REDINGTON

WH Smith Pension Trust Taskforce on Climate-Related Financial Disclosures (TCFD) Report

Year Ended 31 March 2023

Introduction

This report has been produced by the Trustee of the WH Smith Pension Trust (the "Trust") under the requirements of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021. As part of these regulations, the Trustee is legally required to produce formal disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"). This is the first report that the Trustee is obliged to produce under these requirements, covering the period from 1 April 2022 to 31 March 2023.

It is important to note for context that during the period, in August 2022, the Trustee undertook a full buy-in transaction with Phoenix Life Limited ("Phoenix Life"), transferring the vast majority of the Trust's assets to the insurance company. Therefore, going forward the Trust no longer has any long-term investments on which climate-related decisions can be made. Furthermore, the expectation is that the Trustee will convert the full buy-in to a buy-out and subsequently wind up the Trust in the near future.

Therefore, the implications of this on this report are:

1. The report covers the compliance of the TCFD requirements, in respect of the investments held, for the period from 1st April 2022 until in August 2022 when the buy-in occurred (i.e. when the Trust had long-term investments which were managed in line with the Trustee's policies on climate change).
2. From the date of the buy-in until the end of the period, 31st March 2023, given the lack of long-term investments, the policies and approach outlined in the report were largely not relevant and this is not expected to change in subsequent years.
3. This TCFD report is expected to be the Trust's first and last report given it is not required, nor indeed is it relevant, to produce a TCFD report for subsequent years as a result of the full buy-in and likely wind up of the Trust.

This report covers the following four areas of the Climate Change Governance framework:

- **Governance:** The Trust's governance around climate-related risks and opportunities.
- **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the Trust's strategy and financial planning.
- **Risk Management:** The processes used to identify, assess and manage climate-related risks.
- **Metrics and Targets:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

In light of the fundamental change in investment arrangements during the period, some of the analysis and reporting which would have otherwise been included (e.g. the scenario analysis) is not deemed relevant. This is commented on in each of the sections as appropriate.

The following pages further detail the Trustee's position compared to the recommendations set out by the TCFD as set out in the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

1. Governance

The Trustee has established a governance structure to oversee and manage climate-related risks and opportunities. However, as a result of the buy-in, the Trustee no longer has long-term investments, and expects to wind up the Trust in the near future. Therefore, this section describes how the Trustee integrated climate change into its governance processes prior to the buy-in.

Oversight of climate related risks and opportunities

The Trustee Board has ultimate oversight for identifying, assessing and managing climate-related risks and opportunities which are relevant to the Trust.

There was a sub-committee of the Trustee Board (the "Investment Committee" / "IC") that had been delegated the day-to-day responsibility for ensuring climate-related risks and opportunities were effectively managed.

The Trustee had adopted a climate-related belief statement which documents its approach to identifying, assessing, and managing risks specifically related to climate change. This statement and associated policies, which were last reviewed in the first half of 2022, were documented in the Trust's Statement of Investment Principles (the "SIP") which is publicly available via the Trust's website. Both the climate-related belief statement and SIP have been taken into account when producing this report.

Roles and responsibilities in assessing and managing climate related risks and opportunities

The specific roles and responsibilities of the Trustee Board, IC, In-house team and external advisers prior to the buy-in are summarised below:

- **Role of the Trustee Board**: Sets the overall investment and funding strategy and objectives, which includes the oversight of; identification, assessment and management of climate-related risks and opportunities.

- **Role of the Investment Committee ("IC"):** Inform and make recommendations to the Trustee regarding climate-related risks and opportunities where this may result in a change to the overall investment strategy.

- **Role of In-house team:** Supports the Trustee as a full-time management team by undertaking work required with support as required from external advisers, asset managers and data providers.

- **Role of the external advisers:** Advise on climate-related risks and opportunities including the provision of climate scenario analysis where relevant. The Trustee use a number of advisers to assist with assist with the assessment of climate-related risks. In particular:

    - **Investment Adviser:** Provide the majority of ESG related advice. This, for example, has included helping the Trustee set their ESG beliefs and policies. As part of their role, the investment adviser has also assessed managers' ESG and climate-related credentials, advising the Trustee accordingly. Such information has been used when reviewing managers.

    - **Legal Adviser:** Primary role with regard to climate change is to assist the Trustee in meeting its legal obligation.

    - **Actuary:** Provide funding advice and support on governance matters to the Trustee. In this role, the Trust actuary helps, to the extent relevant, the Trustee in considering the impact of climate-related risks and the impact this has on Trust funding.

    - **Covenant Adviser:** Provide the Trustee with a view as to the potential impact of climate-related risks and opportunities on the Sponsor and therefore on their ability to support the Trust.

When considering recommendations, the IC and Trustee Board challenged these advisers where appropriate to ensure robust thinking supports the recommendations being put forward. All appointed advisers were also subject to periodic performance reviews. These reviews have considered, amongst other things, each firm's ability to assist with and advise on climate risk and related matters.

Monitoring climate-related risks and opportunities

As outlined in the introduction, at the time of publishing this report, the majority of the Trust's assets and all liabilities had either been disposed of or transferred to Phoenix Life Limited. However, prior to the buy-in transaction, the Trustee had articulated its climate-related beliefs as follows:

The processes for identifying, assessing, and managing climate-related risks are in line with the overall Risk Management Framework. The ultimate responsibility for identifying, assessing, and monitoring climate-related risks and opportunities sits with the Trustee; however, the Trustee has delegated the day-to-day responsibilities to the Investment Committee ("IC"). In order to effectively carry out their responsibilities, the Trustee board receives sufficient training, from the relevant advisers, on an ongoing basis in respect of climate-related risks and opportunities.

In order to effectively carry out this responsibility, the IC rely on the manager research capabilities of their Investment Adviser in order to effectively assess climate-related risks and opportunities. Finally, active engagement with underlying companies in which the Trust is invested, specifically relating to climate-related risks and opportunities, is delegated to the Trust's investment managers.

Trustee training in relation to climate-related risks and opportunities

Both the Trustee as a whole and the IC have received training on climate change-related risks and opportunities, and TCFD recommendations. Training sessions were designed to ensure the Trustee and IC had sufficient knowledge to make informed decisions on TCFD recommendations. Training sessions included:

- Climate change as an investment risk and the changing regulation
- Climate change-related metrics and targets
- Climate change scenario analysis and portfolio alignment metrics

In keeping with this governance structure, this report has been reviewed by the IC and approved by the Trustee Board.

2. Strategy

Climate related risks and opportunities over the short, medium and long term

The Trustee recognises that following the buy-in, and given the Trust is expected to be wound up in the near future, considering climate related risks and opportunities over any time period is no longer relevant.

However, it is important to note that as part of its selection as the Trust's buy-in provider, the Trustee did consider Phoenix Life's approach to environmental, social and corporate governance (ESG) aspects including climate change.

Also, for the period prior to the buy-in transaction, the Trustee did also consider climate-related risks and opportunities and their potential implications on the Trust's investment and funding strategy over the short-term, medium-term, and long-term.

The Trustee had acknowledged its investments, prior to the buy-in, would have been exposed to climate-related risks to varying extents, and had identified two specific risks which could impact the Trust's investment and funding strategy:

- Physical risks, i.e. those that arise from both gradual changes in climatic conditions and extreme weather events; and
- Transition risks, i.e. risk of re-pricing which would occur as part of the move to a low-carbon economy.

Appropriate time horizons

For the period prior to the buy-in, the Trustee had considered climate-related risks and opportunities over three time horizons: short-term (up to 10 years), medium-term (11-20 years), and long-term (21-30 years):

- Short-term risks and opportunities may include price movements resulting from increased regulation directed at addressing climate change (i.e. mostly transition risk).

- Over the medium term it is expected that there will be changes in consumer spending habits following changes in technology, such as the uptake in electric vehicles or a reduction in overseas travel. Physical risks are likely to start to manifest more substantially and more frequently (i.e. some transition and some physical risk).

- Longer-term risks may include physical damage to real assets as a result of rising sea levels for coastal property or infrastructure assets; there may be opportunities for outperformance for organisations that put in place strategies to mitigate these potential risks well in advance of them materialising (i.e. mostly physical risk).

These time horizons reflected how climate change may have affect different aspects of the Trust's investments and funding position over time, prior to the buy-in. However, due to the buy-in, the Trustee's time horizon is now limited to within 12 months, which is the current expected timeframe for winding up the Trust. Therefore, these time horizons are no longer relevant going forward.

Resilience of the Trust's funding and investment strategy to climate-related scenarios

Prior to the buy-in, the Trustee had planned to undertake scenario analysis to assess the potential impact on the Trust's funding level of different climate scenarios ahead of publishing this report. However with the Trust having completed a full buy-in during the period, investment and funding risks are now minimal. The Trustee therefore views there to be no benefit in undertaking any scenario analysis.

3. Risk Management

Prior to the buy-in, the Trustee had established processes to identify, assess and manage climate-related risks that could affect its investments and funding position. However, again, as a result of the buy-this is no longer relevant going forward. This section therefore describes how the Trustee identified and managed climate-related risks in the period prior to the buy-in transaction.

Identifying and assessing Climate Risk

Prior to the buy-in, the Trustee had established a governance structure ensuring clear roles and responsibilities of identifying, assessing, and managing climate-related risks. The Trustee also expected its investment managers to engage with the companies they invested in and to practice good stewardship on climate-related issues. Engagement with the investment managers themselves was largely carried out on behalf of the Trust by its investment adviser. Throughout this engagement process, investment managers were asked to provide details of how climate-related risks and opportunities have been incorporated into the investment process within applicable guidelines and restrictions.

4. Metrics and Targets

Prior to the buy-in transaction, the Trustee had reviewed different climate-related metrics and targets and discussed which were most appropriate for the Trust. The Trustee also considered the process by which the Trustees will source climate-related data and calculate the relevant metrics. However, as a result of the buy-in, the Trustee does not expect to report on these metrics and targets in future years.

Metrics adopted to assess climate-related risks and opportunities faced by the Trust

The Trustee has an obligation to select a minimum of 4 metrics for measuring climate risks and opportunities. The Trustee has chosen the following metrics:

1. **Total greenhouse gas emissions of the Trust's assets ("absolute emissions metric")**. This is the absolute emissions metric recommended by the DWP;
2. **Carbon footprint** – i.e. total carbon dioxide emissions for the portfolio per million pounds invested ("emissions intensity metric"). This is the emissions intensity metric recommended by the DWP;
3. **SBTi portfolio alignment metric ("alignment metric")**. This metric examines whether a voluntarily disclosed company decarbonisation target is aligned with a relevant science-based pathway. There is evidence that companies that have set science-based targets are delivering emissions reductions in line with their ambitions, making this a key metric to monitor to drive positive change.
4. **Data Coverage ("Non-emissions based metric")**: The percentage of each portfolio for which scope 1 and 2 emissions data is available.

Trustee assessment of metrics as at 31 March 2023

As at 31 March 2023, the only asset held, asides from the buy-in with Pheonix Life and cash, was an illiquid direct lending holding with Permira (c.£35m) which is in run-off. For the buy in, it is deemed necessary to report a proportion of the emissions disclosed by Phoenix Life Limited which could reasonably be attributed to the Trust; this despite the fact the Trustee has no control over how the underlying assets within the buy-in are invested.

The table below sets out the results of each of the Trustee's chosen metrics broken down by asset class:

Asset Class	Absolute Carbon Emissions (tCO2e) (Scopes 1+2)	Carbon Footprint (tCO2e/EVIC £m) (Scopes 1+2)	Science Based Targets Initiative Rating	Data Coverage
Buy-in*	27,425	315	9.9%	N/A
Direct Lending**	5,886	167	N/A	N/A

*Buy-in metrics provided by Phoenix Life are illustrative and have been calculated on a proportionate basis based on the size of the buy-in policies and Phoenix Life Limited's reported portfolio valuation. Data coverage is listed as N/A as they have been calculated using generic asset classes.

**Permira metrics have been calculated using generic asset class proxies. The SBTI score and data coverage are therefore N/A as they have not been calculated using line by line data.

The Trustee acknowledges these results, the limitations inherent in the calculation of these figures and the lack of ability it has to influence the figures going forward given the nature of the assets and the expectation the Trust will be wound up in due course.

Trustee's targets

Given the only assets which the Trust now holds are the buy-in, cash and a direct lending holding, which is in run-off, the Trustee lacks direct control over the investment of assets and views there to be no benefit in setting targets relating to any of the metrics.

Glossary of Terms (Carbon Metrics)

Scope 1 & 2 Carbon Footprint (tCO_2e / EVIC £m): Measurement of the Scope 1 & 2 CO_2e emissions of a fund per million pounds of EVIC. Scope 1 emissions refer to those which are directly connected to the production of a company's product or service e.g., burning of fossil fuels to power the electricity grid. Scope 2 emissions refer to those from electricity used to power company facilities. For a pension scheme, scope 1 emissions include the use of gas fuel and refrigerants in the office whilst scope 2 emissions include the use of electricity in the office buildings.

Scope 3 Carbon Footprint (tCO_2e / EVIC £m): Measurement of the estimated Scope 3 CO_2e emissions of a fund per million pounds of EVIC. Scope 3 emissions refer to all those that are not in direct control of a company's productive activities. Namely, all those emissions from a company's upstream supply chains and downstream product use by the consumer.

SBTi Score: The Science-Based Targets initiative ("SBTi") sets out a framework through which companies can set out their decarbonisation pathway and have them assessed against the goals set out in the Paris Agreement – limiting global warming to 1.5°C above pre-industrial levels or well-below 2°C. The SBTi Score is the proportion of assets invested that are classified as being Paris-aligned.

Tons of Carbon Dioxide Equivalents (tCO_2e): Tons of greenhouse gases including methane, nitrous oxide, carbon dioxide, and fluorinated gases. Given the abundance and prominence of carbon as a greenhouse gas, all the other gasses are considered carbon equivalents.

Limitations of Carbon Metrics

Specific line-by-line modelling of emissions is currently available only for publicly listed equity and credit assets. For unlisted asset classes, the investment adviser has reported asset class-level estimations of carbon emissions. This provides a broad and longer-term understanding of what the portfolio's emissions are and where the biggest amount of emissions come from. The investment adviser believes this is appropriate from a strategic asset allocation perspective, but will not capture specific actions managers are taking to reduce their CO_2e footprint.

Due to lags in company carbon reporting and database updates, carbon footprint numbers may have a one to two-year lag. The carbon numbers included in this report are updated at the start of every year.

Buy-in metrics and commentary contained in this report have been prepared for Standard Life by the Sustainable Investments Team, a function within Phoenix Group's Asset Management division which leads on responsible investment activities including the measurement and management of climate related risks and opportunities in the Group's investment portfolios.

Buy-in metrics included are for illustrative purposes only provided as an input to the Trust's governance and reporting processes and will not in itself meet the Trust's obligations under the Occupational Pension Scheme Climate Change Governance and Reporting Regulation (2021). While they support understanding of the metrics calculated they do not demonstrate the full context of the Trust's buy-in policies.