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Northumbrian Water Pension Scheme

TCFD Summary Report

July 2024

The Trustee continues to focus on the impact of climate change as we believe climate change is a material financial risk to our investment portfolios. We also believe that in addition to providing pension provisions for our members, it would be reasonable to assume that, when they receive their pension, they and their dependents would want to spend it in a world where the environmental quality of life is broadly similar to or better than it is at present.

If sufficient action isn't taken on climate change it could lead to substantial financial, environmental, and social consequences for everyone. This is why climate change is a key consideration within the management of the Scheme's assets.

This document provides members with a summary of how we consider climate change-related risks and opportunities within the management of your pension schemes' assets.

What is TCFD?

TCFD stands for Task Force on Climate-related Financial Disclosures and was established in 2015 by the Financial Stability Board (FSB) to encourage companies and investors to report on the financial risks from climate change.

This is our second TCFD summary report covering the period 1 January 2023 to 31 December 2023. The full TCFD report is available on the website: http://www.nwgpensions.co.uk/northumbrian-water-pension-scheme/documents/

What is climate change?

Climate change refers to global warming caused by the greenhouse gas (GHG) emissions of human activity. These include carbon dioxide, methane, nitrous oxide and fluorinated gases, amongst others.

Globally, we emit around 51 billion tons of greenhouse gases a year[1]. Most of society's emissions come from industry (in particular cement, steel and plastic), energy (including electricity, heating and cooling), agriculture and transport. To stop climate change, we need to stop emitting greenhouse gases.

GHG emissions are categorised into three groups or 'Scopes' by the GHG Protocol Corporate Standard:

- **Scope 1**[2] emissions are direct GHG emissions that occur from sources that are controlled or owned by an organisation (e.g., emissions associated with fuel combustion in boilers, furnaces, vehicles)
- **Scope 2**[3] emissions are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling
- **Scope 3**[3] emissions are the result of activities from the company's value chain, but not owned or controlled by the reporting organization

What are we doing about it?

We have committed to achieving net-zero GHG emissions on our investments by 2050 and a 50% emissions reduction from 2022 levels by 2030 at the latest. This is consistent with the Paris Climate Agreement's objective of limiting warming to 1.5 degrees, what science tells us is the limit of warming that our planet can safely absorb.

[1] https://breakthroughenergy.org/our-approach/getting-to-zero/
[2] https://www.epa.gov/climateleadership/ghg-inventory-development-process-and-guidance
[3] https://www.cityoflondon.gov.uk/services/environmental-health/climate-action/key-climate-terms

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How we invest?

A wide range of assets are held which have different exposures to greenhouse gasses. In 2023, we appointed Cardano as the Scheme's Outsourced Chief Investment Officer (OCIO). In advance of this appointment, we took steps to ensure that the OCIO's core sustainability beliefs are aligned with ours.

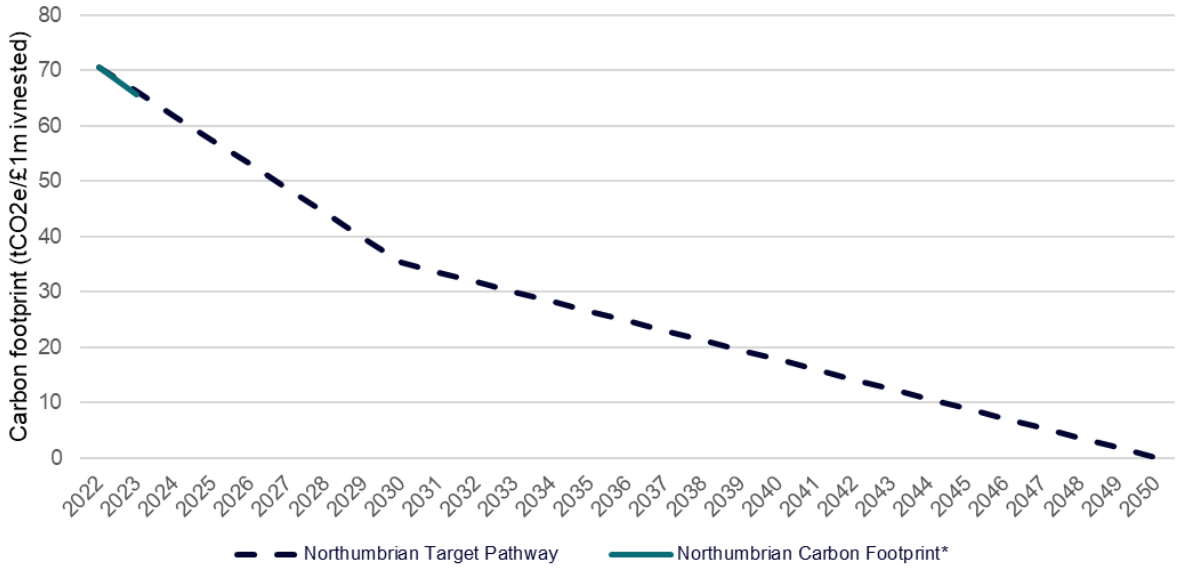
We delegate the day-to-day investment decision-making to our OCIO. Our OCIO engages with third-party managers who are in a position to exert significant influence on the companies in which they invest. In this regard, we expect our appointed managers to be responsible investors, meeting expectations listed in the full report.

The Scheme also now invests in equity and investment grade corporate bond funds that take account of companies' sustainability objectives including fossil fuel use, water use, land use, organisational behaviour and integrity without compromising on expected returns.

The results of our annual assessment

We report the following three metrics, as of 31 December 2023:

Metric	Description	Results
The absolute emissions-based metric: total GHG emissions	This is the total greenhouse gas emissions, in tons of carbon dioxide equivalent, of the portfolio, using Scope 1 and 2 emissions	Our total GHG emissions for financed corporate credit and equity GHG Scope 1 and 2 is: 25,192 tCO2e
The intensity emissions-based metric: carbon footprint	This is the emissions intensity metric and is represented by the total GHG emissions in tons of carbon dioxide equivalent per £m invested, using Scope 1 and 2 emissions	Our emissions intensity for GHG Scope 1 and 2 is: 65.6 tCO2e per £1m invested
Alignment metric: percentage of our portfolio having set Science Based Targets to align with either a 1.5 degree or 2 degree climate scenario		This is currently 7.7% of total assets
The additional emissions-based metric: data quality		The proportion of the analysis for which there is high quality emissions data is 95.7%



As at 31 December 2023, the Scheme is tracking below the Scheme's emission target pathway

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Climate change-related risks and opportunities

As Trustee, we are ultimately responsible for identifying, assessing and managing the Climate Related Risks and Opportunities (CCRO) that the Scheme is exposed to.

We consider the following climate change-related risks and opportunities:

- ***Physical risks*** **-** the financial risks and opportunities associated with a company's or government's resilience to climate change-related weather events
- ***Transition risks and opportunities*** **-** the financial risks and opportunities associated with a company's or government's ability to transition to a low carbon economy. Here we also include environmental opportunities - the financial opportunities of climate change-related solutions
- ***Systematic risks*** **–** the financial risks and opportunities associated with the macro effects of the consumer and government policy responses to climate change which affect overall economic growth, inflation and broad market outcomes.

Climate change scenarios

We use scenario analysis due to the complexities involved in forecasting the degree of warming that will result from climate change; including policy uncertainty, multiple environmental tipping points, and potential technology advances.

We have chosen not to provide a quantitative assessment of scenario risks, as we believe that the commercially available scenario metrics are inadequate in the way they quantify climate change risks. Instead, we have chosen to provide a qualitative assessment of various risks and ultimately portfolio outcomes based on narrative scenarios across the three scenarios for climate outcomes.

Our three scenarios are:

	1.5 Degrees This is our goal	**2 Degrees** This is a forecast of what we think is most likely to happen: assumes measures are introduced to tackle climate change, but are introduced too late to meet the Paris Agreement	**3 Degrees** This is our hot-house scenario: assumes current policies being continued. According to the UN, we are currently on track for 3.0°C warming
Physical Risk	Moderate	Moderate	High
Transitional Risk	High	Moderate	Initially low, but increasingly uncertain
Systemic Risk	Moderate	Moderate	High
Portfolio Impact	Positive	**Moderate**	Negative

What's next?

Whilst we expect our portfolio to trend towards our 50% emissions reduction target by 2030, we'll take the decisions necessary to align the portfolio consistent with our goal of net zero emissions by 2050.

We will work closely with the OCIO and investment advisers to ensure that informed decisions are made in accordance with our net zero commitment and account for CCRO. We will take account of and report on our progress against the emissions, with a priority of achieving real economy emissions reductions within the sectors and companies in which we invest. The progress made to date can be seen in the full TCFD report. With the help of the OCIO and investment advisers, we will also ensure any relevant direct and indirect policy engagement is undertaken in support of achieving global net zero greenhouse gas emissions by 2050 or sooner.