The Northern Foods Pension Scheme for the Scheme Year ending 31 March 2023

Trustee's Report in respect of the Occupation Pension Schemes (Climate Change Governance and Reporting) Regulations 2021

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Section 1: Introduction

The Trustee of the Northern Foods Pension Scheme (hereinafter referred to as the “Trustee” and the “Scheme”, respectively) presents its annual report under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the “Regulations”) for the year ended 31 March 2023. The principal employer of the Scheme is 2 Sisters Food Group (the “Company”).

The Scheme is now subject to the requirement to produce disclosures in line with the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD), as transposed into UK law in 2021. The aim is to improve and increase reporting of climate-related financial risks and opportunities.

The TCFD framework requires disclosures in four broad categories:

- **Governance:** around climate-related risks and opportunities
- **Strategy:** the actual and potential impact of climate-related risks and opportunities on the strategy and financial plans of the Scheme
- **Risk management:** how the Scheme identifies, assesses, and manages climate-related risks
- **Metrics and targets:** the metrics and targets used to assess and manage climate-related risks and opportunities

This report sets out the Trustee’s approach to compliance in each of these four areas.

Section 2: Governance

The Trustee has identified climate change, alongside other Environmental, Social and Governance (ESG) factors, as an important risk and opportunity which requires oversight and management over the long-term.

The Trustee has received investment training provided by the Fiduciary Manager ("WTW") on climate risk and the requirements of the Taskforce for Climate Related Disclosures (TCFD) requirements. Given the pace of progress around sustainable investment, trustee training on climate and ESG has increased over recent years and is expected to remain a priority going forwards.

The Trustee's key overarching investment policies (including those in relation to climate) are detailed in the Trustee's Statement of Investment Principles (SIP) which can be found online at the following link: https://nfpensions.com/documents/nfps/nf_sip_november_2022.pdf

Whilst the Trustee may delegate certain aspects of its investment arrangements, the Trustee retains ultimate responsibility for setting the Scheme's strategy, policies, and actions in this area and the Trustee ensures that such third parties are closely monitored and held accountable for the work they do on behalf of the Scheme. The main parties to which the Trustee delegates some form of responsibility for implementing its policies in relation to climate change and SI more widely are:

- **Sub-committees -** To ensure the effective management of the Scheme, the Trustee has established a number of sub-committees including an Investment Committee ("IC"). The IC is responsible for carrying out tasks as appropriate under the four pillars of the TCFD requirements. This includes (but is not limited to) setting the overall approach for climate risk management, working with the Scheme's advisors to agree reported metrics and targets, and monitoring the underlying managers' policies in relation to Sustainable Investment (including climate). The IC has received additional training in this area to ensure it is suitably qualified to discuss and take decisions about sustainable investment. The IC meets as needed throughout the year and all recommendations are ratified by the Trustee following these meetings.

- **Fiduciary Manager (FM) –** The Trustee has appointed WTW as its FM, responsible for ensuring climate change is considered as part of ongoing portfolio construction, the selection of the underlying investment managers and the conduct of its stewardship activities. WTW's approach to climate change and SI was a key determinant factor in their selection and a focus point of the Trustee's ongoing monitoring. WTW holds membership of important industry bodies such as the Net-Zero Asset Managers Initiative as well as being a signatory to the UK Stewardship Code. The consideration of sustainable investment is fully embedded in their investment processes. WTW works closely with the Trustee and provides regular assessment of its views on the underlying managers capabilities and performance in relation to ESG and stewardship, and a quantitative assessment of the Fund's portfolio across a number of ESG criteria, including climate.

  The Trustee has integrated into the FM guidelines consideration of Sustainability into the FM ongoing portfolio management process for the Scheme, which includes reference to assisting the Trustee in assessing, managing and measuring climate risks and opportunities.

- **Investment Managers –** Responsible for managing climate change risks and opportunities within their mandates, consistent with their investment guidelines. This includes the selection of assets as well as the managers' ongoing stewardship activities. The FM assesses the investment managers approach to ESG integration and stewardship activities before investing on the Trustee's behalf, and on a periodic basis as part of its ongoing manager research activities.

- **Other advisors –** The Trustee will also take advice, if appropriate from the Scheme Actuary, Legal Advisor and Covenant Advisor regarding the extent to which climate change may affect the funding strategy of the Scheme and the ability of the sponsor to support the Scheme. Alongside this, to further satisfy itself.

The Trustee also receives updates from the Sponsor on evolutions to their strategy to manage climate change risks and opportunities.

The Trustee board meets at least four times a year and climate change has been an increasing subject in the course of those meetings. The Trustee recognises that climate change is a fast-evolving and complex area which therefore requires ongoing discussion and education. Over the last 12 months, the Trustee has received training from the FM on the Department for Work and Pensions (DWP) climate regulations, climate metrics and climate scenario analysis. All Trustee Board members are required to partake in these sessions as recognition of the responsibility of the whole group in evolving the Scheme's approach in this area.

The Trustee has a strong belief that stewardship (voting and engaging with the underlying companies the Scheme invests in) is an important way in which the Trustee can meaningfully influence outcomes. The Trustee has identified climate change as one of its current stewardship priorities. The Trustee delegates part of the implementation of this policy to the FM and underlying investment managers but retains overall responsibility and accountability for the policy. The Trustee considers the implementation of this policy on an annual basis.

Case Study – EOS at Federated Hermes

As outlined in our SIP, the Trustee recognises that the long-term financial success of our investments is influenced by a range of factors which includes appropriate management of environmental, social and corporate governance issues (including climate). As such, we typically invest with investment managers with the expectation of a long-term relationship, and we expect investment managers to take a similar approach with the companies that they invest in. The FM engages with our investment managers where appropriate on their approach to stewardship and engagement.

The FM also employs EOS at Federated Hermes, a stewardship service provider, to support the efforts of the appointed investment managers in their company-level engagement on a wide range of topics. EOS also carries out public policy engagement and advocacy on behalf of the Trustee. As at 31 December 2022, EOS represented $1.34trn of assets under advice. The FM has been working closely with EOS for many years, and a senior member of the WTW Investment Team chairs EOS' Client Advisory Board. The FM engages with EOS on behalf of the Trustee to help shape its engagement approach and voting policies. Over 2022, this included:

- Engagements with 1,138 companies on a total of 4,250 issues and objectives.
- 33 responses to consultations or proactive equivalents and 75 discussions with relevant regulators and stakeholders.
- Voting recommendations on 134,188 resolutions, including 24,461 votes against management.
- Active participation in a range of global stewardship initiatives.

Another example is Climate Action 100+ (CA100+), an investor initiative aiming to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. It targets 167 companies globally. EOS is among over 615 investors, totalling $65tn under management, who have signed up to CA100+. EOS led or co-led the engagement on over 25 focus companies and is collaborating with other investors on over 30 companies as part of this initiative.

EOS has undertaken climate engagements with major oil and gas companies through CA100+. As part of this strong momentum, CA100+ issued its net-zero benchmark for the world's largest carbon emitters in March 2021. EOS helped to design the benchmark, which set clear engagement priorities.

Section 3: Strategy

Appropriately managing the risks and opportunities associated with climate change from a strategic perspective, is a key part of the Trustee's role. The Trustee recognises that climate change could have a material impact on the potential success of the overarching funding strategy and therefore seeks to ensure that this matter is given appropriate consideration. To support this, the Trustee undertakes climate change scenario analysis to test the resilience of the Scheme's funding strategy under a range of plausible climate scenarios. Importantly, the Trustee recognises that climate change could have a material impact on the investments of the Scheme, the life expectancy of the Scheme's members and the support provided by the Sponsor's covenant. All three aspects are therefore considered as part of this analysis. This scenario analysis was undertaken for the first time this year. The Trustee's intention is to repeat this analysis at least every three years or sooner should there be a material change in either the Scheme's circumstances or the assumptions underlying the analysis.

To appropriately assess the impact of the climate change scenario analysis, the Trustee has agreed the following time horizons over which climate risks and opportunities should be considered:

- **Short Term** – to 2026: this is the defined as the next Actuarial Valuation cycle at which the funding strategy will be revisited in detail, i.e. the year after the actual Valuation date.

- **Medium Term** – to 2030: this is the timeframe over which significant climate action is expected, climate transition risks are expected to emerge and is aligned with the first waypoint on the Trustee's agreed net-zero objective pathway.

- **Long Term** – to 2040: this is the timeframe consistent with the duration of the Scheme's liabilities and the point at which a significant proportion of member benefits will have been wound up or the Scheme bought in.

The Trustee has identified the following categories of climate-related risks and opportunities:

Regulatory risk	Reputational risk	Transition risk	Physical risk
• Regulators are increasing pressure on pension schemes to explicitly consider climate change • **Example:** • Implementation Statement • DWP Pensions bill • Mandatory TCFD reporting	• The increasing spotlight on pension schemes and climate change increases the risk of being "named and shamed" • **Example:** • 2018 EAC report on 25 biggest UK schemes	• The indirect impact arising as a result of changes in society and economies to combat or adapt to climate change • **Example:** • **Assets:** Some industries become obsolete (e.g. coal), reinvent themselves or others emerge (electric vehicles) • **Liabilities:** Improvements in mortality from healthier lifestyles	• The direct impact arising as a result of chronic and/or acute changes in climate and extreme weather events • **Example:** • **Assets:** Damage to physical assets underpinning securities (e.g. real estate and infrastructure) • **Liabilities:** Excess deaths arising from extreme weather

The Trustee has assessed how the categories identified are relevant to the agreed short-, medium- and long-term time horizons.

	Short Term	Medium Term	Long Term
Timeframe	To next Triennial Actuarial Valuation (2026)	Over which significant climate action is expected (2030)	Consistent with the expected time to winding up the Scheme (2040)
Primary types of risk	• Regulatory • Reputational • Transition	• Reputational • Transition	• Transition • Physical
Key risk exposure	The Trustee is exposed to regulatory risks, including fines, if it does not comply with evolving regulatory requirements. The Trustee (and sponsor) are exposed to reputational risks if the Trustee's policies are misaligned with peers and/or sponsor. The Trustee is predominately exposed to transition risks through the return seeking assets.	The Trustee (and sponsor) are exposed to reputational risks if the Trustee's policies are misaligned with peers and/or sponsors. The Trustee is exposed to transition risks through the return seeking assets. Given the long-term nature of these risks, there is a high level of uncertainty in terms of the likely effect and the potential magnitude of their impact.	The Scheme may be exposed to transition risks through its holdings in various asset classes (including equity, credit, property and infrastructure). The Scheme may be exposed to physical risk through its holdings in various assets, in particular real assets including property and infrastructure. In an extreme left-tail event, exposure to, and poor management of these risks may weaken the strength of the Scheme and ability to meet pensioner benefits. Given the long-term nature of these risks, there is a high level of uncertainty in terms of the likely effect and the potential magnitude of their impact.
Potential opportunities	Encouraging existing funds to consider and where possible reduce exposure to transition risks by engaging with companies to develop a strong transition plan.	Consider, and where possible, reduce exposure to assets with significant transition and physical risks.	Aligning the Scheme's investments with the ESG policies of leading insurers may increase the likelihood of credit assets being taken in specie, marginally reducing the cost of buyout.

Working with its FM, the Trustee seeks to mitigate the risks and take advantage of opportunities which may occur so as to improve the likelihood of the Scheme meeting its short- and medium-term funding and investment goals.

These time horizons, risks and opportunities are key inputs into the Trustee's climate scenario analysis. The Trustee, in conjunction with the FM and Scheme Actuary, has conducted this scenario stress testing and presented the results within this section. The key climate scenarios that the Trustee has considered are:

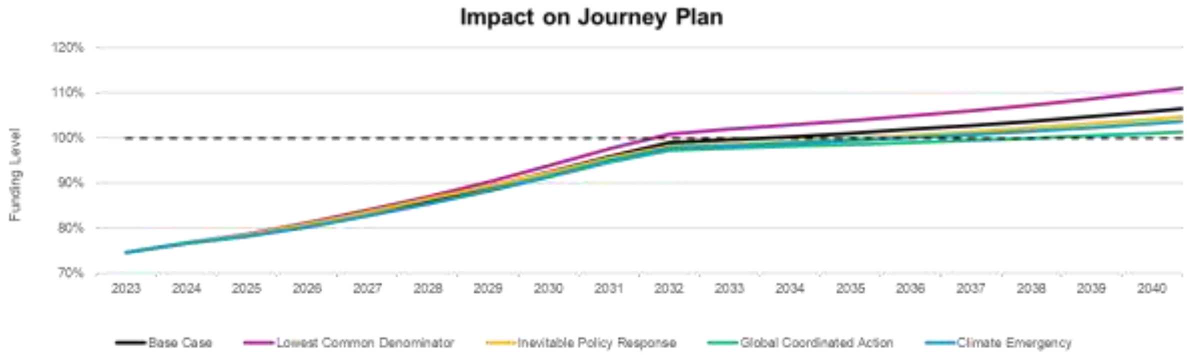
	Lowest Common Denominator	Inevitable Policy Response	Global Coordinated Action	Climate Emergency
Description	A 'business as usual' scenario where current policies continue with no further attempt to incentivise further emission reductions.	A delay in meaningful action but a rapid shift in policy in the mid/late 2020s. Policies are implemented but not in a very co-ordinated manner.	Policy makers agree on and immediately implement policies to reduce emissions in a globally co-ordinated manner.	An immediate, ambitious and coordinated response in which aggressive policy is pursued and more extensive technology shifts are achieved.
Temperature rise vs pre-industrial levels	3.5ºC	2.0ºC	2.0ºC	1.5ºC
% of Renewable energy by 2050	30-40%	80-85%	65-70%	80-85%
Transition risk level (shorter term)	Low	High	Low – Medium	Medium – High
Physical risk level (Medium-longer term)	High	Low – Medium	Low - Medium	Low

The scenarios were created to reflect the differing paths that could be taken to meet, or fail to meet, the temperature rise target agreed as part of the Paris Agreement. The Paris target is to limit global temperature rises to well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. The scenarios differ in the size of the physical risks, based on the resulting temperature impacts, but also in the size of the transition risks. In the view of the Trustee, the four scenarios selected reflect an appropriate range of plausible decarbonisation pathways and are relevant in the context of the Scheme's journey and funding plans. The Trustee recognises that there is the potential for more extreme outcomes than reflected in the chosen scenarios.

Below the Trustee has illustrated the impact of the climate change scenarios on the Scheme's funding level. The key results from the climate scenario analysis are outlined below. The Trustee has considered these over a timeframe that is consistent with the Scheme's longer term time horizon (c.20 years). The Trustee recognises that assuming such climate scenarios are priced in gradually, year by year, is an unrealistic expectation and in practice this is likely to be far less linear. The Trustee has therefore also included a one-off shock which seeks to illustrate the impact if climate change was to be reflected instantaneously. This assumes that markets immediately price in the transition and physical risks over the next 20 years and that the market initially overreacts to this news in struggling to price in the actual impact. Whilst this is potentially unrealistic, the Trustee thinks this helpfully stress tests the assumptions made in the analysis and helps consider how robust the funding strategy might be. The Trustee also recognises the uncertainty in the underlying assumptions and that, in reality, the shocks experienced could be larger.

In some climate scenarios, our modelling process implies reduced life expectancies (relative to other scenarios and/or Scheme's central mortality assumptions) and therefore a relative reduction in the Scheme's liabilities. This is a plausible potential outcome arising from the negative impacts of increasing climate change. This can suggest a relative improvement in the expected funding position for the Scheme even when combined with associated reductions in the value of the Scheme's assets (given their low-risk nature). However, it is important to recognise that an assessment of what is in the best interests of the Scheme and its members is a much broader question than the impact on funding level alone. Key considerations may be a reduction in the quality (and length) of members' lives, and the quality of the environment that they will retire into. Consequently, the results of any such modelling should not be assumed to reflect any complacency or acceptance (either implicit or explicit) that the Trustee considers global inaction or business-as-usual with respect to climate change to be in the best interests of the Scheme or its members. The Trustee believes that climate change is a systematic risk of unprecedented scale and severity. Actions to address it are a collective priority, given the risks it presents to individual pension schemes, the ongoing resilience of the savings universe, and the planet as a whole.

Impact of Climate Drags on the Scheme's Funding Level



Scenario	Asset Return Drag pa. (years 1-5)	Asset Return Drag pa. (years 6-10)	Asset Return Drag pa. (years 11-20)	Liability Return Drag pa. (years 1-20)	Expected year of full funding
Base case	-	-	-	-	2033
Lowest Common Denominator	-	-	-0.14%	-0.18%	2031
Inevitable Policy Response	-	-0.44% to -0.35%	-0.08%	-0.08%	2035
Global Coordinated Action	-0.05% to -0.02%	-0.01% to 0.01%	-0.08%	0.12%	2038
Climate Emergency	-0.20% to -0.15%	-0.14% to -0.10%	-0.07%	-0.03%	2036

Impact of Climate Shocks on the Scheme's Funding Level

Scenario	Asset Shock (£m)	Liability Shock (£m)	Change in surplus/ (deficit) (£m)	Immediate Change in funding level
Lowest Common Denominator	-50.2	-38.4	-11.8	-2.0%
Inevitable Policy Response	-51.6	-16.5	-35.1	-3.6%
Global Coordinated Action	-18.0	27.5	-45.4	-3.4%
Climate Emergency	-28.3	-5.5	-22.8	-2.2%

The Trustee is also in regular dialog with the Sponsor to understand how the Sponsor could be impacted by climate change, better understand the risk and opportunities the Sponsor faces, and its plans to gear the business towards a more sustainable future. As part of the active dialog, the Trustee met with the Group Sustainability Director in September 2023.

The Trustee's assessment is that the investment and funding strategy of the Scheme is robust against climate risk, and that the Scheme is expected to be relatively protected against the impact of climate change both as a gradual impact and a sudden shock. This was driven by four key factors:

- **The Scheme's journey plan** – Under all scenarios, the Scheme is expected to reach full funding within its long-term time horizon.

- **The Scheme's low-risk asset portfolio** – The Scheme holds a well-diversified pool of assets, targeting an expected return on assets of gilts + 1.4% pa, which will reduce over the next eight and a half years to gilts+1.0%.

- **The allocation to climate positive investments** – The Scheme has a sizeable allocation to investments which are expected to benefit from the transition to a low-carbon economy. These include investments in carbon capture and opportunistic renewable energy investments.

Although the analysis provided the Trustee with some reassurance on the robust nature of the Scheme's funding strategy, it did clearly highlight that climate change could have a material impact on the Scheme's outcomes. This reiterated to the Trustee that it warrants continued focus as part of the Trustee's broader SI strategy and should remain a priority area for portfolio monitoring, stewardship activities and manager engagement.

As mentioned earlier, the Trustee intends to update this analysis at least every three years and will be testing annually whether this needs to be done more frequently, including if there have been material changes to the scenarios used or the Scheme's funding strategy.

Section 4: Risk Management

Climate change is a key risk and opportunity and therefore receives particular attention as part of the Trustee's ongoing risk management processes. The Trustee thinks about how it integrates climate into this in three ways:

Governance

Climate change and the risks associated with it are included within the Trustee's risk management framework within the Statement of Investment Principles.

Top-down

The climate change scenario analysis shown in the previous section, provides the Trustee with a holistic overview of the potential impacts of climate change and how they may affect the Scheme's funding strategy (across assets and liabilities). This is an important risk management tool for a top-down risk and opportunity assessment.

Bottom up

As mentioned, the Trustee also conducts more granular analysis to manage the risks and opportunities associated with climate change. These include:

Security analysis – The Trustee calculates various climate change related metrics for the underlying securities within the portfolio. This includes metrics such as absolute carbon, carbon footprint and exposure to climate opportunities. These provide the Trustee with a more detailed understanding of the Scheme's exposures.

Manager analysis – The Trustee delegates to the FM the review of the underlying investment manager policies, processes, and actions in the area of SI, which includes a focus on climate change.

Case Study – FM approach to Risk Management

The Scheme's FM considers climate to be a financial risk and that the transition to net zero is a systematic and urgent global challenge which necessitates specific risk management and collective action. To achieve this, the FM has placed emphasis on the importance of:

- A combination of decarbonising existing investments and new investments in long-term climate solutions
- Using multiple 'levers' including changes to risk management and asset allocation, manager selection, and index design
- The critical importance of effective stewardship and policy level engagement

In line with this, the FM has developed the following Carbon Journey Plan framework which is consistent with the Trustee's overall goals. This is outlined below.

Climate 'levers'	Description	Relevance to the Scheme?
Free Rider	The carbon intensity of major equity indices has been falling in recent years (albeit this depends on the metric used for measurement). As global governments introduce further measures to encourage the reduction of carbon emissions, the carbon intensity of corporate exposure could fall through no specific action by pension schemes	Given the minimum compliance approach and the low-risk investment strategy, we would expect that the majority of the future emissions reduction of the Scheme's assets will come through the free-rider effect. Based on current trends, the carbon footprint of the Scheme's corporate exposure (equities and corporate bonds) could fall by 30%-40% over the next 10 years, reducing the portfolio emissions.
Mandate Changes	Making changes to the mandates given to investment managers can encourage or instruct a lower carbon portfolio to be held. Examples include exclusions (e.g. thermal coal), benchmark design (e.g. climate tilted indices), and limitations (e.g. through guideline limitations).	The Trustee invests in two TWIM funds, which have pledged to reduce carbon emissions in line with the Trustee's target.
Engagement	Increased engagement with portfolio companies (across the portfolio, including equity and corporate bonds) may increase the pace of decarbonisation. It will likely be difficult to disaggregate the impact of engagement from the free rider effect.	The Trustee delegates stewardship activities (including both voting and engagement) to its managers. The Scheme's FM has pledged to reduce emissions in line with the Trustee's target.
Impact Investing	Impact investments made by pension schemes into carbon neutral or negative assets can reduce or offset carbon emissions from elsewhere in the portfolio	The Trustee has recently invested in a Forestry Carbon Sequestration fund, a fund dedicated to re-forestation impact investment.
De-risking	A pension scheme's carbon risk (and, depending on calculation methodology, carbon exposure) is expected to fall as schemes de-risk out of equities (high carbon risk) and into bonds/LDI (lower carbon risk).	The Scheme is expected to gradually de-risk over the next 8 and a half years.

Section 5: Metrics and Targets

Introduction and overview

A key facet of the Trustee's ongoing monitoring and management of climate change is having good data on the Scheme's exposure in this area. Although there are limitations with some of the metrics presented and the completeness of data, the Trustee still has a strong belief that these can helpfully inform the ongoing monitoring and management of the Scheme. The Trustee considers metrics across the SI spectrum, but the focus within this statement is those in climate change. The metrics disclosed have been selected from the following categories:

- An absolute emissions metric
- An emissions intensity metric
- An alignment metric
- One additional climate change metric

It is also important to be clear which emissions are captured within the above metrics and therefore the Trustee have referred to the categories of emissions as follows:

- Scope 1 emissions: all direct emissions from the activities of an entity or the activities under its control
- Scope 2 emissions: indirect emissions from electricity purchased and used by an entity which are created during the production of energy which the entity uses
- Scope 3 emissions: all indirect emissions from the activities of the entity, other than scope 2 emissions, which occur from sources that the entity does not directly control.

Due to the nature of the emissions, scope 3 emissions are significantly more difficult to calculate than scope 1 or scope 2 emissions for any given entity. It is also the case that, for some assets, even scope 1 and scope 2 emissions are difficult to calculate. The Trustee has included Scope 1 and 2 emissions within the metrics displayed in this report but will look to include Scope 3 emissions as far as the Trustee is able as part of next year's report.

Overview of analysis

The following table details the rationale for choosing these metrics.

Metric	Definition	Rationale
Total Carbon Emissions ("tC02e")	An 'absolute emissions' metrics which gives a measure of carbon emissions attributable to the Scheme. This is calculated in line with the Greenhouse Gas (GHG) protocol methodology and currently includes only Scope 1 and 2 emissions. The underlying emissions data has been sourced from MSCI and the Scheme's LDI manager, Insight, and, in line with the protocol, includes all the major GHG gases with a conversion into	Determined by the regulator

	carbon emissions equivalent quantities. We have used each entity's enterprise value, including cash (EVIC) to attribute carbon emissions. For the LDI portfolio, the reported figures refer to the emissions attributed to the gilt exposure.	
Carbon Footprint (tCO2e / £ invested)	An 'emissions intensity' metric which gives a measure of how many equivalent tonnes of carbon emissions each million invested causes. This uses a comparable methodology as the total carbon emissions referenced above for underlying data and emissions attribution for companies. The carbon footprint attributable to the Scheme from its LDI portfolio is reported per £ exposed.	It provides a direct measure of absolute emissions, which ultimately impact global outcomes and provides a simple comparable measure across portfolios of different sizes
Percentage of assets with approved Science based targets ("SBTi")	A 'portfolio alignment' metric which is a forward-looking measure of the percentage of assets with targets validated by the Science-Based Targets Initiative.	It provides a consistent verification of a company's alignment to the Paris agreement.
Climate Solutions	Percentage of the portfolio that may be considered EU Taxonomy eligible based on the criteria set out in the taxonomy.	Provides a balance of the risks and opportunities presented by the transition to a low carbon global economy with the potential to enhance investment returns through investment in such assets.

Carbon Data for the Scheme's assets excluding LDI	31 December 2022
Total Carbon Emissions ("tCO2e")	33,733 tonnes
Carbon Footprint (tCO2e / £m invested)	73.2 tonnes
% of assets with approved Science based targets (SBTi)	29.0%
Exposure to climate related opportunities	17.6%

LDI Emissions Data attributable to the Scheme (source: Insight)

Carbon Data*	31 March 2023
Total Carbon Emissions ("tCO2e")	154,268 tonnes
Carbon Footprint (tCO2e / £m exposure)	175.3 tonnes

*Includes index linked Gilts and conventional Gilts. The data is shown for the gilts which the Scheme physically owns, gilts on repo and Total Return Swaps, hence the data is assessed on the liabilities hedged rather than market value of the Scheme's LDI portfolio.

Data quality

In calculating absolute emissions and carbon footprint, the Trustee was able to obtain data on c.63% of the portfolio, including liability driven investments (LDI). The remaining data has been proxied using funds with similar characteristics to the funds the Scheme invests in. All the underlying carbon emissions data has been sourced from MSCI. CO2e represents a single unit of measurement for total greenhouse gas emissions (often referred to as CO2 and equivalents) and includes the seven gases mandated under the Kyoto protocol.

On the Trustee's behalf, the FM is working actively with its investment managers to improve the quality of the data supplied for these purposes over time. The Trustee will monitor how these metrics evolve over time on an annual basis and understand the drivers for change.

Targets

The Trustee has also identified carbon footprint as the metric on which to set a target. This target is to reduce the Scheme's carbon footprint (scope 1 and 2 emissions) by 50% by 2030 and to achieve net-zero by 2050. This will be measured from a baseline of 2019, and the Trustee intends to report progress against this objective in next year's report. The Trustee is reassured that the FM has also made a commitment that is consistent with this objective and a key part of our responsibility will be monitoring the FM's progress against this objective over time. The Trustee intends that this goal will be achieved through engagement (with the Scheme's underlying managers and companies invested in), impact investing (in assets such as green energy), strategic changes (investing in assets with lower climate risk) and also as a result of the 'free-rider' effect. This recognises that although the Trustee has and will take positive actions, the Trustee won't be able to achieve this goal alone and will require the continued collaboration of the global community to combat climate change.

Case Study – FM approach

The FM has identified the challenges posed from managing portfolio performance alongside the carbon journey plan which led to a combination of setting top-down targets for long-term value creation alongside bottom-up evaluations of the portfolio's performance. In line with the Climate Financial Risk Forum's guidance, they are considering the impact of the Trustee's portfolios on climate change as well as the impact of climate change on the Scheme's portfolios, in the form of a climate dashboard.

Having made substantial progress for target setting and measurement approaches, going forward increased focus will be on assessing climate-related performance and ensuring ESG and climate-related information is readily available to support the investment-decision making process.

Below is an extract of the FM's climate dashboard:

Category	Use case	Current metric	Notes
Impact of climate change on the portfolio	Transition Risk	Climate Transition Value at Risk	
	Physical Risk	Proportion of portfolio exposed to significant physical risks	Quantifying physical risk is a major focus, led by our Climate Quantified program and our leadership of the Coalition for Climate Resilient Investment
Impact of the portfolio on climate change	Decarbonisation	Financed emissions – emissions / $ invested	We assess total emissions and carbon footprint, also looking to exclude the impact of market movements to focus on actual underlying decarbonisation
	Alignment	% assets Paris aligned	We draw on multiple lenses here, including Science Based Targets Initiative (SBTi), Transition Pathway Initiative, Climate Action 100+. We also utilise the guidance and methodologies outlined in the Net Zero Investment Framework.
	Mobilising transition finance	Exposure to climate solutions	Aligned to EU Taxonomy and IIGCC methodologies.
Cross-cutting	Engagement	Climate engagement activities, voting records, public policy advocacy and collaboration.	Engagement through multiple mechanisms – asset-level engagement, voting, public policy and advocacy and collaboration. See the Stewardship Section.

Going forward

The Trustee is continuing to monitor the evolving climate measurement landscape with the expectation that the robustness of the metrics will improve over time. The Trustee looks forward to sharing updates on our progress in monitoring and managing climate risks and opportunities over time.