# Kingfisher Pension Scheme

# Disclosures in respect of *TCFD* for the Scheme year ending 31 March 2023

**Chair Introduction**

On behalf of the Kingfisher Pension Trustee Limited ("the Trustee" or "KPTL"), I am delighted to present the Trustee's first Taskforce on Climate-related Financial Disclosures ("*TCFD*") for the Kingfisher Pension Scheme ("the Scheme"). This disclosure sets out the Trustee's approach with regard to assessing, monitoring and mitigating climate-related risks in the context of its broader regulatory and *fiduciary responsibilities* to its Scheme members.

The Trustee believes that climate change and the expected transition to a *low carbon economy* is a long-term financial risk to the Scheme and member outcomes. To ensure a sustainable future, and to safeguard economic growth, concerted global action is required to tackle the climate crisis. Improved transparency on climate-related matters will lead to improved investment decisions which in turn will improve member outcomes. This has created focus and an imperative to act.

The Trustee is therefore supportive of any initiative that helps improve disclosures and enhances transparency.

The *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 Scheme as an over £1bn scheme from 1 October 2022. This report is therefore the first *TCFD* report produced for the Scheme in line with these requirements. Subsequent reports are therefore expected to evolve over time as the Trustee's approach and the actions taken develop.

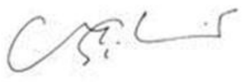
The Scheme has a money purchase ("KPS-MP") section and final salary ("KPS-FS") section. The FS section is the Scheme's legacy defined benefit ("DB") section which closed to future accrual in June 2012 and includes money purchase additional voluntary contributions ("AVCs"). The MP section is a defined contribution ("DC") arrangement which remains open to new members. At 31 March 2023, the KPS-MP section had around 70,000 members and total assets of around £650m and the KPS-FS section had around 28,000 members and total assets of around £2,500m.

This report will cover aspects of both the KPS-FS and KPS-MP sections under the *TCFD* requirements. It is written from the perspective of the Trustee Board.

All italicised words and phrases throughout the report can be found within the Glossary, which provides further explanation and detail.

I would like to thank all those involved who helped produce the report and all the effort that has been made to ensure that the Trustee is meeting its *fiduciary responsibilities* to its Scheme members.

Signed on behalf of the Trustee:



**BESTrustees Limited**
Represented by Clive Gilchrist, Chairman
28 June 2023
(An original signed version is available for inspection or request, please contact the Secretary to the Trustee for further details).

**Background**

The *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 taskforce'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 taskforce 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 taskforce's 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 taskforce structured its recommendations around four 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 Scheme's governance and oversight 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 by the Scheme 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 our own reporting for *TCFD*, we expect our underlying investment managers to be aligned with *TCFD* and note all have either published reports or plan to do so in the coming year.

The only exception is the Hayfin Direct Lending fund where historic emissions data is not being collected. We are not committing any further money towards this fund, and it will be drawn down over the coming years. We will continue to monitor this through our regular reporting and ongoing dialogue with the Scheme's investment managers.

**Report Summary**

We have set out a summary of this report and the key highlights across each of the four pillars of *TCFD* below.

- **Governance:**
    - We consider climate change to be a key risk to the Scheme and so have embedded climate-related issues across our strategic decision-making, trustee training activities and wider governance processes.
    - We have agreed climate beliefs and a climate governance policy that sets out the key roles and responsibilities for both the DB and DC sections of the Scheme. The terms of reference for our committees have been updated to reflect these.
    - Several parties (trustee committees, investment managers, scheme advisors) – all feed comments into the Trustee Board who has overall responsibility for the management of climate-related risks and opportunities.
    - The Trustee Board and committees regularly discuss climate related risks at Trustee and sub-committee meetings. We challenge our investment managers on their approach, and we receive advice from our advisers on how climate change could impact areas like the sponsor *covenant*, future funding positions and member retirement outcomes.
- **Strategy:**
    - We have factored in climate related risks and opportunities into our investment strategy for a number of years. Specifically we have used 'tilted' equity funds which have more exposure to companies generating revenue from low-carbon opportunities, and less exposure to companies with higher carbon emissions and fossil fuel assets relative to their sector.
    - When considering climate-related risks and opportunities we consider the following timescales to be relevant for the Scheme:
        - Short term: 3-5 years
        - Medium term: 12 years
        - Long term: 30 years
    - We have undertaken work in order to better understand risks within the Scheme's overall strategy to climate change. We also have embedded consideration of these risks within the Scheme's overall planning and strategy, and we have undertaken climate scenario analysis.
    - Key risks identified for the DB Section relate to investment returns and sponsor *covenant*. For example, the current investment strategy holds a large proportion of the assets in UK government bonds and *buy-in* policies, and we expect to transition the whole portfolio to these assets over the long term. This means we are exposed to the UK government and insurers' ability to effectively manage climate-related risks.
    - Key risks identified for the DC Section relate to investment returns and *covenant*. For example, if the sponsor is unable to meet its climate targets or is impacted by physical climate risks, sponsor profitability could be reduced. This could impact the ability of the Sponsor to support current contribution levels.
    - We considered climate related and wider *ESG* risks as part of *covenant* assessment and 2022 actuarial valuation of the DB section and default strategy review completed in 2022 for the DC section.

- We explored 3 different climate scenarios and considered outcomes over the short, medium and long term for both sections. Whilst some scenarios showed increased risk or worse outcomes, the impacts were relatively modest. We believe that our strategy is broadly resilient for both DB and DC sections of the Scheme under the specific climate scenarios we explored.
- That said, we recognise that climate change could have a more severe impact under more extreme scenarios so climate change risks must still be monitored and mitigated as part of our risk management process.

- **Risk management:**
  - We consider climate risks as part of our wider approach to managing risk within the Scheme and as part of our wider activity, for example when we carry out a strategy review, when we engage with investment managers etc.
  - We have a clear approach to the management of risks posed to the Scheme. We use a Risk Register which focusses on key risk areas with more detailed risks under each key area.
  - We have identified Environmental, Social and Governance issues (and, within this, climate-related risks) within a number of our key risks and have clearly identified controls and actions in place to manage and monitor these risks.
  - We have updated our terms of reference for all our sub-committees to note that climate change risks should be considered, and any actions taken on climate change decisions are noted in the minutes of meetings where appropriate.
  - Our approach to stewardship is a key aspect of the management of climate-related risk. We expect our 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. We receive quarterly *ESG* information and ratings from investment consultants, in respect of our investment managers, and use these to monitor performance.

- **Metrics and targets:**
  - We have selected a number of climate metrics by which to measure both the DB and DC sections of the Scheme's position and exposure to climate risks and opportunities.
  - Due to data availability, our initial baseline measurement for metrics was taken over multiple dates for the DB section of the Scheme. Our initial baseline measurement for the DC section was taken at December 2022.
  - We will receive reporting on metrics on an annual basis in future for comparison purposes and to monitor our progress.
  - For the DB Section, *scope 1 and 2 emissions* and carbon footprint data were widely available from the fund managers for all the mandates but not for the *binary target measurement* for three of the mandates. Data reported and estimated varied across the managers while some attempted to estimate emissions from other sources.
  - For the DC Section, *scope 1 and 2 emissions* and carbon footprint data were calculated using data from LGIM ("Legal and General Investment Management") and MSCI. Data reported and estimated varied across the various funds.
  - Data on *scope 3* emissions for both the DB and DC Section remain limited, with the expectation that this will improve over the coming years. We will liaise with the Scheme's investment managers in order to drive the improvement of this reporting.

  - We have set an overall target for the Scheme of *Net Zero* emissions by 2050 at the latest and ideally by 2040.
  - We have set targets to achieve excellent *scope 1 and 2* data quality in the next 5 years. Meeting this target will require our investment managers to improve the quality of data they collect.
  - We will also work with our investment managers with a view to achieving excellent *scope 3* data for all funds in the next 5 years, however, we have not set a target for this at the current point in time.

- **Next steps, we will:**
  - Regularly review our approach to climate change, and thus the policies and processes we have in place, to ensure we continue to effectively embed climate-related issues across the Scheme's management.
  - Review the specific short-, medium- and long-term time horizons to ensure that they remain appropriate.
  - Consider whether the Scheme's climate scenario analysis needs to be refreshed on an annual basis.
  - Further develop our risk management approach to climate-related risks and opportunities and include further detail on specific climate-related risks within our risk register.
  - Undertake annual climate metric reporting against the chosen metrics for the Scheme and use this to both monitor performance against our targets as well as to aid in our investment decision-making as appropriate.
  - Look to develop a *net zero* climate transition action plan.
  - Continue to work with investment managers to improve data quality and consider any new fund manager appointments in line with our climate change beliefs.

We will provide an update on these steps within our *TCFD* next report.

The following pages provide detail on our climate risk disclosures for the Scheme year ending 31 March 2023.

# Governance

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

We are aware of climate-change and its potential impact not just on the environment but on pension schemes and member outcomes. We have acknowledged this by developing processes to address climate-related risks and opportunities and help tackle climate change.

**Training**

We hold regular Trustee Knowledge and Understanding ("TKU") sessions to address any gaps in the knowledge and understanding across the Trustee Board. Over the past few years, we have undertaken several training sessions on climate change and broader Environmental, Social and Governance ("*ESG*") risks covering a range of topics.

In particular, our external professional advisers have provided training sessions on *TCFD*, *ESG* factors and *ESG* and *responsible investment* in LDI portfolios.

We have also received training material as part of various Trustee Board meeting papers throughout the 2022/23 Scheme year as part of the preparation work for producing this first *TCFD* report.

Further training will be undertaken as required to maintain our knowledge and understanding of the topic and how it applies to both the DB and DC sections of the Scheme.

**Climate beliefs**

In order for us to gauge our attitude to climate change, we completed a climate-related investment beliefs questionnaire during March 2022. We discussed the results of the questionnaire at the March and September 2022 Trustee Board meetings, agreed on our priorities and then subsequently finalised our beliefs in October 2022.

Our climate-related beliefs are:

1. Climate change and the expected transition to a *low carbon economy* is a long-term financial risk to the Scheme and member outcomes.
2. The Trustee's fiduciary duty to members encompasses investing the Scheme's assets to try to ensure members' communities and environments are sustainable over the long term.
3. Climate change may have a material impact on the performance of investments over the appropriate time horizon.
4. Financial considerations should take precedence unless there is a clear consensus from members on any non-financial considerations.
5. Investment managers' approach to climate change forms part of the investment manager selection process. It is then left to fund managers to determine the extent to which climate-related issues are taken into account when making investment decisions because investment managers are better placed than the Trustee to consider these impacts.
6. The Scheme's investment managers should embed the consideration of climate-related issues into their investment process and decision making.
7. The Trustee, via its investment managers, should use engagement for positive influence as opposed to divestment from companies who are not aligned with the Scheme's objectives.

8. Companies that consider sustainability issues and engage proactively with the transition to a *low carbon economy* will be more successful in the longer run.

9. Investee companies should be run in a responsible way, with due regard to climate-related issues, because in the long term this is likely to contribute to the companies' financial success.

10. Investing more in companies generating revenue from low-carbon opportunities or plan to become low carbon over a suitable period, and less to companies with higher carbon emissions and fossil fuel assets relative to their sector should improve outcomes for the scheme and members.

11. Views on climate-related risks and opportunities should be applied to the selection and design of the DC default lifestyle strategy.

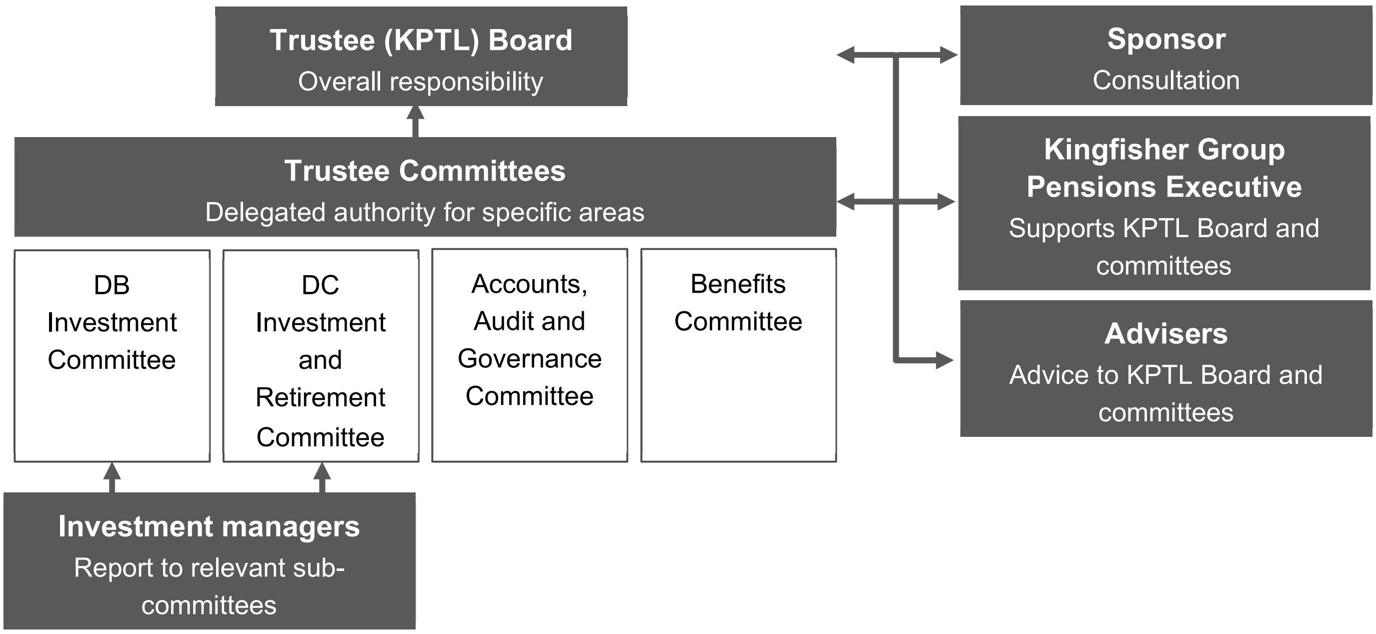
12. The Trustee will stop allocating capital or withdraw capital from managers consistently evidencing weak climate-related processes.

The beliefs will be taken into account when making decisions, alongside our broader investment beliefs (which are documented in the Scheme's Statement of Investment Principles ("SIP") Policy, which is available online to members at [www.kingfisherpensions.com/knowledge-centre/scheme-documentation/](www.kingfisherpensions.com/knowledge-centre/scheme-documentation/)).

We have also looked to ensure these beliefs are reflected within the wider Scheme governance, for example by updating sub-committee terms of reference. We 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.

**Governance policy and structure**

The oversight and management of climate related risks and opportunities is integrated into our existing governance structure which is illustrated in the diagram below.




We consider the oversight of climate risks and opportunities as part of our business plan each year and we have agreed to introduce an *ESG* actions and decisions log to record relevant activity. Climate risks and opportunities are discussed regularly at quarterly meetings. For example, over the scheme year 2022/23 we have a specific agenda item relating to climate-risk at every quarterly Trustee Board meeting.

We have also prepared and agreed a formal climate-related governance policy for the Scheme that sets out roles and responsibilities relating to climate-related issues and how these are brought to our attention. This includes responsibility for ensuring all regulatory requirements are met and that the Scheme's governance processes are sufficient to ensure the proper management of all *ESG* related risks.

We disclose our governance of the DB and DC sections as part of the annual Chair's Statement and how stewardship policies have been followed in the annual Implementation Statement. These statements also note the voting behaviour by or on behalf of the Trustee. This information is published online at [www.kingfisherpensions.com/knowledge-centre/scheme-documentation/](www.kingfisherpensions.com/knowledge-centre/scheme-documentation/) for our members to consider.

In fulfilling our duties, we delegate certain responsibilities to other parties.

The parties with a role in the Scheme's management, how they incorporate the identification, assessment and management of climate related risks and opportunities into that role and the methods we use to assess each party is set out in the section below and more broadly within this report. Trustee effectiveness reviews are carried out annually, which include assessment of the governance structures in place.

There are several responsibilities delegated to the investment managers of both the DB and DC section of the Scheme. These asset managers are monitored on an ongoing basis by us, and this includes a specific focus on climate-related issues undertaken by the DB Investment and DC Investment and Retirement Committees. Our external investment consultants also assist with the ongoing monitoring of the investment managers, including rating the approach of the managers with respect to climate related issues. This is a high-level view of each manager's approach, and we monitor any changes quarterly.

Further details on these responsibilities are also included under Governance disclosure 2.

The Scheme's Sponsor, Kingfisher plc, maintains its own objectives and action plan. We maintain an ongoing dialogue with Kingfisher plc ("the Sponsor") to ensure both parties are aware of each other's approach in this area. We ensure those issues relevant to the Scheme are considered where appropriate and aim to ensure synergy between the Scheme and Sponsor's approach to climate related issues. We rely on the information provided by both the Sponsor and our Scheme *covenant* advisor, Penfida, to assess the strength of the Sponsor *covenant* under various climate change scenarios.

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

We, as the KPTL Board, have overall responsibility for ensuring that climate related considerations are taken into account, where relevant, in all areas of the Scheme's management and retain overall responsibility for the setting and implementation of the Scheme's climate change beliefs. No other party undertakes scheme wide decisions in relation to climate-related risks and opportunities.

In fulfilling this duty, we delegate certain responsibilities to other parties. These parties and their role in the Scheme's overall approach to climate-related issues, including the assessment and management of climate risks and opportunities, is set out below alongside the methods we use to assess each party.

As outlined in Governance Disclosure 1, we maintain an ongoing dialogue with Kingfisher plc, the Scheme's Sponsor, including updates provided by a Sponsor representative at various Trustee meetings or internal Trustee training events. This dialogue includes the Sponsor's approach to climate-related issues to ensure those relevant to the Scheme are considered where appropriate and ensure synergy between the Scheme and Sponsor's approach to climate related issues.

**KPTL Board**

Our role as the KPTL Board is to oversee the management of the Scheme's strategy, assets, and investments. The KPTL Board has ownership of setting the Scheme's climate change beliefs and overarching strategic objectives for both DB - FS and DC - MP sections of the Scheme. The KPTL Board is expected to incorporate climate related considerations into its management of the Scheme in all areas including its oversight of the work undertaken by the sub-committees.

We annually review our own role and responsibilities as well as those of the service providers to the Scheme.

**DB Investment Committee**

The DB Investment Committee has ownership of the investment strategy of the DB section of the Scheme and one of their roles is ensuring the investment strategy takes into account the Scheme's climate change beliefs. The DB Investment Committee is expected to incorporate climate related considerations into its management of the DB section's assets, identifying and managing climate and wider *ESG* related risks and opportunities in all areas including asset allocation decisions, manager appointments and its monitoring of the Scheme's current investment managers.

**DC Investment and Retirement Committee**

The DC Investment and Retirement Committee has ownership of the investment strategy of the DC section of the Scheme and one of their roles is ensuring the default investment strategy is consistent with the Scheme's climate change beliefs. The DC Investment and Retirement Committee is expected to incorporate climate related considerations into its management of the DC section's assets, identifying and managing climate and wider *ESG* related risks and opportunities in all areas including default strategy design and its monitoring of the Scheme's current investment managers.

**Kingfisher Group Pensions Executive ("GPE")**

The Kingfisher GPE support the KPTL Board and the committees in taking forward agreed actions between meetings. They also maintain training plans and facilitate training on climate related issues for the KPTL Board. The Kingfisher GPE is responsible for liaising with the Scheme's investment managers, monitoring the Scheme's asset performance and collation of relevant reporting to the KPTL Board and the committees.

**Investment managers**

The Scheme's investment managers are expected to integrate climate and wider *ESG* considerations including climate related considerations, to the extent possible, into their management of each of the Scheme's assets. The Scheme's investment managers are expected to provide frequent reporting on climate change and wider *ESG* topics and provide updates when requested.

**Investment, actuarial and governance advisors**

The Scheme has several advisors who are responsible for assisting the KPTL Board and the committees by providing advice and training in relation to climate related considerations when required, for example, in relation to strategy reviews, any planned changes to the strategy or new manager appointments and undertaking climate scenario analysis. The Scheme's investment advisers assess the competency of new and existing managers with regard to climate change and wider *ESG* issues. They provide quarterly reports which include an assessment of the investment managers approach to climate change, wider *ESG* and *responsible investment*.

The Scheme's governance adviser supports the annual review of the risk register.

***Covenant* advisor**

The Scheme's *covenant* advisor advises us on the potential implications of various climate change scenarios on the strength of the Sponsor *covenant*.

**KPTL Board oversight of other parties**

Climate-related risks and opportunities are discussed at the DB Investment Committee and DC Investment and Retirement Committee and forms part of the Audit Accounts and Governance considerations. Roles and responsibilities with respect to climate-related issues are outlined in the Terms of Reference ("TOR") for each committee. Sub-committees feed back to the wider Trustee Board at quarterly meetings and other relevant points in time where required.

For both DB and DC sections, we and our investment advisers assess the investment managers' approach to *ESG*, and by extension climate-change factors, as part of the investment manager selection process. We expect our fund managers, where appropriate, to have integrated *ESG* factors including climate change as part of their investment analysis and decision-making process. It is left to the investment managers to determine the extent to which *ESG* factors are considered when making decisions as to the underlying investments. On an ongoing basis we via relevant sub-committees oversee investment manager performance via regular reporting from the managers and the Scheme investment advisers.

We oversee the Scheme advisors by challenging and reviewing advice at sub-committee and Trustee Board meetings. Investment advisors also have set objectives in place, and we undertake an annual review of performance against these objectives.

# Strategy

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

One of our climate change beliefs is that climate change and the expected transition to a *low carbon economy* is a long-term financial risk to the Scheme and member outcomes. We have therefore incorporated climate change factors in our strategic decision-making process as far as possible.

For example, prior to the 2022/23 Scheme year, we considered the impact of climate and wider *ESG* risks on both our DB and DC sections. We integrated *ESG*-titled funds in the Scheme's default investment strategy and self-select fund range for our DC section and we introduced a "climate change tilt" for our DB portfolio, i.e., it has more exposure to companies generating revenue from low-carbon opportunities, and less exposure to companies with higher carbon emissions and fossil fuel assets relative to their sector.

**Climate related risks and opportunities**

We recognise that climate related risks and opportunities could impact the Scheme in a range of ways:

- The value of the Scheme assets or the return from those assets. For example, if the underlying companies invested in or loaned to are unable to pay dividends or loan repayments.
- Impacts on the wider economy and society as a whole could cause changes in inflation, interest rates and life expectancy. This could change the DB section's liabilities or impact the purchasing power of DC members' funds.
- The strength of the sponsor (including its ability to support the DB section and ability to fund contributions for the DC section) could be affected.

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 well the world transitions to a low-carbon economy. There are also opportunities that may arise from the transition 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.** | **Physical risks and impacts dominate.** |
|---|---|
| • Policy changes, e.g. *carbon pricing*, seek to create the changes needed in society.<br>• Technology development, e.g. renewable energy, and adoption enable the changes to be adopted. | • Chronic changes, e.g. sea level rise, agricultural systems impact economic and social systems.<br>• Acute changes, e.g. storms, wildfires create damage and give rise to costs of adaptation and reconstruction. |

Whilst we expect transition risks to feature more prominently over shorter time periods and physical risks to feature increasingly over longer time periods, we recognise that the future is uncertain and physical risks could emerge earlier than anticipated. This is discussed in more detail below.

In addition to the above, pension schemes could be exposed to liability and reputational risk. For example, if parties who have suffered loss or damage from the effects of climate change seek compensation from those they hold responsible.

**Time horizons**

We note that climate related risks and opportunities may vary depending on the time horizon. Whilst we recognise that the DB and DC sections of the Scheme have different membership profiles, we have taken the view that a combined approach to the time horizons is currently appropriate for identifying and managing climate related risks and opportunities.

Taking the journey planning and investment horizon for both DB and DC sections into consideration, we have defined short, medium, and long-term as follows:

| Term | Time horizon | Reasoning |
|---|---|---|
| **Short** | 3-5 years | We considered the expectation that data availability, approach to climate risk management and policy change is expected to develop substantially over the next 3-5 years. This also broadly aligns to the timeframe to the next valuation for the DB section and the de-risking phase of the default strategy in the DC section. |
| **Medium** | 12 years | Recognising the importance of temperature pathways over the next 10-20 years as part of modelling scenarios. Also reflects the potential timeframe by which the DB section may look to *buy-out* all benefits with an insurer (noting there is no set date target date agreed at this stage). |
| **Long** | 30 years | Reflecting the nature of the Scheme's DC section membership profile and broadly aligning to 2050, the date by which countries bound to the Paris Agreement have agreed to meet net-zero requirements. In practice we expect the DB section will have secured all member benefits with an insurer ahead of this. |

As the Scheme continues along its journey plan, the timescales above will be reviewed and amended as appropriate.

We recognise that 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-term periods, we expect physical risks to feature increasingly – however the balance between the transition risks 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 impact the DB and DC sections of the Scheme differently during its lifetime.

Risks relating to climate change are identified through the various processes involved in managing the Scheme, 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. To help with this we have introduced a climate risk dashboard at a high level which records the risks identified through these processes and is used to prioritise areas for action.

These approaches include looking at climate risks and opportunities in detail for each asset in which the Scheme invests. We consider climate risks at both an overall strategy level as well as with respect to each asset in which the DB and DC sections of the Scheme is invested. This allows us to focus on engaging with individual managers where the risks are higher.

We assess climate related risks and opportunities when setting investment and funding strategy, taking into account *covenant*, to ensure a holistic and consistent approach. The following sections set out a summary of the key *ESG* risks we have identified and monitor for the DB and DC sections of the Scheme. We also consider how the impacts of these risks will manifest over the short-, medium- and long-term. Further detail on the risk management processes in place for the Scheme are set out in the next section of this report.

We note that climate-related risks and opportunities will evolve over time as more information and new investment products come to the fore.

**DB Section**

**Overview**

Our long-term secondary funding objective ("2FO") for the DB section is to reach full funding on a *gilts basis* by 2030. This is intended to be an estimate of the level of funding needed to be able to secure all of the benefits with an insurer. The DB section reached the target to be 100% funded on a *gilts basis* early, so the focus is now on maintaining our strong funding position and managing remaining risk within the DB section where possible.

Climate change has the potential to pose both material risks and opportunities to pension schemes over the longer term. Therefore, we consider it an important factor when thinking about the management of our DB funding and investment strategy.

Given the DB section's strong funding position, low risk investment strategy and limited reliance on the sponsoring employer, we believe the Scheme's current funding and investment strategy is broadly resilient and we do not believe any changes need to be made at this time in light of the climate risks and opportunities identified. That said, we recognise the potential for severe downside risk to emerge which could threaten the ability to meet our objectives and to pay member benefits. It is not possible to escape these downside risks which are systemic so appropriate ongoing risk management and stewardship practices will be crucial.

**Journey plan**

We have agreed a strategic journey plan which sees our allocations to higher risk/return asset classes such as equities and alternatives (typically referred to as return-seeking assets) reduce over time. The bulk of the DB section's funds are invested in assets which broadly match the liabilities (gilts, corporate bonds, and *buy-in* policies). We also aim to have a substantial part of the interest rate and inflation risk hedged using suitable assets.

Our current aim is to gradually further de-risk our portfolio from its current position so that by March 2030 it consists entirely of matching assets. As we approach 2030, we will review whether the target date of 2030 remains appropriate.

The table below notes the proportion of return seeking and matching holdings in our current strategy and our long-term target strategy.

| As at 31 March 2023 | Current strategy | Target strategy |
|---|---|---|
| **Return seeking** | 12% | 0% |
| **Matching** | 88% | 100% |
| **Total** | **100%** | **100%** |

**How climate-related risks and opportunities impact our strategy**

The table below sets out a summary of the key risks we have identified for each area of the DB section's strategy. We use 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>
<tr><th>Risk areas</th><th colspan="4">Climate Risks</th></tr>
<tr><th rowspan="2"></th><th rowspan="2">Identified Risks</th><th colspan="3">Impact</th></tr>
<tr><th>Short term</th><th>Medium term</th><th>Long term</th></tr>
<tr><td>Investment</td><td>Short/medium term, exposed to climate risks through investee companies in remaining return seeking assets and non-government matching assets.<br><br>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.<br><br>Climate scenario analysis tested at 2022 valuation. Limited impact of different climate scenarios expected over the short and medium term, but long-term downside risks expected to be worse if warming exceeds Paris targets.</td><td>Green</td><td>Amber</td><td>Amber</td></tr>
<tr><td>Funding</td><td>Longevity impact from climate change and potential uncertainties in the funding assumptions introduced by climate risk.<br><br>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.<br><br>Inflation and interest rate changes impact liabilities but the DB section has high levels of hedging to protect the funding level against movements in these market factors so not considered a material climate-related risk.</td><td>Green</td><td>Amber</td><td>Amber</td></tr>
<tr><td>Covenant</td><td>Company not delivering strategies for tackling climate change and / or emergence of key climate risks identified impacting profitability and / or covenant strength.</td><td>Green</td><td>Green</td><td>Amber</td></tr>
</table>

Given the DB section's funds are mainly invested in matching assets, we believe there are limited climate related opportunities in the current strategy. The main opportunity we have identified is our investment in a global renewables fund.

It is worth noting that our approach to gradually de-risk our portfolio from its current position so it consists entirely of matching assets will mean increasing our government bond holdings. Our ability to reduce the carbon footprint of the DB section's assets will largely be influenced by UK government policy. If the biggest holder of UK gilts are pension schemes, then we and other schemes may need to lobby the UK Government on their commitment to *net zero* as any policy changes or delays could impact the DB section in the medium to long term.

## DC Section

### Overview

For the DC section the goal of the Trustee is to provide a default strategy that offers appropriate risk-adjusted returns to maximise member outcomes at retirement (specifically we aim to deliver a return of 3% over CPI inflation each year over the long term), and to provide a suitable range of self-select options to allow members that choose to select their own investments to be invested in an option that best reflects their investment beliefs.

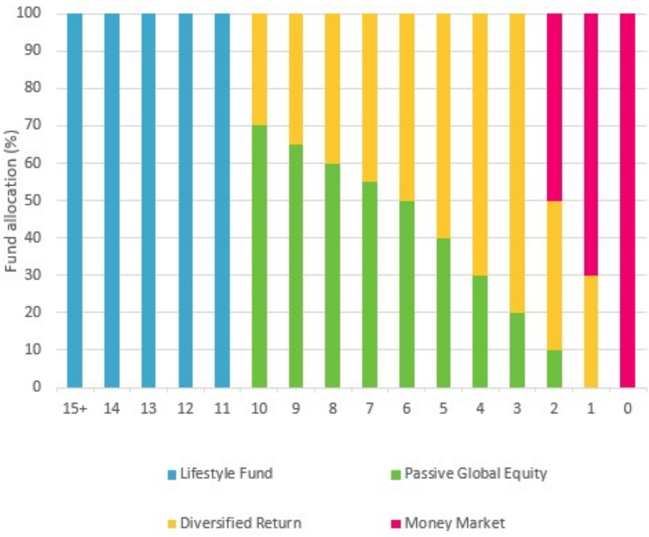
We believe that climate change is a financially material risk that could impact on the Scheme's members, with the potential to pose both material risks (and opportunities) to their investments over the longer term. Therefore, we consider it an important factor when thinking about the investment arrangements generally.

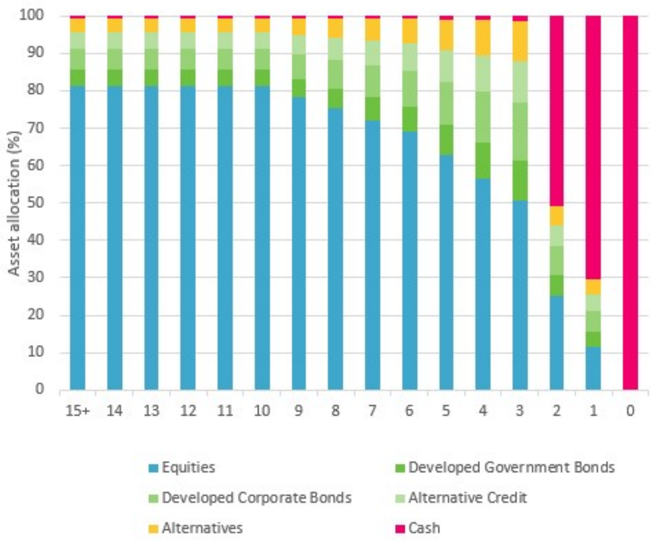
### Default lifestyle strategy

The Scheme's default investment strategy is the Lifestyle Cash Target strategy. This is a 'lifestyle' strategy, where a higher level of risk is taken in earlier years with the strategy de-risking into lower risk assets as a member approaches retirement. The overriding aim of lifestyling approaches is to balance long-term return potential with risk management for members approaching retirement.

The default strategy was reviewed in September 2022 and is invested 100% in the Kingfisher Lifestyle Fund, which is a blend of 70% in the Kingfisher Passive Global Equity (inc. UK) Fund (which has the LGIM Future World Fund as its underlying fund) and 30% Kingfisher Diversified Return Fund (which has the LGIM Future World Multi-Asset Fund as its underlying fund) until 10 years before retirement. At that point the allocation to the Kingfisher Passive Global Equity (inc. UK) Fund begins to reduce and a cash allocation is introduced via the Kingfisher Money Market Fund (which uses the LGIM Sterling Liquidity Fund as its underlying fund) 3 years before retirement.

The strategy targets cash withdrawal and is invested, at retirement, 100% in the Kingfisher Money Market Fund. The charts below show the fund allocation (left hand chart) and underlying asset allocation (right hand chart) of the default strategy within 15 years of retirement.




The default strategy is the only popular arrangement offered by the Scheme where either £100m or more of the Scheme's assets are invested or which accounts for >10% or more of the assets used to provide money purchase benefits. The strategy section therefore focuses on the default strategy only.

**How climate-related risks and opportunities impact our strategy**

The table below sets out a summary of the key risks we have identified for each area of the DC section's strategy. We use 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.

| Risk Area | Climate Risks | | | |
|---|---|---|---|---|
| | Identified Risks | Impacts (RAG) | | |
| | | Short term | Medium term | Long term |
| Investment | Exposure to climate risks through investment in companies in equity and credit allocations, which comprise the majority of the money purchase section and are likely to grow over time.<br><br>Climate scenarios recently modelled. Indicates that risk will be relatively limited for older cohorts of members, with shorter- and longer-term impacts for younger members. Members that are mid-career are more likely to be impacted by immediate transition actions. | Amber | Amber | Amber |
| *Covenant* | Company not delivering strategies for tackling climate change and / or emergence of key climate risks identified impacting profitability and ability to support current contribution levels | Green | Green | Amber |

In terms of climate-related opportunities, we have exposure to opportunities such as new technologies through investment in companies in equity and credit allocations. The default strategy includes investment in *ESG* tilted funds. These funds aim to reduce exposure to companies engaged in the exploration of fossil fuels and higher emitters of $CO_2$ and increases exposure to companies that produce goods and services designed to mitigate the impacts of climate change. The overall fund performance is therefore expected to be better than an equivalent fund with no *ESG* tilt applied as the investee companies should be better positioned to withstand transition risks or benefit from new technologies.

**Disclosure 2: Describe the impact of climate-related risks and opportunities on the Scheme's businesses, 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 both the DB and DC sections of the Scheme. Equally, however, the need to transition to a *low carbon economy* and the innovation which that will require presents a number of potential investment opportunities.

Over recent years we have dedicated considerable time and resource to ensuring that climate risk and opportunities are appropriately embedded within our investment processes. This has largely been in the form of engaging with the Scheme's investment managers and when setting investment strategy, considering the resilience of our strategy to climate change risks.

**Risk register**

Climate change and broader *ESG* issues have been included within the Scheme's risk register and we have a number of existing controls in place. Whilst this has been discussed in further detail within the risk management section of this report, some of the controls in place to manage and mitigate climate and *ESG* risks are set out below:

- When assessing strategy changes to be taken for the Scheme, we have considered the climate risks and *ESG* characteristics of each mandate when selecting the types of investment to increase/reduce exposure to. Specifically, we have adopted *ESG* tilted funds in the DC section's default strategy and *ESG* tilted equity funds in the DB section (albeit we have been reducing our overall exposure to equities as part of wider de-risking plans).
- We undertook climate scenario analyses as part of the 2022 actuarial valuation for the DB section of the Scheme (covered further in the section below) and considered *ESG* issues as part of our DC section default strategy review; and
- We received advice from our *covenant* adviser on the potential impact of climate-related risks on the sponsor *covenant*.
- We have met with and challenged investment managers on their approach to *ESG* and have received a number of trustee training sessions on the management of climate related risks and opportunities.

Further examples of the actions we have been undertaking are included across other sections of this report.

The impacts of climate change will be different for the DB and DC sections of the Scheme, and so we have described these impacts for each section separately below.

**DB section**

**Investment**

We have regard to *ESG* factors, including climate change, when investing and expect our managers to pursue a policy of engagement with investee companies. Specific actions we have taken include:

- We have a 'climate change tilt' in our equity holdings where we focus on more exposure to companies generating revenue from low-carbon opportunities, and less exposure to companies with higher carbon emissions and fossil fuel assets relative to their sector.
- We have invested in a global renewable energy fund which offers some exposure to climate related opportunities.
- We assess the investment managers' approach to *ESG* as part of any investment manager selection process; and
- We considered the insurers approach to *ESG* issues when selecting a *buy-in* provider.

**Funding**

When considering the potential impact of climate risks on the liabilities, there are three key areas which could impact the funding position significantly:

- inflation.
- interest rates; and
- life expectancy.

All of these areas can be impacted by climate change over time as the various climate-related risks manifest, regardless of whether transition risks or physical risks dominate.

For many years, we have looked to reduce our exposure to interest rates and inflation by investing in assets that will match changes in the DB section's liabilities due to changes interest rates and inflation, meaning that the assets and liabilities move in conjunction and the funding level of the section is protected. We also have a number of *buy-in* policies (3, to date) which provide an exact match to pensions payable to a sub-group of the membership[1]. The *buy-in* policies provide protection against changes in life expectancy as well as changes in interest rates and inflation.

These are known as hedging strategies and have been previously put in place for wider risk management purposes to protect the funding level from changes in interest rates, inflation and life expectancy. However, as a result, this will also help protect the section from changes that could occur due to climate change risks and opportunities arising.

More widely, we consider climate change as part of the DB actuarial valuation process. As part of the 31 March 2022 valuation, we took specialist *covenant* advice on the impact of climate change on the sponsor (more on this below). We also undertook scenario analysis. This allowed us to consider the potential impact of climate change on the resilience of the section as well as our future position when agreeing the funding arrangements with the sponsor.

***Covenant***

We take specialist *covenant* advice to understand the impact of climate related risks and opportunities on the sponsor *covenant*.

[1] Note that the *buy-ins* are an asset of the scheme and give no preference or detriment to the sub-group of members covered.

This includes information and analysis on:

- An overview of the key climate related risks for the sponsor, the potential financial impact of these and the sponsor's current plans to address these including climate change targets the sponsor has set.
- A summary of the key actions taken by the company under its 3 main areas of climate change strategy.
- The governance approach taken by the sponsor to *ESG* issues.
- *ESG* ratings for the sponsor; and
- Scenario analysis.

We intend to continue monitoring the *covenant* and the company's climate change strategies going forward and will maintain a dialogue with the Sponsor's Responsible Investments team.

**DC Section**

**Investment**

We have regard to climate change and wider *ESG* factors when investing and expect our managers to pursue a policy of engagement with investee companies. Specific actions we have taken include:

- Using LGIM as the Scheme's investment provider. LGIM has strong credentials in terms of integration of climate and wider *ESG* factors in their investment process, as well as a leading global stewardship approach; and
- Incorporating the LGIM Future World and Future World Multi-Asset funds into the default investment strategy. These funds actively incorporate climate and wider *ESG* considerations by tilting underlying holdings based on LGIM's assessments of the constituent parts. These funds actively consider carbon emissions and have substantially lower carbon footprints and carbon intensity than unadjusted comparators. LGIM also apply their climate impact pledge to both funds which targets around 1,000 companies worldwide through engagement to drive alignment with a *net zero* pathway.

**Next steps**

Over the next 2023/24 Scheme year, we will engage with our advisers to develop plans to support our *net zero* ambition (more on this in the Metrics and Targets section).

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

To test the resilience of the Scheme's investment strategy to climate risk, we carried out climate scenario analysis for both the DB and DC sections of the Scheme. This analysis was undertaken to assess the resilience of the Scheme's strategy over the short-, medium- and long-term time horizons to a number of different climate scenarios.

The diagram below summarises these three scenarios and how they correlate to the variance of the world's transition to a *low carbon economy* as outlined under Strategy disclosure 1. The scenarios differ by how quickly and decisively the world responds (or fails to respond) to climate change.

Aggressive mitigation — Business as usual

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

Timing of disruption: Immediate → 10+ years

Intensity of disruption: High → Very high

The results of the analysis for the DB and DC sections are described further below.

**DB section**

When developing our assessment of how our strategy may be impacted by climate-related risks and opportunities, we considered the impact of the three climate scenarios described above and used quantitative assessment to think about what downside scenarios could disrupt or materially impair the DB section's funding position or ability to meet benefit payments.

We used the results of quantitative analysis to illustrate the potential impact on the **funding position (considering the asset and liability impacts together)** over a range of time periods under the three different climate scenarios.

We explored the following:

- The impact of the scenarios on the chance of reaching full funding on a *buy-out* basis over the short, medium, and long term (i.e., the likelihood of success in achieving a 100% funding position on a *buy-out* basis over time).
- How the downside risk could be impacted (i.e., how the possible fall in funding level may change over time in the worst 5% of cases).

The scenario analysis was carried out using a model produced by the Scheme's actuarial adviser, Hymans Robertson, based on the DB section's investment strategy and funding position as at 31 March 2022 (the most recent actuarial valuation) and was undertaken in June 2022. The outputs of the scenario analysis are included within Appendix II: further details on scenario analysis.

**Results**

The results of the analysis show that the DB section's current funding and investment strategy is unlikely to be significantly impacted by any of the three climate scenarios over the short, medium or long-term. The largest impact observed was for the 'Head in the sand' scenario over the long term which saw the chance of reaching full funding on a *buy-out* basis fall from 94% under the base case to 91%. For context, a chance of success of 60-70% and above is generally viewed as a good benchmark for setting strategy. Downside risk was also higher under this scenario albeit we consider it remains supportable. We are therefore able to conclude that there is limited impact on the metrics explored, reflecting our low-risk strategy and the hedging assets we have in place.

**Sponsor *covenant***

Our specialist *covenant* adviser considered the **potential impact on the *covenant* strength** of climate change. Specifically, they considered the impact on the sponsor's ability to support the scheme in the short term in the event it was negatively impacted by emerging regulation, changing consumer preferences and an extreme event due to physical risk (in line with impacts set out by the sponsor). The position was then further stress tested to consider the impact of a funding downside emerging at the same time.

Based on the scenarios explored the *covenant* provided by Kingfisher plc to the Scheme was expected to remain Strong under the Pensions Regulator's *covenant* rating categories under the worst-case scenario based on the information currently available.

**Conclusion**

**Overall, we believe the DB section's funding strategy is broadly resilient under the scenarios explored and no further action is required at this stage.**

That said, we recognise the potential for severe climate-related downside risk to emerge which could threaten the ability to meet our objectives and to pay benefits and impact wider quality of life for our members. It is not possible to escape these downside risks which are systemic so appropriate ongoing risk management and stewardship practices will be crucial. We will continue to monitor the DB section's exposure to climate risk through the collection of climate metrics and ongoing monitoring of the investment strategy, which will flag up specific risks and opportunities in portfolio companies. We will also continue to monitor climate change risks and opportunities when these arise.

Going forward we expect the scenario analysis will be carried out on at least a triennial basis, alongside each future investment strategy review and triennial DB Actuarial Valuation to ensure that significant changes to the section's broader strategy are captured and for the analysis to help inform strategic decision making. In the interim years, we will consider whether to refresh the analysis or whether previous analysis remains suitable.

**DC Section**

We have analysed the impact of climate scenarios on sample members' outcomes at retirement, modelling using the same scenarios used for the DB section.

The scenario analysis was carried out using a model produced by the Scheme's actuarial adviser, Hymans Robertson, based on the DC section's main investment funds and was undertaken in December 2022. The results of the scenario analysis are included within Appendix II: further details on scenario analysis.

**Results**

The modelling indicated that all 3 of the above scenarios could mean members' savings at retirement are lower. The largest fall in savings at retirement was up to 5% but the impact varies depending on the characteristics explored. Members at the early and middle stages of their career are expected to be more impacted than members close to retirement. The largest impact on expected member outcomes was a 5% fall.

**Conclusion**

**Overall, we believe the DC section's funding strategy is broadly resilient under the scenarios explored and no further action is required at this stage.** Whilst any fall in projected savings is never welcome, the largest fall of up to 5% is not particularly significant versus other risks that members' pot sizes are routinely exposed to such as broader market movements.

We recognise the potential for severe downside risk to emerge which could impact significantly on members' savings at retirement and wider quality of life for our members. It is not possible to escape these downside risks which are systemic so appropriate ongoing risk management and stewardship practices will be crucial going forward.

# Risk management

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

As part of our responsibility for setting and implementing the Scheme's investment beliefs, approach and strategy, we 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 Scheme. We delegate aspects of this responsibility to other parties, but the KPTL Board retains overall oversight, as set out previously in the Governance section of this report. Below, where we have referred to *ESG* risks more broadly, this will include consideration of climate change risks.

The risk management approach taken for the Scheme is consistent across the DB and the DC Sections; so, where we talk through our approach below, this is applicable to both Sections of the Scheme.

**Risk management framework**

Climate change risks are integrated into our decision making at Trustee Board meetings and sub-committee meetings. As noted under the governance section of this report, the sub-committee terms of reference have been updated to reflect this.

The Scheme's risk management framework takes the form of a Risk Register.

At a simple level, our risk management process comprises identification, assessment, monitoring and control of risk. We currently take a top-down approach to risk management, where we use our strategic objectives as the starting point for our risk management process. Our current Risk Register has 9 principal risk areas with more granular risks detailed under each. Information from several sources is used to help identify risks and we and our advisors are responsible for identifying risks as appropriate. *ESG* related risks are included in 5 of the 9 principal risk areas.

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

Additional details of the Scheme's approach to the identification, reporting and management of risk is set out as follows:

- The Risk Register is reviewed quarterly, or more frequently as necessary by us. A full review is carried out annually with input from our governance adviser.
- A risk assessment methodology is adopted based on the total risk impact for each area considered using the likelihood of the risk multiplied by the impact of risk to inform us of particular areas to focus on; and
- A summary of key risks identified in relation to investment strategy is noted in the Statement of Investment Principles which is available at www.kingfisherpensions.com/knowledge-centre/scheme-documentation/. This includes *ESG* risks.

*ESG* and, in particular, climate related risks can be identified by various parties including us, any other parties as outlined in the governance section, e.g., sub-committees, investment managers or the Scheme's advisers as part of the ongoing management of the Scheme. Additionally, we have created the climate-specific risk dashboard for both Sections of the Scheme this year, as detailed in Strategy disclosure 1, in order to support our risk management processes with respect to climate-related issues.

**Identification of *ESG* risks**

*ESG* risks are identified as part of the following processes:

- **Investment strategy reviews** – We consider *ESG* risks as part of the Scheme's regular investment strategy reviews that are carried out alongside each Actuarial Valuation for the DB section and on an ad hoc basis as required. These reviews cover the extent to which social, environmental and governance considerations are taken into account in the selection, retention and realisation of investments. The Scheme'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** – We also consider *ESG* risks as part of the triennial Actuarial Valuation process for the DB section ensuring that this analysis considers the funding, *covenant* and investment risks in a joined-up way. The Scheme Actuary will 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 Scheme. When assessing the employer's *covenant*, we take into account the *ESG* risks to the employer and any reporting from our *Covenant* Adviser.
- **Considering asset classes** – When assessing new asset classes, potential *ESG* risks are assessed and discussed as part of the trustee training provided to us. Key *ESG* risks are taken into account when comparing alternative options.
- **Selection of *buy-in* provider / investment managers** – When appointing a new *buy-in* provider or investment manager, the Scheme's Investment Adviser provides information and their view on each manager's *ESG* policy, capabilities and credentials. Each manager is also asked to provide information regarding their own *ESG* risk management processes as part of the selection process. This information allows us and our investment advisers to identify potential risks when comparing potential providers.
- **Individual mandates and investments** – We also consider *ESG* risk at the individual asset level, including if any potential new investment products are being considered with input from our investment advisers. The Scheme'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 us in the following ways:
    - As part of their regular reporting, as investment strategy is reviewed quarterly by the sub-committees.
    - During their presentations when meeting with us.
    - By providing climate metric data in line with the *TCFD* requirements; and
    - By providing any relevant training.

  We oversee the approach taken by the investment managers by meeting with the Scheme's current investment managers to gain a more in-depth understanding of how *ESG* risks are integrated into their management of each portfolio. We also receive a quarterly *ESG* rating for each manager from our investment advisers which allows us to monitor their overall approach to *ESG* risks.

Any key risks identified are discussed by us or sub-committees and are listed on the Scheme's Risk Register to be monitored on an ongoing basis.

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 our investment managers to promote improvement in this area.

**Disclosure 2: Describe the organisation'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 Scheme.

We 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 Scheme, then making a decision on the appropriate action (mitigation, control or acceptance) based on this score and available courses of action. This helps us build up a picture of the Scheme'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 Scheme. Risk appetite can be defined in terms of a willingness to take risk or the acceptability of risk.

Once the risks facing the Scheme 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.

As part of our risk assessment work, we have carried out scenario analysis for both the DB and DC sections of the Scheme to assist in the identification and measurement of climate related risks in the Scheme's overall strategy. Having considered the output of this work and the existing *ESG* related controls we have in place; we do not consider there is a need to change the overall strategy at the current time.

That said, we recognise that climate change is a *systemic risk* and more extreme climate scenarios could impact the Scheme and our members in future. Effective stewardship is crucial, and we will look to take the following actions in the short to medium-term to continue to develop our approach to managing climate related and wider *ESG* risks:

- Continue to monitor best practice in the management of *ESG* issues and climate change, including monitoring of any new *ESG* products via training sessions from Investment Managers and our advisers.
- Develop plans and monitoring for our climate targets (more on this in the next section).

The Scheme already has exposure to a range of low carbon investments through its existing strategy in areas such as infrastructure and equities where there is a 'carbon tilt' towards low-carbon companies and assets. The DB Section of the Scheme for example has a small allocation to a Blackrock renewables fund which include a range of renewable energy projects. These projects are utilising new technologies to reduce carbon emissions through clean energy generation.

However, while we may consider other low carbon investments in future, we note that many have limited capacity and due to competitive pricing, these could lead to adverse impacts on financial returns. Further, our ability to invest in certain assets classes for the DB Section is limited by our long-term objective to *buy-out* the DB Section's liabilities with an insurer and so our focus on any change would be on the DC Section.

**Expectations of investment managers**

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

In summary, we will expect all of our 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.
- monitor and review companies and assets in relation to their approach to climate change; and

Our approach to stewardship is also a key aspect of the management of climate-related risk. We expect our 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.

We receive quarterly stewardship reports from our investment advisers on engagement, in respect of our investment managers, and use these to monitor performance in line with the agreed beliefs and resulting expectations for investment managers as well as any requirements within mandates in place. Where investment managers are not performing in line with expectations, we engage further with the managers to understand why and work to improve the performance. We would undertake a formal review if this does not occur.

We prepare an annual Implementation Statement with the assistance of our Investment Advisers which assesses the engagement and voting activities of investment managers and is used to monitor managers' activities in this area. Members can access the Implementation Statement at www.kingfisherpensions.com/knowledge-centre/scheme-documentation/.

The Trustee, working with L&G and Tumelo provide a member engagement tool that gives members greater transparency of the companies they have their pension contributions invested in. The tool also provides the members with the opportunity to share their views on how certain shareholder votes should be cast, in relation to these companies, on a variety of issues including climate change. These member views are shared with the investment managers who are then able to take them into consideration when voting. The vote the investment manager casts is in turn shared with the members, along with rationale as to why the investment manager voted the way they decided.

**Case study - DC Section investment review**

We carry out a review of our investment strategy for the DC Section at least every 3 years.

For a number of years, we have used *ESG* tilted funds in the default strategy. This was further enhanced following the 2019 strategy review and the Lifestyle fund within the default strategy is now made up of two underlying *ESG* tilted funds:

- the LGIM Future World Multi-Asset Fund
- the LGIM Future World Fund

These *ESG* tilted funds have been put in place because we identified that climate change was a risk to our members in the DC Section of the Scheme. The funds above aim to reduce exposure to companies engaged in the exploration of fossil fuels and higher emitters of $CO_2$ and increases exposure to companies that produce goods and services designed to mitigate the impacts of climate change. As a result, the exposure to climate-related risks of the default strategy should be lower than investing in non-*ESG* tilted funds.

We reviewed the investment strategy of the DC section again in 2022 and one of the key areas our investment advisers considered was the integration of *ESG* issues within the default strategy. As we already used *ESG* tilted funds within the default Lifestyle fund, we considered the underlying funds remain appropriate. We will continue to consider *ESG* issues as a key risk area at future investment strategy reviews.

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

As set out under Risk Management Disclosures 1 and 2, the management of *ESG* risks is integrated into the Scheme's current risk management processes in a number of ways across funding, investment and *covenant* related workstreams, with all risks considered in the context of the overall risks inherent in any strategy.

# Metrics and targets

**Disclosure 1: Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes.**
Ahead of the 2022 Q3 Trustee Board meeting, we commissioned a paper on suitable climate metrics to use as part of *TCFD* requirements. At the 2022 Q3 Trustee Board meeting, we discussed and agreed the metrics that should be included within our *TCFD* report.

At that time, we had not collected any data and decided on producing metrics that we thought would best inform us as to the Scheme's position. As such, we acknowledge that the climate metrics chosen to provide information on the Scheme may change over time. This may be to better meet future requirements as well as to provide further information on the Scheme's position with respect to climate risks and opportunities over time taking into account how the Scheme priorities may change. Whilst changes to the metrics we consider will likely not be frequent, this will help to ensure the best understanding of the Scheme's position with respect to climate related risks and opportunities and how to integrate this information into decision making.

Climate metrics will aid us in identifying opportunities for further engagement with investment managers and underlying investee companies.

**Chosen metrics**
This report focusses on the mandatory metrics which all pension schemes are asked to monitor and report against for *TCFD* purposes. The data collected is in respect of both the DB and DC sections of the Scheme. The *TCFD* requirements have set out clearly defined expectations for the categories of metrics that must be measured and reported on.

For clarity, we have set out those requirements below, as well as the metrics chosen by us for the Scheme 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 (*WACI*) 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.

The following metrics for both DB and DC sections of the Scheme are included in this report in line with the above requirements:

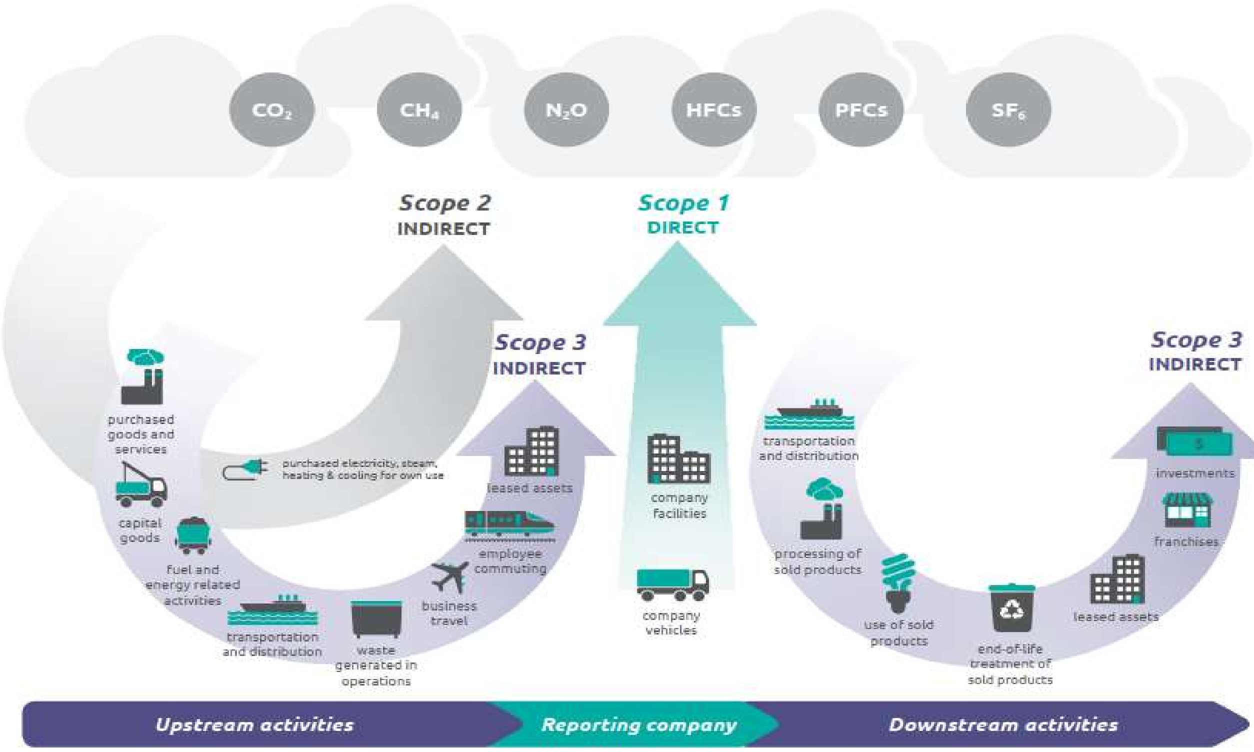
| Type | Metric | Measurement |
|---|---|---|
| Absolute Emissions Metric | Total *Greenhouse Gas* (*GHG*) emissions | The volume of *scope 1 and scope 2 emissions* from the Scheme's assets – Measured in tons of $CO_{2e.}$ |
| Emissions Intensity Based Metric | Carbon footprint | The volume of *scope 1 and scope 2 emissions* per unit of capital invested from the Schemes' assets – Measured in tons $CO_{2e}$ 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 Scheme's managers. Measured per mandate - % of mandate for which we have 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)

Although we are currently gathering scope 3 data for the Scheme's investments where available, this is currently not well reported on and we have split out the scope 3 data in this year's report in order to be more clear as to where data gaps lie/due to lack of information received by managers/due to lack of reported data. As noted in disclosure 2 below, we would look at ways to improve the data gaps in future *TCFD* reporting.

We acknowledge 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. We 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.**

We have collected data for both the DB and DC sections of the Scheme and disclose these separately below. This is the first time we have collected data for the Scheme. We will annually monitor the metrics and identify trends in the data which will help inform us of potential risks to the Scheme.

**DB section**

The table below sets out the climate change metric data that we were able to collect from our fund managers for the DB section of the Scheme. Note: N = not collected, Y = collected

| Mandate | % of portfolio (as at 30 Sept 2022) | Total emissions (tonnes)? | Total carbon footprint (tonnes/£m invested)? | Binary targets (*net zero* or science-based target (SBT))? |
|---|---|---|---|---|
| **Aberdeen – Equity fund** | 0.4 | N | N | N |
| **Blackrock – Absolute return fund** | 7.4 | Y | Y | Y |
| **Blackrock – Renewables fund** | 0.6 | N | N | N |
| **Hayfin – Direct lending/credit fund** | 2.4 | N | N | N |
| **Insight – Liability Driven Investment** | 28.4 | Y | Y | Y |
| **Insight – Farmland fund** | 0.2 | N | N | N |
| **LGIM – Public equity fund** | 4.0 | Y | Y | N |
| **LGT – alternatives fund** | 6.8 | Y | Y | N |
| **PIMCO – Multi-asset credit fund** | 7.3 | Y | Y | Y |
| **Aviva – *buy-in*** | 25.8 | Y* | N | N |
| **L&G – *buy-in*** | 6.7 | Y | Y | Y (SBT only) |
| **PIC – *buy-in*** | 5.6 | Y | Y | Y (SBT only) |
| **SPV and bank account** | 4.4 | N | N | N |

* Aviva operations only as opposed to financed emissions.

Most of the key managers provided metric data although in some cases were not able to provide information on our preferred metrics. Further details are set out below:

- A handful of fund managers reported on and provided other climate change metrics: Insight for their LDI fund, LGIM for their public equity fund, LGT for their alternatives, as well as Aviva and L&G for their bulk annuity funds. We may consider these metrics in future. These metrics included implied temperature rise and *WACI*.
- While LGT were not able to provide data to calculate a binary target, the manager noted an overall aim is to align the portfolio to a 2050 *net zero* target.
- There were investment manager changes over the reporting period and funds for which data could not be collected. Two of the funds have disinvested over the reporting period and are no longer part of the investment strategy. As such we have not reported on their metrics. These were the Aberdeen equity fund and Insight farmland fund.
- We attempted to collect data for the Blackrock renewables and Hayfin funds. Hayfin are not collecting emissions data for historic direct lending funds. As this fund is currently in the process of being sold down with no further capital committed, we are unable to collect data on this fund. While data was not currently available for the Blackrock renewables fund, they are evaluating their approach for future years.
- We understand Aviva are in the process of finalising a supplemental *TCFD* report for UK life and pensions bulk annuity portfolios which we understand will provide more detail for future reporting years and allow better comparability with the other *buy-in* policies.
- **Once we allow for the above, we were able to collect data from funds that represent c92% of the total asset holdings for the DB section as at September 2022. The remaining holdings are made up of a special purpose vehicle (SPV) and cash.**
- The SPV is not subject to investor engagement or voting and the properties in the SPV will be covered by the sponsors metrics reporting. We have therefore excluded this from our data collection. Similarly, we have excluded cash on the grounds of materiality to overall strategy.
- Some managers provided carbon footprint metrics in alternative currencies which we have converted into tonnes/£m invested.
- We are invested in mixture of pooled and segregated funds and the absolute emissions metrics for the *buy-in* providers and fund managers of pooled funds covered all of their assets under management. These are the Blackrock – Absolute return fund, PIMCO – Multi-asset credit fund, Aviva – buy in and L&G *buy-in*. We have estimated our share of absolute *greenhouse gas* emissions using the value of the policies or fund holdings in our portfolio at 30 September 2022 and divided this by the total assets under management and applied this to the total emissions provided by the manager of the pooled funds.

The table below sets out a summary of the *greenhouse gas* emissions data provided by our investment managers and the measurement of each metric using this data for the DB section of the Scheme.

We were able to collect *scope 1 and 2* data for most mandates as at September 2022 with some managers reporting metrics at an earlier date – this is predominantly due to limitations in reporting of underlying holdings and manager's own reporting schedules. We will continue to liaise with all of our managers in order to improve consistency of reporting dates.

Most managers classified a proportion of their fund as 'unknown'. The metrics below do not include any allowance for 'unknown' holdings. **This means that we expect the *total carbon emissions* will increase as the data quality improves.**

| Mandate | Measurement date | % of portfolio (as at 30 Sept 2022) | *Total carbon emissions* *Scope 1+2* (tonnes of $CO_2$) | Carbon footprint *Scope 1+2* (tonnes of $CO_2$/£m invested) |
|---|---|---|---|---|
| **Blackrock – Absolute return fund** | 30 September 2022 | 7.4 | 464 | 62 |
| **Insight – Liability Driven Investment** | 30 September 2022 | 28.5 | 284,995 | 201 |
| **LGIM – Public equity fund** | 30 September 2022 | 4.0 | 3,717 | 79 |
| **LGT – alternatives fund** | 31 December 2021 | 6.8 | 7,260 | 44 |
| **PIMCO – Multi-asset credit fund** | 30 September 2022 | 7.3 | 132,042 | 185 |
| **Aviva – *buy-in**** | 31 December 2021 | 25.8 | 55 | N/A |
| **L&G – *buy-in*** | 31 December 2021 | 6.7 | 18,015 | 75 |
| **PIC – *buy-in*** | 31 October 2021 | 5.6 | 7,500 | 38 |

*Metric data relates to Aviva operations only so not comparable to L&G and PIC. Alternative intensity metric provided (*WACI*) as opposed to carbon footprint.

So far, for the DB section's assets, we have only been able to gather *scope 3* data for two of the bulk annuities: Aviva and PIC. Given the focus of this initial report is on *scope 1 and 2* data collection, we have not included the data for *scope 3* emissions in this report. We are liaising with the other managers in order to improve s*cope 3* reporting across other assets ahead of next year's report.

This is only the first year in which we are measuring these metrics and will continue to monitor performance over time. We will also consider how the metrics may change for any future investment strategy reviews, thus embedding climate-related issues and considerations into our investment and strategic decision-making.

We have not obtained data prior to October 2021 and so cannot compare how the Scheme'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, we expect to measure our chosen metrics at a consistent date to monitor trends and identify areas of concern.

We have noted the biggest gaps relate to *scope 3* data and will include discussions around our expectations of improvement in this data coverage in ongoing dialogue with our fund managers. Over time, we expect the data coverage of the Scheme's assets to improve, particularly across assets that currently find it difficult to measure emissions.

The other metrics chosen for the Scheme were also measured, as shown in the table below:

| Mandate | Measurement date | Reported emissions data (%) | Estimated emissions data (%) | *Binary target measurement** (%) |
|---|---|---|---|---|
| **Blackrock – Absolute return fund** | 30 September 2022 | 21% | 4% | Not provided |
| **Insight – Liability Driven Investment** | 30 September 2022 | 100% | 0% | 100% |
| **LGIM – Public equity fund** | 30 September 2022 | 60% | 0% | Not provided |
| **LGT – alternatives fund** | 31 December 2021 | 81% | 0% | Not provided |
| **PIMCO – Multi-asset credit fund** | 30 September 2022 | 60% | 15% | 19% |
| **Aviva – *buy-in*** | 31 December 2021 | 85%** | 0% | Not provided |
| **L&G – *buy-in*** | 31 December 2021 | 43% | 0% | 19% |
| **PIC – *buy-in*** | 31 October 2021 | 73% | 0% | 8% |

*Includes science-based targets (SBTi) and *net zero* target pledges

** Coverage for alternative intensity metric provided (*WACI*) as opposed to absolute emissions metric which is based on Aviva operations only

While *scope 1 and 2* emissions and carbon footprint data were widely available from the fund managers for all the mandates, we were unable to obtain data on the *binary target measurement* at the measurement date for four of the mandates: Blackrock, LGIM and LGT and Aviva *buy-in*. Some of these managers provided an alternative portfolio alignment metric. We understand Blackrock and LGIM expect to include data on the binary target measure in future reporting and so will seek to include their data in future reporting.

The data reported and estimated varies across the different mandates and ranges from 100% to just below 50% indicating the challenging nature of calculating the *scope 1 and 2* emissions data. **For the whole portfolio, the coverage of reported *scope 1 and 2* emissions (i.e., actual data available) was c70% with estimated emissions (i.e., estimated data) at c1%.** This overall coverage is weighted by the holdings as at 30 September 2022.

While some fund managers attempt to estimate the emissions from other data sources, the majority do not. As a result, the emissions are likely to be understated for most of our mandates. As part of our ongoing dialogue with fund managers, we will strive to improve this over time to ensure we receive a fuller picture of the Scheme's position.

For the DB section, based on available *scope 1 and 2* data (excluding Aviva *buy-in* and the SPV), the Scheme has an average carbon footprint of 134 tCO2/£m invested across all mandates with the Scheme's Liability Driven Investment (LDI) contributing the most at c.200 tCO2/£m invested towards this. As the largest single asset holding representing c28% of the total fund as at September 2022, the LDI pushes the carbon intensity profile of the Scheme higher. The use of leverage in the LDI portfolio increases the portfolio's exposure to UK government emissions.

**DC section**

The table below sets out a summary of the *greenhouse gas* emissions data and the measurement of each metric using this data for the DC section of the Scheme. The emissions information was calculated using data from LGIM and data from MSCI.

We considered each "popular" arrangement offered by the Scheme which means a strategy in which either £100m or more of the Scheme's assets are invested, or which accounts for >10% or more of the assets used to provide money purchase benefits. The default 'Lifestyle Fund' is the only arrangement that falls into the popular arrangement category. It is comprised of 70% of the LGIM Future World Equity fund and 30% of the LGIM Future World Multi-asset fund.

Together the two funds in the below make up the majority of invested assets in our DC Section of the Scheme (>91% as at December 2022).

| Mandate | Measurement date | *Total carbon emissions Scope 1+2* (tonnes of $CO_2$) | Carbon footprint *Scope 1+2* (tonnes of $CO_2$/£m invested) |
|---|---|---|---|
| **LGIM Future World Multi-asset fund** | 31 December 2022 | 2,847 | 17 |
| **LGIM Future World Equity fund** | 31 December 2022 | 46,973 | 168 |

We have not yet collected data on *scope 3* emissions for the DC section, but this is something that we expect to do so in future years, as *scope 3* data improves.

As noted for the DB section, this is only the first year in which we are measuring these metrics and will continue to monitor performance over time. We will consider how the metrics may change for any future investment strategy reviews, thus embedding climate-related issues and considerations into our investment and strategic decision-making.

We were able to collect *scope 1 and 2* data for the two mandates above as at December 2022 with some managers reporting metrics at an earlier date. The Future World Multi-asset fund and Future World Equity fund each represent c46% of assets under management. The remaining c8% of the fund is invested in cash and self-select funds.

We have not obtained data prior to December 2022 and so cannot compare how the Scheme'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, we expect to measure our chosen metrics at a consistent date to monitor trends and identify areas of concern.

Over time, we expect the data coverage of the Scheme's assets to improve, particularly across assets that currently find it difficult to measure emissions.

The other metrics chosen for the Scheme were also measured, as shown in the table below:

| Mandate | Measurement date | Reported emissions data (%) | Estimated emissions data (%) | *Binary target measurement** (%) |
|---|---|---|---|---|
| **LGIM Future World Multi-asset fund** | 31 December 2022 | 35.3 | 25.4 | 4.0 |
| **LGIM Future World Equity fund** | 31 December 2022 | 87.5 | 12.1 | 16.7 |

*Science-based targets (SBTi) only

The data reported and estimated also varies across the two DC section mandates. It ranges from c90% reported to just below 40% reported indicating the challenging nature of calculating the scope 1 and 2 emissions data for the Future World Multi-Asset Fund. While some of the data for the DC section mandates has been estimated, there is still a large proportion of the Future World Multi-asset fund data that remains unknown. As a result, the emissions are likely to be understated for most of our mandates. Like the DB section, as part of our ongoing dialogue with fund managers, we will strive to improve this over time to ensure we receive a fuller picture of the Scheme's position.

For the DC section, based on *scope 1 and 2* data the Scheme has total absolute emissions of 49,820 tCO2 invested with the future world equity fund contributing c.46,973 tons of CO2 emissions towards this. The multi-asset fund mandate contributions a much lower share of the emissions albeit data coverage was poorer.

**Monitoring both DB and DC sections**

In future reports, we will monitor the metrics for both DB and DC sections on an at least annual basis and identify whether performance has improved or deteriorated over time. Where performance has deteriorated, we will engage further to understand the reasoning and undertake any appropriate remedial actions if any.

We acknowledge that absolute metrics will deteriorate in the short-term as the data gaps are filled so this will need to be factored into any conclusions from trend data.

The metrics will also be used to monitor the Scheme's performance in line with climate-related targets (see Metrics and Targets Disclosure 3).

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

While there are differences in the availability of data reported for the DB and DC sections, we have considered targets on Scheme wide basis in order to appropriately reflect the action that can be taken and the key priorities for us over the coming years. For example, our current priority is to improve data quality in both DB and DC sections and across all mandates in the first instance to enable us to set more meaningful targets rather than focus on specific targets for individual mandates.

**Data Quality Target**

Given the currently low levels of data available from some of our investment managers and our focus on engagement with managers to improve this data, we have set the following data quality target for all of the Scheme's mandates. More information on the current quality of data is reported further below.

***Scope 3* data**

While not a data quality target, we recognise that we are required from next year to report on the *scope 3* emissions and so are also targeting all funds to provide reliable *scope 3* data in the next 5 years.

***Net Zero* Ambition**

In addition to the target above and set out in more detail below, we have agreed on an overarching aim to achieve a *net zero* position for all assets in both the DB and DC sections of the Scheme by no later than 2050 and ideally by 2040.

We recognise that achieving *net zero* ahead of 2050 will be challenging to deliver. In particular, our DB section's investment strategy has a large proportion of our assets invested in UK government bonds which we expect to increase further over the coming years. The UK government are aiming for *net zero* by 2050 so achieving *net zero* ahead of this may not be possible for the DB section.

We plan to undertake further work regarding our *net zero* ambition over the next scheme year, including developing plans to support this ambition and setting an interim target.

**Data quality**

To date, we have agreed the following targets for our investment mandates:

- For *scope 1 and 2* data, we are targeting excellent data quality over the next 5 years.
- For *scope 3*: all funds providing *scope 3* data over the next 5 years.

We have agreed to use the scoring system outlined below for monitoring and assessing the managers' progress and setting data quality targets. All percentages refer to portfolio coverage, i.e., for what % of the portfolio the given type of data is available.

| 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 |

The targets set by us for the mandates in line with the above scoring system are set out below. These targets have been given a timescale in line with our chosen medium term time horizon – by this point we would expect the data to be excellent as a whole. This reflects the likeliness of some types of assets taking a little while longer to improve data quality over others due to underlying limitations in reporting.

**DB Section**

| Mandate | Q3 22 Allocation | Total data available (reported and estimated) | Current data availability score | 5 years (i.e., medium term) target |
|---|---|---|---|---|
| Blackrock – Absolute return fund | 7.4% | 25 % | Poor | Excellent |
| Insight – Liability Driven Investment | 28.5% | 100% | Excellent | Excellent |
| LGIM – Public equity fund | 4.0% | 60% | Adequate | Excellent |
| LGT – alternatives fund | 6.8% | 81% | Good | Excellent |
| PIMCO – Multi-asset credit fund | 7.3% | 75% | Good | Excellent |
| Aviva – *buy-in* | 25.8% | 80% | Good | Excellent |
| L&G – *buy-in* | 6.7% | 43% | Poor | Excellent |
| PIC – *buy-in* | 5.6% | 73% | Good | Excellent |

**DC Section**

| Mandate | Q4 22 Allocation | Total data available (reported and estimated) | Current data availability score | 5 years (i.e., medium term) target |
|---|---|---|---|---|
| LGIM Future World Multi-asset fund | 45.8% | 60.7% | Poor | Excellent |
| LGIM Future World Equity fund | 45.8% | 99.6% | Excellent | Excellent |

The above targets have been agreed based on the current set of information provided by managers and therefore baseline calculated in the carbon footprint analysis as set out under Metrics and Targets disclosure 2.

We 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.

As the above targets were set during the 2022/2023 Scheme year, we are not yet able to report performance against each target. Progress against these targets and any other targets set for the Scheme's other mandates will be included in future reports.

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 Scheme is supportive of the development of target-setting methodologies, and of the increasing completeness of carbon datasets. The Scheme 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.

**Buy-in**

A buy-in involves securing insurance policies for a sub-section of members covering all the benefits they have in the Scheme. The insurance policies are in the name of the Trustee and an asset to the Scheme.

**Buy-out**

A buy-out involves securing individual insurance policies for all members covering all of the benefits they have in the Scheme. Reaching full funding on a buy-out basis is a common target for pension schemes because once achieved it gives a high level of security for members benefits.

**Carbon neutral**

Carbon neutrality is the state where the amount of carbon emissions being emitted is balanced out by the removal of the same amount of emissions. It can be achieved through carbon offsetting.

**Carbon pricing**

Carbon pricing assesses and quantifies the external costs of *greenhouse gas* emissions, for example, damage to crops or loss of property from flooding and sea level rises, and relays these costs back to the source of the emissions through a price, usually in the form of a price on the carbon dioxide (CO2) emitted.

**Covenant**

If the Fund were 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

**Fiduciary responsibilities**

The responsibilities of the committee to act in the best interests of the Fund's beneficiaries (i.e., Fund members).

**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.

**Gilts basis**

Measures the amount of money needed to meet all of the DB section's future pension payments, assuming the Scheme adopted a low-risk investment strategy which was fully invested in UK Government bonds.

**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 (“$N_2O$”).

**IIGCC**

Institutional Investor Group on Climate Change: membership body for investor collaboration on climate change, comprising 330+ members, mainly pension funds and asset managers responsible for €39+ trillion in assets under management.

**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.

**Stewardship Code**

The UK Stewardship Code 2020 sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. To become a signatory to the Code, organisations must submit to the FRC a Stewardship Report demonstrating how they have applied the Code’s Principles in the previous 12 months.

**Systemic risk**

*Systemic 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 greenhouse gas emissions*. This is expressed in terms of thousand tons of CO2 equivalent emitted by the companies invested in by the portfolio, weighted by the size of the allocation to each company.

**Transition pathways**

Technologically achievable, scientifically derived, decarbonisation roadmaps which are being developed for high-emissions sectors.

**Weighted Average Carbon Intensity ("WACI")**

A measure of a portfolio's exposure to carbon-intensive issuers and serves as a proxy for a portfolio's exposure to climate transition risks. WACI measures the carbon intensity of a company, not its total carbon emissions. It is a calculation of the tonnes of $CO_2$ emitted per US$1 million of sales generated by a company. It can be converted to GBP£ million of sales using appropriate exchange rates.

# Appendix II: Further detail on scenario analysis

**DB section**

**Modelling approach**

The scenario analysis is based on asset liability modelling which uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. The objective is to assess how the funding position could evolve under a broad range of future scenarios. We first consider the assets, liabilities, and so funding level over defined horizons for the DB section's asset allocation under the core approach (i.e., no explicit allowance for climate risk). This gives us a baseline position and the key metrics we focus on are:

- The chance of reaching full funding on a *buy-out* basis over a given timeframe. We measure this by looking at what proportion of the scenarios have reached at least 100% funded on a *buy-out* basis at the given time. This tells how likely we are to reach *buy-out*.
- The downside risk which is the funding level in the average of the worst 5% of all outcomes at a given date. This gives us an idea of how much the funding level could fall in a 'bad' outcomes.

The three climate change scenarios considered are then explored by adjusting the future range of outcomes, taking into account the level of disruption expected at different time periods under each climate scenario. The same metrics are then recalculated which show the effect of each climate scenario.

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 output can be used to provide an overview of the strategic risks the DB section is exposed to.

Note that the analysis was carried out based on the funding position 31 March 2022. When projecting forward the funding position in the analysis, the value of the Special Purpose Vehicle was removed from the starting asset value (the projections instead allowed for the annual SPV contributions coming in over time). This gave a starting position of 96% funded on a *buy-out* basis at 31 March 2022. Since then, the funding position has improved further. Nonetheless the results remain appropriate for understanding the potential impact of the 3 climate scenarios on expected outcomes and downside risks.

**Full results**

The table below illustrates the impact on the likelihood of being fully funded at different time horizons under the base case and under the three different climate scenarios: 'green revolution,' 'delayed transition' and 'head in the sand'. These results take into account the impact on both the assets and liabilities together but make no allowance for life expectancy changes (more on this below).

| Time horizon | Base case | Green revolution | Delayed transition | Head in the sand |
|---|---|---|---|---|
| **Short-term** | 50% | 51% | 47% | 51% |
| **Medium-term** | 80% | 81% | 80% | 80% |
| **Long-term** | 94% | 95% | 94% | 91% |

As can be seen from the above, the DB section's funding level is resilient over the short-, medium- and long-term. There is no significant departure from the base case under all 3 scenarios. The biggest impact is under the 'Head in the sand' scenario in the long term.

The table below illustrates the average worst 5% of funding levels at different time horizons under the base case and under the three different climate scenarios noted above.

| Time horizon | Base case | Green revolution | Delayed transition | Head in the sand |
|---|---|---|---|---|
| **Short-term** | 87% | 88% | 87% | 86% |
| **Medium-term** | 87% | 87% | 85% | 87% |
| **Long-term** | 84% | 87% | 76% | 75% |

Similarly, the results above show that there is limited impact on the key metrics over the short to medium term but more material downside risk over the long-term under the ‘Delayed transition’ and ‘Head in the sand’ scenarios.

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 DB section is “immune” to its effects. Instead, it implies that given the level of risk in the funding and investment strategy was considered acceptable, and since the scenario results suggest that this risk level is not materially different even when the model is significantly stressed, we can conclude that the funding and investment strategy is fairly resilient to climate risk at a strategic level.

**Life expectancy**

The potential impact on life expectancy due to climate change and any risks associated with this cannot be factored into the scenario modelling directly. As a result, longevity was considered qualitatively and in the context of testing resilience.

We have considered the analysis from Hyman Robertson’s longevity data analytics company Club Vita and note the impact from a funding level perspective will be positive under the ‘delayed transition’ and ‘head in the sand’ scenarios with a negative impact under the ‘green revolution’ scenario. We do note however that whilst falls in life expectancy would improve the funding position, this would mean a worse outcome for members from a wider perspective.

| Scenario | Impact on life expectancy from 65 | | Impact on results with respect to funding level |
|---|---|---|---|
| | Current 50 year old | Current 65 year old | |
| Green revolution | Increase of 2 years | Increase of 1 year | Negative |
| Delayed transition | Reduction of 1.5-2 years | Reduction of 0.5-1 year | Positive |
| Head in the sand | Reduction of 4.5 years | Reduction of 1.5 years | Positive |

**Summary – assets, liabilities, *covenant*, and overall strategy**

| | Green revolution | Delayed transition | Head in the sand |
|---|---|---|---|
| **Assets** | • Limited impact on expected returns and downside scenarios across all time periods<br>• Actual asset returns will be affected by individual investee companies and their ability to adapt businesses to the climate transition.<br>• Value of government bond holdings influenced by ability of UK Government to implement *net zero* policy. | • Small reduction in expected returns over the short term with limited impact at longer time horizons. Increased downside risk in the long term.<br>• Actual asset returns will be affected by individual investee companies and their ability to adapt businesses to the climate transition.<br>• Value of government bond holdings influenced by ability of UK Government to implement *net zero* policy. | • Small reduction in expected return and increased downside risk in the long term.<br>• Actual asset returns will be affected by individual investee companies and their ability to manage impacts of physical risk.<br>• Value of government bond holdings influenced by ability of UK Government to manage impact of physical risks. |
| **Liabilities**[1] | • Longevity – small increase in liabilities. *Buy-ins* provide partial protection. | • Longevity – small reduction in liabilities (but a worse outcome for members). | • Longevity – larger reduction in liabilities (but a worse outcome for members). |
| | • Interest rates and inflation – Scheme targeting high levels of hedging to funding position expected to be resilient to changes in interest rates and inflation | | |
| ***Covenant*** | Under scenarios explored, *covenant* expected to remain strong | | |
| **Overall impact on funding and strategy** | • May see a small reduction in funding position but limited impact | • Limited impact – increases downside risk at some time periods but risk remains supportable by *covenant*. | • Limited impact – increases downside risk at some time periods but risk remains supportable by *covenant*. |

**Potential impact of more extreme scenarios**

The impact on the assets in the scenarios above are based on analysis that allow for increased volatility in markets. Recognising that this quantitative analysis assumes economic principles continue to operate, more extreme scenarios leading to breakdowns of systems could have more severe impacts.

Examples of extreme events that would impair the Scheme’s ability to meet benefits are:

- Whilst unlikely given the strength of the insurance regime, default of the insurers on the *buy-in* policies.
- Default of UK government on its debt.

Under extreme scenarios like the above then there would be significantly more reliance on the sponsor *covenant*.

**DC Section**

**Modelling approach**

The scenario analysis is based on modelling using Hymans Robertson’s Economic Scenario Service (“ESS”) modelling, which uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns. Further detail on the ESS is included in Appendix III: Reliances and Limitations.

The objective is to assess how the future savings of sample members, derived using the Scheme’s membership data, could be affected over their time to retirement. The sample members are outlined below:

| Name | Age | Pot size | Salary (p.a.) | Contributions (%) | Retirement age |
|---|---|---|---|---|---|
| Example Member 1 | 22 | £0 | £15,000 | 10% | 68 |
| Example Member 2 | 40 | £7,700 | £23,000 | 10% | 68 |
| Example Member 3 | 60 | £10,600 | £17,000 | 12% | 65 |

The three climate change scenarios considered are then explored by adjusting the future range of outcomes, taking into account the level of disruption expected at different time periods under each climate scenario. The same metrics are then recalculated which show the effect of each climate scenario.

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 output can be used to provide an overview of the strategic risks the DC section is exposed to.

**Results**

The table below illustrates the impact on members savings in the Scheme’s default strategy, the Lifestyle Cash strategy, under the base case and downside or ‘bad outcome’ scenarios and under the three different climate scenarios: ‘green revolution,’ ‘delayed transition’ and ‘head in the sand’. The analysis reflects the combined impact of changes in funds build up due to volatile asset values and the change in cost of buying assets with incoming contributions.

**Example Member 1**

The table below show the expected pot size for member 1 at retirement age and the impact on the expected pot size under each climate scenario.

| Expected pot size | |
|---|---|
| Base case: £162,027 | -5% delayed transition |
| | -4% green revolution |
| | -1% head in the sand |

The table below shows the ‘bad outcome’ pot size for member 1 at retirement age. You can see the base case pot size is now lower because we are looking at a scenario where the investment returns are worse than the expected level. We have also shown the impact on the ‘bad outcome’ pot size under each climate scenario.

| Bad outcome pot size | |
|---|---|
| Base case: £40,598 | +11% delayed transition |
| | +2% green revolution |
| | -4% head in the sand |

**Example Member 2**

The table below show the expected pot size for member 2 at retirement age and the impact on the expected pot size under each climate scenario.

| Expected pot size | |
|---|---|
| Base case: £110,539 | -4% delayed transition |
| | -1% green revolution |
| | -5% head in the sand |

The table below shows the ‘bad outcome’ pot size for member 2 at retirement age. You can see the base case pot size is now lower because we are looking at a scenario where the investment returns are worse than the expected level. We have also shown the impact on the ‘bad outcome’ pot size under each climate scenario.

| Bad outcome pot size | |
|---|---|
| Base case: £42,534 | -1% delayed transition |
| | +1% green revolution |
| | -2% head in the sand |

**Example Member 3**

The table below show the expected pot size for member 3 at retirement age and the impact on the expected pot size under each climate scenario.

| Expected pot size | |
|---|---|
| Base case: £19,577 | -1% delayed transition |
| | 0% green revolution |
| | 0% head in the sand |

The table below shows the 'bad outcome' pot size for member 2 at retirement age.  You can see the base case pot size is now lower because we are looking at a scenario where the investment returns are worse than the expected level.  We have also shown the impact on the 'bad outcome' pot size under each climate scenario.

| Bad outcome pot size | |
|---|---|
| Base case: £14,496 | -2% delayed transition |
| | -1% green revolution |
| | -1% head in the sand |

The results highlight that whilst members' savings could be lower under certain scenarios, the biggest fall in expected value was 5% so we can conclude the outcomes are expected to be relatively resilient under the scenarios explored. 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 DC section is "immune" to its effects, but it does indicate that the strategy is well placed to mitigate risk in the majority of scenarios under the specific scenarios explored.

**Summary – assets and *covenant***

| | Example Member 1 | Example Member 2 | Example Member 3 |
|---|---|---|---|
| **Assets** | • Face slightly lower expected outcomes under all scenarios<br>• Bad outcomes are worst for head in the sand due to long time periods | • Face slightly lower expected outcomes albeit to a less degree than youngest members<br>• Limited impact on bad outcomes | • Members closer to retirement are expected to be relatively immunised<br>• Bad outcome scenarios are mostly unaffected |
| ***Covenant*** | Under scenarios explored, employer is still expected to pay contributions to employees | | |

**Potential impact of more extreme scenarios**

The impact on member outcomes in the scenarios above are based on analysis that allow for increased volatility in markets. In practice, individual members could be more severely impacted. For example, if there were more extreme falls in asset values, in particular in the period close to retirement when members have limited time to recover losses and limited potential to benefit from lower asset prices for new contributions, member outcomes at retirement could be impacted more than the analysis suggests.

# Appendix III: Reliances and limitations

**Climate change modelling**

The modelling used is a form of asset liability management ("ALM").

For the DB Section, assets are projected forward from March 2022 using membership data at that date under 5,000 different outcomes for future market and economic conditions. For each outcome (5,000 per scenario), the funding position is calculated annually throughout the projection period.

The funding position uses the same methodology as at the March 2022 formal valuation. The 5,000 outcomes are then ranked from best to worst and the outcomes plotted graphically. The range of outcomes can be compared with other scenarios.

The ALM combines the Scheme's cashflows, an investment strategy including any hedging, contributions into the Scheme and stochastic economic scenarios from Hymans Robertson's economic model (ESS) to create stochastic projections of the funding positions.

While the model allows for the possibility of scenarios that would be extreme by historical standards, including very significant downturns in equity markets, large systemic and structural dislocations are not captured by the model. Such events are unknowable in effect, magnitude and nature, meaning that the most extreme possibilities are not necessarily captured within the distributions of results.

A summary of economic simulations used can be provided if required. Fuller information about the scenario generator, and the sensitivities of the results to some of the parameters, can be provided on request.

**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.