3rd December 2025

USS response: DWP TCFD Post-Implementation Review survey

Currently, trustees of schemes whose relevant assets are £1bn or more, are in scope of the requirements in Part 2 of, and the Schedule to, the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021. Do you feel the threshold:

- **Should be higher**
- Should be lower
- Is about right
- Other

Challenges and opportunities with the TCFD Framework

Questions 5 – 9 How easy / difficult on a scale of 0 – 10 (with 10 being extremely difficult) has it been to meet the TCFD requirements for:

- *Governance:* 3
- *Strategy:* 5
- *Scenario analysis*: 7
- *Risk management*: 3
- *Metrics and targets:* 7

10. Please expand on your scores and outline any particular challenges or things that have worked well?

Governance

Meeting the TCFD requirements for Governance is relatively easy as our governance structure is well established and is unchanging year-on-year. When we set our net zero ambition and worked towards publication of our first TCFD report in 2018 we embedded financially material climate-related risks and opportunities into the oversight of relevant boards and committees. For example, we considered the appropriate governance structure, updated Terms of Reference and provided training. At the time, this took time and resource but as mentioned above, it now remains unchanged year-on-year.

Strategy

While meeting the TCFD Strategy requirements has remained manageable, our approach evolved notably throughout 2024 and 2025 to better reflect real-world dynamics. We've shortened the length of each time period compared to previous assessments, enabling us to create a more accurate and actionable framework.

Scenario analysis

Scenario analysis is one of the more challenging areas due to long time horizons, scientific complexity, and uncertainty around macroeconomic interactions.

Risk management

The processes for identification and management of climate-related financial risks are well established and embedded in our enterprise and operational risk management processes. Therefore, meeting the TCFD

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requirements for risk management are relatively easy and routine. There was more work involved initially when we worked to embed the requirements into our existing processes.

Metrics and targets
We have chosen to try to calculate data as accurately as possible across our portfolios using first-hand data where available. It would be possible to meet the regs by using a simpler estimation-based approach which would reduce the difficulty to below a 5.

Establishing climate metrics in line with TCFD helped us develop robust climate data for the scheme and across asset classes. Reviewing data providers, building internal systems for externally sourced climate data, and collecting data for private market companies was challenging (people resource and direct costs), but manageable.

Some climate risk metrics pose methodological and data issues. Physical risk data metrics are still developing and there are significant challenges surrounding whether to assess only a company's production, or also upstream activities and downstream impact. Transition risk data is more advanced, with carbon pricing of a company's emissions as a starting point for analysis. However, this approach is limited, as Scope 3 emissions are difficult to account for and transition risk encompasses more than just adding an estimated carbon tax to corporate emissions and can also include changes and shifts in consumer preferences.

DWP guidance requires Scope 3 data reporting for the scheme and while this is not necessarily a data challenge, we think this figure is potentially misleading and not particularly valuable when aggregated. For example, companies often report specific categories of Scope 3 emissions which are easier to calculate e.g. business travel. Whilst a useful starting point, this skews the coverage data for Scope 3 and the reporting often doesn't cover supply chain emissions, which are the most significant Scope 3 source. The GHG Protocol supports this view, noting that Scope 3 data is suitable for time-series analysis of individual companies but not for portfolio-level aggregation or cross-company comparisons without further research.

We would welcome further guidance from DWP on an appropriate sovereign emissions methodology to ensure consistency in reporting while allowing flexibility for other metrics. We use the Partnership for Carbon Accounting Financials (PCAF) approach for peer consistency in reporting and the territorial/imported emissions approach for investment analysis, which provides a more accurate representation of an economy's emissions intensity but can result in triple counting of some emissions (corporate level, exporting country, and importing country all count the same emission source). Notably, PCAF supports the consumption-based approach, while the UK government uses the production/territorial approach, which tends to lower developed market emissions and increase those of emerging markets.

11. Do you engage with others' TCFD reports; is learning/best practice shared across schemes?

    Yes, we speak with other schemes and discuss their reports, particularly on use of data providers and how scenario analysis can be integrated into fundamental research. For example, we presented to a peer asset owner on climate scenario analysis as part of their strategy day.

    We review reports to better understand how peers approach scenario analysis. This has helped shape our own disclosures—highlighting areas we could strengthen. It has been especially useful in refining our scenario narratives and ensuring our reporting remains relevant, innovative, and decision useful.
    We also engage with peers via our engagements with climate-focused groups such as PCAF, The Institutional Investors Group on Climate Change and Climate Action 100+ where learning and good practice are shared.

    In addition, we find the standardised questions and layout in CDP reports valuable for individual company analysis and cross company comparisons.

12. If applicable, what, if any, specific information under the FCA's TCFD entity and product-level reporting rules do you need for your own decision-making and / or reporting requirements?

N/A. We are not 'users' of these reports. Most of our mandates are segregated and bespoke. As a result, we seek to build ESG requirements into contracts and have a good relationship with external managers where we can request TCFD-related information directly from them for the purposes of our own scheme reporting.

Governance

13. How have you used TCFD to develop governance processes for managing climate-related risks and opportunities?

    In 2021 we announced our ambition for our investments to be net zero by 2050, if not before. To ensure delivery of this USS Investment Management Limited (USSIM) (in-house investment manager and adviser to the scheme trustee) established a Net Zero Steering Committee and Net Zero Working Groups. The Steering Committee provided planning, governance and oversight of the activities associated with achieving net zero, including oversight of the Working Groups. There were working groups for each asset class, as well as for specific support functions. This year a new committee - the RI Projects Steering Committee – replaced the Net Zero Steering Committee. This committee is responsible for steering longer-term responsible investment projects for example the revised climate scenario analysis project.

    Our Asset Allocation Committee uses scenario analysis (including future climate scenarios, as outlined below) to help inform the strategic asset allocation positioning of the scheme.

14. Are any TCFD activities outsourced to consultants, and why? Which activities are managed in-house?

    We work with an external design agency to support design and publication of the TCFD report and in recent years we have partnered with external consultants EY to undertake limited assurance of our climate metrics and associated commentary that describes the metrics.

    As well as the outsourced activities above we:

    - Use two external investment advisers – Mercer for defined benefit matters and LCP for defined contribution matters. Our investment advice is provided by USSIM, but Mercer and LCP provide independent insight and challenge to consideration of USSIM investment strategy; this can include insight and challenge on responsible investment matters including climate risk.

    - Partnered with the University of Exeter in 2023 to develop four "No Time To Lose" climate scenarios, enabling us to assess real-world climate risks and opportunities and their implications for investment decisions. In 2025 we expanded the collaboration to include Cambridge Econometrics and Transition Risk Exeter Limited (Trex), a commercial spin-out from the University of Exeter. Together, we updated the scenarios to reflect the latest climate data, projections, and significant shifts in markets, policies, and regulations. In addition, we also advanced our physical risk analysis by leveraging spatial GDP data and hazard simulations to estimate potential country-level economic impacts.

    - Collaborated with Trex and Professor Cameron Hepburn of the University of Oxford, to consider policy implications of transition scenarios.

15. Aside from the TCFD framework, how else do you ensure climate risks are considered?

    We have integrated broader financially material responsible investment risks, and specifically climate related risk, into our wider risk governance, monitoring and management processes. This includes processes for identifying and managing these risks. See our response to questions 22 and 23 for more detail.

Strategy

16. How have the scheme's investment, funding and/or trustee decision-making strategies been shaped to incorporate climate-related risks and opportunities as a result of the TCFD requirements?

TCFD requirements was one of the factors that prompted us to better consider scenarios in our investment decision making.

Some examples include:

- The Valuation Investment Strategy (VIS) has considered the macro and investment implications of the scenarios that we have developed
- Our expectation for higher and more volatile inflation has led the implemented portfolio to increase allocations to inflation-sensitive assets

However, we have recently concluded that the biggest risks to our scheme do not come from the emissions of our portfolio companies but rather from real-world emissions globally because it is this that will be the biggest cause of climate change and could lead to financial damage to almost all our investments. Consequently, our focus has shifted to seeking to influence government behaviour (along with regulators), for it is governments more than any other actor that determine the financial and non-financial factors that signal to consumers and corporations whether they should adopt a low-carbon existence. This conclusion has been supported by our investment committee and by the Trustee Board. We no longer need a TCFD report to come to this conclusion.

17. Has TCFD reporting helped identify new investment opportunities linked to the low-carbon transition?

    Yes. Our scenario analysis and transition risk modelling have helped in identifying sectors and assets that are both vulnerable and well-positioned to benefit from the low-carbon transition.

18. Have any other factors, other than TCFD, impacted the scheme's investment and / or funding strategy in relation to climate-related risks and opportunities?

    Yes. Beyond TCFD, our work with the University of Exeter, Transition Risk Exeter Limited (Trex) and Cambridge Econometrics has been instrumental. This work has enabled the development of quantification and modelling that goes beyond regulatory requirements, offering further insights into transition and physical risks.

Scenario analysis

19. Which areas of the guidance relating to scenario analysis do you find helpful? Which areas have been challenging?

    Helpful areas include the emphasis on shorter time horizons and the flexibility to combine qualitative and quantitative methods. These have allowed us to tailor scenarios to our funding and investment context. However, challenges remain in translating qualitative narratives into quantitative metrics.

20. How have you used guidance to produce / commission scenario analysis?

    We used the DWP guidance to structure our scenario analysis around plausible transition narratives. The scheme commissioned external experts (University of Exeter, Trex, Cambridge Econometrics) to develop and run bespoke scenarios that align with regulatory expectations while enhancing decision-usefulness.

21. Have you had reason to evolve your approach to scenario analysis (e.g., either updates to underlying models, or moving to narrative scenarios)? If so, what were your reasons for this?

    Yes. We evolved our approach from using standardised climate pathways, over-reliance on precise quantitative estimation and very long run horizons to shorter term timeframes and narrative-driven frameworks. This shift was driven by the need for more realistic and actionable insights. We are always considering ways to evolve our approach to scenario analysis to make it more decision-useful and considerate of real-world dynamics.

Risk management

22. How have the TCFD requirements and guidance helped you manage climate-related risk?

The TCFD requirements provide a framework to integrate financially material climate-related risk by embedding it within our existing risk management framework rather than treating it as a standalone activity. Oversight and accountability for climate risk sit with the Trustee Board, which sets the climate risk appetite and monitors it through Key Risk Indicators (KRIs) reported quarterly. Climate risk is incorporated into our Enterprise Risk Management Framework (ERMF), including risk appetite statements, top-down and bottom-up risk assessments, risk registers, and governance reporting. This approach enables consistent monitoring and escalation of climate risk across business activities and ensures that financially material climate considerations are embedded in decision-making processes.

23. What kinds of climate-related risks are you managing and which processes do you use to manage climate-related risk?

Climate-related risk

- Transition risk where asset values are impacted by economic transition in response to climate change i.e. loss of value of assets and/or asset stranding from the transition to a low carbon economy
- Physical risk of damage to assets from extreme climate and weather events i.e. actual or potential physical damage, especially where we are long term holders of those assets

Processes

Our ERMF comprises a set of processes to identify, manage and report enterprise and operational risks. This includes both forward- and backward-looking risk disciplines, applied both top-down and bottom-up. Climate risk is embedded in:

- Risk Appetite Statements and Key Risk Indicators
- Top-down and bottom-up risk assessments
- Risk registers and governance reporting
- We use the Integrated Risk Management Framework (IRMF) as an approach to managing valuation risk. The consideration of climate risk is embedded in:
- Covenant monitoring and assessment
- Setting assumptions for the valuation of liabilities and future contribution requirements
- We have processes for identifying, assessing and managing climate risk at scheme, portfolio, asset class and asset level, including:
- ESG analysis, assessment and due diligence
- Scenario Analysis and Tools
    - Use of climate scenario modelling
    - Development of Physical Risks Heatmap for asset vulnerability analysis

Metrics and targets

24. How have you used TCFD requirements and guidance to choose metrics and set targets? Have these metrics or targets made a difference in moving investment to greener sectors?

We have reported our metrics and set targets as per the DWP's statutory guidance on the governance and reporting of climate change risk for the trustees of occupational schemes and in line with TCFD requirements. We also align our metrics with methodologies from PCAF and the GHG Protocol. We have found the TCFD requirements and DWP's guidance useful for identifying and streamlining common metrics that have been used for investment analysis.

We are encouraged by IIGCC guidance that identifies climate solutions as an important part of net zero targets and recognises that investments in high emission companies can be important drivers in decarbonisation. For example, bonds issued by an emissions-intensive cement company may support decarbonisation over the medium to long term.

Increasingly, we think that reporting backward-looking portfolio emissions metrics may incentivise existing assets decarbonisation but is unlikely to drive capital to greener sectors. Instead, we need frameworks that focus on transition alignment that is consistent with the goals of the Paris Agreement.

Member outcomes

25. How have member outcomes been impacted since the introduction of these requirements? (Select any that apply):

- Improved financial returns
- Worsened financial returns
- No impact on financial returns
- Increased member engagement
- No impact on member engagement
- Improved trust and transparency
- No impact on trust and transparency
- Wider societal impacts
- Other

Member engagement

26. How has member engagement changed since the introduction of TCFD reporting? Please include:

- Whether you produce a member-facing summary
- How members interact with the report
- Any observed changes in member preferences or behaviour

Our TCFD Report 2025 included a short, non-technical summary suitable for a member audience. In previous years we have published a separate TCFD summary report for members.

Member engagement with the report and summary has been limited. We have not seen meaningful changes in member behaviours (such as use of our ethical fund) or in their perceptions of climate-related investment issues in recent years.

27. Have climate-related disclosures improved member understanding or influenced their decisions (e.g. fund choices, contribution levels)?

We have no evidence of impact on member understanding of the issues.

Cost of reporting

28. How much did it cost to produce your latest TCFD report? How has this changed over time?

The cost of producing our TCFD reports has risen since our first report in 2018. This is due to the scope of our activities increasing, in areas such as scenario analysis and integration of financially material climate-related risks and opportunities into investment decision making, which have made reporting more complex. Reporting accurate data annually to meet the DWP's requirements is a time-intensive exercise. Our 2025 TCFD report involved inputs from a range of functions including Responsible Investment, Quantitative Analysis, Finance, Internal Audit, Corporate Affairs, Legal and investment teams. Additionally, the Group Executive Team, Group Audit and Risk Committee and Investment Committee reviewed the TCFD ahead of Trustee Board sign off. The aggregate cost – both time and financial resources - including those mentioned in questions 31, 34 and 35, is very significant.

29. If possible, can you provide an estimated cost for the **governance** related activities underpinning the production of a report?

Please see response to question 28.

30. If possible, can you provide an estimated cost for the **strategy** related activities underpinning the production of a report?

Please see response to question 28.

31. If possible, can you provide an estimated cost for the **scenario analysis** related activities underpinning the production of a report?

Please see response to question 28.

In addition, we partnered with climate scientists from an academic institution and experts from consultancies to support our scenario analysis related activities for our 2025 TCFD report. The scenario analysis outputs are included in our TCFD report, and the outcomes also inform wider asset allocation analysis and decision making.

32. If possible, can you provide an estimated cost for the **risk management** related activities underpinning the production of a report?

    Please see response to question 28.

33. If possible, can you provide an estimated cost for the **data collection and processing for metrics** activities underpinning the production of a report?

    Please see response to question 28.

34. If possible, can you provide an estimated cost for the **trustee training** related activities underpinning the production of a report?

    We believe that ongoing training is important to ensure that both the trustee and USSIM are well equipped to respond to climate-related risks and opportunities. The Trustee Board has received training on systemic climate-related risks; to inform the scheme's priorities and the Investment Committee has gained expert external insights on a range of climate scenarios and transition-related technologies from external speakers.

35. Are there any **other costs** that underpin the production of a report, you would like to submit?

    For the 2025 TCFD report, we partnered with external consultants EY to undertake limited assurance of our climate metrics and associated commentary that describes the metrics. We also worked with an external agency to support design and publication in alignment with our Annual Report and Accounts.

Future reporting

36. Do you have any views on the frequency of reporting going forward?

    Our recommendation would be to move the emissions reporting cycle to a three-year cadence (similar to the scenario analysis requirements), so that any changes in emissions are more likely to represent real shifts in the portfolio emissions, rather than potential changes due to asset prices during a single year. We think that maintaining annual updates on any changes to strategy and engagements with government and corporates, can be useful.

    We believe that the systemic financial risks posed by climate change can only be mitigated through real economy sector emissions reductions supported by policy shift. As such, we think there is continued value in understanding how companies in the real economy sector are addressing their climate-related risks and opportunities by them disclosing full climate-related reporting on an annual basis.

    Going forward, we are supportive of reducing the reporting burden for reporting entities and maintaining alignment with other regulatory requirements for climate-related disclosure, with a focus on the delivery of forward-looking reporting and decision-useful information.

37. Does your scheme currently produce a Transition Plan, or does it plan to soon? How do current TCFD requirements and climate-related transition plans interact?

    We do not currently produce a Transition Plan. We produced our first TCFD Report in 2018 and complied with the DWP regulations introduced in 2021 in subsequent reports. Our TCFD report includes disclosures

which would likely be covered by transition plan guidance. We are waiting to see where the regulations land before evolving our disclosure approach.

38. Government has indicated movement towards UK Sustainability Reporting Standards – do you use these standards to manage climate risk? Y / N