De Beers UK Pension Scheme

Disclosures in respect of Taskforce on Climate Related Financial Disclosures (“TCFD”) for the Scheme year ending 30 September 2024

Report contents:

Introduction

Introduction

This report sets out the approach of the Trustees of the De Beers UK Pension Scheme ("the Scheme") with regard to assessing, monitoring and mitigating climate-related risks in the context of the Trustees' broader regulatory and fiduciary responsibilities to their members.

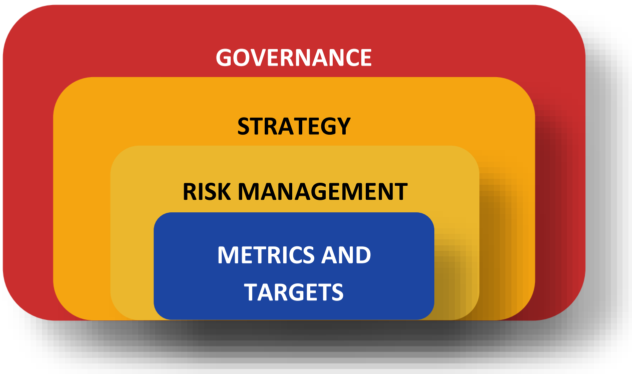
Climate change

We believe that climate change is a systemic risk and an immediate concern. In order to ensure a sustainable future and to safeguard economic growth, we believe that concerted global action is required to tackle the climate crisis. The Scheme is a long-term investor and we believe that improved transparency on climate-related matters will lead to improved investment decisions which in turn will improve member outcomes.

The Taskforce on Climate-related Financial Disclosures ("TCFD")

Pension schemes in the UK are subject to regulations that require schemes of a certain size to disclose in line with the TCFD recommendations. The Scheme is one of the schemes captured by these requirements and has therefore been publishing reports in line with the TCFD requirements since the Scheme year ending in 2023.

This report follows the TCFD framework, and so is split into the following four thematic areas – Strategy, Risk management, Metrics and targets and Governance. It is written for members of the Scheme to provide information about the risks to the Scheme from climate change and about how we, as the Trustees of the Scheme ("the Trustees"), have responded to those risks.



Scheme circumstances

This report considers the benefits and investments due to members under the Scheme, but excludes all Additional Contribution benefits and investments.

During January 2024, we – on behalf of the Scheme and its members – purchased a bulk annuity policy (buy-in policy) which resulted in the majority of Scheme assets being transferred from the previously held investment mandates to an insurer, Pensions Insurance Corporation ("PIC").

We as the Trustee have very limited influence over the specific assets in which PIC choose to invest. However, where appropriate, we have included information on the buy-in and the approach to climate risk taken by PIC, albeit the assets themselves now lie outside the scope of some elements of TCFD reporting requirements; this is in part due to the nature of the assets within insurance contracts and reflective of the limited influence that we have.

Report summary

Whilst in the previous year we have included a report summary for members, as this report is much shorter than in previous years, reflective of the above change in Scheme circumstances, we believe that this would be superfluous as the report itself has been condensed for easy perusal. Our previous report, which includes more detail on the Scheme's policies and processes prior to the buy-in, can be found here: [de-beers-uk-pension-scheme-taskforce-climate-related-financial-disclosures-report.pdf]()

Governance

Governance disclosures: Describe the Board's oversight of climate-related risks and opportunities; Describe the Board's role in assessing and managing climate-related risks and opportunities.

We're aware of climate change and its potential impact not just on the environment but on pension schemes and member outcomes. We've acknowledged this by building climate risk and opportunities – as well as other climate-related issues such as policy directions – into our ongoing training, beliefs, and wider governance policies and processes.

Training and discussion of climate change at meetings
We previously undertook relevant training on climate change and broader ESG risks in order to maintain our knowledge and understanding. As part of discussions on risk transfer options, climate change and ESG factors were considered in particular on 27 September 2023 ahead of discussions on selecting an insurer to transact with.

Responsible Investment beliefs and policy
We have a set of Responsible Investment ("RI") beliefs and a formal RI policy in place for the Scheme, which outlines our approach to climate-related issues and further details on oversight of climate risks and opportunities. The policy also sets out, at a high level, the roles and responsibilities relating to climate-related issues. This includes responsibility for ensuring all regulatory requirements are met and that the Scheme's governance processes are sufficient to ensure the proper management of all ESG related risks.

Accountability and responsibility
We (the Trustees) have overall responsibility for the Scheme and its management, which includes setting the Scheme's strategy and implementation of the Scheme's assets, and making all Scheme-wide decisions. We're also responsible for ensuring that RI considerations, including climate change, are taken into account where relevant across both the Scheme's management and strategy. This includes responsibility for ensuring all regulatory requirements are met and that the Scheme's governance processes are sufficient to ensure the proper management of all ESG-related risks, including climate change. However, a number of decisions may be made on our behalf through delegated responsibilities, then ratified by us later. However, all of the parties described below inform or participate at some level in making these types of decisions and so we have outlined their roles below, along with the methods we use to assess each party.

As outlined in previous sections of this report, in Q1 2024 the majority of Scheme assets were transferred to PIC, meaning that the new climate-related focus will be our ongoing monitoring of PIC's management of climate risk, alongside the management of the remaining Scheme assets that are running off, held within private debt funds with Partners Group and a cash fund with LGIM.

Delegation to, and oversight of, the Scheme's committees
The Scheme previously had in place an Investment Committee, which had six members, including two Sponsor representatives. The ISC undertook the formal monitoring of the Scheme's investments, integrating ESG considerations, to the extent possible, into their management of each of the Scheme's mandates. The ISC met quarterly to consider the investment management structure and performance of the Scheme's assets against the investment managers in turn, on which they then reported at Trustee meetings.

Prior to the buy-in, the Trustees had also set up a Responsible Investment Working Group, whose aim included identifying and carrying out all key tasks required to enable us to act in line with the beliefs and principles set out in our agreed RI policy, and continue to progress towards becoming more active in all areas of RI.

In progressing towards risk transfer discussions, we also set up a separate sub-committee, the Buy-in Sub-Committee (BSC) in order to progress work with respect to the buy-in. The remit of the BSC included ensuring that the ESG approach of any insurer we transacted with was suitably aligned with the approach of the Scheme to ESG issues, including climate change, and subsumed the relevant duties of both the ISC and RIWG, which were then disbanded.

We have agreed set of Terms of Reference (ToR) which sets out the composition and key responsibilities of the ISC, RIWG and BSC.

We, and the ISC also receive advice and support regarding ESG and climate related risks and opportunities from our Investment and Actuarial advisers, Hymans Robertson. As part of their work, the Scheme's advisers also identify climate related risks and opportunities for the Scheme and report to the Trustees as appropriate.

Role of advisers and adviser reviews

Barnett Waddingham supports us as the Trustees and our sub-committees in the arranging of meetings and taking forward agreed actions between Sub-Committee meetings. Barnett Waddingham also has responsibility to ensure appropriate levels of resource to complete all RI associated requirements, including TCFD reporting.

The Scheme's investment advisers, Hymans Robertson, are responsible for assisting us, the ISC, and the BSC to ensure climate related risks and opportunities are embedded into all investment and funding strategy considerations and decisions. They provide advice and training regarding regulatory requirements and are expected to incorporate climate considerations into any advice regarding any strategy changes or manager appointment. We have set objectives for our Investment Adviser which include objectives relating to the adviser's support in all RI considerations. The Investment Adviser is assessed against these objectives annually and the objectives themselves are assessed regularly to ensure they remain appropriate.

Our assessment of the Sponsor's covenant is undertaken through dialogue with the Sponsor and formal covenant reviews undertaken by Cardano. Cardano (and the Sponsor, as outlined below) are responsible within their reviews for identifying any climate considerations that should be incorporated into the Scheme's strategic discussions and in the Scheme's risk monitoring processes.

Investment Managers

There are a number of responsibilities delegated to the investment managers of the Scheme's assets. These asset managers are monitored on an ongoing basis by us and the ISC. Our investment consultant assists with the ongoing monitoring of the investment managers, including rating the approach of the managers with respect to climate related issues. The Scheme's investment managers are expected to integrate ESG considerations, including climate change, to the extent possible, into their management of each of the Scheme's mandates.

On the appointment of any new manager, the ISC assesses each manager's RI capabilities, with assistance from our Investment Consultant, to determine if that manager's approach is aligned with our RI Policy. Once appointed, the ISC monitors all managers regularly, assessing each manager's processes and policy, challenging managers on any issues identified. The ISC and RIWG also liaise with the investment managers in relation to RI matters, as required.

Scheme Sponsor

The Scheme's sponsor, De Beers UK Limited, maintains their own approach and reporting with respect to climate and sustainability issues. We maintain an ongoing dialogue with the Sponsor to ensure both parties are aware of each other's approach in this area. We ensure those issues relevant to the Scheme are considered where appropriate and aim to ensure synergy between the Scheme and Sponsor's approach to climate related issues.

Climate Change Funding Risk - the Member Perspective

It is worth highlighting the question of climate change funding risk from the perspective of the Scheme's members. Climate change is a systemic risk that may impact the investments made to fund the benefits due to members of the Scheme. Whilst we have considered the approach to climate risk within Scheme investments up to and including the decision to enter a buy-in agreement with PIC, going forwards, PIC's approach to integrating climate risk into their own strategy and decision making will be relevant. As such, for members looking for further information, we recommend reading PIC's own TCFD report (2023 report here), which gives more information on this topic. As noted earlier in this report, we will continue to monitor PIC's approach ourselves to ensure we are satisfied that it remains aligned with the Scheme's and Sponsor's expectations.

Strategy

Strategy disclosures: Describe the climate-related risks and opportunities the Trustees have identified over the short, medium and long-term; the impact on the strategy and financial planning; and describe the resilience of the strategy, taking into consideration different scenarios, including a 2°C or lower scenario.

A strategy update

In 2023, we appointed Hymans Robertson as advisors to support us in making a decision on buy-in providers for the Scheme. As part of the process to appoint Hymans Robertson, we considered how their advice would integrate environmental, social and governance credentials of insurers in order to support our decision making.

Upon consideration of different insurers to transact with, we decided to pursue a buy-in policy with PIC. As part of the insurer selection process, we made sure that PIC demonstrates a commitment to considerations around ESG and climate change in line with both our and the Sponsor's views. This included assessing each insurer we considered across the topics of culture, integration, transparency, and stewardship, as well as ensuring there were other key ESG reporting and collaboration undertaken by PIC. This assessment helped to inform the Trustees' decision as to which insurer to select for the buy-in. Over late 2023 and early 2024, while progressing the buy-in transaction, we continued our work thinking about climate risk, with no significant change to governance or processes around the oversight or management of climate-related risks and opportunities.

Climate risk over the Scheme's time horizons

When considering the impact on the Scheme, climate risk can be defined as the potential impact on future financial returns that may arise from climate change. Climate risk is typically split into two parts – transition risk and physical risk. These risks may vary in likelihood and intensity over different time horizons and dependent on how quickly and well the world transitions to a low-carbon economy. This is laid out in the diagram below:

Diagram 1 – the varying impacts on climate risk depending on the global response

Aggressive mitigation	Business as usual
We transition to a low carbon economy - so transition risks dominate. These include: Policy changes, e.g. *carbon pricing*, seek to create the changes needed in society. Technology development, e.g. renewable energy, and adoption enable the changes to be adopted.	**Climate change continues to worsen - so physical risks and impacts dominate. These include:** Chronic changes, e.g. sea level rise, agricultural systems impact economic and social systems. Acute changes, e.g. storms, wildfires create damage and give rise to costs of adaptation and reconstruction.

The Scheme is a long term investor. Given the nature of climate change and the time-horizons over which impacts of climate change may be felt, it can be expected that climate risk will impact the Scheme in various ways. However, it is important first to define the different time-horizons which we may consider, in order to clarify whether the different risks and opportunities arising from climate change may impact the Scheme in the short-, medium- or long-term. In the context of the Scheme, we therefore consider short, medium and long-term time horizons. We have defined what these time-horizons mean in more detail as set out below (all time horizons are from 2023):

- Short-term time horizon: 2 years (i.e. to 2025) - We chose 2 years as the short term time horizon because this reflects upcoming objectives for the Scheme
- Medium-term time horizon: 4 years (i.e. to 2027) - We chose this time period as it represents the mid-point between present and the long-term target date.
- Long-term time horizon: 8 years (i.e. to 2031) - We chose this time period as it allows for the Scheme's long term journey plan, including plans to insure the Scheme (i.e. the now completed buy-in work).

Transition risks are expected to feature more prominently over shorter-time periods. This view is predominantly driven by the likely escalation in climate change regulation over the short to medium term. Over longer-term periods, we expect physical risks to feature increasingly – however the balance between the transition risks and physical risks experienced will depend on the approach taken to climate change and the speed with which the world transitions to a low-carbon economy. Both transition and physical climate risks will impact the Scheme during its lifetime. We previously considered climate risks at both an overall strategy level as well as with respect to each asset in which the Scheme is invested. We then engaged with their individual managers on these assets and improvements that can be made. This is still the process we undertake for the DC Section of the Scheme, however for the DB Section we currently focus our engagement with the managers of the assets we are running off as well as with PIC.

Scenario analysis

In order to test the resilience of the Scheme's investment strategy to climate risk, we carried out climate scenario analysis, considering the Scheme's assets and market conditions as at 31 December 2022 and liabilities projected from the 30 September 2020 valuation. These climate scenarios estimate the impact to the Scheme of temperature rises equivalent to 1.5°C, 2°C and 4°C above pre-industrial times, as detailed in the scenario graphic below, versus a base case which reflects standard capital market assumptions based on consensus views on economic outlook, which feed into long-term views on what is currently priced into the market. This base case therefore indirectly captures the climate risk and opportunities that are priced into current market conditions but does not allow for specific scenarios as defined below.

Diagram 2 – the scenarios we have considered and how these may play out in practice

Scenario 1: Green Revolution	Scenario 2: Delayed Transition	Scenario 3: Head in the Sand
Governmental policy: Immediate, concerted policy action.	**Governmental policy:** No significant action in the short term, meaning the response must be stronger when it does happen.	**Governmental policy:** No or little policy action for many years.
Market reaction: Public and private spending on "green solutions". Improved disclosures encourage market prices to shift quickly.	**Market reaction:** Shorter and sharper period of transition.	**Market reaction:** Growing fears over ultimate consequences leads to market uncertainty and price adjustments. Ineffective/piecemeal action increases uncertainty.
Risks that emerge: Transition risks in the short term, but less physical risk in the long term.	**Risks that emerge:** Greater (but delayed) transition risks but similar physical risks in the long term.	**Risks that emerge:** Transition risks exceeded by physical risks.
Paris alignment: High expectation of achieving <2°C warming.	**Paris alignment:** High expectation of achieving <2°C warming.	**Paris alignment:** Low/no expectation of achieving <2°C warming.

Timing of disruption	**Immediate**	→	**10+ years**
Intensity of disruption	**High**	→	**Very high**

In summary, the Scheme's expected trajectory is unlikely to be significantly affected by any of the three climate scenarios versus the base case. The outputs suggest that, across the scenario modelling in the short, medium, and long term there is at most a 5% difference between the base case and the scenario results when considering the likelihood of success of the Scheme. Whilst any negative impact would not be welcome and an impact of up to 5% is not ideal, this is not a particularly significant figure in comparison to other risks to which the Scheme is routinely exposed, such as broader market changes. More details on the output for the DC Section can be found in our previous TCFD report, available here.

Thus, we are satisfied that the results of the scenario analysis suggest that the Scheme is resilient to climate-change risk. The full output of the scenario analysis we undertook for both the DB and DC sections of the Scheme is included in full in the previous report, which is linked in the introduction to this report.

The strategy of the Scheme has since changed significantly for the DB Section, with assets now held almost entirely with an insurer. It is therefore much more difficult to reproduce new scenario analysis. However, given the way insurers invest and operate, we believe risks to the Scheme's resilience are likely to be much reduced and therefore Scheme resilience is still strong. In addition, PIC will undertake their own scenario analysis, of which details can be found in their own TCFD report, and which includes assets and liabilities relevant to the Scheme. In contrast to the DB section, the strategy for the DC Section has not changed since the previous report, therefore we have not reproduced any new scenario analysis.

Assessment of climate-related risks and opportunities across the Scheme's DC strategy

We assess climate-related risks and opportunities when setting investment and funding strategy, taking into account the covenant, to ensure a holistic and consistent approach.

The systemic nature of climate change risk has the potential to reduce returns across all asset classes and will have a macro-economic impact that could affect the entire Scheme. Equally, however, the need to transition to a low carbon economy and the innovation which that will require presents a number of potential investment opportunities. Our last report includes the DB table, which was relevant up until the point of the buy-in transaction. Below is the DC table, which remains relevant to our risk management of the DC Section. We also consider how the impacts of these risks will manifest over the short, medium and long term.

Table 1 – Climate Risk Dashboard (DC Section)

Risk Area	Identified Risks	Impact			Mitigation/Actions	Action owner & timescales for next steps	Identified Opportunities
		Short term	Medium term	Long term			
Investment	Exposure to climate risks through investment in companies in equity and credit allocations, which comprise the majority of the money purchase section and are likely to grow over time. Members that are late-career are more likely to be impacted by short-medium term transition actions whereas members that are mid-career are more likely impacted by no transition.	Medium	Medium	Medium	Climate scenario analysis and monitoring of climate risk metrics for the Section's investments will help the Trustees monitor and manage relevant climate risk exposures. Climate scenarios recently modelled indicate that risk will be relatively limited for most members	Owner: Trustees/ DC Advisor Timescale: 30 September data presented at the Q1 DCSC meeting - revisit next year.	Potential investment opportunities within fund selection chosen for the Section's default as well as within self-select fund range made available to members.
Covenant	Risk of Sponsor not meeting climate risk targets which may impact profitability and strength of covenant, thereby impacting ability to support current contribution levels. Longer term physical risks could impact Sponsor assets and infrastructure leading to destruction of value.	Low	Medium	High	Trustees engage with the Sponsor on a regular basis as part of regular covenant monitoring. Sponsor has set strong business goals aligned to sustainability, as well as net zero targets, on which they regularly report progress. However, long-term success is reliant on achieving these targets, therefore flagged as High risk over the long term.	Owner: Company/ Trustees Timescale: Ongoing	Limited

Risk management

Risk management disclosures: Describe the processes for identifying and assessing climate-related risks; Describe the Trustees processes for managing climate-related risks; Describe how processes for identifying, assessing and managing climate-related risks are integrated into the overall organisation's risk management.

As part of our responsibility for the setting and implementation of the Scheme's Responsible Investment Policy, we must ensure that ESG related risks, including climate change, are identified, assessed and effectively managed. Therefore, it is crucial that the management of these risks is integrated into the overall risk management of the Scheme. Below, where we have referred to ESG risks more broadly, this will include consideration of climate change risks. Whilst the Scheme as fallen out of scope of the TCFD reporting requirements due to the Scheme buy-in, the relevant risk management processes described in last years report and further highlighted below are still in place and followed for the DC Section of the Scheme. An overview of these processes is set out below, but more detail can be found in previous reports.

Risk-management framework

The Scheme's risk management framework dictates that risks are considered inherently within discussions held and decisions made at ISC (now BSC) and Board meetings. We (the Trustees) still retain all oversight over these risks and wider risk management processes, including continuing to receive updates on risk within annual reporting.

Identification of risks

Climate risks are identified by us, our sub-committees and advisors as appropriate. These risks will be further integrated into centralised risk management documentation going forwards. Information from a number of sources is used to help identify risks and we and our advisors are responsible for identifying risks as appropriate.

ESG and, in particular, climate related risks can be identified by various parties including the Trustees, the ISC / BSC and RIWG, investment managers or the Fund's advisers as part of the ongoing management of the Fund. ESG risks are identified as part of the following process

- **Investment strategy reviews:** We consider ESG risks as part of the Scheme's regular investment strategy reviews that are carried out. These reviews cover the extent to which social, environmental and governance considerations are taken into account in the selection, retention and realisation of investments. Our advisers are expected to integrate ESG considerations into their strategy advice and to highlight any key risks that are included within any potential investment strategy.

- **Valuations and covenant reviews:** We also consider ESG risks as part of the triennial Actuarial Valuation process ensuring that this analysis considers the funding, covenant and investment risks in a joined up way. The Scheme Actuary will incorporate the consideration of ESG risks in the actuarial assumptions advice and any projections which are considered to evaluate the possible long-term funding outcomes for the Scheme. When assessing the employer's covenant we take into account the ESG risks to the employer.

- **Considering asset classes:** When assessing new asset classes, potential ESG risks are assessed and discussed as part of the training provided to the Trustees. Key ESG risks are taken into account when comparing alternative options.

- **Selection of investment managers:** When appointing a new investment manager, our advisers provide information and their view on each manager's ESG policy and capabilities. Each manager is also asked to provide information regarding their own ESG risk management processes as part of the selection process. This information allows us to identify potential risks when comparing potential providers. The Scheme's policy also requires Investment Managers to engage on ESG issues, rather than divest.

- **Individual mandates and investments monitoring:** We also undertake risk analysis at the individual asset level via the monitoring of their chosen climate metrics. In this instance, the Scheme's investment managers are also responsible for the identification and assessment of ESG, including climate related risks and opportunities and will be expected to identify and disclose these risks to us in the following ways:
    - As part of their regular reporting as investment strategy is subject to continuous review by the Scheme and quarterly by the ISC and Trustees;
    - During their presentations when meeting with the Trustees and relevant sub-committees;
    - By providing climate metric data in line with the TCFD requirements; and
    - By providing any relevant scenario analysis.

We have met with a number of the Scheme's current investment managers to gain a more in-depth understanding of each manager's process and the risks inherent in each of the current mandates. This has been prioritised based on Trustees' assessment of climate risk and opportunity data provided to them.

We note that evaluation of ESG related risks and opportunities is based on relevant information and tools being available, as well as the quantification of ESG and climate-related risks and opportunities being a developing area based on continuously emerging information. We actively engage with all managers to promote improvement in this area.

Prioritising risks and agreeing actions
Once risks are identified, they are then evaluated and prioritised based on the overall threat posed to the Scheme. This helps us build up a picture of the Scheme's risks more widely and where climate-related risks sit in the overall risk management framework.

We prioritise risks based on discussions which include considering the size, scope and materiality of the risk event, then making a decision on the appropriate action (mitigation, control or acceptance) based on available courses of action. Understanding and prioritising the risks may be informed by scenario analysis and calculated metrics where relevant. This helps us build up a picture of the Scheme's risks more widely and where ESG risks sit in the overall risk management framework.

Risks and opportunities should be considered in absolute terms and in relation to the risk appetite of the Scheme. Risk appetite can be defined in terms of a willingness to take risk or the acceptability of risk.

Once the risks facing the Scheme have been considered and prioritised, mitigation strategies will be established and monitored to ensure that they remain effective. We will delegate the management of certain risks to other parties, as set out in the Governance section. Risks that are deemed to be of high priority after allowing for mitigating controls are deemed to take priority for future action.

An action in the context of risk management will aim to either introduce an additional control to mitigate the likelihood of a risk occurring or reduce the impact of a risk should it occur. This discussion will also consider whether additional training is required for the Trustees. A number of these actions as they pertain to climate-related risks to the Scheme are set out within the climate dashboard under the strategy section.

Expectations of investment managers
Our expectations of the investment managers with regard to the integration of ESG risks are set out in the Scheme's Statement of Investment Principles (SIP) and Responsible Investment Policy. These documents are available to be shared with the Scheme's investment managers if needed who are asked to report regularly on how their strategy is aligned with our intentions and to discuss with us any investments which do not comply with these policies. We monitor the ESG activities of all managers through regular reporting and meetings, as set out above.

In summary, we expect all of the investment managers to: be aware of the investment risks and opportunities associated with climate change; incorporate climate considerations into the investment decision making practices and processes; monitor and review companies and assets in relation to their approach to climate change; and provide relevant information on climate-related risks and opportunities within reporting, including via the provision of climate-related metrics, as discussed in the 'Metrics and Targets' section of this report.

We engage with current investment managers where risks have been identified. This includes discussion of the approach to stewardship, which is also a key aspect of the management of climate-related risk.

We receive, on an annual basis, information from our investment consultant on engagement and voting activities of the Scheme's investment managers and use these to monitor performance in line with the agreed beliefs and resulting expectations for investment managers as well as any requirements within mandates in place. This information is also used in producing the annual implementation statement for the Scheme. Where investment managers are not performing in line with expectations, we engage further with the manager to understand why and work to improve the performance. If this does not occur, we would then undertake a formal review of the manager.

Expectations of PIC

Going forwards, we will rely on the engagement undertaken by PIC. As a result, understanding and reviewing PIC's approach to climate change, stewardship and engagement will form part of our ongoing monitoring, as well as having formed part of the decision to enter a buy-in policy with PIC.

At this point in time, we are satisfied that the work PIC are undertaking regarding climate change and wider ESG considerations is aligned with the approach we were previously taking, the approach we would have continued to undertake had we not entered into the buy-in agreement, and the approach of the Sponsor more widely. We will continue to monitor PIC to ensure this remains the case.

Further details of PIC's own approach to climate change can be found in their own TCFD report (2023 report here).

Metrics and Targets

Metrics and targets disclosures: Disclose the metrics used to assess climate-related risks and opportunities in line with its strategy and risk management processes; disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks; and describe the targets used to manage climate-related risks and opportunities and performance against targets.

Carbon equivalent risk metrics will expect to form an important part of the Scheme's investment decision-making process to measure, manage and disclose climate risk.

The climate metrics that we have chosen, as is the case with climate metrics more broadly, are still evolving. Due to the immaturity of reporting, the data underpinning metrics, along with the methodology used to calculate some metrics, is still in its infancy. Therefore, we acknowledge that while these metrics are helpful in terms of understanding the Scheme's current position, they require careful interpretation. A proportion of the Scheme's holdings were unable to be measured across the different metrics, in part due to the nature of some investments and the difficulties in measuring climate metrics across these types of investments.

Table 2 – the Scheme's chosen TCFD Metrics

Metric type	Metric	Measurement
Absolute emissions metric	Total Greenhouse Gas (GHG) emissions	The volume of scope 1, scope 2, and (where available) scope 3 emissions from the Scheme's assets – Measured in tons of CO_2e.
Emissions intensity metric	Carbon footprint	The volume of scope 1, scope 2, and (where available) scope 3 emissions per unit of capital invested from the Scheme's assets measured in tons CO_2e per £m invested.
Additional climate change metric	Data quality – A measure of the level of actual and estimated data available from the Scheme's managers.	Measured per mandate: % of portfolio at year end for which climate related metrics of acceptable quality have been obtained.
Portfolio alignment metric	Binary target measurement	Measured as the % of portfolio at year end with specific net zero targets.

Understanding greenhouse gas (GHG) emissions

Many climate related metrics are based on the level of Greenhouse Gas (GHG) emissions that are related to a particular asset or investment. Greenhouse Gas emissions are categorised into 3 scopes:

- **Scope 1** - All direct GHG emissions from sources owned or controlled by the company.
- **Scope 2** - Indirect GHG emissions that occur from the generation of purchased energy consumed by the company.
- **Scope 3** - Indirect emissions that arise as a consequence of the activities of the company e.g. supply chains and the use and disposal of their products. These are sometimes the greatest share of a carbon footprint, covering emissions associated with business travel, procurement, production of inputs, use of outputs, waste and water.

The Trustees acknowledge that there are limitations in data available from investee companies on emissions of greenhouse gases, particularly for scope 3 emissions as noted above. Where these limitations in data exist, the data may be estimated or not yet reported. The Trustees will seek to obtain information, where it is currently missing, for future assessments. In the meantime, the results of the above metrics have been understood to be reflective of the portfolio, but the limitations of data availability is noted when using the metrics for decision-making purposes.

This section sets out the metrics measured for the Scheme based on data provided by our investment managers.

DB Section

The table below sets out a summary of the greenhouse gas emissions data provided by our investment managers (at the measurement date) and the measurement of each metric using this data. The Scope 3 emissions, where available, have been set out separately in the table below. It's noted that the data and methodology for Scope 3 emissions is a lot less well defined currently than Scope 1 and 2 emissions; therefore, this has been kept separate. Most of the Scheme's managers did not report on scope 3 emissions at this time for the mandates held by the Scheme. As the Scheme's assets were almost completely run down prior to the buy-in transaction, we did not receive the same data for 2023 and the resource it would have taken to collect the data given the size of assets at the time would have been disproportionate. Therefore, our focus has been on the DC section.

Mandate	Measurement date	Total carbon emissions (tCO2)		Carbon footprint (tCO2/$m EVIC)		WACI (tCO2/$m sales)		Data coverage (%)	Green revenues (%)	Low carbon transition score	Portfolio with ties to fossil fuels (%)
		Scope 1+2	Scope 3	Scope 1+2	Scope 3	Scope 1+2	Scope 3				
LGIM Long Duration B&M	30 September 2022	14,115	-	53	-	120	-	53	4.7	2.4	0.3
M&G Alpha Opportunities	30 September 2022	6,477	-	70	-	120	-	59	24.5	6.2	1.9
Western Credit	30 September 2022	[1]	-	-	-	175[2]	-	92.3	-[3]	-[3]	6.4
Insight B&M	30 September 2022	47,835	241,741	21	104	103	315	69	-[3]	-[3]	-[3]
Partners Group MAC III (2016)	31 December 2022	121	-	8	-	1	-	25	-[3]	-[3]	0.0
Partners Group MAC IV (2017)	31 December 2022	1,894	-	67	-	5	-	33	-[3]	-[3]	0.0
Partners Group MAC V (2019)	31 December 2022	1,644	-	40	-	3	-	30	-[3]	-[3]	0.0

[1]Do not calculate the data but do have additional information to share (for % of issuers within fund or otherwise).

[2]Due to manager utilising different calculation methodologies across Credit and Sovereign holdings for this metric, the figure presented here represents the WACI for Credit holdings. As at 30 September 2022, Credit accounts for 90.0% of the Western mandate.

[3]Managers do not calculate these metrics but do have additional information on other metrics to share (for % of issuers within fund or otherwise).

Prior to the buy-in transaction, we were confident that the mandates held by the Scheme were moving in the intended direction. Over the time period in which we have been reporting in line with TCFD (i.e. up to the measurement date) we saw a reduction in Carbon Emissions across all mandates who reported against this metric. We have seen similar for Carbon Footprint, with the exception of Insight, whose Carbon Footprint rose but remains well below that of LGIM's. With regards to WACI, we have seen a reduction across the board, again with the exception of Insight, where this metric rose slightly. Over time, we expect the data coverage of assets to improve, particularly across assets that currently find it difficult to measure emissions.

As at the measurement date, a proportion of the Scheme's holdings were unable to be measured across the different metrics. This was in part due to the nature of some investments and the difficulties in measuring climate metrics across these types of investments. Whilst there was some improvement from the Scheme's mandates in reporting capabilities from March 2022 to September 2022, there still remains gaps where the managers will be expected to improve on reporting moving forward. While some mandates have relatively high data coverage, for example Western, others clearly needed to improve. However, since measuring the above metrics, we have divested from all but the Partners Group mandates in order to proceed with the buy-in transaction. As a result, we have restated the above position, as in the interest of proportionality our focus instead moves to engaging with PIC as a priority.

DC Section

The Trustees have gathered the metrics for the underlying funds within the DC Section's two default strategies. One is a drawdown focused lifestyle strategy for auto enrolment purposes and the other is cash focused (lump sum) lifestyle strategy. The table below sets out a summary of the greenhouse gas emissions data provided by our investment managers and the measurement of each metric using this data.

Mandate	Measurement date	Total carbon emissions (tCO_2) – Scope 1+2	Carbon footprint (tCO_2/£m invested) – Scope 1+2	WACI (tCO_2/£m revenue) – scope 1+2	Data coverage (%)	Green revenues (%)	Low carbon transition score	Portfolio with ties to fossil fuels (%)
Global Equity Fund	30 September 2024	258,918	49.6	105.9	97.8	4.0	-	6.8
Diversified Growth Fund	30 September 2024	1,284,767	103.1	235.2	81.4	3.5	-	12.8
Pre-Retirement Fund	30 September 2024	108,158	64.8	114.8	80.9	3.3	-	10.1
Cash Fund*	30 September 2024	n/a	n/a	n/a	n/a	n/a	-	n/a

Notes: Information has been sourced from LGIM fund factsheets and directly from LGIM and Fidelity; the total carbon emissions metric and intensity metric also include any sovereign exposures within these funds (i.e., agency, municipals, government bonds, treasury bills); the intensity metrics disclosed are per £ million invested; data coverage relates to carbon footprint (corporates and sovereigns); LGIM and Fidelity are unable to provide the low carbon transition scores which we understand are an MSCI metric.
In comparison to 30 Sep 2023, the WACI of all considered funds has improved as of 30 Sep 2024. In a similar fashion, the carbon footprint and total carbon emissions have improved for the Global Equity Fund and Diversified Growth Fund, although these measures have worsened slightly for the Pre-Retirement Fund. Furthermore, data coverage has improved for the Global Equity Fund and Pre-Retirement Fund, whilst slightly worsened for the Diversified Growth Fund. *Metrics in relation to the cash fund typically are not available due to nature of holdings within these funds.

Data Quality Target

Given the low levels of data available from some of our investment managers and our focus on engagement with managers to improve this data, we previously set a data quality target for each of the Scheme's mandates. For all mandates, we targeted an improvement on the current score as time progresses. The Trustees agreed to use the scoring system outlined below for monitoring and assessing the managers' progress and setting data quality targets. Please note that all percentages refer to portfolio coverage, i.e., for what % of the portfolio the given type of data is available.

Score	Actual data requirements	Actual data and estimates requirements	Estimates only requirements
5 - Excellent	At least 90% of actual data available	At least 75% of actual data available + overall portfolio coverage of at least 95%	
4 – Good	At least 75% of actual data available OR >95% overall coverage including at least 65% actual data	At least 60% of actual data available + overall portfolio coverage of 75% - 94%	
3 – Adequate	At least 65% actual data available OR >70% overall coverage including at least 45% actual data	At least 60% of actual data available + overall portfolio coverage of 60% - 74%	More than 90% estimated data available
2 – Poor	At least 45% of actual data available OR >60% overall coverage using estimates	At least 45% of actual data available + overall portfolio coverage of 45% - 59%	65% - 89% of estimated data available
1 – Unacceptable	Less than 45% of actual data available OR <60% overall coverage using estimates	Less than 45% portfolio coverage across actual data and estimates	Less than 65% of estimated data available

The targets set by the Trustees for the mandates in line with the above scoring system are below:

Mandate	Total data available (reported and estimated)	Current data availability score	Short term target (1-2 years)	Medium term target (5 years)	Long term target (10 years)
LGIM Long Duration B&M	53%	2 – Poor	4 – Good	5 – Excellent	5 – Excellent
M&G Alpha Opportunities	59%	2 – Poor	4 – Good	5 – Excellent	5 – Excellent
Western Credit	92%	5 – Excellent	4 – Good	5 – Excellent	5 – Excellent
Insight B&M	69%	2 – Poor	4 – Good	5 – Excellent	5 – Excellent
Partners Group MAC III (2016)	25%	1 - Unacceptable	3 - Adequate	4 - Good	5 – Excellent
Partners Group MAC IV (2017)	33%	1 – Unacceptable	3 – Adequate	4 – Good	5 – Excellent
Partners Group MAC V (2019)	30%	1 – Unacceptable	3 – Adequate	4 - Good	5 – Excellent

Target and performance commentary

The above targets were agreed based on the baseline calculated in our initial carbon footprint analysis. As of last year, only one manager was meeting the target set out for them. Following the buy-in transaction, we will no longer be able to monitor the metrics for these mandates, as they have either been sold or are being run off. As a result, our focus turns to engagement – particularly with PIC – and ensuring that they undertake appropriate action, including a focus on data availability and emissions reduction, on our behalf.