Our path to net zero

Climate Action Plan

Retirement Solutions

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Chair's statement

Since I became the Chair of TPT's Trustee Board, the management of our financial impact on the environment, and identification of investment opportunities such as climate change solutions, have been integral to our approach.

Businesses today are expected to operate - and invest - in a climate-ambitious way. For us, taking this approach helps to manage the investment risks and opportunities that come with climate change.

Climate change is a systemic risk, meaning that it has the potential to affect all financial assets and sectors. We work on behalf of our members, in line with our fiduciary duty and mission of 'making membership worthwhile', to manage these risks and opportunities.

We forge strong relationships with our managers and contribute to wider industry efforts so that, together, we can more quickly and effectively create a safe, net-zero world. Our efforts are sustained by our work with the Paris Aligned Investment Initiative (PAII), which provides a framework to help assess new opportunities that come from the global drive towards net zero.

We continue to develop our ability to measure our carbon intensity in relation to our business operations and the emissions in our investment portfolio. I am delighted with the way we have enhanced our assessment of climate-related risks and opportunities, embedded scenario planning, and developed metrics and targets.

This Climate Action Plan explains what we have done, how we work in this area and our ambitions to achieve a common goal – of creating a safe, healthy and financially-secure future for our members.

Joanna Matthews, Chair of the Trustee Board

Our commitments

≥25%

2025: Reduce our carbon intensity by at least 25%

This aligns with the Intergovernmental Panel on Climate Change's (IPCC) decarbonisation trajectory for the 1.5°C scenario, and is consistent with our 50% reduction target by 2030.

50%

2030: Halve our portfolio emissions

Reducing our emission intensity by half will ensure that we are on track to deliver our objective of net zero by 2050.

≥6%

Support climate solutions

Increase our investment in climate solutions to at least 6% of our return-seeking assets by 2030.

≥90%

Active ownership

Ensure that, by 2030, at least 90% of financed emissions in material sectors is either assessed as net zero, aligned with a net zero pathway or the subject of engagement activities.

Financed emissions are greenhouse gases emitted as a result of financial institutions' provision of capital to the emitter.

Our members' investment future

TPT was one of the first UK occupational pension schemes, and the only defined benefit (DB) and defined contribution (DC) consolidator, to fully integrate climate change into its investment activity. Since 2013, climate change has been a consideration in everything we do.

TPT has over 75 years' experience in providing workplace pensions and delivers retirement solutions for over 2,600 employers and 425,000 members, including building societies, housing associations and well-known charities.

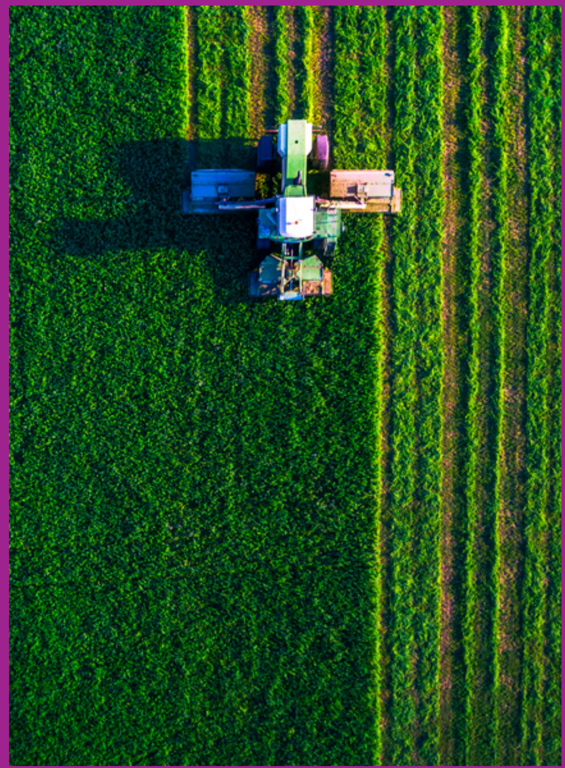
As a master trust, we are able to use our combined scale to provide better outcomes for our members.

TPT has a global investment portfolio invested in multiple asset classes, including listed equities, corporate bonds and infrastructure.

> "...climate change has the most potential to impact the value of our portfolio in the long term."
>
> **Extract from TPT's Climate Change policy, 2013**

Our approach

We support the Financial Stability Board's view that "the occurrence of extreme climate events, as well as a disorderly transition to a low-carbon economy, could have destabilising effects on the financial system, including through a rise in risk premia and falling asset prices in the relatively short term".



How TPT operates

TPT's Trustee Board is made up of member and employer-nominated trustees, and has overall responsibility for delivering member benefits.

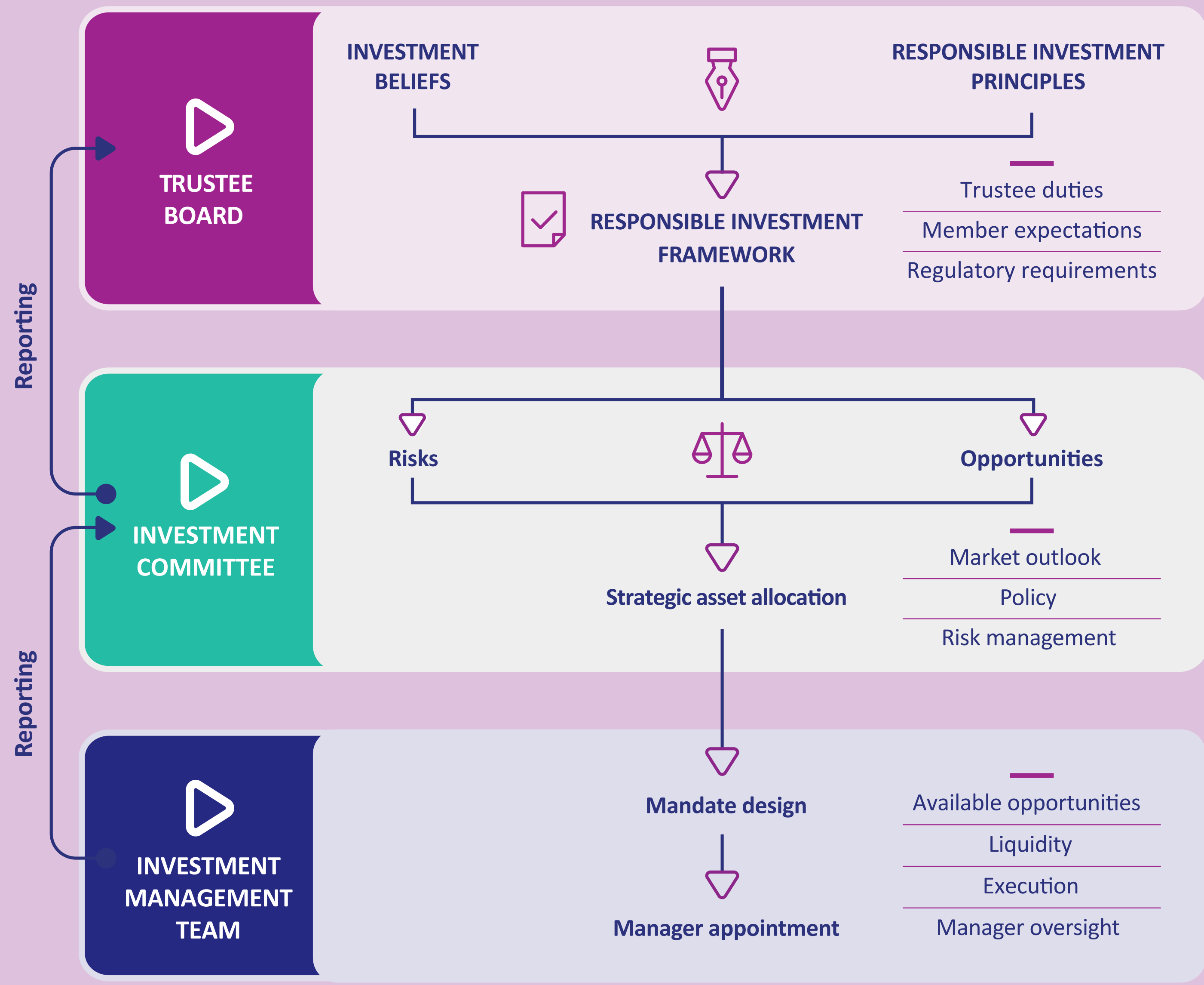
- The Trustee Board delegates responsibility for the implementation of its Responsible Investment Principles to an Investment Committee.
- The management of the portfolio is led by the Chief Investment Officer, with support from the Investment Management Team and external consultants.
- The Chief Investment Officer and the Investment Management Team are assisted in forming capital market and other investment views by the Portfolio Construction Group, overseen by the Investment Committee.

The consideration of climate-related risks and opportunities in our investment portfolio is an area of particular focus.

The quest for knowledge on climate-related risks and opportunities remains crucial for us, and we take an academic approach to building and sharing it.

Periodic training sessions, delivered to the Trustee Board and wider stakeholders, include climate-specific issues and broader responsible investment.

TPT climate governance



Strategy (Investment)

Our ultimate role is to deliver member benefits in a wide range of economic scenarios, and regular monitoring of our investment portfolio ensures that we are in a position to do this.

We believe that changes to macroeconomic factors, caused by climate change, have varying levels of impact across all asset classes globally. We do not know when and how these changes will take effect or their exact impacts on the financial system. But we can - and do - manage a well-diversified investment portfolio that considers both the investment risks and opportunities that come with the transition to net zero.

We use stress tests to help us assess the resilience of our portfolio in relation to climate risks. Both transition and physical risks are likely to have macroeconomic consequences and impact factors such as GDP growth, interest rates, inflation, unemployment, and international trade flows.

We also assess policy direction and consider the rollout of transition technologies to enable us to seize net zero opportunities, such as investing in green infrastructure.

	Transition risks Increased regulation, technology, competition, market volatility, reputation	Physical risks Asset damage, resource depletion, trade disruption
Listed equities	Risk of asset impairment and stranded assets in fossil fuel energy stocks.	Eroded profitability and value of corporate assets in climate-vulnerable locations, increased risks to supply chain, water scarcity, logistical operations, supply disruptions, loss of services, increased insurance and regulatory costs.
Corporate bonds	Reduced credit rating and potential default risk of issuers that finance high carbon assets and activities.	Eroded profitability and value of corporate assets in climate-vulnerable locations; increased risks to supply chains; water scarcity; supply disruptions; loss of services; increased insurance and regulatory costs.
Property	Properties with poor energy efficiency ratings or standards are likely to underperform more highly rated assets, e.g. older properties may require capital spending to improve energy efficiency.	Higher insurance costs and declines in value of properties that are at high risk from climate-related weather events
Infrastructure	Policy changes and technological advancements could affect the value of infrastructure assets less suited to a low carbon world, or render them redundant (e.g. coal power not compatible with carbon capture and storage).	Higher insurance costs (or uninsurable assets) and lower valuation of assets in climate-vulnerable locations.

Physical and transition risks of climate change

Physical risks are risks like storms, floods and droughts, whereas transition risks are linked to action taken to transition the economy and advancements in technology.

In order to deliver resilient financial outcomes for members, TPT stress tests the portfolio against three Bank of England scenarios:

- Early action
- Late action
- No additional action

We consider the risks associated with climate change to forecast the impact on expected returns and risk.

This approach also helps us to allocate capital to investment opportunities in which we may be underexposed in the portfolio. In the past, results of this exercise have led us to increase our allocation to renewable energy generation and renewable-supporting technology, such as battery storage.

We will continue to evaluate the stress tests available to us, in conjunction with net zero transition scenarios and the speed at which governments take action.

Our net zero strategy is driven primarily by:

- capital allocation to investment managers with strong climate stewardship;
- a focus on climate solutions; and
- bottom-up security analysis for our active ownership model.

We invest in opportunities with a range of risk and return characteristics.

The road to net zero

In June 2021, TPT made a net zero commitment through the Paris Agreement Investment Initiative (PAII). TPT has adopted the PAII's Net Zero Investment Framework (NZIF) as a way of unlocking investment opportunities and scaling up flows of investment necessary for participating in a successful transition to a low carbon economy.

TPT is decarbonising its portfolio by:

- reducing the carbon intensity of the portfolio through a long-term net zero investment strategy and active ownership; and
- increasing investments in climate solutions.

To increase focus on our 2050 net zero target, we have set two interim targets:

- A minimum of 25% reduction of portfolio emission intensity by 2025; and
- A 50% reduction of portfolio emission intensity by 2030.

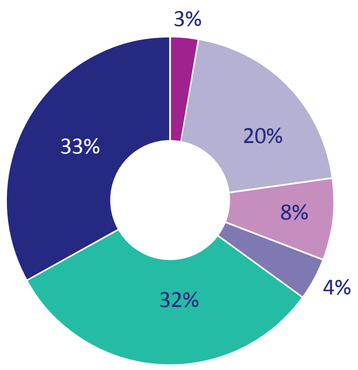
TPT targets are set against our 2019 carbon emissions (i.e. our baseline year). These performance targets will be regularly reviewed in line with the approach endorsed by the Paris Agreement.

We currently include listed equity, corporate fixed income and real estate assets[1] in target setting.

The assets in scope for TPT's net zero commitment, as of 31 December 2019 (our baseline), are shown below. Targets do not cover Liability Hedging Instruments as NZIF states that investors may exclude domestic issuance held for liability matching purposes. We will include more of our assets when methodologies and data improve.

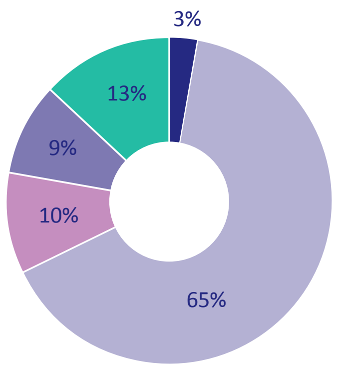
DB assets in scope

- Listed Equity
- Corporate Fixed Income
- Real Estate
- Liability Hedging Instruments
- Sovereign Bonds (non UK)
- Assets not currently in scope



DC assets in scope

- Listed Equity
- Corporate Fixed Income
- Real Estate
- Gilts
- Assets not currently in scope



[1] Covering Scope 1 and 2 emissions for listed equity and corporate fixed income, and Scope 1, 2 and 3 for real estate.

Our approach

The reduction of emissions in our investment portfolio should be achieved primarily through a reduction in the absolute emissions from the companies and assets in which we invest - not by avoiding or divesting from certain geographies, sectors or companies.

We will achieve this reduction by engaging with high emitters to encourage a speedy transition and ensure that they align with our net-zero pathway. If this engagement fails then we may consider reducing exposure. We will also look to scale up our investments in climate solutions to ensure that we take advantage of the opportunities that the transition to net zero may present.

Measurement

By measuring the carbon intensity (also known as the carbon footprint) of our portfolio, we are able to:

- see where to focus our engagement efforts; and
- make sure we are on trajectory to meet our net-zero commitment.

Ultimately, the reduction of absolute emissions at asset level is the key to meeting our net-zero goals, and we will report both the carbon intensity of the investment portfolio and the absolute level of emissions.

Financed emissions[2] are driven by portfolio composition and may increase as we adjust our investment strategy, based on the market outlook. However, where this is the case we will ensure we have a plan to transition these assets towards our net-zero goal.

Other assets will also be included in our target as relevant frameworks are introduced, and there is a notable increase in data availability and quality.

Lastly, we are keen to phase in plans for Scope 3 emissions for listed equity and corporate fixed income as soon as the available data becomes robust enough to aid decision making.

[2] The greenhouse gases that are emitted as a result of a financial institutions' provision of capital to the emitter.

The TPT way

Reporting

We intend to regularly report on and explain our progress so members can see how their pension investments are contributing to net zero. We will also outline how we have engaged with companies and the wider investment community to safeguard members' assets and seize opportunities that come from the global approach to climate change.

Our net-zero strategy is informed by a credible, science-based pathway for reducing emissions, based on the Intergovernmental Panel on Climate Change (IPCC) P1-P3 decarbonisation scenarios.

The P1-P3 scenarios accommodate emerging approaches to mitigation without geographical and asset limitations or overreliance on technologies designed to reduce emissions (which are currently unavailable on a commercial scale). These scenarios avoid overshoot of 1.5°C before bringing temperature back below the target, meaning they carry lower physical and transition risks.

Our investment managers select underlying securities. When we engage with them on the climate resilience of our portfolio, we may choose to reference IEA pathways as they provide a sectoral perspective of climate change risks.

Climate solutions

'Climate solutions' in general refers to activities that underpin substantial reductions in, or the abatement of, greenhouse gas emissions via their deployment.

We also consider assets that are financially linked with climate change resilience to be a climate solution, because parts of their revenues or capital expenditure are related to activities that support net zero e.g. green revenues and green capital expenditure.

The global shift to net zero calls for:

- the introduction/uptake of clean technologies; and
- setting worldwide standards and policies that promote their use.

TPT intends to allocate capital to climate solutions without sacrificing returns for members.

TPT's renewable investments

In 2016, we made our first dedicated allocation to renewable energy generation and renewable supporting technologies. In 2021, we invested in two additional renewable energy strategies.

Portfolio allocation into green infrastructures and renewable energy is part of our asset allocation approach. TPT has committed to increasing its investment in climate solutions to at least 6% of return-seeking assets by 2030.

Since 2016, TPT has steadily increased investments in renewable energy

An area of particular focus has been on greenfield investments i.e. developing new renewable energy infrastructure. This has the positive impact of increasing the stock of assets for generating renewable energy and helps finance the build out of supporting technologies, such as battery storage.

TPT is part of the PAII Climate Solutions Project Group

Together we:

- develop guidance for identifying climate solution investment opportunities; and
- measure the allocation to and impact of investment in climate solutions

Active ownership

TPT's Climate Change Policy identifies climate change risks as potentially cataclysmic and irreversible. So that views like this, including those of investors and the wider policy environment, are reflected in our approach, we periodically review our engagement priorities.

We recognise the valuable role that active ownership can play in influencing corporate behaviour, protecting the long-term value of pension benefits and enhancing investment opportunities.

TPT speaks proactively and constructively with its investment managers to ensure that the voting and engagement they undertake on behalf of members is consistent with our Responsible Investment Framework. For assets that are not aligned with our climate change expectations, we engage with them as part of our active ownership strategy.

In doing this, we are guided by:

- Climate change policy: We aim to influence a selection of systemically important carbon emitters and exercise our rights as shareholders e.g. writing annual letters to Chairs of companies, direct engagement or through collaborative engagement platforms.
- Engagement objective: Our current objective is that at least 70% of financed emissions in material sectors is either assessed as net zero, aligned with a net-zero pathway, or the subject of direct or collective engagement and stewardship actions. We aim to increase this approach to at least 90% by 2030 (or sooner).

Engagement

TPT's current engagement priorities are based on our investment portfolio's investments in listed equity, corporate fixed income, real estate and sovereign bonds. We also maintain a regular dialogue with the investment community, policymakers, official bodies and other financial participants to improve data quality, integrate new asset class frameworks and identify opportunities presented by net zero.

Assets	Targets	Short-term expectations	References	TPT commitment
Listed equity and corporate fixed outcome	Higher impact companies with a priority for those assets in which TPT has strong leverage for promoting change.	Prioritise engagement, on the basis of emission intensity/exposure, on high level current and forward-looking net-zero alignment.	• Implied Temperature Rise • Climate Action 100+ • TPI • World Benchmark Alliance • IIGCC Bank Framework • Carbon Disclosure Project (CDP)	• Collaborate with peers, asset managers and policymakers, official bodies and other financial participants to improve data quality, integration of new asset class frameworks and identify opportunities presented by net zero. • Cover 100% assets in our portfolio
Real estate	All investments in real estate	Extend data coverage on emissions and operational efficiencies including Scope 3. Continue liaising with asset managers with strong net-zero credentials	• Disclosure from managers • Carbon Risk Real Estate Monitor (CRREM) • Climate Value at Risk (CVaR) • Global Real Estate Benchmark for Real Assets (GRESB)	
Sovereign debt	Sovereigns showing poor climate protection performance measures on GHG Emissions, Renewable Energy, Energy Use and Climate Policy.	Participate in collaborative engagement opportunities to push for tangible net-zero targets	• Climate Change Performance Index • Institute of Economic Affairs (IEA) • Institutional Investors Group on Climate Change (IIGCC)	• Collaborate with peers, asset managers and market-setters to improve data quality, integration of new asset class frameworks and identify opportunities presented by net zero. • Cover 100% assets in our portfolio

Engagement outcomes

Successful outcomes driven by engagement may require long-term commitment of internal resources and interactions with other investors and companies.

We review performance against engagement expectations annually.

We prefer to engage with companies rather than divest. We would only exclude a company when it is clear that a successful engagement outcome cannot be reached.

Engagement enables us to take a security-level view and, as a result, we may choose to escalate our concern. This may be by co-filing or filing resolutions, or pursuing divestment based on climate financial risk.

TPT works with investment managers who demonstrate best-in-class net zero approaches. Therefore, exclusions are not currently considered necessary.

We retain the ability to modify our exclusion approach if evidence shows negative long-term alignment with net zero through our investments.

Voting

TPT assets are held in both segregated and pooled mandates, so we leverage influence through the mechanisms at our disposal.

We favour mandates with investment managers that have credible net-zero plans, especially for those mandates where exercise rights are weakest. This could be investment through pooled vehicles, for example, where it is more challenging to implement our own Voting and Engagement Policy.

We partner with stakeholders to positively contribute to the net-zero challenge – our engagement outreach encompasses beneficiaries, external investment managers, investee companies, the wider investor community, service providers and policymakers.

Engagement priorities

Our engagement prioritisation is dependent on our ability to exert influence as well as a materiality assessment

We expect investment managers to exercise voting rights in line with the **PLSA Corporate Governance Policy and Voting Guidelines, G20/OECD Corporate Governance Principles and the ICGN Global Governance Principles.** Voting climate expectations include:

- withdrawing support for the re-election of the Chair of the Board or responsible Directors when boards are not adequately responding to climate change;
- withdrawing support from the approval of the Annual Report and Accounts when there is a disconnect between lobbying activities undertaken by memberships and trade associations supported by companies and the companies' published positions to net zero; and/or
- supporting shareholder resolutions aiming for increased disclosure on climate change issues where prior engagements have not led to successful outcomes.

Although voting rights are delegated to investment managers, we may choose to exercise our voting rights (or wish to express interest in exercising our voting rights) when companies' actions toward net zero are not deemed satisfactory. For example, a lack of confidence in the Board's strategy in achieving net zero, or support for shareholder resolutions when asking for the adoption of a credible transition may lead us to adopting this approach.

In line with TPT's Responsible Investment Framework, manager voting is annually reviewed against our voting guidelines.

What will we deliver next?

1 Be active in influencing the transition to a low carbon economy including reaching net zero within our operations	**2** Achieve net zero by 2050, with a decrease in our carbon intensity of at least 25% by 2025 and 50% by 2030
3 Increase our investment in climate solutions to at least 6% of return-seeking assets by 2030	**4** Continue to build a rigorous approach to incorporating climate change risks and opportunities into the way we invest members' assets
5 Work together with companies, government and standard-setters and disinvest when no alternatives are possible	**6** Regularly report back to members and wider stakeholders including through TCFD reporting

Glossary

Term	Acronym	Description
Carbon Disclosure Project	CDP	A not-for-profit that runs the global disclosure system for investors, companies, cities, states & regions to manage their environmental impacts.
Carbon Risk Real Estate Monitor	CRREM	A tool that provides the real estate industry with transparent, science-based decarbonisation pathways aligned with the Paris Climate Goals of limiting global temperature rise to 2°C, with ambition towards 1.5°C.
Climate Action 100+	CA100+	An investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.
Global Real Estate Sustainability Benchmark	GRESB	An industry-led organisation that collect, validate, score and benchmarks ESG data to provide business intelligence, engagement tools and regulatory reporting solutions for investors, asset managers and the wider real estate and infrastructure industry.
The Group of Twenty	G20	An intergovernmental organisation working on major issues related to the global economy, such as international financial stability, climate change mitigation and sustainable development.
Intergovernmental Panel on Climate Change	IPCC	The United Nations body for assessing the science related to climate change.
International Corporate Governance Network	ICGN	A trade association promoting good corporate governance and best practices on investor stewardship.
International Energy Agency	IEA	The International Energy Agency works with countries around the world to shape energy policies for a secure and sustainable future.
Net Zero Investment Framework	NZIF	Provides a common set of recommended actions, metrics and methodologies through which investors can maximize their contribution to achieving global net zero emissions by 2050 or sooner.
Organisation for Economic Co-operation and Development	OECD	An international organisation promoting policy standards on sustainable economic growth.
Paris Aligned Investment Initiative	PAII	A collaborative investor-led global forum enabling investors to align their portfolios and activities to the goals of the Paris Agreement.
Pensions and Lifetime Savings Association	PLSA	A trade association representing pension schemes and setting up good practices, e.g. pension advice.
Task Force on Climate-Related Financial Disclosures	TCFD	A reporting framework that helps organisations disclose climate-related financial risks and opportunities.
Transition Pathway Initiative	TPI	Global Initiative led by Asset Owners, aimed at investors which assesses preparedness by companies in high carbon sectors for transition to a low-carbon economy.

Get in touch

If you would like to contact us about our Climate Action Plan, please feel free to, via:

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tpt.org.uk/investments/our-pension-investment-solutions

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