Ensign Retirement Plan Climate-change disclosures

Year ending 31 March 2022

1. Summary

This report is the first report required under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 for the Ensign Retirement Plan ("Ensign"). These regulations introduced requirements relating to Ensign's governance of climate-change in its investments and are based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD was set up in 2015 by the Financial Stability Board (an international body promoting financial stability) to improve climate-related financial disclosures.

The areas covered by this report and key points are:

- **Governance** – the Trustees adopted a new climate-change governance policy in September 2021
- **Strategy** – the Trustees have carried out climate-scenario analysis and an Independent Investment Review and these activities have informed decisions around management of climate risk in the portfolio
- **Risk management** – This describes the activities the Trustees have undertaken to identify and assess climate-related risks including climate updates, review of the risk register and climate data
- **Metrics and targets** – The Trustees have selected three climate metrics and reported on these. They have also set a target to improve data coverage as good data is fundamental to good decision-making.

2. Governance

This section describes the way that the Ensign Retirement Plan is organised to incorporate climate-change risk and opportunities. It describes the internal processes and controls that are in place to ensure adequate oversight. This includes the approach to knowledge and understanding in this rapidly developing area; the roles and responsibilities and the way that certain aspects are delegated and managed and the commitments to wider initiatives.

2.1 Climate-change governance policy

Over the course of 2021, the Trustee formed a Climate-Change Working Group to develop its approach to climate-change taking input from its investment consultant and legal advisors and referencing the statutory guidance and non-statutory guidance published by the DWP and written by the Pensions Climate Risk Industry Group (PCRIG). Following from which the Trustee set out its approach in its Climate-Change Governance Policy (CCGP) which was adopted on 20 September 2021.

2.2 Rationale for the time and resources spent on climate-related issues

The CCGP was developed by a Climate-Change Working Group (see below) which considered how to set a proportionate approach to the governance (e.g. time and resources) taking into account Ensign's size and structure. The key aspects of governance are set out below:

2.3 Climate-change knowledge and understanding

The Board and executive function must receive regular climate training. During 2021/22 the Trustee and Executive has received training on specific topics including:

- Climate scenarios and implications for different cohorts of members;
- Climate-change finance for pension funds;
- Quarterly reporting including training and regular updates on climate-change; topics covered included COP26 and climate metrics.

This information along with specific projects (e.g. the Independent Investment Review and Scenario analysis) are challenged and probed at regular Trustee meetings and used to inform further discussions with the platform provider and investment managers.

2.4 Roles, responsibilities and delegation

Terms of reference

All Trustee Directors have responsibility for the management of Climate-Change. This has been reflected in the Terms of Reference for the Board, Chair and Vice-Chair which have each been updated to explicitly reference adherence to the Climate-Change Governance Policy.

Climate-Change Working Group

From time to time the Trustee will establish a Climate-Change Working Group to take forward specific projects. The Working Group includes at least two Trustee Directors and Executive Team support, or specialists as required. The terms of reference for the Working Group are established by the Trustee project-by-project and the Working Group makes recommendations for approval by the Board. A Climate-Change Working Group was last established over June-September 2021 to develop the Board's Climate-Change Governance Policy. This group met twice (in addition to quarterly Trustee meetings) over this period.

2.5 Commitments to wider initiatives

The Trustee believes that broad climate-related activity will improve risk adjusted returns for all investors. Such activity may include membership of climate organisations to promote collective action for the benefit of members and stewardship and engagement with individual companies.

The most effective use of Ensign's resources is to encourage its investment managers to engage with wider activities (e.g. Climate Action 100+) on the Board's behalf. Additionally, if it is cost effective for members, the Board will support industry forums such as the Transition Pathway Initiative and the Paris Alignment Forum.

During 2021/22 the Executive Team and individual Trustee Directors have discussed with Aegon (the platform provider) and BlackRock (the main investment manager for the Plan) their approach to industry membership. The Trustee believes that these discussions, combined with the actions of other asset owners have helped to encourage their service providers to engage with wider activities.

Aegon have confirmed that they are members of the following groups:

- **IIGCC** (Aegon UK, October 2021): The Institutional Investors Group on Climate Change is a European membership body for investor collaboration and a key voice of investors taking action for a prosperous, low-carbon future
- **Net Zero Asset Owners Alliance**: (Aegon N.V November 2021): This is a UN-convened group of institutional investors committed to transitioning their portfolios to net-zero GHG emissions by 2050.
- **CDP**: Aegon N.V is an investor member of the CDP (formerly the Carbon Disclosure Project). CDP encourages companies to be more open about their greenhouse gas emissions.

Blackrock, the main investment manager (managing around 99% of the members' assets) are a member of a number of organisations including:

- **Net Zero Asset Managers Initiative** (March 2021): Blackrock are one of over 100 investment managers who have committed to aligning the financial sector and supporting the goals of the Paris Agreement
- **Climate Action 100+** (January 2020): This is an investor-led initiative to collectively engage with the largest greenhouse gas emitters to ensure that they take action on climate-change.

LGIM and Schroders, the other asset managers are also members of a number of climate organisations seeking collective action.

2.6 Framework for delegation to investment managers

The Trustee believes that the most effective way to manage Climate-Change risk and opportunity is to adopt a strong, efficient governance process as described above. The Plan's scale and resources mean that implementation and data provision is for its investment managers and platform provider. The Trustee holds the investment managers to account using a framework which considers:

- The way that climate risk is managed at portfolio level for self-select funds and within the building blocks of the "LifePath" funds;
- For the "LifePath" funds, the choice of building blocks and for index-tracking investments the extent to which climate considerations are included in index-construction;
- Stewardship activity including engagement with investee companies, voting activity including voting on reappointment of directors and auditors. For non-voting securities (e.g. corporate bonds) the extent to which engagement takes place for new issuance;
- The level of engagement that the investment manager has with industry wide initiatives and undertakings such as Climate Action 100+, the UK Stewardship Code and TCFD;
- The quality of climate analysis and reporting including current carbon emissions metrics, transition metrics (e.g. carbon pathways and implied temperature analysis);
- The quality of research carried out by the investment manager and the quality of information or education provided to the Trustee

Over the course of 2021/22 the Trustee commissioned a triennial Independent Investment Review (IIR) which explored some of the above points and confirmed the continuing suitability of the investment managers and mandates. Additionally, the Trustee and the Executive met Aegon and BlackRock to establish their approaches and to press for further development in certain areas (e.g. engagement activity in corporate bond mandates).

2.7 Oversight of climate-related activity by those who advise or undertake governance activity

The Trustee operates a governance model whereby it relies on advice for specific activities from professional advisors and it relies on an executive team for support. The Trustee's policy is that these providers:

- Demonstrate adequate climate-related expertise
- Prioritise climate-change risk and opportunity appropriately
- Have clarity on their role and the way that climate-change is embedded in their activities and the style ad frequency of reporting of climate-related developments.

In June 2021, Hymans Robertson was appointed to carry out the triennial investment review, including climate-related aspects. This appointment was carried out in line with Ensign's Adviser and Supplier Policy and in addition Hymans Robertson is subject to objectives, as required following the Competition and Markets Authority ("CMA Objectives"). These objectives reference climate considerations. The Trustee also reviews the executive team in line with its Adviser and Service Provider Policy.

3. Strategy

Strategy refers to the design of LifePath funds, the choice of self-select funds offered to members and design of the portfolios that make up the LifePath and self-select funds. The Board's strategy is described in its Climate-Change Governance Policy. Key aspects are highlighted below.

3.1 Frequency of assessment of climate issues in investment strategy

Investment strategy, including climate change is assessed no-less frequently than once every three years. Additionally, the investments are monitored and reviewed each quarter by the Board and monitoring includes a climate-change update.

The last investment strategy review, the Independent Investment Review (IIR) was carried out in September 2021 by Hymans Robertson. At the same time, the Trustees also considered training and scenario analysis carried out by Hymans Robertson on the impact of different climate scenarios on various cohorts of member (see 3.5 below).

3.2 Approach to identifying climate related risks and opportunities

The Trustees use a range of approaches for identifying climate related risks and opportunities including: training on specific topics, a quarterly update on climate issues, and review of the risk register in accordance with the Trustee's Risk Management Policy.

During 2021/22 the Trustee received training on specific climate-related topics including: climate finance; scenarios and climate metrics. These sessions were used to shape and develop Ensign's Climate Policy.

Member Engagement Survey

Additional activity over 2021/22 included a survey of members to understand what they thought about environmental, social and governance factors, sustainable investment, and impact investment. The member Engagement Survey explored members' views to better inform the Board of what our members care about so that we can report appropriately on our activities to manage climate-change issues within the Scheme, including how the Trustee engages with the investment managers and platform provider. It has also provided useful information to help prioritise areas for action (e.g. the choice of self-select funds).

3.3 Extent to which climate-related risks and opportunities are factored into investment strategies

Incorporation of climate-related risk and opportunities in investment strategy is delegated to the investment managers and platform provider. They are expected to incorporate climate risk and opportunities consistent with the Trustee's climate beliefs which are set out in the Climate-Change Governance Policy.

3.4 Time horizons and climate-related issues for each time horizon

The Trustee's policy is to consider the time horizons over which climate-related risks and opportunities may have an effect by looking at example members and the overall membership structure.

In September 2021, the time horizons chosen were:

- Long – 25 year-old member: Many years of future investment with exposure to both transition and physical risk
- Medium – 50 year-old member: Medium term to retirement with exposure to transition risk and potentially physical risk
- Short – 60 year-old member: Short term to retirement with exposure to transition risk, particularly policy risk which may flow into markets or impact the terms for securing benefits with an annuity provider

These time horizons will be reviewed no less than three-yearly or on a significant change to the membership.

As described in the next section these example members were used to model the impact of different climate scenarios of different cohorts of members to explore the potential exposure to physical climate risk and transition risk.

3.5 Resilience to different climate scenarios and how this informs strategy design

The Trustee's policy is to use scenario analysis to inform climate strategy for the most popular arrangements (over 10% of assets). A combination of quantitative and qualitative techniques may be used, depending on the availability and sophistication of the analysis available and the likely impact of scenario analysis on decision-making.

In September 2021, Hymans Robertson carried out analysis which considered the impact of three scenarios on the three example members described above. The three scenarios were:

- **Green revolution** – Concerted, immediate policy action resulting in short term transition risk but less physical risk in the long term and a high expectation of achieving an increase in global average temperatures of less than 2°C;
- **Delayed transition** – No significant policy action in the short-term meaning a more severe response is needed later. This results in greater but delayed transition risk and

similar physical risks in the long term still with an expectation of achieving an increase in global average temperatures of less than 2°C;

- **Head in the sand** – Little or no policy action for many years resulting in market uncertainty over many years and severe physical risk over time and a high certainty of an increase in global average temperatures of more than 2°C.

These scenarios were chosen as they represent plausible outcomes to which members are exposed. Climate scenario modelling is a developing area and the modelling is simplified (for example, no probabilities are assigned to the scenarios). The key assumptions relate to: the *impact on expected returns* and the *impact on volatility* for different asset classes and the *time horizons* over which these changes take place.

The analysis explored the impact on equity returns and on yields and it demonstrated that climate change impacts different cohorts of members in different ways: Younger members being most exposed to poorer and more uncertain outcomes (measured in terms of size of fund and income at retirement).

The clearest conclusion was that taking no action poses a risk in itself and therefore the analysis helped to inform and challenge the approach taken by the platform provider and investment managers both in terms of portfolio design and in terms of collective engagement and voting activity. The analysis can now be used to test the resilience of changes to portfolio design to different aspects of climate-change for different cohorts of member.

3.6 Strategy implementation – investment manager selection and review

New investment managers or strategies are assessed against the climate-related factors set out in the Climate-Change Governance Policy. These form part of the overall assessment which includes other financially material factors such as past performance and expected future performance. Over the year, no new strategies or managers were introduced.

Existing managers are assessed against the climate-related factors set out in the Climate-Change Governance Policy no less than once every three years and more frequently if monitoring reveals areas for concern. The Trustee carried out an Independent Investment Review in September 2021 and continues to monitor and have regular dialogue with the investment managers.

Following the Independent Investment Review, the Trustee adopted a structured approach to dialogue with BlackRock, the main investment manager. This included two formal meetings (first with the Executive and then with both the Executive and Trustee representatives) and the conclusions of this process were summarised in writing. The full Trustee Board reviewed the notes from each meeting and agreed the final summary.

3.7 Strategy implementation – The role of the platform provider

The platform provider has a key role acting as the consolidator of pension fund assets and the Trustee expects the platform provider to:

- Make available investment managers and strategies which conform to the Trustee's Climate Beliefs and;
- Use its influence as a consolidator to encourage the development of appropriate investment strategies.

The Trustee and Executive have had regular discussions with Aegon, the platform provider. During the course of the year, the platform provider has introduced a number of innovations including publishing its own net zero policy; membership of industry organisations and developing a suite of climate data and analysis.

3.8 Strategy implementation – The role of stewardship

The Trustee believes that the most effective way to manage climate-related issues is to delegate day to day activity (including stewardship activity) to its investment managers and to hold them to account using a framework which includes consideration of their contribution to industry-wide initiatives and their engagement and voting activity for individual securities. See this year's implementation statement for more detail on engagement and voting activity.

4. Risk management

4.1 Process for identifying and assessing climate-change risk

The Trustee's Climate Governance Policy describes the process for identifying climate-change risks. This includes:

- Trustee training on specific topics
- A quarterly update on climate issues within the quarterly investment report
- Attendance at industry-wide events (either Board or Executive) and
- Review of the risk register

Climate-related risks are assessed using a range of techniques which include consideration of the impact of physical and transition risks and time horizon using the scenario analysis described in 3 above.

In addition to the activities above, over 2021/22 the Independent Investment Review by Hymans Robertson included climate risk and the platform provider started to produce detailed climate-change data 6-monthly. This data includes information which enables the Trustee to explore physical and transition risk in the portfolio. Examples of the data include: climate value at risk (split by physical, technology and policy risk) and analysis of exposure to transition risk (e.g. through asset stranding; increased operational costs or reduced demand for carbon-based products). The data also includes analysis of exposure to low carbon solutions.

4.2 Integration of the process within the Trustee's overall risk management approach

The identification, assessment and effective management of climate-change risks is integrated into the Trustee's overall risk management process in accordance with the following principles:

- Interconnections – recognition that risks are interconnected;
- Time-based – incorporating short-, medium- and long-term considerations;
- Proportionality – the approach should be proportionate with other risks;
- Consistency – the methodology for incorporating climate risk should be consistent across the overall risk management process.

Over 2021/22 the Trustee updated its risk register to incorporate climate-change risks.

The activities described in 4.1 above have resulted in and increased focus and higher prioritisation of climate-change risk and opportunities.

5. Metrics and Targets

5.1 Rationale, influence and limitations

The Trustee's policy is to set climate-change metrics and targets in order to help measure, manage and disclose climate-change impact. These metrics may relate to outcomes (e.g. risk exposure) or processes (e.g. the way that climate risks are governed and managed). The metrics chosen may be quantitative or qualitative. The Trustee delegates the provision and collation of data to the platform provider and investment managers. The metrics chosen are expected to change over time as new techniques evolve.

5.2 Approach to monitoring and reporting

The Trustee recognises that the monitoring and assessment of exposure to climate-change risks is developing and the metrics and tools available to the Trustee may evolve. The Trustee will monitor changes in market practice to ensure that they are aware of changing best practice.

The Trustee has adopted a three-step process with the platform provider and investment managers as outlined below:

1. **Engage**: Discuss the suitability and availability of potential metrics with the platform provider, taking professional advice where appropriate and taking account of the data generally available in the market.
2. **Request**: Request that the platform provider liaises with the underlying investment managers to obtain the data or sources the data itself
3. **Review**: Recognising that the platform provider and investment managers currently have no legal obligation to provide the data, the Trustee will review the quality of the

data provided and include a commentary on the availability and coverage of data in its annual climate reporting.

The Trustee followed this process over 2021/22 engaging with the platform provider to discuss the availability of data and to discuss Ensign's requirements. Following this engagement, the platform provider provided a detailed suite of data which the Trustee has reviewed in line with step 3 above. The Trustee believes that the suite of data provided is a good first step as it provides a detailed breakdown of a number of climate metrics (well beyond the minimum required for disclosure) which fulfils the objectives set out in 5.1 above.

The Trustees engaged early with the platform provider first to establish a timetable for the production of the data and to understand potential limitations. As a result of this early engagement the Trustees were able to review and challenge the data – in particular successfully petitioning for an alternative approach to weighting the climate metrics.

There are some asset classes which are not included in the analysis eg allocations to property and sovereign bonds. The Trustees believes that this has been pursued as far as they are able and, in accordance with the policy above will review this with the platform provider and seek to increase coverage in future.

5.3 Choice of metrics

The Trustee will consider metrics which may include, but are not limited to, exposure to fossil fuel producers and carbon reserves; overall carbon intensity; alignment with future climate pathways and management quality. The Trustee will monitor changes in market practice to ensure that they are fully aware of changing best practice and the feasibility of monitoring climate related risk within its non-equity funds.

As noted above the platform provider has made available a number of metrics. The Trustee is required by regulations to select one absolute emissions metric, one emissions intensity metric and one additional climate change metric to calculate in relation to the Scheme's assets and to use those calculations in order to assess the climate-related risks and opportunities which are relevant to the Scheme.

For these purposes , the Trustee has selected the following metrics for 2021/22,the results of which are set out in the appendix. It should be noted that the Trustee has decided to select two carbon intensity metrics in order to [better understand the carbon emissions financed by the Scheme's investments in a way that is comparable across different sized portfolios and different types of investment].

The Trustee's choice of metrics is reviewed annually, and these may be updated or replaced as market practice evolves.

Ensign

Absolute emissions: This is a measure of the total emissions that Ensign is financing. This measure depends on the size of the pension fund – all else being equal a larger pension fund would have a larger absolute emissions figure, purely due to its larger size.

Carbon intensity: Intensity measures show emissions per unit of activity (e.g. per £m of invested – also known as the Carbon Footprint or per £m of revenue – also known as the **Financed Carbon Intensity:** The Trustee has decided to report both Carbon Footprint and a sales-based intensity measure (similar to Weighted Average Carbon Intensity, WACI). These measures can be compared across pension funds more easily as they do not depend on the size of the pension fund.

Data quality: Data quality relates to the availability and reliability of climate data. Good decisions need comprehensive reliable data. The Trustee has decided to report on the level of coverage.

Details of the calculation methodology for each metric are included in the appendix.

5.4 Forward-looking metrics

The Trustee recognises that the above metrics are "snapshots" and record only the current position. What is important is the future rate of global decarbonisation; and this is captured by "forward-looking" metrics. Forward-looking analysis such as implied portfolio temperature and carbon pathway helps to identify companies that have the (a) the largest scope to reduce emissions and (b) are committed to doing so. This in turn informs portfolio construction and stock selection. The Trustee expects to engage with its platform provider and investment managers and develop its policy further in this area.

5.5 Choice of target

The Trustee is required by legislation to set at least one target for a chosen metric. Targets are set by reference to a base year against which progress is assessed, a timeline for achieving the target and the methodology by which performance against the target is assessed.

The first step in setting climate targets is to obtain comprehensive and reliable data. The Trustee has therefore chosen a data quality target (data coverage). This recognises that the Trustee delegates provision of data to the platform provider and investment managers who in turn rely on specialist data providers. The Trustee believes that a data quality target will help it to achieve the objectives in 5.1 above. More details and disclosures are set out in the appendix.

The Trustee's choice of climate target is reviewed annually, and may be updated or replaced taking into account the Scheme's performance.

September 2022
The Trustee of the Ensign Retirement Plan

Disclaimer

The Trustee has sought to provide the data in this report (and appendix) as far as it is able, taking into account the costs incurred in seeking further information and the time required (as set out in Para 25 of the Schedule to the Climate Change Governance and Reporting Regulations). The data included in this report and appendix has not been subject to audit and must not be relied on for the purpose of decision-making. Emissions data disclosure is a rapidly evolving area and the Trustee reserves the right to restate the data in future reports.

Appendix – Metrics and Targets

1. Metrics

Scope 1 and Scope 2 emissions metrics as at 31 December 2021

Default Fund Climate Metrics	Total Financed Carbon Emissions (tCO_2e)	Financed Carbon Intensity (tCO_2e / $M sales)	Financed Carbon Emissions (tCO_2e / $M invested)	Emissions - Reported / Estimated (%)	Emissions - Not Covered (%)
Ensign – LifePath Flexi	4,692.6	120.5	33.0	61.6%	38.4%
Ensign – LifePath Retirement	2,221.0	123.2	33.4	66.8%	33.2%

Description

The table above shows carbon metrics for all assets and separately, the two default LifePath funds (which represent over 90% of assets). The data and descriptions below have been produced by the platform provider based on information provided by MSCI. The table shows the Scope 1 and Scope 2 emissions as described below.

Total Financed Carbon Emissions (tCO_2e) - Allocated emissions to all financiers (EVIC). Measures the total carbon emissions for which an investor is responsible by their equity ownership. Emissions are apportioned based on equity ownership (% market capitalization).

$$\textit{Total financed carbon emissions} = \sum \frac{\textit{Current value of investment}}{\textit{Enterprise value including cash}} \times \textit{Scope 1 and 2 emissions}$$

Financed Carbon Intensity (tCO_2e / $M sales) - Allocated emissions per allocated sales. Measures the carbon efficiency of a portfolio, defined as the ratio of carbon emissions for which an investor is responsible to the sales for which an investor has a claim by their equity ownership. Emissions and sales are apportioned based on equity ownership (% market capitalization).

$$\textit{Financed carbon intensity} = \frac{\sum \frac{\textit{Current value of investment}}{\textit{Enterprise value including cash}} \times \textit{Scope 1 and 2 emissions}}{\sum \frac{\textit{Current value of investment}}{\textit{Enterprise value including cash}} \times \textit{\$M sales}}$$

Financed Carbon Emissions (tCO_2e / $M invested) - Allocated emissions to all financiers (EVIC) normalized by $M invested. Measures the carbon emissions, for which an investor is responsible, per USD million invested, by their equity ownership. Emissions are apportioned based on equity ownership (% market capitalization). This measure is also referred to as the Carbon Footprint.

$$\textbf{Carbon Footprint} = \frac{Total\ financed\ carbon\ emissions\ (see\ above)}{Total\ value\ of\ portfolio\ assets}$$

Methodology

The table shows the emissions metrics expressed as metric tonnes of CO_2 equivalent, tCO_2e. This includes CO_2 and other greenhouse gasses (as defined by the Kyoto Protocol) such as methane and nitrous oxide, expressed as an equivalent to CO_2.

The disclosures show Scope 1 and Scope 2 emissions as defined by the GHG Protocol. Scope 1 emissions are those associated directly with an entity's operations, Scope 2 emissions are indirectly associated with an entity's operations (e.g. electricity and heating). Scope 3 is not included in this reporting although the Trustee has started to receive preliminary Scope 3 information. Scope 3 relates to all other activities including the end-use of a product (e.g. CO_2e emissions from a car with an internal combustion engine is Scope 3 for a car manufacturer).

Note that if emissions are not covered, they are excluded from the total carbon emissions figure.

Emissions not covered

Coverage is less than 100% for a number of reasons. Most significantly, some asset classes (e.g. sovereign bonds and property) are currently excluded from the platform provider's analysis. While this data may in principle, available directly from data providers at additional cost, the Trustee has followed its 3-step process for engagement with the platform provider (see 5.2) and believes this is a proportionate approach. The platform provider's statement on this point is as follows:

Sovereigns/commodities/other asset classes are not included in the data at the present time due to lack of commonly accepted industry standards around disclosing, apportioning and auditing emissions data for these investments. We recognise further limitations relating to the reliability of data for in-scope assets, including the quality of issuer disclosures, uncertainty associated with some of the underlying methodological assumptions, and the still very poor levels of Scope 3 emissions disclosure.

As noted below, improved portfolio coverage is a target, and the Trustee expects the platform provider to extend coverage.

2. Target

Scope 1 and 2 emissions reported or estimated				
	Base date 31/12/21	Target for 31/12/22	Actual at 31/12/22	Actual vs Target
Total portfolio				
LifePath Flexi	61.6%	65.4%		
LifePath Retirement	66.8%	70.1%		

The trustee has agreed to set a target to reach full portfolio coverage linearly over 10 years. The base year for this target is 31 December 2021 and the table below summarises the likely format of future reporting.

To achieve the target, the Trustee expects to work with the platform provider to understand where data is missing and the steps that might be taken to improve coverage (which might include further engagement with the platform provider or the underlying data providers or stewardship activities).