

# Nationwide Pension Fund

## Net Zero Transition Plan Summary



## Executive summary

**Climate change presents one of the most significant global threats of this century, with the potential to disrupt nature and human life in ways that cannot be fully predicted. It poses a diverse range of risks to the Nationwide Pension Fund's ("the Fund") assets and liabilities, but the required transition to a low-carbon economy also presents new opportunities which could strengthen the Fund's position.**

The world is facing temperature increases, rising sea levels, and more frequent extreme weather events. Unmitigated, climate change could lead to material social and economic ramifications, including disruptions to food and water supplies, increased frequency of natural disasters, and the displacement of communities. These could fundamentally change life, and explains the urgency seen worldwide to mitigate and adapt to the impacts of climate change.

Awareness of this has prompted international collaboration, resulting in the adoption of the Paris Agreement in 2015. This landmark international treaty is designed to constrain global warming to well below 2°C above pre-industrial levels, but with a target to limit any temperature increase to 1.5°C. Ratified by 196 countries, this agreement signifies a worldwide commitment to achieving Net Zero emissions by 2050 and focusing efforts on mitigating the consequences of climate change.

The Trustee has taken the decision to set a Net-Zero ambition, aligning with the Paris Agreement is a crucial and responsible step in addressing the risks posed by climate change. The Fund's sponsor, Nationwide Building Society, set its own Net Zero targets in 2022. By proactively targeting investments aligned to a low-carbon economy, opportunities can be capitalised on, and risks can be mitigated. This aligns with the Trustee's fiduciary duty to ensure pension obligations are paid in full. There is also growing demand from stakeholders, including beneficiaries and regulators, for pension funds to take a leading role in combating climate change. Targeting Net Zero demonstrates the Fund's commitment to long term sustainability and securing a more stable and resilient future for its pension members to live in.

The full Transition Plan details why this decision has been made, the action that will be taken, and how progress will be monitored, and this summary gives an overview of those actions and some key considerations that have been accounted for when taking this decision. It is expected that this will be updated on a five-yearly basis, unless an early review is required.

There are two Sections within the Fund; the Cheshire & Derbyshire Section, and the Nationwide Section. The ambition to achieve Net Zero applies to both.

### Key targets

- To reduce net emissions by 15% by 2030.
- To only use Net Zero aligned third parties by 2040.
- To achieve Net Zero by 2050.

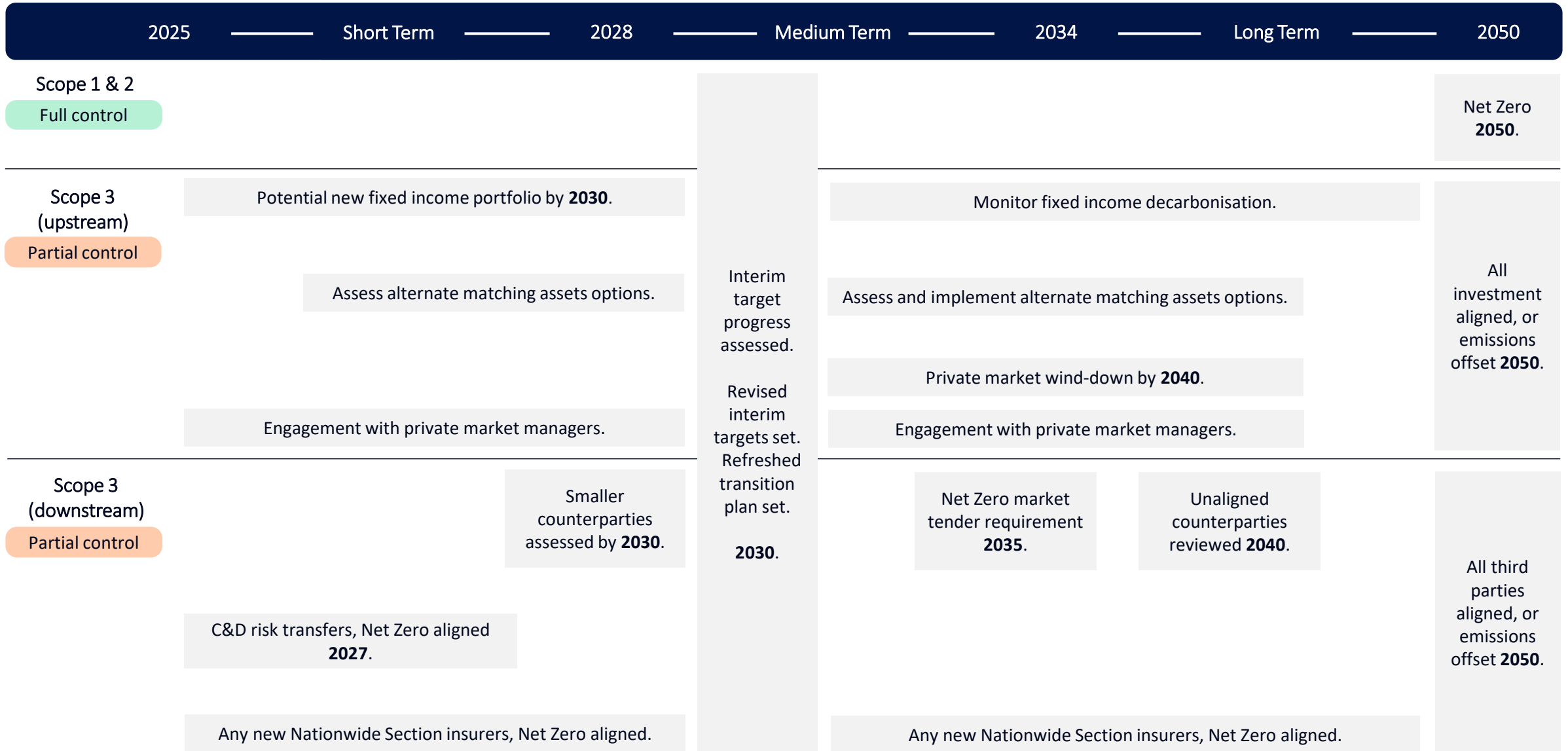
### Key actions

- Engage with asset managers to achieve real-life emission reductions.
- Set achievable carbon footprint reductions that can be effectively measured.
- Adapt the investment strategy to enhance the likelihood of achieving Net Zero.
- Work with counterparties to reduce emissions attributed to the supply chain.

### Key review triggers

- Earliest of achieving interim targets or every five years.
- Material changes in the investment portfolio composition.
- Material changes in the investment and funding strategy.
- Material developments in the regulatory environment.

# Transition Plan on a page



## External factors and assumptions

### Fiduciary duty

The Trustee's fiduciary duty is to ensure pension obligations are paid as they fall due. This is the overriding priority and drives all strategic decisions. Therefore, achieving Net Zero requires an approach that balances opportunities and risks. The approach laid out in the Transition Plan centres around making the Fund more conscious of sustainability concerns and the financial risks that these pose, while still generating sufficient financial returns.

The opportunities and risks involved in targeting Net Zero have been explored, and based on this assessment, a transition is not only feasible but will help mitigate climate-related risks. This ambition will also ensure the investment strategy takes advantage of various opportunities to strengthen the financial position and help secure a more stable and resilient future for its pension members.

Therefore, the Trustee is of the opinion that its ambition aligns with its fiduciary duty, as it will reduce risk and ensure that members' payments are made as required.

A range of assumptions have been made while producing this plan, it is also reliant on several external factors to achieve Net Zero.

### External factors

- Achieving Net Zero relies on the UK Government meeting its legal obligations. There is limited ability to influence the trajectory of the UK Government, and therefore, this is a key factor that may prevent the set targets from being realised.
- Tail risks have the potential to severely alter the funding level. While these events are guarded against within the risk minimisation strategies, they still have the potential to impact the success of this plan.
- The legal and regulatory environment may change. This could have a range of impacts, from preventing investment in certain assets to introducing carbon taxes that are financially detrimental. If material developments occur, the Net Zero ambition and Transition Plan will be revisited.

### Assumptions

- Private market assets are unlikely to make up a material proportion of the overall asset mix once the current private market portfolio winds down. This is based on the expected returns from current investments exceeding those required.
- Future investments will mainly be in fixed income assets. If circumstances require investments in other asset classes, consideration will be given to how they can support achieving Net Zero at that point.
- As the Trustee is a non-executive entity and all operations are undertaken by third parties, there are immaterial levels of Scope 1 and 2 emissions from the Trustee's own activities. The Trustee therefore focuses on the Scope 3 emissions and particularly those resulting from its investments.
- The transition on Alternative Matching Assets to Net Zero will be addressed in future iterations of the Transition Plan.
- Net Zero and its positive impact on transitioning to a low-carbon economy can be achieved while meeting the fiduciary duty. If this is no longer the case, fiduciary duty will remain the primary concern, and efforts to decarbonise may lessen.