The Morrisons Retirement Saver Plan – Disclosures in respect of TCFD for the Plan year ending 5 April 2023

Introduction

This report sets out the approach of the Trustee ("the Trustee") of the Morrisons Retirement Saver Plan ("the Plan") with regard to assessing, monitoring and mitigating climate-related risks in the context of the Trustee broader regulatory and fiduciary responsibilities to their members. The Plan consists of two sections, the Morrisons 1967 Section and the RSP Section. The report has been written predominantly for the Plan as a whole, rather than with respect to the individual sections. However, where appropriate, the information provided within this report has been set out for each Section and indicated by the relevant headings.

The Trustee believes that climate change is a systemic risk and in order to ensure a sustainable future and to safeguard economic growth, that concerted global action is required to tackle the climate crisis. The Trustee also believes that improved transparency on climate-related matters will lead to improved investment decisions which in turn will improve member outcomes. Therefore, the Trustee are supportive of any initiative that helps improve disclosures and enhances transparency.

The Taskforce on Climate-related Financial Disclosures ("TCFD") framework provides a structure for companies, asset managers, asset owners, banks and insurance companies to outline the steps they have undertaken to identify, manage and monitor climate related risks and opportunities. The framework is designed to increase comparability but allow sufficient flexibility to communicate the specific approach adopted by each entity. As such, the Trustee supports the TCFD recommendations.

From 1 October 2021, pension schemes above a certain size have been required to comply with the TCFD requirements for pension schemes. These requirements applied to the Plan from 1 October 2022, as a scheme with assets in excess of £1bn as at the assessment date of 5 April 2021 and subsequent Plan year end of 5 April 2022. The Trustee has therefore been undertaking TCFD requirements over the past year, with this report being the first TCFD Report, produced for the Plan for the year to 5 April 2023.

Should the Plan's assets (when excluding insured assets) proceed to fall under the lower threshold of £500m at a subsequent year end date, the Plan will no longer be subject to these requirements. However, in this instance, the Trustee will continue to progress the relevant actions that are important to the Plan, its members and the Trustee as appropriate and proportionate to the Plan's size. More detail on this can be found in the report summary section on page 3.

Background

The Taskforce on Climate-related Financial Disclosures (TCFD) was commissioned in 2015 by Mark Carney in his remit as Chair of the Financial Stability Board. The TCFD was asked to develop voluntary, consistent climate-related financial disclosures that would be useful in understanding material climate-related risks. In 2017 the TCFD released its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. Guidance was also released to support all organisations in developing disclosures consistent with the recommendations, with supplemental guidance released for specific sectors and industries, including asset owners. For the pensions industry, relevant guidance has been produced by the Pensions Climate Risk Industry Group (PCRIG).

The Task Force's report establishes recommendations for disclosing clear, comparable and consistent information about the risks and opportunities presented by climate change. Their widespread adoption will ensure that the effects of climate change become routinely considered in business and investment decisions. Adoption of these recommendations will also help better demonstrate responsibility and foresight in their consideration of climate issues, leading to smarter, more efficient allocation of capital, and helping to smooth the transition to a more sustainable, low carbon economy.

The Task Force divided climate-related risks into two major categories: risks related to the transition to a lower-carbon economy; and risks related to the physical impacts of climate change. The TCFD report noted that climate-related risks and the expected transition to a lower carbon economy affect most economic sectors and industries, however, opportunities will also be created for organisations focused on climate change mitigation and adaptation solutions. The report also highlights the difficulty in estimating the exact timing and severity of the physical effects of climate change.

The Task Force structured its recommendations around four thematic areas that represent core elements of how organisations operate: governance, strategy; risk management; and metrics and targets. The four overarching recommendations are supported by recommended disclosures that build out the framework with information that will help investors/stakeholders understand how reporting organisations assess climate related risks and opportunities. The disclosures are designed to make TCFD-aligned disclosures comparable, but with sufficient flexibility to account for local circumstances.

This report provides details of our approach against the four pillars:

- **Governance**: The Plan's governance and oversight around climate-related risks and opportunities.
- **Strategy**: The actual and potential impacts of climate-related risks and opportunities on the Plan's strategy and financial planning.
- **Risk management**: The processes used by the Plan 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.

As well as developing the Plan's own reporting for TCFD, the Trustee expects the underlying investment managers to be aligned with TCFD. The Trustee will continue to monitor this through our regular reporting and ongoing dialogue with the Plan's managers.

Appendix I contains a glossary of words and phrases that are included throughout the report with further explanation and detail.

Report Summary

A summary of this report and the key highlights across each of the four pillars of *TCFD* is set out below.

The Plan's position

While the Plan was in scope of the TCFD for the year ending 5 April 2023, during December 2022 the Plan completed a buy-in in respect of the majority of members' benefits in the 1967 Section. As at the Plan year-end, the Plan was predominantly invested in insured assets (in respect of this buy-in and one other that the 1967 Section holds). The remainder of assets, which remain invested, are in respect of member's benefits in the RSP Section and illiquid assets in the 1967 Section (which will be used to fund a deferred premium arrangement that was agreed with the insurer in late 2022 for the latest buy-in).

As such, whilst the Plan is in scope of the TCFD requirements for the year ending 5 April 2023, as non-insured assets for the Plan may have fallen below the required threshold of £500m, the Trustee will consider whether the Plan remains in scope with a report expected for the year ending 5 April 2024. In the interim, the Trustee expects to take a proportionate approach to ensure they remain compliant with the requirements. This report reflects the position as at 5 April for the Plan, and the Trustee will continue to progress relevant actions that are important to the Plan and its members as appropriate and in a manner that is proportionate to the Plan's size and situation.

Governance

The Plan has a Responsible Investment ("RI") policy in place that sets out the roles, responsibilities and approach of the Trustee, as well as other relevant parties, to climate-related issues. Several entities provide advice and support to the Trustee, but the Trustee retains overall responsibility for the Plan and managing relevant climate-related risks and opportunities.

The Statement of Investment Principles for the Plan includes the Trustee's approach to investment more broadly, including how Environmental, Social and Governance ("ESG") issues are taken into account within this approach. The Statement of Investment Principles for both the 1967 Section and the RSP Section can be viewed at https://www.morrisons-corporate.com/about-us/pension-scheme/

The Trustee considers climate change to be a key risk to the Plan and have embedded climate-related issues across their strategic decision-making and other governance processes. This includes the advice that is provided to the Trustee, training that is received and Plan risk management processes, which are described in more detail later in this report.

Strategy

The Trustee have agreed short, medium, and long term time horizons relevant to the Plan in order to support the identification of the mix of climate-related risks and opportunities that may manifest over these time horizons for the Plan. This has included liaising with relevant advisors, the Plan's investment managers and the Sponsor in order to ensure the risks identified cover the Plan strategy more broadly. This includes the funding of the Plan, the Plan's investment strategy and the Sponsor's covenant, as well as how these elements of the strategy interact.

The Trustee has undertaken work in order to understand the climate related risks within the Plan's overall strategy and embedded consideration of these risks, where appropriate, within the strategy.

During the Plan year, given the insurance of the majority of the Plan's benefits, the Trustee undertook qualitative scenario analysis at the year-end date. This considers the resilience of the Plan to various climate scenarios as outlined in more detail under Strategy disclosure 3. Given the Plan's position at year-end with respect to the high proportion of insured assets and remaining illiquid assets for the 1967 Section and low-risk strategy for the RSP Section, the Trustee is satisfied that the Plan is resilient to climate-related risks across the scenarios considered.

Risk management

The Trustee has a risk management policy in place that shows how climate is taken into account in all Plan processes and integrated into overall risk management. The Trustee has a clear approach to the management of risks posed to the Plan, which includes climate-related risks.

The Trustee has identified Environmental, Social and Governance issues (and, within this, climate-related risks) as a risk to the Plan and there are clearly identified controls and actions in place to manage and monitor these risks.

The Trustee has embedded the consideration of climate-related risks into our broader risk management approach and consider climate risks as part of the Plan's wider strategy across funding, investment and covenant considerations.

Metrics and targets

The Trustee has selected a number of climate metrics by which to measure the Plan's position and exposure to climate risks and opportunities. Currently the data available for the Plan's assets across the spectrum of metrics chosen is very poor and, as such, the Trustee has set individual targets for each mandate in order to improve this data quality. Once data quality has improved, the Trustee will be able to better assess the Plan's position with respect to and exposure to climate-related risks and opportunities.

Next steps

Over the coming year, the Trustee will continue to progress relevant actions that are important to the Plan and its members as appropriate and in a manner that is proportionate to the Plan's size and situation. This will include using information about climate-related risks and opportunities to help inform decision making where appropriate.

The following pages provide detail on the Plan's climate risk disclosures for the year ending 5 April 2023.

Governance

Disclosure 1: Describe the board's oversight of climate-related risks and opportunities.

Climate risk and opportunities, as well as other climate-related issues such as policy directions, have been built into the Trustee's regular activities wherever possible, to ensure that the Trustee maintains appropriate oversight of all relevant climate-related issues and related decisions.

Training

The Trustee received training on relevant climate issues and broader Environmental, Social and Governance ("ESG") risks at the Trustee meeting in Q1 2022. There was also additional training provided to the Investment and Strategy Sub-Committee ("ISSC") on climate related metrics in order to identify the appropriate climate metrics for the Plan. Further training will be undertaken as required to maintain the Trustee's knowledge and understanding of the topic and how it applies to the Plan.

Investment beliefs

The Trustee have a set of RI beliefs in place for the Plan, which include climate-related beliefs. These beliefs are documented in the Plan's RI Policy. The Trustee expect to review other Plan documentation, including objectives and decision-making framework, to embed these beliefs within the wider Plan governance.

The Trustee plan to review these beliefs at a high-level on an annual basis, with a more in-depth review being undertaken on a three-year basis.

Responsible Investment Policy

The Trustee have prepared and agreed a formal RI policy for the Plan that outlines their approach to climate-related issues and further details on oversight of climate risks and opportunities. The policy also sets out roles and responsibilities relating to climate-related issues and how these are brought to the Trustees' attention.

Trustee responsibilities and oversight

The Trustee has overall responsibility for ensuring that RI considerations, including climate change, are taken into account, where relevant, in all areas of the Plan's management and retains overall responsibility for the setting and implementation of the Plan's RI Policy (as set out in the Plan's Statement of Investment Principles). This includes responsibility for ensuring all regulatory requirements are met and that the Plan's governance processes are sufficient to ensure the proper management of all ESG related risks.

Delegation

However, in fulfilling their duties, the Trustee delegates certain responsibilities to other parties. The parties with a role in the Plan's management, how they incorporate the identification, assessment and management of climate related risks and opportunities into that role and the methods the Trustee uses to assess each party is set out further in this document below.

Oversight of the Investment and Strategy Sub-Committee ("ISSC")

This includes delegating the formal monitoring of the Plan's investments to the ISSC, who meet on a periodic basis, and at least annually to discuss the investment objectives, investment management structure and policy direction of the Plan's assets, thus including the overall RI Strategy of the Plan and its implementation.

Implementation of the overall investment strategy, including implementation of the Plan's RI Policy is delegated to the ISSC. The ISSC are responsible for developing the RI policy, associated implementation process and a monitoring framework for assessing progress against stated RI goals. The ISSC have Terms of Reference in place that cover the responsibilities they have with respect to RI.

The ISSC reports to the Trustee on a regular basis, at Trustee meetings which are held at least three times a year, and recommends any further action. The Trustee remains responsible for reviewing the content of the RI policy and monitor developments that may affect the approach to the investment of the Plan, such as the appropriate RI considerations.

The Trustee recognise that the overall responsibility for managing the Plan, including managing the Plan with respect to climate-related issues and oversight of any delegated responsibilities, lies with the Trustee Board.

Oversight of the Plan's investment managers

There are a number of responsibilities delegated to the investment managers of the Plan's assets. These asset managers are monitored on an ongoing basis by the Trustee with a specific focus on climate-related issues undertaken by the ISSC. The Trustees' investment consultant assists with the ongoing monitoring of the investment managers, including rating the approach of the managers with respect to climate related issues. Further details on these responsibilities are also included under Governance disclosure 2.

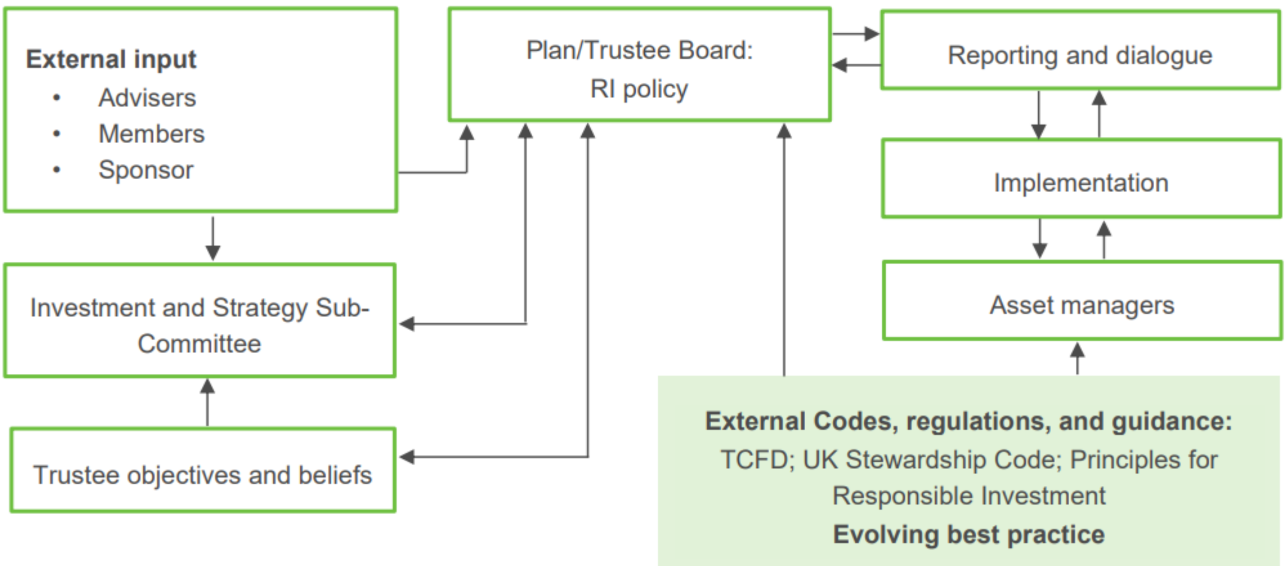
Oversight of the Plan's advisers

The Trustee and the ISSC also receive advice and support regarding ESG and climate related risks and opportunities from its investment adviser, Hymans Robertson and Actuarial advisers, Mercer. As part of their work, the Plan's advisers also identify climate related risks and opportunities for the Plan and report to the Trustee as appropriate.

Oversight of the Plan Sponsor's approach to climate change

The Plan's Sponsor, Wm Morrison Supermarkets Limited, maintains responsibility for the ongoing funding of the Plan. The Sponsor will be consulted by the Trustee in the development of strategy, including any high-level commitments made by the Trustee that could have a direct or indirect impact on the funding of the Plan or the reputation of the Sponsor. We maintain an ongoing dialogue with the Sponsor to ensure both parties are aware of each other's approach in this area. We ensure those issues relevant to the Plan are considered where appropriate and aim to ensure synergy between the Plan and Sponsor's approach to climate related issues.

The below diagram explains how the Plan's RI policy and key parties inform the Plan's approach to RI.



Disclosure 2: Describe management's role in assessing and managing climate-related risks and opportunities.

There are a number of parties with a role in the Plan's management and who feed into the identification, assessment and management of RI, and in particular climate related, risks and opportunities. These parties and their role in the Plan's overall approach to climate-related issues, including the assessment and management of climate risks and opportunities, is set out below alongside with the methods the Trustee uses to assess each party.

Additionally, the Trustee maintains ongoing dialogue with the Plan Sponsor, including updates provided by a Sponsor representative at each Trustee meeting. This dialogue includes the Sponsor's approach to climate-related issues to ensure those relevant to the Plan are considered where appropriate and ensure synergy between the Plan and Sponsor's approach to climate related issues.

The Trustee

The role of the Trustee is to oversee the management of the Plan's strategy, assets and investments. The Trustee of the Plan has established an ISSC comprising of at least five members of which at least three of whom must be Directors of the Trustee Board.

The Trustee is accountable for the investment strategy and implementation of the Plan's assets, including the integration of RI considerations. The Trustee is ultimate owner of the Plan's RI Policy. We also have responsibility to ensure appropriate levels of resource to complete all RI associated requirements, including TCFD reporting. We annually review our own role and responsibilities as well as those of the service providers to the Plan.

Investment and Strategy Sub-Committee ("ISSC")

The ISSC is a sub-set of the Trustee Board. The ISSC has a number of key aims that span broader investment issues, but the key aims of the Committee relating to RI are to identify and carry out all key tasks required to enable the Trustee to:

1. Act in line with the beliefs and principles set out in the Trustee's agreed RI policy.
2. Continue to progress towards becoming more active in all areas of RI.
3. Meet the requirements of the new climate related regulations that came into force from October 2021.

The ISSC have agreed Terms of Reference ("ToR") which set out the composition and key responsibilities of the Committee.

The ISSC provide regular updates to the Trustee at their meetings, which are held at least three times a year.

In-house Pensions Team

The Pensions Team support the Trustee arranging meetings and taking forward agreed actions between meetings. The Pensions Team also has responsibility to ensure appropriate levels of resource to complete all RI associated requirements, including TCFD reporting.

Investment Advisers

The Plan's investment advisers, Hymans Robertson, are responsible for assisting the ISSC and Trustee to ensure climate related risks and opportunities are embedded into all investment decisions. They provide advice and training to the Trustee and ISSC regarding regulatory requirements and are expected to incorporate RI considerations into any advice regarding strategy changes and/or manager appointments.

The Trustee have set objectives for their Investment Adviser which include objectives relating to the adviser's support in all RI considerations. The Investment Adviser is assessed against these objectives annually and the objectives themselves are assessed regularly to ensure they remain appropriate.

Actuarial Advisers and Covenant Advisers

The Plan's Actuarial advisers, Mercer, are responsible for identifying any RI considerations which should be incorporated into the Plan's funding strategy (both short and long term) and in the Plan's integrated risk management plan. This will include the setting of individual financial and demographic assumptions and also the Trustee's assessment of the covenant of the Sponsor.

Investment Managers

The Plan's investment managers are expected to integrate ESG considerations, including climate change, to the extent possible, into their management of each of the Plan's mandates.

On the appointment of any new manager, the ISSC assesses each manger's RI capabilities, with assistance from their Investment Adviser, to determine if that manager's approach is aligned with the Trustee's RI Policy. Once appointed, the ISSC and Trustee monitor all managers regularly, assessing each manager's RI processes and policy at the annual Manager Day. Managers are challenged on any issues identified. The ISSC also liaises with the investment managers in relation to RI matters, as required.

Plan Sponsor

The Trustee's assessment of the covenant of the Sponsor is undertaken through ongoing dialogue with the Sponsor. The Sponsor, within their communication to the Trustee, support the Trustee in identifying any climate considerations which should be incorporated into the Plan's strategic discussions and in the Plan's integrated risk management plan.

Strategy

Disclosure 1: Describe the climate-related risks and opportunities the Trustee has identified over the short, medium and long-term.

When considering the impact on the Plan, climate risk can be defined as the potential impact on future financial returns that may arise from climate change. Climate risk is typically split into two parts – transition risk and physical risk. These risks may vary in likelihood and intensity over different time horizons and dependent on how quickly, and how well, the world transitions to a low-carbon economy. This is laid out in the diagram below:

Aggressive mitigation — Business as usual

Transition to a low carbon economy - transition risks dominate.
- Policy changes, e.g. *carbon pricing*, seek to create the changes needed in society.
- Technology development, e.g. renewable energy, and adoption enable the changes to be adopted.

Physical risks and impacts dominate.
- Chronic changes, e.g. sea level rise, agricultural systems impact economic and social systems.
- Acute changes, e.g. storms, wildfires create damage and give rise to costs of adaptation and reconstruction.

The Plan is a long-term investor. Given the nature of climate change and the time-horizons over which impacts of climate change may be felt, it can be expected that climate risk will impact the Plan in various ways. However, it is important first to define the different time-horizons which may be considered, in order to clarify whether the different risks and opportunities arising from climate change may impact the Plan in the short-, medium- or long-term.

In the context of the Plan, this report refers to short, medium and long-term time horizons. The Trustee has defined what these time-horizons mean for the Plan in more detail as set out below:

Short-term time horizon: One year (i.e. to 5 April 2024)

The Trustee chose a one year rolling period as the short-term time horizon for the Plan. The rationale behind this included consideration of the expected risk transfer plans for the Plan at the time of setting this time horizon. The Trustee also recognised that having one-year short term interim targets for the Plan, as well as undertaking other relevant activities on an annual basis, thereby meaning that a one-year period is well aligned to the annual nature of TCFD actions and reporting.

Medium-term time horizon: Three years (i.e. to 5 April 2026)

Although short in the context of member lifetimes, when taking into account the option for the Plan to possibly buy-out in future, the Trustee has chosen 3 years as a medium-term time horizon. This in line with the Plan's actuarial valuation cycle, as well as the triennial nature of other required Plan actions, such as investment strategy reviews and the requirement to undertake scenario analysis on an at least a triennial basis.

Long-term time horizon: Ten years (i.e. to 5 April 2033)

The above time horizon was chosen reflective of the Plan's option to consider moving to buy-out in the coming years but balanced with, and building in, the potential for longer term considerations such as expected member lifetime and the long-term approach to climate risk of the chosen insurers.

The Trustee will review these time-horizons annually as part of meeting the TCFD requirements and amend them as appropriate to Plan circumstances, should they materially change.

Consideration of climate-related risks and opportunities over the chosen time horizons

Transition risks are expected to feature more prominently over shorter-time periods. This view is predominately driven by the likely escalation in climate change regulation over the short to medium term. Over longer periods, physical risks are expected to feature increasingly – however the balance between the transitional and physical risks experienced will depend on the approach taken to climate change and the speed with which the world transitions to a low-carbon economy. Both transition and physical climate risks will likely manifest during the lifetimes of the Plan's membership as a whole.

Risks relating to climate change are identified through the various processes involved in managing the Plan, which are set out in the Risk Management section of this report.

Climate risks may be identified, assessed and monitored in a number of different ways. These approaches include looking at climate risks and opportunities in detail for each asset in which the Plan invests. The Trustee assesses climate-related risks and opportunities when setting investment and funding strategy, taking into account covenant, to ensure a holistic and consistent approach. Table 1 sets out a summary of the key climate-related risks that have been identified and are being monitored. This table identifies climate risks at the total Plan level, looking at high level impacts on strategy, funding, and covenant. As part of this process, the Trustee engages with their advisers and investment managers on possible management of the risks and other improvements that can be made.

Individual mandate analysis – i.e. understanding the risks and opportunities to individual Plan assets – has not been undertaken during the year, due to the significant changes to the allocation of the assets and the proportion which are, as at the Plan year end date, now insured. Some consideration has been given to the potential risks that may arise for the Plan, as appropriate, in the table below, however the Trustee notes that the majority of climate-related risks are mitigated by the insurance of the majority of Plan benefits.

The Trustee also considers how the impacts of climate-related risks will manifest over the short-, medium- and long-term. Further detail on the risk management processes in place for the Plan are also set out in the Risk Management section of this report.

How climate-related risks and opportunities impact the Plan's strategy

Table 1 overleaf sets out a summary of the key risks the Trustee has identified for each area of the Plan's strategy. The Trustee uses a RAG (red, amber, green) status to assess the impact of these risks over the short-, medium- and long-term where red is severe impact and green is low impact.

Table 1 – Identified climate risks to the Plan

Risk areas	Climate Risks			
		Impact		
	Identified Risks	Short term	Medium term	Long term
Investment	Short/medium term, exposed to climate risks through investee companies in remaining return seeking assets and non-government matching assets. Long term plans will see continued exposure to UK Government, investee companies in non-government matching assets and insurers via buy-ins. Currently the UK Government has set *net zero* target of 2050, but policy and politics may influence the chance of achieving this. Long term ability to reduce carbon footprint of portfolio will be linked to UK Government policy.			
Funding	Longevity impact from climate change and potential uncertainties in the funding assumptions introduced by climate risk. Impact of climate risk on longevity trends will take time to emerge so might expect minimal impact short term with the greatest impacts longer term. Inflation and interest rate changes will impact the residual liabilities of the Plan, but these liabilities are well hedged so not considered a material climate-related risk.			
Covenant	Company not delivering strategies for tackling climate change and / or emergence of key climate risks identified impacting *covenant* strength. However, the reliance on the covenant is very low, thereby significantly reducing the potential impact of this risk.			

Risk management and controls

As at the Plan year end of 5 April 2023, c.62% of the Plan's assets were held in insurance contracts (net of the outstanding deferred premium). This amounted to c.£769m of the total assets of £1,238m for the Plan. At the time of writing this report the figures for 5 April 2023 are unaudited, so this may change slightly. The Trustee considers both the investment and funding aspects of the Plan benefits to which the insured assets relate to be well managed with respect to potential impacts of climate change over the short, medium and longer term due to the nature of buy-ins.

Of the remaining assets, £174m (c14% of the total Plan assets) are held in LDI and cash funds, which will be subject to the risks in respect of the UK Government. However, the Trustee is comfortable that this portfolio is also well mitigated against the impacts of climate-related risks at an overall strategy level due to the expectation that the assets of the portfolio will broadly match the liabilities to which they relate. As at 5 April, the Plan held c.£295m (c.24% of the total Plan assets) in non-Government and non-cash assets at the point of writing this report. These assets are monitored by the Trustee with respect to climate related risks, which will be further informed by the Plan's chosen climate-related metrics for these funds when available. At this point in time, the Trustee is satisfied that these assets are well managed, with appropriate controls in place, with respect to climate-related risks through manager processes and ongoing monitoring.

Overall, with the 1967 Section of the Plan being predominantly bought in and the RSP Section holding a de-risked investment strategy, the Trustee considers the funding and investment strategy of the Plan to have low potential for climate-related impacts. The reliance on Sponsor covenant is also low over the short, medium, and long term and so has also been indicated as low within the table above.

Disclosure 2: Describe the impact of climate-related risks and opportunities on the Plan's strategy and financial planning.

The systemic nature of climate change risk has the potential to reduce returns across all asset classes and will have a macro-economic impact that could affect the entire Plan. Equally, however, the need to transition to a low carbon economy and the innovation that will be required presents several potential investment opportunities.

Over recent years the Trustee has spent time embedding climate risk and opportunities, as part of broader ESG issues, within its investment processes. This has largely been in the form of engaging with the Plan's investment managers and, when setting investment strategy, considering the resilience of the investment strategy to climate change risks.

The Trustee has identified a number of actions that will be important to undertake to manage climate risk as well as progress against the targets and commitments the Trustee has agreed for the Plan. Examples of these actions, which include actions already being undertaken by the Trustee and relevant parties as described in Governance disclosure 2, include:

- Enhance the management of ESG issues and climate change;
- Monitor the Government's approach to how pension schemes should take climate-related issues into account via statutory guidance and legislation;
- The Trustee holds annual meetings with each of the Plan's investment managers to understand how that manager integrates climate change and other ESG risks and opportunities into their investment process;
- The Trustee has agreed targets on the climate-related metrics for the Plan targets and will monitor performance against these targets on an ongoing basis, with this performance being considered as part of regular strategy reviews;
- When assessing strategy changes to be taken for the Plan, the Trustee has taken into account the climate risks and ESG characteristics of each mandate when selecting the types of investment to increase/reduce exposure to;
- The Trustee undertook climate scenario analysis in respect of their broader funding and investment strategy (covered further in the section below); and
- By including specific references to ESG and climate related risks within the objectives of our strategic advisers, as well as part of our defined approach to training, the Trustee receive training on the management of climate related risks and opportunities.

Disclosure 3: Describe the resilience of the Plan's strategy, taking into consideration different climate-related scenarios, include a 2C or lower scenario.

Climate change has the potential to pose both material risks and opportunities to pension schemes over the longer term. The Trustee therefore considers it an important factor when thinking about the management of the funding and investment strategies. Given the Plan’s strong funding position and limited reliance on the Sponsor, the Trustee believes the Plan’s strategy is broadly resilient, assuming the financial system continues to function effectively.

However, in order to assess the resilience of the Plan’s investment strategy to climate risk, the Trustee has set out below some high level qualitative climate scenario analysis of the Plan’s strategy, taking into account the position of the Plan as at 5 April 2023 and the proportion of the liabilities that are insured. The scenario analysis considers the impact on strategy under three scenarios, which differ by how quickly and decisively the world responds (or fails to respond) to climate change.

This analysis considers the resilience of the Plan’s strategy over the short-, medium- and long-term time horizons to these climate scenarios, which estimate the impact to the Plan of temperature rises equivalent to 1.5°C, 2°C and 4°C above pre-industrial times, as detailed in the scenario graphic below. The high-level results of the scenario analysis are:

- The Plan could see small reductions in funding under all scenarios, but at different points in time. This is primarily due to the time periods over which these scenarios would manifest.
- However, at the point in time when the potential risks and related impacts may manifest under the delayed transition and head in the sand scenarios, the Plan is expected to have more/all benefits insured and therefore the funding strategy of the Plan will not be impacted.
- Regardless, the Trustee will carefully monitor the funding position and strategy of the Plan with care to which of the above scenarios may be most likely to occur and, when appropriate, make adjustments in order to best mitigate against the mix of transition and physical risks that could manifest.

Aggressive mitigation ← → Business as usual

Green Revolution	Delayed Transition	Head in the Sand
Concerted policy action starting now e.g. carbon pricing, green subsidies Public and private spending on “green solutions” Improved disclosures encourage market prices to shift quickly Transition risks in the short term, but less physical risk in the long term High expectation of achieving <2°C warming	No significant action in the short-term, meaning the response must be stronger when it does happen Shorter and sharper period of transition Greater (but delayed) transition risks but similar physical risks in the long term High expectation of achieving <2°C warming	No/little policy action for many years Growing fears over ultimate consequences leads to market uncertainty and price adjustments Ineffective and piecemeal action increases uncertainty Transition risks exceeded by physical risks Low/no expectation of achieving <2°C warming

Timing of disruption: Immediate → 10+ years

Intensity of disruption: High → Very high

The qualitative scenario analysis includes testing a number of elements of the Plan's overall strategy, including:

- Current investment strategy, as well as the target strategy that the Plan is working towards;
- Liabilities, by way of expected impact to both the financial and demographic assumptions used to calculate the liabilities; and
- Covenant of the Sponsor and the expected impact of different climate scenarios to the strength of the Sponsor and therefore ability to support the Plan if required.

Climate Scenarios – Outputs

The overall results of the scenario analysis to funding and strategy under each of the scenarios is provided overleaf:

	Green revolution	Delayed transition	Head in the sand
Assets	• Small impact on expected returns expected over the short-medium term time horizons for the Plan. • This impact may be expected to recover over the longer term as the world moves to a low carbon economy. • However, when considering the Plan's strategy as a whole, this impact would be relatively immaterial given that the majority of assets will move in tandem with the liabilities due to the proportion of assets in matching assets and buy-ins. • Actual asset returns will be affected by individual investee companies and their ability to adapt businesses to the climate transition. • Value of government bond holdings influenced by the ability of the UK Government to implement its net zero policy.	• Small reduction in expected returns over the medium term with limited impact at longer time horizons. This is because, by the long-term time horizon, it is expected that an even higher proportion of assets needed to meet member benefits will be in insurance contracts and therefore the Plan's assets are likely broadly immune to impacts. • Actual asset returns will be affected by individual investee companies and their ability to adapt businesses to the climate transition. • Value of government bond holdings influenced by the ability of the UK Government to implement its net zero policy.	• Impacts on assets under this scenario will likely manifest over the longer term (10+ years). By the long-term time horizon, it is expected that an even higher proportion of assets needed to meet member benefits will be in insurance contracts and therefore the Plan's assets are likely broadly immune to impacts. • Actual asset returns will be affected by individual investee companies and their ability to manage impacts of physical risk. • Value of government bond holdings influenced by the ability of the UK Government to manage the impact of physical risks.
Liabilities[1]	• Longevity – small increase in liabilities. Buy-ins provide significant protection for the 1967 Section and the nature of the RSP Section means that it is not exposed to longevity risk.	• Longevity – small reduction in liabilities for the 1967 Section. The nature of the RSP Section means that it is not exposed to longevity risk. • Whilst this would remain immaterial in respect of the Plan due to the buy-ins for the 1967 Section, it would be a worse outcome for members.	• Longevity – larger reduction in liabilities for the 1967 Section. The nature of the RSP Section means that it is not exposed to longevity risk. • Whilst this would remain immaterial in respect of the Plan due to the buy-ins for the 1967 Section, it would be a worse outcome for members.

	Green revolution	Delayed transition	Head in the sand
	• Interest rates and inflation – Plan targeting high levels of hedging so the funding position is expected to be resilient to changes in interest rates and inflation		
Covenant	Under all scenarios explored, the covenant provided to the Plan is expected to remain unchanged. Additionally, the Plan's reliance on covenant is low across all scenarios, given the majority of benefits are now insured and there is a strong funding position and low risk strategy across the Sections.		
Overall impact on Plan strategy	• May see a small reduction in funding position due to movements in non-insured assets, but limited impact to the Plan's strategy.	• May see a small impact on non-insured assets over the medium term (c.5-10 years), but also potential reduction in long term liabilities for the 1967 Section due to lower longevity. • Overall, impact to Plan strategy remains limited due to high proportion of insured benefits and low residual non-hedging assets.	• Limited impact – increases downside risk at some time periods but risk remains supportable by covenant. • Overall, impact to the Plan's strategy remains limited due to high proportion of insured benefits and low residual non-hedging assets.

Potential impact of more extreme scenarios

The above analysis assumes financial systems continue to exist in their current form, whereas more extreme scenarios could lead to the breakdowns of systems (which could have more severe impacts). Examples of extreme events that would impair the Plan's ability to meet benefits are:

- Failure of the buy-ins. Ordinarily the insurance regime would step in and provide protection. If the situation was so severe that the regime collapsed, around two thirds of the Plan's assets could be unavailable and the Trustee would be looking for the Sponsor to step in. In this event, the Plan would become significantly more reliant on the covenant.
- Failure of existing financial systems, given climate change is a new and emerging risk.
- Default of the UK government on its debt.

Climate Scenarios – Conclusions

Based on the specific scenarios considered and thinking about potential funding impact, the Trustee believes the current funding position provides a sufficient buffer to withstand potential risks and even some combination of risks and still secure the underlying benefits. However, if impacts were more extreme in practice, there could be a risk of not meeting benefit payments in full if this happened in combination with covenant failure.

Most of these more extreme scenarios represent systematic risks and the Trustee cannot remove them on its own. Therefore, the Trustee will continue to monitor the Plan's position and strategy to ensure that the Plan remains resilient, and undertake appropriate actions, where possible, to improve this resilience.

Other areas of monitoring will include i) continued engagement with the Sponsor on progress towards its own climate targets along with potential risks faced, and ii) assessment of climate considerations as part of any further insurance transactions.

The Trustee will consider whether to refresh the analysis on an annual basis, stating whether or not they choose to do so and why in the relevant TCFD report covering that period.

Risk management

Disclosure 1: Describe the processes for identifying and assessing climate-related risks.

As part of the Trustee's responsibility for the setting and implementation of the Plan's RI Policy, the Trustee must ensure that ESG related risks, including climate change, are identified, assessed and effectively managed. Therefore, it is crucial that the management of these risks is integrated into the overall risk management of the Plan. The Trustee delegates aspects of this responsibility to other parties, but retains overall oversight, as set out previously in the Governance section of this report. Below, where ESG risks are referred to more broadly, this will include consideration of climate change risks.

The Plan's risk management framework takes the form of a Risk Register which is monitored periodically under the delegated authority of the ISSC. The Trustee still retains all oversight over risk management and continue to receive risk management updates.

At a simple level, the Trustee's risk management process comprises identification, assessment, monitoring and control of risk. The Trustee currently takes a top-down approach to risks management, which uses the overarching elements of Plan strategy – i.e. funding, investment and covenant as the starting point for their risk management process.

Climate risks are identified by Trustee and their advisers as appropriate. Risks relating specifically to climate change are discussed by the ISSC. Information from several sources is used to help identify risks and the Trustee and their advisers are responsible for identifying risks as appropriate.

Once risks are identified, they are then evaluated and prioritised based on the overall threat posed to the Plan. This helps the Trustee build up a picture of the Plan's risks more widely and where climate-related risks sit in the overall risk management framework.

The Trustee also considers the risks of the individual assets that the Plan is invested in. This is known as a bottom-up analysis. In this instance, the Plan's investment managers are also responsibly for the identification and assessment of climate related risks and opportunities. This approach will use available information to assess the potential impact of climate-related risks to investment performance, including any climate metrics available for the assets to the Trustee.

The Risk Register is reviewed periodically, as necessary by the Trustee in order to ensure it is up to date.

ESG and, in particular, climate related risks can be identified by various parties including the Trustee, including any other parties as outlined in Governance disclosure 2. ESG risks are identified as part of the following processes:

- **Investment strategy reviews** – The Trustee considers ESG risks as part of the Plan's regular investment strategy reviews that are carried out alongside each Actuarial Valuation and on an ad hoc basis as required. These reviews cover the extent to which social, environmental and governance considerations are considered in the selection, retention and realisation of investments. The Plan's Investment Advisers are expected to integrate ESG considerations into their strategy advice and to highlight any key risks that are included within any potential investment strategy.
- **Valuations and covenant reviews** – The Trustee expects the Plan Actuary to incorporate the consideration of ESG risks in the actuarial assumptions advice and any projections which are considered to evaluate the possible long-term funding outcomes for the Plan within future triennial valuations. When assessing the Sponsor's covenant the Trustee also takes into account the ESG risks to the covenant via dialogue with Sponsor representatives.
- **Considering asset classes** – When assessing new asset classes, potential ESG risks are assessed and discussed as part of the training provided to the Trustee. Key ESG risks are taken into account when comparing alternative options.

- **Selection of investment managers** – When appointing a new investment manager, the Plan's Investment Adviser provides information and their view on each manager's ESG policy and capabilities. Each manager is also asked to provide information regarding their own ESG risk management processes as part of the selection process. This information allows the Trustee to identify potential risks when comparing potential providers. The Plan's policy also requires Investment Managers to engage on ESG issues, rather than divest.
- **Individual mandates and investments** – The Trustee also undertakes risk analysis at the individual asset level and have adopted enhanced management of ESG issues and climate change, including new potential investment products. In this instance, the Plan's investment managers are responsible for the identification and assessment of ESG, including climate related risks and opportunities and will be expected to identify and disclose these risks to the Trustee.

Any key risks identified are discussed by the Trustee and are listed on the Plan's Risk Register to be monitored on an ongoing basis and reviewed more formally on a periodic basis.

The Trustee is expecting to undertake a full review of the Plan's risk register in the coming year in order to reflect the updated Plan position and strategy; as part of this they will discuss and agree how to best reflect the relevant climate risks that the Plan now faces within the refreshed document.

We note that evaluation of ESG related risks and opportunities is based on relevant information and tools being available, as well as the quantification of ESG and climate-related risks and opportunities being a developing area based on continuously emerging information. We actively engage with all managers to promote improvement in this area.

Disclosure 2: Describe the Plan's processes for managing climate-related risks.

Prioritising risks and agreeing actions

Once risks are identified and added to the Risk Register, they are then evaluated and prioritised based on the overall threat posed to the Plan.

The Trustee prioritise risks based on the size, scope and materiality of the risk event. This includes rating the likelihood and impact of the risk event to produce a score reflecting the threat that the risk event poses to the Plan, then making a decision on the appropriate action (mitigation, control or acceptance) based on this score and available courses of action. Rating the risk's likelihood and impact may be informed by scenario analysis and calculated metrics where relevant. This helps the Trustee build up a picture of the Plan's risks more widely and where ESG risks sit in the overall risk management framework.

Risks and opportunities should be considered in absolute terms and in relation to the risk appetite of the Plan. Risk appetite can be defined in terms of a willingness to take risk or the acceptability of risk.

Once the risks facing the Plan have been considered and prioritised, mitigation strategies will be established and monitored to ensure that they remain effective. We will delegate the management of certain risks to other parties, as set out in the Governance section. Risks that are deemed to be high in likelihood, impact, or both after allowing for mitigating controls are deemed to take priority for future action.

An action in the context of risk management will aim to either introduce an additional control to mitigate the likelihood of a risk occurring or reduce the impact of a risk should it occur. This discussion will also consider whether additional Trustee training is required.

Expectations of investment managers

The Trustee's expectations of the investment managers with regard to the integration of ESG risks are set out in the Plan's Statement of Investment Principles (SIP) and RI Policy. These documents are shared with the Plan's investment managers who are asked to report regularly on how their strategy is aligned with the Trustee's intentions and to discuss with the Trustee any investments which do not comply with these policies. The Trustee monitors the ESG activities of all managers through regular reporting and meetings, as set out above.

In summary, the Trustee will expect all of its investment managers to:

- be aware of the investment risks and opportunities associated with climate change;
- incorporate climate considerations into the investment decision making practices and processes; and
- monitor and review companies and assets in relation to their approach to climate change.

The Trustee engages with current investment managers where risks have been identified to agree a plan of action through the ISSC. This may include setting specific targets for certain mandates and more regular monitoring of mandates at higher risk. In some circumstances, this could include instructing managers to disinvest from certain investments or by disinvesting from specific investment mandates.

In addition, the Trustee, with the assistance of its Investment Advisers, prepares an annual Implementation Statement which assesses the engagement and voting activities of investment managers and is used to monitor managers' activities in this area.

The Plan's approach to stewardship is also a key aspect of the management of climate-related risk. The Trustee expects their investment managers to consider and take appropriate steps to manage climate-related risks within their funds, including engagement with underlying investee companies on their management of climate risks.

Disclosure 3: Describe how processes for identifying, assessing and managing climate-related risks are integrated into the overall Plan's risk management.

As set out under Risk Management Disclosure 1, the management of ESG risks is integrated into the Plan’s current risk management processes in the following ways, with all risks considered in the context of the overall risks inherent in any strategy:

- **Valuations and covenant reviews** – When assessing the employer’s covenant the Trustee reviews the Sponsor’s plans to manage the ESG risks identified. The Trustee considers the extent to which any adjustment is needed to the funding approach or strategy as a result of any ESG risks identified through the "identifying" stage described above. This will be considered in the context of the investment and covenant risks faced by the Plan and may consider the appropriateness of actuarial assumptions and of overall security provided to the Plan.
- **Setting strategy and choosing asset classes** – Determining whether exposure to any asset class should be reduced, increased or avoided in light of the ESG risks identified.
- **Selection of investment managers** – The Trustee considers whether or not to invest with managers whose mandates are expected to introduce an unacceptable level of risk or who do not have adequate processes for the identification and management of ESG risks.
- **Monitoring current investment managers / Individual mandates and investments** – The Trustee expects the Plan’s investment managers to manage the ESG risks identified within their own mandates by:
  - Integrating the analysis of these risks into the overall assessment of any potential investment.
  - Engaging with investee companies where risks have been identified, to understand and encourage their management of ESG and in particular climate related risks.

The Trustee sets the overall strategy and risk budget for the Plan and covers RI matters, including the integration of climate change within the Plan’s investment strategies.

The risk register is reviewed periodically by the Trustee.

Climate risks are identified by the Trustee and their advisers as appropriate. Risks relating specifically to climate change are discussed by the ISSC. All parties as outlined in Governance disclosure 2 raise new or updated risks periodically at meetings or other appropriate points in time depending on urgency. These risks are then added to the Plan’s risk register which forms part of the Plan’s overarching Integrated Risk Management approach and framework. This includes rating the likelihood and impact of the risk event to produce a score reflecting the threat that the risk event poses to the Plan, then making a decision on the appropriate action (mitigation, control or acceptance) based on this score and available courses of action. Appropriate controls and mitigating actions are determined and put in place as part of the process to add these risks to the Risk Register.

Metrics and targets

Disclosure 1: Disclose the metrics used by the Plan to assess climate-related risks and opportunities in line with its strategy and risk management processes.
Following the Q1 2022 ISSC meeting, climate-related metrics were proposed to be monitored by the Plan. We have received reporting from our managers which includes a variety of climate-related metrics. We believe it is important to consider a variety of metrics on a holistic basis, covering both forward and backward-looking metrics. We are currently in the process of agreeing a specific set of climate and wider ESG metrics for each investment mandate which will form the basis of our ESG reporting going forward.

Carbon equivalent risk metrics will expect to form an important part of the Plan's investment decision-making process to measure, manage and disclose climate risk. The selected metrics will also aid the Trustee in identifying opportunities for further engagement with investment managers and underlying investee companies.

This report focusses on the mandatory metrics which all pension schemes are asked to monitor and report against for TCFD purposes. We appreciate that no single metric is perfect and therefore the Trustee monitors a suite of metrics. This approach enables us to take a more holistic view of the risks facing the Plan's investment strategy.

The TCFD requirements have set out clearly defined expectations for the categories of metrics that must be measured and reported on. For clarity, the Trustee have set out those requirements below, as well as the metrics chosen by the Trustee for the Plan that align to the requirements:

- One **absolute emissions metric** is to be chosen and monitored;
  - There is only one choice of absolute emissions metric – Total Greenhouse Gas (GHG) emissions.
- One **emissions intensity metric** is to be chosen and monitored;
  - There is a choice of Carbon Footprint or Weighted Average Carbon Intensity for the emissions intensity-based metric.
- An **additional climate change metric** that is non-emissions based; and
  - There is a wide variety of outcome based and process-based metrics that may be chosen.
- A **forward-looking portfolio alignment metric:**
  - There are three different portfolio alignment metrics that may be chosen from

The metrics in table 2 below are those chosen by the Trustee and included in this report in line with the above requirements.

Table 2 – the chosen climate-related metrics for the Plan

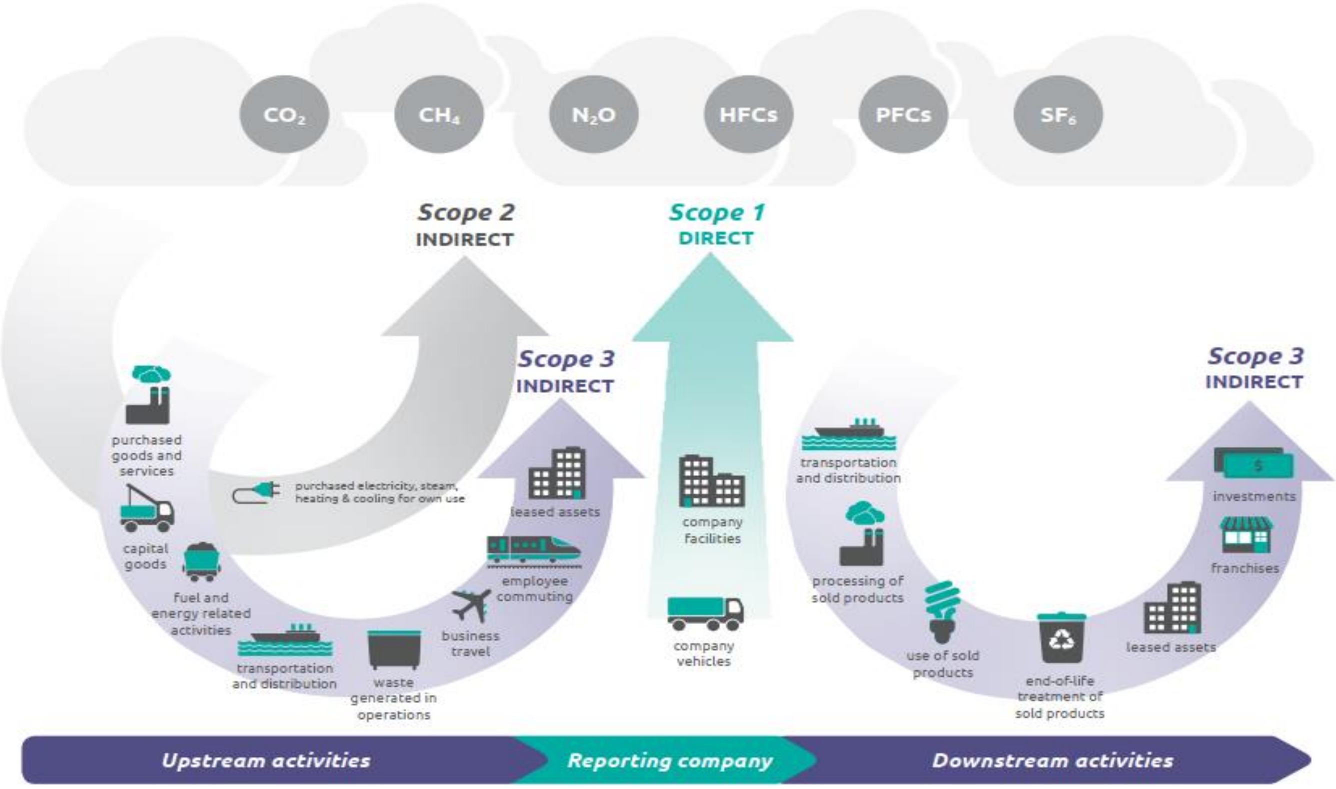
Type	Metric	Measurement
Absolute Emissions Metric	Total Greenhouse Gas (GHG) emissions	The volume of scope 1 and scope 2 emissions from the Plan's assets – Measured in tons of $CO_{2e.}$
Emissions Intensity Based Metric	Weighted Average Carbon Intensity (WACI)	The volume of scope 1 and scope 2 emissions per unit of sales for each portfolio company, weighted by the size of allocation to each company within the Plans' assets – Measured in tons CO2e per £m invested
Additional climate change metric (non-emissions based)	Data quality	A measure of the level of actual and estimated data available from the Plan's managers. Measured per mandate - % of mandate for which there is actual, estimated or no data.
Portfolio alignment metric	Binary target measurement	Measured as the % of portfolio at year end with specific net zero targets

Many climate-related metrics are based on the level of Greenhouse Gas (GHG) emissions that are related to a particular asset or investment. Greenhouse Gas emissions are categorised into 3 scopes:

- **Scope 1** - All direct GHG emissions from sources owned or controlled by the company (e.g., emissions from factory operations).
- **Scope 2** - Indirect GHG emissions that occur from the generation of purchased energy consumed by the company.
- **Scope 3** - Indirect emissions that arise as a consequence of the activities of the company e.g. supply chains and the use and disposal of their products. These are sometimes the greatest share of a carbon footprint, covering emissions associated with business travel, procurement, production of inputs, use of outputs, waste and water.

There is overlap on emissions data between different companies and between companies and governments on some measures. As a result, aggregate total greenhouse gas emissions reported across all investments may include some double counting in relation to the actual level of greenhouse gas emissions, especially as the coverage continues to expand and Scope 3 is fully included. For example, fossil fuels sold by a producer to a utility to generate electricity would be Scope 3 for the producer, Scope 2 for the electricity consumer and Scope 1 for the utility. In addition, if the basis for attributing emissions to government bonds was total country emissions they are also included in the government bond emissions for the relevant country.

The different scopes of emissions are also demonstrated by the diagram below:



(Source: Greenhouse Gas Protocol)

The Trustee notes that there are limitations in data available from investee companies on emissions of greenhouse gases, particularly for *scope 3* emissions as noted above. Where these limitations in data exist, the data may be estimated or not yet reported/missing. The Trustee will seek to obtain information, where it is currently missing, for future assessments. In the meantime, the results of the above metrics have been understood to be reflective of the portfolio, but the limitations of data availability are noted when using the metrics for decision-making purposes.

Disclosure 2: Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.

The Trustee requested information on the chosen metrics for the Plan during the year to 5 April 2023 from the Plan's managers. Only some of the managers were able to provide this data during the year, with some data being made available for assets that the Plan is no longer invested in as at the year end, and others yet to be shared due to only being invested in late in the Plan year. Hence the picture is not yet complete for the Plan and the Trustee plans to address the gaps in data for the Plan's significant assets in the coming year to 5 April 2024, as appropriate.

Tables 3 and 4 below set out a summary of the greenhouse gas emissions data provided by investment managers and the measurement of each metric using this data for each Section of the Plan.

Table 3 – emissions metrics for the 1967 Section

Mandate	5 April 2023		Total carbon emissions*	Weighted Average Carbon Intensity*
	Value (£m)	Proportion (%)		
M&G Illiquid Credit II	30.2	3.3	N/A	N/A
M&G Illiquid Credit V	54.6	6.0	N/A	N/A
Partners Group MAC 2015	3.2	0.3	14,608	159.13
Partners Group MAC 2016	6.1	0.7	N/A	N/A
Partners Group MAC 2017	13.1	1.4	N/A	N/A
Partners Group MAC 2019	34.4	3.8	N/A	N/A
Insight LDI**	0.1	0.0	202,350	124.80***
Trustee Bank Account	4.0	0.4	N/A	N/A
Insured Assets	769.1	84.1	N/A	N/A

Source: Investment Managers

**Scope 1 and Scope 2 emissions only. The dates of climate metrics reporting for those available are as at 30 June 2022. 5 April 2023 data was not yet available at the time of writing this report.*

*** Gilts figures cannot be sensibly aggregated with emissions data for non-gilt assets due to risk of double counting, so these are kept separate within reporting.*

**** WACI for gilts is calculated and reported in tCO2e/GDP*

Table 3 – emissions metrics for the RSP Section

Mandate	5 April 2023		Total carbon emissions*	Weighted Average Carbon Intensity*
	Value (£m)	Proportion (%)		
LGIM Buy & Maintain Credit	54.3	16.8	N/A	N/A
M&G Total Return Credit	58.3	18.0	N/A	N/A
Insight LDI**	162.5	50.2	202,350	124.80***
Insight ABS	40.6	12.5	N/A	N/A

Trustee Bank Account	7.9	2.4	N/A	N/A

Source: Investment Managers

**Scope 1 and Scope 2 emissions only. The dates of climate metrics reporting for those available are as at 30 June 2022. 5 April 2023 data was not yet available at the time of writing this report.*

*** Gilts figures cannot be sensibly aggregated with emissions data for non-gilt assets due to risk of double counting, so these are kept separate within reporting.*

**** WACI for gilts is calculated and reported in tCO2e/GDP*

At the point of requesting emissions metrics for the Plan, the scope 3 emissions were not yet available for the Plan's mandates. This is due to the data and methodology for scope 3 emissions being a lot less well defined currently than scope 1 and 2 emissions as well as much harder to gather from underlying holdings in the Plan's mandates.

This is the first year in which the Trustee are measuring these metrics and will continue to monitor performance over time for the Plan's assets as a whole, as appropriate. The Trustee will also consider how the metrics may change for any future investment strategy reviews, thus embedding climate-related issues and considerations into the Plan's investment and strategic decision-making.

The Trustee have not obtained data prior to 2022 and so cannot compare how the Plan's emissions have changed from previous years. The metric data in this report will instead act as a baseline for future metric reporting. As fund managers improve the quality and frequency of their reporting, the Trustee expects to measure our chosen metrics at a consistent date to monitor trends and identify areas of concern.

The other metrics chosen for the Plan were also measured, as shown in table 4.

Table 4 – data quality and portfolio alignment metrics for the Plan

Mandate	5 April 2023		Reported emissions data (%)	Estimated emissions data (%)	Binary target measurement (%)
	Plan Value (£m)	Plan proportion (%)			
LGIM Buy & Maintain Credit	54.3	4.4	N/A	N/A	N/A
M&G Illiquid Credit II	30.2	2.4	N/A	N/A	N/A
M&G Illiquid Credit V	54.6	4.4	N/A	N/A	N/A
M&G Total Return Credit	58.3	4.7	11%		N/A
Partners Group MAC 2015	3.2	0.3	N/A	N/A	N/A
Partners Group MAC 2016	6.1	0.5	N/A	N/A	N/A
Partners Group MAC 2017	13.1	1.1	N/A	N/A	N/A
Partners Group MAC 2019	34.4	2.8	N/A	N/A	N/A
Insight LDI	162.6	14.8	N/A	N/A	N/A
Insight ABS	40.6	3.3	N/A	N/A	N/A
Trustee Bank Account	11.9	1.0	N/A	N/A	N/A

Insured Annuities	769.1	62.1	N/A	N/A	N/A

The Trustee was disappointed with the overall availability of data from the Plan's investment managers on all scopes and has liaised with managers on when these may be made available. However, it should be noted that those assets in which the majority of the Plan's invested assets are held did report on the emissions of those funds, albeit data coverage being unclear.

Over time, the Trustee expects the data coverage of the Plan's assets to improve, particularly across assets that currently find it difficult to measure emissions. The Trustee is also working with the Plan's insurer regarding the insured annuities in order to understand the emissions attributable to those annuities. This will be collected and reported on going forwards.

Due to the limited data available across the Plan's mandates, it is currently hard to draw conclusions on how the Plan is performing with respect to the Plan's emissions. As such, the Trustee's focus for the Plan's climate-related metrics is therefore on the data availability and improving this. The Trustee has set a target for the individual mandates of the Plan on data quality, and these are set out under the Metrics and Targets disclosure 3 overleaf.

The Trustee will monitor the metrics on an at least annual basis and identify whether performance has improved or deteriorated over time. Where performance has deteriorated, the Trustee will engage further to understand the reasoning and undertake any appropriate remedial actions. The metrics will also be used to monitor the Plan's performance in line with climate-related targets (see Metrics and Targets Disclosure 3).

The Trustee acknowledge that at this point, limited data is available on industry wide comparisons and the Trustee has relied heavily on the benchmark set for each fund and the market knowledge of its advisers in understanding how well the funds are performing and whether further improvements could be made at this stage.

Metrics and Targets Disclosure 3: Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

As set out above, the Trustee has worked through the Plan's investment mandates to agree specific sets of metrics and where appropriate, related targets, including climate related targets. Given the nature of the assets and availability of data, the Trustee considers targets on a mandate-by-mandate basis in order to appropriately reflect the action that can be taken and the key priorities for that mandate. For example, for some mandates the current priority is to improve data in the first instance given that these assets are expected to form part of the longer-term strategy view.

Data Quality Target

Given the currently low levels of data available from some of the investment managers and the Trustee's focus on engagement with managers to improve this data, the Trustee has set a data quality target for each of the Plan's mandates. The Trustee will focus on improving the data for the assets which form a larger proportion in the first instance, in order to form a clearer picture of the Plan's current position with respect to emissions.

The Trustee agreed to use the scoring system outlined below for monitoring and assessing the managers' progress and setting data quality targets. Please note that all percentages refer to portfolio coverage, i.e., for what % of the portfolio the given type of data is available.

Table 8 – Data quality metric measurement scoring framework

Score	Emissions data requirements
4 – Excellent	At least 75% of actual data available OR >95% overall coverage including at least 65% actual data
3 – Good	At least 65% actual data available OR >70% overall coverage including at least 45% actual data
2 – Adequate	At least 45% of actual data available OR >60% overall coverage using estimates
1 – Poor	Less than 45% of actual data available OR <60% overall coverage using estimates

To date, the Trustee has agreed the targets for the investment mandates as set out below in table 9. These targets have been agreed based on the baseline as set out under Metrics and Targets disclosure 2 and the scoring system as outlined above.

Table 9 – Data quality scores

Mandate	Proportion (%)	Current data availability score	Short term target	Medium term target	Long term target
LGIM Buy & Maintain Credit	4.4	1 – Poor	2 – Adequate	3 – Good	4 – Excellent
M&G Illiquid Credit II	2.4	1 – Poor	1 – Poor*	2 – Adequate	3 – Good
M&G Illiquid Credit V	4.4	1 – Poor	1 – Poor*	2 – Adequate	3 – Good
M&G Total Return Credit	4.7	1 – Poor	2 – Adequate	3 – Good	4 – Excellent
Partners Group MAC 2015	0.3	1 – Poor	2 – Adequate	3 – Good	4 – Excellent
Partners Group MAC 2016	0.5	1 – Poor	2 – Adequate	3 – Good	4 – Excellent

Mandate	Proportion (%)	Current data availability score	Short term target	Medium term target	Long term target
Partners Group MAC 2017	1.1	1 – Poor	2 – Adequate	3 – Good	4 – Excellent
Partners Group MAC 2019	2.8	1 – Poor	2 – Adequate	3 – Good	4 – Excellent
Insight LDI	13.1	Unclear**	2 – Adequate	3 – Good	4 – Excellent
Trustee Bank Account	1.0	N/A	N/A	N/A	N/A
Insured Annuities	62.1	Unclear**	2 – Adequate	3 – Good	4 – Excellent

** The Trustee notes that provision of data for illiquid credit remains very difficult for managers, and so whilst they expect M&G to improve the data quality over the short term, they appreciate that this will likely still fall into the 'Poor' score. The Trustee will liaise with M&G on this to ensure some data is captured in the coming year to enable appropriate understanding of risk exposure where possible for this fund.*

*** Whilst there is some data available for LDI and some insured assets, dependant on insurer reporting, it is difficult to calculated and report on the data quality of this information at this point in time due to the nature of the assets. The Trustee will liaise with their managers, the insurers and their advisors in order to try and provide a clearer picture of this data going forwards.*

The above targets have been agreed based on the baseline calculated in the carbon footprint analysis as set out under Metrics and Targets disclosure 2.

Review of targets and performance against targets

The Trustee will undertake an annual review of the targets, including interim targets, to ensure that they remain appropriate and challenging, given the ever changing, economic, environmental and technological environment. These reviews will look for opportunities to introduce appropriate Net Zero or emissions reduction targets where this is considered reasonable.

As the above targets were set during the 2022 Plan year, the Trustee are not yet able to report performance against each target. Progress against these targets and any other targets set for the Plan's other mandates will be included in future reports.

More broadly, the ability for diversified investors (such as pension funds) to set meaningful climate targets is inhibited by the limited availability of credible methodologies and data currently available. Like most investors, the Trustee is supportive of the development of target-setting methodologies, and of the increasing completeness of carbon datasets. The Trustee wishes to set meaningful and challenging climate targets for its investment portfolio and work is underway to assess options within the limitations of currently available data.

Appendix I: Glossary and definitions

Binary target measurement

This measures the alignment of a portfolio with a given climate outcome based on the percentage of investments in that portfolio that (a) have declared net zero/Paris-aligned targets and (b) are already net zero/Paris aligned. Science Based Targets initiative (SBTi)'s Portfolio Coverage Tool for Financial Institutions is an open-source example of a tool that tracks the percentage of companies in a portfolio that have declared net zero/Paris aligned targets.

Covenant

If the Fund was to have a funding shortfall, i.e. if the Fund's assets are lower than the value of the liabilities on the technical provisions basis, the Trustee would look to the Sponsor to make the necessary additional contributions to restore full funding.

The legal obligation on the Sponsor to provide these contributions and remove the shortfall, and its ability to satisfy these obligations is known as the Sponsor covenant.

ESG

Environmental, Social and Governance

Financial Stability Board

The Financial Stability Board is an international body that monitors and makes recommendations about the global financial system. It was established after the G20 London summit in April 2009 as a successor to the Financial Stability Forum.

Greenhouse Gases ("GHG")

Greenhouse gases are gases in the Earth's atmosphere that are capable of absorbing infrared radiation and thereby trap and hold heat in the atmosphere. The main greenhouse gases are:

- water vapour
- carbon dioxide ("CO_2")
- methane ("CH_4")
- nitrous oxide ("N_2O").

Low carbon economy

An economy based on energy sources that produce low levels of greenhouse gas (GHG) emissions.

Macro-economic

The area of economics concerning with large-scale (e.g. national or international) or general economic factors, such as interest rates and inflation.

Net zero

Net zero refers to the amount of all greenhouse gases (which includes but is not limited to carbon dioxide) being emitted being equal to those removed. It typically also includes reduction of total emissions as much as possible, with only the remaining unavoidable emissions being offset.

Responsible Investment ("RI")

The integration of ESG factors into investment decision making and asset stewardship practices.

Scope 1 Greenhouse Gas Emissions

All Direct Emissions from the activities of an organisation or under their control. Including fuel combustion on site such as gas boilers, fleet vehicles and air-conditioning leaks.

Scope 2 Greenhouse Gas Emissions

Indirect Emissions from electricity purchased and used by the organisation. Emissions are created during the production of the energy and eventually used by the organisation.

Scope 3 Greenhouse Gas Emissions

All Other Indirect Emissions from activities of the organisation, occurring from sources that they do not own or control. These are usually the greatest share of the carbon footprint, covering emissions associated with business travel, procurement, waste and water.

Systemic risk

Systematic risk refers to a risk that impacts the entire market, not just a particular stock or industry.

TCFD

Taskforce on Climate-related Financial Disclosures

Total Carbon Emissions

This represents the portfolios estimated Scope 1, Scope 2, and Scope 3 greenhouse gas emissions and is often split between Scope 1 and 2 emissions, with Scope 3 emissions reported separately. This measure is expressed in terms of thousand tons of CO_2 equivalent emitted by the companies invested in by the portfolio, weighted by the size of the allocation to each company.

Appendix II: Reliances and limitations

Overview of approach

Hymans Robertson's economic scenario service ("ESS") uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. The output compares portfolio returns over 2, 5 and 12 years for the Plan's broad asset allocation under the core ESS (i.e. no explicit allowance for climate risk) and the three climate change scenarios. It then calculates summary statistics based on the distribution of returns so you can see how they differ when the climate scenarios are applied. The consideration of investment risks is at an asset class level and cannot take account of individual stocks, property assets, sustainable funds etc. However, the indicative output can be used to provide an overview of the strategic risks the Plan is exposed to.

This analysis only considers the impact on investment returns and not on liabilities or covenant. Climate risk can influence longevity outcomes both directly via temperature effects and indirectly through its influence on lifestyle, healthcare and other longevity and mortality related factors.

The below summarises the impact the three climate scenarios have on the following measures:

1. The 50%ile (i.e. median) return over 2, 5 and 12 years (in line with the Plan's short, medium and long term timescales agreed for TCFD reporting). This is broadly the "expected" return with 50% of returns being above and 50% below this level. Note that it is not expected for there to be much difference in median return, but the returns at high or low percentiles will be more affected as Hymans Robertson's model tends to express climate risk as increased variability in outcomes.

2. The chance that the return in at least one year in the next 2, 5 and 12 years is worse than -5% (i.e. the chance of a severe asset shock). The climate scenarios tend to show more variability (at different time points) so the chance of a severe shock is typically higher.

In all cases the results for the climate scenarios are shown relative to the result in the unweighted core ESS.

The fact that the returns and downside risk are not significantly worse under any of the scenarios does not mean that climate risk is not important or that the Plan is "immune" to its effects. Instead, it implies that if the level of risk in the funding and investment strategy was acceptable, and since the scenario results suggest that this risk level is not materially different even when the model is significantly stressed, the Trustee can conclude that the funding and investment strategy is fairly resilient to climate risk at a strategic level.

The expected asset returns used in this paper are an output of the investment adviser's Economic Scenario Service ("ESS"), which is their proprietary stochastic asset model. This type of model is known as an economic scenario generator and uses probability distributions to project a range of possible outcomes for the future behaviour of different asset returns and economic variables. Like all models, ESS is based on a number of inputs and assumptions. Some of the parameters of the model are dependent on the current state of financial markets and are updated each month (for example, the current level of equity market volatility) while other more subjective parameters that affect long term distributions are reviewed once a year (or more often in response to significant market events).

Key subjective assumptions are the median excess equity return over the risk-free asset, the volatility of equity returns and the level and volatility of yields, credit spreads, inflation and breakeven inflation, which affect the projected value placed on liabilities and bond returns. The output of the model is also affected by other more subtle effects, such as the correlations between economic and financial variables.

The figures provided have been calculated using 5,000 simulations of ESS, calibrated using market data as at 31 December 2022 (available on request). The absolute median returns use are the 2-year, 5-year and 12-year geometric averages (all returns used are net of fees).

This paper complies with the following Technical Actuarial Standards: TAS100 and TAS300.

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.