BCF Pension Trust TCFD Statement 2023

Foreword

This document is the second TCFD statement for The BCF Pension Trust ("BCF" or "the Scheme"). It includes data as of 31st March 2023 to align with the Scheme's financial year-end and details the work conducted by the Trustee predominantly over of the year ended 31st March in the assessment, monitoring and mitigation of climate-related risks.

This report has been prepared with support from Redington (the Scheme's investment advisor).

Introduction

This statement sets out the approach of the Trustee of BCF with regards to assessing, monitoring and mitigating climate-related risks in the context of the Trustee's broader regulatory and fiduciary responsibilities to their members.

The Trustee supports the recommendations set out by the Taskforce on Climate-Related Financial Disclosures (TCFD) on the basis that it will allow the Trustee to more closely assess, monitor and mitigate climate-related risks on behalf of its members. This is the Trustee's second disclosure under the framework and this statement is therefore expected to evolve over time.

This statement has been prepared in accordance with the regulations set out under "The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (as amended) and the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations 2021"" and provides a status update on how the Scheme is currently aligning with each of the four elements set out in the regulations (and in line with the recommendations of the TCFD). Details on these elements are as follows:

- **Governance:** The Scheme's governance around climate-related risks and opportunities.
- **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the Group's strategy and financial planning.
- **Risk Management:** The processes used to identify, assess and manage climate-related risks.
- **Metrics and Targets:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

The following pages summarise the Trustee's current position with regards to the TCFD recommendations.

As stated in the Statement of Investment Principles, the Trustee's main objectives is to:

- invest the Scheme's assets in a manner that is consistent with the religious, social and ethical considerations of the Brethren;
- enable Scheme members to maximise their income in retirement, subject to those considerations;
- hold sufficient cash to meet likely benefit outgoings from time to time; and
- maintain adequate readily realisable assets to meet unexpected cashflow requirements.

Due to the Brethren's strong beliefs that include avoidance of certain investment classes such as equities and corporate fixed interest securities (held as part of a pooled fund), the Trustee acknowledges that such assets may normally be deemed appropriate for long term investment associated with retirement planning, but the Trustee will not hold investments within the Scheme that infringe the core beliefs of the Brethren.

As such, the current asset classes the Scheme is invested in are:

- Cash,
- Government Bonds,
- Secured Loans (direct loans to organisations in the education sector), and
- Property (direct investment in a single property).

Given the nature of the direct investments, it has not been possible to obtain specific carbon data for each investment. Proxy data has therefore been used where appropriate. More detail on this is included in the Metrics & Targets section.

1. Governance

Role of the Trustee Board

The Trustee Board of the BCF Pension Trust is ultimately responsible for oversight of all climate-related risks and opportunities related to the Scheme. This includes approval of the governance and management framework relating to environmental, social and governance ("ESG") considerations and climate-related risks and opportunities.

Due to the beliefs held by members of the Scheme the Trustee is not able to invest in any pooled funds unless all other investors in the fund have the same religious beliefs. However, the Trustee will take ESG factors into account when considering the Scheme's investments and many of the investments held by the Scheme have a strong social purpose.

The Trustee has not identified one individual to specifically be responsible for its approach to climate risks and opportunities. Rather, the Trustee Board has collective responsibility for setting the climate change risk framework.

The Trustee has discussed and agreed its overarching approach to managing climate change risk. It recognises that ESG factors, such as climate change, may have material impact on certain investments that may be held as assets of a pension scheme. Day-to-day responsibility for ESG matters is conducted by the Trustee and the underlying asset's longer-term financial sustainability is taken into account in the selection of the investment and will form a part of the Trustee's quarterly monitoring of the investments. Each investment shall be evaluated by reference to the extent to which its ESG factors complement or correspond with the Trustee's investment objectives. The Trustee will review their approach to Responsible Investing on an annual basis (or sooner in the event of a significant change in investment policy) as part of the Statement of Investment Principles review.

In summary, the Trustee believes that:

- Climate-related factors may create investment opportunities, however given the Trustee's beliefs they will be restricted in taking advantage of such opportunities. Where possible, and where appropriately aligned with the Trustee's strategic objectives and fiduciary duty, the Trustee will seek to capture such opportunities through its investment portfolio. The most appropriate time horizons for the Scheme are as follows:
  - short term: 1-3 years

    - medium term: 4-10 years
    - long term: 11+ years
- Climate-related risks and opportunities are assessed over the above time horizons. Where appropriate, the Trustee considers transition and physical risks separately.

The Trustee Board receives regular training on climate-related issues, at least annually, to ensure that it has the appropriate degree of knowledge and understanding on these issues to support good decision-making. The Trustee expects its advisers to bring important and relevant climate-related issues and developments to the Trustee's attention in a timely manner. In Q4 2022, the Trustee underwent training on the TCFD 4th Portfolio Alignment Metric and agreed the use of Implied Temperature Rise (ITR) as the 4th metric due to the nature of BCF's investments.

Role of other advisors or stakeholders deemed relevant

Investment consultants: the Trustee's investment consultants, Redington, provide strategic and practical support to the Trustee in respect of the management of climate-related risks and opportunities and ensuring compliance with the recommendations set out by the TCFD. This includes provision of regular training and updates on climate-related issues to enable the Trustee to assess the Scheme's exposure to climate-related risks.

Redington have helped 40+ DB & DC Schemes on their TCFD journeys and provide a tailored approach including:

- Relevant **training** on climate change from an investment perspective and relevant climate metrics;
- A climate beliefs **survey** to help trustees formulate and document your own climate beliefs and policies;
- Access to **specialist research** on climate investment products / asset classes to consider embedding into investment strategies;
- Climate **scenario analysis and stress tests**;
- A **final TCFD statement** and report for the Scheme to publish.

As such, the Trustee is satisfied that Redington is competent in terms of firmwide and consultant climate expertise, tools, thought leadership and assessment of investment managers, which align with Investment Consultants Sustainability Working Group Climate Competency Framework 2021.

Investment managers: The Trustee does not appoint investment managers to operate pooled investment on behalf of the Scheme due to the religious, social and ethical beliefs of the Brethren. The Trustee has appointed Evelyn Partners to manage a portfolio of UK Government Gilts on the Trustee's behalf. Further to this, the Trustee has an arrangement with Cazenove Capital Management for some of the cash held by the Scheme – however the Trustee expects that there will be no emissions associated to this portion.

2. Strategy

The Trustee considers climate-related risks and opportunities and their potential implications on the Scheme's investment strategy over the short term, medium term, and long term. The consideration of these factors is incorporated throughout the investment process, from strategic asset allocation to manager selection and portfolio monitoring.

During the reporting period, the Scheme made a direct investment in a commercial warehouse property. The property supports the Trustee's social purpose as it is used by a charity which offers assistance to other charities, governments and emergency services in areas including disaster relief and homelessness.

The Scheme has also made a number of direct secured loans to several educational trusts from whom is not possible at present to get climate-related data.

Given the nature of its investments, the Trustee believes that exposure to climate-related risks is minimal in the short and medium term, but may increase gradually over the longer term. Specifically:

- Physical risks, i.e. those that arise from both gradual changes in climatic conditions and extreme weather events; and
- Transition risks i.e. risk of re-pricing which would occur as part of the move to a low-carbon economy.

The Trustee, on an ongoing basis, assesses the impact of the identified climate-related risks and opportunities on the Scheme's investment strategy. Due to the constraints imposed by the Trustee's investment beliefs (particularly being unable to invest alongside other investors on a pooled basis), it is more challenging to seek out specific climate related opportunities, which tend to occur within either listed equities or private market assets.

In order to assess the impact on the Scheme's assets, the Trustee undertakes scenario analysis consistent with the Prudential Regulation Authority ("PRA")'s Life Insurance Stress Tests ("the PRA stress test scenarios"), as recommended by the Pensions Climate Risk Industry Group ("PCRIG"). The stresses are designed to show what the impact on the value of the Scheme's assets would be in the following scenarios:

- Scenario A (Fast Transition): Abrupt transition to the Paris-aligned goal occurring in 2022 (temperature increase kept below 2 degrees Celsius relative to pre-industrial levels).
- Scenario B (Slow Transition): Orderly transition to the Paris-aligned goal occurring by 2050 (temperature increase kept below 2 degrees Celsius relative to pre-industrial levels).
- Scenario C (No Transition): A no-transition scenario occurring in 2100 (temperature increase in excess of 4 degrees Celsius relative to pre-industrial levels).

The results of these scenarios can be seen in Appendix A and remain unchanged for this Scheme year as there has not been any material changes to strategy. The results of the scenarios provide the Trustee with a clear overview of how resilient the investment strategy is with regards to various different climate change outcomes.

The Trustee assesses the results of these climate scenarios on the Scheme's investment strategy and incorporates these (as well as the impact of any climate-related investment opportunities) into the investment decision-making process.

The Trustee notes the assessment of climate-related risks and opportunities may vary depending on the time horizon in question. As such, the Trustee assesses climate risks and opportunities over the following time horizons which they deem appropriate in light of the Scheme's existing strategic objectives:

Short term	1-3 years
Medium term	4-10 years
Long term	11+ years

3. Risk Management

As noted previously, the Trustee is exposed to climate-related risks including risks stemming from transitioning to a lower carbon economy, and physical risks from shocks caused directly by climate change. The Trustee identifies and assesses the impact of these climate-related risks on all of the assets in which they invest by conducting and reviewing the results of climate-related stress tests on a periodic basis.

The Trustee has also integrated climate change into the Scheme's wider risk management and receives additional climate-related reporting from their Investment Consultants (on an annual basis). This reporting contains relevant climate metrics as set out under Department for Work and Pensions' (DWP's) adoption of the recommendations of the TCFD, and includes ESG scores, carbon emissions, carbon footprint and portfolio alignment (provided in Appendix B). This allows the Trustee to better identify and manage the climate-related risks which are relevant to the Scheme on an ongoing basis. The Trustee has identified 'risks posed by climate change, including both transitioning to a lower carbon economy, and physical risks from shocks caused directly by climate change' within its Risk Log and assesses these risks on a regular basis. Once the risks are identified, the Trustee, with the assistance of the Investment Consultant, engage with the investment managers and counterparties to explore ways to mitigate the risks.

Due to the nature of its investments, the Scheme already has low carbon metrics and scenarios analysis results. The Scheme's exposure to climate-related risk is therefore expected to be low and stewardship has not yet been used to support the process of managing climate risks. . However, the Trustee is expecting to engage more fully with some of the counterparties to its investments to understand how they might be thinking about climate change and to determine whether they can provide more specific data to support the metrics disclosure in this report.

The table below details the Trustee climate risk management plan:

Activity	Final approval	Advisor / supplier support	Due date	Frequency of review	Last completed
Governance					
Climate change governance framework	Trustee Board	Redington	October 2023	Annual	October 2022
TCFD report	Trustee Board	Redington	October 2023	Annual	Oct 2022

Add / review climate risks and activity on key Scheme documentation (e.g. risk register)	Trustee Board		N/A	Annual	n/a
Trustee training	Trustee Board	Redington	Sept 2023	Annual	June 2022
Review SIP	Trustee Board	Redington	Oct 2023	Annual	Oct 2022
Review SIP Implementation Statement	Trustee Board	Redington	Oct 2023	Annual	Oct 2022
Strategy					
Identify climate-related risks and opportunities (over agreed time periods) for investment strategy	Trustee Board	Redington / Evelyn Partners	Oct 2023	Ongoing	n/a
Scenario analysis - agree approach	Trustee Board	Redington	Dec 2024	Triennial	Dec 2021
Scenario analysis - undertake modelling	Trustee Board	Redington	Mar 2025	Triennial	March 2022
Risk Management					
Identify, assess and manage key climate related risks	Trustee Board	Redington / Evelyn Partners	Dec 2025	Triennial	Dec 2021
Metrics and targets					
Agree approach for metrics and targets for in scope assets	Trustee Board	Redington / Evelyn Partners	December 2022		n/a
Obtain data for agreed metrics	Trustee Board	Redington / Evelyn Partners	March 2023		n/a

4. Metrics and Targets

With regards to quantitative metrics, the Trustee – on an annual basis – monitors and reports:

- Total greenhouse gas emissions of the Scheme's assets ("absolute emissions metric");
- Carbon footprint – i.e. total carbon dioxide emissions for the portfolio normalised by the market value of that portfolio ("emissions intensity metric");
- Data Quality – i.e. an indication of the % of assets which have carbon emissions data available for reporting – this has been chosen as it offers a simple, readily-available metric which aids efficiency of reporting and can provide a useful 'confidence indicator' when considering the implications of metrics 1 and 2 as part of strategy decisions (e.g. placing less weight on these metrics where data quality is confirmed as poor); and
- Portfolio Alignment – i.e. a forward-looking metric that measures the Scheme's alignment to the Paris agreement and global climate goals. The metric chosen for BCF is Implied Temperature Rise (ITR) as it has a higher coverage than the other methods.

The Trustee monitors 'asset class level' carbon estimates in the absence of reliable, reported line-by-line emissions data from MSCI or the counterparties of the Scheme's investments. This is done in order to calculate data quality, carbon footprint, and total greenhouse emission metrics. The Trustee acknowledges that using asset class modelling of emissions for assets where this data is not available enables a more holistic view of the Scheme's total portfolio emissions, even though it recognises that the modelled data is not perfect.

The Trustee has set two explicit targets for the Scheme regarding the data quality metric:

- Firstly, to improve data coverage to include the actual gilt portfolio within the next three years. Over the course of the Scheme year covered by this report, this target has not been met due to the continued lack of consensus on how best to measure sovereign emissions. However, Partnership for Carbon Accounting Financials ("PCAF") has recently changed guidance on calculating carbon intensity for sovereign debt. MSCI (the data provider used for the metrics data) is currently implementing these changes and it is hoped that this will feed into our data by the next Scheme year.
- Secondly, to improve the specificity of the data quality for those asset classes where proxy data is currently used, secured loans, and property. Given that secured loans are direct investments in private educational trusts, the Trustee will explore the feasibility of engaging with the counterparties to obtain more accurate emissions data and, therefore, improve data quality. The Trustee reviews these metrics and targets on an annual basis as part of an ESG dashboard produced by Redington, and this will be reported on an annual basis in TCFD reports. The Trustee will periodically review their selection of metrics and targets to ensure they remain appropriate for the Scheme.

The targets will be embedded in the governance, strategy and risk management processes. On an annual basis, the Trustee will measure performance against this target and furthermore determine whether this should be retained or replaced.

The results of the analysis as of 31 March 2023 are shown in Appendix A and B.

Going forward, the Trustee will use the results to identify the climate-related risks and opportunities which are relevant to the Scheme.

Signed for and on behalf of BCF Pension Trustees Ltd by

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Chair of Trustees/Chairman

Date .... September 2023

Appendix A: Scenario Analysis

As part of its 2020 biennial stress tests, the Bank of England's Prudential Regulation Authority ("PRA") conducted an exploratory exercise to test the impact of future climate change scenarios on the assets and liabilities of (re)insurers, using predictions by the Intergovernmental Panel on Climate Change ("IPCC") and academic literature as the basis for their modelling assumptions.

Using the same methodology, Redington have constructed similar tests that allow the Trustee to examine the impact on the funding position, via the effect on asset values, of the Scheme under three scenarios.

The magnitude of each of the physical and transition shocks varies across industries under each scenario, meaning some assets may fare better or worse under one scenario compared to another. For Scenario A (fast transition): the downside comes almost entirely from transition risk. For Scenario B (slow transition): the downside comes from a mix of transition risk and physical risk. For Scenario C (no transition): the risk is entirely physical risk.

The results and descriptions of these scenarios as of 31st March 2022 can be seen below. There have not been any material changes to the Scheme's investment strategy during the course of the year and we are therefore satisfied that it was not necessary to undertake further scenario analysis again.

Scenario	Impact on scheme (%)
Scenario A: Abrupt transition to the Paris-aligned goal occurring in 2022[1] (temperature increase kept below 2 degrees Celsius relative to pre-industrial levels).	-0.3%
Scenario B: Orderly transition to the Paris-aligned goal occurring by 2050[2] (temperature increase kept below 2 degrees Celsius relative to pre-industrial levels).	-0.5%
Scenario C: A no-transition scenario in 2100 [3](temperature increase in excess of 4 degrees Celsius relative to pre-industrial levels.	-0.9%

In terms of the assumptions made under these scenarios, the PRA recognised that feedback loops between climatic shocks and structural economic change need to be incorporated when assessing the financial impacts on businesses of physical and transition risk under each emissions scenario. However, due to existing modelling and data constraints, this is a complexity that is purposely excluded from the modelling.

Due to the Scheme's large allocation to cash, the default is well protected in the event of any adverse market events that may occur as a result of climate change. Given that the Scheme has exposure to secured loans, for which we use a Corporate Bond Index as a proxy, the Scheme faces a larger physical stress and so leads to a larger overall stress at a total portfolio level under Scenario C. Having said that,

[1] The PRA stress tests are provided as immediate, one-time shocks in asset value and converted into other one-time, immediate shocks across our asset class universe. Abrupt transition shows the impact of the transition assuming this took place in 2022.
[2] Orderly transition shows the impact in 2050 assuming transition will occur by 2050.
[3] No transition shows the impact of making no changes by 2100.

it can be concluded that we do not believe these numbers are of material concern as they remain fairly small.

Appendix B: Carbon metrics results and analysis

Climate reporting as of 31st March 2023 are shown below. This reporting includes the chosen first, second and fourth metrics as described on page 5.

Where possible and where there is reasonable data coverage, the Trustee monitors 'line-by-line' emissions reporting for funds. However, given the current make-up of the portfolio and the fact that many of the investments do not have associated ISINs, the Trustee monitors 'asset class level' carbon estimates in the absence of reliable, reported line-by-line emissions data from MSCI. The Trustee notes using asset class modelling of emissions for assets where this data is not available enables a more holistic view of the Scheme's total portfolio emissions, albeit recognising that the modelled data is not perfect.

The asset class modelling of emissions has been provided by Redington and is based on asset class 'building blocks'. In instances where data coverage has been limited, we have used a proxy, e.g. Corporate Debt GBP was used as a suitable proxy for Secured Loans. For this reason, we are unable to calculate the data coverage of each asset class.

As cash is a current asset, i.e. short term, any exposure to emissions or climate risk is negligible. Partnership for Carbon Accounting Financials ("PCAF") has recently changed guidance on calculating carbon intensity for sovereign debt. Our data provider is currently implementing these changes and that will feed into our data by the next Scheme year.

Emissions metrics have been calculated in line with the GHG Protocol Methodology.

There is no missing data for this year's report.

Fund	Fund Value (£m)	Absolute Carbon Emissions (tCO2e)		Carbon Footprint (tCO2e / EVIC £m)		Data Quality	Implied Temperature Rise
		Current – Scope:		Current – Scope:		For proxy	Current
		1+2	3	1+2	3		
LDI & Cash							
Cash	40	0	0	0	0	100%	0
Gilts	5	N/A	N/A	N/A	N/A	N/A	N/A
Illiquid Credit							
Secured Loans [4]	8	488	3,309	58	391	100%	2.0
Illiquid Markets							
Property [5]	1	7	49	7	50	100%	1.7
TOTAL PORTFOLIO	**54**	**495**	**3,358**	**9**	**62**		**2.0**

[4] Corporate Debt GBP is used as a proxy for direct investment to the Educational trusts.
[5] Property (commercial) is used as a proxy for direct investment to a Property.

Glossary of Terms (ESG and Carbon Metrics Review)

Enterprise Value Including Cash (EVIC): Defined as the sum of market capitalisation of shares and book values of total debts and minority interests at fiscal year end. No deductions of cash or cash equivalents are made to avoid potential negative enterprise values. This is the recommended denominator metric for carbon attribution according to the GHG Protocol, the global standard for carbon accounting endorsed by the European Union and the DWP.

Estimated Scope 3 Carbon Footprint (tCO2e / EVIC £m): Measurement of the estimated Scope 3 CO2e emissions of a fund per million pounds of EVIC. Scope 3 emissions refer to all those that are not in direct control of a company's productive activities. Namely, all those emissions from a company's upstream supply chains and downstream product use by the consumer.

Estimated Total Mandate Carbon Emissions (tons): Represents the total share of Scope 1, Scope 2 and Scope 3 carbon emissions a fund is responsible for. Please note the metric is sensitive to the investment holding size in the fund.

MSCI Climate Metrics Coverage: The proportion by value of a fund for whichcarbon metrics are available from MSCI.

Scope 1 & 2 Carbon Footprint (tCO2e / EVIC £m): Measurement of the Scope 1& 2 CO2e emissions of a fund per million pounds of EVIC. Scope 1 emissions referto those which are directly connected to the production of a company's product or service. For example, the burning of fossil fuels to power the electricity grid. Scope 2 emissions refer to those from the electricity used to power the facilitiesand machinery of a company.

Total Carbon Footprint (tCO2e / EVIC £m): Measurement of the CO2e emissions of a fund per million pounds of EVIC using Scope 1, Scope 2 and Scope 3 emissions. Given a company's direct Scope 1 emissions will inevitably be another company's indirect Scope 3 emissions, aggregating the individual Scope emissions results in a higher number of emissions than exists. To mitigate double-counting, we apply a scaling factor in accordance with MSCI's methodology. This metric may be used to assess a fund's contribution to global warming versus other funds. Previous Total Carbon Emissions (tCO2e / £m invested) are estimated by looking at the funds' respective holdings and emissions 12 months ago.

Tons of Carbon Dioxide Equivalents (tCO2e): Tons of greenhouse gases including methane, nitrous oxide, carbon dioxide, and fluorinated gases. Given the abundance and prominence of carbon as a greenhouse gas, all the other gasses are considered carbon equivalents.

Weighted Average Carbon Intensity (tCO2e / sales £): A weighted average of the scope 1 & 2 emissions carbon intensity of companies, defined as a company's total emissions divided by its total sales. This metric can be interpreted as a measure of the relative carbon efficiency of a fund, can used for sovereign assets, and is not affected by movements in companies' valuation. However, it is sensitive to movements in price.