

Message from the Investment and Funding Committee

The Nationwide Pension Fund has published its second annual Climate Risk Report (CRR) to address the significant global challenge of human-led climate change. The report outlines the Fund’s governance, strategy, risk management, metrics and targets related to climate risk.

The full Climate Risk Report is available in our Legal Documents in the website library at nationwidepensionfund.co.uk/library



Governance

The Trustee utilises a risk management framework and a Responsible Investing Policy to monitor and mitigate climate change risk. These activities are carried out by the Investment and Funding Committee, as a subcommittee of the Trustee Board.

Implementation of the risk management framework is delegated to the Chief Investment Officer’s Team and supported by the Trustee’s Investment Consultant, Aon.

Strategy

The Trustee monitors the risk of climate change across physical and transition risk and short, medium and long-term time horizons. Nationwide Building Society’s approach to climate risk mitigation (as the Fund’s Sponsor) is also monitored on an annual basis. Finally, an opportunity assessment has been conducted to identify how the Fund may be able to take advantage of the opportunities associated with climate change.

Scenario analysis has been used to inform the Trustee’s risk management response. This modelling demonstrates that the Fund is well insulated from the effects of climate change due to the diversification of assets and the high levels of hedging. Although this modelling is positive, the Trustee is aware that this type of analysis has limitations in its application due to the high degree of uncertainty within the models.



Risk Management

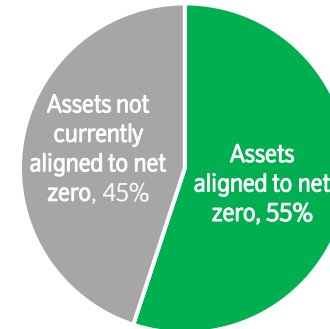
The Trustee makes risk informed decisions and has embedded climate risk management techniques through Trustee training, ESG scoring for new investments and investment manager due diligence. The key climate risks faced by the Fund are within the Private Markets Portfolio and the Liability-Driven Investment portfolio due to their relative sizes.



Accomplishments throughout the year include publication of the Fund’s inaugural CRR, divestment from a carbon intensive credit portfolio for liquidity reasons and increased manager responses to emissions tracking. Challenges have also been faced such as illiquidity of assets hindering investment and divestment as a carbon management tool, complexities in obtaining emissions data, and competing time demands between risk management and reporting.

Metrics & Targets

The Trustee has received emissions data from 41% of managers in the year with the aim to increase this to over 50% next year. This data indicates an increase in total emissions, alongside an increase in the Fund’s carbon footprint. However, these increases have been driven by improved emissions reporting rather than by an increase in the carbon intensity of assets.



At year end over 55% of assets held by the Fund were aligned to net zero by 2050.

The Trustee would encourage members to view the full CRR report to gain a broader understanding of the Trustee’s commitment to climate risk mitigation.