

# GSK Pension Trusts TCFD Report

Scheme Year 2023

# Executive Summary

# Executive Summary

The Trustee of the GSK Pension Trusts covered by this report (the “Trustee” of the “Trusts”) recognise that climate change is one of the most important issues of our time, which will impact all countries, companies and individuals. Climate change is a significant financial risk that could impact the financial security of the Trusts’ members’ benefits, if it is not properly measured and mitigated. Equally, the transition to a lower carbon<sup>1</sup> economy and the mitigation of the physical risks of climate change may create new investment opportunities.

The Taskforce on Climate-related Financial Disclosures (“TCFD”) has developed a framework to improve reporting on climate-related financial information across the four pillars of Governance, Risk Management, Strategy, and Metrics and Targets. This report presents the Trustee’s analysis of climate risks and opportunities to the Trusts across these four pillars, and the policies and procedures in place for measuring and managing risk and capturing opportunities.

There are several reasons that climate-related considerations – whose characteristics differ in a number of ways from other investment risk factors – have become an area of greater focus in recent years. The primary motivation for the consideration of climate-related matters in the management of the Trusts is to improve outcomes for beneficiaries by ensuring that financially relevant factors are not overlooked. In addition, we aim to minimise the possible harm done by our actions, provided this can be done without compromising our financial responsibilities or in any other way conflicting with trustees’ fiduciary duty under trust law.

Below we summarise the key takeaways for each pillar of the TCFD framework:

## Governance

### Governance around climate-related risks and opportunities

**Investment beliefs.** The Trustee has agreed a number of responsible investment beliefs, including acknowledging that appropriate assessment of environmental and climate change impacts, as well as other social and governance considerations, will help to improve outcomes for members and beneficiaries through enhanced long-term returns and better risk management.

**Trustee oversight.** The Trustee is ultimately responsible for the oversight of climate-related risks and opportunities as they relate to the Trusts, and sets the overall policy, which is reviewed annually. The Trustee delegates responsibility for implementing and monitoring the Trusts’ climate change policy to the Joint Investment Committee (“JIC”) and Joint DC Committee (“JDCC”) for the Defined Benefit (“DB”) and Defined Contribution (“DC”) Sections respectively. The Trustee maintains oversight through a quarterly reporting and meeting cycle.

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<sup>1</sup> We use the term carbon as shorthand to describe carbon dioxide equivalent greenhouse gas emissions

**Trustee knowledge and understanding.** In order to maintain sufficient knowledge and understanding of relevant climate-related risks and opportunities, the Trustee receives background material, including guidance provided by the Pensions Regulator and the Department for Work and Pensions, and attends seminars and other training provided by a range of expert parties.

**Third-party providers.** The Trustee relies on Investment Consultants and third-party Investment Managers to identify and assess climate change risks and opportunities as well as considering input from other third-party providers, specifically our Actuarial Advisers and, where relevant, Covenant Adviser. Each provider is required to demonstrate sufficient credentials in relation to the assessment of climate-related matters.

## Strategy

### Actual and potential impacts of climate risks and opportunities

**Short-, medium- and long-term time horizons.** The Trustee has selected the time horizons of relevance to the Trusts in order to assess and manage climate-related risks:

Time horizon	DB Sections	DC Sections
Short term	0-5 years	0-5 years
Medium term	5-15 years	5-25 years
Long term	15-30 years	25-40 years

For the DB Sections, the time horizons are shorter, reflecting the expectation that investments will be gradually de-risked to arrive at a low-risk position suitable for maturing DB schemes towards the end of the medium term. The DC Sections have longer time horizons than the DB Sections, which reflects the expected lifetime of a typical member and the open nature of the scheme.

**Scenario analysis.** In order to better understand the risks and opportunities posed by climate change and to inform strategy and investment decisions, the Trustee considers the results of scenario analysis carried out by the DB and DC Sections' respective Investment Consultants. In each case, we considered scenarios in which average global temperatures rise by up to 2 degrees and 3 degrees Celsius this century.

This analysis was completed in 2021 and will be updated in next year's report. The updated analysis will reflect the impact ongoing strategy changes in the DB Sections and an investment strategy update that was made to the default strategy in the DC Sections during 2023 (further detail set out later in this report). The 2021 analysis is referenced in the Appendix of this report.

At the present time, the climate-related risks that are believed to be most material to the Trusts are those associated with (a) the impact on assets of a costly transition to a lower carbon economy and (b) the disruptive impact and extreme uncertainty that

would result in the event of failure to meet the goals of the Paris Agreement<sup>2</sup>. We will ensure these considerations feed into our strategic discussions.

**Incorporation into investment decisions.** Within all Sections, the Trustee receives quarterly performance reporting from our Investment Consultants. The Trustee has assessed that our managers adequately integrate Environmental, Social and Governance (“ESG”) considerations at present into their portfolio where it is appropriate. The Trustee receives annual updates on our managers’ approach to integrating ESG into their mandates as well as compliance with industry best practice guidance, such as the 2020 UK Stewardship code. In addition, the Trustee expects to incorporate ESG considerations, including climate change, into our discussions and decisions during future investment strategy reviews of all Sections.

## **Risk management**

### **How the Trusts identify, assess, and manage climate-related risks**

**A framework for identifying and managing risks.** The Trustee has identified key short-, medium-, and long-term climate-related risks, and has adopted a climate risk management policy to ensure that these risks are managed adequately.

The management of these risks is integrated as far as possible into the Trusts’ overall risk framework, including through explicit inclusion of climate-related risks in the risk register. Management of climate risk is also incorporated into investment decisions as well as the ongoing monitoring of both DB and DC investments. The Trustee receives regular advice from their advisers on considerations of climate risk.

**Risk management implementation.** The Trustee has made a number of strategic changes with a key focus on managing climate risks, including:

In the DB Sections:

- An investment into a low carbon equity solution
- Adding carbon intensity reduction targets into one of the credit mandates

In the DC Sections:

- An investment in the Future World Fund Series to tilt the default strategy towards companies that will support the transition.

There are multiple ongoing strategic discussions that will result in further strategy changes in the coming months, with climate embedded within the framework of consideration.

## **Metrics and targets**

### **Disclosure of key metrics and targets**

**Metrics.** The primary metrics that are used by the Trusts to measure climate-related impact are:

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<sup>2</sup> The primary goal of the Paris Agreement is a global average temperature rise of well below 2 degrees Celsius and pursuing efforts to limit it to 1.5 degrees relative to pre-industrial levels.

- Total Greenhouse Gas ("GHG") emissions (DB and DC Sections).
- Carbon footprint (DB and DC Sections)
- Weighted average carbon intensity ("WACI") (DB and DC Sections)
- Implied temperature rise (DB and DC Sections)
- Science-Based Targets Initiative Alignment (DB Section)
- Data quality (DC Section)

We also monitor changes in data coverage across the DB and DC Sections.

A summary of the results is set out below:

- **For the DB Sections:** there were no major changes to the investment strategy during the period covered in this report. We have expanded coverage this year to cover the Trusts' Liability Driven Investment portfolio and as a result, overall data coverage has increased from 37% to 67%. We have also obtained data for the Trusts' two insured buy-in portfolios for the first time. Overall, there has been an uptick in the carbon footprint from 40 to 51 tonnes per \$1m invested, primarily driven by changing methodologies, improving data coverage and market movements.
- **For the DC Sections:** in May 2023, the default investment strategy was amended with the introduction of the GSK Global Equity Fund into the Lifecycle Drawdown Option for members with more than 15 years to their Target Retirement Date. The DC Sections made mixed decarbonisation progress over the year. Absolute emissions of the listed portfolio increased (largely driven by the investment strategy changes outlined above) whilst the carbon footprint and WACI of the listed portfolio decreased over the year.

**Targets.** The Trustee has set the following target for each of the Trusts, across the DB and DC Sections:

**"The Trustee commits to the aims of the Paris Agreement, expecting to reduce carbon emissions associated with its portfolio by at least 50% (from 2019 levels) by 2030 and fully (i.e. to net zero) by 2050, which is currently understood to be consistent with limiting global warming to 1.5 degrees above pre-industrial levels."**

The target relates to scope 1 and 2 carbon emissions and excludes liability-hedging and insured assets. The progress against the targets, and the targets themselves, are under annual review by the Trustee and remain appropriate to the Trusts at this time.

We set out the progress against the target in the below table, which shows the change in the Trusts' scope 1 and 2 carbon footprint:

	2019 Baseline	2023 Scheme Year	Progress (2019 – 2023)
<b>DB Sections*</b>	68.3	50.8	-25%
<b>DC Sections: Listed Equity Portfolio (Combined)</b>	71.3	41.6	-42%

<b>DC Sections: Listed Equity and Corporate Bonds Portfolio (Combined)</b>	76.7	41.1	-46%
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*\* Excludes LDI and buy-in assets.*

As can be seen, our carbon footprint has reduced significantly against our 2019 baseline, with the DC Section already nearing our 50% target. Whilst our focus remains on long term decarbonisation and climate risk management, we may experience shorter term volatility in the carbon footprint for a range of reasons, including changing methodologies, improving data coverage as well as market movements.

Members are encouraged to contact the Trustee if they have any questions or comments.

### **Mark Ashworth**

Chair of the GSK Pension Plans Trustee Limited

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# Introduction

# Introduction

## Purpose of this report

This report is the third TCFD report that the Trustee of the GSK Pension Trusts has produced and covers the period from 1 January 2023 to 31 December 2023. It has been produced in accordance with the Pension Schemes Act 2021 and is available online at <https://www.gskpensions.co.uk/governance/>.

**This report covers the following schemes** (collectively referred to as “the Trusts”):

- GSK Pension Scheme (“GSKPS”)
- GSK Pension Fund (“GSKPF”)
- GW Contracted-Out Money Purchase Scheme (“GW COMPS”)
- SmithKline Beecham Pension Plan (“SBPP”)

At the current time, the Trusts listed above follow similar investment and funding strategies for their respective DB and DC Sections. Due to their similar funding position and investment strategies, the Trustee finds that considering the impact of climate-related risks and opportunities on the Trusts collectively is more meaningful than considering each in isolation. We further note that the separate Trustee boards were all brought together under a single Trustee on 1 October 2023.

## Climate change

Climate change refers to the global heating and changing weather patterns caused by Greenhouse Gas (“GHG”) emissions arising from human activity, mainly burning fossil fuels. As global average temperatures rise versus pre-industrial times, the entire climate system is impacted.

As part of the Paris Agreement, governments pledged to work to limit global temperature rises to well below 2°C, aiming for 1.5°C, above pre-industrial levels. In February 2024, it was announced that 2023 average global temperatures surpassed 1.5°C for the first time. In the time since the Paris Agreement was made, it has become clear that more action is needed to achieve this target and prevent a ‘Hot House’ world arising.

As the physical effects of climate change, like increased extreme weather events and natural disasters, become more frequent, climate change is having a growing impact on the global economy and financial markets. To tackle climate change, we need to work to decarbonise the global economy. This transition is expected to cause continued shifts in policy, technology, and market preference in favour of low carbon solutions. We do not yet have a clear picture of how rapid or orderly the transition will be. An ‘orderly’ transition involves a steady state of decarbonisation efforts from today, whereas a ‘disorderly’ transition would result if decarbonisation efforts are delayed, necessitating late efforts to meet the Paris Agreement targets. Both the physical effects of climate change, and the as-yet-unknown nature of the transition to a low carbon economy, pose material risks to the Trusts’ assets and liabilities.

On the flip side, global efforts to tackle climate change also bring about investment opportunities to the Trusts. Innovation in all sectors of the economy, from agriculture to renewable energy and transportation, is bringing about rapid change that we must be aware of when considering the Trusts' funding and investment strategy.

By combining proactive consideration of these opportunities with robust risk management processes, we are working to protect investment returns and member outcomes in the changing environment.

### **What is the TCFD framework?**

As mentioned, this is the third TCFD report that the Trustee of the GSK Pension Trusts has produced. The Taskforce on Climate-related Financial Disclosures ("TCFD") is an industry-led initiative that aims to improve reporting on climate-related financial information. The framework developed by the Taskforce was built into legislation by the Department for Work and Pensions in the Pension Schemes Act 2021, which requires large UK occupational pension schemes to annually report in accordance with the framework.

The TCFD framework encompasses four pillars:

**Governance:** establishing and maintaining an effective governance framework around climate related risks and opportunities

**Strategy:** assessing actual and potential impacts of climate-related risks and opportunities on the funding and investment strategy

**Risk Management:** ensuring climate-related risks are appropriately identified, assessed, and managed

**Metrics and Targets:** selection and disclosure of key climate-related metrics and targets

This report presents the Trustee's actions against these four pillars, and the policies and procedures in place to measuring and managing climate-related risks and capturing opportunities.

# Governance

## Governance

The Trustee has taken steps to integrate considerations of climate-related risks and opportunities throughout the Trusts' policies and decision-making processes. This includes through considering and documenting the Trustee's climate-related investment beliefs, documenting the role of relevant parties in assessing and managing climate-related risks and opportunities, including through implementing a clear delegation framework, and ensuring that adequate processes are in place for the Trustee to maintain knowledge and understanding of climate-related risks and opportunities.

### Investment beliefs

The Trustee has agreed a series of investment beliefs, numerous of which relate to responsible investing. These beliefs are set out in each Trusts' Statement of Investment Principles, Statement of Investment Beliefs, and Climate-Related Risk Governance Policy.

The beliefs enshrine the Trustee's philosophy and approach to a range of climate-related areas. Firstly, the Trustee acknowledges that appropriate assessment of environmental and climate change impacts, as well as other social and governance considerations, will help to improve outcomes for members and beneficiaries through enhanced long-term returns and better risk management. Secondly, they reflect the Trustee's recognition of the need to remain aware of industry developments in the climate space. Thirdly, a number of beliefs acknowledge the importance of the Trusts' stewardship responsibilities as an asset owner, both through developing a framework through which to approach stewardship and voting activities and monitoring and engaging with managers that act as a steward on the Trustee's behalf.

The Trustee's responsible investment beliefs are excerpted in full in Appendix A. The Trustee expects these beliefs to be periodically reviewed and updated as necessary in line with material changes to the investment or funding strategy, or changes in scientific and industry best practice.

### Oversight responsibilities of the Trustee

The Trustee is ultimately responsible for overseeing climate-related risks and opportunities in relation to the Trusts. The Trustee delegates responsibility for implementing and monitoring the climate change policy to the Joint Investment Committee ("JIC") and Joint DC Committee ("JDCC") for the DB and DC Sections respectively. The Trustee maintains oversight through a quarterly reporting and meeting cycle, where climate-related matters are considered, and during which the JIC and JDCC report back to the Trustee.

The Trustee delegates identification and assessment of climate-related risks and opportunities to the Trusts' Investment Consultants and Investment Managers. The JIC and JDCC receive advice and monitoring reports from their respective Investment Consultants, and meet to discuss scheme matters, including climate-related matters, quarterly. The Trustee considers competency in relation to climate-

related matters in the appointment of the Trusts' advisers, including through setting objectives that specifically address the Investment Consultants' competencies in relation to responsible investment. The Investment Consultants are assessed against these objectives annually.

## Roles and Responsibilities

The Trustee has agreed a Climate-related Risk Governance Policy which captures the below framework for the roles and responsibilities with regards to climate-related risk:

Actor	Responsibilities
<b>Trustee</b>	<p>Trustee's responsibilities include, but are not limited to, the following areas:</p> <ul style="list-style-type: none"> <li>• Agreeing and implementing a Climate Governance Framework, in which responsibility for climate-related matters is delegated;</li> <li>• Incorporating climate-related considerations into the Trusts' Climate-Related Risk Management Policy, Investment Beliefs, Investment and Hedging Strategy, ongoing risk management (including risk register) and monitoring;</li> <li>• Agreeing appropriate stewardship priorities to monitor the Trusts' investments against;</li> <li>• Ensuring the Trustee has sufficient knowledge and understanding to enable the identification, assessment and management of climate-related risks and opportunities, as well as credibly challenging the advice and assumptions of advisers, e.g. via regular training sessions;</li> <li>• Receiving regular training on climate-related risks and opportunities to ensure it has the level of understanding required to meet statutory and fiduciary obligations;</li> <li>• Incorporating climate-related considerations into strategic decisions relating to the Trusts' investments and funding arrangements;</li> <li>• Allowing for climate-related considerations when assessing and monitoring the strength of the sponsoring employer's covenant;</li> <li>• Ensuring that the external advisers have clearly defined responsibilities in respect of climate risk, including documenting the extent to which the advisers' responsibilities are included in any agreements, such as the DB and DC Sections' Investment Consultants' strategic objectives and service agreements;</li> <li>• Assessing how the external advisers have performed against their climate responsibilities, and raising any issues identified.</li> </ul> <p><b>The Trustee will, on at least a quarterly basis:</b></p> <ul style="list-style-type: none"> <li>• Receive relevant climate-related updates from the JIC and JDCC, and their respective Investment Consultants, potentially covering progress on various climate workstreams, the Investment Managers' climate capabilities and actions, and any relevant market or regulatory updates.</li> </ul>

	<p><b>The Trustee will, on at least an annual basis:</b></p> <ul style="list-style-type: none"> <li>• Review its Climate Governance Framework and any associated policies (including risk register);</li> <li>• Review its TCFD reporting, including receiving updates from JIC and JDCC on specific TCFD workstreams, e.g. climate-metrics reporting, progress against climate target and any scenario analysis undertaken;</li> <li>• Communicate clearly with members on how climate-related risks and opportunities are being managed;</li> <li>• Review the management of the Trusts' investments against the agreed stewardship priorities.</li> </ul> <p>The JIC and JDCC's responsibilities include, but are not limited to, the following areas:</p> <ul style="list-style-type: none"> <li>• Receiving regular training on climate-related risks and opportunities to ensure it has the level of understanding required to meet statutory and fiduciary obligations;</li> <li>• Factoring climate-related risk management capabilities into the selection, review and monitoring of Investment Managers. This includes ensuring that the Trusts' Investment Managers are managing the climate-related risks and opportunities associated with the Trusts' investments;</li> <li>• Identifying climate-related risks and opportunities for the Trusts and setting and monitoring metrics to conduct assessment and management;</li> <li>• Undertaking analysis of various climate scenarios on a triennial basis, and for the two years following the latest scenario analysis, consider whether there is sufficient reason to carry out further analysis;</li> <li>• Receiving updates on the Trusts' investments from the Investment Consultants, including data on ESG metrics and progress against any targets set in relation to these metrics;</li> <li>• Overseeing delivery of TCFD reporting;</li> <li>• Working with the Investment Consultants to provide regular updates to the Trustee on the particular climate-related risks the Trusts are exposed to and the results of other TCFD-related outputs, such as scenario analysis.</li> </ul>
<b>Actuarial Advisers</b>	<ul style="list-style-type: none"> <li>• Assessing climate-related risks and opportunities in relation to the DB Sections funding position over the short, medium and long term and the implications for the DB Sections funding and long-term objective.</li> </ul>
<b>Legal Advisers</b>	<ul style="list-style-type: none"> <li>• Providing training to the Trustee on climate-related legal matters, including, ensuring the Trustee is aware of its climate-related statutory and fiduciary obligations;</li> <li>• Where requested, assisting in the documentation of the arrangements with the Trusts' third parties with respect to climate-related matters;</li> <li>• Assist with the preparation of the Trustee's annual TCFD report.</li> </ul>
<b>DB and DC Investment Consultants</b>	<ul style="list-style-type: none"> <li>• Advising on the inclusion of climate considerations in the Trusts' governance arrangements, investment strategy, risk management and monitoring, working with the Trustee and its other advisers, as appropriate;</li> <li>• Advising on how climate-related risks and opportunities might affect the Trusts' exposure to different asset classes over the short, medium and long term, and the implications for the Trusts' investment strategy;</li> </ul>

	<ul style="list-style-type: none"> <li>Assisting the Trustee in the selection and monitoring of appropriate climate-related metrics and targets in relation to the Trusts' investments, including engaging with the Trusts' Investment Managers regarding the provision of the agreed metrics;</li> <li>Providing training and relevant updates to the Trustee on relevant climate-related matters;</li> <li>Assisting the Trustee in reviewing the Trusts' Investment Managers against the agreed stewardship priorities.</li> </ul> <p>On at least an annual basis:</p> <ul style="list-style-type: none"> <li>Assisting with the selection, collection and presentation of climate-related metrics and targets;</li> <li>Assisting with the preparation of the Trustee's annual TCFD report;</li> <li>Assist with an annual review of the Trusts' Investment Managers' climate competencies.</li> </ul> <p>On at least a triennial basis:</p> <ul style="list-style-type: none"> <li>Assisting with climate scenario analysis to determine the potential impact on the Trusts' assets and liabilities under various climate change scenarios.</li> </ul>
<b>Covenant Adviser</b>	<ul style="list-style-type: none"> <li>Undertaking periodic reviews, at least triennially, of the extent to which climate-related risks and opportunities might affect the Trusts' sponsoring employer over the short, medium and long term, as well as the implications of this impact for the Trusts' funding strategy.</li> </ul>
<b>Investment Managers</b>	<ul style="list-style-type: none"> <li>Identifying, assessing and managing climate-related risks and opportunities in relation to the Trusts' investments;</li> <li>Exercising voting rights and engaging with portfolio companies in relation to climate-related risks and opportunities, on behalf of and in the best interests of the Trusts' members;</li> <li>Providing the agreed climate-related metrics to the Trusts' DB and DC Investment Consultants in relation to the Trusts' investments and focusing on increasing the quality and availability of these metrics;</li> <li>Providing data to assist the Trusts' DB and DC Investment Consultants in assessing the management of the Trusts' assets against the agreed stewardship priorities.</li> </ul>

## Climate-related training

The Trustee recognises that, while we are not directly involved in the day-to-day investment decision process, we are ultimately responsible for considering and managing the impact of climate-related risks on the Trusts and their members. We are therefore required to maintain sufficient knowledge to understand the types of climate-related risks and opportunities that may impact the Trusts.

In particular, it is the Trustee's responsibility to challenge the Trusts' advisers. In order to do so credibly, the Trustee must maintain sufficient knowledge to question the advice provided by our advisers, as well as the assumptions that underly it. For our Investment Consultants, the Trustee sets objectives informed by the climate competency framework proposed by the Investment Consultants Sustainability



Working Group. These competencies may be assessed as part of our annual assessment of our Investment Consultants.

The Trustee maintains its Knowledge and Understanding with respect to climate change by:

1. Reading relevant background material, including guidance provided by the Pensions Regulator and the Department for Work and Pensions.
2. Attending seminars on this subject offered by skilled firms of lawyers, consultants, Investment Consultants and climate change specialists.
3. Attending specific sessions on climate change and TCFD requirements run by our lawyers and Investment Consultants. During the period covered by this report, the Trustee received updated training on climate-related risks and opportunities to the Trusts, as well as training on metrics and targets analysis from the DB Investment Consultants.

Given that monitoring and managing climate-related risks and opportunities is integral to the management of the Trusts, the Trustee ensures sufficient time and resource is dedicated to climate-related discussion. These discussions typically happen quarterly, during the regular meeting cycle. During strategic reviews, such as considering a new asset class or mandate, and throughout the process of undertaking TCFD-related actions, the Trustee may hold additional, off-cycle Trustee meetings to address climate-related matters.

# Strategy

## Strategy

# Strategy

The Trustee ensures that climate risks and opportunities feed into all strategic decision making. This includes considering how these impacts differ over various time horizons, and working to ensure that both the DB and DC Sections' strategies are resilient under various possible climate futures.

## Physical and transition risks

Climate-related risks can be considered under two major categories:

<b>Physical Risk</b>	Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for organisations, such as direct damage to assets and indirect impacts from supply chain disruption. Organisations' financial performance may also be affected by (for example) changes in water availability, sourcing and quality; food security; and extreme temperature changes affecting organisations' premises, operations, supply chain, transport needs, and employee safety.
<b>Transition Risk</b>	Transition risks are those associated with a transition to a lower-carbon economy, which may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change.

Both of these risk categories are relevant to the Trusts, although the relative significance varies depending on the time horizon under consideration and the path of future developments, particularly with regard to efforts to achieve the goals of the Paris Agreement. In all cases, the physical risks are assumed to grow over time and transition risk is relatively nearer-term and very sensitive to the path of progress.

## Short-, medium- and long-term time horizons

The Trustee has identified short-, medium- and long-term time horizons that are most relevant to the Trusts when assessing and managing climate-related risks and opportunities. These time horizons have been selected based on consideration of the climate outlook, funding position, Sections' objectives, and member demographics. For the DB Sections, the time horizons are typically shorter, reflecting the expectation that investments will be gradually de-risked to arrive at a low-risk position suitable for maturing DB schemes towards the end of the medium term. The DC Sections have longer time horizons than the DB Sections, which reflects the expected lifetime of a typical member and the open nature of the scheme.

## DB Sections of the GSKPS, GSKPF and SBPP

Time horizon	Investment horizon	Climate horizon	Risks to asset strategy	Risks to liabilities	Risks to covenant
<b>Short term: 0-5 years</b>	Length of time the current investment strategy is expected to remain in place before de-risking	Improvements in data quality Government responses to COP	Transition risks including widespread introduction of carbon pricing, company activities and processes being adjusted, and increased climate-related regulation	Change in yields Changes in longevity expectations due to rising physical risks (e.g. increase in extreme temperatures) or changes in the quality and availability of healthcare	Changes to the sponsor's financial position due to changing industry- and economy-wide circumstances
<b>Medium term: 5-15 years</b>	Approximate duration of the Trusts' liabilities	Decarbonisation commitments implemented, in particular against 2030 interim targets Physical risks may be beginning to become dominant			
<b>Long term: 15-30 years</b>	Majority of remaining liabilities paid	Physical damages incurred Companies reaching 2050 Net Zero targets	Potential damage to assets due to physical risks like extreme weather events and rising sea levels		

## DC Sections of the GSKPS, GSKPF, GW COMPS and SBPP

Time horizon	Investment horizon	Climate horizon	Risks to asset strategy
<b>Short term: 0-5 years</b>	Members approaching retirement age	Improvements in data quality Government responses to COP Companies approaching 2030 interim targets	Transition risks including widespread introduction of carbon pricing, company activities and processes being adjusted, and increased climate-related regulation
<b>Medium term: 5-25 years</b>	Older members transitioning into de-risked, retirement phase. Younger members invested in higher-risk growth phase	Physical damages increasing to become dominant. Companies reaching 2050 Net Zero targets	Potential damage to assets due to physical risks like extreme weather events and rising sea levels
<b>Long term: 25-40 years</b>	Current young members approaching retirement		

## Scenario analysis

Scenario analysis was carried out for the 2021 report by the Investment Consultants and Actuarial Advisers. The JIC and the JDCC consider scenario analysis as part of strategic decision-making on an ongoing basis. The Trustee must undertake scenario analysis no less than every three years, and in each of the two years following analysis, must review whether refreshed scenario analysis is required to adequately assess climate-related risks to the Trusts.

The last scenario analysis was carried out less than three years ago, and as the Trusts are presently in the midst of major ongoing strategic reviews of the investment portfolios, the Trustee has determined that new scenario analysis at this stage is not strategically useful in determining climate-related risks as the strategic asset allocation is in transition. The Trustee intends to complete refreshed scenario analysis during the 2024 scheme year once the new strategies are in place to understand current climate resilience.

Below is a summary of the previous scenario analysis output. The full scenario analysis output and a more-detailed explanation of analysis undertaken is included in full in Appendix B.

Scenario	Outline of scenario	Expected impact on the DB Sections	Expected impact on the DC Sections
<b>&lt;2.0° Heating</b>	Assumes that a delayed and sudden response creates significant disruption, but is successful in limiting global heating to less than 2 °C.  This implies negative impacts on asset performance from the economic transition.	The DB Sections would be expected to be most materially impacted under the 2.0 °C scenario in the short run, due to the expected impact of a disorderly transition on the global equity allocation.	The DC default strategy would be expected to be the most materially impacted under the 2.0 °C scenario in the short run due to the expected impact that a disorderly transition would have on global equities and the diversified growth funds.
<b>3.0° Heating</b>	Assumes that emissions continue to increase and that climate goals are not met.  This implies massive physical effects. As well as the potentially catastrophic social and economic impacts of physical risk, in the long term this scenario will be the worst for investment returns.	The DB Sections would be expected to be less impacted initially under the 3.0 °C scenario than the 2.0 °C scenario, however over longer time horizons, the analysis shows a far more severe impact would be expected.	The expected impact of the 3.0 °C scenario on the default strategy is less negative relative than the 2.0 °C scenario over the 10-year time horizon, however analysis results showed that a failed transition would lead to a more severe impact over longer time horizons, and so would ultimately have a greater impact.

In addition, the DB Sections have considered a 1.5°C heating scenario, which assumes that measures are taken that will keep the rise in temperature limited to 1.5°C, in line with the ambition of the Paris Agreement. In this scenario, policy responses begin sooner and are more evenly paced, but still imply negative impacts from the economic transition (broadly similar to <2°C currently). Ultimately, physical risks will be lowest under this scenario.

### **Impact of climate on the sponsor covenant**

Analysis of the covenant was also completed for the Trusts' 2021 TCFD report, and more details of this analysis are included in the Risk Management section of this report. The Trusts' Covenant Adviser, Penfida, would expect the covenant provided by GSK to the Trusts to be Strong under all climate change scenarios based on the information currently available, and there have been no changes to the journey plans as a result.

### **Modelling limitations**

Climate scenario modelling is a complex process and the Trustee is aware of the modelling limitations. In particular:

1. The further into the future you go, the less reliable any quantitative modelling will be.
2. Looking at average asset class returns over multi-decade timeframes leads to invariably small impacts. The results are potentially significantly underestimated.
3. There is a reasonable likelihood that physical impacts are grossly underestimated.
4. Financial stability and insurance 'breakdown' is not modelled.
5. Most adaptation costs and social factors are not priced into the models.

Note that climate scenario analysis is an ever-evolving space and as such the scenarios modelled may be subject to review in future periods. The Trustee looks forward to undertaking refreshed analysis in the 2024 scheme year reflecting latest climate scenarios and industry thinking.

# Risk Management

## Risk Management

We know that climate-related risks are material to the Trusts' investment and funding strategies, and hence are central to our risk management framework. The Trustee therefore implements robust processes for identifying, monitoring, and mitigating climate-related risks to the Trusts.

### Identification, assessment and management of climate-related risks

Under the overall governance process described above, responsibility for the identification and management of climate-related risks falls primarily to (a) Investment Consultants, who assist in the establishment of asset allocation policy and in the oversight of the Investment Managers, and (b) Investment Managers, who are responsible for day-to-day positioning of the portfolios. These advisers and managers are overseen by the JIC and JDCC for the DB and DC Sections respectively, and ultimate responsibility lies with the Trustees.

The key risks relating to how member outcomes may be impacted over the short-, medium- and long-term are assessed as follows:

#### Short term risks

Over the short term, risks may present themselves through rapid climate transition-related market repricing as:

- Scenario pathways become clearer. For example, a change in the perceived likelihood of a below 2°C scenario occurring, or greater clarity into the nature of the required transition steps.
- Market awareness grows. For example, the implications of the physical impacts of climate change become clearer to markets, with subsequent impact on the asset valuations.
- Policy changes surprise markets. For example, if a carbon price is introduced at a sufficiently high price to impact behaviour across key markets to which the portfolio is exposed.
- Substitution of existing products and services with lower emission alternatives, which may impact parts of the portfolio.
- Litigation risk, relating to dangerous warming, becomes more prevalent.
- Requirements for energy/heat efficiency of buildings and infrastructure increase scope and stringency.

The ability of the investment arrangements to consider these short-term changes can position the portfolio favourably, for example taking advantage of the climate transition by avoiding and reducing investment in high-emitting carbon businesses. Investments in transition-aligned strategies may provide the Trusts a partial hedge against some of these climate transition risks.

The Trustee has delegated these active decisions to our Investment Managers, but also made some specific allocations to help address this, which are discussed below.



### Medium term risks

Over the medium-term, transition risks like those listed above continue to apply, and additionally, physical risks begin to become more significant. How this could interact with future de-risking is a particular focus for the DB Sections.

In the case of the DC Sections, medium term risks are monitored by the JDCC, and will typically be considered over a time horizon up to approximately 25 years, representative of a member in their mid-career. Over the medium term (2029-2049), risks associated with the transition to a low carbon economy are still likely to dominate. These include the development of sustainable technology and low carbon solutions. Legislation and regulation are likely to also play a key role at the international, national and subnational level. Technology and policy changes are likely to produce winners and losers both between and within sectors. Advancement of transition is likely to have started to crystallise stranded asset risks over the medium term. In the case of the DB Sections, these risks are monitored by the JIC, and will typically be considered over a time horizon of five to fifteen years, after which point the DB Sections are expected to be in a relatively low risk position, holding mostly government and corporate bonds.

The Sections' ability to understand these changes may position them favourably, for example by increasing investments in new emerging technologies.

### Long term risks

Over the long term, physical risks are expected to come to the fore, particularly in the event of failure to achieve the goals of the Paris Agreement. These risks may include:

- The impact of natural catastrophes and extreme weather events leading to physical damages
- Geopolitical instability
- Disruption of availability of natural resources such as water, loss of biodiversity, deforestation and soil erosion, ocean acidification, and a range of other environmental changes

Although we do not rule out the possibility of return opportunities arising for the Trusts related to the physical effects of climate change, the main focus of the Trustee is to limit the potential downside associated with long-term climate-related risks.

## Incorporation into investment decisions

The Trustee has made some specific allocations to help manage climate risk.

### In the DB Sections:

- An investment into low carbon equity
- Adding carbon intensity reduction targets into one of the credit mandates

### In the DC Sections:

- An investment in the Future World Fund Series to tilt the default strategy towards companies that will support the transition.

## How climate related risks are monitored and managed

### Regular information the Trustee reviews

The Trustee receives the following updates in order to satisfy itself that climate-related risks are being adequately monitored and managed:

#### On an ad hoc basis:

- The Investment Consultants monitor the Trusts' Investment Managers and provide information where there have been any significant changes in the Investment Managers' ESG competencies.

#### On an annual basis:

- The Investment Consultants update the managers' ESG ratings, which are monitored on an ongoing basis. At the moment, the Trustee has assessed that our managers do adequately integrate ESG considerations into their portfolio where it is appropriate:
  - During 2023, the DB Investment Consultant conducted a full review of all the DB Sections' Investment Managers. As part of the ongoing strategic discussions, the ESG capabilities of each Investment Manager is being explicitly considered and will be reviewed annually going forwards.
  - For the DC Sections, the JDCC have noted with encouragement the increase to one manager's ESG rating during the year. The Trustee regularly reviews the ESG ratings of all mandates during the year and have confirmed all remain appropriate for investment. The Trustee regularly challenges our managers on their wider ESG considerations.
- The Implementation Statement, prepared by the Investment Consultants, which details how the Trusts' managers vote and engage on the Trustee's key engagement priorities (which include climate issues). Examples of engagement can be found within our annual, scheme-specific Implementation Statements, included within each Trust's Report & Accounts and available online at <https://www.gskpensions.co.uk/governance/>.

### Management of climate-related risks

The Trustee has identified and included the following risks in the Trusts' risk registers and put in place mitigating controls. These will be reported as part of the Trustee's quarterly risk management review process and any new or emerging risks will also be highlighted.

Risk Description	Control
Failure to adequately monitor climate related risks to which the scheme assets are exposed could lead to risks being taken outside of appetite.	1. Annual review of the risk metrics (including portfolio weighted average carbon intensity), periodic scenario analysis and peer analysis.
Failure to report the outcome of the TCFD review, and to incorporate ESG and Stewardship within the investment policy could lead to enforcement from the Pensions Regulator.	1. The Trustee annually reviews and approves the Climate Change report prior to it being included in the Plan's annual statement.
	2. The Trustee reviews the associated governance documentation at least annually or more frequently following a significant change in investment strategy. This includes the SIP and the Climate-Related Risk Governance Policy. The SIP includes disclosure on ESG and Stewardship. The annual Implementation Statement assesses how the SIP policies have been followed.

The nature of climate change means that the probabilities of particular risks materialising cannot be estimated with confidence. The materiality of climate risks is, as a result, assessed based not only on likelihood of occurrence and potential impact, but also on other measures such as vulnerability and speed of onset.

- **Vulnerability** refers to the susceptibility of the Trusts to a risk event, in terms of their preparedness, agility, and adaptability.
- **Speed of onset** is the time that elapses between the occurrence of an event and the point at which the Trusts feel its effect.

At the present time, the climate-related risks that are believed to be most material to the Trusts are those associated with (a) the impact of regulatory action on the value of investments and (b) the disruptive impact and extreme uncertainty that would result in the event of failure to meet the goals of the Paris Agreement.

Climate change has not materially affected our approach to agreeing the best overall balance of risk and return for the Trusts. However, we do actively consider within our framework how best to optimise for climate risks and opportunities over the longer term.

We also refer to the earlier sections on Governance and Strategy which provide a detailed overview of both the policy for managing climate-related risk and an explanation of the specific risks being considered over different time horizons.

## Covenant risk

The Trusts' Covenant Adviser provided a full qualitative assessment of the Trusts' covenant risk during the 2021 scheme year. The adviser found that the most material risk to the sponsor's financial resilience is regulatory risk, particularly in the UK, US, and EU. Additional sources of risk include rising water stress, increased frequency of extreme weather events, imposition of a carbon taxation and nature-based projects failing to deliver sufficient volumes of carbon credits to offset emissions. The sponsor has taken significant steps to mitigate climate-related risks, for example aiming to reduce carbon emissions by 80% by 2030 and 90% by 2045. Ultimately, the Covenant Adviser expects that the covenant would be Strong under all climate change scenarios considered.

In the absence of any material changes to the Trusts' investment strategy and funding status, this analysis is unchanged and will be reviewed and updated during the next round of scenario analysis, in line with the DWP's recommendations. The full analysis is included in Appendix C.

# Metrics & Targets

## Metrics and targets

Measuring the impact of climate change on the Trusts' investments is central to managing climate-related risks. The Trustee annually collates and monitors climate metrics in order to assess the impact of climate-related risks on the Trusts' DB and DC investment portfolios. The results of this annual analysis are considered as part of relevant strategic decision-making, for example when considering the appointment of new investment mandates. The Trustee has additionally set a decarbonisation target, in alignment with the goals of the Paris Agreement, to reduce the Trusts' portfolios' scope 1 and 2 carbon footprint (excluding LDI and insured assets) by at least 50% (vs 2019 levels) by 2030.

### Metrics selected

The Trustee has selected the below metrics to measure the Trusts' exposure to climate-related risks:

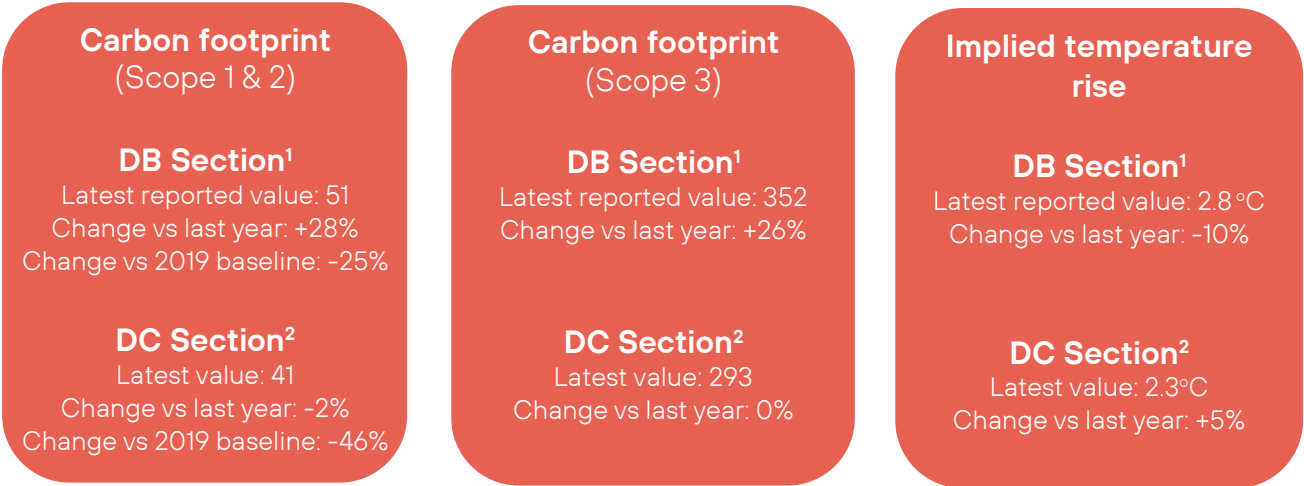
Required Metric Type	What metrics has the Trustee selected to report?	
	DB-Sections Metric	DC-Sections Metric
1. Absolute Emissions*	<b>Total Greenhouse Gas Emissions:</b> Total amount of greenhouse gas emissions emitted by the underlying portfolio companies, attributed to the investor based on the total investment in each company.	
2. Emissions Intensity*	<b>a) Carbon footprint:</b> An intensity measure of emissions that assesses the level of greenhouse gas emissions arising from a \$1 million investment in a fund. <b>b) Weighted average carbon intensity:</b> An intensity measure of emissions that assesses the level of greenhouse gas emissions arising from a \$1 million of sales/revenue generated by the underlying investee companies.	
3. Portfolio Alignment Metric	<b>Implied Temperature Rise:</b> The temperature pathway the mandate aligns to, expressed as a projected increase in global average temperatures above pre-industrial levels by the end of the century.	
4. Additional Climate Metric	<b>Science-Based Targets Initiative Alignment:</b> Exposure to companies with carbon emissions reduction targets listed on the Science-Based Targets initiatives database.	<b>Data Quality:</b> Data Quality for scope 1 and 2 is split between: reported, estimated, not reported and cash & other asset classes. Data Quality for scope 3 is split between: estimated, not covered and cash & other asset classes. Whilst a level of reported data is available under scope 3, given the vast discrepancies in scope 3 calculation

		methodologies across underlying companies we are using estimated data where possible for consistency in reporting.
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\*GHG emissions-related metrics are expressed as tCO2e (tonnes of carbon dioxide equivalent), where CO2e expresses the impact of each different greenhouse gas in terms of the amount of CO2 that would create the same amount of warming. Emissions-based metrics are reported across scope 1 & 2 and, separately, scope 3. Scope 1 captures direct emissions from owned or controlled sources of portfolio company, scope 2 captures indirect emissions from portfolio companies’ purchased energy generation and scope 3 captures all indirect emissions not included in scope 2 in the value chain of the reporting company, including upstream and downstream emissions.

### Metrics results

The Trustee assesses the Trusts’ metrics annually as part of the TCFD Reporting process. The Trustee has collated climate metrics for the Trusts for both the DB and DC Sections, with high level results shown below and more detailed results shown in the following section.



<sup>1</sup> DB metrics exclude LDI and buy-in assets.  
<sup>2</sup> DC metrics cover listed assets (equities and corporate bonds), apart from the Implied Temperature Rise which captures listed equity only. For the scope 3 carbon footprint, Mercer reported individually across upstream and downstream emissions and these have been aggregated for the purpose of this report.

For all the above metrics, a downward movement indicates positive progress. However, we can expect short term volatility across these results for a number of reasons, including changing methodologies, improving data coverage and market movements. The Trustee therefore continues to focus on the longer-term trajectory (e.g. the 2030 decarbonisation target) and feeding in climate-related metrics considerations into any strategic conversations.

## Portfolio metrics

### DB Sections

The tables below present the selected metrics as at 31 December 2022 for the Trusts' combined DB Sections.

#### Emissions-based metrics:

DB Sections	Total GHG Emissions (Scope 1 & 2)		Carbon Footprint (Scope 1 & 2)		WACI (Scope 1 & 2)	
Metric	tCO <sub>2</sub> e	Coverage	tCO <sub>2</sub> e/ \$1m of EVIC <sup>3</sup>	Coverage	tCO <sub>2</sub> e/ \$1m of revenue	Coverage
<b>Total Portfolio</b>	659,937	67%	52	67%	136	67%
<b>Total Portfolio (excl. LDI)</b>	290,352	68%	51	68%	152	66%

DB Sections	Total GHG Emissions (Scope 3)		Carbon Footprint (Scope 3)	
Metric	tCO <sub>2</sub> e	Coverage	tCO <sub>2</sub> e/ \$1m of EVIC	Coverage
<b>Total Portfolio</b>	1,004,280	21%	352	21%
<b>Total Portfolio (excl. LDI)</b>	1,004,280	38%	352	38%

#### Non-emissions-based metrics:

DB Sections	Implied Temperature Rise	SBTi Alignment
Metric	°C	% aligned
<b>Total Portfolio</b>	2.8	20.2%

Footnotes to the DB metrics tables are provided in Appendix D.

### Key takeaways (DB Sections)

The portfolio-level carbon footprint (excluding the LDI portfolio) has ticked up slightly over the year from 40 to 51. This is a result of changing data source and

<sup>3</sup> EVIC refers to the investee company's enterprise value including cash ("EVIC").



methodology, broadly falling market values over 2022, and improved data coverage, which has brought into coverage a number of the DB Sections' higher-carbon funds that previously were not covered. The implied temperature rise, which arguably provides a better sense of alignment with the Trusts' longer-term target, has improved from 3.1°C to 2.8°C.

### Data availability (DB Sections)

Over the year, the Trusts' emissions data coverage has improved (from 37% last year to 67% this year) largely due to the incorporation of data covering the LDI portfolio.

The DB Investment Consultant has engaged with a number of the Trusts' Investment Managers on the topic of data availability and quality during the year, and this continues to be a priority for the Trustee.

### DC Sections

The below tables present the selected metrics as at 30 June 2023 for the Trusts' DC Sections. The metrics for the individual underlying arrangements can be found in Appendix E.

#### Emissions-based metrics:

DC Sections	Total GHG Emissions (Scope 1 & 2)		Carbon Footprint (Scope 1 & 2)		WACI (Scope 1 & 2)	
Metric	tCO <sub>2</sub> e	Coverage	tCO <sub>2</sub> e/ \$1m of invested	Coverage	tCO <sub>2</sub> e/ \$1m of revenue	Coverage
DC Sections – listed equity portion of default investment strategy	126,661	93.4%	41.6	93.4%	104.8	93.4%
DC Sections – total listed assets (equities and corporate bonds) of default investment strategy	134,266	91.4%	41.1	91.4%	105.8	91.4%

DC Sections		Total GHG Emissions (Scope 3)			Carbon Footprint (Scope 3)	
Metric	tCO <sub>2</sub> e upstream	tCO <sub>2</sub> e downstream	Coverage <i>estimated</i>	tCO <sub>2</sub> e/ \$1m invested upstream	tCO <sub>2</sub> e/ \$1m invested downstream	Coverage <i>estimated</i>
DC Sections – listed equity portion of default investment strategy	283,903	646,860	93.4%	86.5	213.3	93.4%
DC Sections – total listed assets (equities and corporate bonds) of default investment strategy	302,584	674,360	91.4%	86.0	207.0	91.4%

#### Non-emissions-based metrics:

DC Sections	Metric	Implied Temperature Rise		Data Quality		
		°C	Reported	Estimated	Not reported	Cash & derivatives
DC Sections – listed equity portion of default investment strategy		2.3	Scope 1 & 2: 81.2% Scope 3: -	Scope 1 & 2: 12.2% Scope 3: 93.4%	Scope 1 & 2: 1.4% Scope 3: 1.4%	5.2%
DC Sections – total listed assets (equities and corporate bonds) of default investment strategy		2.3	Scope 1 & 2: 79.5% Scope 3: -	Scope 1 & 2: 11.9% Scope 3: 91.4%	Scope 1 & 2: 1.7% Scope 3: 1.7%	6.9%

Footnotes to the DC metrics tables are provided in Appendix E.

#### Key takeaways (DC Sections)

For the DC Sections, we note in May 2023, the default investment strategy was amended with the introduction of the GSK Global Equity Fund into the Lifecycle Drawdown Option for members more than 15 years to their Target Retirement Date. The DC Sections made mixed decarbonisation progress over the year. Absolute emissions of the listed equity portfolio increased whilst absolute emissions for the strategy's diversified growth funds decreased – this was largely driven by the

investment strategy changes outlined above, which resulted in a larger allocation to assets in the listed equity funds and a lower allocation to assets in the diversified growth funds. The carbon footprint of the equity funds increased over the year – due to a slightly higher contribution from the materials and industrials sector which are typically highly intensive – whilst the carbon footprint of the diversified growth funds fell. The WACI of the listed portfolio decreased over the year – driven by a decrease in the contribution from the energy and utilities sectors. We note that changes in WACI will not necessarily be linear and may fluctuate over time.

Popular arrangements\*: We set out in Appendix E further metrics data for the strategies required under the Climate Change Regulations, namely the default strategy (comprising the GSK Global Equity Index Fund, GSK Lifecycle Fund, the GSK Retirement Income Fund and the GSK Cash Fund). We note that for the GSK Cash Fund – whilst this Fund forms part of the default strategy – cash has been assumed to have zero emissions given the high turnover of the underlying assets within this strategy.

\*The statutory guidance defines a popular arrangement as one in which £100m or more of the assets are invested, or which accounts for 10% or more of the assets used to provide money purchase benefits. The popular arrangements are the default strategy (comprising the GSK Global Equity Index Fund, GSK Lifecycle Fund, the GSK Retirement Income Fund and the GSK Cash Fund).

### Data availability (DC Sections)

The table below shows updated figures for data coverage of relevant mandates in the DC Sections. Coverage figures relate to WACI:

Manager	DC Sections	
	Percentage of fund (by value) covered by MSCI's ESG Research	
	2023 Scheme year Listed assets (excluding sovereigns)	2023 Scheme year Sovereigns
Equity Mandates		
LGIM World (ex-UK) Developed Equity Index	94.4%	0.0%
LGIM World (ex-UK) Developed Equity Index – GBP Hedged	94.4%	0.0%
LGIM World Emerging Markets Equity Index	93.9%	0.0%
LGIM Global Developed Small Cap Index	88.9%	0.0%
LGIM UK Equity Index	91.4%	0.0%
LGIM Future World Developed (ex-UK) Equity Index	93.2%	0.0%

<b>LGIM Future World Developed (ex-UK) Equity Index – GBP Hedged</b>	93.2%	0.0%
<b>LGIM Future World Emerging Markets Equity Index</b>	89.4%	0.0%
<b>LGIM Future World UK Equity Index</b>	97.0%	0.0%
<b>Multi asset Mandates</b>		
<b>LGIM Diversified</b>	84.5%	93.8%
<b>LGIM Retirement Income Multi-Asset</b>	77.8%	98.0%
<b>Nordea Diversified Return*</b>	96.1%	n/a

\*Note: Nordea's allocations to Sovereigns was not material as at the 2023 assessment date.

We requested unaudited holdings data from each manager as at 30 June 2023. This holdings data was then analysed by Mercer using MSCI's proprietary tools as at November 2023.

Additional information on the methodology used for DB and DC metrics calculations is included in Appendix F.

## Target

The Trustee has set the following target across the Trusts' DB and DC Sections:

**"The Trustee commits to the aims of the Paris Agreement, expecting to reduce carbon emissions associated with its portfolio by at least 50% (from 2019 levels) by 2030 and fully (i.e. to net zero) by 2050, which is currently understood to be consistent with limiting global warming to 1.5 degrees above pre-industrial levels."**

The target applies across the Trusts, to both the DB and DC Sections. It excludes the Trusts' liability-hedging portfolio, as this primarily consists of government bonds, as well as two buy-in contracts, because these are outside the Trustee's remit. We note that at present this target considers only Scope 1 and 2 emissions data, due to lack of data availability in the baseline year.

The target reflects the Trustee's recognition of the need to take sufficient action within the next decade to manage climate risks and support a longer-term transition to net zero. The Trustee believes that this target should align with the ability of the Trusts to generate returns and to manage risk, as well as demonstrating a positive commitment to tackling climate change.

The targeted reduction in carbon emissions is expected to be achieved both through:

1. Changes to the portfolio
2. Changes in practice, as the economy moves to a lower carbon footprint, in part as a result of investor stewardship activity. This latter mechanism is expected to have a greater impact than the former. It is also recognised that achieving this target will only be possible if market practices continue to evolve significantly,

The target is tracked against the carbon footprint metric, using 2019 as the baseline year. The size-adjusted nature of the carbon footprint metric accounts for the changing size of the Trusts' investments over time.

The Trustee reviews the target on an ad hoc basis to ensure that it remains appropriate to the Trusts' investment strategy and circumstances. The Trustee continues to believe that the Trusts' current target remains suitable.

### Progress against target

The below table shows the progress against the target to date.

	2019 Baseline Carbon footprint (scope 1 & 2)	2023 Scheme Year Carbon footprint (scope 1 & 2)	Progress (2019 – 2023)
<b>DB Sections*</b>	68.3	50.8	-26%
<b>DC Sections: Listed Equity Portfolio (Combined)</b>	71.3	41.6	-42%
<b>DC Sections: Listed Equity and Corporate Bonds Portfolio (Combined)</b>	76.7	41.1	-46%

*\* Excludes LDI and buy-in assets.*

Footnotes to the target table are provided in Appendix G.

As can be seen, our carbon footprint has reduced significantly against our 2019 baseline, with the DC Section already nearing our 50% target. Whilst our focus remains on long term decarbonisation and climate risk management, we may experience shorter term volatility in the carbon footprint for a range of reasons, including changing methodologies, improving data coverage as well as market movements. We also note that investing in low carbon products doesn't necessarily mean that we are supporting the global transition to a lower carbon economy or managing climate risk; investing in certain climate opportunities may see our carbon footprint initially rise and hence we remain focused on our 2030 target rather than shorter term emissions changes.

### Steps we are taking to achieve our target

The Trustee is committed to working, with our Investment Consultants, to:

- Consider the impact of any proposed new mandate on the Trusts' target decarbonisation trajectory.
- Engage with the Trusts' existing Investment Managers to ensure that they are taking adequate steps to align mandates with the Trusts' target where possible, as well as striving to improve data quality and availability.

### **Metrics analysis of buy-in assets**

As at December 2022, the Trusts' had completed two buy-in transactions. While the allocation of these assets is outside of the Trustee's remit, the Trustee nonetheless considers the Trusts' TCFD metrics in relation to these insurer-held assets (although insured assets are excluded from the target). Metrics analysis of these assets is included in Appendix H.

## Concluding Remarks

Over the next decades, climate risks and opportunities will come to shape the investment and pensions landscape in fundamental ways. Focusing on these climate risks and opportunities are a central focus for the Trustee from a fiduciary duty perspective but also in our collective interest in driving global climate action.

With multiple strategic conversations ongoing, climate considerations will factor into all our decision making and we hope to increase the resiliency of our investment strategies against both transition and physical risk.

We know that in order to keep the Paris Agreement alive, we have a part to play in ensuring we can meet our own decarbonisation target but also influence the wider investment and pensions industry. We look forward to reporting on our progress in next year's report.

**Thank you for reading.**

## Appendix A – ESG-related investment beliefs

The Trustee has specifically agreed that:

- The Trustee Board members, with aid from their advisers, should ensure they remain aware of industry developments in this fast-moving field, including understanding what others are doing in this space in order to challenge ourselves on our approach.
- We believe that the pursuit of environmental or social goals as objectives in their own right does not automatically compromise financial goals. To the extent such goals can be pursued alongside financial goals, we believe it is appropriate to do so.
- ESG should be a fundamental part of our investment strategy and we are willing to accept some shorter-term lower returns, higher risk or higher manager fees in order to achieve the best possible long-term outcomes.
- ESG is considered to be a financially material risk to investments, and therefore the Trustee believes that over the long term, portfolios which incorporate consideration of ESG issues will outperform those that don't.
- ESG (including climate change) issues will affect investment returns over the long-term and should be fully embedded into the investment decision-making process.
- 'Social' and 'Governance' issues should be considered to be important as well as 'Environmental' issues within the portfolio.
- We believe that managers are generally best placed to vote on holdings. However, we should have a framework against which we monitor managers' voting policies to consider whether they are sufficiently thorough and aligned with our views.
- We should aim to be 'sustainable investors' (i.e. expect our Investment Managers to consider ESG factors where they are material to investment performance) rather than 'impact investors', as long term returns take priority.
- Our Investment Managers should use voting rights and other forms of influence to steward responsible behaviour.
- We understand ESG factors may not be material to investment performance of some strategies (e.g. risk premia and LDI).
- Our Investment Managers should integrate ESG information into qualitative and quantitative analysis and engage with portfolio companies on relevant ESG factors.

Formulated in respect of DB Sections: Where possible, we should measure how our portfolio compares to the broader markets and how our portfolio is contributing to improved outcomes over time.

Formulated in respect of DC Sections: The Trustee recognises the growing importance of ESG and climate change issues for members. The lifestyle strategies include an allocation to sustainable equities and have also made available a self-select fund for members.

<sup>1</sup> This section contains an extract of the beliefs that have been adopted by each of the Plans. Note that references to "Plan" or "Trustee" in this section therefore apply to each Plan.



## **Appendix B – Scenario Analysis conducted for the 2021 annual report**

### **Scenario analysis: purpose**

The Department for Work and Pensions notes that:

“The purpose of scenario analysis is to better understand the risks and opportunities posed by climate change to the Plan and to inform trustees’ strategy and investment decisions accordingly. Scenarios are not forecasts or predictions but rather are intended to highlight central elements of possible futures and to draw attention to the key factors that will drive future developments.

It can enhance trustees’ understanding of what is plausible and what needs to be taken seriously, informing strategy and investment decisions and strengthening the risk management process.”

In this context, the Trustee has considered the results of scenario analysis carried out separately for the DB and DC Sections by the Investment Consultants. The scenarios selected are plausible and therefore it is important for the Trustee to understand the impact of these scenarios on the Plans.

### **Scenario analysis: outline of chosen scenarios**

The primary scenarios considered for the Plans are as follows:

(a) <2°C heating:

- This scenario assumes that a delayed and sudden response creates significant disruption, but is successful in limiting global heating to less than 2 degrees Celsius.
- This implies negative impacts on asset performance from the economic transition.

(b) 3°C heating:

- This scenario assumes that emissions continue to increase and that climate goals are not met.
- This implies massive physical effects. As well as the potentially catastrophic social and economic impacts of physical risk, in the long term this scenario will be the worst for investment returns.

In addition, the DB Sections have considered a 1.5°C heating scenario, which assumes that measures are taken that will keep the rise in temperature limited to 1.5°C, in line with the ambition of the Paris Agreement. In this scenario, policy responses begin sooner and are more evenly paced, but still imply negative impacts from the economic transition (broadly similar to <2°C currently). Ultimately, physical risks will be lowest under this scenario.

Please see the following link for further description of the scenarios outlined above:  
<https://www.ngfs.net/ngfs-scenarios-portal/>

### **Scenario analysis: key assumptions and limitations**

The DB and DC Sections have carried out separate scenario analysis exercises, supported by the respective Investment Consultant in each case. As such, the finer

details for both are different. For example, the DC Section scenarios have considered changes over a 10 year period and the DB Section scenarios consider changes over 15 years, and the sources for the data differ between advisers.

However, at a high level the scenarios consider broadly similar risks and opportunities and both approaches are predicated on the assumption that the impacts of the climate crisis have not been fully priced in by markets.

The following table summarises the assumed impacts under each scenario.

	<2°C heating	3°C heating
<b>Risk factors:</b>	Transition risks high, particularly in the short term. Physical risks are anticipated to become increasingly evident within the next 5-10 years.	Transition risks are not evident until the longer term, but are expected to be more material than under the 2°C scenario. Physical risks are greater in magnitude and will be experienced sooner – investments start to see a larger impact towards the end of the decade.
<b>Narrative:</b>	Global action starts today, driven by policy and regulation as well as consumer sentiment. Emissions peak in the 2020s and coal is phased out globally by mid-century.  By the middle of the century, the average global sea level is expected to rise and longer droughts will be experienced in regions across the globe.	Global carbon emissions are flat by 2050, but still high in absolute terms. Coal is still a significant part of the energy mix. Towards the middle of the century, irreversible physical damages will be experienced including a reduction in available water.
<b>Market impact:</b>	Over the next 10-15 years, the cost of transition will play through at the sector level with heavy carbon-based industries, such as the energy sector and utilities, being most negatively impacted. The renewable energy sector is expected to perform strongly under this scenario, along with materials, telecoms and IT.	In the next 10-15 years, carbon-related regulatory and policy changes are less than under a 2°C scenario. Whilst the energy and utility sectors are expected to perform poorly under this scenario, the impact is less relative to the 2°C scenario. Most sectors will experience a marginal drag on performance due to the impact of physical damages and some fragmented policy changes.

	<2°C heating	3°C heating
<b>Impact on UK interest rates and inflation:</b>	A 2°C scenario is expected to have a high inflationary impact and interest rates remain low to stimulate spending to support a low carbon transition with immediate effect.	A 3°C heating scenario assumes delayed climate action and 'business as usual' for 10-15 years, at which time it's assumed there is UK wide activity to help support a low carbon transition. This will also be inflationary.
<b>Asset class impacts:</b>	At the asset class level, equities, infrastructure and commodities are most sensitive to climate related risks over the short, medium and long term. Sustainable allocations to global equity capture the opportunities presented by the transition to a low-carbon economy and avoid exposure to carbon-intensive sectors and/or companies – this is especially true over the short term but also applies over the medium and long term.	At the asset class level, equities, infrastructure and commodities are most sensitive to climate related risks. The pattern of expected climate impacts to expected return is similar to that under the 2°C scenario except the impacts are much more muted and closer to a 'business as usual' scenario in the short term. This is expected as increased climate action is assumed to take place after 10-15 years.

### Scenario analysis: key conclusions for the DB Sections

For the DB Sections, the scenario analysis has been used to produce a Climate Value at Risk (CVaR). This is the estimated financial value at risk to the corporate equity and credit exposures of heating scenarios at 1.5, 2 and 3 degrees.

Climate Value at Risk in Scenario	1.5 °C CVaR	2°C CVaR	3°C CVaR
Equity	-14.3%	-15.3%	-12.3%
Credit	-2.1%	-2.9%	-0.3%
Total exposure	-10.2%	-11.0%	-8.4%

*Notes:*

- CVaR can be understood as a shock to a security's value (in percentage terms) as a result of climate costs. This analysis is carried out for each underlying security held (where covered by MSCI) and then aggregated to provide an indicative impact at total portfolio level
- For example, the -14.3% figure for Equity under the 1.5 °C Scenario means that given anticipated policy changes, physical risks and the current plans of the companies we hold

*equity in; we expect climate change impact over the next 15 years to cost an equivalent of 14.3% of the current value of our equity portfolios*

- *Total exposure includes direct, long exposure to public equities and corporate bonds*
- *CVaR allows for the relative risks of debt and equity. For example, equity may be more vulnerable to a shock or loss than credit. It is not additive across different stand-alone components*
- *The analysis does not include an impact for Sovereign Bonds. Outcomes for Sovereign Bond exposure are highly dependent on assumptions around monetary policy, inflation, growth and government policy, with climate change contributing only a component to that. We do not believe that adding sovereign bonds will add any clarity to portfolio positioning*

The current DB investment allocation is expected to be materially impacted under all scenarios and most notably under the 2°C scenario within the next 15 years. This is mainly due to the current allocation to global equities that are most exposed to a disorderly transition. We note that in the long run, the 3°C scenario is the most severe by far. However, within the 15 year period considered (the DB 'medium term'), the Plans expect to substantially reduce exposure to global equities, in favour of government and corporate bonds. This move is expected to improve the resilience of the investment strategy in general, but also specifically to climate related risks.

## **Scenario analysis: Considerations specific to the DB Sections of GSKPS, GSKPF and SBPP**

### **Plan liabilities**

Climate change may also impact the value of the plan liabilities, i.e. future benefit payments expected to be made from the DB Sections over time. This impact could be via any or all of:

- 1) Changes in interest rates,
- 2) Changes in inflation expectations,
- 3) Changes in life expectancy.

Whilst we acknowledge the possibility of 1) and 2), we have implemented a 'liability hedging' strategy, which helps to mitigate risk to our funding level from adverse movements in interest or inflation rates over time. The Plans are fully hedged as a percentage of assets against moves in interest rates and inflation. However, the Trustee recognises that liability hedging programmes do not offer a perfect match of the exposures of the Plans' liabilities and therefore there remains a small amount of risk attributable to interest rates and inflation.

We currently have some insurance contracts which offer some protection against changes in life expectancy, but these do not cover all of our members and Plans. This is something we expect to consider further in the coming years. We note that although each Plan has unique liabilities and Plan specific approaches to valuing them, the high level issues and impacts are expected to be similar. In particular, our Actuarial Advisers do not expect material changes in life expectancy due to climate change to be apparent for at least 10-15 years. We also acknowledge there could be a wide range of potential life expectancy outcomes under each scenario, some leading to modest improvements in funding and others to worsening.

To provide an indication of the combined impact of asset and liability moves due to a climate-related shock on our funding strategies, we have obtained some high level estimates from our advisers, summarised below. These are considered to be on the pessimistic end, with shocks all happening together within 10 years' time.

Indicative impact of a medium term climate shock (GSKPS, GSKPF and SBPP combined)	1.5 °C	2°C	3°C
Technical Provisions funding ratio change	-8%	-4%	-2%

*Notes: Indicative analysis only. Assumes asset and liability shocks are all applied to fully funded Plans, progressing with existing derisking plans as at 31 December 2030.*

These figures highlight the points made above and in particular, that if life expectancy improvements are recognised at an earlier stage than currently anticipated (and society achieves the goal of containing heating to 1.5 degrees), the Defined Benefit Sections of the Plans will be more likely to require further contributions from the Plans' Sponsor, GSK. Please see our comments on covenant risk in the following section.

### Scenario analysis: DC section

Climate change scenario analysis has been undertaken on the strategic asset allocation of the portfolio to assess the potential implications under two different scenarios. The climate change scenario analysis is based on the strategic asset allocation of each fund as at 30 September 2021 and uses asset class assumptions rather than being based on fund holding data as is the case with the reported metrics.

Climate scenario modelling is a complex process and the Trustee is aware of the modelling limitations. In particular:

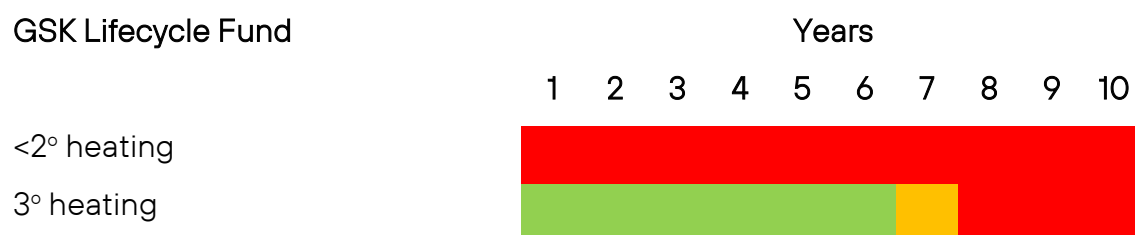
1. The further into the future you go, the less reliable any quantitative modelling will be.
2. Looking at average asset class returns over multi-decade timeframes leads to invariably small impacts. The results are potentially significantly underestimated.
3. There is a reasonable likelihood that physical impacts are grossly underestimated.
4. Financial stability and insurance 'breakdown' is not modelled.
5. Most adaptation costs and social factors are not priced into the models.

Note that climate-related scenario analysis is an ever evolving space and as such the scenarios modelled may be subject to review in future periods.

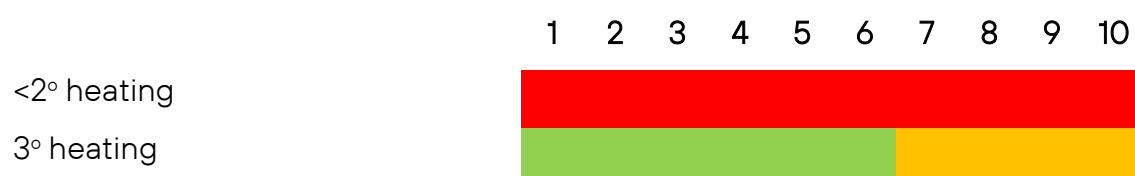
### Scenario analysis: key conclusions for the DC Sections

The scenario analysis completed by Mercer produces outputs that compare the expected return of the portfolio under different scenarios. In the analysis, we use the allocation of the Funds as at 30 September 2021. The relative returns are as follows:

## GSK Lifecycle Fund



## Lifecycle Drawdown Option



Key	
	Expected return more than 0.5% below the base return
	Expected return more than 0.2% and less than 0.5% below the base return
	Expected return less than 0.2% below the base return

### Notes:

- *Disorderly transition (corresponding to <2° scenario). Failed transition (corresponding to 3° scenario).*
- *Investment Manager Fund data is based on underlying asset allocation as at 30 June 2021; Strategic allocation is based on asset allocation as at 30 September 2021. Pre-retirement strategies de-risk as at 30 June 2031 starting 10 years from retirement.*
- *This analysis shows that under all of the Transition scenarios the annual returns over a 10 year time horizon are expected to be lower than the base scenario.*
- *Disorderly Transition is expected to have a more material impact over the next 10 years but as physical risks become more pronounced due to inaction, longer term Failed Transition is expected to have a material (negative) impact for those not de-risked.*

Based on the portfolios' target asset allocation as at September 2021, the DC default strategy is expected to be materially impacted under 2°C scenario to 2030. This is due to the current allocation to global equities and diversified growth funds that are exposed to a disorderly transition. Under the 3°C scenario, the expected impact on returns is less negative relative to the 2°C scenario over the 10 year time horizon, but we expect a failed transition to be more severe over a longer term horizon (i.e. over 10 years) and thus have a greater impact. **Note:** Some of the underlying data has been provided by MSCI which is ©2024 MSCI ESG Research LLC. Reproduced by permission. Although information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Appendix C – Covenant climate risk assessment

In addition to the implications of general economic conditions on the Trusts, consideration has been given to the resilience of the sponsoring employer's covenant.

The strength of the sponsoring employer's covenant is an important factor in determining the resilience of the funding strategy for the DB Sections given the Plans depend on the sponsor for support in the event of adverse experience<sup>4</sup>.

Climate change and the global response to it will influence short, medium, and long-term covenant resilience and therefore affect the ability to pay the DB member benefits in full. We therefore believe it is important for us to understand the specific risk exposures and opportunities faced by the Sponsor. To help with this we have reviewed the Sponsor's own TCFD-compliant reporting and stated environmental goals as well as consulted with our independent Covenant Adviser.

In line with guidance from the Department of Work and Pensions, the Trustees have not undertaken detailed scenario analysis since it was undertaken to support the Trustees' conclusions in the 2021 scheme year. However, the Trustees have reviewed the public information released by GSK in its latest annual report.

The Trustees note that, in the 2023 annual report, GSK has updated their analysis on the impact of different climate scenarios on financial performance. The annual report includes five risks and two opportunities related to climate change (previously four risks and two opportunities in the 2022 annual report) with these scenarios forecasting differing levels of impact on profitability.

The most material risk remains regulations governing the use of high global warming potential substances, which are being updated in the EU and UK and were updated recently in the US. This could lead to an increase in the cost and restrictions on GSK's ability to manufacture Metered Dose Inhaler products that use a high global warming potential propellant (HFA134a). The potential profit impact continues to be assessed as being High or over £250m, over a 3-to-10-year time horizon. We note that GSK are investing in a Research & Development programme and large manufacturing site upgrade to find a lower-impact propellant that could reduce emissions from them by up to 90%, if the clinical trials are successful.

GSK also identified a new risk related to nature-based projects failing to deliver the anticipated volume of carbon credits either due to lower than expected growth with a Low (or <£100m) potential profit impact or a natural catastrophe with a Medium (or £100m to £250m) potential profit impact. GSK's other risks continue to include increasing levels of water stress with up to a Medium (or £100m to £250m) potential profit impact, increasing frequency of extreme weather events with up to a Medium (or £100m to £250m) potential profit impact and future regulatory policy responses

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<sup>4</sup> For the DC Sections, the sponsoring employer's covenant does not represent a material source of risk

to address climate change leading to the imposition of carbon taxes with up to a Medium (or £100m to £250m) potential profit impact<sup>5</sup>.

GSK also noted a potential opportunity from climate change and the increasing demand for low carbon medicines and vaccines with a Low (or <£100m) potential profit impact<sup>6</sup>. We note that these impacts are relatively low (<10% of adjusted operating profit) compared to company compiled analyst consensus forecasts for revenue and adjusted operating profit in 2026 of £35.1bn and £11.1bn, respectively, as at 15/03/2024.

To mitigate the risk of environmental sustainability, by 2030 the company aims to reduce carbon emissions by 80% with the remainder offset through investment in high-quality nature-based solutions, and by 2045, aims to be at the Science Based Target Initiative Net Zero Standard, with carbon emissions reduced by at least 90% and the remainder tackled through high-quality offsets. In this context, we also note that the Science Based Targets Initiative have accredited that GSK's carbon targets align to a 1.5°C pathway. GSK has also maintained industry leading positions in the MSCI, ISS Corporate Rating and Sustainalytics ESG ratings based on GSK's "ESG Performance Report 2023". These ratings are external assessments of the resilience of companies against ESG risks.

Overall, the Trustees recognise that whilst climate change does present additional risks, the nature of GSK's business and the locations of its physical assets do not present any particularly unique or acute risks beyond those faced by broader society. We acknowledge, however, that the longer the Plans are dependent on the Sponsor, the greater the level of uncertainty.

However, as the DB Sections gradually de-risk, we expect to have lower reliance on the Sponsor such that the likelihood of requiring further assistance from the employer covenant will fall over time. This will continue to be monitored annually.

Each of the DB Sections of the GSKPS, GSKPF and SBPP have similar time horizons and investment strategies and therefore similar perspectives on the covenant.

As noted in the strategy section, whilst the analysis undertaken in relation to the covenant has not been updated in detail for GSK's 2023 climate-related financial disclosures, the impact on the strength of the covenant is likely to remain relatively limited. As such, Penfida would expect the covenant provided by GSK to the Plans to be Strong under all climate change scenarios based on the information currently available.

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<sup>5</sup> We note that the profit impact falls to Low (or <£100m) under certain scenarios

<sup>6</sup> Profit opportunity related to water and vector borne diseases not quantified in GSK's 2023 annual report



## **Appendix D – footnotes to the DB metrics table**

Metrics and Targets as at 31 December 2022.

All data is as at 31 December 2022 and sourced directly from Investment Managers.

LGIM LDI emissions data include leverage. For government bonds in the LDI mandate, data uses 2019 emissions, allocation represents gross exposure under LDI manager methodology. Carbon footprint normalises by the market value of total gilts in issuance and WACI normalises by GDP.

LGIM Managed Property Fund and Bridgewater Optimal Portfolio Fund absolute carbon output estimated by Isio based on the Trusts' share of total fund/mandate AUM.

Data for Bridgewater Optimal Portfolio reflects long-only positions.

Carbon footprint numbers for CBRE property, LGIM property, and LGIM equities have been converted by Isio from GBP to USD.

SBTi alignment for CBRE property reflect the targets of the underlying tenants.

2019, 2020 and 2021 data provided by Cardano and sourced from previous TCFD reports.

## Appendix E – popular arrangements metrics and footnotes to the DC metrics table

### Popular arrangements:

DC Sections 2023 Scheme Year (30 June 2023)		GSK Global Equity Index Fund			GSK Lifecycle Fund			GSK Retirement Income Fund		
Metric	Scope	Listed equity	Listed assets	Sovereign assets	Listed equity	Listed assets	Sovereign assets	Listed equity	Listed assets	Sovereign assets
<b>Total GHG emissions (tons CO<sub>2</sub>e)</b>	1+2	79,718	79,718	-	33,135	38,479	4,069	-	2,116	5,535
	3 upstream	179,586	179,586	-	74,645	89,113	-	-	3,822	-
	3 downstream	395,681	395,681	-	164,465	182,921	-	-	8,546	-
<b>Carbon Footprint (tons CO<sub>2</sub>e / \$M invested)</b>	1+2	41.0	41.0	-	41.0	39.2	-	-	48.9	-
	3 upstream	85.3	85.3	-	85.3	84.0	-	-	83.2	-
	3 downstream	203.7	203.7	-	203.7	185.9	-	-	195.4	-
<b>Weighted Average Carbon Intensity (tons CO<sub>2</sub>e / \$M revenue)</b>	1+2	105.6	105.6	-	105.6	104.8	297.9	-	198.5	239.9
	3 upstream	245.4	245.4	-	245.4	244.4	-	-	256.1	-
	3 downstream	415.9	415.9	-	415.9	384.4	-	-	385.0	-
<b>Implied Temperature Rise (°C)</b>	1+ 2 + 3	2.3	2.3	-	2.3	2.2	-	-	2.2	-

Data quality: total listed assets	GSK Global Equity Index Fund		GSK Lifecycle Fund		GSK Retirement Income Fund	
	Scope 1 & 2	Scope 3	Scope 1 & 2	Scope 3	Scope 1 & 2	Scope 3
<b>Reported</b>	81.0%	-	77.9%	-	23.3%	-
<b>Estimated</b>	12.5%	93.5%	11.9%	89.8%	3.9%	26.9%
<b>Not Reported</b>	1.3%	1.3%	1.9%	1.9%	7.7%	8.0%
<b>Cash &amp; Derivatives</b>	5.2%	5.2%	8.3%	8.3%	65.1%	65.1%

## **Notes to the DC metrics tables**

### **Portfolio metrics table:**

Data is provided as follows:

2023 Scheme year –DC data is as at 30 June 2023. Analysis performed on available holdings using underlying MSCI data available in November 2023.

For the DC Sections, we consider the listed equity portfolio and the listed equity and corporate bonds portfolio across all underlying funds within the strategies required under the Climate Change Regulations, namely the default strategy (comprising of the GSK Global Equity Index Fund, the GSK Lifecycle Fund, the GSK Retirement Income Fund and the GSK Cash Fund). Data on the underlying funds can be found later in the report.

### **Additional DC metrics – underlying arrangements:**

Data is as at 30 June 2023. Listed assets refers to equities and corporate bonds in aggregate. Please note that due to different methodologies used to calculate listed assets and sovereign bonds we do not include a total that sums together both values. GSK Global Equity Index is comprised of 100% listed equity. GSK Lifecycle Fund is comprised of 79% listed assets / 1% sovereigns (remainder invested in funds with derivative exposure). GSK Retirement Income is comprised of 35% listed assets / 19% sovereigns (remainder invested holdings less than 0.01% of fund and unlisted assets e.g. alternatives).

## Appendix F – Outline of metrics methodologies

**Total GHG emissions** has been calculated as carbon dioxide equivalent emissions (Metric tons) \* value of investment/company enterprise value, and measures the Trusts' exposure to total GHG emissions.

CO<sub>2</sub>e, or carbon dioxide equivalent, measures emissions of carbon dioxide plus the emissions of six other GHGs expressed as an equivalent amount of CO<sub>2</sub> based on their relative global warming potential.

The GHG Protocol Corporate Standard<sup>10</sup> classifies a company's GHG emissions into three 'scopes':

**Scope 1:** Direct emissions from owned or controlled sources.

**Scope 2:** Indirect emissions from generating purchased energy.

**Scope 3:** All indirect emissions not included in Scope 2 in the value chain of the reporting company, including upstream and downstream emissions.

We recognise that there remain gaps in data availability, in particular, regarding Scope 3 emissions.

**Carbon footprint** is calculated as Carbon emissions (Metric tons) / \$ Million investment \* portfolio weights, and measures the Plans' investments in emission-intensive companies.

**Weighted average carbon intensity** is a weighted average of the emissions carbon intensity of companies, defined as a company's total emissions divided by its total sales (total emissions divided by GDP for sovereign bonds where included). This metric can be interpreted as a measure of the relative carbon efficiency of a fund and is not affected by movements in companies' valuation. However, it is sensitive to movements in price.

**Portfolio alignment – binary target measure** (DB Sections) is expressed as the percentage of our portfolio by AUM aligned to the Paris Climate Agreement. We use the Science-Based Targets Initiative ("SBTi") framework to measure this, which assesses the ambition of a company's Scope 1 and 2 targets.

**Portfolio alignment – Implied temperature rise** is expressed as °C and is calculated as a weighted average of the underlying companies' implied temperature rise. This metric is a forward-looking measure that sets out a prediction of the implied temperature trajectory of a company over the rest of the century, given a company's emissions, commitments, and momentum. This includes Scope 1, 2 and 3 emissions. This metric has been sourced from the Trusts' Investment Managers, and as such methodologies are likely to diverge.

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<sup>10</sup> [https://ghgprotocol.org/sites/default/files/standards\\_supporting/FAQ.pdf](https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf)

**Data Quality** (DC Sections) Data quality for Scope 1 and 2 is split between: reported, estimated, not reported and cash & other asset classes. Data quality for Scope 3 is split between: estimated, not covered and cash & other asset classes. Whilst a level of reported data is available under scope 3, given the vast discrepancies in scope 3 calculation methodologies across underlying companies we are using estimated data where possible for consistency in reporting. This approach will be reviewed in future as scope 3 data becomes more reliable.

**Data coverage:** Overall data coverage levels for the DB and DC Sections. For the DB Sections, this is shown for all emissions-based metrics. For the DC Section, this is shown for WACI.

### **Updates to the DB metrics methodology**

There have been a number of changes to the methodology used to calculate DB metrics for the 2023 scheme year.

1. Unlike the 2022 scheme year TCFD metrics results, metrics were sourced directly from the Trusts' Investment Managers for their respective mandates. This was both to improve data coverage, as well as to align the metrics methodology with what was used to calculate the baseline for the Trusts' target .
2. The scope of metrics data was expanded. For the first year, metrics now capture the Trusts' Liability Driven Investment ("LDI") portfolio, as well as additional multi-asset funds that were not previously included.

## **Appendix G – footnotes to the target table**

Between the 2022 and 2023 Scheme Year calculations, the data source for the DB Sections has changed from in-house calculations using MSCI to sourcing data directly from the Trusts' Investment Managers, in line with the methodology used to calculate the 2019 baseline.

The DB baseline was calculated using data sourced from managers, and shows scope 1 and 2 emissions. The baseline calculation covers most of the Trusts' equity and property mandates, however due to limited data availability at the time of calculation, it does not include coverage for the Trusts' credit and multi-asset managers.

Analysis of the DC Section considers the listed equity portfolio and the listed equity and corporate bonds portfolio across all underlying funds within the strategies required under the Climate Change Regulations (i.e. the three popular arrangements), namely the default strategy (comprising of the GSK Global Equity Index Fund, the GSK Lifecycle Fund, the GSK Retirement Income Fund and the GSK Cash Fund).

## Appendix H – Metrics analysis of buy-in assets

As at December 2022, the Trusts' had completed two buy-in transactions. While the allocation of these assets is outside of the Trustees' remit, the Trustee nonetheless considers the Trusts' TCFD metrics in relation to these insurer-held assets (although insured assets are excluded from the target). The below tables show metrics analysis for the two buy-in portfolios as at 31 December 2022. Due to difference in methodology used by the buy-in provider to calculate the metrics for sovereign and non-sovereign assets, these are shown on a disaggregated basis., sovereign and non-sovereign assets are disaggregated.

### Insured portfolios excluding sovereign assets

Metric		GSK Pension Fund		GSK Pension Scheme	
		Buy-in (ex. Sovereign assets)	Coverage	Buy-in (ex. Sovereign assets)	Coverage
Total GHG Emissions tons CO <sub>2</sub> e	Scope 1 & 2	4,411	23.6%	5,094	16.4%
	Scope 3	25,886	23.6%	13,363	16.4%
Carbon Footprint tons CO <sub>2</sub> e / \$M invested	Scope 1 & 2	49	23.6%	75	16.4%
	Scope 3	288	23.6%	196	16.4%
Weighted Average Carbon Intensity tons CO <sub>2</sub> e / \$M revenue	Scope 1 & 2	162	61.0%	136	58.1%
	Scope 3	448	39.8%	445	35.4%
Implied Temperature Rise °C		2.7	69.7%	2.7	64.3
SBTi Alignment		10.4%	-	10.2%	-

## Insured portfolios, sovereign assets

Metric		GSK Pension Fund		GSK Pension Scheme	
		Sovereign assets	Coverage	Sovereign assets	Coverage
Financed GHG Production Emissions tons CO2e	Scope 1	11,008	14.8%	16,047	19.8%
Financed GHG Consumption Emissions tons CO2e	Scope 1, 2 & 3	27,019	14.8%	39,389	19.8%
Weighted Average Production Intensity tons CO2e/ \$m GDP	Scope 1	0.2	14.8%	0.2	19.8%
Weighted Average Consumption Intensity tons CO2e/capita	Scope 1, 2 & 3	16	14.8%	16	19.8%

**Notes:** Data sourced from Prudential. Metrics for sovereign assets are calculated using Purchasing Power Parity (PPP)-adjusted GDP.