Highlights of our climate change report

Santander

From the Trustee of the Santander (UK) Group Pension Scheme (the "Scheme")

Year to 31 March 2023

This is our second year producing a climate change report which highlights the actions that we have taken to manage climate-related risks and opportunities. Our full report (required by the Taskforce on Climate-related Financial Disclosures, or TCFD) contains very detailed information, so this document is intended to be a summary of the key information. You can read the full climate report if you prefer.

What we did (and why)

One of our continued core beliefs is that appropriate treatment of climate risks and opportunities, related to the Scheme's investments, is likely to improve outcomes for our members through better long-term returns and lower risk. We've continued to dedicate significant time and resources, building on the strong foundations we laid in the previous Scheme year to manage the climate risks and opportunities identified.

Our commitment to achieve Net Zero greenhouse gas emissions in relation to our investments by 2050, but ideally sooner, remains on track.

Alongside activity which is now considered "business as usual" for us, this year we've:

- **Deepened our understanding of climate change –** in particular, we (as a full Trustee Board), received additional training on the implications of our Net Zero Carbon target, as well as the role stewardship can play.
- **Agreed an updated framework that we will use to identify and take practical steps to achieve our Net Zero Carbon target** – the Sustainability Committee (a sub-committee of the full Board) added two new interim Net Zero targets to further focus and monitor our progress.
- **Adopted "data quality" as our fourth TCFD metric –** this measures the proportion of our investment portfolio where greenhouse gas emissions data is reported, estimated or unavailable. In addition, we've retained the three metrics from the previous Scheme year - total greenhouse gas emissions, carbon footprint (which measures emissions intensity) and science-based targets (which measures the extent to which the Scheme's investments are aligned to the Paris Agreement goal of limiting global average temperature rise to 1.5°C).
- **Appointed Ernst & Young Global Limited as our new covenant adviser –** climate change related matters form part of the covenant assessment, so we place importance on this adviser's climate credentials.

You can read more about our activities in the **"Governance"** section of the full TCFD report.

Terms that are underlined in this summary are explained on the next page.

Conclusions from our work

The Sustainability Committee reviewed the previous year's **climate scenarios** (and the assessment of their possible effect on the Scheme) and concluded the results would be unlikely to change materially from the previous Scheme year.

The three scenarios considered were:

Failed Transition	Paris Agreement goals not met; only currently existing climate policies are implemented
Paris Orderly Transition	Paris Agreement goals met; rapid and effective climate action, with smooth financial markets reaction
Paris Disorderly Transition	Same policy, climate and emissions outcomes as the Paris Orderly Transition, but financial markets are initially slow to react and then over-react

Last year we reported that we expect the Scheme to be relatively resilient to climate shocks under these three scenarios modelled. We acknowledge that modelling such scenarios is challenging and the outcomes uncertain, so we are committed to reflecting latest industry views whenever we revisit climate scenario analysis. For the time being, we note that the improvement in the Scheme's funding position and reduction in general investment risk over the past year should help to better underpin Scheme climate resilience.

Since the initial assessment last year, our regular reporting from our **covenant adviser** has incorporated some further information about climate risks and opportunities. These have not changed the conclusions reached on the previous page.

Additionally, the Sustainability Committee received an update directly from the Bank in relation to its management of climate change risk. This included consideration of climate stress tests over a five-year time horizon and the Bank's plans for further analysis. The main outcome from the analysis to date was that the potential losses were already captured in the Bank's capital stress tests. The analysis also noted that the Bank doesn't have a large exposure to carbon-intensive corporate institutions.

More broadly, you can read more about the specific climate-related risks and opportunities identified for the Scheme (which inform our actions to manage them going forward) in the "**Risk management**" section of the full TCFD report.

Based on the **metric data** we have collected on Scheme assets, good progress was made against our TCFD target:

> "Within our first year of our Net Zero Carbon journey we can proudly report that our target to have 60% of the companies in our equity and credit portfolios having credible targets to align to the Paris Agreement by 2030 is on track with an increase from 19% of the portfolios in December 2021 to 29% in December 2022."

What we're doing next

- The Scheme's assets are invested in a well-diversified, risk-controlled investment strategy. Over the Scheme year, de-risking actions were accelerated reflecting the need for liquidity against changes in market conditions through 2022. Over the next few years, we plan to reduce risk further by switching to an even lower risk asset allocation. As part of this transition, we will look for ways to invest in assets which are better positioned to reflect the risks and opportunities associated with climate change. Our biggest initial focus is our **investment grade credit investments**, which are expected to remain strategically important for the Scheme in the long-term, and already reflect a significant portion of Scheme assets.

- Our sustainability adviser will continue to help us engage with our investment managers, to support our goal of **Net Zero** emissions by 2050 (or earlier) and will encourage them to use their influence with portfolio companies to increase the use of science-based targets.

- We will continue to collect data on the Scheme's assets, including their carbon footprint, to help us understand and monitor climate-related risks and identify any data gaps. It is widely recognised that shortcomings remain in the quality and completeness of the emissions data available for many assets, and there is not yet an industry wide consensus on how to calculate the emissions for some assets such as government bonds and derivatives. Our in-house team and sustainability adviser will work with our investment managers to improve the quality and coverage of reporting on climate data.

- We will review progress towards our TCFD target twice a year as one of the Scheme's Key Risk Indicators and consider whether additional steps are needed to increase our chance of meeting the target.

Terms explained...

Net Zero means that total greenhouse gas emissions released into the atmosphere are equal to those removed. In the context of investing, it means that the Scheme's share of the underlying holdings' emissions is Net Zero in aggregate.

The **Paris Agreement** is an international treaty on climate change. Its primary goal is to limit global average temperature rise to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels.

Investment grade credit means corporate bonds which are viewed as having a low probability of default compared with other bonds.

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