

The TCFD logo consists of the letters 'TCFD' in a large, bold, white sans-serif font. To the right of the letters is a vertical white line, followed by the text 'TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES' in a smaller, white, all-caps sans-serif font, arranged in four lines.

TASK FORCE ON  
CLIMATE-RELATED  
FINANCIAL  
DISCLOSURES

# Paribas London Pension Scheme

## Climate disclosures for year ending 31 March 2024

Produced by the Trustee of the Paribas London Pension Scheme

Date: September 2024

# Introduction

Understanding the impact of climate change, specifically the potential impact on the Scheme's investments and funding strategy from climate-related risks, will help us, the Trustee, to mitigate these risks and take advantage of any opportunities for the ultimate benefit of Scheme members.

The TCFD<sup>1</sup> is an initiative that developed some best practice guidance for climate-risk reporting. UK regulations require trustees of certain pension schemes to meet climate governance requirements and publish an annual TCFD-aligned report on their pension scheme's climate-related risks.

Better climate reporting should lead to better-informed decision-making on climate-related risks. On top of that, greater transparency around climate-related risks should lead to more accountability and provide decision-useful information to investors and beneficiaries.

This document has been prepared in accordance with the regulations set out under "The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021" (the "Regulations") 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). The four elements covered in this report are:

- **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 Scheme'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.

This document is the second annual TCFD report for the Paribas London Pension Scheme (the "Scheme") including the BPSS Section (the 'DC Section'). It has been prepared by Capital Cranfield Pension Trustees Limited (the "Trustee") in its capacity as trustee of the Scheme, for the Scheme year ending 31 March 2024.

## What is the TCFD?

The Financial Stability Board created the Taskforce on Climate-related Financial Disclosures<sup>1</sup> ("TCFD") to develop recommendations on the types of information that entities should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing risks related to climate change.

The TCFD developed a framework to help public companies and other organisations, including pension schemes, more effectively disclose climate-related risks and opportunities through their existing reporting processes.

<sup>1</sup>) Note: the TCFD was disbanded on 15 December 2023 after releasing its final status report. The TCFD believed its mission was complete after the International Sustainability Standards Board released its inaugural standards in July 2023, which incorporated the TCFD's work into its framework. The IFRS Foundation has taken over monitoring of company climate disclosures from the TCFD.

# Table of contents

Introduction	2
Executive summary	4
Governance	9
Strategy	14
Risk management	30
Metrics & Targets	35
Appendices	44
Glossary	45
Appendix – climate scenario modelling	47
Appendix – Greenhouse gas emissions in more detail	48





# Executive summary

As part of the production of this report, we have worked with our advisors to carefully consider the potential impact climate change could have on the Scheme's investments and how we identify, manage, and mitigate those risks.

The following pages summarise our current position with regards to the TCFD recommendations and those set out in the Regulations.

## Overview of the Scheme

The Scheme is set up as a hybrid Scheme, which has two sections, a Defined Benefit ("DB") Section and a Defined Contribution ("DC") Section.

The DB Section invests across a range of assets with the aim of:

- (1) ensuring that obligations to the beneficiaries of the Scheme can be met; and
- (2) to reach and maintain a fully funded position on a suitably prudent valuation basis over the long-term.

As at 31 March 2024, the DB Section was 123.5% funded on the Technical Provisions (TP) basis, with £863m invested across a range of assets. Within this report we consider the impact of climate related risks on those assets, the investment and funding strategy, and the potential impact on the overall funding level of the Scheme.

The DC Section of the Scheme also invests across a range of assets, with the aim of providing a range of investments that are suitable for helping members achieve their long and short-term investment objectives. A number of different investment options are available to members to support us in meeting this objective. There are c.450 members in the DC Section with a total of £82m invested across all investment options as at 31 March 2024.

Within this report we have focused our attention on the 'popular arrangements'. A 'popular arrangement' is defined as one in which £100m or more is invested, or which accounts for 10% or more of the assets used to provide money purchase benefits. The popular arrangements for the Scheme are the primary default option, the **Drawdown Lifestyle**, and the **Global Sustainable Growth Fund**.

Further information on the Scheme's investment strategy and objectives, as well as the DC Section's popular arrangements can be found in the [Statement of Investment Principles](#).

## Summary of findings

### Governance

*See p8 onwards for further detail*

- We, the Trustee, take responsibility for the oversight of all strategic matters relating to the Plan. This includes responsibility for the oversight of climate-related risks and opportunities.



- We have put in place a Climate Change Risk Management Policy (“CCRMP”) relating to Environmental, Social and Governance (“ESG”) considerations (which includes climate-related risks and opportunities). The framework includes assignment of roles and responsibilities to our advisors as well as processes on ensuring our advisors have adequate climate-related risk expertise and resources.

## Strategy

*See p13 onwards for further detail*

We have carried out analysis to assess the resilience of the Scheme’s DB and DC investment strategies and DB funding strategy, which includes both qualitative analysis and quantitative climate change scenario analysis. The quantitative climate change scenario analysis was completed over 2022 and 2023 prior to the publication of our first TCFD report and considers the impact of three different climate scenarios on each Section of the Scheme.

### DB Section

- The quantitative climate change scenario analysis shows that the DB Section is expected to be resilient to different climate outcomes and remain over 100% funded regardless of the climate scenario that unfolds. As such, the Trustee is comfortable that no action regarding the investment or funding strategy is required at the current time.
- The qualitative analysis showed that whilst there are some short, medium and long-term risks to the assets that the Scheme invests in, for the majority of assets, these risks are relatively low. The Scheme invests predominantly in government bonds which have low climate-risks and offer little climate-related investment opportunities. There are higher risks for the Scheme’s equity investments, but these assets are already invested in funds that account explicitly for climate-related risks in the investment decision-making process and make up a small amount of the overall DB assets.
- We are comfortable that no action is required at the current time regarding the DB investment and funding strategy in relation to the management of climate-related risks and opportunities.

### DC Section

- For the DC Section, analysis was carried out on the Drawdown Lifestyle strategy and the Global Sustainable Growth Fund (which is the equity fund used within the Drawdown Lifestyle and accounts for the majority of the Scheme’s DC assets).
- The quantitative analysis showed that transition shocks are likely to have the biggest potential impact on the Scheme’s DC members’ retirement outcomes over the short and medium term. These risks are most significant for members close to retirement who have less time to make up any potential shortfall.
- Both the quantitative and qualitative analysis showed that climate-risks are highest for equity investments. Members invested in the Drawdown Lifestyle have exposure to equity investments throughout their journey to retirement, although exposure to equities reduces as they approach retirement age.
- The Global Sustainable Growth Fund has been designed to explicitly incorporate consideration of both climate related risks and opportunities, therefore helping to increase resilience of the DC investment strategy to climate-related risks.

- Asset allocation is the main driver of outcomes for DC members with higher growth potential / higher risk assets always impacted to a greater extent by climate-related shocks. Whilst moving members into less risky asset classes such as cash could protect them from downside climate risks, this would also significantly hamper any opportunity for investment growth and therefore would not be appropriate in light of the overall objective of the DC Section: to support members in achieving a positive retirement outcome. We note that over the Scheme year, the allocation to equity investments via the Global Sustainable Growth Fund was increased for most members in the Drawdown Lifestyle. The reason for this was to offer members the potential for higher growth in their savings. We are comfortable that whilst this potentially increases the climate risk that members are exposed to, the design of the Global Sustainable Growth Fund means we believe this risk is well managed and worth the potential benefit of higher investment growth.
- We believe that the action already taken to integrate ESG considerations within the Drawdown Lifestyle and Global Sustainable Growth Fund should benefit members through both increased resilience to climate-related risks and higher exposure to climate-related opportunities.
- We are comfortable that no further action regarding the investment strategy of the Drawdown Lifestyle or Global Sustainable Growth Fund is required at the current time, although this will remain under review as knowledge of climate outcomes continues to develop.

## Risk Management

*See p28 onwards for further detail*

- We have integrated climate related risks into our policies and processes. For example, we have a clear policy on stewardship, including the impact of climate change, as outlined in our Statement of Investment Principles. In addition to this, we receive data from the Scheme's appointed managers on voting and engagement. and focus on stewardship activities related to climate change which is our stewardship priority for the Scheme. This is outlined in our annual Implementation Statement.
- We have also outlined a Climate Change Risk Management Plan, which assists with the ongoing management of climate related risks and opportunities.
- Alongside this, we undertake periodic training on responsible investment to understand how Environmental, Social and Governance ("ESG") factors, including climate change, may impact the Scheme's assets and liabilities.

## Metrics and Targets

*See p33 onwards for further detail*

### Metrics

- We have gathered climate-related metrics data for the Scheme's investments including total greenhouse gas emissions, carbon footprint, data quality and the proportion of assets which are Net Zero aligned using independent verification through the Science Based Targets Initiative<sup>1</sup>(SBTi).

### DB Section

- Similar to last year, the majority of the emissions for the DB Section come from the LDI investments. This is largely due to the significant proportion of assets that are invested in the portfolio.
- Data quality is generally good, although this varies across asset classes, with multi-asset and equity data being of the highest quality/availability, and lower for the LDI and corporate bond investments.
- The portfolio alignment metric shows that between 21% and 54% of the relevant assets within the portfolio (equity, corporate bonds and multi asset) already have SBTi aligned targets in place.

### DC Section

- The majority of emissions for the DC Section come from the investments in the Global Sustainable Growth Fund, reflecting that this fund accounts for the majority of the assets both within the Scheme and across the popular arrangements.
- The UK Index-Linked Gilt Index Fund (used within the Drawdown Lifestyle) has the highest carbon footprint although this cannot be compared to the other DC Section investments given differences in calculation methodologies for gilt investments vs public market investments.
- Data quality is generally good across the DC Section, with data available for c.93%, for Scope 1&2, of the popular arrangements - an increase from last year's report where data coverage was 85% for Scope 1&2 emissions. For this year's report we have also gathered Scope 3 emissions – Scope 3 carbon emissions data was available for c.85% of the DC popular arrangements.
- Between 35% and 43% of the relevant assets across the DC popular arrangements have an SBTi aligned target, an increase from last year's report where between 17% and 37% of assets had an SBTi approved target.

### Climate-related target

- We have set a climate-related target to achieve 70% of assets in each applicable asset class as having an SBTi verified net-zero target, or subject to structured engagement by 2030. This is part of our overall ambition achieving net-zero carbon emissions by 2050.
- As at 31 December 2023, 37-58% of the Scheme's DB applicable asset classes and 44-54% of the Scheme's DC applicable asset classes within the popular arrangements had an SBTi verified net zero target, or were subject to structured engagement on climate-related issues.

### What do we mean by 'carbon footprint'?

Carbon footprint is an intensity-based measure of emissions that takes the total greenhouse gas emissions associated with Scheme's investments, and weights it to take account of the size of the investment made. It is measured in tonnes of carbon dioxide equivalent per million pounds invested.

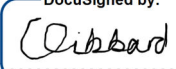
<sup>1</sup> <https://sciencebasedtargets.org/>

- We will continue to keep our appointed managers' engagement policies and approaches under review to ensure there is continued progress towards our target.

We remain comfortable that while there are still significant uncertainties regarding climate change and its potential impact on the Scheme, that the current DB and DC investment strategies are designed to be resilient to these impacts and that currently, no further action is needed to incorporate consideration of climate-related risks and opportunities.

We have spent considerable time and effort to set up the TCFD framework and will continue to monitor the potential impacts of climate change on the Scheme and take action as required.

We hope you enjoy reading this report and understanding more about how we are managing climate-related risks and opportunities within the Scheme.

DocuSigned by:  
  
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On behalf of the Trustee of Paribas London Pension Scheme





# Governance

Governance is the way the Scheme operates and the internal processes and controls in place to ensure appropriate oversight. Those undertaking governance activities are responsible for managing climate-related risks and opportunities. This includes us, as the Trustee, and others making Scheme-wide decisions, such as those relating to the investment strategy or how it is implemented, funding, the ability of the sponsoring employer to support the Scheme and liabilities.



# Our Scheme's governance

## Statement of Trustee's Climate-related Investment Principles

The following investment principles are pertinent to the Trustee's approach to climate change in the context of Responsible Investment ("RI"), which it believes are in the interest of members:

- Climate-related risks should be managed as part of the Scheme's overall risk management approach.
- Climate-related financial risks (including both transition risk and physical risk) could be material over varying time scales:
  - For the DB section of the Scheme, these timescales are broadly viewed as
    - short (1-5 years),
    - medium (5-10 years) and
    - long (10+ years) term
 which broadly reflects the duration of the Scheme's liabilities.
  - For the DC section of the Scheme, these timescales are viewed as
    - short (1-5 years),
    - medium (5-20 years) and
    - long-term (20+ years),
 which broadly reflects the different investment horizons of the DC members.
- As well as risks, climate-related factors will also likely create investment opportunities that the Trustee may consider taking advantage of within its wider investment objectives.
- The Trustee aims to invest in a way that is measurably aligned with achieving the goals of the Paris Agreement (limiting global temperature rises to well below 2°C above pre-industrial levels by the end of the century) to the extent that this is possible and in the financial interests of members.
- The Trustee believes that engagement, collaboration and using voting rights as appropriate are some of several effective tools to manage climate-related risks. The Trustee recognises that in some cases, where these tools may have failed to make the desired impact, divestment may be an appropriate action.
- Where the Scheme invests in passive and/or pooled funds, the Trustee recognises that its ability to influence the portfolios' physical investments (e.g. due to climate considerations) is lower. However, the Trustee also believes that its passive investment managers still have a significant role to play in managing climate-related risks and opportunities via engagement and use of voting rights and subsequently expects its investment managers to act accordingly.

## Governance: Roles and Responsibilities

In setting its investment strategy, the Trustee recognises that the Scheme is exposed to many different risks which vary in nature and magnitude. Climate change is just one of these risks. The section below describes the specific roles and responsibilities of the relevant parties within the Scheme's governance structure for managing climate change-related issues.

## Role of the Trustee

- Reviews the Scheme's governance processes around climate risks:** The Trustee is responsible for ensuring the overall governance process of identifying, assessing and managing climate-related risks and opportunities is appropriate. This includes ensuring that it has sufficient oversight of how managers and external advisors are assessing and managing climate-related risks and opportunities on the Trustee's behalf.

The Trustee monitors whether it is receiving appropriate updates and reports from managers and external advisors, noting that more frequent updates and reports may be required over time in light of the risks the Scheme is exposed to. This may be informed by the results of the various assessments of climate risks that are conducted, including scenario analysis. The Trustee will also monitor whether there is sufficient sharing of information relating to the Scheme between any persons who have a role in the assessment and management of climate risks and opportunities.

*Carried out on an ongoing basis with a formal review of the governance processes annually in line with the production of the Scheme's TCFD report.*
- Sets the overall DB and DC investment strategies, objectives and DB funding strategy which includes oversight of the identification, assessment and management of climate-related risks and opportunities:** The Trustee is committed to integrating and managing the consideration of climate-related issues alongside the Scheme's wider objectives. Climate-related risks and opportunities are assessed over the agreed timeframes and where appropriate, the Trustee considers transition and physical risks separately. The Trustee has delegated the day-to-day responsibility of monitoring these risks and the impact they may have on the investment strategy, objectives and DB funding strategy over the short, medium and long term, to its external advisors and investment managers but carries out its own review annually as part of the production of its TCFD-aligned report.

*Carried out on an ongoing basis with formal investment strategy reviews completed at least triennially for both the DB and DC Sections of the Scheme.*
- Ensures compliance with regulatory requirements:** The Trustee is responsible for ensuring the Scheme remains compliant with evolving climate-related regulatory requirements, such as reporting in line with the TCFD recommendations.

*Completed as required by the regulatory requirements.*
- Reviews Scheme documentation to ensure consideration of climate-related risks is properly reflected:** The Trustee, with the assistance of its advisors, is responsible for ensuring that consideration of climate-related risks is included in the Scheme's other risk processes and documents such as the risk register and the SIP.

*Carried out on an ongoing basis along with reviews carried out at least annually.*
- Approves climate-related metrics and climate scenario analysis:** The Trustee is responsible for approving the relevant metrics and scenario analysis to allow it to consider and monitor climate-related risks and opportunities when setting the Scheme's investment strategy and DB funding strategy. External advisors will provide guidance on appropriate metrics and analysis across the Scheme's assets, liabilities and employer covenant.

*Metrics are gathered and reviewed on an annual basis. Scenario analysis is carried out at least triennially or after any significant change in investment strategy. Scenario analysis was completed in the 2022/23 Scheme year and was not updated this year as there were no significant changes to the DB and DC investment strategies and/or the DB funding strategy.*
- Sets climate-related objectives and targets:** The Trustee is responsible for setting the Scheme's climate-related objectives and targets and measuring progress towards these objectives and targets. The Trustee, with guidance from its external advisors and in line with TCFD regulatory requirements, has set a climate-related target which is disclosed in Section 4 of this report.

*Objectives and targets are reviewed, and progress monitored, on an annual basis. Following consideration*

*with its investment consultants, the Trustee decided not to make any changes to the Scheme's climate-related objectives and targets.*

- **Monitors managers' identification, assessment and management of climate-related risks and opportunities and carries out manager engagement as appropriate:** Investment managers' policies on, and approach to, ESG issues (including but not limited to climate change) are important factors in the Trustee's process for selecting investment managers. This is set out in more detail in the Scheme's Statement of Investment Principles ("SIP"). With the guidance and assistance of external advisors, the Trustee reviews how investment managers incorporate climate risks and opportunities into their investment processes. This includes a review of how the investment managers act as responsible stewards of capital, through engagement and voting where appropriate. Facilitated by the Scheme's investment consultants, the Trustee will engage with investment managers who do not appear to be sufficiently managing ESG and climate-related risks on the Scheme's behalf.  
*Carried out at least annually.*
- **Monitors managers' and external advisors' climate-related risk expertise and resources:** The Trustee is responsible for reviewing and monitoring the managers and external advisors to ensure they have adequate climate-related risk expertise and resources. The Trustee monitors its investment consultants' climate-related risk expertise and resources as part of the Investment Consultant Objectives framework. The Trustee delegates responsibility of reviewing and monitoring its managers' climate-related risk expertise and resources to its investment consultants, although this is also covered in the wider ESG review of managers detailed above.  
*Carried out at least annually.*
- **Engage with the Company:** For the DB section, it is the Trustee's responsibility to engage with the Company where necessary to seek information on, and to discuss its assessment of, the impact of climate change on the Company and on the employer covenant.  
*Carried out as required.*
- **Undertakes training to ensure the Trustee has appropriate knowledge and understanding of climate-related issues:** The Trustee undertakes training on climate-related issues, risks and opportunities as part of a broader programme of CPD as an accredited Professional Trustee. The Trustee secretariat supports the Trustee to ensure policy and documentation reviews are conducted in line with the regulatory requirements to identify, assess and manage climate-related risks.  
*Training is undertaken as required.*

The Trustee is satisfied that the amount of time spent identifying and managing exposure to climate-related risks and opportunities is appropriate, although this will be kept under periodic review so that more time can be allocated in future if needed.

## Role of external advisors (investment consultants, actuary and covenant advisor)

- **Advise on climate-related risks and opportunities, including the provision of climate-scenario analysis:** The Trustee requires the Scheme's external advisors to advise on climate-related risks and opportunities including, but not limited to:
  - Integrating climate-related considerations in advice, including setting the Scheme's investment strategy;
  - Assisting the Trustee in selecting suitable climate-related metrics;
  - Carrying out climate-scenario analysis across the Scheme's assets, liabilities and employer covenant (see further detail below);
  - Reviewing investment managers versus the Trustee's expectations in relation to the management of climate-related risks and opportunities; and
  - Providing relevant training on market developments.



- The external advisors will also be responsible for supporting the Scheme in updating the climate governance and risk management framework as and when required.  
*Carried out on an ongoing basis or as per the agreed schedule with the Trustee.*
- **Supports the Trustee in considering climate-related risks and opportunities when setting the Scheme's funding and investment strategy:** As above, the Scheme's external advisors are responsible for producing and reviewing the results of climate scenario analysis that influence the Scheme's investment strategy and DB funding strategy set by the Trustee. The Scheme's external advisors are responsible for assessing the potential impact of various climate scenarios on DB assets and liabilities, sponsor covenant strength and projected DC member pots over the relevant short-, medium- and long-term horizons. The methodologies of these climate scenarios are aligned where possible to ensure a consistent approach is taken across the Scheme's entire investment strategy and funding strategy.

ESG considerations are included in the investment consultants' annual objectives to ensure the Scheme's advisors are taking adequate steps to identify and assess climate-related risks and opportunities. The Trustee annually assesses the delivery of this advice against the set Investment Consultant Objectives.

The Trustee reviews all its external advisers on an ongoing basis and scrutinises all advice received to ensure this is in line with the Trustee's expectations. This includes reviewing advisers and scrutinising advice received regarding climate-related risks and opportunities.

### Trustee's governance update for the year ending 31 March 2024

Throughout the year, we have received regular updates from our advisors. This has included advice around the additional reporting requirements for our second year of TCFD reporting, regular updates on whether we are on track with the schedule of activities in its Climate Risk Management Plan and our annual review of ESG risks (including climate risks) across the Scheme's investments. Our annual ESG review of the DC Section included a more in-depth review of engagement activity undertaken by recently appointed DC managers to ensure that these activities were in line with expectations regarding the ongoing management of ESG risks. We discussed all advice received with our advisors and challenged this where appropriate. At the end of 2023 we reviewed our investment consultants versus the set objectives we have in place for them, which includes an objective regarding their advice on ESG matters including climate change. Following the review, we remain comfortable that our investment consultants have appropriate expertise to advise us on ESG matters.

With the support of our investment consultants, we considered whether the quantitative climate change scenario analysis (last carried out in late 2022 and early 2023 for the DC and DB sections respectively) would need updating for this report as well as whether any changes to our climate-related metrics or target were required. Consideration was given to the investment strategy changes made within the DB section however we concluded that these changes would not have a material impact on scenario results. We are comfortable that the 2023 analysis remains appropriate for this report and that no changes are needed for our climate-related metrics and climate-related target.

Over the year, we also updated our stewardship policy within the SIP, which included setting climate change as our stewardship priority. This means that we expect our investment managers to prioritise and actively monitor climate change risks within their respective investment processes. This activity has been reviewed as part of our annual implementation statement reporting and we are comfortable that our managers are acting appropriately and in line with our policies and expectations regarding stewardship and climate-related risks.







# Strategy

Assessing the climate-related risks and opportunities the Scheme is exposed to is key to understanding the impact climate change could have on the Scheme in the future.



# What climate-related risk and opportunities are most likely to impact the Scheme?

Assessing the climate-related risks and opportunities the Scheme is exposed to is key to understanding the impact climate change could have on the Scheme in the future.

The DB Section's investment portfolio invests across a range of different asset classes, the majority of which is invested in Liability Driven Investments ("LDI", c.68%). There are smaller allocations in corporate bonds (c.16%), equities (c.11%), as well as multi-asset, cash and infrastructure assets (c.6% combined).

*Note: allocations are as of 31 December 2023. Figures do not sum to 100% due to rounding*

The DC Section also invests across a range of different asset classes as per each member's individual investment choice. For members who do not make an investment choice, they are invested in the primary default option, the Drawdown Lifestyle, which initially invests a member's savings fully in equities, and then gradually diversifies across different asset classes (including bonds and multi-asset investments) as the member approaches their selected retirement age.

Most of the Scheme's DC assets are invested in the Drawdown Lifestyle (c.54%) and a significant percentage is also invested directly in the Global Sustainable Growth Fund (c.14%). Therefore, the strategy analysis carried out by the Trustee focuses on these arrangements, also referred to as the Scheme's 'popular arrangements'.

The Trustee, with the support of its investment consultant, has carried out analysis to understand the key climate-related risks of each asset class as well as the possible climate-related opportunities. The analysis is based on information provided by the Scheme's investment managers on how climate risks and opportunities are incorporated into the current mandates.

## Setting time horizons

When carrying out analysis on the climate-related risks and opportunities faced by the Scheme, it is important to consider the different time horizons over which these risks and opportunities may arise. As such, for each section, the Trustee has identified a short, medium and long-term investment horizon. The rationale for each timescale can be defined as follows:

### DB Section

- short-term: 1-5 years  
This has been considered relative to when the Trustee expects the Scheme to consider its next de-risking step on its long-term journey plan.
- medium-term: 5-10 years  
This aligns to the next stage on the Trustee's journey plan and de-risking.
- long-term: 10+ years  
This aligns to the final stage of the Trustee's journey plan when the Trustee expects the Scheme to be fully de-risked.

### DC Section

- short-term: 1-5 years  
This has been considered relative to members who are nearing /at-retirement.
- medium-term: 5-20 years  
This aligns with mid-career members, who are approaching retirement in several years.
- long-term: 20+ years  
This aligns with the Scheme's youngest members who are not expected to retire for many years.

## How the qualitative risk assessment works



### Risk categories

In the analysis, the climate-related risks have been categorised into physical and transitional risks.

**Transitional risks** are associated with the transition towards a low-carbon economy.

**Physical risks** are associated with the physical impacts of climate change on companies' operations.



### Ratings

The analysis uses a RAG rating system where:

**Red** denotes a high level of financial exposure to a risk.

**Amber** denotes a medium level of financial exposure to a risk.

**Green** denotes a low level of financial exposure to a risk.



### Timeframes

The Trustee assessed the climate-related risks and opportunities over multiple timeframes and, as above, decided the most appropriate timeframes for the Scheme as:

#### DB Section

- short-term: 1-5 years
- medium-term: 5-10 years
- long-term: 10+ years

#### DC Section

- short-term: 1-5 years
- medium-term: 5-20 years
- long-term: 20+ years

## Types of risk

In the analysis, the climate-related risks have been categorised into transition and physical risks.

### Transition risks

Transition risks are those relating to the ability of an organisation to adapt to the changes required to reduce greenhouse gas emissions and transition to renewable energy. Within transition risks, there are four key areas: policy and legal, technological innovation, market changes, and reputational risk.

#### Policy and legal

##### Examples

Increased pricing of greenhouse gas ("GHG") emissions.  
Enhanced emissions-reporting obligations.  
Regulation of existing products and services.  
Exposure to litigation.

##### Potential financial impacts

Increased operating costs (e.g. higher compliance costs, increased insurance premiums).  
Write-offs, asset impairment and early retirement of existing assets due to policy changes.  
Increased costs and/or reduced demand for products and services resulting from fines and judgements.

#### Technology

##### Examples

Substitution of existing products and services with lower emissions.  
Unsuccessful investments in new technologies.  
Cost of transition to lower emissions technology.

##### Potential financial impacts

Write-offs and early retirement of existing assets.  
Reduced demand for products and services.  
Research and development expenditure in new and alternative technologies.  
Capital investments in technology development.  
Costs to adopt new practices and processes.

#### Market

##### Examples

Changing customer behaviour.  
Uncertainty in market signals.  
Increased cost of raw materials.

##### Potential financial impacts

Reduced demand for goods and services due to shifts in consumer preferences.  
Increased production costs due to changing prices and requirements.  
Abrupt and unexpected increases in energy costs.  
Change in revenue mix and sources, resulting in decreased revenues.  
Re-pricing of assets (e.g., fossil fuel reserves, land valuations, securities valuations).

#### Reputation

##### Examples

Shifts in consumer preferences.  
Stigmatisation of sector.  
Increased stakeholder concern or negative stakeholder feedback.

##### Potential financial impacts

Reduced revenue from decreased demand for goods and services.  
Reduced revenue from decreased production capacity (e.g., delayed planning approvals, supply chain interruptions).  
Reduced revenue from negative impacts on workforce management and planning (e.g., employee attraction and retention).  
Reduction in capital availability.

## Physical Risks

Physical risks refer to the physical impacts of climate change on an organisation's operations. They directly impact an organisation's ability to perform its function due to climate disruption. They fall into two subcategories: acute and chronic; acute referring to extreme climate events such as flooding and wildfires, and chronic referring to trends over time such as an increase in temperature or ocean acidification.

Acute	Chronic
<b>Examples</b> Extreme heat Extreme rainfall Floods Droughts Storms (e.g., hurricanes)	<b>Examples</b> Water stress Sea level rises Land degradation Variability in temperature Variability in precipitation

These two types of risk (transition and physical) can place adverse effects upon the performance of assets and thus must be considered and mitigated.

## Climate-related risk and opportunities assessment

As above, the Scheme invests across a range of different asset classes and investment managers via pooled funds. The Trustee delegates the day-to-day management of underlying investments and management of underlying risks, including climate-related risks and opportunities, to the appointed investment managers. As such, the Trustee's ability to influence how each manager incorporates climate-related issues is limited, although where concerns are raised through the regular monitoring processes in place, the Trustee will engage with managers to gain further transparency and seek a more sustainable position.

The Trustee has asked its managers to provide details of how they are incorporating climate risks and opportunities into the funds and asset classes in which the Scheme invests. The responses from its investment managers are summarised below and have also been grouped based on the three major asset classes that the Scheme invests in: government bonds (including LDI), global equities and corporate bonds.

### Government bonds and LDI investments

Time horizon	Risk exposure rating		
	Physical	Transition	
Short-term	Green	Green	The Scheme predominantly holds the government bonds of countries in developed regions, particularly the UK, where climate change risk is not expected to affect the ability of these governments to repay the principal value and/or interest payments of the bonds.  However, the Scheme's appointed managers note that these investments are not entirely immune to climate-related risks – for example, physical risks from extreme weather events is an increasing risk within the UK, which is likely to have costs associated with it, both direct and indirect. There is also likely to be a financial burden on governments in supporting the green transition e.g., tax breaks for green technologies, upgrading insulation, which could pose a financial burden to the government. Over the medium and long-term, there is also a possibility that governments face legal action if they fail to take sufficient action to tackle climate change.
Medium-term	Green	Amber	
Long-term	Amber	Amber	These medium-level risks are more likely to materialise over the medium and long-term. The current pace of global policy change and the side-effects of climate changes means that both physical and transition risks are less likely to materialise over the short-term.



**Global equities**

Time horizon	Risk exposure rating		Details
	Physical	Transition	
Short-term	Amber	Red	<p>The Scheme invests in publicly listed equity securities on a global basis, meaning the Scheme's DB and DC equity portfolios are invested in a diverse range of companies with different business models and in various locations across the globe.</p> <p>The Trustee and its appointed investment managers believe that transition risks present the highest potential risk to global equities over all time horizons. It is expected that the movement towards a lower carbon economy will increase regulation on firms (e.g., carbon taxes, compliance activities) which will increase costs. Companies will also need to switch to new technologies and cope with changing consumer demands. There is also the potential for increased litigation costs from not complying with regulations, and reputational risks from failing to keep up with a green transition.</p>
Medium-term	Amber	Red	<p>While there are still significant physical risks, these are lower in the short to medium term and higher in the longer-term. It is expected that these physical risks will be more significant in developing regions of the world, commonly referred to as emerging markets. The global diversification, and limited exposure of the Scheme's equity investments to these regions limits the overall exposure of the Scheme's equity investments to physical risks. In addition, the DC Section's allocation to emerging market equities (c. 10% of the Global Sustainable Growth Fund) is implemented via two actively managed mandates, which allows greater scope in the selection of underlying investments and therefore the consideration of climate-related risks in the portfolio versus an index-tracking mandate.</p>
Long-term	Red	Red	<p>The Trustee notes that both the DB and DC equity allocations have been reviewed and updated over the last few years to ensure that explicit consideration of ESG risks, including climate-related risks, is fully incorporated. As a result of these changes, the Scheme's equity investments invest less in the highest carbon emitters therefore reducing potential exposure to transition risks relative to the wider market, as it is the highest carbon emitters who are most likely to incur costs as part of a green transition. For the DC Section, the two active mandates used for the emerging markets allocation also have strong processes in place to ensure the consideration of climate-related risks on an ongoing basis, and again have significantly lower carbon-intensity relative to the wider market helping to further reduce the Scheme's exposure to climate-related risks.</p>

**Corporate bonds**

Time horizon	Risk exposure rating		Details
	Physical	Transition	
Short-term	Green	Green	<p>The climate-related risks for corporate bond investments are considered to be higher when considering transition risks and are expected to increase over time.</p> <p>The drivers of these risks are similar to the drivers of risks for equity investments, although compared to equities, the overall impact of climate risk on the investment value of corporate bonds is expected to be lower. The Scheme seeks to invest only in high-quality corporate bond securities that are less exposed to climate transition risks, although the diversified nature of the Scheme's portfolios means there are still moderate transition risks. Similar to the equity investment, the DC Section's corporate bond investments within the Drawdown Lifestyle are designed to explicitly consider sustainability risks, including climate-related risks, as part of the investment decision making process, helping to reduce the Scheme's exposure to these risks.</p>
Medium-term	Green	Amber	<p>A key risk for corporate bonds is interest rate risk. As governments around the world have to issue debt to adapt and mitigate the effects of climate change, central banks may be forced to keep interest rates low in order to manage the levels of government debt interest payments. Inflation is likely to rise, which may erode the value of fixed income investments. The Scheme may opt to reduce these risks over time through hedging, depending on its relevance for a given investment, although the Trustee is comfortable that given the relatively low level of short-term risk, no action is needed at the current time.</p>
Long-term	Amber	Amber	

## Climate-related opportunities

### Government Bonds and LDI

The Trustee notes that just as sovereign bonds are shielded from the downside risk of climate change, there is also more limited opportunities for this asset class to benefit from the upside of climate-related opportunities. However, there is a growing market for 'green gilts': bonds issued by the UK government to finance projects that have clearly defined environmental benefits.

### Corporate Bonds

Key opportunities identified by the Scheme's corporate bond managers include companies taking advantage of electric vehicles (EV), renewables and other alternative fuels as they continue to grow and become significantly cheaper relative to conventional products.

Other opportunities include:

- Resource efficiency
- Carbon capture and storage
- Direct air capture
- Nature based solutions

It is also noted that companies formulating effective transition plans today and committing the required capital are the most likely to benefit in the future.

The fund which invests in corporate bonds for the DC Section (the Global Sustainable Bond Fund) focuses on creating a positive contribution to the United Nations Sustainable Development Goals (of which Goal 13 explicitly refers to Climate Action), and therefore invests directly in corporate bonds linked to climate-related opportunities. In the DB section the Trustee undertook a credit manager selection exercise where the extent to which ESG factors were integrated into the investment process was considered as part of the selection exercise. The successful manager has a proprietary framework in place to define key ESG factors for each company they analyse. This manager was implemented in April 2024, after the Scheme's year end.

### Global Equities

Opportunities identified by the Scheme's equity managers include companies operating in the following areas:

- Investing in alternative energy sources and management systems.
- Water infrastructure and technologies.
- Resource efficiency and waste management.

The Trustee notes that the equity mandates utilised by the DB and DC Sections of the Scheme already explicitly account for ESG opportunities, including climate-related opportunities, by investing more heavily in highly ESG rated and lower carbon companies. The Global Sustainable Growth Fund utilised by the DC Section also has a 10% allocation to actively managed 'impact' equity funds, which focus specifically on investing in companies that are developing innovative solutions to resource challenges in environmental markets such as alternative energy, resource efficiency and environmental protection.

# How resilient is the Scheme under climate change scenarios?

The Trustee has carried out climate change scenario analysis to better understand the impact climate change could have on the Scheme's DB and DC assets and DB liabilities.

## 31 March 2024 update

The regulations require that climate change scenario analysis is carried out during the first scheme year during which the regulations apply to the Scheme, and at least every three scheme years thereafter. The Trustee assesses annually whether there is a case to refresh the analysis, which includes considering whether there have been any material changes to the investment and/or funding strategy, or if there is new or improved scenarios or modelling capabilities or events that might reasonably be thought to impact key assumptions underlying scenarios. Climate change scenario analysis was first undertaken for the Scheme at the end of 2022 for the DC Section and early 2023 for the DB Section. The Trustee reviewed this analysis again over the Scheme year and decided that it remains appropriate for this year's report, as there have not been any significant changes to the modelling assumptions or investment strategy that could materially alter the output.

The Trustee will continue to review this position ahead of the publication of its third TCFD report in 2025. The outcomes from the 2022/23 climate change scenario analysis are summarised in the remainder of this section.

Detailed assumptions which underpin the analysis can be found in the Appendices.

This analysis considers a range of different climate transition scenarios, whereby the difference between scenarios is the applied climate temperature rise. Each scenario considers what may happen to the Scheme when possibly transitioning to a low carbon economy under different temperature-related environmental conditions.

The analysis of different scenarios allows the Scheme to identify where further action may be needed regarding the investment strategy to build in additional resilience against certain climate outcomes, by understanding the effect that different temperature rises may have on the funding level for the DB Section, and the value of members' savings for the DC Section.

The Trustee's investment consultant has established three different climate scenarios for the analysis, alongside a base case scenario (which reflects the consultant's investment return expectations based on current market conditions). These scenarios provide a reasonable range of possible climate change outcomes; however, they are only illustrative and are subject to considerable uncertainty – the chance of any one scenario actually occurring is near zero. Additionally, the Trustee recognises that climate-change scenario analysis is still relatively new to the market and so developments and improvements (for example, the inclusion of tipping points<sup>2</sup>) should be expected over time. Given these limitations, the Trustee may choose to take action as a result of the climate-change scenario analysis carried out, but this is likely only to be the case when action is also supported by wider analysis of climate risks across a broader range of tools.

The scenarios and their respective temperatures are summarised overleaf. Further information on the assumptions and limitations of the climate change scenario modelling can be found in the Appendix. The Trustee has undertaken quantitative analysis for both the DB and DC Sections separately.

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<sup>2</sup> A tipping point refers to a critical threshold which, if passed, causes the earth's ecosystems and/or climate to undergo significant, sudden and possibly irreversible changes.

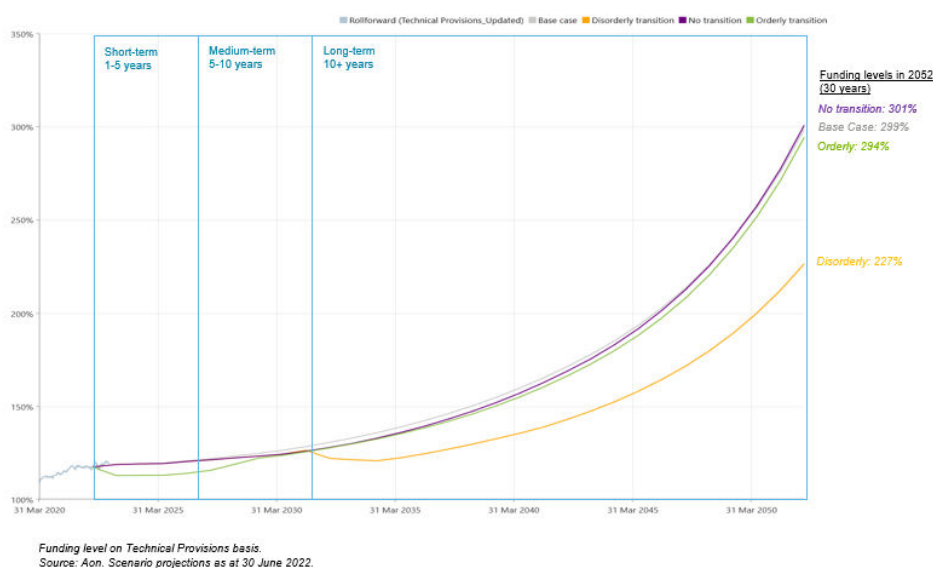
		1	2	3
	Base scenario	No Transition	Disorderly transition	Orderly transition
Temperature rise by 2100 (relative to pre-industrial levels)	+2°C – 2.5°C	+4°C	< 3°C	< 2°C
	Emission reductions start now and continue in a measured way in line with the objectives of the Paris Agreement and the UK government's legally binding commitment to reduce emissions in the UK to net zero by 2050.	No further action is taken to reduce greenhouse gas ("GHG") emissions leading to significant global warming.	Considers the impact of climate change if insufficient sustainable policy action is undertaken to manage global temperatures effectively over the next 10 years.	Considers the impact of immediate and coordinated action to tackle climate change using carbon taxes and environmental regulation.
Reach net zero by:	2050	After 2050	After 2050	2050
Introduction of environmental regulation	Uncoordinated	None	Late and aggressive	Coordinated

## DB Section – impact on the fund level and strategy

### Scenario analysis results

Assuming no change in the current asset allocation, the Scheme's investment portfolio **exhibits resilience under all the climate scenarios** – especially over the longer term - and **remains more than 100% funded on a TP basis across all time horizons and all scenarios**. This is due to the diversification of assets, low proportion of equities and high levels of hedging against changes in interest rates and inflation. Note that we have not considered the potential impact of climate change on ill-health and mortality but have confirmed with our investment consultant that we would not expect this to significantly impact the results of our analysis.

### DB Section – funding level projections under each climate scenario



## Orderly Scenario

### Summary

#### In the short term:

Immediate coordinated global action is taken to tackle climate change. Risky assets perform poorly which means that the value of the Scheme's assets fall relative to liabilities. However, the Scheme is expected to remain in surplus.

#### In the medium term:

The rapid transition to clean technologies and green regulation begins to boost economic growth. As such, the funding position begins to recover following the initial fall in funding, as risky assets perform well, benefitting from the economic growth.

#### In the long term:

Economic growth remains strong following the transition to a green economy and given the rapid nature of the transition, there are limited physical impacts from climate change.

The Scheme's assets gain from the economic growth and the funding level is expected to continue to grow in line with the base case.

## Disorderly Scenario

### Summary

#### In the short term:

Little consideration is given to long-term policies and there is no action taken to combat climate change. As such, there is no initial impact on the Scheme and its funding level relative to the base case.

#### In the medium term:

Late but coordinated action is taken to tackle climate change. The late timing means it is less effective and more costly to implement which leads to a drag on the expected returns from risk assets. This drives down the value of the Scheme's assets albeit the Scheme is expected to remain in surplus given the high levels of hedging and low risk strategy.

#### In the long term:

After the costly implementation to tackle climate change and the resulting drag on risky assets, the transition to clean technologies and green regulation begins to boost economic growth when considering the very long term.

Whilst there is recovery over the longer term (after 2035) the funding level is still significantly lower relative to the base case. This is the worst outcome for the Scheme within the timeframes considered.

## No transition

### Summary

#### In the short and medium term:

There is no action taken to combat climate change. As such, there is no initial impact on the Scheme and its funding level relative to the base case.

#### In the long term:

Climate change headwinds grow and act as a drag on economic growth and risk asset returns. Government bond yields gradually rise, diverging from the base case, as inflationary pressure increases and risk premia rise over time, reflecting greater fiscal and monetary uncertainty, and higher debt levels, due to increased borrowing to adapt to climate change. Impacts from physical risks become more severe and irreversible by 2100.

Given the Scheme is over 110% hedged (expressed as a percentage of the TP liabilities at the time of carrying out this analysis), these market conditions – particularly the higher yields driven by higher inflation – would result in an increased surplus and the Scheme would unlikely be impacted by lower expected returns for risk-assets. This is expected to lead to the highest surplus for the Scheme.



## Expected impact on the covenant

The Trustee currently assesses the employer covenant available to the Scheme as being strong, reflecting its robust financial performance and credit ratings. The Trustee notes that the sponsoring employer of the Scheme, BNP Paribas SA, is a founding member of the 'Net Zero Banking Alliance' and is itself at the forefront of sustainable investment, developing green investment products for clients and lowering its own exposure to certain sectors such as oil and gas. The Trustee also notes that given the Scheme's strong funding position, the overall reliance on the covenant is low, again further reducing the possible impact from climate-related risks. The Trustee is therefore satisfied climate related risks appear well managed by the sponsoring employer and that there are no material climate related risks to the employer covenant.

## Key takeaways for the DB Section

The analysis has shown that the DB Section is expected to be resilient to different climate outcomes and ultimately remain over 100% funded on a TP basis regardless of the climate scenario that unfolds. As such, the Trustee is comfortable that no action regarding the investment or funding strategy is required at the current time, although this will remain under review as knowledge of climate outcomes continues to develop.

## DC Section

For the DC Section, the Trustee has analysed the resilience of the Section's popular arrangements – the Drawdown Lifestyle and the Global Sustainable Growth Fund – under the same climate scenarios as the DB Section.

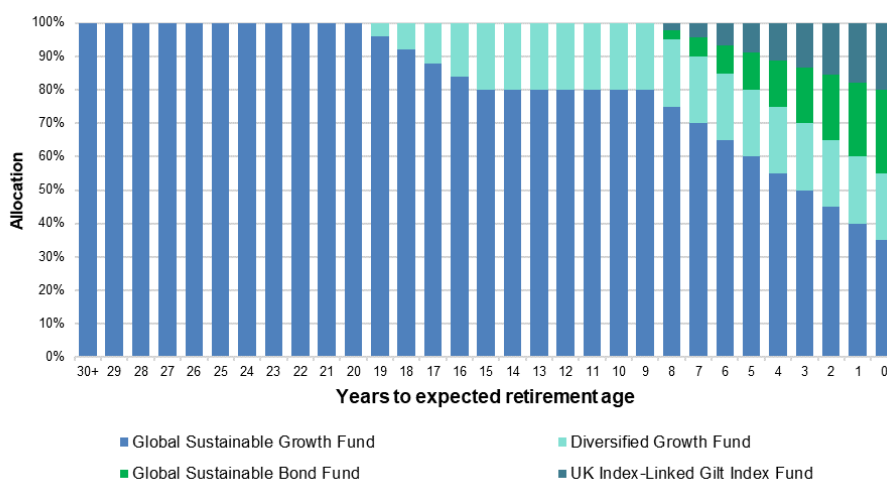
For the Global Sustainable Growth Fund, the Trustee has considered a £10,000 investment in the fund with no ongoing contributions. For comparison the Trustee has compared this to a £10,000 investment in a non-ESG aligned, index-tracking global equity portfolio.

For the Drawdown Lifestyle, the Trustee has considered the projected retirement savings of two sample members as follows:

- Member A: an active member of the Scheme, aged 52 with a salary of £68,000 p.a., ongoing contributions of 12% into the Scheme and a current fund value of £346,000.
- Member B: a deferred member of the Scheme, aged 49, with a current fund value of £61,000.

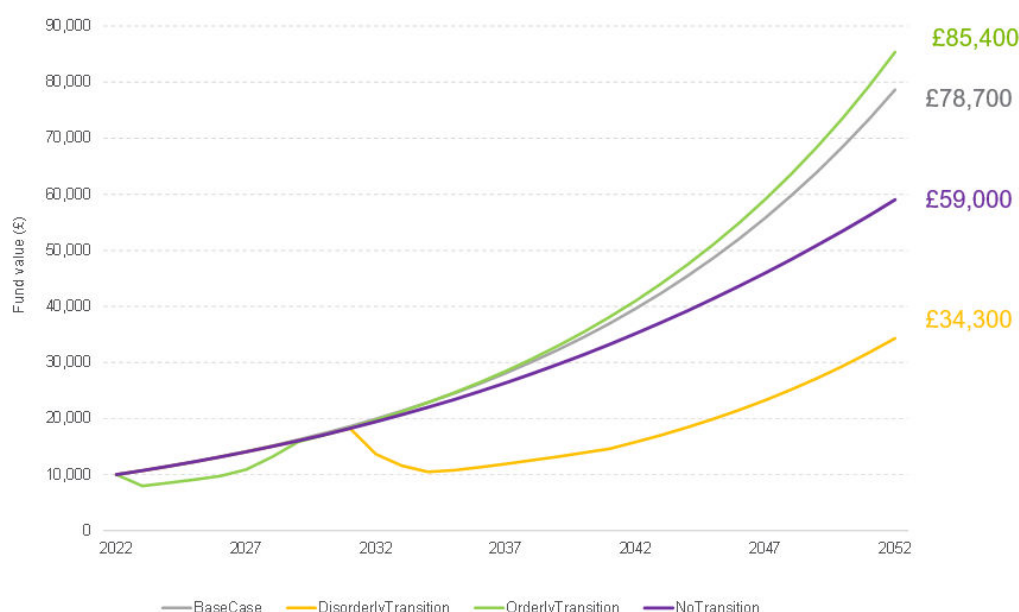
Both members are assumed to have a target retirement age of 65 and the analysis assumes members are invested in the new glidepath structure which was implemented in June 2023.

### Drawdown Lifestyle as of June 2023



## Scenario analysis results – Global Sustainable Growth Fund

### Projected value of an initial £10,000 investment



Consideration of ESG factors, including climate-related factors, is fully embedded within the Global Sustainable Growth Fund, to better manage the risks associated with ESG issues including, but not limited to climate change.

While there are still risks to the value of an investment in the fund, when comparing the above results to a non-ESG aligned global equity comparator, long-term outcomes under the modelled climate change scenarios are 1.7%-6.0% higher for an investment in the Global Sustainable Growth Fund indicating that the integration of ESG factors is expected to increase the resilience of the DC equity investments and ultimately support better member retirement outcomes. Further detail on the projected outcomes under each scenario is given in the tables below.

### Orderly Scenario

#### Summary

##### In the short term:

Immediate coordinated global action is taken to tackle climate change. Equities perform poorly which means that the value of an investment in the Global Sustainable Growth Fund is expected to fall.

##### In the medium term:

The rapid transition to clean technologies and green regulation begins to boost economic growth. As such, value of an investment in the Fund begins to recover as equities perform well, benefitting from the economic growth.

##### In the long term:

Economic growth remains strong following the transition to a green economy and given the rapid nature of the transition, there are limited physical impacts from climate change. The Fund's investments gain from the economic growth – more so than an investment in a non-ESG aligned equity fund – and the value of the investment exceeds the base case position.

### Disorderly Scenario

#### Summary

##### In the short term:

Little consideration is given to long-term policies and there is no action taken to combat climate change. As such, there is no initial impact on the Fund relative to the base case.

#### In the medium term:

Late but coordinated action is taken to tackle climate change. The late timing means it is less effective and more costly to implement which leads to a drag on the expected returns from risk assets. This drives down the value of the Fund and there is a material risk to the value of a members' retirement savings in the Fund at this time. That said, the size of this risk is smaller than an equivalent investment in a non-ESG aligned equity fund, which would be expected to fall in value by a greater amount.

#### In the long term:

After the costly implementation to tackle climate change and the resulting drag on risky assets, the transition to clean technologies and green regulation begins to boost economic growth when considering the very long term.

Whilst there is some recovery over the longer term (after 2035) the value of an investment in the Fund is still significantly lower relative to the base case. This is the worst outcome for the Fund within the timeframes considered.

## No transition

### Summary

#### In the short and medium term:

There is no action taken to combat climate change. As such, there is no impact relative to the base case.

#### In the long term:

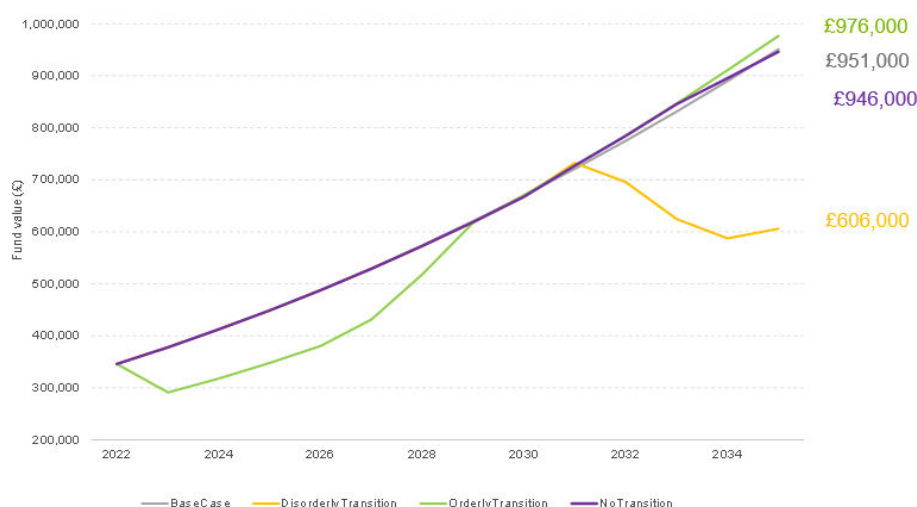
After 2031, climate change headwinds grow and act as a drag on economic growth and risk asset returns. Impacts from physical risks become more severe and irreversible by 2100. The drag on growth and equity returns means that the Global Sustainable Growth Fund continues to grow in value albeit at a much lower level than the base case.

## Scenario analysis results – Drawdown Lifestyle

The charts below show the climate scenario analysis outcomes for each of the sample members assuming they are invested in the Drawdown Lifestyle.

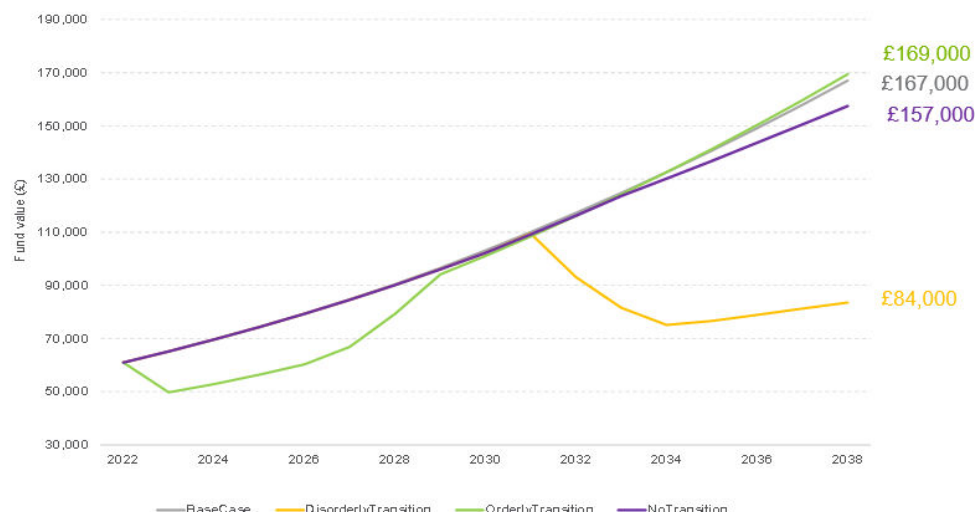
**Member A** – an active member of the Scheme, aged 52 with a salary of £68,000 p.a., ongoing contributions of 12% into the Scheme and a current fund value of £346,000.

### Projected Fund Value



**Member B** – a deferred member of the Scheme, aged 49, with a current fund value of £61,000.

### Projected Fund Value



Members A and B are within 13 and 16 years of retirement age (65) respectively, which broadly reflects the wider membership profile of the Scheme. The analysis shows that the biggest risks to projected member outcomes are **transition risks, specifically policy risks, over the short and medium-term**.

This can be seen in the charts above by the drops in fund value for both members under the orderly transition (short-term) and the disorderly transition (medium-term). The timings of shocks are key in determining retirement outcomes for members – the closer to retirement a shock occurs, the worse the outcome for members. However, as shown by the analysis on the Global Sustainable Growth Fund alone, the ESG integration within the Drawdown Lifestyle investments is expected to increase resilience of the value of members' savings to climate-related shocks, albeit the risk is not entirely removed.

The de-risking approach and increasing diversification of the Drawdown Lifestyle as members approach retirement age combats the residual risk to some degree, as risky assets (equities) are expected to fare the worst under any climate-related shocks. However, similar to any market shock or drawdown, it's unlikely that members can be fully protected from this risk without also sacrificing potential investment returns and so member communication in times of crisis will also be important.

Further detail on the projected outcomes under each scenario is given in the tables below.

## Orderly Scenario

### Summary

#### In the short term:

Risky assets perform poorly which means that the value of an investment in the Global Sustainable Growth Fund (which both members still have significant exposure to in the short-term) is expected to fall. However, the fall is less than if they were wholly invested in equities and is further reduced by the ESG integration in place within the Global Sustainable Growth Fund.

#### In the medium term:

The rapid transition to clean technologies and green regulation begins to boost economic growth. As such, value of both members' investments begins to recover as equities in particular perform well, benefitting from the economic growth.

#### In the long term:

Economic growth remains strong following the transition to a green economy and given the rapid nature of the transition, there are limited physical impacts from climate change. Members end up with a higher fund value than under the base case, and there is a bigger difference for Member A who benefits from having ongoing contributions into the Scheme.

## Disorderly Scenario

### Summary

#### In the short term:

Little consideration is given to long-term policies and there is no action taken to combat climate change. As such, there is no initial impact on member investments versus the base case.

**In the medium term:**

Late but coordinated action is taken to tackle climate change. The late timing means it is less effective and more costly to implement which leads to a drag on the expected returns from risk assets. This drives down the value of the members' investments significantly, although to a lesser extent than if there was not ESG integration within the Drawdown Strategy. We also note that by this point (c. 10 years' time) both members will have a much lower exposure to risky assets as they will be closer to retirement age, again, helping to protect on the downside versus a 100% equity investment.

**In the long term:**

After the costly implementation to tackle climate change and the resulting drag on risky assets, the transition to clean technologies and green regulation begins to boost economic growth when considering the very long term.

Whilst there is some recovery over the longer term (after 2035) the value of both members' savings is still significantly lower relative to the base case. This is the worst outcome for both members within the timeframes considered, although we note that both members have still achieved positive (albeit small) investment growth over the full-time horizon.

**No transition****Summary****In the short and medium term:**

There is no action taken to combat climate change. As such, there is no impact relative to the base case.

**In the long term:**

After 2031, climate change headwinds grow and act as a drag on economic growth and risk asset returns. Impacts from physical risks become more severe and irreversible by 2100. The drag on growth and equity returns means that both members' retirement savings continue to grow in value albeit at a slightly lower level than the base case.

**Key takeaways for the DC Section**

- The analysis has shown that the biggest potential risk to the Scheme's DC members achieving a good retirement outcome through the DC section is **transition shocks (e.g. policy and regulatory changes) over the short and medium term**.
- Physical climate risks (at their highest under the No transition scenario) are likely to manifest over a longer period and so unlikely to impact members whilst they are still invested in the Scheme, however, members could still be impacted if they choose to remain invested throughout their retirement (albeit this will be outside the Scheme). Physical risk is overall lower than transition/policy risk.
- **Asset allocation is ultimately the driver of outcomes** for DC members with risky assets always impact to a greater extent by climate-related impacts. Whilst moving members into less risky asset classes could protect them from downside climate risks, this would also significantly hamper any opportunity for investment growth and therefore would not be appropriate in light of the overall objective of the Section: to support members in achieving a positive retirement outcome.
- The Trustee believes that the action already taken to integrate ESG considerations within the Drawdown Lifestyle and Global Sustainable Growth Fund should benefit members through both increased resilience to climate-related risks and higher exposure to climate-related opportunities.
- **Timings of shocks** are key in determining retirement outcomes for members – the closer to retirement a shock occurs, the worse the outcome for members. The de-risking approach of the Drawdown Lifestyle combats this to some degree but communication in times of crisis will also be important.

The Trustee is comfortable that no action regarding the investment strategy of the Drawdown Lifestyle or Global Sustainable Growth Fund is required at the current time, although this will remain under review as knowledge of climate outcomes continues to develop.



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## Climate scenario modelling limitations

The purpose of climate scenario modelling is to consider the exposure of the Scheme to the climate related risks and the pattern of the asset returns over different time horizons. Thus, the model is subject to limitations:

- The model intends to illustrate the climate-related risks that the Scheme is currently exposed to, highlighting areas where risk mitigation could be achieved through changing the portfolio allocation. Other relevant issues such as governance, costs, and implementation (including manager selection and due diligence) must also be considered when making changes to the investment strategy.
- The model only considers investment risk, measured in the form of deviance from the Base Case. The Scheme will also face covenant risk, longevity risk, basis risks and operational risks which are not captured in the model.
- The projections are considered appropriate for the analysis however, they are approximate, and a full actuarial valuation carried out on the same day may produce a materially different result.
- The liability update and projections are not formal actuarial advice and do not contain all the information needed to make a decision on the contributions payable or investment strategy.

Please refer to the [Appendix](#) for further details in relation to the assumptions used for the scenario analysis and its limitations.

A photograph of an iceberg floating in the ocean. The iceberg is white and jagged, with a large portion submerged below the surface. The water is dark blue with white-capped waves. The sky is a pale, hazy blue with a hint of orange near the horizon, suggesting a sunrise or sunset.

# Risk management

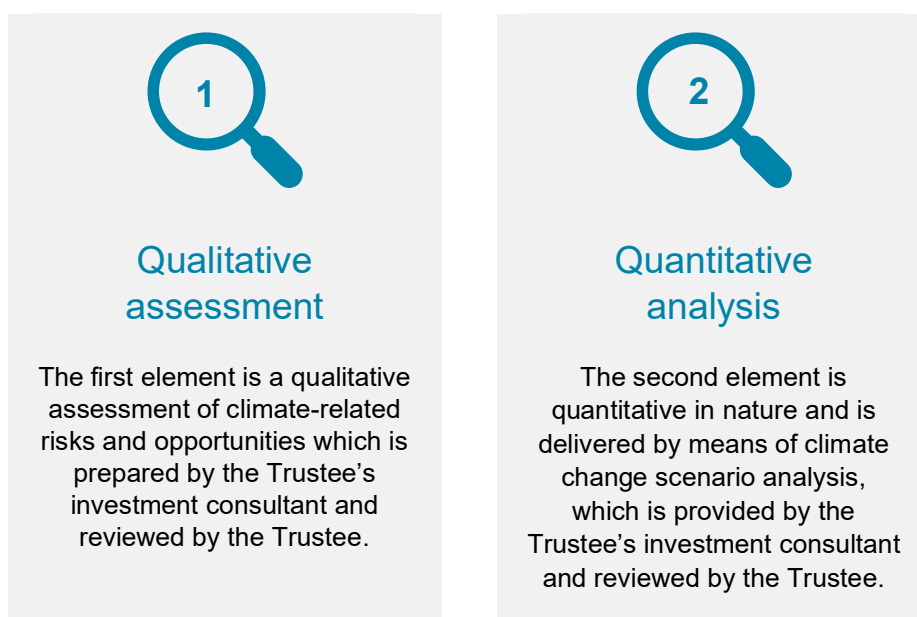
We must have processes to identify, assess and manage the climate-related risks that are relevant to the Scheme, and these must be integrated into the overall risk management of the Scheme.

Reporting on our risk management processes provides context for how we think about and address the most significant risks to our efforts to achieve appropriate outcomes for members.



# Our process for identifying and assessing climate-related risks

The Trustee has established a process to identify, assess and manage the climate-related risks that are relevant to the Scheme. This is part of the Scheme's wider risk management framework and is how the Trustee monitors the most significant risks to the Scheme in its efforts to achieve the objectives for the DB and DC Sections of the Scheme.



Together these elements give the Trustee a clear picture of the climate-related risks that the Scheme is exposed to. Where appropriate, the Trustee will distinguish between transition and physical risks. All risks and opportunities are assessed with reference to the timeframes that the Trustee has identified as relevant to the Scheme.

When prioritising the management of risks, the Trustee assesses the materiality of climate-related risks relative to the impact and likelihood of other risks to the Scheme. This helps the Trustee focus on the risks that pose the most significant impact. An example of this is the staggered nature in which the Trustee took action to incorporate explicit consideration of ESG issues (including climate change) within the DC Section's investments. Changes were initially made to the equity investments of the default option, as these account for the majority of DC assets and are considered to be most exposed to climate-related risks. This was followed by changes to the default option's corporate bond investments.

# Our process for managing climate-related risks

The Trustee recognises the long-term risks posed by climate change and has taken steps to integrate climate-related risks into the Scheme's risk management framework.

The Trustee has developed the following risk management plan, to help with its ongoing management of climate-related risk and opportunities. The risk management framework gives clear understanding on the different entities involved in this related management, the frequency to which activities are conducted, and the relevant attached dates. The management of climate-related risks and opportunities is summarised in the table below.

## Governance

Activity	Responsibility	Advisor / supplier support	Frequency of review
Review climate change risk management framework and governance processes around climate risks	Trustee	Advisors	Annual
Publish TCFD report	Trustee	Advisors	Annual
Review advisors versus objectives to ensure advisors have appropriate climate capability, and bring important, relevant and timely climate-related issues to the Trustee's attention	Trustee	Advisors	Annual
Ensure investment proposals and investment and funding strategy advice explicitly considers the impact of climate risks and opportunities, and seek investment opportunities	Trustee	Investment consultant	Ongoing
Trustee training	Trustee	Advisors / External events	Ongoing
Ensure that actuarial and covenant advice adequately incorporates climate-related risk factors where they are relevant and material	Trustee	Scheme Actuary, Covenant advisor	Triennial
Engage with the investment managers to understand how climate-related risks are considered in their investment approach, and stewardship activities are being undertaken appropriately	Trustee	Investment managers, Investment consultant	Annual
Ensures the Scheme remains compliant with evolving climate-related regulatory requirements	Trustee	Advisors	Ongoing

### Trustee update for the year ending 31 March 2024

The Trustee has monitored progress of the implementation of the climate change risk management framework and governance processes through the year, receiving updates from its advisors and querying information as and when required. This has culminated in the publication of this report, the Scheme's second TCFD-aligned disclosures.

An ESG monitoring exercise was carried out for the DC Section in November 2023. This provided information on the environmental, social and governance (ESG) profile of investments held, including climate-related metrics and identification of high-risk holdings across the underlying DC portfolios. It also included a more-in-depth review of the engagement activities carried out by two newly appointed managers to ensure they were carrying out stewardship activities on ESG issues (including climate risks) appropriately. The Trustee followed this up with an exercise focussed on understanding how the wider appointed investment managers in the DC Section were engaging with the most carbon intensive holdings within their portfolios. The Trustee was pleased to see that overall, ESG risks and carbon intensity was lower than the wider market and that there were good levels of engagement by managers. For both the DB and DC Sections, the Trustee receives regular reporting on the ESG

rating of each of the investment managers based on monitoring carried out by the investment consultant. These ratings include consideration of each manager's approach to stewardship.

This supplemented the wider stewardship review of both the DB and DC investment managers carried out as part of the annual implementation statement process – again, no significant concerns were raised and the Trustee was comfortable

## Strategy

Activity	Responsibility	Adviser / supplier support	Frequency of review
Identify the climate-related risks and opportunities for investment & funding strategy and assess their likelihood and impact.	Trustee	Investment consultant	Annual
Undertake scenario analysis to understand the impact of climate-related risks.	Trustee	Investment consultant	First year, Triennial thereafter (with annual review)
Actuarial valuation	Trustee	Scheme Actuary	Triennial

### Trustee update for the year ending 31 March 2024

The Trustee has spent dedicated time through the year to analyse climate-related risks and opportunities for the Scheme's various asset classes in which it invests. As above, the Trustee carried out an ESG review of the DC Section to understand the exposure to ESG and climate-related risks, in addition to the qualitative risk assessment completed as part of this TCFD report. Climate-related opportunities continue to be considered as part of the 10% allocation to impact equity funds within the Global Sustainable Growth Fund and again as part of the qualitative risk assessment.

As part of a credit manager selection exercise undertaken in 2023 in the DB Section, the Trustee explicitly considered the extent to which ESG considerations were integrated into the investment process for the prospective managers. The successful manager had a process in place whereby credit analysts and portfolio managers are incentivised to incorporate ESG risks into their portfolios by using a proprietary framework.

The Trustee discussed with its investment consultants as to whether climate change scenario analysis should be refreshed ahead of the publication of the Scheme's second TCFD report. It was agreed that this was not necessary given there had been no significant material changes the investment strategy over the period.

The Trustee considered the Scheme's actuarial valuation as part of the 31 December 2023 valuation.

## Risk management

Activity	Responsibility	Adviser / supplier support	Frequency of review
Consider the prioritisation of those climate-related risks, and the management of the most significant in terms of potential loss and likelihood.	Trustee	Advisors	Annual
Include consideration of climate-related risks in the Scheme's other risk processes and documents, such as the risk register and the SIP, and regularly review these.	Trustee	Advisors	Ongoing
Seek to understand the climate-related risks to the employer covenant over the short-, medium- and long- term.	Trustee	Covenant advisor	Annual

### Trustee update for the year ending 31 March 2024

The Trustee continues to incorporate climate-related risks into their risk register and over the year, updated the SIP to include climate change as a stewardship priority. In-depth analysis has been carried out across the asset classes and strategies that the Scheme invests in to understand the climate-related risks and opportunities



facing the Scheme. All asset classes are expected to be impacted by climate-related issues at varying levels and the Trustee notes that it has taken action to ensure climate-related risks are explicitly considered as part of the investment and stewardship process for asset classes where there is a higher level of climate-related risk (e.g. equities). The Trustee has sought to understand the climate-related risks to the employer over the short, medium and long term by asking their covenant advisor to incorporate the climate-related risks faced by the employer when providing advice.

## Metrics and targets

Activity	Responsibility	Adviser / supplier support	Frequency of review
Obtain data for metrics	Trustee	Investment managers, Investment consultant	Annual
Review continued appropriateness of metrics	Trustee	Investment consultant	Annual
Set climate-related target and review appropriateness	Trustee	Investment consultant	Annual

### Trustee update for the year ending 31 March 2024

The Trustee has reviewed and gathered ESG metrics on a regular basis over the last few years (including climate-related metrics). Over the year, the Trustee reviewed the appropriateness of the TCFD metrics and concluded that there were no changes required, with the exception of including scope 3 emissions which are required by regulations for the second year of TCFD reporting onwards. More details can be found in the metrics and targets section.



# Metrics & Targets

Metrics help to inform our understanding and monitoring of the Scheme's climate-related risks. Quantitative measures of the Scheme's climate-related risks, in the form of both greenhouse gas emissions and non-emissions-based metrics, help us to identify, manage and track the Scheme's exposure to the financial risks and opportunities climate change will bring.



# Our climate-related metrics

The Trustee uses quantitative measures to help it understand and monitor the Scheme's exposure to climate-related risks.

The Trustee's investment consultant, Aon, has collected information from the Scheme's managers regarding these quantitative measures. Aon collated this information to calculate the following climate-related metrics for the Scheme's portfolio of assets.

## The metrics we use:



### Total Greenhouse Gas emissions

The total greenhouse gas ("GHG") emissions associated with the portfolio. It is an absolute measure of carbon output from the Scheme's investments and is measured in tonnes of carbon dioxide equivalent ("tCO<sub>2</sub>e").

This year the Trustee collected scope 1&2 emissions and for the first time, scope 3 emissions.



### Carbon footprint

Carbon footprint is an intensity measure of emissions that takes the total GHG emissions and divides it by the size of the investment made. It is measured in tonnes of carbon dioxide equivalent per million pounds invested ("tCO<sub>2</sub>e/£m").

This year the Trustee collected scopes 1&2 emissions, and for the first time scope 3 emissions.



### Data quality

A measure of the proportion of the portfolio that the Trustee has high quality data for (i.e., data which is based on verified, reported, or reasonably estimated emissions, versus that which is unavailable).

This has been selected on the basis that it provides a consistent and comparable measure of the level of confidence in the data.

This year the Trustee did not need to make any estimation as the data was directly provided by the managers. Please note some managers used estimates of their data, details of which are not shared as part of this document.



### Portion of portfolio SBTi aligned

A metric which gives the alignment of the scheme's assets with the climate change goal of limiting the increase in the global average temperature to 1.5°C above pre-industrial levels.

It is measured as the percentage of underlying portfolio investments with declared net-zero or Paris-aligned targets that have been verified by the Science based Target initiative ("SBTi").

## Measuring greenhouse gas emissions

Measuring greenhouse gas emissions is a key way for pension schemes to assess their exposure to climate change. Greenhouse gases are produced by burning fossil fuels, meat and dairy farming, and some industrial processes. When greenhouse gases are released into the atmosphere, they trap heat in the atmosphere causing global warming and contributing to climate change.

Greenhouse gases are categorised into three types or ‘scopes’ by the Greenhouse Gas Protocol, the world’s most used greenhouse gas accounting standard.

Scope 1	Scope 2	Scope 3
All direct emissions from the activities of an organisation which are under their control; these typically include emissions from their own buildings, facilities and vehicles	These are the indirect emissions from the generation of electricity purchased and used by an organisation	All other indirect emissions linked to the wider supply chain and activities of the organisation from outside its own operations – from the goods it purchases to the disposal of the products it sells

Scope 3 emissions are often the largest proportion of an organisation’s emissions, but they are also the hardest to measure. The complexity and global nature of an organisation’s value chain make it hard to collect accurate data. For more information, please see the appendix.

## Methodology for Data Collection

The Trustee, supported by its investment consultant, Aon, collected the metrics data using the industry standard Carbon Emissions Template (CET)<sup>5</sup>. The CET was developed by a joint industry initiative by the Pension and Life Savings Association (PLSA), Association of British Insurers (ABI) and Investment Association Working Group. The CET provides a standardised set of data to help pension schemes meet their obligations under the Climate Change Governance and Reporting Regulations, and associated DWP Statutory Guidance, and to help insurers and investment managers fulfil their obligations under the FCA’s new ESG Sourcebook as set out in PS21/24.

Where such information was not available, data has been gathered using MSCI analysis of the line by line holdings of the individual portfolios invested in.

<sup>5</sup> Aligning your pension scheme with the Taskforce on Climate-Related Financial Disclosures recommendations - GOV.UK ([www.gov.uk](https://www.gov.uk))

## DB Section Assets

The table below sets out the metrics for the DB Section:

### Climate-related metrics for liability matching portfolio

Asset class	Year	Assets as at 31 Dec	Total GHG (tCO <sub>2</sub> e) Scopes 1 & 2 tCO <sub>2</sub> e	Carbon Footprint (tCO <sub>2</sub> e/£m) Scopes 1 & 2 tCO <sub>2</sub> e/£m	Total GHG (tCO <sub>2</sub> e) Scope 3 tCO <sub>2</sub> e	Carbon Footprint (tCO <sub>2</sub> e/£m) Scope 3 tCO <sub>2</sub> e/£m	Data Quality Scopes 1 & 2	Data Quality Scope 3	Portfolio Alignment Metric Portion of the portfolio with SBTi aligned targets
LDI portfolio	2023	£595.5m (68%)	44,790	75	387	93	100%	1%**	Not applicable
	2022	£617.6m (71%)	51,465	85	-	-	98%	-	Not applicable

Source: LGIM. Valuation and metrics gathered as at 31 December 2023. Totals may not sum due to rounding. Excludes assets held in Trustee Bank Account. \*Percentage of total AUM. \*\*Note Scope 3 data was not available for the sovereign investments within the portfolio which account for c.99% of total LDI investments.

### Climate-related metrics for non-liability matching portfolio

Asset class	Year	Assets	Total GHG (tCO <sub>2</sub> e) Scopes 1 & 2 tCO <sub>2</sub> e	Carbon Footprint (tCO <sub>2</sub> e/£m) Scopes 1 & 2 tCO <sub>2</sub> e/£m	Total GHG (tCO <sub>2</sub> e) Scope 3 tCO <sub>2</sub> e	Carbon Footprint (tCO <sub>2</sub> e/£m) Scope 3 tCO <sub>2</sub> e/£m	Data Quality Scopes 1 & 2	Data Quality Scope 3	Portfolio Alignment Metric Portion of the portfolio with SBTi aligned targets
Corporate Bonds	2023	£136.8m (16%)	2,246	24	18,922	282	68%	49%	21%
	2022	£125.9m (14%)	2,726	32	-	-	68%	-	22%
Global Equities	2023	£97.1m (11%)	3,609	37	47,569	491	100%	100%	54%
	2022	£84.2m (10%)	6,334	77	-	-	98	-	52%
Multi Asset	2023	£43.7m (5%)	800	20	5,518	138	91%	91%	51%
	2022	£41.9m (5%)	2,644	82	-	-	77%	-	47%
Infrastructure	2023	£3.8m (0.4%)	No data provided						
	2022	£4.3m (0.5%)	No data provided						

Source: Investment managers / Aon / MSCI. Valuation and metrics gathered as at 31 December 2023. Totals may not sum due to rounding. Excludes assets held in Trustee Bank Account. \*Percentage of total AUM. \*\*Total excluding assets where data has not been provided.

#### Notes:

- Where possible Carbon Footprint has been gathered based on Enterprise Value Including Cash ("EVIC"). However, some managers have provided this figure in terms of total capital stock, and the gilt investments within the LDI

portfolio have been calculated based on tCO<sub>2</sub>e/GDP. For the leveraged gilt holdings within the LDI portfolio, data quality has been capped at the percentage of assets that are eligible for coverage measurement to avoid distortions as in some cases the actual exposure (including leveraged positions) could mean that the coverage ratio could be distorted over 100%.

- We note that carbon data metric calculation methodology for gilt investments and leveraged positions has not yet been agreed industry wide meaning the figures for the LDI portfolio are subject to change in the future and are based on best estimates at the current time.
- Carbon metrics relating to derivative investments have been excluded. The DWP notes that methodologies for calculating metrics in relation to certain asset classes, particularly derivatives (such as Credit Default Swaps, repo and interest rate and inflation swaps), are not yet established. At this time, trustees are not expected to be able to readily calculate emissions associated with derivatives.
- The Portfolio Alignment metric shows the percentage of the portfolio with SBTi Net-Zero initiatives. It does not include companies that are committed to set targets on a later date or set targets based on any other initiative or methodology.
- Data quality reflects the percentage of each portfolio for which carbon data was available, including both reported and estimated figures.

## Observations

- **Scope 1&2 emissions have decreased over the year.** This is largely driven by a decrease in the size of LDI portfolio which is where a significant proportion of the DB assets are invested, although emissions have also fall significantly for the DB equity and multi-asset investments.
- The multi-asset **Scope 1&2 emissions** have fallen by 70% over the year. This is due to a significant reduction in the underlying fund's carbon footprint driven by disinvestment in two holdings with high carbon footprint.
- The **highest Scope 1&2 carbon footprint** comes from the LDI portfolio. That said, the calculation methodology for the underlying components of the LDI portfolio (predominantly gilts) differs to the methodology for the other asset classes shown due to the nature of the investments (i.e., not related to individual company emissions, but in this case, a reflection of the emissions associated with UK GDP).
- **Scope 3 emissions** (including carbon footprint) are **significantly higher than Scopes 1&2 emissions across the board**. The Trustee recognise that Scope 3 emissions are difficult to calculate given they cover the entire value chain and there is high likelihood of double counting emissions across the portfolio. Therefore, it is **difficult to draw meaningful conclusions on Scope 3 data**. We also note that very little Scope 3 data is available for the Scheme's LDI portfolio and our understanding is that this is due to the way emissions for gilt investments are calculated (reflecting total UK economy emissions) and so this data is unlikely to become available in the short-term.
- **Scope 1&2 data quality is generally good. Improvements have been made over the year for all asset classes.** The lowest data quality is for the corporate bond investments and we note that this is the case for bond investments across the market – generally, data quality is lower as debt issuers within portfolios are not subject to the same scrutiny and expectations regarding emissions reporting as their public equity counterparts.
- The portfolio alignment metric shows that between **21 and 54%** of each relevant asset class within the portfolio (equity, corporate bonds and multi asset) already have **SBTi aligned targets in place**. We note that this measure is not applicable to the LDI portfolio (as this would mean the UK Government would have to be SBTi aligned, and the framework currently only applies to private companies) or the infrastructure investments given the direct nature of these assets.
- **No data was provided for the Scheme's infrastructure investments.** We, with the support of our investment consultant, are engaging with the managers regarding the provision of this information in future, although we note that it forms an extremely small part of the Scheme's overall investments (less than 1%) and so is unlikely to be material when considering overall Scheme emissions.



## DC Section Assets

As per the Strategy section of this report, metrics have been gathered in relation to the Scheme's popular DC arrangements only: the Drawdown Lifestyle and the Global Sustainable Growth Fund.

The Drawdown Lifestyle consists of investments in four funds: the Global Sustainable Growth Fund, the Diversified Growth Fund, the Global Sustainable Bond Fund and the UK Index-Linked Gilt Index Fund, with the allocation between these funds varying depending on a member's term to retirement.

As such, the metrics are disclosed in the table below based on the investments in each of these funds.

Fund	Year	Assets invested (£m)	Total GHG (tCO <sub>2</sub> e)	Carbon Footprint (tCO <sub>2</sub> e/£m)	Total GHG (tCO <sub>2</sub> e)	Carbon Footprint (tCO <sub>2</sub> e/£m)	Data Quality Scopes 1 & 2	Data Quality Scope 3	Portfolio Alignment Metric
			Scopes 1 & 2 tCO <sub>2</sub> e	Scopes 1 & 2 tCO <sub>2</sub> e/£m	Scope 3 tCO <sub>2</sub> e	Scope 3 tCO <sub>2</sub> e/£m			Portion of the portfolio with SBTi aligned targets
Global Sustainable Growth Fund	2023	£41.9m (54%)	1,601	39	16,038	390	97%	98%	43%
	2022	£30.8m (42%)	1,159	38	-	-	98%	-	37%
Diversified Growth Fund	2023	£9.5m (12%)	203	29	908	141	74%	67%	36%
	2022	£17.7m (24%)	720	65	-	-	65%	-	32%
Global Sustainable Bond Fund	2023	£2.3m (3%)	101	54	548	293	82%	82%	35%
	2022	£1.7m (2.4%)	118	87	-	-	77%	-	17%
UK Index-Linked Gilt Index Fund	2023	£3.1m (4%)	523	168	No data provided	No data provided	100%	No data provided	Not applicable
	2022	£2.6m (3.6%)	467	178	-	-	100%	-	Not applicable

Source: Investment managers / Aon / MSCI. Valuations and metrics gathered as at 31 December 2023. Totals may not sum due to rounding. \*Total excluding assets where the measure is not applicable.

### Notes:

- Where possible Carbon Footprint has been gathered based on Enterprise Value Including Cash ("EVIC"). However, some managers have provided this figure in terms of total capital stock, and the gilt investments have been calculated based on tCO<sub>2</sub>e/GBP million GDP nominal.
- The Portfolio Alignment metric shows the percentage of the portfolio with SBTi Net-Zero initiatives. It does not include companies that are committed to set targets on a later date or set targets based on any other initiative or methodology.
- Data quality reflects the percentage of each portfolio for which carbon data was available, including both reported and estimated figures.

## Observations and limitations

- The **majority of emissions** for the DC Section come from the investments in the **Global Sustainable Growth Fund**, reflecting that this fund accounts for the majority of the assets both within the Scheme and across the popular arrangements. The Fund also has the highest Scope 3 carbon footprint although this may be a reflection of the most Scope 3 data being available relative to the other popular arrangement funds. We note that there has been an increase in the Global Sustainable Growth Fund's emissions over the year although this is largely due to an increase in overall assets rather than an increase in the carbon footprint of the investments, with the latter remaining in line with last year. We

also note that the carbon footprint of the fund is well below the equivalent carbon footprint for investing in a broad equity market index, reflecting the low-carbon design of the fund.

- The Diversified Growth Fund has seen a large decrease in emissions, driven by a decrease in carbon footprint in one of the underlying funds through disinvestment of two holdings with a high carbon footprint.
- **Scope 3 emissions are significantly higher than Scopes 1&2 emissions across the board.** This is not unexpected given the nature of Scope 3 emissions and potential for double counting emissions across the portfolio.
- **Data quality is generally good** across the DC Section, with data available for c.93% of the popular arrangements for Scope 1&2 which is in an improvement versus last year. Scope 3 data quality is lower, however, we understand from our investment consultants that this is consistent across the industry and not specific to our investment managers. We note that in general, Scope 3 emissions have a higher degree of uncertainty associated with them and can be subject to double counting across supply chains.
- **35-43%** of the relevant assets within each fund across the DC popular arrangements have an **SBTi aligned target**. This is an improvement compared to last year. Similar to the DB LDI portfolio, this measure is not applicable to the investments within the UK Index-Linked Gilt Index Fund (as this would mean the UK Government would have to be SBTi aligned, and the framework currently only applies to private companies). We note that achieving very high degrees of SBTi alignment (e.g. 100%) is unlikely at the current time as guidelines, best practice and methodologies are still being developed for some sectors.
- Not all managers were able to provide Scope 3 data and as a result we have utilised alternative sources (line by line holdings analysis) in order to fill these gaps. We, with the help of our investment consultant, will engage with these managers to ensure the provision of this data directly in future to improve consistency across our climate-related disclosures.

# Looking to the future: Our climate-related target

Climate-related targets help the Trustee track its efforts to manage the Scheme's climate-change risk exposure.

The Trustee has set a climate-related target as follows:



**Achieve 70% of assets in each applicable asset class as having an SBTi verified net-zero target, or subject to structured engagement by 2030**

*Notes: Applicable asset classes include equity, corporate bonds and multi-asset funds. Engagement is considered as engagement with the underlying companies through investment managers, measured via the use of voting rights and evidence provided by investment managers.*

This target was set following discussion on what target would be most appropriate for both the DB and DC Sections of the Scheme and there was a preference for a target that would still be useful even if there were changes to the asset allocation, would both reduce climate risk within the portfolio whilst also enhancing the impact of the portfolio in reducing emissions in the real economy.

The Trustee believes that setting a target in relation to the portfolio alignment metric, which has a forward-looking element, links more strongly to engagement rather than divestment, and is more likely to achieve a real-world reduction in emissions than a portfolio carbon reduction target.

The Scheme's performance against the targets will be measured, reported on and considered for appropriateness every year. Over time, this will show the Scheme's progress against the targets. The Trustee recognises that positive outcomes may be outside of its control, as a result, targets have been set where the Trustee expects to be able to have the greatest influence.

As at 31 December 2023, 21-54% of the Scheme's DB applicable asset classes and 35-43% of the Scheme's DC applicable asset classes within the popular arrangements had an SBTi verified net zero target, or were subject to structured engagement.

DB Section	SBTi verified net-zero target in place		SBTi verified net-zero target in place, or subject to structured engagement	
	2022	2023	2022	2023
Corporate Bonds	22%	21%	Not reported	37%
Global Equities	52%	54%	Not reported	58%
Multi Asset	47%	51%	Not reported	54%

Source: Investment managers / Aon / MSCI.

DC Section	SBTi verified net-zero target in place		SBTi verified net-zero target in place, or subject to structured engagement	
	2022	2023	2022	2023
Global Sustainable Growth Fund	37%	43%	Not reported	54%
Diversified Growth Fund	32%	36%	Not reported	45%
Global Sustainable Bond Fund	17%	35%	Not reported	44%

Source: Investment managers / Aon / MSCI.

The proportion of SBTi verified targets have increased for most applicable DB asset classes, excluding the DB's Corporate Bond fund. Similarly, the proportion of SBTi verified targets has also increased for all in scope funds within the DC arrangement, in particular, for Global Sustainable Growth Fund. It is also positive to not that managers are engaging across their portfolios, with the overall percentage of assets either SBTi verified or under engagement higher than just those assets that are SBTi approved.

We, with the help of our investment consultant, will continue to engage with managers to identify issues and encourage them to promote SBTi alignment within their investments.

## What is the Trustee doing to reach the target?

The Trustee is taking the following steps to reach the target:

- Continuing to engage with the Scheme's managers to understand how they are engaging to increase the percentage of companies with an SBTi verified net-zero target
- Continuing to engage with the Scheme's managers to understand how they are engaging to manage climate-related risks for companies that do not yet have an SBTi-verified net-zero target

# Appendices

# Glossary

<b>Governance</b>	refers to the system by which an organisation is directed and controlled in the interests of shareholders and other stakeholders. <sup>6</sup> Governance involves a set of relationships between an organisation's management, its board, its shareholders, and other stakeholders. Governance provides the structure and processes through which the objectives of the organisation are set, progress against performance is monitored, and results are evaluated. <sup>7</sup>
<b>Strategy</b>	refers to an organisation's desired future state. An organisation's strategy establishes a foundation against which it can monitor and measure its progress in reaching that desired state. Strategy formulation generally involves establishing the purpose and scope of the organisation's activities and the nature of its businesses, taking into account the risks and opportunities it faces and the environment in which it operates. <sup>8</sup>
<b>Risk management</b>	refers to a set of processes that are carried out by an organisation's board and management to support the achievement of the organisation's objectives by addressing its risks and managing the combined potential impact of those risks.
<b>Climate-related risk</b>	refers to the potential negative impacts of climate change on an organisation. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise). Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations.
<b>Climate-related opportunity</b>	refers to the potential positive impacts related to climate change on an organisation. Efforts to mitigate and adapt to climate change can produce opportunities for organisations, such as through resource efficiency and cost savings, the adoption and utilization of low-emission energy sources, the development of new products and services, and building resilience along the supply chain. Climate-related opportunities will vary depending on the region, market, and industry in which an organisation operates.

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<sup>6</sup> A. Cadbury, [Report of the Committee on the Financial Aspects of Corporate Governance](#), London, 1992.

<sup>7</sup> OECD, [G20/OECD Principles of Corporate Governance](#), OECD Publishing, Paris, 2015.

<sup>8</sup> TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017



<b>Greenhouse gas emissions (“GHG”) scope levels<sup>12</sup></b>	<p>Greenhouse gases are categorised into three types or ‘scopes’ by the Greenhouse Gas Protocol, the world’s most used greenhouse gas accounting standard.</p> <p>Scope 1 refers to all direct GHG emissions.</p> <p>Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam.</p> <p>Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include: the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g., transmission and distribution losses), outsourced activities, and waste disposal.<sup>13</sup></p>
<b>Value chain</b>	<p>refers to the upstream and downstream life cycle of a product, process, or service, including material sourcing, production, consumption, and disposal/recycling. Upstream activities include operations that relate to the initial stages of producing a good or service (e.g., material sourcing, material processing, supplier activities). Downstream activities include operations that relate to processing the materials into a finished product and delivering it to the end user (e.g., transportation, distribution, and consumption).<sup>14</sup></p>
<b>Climate scenario analysis</b>	<p>is a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. In the case of climate change, for example, scenarios allow an organisation to explore and develop an understanding of how the physical and transition risks of climate change may impact its businesses, strategies, and financial performance over time.</p>
<b>Net zero</b>	<p>means achieving a balance between the greenhouse gases emitted into the atmosphere, and those removed from it. This balance – or net zero – will happen when the amount of greenhouse gases add to the atmosphere is no more than the amount removed.<sup>16</sup></p>

<sup>12</sup> World Resources Institute and World Business Council for Sustainable Development, [The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard \(Revised Edition\)](#), March 2004.

<sup>13</sup> IPCC, [Climate Change 2014 Mitigation of Climate Change](#), Cambridge University Press, 2014.

<sup>14</sup> TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017

<sup>16</sup> Energy Saving Trust, [What is net zero and how can we get there? - Energy Saving Trust](#), October 2021

# Appendix – climate scenario modelling

## Assumptions and limitations

The purpose of the climate scenario modelling is to consider the impact of climate-related risks on the Scheme's assets and liabilities over the long-term.

The scenario modelling assumes a deterministic projection of assets and liabilities on the Technical Provisions basis, using standard actuarial techniques to discount and project the Scheme's expected future cashflows.

- i. It models the full yield curve as this allows for a more accurate treatment of the liabilities and more realistic modelling of the future distribution of interest rates and inflation.
- ii. The modelling parameters vary deterministically for each scenario.

The liability projections are approximate, but they are appropriate for this analysis. However, a full actuarial valuation carried out at the same date may produce a materially different result.

The scenario modelling focusses on the impact of climate change on the Scheme's assets and liabilities. It does not consider the impact climate change could have on the covenant risk or mortality risk.

The scenario modelling reflects recent market conditions and current market views. The model may produce different results for the same strategy under different market conditions.

## Key Assumptions

	Temperature risk by 2100	Reach net zero by	Carbon price (2030/2050)	Introduction of environmental regulation
No transition	+4°C	After 2050	\$50 / \$60	None
Disorderly transition	<3°C	After 2050	\$65 / \$340	Late and aggressive
Orderly transition	1.3°C - 2°C	2050	100 / \$215	Coordinated

Source: Aon

## Appendix – Greenhouse gas emissions in more detail







Greenhouse gases in the atmosphere, including water vapour, carbon dioxide, methane, and nitrous oxide, keep the Earth's surface and atmosphere warm because they absorb sunlight and re-emit it as heat in all directions including back down to Earth. Adding more greenhouse gases to the atmosphere makes it even more effective at preventing heat from leaving the Earth's atmosphere.

Greenhouse gases are vital because they act like a blanket around the Earth making it the climate habitable. The problem is that human activity is making the blanket "thicker". For example, when we burn coal, oil, and natural gas we send huge amounts of carbon dioxide into the air. When we destroy forests, the carbon stored in the trees escapes to the atmosphere. Other basic activities, such as raising cattle and planting rice, emit methane, nitrous oxide, and other greenhouse gases.

The amount of greenhouse gases in the atmosphere has significantly increased since the Industrial Revolution. The Kyoto Protocol<sup>17</sup> identifies six greenhouse gases which human activity is largely responsible for emitting. Of these six gases, human-made carbon dioxide is the biggest contributor to global warming.

Each greenhouse gas has a different global warming potential and persists for a different length of time in the atmosphere. Therefore, emissions are expressed as a carbon dioxide equivalent (CO<sub>2</sub>e). This enables the different gases to be compared on a like-for-like bases, relative to one unit of carbon dioxide.

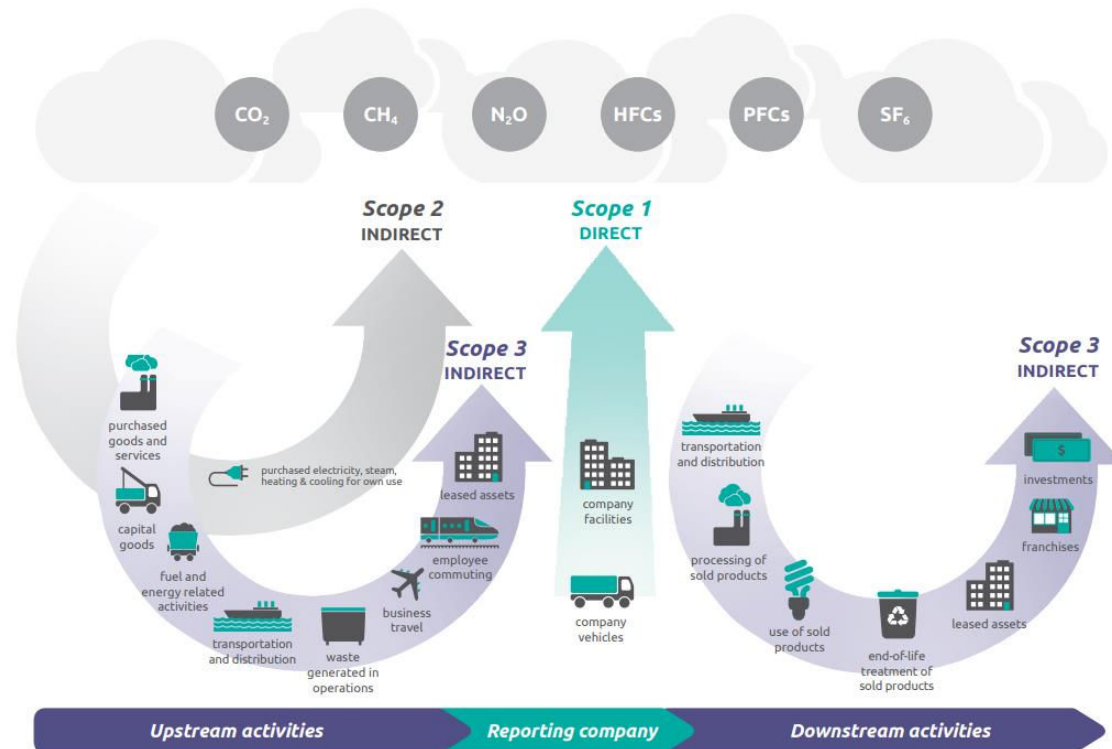
### Six main greenhouse gases identified by the Kyoto Protocol

					
Carbon dioxide	Methane	Nitrous oxide	Hydro-fluorocarbons	Per-fluorocarbons	Sulphur hexafluoride
CO <sub>2</sub>	CH <sub>4</sub>	N <sub>2</sub> O	HFCs	PFCs	SF <sub>6</sub>

<sup>17</sup> [https://unfccc.int/kyoto\\_protocol](https://unfccc.int/kyoto_protocol)

Greenhouse gases are categorised into three types or 'scopes' by the Greenhouse Gas Protocol, the world's most used greenhouse gas accounting standard.

#### Overview of GHG Protocol scopes and emissions across the value chain



Source: Greenhouse Gas Protocol, [Corporate value chain \(scope 3\) Accounting and Reporting Standard](#), 2011