Task Force on Climate-related Financial Disclosures (TCFD) Report

Cushon Master Trust

Scheme year end 31 December 2022

Foreword

The Trustees of the Cushon Master Trust recognise Environmental, Social & Governance ('ESG') considerations as material and dynamic sources of risks and opportunities. We believe incorporating ESG factors, including climate change, into investment decision making is in the best interests of our members in accordance with our legal duties.

Climate change is a systemic risk to the global economy and financial markets, given the need for a drastic transition to a low carbon economy. Physical risks from climate change will be felt across all sectors and asset classes and we recognise this is an issue that cannot be ignored. We will continue to evolve our approach to managing these factors, and further details can be found in our Statement of Investment Principles and Responsible Investment and Stewardship Policy: https://www.cushon.co.uk/info/terms.

This is our second climate report which lays out the Trustees' governance processes and key findings with respect to climate change reporting, in line with the Task Force on Climate-related Financial Disclosures ('TCFD')'s framework, for the 31 December 2022 scheme year end. We believe appropriate disclosure of climate-related considerations will contribute towards a better climate strategy.

We are pleased to have launched our new default strategy during 2022. We designed this investment strategy with climate (and broader ESG) considerations as a central focus. We look forward to sharing our climate strategy within this report.

Executive Summary

When making investment decisions about your pension arrangements, we must consider a variety of financial risks, some of which may take decades to materialise. Given the long timescales and considerable uncertainty surrounding outcomes from climate change, we consider managing climate risks and opportunities to be a key part in our role of safeguarding your pension.

This report illustrates how the Cushon Master Trust ('the Scheme') is taking action to manage and mitigate the impact of climate change risks on your pension pot. The Scheme is an authorised DC UK Master Trust and is therefore required to disclose how climate change is factored into the Scheme's decisions at Trustee Board-level.

The key disclosures required by law are in-line with the recommendations of the TCFD and guidance from the Department for Work and Pensions ('DWP').

Our new default investment strategy has a central focus on climate change and tackling decarbonisation across all sectors. This is done without compromising investment returns.

We're helping tackle climate change whilst taking care of your future.

The TCFD recommendations focus on four pillars of disclosure:

Governance
Trustee governance relating to climate risks and opportunities

Strategy
The actual and potential impact of climate risks & opportunities on the Scheme

Risk Management
How trustees identify, assess and manage climate related risks

Metrics and Targets
To identify and manage climate risks

Governance

As Trustees we have a duty to consider the financial risks and opportunities presented by climate change when running the Scheme.

We have reviewed our investment beliefs, taking into consideration these climate risks and opportunities, and have several policies aimed at ensuring the Scheme is governed in accordance with these principles.

We work with the Scheme Funder (Cushon), our advisers and investment managers to fulfil our climate-related responsibilities. We will review our advisers' climate competency to ensure we understand the latest climate thinking.

Given how quickly the climate landscape evolves, we receive regular training on climate risks and opportunities, latest examples including tipping points and carbon markets.

Strategy

We are pleased to have launched our new default strategy, the Cushon Sustainable Investment Strategy, over 2022. This strategy has allocations to a number of exciting climate opportunities across several different asset classes. We look forward to continuing to evolve this strategy.

Over the year we undertook further climate scenario analysis on our new default strategy where we have considered the potential impact of climate-related risks over short, medium and long-term time horizons. This has reinforced that it is in the best interest of our members to focus on identifying and managing climate risks. To manage this risk, the mandates being used within the new default strategy focus on climate risk and opportunities in a range of different ways, from excluding worst offenders, to identifying climate opportunities (such as renewable infrastructure), to supporting high emitting companies to decarbonise via stewardship activities.

We have agreed a set of stewardship priorities, and going forward we will seek to ensure our investment managers are aligned with these. We recognise that the investment industry as a whole has a key part to play in supporting all sectors to decarbonise. We do our utmost to ensure that investment managers engage with companies to encourage future-proof sustainable policies and practices.

In the completion of this report, any forward-looking scenario analysis has been modelled based on the target asset allocation (with the inclusion of the Schroders Climate + Fund, Ninety-One Multi Asset Credit and LGIM Corporate Bonds). Any backward-looking modelling has been based on the interim asset allocation for the Cushon Sustainable Investment Strategy.

Metrics & Targets

Within this report, we report on 4 climate-related metrics for the Cushon Sustainable Investment Strategy.

1. **Total GHG emissions (CO_2): 16,077 (scope 1 & 2), 79,883 (scope 3)**
2. **Carbon footprint (CO_2/ $1m of Enterprise Value Including Cash "EVIC"): 42 (scope 1 & 2). 200 (scope 3)**
3. **Implied temperature rise: 2.4°C**
4. **Data quality (scope 1 & 2): 0% verified, 82% reported, 12% estimated, 6% unavailable (definitions used for verified, reported, estimated and unavailable can be found on page 32 of this report)**

In last year's report we set a target to ensure that, at launch, the new default strategy would have a carbon footprint of at least 20% lower than the Salvus Cautious default (the old popular arrangement). This target was met, with the move to the new strategy resulting in a 42% reduction in the carbon footprint (scope 1 & 2).

Over 2022 we then agreed a new, ambitious target: for the Cushon Sustainable Investment Strategy's carbon footprint (scope 1 & 2) to be at least 80% lower than the 2022 baseline by 30 Sep 2030. We look forward to reporting on our progress against this target in future reports.

Risk Management

We have integrated climate risks into our routine risk management processes at both the board and fund level.

- At the board level, a risk register is used – Investment managers that are unable to provide the required TCFD reporting are assessed to be the largest risk.

At the strategy level, we agreed our first climate risk and opportunities dashboard over 2022. This dashboard sets out our view across each asset class and will feed into our strategic thinking and will be updated regularly.

Contents

Governance

Describe the board's oversight of climate-related risks and opportunities

We are responsible for governing the Scheme, and have a fiduciary duty to members to act in their best interests. We recognise ESG factors as financially material and take these factors into account as part of our fiduciary duty. We believe that this approach to investment is in the best interests of members in accordance with our legal duties.

A key part of managing ESG factors is establishing oversight of climate-related risks and opportunities. We have put in place a Responsible Investment ('RI') and Stewardship Policy, which summarises our investment beliefs with respect to RI and how ESG factors are integrated into decision making. We act in accordance with this set of beliefs when considering material changes in the Scheme's investment arrangements.

Our immediate ESG priority is to address climate change, which could pose a substantial financially material risk, and potential opportunity, to our members. To this end, during 2022, we launched our new default strategy ('the Cushon Sustainable Investment Strategy'), which the majority of members are now invested in, and has a clear climate focus. Although the Cushon Sustainable Investment Strategy has a low carbon footprint, it also focuses on forward looking action and financing solutions to support with wider decarbonisation ambitions.

We have also agreed to the following climate targets for our default strategy:
1. For the carbon footprint (scope 1 & 2) to be at least 80% lower than the 2022 baseline by 30 Sep 2030.
2. Achievement of net zero well in advance of 2050.

Describe management's role in assessing and managing climate-related risks and opportunities

We, with support from the Scheme Funder, Cushon, the Scheme's advisers, and our investment managers, retain overall legal and fiduciary responsibility for how the Scheme's assets are invested, as well as ESG considerations (including climate change). The table overleaf summarises each party's role in managing climate-related risks and opportunities, with full details in our RI and Stewardship Policy. We have regular meetings with our advisers to receive formal advice and updates on the below.

Click to read our Responsible Investment Policy:

https://www.cushon.co.uk/info/terms

Our new Sustainable Investment Strategy

Mitigating the impacts of climate change is a primary focus for us – we have a long-term view and seek to identify opportunities that will aid in global action.

Party	Roles and responsibilities
The Trustees	• Agree and review investment beliefs, investment strategy and investment objective, including the setting of RI ambitions or areas to prioritise. • Maintain the RI and Stewardship Policy and use them as a basis for driving and monitoring ESG integration. • Review investment managers' approaches to and effectiveness in RI. • Consider the investment managers' track record on voting and engagement and report via the annual Implementation Statement. • Consider member views on ESG issues (e.g. via surveys). • Receive regular climate-related updates from the Scheme's advisers. • Assess how external advisers and providers have performed against their climate responsibilities. • Decide which ESG-related bodies to support and/or join. • Respond to regulatory queries. • Fulfil regulatory requirements with respect to ESG, including preparing the annual Implementation Statement and oversee delivery of TCFD reporting. • Continue to develop the Trustees' understanding of RI through regular training on prevailing risks and sustainable investment opportunities.
Scheme Funder, Cushon	• Work with the Trustees to review and determine the strategic direction regarding RI and agree the RI and Stewardship Policy. • Propose investment strategies and managers which are aligned to the Scheme's Statement of Investment Principles ('SIP') and the RI and Stewardship Policy. • Communicate with members in regards to the positive impact of the investments and provide engagement tools to collate member views, in accordance with the Service Agreement in place between the Trustees, HS Pensions Limited and Cushon. • Provide updates to the Trustees on the Scheme's investments with respect to RI and climate change. • Cushon Investment Office provide regular updates to the Trustees on Cushon's latest thinking and potential innovative solutions in particular with regards to ESG.
Investment Adviser, Isio	• Advise on RI, ESG and climate considerations that may arise as risks or opportunities. • Assess proposed mandates from an RI, ESG and climate perspective as part of the manager selection process. • Review the Scheme's investments from an RI, ESG and climate perspective. • Assist with the preparation of the annual TCFD report.

Party	Roles and responsibilities
Investment Adviser, Isio	• Collate information on the voting and engagement activity of underlying managers for inclusion in the Implementation Statement. • Provide training and relevant updates to the Trustees on relevant RI, ESG and climate-related matters.
Legal Adviser	• Provide training to the Trustees on RI, ESG and climate-related legal matters, and ensuring the Trustees are aware of their RI, ESG and climate-related legal and fiduciary obligations. • Assist in the documentation of the arrangements with the Scheme's third parties with respect to RI, ESG and climate-related matters.
Investment Managers	• Identify, assess and manage RI, ESG and climate-related risks and opportunities in relation to the Scheme's investments. • Exercise voting rights and engaging with portfolio companies in relation to RI, ESG and climate-related risks and opportunities, with consideration of the Trustees' views where applicable. • Report back to the Trustees on their stewardship record. • Provide climate-related metrics for TCFD reporting requirements and focus on increasing the quality and availability of these metrics.

Trustee Knowledge and Understanding

The landscape regarding climate-related risks and opportunities is evolving rapidly. We know that in order to identify, assess and manage potential climate-related risks, we must have the right level of knowledge and understanding of these matters.

We have recently undertaken the following training:

- Latest climate science
- Sector specific climate risks
- Carbon markets
- Climate tipping points and feedback loops
- Social implications of climate change
- Key scenario modelling limitations

We receive a range of climate-related materials/information in order to continue to build our level of climate knowledge, with key items including the climate scenario analysis, climate metrics reporting and our climate risk and opportunities dashboard. In addition, we have been leading on climate change reporting on the Occupational Pensions Stewardship Council (OPSC).

Assessing our Advisers

We will review our advisers' climate competency to ensure we align with best practice and the latest thinking. We monitor our investment adviser against these high level ESG-related objectives:

- Provision of advice on ESG (including climate change) risks and opportunities consistent with our ESG objectives
- Proactively identify new investment opportunities and risks
- Provision of advice on responsible ownership of assets including stewardship and execution
- Assisting us in meeting regulatory requirements, including TCFD

Over 2023, we plan on assessing our investment adviser against the Investment Consultants Sustainability Working Group "ICSWG" climate competency framework.

Strategy

Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term

We, in conjunction with our advisers, have agreed time horizons of relevance to the Scheme when considering climate-related risks and opportunities. We have considered the potential impacts of both transition and physical risks on investments.

Transition risks

Incurred during the transition to a lower-carbon economy due to policy, legal, technology and market changes to address mitigation and adaptation requirements related to climate change

Physical risks

Arise from event driven (acute) or longer-term shifts (chronic) in climate patterns, these can result in direct damage to assets or indirect disruption to operations and supply chains

Term	Timeframe	Considerations feeding into timeframe setting			Climate risks on assets
Short term	10 years	Interim 2030 targets enforced to limit global warming to 1.5°C	Improvement in data quality of climate metrics	Older members approaching retirement	Transitional risks such as carbon pricing & regulation
Medium term	30 years	Investors and organisations setting 2050 net zero targets	Transitioning to low carbon becomes increasingly difficult, as the quick wins dry up, leaving the harder to decarbonise sectors or assets	Significant proportion of current membership approaching retirement in 10-30 years	Transitional risks such as carbon pricing & regulation and potential physical risks such as extreme weather events and sea level rises
Long term	50 years	Physical risks may become dominant	Young members or members yet to join the scheme approaching retirement		Unprecedented shifts in physical risks, with extreme weather events increasing in magnitude and frequency, such as flooding and cyclones

As shown above, we expect shorter time frames to be dominated by the impacts of transition risks as the world transitions to a lower-carbon economy if a net zero ambition is achieved. Over the longer term the physical impacts of altering climate patterns will be prominent if ambitions and targets are not achieved.

Across all time frames identified, we believe there will be significant investment opportunities in the sustainable growth, development, and investment across various industries if a net zero ambition is achieved. Companies that adapt best to climate risks or provide solutions that enable corporates or society to adapt to or mitigate the impact present attractive investment opportunities – for example, companies that are providing solutions to renewable energy or hydrogen-based transport. Our beliefs around climate opportunities have factored into the construction of our new default strategy, the Cushon Sustainable Investment Strategy.

Further detail on the assessment of climate risks and opportunities across these different time horizons can be found in the Risk Management section.

Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning

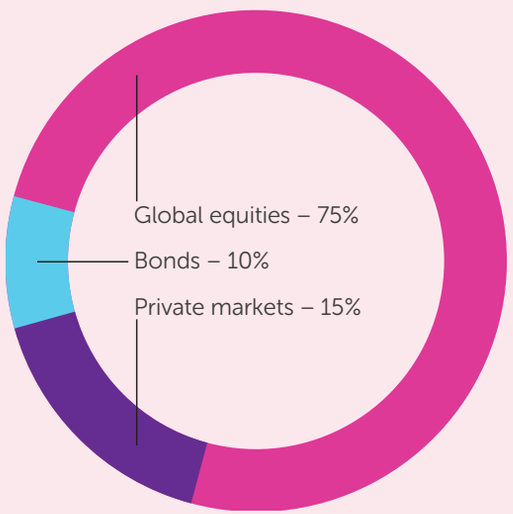
We provide a default strategy, the Cushon Sustainable Investment Strategy, to members who do not make a specific investment choice. The default strategy is selected in the best interest of the majority of members and beneficiaries, and we undertake periodic reviews on the suitability.

During the reporting period, the Scheme did have in place a number of default strategies, many of which were legacy strategies from prior schemes applicable to different groups of members. Members invested in legacy default strategies were transferred to the Cushon Sustainable Investment Strategy during the reporting period, with the activity completed before year end. We spent considerable time during the reporting period reviewing the climate-related risks and opportunities within the Cushon Sustainable Investment Strategy.

The Cushon Sustainable Investment Strategy aims to reduce exposure to climate risk across all asset classes. As part of a diversified portfolio, the strategy invests in a range of climate mitigation, climate adaptation and natural capital strategies in developed and emerging markets targeting both impact on people and on the planet.

Selected investments may include wind and solar farms, forestry, battery tech, green hydrogen, climate insurance and social housing. Beyond environmental projects, the Cushon Sustainable Investment Strategy seeks to ensure greater social impact for its members' investments, connecting savers with the UN's Sustainable Development Goals ('SDGs') and incorporating broader ESG principles.

Cushon Sustainable Investment Strategy



The asset allocation for the Cushon Sustainable Investment Strategy is shown above for the growth phase. A more detailed breakdown of the asset allocation throughout the whole lifestyle is shown on page 16 of this report.

Global Equities

Manager	Integration of climate-related risks and opportunities
Macquarie (who invest in a climate-oriented equity index designed by Solactive)	• Screening of companies involved in controversial weapons and serious breaches of the UN Global Compact, as well as companies which are impeding progress of the UN Sustainable Development Goals ('SDGs') – including SDG 13 on Climate Action. • Targeting an immediate (60%) and ongoing reduction (7% p.a.) in scope 1 & 2 greenhouse gas emissions. • Increasing exposure to companies with green carbon revenues, e.g. from low carbon products and services. • Reducing exposure to companies that carry significant carbon risk.

Bonds (Corporate Bonds)

Manager	Integration of climate-related risks and opportunities
Lombard Odier	• Invests in issuers which contribute to a reduction in global CO_2e emissions and the eventual achievement of net zero by 2050. • May invest in sectors that have a high carbon footprint today, but where the company is expected to adapt to the climate transition successfully – this can present opportunities as these companies may be excluded by other investors who look only at today's emissions. • Screening out companies that derive more than 10% of revenue from sources which the manager believes are detrimental to ESG factors. • Targets a 50% reduction in greenhouse gas emissions by 2030, and net zero by 2050.
LGIM	• Rules-based approach to scoring companies based on their ESG factors. These scores are utilised to apply a weighting to companies within the index, favouring those with stronger ESG integration. • LGIM consider Transparency as a factor alongside Environmental, Social, and Governance factors, deciding that the quality of a firm's disclosures are as material as the disclosures • Through their signatory to the Net Zero Asset Owner Alliance, LGIM has publicly committed to helping clients transition their assets in line with global pathways towards net zero by 2050.

Bonds (Corporate Bonds)

Manager	Integration of climate-related risks and opportunities
Wellington	• Focuses on high impact issuers across 3 core impact areas (Life Essentials, Human Empowerment and the Environment), with key performance indicators measuring each investment's level of impact. • Targets a 50% reduction in greenhouse gas emissions by 2030, and net zero by 2050.

Bonds (Multi Asset credit)

Manager	Integration of climate-related risks and opportunities
NinetyOne	• The NinetyOne framework involves investments being assessed against 9 core sustainability themes (climate change, pollution and waste, natural capital, human capital, social capital, product liability, corporate behaviour, regulatory risk, governance). • At least 50% of the portfolio to be achieving net zero, aligned to a net zero pathway, or aligning to a net zero pathway according to the Transition Alignment Framework by 2030.

Private Markets

Manager	Integration of climate-related risks and opportunities
Schroders	• 70%+ of investments to meet positive climate impact criteria, with the manager having discretion to invest the remaining investments in other SDG investments. • May include investments in areas such as renewable energy and infrastructure, sustainable transport, climate-related technology, and forestry, which all play a key role in reducing emissions.

Where the Scheme invested in pooled funds, we have considered how the investment managers take climate change into account, including in relation to stewardship and engagement. Detail can be found in the Risk Management section.

We also make available a range of self-select options for members to choose from based on their own attitude to risk, term to retirement, and investment objective. ESG factors, including climate change, are integrated as a core element of as many self-select funds as possible, subject to availability of funds within different asset classes.

Self-select fund range

Sustainable options

- Cushon Global Equity
- Sustainable Global Equity
- Sustainable UK Equity
- Sustainable Europe (ex UK) Equity
- Sustainable Japanese Equity
- Sustainable North American Equity
- Sustainable Pacific (ex Japan) Equity
- Sustainable Emerging Market Equity
- Global Impact Equity
- Cushon Global Bonds
- Sustainable UK Corporate Bonds

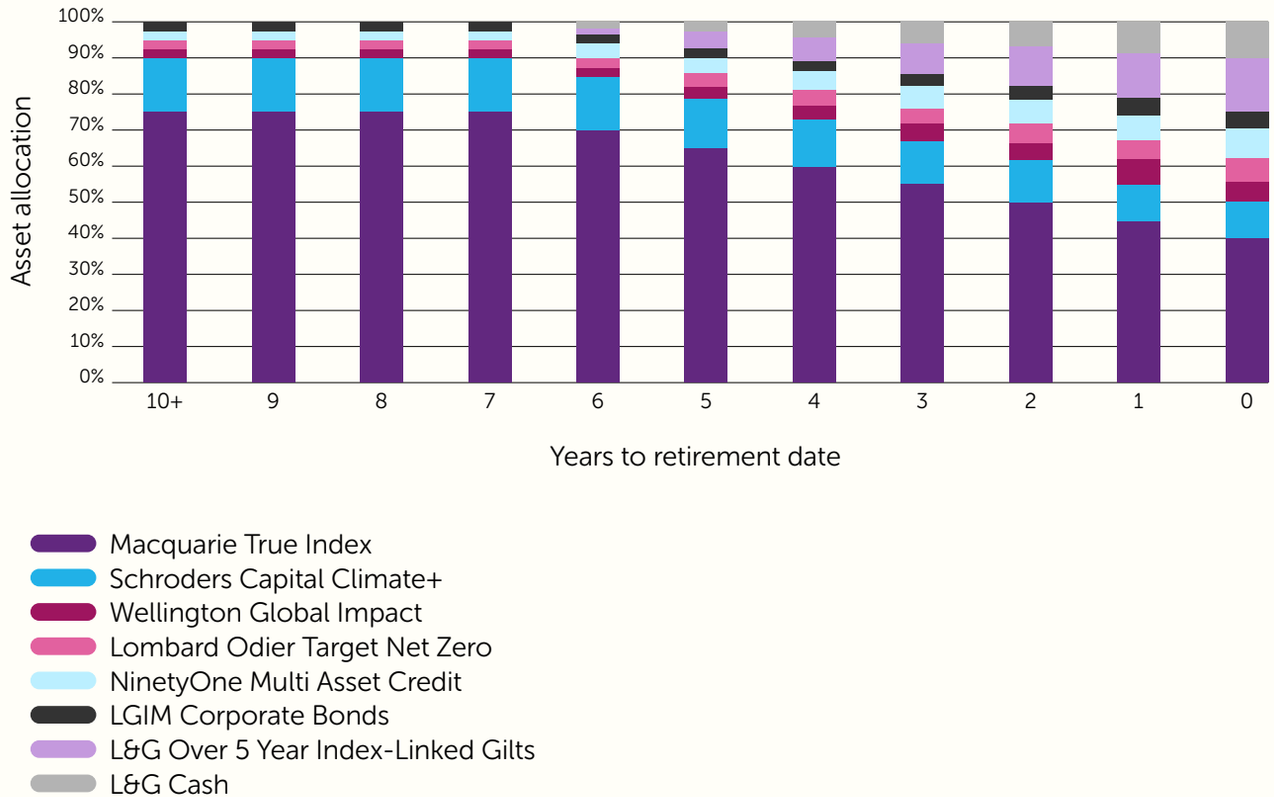
The self-select range will be regularly reviewed considering market and product developments in the ESG fund sector.

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

We undertook our first climate scenario analysis during 2021 and have updated this analysis in 2022 to reflect the new default strategy and new climate scenarios.

Strategy modelled
The analysis was undertaken on the Scheme's default DC arrangements, the Cushon Sustainable Investment strategy. This strategy meets the definition of a 'popular investment'.

This chart depicts the default strategy modelled, a member's de-risking journey is reflected in the modelling.



A detailed overview of how the model works can be found in the Appendix.

Scenarios

The three climate scenarios assessed are defined by the Network for Greening the Financial System ('NGFS'), and interpreted by Moody's Analytics. The NGFS is a group driving consistency in the climate scenarios updated by the financial industry.
A description of each scenario is below, with the results of the analysis provided after.

Net Zero 2050 - 1.5°C

- A Paris aligned scenario with global temperature rise kept to 1.5°C above pre-industrial levels and net zero by 2050 achieved.
- An optimistic scenario with the transition to net zero implemented in a measured, uniform and orderly manner; with sufficient investment in green/offsetting technology.
- Transition costs are incurred but are kept low due to the efficient manner of implementation.
- Physical damages are minimised.

Divergent Net Zero - 1.5°C

- A Paris aligned scenario with global temperature rise kept to 1.5°C above pre-industrial levels and net zero by 2050 achieved.
- A more pessimistic scenario with the transition to net zero being divergent in decarbonisation policies across sectors e.g. the transport and building sectors instil more stringent climate policies than the energy and industrial sectors.
- Transition costs are higher than the Net Zero 2050 scenario due to the inefficient implementation of decarbonisation policies/ plans and offsetting technology being less widely available and more expensive.
- Physical damages are minimised.

Current Policies - 3.8°C

- A pessimistic scenario where the world largely fails to meet the ambition set out in the Paris Agreement, resulting in 3.8°C of warming this century.
- Current global climate policies are implemented, but no further ramping up of climate policy ambition over time, resulting in lower transition costs. Higher physical risks arise as a result of rising global temperatures, with shifts in weather patterns and a increased incidence of natural disasters.

Climate Scenarios

Technical assumptions

	Orderly Transition	Disorderly Transition	Hot House
Climate policy	Climate policies introduced early and uniformly across sectors, and become gradually more stringent.	Divergent climate action, with more ambitious climate policies in some sectors than others.	Current policies implemented, but Nationally Determined Contributions (under the Paris Agreement) not met.
Scenario outcome	Global net zero carbon emissions achieved by 2050, resulting in a 50% chance of achieving a below 1.5^{0}C scenario.	Emissions reductions are costlier (vs the orderly scenario), in order to meet the same target of 1.5^{0}C scenario.	Emissions continue to grow from today until 2080, leading to a 3.8^{0}C scenario outcome this century.
Carbon price	Gradual increase in the carbon price from 2020 onwards, reaching $540 per ton of greenhouse gas (GHG) emissions by the end of the century.	Whilst carbon price remains extremely low to 2030, it accelerates to over $1,350 per ton of GHG emission by the end of this century.	Carbon price remains extremely low until the end of the century, with minimal impact on markets.
Transition risks	Relatively low transition risk (vs disorderly). Emissions reductions occur immediately and are relatively ambitious, across sectors. Gradual increase in renewable energy and biomass to >70% of global energy mix by 2050, with the near complete phase out of coal. Carbon dioxide removal (CDR) is deployed, including nature-based solutions and carbon capture, usage and storage. This is kept to the minimum level possible to still achieve the temperature target.	Relatively higher transition risks (vs orderly), as decarbonisation actions are more disorderly and costly. Emissions reductions are divergent across sectors (being more ambitious in transport and buildings, vs less ambitious in energy and industry sectors) The renewable energy mix outcome is relatively similar to the orderly scenario, with nuclear energy also being important across the low carbon scenarios. There is slightly more limited CDR deployment, as compared with the orderly scenario.	Current climate policies are implemented, but with no further decarbonisation action is taken. Emissions eventually stabilise across sectors, at higher levels than the other scenarios considered. Renewable energy and biomass share only increases marginally from 2020 levels, reaching ~25% by 2050, as investment in fossil fuels continue. No investment in CDR approaches and technologies.

	Orderly Transition	Disorderly Transition	Hot House
Physical risks	Physical impacts remain relatively low (vs hot house). There will be gradual impacts from the climate system, including a ~0.4m rise in sea levels, globally, and an estimated decline in the yields of major agricultural crops, e.g. wheat, maize and soybean crops, of up to a quarter to the end of the century. Shifts in natural disasters will vary across geographies. For example, in the UK, the extent of river flooding could increase by over 20% by the end of the century (from 2020 levels).	Physical impacts are similar to the orderly scenario, given similar temperature outcomes. Sea level rise and crop yield expectations are similar to the orderly scenario. Whilst in the UK, precipitation is expected to decrease threefold by the end of the century (across both of the low carbon scenarios). Whilst the daily average temperature will increase only marginally in the UK, the incidence of heatwaves will increase at a more significant rate, alongside a higher extent of flooding.	Severe physical impacts result. Under this high warming scenario, there may be irreversible changes in the climate system. Sea levels rise is expected to reach ~0.7m by the end of the century, accompanied by significant declines in agricultural yields, in particular for maize crops, which experience a halving of yields (on average, globally). Unprecedented natural disasters could be experienced. For example, in the UK, annual damages incurred from cyclones could increase by circa 60% (from near zero in 2020), whilst the land exposed to wildfires could double.

We have also assessed a baseline scenario which assumes no transition or physical impacts of climate change i.e. a climate neutral scenario for comparison purposes.

We have opted to assess these scenarios given our focus on net zero and the importance of understanding the pathway to achieve this (i.e. orderly vs disorderly), with the speed of action being central to how costly the transition will be for the global economy and investments. The hot house scenario provides a view on possible physical risks should society not decarbonise to a well below 2°C scenario, which is expected to lead to significant changes in weather patterns and severity of natural disasters.

Whilst scenario analysis is a hypothetical construct, analysing these extremes helps us assess how severe transition risks and physical risks could be for the Scheme. We ensured to feed in the high-level results of the scenario analysis into our strategic thinking, rather than focusing on the detailed numbers given the uncertainty and assumptions underlying the modelling.

Modelling limitations

Ahead of analysing the results of the scenario analysis, we discussed key limitations of the modelling to ensure we have a full picture of the potential impacts of climate change. The key limitations we discussed included:

- The potential underrepresentation of physical risks within modelling with such impacts as tipping points not captured in standard climate scenario analysis. We therefore recognise that the impacts of higher warming scenarios may be more extreme than currently reported.

- It is difficult to model "unknown unknowns" for example climate risk or technological progress not yet discovered.

- This modelling involves very long-time horizons and any uncertainties will compound over time.

Accounting for the above limitations of climate scenario analysis, the impact on an investor portfolio could be more than 3x more severe than under the Current Policies scenario. We therefore applied a qualitative overlay to the scenario analysis results to ensure we cover all aspects of climate risks and opportunities in our discussions.

Further details on our scenario modelling, including key assumptions and any limitations are included in the Appendix.

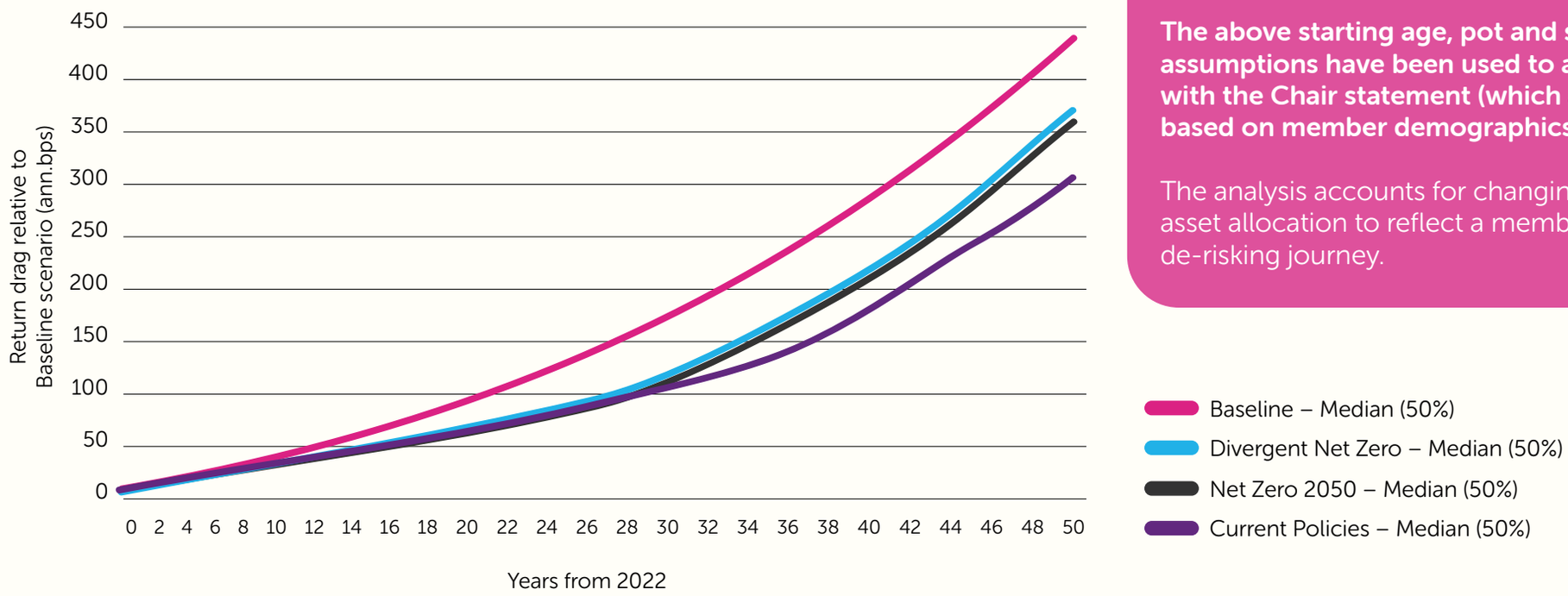
Results

The results of the scenario analysis for the Cushon Sustainable Investment Strategy are shown overleaf.

Scenario Analysis
Results

Asset value projections

The chart shows the projected asset values for a younger member invested in the Cushon Sustainable Investment Strategy, under the four scenarios.



Scenario	10 years	30 years	50 years
Net Zero 2050	-0.4%	-1.4%	-1.0%
Divergent Net Zero	-1.4%	-1.6%	-1.0%
Current Policies	-0.8%	-1.6%	-1.4%

This table shows the annualised return drag relative to baseline scenario.

Member assumptions
Starting age: 18
Retirement age: 68
Starting pot: £5,000
Starting salary: £25,000 (increasing annually in line with inflation)
Contributions: 8% p.a.

The above starting age, pot and salary assumptions have been used to align with the Chair statement (which are based on member demographics).

The analysis accounts for changing asset allocation to reflect a member's de-risking journey.

What's clear from this analysis is that:

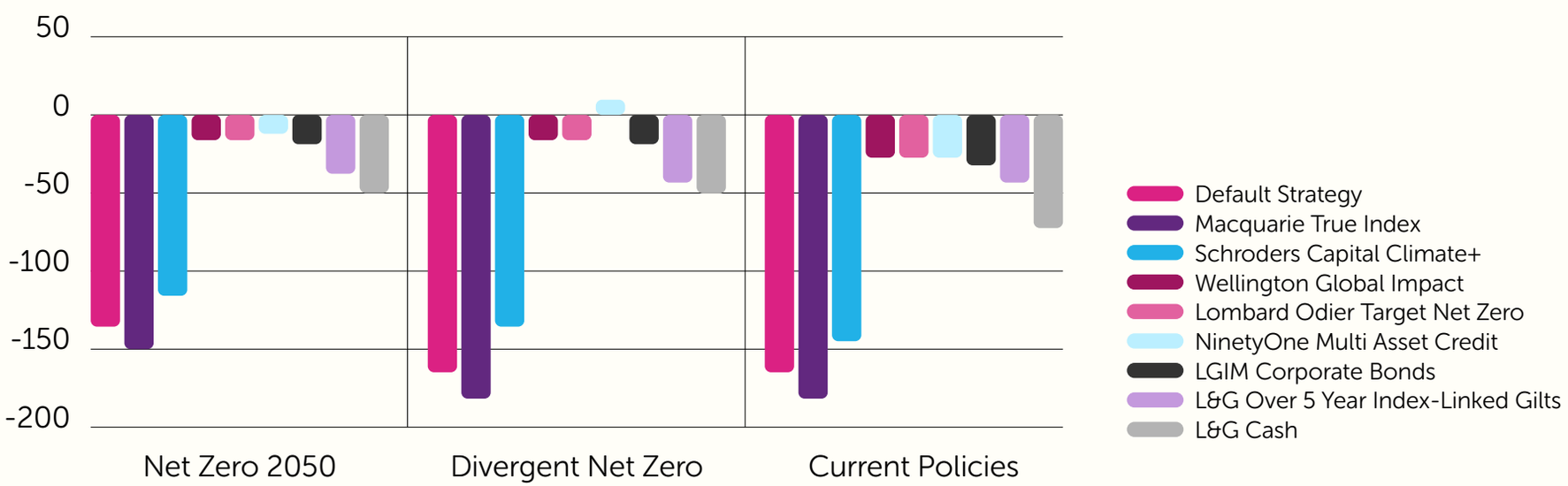
- Should the world transition towards net zero by 2050, the pathway followed (i.e. orderly or divergent) has an impact on member experience. This is especially true over the shorter term, with the transition costs incurred under Divergent Net Zero being much higher over the 10 year period (135bps p.a. return drag vs 39bps return drag under Net Zero 2050). This reinforces the focus on investing in transition ready companies and investments.

- Over the longer term, the Current Policies scenario shows the significant potential physical impacts of rising global temperatures; over a 50-year period this could lead to a c. £120k or -31% impact, compared to baseline. This is important given the long timeframes for most members within the Scheme.

Asset class impacts

We also considered asset class specific results where we looked to isolate the impact against each individual asset class within our default strategy, across our three time horizons. This helps us assess key contributors within the strategy to climate risk and drive our strategy discussions. This analysis has also fed into our climate risk and opportunities dashboard set out within the Risk Management section.

Return drag relative to baseline scenario (ann. bps) – 30 years



The key conclusion from this analysis includes:

- This chart shows the climate costs roughly to 2050, and seems to be the time period in which the Current Policies scenario becomes more damaging than the net zero scenarios.

- At a total strategy level, over a 30-year time period, we see the initial impacts of the physical costs of rising global temperatures (with temperature rise reaching c. 2.4°C under Current Policies).

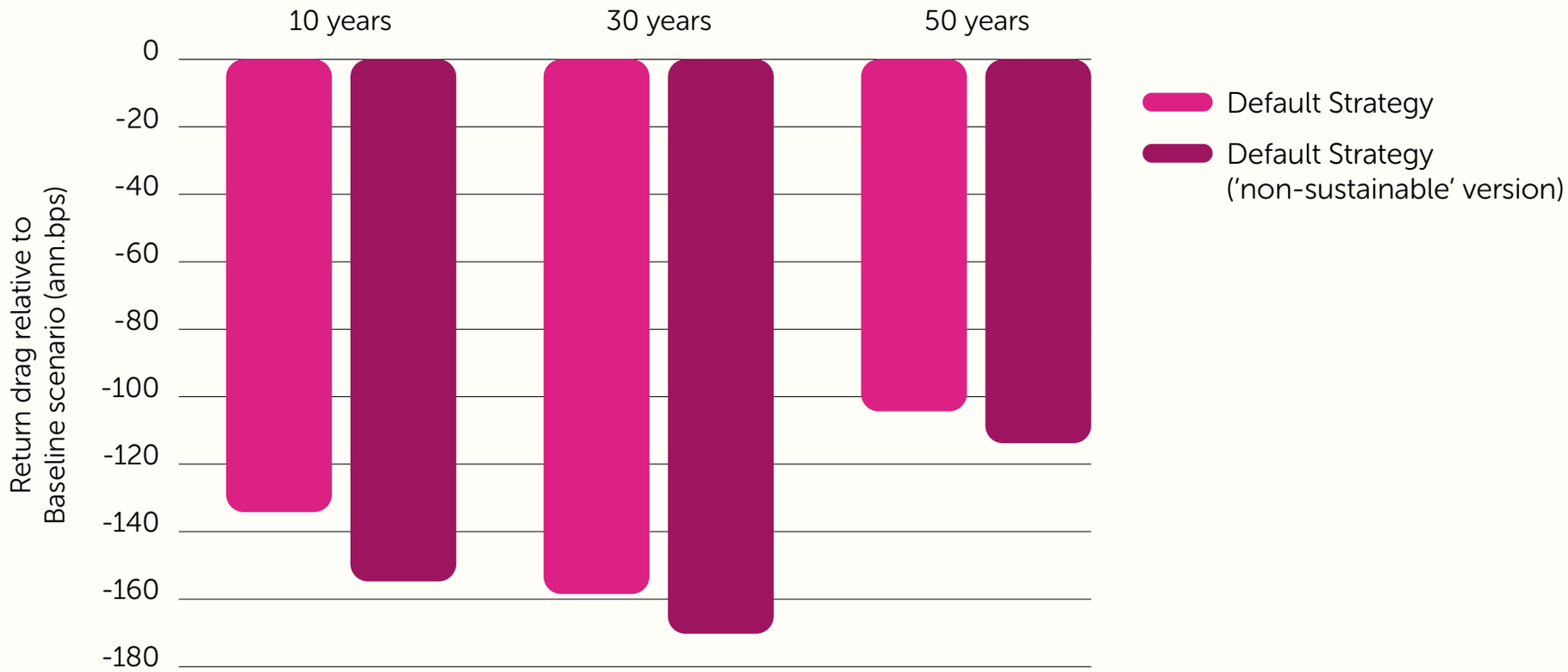
- As expected, climate risks are more dominant within the equity allocations, both public (Macquarie) and private (Schroders). We have implemented climate tilts and objectives within both of these mandates in order to manage climate risks and seek climate opportunities.

- We have also considered the potential impacts across different cohorts of members. Members within the growth phase are deemed to be more exposed to climate risk given the higher risk strategy with an allocation to equities, this however does also mean increased exposure to climate opportunities. Whilst members at retirement are still exposed to climate risk, this is deemed smaller given the lower risk asset classes within the strategy.

Quantifying the climate benefit

Over 2022 we launched the Cushon Sustainable Investment Strategy, with climate considerations lying at the heart of this strategy. In order to assess the effectiveness of the climate risk management within the strategy, we considered the 'climate benefit' i.e. the potential downside protection against climate risk. In order to do so, we modelled a 'non-sustainable' version of the strategy which has the same asset allocation but implemented without climate-aware funds.

We show the results overleaf for the Divergent Net Zero scenario. This shows clearly the downside protection against climate risk, for example over 10 years, our default strategy is estimated to perform over c. 20 bps better p.a. than the 'non-sustainable' version under a Divergent Net Zero scenario.



Looking forward

Although the impact of different climate scenarios is minimal in the short term, the default strategy is projected to be more significantly impacted over the longer term. These longer timeframes are important given the membership and scheme profile, and should be considered in any future investment strategy work.

We will continue to further our strategic climate thinking, as well as further developing our thinking when it comes to nature risks and opportunities.

Risk Management

Describe the organisation's processes for identifying and assessing climate-related risks

We seek advice from our advisers and receive presentations from investment managers on climate-related risks. The Cushon Investment Office also has deep knowledge of climate-related risks and opportunities and plays a key role in ensuring these are incorporated when developing the strategy.

We have reviewed all policies and frameworks in place to ensure climate risks and opportunities are central to our investment decisions and risk frameworks.

Risk register

We review the climate-related considerations in the Scheme's risk register annually, and details of this section of the risk register are noted on page 29-30. We consider the likelihood, impact, ownership and any mitigation actions that have been taken, with each risk scored according to its likelihood and potential impact. For risks with a combined likelihood / impact score of greater than 15, these are designated as "Key Risks" and there are additional controls in place to ensure these risks are managed to the appropriate level.

Climate risk and opportunities dashboard

Over the reporting period, we have developed a Scheme specific climate risk and opportunities dashboard, as can be seen overleaf. The asset class specific scenario analysis results fed into this dashboard as well as a qualitative overlay of what we have done to manage these risk and identify opportunities.

We will review and update this dashboard annually and use it to feed into our strategic thinking.

Risk	Time frame	Government Bonds	Corporate Bonds	Multi Asset Credit	Private Markets	Risk
Transitional (net zero scenario*)	Short term (10 years)					
	Medium term (30 years)					
	Long term (50 years)					
Physical (current policies scenario)	Short term (10 years)					
	Medium term (30 years)					
	Long term (50 years)					

*The directional impacts under the 2050 Net Zero and Divergent Net Zero scenarios are likely to be similar, albeit the magnitude and timing is expected to differ.

Low
Average
High

Describe the organisation's processes for managing climate-related risks

Investment managers

We delegate day-to-day management of the investments to fund managers, so we rely on them to identify, assess and manage climate-related risks on an ongoing basis. We are responsible for selecting and monitoring managers with support from our Investment Adviser, Isio. We have assessed the climate capabilities of each of the investment managers appointed when designing the new Cushon Sustainable Investment Strategy.

The evaluation criteria used to assess each investment manager is explained here. The investment managers' ESG (including climate) capabilities will be assessed on an annual basis.

Assessment Category	Example evaluation criteria
Investment Approach	• Are the fund's climate objectives quantifiable with interim targets set? • Are climate factors/considerations clearly integrated into the fund's due diligence process and ongoing investment analysis?
Risk Management	• Is there a firm-wide policy or commitment on climate change? • Does the manager have a dedicated individual within the ESG team with responsibility for oversight of the climate change policy?
Voting & Engagement	• Is climate change incorporated in the fund's stewardship priorities? • Can the manager provide a case study example demonstrating effective engagement on climate-related issues?
Reporting	• Does the manager undertake forward looking climate scenario modelling and is this published in quarterly reports? • Is climate-related data independently verified?
Collaboration	• Can the manager provide evidence of engagement with the wider community on climate change? • Is the manager a member of the UN Net-Zero Asset Owner Alliance? If not, is there a valid reason why?

Stewardship activity

We recognise the role of stewardship in driving change and aiding the transition to a lower carbon economy. As noted above, the voting and engagement activity of each investment manager within the new Cushon Sustainable Investment Strategy has been assessed as part of our manager selection process.

The Scheme's assets are held on the Mobius Life platform via a Trustee Investment Plan. Mobius Life have an Engagement & Stewardship Policy that can be found here. We share our investment beliefs with Mobius Life and will keep this under regular review.

We have a voting preference letter in place that we share with relevant parties in order to express our stewardship priorities. We have adopted a range of stewardship priorities that are important to us and our members, these being:

- Climate alignment – decarbonising and minimising emissions
- Climate adaptation
- Biodiversity risk and management
- Labour rights incl. modern slavery
- Diversity and inclusion (on boards in particular)

We will be requesting annual information from our investment managers on how they have voted and engaged in alignment with these priorities.

It is our intention that the investment managers appointed to manage the Scheme's assets will share similar beliefs to us, and therefore any voting and engagement by them with underlying companies are expected to be in line with our investment beliefs. We however note that Mobius Life and the investment managers will be carrying out voting and engagement for many investors, and will be obliged to manage this in line with the interests of all their clients, which may result in conflicts where there is no consensus.

Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management

The table overleaf sets out the climate-related risks that we monitor, in addition to the controls put in place to manage these risks at the Scheme level. These have been included in the Scheme's risk register and considered over the time horizons set out on page 11.

Risk	Description	Control	Owner	Likelihood	Impact	Likelihood /impact
Investment approach	Repositioning of Net Zero not being completed effectively	Advice on investments received from the Scheme Investment Adviser who carries out due diligence on their recommended funds on an ongoing basis. Trustees consider this aspect as part of investment strategy decisions. Cushon have received advice from a Climate Consultant, with the communication exercise being led by the Cushon Marketing team.	Trustees/ Investment Adviser	2	4	8
Responsible investing	Risk of ESG (Environmental, social and corporate Governance) not being factored into investment decisions	Advice on investment fund selection received from the Investment Adviser who carries out Operational Due Diligence on their recommended funds at outset and on an ongoing basis. This factor is considered within the Investment Adviser risk management framework, as they identify and manage risks which impact investment outcomes. This factor is integrated into fund selection and monitoring. Responsible Investment Policy has been put in place. ESG is covered within the SIP and both documents are monitored on an ongoing basis. The Trustees are members of the Occupational Pension Stewardship Council (OPSC).	Trustees/ Investment Adviser	2	3	6
TCFD	The Trustees do not comply with the TCFD requirements	Project plan and governance framework in place and being monitored. Trustee training has taken place (latest 20 Jan 2023). Advice from authorised Investment Adviser, Isio, is being received. Regular Trustee meeting agenda item.	Trustees/ Investment Adviser	2	3	6
	Climate change impacting investment returns	Advice being received from authorised Investment Adviser. Scenario testing has been agreed and monitored on an ongoing basis with tracking towards net zero. MI tracking to be received regularly.	Trustees/ Investment Adviser	2	3	6

Risk	Description	Control	Owner	Likelihood	Impact	Likelihood /impact
TCFD	Procurement & investment Risk - Fund managers unable to provide the required TCFD reporting	New Scheme default managers selected based on ability to report and are signed up to protocols to ensure compliance. Best endeavours are being made to ensure compliance from legacy managers. Advice from authorised Investment Adviser, Isio, is being received.	Trustees/ Investment Adviser	4	3	12
Financial stability	Environmental Lobbyist activity - Poorly informed activities causing targeted and consequential real world disruption and actual physical damage	Responsible Investment Policy has been put in place and is monitored on an ongoing basis. The Trustees make clear their Responsible Investing policies and ensure these meet the rational expectations of members and society.	Trustees	2	3	6
	The risk that the movement in stranded carbon will impact the economy and as a result - Scheme investment valuations	Responsible Investment Policy has been put in place and is monitored on an ongoing basis. Climate-related risk and management has been incorporated into the Trustee investment beliefs, Statement of Investment Principles and Responsible Investment policy. All policies are monitored on an ongoing basis.	Trustees/ Investment Adviser	3	3	9

Metrics & Targets

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

For our second TCFD report we have reported on 4 metrics which are in line with the recommended DWP guidelines. The metrics reported will evolve as data coverage and quality improves.

The transition to the Cushon Sustainable Investment Strategy has greatly improved our access to emissions metrics, with the availability of emissions data being part of the manager selection process.

The 4 metrics being reported for this year's TCFD report are:

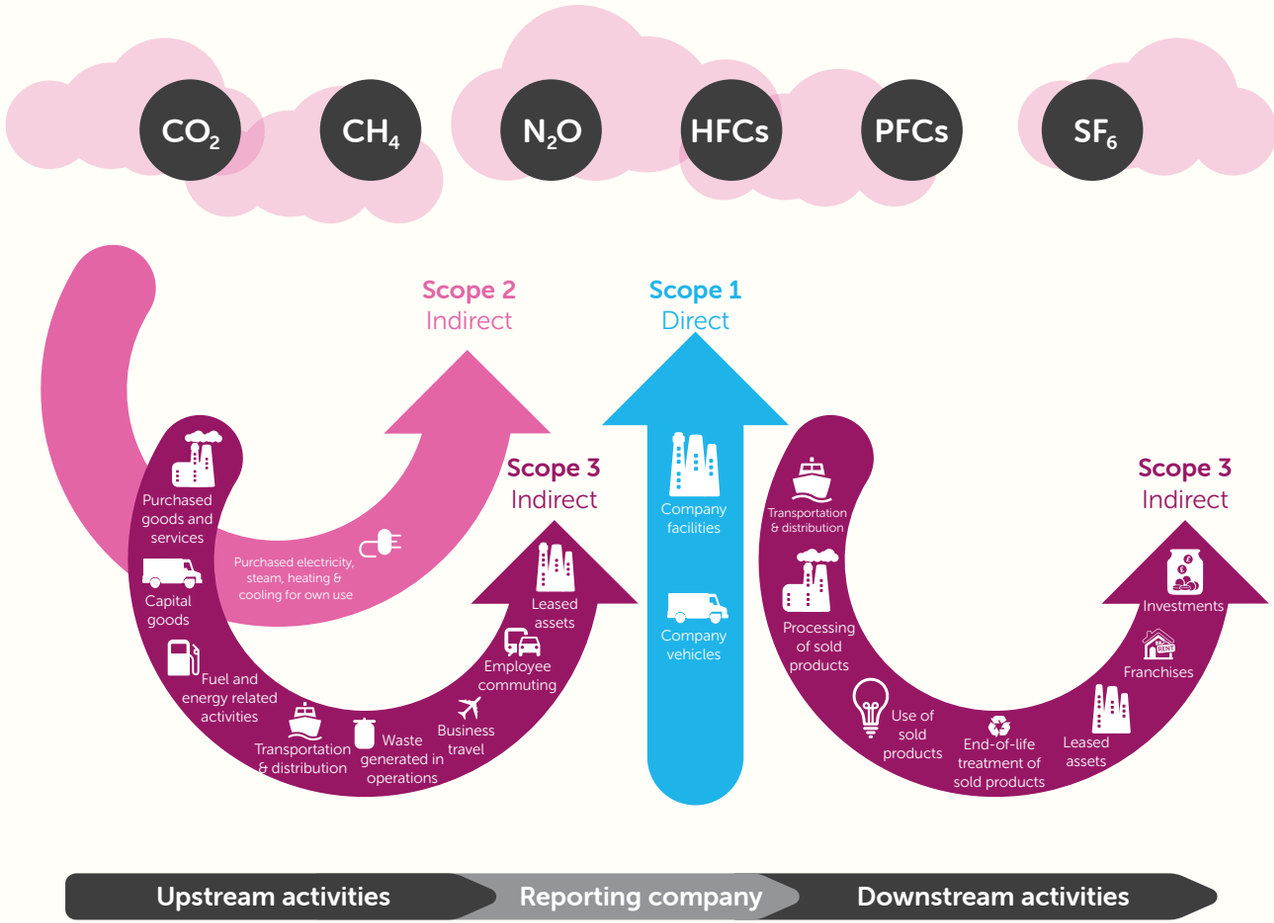
	Metric	Definition	Unit of measurement
Absolute emissions metric	Total greenhouse gas emissions (Scope 1, 2 & 3)	Total amount of greenhouse gas ('GHG') emissions emitted by the fund's underlying portfolio companies, attributed to the investor based on the total investment in each company	CO_2 (Tonnes of CO_2 equivalent emissions)
Emissions intensity-based metric	Carbon footprint (Scope 1, 2 & 3)	An intensity measure of emissions that assesses the level of greenhouse gas emissions arising from a £1 million investment in a company	CO_2 /£m invested
Portfolio alignment metric	Implied temperature rise	The temperature pathway the mandate aligns to, expressed as a projected increase in global average temperatures by the end of the century	°C
Additional climate change metric	Data quality	The availability and veracity of reported emissions data, classified in the following categories: • Verified - % of the emissions data that is verified (audited or independently verified) • Reported - % of the emissions data that is sourced from actual company reported data • Estimated - % of the emissions data that is estimated, either by the manager or a third party data provider • Unavailable - % of the emissions data that cannot be provided or estimated credibly	% coverage

In this year's report, we now also report on our scope 3 GHG emissions, we note the definition of the three different scopes of GHG emissions.

- Scope 1 are direct emissions from company owned or controlled sources – this includes heating/cooling of offices/factories and fleet vehicles.

- Scope 2 are indirect emissions from purchased energy – emissions are created during the production of the energy which is eventually used by the company.

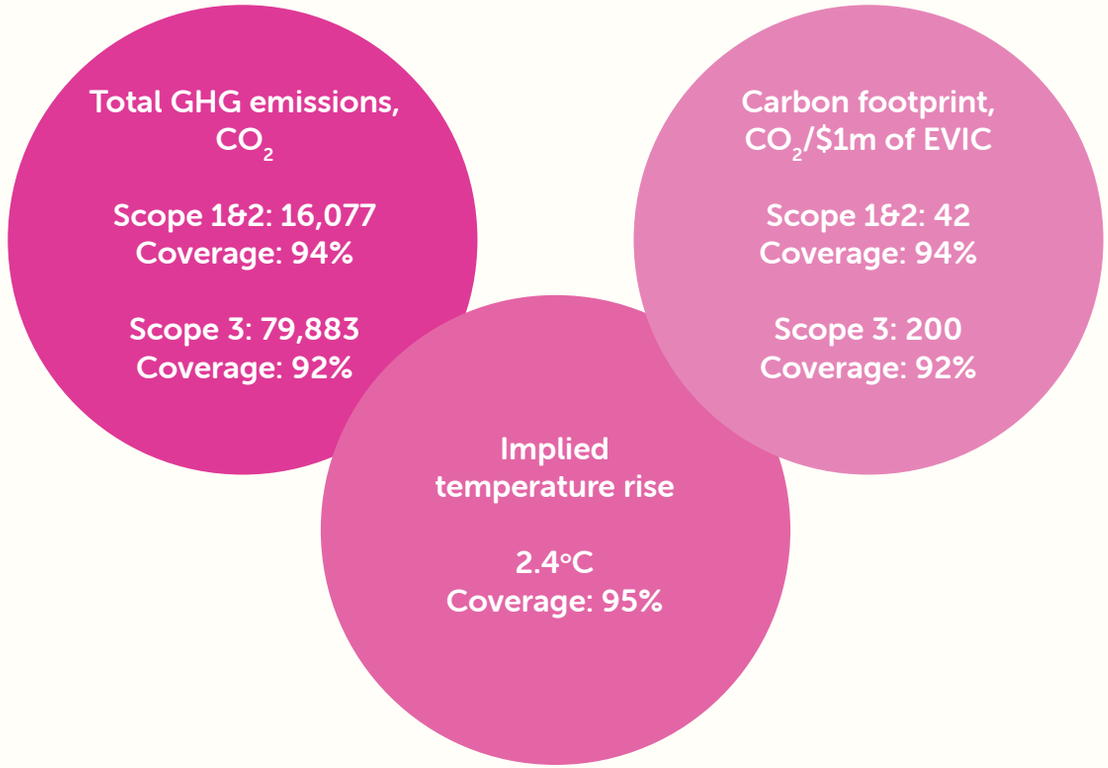
- Scope 3 are all indirect emissions that occur in the value chain – this includes emissions from the production of purchased goods and services and the use of sold products. There are currently industry-wide issues with reporting scope 3 emissions.



[Source: GHG Protocol]

Disclose scope 1, scope 2, and, if appropriate, scope 3 greenhouse gas (GHG) emissions, and the related risks

We have calculated the 4 agreed metrics for the Cushon Sustainable Investment Strategy (growth phase), as at 30 September 2022.



Data quality	% of scope 1&2 emissions that are:					Scope 3 coverage, %
	Verified	Reported	Estimated	Unavailable	Covered	
Cushon Sustainable Investment Strategy (growth phase)	0.0	81.6	12.0	6.4	93.6	91.7

We note that the metrics above do not cover illiquid assets, which has a 15% target allocation in the Cushon Sustainable Investment Strategy's growth phase. This fund was not yet launched as at the end of 2022. We will incorporate reporting for the private markets fund in next year's report and hope that data quality and availability improves across the private markets space.

We have considered the carbon footprint of the Cushon Sustainable Investment Strategy across the default lifestyle, as depicted overleaf. The default lifestyle implements a 7 year linear de-risk to a drawdown portfolio including index linked gilts and cash, with target allocations detailed overleaf.

Fund	Growth phase	Drawdown phase	Carbon footprint CO_2/$1m of EVIC Scope 1&2	
Wellington Global Impact	5.0%	12.5%	17	
Lombard Odier Target Net Zero	5.0%	12.5%	161	
Macquarie True Index	90.0%	50.0%	36	
LGIM Index Linked Gilts	0.0%	15.0%	72	
LGIM Cash	0.0%	10.0%	46	
Total Portfolio	**100.0%**	**100.0%**	**Total Growth**	42
			Total Drawdown	56

The GHG emissions data is based on the current asset allocation for the Cushon Sustainable Investment Strategy (as represented in the table above) to provide a reflection of the GHG emissions covering the last year. More detailed metrics information, at fund level, can be found in the Appendix.

Evolution from last year

Over 2022, we launched our new default strategy, the Cushon Sustainable Investment Strategy. A key component of the new strategy is a focus on climate risk and opportunities. In our TCFD report last year, we reported that the popular arrangement, the Salvus Cautious default, had a carbon footprint of 75 (scope 1 & 2).

At launch of the new default strategy we've therefore seen a reduction in the carbon footprint of c. 42%.

Key takeaways from our metrics analysis

- The metrics reported above form a baseline for future monitoring i.e. our focus will be on how these numbers evolve rather than necessarily the absolute values.

- The carbon footprint metric is dependent on market conditions, with EVIC as the denominator, e.g. if a company's emissions stays the same but its market value falls then the company's carbon footprint increases. We will consider this factor whilst assessing future evolution of this metric.

- We note that for one of our corporate bond mandates, we see a jump in the carbon footprint from 2021 to 2022. This is because the manager may invest in high emitters which have credible decarbonisation plans. This reflects our focus on supporting the transition across all sectors rather than constructing a pure low carbon strategy.

- We note that methodologies and best practice will evolve. We may therefore see short term movements in metrics as a result; our focus will instead be on longer term trends.

- We may consider additional metrics in the future as data improves and best practice evolves.

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Progress against last year's target
For our first TCFD report we agreed an initial target based on the metrics obtained for the Salvus Cautious Default. We agreed that once the new default arrangement was in place, we would look to define more ambitious targets for the next TCFD reporting period.

Our target over the 2021 reporting period was for the carbon footprint (scope 1 & 2) of the Cushon Sustainable Investment Strategy (growth phase, liquid holdings only) to be at least 20% lower than the growth phase of the Salvus Cautious default. We achieved this target with a 42% reduction in the carbon footprint (scope 1 & 2).

We are now in a position to set a more ambitious, longer-term target.

Setting a new target
Over 2022, we agreed a new longer term climate target for our default strategy. We have opted for a 2030 decarbonisation target and look to be more ambitious than the market.

Our new target:

For the Cushon Sustainable Investment Strategy's carbon footprint (scope 1 & 2) to be at least 80% lower than the 2022 baseline by 30 Sep 2030.

The 2022 baseline is defined as the weighted average carbon footprint (scope 1 & 2) of broad market indices weighted by the Cushon Sustainable Investment Strategy's growth phase asset allocation. As shown below, the 2022 baseline is 118.

Macquarie, which makes up a large proportion of the growth phase for the Cushon Sustainable Investment Strategy, have also set a de-carbonisation target to reduce scope 1 & 2 greenhouse gas emissions by 7% p.a.

Fund	Strategic asset allocation	Carbon benchmark	Carbon footprint of broad market index
			Scope 1&2
Wellington Global Impact	2.5%	Bloomberg Global Aggregate	64
Lombard Odier Target Net Zero	2.5%	Bloomberg Global Aggregate Corporates	76
Macquarie True Index	75%	Solactive GBS Global Markets Large and Mid-Cap	122
NinetyOne MAC	3.2%	50/50 ICE BoA Global High Yield/ Global Investment Grade	117
LGIM Corporate Bonds	1.8%	Bloomberg Global Aggregate Corporates	76
Schroders Climate+	15%	Solactive GBS Global Markets Large and Mid-Cap	122
Total Baseline	**100%**	**–**	**118**

As part of setting this new target, we projected forward the expected carbon footprint of each mandate within the strategy. Whilst the target itself is ambitious we hope that global action in this space will ensure we are able to meet this target as it is in the best interest of our members.

Our target is therefore for the Cushon Sustainable Investment Strategy's carbon footprint (scope 1 & 2) to be at equal to, or lower than, 24 CO_2 / $m invested by 30 Sep 2030.

Conclusion

Climate change is the biggest issue of this generation, and our actions today will define the future for many generations to come. The next few decades will create new risks and opportunities related to climate change, and we believe it is in the best of interests of our members to incorporate these factors into the running of the Scheme.

We have designed and implemented a new default strategy which has climate considerations at its core. We will continue to assess climate risks and consider further opportunities within this space. We hope to also start exploring issues that are clearly interlinked with climate change, in particular nature impacts and the impact on global communities.

We hope to continue our innovation in this space and look forward to reporting on our progress in next year's report.

Thank you for reading

Appendix

Climate scenario analysis
The scenarios are taken from the three representative scenarios defined by the NGFS. The interpretation and implementation of these scenarios are detailed below, across 3 building blocks:

1. Climate modelling is based on the MAGICC 6 climate model. The MAGICC 6 model runs 600 climate scenario projections and the model takes the median outcome for each climate scenario: baseline, orderly, disorderly and hot house.

2. Socioeconomic modelling is based on the REMIND-MAGPIE general equilibrium model. This assumes that markets are efficient, and sets out traditional economic assumptions around the evolution of economic and financial markets. There is interplay between both the climate and socioeconomic models which then feed into the investment model.

3. The investment model is Isio's SOFIA model. This determines how different asset classes will react under the different climate change scenarios analysed, and across time.

Modelling principles
SOFIA is a stochastic model that simulates a large number of possible future economic outcomes, in which financial conditions develop in a number of different ways, defined by assumptions for average outcomes, range of variability, and inter-dependency between different markets.

The high-level market scenarios are generated by a third-party Economic Scenario Generator (ESG) provided by Moody's Analytics. The ESG is an industry-standard tool that is widely used by financial institutions (e.g. insurers, asset managers, and investment banks). Both the climate scenarios and the underlying economic impacts are provided by Moody's Analytics.

Based on the scenarios generated by the ESG, SOFIA simulates asset-class returns calibrated to Isio Investment Advisory's asset-class assumptions.

SOFIA takes the initial starting position of the assets, and projects these values forward under the simulated scenarios, taking into account any relevant inflows and outflows.

SOFIA assumes that assets are rebalanced annually and that the member de-risks in line with the lifestyle strategy.

Modelling limitations
No guarantee can be offered that actual outcomes will fall within the range of simulated results. Actual outcomes may be better than the simulated 95th percentile or worse than the simulated 5th percentile. The only risk factors considered in the modelling are those that affect the values of pension schemes' assets. The modelling results should be viewed alongside other qualitative considerations including portfolio complexity, governance burden, and liquidity risk.

The model's projections are sensitive to the starting position and the econometric assumptions. Changes to the assumptions can have a material impact upon the output. There can be no guarantee that any particular asset class or investment manager will behave in accordance with the assumptions. Newer asset classes can be harder to calibrate due to the lack of a long-term history.

Metrics – Cushon Sustainable Investment Strategy (growth phase) (as at 30 September 2022)

Fund	Current Asset Valuation £m	Total GHG emissions CO_2		Carbon footprint CO_2/ $1m of EVIC			Data quality						Implied temperature rise	
							% of scope 1 & 2 emissions that are:					Scope 3 coverage %		
		Scope 1 & 2	Scope 3	Scope 1 & 2	*Scope 1 & 2 2021*	Scope 3	Verified	Reported	Estimated	Unavailable	Covered		°C	Coverage %
Wellington Global Impact	18	888	10,680	17	22	203	0.0	34.8	4.1	61.1	38.9	38.9	2.4	18.4
Lombard Odier Target Net Zero	18	3,468	8,068	161	99	374	0.0	36.8	58.1	5.1	94.9	94.9	2.0	95.3
Macquarie True Index	282	11,721	61,135	36	33	188	0.0	87.6	9.5	3.0	97.0	95.0	2.5	99.6
Total Portfolio	**319**	**16,077**	**79,883**	**42**		**200**	**0.0**	**81.6**	**12.0**	**6.4**	**93.6**	**91.7**	**2.4**	**95.3**

Source: Investment managers.

Notes: The total GHG emissions numbers have been adjusted to account for coverage. CO_2: Tonnes of carbon dioxide equivalent, where CO_2e expresses the impact of each different greenhouse gas in terms of the amount of CO_2e that would create the same amount of warming. EVIC: Enterprise value including cash.

Data as at 30 September 2022, 2021 data as at 30 September 2021

Glossary

Environmental, Social and Governance 'ESG'

ESG factors relate to the external impact that investing in companies have on wider society, outside of traditional financial factors. These are not only related to the environment and climate change, but also to social issues.

Examples of ESG factors include:

Environmental

- Climate change
- Resource depletion, including water
- Waste and pollution
- Deforestation

Social

- Working conditions, including slavery and child labour
- Local communities, including indigenous communities
- Conflict
- Health and safety
- Employee relations and diversity

Governance

- Executive pay
- Bribery and corruption
- Political lobbying and donations
- Board diversity and structure
- Tax strategy

TCFD

The Financial Stability Board established the Taskforce on Climate-related Financial Disclosures (TCFD) to develop recommendations for effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions. In turn this enables stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

The TCFD is committed to market transparency and stability. The TCFD believes that better information will allow companies to incorporate climate-related risks and opportunities into their risk management and strategic planning processes. As this occurs, companies' and investors' understanding of the financial implications associated with climate change will grow, empowering the markets to channel investment to sustainable and resilient solutions, opportunities, and business models.

In 2017, the TCFD released climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocation.

The TCFD's disclosure recommendations are structured around four thematic areas that represent core elements of how organisations operate: governance, strategy, risk management, and metrics and targets. These thematic areas are intended to interlink and inform each other.

Source: https://www.fsb-tcfd.org/about/

UN Sustainable Development Goals ('UN SDGs')

The UN has set in place 17 goals, intended to be achieved by 2030, which encourage collective action towards a better and more sustainable future.

These are a series of globally accepted norms that allow investors and companies to align interests.

Physical risks

These are risks which the Scheme is exposed to that arise directly from changing climate conditions. These can be acute, episodic risks such as tornadoes, typhoons, and wildfires, as well as chronic, ongoing risks such as rising sea levels, freshwater scarcity, and supply chain disruption.

Glossary

Transition risks

These are risks that arise from taking the necessary steps to transition to a low-carbon economy. These may arise as a result of:

- Regulatory actions
- Technological developments
- Reputational damage
- Market forces

Greenhouse Gases (GHGs)

The globally recognised greenhouse gases considered under the CO_2e metric are the seven mandated under the Kyoto Protocol. These are as follows:

- Carbon dioxide (CO_2)
- Methane (CH_4)
- Nitrous oxide (N_2O)
- Hydrofluorocarbons (HFCs)
- Perfluorocarbons (PFCs)
- Sulphur hexafluoride (SF_6)
- Nitrogen trifluoride (NF_3)

CO_2e

Different greenhouse gases have different impacts on global warming. In order to standardise this, greenhouse gas emissions are often reported in tonnes of CO_2e equivalent (CO_2e).

Net Zero

Net Zero is defined as where released emissions into the atmosphere are equal to those emissions taken back out of the atmosphere, through the application of nature-based solutions, man-made technology or the purchase of carbon offsets.

Carbon offsets

Companies reduce their net greenhouse gas emissions through purchasing carbon offset credits. This involves investing in projects which aim to avoid emissions (e.g. renewable energy) or remove carbon from the atmosphere (e.g. reforestation). These projects generate carbon credits, where a single credit is equivalent to 1 tonne of CO_2e being avoided or removed from the atmosphere.

This means that companies can reduce their overall carbon footprint without reducing the carbon intensity of their business practices.

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