USS

*For members, for the future.*

# Climate change and your pension

TCFD Report 2024: Member Summary

**Snapshot highlights**

1. Having reduced our emissions intensity from just over 70 $tCO_2e$ per £ million to 55 $tCO_2e$ per £ million[1], **we are now 39% lower than our 2019 baseline and ahead of our 2025 interim target[2].**

2. Working with the University of Exeter, we developed **four new decision-useful climate scenarios that better reflect the real-world risks and opportunities** that will frame our investment decision-making to 2030.

3. **We adopted a Responsible Investment Beliefs and Ambition Statement** which acknowledges the systemic risks that climate change presents, that we can't diversify our way out of these, and that integrating responsible investment (RI) across all our asset classes will lead to better outcomes for members.

1 $tCO_2e$ stands for tonnes (t) of carbon dioxide ($CO_2$) equivalent (e). This is a standard unit for counting greenhouse gas (GHG) emissions regardless of whether they're from carbon dioxide or another gas, such as methane.
2 Our interim targets are to reduce the intensity of emissions from the non-sovereign assets in our portfolio by 25% by 2025, and by 50% by 2030 (relative to a 2019 baseline).

# A snapshot of our TCFD Report 2024

We are the Universities Superannuation Scheme (USS)*, the principal pension scheme for universities and higher education institutions in the UK.

We exist to pay our members' pensions now and well into the future. To do this, we need to protect the scheme's investments from the financial risks associated with climate change and find ways to benefit from the investment opportunities it brings. As a long-term responsible investor, we have a legal duty to invest in the best financial interests of our members and beneficiaries. As a universal owner, we have a large, highly diversified investment portfolio that is broadly representative of global capital markets and is managed for the long term, to align with the long-term financial needs of our members.

We report on our approach to climate change annually in our Taskforce for Climate-related Financial Disclosures (TCFD) Report. The TCFD was created in 2015 to improve and increase reporting of climate-related financial information.

What you're reading is just a snapshot – you can find full details in our TCFD Report.

We are making good progress on climate, but there's a long way to go.

* We have used the terms 'USS' and, 'the scheme' to refer to Universities Superannuation Scheme. The scheme's corporate trustee is Universities Superannuation Scheme Ltd, and we refer to it as 'the trustee', 'we' and 'our'. We refer to its board of directors as the Trustee Board.



# Climate change affects our pension scheme investments

We invest the money you and your employer contribute to USS in companies, infrastructure, buildings and other investments around the world. This helps protect and grow the value of the scheme's money over the long term, so we can pay members' pensions now and well into the future.

**Climate change poses risks to our investments**
Flooding or wildfires could damage a property we own. A change in energy policy to reduce emissions could leave any fossil fuel investments we have 'stranded', where they lose value suddenly as a result of external factors.

**Climate change also offers potential benefits for our investments**
To transition to a net zero world, we will all increasingly rely on renewable energy and on lower-carbon technologies. We have already invested in some of these technologies to support the transition and benefit from long-term returns.

# Managing climate risk is central to our investment strategy

**We have set an ambition for our investments to be net zero by 2050, if not before**
Climate change is a significant financial risk. We believe that a low-carbon world is likely to be a more financially stable world. This is why we have set a net zero ambition in line with the Paris Agreement, which aims to hold the increase in the global average temperature to well below 2°C above pre-industrial levels.

**We have set an interim target for 2025 and 2030**
Our investment teams work with our investments[3] to encourage them to cut their emissions intensity. Our target is to reduce the emissions intensity of our non-sovereign assets by 25% by 2025, and by 50% by 2030, relative to our 2019 baseline.

**We have defined our longer-term ambitions and priorities**
To help define a longer-term ambition for responsible investment (RI) at USS and ensure alignment between the Trustee Board and USSIM, the trustee approved and adopted the RI Beliefs and Ambition Statement in July 2023.

- Our beliefs include that the integration of financially material responsible investment factors and high-quality stewardship will contribute to better outcomes for members.
- Our ambitions include to be seen as the leading UK asset owner with respect to responsible investment, and among the leading asset owners globally, in areas that are key priorities for the scheme.

These beliefs and ambitions benefit the scheme in many ways, including that by being clear about what we want to achieve as a responsible investor, we will help stakeholders measure our success in our efforts and feel confident we are delivering better outcomes for members.

3 This does not include sovereign assets, which is debt issued by national governments.

# Some of our key activities since last year

**Improved integration of carbon and other climate data into our investment decision-making and stewardship**

During 2023, we transitioned circa £4 billion in equity assets from passively managed, highly diversified portfolios into an internally managed active portfolio focussing on high-quality, developed market businesses expected to deliver attractive risk-return characteristics for the scheme over the long term. Assessment of material environmental, social and governance (ESG) issues, including climate change, is integrated into the investment approach. The low emissions intensity of the companies in our portfolio supports our net zero ambition, and the concentrated nature of the mandate means that stewardship is a real focus.

**We developed decision-useful climate scenarios with the University of Exeter**

Climate science continues to evolve, and we believed that the available scenario analysis and modelling we used could be improved. We therefore developed decision-useful climate scenarios with the University of Exeter, which better reflect the real-world risks and opportunities that will frame our investment decision-making to 2030, moving the focus away from climate pathways and towards changes in politics, economics, asset prices and extreme weather events. The scenarios range from optimistic, with technology and policy working in harmony and rapid decarbonisation, to pessimistic, where a toxic political climate compounded by dysfunctional markets frustrates progress, giving us a wider and more realistic basis for our investment decisions. We will update our scenario analysis in our TCFD Report 2025.

**We have increased our allocation to renewables and other lower-carbon assets**

We have continued to support the growth of Bruc Energy. In 2023, Bruc added 155MW of solar photovoltaic (PV) installed operating capacity, contributing to the creation of 269 jobs. In total, Bruc generated more than 1,842GWh of renewable energy, enough to power circa 500,000 homes for a year and avoid the emission of 408,000 tonnes of $CO_2$.

**Improved data collection and management**

We had a substantial increase in reported data on the absolute emissions and emissions intensity of our Defined Benefit (DB) assets, including private markets investments. Emissions data for 64% of our assets came from fully or partially reported sources, up from 52% last year.

# Our net zero ambition and targets

## Since our last report, we have reduced our emissions intensity by 16% and are on track to meet our targets.

Our target is to reach portfolio net zero by 2050, if not before. Our interim targets are to reduce the intensity of our non-sovereign emissions by 25% by 2025, and by 50% by 2030 (relative to a 2019 baseline).

With an emissions intensity of 55 $tCO_2e$ per £ million invested, a reduction of 16 $tCO_2e$ per £ million since December 2022, we are now 39% lower than our 2019 baseline and well ahead of our 2025 interim target. Our total portfolio emissions (Scopes 1 and 2) from the non-sovereign assets in our portfolio as at December 2023 were 2.6 $MtCO_2e$. This is a reduction of 0.7 $MtCO_2e$ since the previous year.

We also had a significant increase in emissions data reported by our third-party managers across both public and private markets which contributed to the increase in high quality data used in calculations from 52% last year to 64% this year.

As previously mentioned, we transitioned circa £4 billion in equity assets into businesses which typically have these businesses which typically have very low emissions intensity, and the portfolio intensity is measured at circa 10 $tCO_2e$ per £ million compared with passive portfolios that were typically 50 to 100 $tCO_2e$ per £ million; this is a key contributor to the reduction in the scheme's emissions intensity.

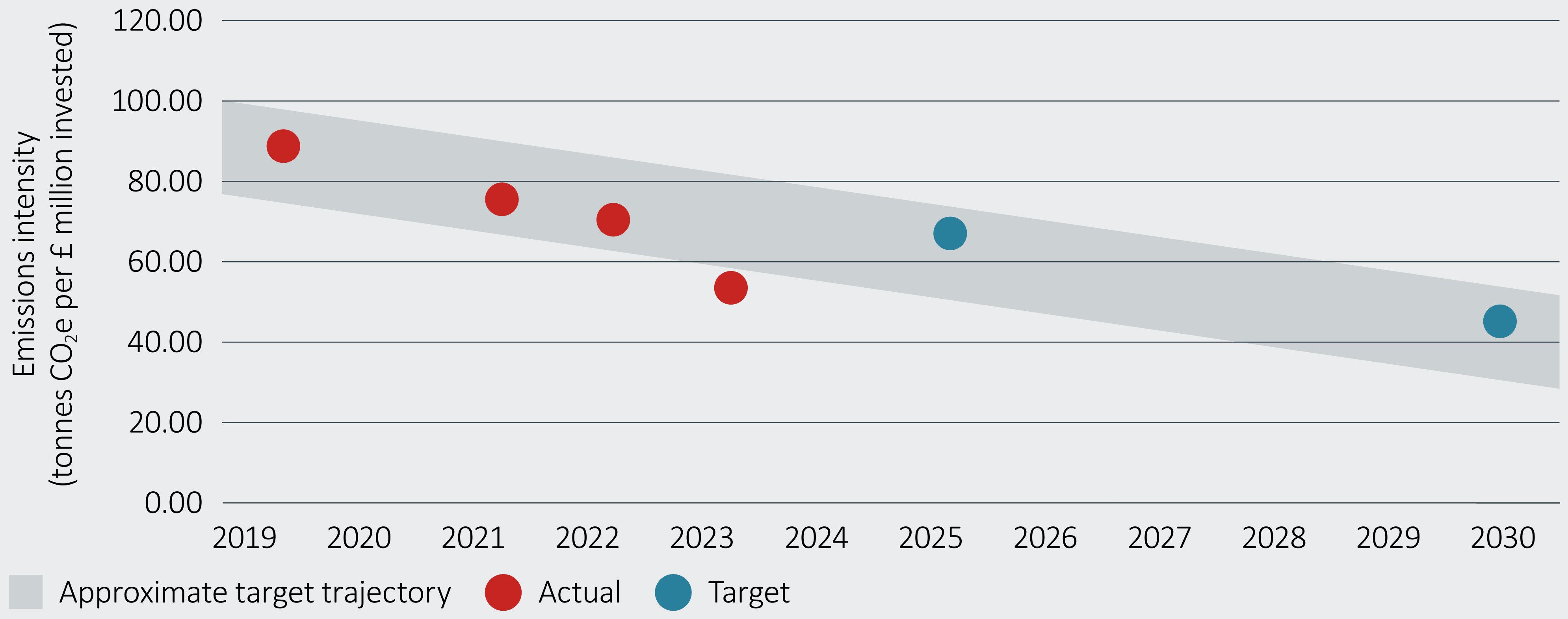
While these numbers represent material progress towards decarbonising our portfolio, we are conscious this does not reflect real-world progress towards net zero, nor is it proportionate to any reduction in our exposure to the systemic risks posed by climate change. Last year, we restated emissions data because of improvements in data quality, alongside the processes we use to collect data. We may need to do so again in future as data quality, coverage and climate modelling improve.

These numbers are based on the investment in the Retirement Builder (DB) part of the scheme, including private markets. This is the majority of USS investments: £74.2 billion in DB compared to £2.8 billion in DC as at 31 December 2023. Within DB, £47.3 billion is calculated as non-sovereign assets and £26.9 billion as sovereign debt.

### A note on the numbers:

- The numbers shown are best estimates; 2023 data was calculated for 31 December 2023
- The metrics exclude sovereign debt
- In 2023 portfolio alignment data is reported for £17.8 billion of assets for which Paris Alignment data was available
- Data quality is reported based on the source of Scope 1 emissions data

## Emissions intensity versus targets




## We report on the following key metrics (DB non-sovereign assets only):

The four key metrics:

### Absolute emissions

Absolute amount of carbon dioxide or equivalents emitted (Scopes 1 and 2) by the investments

In 2022
**3.3**
$MtCO_2e$

In 2023
**2.6**
$MtCO_2e$

### Emissions intensity

The amount of carbon dioxide and equivalents emitted per million pounds of scheme investments.

In 2022
**70.7**
$tCO_2e$ per £m

In 2023
**54.6**
$tCO_2e$ per £m

### Portfolio alignment

Proportion of portfolio emissions from assets aligned with a pathway of well below 2˚C.

In 2022
**27%**

In 2023
**45%**

### Data quality

Proportion of assets for which Scope 1 emissions data was reported or derived from reported information.

In 2022
**52%**

In 2023
**64%**



## This is an ongoing journey – we will publish our progress every year

Our plans for the future include:

1. Using the decision-useful scenarios we developed with the University of Exeter to run updated climate scenario analysis for both the Defined Benefit (DB) – Retirement Income Builder and Defined Contribution (DC) – Investment Builder parts of the scheme for our 2025 TCFD Report. This will help us better integrate real-world climate risks and opportunities into our investment decision-making.
2. Working with the University of Exeter to consider the impact of the physical and transition risks associated with climate change and using this to develop a long-term investment outlook.
3. Continuing to take an active approach to climate issues, including considering climate mitigation and adaptation, climate transition and climate solutions.
4. Providing additional training and support for USSIM staff to ensure climate considerations are integrated into investment activity.

Reaching net zero is a huge challenge, involving transitioning away from the energy system that has been powering the world for over a century. To achieve it, investors, companies, policymakers and society will need to work together to push for change towards a low carbon future.

**For more information, see our full TCFD Report. We publish a report every year, so you can see our progress.**

- The journey to net zero is not easy, but it is critical for our investments and for the planet.
- We would like to see a world worth retiring into, and so aim to deliver both the pensions our members expect and a low carbon future.