Climate change and your pension
A snapshot of our TCFD Report 2022

This is a summary of our TCFD Report, which shows how we are assessing climate risk and reducing emissions

The Task Force on Climate-related Financial Disclosures (TCFD) is an industry-led group that helps companies and their investors understand their financial exposure to climate risk. The UK's Department for Work and Pensions requires large UK pension schemes with assets over £1bn to publish a TCFD report.

This is a high-level summary of our TCFD Report. The full report goes into detail and is available at **uss.co.uk/RI-TCFD**

The recommendations are structured around four sections:

1. **Governance**
How the organisation's board, committees and senior management are assessing, managing and monitoring climate-related risks and opportunities.

2. **Strategy**
Actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.

3. **Risk management**
The processes for identifying, assessing and managing climate-related risks, and how these are integrated into the organisation's overall risk management.

4. **Metrics and targets**
The metrics and targets the organisation uses to assess and manage relevant climate-related risks and opportunities.

Pension scheme investments, like everything else, are affected by climate change

The Universities Superannuation Scheme (USS)[1] is the principal pension scheme for universities and Higher Education institutions in the UK.

We invest the money you and your employer contribute to USS.
We invest in companies, projects, infrastructure, buildings, and more, around the world. We do this to protect and grow the value of the scheme's money over the long term, so we have enough to pay members' pensions now and well into the future.

Climate change is a global issue.
Greenhouse gas (GHG) emissions, caused by humans, are making the world hotter. Among other things, the temperature increase is causing extreme weather, rising sea levels, floods, and droughts.

Climate change poses risks to our investments.
For instance, flooding could damage a property we own. Temperature increases make wildfires more likely, which could destroy timberland we invest in. A change in energy policy to reduce emissions could leave any fossil fuel assets we invest in 'stranded[2]'.

But it also offers potential benefits for our investments.
To transition to a Net Zero world, we will all increasingly rely on renewable energy and on new, low-carbon technologies. These are opportunities we can invest in, and already do – to support the transition and to benefit from long-term returns at the same time.

1 To make this document easier to read, we have used the terms 'USS', 'we', and 'our' as catch-all references to different elements of the USS group. So, depending on where it appears in the text, 'USS' means either (i) the scheme (Universities Superannuation Scheme), (ii) the Trustee (Universities Superannuation Scheme Limited acting as Trustee) or (iii) the Trustee's wholly-owned investment management company (USS Investment Management Limited/USSIM). On a few occasions we do refer specifically to one of these three elements, where it seems helpful to do so.
2 Stranded assets are now generally accepted to be assets that turn out to be worth less than expected as a result of changes associated with the energy transition. This definition is from **Stranded Assets – Carbon Tracker Initiative**

That is why we are working to reduce the emissions our investments generate, to protect those investments from the risks of climate change, and to benefit from the opportunities

To tackle climate change, the world needs to reduce the amount of carbon dioxide and other greenhouse gases it emits into the atmosphere. Almost all the companies and assets we invest in have emissions today – whether from their manufacturing processes, vehicles or supply chains.

This is why we have set an ambition to achieve Net Zero emissions from our investments by 2050.
This ambition is in line with the Paris Agreement, which aims to limit temperature rise to below 2^{o} centigrade.

To achieve Net Zero, our investments must reduce their emissions as much as possible. If they have any remaining, unavoidable emissions, they must offset these with activity that removes greenhouse gases from the air. That way there are zero emissions in total.

2050 is a long way away, so we have set interim targets as milestones in our transition.
Our internal investment team will work with the companies we invest in to cut the emissions they generate by 25% by 2025, and by 50% by 2030. These targets are relative to our 2019 baseline.

We cannot divest our way to Net Zero.
Companies and countries around the world need to transition from our current high-carbon emitting economy to a zero carbon one. It will not reduce climate change if we sell high-emitting investments – it merely passes the problem on. We believe we are better off using our influence as a long-term shareholder and debtholder to push for that transition.

Our report shows we have already made reductions, but we need to go further

To achieve our ambition of Net Zero by 2050, we need to reduce the 'emissions intensity' of our investments by between 4.7% and 6.1% a year.

Since 2019, we have reduced this by 1.9% a year. So we are behind where we want to be, but we are on the right track, as you can see from the graph on the right.

In our TCFD Report, we present three metrics. The first two give us a snapshot of the scheme's carbon footprint. Over the long term we expect to see these numbers reduce substantially as both the scheme and the world transition to a low-carbon future. The third metric measures the percentage of our assets aligned with a 'below 2° centigrade' outcome. We expect this number to increase over time.

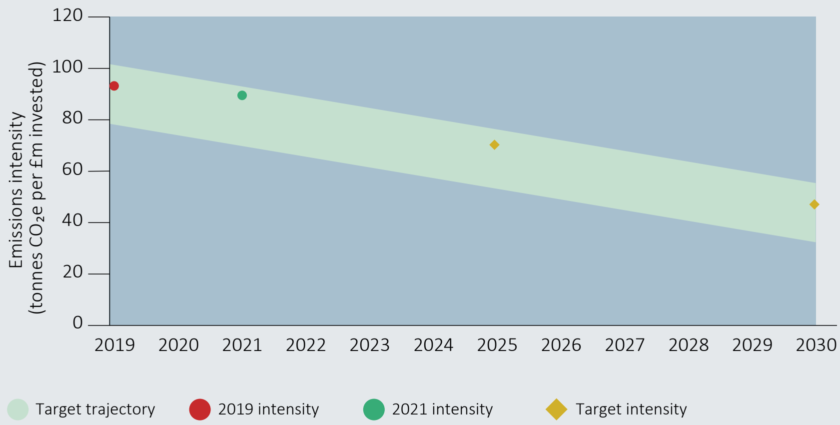
An important note on the numbers – they are not yet high quality. The numbers shown are best estimates, and date from the end of 2021. They only include Scope 1 and 2, but not Scope 3 emissions. And they cover all of our investments except sovereign debt. We also have concerns about the quality of data and industry methodologies for evaluating some asset classes. There is more information about why this is in the **full report**.

What are Scope 1, 2 and 3 emissions?

Scope 1 covers emissions from sources that an organisation owns or controls directly, such as a delivery company's vehicles.

Scope 2 are emissions that a company causes indirectly when the energy it purchases and uses is produced. For example, the emissions resulting from the generation of electricity would fall into this category.

Scope 3 are all other emissions a company is indirectly responsible for. This includes emissions from its employees' commutes, from its suppliers, and as a result of its products being used by customers.



1 The greenhouse gas emissions our investments are responsible for

Retirement Income Builder (defined benefit)	**4.2** million tonnes of CO_2e
Investment Builder (defined contribution)	**65,000** tonnes of CO_2e

2 Our emissions intensity: the amount of greenhouse gas emissions per £million we invest

Retirement Income Builder (defined benefit)	**89.5** tonnes of CO_2e per £million
Investment Builder (defined contribution)	**72** tonnes of CO_2e per £million

3 The proportion of our investments aligned with 2°C or below

Retirement Income Builder (defined benefit)	**24%** of our investments
Investment Builder (defined contribution)	**18%** of our investments

How we are reducing emissions and investing in the transition

We recognise that the transition to a low-carbon future will not be easy, and we are working on how to achieve this ambition.

We have introduced a climate tilt to over £5bn of our portfolio, reducing emissions by 30% for this investment
USS Investment Management has introduced a climate 'tilt' to the portfolio of companies it invests in. The tilt covers over £5bn of these investments. It means we will invest in more climate-friendly assets while having a lower exposure to companies poorly positioned to adapt. This will first reduce emissions by 30% compared to the market, and is then designed to decrease them by 7% each year after.

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Bruc Energy: USS has invested c.£200m in an Iberian renewables-focused investment vehicle

We will invest £500m in a new sustainable growth mandate
We will invest in high growth, privately-owned businesses that are developing the technologies and services that will help companies and the economy to decarbonise.

We have now invested more than £1.9bn in renewable energy and clean technology
This includes a 50% stake in Bruc Energy, which runs solar farms, as well as investments in many onshore and offshore wind farms. These long-term investments are well-suited for us, as we need to pay pensions far into the future.

We are engaging with the biggest polluters we invest in
We use our investor influence to change the companies we invest in for the better. As part of the Climate Action 100+, we recently encouraged Cemex, one of the world's largest cement companies, to build on its carbon reduction ambitions, and submit its 2030 target and road map to the Science Based Target Initiative for verification. There are more examples in our **TCFD Report**.

We are further improving how we integrate climate risk when we invest
We are using what we learnt through our TCFD work to make our investments even more climate-resilient – from having Net Zero Working Groups to set targets at asset class level, to improving the climate models we use.

This is an ongoing journey – we will keep you updated on our progress

This TCFD Report is an important step on our journey to Net Zero, which is critical for not just our investments, but for people and the planet too.

We will publish an updated TCFD Report every year, so you can see our progress.

This is not just something we are starting now. We have integrated climate risks and opportunities for more than 20 years, as part of our legal duty to act in the best financial interests of our members. You can find more information on **how we invest responsibly** and more detail in our full TCFD Report.