change risk for the Plan. It has been prepared by the Trustee for the year ended 31 December 2023.

The Eli Lilly Group Pension Plan is a defined benefit pension plan which was closed to new entrants from 1 January 2010. As at 31 December 2023, the Plan was well funded, with assets of around £1.2bn. The Plan remains open to accrual and the current asset allocation reflects the Plan's long-term nature. The current asset allocation does not include public equities but has a relatively high allocation to illiquid assets (c.35%). Over the course of the next five years, the allocation to illiquid assets is expected to reduce as these investments return capital with all proceeds expected to be received by 2033. The reduction in illiquid assets will reduce the level of investment risk taken.

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

This report provides a summary on how the Plan is currently aligning with each of the four elements set out in the regulations (and in line with the recommendations of the TCFD). Details on these elements are below:

- **Governance:** The Plan's governance around climate-related risks and opportunities.
- **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the Plan's investment and funding strategy.
- **Risk Management:** The processes used 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.

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<sup>2</sup> For brevity, where we refer in this report to the risks and opportunities relating to climate change, we mean this to cover both the risks arising from changes in the climate itself and the risks and opportunities presented by the anticipated transition of economies and society to a lower carbon future.

# 1. Governance

## Key Takeaway:

### **The Trustee is committed to meeting all requirements set out by relevant regulation.**

The Trustee developed its governance structure in 2022 in order to gather information and form an assessment of the Plan's exposure to climate-related risks, and its level of resilience. By seeking input from its appointed advisers, the Trustee will continue to review and reflect upon its exposure to these risks on a regular basis, with the objective of safeguarding members' future benefits.

Since year-end, the Trustee has updated its stewardship policy and selected 'Climate Change' as a stewardship priority to focus stewardship efforts going forward.

## Role of the Trustee

The Trustee is 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. The Trustee will allocate sufficient time at meetings to fulfil its obligations in relation to climate change governance and reporting and will review its governance arrangements and processes periodically to ensure that this remains the case. The governance structure has not changed over the year and so the specific roles and responsibilities of the Trustee Board and the Plan's advisers remain appropriate.

The Trustee discussed and agreed its overarching approach to managing climate change risk in 2022. Details are set out in Statement of Investment Principles, which is reviewed every 3 years (or sooner in the event of a significant change in investment policy) by the Trustee. During 2024, as a result of appointing a new investment adviser, the Trustee has updated its stewardship policy within the Plan's Statement of Investment Principles to select Climate Change as the key focus area to best channel its stewardship efforts. Climate-related risks will be further considered alongside other ESG factors through the investment advisors quarterly monitoring reports, as well as captured within the Plan's governance reports.

## Time Horizons

In assessing the Plan's climate change risk exposure and opportunities, the Trustee considers these over multiple time horizons (as required by the Regulations). In 2022, the Trustee decided that the most appropriate time horizons for the Plan are:

	Time Horizon
Short term	0-3 years
Medium Term	3-10 years
Long Term	10-25 years

This covers the period over which the Plan's member benefit payments to its members are projected to peak and will be reassessed over time.

Where appropriate, the Trustee will consider transition and physical climate related risks separately.

The Trustee seeks input from its advisers and the Plan Sponsor on climate-related issues on an “as-needed” basis to ensure that it has the appropriate knowledge and understanding to support good decision-making. When seeking input from advisers or third parties on governance activities, the Trustee has, and will continue to, evaluate if such advisers are required to be challenged where necessary, to ensure the Trustee remains comfortable with the activities undertaken on their behalf. Additionally, the Trustee receives meeting material ahead of Trustee meetings, and focuses their time at meetings on a review of the material provided, as well as raising questions with advisers on this material.

The Trustee requires its advisers and investment managers to bring material climate-related risks and opportunities to its attention in a timely manner, and that they have the appropriate knowledge to advise on climate-related matters. To this end, the Trustee reviews its Investment Consultant biannually using its Investment Consulting Evaluation process, and its Plan Actuary annually using its Supplier Review process. The Trustee receives advice from its Investment Consultant on the capabilities of its investment managers.

The Trustee will publish a TCFD report in line with the requirements and timeline set out by the Reporting Regulations.

## **Role of advisers**

Investment Consultant: As per Redington’s Letter of Engagement, the Plan’s Investment Consultant will provide strategic and practical support to assist the Trustee in managing climate-related risks and opportunities, including:

- Provision of training and relevant updates on climate-related issues such as scenario analysis and choosing appropriate metrics and targets.
  - All Trustee Directors complete the Pensions Regulator toolkit and new Trustee Directors attend the PLSA Trusteeship course. The Trustee has previously had a program of training on climate-related risks and opportunities, and regular training on other matters is scheduled on the Trustee Business Plan based on training needs assessments carried out annually.
- Review of the appropriateness of the Plan’s funding strategy model (asset, liabilities and covenant) under a range of climate change scenarios.
- Assessment of investment manager competency.
- Collection, scrutiny and consolidation of information from investment managers.
- Action planning and tracking where indicated.

Plan Actuary: The Plan Actuary will help the Trustee assess the potential impact of climate change risk on the actuarial liability assumptions underpinning the Plan’s funding strategy, including, as appropriate, the strength of the covenant offered by the sponsoring employer.

Covenant Adviser: As and when covenant advice is required, the covenant adviser will take climate-related risks into account when providing advice to the Trustee on the employer covenant.

## **Monitoring climate-related risks and opportunities:**

- Following the Plan year-end, to best channel the Plan’s stewardship efforts, the Trustee has chosen to select Climate Change as a key theme based on its likely financial materiality to the Plan and its members.

- The Trustee requires investment managers to engage with issuers on relevant matters to maintain or enhance long-term value of the Plan's investments and limit negative externalities on the planet and society. This includes performance, strategy, risks, capital structure, conflicts of interest, and environmental, social or governance considerations.
- It is the expectation of the Trustee that the Plan's fund managers will actively monitor ESG risks within the Plan's investments, providing transparency on engagement and voting actions with respect to mitigating these risks as appropriate.
- Supported by its Investment Consultant, the Trustee reviews the stewardship activities of its fund managers on an annual basis, covering both engagement with companies in which they invest and voting actions. The Trustee will engage directly with the fund manager if concerns are raised. Concerns may include but are not limited to; lack of transparency, failure to exercise voting rights, failure to act on conflicts of interest, failure to consider risks related to ESG matters. The Trustee also engages with managers directly, for example, the Trustee meets with Insight on an annual basis whereby ESG integration and stewardship is a topic of discussion.
- Where voting is concerned, the Trustee requires its fund managers to recall stock lending as necessary, in order to carry out voting actions. Engagement with relevant persons includes the exercise of rights (including voting rights) attaching to the Plan's relevant investments which are exercised by the asset managers of the Plan, where applicable. The Plan Trustee monitors and discloses the voting records of its managers on an annual basis.
- The Trustee will continue to monitor this through its Implementation Statement and ensure the policies within the SIP are followed and remain aligned with Trustees outlook on climate-related beliefs.
- The Trustee also monitors the risk objective regarding any significant ESG or climate-related development for the Trustee to be aware of on a quarterly basis, as monitored by the Plan's Investment Consultant.

## 2. 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.

#### Key Takeaway:

Given there have not been any significant developments in the Plan's investment strategy, or any material increase in both the availability of data or industry best practice in scenario modelling, the Trustee has concluded that the analysis carried out in 2022 does not need to be updated.

Overall, climate-related risks were not viewed as a material threat to the Plan's sustainability. There were a range of climate-related risks identified by the Plan's managers, which differ by asset class. The diversification of the Plan's assets contributes to its overall level of resilience to these risks.

#### The previous year's results are reproduced below:

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

The Plan's investment portfolio is diversified across a range of different asset classes including liquid investments such as fixed income, and less liquid assets such as private equity.

#### Which investments were included?

The Trustee has focused its attention and time on the most relevant and significant risks. The Plan's investments in Liability Driven Investments (LDI) were excluded from its review as there is limited scope for the Trustee to mitigate the risk of investing in UK Government Bonds.

Non-material funds were also excluded, as were funds in wind down. Consequently, this review focused on 51% of Plan investments as at 31 December 2021. This covered five asset classes and nine investment managers as detailed on the following page.

	Fund Allocation at 31.12.2021	Investment Manager
<b>Bond Funds</b>	23%	Insight, M&G, Schroders
<b>Equity</b>	11%	MSIM (fully redeemed in 2022)
<b>Private Equity</b>	8%	Adams Street
<b>Property</b>	4%	CBRE



<b>Infrastructure and Private Debt</b>	5%	DIF, DRC, Ares
LDI	41%	Insight
Non-material funds	3%	CVC, KKR, AIL, Schroders, Walton Street, Green Oak, Alcentra, Taconic
Funds in wind down	1%	
Cash & Derivatives	4%	
<b>Total</b>	<b>100%</b>	

## Conclusions

Of the nine managers that the Trustee requested information from three (Adams Street, Schroders, and Ares) did not complete the questionnaire. The Trustee notes that this is not unusual given that fund managers are adapting to the requirements in this area, and therefore anticipates there will be progress over time.

Accordingly, the Trustee has asked its Investment Consultant to engage with the Plan's managers to encourage them to better support the Trustee in understanding climate risks in future. The Trustee takes regular advice from its Investment Consultant as to the suitability of the Plan's appointed fund managers which includes considerations of ESG factors when reviewing the Plan's managers. The Trustee also considers climate-related risks when selecting managers and when monitoring their performance, supported by its Investment Consultant. Six managers completed the questionnaire which covered the following risk categories, ratings and time horizons.

- **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 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.

- **Analysis time horizons:** As set out in the Governance section, the Trustee assess the climate-related risks and opportunities over multiple time horizons:
  - Short term: 0-3 years
  - Medium term: 3-10 years
  - Long term: 10-25 years

Based on the analysis completed, the Trustee identified:

- The managers who did engage provided insightful commentary on and assessment of climate risks.
- There are 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.

The Plan remains in surplus on a technical provisions basis, and as at 1 January 2024, the Plan was 99.7% funded on a solvency basis. Given the low level of reliance on the covenant over the near term, a detailed sponsor covenant assessment of climate risk impact on the Plan sponsor was not deemed proportionate.

Following the completion of the Plan's triennial actuarial valuation, the Trustee will continue to work with its advisers to incorporate climate considerations into assessment of the liabilities and covenant.

## Portfolio resilience and scenario analysis

In 2022, the Trustee undertook climate change scenario analysis to better understand the impact climate change could have on the Plan's assets and liabilities.

### Key Takeaway:

Given there have not been significant changes in the Plan's investment strategy over 2023 or developments in industry methodology over the year, the Trustee has not renewed the analysis conducted in 2022. This scenario analysis affirms that the Plan's funding level is expected to be resilient to the range of climate scenarios tested, albeit exhibiting higher volatility over the long term under the most severe downside scenario tested.

The analysis considered three climate change scenarios. Each scenario considers what might happen when transitioning (or not) 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 not a forecast, but rather represent a range of plausible outcomes. As such, they are illustrative and are subject to considerable uncertainty.

The scenario analysis considered the potential impact of climate change on the current strategic asset allocation (as at 31 December 2021) and liabilities (measured on the strategic liability basis) and,

therefore, its funding position. Taking advice from its previous Investment Consultant, Aon, the Trustee considered a “base case” scenario against which the three climate change scenarios are compared.

Scenario (Degree warming)	Scenario Description
Base Case (~2°C – 2.5°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. Current pricing suggests that the market does not expect a bad climate change outcome – that is, the effects are not as damaging as first thought, and some progress is made to limit greenhouse gas emissions and global warming.
Worst case scenario: Disorderly transition (<4°C)	The world economy remains oriented towards improving near-term economic prospects, with companies and governments taking a "business as usual" approach. Eventually, market participants begin to fully grasp the implications of climate change and there is a growing realisation that current levels of action are inadequate. Market values price in high levels of economic damage and irreversible loss.
Best case scenario: Orderly transition (<2°C)	Increased public awareness of climate change risks galvanises opinion and leads to governments undertaking widespread action globally to aggressively mitigate and adapt to climate change. A high global greenhouse gas tax and carbon cap is introduced.

Source: Aon. Note: Degree warming is relative to pre-industrial levels by 2100.

**Outcomes:**

Based on the climate scenario analysis, the Trustee identified that:

- The Plan is resilient to climate change risk, driven by the decision to reduce the allocation to equities, the diversification in the Plan’s assets and the liability hedging in place.
- Under the most severe downside scenarios, the Plan’s funding level is expected to remain fully funded in the long term, albeit with higher volatility.

The Trustee will look to improve the scenario analysis in the future, appropriate to the Plan’s investment strategy. The Trustee acknowledges the criticisms and restrictions that are evident around scenario analysis methodology in the industry; in particular, the Trustee recognises the scenarios do not incorporate climate tipping points and as such do not account fully for climate-related risks the Plan could face and so the Trustee will look to improve this reporting as developments occur in this space. The Trustee does not rely on the information produced by the scenario analysis to make any strategic decisions, noting that scenario analysis does highlight that climate change risks do occur. The Trustee and its advisors will continue to consider how this scenario analysis may be improved upon in future.

## 3. Risk Management

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

In 2022, the Trustee established a process to identify, assess and manage the climate-related risks that are relevant to the Plan. This was part of the Plan's wider risk management framework and describes how the Trustee monitors the most significant risks to the Plan in its efforts to achieve appropriate outcomes for members. In the Plan's first TCFD report, there were two elements to the Trustee's approach to understanding and assessing the impact of these risks on the Plan's investments, which captured a qualitative assessment and quantitative analysis.

On review, the qualitative assessment remains appropriate to monitor the climate-related risks and opportunities on an annual basis rather than obtaining the quantitative information from managers on an annual basis. This approach considers the TPR guidance on how to improve reporting on climate-related risks and opportunities.

#### Key Takeaway:

The Trustee remains comfortable that the majority of the Plan's material managers have sufficient processes in place to monitor climate-related risks and opportunities, and to manage these risks effectively. The Trustee is comfortable with the investment managers' consideration of climate change-related risks and opportunities.

Since the Plan year-end, the Trustee has adopted Climate Change as a stewardship priority to help focus its stewardship efforts, as detailed in the latest SIP.

When prioritising the management of risks, the Trustee assessed the materiality of climate-related risks relative to the impact and likelihood of other risks to the Plan. This helped the Trustee focus on the risks that pose the most significant impact when first considering the risk management processes. 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.

As discussed in section "2. Strategy", the Trustee recognises the Plan is exposed to climate change-related risks in the form of transition and physical risk. The Trustee considers the impact of these risks on all of the assets in which they invest via conducting and reviewing the results of climate-related stress tests on a periodic basis. Climate change is also included in the Plan's risk register and reviewed as part of the wider risk management framework.

For all appointed investment managers, evaluation of ESG risk management, which includes climate-related risks, is an explicit part of both the selection process and continued monitoring that the Trustee undertakes. The Trustee also relies on the manager research capabilities of its Investment Consultant to assess each manager's ability to effectively integrate climate-related risks and opportunities.

Active engagement with underlying companies in which the Plan is invested, specifically relating to climate-related risks and opportunities, is delegated to the Plan's investment managers. Engagement with the investment managers themselves is carried out on behalf of the Plan by the Investment Consultant which reports back at least annually to the Trustee. As a result of increasing the Plan's allocation to LDI and credit during 2023, the Trustee met with Insight (alongside the Investment Consultant) in October 2023. ESG considerations and stewardship were discussed in detail at that meeting.

The Trustee considered queries such as how ESG risks are integrated into the manager's counterparty approval process and how the manager considers incorporating ESG considerations into the LDI

investment process. The Trustee concluded they were comfortable with Insight's consideration of climate change-related risks and opportunities.

The Trustee will continue to meet with the Plan's LDI manager on a regular basis. The Trustee's stewardship priorities will continue to be discussed and monitored.

In response to DWP's guidance, the Trustee updated its stewardship policy within the Plan's SIP in 2024. Within the updated stewardship policy, the Trustee chose to adopt a stewardship theme of Climate Change. The Trustee intends to use this theme as a lens to focus its monitoring and assessment of managers' stewardship activities. The Trustee recognises that it is useful to focus its efforts on this one theme as it aligns with their wider climate beliefs, while being manageable from a governance perspective. By holding investment managers to account for these activities (particularly focusing on Climate Change), the Trustee hopes to encourage better stewardship activities which will result in a reduction in climate change-related risk.

The Trustee will monitor risk management efforts through stewardship with the Plan's managers, where engagement with the managers' underlying companies will be reported in the Plan's annual Implementation Statement where Climate Change is a theme that is closely considered, and engagement examples are provided to support this.

## 4. Metrics and Targets

### Climate-related metrics

The Trustee uses some quantitative measures to help understand and monitor the Plan's exposure to climate-related risks. The Trustee's choice of these measures is aligned with the prescribed metrics required by the regulations governing the Plan.

With regards to quantitative metrics, the Trustee – on an annual basis – monitors and reports:

- **Absolute emissions metric:** Total Greenhouse Gas Emissions (Scope 1,2 and Scope 3 emissions where available). It is an absolute measure of carbon output from the Plan's investments.
- **Emissions intensity metric:** Carbon Footprint – i.e. total carbon dioxide emissions for the portfolio per million pounds<sup>3</sup> invested. An intensity measure of emissions that takes the total GHG emissions and weights it to take account of the size of the investment made.
- **Alignment Metric:** Science Based Target Initiative ("SBTi") portfolio alignment metric. The percentage of portfolio assets with declared Net-Zero or Paris-aligned targets validated by the SBTi.
- **Additional non-emissions-based metric:** Data Coverage (previously referred to by Aon as Data Quality). A measure of the proportion of the portfolio for which emissions data has been obtained<sup>4</sup>.

#### Key Takeaway:

The level of carbon emissions data which could be gathered for this report remains relatively low compared to 100% data coverage, however as at December 2023, the Plan's data coverage is **c.67%**, meaning the Plan has exceeded its target of 61% by 2027. Compared to the data coverage in the first TCFD report of c.50%, this has increased by c.17%, noting that this data has been obtained from the Plan's managers directly. The appropriateness of the target will be reviewed over the following year and refreshed in the Plan's next report.

As the Plan has many illiquid assets, this data coverage figure is not abnormal given the Plan's investment strategy and the complexity of the underlying investments. However, the Trustee will continue to monitor the Plan's emissions coverage and anticipates there will be improvements over time as industry methodology becomes more standardised.

The Trustee continues to receive these metrics on an annual basis from its Investment Consultant, with this being the second year of such reporting. The Trustee will periodically review its selection of metrics to ensure they remain appropriate for the Plan.

On review, the metrics the Plan has chosen to report remain appropriate for the second report. The Trustee had also set an explicit target for the Plan when producing its first report, which is aligned to data coverage and with the Trustee's climate-related beliefs, targeting c.61% of assets by 2027. This

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<sup>3</sup> Carbon footprint data was obtained directly by managers and in some cases denominated in differing currencies and converted to GBP.

<sup>4</sup> Please note, in the case of the Plan's illiquid mandates, some of the data received may be based on the managers own estimations as well as emissions directly reported by underlying companies.

target remains appropriate for this report, where the data coverage obtained from the Plan's managers have shown this target has been exceeded. The Trustee will review this target over the next period, to ensure it remains appropriate and if any improvements can be made.

The table below sets out the results of each of the chosen metrics broken down by broad asset class for inclusion into the Plan's second TCFD report. Please note, the data outlined below has been obtained from each of the Plan's managers directly, excluding residual assets and funds that have been fully disinvested since the end of the previous period, for example, the Marathon and Morgan Stanley equity mandates. The data was requested as at 31 December 2023, however four of the Plan's managers were only able to provide data as at 31 December 2022.

	% of Assets <sup>5</sup>	Data Coverage (%coverage) <sup>6</sup>		Total GHG Emissions (tCO <sub>2</sub> e) <sup>7</sup>		Carbon Footprint (tCO <sub>2</sub> e/£m) <sup>8</sup>		SBTi Rating
		Scope 1 & 2	Scope 3	Scope 1 & 2	Scope 3	Scope 1 & 2	Scope 3	
Hedge Funds	0%	-	-	-	-	-	-	N/A
Property <sup>9</sup>	6%	89%	79%	490	554	7	8	
Private Equity	12%	-	-	-	-	-	-	
Private Markets <sup>10</sup>	17%	71%	45%	13,954	34,236	105	319	
Credit	16%	22%	-	472	-	3 <sup>11</sup>	-	N/A
LDI <sup>12</sup>	46%	100%	-	207,204	-	179	-	
Cash and derivatives	3%	-	-	-	-	-	-	N/A
<b>Total portfolio</b>	<b>100%</b>	<b>67%</b>	<b>13%</b>	<b>222,120</b>	<b>34,790</b>	<b>118</b>	<b>234</b>	<b>TBC</b>

Source: Fund Managers

For reference, the table below shows the data obtained for inclusion into the Plan's first TCFD report, for ease of comparison.

<sup>5</sup> As at 31 December 2023. Figures may not sum to 100% due to rounding.

<sup>6</sup> Please note, in the case of the Plan's illiquid mandates, some of the data received may be based on the managers' own estimations as well as emissions directly reported by underlying companies.

<sup>7</sup> Emissions data has not been scaled up where data coverage is <100%.

<sup>8</sup> Refers to % of portfolio where carbon data is available, either from investee company disclosures directly or indirectly via third party data providers. Carbon footprint data was obtained directly by managers and in some cases denominated in differing currencies and converted to GBP.

<sup>9</sup> C.98% of the property emissions data is provided as at 31 December 2022. The remaining property allocation is a residual holding for which the manager was unable to provide data.

<sup>10</sup> C.20% of private markets carbon emissions have been provided as at 31 December 2022.

<sup>11</sup> This figure has been estimated based on data provided by the Plan's ABS manager.

<sup>12</sup> LDI emissions reported represent combined gilts leveraged exposure.

	% of assets <sup>13</sup>	Data coverage (% coverage) <sup>14</sup>	Total GHG emissions (tons CO2e) Scope 1&2	Carbon footprint (tons CO2e/£m) Scopes 1&2	SBTi Rating
Equities	11%	- <sup>15</sup>	-	-	-
Hedge Funds	0%	-	-	-	-
Property	5%	51%	812	17	94%
Private Equity	8%	- <sup>16</sup>	-	-	-
Private Markets	7%	18%	5,248	193	0%
Credit	23%	18%	5,723	69	6%
LDI	41%	100%	125,771	152	99%
Cash and Derivatives	4%	0%	-	-	-
<b>Total Portfolio</b>	<b>100%</b>	<b>50%</b>	<b>137,554</b>	<b>121</b>	<b>51%</b>

Source: Aon, Fund Managers

The **total GHG emissions** reported demonstrate the total share of direct and indirect emissions for which the Plan's assets are responsible (where data was available). While this metric is useful to monitor, it is also impacted by the overall value of the assets and so the Trustee has less control over absolute emissions compared to carbon intensity. Relative to the Plan's first report, total scope 1 and 2 GHG emissions have increased from 137,554 to 222,120 tons CO2e, driven by the significant increase in data coverage for private markets assets, and an increase in emissions associated with the Plan's leveraged LDI exposure (whereby total exposure has increased meaningfully compared to December 2021). There have been several other asset allocation changes and changes to the carbon footprint data, which have also contributed to this increase.

Private markets emissions have increased significantly compared to previously, as several of the managers were able to provide emissions data for this reporting period. This is evident in the coverage figure which has increased from 18% to 71% for Private Markets. Within this asset class, two of the Plan's managers reported 100% data coverage, with a proportion reflecting reported emissions and the remaining as estimated emissions.

In line with the statutory guidance, this report also discloses scope 3 emissions, noting data availability for the Plan's investments was low and the Trustee will continue to monitor how the provision of emissions data evolves over time. LDI comprises a significant proportion of the Plan's total assets but for gilts held within the LDI portfolio, the manager was unable to provide scope 3 emissions due to data constraints and a lack of data availability.

The Plan's **carbon footprint** reveals how carbon efficient the portfolio is per million pounds invested and provides an understanding of the carbon intensity of the Plan's assets. There has been a slight decrease in the Plan's scope 1 and 2 carbon footprint from 121 to 118 tons CO2e/£m, which has occurred from a combination of increased data coverage, changes to the asset allocations and the effects of fund

<sup>13</sup> All data as at 31 December 2021. Figures may not sum to 100% due to rounding.

<sup>14</sup> Refers to % of portfolio where carbon data is available, either from investee company disclosures directly or indirectly via third party data providers.

<sup>15</sup> Carbon data was not collected for the Plan's equity holdings as these were redeemed shortly after 31 December 2021.

<sup>16</sup> The Plan's private equity mandates are unable to provide carbon footprint data at this time due to a low coverage of underlying portfolio company fundamentals.



weightings for each of the underlying funds within each asset class. In comparison to the 2021 data, the carbon footprint metric is unavailable for the Plan's credit assets as at 31 December 2023, driven solely by a single allocation to asset-backed securities for which the manager was unable to provide carbon footprint analysis. However, the Plan's Investment Consultant estimated the Plan's carbon footprint arising from its ABS allocation to be 3 tCO<sub>2</sub>e/£m, based on the GHG emissions figure and the asset size of the ABS allocation, provided by the manager.

The **SBTi portfolio alignment metric** was unavailable when collating data from the Plan's managers for this report. Although one of the Plan's property managers was able to confirm 91% (by NAV) of the portfolio had a Net Zero target for scope 1 and 2 emissions as at 31 December 2022, the extent to which the reporting targets are SBTi verified is unknown. The Plan's LDI manager is unable to report on this measure as it focuses on corporate issues, rather sovereign bonds which are held in the LDI portfolio.

In light of this, although the Trustee cannot report an SBTi rating for the UK Government bond holdings within the LDI portfolio as SBTi does not assess countries, the UK Government's statutory net zero CO<sub>2</sub> target has been assessed as "aligned with a global 1.5C scenario" by ASCOR<sup>17</sup>, the first public investor framework assessing sovereign bond issuers on climate change. Therefore, the Trustee deems the LDI portfolio, excluding cash and derivatives, to be 100% aligned to this Net Zero measure. Some managers have estimates of targets being set but these have not been SBTi verified. The Trustee has engaged with managers to explore why this metric was unavailable. Over time, the proportion of the portfolio held in assets where data is unavailable is expected to decrease, and data quality should improve, leading to an expected improvement in the SBTi portfolio alignment objective.

**Data coverage** relates to the proportion of the Plan's investments whereby greenhouse gas emissions data was provided by the Plan's investment managers. Given the Plan has several allocations to illiquid assets, it is important to note that due to the nature of these assets, it has proven difficult to obtain carbon metrics for these assets across the industry. This is the second time this analysis has been carried out for the Plan, and the expectation is that the output will evolve over time as data availability is expected to improve. As and when new data becomes available, the Trustee will review the targets which have been set to ensure they remain appropriate and feasible in light of this new information.

The Trustee uses the results to identify the climate-related risks and opportunities which are relevant to the Plan. These might include, for example, engaging with fund managers who have material carbon intensity levels or with other industry participants and updating investment guidelines for managers where the Trustee has discretion to make such changes.

The Trustee notes that there is no industry-wide standard on calculating some of these metrics and that different managers may use different methods and assumptions when providing data to the Trustee.

These issues are common across the industry at the current time and highlight the importance of TCFD-aligned reporting to improve transparency. The Trustee anticipates that in the future, better information will be available from managers as the industry aligns to expectations and best practice standards.

Similar to last year, because not all the Plan's managers were able to provide all the requested data, the reported emissions metrics do not include all the Plan's GHG emissions. For managers that provided data with <100% data coverage, the GHG data has not been scaled to cover 100% of the portfolio, hence the metrics continue to show the Plan's GHG emissions to be lower than they really are.

The Trustee will continue to engage with its managers that were unable to supply emissions data for this analysis, with the assistance of the Plan's advisers, noting the nature of the Plan's assets may restrict the ability to obtain improved data. The Trustee also anticipates that in the future, better

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<sup>17</sup> Assessing Sovereign Climate-related Opportunities and Risks ("ASCOR").

information will be available on an industry-wide standard, especially for illiquid mandates, which will be reflected in the coming years' reporting.

The Plan's Investment Consultant requested data from all the Plan's managers, of which 8 managers did not provide any information relative to 13 managers that were unable to provide data last year.

### Climate-related target

The Trustee measures the following target, with more detail below:

- Targeting data coverage of the Plan's investments to be c.61% of assets by 2027.

The Trustee recognises the Plan has achieved this target, as shown within this report, based on the data provided from the Plan's managers for this reporting period. The data coverage for the reporting period is 67% compared to 50% of assets which was based on data from 2021. The Trustee recognises that although the target has been achieved sooner than estimated, there have been several contributing factors, such as an increase in data availability and more managers being able to provide the required data. However, some of the Plan's larger asset classes such as Private Equity have not been able to provide any emissions or carbon footprint data and have no data coverage. Although progress is important, the appropriateness of the target will be reviewed over the next period, to ensure the climate-related target helps the Trustee track its efforts to manage the Plan's climate-change risk exposure.

**Key Takeaway:**

The Plan has achieved the five-year target set by the Trustee to improve the level of data from 50% at the current time, to 61%, over the reporting period. Given the level of data available when writing the Trustee's first report, the Trustee's first priority was to improve data coverage so that a more comprehensive view of the Plan's climate-related metrics can be gathered. **The data coverage for the Plan's second-year report has improved and exceeded the target, at 67% currently.** The Trustee will review the appropriateness of this target and look to engage with the Plan's managers to ensure this data is an accurate reflection of the data coverage.

In seeking to improve data quality over the coming years, the Trustee's initial focus is on data coverage i.e. the proportion of the Plan's assets for which emissions data is available, where managers have provided reported and estimated data. The Trustee will prioritise funds which are most material within the portfolio and, with the support of its advisers, engage with managers in order to assess if this target remains appropriate and if the target should be revised now that it has been met. The Plan's data coverage target, and associated current position, are:

**2027 Data coverage Target**

**c.61%**

of assets

**2022 Data coverage metric**

**c.50%**

of assets

**2023 Data coverage metric**

**c.67%**

of assets

The Plan's performance against the target will be measured and reported on, with review of the target to occur over the next reporting period.

There are a few key reasons as to why the target has been achieved over this period which have been summarised below:

- In comparison to the data obtained for the Plan's first TCFD report (as at 31 December 2021) there have been industry-wide improvements in the availability of data and in data coverage. This is reflective as several of the Plan's managers that had not provided any data previously, were able to for this reporting period.
- In 2021, 6 of the Plan's managers provided emissions data, whereas 10 managers were able to provide the relevant data for this reporting period, and, as such data coverage has improved overall.
- For some managers, the data coverage was provided as 100%, where a certain proportion was based on reported emissions, and the remainder as estimated emissions.

The Trustee anticipates there will be a gradual improvement in data coverage from managers over the next few years. For other asset classes, particularly private markets, development is expected to take place more slowly, with more progress in due course as best practice continues to be developed.

The Trustee will continue to take the following steps to maintain the target, and revise the target where appropriate:

- Focus initially on improving the data coverage for asset classes which have the least data coverage i.e. credit and private markets.
- Focus on obtaining initial data for asset classes where data is not currently available i.e. private equity.
- Engage with the most material managers regarding the data quality they provide.

## Appendix A: Glossary of Terms

Source: Aon

Governance	refers to the system by which an organisation is directed and controlled in the interests of shareholders and other stakeholders. <sup>18</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>19</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>20</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>21</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>22</sup>
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>23</sup>
Greenhouse gas emissions ("GHG")	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.

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<sup>18</sup> A. Cadbury, Report of the Committee on the Financial Aspects of Corporate Governance, London, 1992.

<sup>19</sup> OECD, G20/OECD Principles of Corporate Governance, OECD Publishing, Paris, 2015.

<sup>20</sup> TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017

<sup>21</sup> Ibid

<sup>22</sup> Ibid

<sup>23</sup> Ibid

scope levels <sup>24</sup>	<p>Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam.</p> <p>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>25</sup></p>
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>26</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>27</sup>
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>28</sup>
Investment Consultant Evaluation and Supplier Reviews	The Trustee assesses the service provision from its core advisers across a number of deliverable areas including whether they have been provided advice and assistance on their responsibilities in relation to climate change. The assessments consider clarity of advice and timeliness of advice received. Further, from time to time the Trustee will carry out a market review of its providers, with expert assistance, and evaluation of bidder’s ability to suitably advise on climate matters is part of the process of evaluating bids received. Where contracts are reviewed and updated, climate related reporting is specified as part of the relevant provider’s contract.

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<sup>24</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>25</sup> PCC, Climate Change 2014 Mitigation of Climate Change, Cambridge University Press, 2014

<sup>26</sup> 3 TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017

<sup>27</sup> Ibid

<sup>28</sup> Energy Saving Trust, What is net zero and how can we get there? - Energy Saving Trust, October 2021

## Appendix B: Greenhouse gas emissions in more detail

Source: Aon







Greenhouse gases in the atmosphere, including water vapour, carbon dioxide, methane, and nitrous oxide, keep the Earth's surface and atmosphere warm because they absorb sunlight and re-emit it as heat in all directions including back down to Earth. Adding more greenhouse gases to the atmosphere makes it even more effective at preventing heat from leaving the Earth's atmosphere.

Greenhouse gases are vital because they act like a blanket around the Earth making it the climate habitable. The problem is that human activity is making the blanket "thicker". For example, when we burn coal, oil, and natural gas we send huge amounts of carbon dioxide into the air. When we destroy forests, the carbon stored in the trees escapes to the atmosphere. Other basic activities, such as raising cattle and planting rice, emit methane, nitrous oxide, and other greenhouse gases.

The amount of greenhouse gases in the atmosphere has significantly increased since the Industrial Revolution. The Kyoto Protocol<sup>29</sup> identifies six greenhouse gases which human activity is largely responsible for emitting. Of these six gases, human-made carbon dioxide is the biggest contributor to global warming.

Each greenhouse gas has a different global warming potential and persists for a different length of time in the atmosphere. Therefore, emissions are expressed as a carbon dioxide equivalent (CO<sub>2</sub>e). This enables the different gases to be compared on a like-for-like basis, relative to one unit of carbon dioxide.

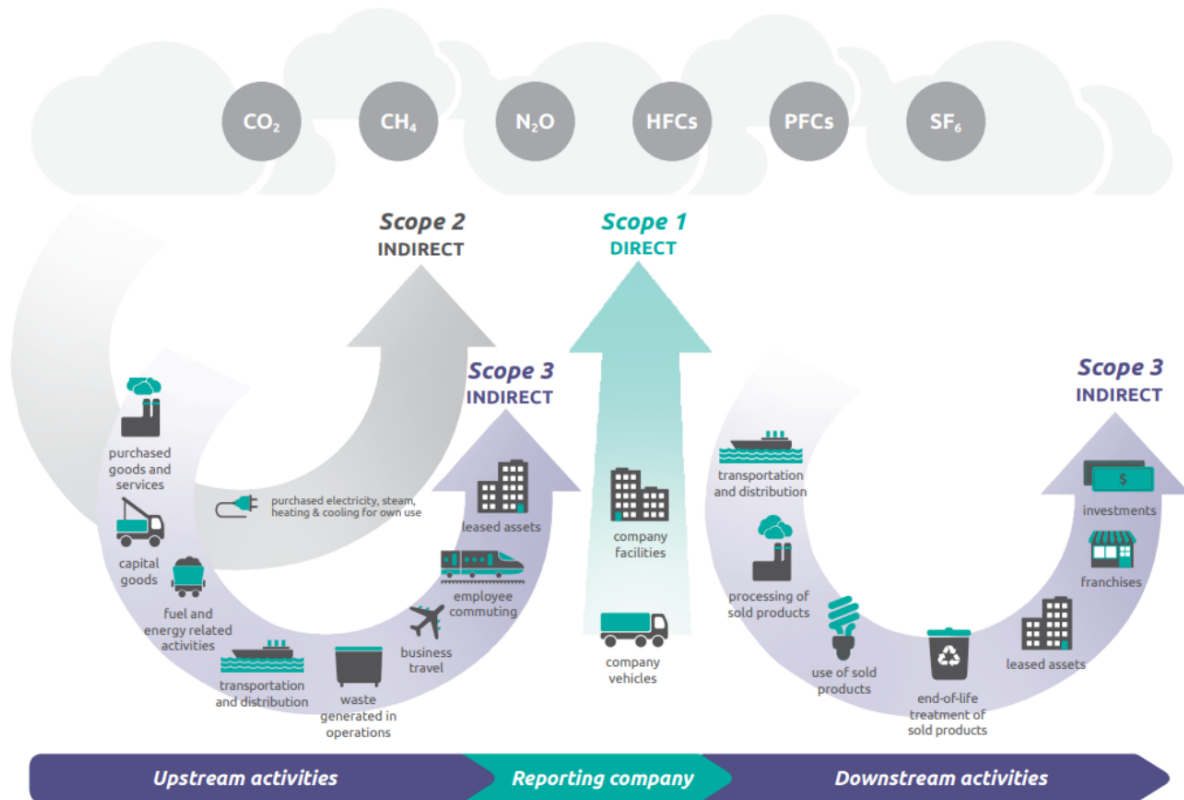
### Six main greenhouse gases identified by the Kyoto Protocol

					
Carbon dioxide	Methane	Nitrous oxide	Hydro-fluorocarbons	Per-fluorocarbons	Sulphur hexafluoride
CO <sub>2</sub>	CH <sub>4</sub>	N <sub>2</sub> O	HFCs	PFCs	SF <sub>6</sub>

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

<sup>29</sup> [https://unfccc.int/kyoto\\_protocol](https://unfccc.int/kyoto_protocol)

Overview of GHG Protocol scopes and emissions across the value chain



Source: Greenhouse Gas Protocol, [Corporate value chain \(scope 3\) Accounting and Reporting Standard](#), 2011

# Appendix C: Climate scenario modelling assumptions

Source: Aon

**Note to Trustees**

The purpose of this appendix is to conform to the DWP’s statutory guidance, which states that Trustees must *"Describe the key assumptions for the scenarios used and the key limitations of the modelling (for example, material simplifications or known under/over estimations)"*

The purpose of the climate scenario modelling is to consider the impact of climate-related risks on the Plan’s assets and liabilities over the long-term. The scenario modelling assumes a deterministic projection of assets and liabilities on the Technical Provisions basis, using standard actuarial techniques to discount and project the Plan’s expected future cashflows.

- i. It models the full yield curve as this allows for a more accurate treatment of the liabilities and more realistic modelling of the future distribution of interest rates and inflation.
- ii. The modelling parameters vary deterministically for each scenario.

The liability projections are approximate, but they are appropriate for this analysis. However, a full actuarial valuation carried out at the same date may produce a materially different result.

The scenario modelling focusses on the impact of climate change on the Plan’s assets and liabilities. It does not consider the impact climate change could have on the covenant risk or mortality risk.

The scenario modelling reflects recent market conditions and current market views. The model may produce different results for the same strategy under different market conditions.

This report, and the work relating to it, complies with 'Technical Actuarial Standard 100: Principles for Technical Actuarial Work' ('TAS 100'). The model complies with TAS 100.

**Key Assumptions:**

	<b>Temperature risk by 2100</b>	<b>Reach net zero by</b>	<b>Carbon price (2030/2050)</b>	<b>Introduction of environmental regulation</b>
Base Case	+2-2.5C	2050	\$75/\$125	Fragmented Coordination
Disorderly transition	<3C	After 2050	\$65/\$340	Late and aggressive
Orderly transition	1.3C – 2C	2050	\$100/\$215	Coordinated