Nationwide
Pension Fund

Nationwide Pension Fund

Climate Risk Report

Financial Year 2023 - 24

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A Note from the Chair of the Investment and Funding Committee (IFC)

The Trustee of the Nationwide Pension Fund (the Fund) believes that climate change poses one of the most significant global threats of this century. Unchecked, it has the potential to disrupt nature and human life in ways that cannot be fully predicted, with markets not fully pricing in the risks climate change poses to the global economy.

Climate change poses a diverse range of risks that could impact the Fund's assets and liabilities, but also presents new opportunities that may strengthen the Fund's position.

The physical effects of climate change, and increasing regulatory measures, may affect the Fund's assets in multiple ways. A company's revenue streams may be eroded, physical assets may suffer depreciation, and financial valuations may be driven down. Additionally, assets may lack the adaptability to generate alternative revenue streams aligned with a low-carbon economy. These will become stranded assets, losing their economic value.

The Fund is particularly focused on how these risks will materialise over the coming two decades, recognising this period as critical to the Fund reaching its required investment returns.

However, as the Fund did not make any new investments, available strategies to mitigate climate risks are constrained. Nonetheless, the Trustee's concerns regarding climate change persist.

The Fund is well-positioned to engage with its investment managers to drive positive change within its existing investment portfolio, and through this, seek to address climate-related risks. Its aim is to support the global transition towards a low-carbon economy by actively engaging with asset managers and aligning with like-minded investors on climate-related issues.

The Trustee is aware of the role it can play in driving positive change, through adapting its own practices and any future investment strategy. Therefore, the Trustee continues to review the effectiveness of Net Zero commitments in reducing global emissions and considers the merits of setting targets for the Fund.

The Fund also benefits from the support of a conscientious sponsor with a robust climate change strategy. Where feasible and appropriate, the Fund collaborates with its sponsor to address climate-related challenges.

In the 2024/25 financial year, the Trustee will focus on intensifying engagement with all asset managers. Through more frequent, structured, and robust dialogues, the Fund will aim to drive emission reductions. This engagement will also focus on the need for open and transparent reporting, and the potential economic benefits that will come to fruition within a more climate-resilient economy.

The Trustee will also continue assessing the merit in setting a Net Zero ambition, and how this will help deliver members' benefits in the long-term.

[signature on signed version]

Mark Hedges
Chair of the Investment and Funding Committee
Nationwide Pension Fund Trustee

Purpose of the report

The Trustee recognises the role of transparency and strategic foresight in managing climate-related risks within the Fund. The production of this Climate Risk Report (CRR) serves a range of purposes aimed at safeguarding the interests of the Fund's members, enhancing risk management practices, and aligning with regulatory requirements.

Identification of risks	One of the primary objectives of the CRR is to systematically identify and assess the climate-related risks inherent within the Fund's investment portfolio. By conducting a comprehensive analysis, the Trustee gains insights into the potential financial, regulatory, and reputational risks posed by climate change. This proactive approach enables the Trustee to anticipate and mitigate risks effectively, thereby safeguarding the long-term financial sustainability of the Fund.
Risk reduction and return	The insights gleaned from the CRR are instrumental in driving informed decision-making processes aimed at mitigating climate-related risks while optimising investment returns. By understanding the vulnerabilities and opportunities presented by climate change, the Trustee can devise strategies to actively manage risk exposure, capitalise on emerging opportunities, and enhance the resilience of the Fund's investment portfolio. This dual focus on risk reduction and return optimisation underscores the commitment to delivering sustainable long-term returns.
Informing strategic planning	The findings of the CRR serve as a crucial foundation for informing strategic planning initiatives and setting realistic targets, including any work towards a potential Net Zero target. By incorporating climate-related risks and opportunities into strategic deliberations, the Trustee can, where appropriate, align the Fund's investment objectives with the transition towards a low-carbon economy. This proactive stance not only mitigates risks associated with climate change but also positions the Fund to capitalise on the opportunities presented by the transition to a sustainable future.
Compliance with regulatory requirements	In addition to driving proactive risk management and strategic planning, the production of the CRR ensures compliance with regulatory requirements outlined in the Pension Schemes Act 2021. These regulations mandate pension scheme trustee directors to assess and report on the financial impact of climate-related risks, thereby fostering transparency, accountability, and responsible stewardship of pension assets. By adhering to these regulatory frameworks, the Trustee demonstrates its commitment to robust governance practices and responsible investment stewardship.

Governance

Governance within the Nationwide Pension Fund

The Fund comprises two distinct sections: the Nationwide Section and the Cheshire & Derbyshire (C&D) Section. The latter joined the Fund in 2010 following the merger of the Cheshire and Derbyshire Building Societies with the Nationwide Building Society. The Trustee Board of the Fund oversees all strategic matters, including making all scheme-wide decisions related to both sections, and delegates responsibilities to sub-committees as necessary to optimise the Fund's efficiency.

The Investment and Funding Committee (IFC) operates as a sub-committee of the Trustee Board and consists of 4 non-executive trustee directors. Its primary responsibilities include reviewing the investment performance of the Fund's assets, considering the investment implications of Environmental, Social, and Governance (ESG) matters, and addressing broader climate risks.

Supporting the IFC, the Chief Investment Officer's team (CIO Team) oversees the Fund's investments. The team's duties encompass day-to-day monitoring and reporting on investment matters, implementing certain frameworks, coordinating with third parties and asset managers, and overseeing general governance matters.

Aon Investments Limited serves as the Trustee's Investment Consultant (IC), offering strategic advice and practical support to both the Trustee and the CIO Team across all aspects of the Fund's activities. Additionally, Aon plc also acts as the Fund's Actuary, providing actuarial advice and incorporating climate change considerations into this advice where appropriate.

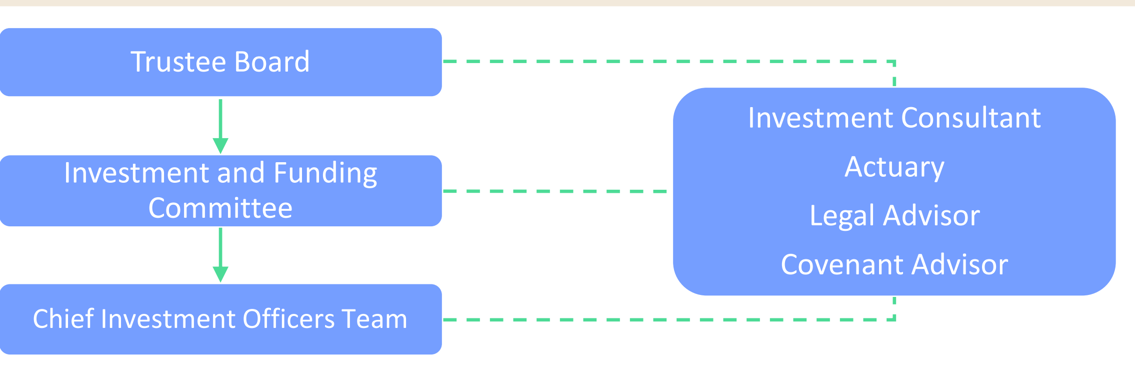
In addition to the Fund's IC and Actuary, the Trustee utilises the expertise of Sacker & Partners LLP as the Fund's legal advisor to further advise on the legal and regulatory requirements inherent within the Trustee's fiduciary duty. Teneo is the Fund's covenant advisor, providing independent assessment on the financial strength of the Sponsor.

Recognising the potential risks associated with climate change, the Trustee commits time and resources to understand and mitigate these risks. This involves staying informed about regulatory developments, assessing potential investment impacts, reviewing reports provided by the Fund's asset managers, and engaging in discussions with asset managers to enhance their approach to climate reporting and risk management.

Sets, and approves, frameworks.

Reviews CIO Team performance in implementing frameworks.

Day-to-day implementation of frameworks.



Strategic and practical support.

Oversight and management of climate related risks and opportunities

Each governance level within the Fund plays a crucial role in overseeing and managing climate-related risks, along with other ESG considerations. The Trustee Board and each individual sub-committee is actively involved in assessing, monitoring, and addressing these risks. Additionally, the CIO Team and the IC provide valuable expertise and support in navigating climate-related challenges and integrating ESG factors into strategic planning. By fostering collaboration and shared responsibility across all governance levels, the Fund strengthens its capacity to effectively manage climate risks and promote sustainable investment practices.

Trustee Board

The Trustee Board comprises 8 trustee directors, with 4 employer-nominated and 4 member-nominated representatives. Meeting at least quarterly, the Board addresses various aspects of Fund oversight, including wide-ranging discussions on ESG matters.

In discussions concerning climate change, the Trustee evaluates both risks and opportunities. Climate change risk is documented within the Fund's risk register, with quarterly discussions held on this topic. Moreover, when exploring opportunities for the Fund, climate change-related prospects are duly considered.

Trustee directors consistently challenge both Fund advisors and the CIO Team regarding potential decisions influenced by climate-related factors. Over the past 12 months, discussions have explored incorporating emissions targets, assessing the usefulness of scenario analysis in decision making, and exploring the potential integration of a Net Zero aligned credit framework.

The Fund's trustee directors remain committed to continuously enhancing their understanding of all Fund-related matters, particularly ESG issues like climate change. They actively participate in climate-related training sessions, with sessions scheduled on Net Zero and fiduciary duty for all Board members over the next 12 months. Additionally, trustee directors engage in conferences and seminars that incorporate ESG training.

A publicly available Responsible Investing (RI) Policy, accessible on the Fund’s website, outlines the Board’s comprehensive approach to managing ESG considerations and undergoes annual review and approval. This policy includes a Climate Risk Mission Statement (CRMS), highlighting:

- The significant challenges climate change poses to society and the market's failure to adequately price in these risks.
- The potential impact of climate change risks on the Fund’s investment performance.
- A commitment to prioritise low carbon investments aligned with transitioning to a low carbon economy.
- Delegation of day-to-day implementation to the CIO Team, supported by the IC.

Recognising the governance responsibilities tied to considering climate change within the Fund’s operations, the Trustee believes the allocated time and resources for such considerations are appropriate, given the potential risks inherent in climate change for the Fund.

Oversight and management of climate related risks and opportunities (continued)

IFC

The IFC operates as a sub-committee of the Board and comprises 3 employer-nominated trustee directors and 1 member-nominated trustee director. The Board has delegated responsibility to the IFC for reviewing investment performance and considering new investment proposals, with the IFC meeting at least quarterly. Performance and proposals should align with the principles outlined in the RI policy, making climate risk a pivotal consideration for the committee.

The IFC utilises a Climate Risk Management Framework (CRMF) to guide the Fund's approach and categorise climate-related risks. The CRMF is updated annually and receives approval from the IFC, more detail is included in the Risk Management section.

Before the IFC proceeds with approving new investments or modifying existing ones, it evaluates the climate-related impacts of such changes and their alignment with the RI policy, CRMF, and CRMS.

The IFC considers factors that are deemed a risk to the overall funding level of the Fund and to the strength of the Sponsor covenant. This consideration is done through review of the risk register and Covenant Dashboard. The risks within the IFC's mandate include the potential for climate change to adversely impact the funding level. Therefore, this risk will be discussed when updates to the risk are noted, and mitigations will be put in place as deemed necessary by the IFC. For example, during the September IFC the below commentary was added to the risk register to further the discussion on ESG topics including climate change:

"Enhanced monitoring and reporting of Environmental, Social, and Governance (ESG) factors will persist, fostering a deeper comprehension of the underlying assets within portfolios. The Task Force on Climate-related Financial Disclosures (TCFD) reporting is already underway, with expectations of more stringent targets in the future. The Task Force on Nature-related Financial Disclosures (TNFD) reporting could become mandatory for pension funds, and there may be additional requirements following the findings of the Task Force on Social Factors (TSF) and the Transition Planning Taskforce (TPT)."

Additionally, the IFC has scrutinised and debated the merits and risks associated with establishing a Net Zero target for the Fund. This ongoing assessment is underway, and a recommendation will be presented to the Trustee Board in due course.

Finally, the IFC has become aware of the shortcomings inherent within climate scenario analysis. This awareness has led to the IFC challenging the usefulness of scenario analysis in decision making. Following this, the CIO Team has been engaged in updating and enhancing the Fund's scenario analysis (refer to the Strategy section of this report for additional details).

Oversight and management of climate related risks and opportunities (continued)

CIO Team

The Fund did not make any new investments and emphasis has remained on ensuring efficient and effective Fund oversight, robust hedging strategies, and comprehensive risk management within the portfolio. The CIO Team actively integrates ESG considerations into these activities, including the assessment of risks and opportunities associated with climate change.

The CIO Team convenes regularly with the Fund's IC, typically monthly but often more frequently. During these sessions, climate-related risks may be deliberated, and strategies for risk mitigation are formulated.

Furthermore, the CIO Team maintains regular dialogue with fund managers to discuss climate-related risks and opportunities. In the 2023/24 scheme year, the team implemented a standardised approach to evaluating and providing feedback on managers' ESG reports, with particular attention to how managers are incorporating climate-related risks into their decision-making processes.

Day-to-day implementation of the CRMF is entrusted to the CIO Team, including:

- Explicit consideration of climate risk impacts when presenting investment proposals to the IFC.
- Engaging with current asset managers to understand their approach to climate risk management.
- Collaborating with asset managers to disclose climate-related metrics in alignment with recommendations from the TCFD.
- Coordinating with the IC to comprehend the strategic and practical implications of climate change and addressing the associated risks to the Fund.

Overview of the CIO Team

The day-to-day execution of the CRMF is delegated to the CIO Team. Drawing on advice from the IC, the CIO Team offers recommendations to the Trustee and executes decisions on its behalf. Additionally, the CIO Team oversees the Fund's relationships with asset managers, striving to enhance the integration of climate risks and promote comprehensive climate-related reporting. The Trustee actively scrutinises and challenges recommendations as necessary to ensure confidence in decision-making.

Training

The Trustee must ensure that the CIO Team possesses adequate and comprehensive knowledge to propose effective strategies for managing climate risks. To this end, the CIO Team undergoes ongoing training on climate change and its associated risks, facilitated by the IC and other recognised experts.

Furthermore, the CIO Team actively engages in attending conferences and webinars to continually enhance their understanding of climate change. This commitment to continuous personal and professional development is not only a requisite of their role but, as the CIO Team is employed by the Sponsor, also reflects the Sponsor's expectation for all employees.

Below is a condensed summary of the publications, conferences, and webinars attended over the past year:

- Rethinking Climate-Driven Investing (SGPE)
- Aon 2024 Pension Conference (Aon)
- Sustainable Investing Outlook for 2024 (Goldman Sachs)
- Rethinking Scenario Analysis (SGPE)
- Rethink net zero: investing in the transition (BrightTALK)
- Environment Q&A Surgery: Expectations for COP28 (UN Global Compact Network UK)
- Challenges of mapping carbon emissions (Robeco)
- UN Global Compact Network UK Annual Summit (UN Global Compact Network UK)
- Pension Fund Trustees and Fiduciary Duties: Decision-making in the context of Sustainability and the subject of Climate Change (FMLC)

Evaluation

The Fund's IC evaluates the performance and deliverables of the CIO Team on an annual basis, and this is presented to the IFC.

Additionally, each member of the CIO Team is evaluated on an individual basis as part of the Sponsor's annual performance framework.

Succession Planning

To ensure a smooth continuation of support for the Trustee, the CIO maintains a succession plan that reflects the possible future of the CIO Team based on current resourcing and future requirements of the Fund.

This is prepared and presented to the IFC on an annual basis.

Overview of the Investment Consultant

A comprehensive market tender exercise was completed in 2023, with Aon remaining the Fund's IC. In this capacity, Aon offers recommendations on all existing investments as well as potential future investments. These recommendations are thoroughly discussed at IFC meetings, with the committee able to interrogate and scrutinise as necessary to ensure sound decision-making. The Trustee will regularly ask for additional context on how peers and other advisors are approaching decisions, to ensure the IC advice is relevant, and has been robustly thought through.

Benefiting from Aon's standing as one of the foremost investment consultants in the UK, the Fund gains access to specialised teams focusing on various aspects such as ESG integration, engagement, stewardship, impact investing, and the development and execution of responsible investment strategies. The Trustee Board, IFC, and CIO Team all make use of this access to a wide breadth of expertise. Aon's proficiency enables them to keep the Fund abreast of ESG matters, including climate change, and to inform the Trustee and CIO team about the evolving regulatory landscape.

The Trustee relies on Aon's expertise and so it is crucial for the Trustee to understand Aon's capabilities and credentials in this domain, especially as it gains increasing importance. As part of the IFC's responsibilities, they annually establish and evaluate the performance objectives of the IC. Within the IC's performance objectives is specific consideration for the advice that Aon provides to the IFC, which incorporates ESG matters.

Aon is a global signatory to the UN's Principles for Responsible Investment, having helped establish the collaborative, investor-led organisation in 2005. The UNPRI aims to help investors understand the implications of sustainability and incorporate these into decision-making.

Aon has developed methodologies that apply behavioural sciences to responsible investment decision-making.

Aon is a founding member of ClimateWise, an insurance industry-led organisation. Founded in 2007, its work has provided additional guidance on physical climate risks and opportunities.

Aon is a member of the Investment Leaders Group, an investor-led initiative committed to advancing the practice of responsible investment. Founded in 1989, it comprises pension funds, insurers, and asset managers with over $9tn of assets under management.

Aon has created a Responsible Investment Network to provide investors with a forum in which they can develop knowledge around responsible investment and collaborate with peers.

Overview of the Fund's Actuary

Over the 2023/24 scheme year, Aon continued to provide actuarial services to the Fund. These services play a vital role in setting the funding strategy and risk management processes by forecasting the Fund's future funding level. This is achieved through discounting the Fund's assets and liabilities back to their present value and comparing them to the present values. The most recent triennial valuation, completed in the 2022/23 scheme year as at March 31, 2022, is part of this process.

As the triennial valuation involves calculating the present value of future assets and liabilities, it is essential for the Actuary to consider all material factors that may affect their value. This includes considering climate change as both a future risk and an opportunity when predicting the present value of assets and liabilities. Therefore, to incorporate climate change considerations into an actuarial valuation, the Fund's Actuary requires an understanding of climate-related risks and their potential impact on financial outcomes, as well as the ability to integrate these considerations into their valuation process.

Given the critical role of the actuarial valuation in shaping the strategic direction of the Fund, it is important for the Trustee to understand Aon's credentials in providing this actuarial advice. Therefore, the Trustee annually reviews the performance of the Fund's Actuary and places reliance on Aon's overall climate credentials, as described on the previous page.

Overview of the Fund's Legal Advisor

For the scheme year 2023/24, the Fund has greatly benefited from the advice provided by Sacker & Partners LLP (Sackers), serving as the Fund's Legal Advisor. This counsel encompasses guidance on ESG matters and how the consideration of these factors aligns with the Trustee's fiduciary duty. Such advice has equipped the Trustee with the capability to navigate the various legal and regulatory frameworks while upholding its commitment to ESG matters, as outlined in the Fund's Responsible Investment (RI) policy.

The Trustee finds assurance in the relevance, quality, and legal foundation of Sackers' advice, attributable to the credentials of their team and the esteemed reputation of Sackers as one of the UK's premier specialist pensions law firms. Confident in the guidance provided by Sackers, the Trustee believes it has the tools to successfully navigate the complexities of how ESG considerations intersect with their duties.

Given the reliance placed on Sackers for their expertise, it is imperative for the Trustee to comprehend the skills and attributes that Sackers bring to the Fund. Some of the evidence used by the Trustee to establish these credentials is listed below.

Sackers has received numerous awards and accolades for their market leading advice including Pensions Law Firm of the Year at the Pensions Age Awards 2023, Pensions Lawyers of the Year at the Professional Pensions UK Pensions Awards 2023 and Best Pensions Law Firm for the second year in a row at the Corporate Adviser 2023 Awards.

The Trustee harnesses the specific ESG skills possessed by Sackers, with particular emphasis on Stuart O'Brien. Stuart chairs the Pensions Climate Risk Industry Group and was also a member of the working group that produced the report: *Pension Fund Trustees and Fiduciary Duties: Decision-making in the context of Sustainability and the subject of Climate Change.*[1]

The Trustee has access to a range of educational materials on ESG and climate change courtesy of Sackers, including papers and face-to-face training when appropriate.

Sackers is committed to operating its business in a sustainable way. It is a long-standing members of the Legal Sustainability Alliance and values the insight this provides into ways of constantly improving its environmental credentials.

[1] https://fmlc.org/wp-content/uploads/2024/02/Paper-Pension-Fund-Trustees-and-Fiduciary-Duties-Decision-making-in-the-context-of-Sustainability-and-the-subject-of-Climate-Change-6-February-2024.pdf

Overview of the Fund's Covenant Advisor

Teneo, as the covenant advisor to the Fund during the period, acted as a guardian of financial security between the employer and the Fund. This was achieved through analysing factors like market position, performance, and prospects, which all provided vital insights into the employer's ability to fulfil pension obligations. This assessment guided decision-making on funding levels and investment strategies, ensuring the scheme remained adequately funded and aligned with its long-term goals.

Incorporating climate change into the thinking of a Covenant Advisor is paramount due to its profound impact on the financial stability and long-term viability of pension schemes. Climate change poses significant risks across various sectors, ranging from physical risks associated with extreme weather events to transition risks stemming from regulatory changes and shifts in consumer preferences. A Covenant Advisor must assess how these risks could affect the sponsoring employer's operations, revenue streams, and overall financial health.

Based on these factors, the Trustee expected Teneo to integrate climate considerations into their overall analysis. Therefore, it was incumbent on the Trustee to understand Teneo's ability to incorporate these factors through analysis of their credentials.

Towards the end of the scheme year a market review was held for the Covenant Advisor position, with a final decision not yet made; further detail will be provided in the next CRR.

Teneo stays up to date with the effects of climate change on covenants and provides thought leadership through the publication of articles on the topic, such as Teneo's article: *Can climate change covenant?*[2]

As Teneo also offers an ESG advisory service, it can leverage the insights gained from this service to enhance the ESG understanding of their covenant advisors.

Teneo publishes annual sustainability reports which details its commitment to corporate responsibility and the actions it is taking to benefit all its stakeholders.

[2] https://www.teneo.com/app/uploads/2021/07/Pension-Advisory_Climate-Change.pdf

Strategy

Climate-related risks and opportunities

NPF is exposed to climate risk in multiple ways, and it is important to determine the level of resilience in the portfolio while also identifying where there may be opportunities. The risks facing the Fund can be broadly categorised in two ways:

Physical Risks:

Risks associated with the physical impacts of climate change, further split into acute and chronic risks. Acute risks are the severe and extreme events such as flooding, storms, and wildfires. Chronic risks are the incremental changes, such as rising temperatures and sea levels.

Transition Risks:

Risks associated with the transition towards a low-carbon economy. This includes policy shifts, technological changes, market factors (such as changing consumer behaviours), and reputational risks.

The Trustee has identified risks across a twenty-year time horizon, with the short-term defined at 1-3 years, medium-term being 4-10 years, and long term being 11-20 years. The short-term horizon mirrors that of the NPF's valuation cycles, the long-time horizon extends beyond the Trustee's current long-term objective to reach full funding on a solvency basis, while the medium-term horizon bridges the gap between these. Generally, the Trustee sees physical risks rising as time passes, but transition risk is at its greatest during the medium term, recognising a tipping point for political action to address the increasing physical effects of climate change.

The C&D Section of the Fund is exposed to risks over a shorter time period than the Nationwide Section, due to the C&D Section being better funded and with the added security of a large portion of assets already having been transferred to an insurer to secure benefit payments. The C&D Section's non-insured assets comprise of LDI, equities, and public credit assets.

As a result of the Trustee's assessment of climate-related risks, the Trustee has implemented several changes in the operation of the portfolio:

- Consideration of the merit in setting a Net Zero target.
- Analysis of ESG concerns within the covenant.
- Annual due diligence exercise enhancements.
- Refresh of the Climate Risk Management Framework.
- Structured review of ESG reporting.
- Regular engagement with asset managers to drive ESG enhancements.
- Consideration of Net Zero aligned investment frameworks.
- Modelling of emissions where asset managers do not provide this themselves.

Qualitative risk assessment

To assess the risks associated with climate change the Trustee undertakes two activities, the first being a qualitative assessment and the second being quantitative scenario analysis (p27–32). This analysis of the assets within the portfolio takes a holistic approach to understanding the level of exposure to physical and transition risk. This assessment is broken down into the following asset classes:

- Private Credit
- Private Equity
- Property and Infrastructure (including directly-owned assets)
- Public Credit
- Public Equity
- Sovereign Bonds (UK Government Debt)

Each fund, or investment, is analysed by the CIO Team on an individual basis to understand what physical and/or transition risks it is potentially exposed to. The CIO Team will assess each underlying asset using assumptions based upon the sector and geographies they operate in, as well as any asset specific factors that are deemed relevant. These underlying portfolio asset assessments are then used to determine a Red, Amber, Green (RAG) rating for each individual fund, and those fund RAG statuses are used to determine the overall RAG rating for an asset class; with larger investments holding heavier weighting when determining the overall RAG status.

The ratings are intended to provide a high-level overview of the severity of impact that may be seen from climate-related risks. Red ratings indicate a high potential risk to the investments, amber a medium risk, and green a low risk. Given the diversified nature of investments the NPF holds, the overall risk to an asset class is not considered high; however, on an individual fund or portfolio asset basis there are investments which carry more risk than others.

The Trustee is committed to refreshing this analysis on an annual basis.

Red High Risk	Amber Medium Risk	Green Low Risk

Sector assumptions

The qualitative risk assessment begins by considering the impacts of climate change on the overarching sector each asset operates within. These are taken from the Global Industry Classification Standard, and although there are many industries (and sub-industries) within these sectors, they provide a useful starting point for understanding what climate-related risks an asset may face. An overview of these potential impacts is included below:

Energy

Physical damage may affect productivity and incur costs, and it is likely that regulatory burdens will increase over time. Technological adaptations and worsening public attitudes cause redundancies as the world moves towards renewable sources. Global shifts away from fossil fuel-based transport and materials removes alternative revenue streams.

Industrials

Less environmentally damaging manufacturing methods are likely to be developed, which would incur cost and may cause stranded assets. Increasing regulatory burdens on transportation may impact revenues as consumer costs increase through carbon taxes. Service industries are largely protected from these changes.

Materials

Regulatory pressures could increase over time due to the environmental impact of these industries, with technological innovation and development of alternatives likely. Public opinion of these industries may worsen over time, and physical effects of climate change could affect operations.

Consumer Discretionary

Manufacturing plants may be affected by physical damage, incurring costs. Environmental impacts and regulations may restrict supply levels of materials. Automobile shifts towards electric vehicles continues. Increasing costs and consumer attitudes may require adaptive business approaches.

Consumer Staples

Physical effects may damage storage and distribution facilities and incur costs, they may also affect agriculture productivity and profitability. Food scarcity may cause public discontent and political responses; however, adaptation would likely be prioritised over other sectors, and regulatory pressures could fall elsewhere.

Healthcare

Physical damage to property may impact R&D and manufacturing, and availability of natural resources for pharmaceuticals may become scarcer, but healthcare is likely prioritised over other sectors.

Sector assumptions

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Financials

Banks and financial markets are widely sheltered from direct physical effects given the increasingly digital nature of the industry; however, there are increasing regulatory burdens through TCFD. Insurance business may suffer volatility as they could be faced with increased risk and claims due to climate change, and subsequently increasing premiums may then reduce business volumes.

Information Technology

Physical damage may impact data centres and manufacturing, but agile working practices would minimise disruption to operations. Lower emissions versus other sectors mean revenues could be maintained as regulatory focus would likely fall elsewhere.

Communication Services

Provision of data transmission and telecommunications continues to adapt, and regulatory pressures fall on other sectors, affecting the rate of climate change. Physical impacts of climate change on home entertainment are minimal given the digital nature of operations and distribution.

Utilities

Physical effects on distribution channels and generation plants may have cost impacts, as would operational adaptations as regulation develops. These companies are likely to more easily pivot into renewable energy offerings, and as other industries move away from fossil fuel usage, it may open new revenue streams

Real Estate

Physical damage could incur costs, while changing working habits and increasing regulatory standards may impact the usage of commercial assets. Commercial assets with poor environmental performance may become stranded assets due to regulatory changes. Existing residential assets may be spared the burden to avoid punishing individuals lacking the means to retrofit properties.

Overall asset class RAG classification

Private Credit

The overall assessment is more favourable than last year. Due to these funds being largely shorter-dated, with contractual repayment dates, and often sitting higher in the credit hierarchy.

Private Equity

The Fund's assessment of the risks facing the Private Equity portfolio has not changed on the previous year.

Property and Infrastructure

The Fund's assessment of the risks facing the Property and Infrastructure portfolios has not changed on the previous year.

Public Credit

The risks facing this portfolio have not changed across the short term, however, longer time frames have not been assessed as the portfolio is redeeming.

Public Equity

The Fund's assessment of the risks facing the C&D Public Equity portfolio has not changed on the previous year.

Sovereign Bonds

The Fund's assessment of the risks facing the Sovereign Bonds portfolio has not changed on the previous year.

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Private Credit

The risk associated with holding corporate debt is generally lower than holding private equity positions, as the debts have short-term contractual maturities.

For 'distressed' and 'opportunistic' managers, the risks are deemed higher as the Trustee is less likely to get capital returns if underlying debtors fail due to climate change. In 'senior' lending, this risk is lessened due to obligations ranking higher in the capital structure.

Real estate debt funds have generally been assigned higher risk ratings than those that lend to technology-focused funds, both of which comprise large portions of the portfolio.

	Physical Risks		Transition Risks			
	Acute	Chronic	Policy & Legal	Technology	Market	Reputation
Short Term						
Medium Term						
Long Term						

Private Equity

This portfolio benefits from diversity across geographic regions and operating markets, resulting in low market risk. Higher physical risks in the medium- and long-term are driven by heightened concerns about the impacts of climate change in Asian and Pacific regions.

In general, US legislation on climate risk is not as stringent as European legislation, resulting in increased transition risks. This is driven by the view that as US legislation changes, it may require more in-depth changes to operations or greater OpEx expenditure.

	Physical Risks		Transition Risks			
	Acute	Chronic	Policy & Legal	Technology	Market	Reputation
Short Term						
Medium Term						
Long Term						

Property and Infrastructure

Physical risks within this asset class include the damages resulting from extreme weather events, while transition risks include regulatory pressures necessitating the retro-fitting of buildings to meet environmental standards.

NPF is exposed to offices, hotels, data centres, and logistic hubs via this portfolio, and has exposure across multiple geographical locations. Higher physical risks can be seen across Asian and Pacific regions, which are amongst the most prone to disaster.

Resilient assets include projects focussed on carbon capture and electric vehicle charging infrastructure.

	Physical Risks		Transition Risks			
	Acute	Chronic	Policy & Legal	Technology	Market	Reputation
Short Term						
Medium Term						
Long Term						

Public Credit

The Fund's exposure to public credit assets has continued to reduce over the year, with only a negligible holding remaining. The remaining asset is focused on insurance-linked securities.

Given that this remaining asset is due to redeem in the short term, the medium and long terms have not been assigned a RAG status to reflect that under the current portfolio, the Fund has no exposure in this asset class over these specific timeframes

	Physical Risks		Transition Risks			
	Acute	Chronic	Policy & Legal	Technology	Market	Reputation
Short Term						
Medium Term						
Long Term						

Public Equity

Only the C&D section of the NPF holds public equities, this is a negligible holding in the MSCI World Index. This index comprises over 1,500 companies, with the largest 20% including Apple, Microsoft, Amazon, and Meta etc, all of which are global technology corporations. Market risks for these corporations include the scarcity of resources required for their products.

Corporations of this size are arguably more exposed to the risks of policy and legal changes in response to climate change, but the global nature of their business reduces exposure to geographical impacts.

	Physical Risks		Transition Risks			
	Acute	Chronic	Policy & Legal	Technology	Market	Reputation
Short Term						
Medium Term						
Long Term						

Sovereign Bonds

Climate risk exposure for government bonds is assumed to be aligned with government bodies, and the NPF holds a significant level of UK Gilts.

Regarding the UK, the impacts of climate change and transition risks are expected to be less severe than in other regions; however, the Trustee is still cognisant of longer-term, wider-reaching impacts.

Although UK emissions are expected to decline consistently on the path to 2050, there are concerns over the credibility of these targets and plans, and as such, there are elevated policy, legal, and market risks, as more stringent targets and agreements may be adopted globally.

	Physical Risks		Transition Risks			
	Acute	Chronic	Policy & Legal	Technology	Market	Reputation
Short Term						
Medium Term						
Long Term						

Opportunity assessment

Due to NPF's strong funding level and the need to rebalance the portfolio following the events of the September 2022 Gilts Crisis, the Fund has not made any new investments during the past year. Activity has been focused on redeeming liquid credit holdings and open-ended illiquid investments, which has aided the Fund's management of liquidity and risk levels. The Trustee has also agreed on a sales framework for illiquid assets to capitalise on attractive opportunities to further reduce risk; this framework includes consideration of ESG matters.

The CIO Team continues to monitor ESG opportunities despite the current lull in new investment activity, as it allows the team to stay abreast of how markets are developing new offerings in response to increasing focus on ESG matters, including climate change. They also attend a variety of industry conferences, webinars, and meetings with current asset managers to remain up to date on ESG developments. These sessions increasingly focus on where there may be opportunities for asset owners in relation to climate-change, for example, those at the forefront of developing more sustainable solutions to carbon intensive products and services. Where appropriate, the Fund's strategic asset allocation may be updated in the future to capture these opportunities.

Fixed Income

Pooled fund presentations from Investment Managers continue to be received regularly, including those focused on sustainability.

Several managers have sent presentations to the CIO Team which offer global fixed income portfolios that have explicit decarbonisation objectives.

The CIO Team has also been exploring the merit of a Paris Aligned fixed income investment framework which not only decarbonises over time but also seeks to invest in sustainable assets.

Private Markets

The Fund's current portfolio contains several managers who understand the importance of environmental factors and build these into their future fund characteristics. Fundraising presentations are regularly sent through to the CIO Team.

One infrastructure manager raising a new fund is focussing on sub-sectors of the future, including:

- Data & Cloud service.
- Energy storage.
- Carbon Capture.
- EV Charging.

Longevity Swaps

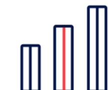
The Fund views longevity risk – the risk that pension benefits are paid for longer than reasonably expected – as a key risk which could also be affected by climate-change.

With a warming climate and milder winters there is a possibility that members live for longer, and that the Fund will need to pay pensions for longer.

The Fund has entered a longevity swap covering currently retired members, which will see any pension payments due beyond expected timeframes met by an insurer.

Opportunities outside of investments

CIO Team members regularly attend industry events, monitor market developments, and keep abreast of regulatory requirements on behalf of the Trustee. These may provide opportunities for the Fund to develop its response to climate change and wider environmental factors. Further detail is included below:



Scenario analysis

Climate scenario analysis is intended to be a forward-looking assessment of risks and opportunities, showing how the Fund's assets may perform under various assumptions. However, there are severe limitations to this analysis; this is covered in more depth later in the section.

Recognising these limitations, the University of Exeter, in conjunction with the Universities Superannuation Scheme, has published narrative scenarios. These are intended to generate more useful insight into the impacts of climate change on investment portfolios.

The CIO Team has regularly met with providers of scenario analysis throughout the year to understand how their own practices are developing and how scenario analysis can incorporate qualitative overlays to generate more meaningful discussions about the risk climate change poses.

Legal/regulatory developments

ESG considerations, and climate-related ones in particular, are subject to constantly evolving regulations with these changes monitored by the CIO Team and its advisors.

The IC provides a monthly breakdown of market developments to the CIO Team, and the CIO Team provides a quarterly breakdown to the IFC.

The CIO Team will inform the IFC about consultations, published reports, and adopted regulations.

One of the most interesting developments this year was the publication of the Financial Markets Law Commission (FMLC) paper on Fiduciary Duty and Sustainability. The paper confirmed that environmental factors can be considered financially material to investments, and where they are financially material, should be considered in investment decision making.

Conferences and training

With the continuing adoption of ESG-related regulations and the rising understanding of the importance of ESG factors in investment decision-making, there has also been an increase in structured certifications and training around ESG.

The CIO Team monitors the development of these programmes, and where beneficial to the Fund, will highlight some of these to the trustee directors as formal development opportunities.

Some of the most relevant to understanding climate-related risks and opportunities are noted below:

- Certificate in ESG Investing (CFA)
- Business and Climate Change: Towards Net Zero Emissions (University of Cambridge)
- Certificate in Climate and Investing (CFA)
- Sustainable Finance & Investment (Yale)

How climate risk is considered by the Fund

Governance

The Trustee reviews its RI policy on an annual basis, with a thorough review of how ESG concerns are reflected within the document.

The RI policy now references the potential impacts of environmental concerns, including climate change, in a more explicit way. This aligns the policy with other Fund policies and requirements.

This refresh of the policy also clearly states how the Trustee takes steps to monitor and assess ESG-related risks and opportunities, including climate change.

Operations

During the year, a more structured approach to assessing, reviewing, and engaging with third parties on ESG concerns was implemented.

Each month the CIO Team reviews all newly released ESG reports. Commentary around environmental topics is reviewed to understand if meaningful attempts are being made to address climate change. The merits and shortcomings of the report content are also discussed, including where there is a lack of expected information.

Feedback is then provided to the third parties, including robust challenge on how climate change is being addressed at corporate and underlying asset levels.

Strategic

The Fund has begun exploratory work around the merit of setting a Net Zero target to help reduce climate-related risks.

This has involved several different workstreams, including:

- Modelling of carbon emissions where data is not provided by asset managers.
- Conceptualising a Net Zero aligned investment framework.
- Mapping the impact of a target on existing operations.

The Trustee will continue to assess the merits of setting a target, and how the strategic asset allocation could capture the opportunities presented by the transition to a sustainable economy.

Scenario analysis

One way of assessing the impact of climate change on the future assets and liabilities of the Fund is to conduct scenario analysis. Scenario analysis is a technique used in financial modelling to assess the potential impact of different sets of assumptions or variables on financial outcomes. It involves creating multiple hypothetical scenarios by adjusting key inputs for different climate change scenarios.

Climate change scenario analysis is a subset of financial scenario analysis which involves incorporating the potential impacts of climate change and related policy responses into financial projections and risk assessments. This approach aims to understand how various climate-related scenarios could affect the financial performance, resilience, and value of a business or investment over time.

The intent of scenario analysis is to help stakeholders make more informed decisions by providing a clearer understanding of how changes in key variables may impact the financial viability and resilience of a business or investment. It is particularly useful in strategic planning and helps organisations to better understand and manage the financial implications of climate change, integrate climate considerations into decision-making processes, and build resilience to climate-related risks and opportunities.

Limitations of scenario analysis

While climate change scenario analysis is a valuable tool for assessing the potential impacts of climate-related risks and opportunities, it also comes with several limitations:

Uncertainty and complexity: Climate change is inherently uncertain and complex, with a wide range of interconnected factors and potential outcomes. Climate models themselves are subject to uncertainties, including variations in future emissions trajectories, the timing and magnitude of climate impacts, and the effectiveness of policy responses. As a result, it can be challenging to accurately predict the future implications of climate change for financial performance.

Data limitations: Scenario analysis relies on data inputs related to climate science, economics, and other disciplines. However, relevant data may be limited, incomplete, or subject to biases, especially at the regional or sectoral level. Additionally, historical data may not adequately capture the full range of potential climate-related risks and opportunities, making it difficult to assess their impact on financial outcomes.

Limitations of scenario analysis (continued)

Assumption sensitivity: Scenario analysis involves making assumptions about future climate trajectories, policy responses, technological developments, and other factors. The results of the analysis can be highly sensitive to these assumptions, leading to uncertainty about the accuracy and reliability of the findings. Small changes in assumptions can sometimes lead to significantly different outcomes, making it challenging to draw robust conclusions.

Modelling limitations: Financial models used for scenario analysis may have limitations in their ability to capture complex interactions between climate-related factors and financial variables. For example, traditional discounted cash flow models may struggle to incorporate non-linear impacts, tipping points, and systemic risks associated with climate change. As a result, the models may underestimate the magnitude or likelihood of certain climate-related risks, leading to incomplete or biased assessments.

Long-term horizon: Climate change is a long-term phenomenon that unfolds over decades or centuries, making it difficult to predict its full impact on financial markets and individual companies. Financial models typically have finite time horizons, which may not capture the full extent of climate-related risks and opportunities, especially those with longer-term implications. This can result in an underestimation of the true costs and benefits of climate-related actions.

Behavioural factors: Scenario analysis often assumes rational behaviour by market participants, policymakers, and other stakeholders in response to climate-related risks and opportunities. However, human behaviour is complex and unpredictable, and decisions may be influenced by factors such as political dynamics, social norms, cultural values, and psychological biases. As a result, the outcomes of scenario analysis may diverge from real-world outcomes due to unanticipated behavioural responses.

Overall, while scenario analysis can provide valuable insights into the potential financial implications of climate-related risks and opportunities, it is important to recognise its limitations and uncertainties. Users should approach scenario analysis with caution, acknowledging the inherent complexities and uncertainties involved, and use it as one tool among others in a broader risk management and decision-making framework.

NPF's use of scenario analysis

Overall, the Fund recognises the importance of scenario analysis in assessing and managing climate-related risks and opportunities. Over the last two reporting periods, the Fund diligently employed scenario analysis as part of its risk assessment framework. This approach has enabled the Fund to better understand the potential impacts of various climate scenarios on its investment portfolio and financial performance. However, the Fund is also cognisant of the limitations inherent in scenario analysis and modelling techniques.

NPF's use of scenario analysis (continued)

Considering these limitations, the Fund is actively exploring ways to enhance the effectiveness and robustness of the scenario analysis it employs. Recognising that climate change is a complex and evolving phenomenon, the Fund seeks to improve its ability to capture and quantify the full range of climate-related risks and opportunities. This includes addressing data gaps, refining modelling methodologies, and enhancing scenario design to better reflect the dynamic nature of climate change and its potential implications for financial markets and investments.

While scenario analysis has been a valuable tool in the Fund's risk management toolkit, it is not without its challenges. For the current reporting period, the Fund has decided not to re-run scenario analysis, as there have been no significant changes in its investment strategy or risk profile. Instead, the Fund aims to use this period to evaluate its existing approach to scenario analysis and identify areas for improvement. By taking a proactive stance towards enhancing its scenario analysis capabilities, the Fund remains committed to strengthening its resilience to climate-related risks and positioning itself to capitalise on emerging opportunities in a rapidly changing environment.

2022/23 CRR's scenario analysis

Although scenario analysis has not been conducted by the Fund in the current reporting period, it is essential to acknowledge the insights garnered from the analysis performed in the previous year. Through previous scenario analysis, the Fund developed its awareness of the potential impacts of climate-related risks and opportunities on its investment portfolio and financial performance. However, the Fund also recognises the inherent limitations in these results, including uncertainties in data, assumptions, and modelling techniques. In particular, some scenario analysis (e.g., the No Transition scenario) may show reducing liabilities due to decreasing life expectancies which can result in positive impacts for funding levels; however, there will be many potential impacts on assets that are not modelled and so this does not give a complete picture.

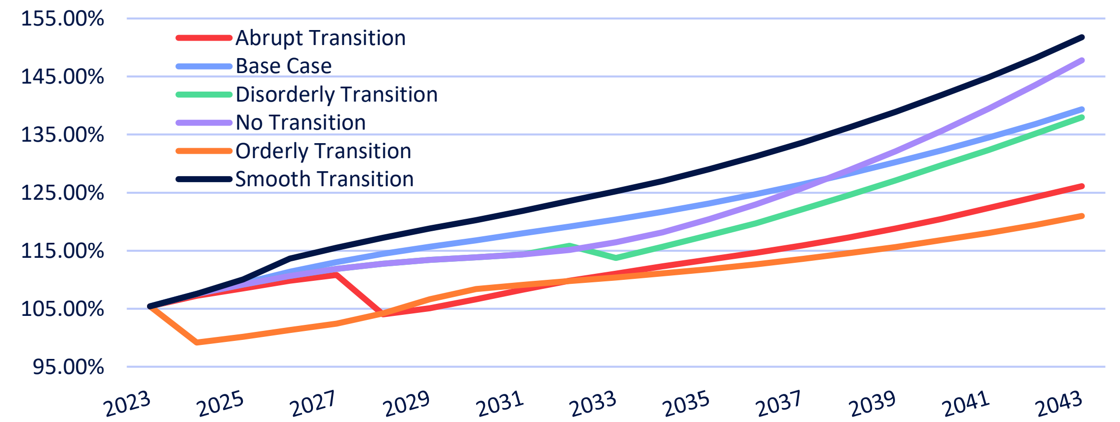
As a result, strategic decisions have not been made solely based on the findings of last year's scenario analysis. Instead, the Fund continues to take a cautious approach, considering a range of factors and inputs beyond the scope of scenario analysis to inform its decision-making processes. By acknowledging and understanding the limitations of past analyses, the Fund remains committed to adopting a prudent and comprehensive approach to managing climate-related risks and opportunities in its investment strategy. The results of this prior analysis have been included in the following pages.

2022/23 scenario analysis: impacts on the portfolio (funding level)

This section considers the impact of the scenarios on the funding level; this is effectively the ratio of the Fund's assets to the Fund's liabilities. The funding level of both sections of the NPF is strong and the portfolio is hedged against changes in interest rates and inflation, as such the Fund is quite resilient to most climate scenarios. A further breakdown of the movement of assets and liabilities can be found on the next two pages.

Nationwide Section

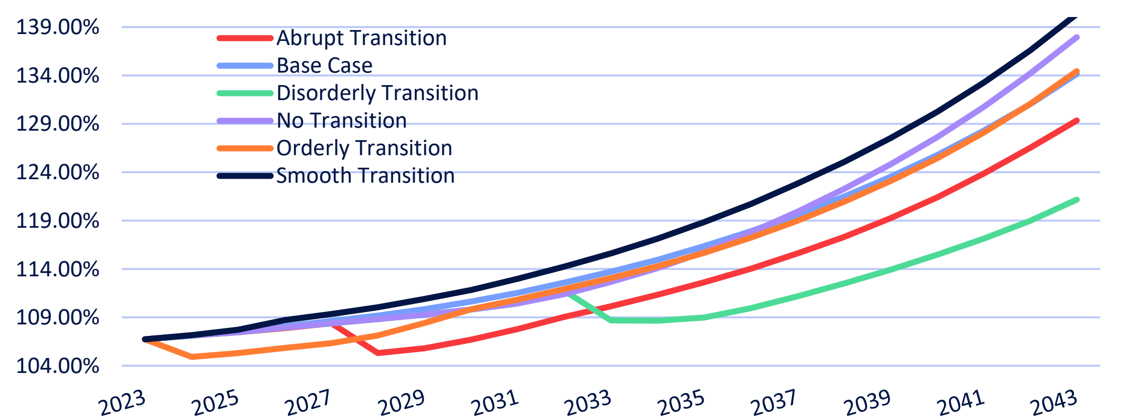
- Due to the diversification of assets and the high levels of hedging, the Section exhibits high levels of climate resilience.
- Private market assets are thought to be the most impacted by climate change in terms of valuation. As the investment strategy is not currently expected to include any more investments within private markets, the largest impacts are in the Orderly Transition and the Abrupt Transition scenarios, where the impacts of climate risk manifest in the near-term.
- In the worst impact, the funding level deteriorates to around 99%, and then improves to c.120% funded by the end of the projection period, by which time the Section is very well funded having steadily improved.



Source: Aon Investments Limited

Cheshire and Derbyshire Section

- The Cheshire and Derbyshire (C&D) Section of the Fund has a relatively narrow range of outcomes across the scenarios given the low-risk starting position of this Section.
- The investment risk of this Section increases gradually due to the steady decrease of the annuity policy. As such later stage impacts of climate risk are more pronounced such as within the Disorderly transition scenario.
- In the worst impact, the funding level deteriorates to around 104%, and then improves to c.120% funded by the end of the projection period, by which time the Section is very well funded having steadily improved.



Source: Aon Investments Limited

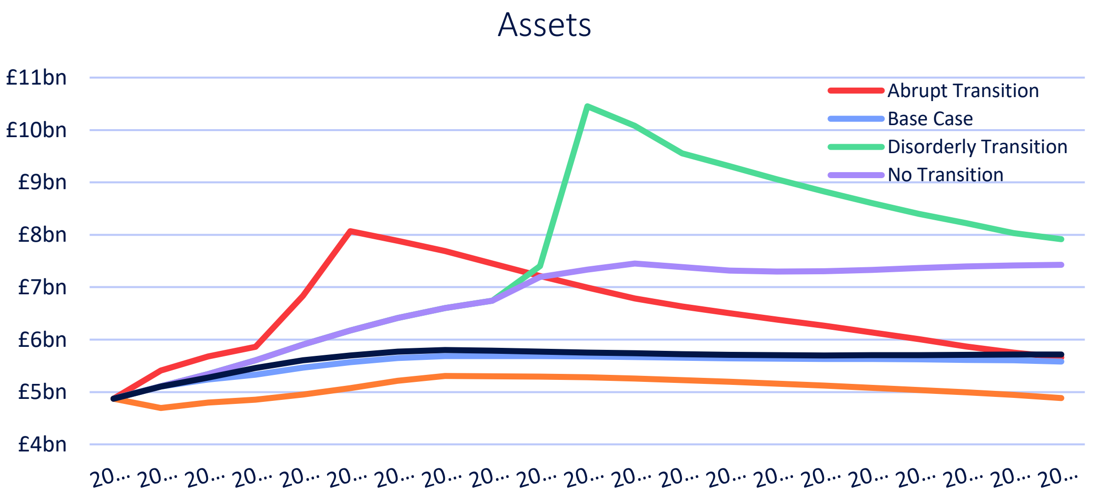
2022/23 scenario analysis: impacts on the portfolio (assets and liabilities of the Nationwide Section)

The graphs below show how the assets and liabilities of the Nationwide Section perform under each of the scenarios. In these graphs we can see how the impacts in some scenarios have been more pronounced, but the movement in assets and liabilities are similar due to the hedging in place. The impacts of climate risk are demonstrated in the market by shocks to interest rates, GDP and inflation. The impact of these movements on the Funding level are limited due to hedging and asset diversification.

In general, liabilities of the Nationwide Section increase in the first 10 years and then steadily decrease. Liabilities are modelled on a low dependency basis.

The assets of this Section increase steadily and then remain relatively stable after 10 years. Growth assets (thought to be most impacted) would be in run-off over the next 10 years, leaving hedging assets which perform well under negative yield shocks.

The most pronounced movement occurs under the Disorderly Transition. Under this scenario, there is a sharp fall in Gilt yields in 10 years' time, as the economic backdrop weakens due to climate-related costs. This increases the liabilities of the fund, but the increase in the value of hedging assets more than offsets this rise.



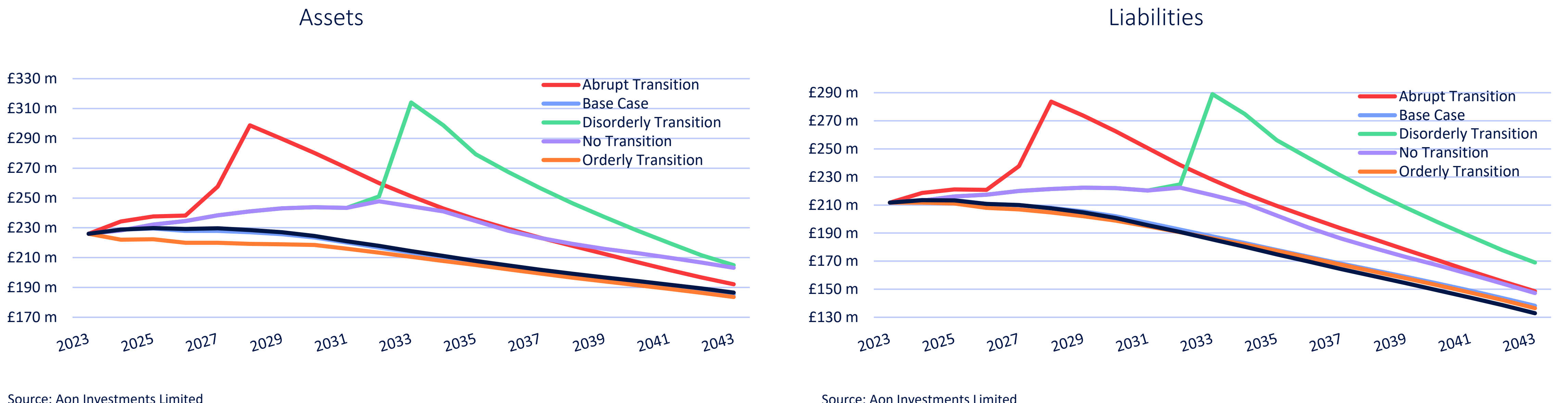
Source: Aon Investments Limited

Source: Aon Investments Limited

2022/23 scenario analysis: impacts on the portfolio (assets and liabilities of the Cheshire and Derbyshire Section)

These graphs show how the assets and liabilities of the C&D Section perform under each of the scenarios. In general, for the C&D Section, liabilities and assets are projected to fall across the next 20 years. Liabilities will fall as the Section is already relatively mature and assets will fall as the annuity policy modelled reduces over time in line with the liabilities that it matches. Liabilities are modelled on a low dependency basis.

Similar to the Nationwide Section, the most pronounced movement can be seen in the Disorderly Transition due to a sharp fall in Gilt yields. As in the Nationwide Section, this increases the liabilities of the Section, but the increase in the value of hedging assets more than offsets this rise.



Source: Aon Investments Limited

Source: Aon Investments Limited

Analysis of the sponsor

As a defined benefit pension scheme, the Trustee must consider how effective its sponsor is at managing climate risk. Should the sponsor be severely affected by the impacts of climate change, this could pose a risk to the funding strategy of the Fund. Further contributions may be required from the sponsor, and there is a risk that it may not be able to meet this need. Given the Fund is well funded, and the chance of requiring future contributions is low, this risk is not as pertinent as it once would have been; however, it is still important for the Trustee to understand the resilience of the sponsor to fully assess the impact climate-related risks may pose.

The NPF is backed by Nationwide Building Society (NBS), which produces its own Climate-related Financial Disclosures. The 2024 iteration can be found on NBS's website. The sponsor is currently involved in an active bid to acquire Virgin Money; the analysis in this report does not cover Virgin Money as the acquisition has not been formalised. However, given the strength of NBS, it is not expected that the completed merger would create a covenant risk.

NBS is a proactive organisation, and being conscious of environmental and climate changes is aligned with its mutual purpose. It has broad reach and can influence policymakers, and form partnerships with key organisations for impact.

NBS has set a Net Zero target and is committed to managing climate risk and supporting wider progress towards a greener society. Its climate change strategy consists of five pillars, explained opposite. NBS set and disclosed intermediate (by 2030) science-based emissions targets in December 2022, across scope 1, 2, and 3, and in December 2023, published their inaugural Intermediate (by 2030) net-zero-aligned Transition Plan 2023, detailing the actions and potential actions needed to progress towards its targets, which include:

- A 42% reduction in absolute scope 1 emissions.
- To continually source 100% renewable electricity (scope 2).

Progress towards scope 1 and 2 targets are ahead of schedule (as of 2024), with a 40% reduction in scope 1 emissions, and continuing to purchase 100% renewable electricity. NBS has also reduced upstream scope 3 emissions by 32% compared to its 2021 baseline. However, NBS has acknowledged that reducing downstream scope 3 emissions is broadly outside of its control under its current lending policies.

In 2023 NBS completed scenario analysis to further assess climate risk, this analysis continues to indicate climate change does not pose a material risk to its business model. The Trustee does not believe climate-change poses a risk to covenant strength over the period in which the Fund will be reliant upon the Sponsor.

Supporting progress towards a greener society
- Supporting progress towards a greener **society** by aiming to reduce our financed emissions and working cross-industry to make a positive difference to climate change.
- Helping **customers** reduce their carbon emissions through green finance propositions and engagement.

Greening our business operations and supply chain
- Aiming to reduce our emissions associated with our **business operations** and supply chain, in line with a net-zero pathway.
- Leveraging our scale and influence to promote green practices within our **supply chain**.

Embedding climate into our culture
- Training **colleagues** on climate change and encouraging engagement with green issues.
- Helping **colleagues** reduce their carbon footprint whilst at work and home.

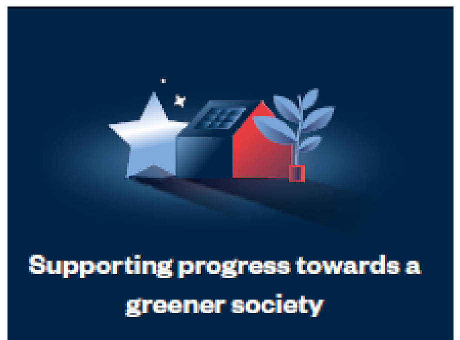
Enhancing our climate risk capabilities
- Building our capability to manage risks from climate change and deliver our **regulatory** commitments.
- Demonstrating to our **investors** that Nationwide is managing the risks and opportunities presented by climate change.

Advocating for a net-zero future
- Influencing **policy makers and government** on the need for a comprehensive national retrofit strategy and net-zero plan.
- Forming **partnerships** with key organisations to grow knowledge and effect real change.

Foreword | Governance | Strategy | Risk Management | Metrics & Targets

Key sponsor activities in 2023/24

Across the year, NBS has recorded several achievements relating to its climate change strategy, these are detailed below:



Committed to a net-zero future, setting intermediate (by 2030) science-based targets.

Reduced Scope 1 CO_2 emissions by 21% in 2022/23[4].

Reduced Scope 3 upstream (supplier-generated) CO_2 emissions by 32% in 2022/23[4].

NBS leads the Green Homes Action Group – a group of leaders, from different sectors, with a shared interest in promoting high-quality, affordable retrofit. The group called for the Government to do more through seven policy asks to encourage a more comprehensive National Retrofit Strategy:

1. Introduce a public information campaign that inspires.
2. Make it fairly financed.
3. Regulate green retrofitting.
4. Create new jobs in green retrofitting.
5. Make property fit for the future.
6. Support green homes with green power.
7. Build green homes for the future now.

By working with these organisations, NBS can increase expertise and understanding around those areas where it can make the greatest impact. Engagements to support its sustainability agenda include:

- Member of the Green Finance Institute's Coalition of Energy Efficiency of Buildings (GFI CEEB).
- Part of the London School of Economics Financing a Just Transition Alliance.
- Participant of UK Finance's Sustainability Committee.
- Signatory to the United Nations (UN) Global Compact.
- Partner to the UN Environment Programme Finance Initiative (UNEP FI), signatory to the UNEP FI's Principles for Responsible Banking, and a member of the UNEP FI's NZBA.
- Participant in the UN PRB Climate Adaptation Target Setting Working Group.

Image of Nationwide's Oakfield development

Risk Management

Identifying and assessing climate-related risks

The Trustee has developed and adopted a Climate Risk Management Framework (CRMF) which allows the Trustee to monitor and take informed decisions across the Fund. This framework incorporates ESG risks, and monitors these across short, medium, and long-term time horizons.

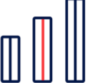
The Trustee's approach to identifying and assessing climate-related risks and opportunities comprises two elements. The first is a qualitative assessment of climate-related risks and opportunities, prepared by the CIO Team and reviewed by the Fund's IC, before being presented to the IFC. The second is a quantitative approach through the delivery of climate change scenario analysis. This is provided by the IC and reviewed by the CIO Team before presentation.

Both elements complement the other and give the Trustee a clear picture of the climate-related risks that the Fund is exposed to. The Trustee distinguishes between transition and physical risks, and all risks and opportunities are assessed with reference to specific time horizons. In addition, the Trustee assesses the materiality of climate-related risks relative to the impact and likelihood of other material risks to the Fund, to prioritise the management of risks that pose the most significant potential for loss. Due to the subjective nature of some of these risks, these assessments are performed at an individual asset class level.

Managing climate-related risks

Trustee training:

The Trustee completes regular training on responsible investment to understand how ESG factors, including climate change, could impact the Fund's assets and liabilities.



ESG assessments on new investments:

Any new investments are assessed on their ESG commitments. If these commitments are not in line with the Trustee's requirements, then new investments may not be completed on this basis.

Investment Manager due diligence:

Investment managers are requested to complete an information disclosure exercise on an annual basis. Where managers are unable, or unwilling, to provide this information the Trustee works with these managers to encourage disclosure.

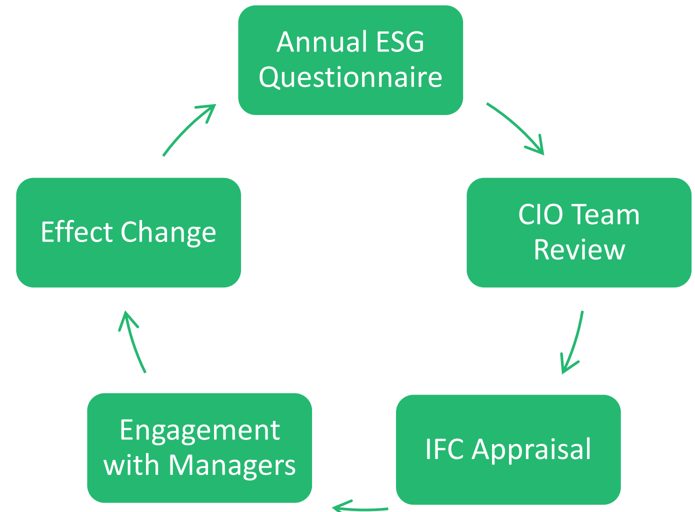
Integration of climate-related risks into NPF's overall risk management framework

The Trustee has integrated the identification, assessment, management, and mitigation of climate-related risks into the Fund's CRMF through the below strategies. The CRMF itself is an aspect of the Fund's approach to continually considering climate-related risks, as this is refreshed and approved by the Board on an annual basis, allowing for the incorporation of new measures as is seen fit.

Tool	Outcome
NPF Risk Register	Monitored on an on-going basis by the CIO Team, and presented to the IFC on a quarterly basis, the Risk Register captures all realistic risks that the Fund faces or could face. ESG considerations, including climate change, are monitored and this includes: - Impacts to asset values. - Stranded asset risk. - Regulatory and public perceptions of risks.
Annual due diligence	Undertaken by the CIO Team and presented to the IFC on an annual basis, this exercise requests disclosures and reporting from all asset managers. This encompasses the managers' approaches to ESG concerns, including climate change, and requests quantification of carbon emissions. Responses are collated and assessed by the CIO Team, with each manager given a Red, Amber, or Green status. Where a manager's responses are not considered sufficient, the IFC will engage with them to explain why they have been assessed as such and to drive change through this engagement.
New investment Approvals	Any new investment proposals brought to the IFC will contain assessment of the ESG merits of that investment and the manager. This assessment encompasses all elements of ESG, with the environmental sections including specific assessment of climate change risks. Where the ESG assessment of a new investment does not meet committee appetite, the investment opportunity may be foregone.
Covenant Dashboard	A holistic review of Fund's sponsor is undertaken on a half-yearly basis following the release of half-year and full-year results. This is produced by the CIO Team, reviewed by a specialist advisory firm, and presented to the IFC for their consideration. The Trustee then meets with the sponsor to discuss the results and ask questions. ESG risks facing the sponsor are now explicitly considered within the Covenant Dashboard, including those posed by climate change. Where these raise cause for concern, the Trustee will raise them with the sponsor.

Key climate-related risks

Through the CRMF the Trustee has determined that a key climate-related risk to the Fund is the environmental risks inherent within the Private Markets portfolio (PMP). The PMP makes up 41.2% of the Fund's total assets, and mitigation of the risks within this portfolio is of utmost importance to the Trustee. Additionally, the Trustee is aware that driving sustainable change, rather than simply disinvesting from assets, allows for the Fund to fulfil its mandates while also having a meaningful impact on sustainability through its investments. Therefore, the Trustee engages with PMP asset managers through the following process to encourage and effect sustainable business practices.



- Annual questionnaire

All fund managers are provided with a questionnaire on an annual basis which covers their stewardship practices, requests emissions data, and information on levels of alignment to the Paris Agreement.

- IFC appraisal

The CIO Team will review and compare responses amongst managers and present findings to the IFC. The Committee will discuss those managers that underperform or are out of line with their peers.

- Engagement

The CIO Team will engage proactively with all asset managers throughout the year regarding ESG reports, developments, and future action plans; this engagement also helps impart on managers the importance of completing the annual questionnaire. Those who have underperformed will also be written to explaining how their approach to ESG matters could be improved.

A second major risk to note is that the Fund's Liability-Driven Investment (LDI) portfolio does not achieve Net Zero by 2050. This portfolio mainly consists of UK Gilts, and as such is reliant on the UK achieving its legally mandated target of Net Zero by this time. Although the Trustee does believe it likely that the Government will meet its legal duty, this is not a certainty. The Trustee has noted this risk and continues to monitor the progress the UK makes.

New and emerging risks

The Trustee is aware that the recognition of current risks does not sufficiently mitigate the impacts of climate change, that new and emerging risks must also be considered. The CIO Team presents a quarterly assessment of potential future and emerging risks to the IFC. The Fund's IC will also advise the Trustee on potential future governance requirements regarding climate change.

Accomplishments and challenges within risk management

Over the financial year the drive towards a carbon-neutral portfolio has become more central to Trustee thinking. This has resulted in several accomplishments but has also presented challenges. The Trustee has highlighted below some notable examples regarding climate change and climate-related risk.

Accomplishments	Challenges
Regular reviews of ESG reporting provided by asset managers has been set up and undertaken by the CIO Team. All reports are now reviewed within a month of the Fund being sent the materials, and feedback is given to asset managers to drive improvements in future reporting.	Continued focus throughout 2023 on managing liquidity due to the Gilt Market Crisis in September 2022 has, at times, taken precedence over other risks. This has, at times, reduced the amount of time the CIO Team have been able to dedicate to ESG matters.
The Trustee has continued disinvesting from the Public Credit portfolio for broader investment reasons; however, this was an extremely carbon intensive portfolio and these emissions have been removed from the Fund. These assets now represent less than 0.5% of the Fund and continue to be managed down.	The resulting change in asset allocations following the Gilt Market Crisis has also created challenges in being able to use disinvestment as a tool to help manage the Fund's carbon footprint, due to liquid asset classes (such as Public Credit) having already been disinvested in the latter part of 2022.
The Fund has engaged with a market specialist to estimate the carbon emissions of PMP assets where the asset managers themselves have not provided a response. This allows the Trustee to understand a fuller scale of emissions attributable to this portfolio, and to begin making informed decisions around how to reduce the Fund's carbon footprint.	Further increasing the carbon emission disclosure rate amongst PMP managers continues to be a challenge, as those still not providing data show a degree of reticence, or an operational inability, to do so. Driving material reductions in the carbon footprint of the Fund over the short term is difficult, as assets mainly comprise of UK Gilts and PMP holdings. Neither can be directly affected by the Trustee, beyond disinvestment which is financially disadvantageous, and so the Fund's impact is limited to the change effected through manager engagement.
Work has begun on designing a framework for future investments that aims to reduce the physical and transition risks of climate change, by selecting assets which are credibly aligned with a low carbon economy.	Scenario analysis continues to face scrutiny around its usefulness. The CIO Team has engaged several providers of scenario testing to find 'best-in-class' analysis which the Trustee can use to inform decision making, but developments in this space are currently limited.

Activities, discussions, and effected change

The Trustee is aware that a key way to mitigate the likelihood of climate risks materialising is for emissions across the world to be reduced to Net Zero. The Fund engages with its asset managers to increase reporting on carbon emissions, and to drive improvement of the underlying assets' carbon footprints. The Trustee has also continued to monitor the effectiveness of Net Zero targets in reducing global emissions and has discussed the merits of setting a target for the Fund.

- Training will be delivered to the Trustee Board, IFC, and CIO Team over the coming year around how to consider Net Zero, and how any emission reduction targets may influence investment decisions.
- Work will be undertaken to establish a full Net Zero proposal, informing the Trustee of which areas will become key priorities for the Fund in the coming years.
- The IFC will continue to oversee the development of an investment framework which is credibly aligned with a low carbon economy.
- The IFC will explore the merits of using a different advisor for scenario analysis, as differing methodologies come to the fore. This will ensure that meaningful insight can be gained from the analysis and drive effective action going forwards.
- ESG reports have been reviewed from, and feedback provided to, asset managers including; Arcmont, Blackstone, Genesta, STAR, and Yttrium. This structured approach to reviewing ESG material has led to several meaningful meetings with the managers to drive improvements in reporting and ESG efforts moving forwards.

Risk management looking forwards

The Trustee reflects upon the accomplishments and challenges of the previous year and uses these learnings to drive the future approach of the NPF towards understanding and mitigating climate-related risks. The Trustee is committed to building upon past successes, whilst also reviewing the merit in potentially setting a Net Zero target.

The Trustee will continue to strive for greater engagement with, and from, its asset managers, to effect change whilst new investments are not being made. As the Fund continues to mature, the Trustee will also consider how portfolio changes over time can be aligned with a low carbon economy, helping mitigate climate-related risks.

Metrics & Targets

Importance of metrics and targets

The Trustee believes in the importance of monitoring the emissions data of its asset managers. This practice serves as a potential tool for quantifying climate risks and opportunities. Companies that fail to transition towards a low-carbon economy may face increased exposure to value degradation due to transition risks. Recognising the implications for funding levels, the Trustee actively manages such risks, aligning with its fiduciary duty to safeguard the Fund's beneficiaries' interests.

In line with its commitment to responsible investing, the Trustee acknowledges its potential to contribute to the transition towards a more sustainable economy through strategic planning of future investment activities. By implementing measures aimed at mitigating future portfolio emissions, the Trustee aims to align its investment strategy with this transition.

Moreover, the Trustee believes that companies capable of transitioning from high-emission practices to more efficient, lower-impact practices are poised to drive future value creation. Such companies not only mitigate climate risks but also realise efficiency gains and are well placed to embrace the inherent opportunities in a transitioning economy. By supporting and engaging with asset managers to pivot towards these companies, the Trustee seeks to foster greater resilience within its investment portfolio and achieve stronger risk-adjusted returns.

Leveraging these insights, the Trustee employs a range of metrics and targets to inform strategic decision-making processes. By employing these tools, the Trustee enhances its ability to engage with its asset managers whilst promoting transparency, accountability, and performance tracking.

Overall, the Trustee firmly believes that the effective use of metrics and targets, provided the completeness of these metrics, can drive informed decision-making, mitigate risks and enhance opportunities.

Scope 1, 2 and 3 emissions

The Trustee constructs its metrics and targets by utilising Scopes 1, 2, and 3 emissions classifications as a framework for measuring its environmental impact. These scopes delineate distinct categories of emissions, each with its unique characteristics and sources. Scope 1 emissions encompass direct emissions originating from sources owned or controlled by the organisation, such as onsite combustion of fossil fuels and emissions from company-owned vehicles and facilities. Scope 2 emissions comprise indirect emissions associated with purchased electricity, heating, and cooling consumed by the organisation, originating at the point of generation but not directly controlled by the organisation. Lastly, Scope 3 emissions encompass all other indirect emissions stemming from the organisation's activities, including emissions from the Fund's investments. Through the application of these scopes, the Trustee develops a comprehensive understanding of its emissions profile, facilitating effective measurement and management of its environmental footprint.

Metrics and targets utilised

The Trustee employs a comprehensive framework consisting of four distinct metrics and one target to gauge and manage emissions data within its investment portfolio. These metrics encompass absolute emissions footprint, financed emissions measured as tCO_2e/£m, percentage of portfolio aligned with net zero as measured through the Science-Based Targets initiative (SBTi) criteria, and the manager response rate for emissions data submissions. These metrics collectively provide a multifaceted assessment of emissions performance, allowing the Trustee to evaluate both the quantity and intensity of emissions, as well as the alignment with globally recognised sustainability standards. Additionally, the Trustee has set a specific target for the year, aiming to surpass a 50% threshold of asset managers providing Scope 1 and Scope 2 emissions data. This target reflects the Trustee's commitment to transparency, accountability, and proactive engagement with asset managers to enhance emissions data coverage and sustainability practices across the investment portfolio.

Emissions data gathering

For the current scheme year, the Fund has gathered emissions data through two different sources. In the first instance, the Fund has requested data from all asset managers, regardless of size or maturity. Through this process, the Fund has gathered emissions data directly from asset managers who have provided detailed information on their carbon footprint and greenhouse gas emissions.

Where manager submissions were not available, the Fund has relied upon modelling methodologies to estimate emissions (further details are available in the Emissions Modelling section). This modelling has enabled the Fund to derive estimates of emissions for managers who did not directly provide data, ensuring that emissions data coverage remains as comprehensive as possible across the investment portfolio.

By combining data from both manager submissions and modelling efforts, the Fund has achieved a holistic view of emissions across its investment holdings. This integrated approach not only enhances the accuracy and reliability of emissions data but also enables the Fund to effectively monitor and manage climate-related risks and opportunities in line with its sustainability objectives.

Moving forward, the Fund remains committed to refining its emissions data collection processes, further enhancing data accuracy, and expanding coverage to ensure a thorough understanding of climate-related impacts within its investment portfolio. This ongoing commitment to emissions data collection underscores the Fund's dedication to responsible and sustainable investment practices.

How managers collect emissions data

The data received from asset managers does not always align with different methodologies used by different managers, and even across underlying portfolio companies reporting into these managers. Therefore, a description of the most common methodologies for collecting emissions data is included below.

Data Questionnaires:

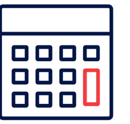
These are used by asset managers to collect and collate emissions data from underlying portfolio companies. These will specifically request emissions data, with templates provided by various third parties including the Insight ESG Outreach Solution.

Emissions Data Consultants:

Asset managers may choose to use third party consultants, such as Optera, to collect emissions data on their behalf. Such consultants will use their own methodologies for this, which may include the use of estimations and industry averages.

Use of Industry Averages:

Estimations of emissions data may be calculated from industry averages where direct data is not available. Although this introduces risks and variance, it does allow for quantified emissions data where it would otherwise be unavailable.



Direct Calculation:

Asset managers may be able to directly calculate the emissions produced by its direct operations, or those of underlying portfolio companies. This will only relate to scope 1 and 2 emissions and may be limited in scope.

How LDI emissions data is calculated

The LDI portfolio stands out from other managers as it invests in Gilts and financial derivatives (swaps). When assessing emissions and carbon footprint for the Gilts within the LDI portfolio, the data is derived from UK Government emissions data and UK GDP. However, due to the limited availability of granular data, the Fund's LDI manager has had to make several assumptions when providing emissions data. Despite the Trustee's limited control over emissions data movement concerning LDI, the significant holding of Gilts within the Fund necessitates their inclusion in reporting.

Modelling of financed emissions data

For the 2023/24 scheme year, the Fund has undertaken an ambitious initiative to report over 90% of its financed emissions. To accomplish this goal, the Fund has collected data directly from its asset managers and has also utilised the modelling capabilities of MSCI to generate data for managers who have not provided emissions data. The specifics of MSCI's modelling process are described in detail below.

MSCI's modelling process

Where possible, MSCI will use numbers as reported by the manager. Where reported numbers are unavailable, MSCI will draw on their proprietary methodology which estimates greenhouse gas (GHG) emissions for 5,000 public companies drawing on performance data sourced from MSCI's Private Capital Transparency Data, which is used for fundamental analysis of private firms.

To estimate emissions data for private companies, MSCI will take a company's Global Industry Classification Standard (GICS) sub-Industry classification and based on this classification, a carbon intensity will be derived from the MSCI Carbon Estimation Mode. This is achieved through the below process:

1. MSCI will collect the "company specific carbon emission intensities" of companies reporting their carbon emissions data at a GICS sub industry level.
2. They will then exclude those reporting companies who are below the 10th percentile or above the 90th percentile and will take an average of the remaining companies' emissions. This average will be designated as the GICS sub-industry carbon intensity.
3. MSCI will then use this average as the carbon intensity of the sub-industry, with over 1,000 different industry segments modelled.
4. These estimates are then applied to each of the companies in question for the year with each intensity figure multiplied by the relevant company's revenue to calculate estimated company total emissions.
5. Financed Emissions (i.e. the holding specific % of total emissions for a client's investment) are calculated based on the above estimated emissions and the holding's pro-rata valuation.
6. Any aggregated figures in the dashboard (Emissions for the whole portfolio, a specific fund, a GICs sector, etc.) are the sum of the above with a coverage adjustment applied for holdings that are not covered by the model.

Emissions data shortcomings

The availability and quality of emissions data varies from manager to manager. Asset managers operate across different regulatory environments, with different mandates, and so the collection and reporting of GHG emissions data has differing priority levels. These can be seen specifically with asset managers based in the US, where the regulatory requirements around the tracking and reporting of emissions is much lower than those seen across the EU and UK.

In addition to differences based on geographical location, different asset classes have varying ability to obtain emissions data from the underlying portfolio companies. For example, Private Debt funds may not be able to obtain emissions data from debtors where this has not been explicitly stated within the loan documentation, whereas Private Equity funds will have a greater ability to request data from companies due to their ownership of a portion of the company.

In addition to the variability within asset managers emission data submissions, the Trustee is also aware that the emissions modelling, whilst a valuable tool for estimating greenhouse gas emissions when direct data is unavailable, still has its own shortcomings. One significant limitation is the inherent complexity and variability of emission factors across different industries, sectors, and geographic regions. Modelling relies on assumptions and simplifications that may not fully capture the nuanced factors influencing emissions, leading to potential inaccuracies in estimates. Additionally, uncertainties in input data, such as incomplete or outdated information on production processes, energy sources, and emission factors, can further impact the reliability of modelling results. Furthermore, emissions data modelling may struggle to account for dynamic changes in emission sources and patterns over time, making it challenging to assess the effectiveness of emission reduction measures and track progress towards sustainability goals.

Despite the limitations of both direct data gathering and emissions modelling, both sources of data can still provide valuable insights, but it is essential to interpret results with caution and recognise the inherent uncertainties involved.

Overall, The Trustee acknowledges that data quality will become a key consideration as emissions reporting evolves. The Trustee does not believe that this should result in the omission of data, but that inaccuracies and deviations should be used to drive more robust data reporting going forwards. Reporting allows for comparisons across asset managers, and the financial industry, and will continue to strive for increased levels and more robust reporting.

Driving engagement

During the 2024 annual due diligence exercise, 4 asset managers have been noted as significantly lacking in their approach to climate change risk, emissions data gathering, and/or reporting. Therefore, the Trustee has taken the decision to formally write to these managers to reinforce expectations as custodians of NPF's assets. This correspondence is tailored to each manager, and if they were also noted as significantly lacking last year, more robust messaging is given. The overall response rate for all asset managers has also fallen, and this will be addressed with the managers who did not respond on time for inclusion within this year's report.

Climate change metrics

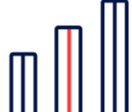
Several different metrics are used to help NPF measure and understand the impact of its investments on climate change. These metrics are qualitative and quantitative in nature. They have been chosen as the data is readily available from the Fund's asset managers, and they allow for a quantifiable approach towards calculating NPF's contribution to climate change.

Total Carbon Footprint:

This is the total GHG emissions, measured in tonnes, within a portfolio. It shows the absolute carbon emissions from NPF's investments.

Financed Emissions:

Measures the intensity of emissions by taking the total GHG emissions and weights them against the size of the investment.



Reporting Asset Managers:

Shows the proportion of asset managers that have provided high quality emissions data, defined as covering at least 60% of underlying assets.

Responding Asset Managers

	Responding Asset Managers (23/24)	Responding Asset Managers (22/23)
Corporate Bonds	100%	100.0%
LDI	100%	100.0%
Matching Assets	66.6%	75.0%
Public Equity	100.0%	100.0%
Private Credit	76.6%	93.4%
Private Equity	63.2%	89.5%
Private Infrastructure	80.0%	100.0%
Private Real Estate	85.7%	100.0%
	74.5%	90.9%

Public Credit not included as portfolio now consists of only one IM with a negligible investment.

Total carbon footprint

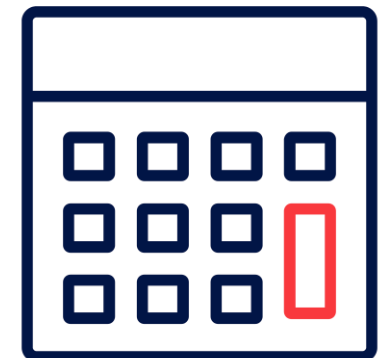
The table below details the emissions data reported by the Fund's asset managers; this has been split on an asset-by-asset class and shows a comparison to the previous year.

	Proportion of Assets (23/24)	Proportion of Assets (22/23)	Scope 1 & 2 Emissions (23/24)	Scope 1 & 2 Emissions (22/23)	Scope 3 Emissions (23/24)	Scope 3 Emissions (22/23)	Total Emissions (23/24)	Total Emissions (22/23)
Corporate Bonds	2.2%	1.9%	294	406	N/A	N/A	294	406
LDI	49.2%	54.2%	538,032	616,269	N/A	N/A	538,032	616,269
Matching Assets	7.2%	9.8%	25	4,099	1,010	1,857	1,035	5,957
Public Credit	0.1%	1.7%	0	30,028	0	57,899	0	87,927
Public Equity	0.1%	0.3%	0	1,136	0	9,839	0	10,975
Private Credit	14.1%	10.4%	43,323	25,939	108,318	16,887	151,641	42,826
Private Equity	16.9%	12.8%	319,589	25,553	210,407	245,015	529,995	270,568
Private Infrastructure	5.0%	5.5%	96,541	17,677	29,230	66,903	125,770	84,580
Private Real Estate	5.2%	3.6%	728	1,147	5,549	14,635	6,277	15,782
2023/24 emissions figures include modelled emissions provided by Burgiss/MSCI.			**998,531**	**722,254**	**354,513**	**413,036**	**1,353,044**	**1,135,290**

Within the past year, total reported emissions across the Fund have increased by 217,754 tonnes of CO2. The Trustee is aware of this increase but notes that this is due to a fuller set of emissions reporting, rather than due to more carbon intensive operations. The Trustee understands this may continue to be the case until all asset managers provide emissions data and views the increased insight into the footprint of the Fund as a positive. Comparing the total emissions from managers who reported both last year and this year, emissions fell by 177,385 tCO2, mainly driven by asset sales during the year.

Financed emissions

The table below details the financed emissions of NPF's investments, these are reported as tonnes of CO^2 emitted per million pounds invested by NPF.



The Trustee notes that there are material changes in the reported carbon footprint of the Fund.

These changes have generally been driven by investment activity and/or greater veracity of reported emissions.

- The financed emissions within the LDI portfolio have increased by c.53 tCO2e/£m. This has been caused by a £300m fall in the market value of UK Gilt portfolio, increasing the intensity of financed emissions*.
- The financed emissions of Public Credit assets has fallen to nil, due to the continuing redemption of the portfolio. There is one remaining asset with £1.6m invested; this manager does not provide emissions data, but if reported would be expected to be a negligible amount.
- The financed emissions of the private market investments have increased substantially, due to emission modelling undertaken by the Fund providing a fuller picture.

	Scope 1 & 2 (tCO^2e/£m)	Scope 3 (tCO^2e/£m)	Total (23/24) (tCO^2e/£m)	Total (22/23) (tCO^2e/£m)
Corporate Bonds	2.9	N/A	2.9	4
LDI	248.4	N/A	248.4	195
Matching Assets	0.1	3.0	3.1	10
Public Credit	0	0	0	899
Public Equity	0	0	0	640
Private Credit	66.9	167.3	234.3	71
Private Equity	410.6	270.3	680.8	364
Private Infrastructure	418.6	126.7	545.3	265
Private Real Estate	3.1	23.3	26.4	76
			300.8	**234.8**

*If each Gilt is apportioned an equal share of UK emissions, as the value of those Gilts falls the emissions per £m invested will increase, and vice versa.

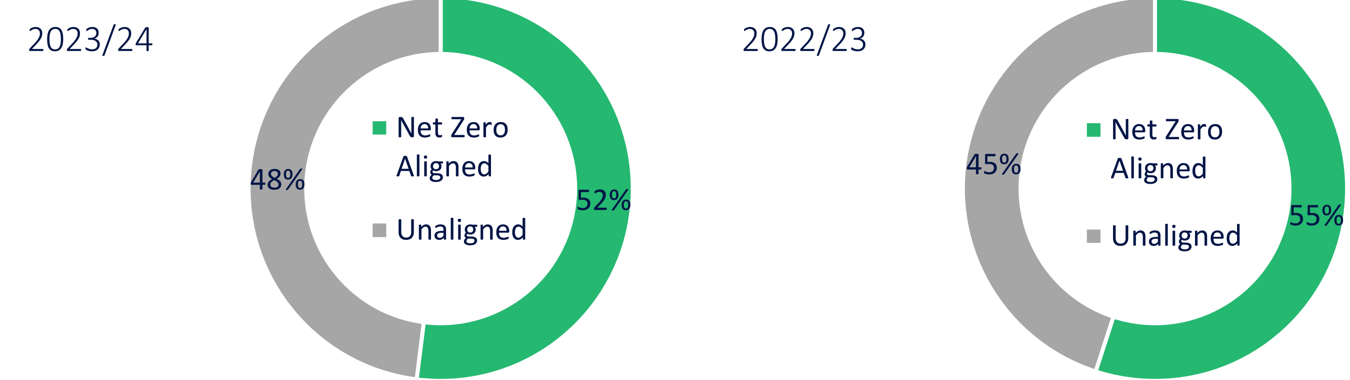
2023/24 emissions figures include modelled emissions provided by Burgiss/MSCI.

Portfolio alignment to Net Zero (Paris Agreement 2015)

The Paris Agreement is a legally binding international treaty on climate change formulated and adopted at the 2015 UN Climate Change Conference in Paris. The overarching goal of the Paris Agreement is to limit the increase in global average temperatures to well below 2°C above pre-industrial levels, and to pursue actions which limit the increase to 1.5°C above pre-industrial levels.

Collecting, collating, and reporting emissions data is beneficial for providing a snapshot to the Fund around the current level of emissions, but when compared to previous reports and expected investment activity, it also helps the Trustee understand the Fund's emissions trajectory when compared to those global Net Zero targets.

In order to measure alignment with the Paris Agreement, the Trustee has requested all asset managers provide the details of assets which have a Science Based Targets initiative (SBTi) validated Net Zero target. These assets have been collated, and the percentage of NPF assets that are aligned to Net Zero is shown below.



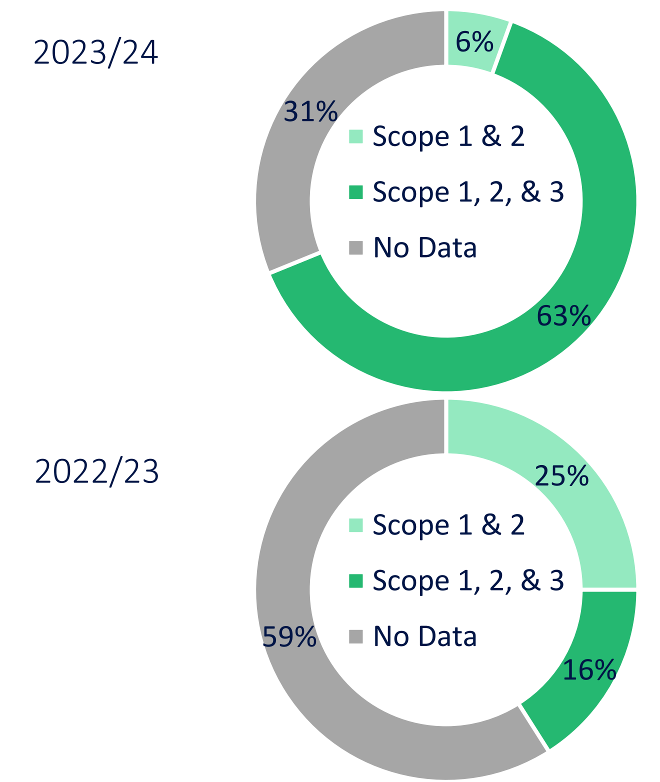
Overall, the percentage of assets aligned to Net Zero has decreased by 3% from the previous year. However, the Trustee notes that alignment is predominantly driven by the LDI portfolio which comprises of UK Gilts and is legally required to achieve Net Zero by 2050. The reduction in alignment versus last year is due to the Gilt book making up a smaller proportion of assets.

Note: The Trustee regards gilts exposure as having credible SBT because the UK has a Net Zero by 2050 target written into law, with carbon budgets set based on advice from the independent Committee on Climate Change.

Manager emissions data

The Trustee has seen a decrease in the response rate from investment managers, but an increase in the proportion of managers where emissions data is available for the 2023/24 year due to procuring third-party emission modelling. This has led to carbon emission data being available for 68.5% of investment managers, which is higher than last year (41%) and provides a clearer picture of the emissions the Fund finances.

On an asset value basis, emissions data is now available for managers representing 91.9% of Fund assets.



2023/24 emissions figures include modelled emissions provided by Burgiss/MSCI.

Target response rate

The NPF's 2022/23 report advised that the Trustee had set a 50% response rate for asset managers providing emissions data, noting that 17% of those who had not provided data had advised the CIO Team that it would be available for the next iteration of the Climate Risk Report. The Trustee has so far received data from 35.2% of asset managers for the 2023/24 report, although another 5.5% of managers, who have previously provided data, have not provided their responses yet; this would increase reporting to 40.7%.

The NPF has continued to disinvest from some select assets over the 2023/24 year, and this has reduced the number of asset managers that are required to provide data to the Fund. However, four of the exited investments had been suppliers of emissions data, and this has affected the response rate.

Although the Trustee is pleased that its overall reporting rate is higher due to the emission modelling exercise, there is disappointment that the proportion of asset managers providing emissions data has fallen. The Fund will be engaging with its investment managers to make clear that it expects a higher response rate for the 2024/25 report; as such, the Trustee is targeting a 50% response rate for that report.

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