Kingfisher Pension Scheme - Disclosures in respect of *TCFD* for the Scheme year ending 31 March 2024

Chair's introduction

This report sets out our approach as the Trustee of the Kingfisher Pension Scheme ("the Scheme") to assessing, monitoring and mitigating climate-related risks in the context of the Trustee's broader regulatory and *fiduciary responsibilities* to its members.

As reported last year, 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, and which acts to comply with the automatic enrolment regulations. At 31 March 2024, the KPS-MP section had around 72,000 members and total assets of around £800m and the KPS-FS section had around 27,000 members and total assets of around £2,250m.

This is our second report on our Taskforce on Climate-related Financial Disclosures ("*TCFD*") and this report is expected to continue to evolve over time as our approach, and the actions we take, develop, particularly in the context of improved data quality and scenario analysis. Our first annual *TCFD* report is available online to our members on the Kingfisher Pension Scheme website, and can be found here ***TCFD report – 31 March 2023*** for reference.

This report has been prepared in accordance with the regulations contained within The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 and provides details of our approach against the four pillars of *TCFD*, as well as specific updates on our actions taken throughout our second year of reporting. The four pillars are described as follows:

- **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.

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

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Executive Summary

On behalf of the Kingfisher Pension Trustee Limited ("the Trustee" or "KPTL"), I am delighted to present the Trustee's second report under the Taskforce on Climate-related Financial Disclosures ("*TCFD*") for the Kingfisher Pension Scheme ("the Scheme").

Introduction to The Taskforce on Climate-related Financial Disclosures ("*TCFD*")

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 from 1 October 2022. This report is the second *TCFD* report produced for the Scheme in line with these requirements. This report outlines the steps we have taken to identify, monitor and manage climate related risks and opportunities throughout the Scheme year from 1 April 2023 to 31 March 2024. A link to our first *TCFD* report covering the year 1 April 2022 to 31 March 2023 is provided below.

TCFD report – 31 March 2023

Climate change

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.

The four pillars of *TCFD*

Governance: The Scheme's governance and oversight around climate related risks and opportunities.

Strategy: The impacts of climate-related risks and opportunities on the Scheme's strategy and financial planning.

Risk Management: The processes used to identify, assess, and manage climate-related risks to the Scheme.

Metrics and Targets: The metrics and targets used to assess and manage relevant climate-related risks and opportunities to the Scheme.

Governance

Our governance approach focuses on managing risks (including climate-related risks), having a clear purpose and strategy, ensuring the right skills and experience are available, and making sure the Scheme provides value for members. We consider climate change to be a key risk to the Scheme and so we ensure climate-related issues are embedded across our overall governance approach, including decision-making, training, policies, and processes.

We as the KPTL Board, have overall responsibility for ensuring climate related considerations are taken into account, where relevant, in all areas of the Scheme's management. To aid in fulfilling this responsibility in terms of Governance, across the 2023-24 Scheme year we have:

- Undertaken relevant training and minuted climate related discussions at quarterly meetings.
- Issued an investment manager climate change questionnaire to improve our oversight of the approach our investment managers are taking in relation to climate-related issues.
- Reviewed the appropriateness of our climate beliefs established in 2022.
- Reviewed our current climate governance policy that sets out the key roles and responsibilities for the Scheme to ensure it remains appropriate.

Strategy

Scheme strategy considers both the funding of the Scheme and the investment strategy, as well as how the Employer covenant supports this. We recognise that climate related risks could impact the Scheme in a range of ways, including potential changes in the value of assets, inflation rates, interest rates, life expectancy, and the strength of the covenant. Under the strategy pillar of *TCFD* we have considered how climate-related risks and opportunities fit into the Schemes strategy at different points in time, as well as the resilience of the strategy to different climate scenarios.

Time horizons: We note climate related risks and opportunities may vary depending on different time horizons, and so decided relevant time horizons in the first year of our reporting. **We reviewed these in 2023 and consider the horizons defined below to still be appropriate for the Scheme:**

3-5 years – This **short-term timeframe** aligns with the next DB section valuation as well as the de-risking phase of the default DC section strategy. We also expect data quality to improve in this time.

12 years – This **medium-term timeframe** reflects is important for scenario analysis, and the ability to measure progress against net-zero.

30 years – This **long-term timeframe** reflects both the Scheme's DC section membership profile and broadly aligns to the 2050 net-zero goal.

Climate scenario analysis: In 2022, we undertook climate scenario analysis for both the Defined Benefit and Defined Contribution Sections of the Scheme. This analysis modelled possible impacts to assets and liabilities (for the DB Section) and pension pots (for the DC Section) of different climate scenarios. After discussion of this analysis we believe that both the DB and DC Sections of the Scheme are resilient to the different climate scenarios we explored. **In the 2023 – 2024 Scheme year, we reviewed the climate change scenario analysis previously undertaken, at that time we concluded that across both the DB and DC sections of the Scheme we don't expect there to be a significant impact from any of the three climate scenarios we explored. We are comfortable that this scenario analysis remains appropriate at this time. We will continue to review this on an annual basis, and refresh at least triennially, with more frequent refreshes being considered on the basis of data and monitoring developments.**

Risk Management

Pension scheme risk management is where trustees identify, manage, and monitor the factors that affects the scheme's objectives. Under the risk management pillar of *TCFD*, we have focused on the processes for identifying, assessing, and managing climate related risks as well as describing how those processes are integrated into overall risk management of the Scheme.

The Scheme's main form of risk management takes the form of a risk register. We review this quarterly throughout the year,. At present this risk register has 9 principal risk areas, 4 of which include 'Environmental, Social & Governance ('*ESG*') related risks. A summary of key risks identified are also noted in the Scheme's Statement of investment principles.

Statement of Investment Principles

Investment Managers

We expect our investment managers to consider and take appropriate steps to manage climate-related risks within their funds. We have continued to monitor this through quarterly reports from our investment consultants which provide *ESG* ratings, as well as through continued engagement with the Scheme's investment managers as part of the *TCFD* process.

Where are climate risks considered in our decisions?

- **Investment Strategy Reviews**
- **Valuations and Covenant Reviews**
- **Considering asset classes**
- **Selection of buy-in providers/investment managers**
- **Individual investments**

Key risks identified are then discussed either at Trustee meetings or relevant sub-committees and where necessary added to our risk register, to be monitored and mitigated where possible.

The process of identifying and assessing climate related risks has been reviewed in the process of producing our second *TCFD* report and is deemed to remain suitable at this time. We also note that the current investment strategy of the defined benefit section 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. We expect that this ongoing work to insure the Scheme's liabilities may help mitigate some of the climate-related risks, but we will continue to monitor for risks on an ongoing basis.

Metrics and Targets

The Trustee uses various metrics and targets to help them understand and monitor Scheme performance and make decisions. Climate related metrics can help the Trustee to understand and monitor the Scheme's exposure to climate related risks, whilst targets can act as a measure of Trustee efforts to manage exposure to the identified risks. Therefore under the metric and targets pillar of *TCFD* we continue to measure the climate-related metrics we previously decided upon, as well as monitoring performance against our targets which were to improve data quality and a long-term target of *net zero* by 2050.

The metrics we report on are outlined below:

- **Total *Greenhouse Gas* emissions**
- **Carbon footprint**
- **Data quality**
- **Portion of the portfolio with *net zero* aligned targets**

As part of our second year of *TCFD* reporting:

- Reporting of *scope 3* data became mandatory, and we were able to collect *scope 3* data across some of our funds, albeit we note the reporting of this data type is still in its infancy and the majority of managers were unable to report on the quality of the data.
- The majority of managers were also able to provide information on the portfolio alignment metric which is an improvement on last year.
- Where data quality remained poor or metrics increased from the previous year, we engaged with managers to understand the reasoning behind this and confirm future expectations for reporting.

Our current available key metrics for the Scheme, are outlined below:

Emissions per £m invested ranges between **21 - 266 tonnes of CO2e** (*Scope 1* & 2 only).

Data coverage of our emissions ranges between **30 – 100%** (reported and estimated).

Next steps

As next steps we will:

Consider the impact of climate risks and opportunities in the context of the 2025 Valuation for the DB section of the Scheme, as well as within the DC default strategy.

Monitor, review, and further develop the Scheme's risk management approach to climate-related risks and opportunities where required.

Review the Scheme's scenario analysis and agree whether previous analysis remains appropriate or if improved modelling capabilities or data quality warrant updating this.

Continue to undertake annual climate metric reporting, using this to monitor performance against our data quality and net-zero targets as well as for consideration in investment decisions where appropriate.

The following pages provide full detail on our climate risk disclosures for the Scheme year ending 31 March 2024. Each of our disclosures under the 4 pillars will be discussed in detail, as well as highlighting updates from the Trustee throughout the latest Scheme year.

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.

On behalf of the Trustee:

Rachel Croft, Chair

ITS Limited

Governance

Our governance approach focuses on managing risks (including climate-related risks), having a clear purpose and strategy, ensuring the right skills and experience are available, and making sure the Scheme provides value for members. Under the governance pillar of *TCFD*, we set out our oversight of climate-related risks and opportunities to the Scheme, as well as how these risks and opportunities can be integrated into the wider Scheme governance, including training, policies, and processes.

This section of the report will cover:

- The Trustee's oversight of climate-related risks and opportunities.
- The roles and responsibilities of those involved in assessing and managing the Scheme's climate-related risks and opportunities.
- Specific updates from the Trustee of decisions and actions across the 2023/24 Scheme year.

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

Training

In order to carry out our fiduciary responsibility as Trustees effectively 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.

Update from the Trustee for the 2023-24 Scheme year

In previous years our external professional advisers provided training sessions on numerous matters relating to TCFD and broader ESG issues. This training helps us establish or build upon our understanding of our obligations and fiduciary duty in relation to climate related risks and opportunities, as well as the practical implications of applying regulations and targets to the Scheme.

In the most recent Scheme year we have undertaken more training at various Trustee Board meetings. This focused on a range of climate-related topics such as net zero targets and the Paris agreement and industry developments regarding climate risk management and reporting approaches.

We expect that further training will continue to be undertaken as required to maintain our knowledge and understanding of the topic and to further aid decision making and understanding of our reporting requirements for TCFD.

Climate beliefs

Update from the Trustee for the 2023-24 Scheme year

In last year's report, we noted that we had finalised our climate-related investment beliefs, through the completion of a climate-related investment beliefs questionnaire and discussion at a Trustee board meeting. These beliefs were reviewed at the December 2023 Trustee meeting, and it was agreed that they remain appropriate.

The beliefs are taken into account when making decisions, alongside our broader investment beliefs (found in the Scheme's Statement of Investment Principles ("SIP") Policy, which can be found online at www.kingfisherpensions.com/knowledge-centre/scheme-documentation/). These beliefs are reflected within the wider Scheme governance, namely through inclusion in the sub-committee terms of reference.

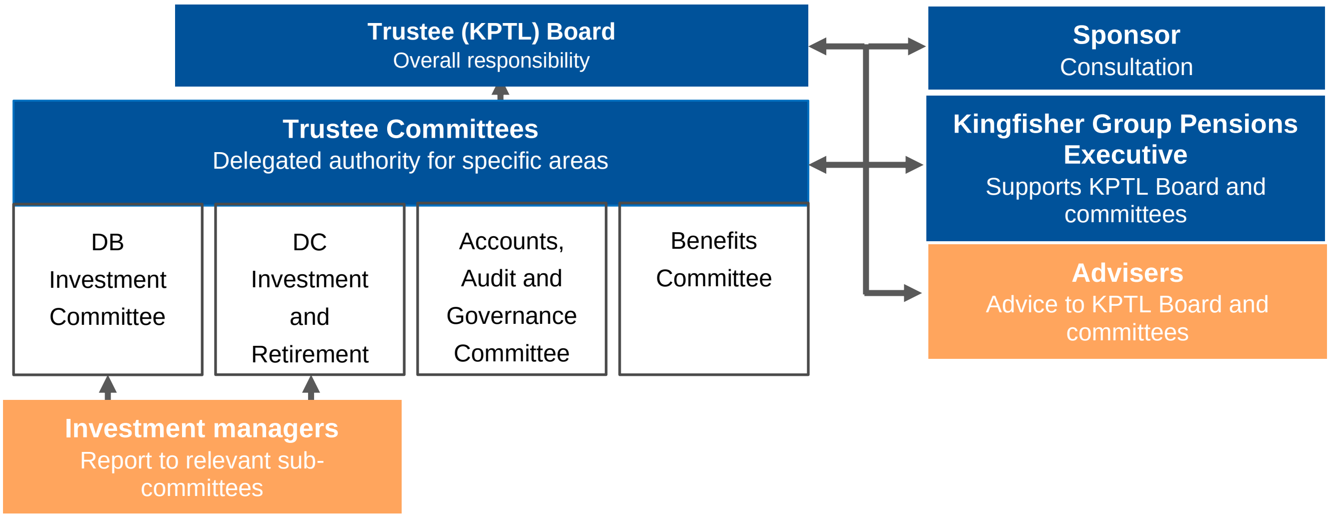
As outlined last year we expect to review these beliefs at a high-level on an annual basis, and carry out a formal in-depth review on a three year basis, this will therefore be undertaken in 2025.

Our climate-related beliefs are outlined below for reference:

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.

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 last year we agreed to introduce an ESG actions and decisions log to record relevant activities undertaken throughout the year. In addition, climate risks and opportunities are discussed regularly at our quarterly meetings. For example, over the scheme year 2023/24 we had a specific agenda item relating to climate-risk at every quarterly Trustee Board meeting.

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

In fulfilling our duties, we have delegated 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 disclosure 2 of the governance section below and more broadly within this report. Trustee effectiveness reviews are carried out annually, which include assessment of the governance structures in place.

Our investment managers play an important role in ensuring climate-related issues are considered as part of our investment strategy. There are therefore several responsibilities delegated to the investment managers of both the DB and DC section of the Scheme. The investment 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.

Kingfisher plc (“the Sponsor”), maintains its own objectives and action plan. We maintain an ongoing dialogue with the Sponsor to ensure both parties are aware of each other’s approach in this area. We ensure those issues relevant to the 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.

Update from the Trustee for the 2023-24 Scheme year

We considered the oversight of climate risks and opportunities as part of our business plan. Climate change and its related risks and opportunities have been discussed at quarterly KPTL Board meetings, namely through specific agenda items at every meeting.

We have also reviewed our climate-related governance policy for the Scheme, this was put in place in 2022 to outline the various roles of responsibilities relating to climate related issues. It was agreed that this policy remains appropriate. As outlined above we also carried out annual Trustee effectiveness reviews which have assessed the governance structures in place.

Additionally, we have continued to monitor our investment manager's ESG considerations through the quarterly monitoring reports provided by our investment consultants as well as through our ongoing dialogue with the investment managers as part of our work towards our TCFD reporting.

Further information on our governance of the DB and DC sections can be found in our Chair's statements, and our implementation statement both of which are updated annually and are published online at www.kingfisherpensions.com/knowledge-centre/scheme-documentation/ for our members consideration.

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. This forms the basis of our climate-related governance policy.

Roles and Responsibilities relating to climate change

Update from the Trustee for the 2023-24 Scheme year

As outlined above, we reviewed our climate-related governance policy for the Scheme, and agreed that this policy remains appropriate, therefore the disclosures of advisor responsibilities outlined below are in line with what was reported in our first *TCFD* report last year.

Throughout the last Scheme year we have overseen advisors by discussing, challenging and reviewing advice at sub-committee and Trustee board meetings, as well as carrying out our annual review of the investment advisors against their objectives.

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 the KPS - FS and the KPS – 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.

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 account of 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.

Kingfisher plc

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.

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.

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*.

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.

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.

Additionally engage frequently with investment managers to better understand their approach to climate-related risk. In 2023/24 specifically, we engaged with managers on their risk management and governance processes around climate change via a manager questionnaire, which is outlined below.

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.

Climate Change Investment Manager Questionnaire - Governance

As noted our investment managers play an important role in helping to integrate climate and wider ESG consideration into their management of each of the Scheme's assets.

In order to monitor our investment managers current governance and risk management processes for ESG issues, in February 2024 we issued a detailed questionnaire to the investment managers of funds the Scheme currently has assets in. We asked questions on areas such as governance, engagement with investee companies, risk management and *net zero* targets. The responses from the questionnaire will allow us to gain a better understanding of the managers' approaches and challenge any areas where we feel the responses could be more robust.

The majority of managers noted that *ESG* issues are actively integrated in their investment processes. Most were able to illustrate this through a specific climate change committee, *responsible investment* policy or the inclusion of *ESG* information as part of investment research teams analysis.

In terms of engagement with investee companies, all managers who had provided responses by the time of writing were able to provide an example of a specific engagement they have had on climate change and *net* zero within the last 12 months. Further details on one of the examples given is provided in the case study below.

The relevant sub-committees will consider the questionnaire responses in more detail at an individual manager level and engage with any managers where responses are felt to be weaker.

Case study – Manager Engagement with the UK government on policy

As will be outlined in our strategy section, the bulk of the DB section's funds are currently invested in assets which broadly match the liabilities (gilts, corporate bonds, and buy-in policies). This means the Scheme will be exposed to climate risks and opportunities associated with the UK government, therefore engagement with the government on climate-related policy is important.

As part of the climate change questionnaire, we asked managers to give specific examples of engagements undertaken relating to climate change across the Scheme year. Insight, who manage most of the DB section's matching assets, outlined an example of engagement they had with the UK government across 2023 in areas feeding into UK environmental policy.

Some actions taken included engagement with the *debt management office*, on a green financing framework including on issuance of green gilts (an engagement theme which has been ongoing since 2021), which helped outline best practice from an investor's perspective. Insight have also facilitated and participated in direct dialogue on policy in this area such as responding to several calls to evidence across 2022 and 2023 relating to green finance and net-zero reviews, as well as attending roundtables on matters such as reporting standards for gilts. All of these areas relate to net zero targets and metric reporting matters, and it is encouraging to note Insight's ongoing engagement in these matters.

Strategy

Scheme strategy considers both the funding of the KPS – FS, the investment strategy of both KPS – FS and KPS - MP, as well as how the Employer *covenant* supports this. We recognise that climate related risks could impact the Scheme in a range of ways, including potential changes in the value of assets, inflation rates, interest rates, life expectancy, and the strength of the *covenant.* Under the strategy pillar of *TCFD* we set out how climate-related risks and opportunities impact the Scheme's strategy at different points in time, as well as the resilience of the strategy to different climate scenarios.

This section of the report will cover:

- The time horizons for assessing risks and setting goals decided upon by the Trustee.
- The Trustees assessment of how climate related risks have the potential to effect the Scheme's strategy.
- A brief outline of the results of the scenario analysis carried out in the 2022/23 Scheme year.
- Specific updates from the Trustee of decisions and actions across the 2023/24 Scheme year.

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

One of our climate 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 therefore incorporate climate change factors into our strategic decision-making process as far as possible.

For example, historically we considered the impact of climate and wider ESG risks on both our DB and DC sections, as part of the triennial actuarial valuation and investment strategy review process for both sections of the Scheme. We integrated ESG-titled funds into the Scheme's default investment strategy and self-select fund range for our DC section and we introduced a "climate-change" tilt to our DB equity portfolio, meaning 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.

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

- The value of the Scheme assets or 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 which could affect areas such as 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.* Further details are shown below:

Physical Risks

These risks relate to the physical impacts of climate change. They can be further broken down into acute and chronic risks:

Acute risks: Acute physical risks can be described as event driven for instance extreme weather events such as floods, or tornados.

Chronic risks: These risks involve long term shifts in climate patterns and could be observed in things like changing sea levels or heat waves.

We note that physical risks can cause damage financially through effects like changes in water or food availability or other indirect effects on the supply chain.

We expect physical risks to feature increasingly over longer time periods, however we recognise that the future is uncertain and physical risks could emerge earlier than anticipated.

Transitional Risks

These risks relate to transitioning to a low-carbon economy. They can be further broken down into four different risk areas:

Policy risks: Recent years have seen increases in climate-related policies which introduce financial risks for companies who must adapt to comply.

Technology risks: If new technology or innovations that result from the transition displace old systems then there is a risk to those who are late to adapt and opportunities for those who create innovation or adopt new technology early.

Market risks: The transition could result in changes to supply and demand for certain products depending on adaptation to climate related risks and opportunities.

Reputation and legal risks: Pension schemes could face reputational or legal liability risk if it is not seen to be actively engaging with climate related. risks and opportunities. 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

Update from the Trustee for the 2023-24 Scheme year

We note that climate related risks and opportunities may vary depending on the time horizon. In the 2022-23 Scheme year we decided on the appropriate short, medium and long term time horizons for the Scheme.

In the 2023-24 Scheme year we reviewed these time horizons and agreed that these remain appropriate for the Scheme at this time. In line with last year, we believe a combined approach across DB and DC sections of the Scheme to be appropriate, noting there are currently no set plans to secure the liabilities and wind up the KPS – FS section. For completeness we have included a brief summary of our chosen time horizons and the reasoning for these below.

These time horizons will continue to be reviewed regularly.

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.
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.

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

Update from the Trustee for the 2023-24 Scheme year

In the 2022-23 Scheme year we identified key climate-related risks and opportunities and considered how these impact each area of the DB section's strategy over the short, medium and long term. We consider climate risks at both an overall strategy level as well as with respect to each asset class in which the DB and DC sections of the Scheme is invested. We have reviewed this over the 2023-24 Scheme year and we felt that the key risks identified and the expected impact on the strategy remain appropriate.

Overview

We have achieved our long-term secondary funding objective ("2FO") for the DB section. The 2FO was to reach 100% funding on a *gilts basis* by 2030. Our 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

Our current strategic journey plan is to see 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 therefore 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, as outlined in the table below, so that by March 2030 it consists entirely of matching assets. As part of the next actuarial valuation discussions, 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 2024	Current strategy	Target strategy
Return seeking	8%	0%
Matching	92%	100%
Total	**100%**	**100%**

How climate-related risks and opportunities impact our strategy

The information 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. The RAG status is based on a subjective assessment of the predicted exposure of the Scheme to identified risks under each category across the Scheme's identified time horizons. We have not sought to assign to quantitative rating criteria at this time and instead focus on discussing the climate-related risks which could have the most impact on the Scheme. The RAG rating reflects the level of risk exposure and the level of uncertainty of the specific risk area for the given time horizon.

Investment Risk

Short-term: G

Medium-term: A

Long-term: A

In the short term we note that the Scheme is exposed to climate risks through the investee companies in our remaining return seeking assets and non-government matching assets. Scenario analysis undertaken in 2022/23 (covered later in this section), found limited impact of different climate scenarios was expected over the short and medium term, but long-term downside risks were expected to be worse if warming exceeds Paris targets.

As we move along our journey plan, we expect continued exposure to climate risks and opportunities associated with the UK government, as well as to insurers via *buy-ins* and investee companies in non-government matching assets. Currently the UK Government has *a net zero* target of 2050, but changing government policies could affect the likelihood of this being achieved. Our long term ability to reduce the carbon footprint of portfolio will be linked to UK Government policy.

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.

Funding Risk

Short-term: G

Medium-term: A

Long-term: A

Life expectancy (longevity) could be impacted by climate change and other uncertainties in the funding assumptions could be introduced by climate risk.

Impact of climate risk on longevity trends will take time to emerge so we expect minimal impact short term with the greatest impacts longer term.

Inflation and interest rate changes due to climate-related risks and opportunities will impact the value of the liabilities but the DB section has high levels of hedging to protect the funding level against movements in these market factors so they are not considered a material climate-related risk.

Covenant Risk

Short-term: G

Medium-term: G

Long-term: A

The strength of the covenant could be impacted through climate related risks and opportunities. Whilst we expect in the short term that covenant strength would not face impact . For example, if the Sponsor does not deliver on its strategies for tackling climate change and / or emergence of key climate risks identified impacting profitability and / or covenant strength.

DC Section

Update from the Trustee for the 2023-24 Scheme year

In the 2022-23 Scheme year we identified key climate-related risks and opportunities and considered how these impact each area of the DC section's strategy over the short, medium and long term. We have reviewed this over the 2023-24 Scheme year and we felt that the key risks identified and the expected impact on the strategy remain appropriate.

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.

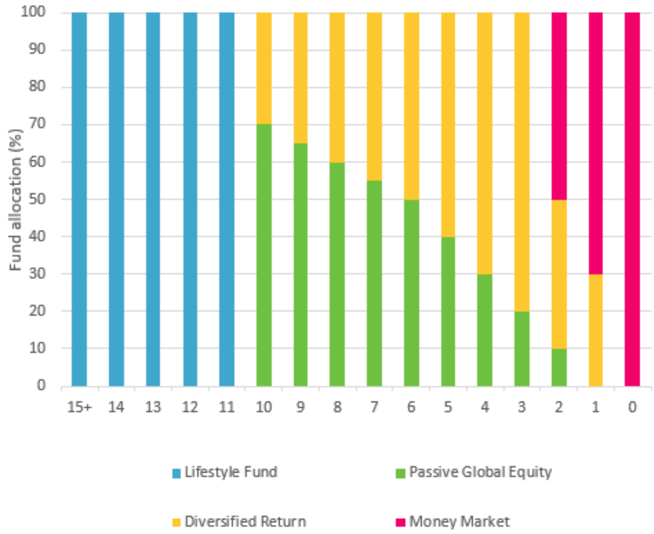
We believe that climate change is a financially material risk that could impact on the Scheme's members, with the potential to pose both material risks, and opportunities, to their investments over the longer term. Therefore we consider it an important factor when thinking about the investment arrangement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

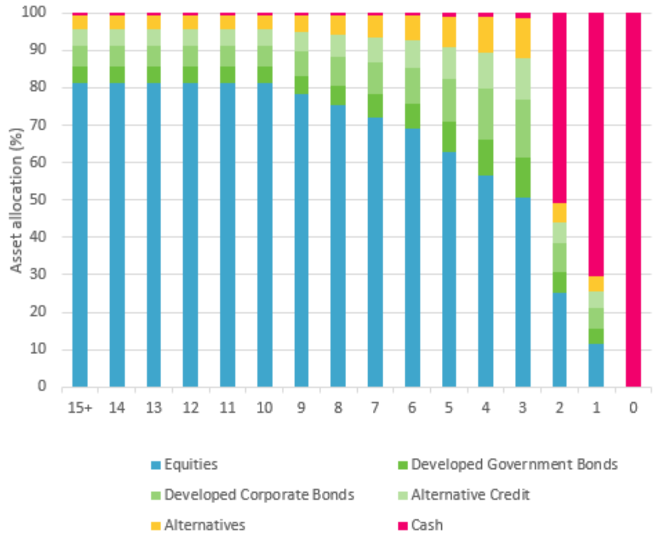
Default lifestyle strategy

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 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 allocation the Kingfisher Money Market Fund then increases to eventually be 100% at 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 information below sets out a summary of the key risks we have identified for each area of the DC section's strategy. As with the DB section we use a RAG (red, amber, green) status to assess the impact of these risks. These risk ratings are decided on the same basis as described in the DB section.

Investment Risk

Short-term: A

Medium-term: A

Long-term: A

Members DC pots will be exposed 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.

Climate scenarios explored in 2022/23 indicate that under the default lifestyle strategy, climate-related risks 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.

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.

Covenant Risk	
Short-term:	G
Medium-term:	G
Long-term:	A

Strength of covenant could be impacted which could influence Sponsor's ability to support current contribution levels. For example, Sponsor not delivering strategies for tackling climate change and / or emergence of key climate risks identified impacting profitability and / or covenant strength.

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

Update from the Trustee for the 2023-24 Scheme year

We have reviewed the below Scheme and believe the below disclosures remain suitable at this time, and as such these remain in line with our disclosures in the 2022-23 report.

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 mainly consisted 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 as part of our risk management process. This is discussed in further detail within the risk management section of this report, and a brief outline of 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 further 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.

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

[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.

- Scenario analysis.

We intend to continue monitoring the covenant and the Sponsor'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.

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

How resilient is our strategy to various climate scenarios?

Update from the Trustee for the 2023-24 Scheme year

In the 2022/23 Scheme year, we undertook scenario analysis. This involved analysis of 3 different climate scenarios, which tested the resilience of the Scheme's strategy to climate risk over the short-, medium- and long-term time horizons. Through this analysis we concluded that across both the DB and DC sections of the Scheme we don't expect there to be a significant impact from any of the three climate scenarios.

We note that scenario analysis must be undertaken at least every 3 years but it is a requirement to consider whether to undertake new scenario analysis each year. It might be appropriate to carry out scenario analysis more frequently than every 3 years if, for example, there have been any substantial changes to data, modelling approaches available or the Scheme's strategy. We don't believe this to have been the case over the 2023-24 Scheme year and therefore have not undertaken new or further scenario analysis at this time. We have therefore briefly outlined the results of our previous scenario analysis below with further information being found in the appendix.

We will continue to review whether scenario analysis is appropriate each year and in any case plan to refresh the analysis in 2025/26 as part of the 3 yearly cycle.

The diagram below summarises the three scenarios analysed and how they correlate to the variance of the world's transition to a low carbon economy. The scenarios differ by how quickly and decisively the world responds (or fails to respond) to climate change.

Scenario 1: Green Revolution	Scenario 2: Delayed Transition	Scenario 3: Head in the Sand
Policy response: Immediate, concerted policy action.	**Policy response:** No significant action in the short term, meaning the response must be stronger when it does happen.	**Policy response:** No or little policy action for many years.
Market reaction: Public and private spending on "green solutions". Improved disclosures encourage market prices to shift quickly.	**Market reaction:** Shorter and sharper period of transition.	**Market reaction:** Growing fears over ultimate consequences leads to market uncertainty and price adjustments. Ineffective/piecemeal action increases uncertainty.
Risks that emerge: Transition risks in the short term, but less physical risk in the long term.	**Risks that emerge:** Greater (but delayed) transition risks but similar physical risks in the long term.	**Risks that emerge:** Transition risks exceeded by physical risks.
Paris alignment: High expectation of achieving <2°C warming.	**Paris alignment:** High expectation of achieving <2°C warming.	**Paris alignment:** Low/no expectation of achieving <2°C warming.

Timing of disruption: Immediate → 10+ years

Intensity of disruption: High → Very high

Defined Benefit 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 (ie. The likelihood of success in achieving a 100% funding position on a *buy-out* basis over time).
- How the downside risk could be impacted (ie. 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 results of the scenario analysis are outlined briefly below, and detailed 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.

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.

Defined Contribution 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. These downside risks are *systematic* in nature and so appropriate ongoing risk management and stewardship practices will remain crucial going forward.

Risk management

We ensure that climate related risks are embedded within our wider risk management approach. Under the risk management pillar of *TCFD* we summarise the processes we use for identifying, assessing and managing climate related risks as well as describing how those processes fit into our overall risk management structures.

This section will cover:

- The integration of *ESG* risks into our risk management framework, including our risk register.
- An outline of the Trustees' expectations of the investment managers.
- A brief outline of the investment managers current approaches and process to assist in the identification and consideration of climate related risks and opportunities.
- Specific updates from the Trustee of decisions and actions across the 2023/24 Scheme year.

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

Update from the Trustee for the 2023-24 Scheme year

As reported last year, 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. Whilst we delegate aspects of this responsibility to other parties, the KPTL Board retains overall oversight and the overall risk management approach taken for the Scheme is consistent across the DB and the DC Sections.

We have reviewed our risk management processes with respect to climate change this year and agree that it remains suitable. The remainder of this section provides further detail on our risk management processes.

ESG related matters are considered under 4 of the 9 principal risk areas on our current risk register, which is reviewed each quarter (or more frequently if required). A summary of key risks, including ESG 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/.

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, which is reviewed quarterly (or more frequently as necessary).

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 4 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, which 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.

We outline below how we identify, prioritise and mitigate 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, last year we 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

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, on a 3-yearly cycle for the DC 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. The case study later in this section covers more detail on the latest DC section investment strategy review.

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 subcommittees.

- 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

Prioritising risks and agreeing actions

Once key risks are identified and discussed by us or sub-committees, these are then listed on the Scheme's 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.

Mitigation of risks

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. Discussions around risk will also consider whether additional Trustee training is required. The actions outlined for each risk will also be assigned to an owner or owners where relevant so it is clear whose responsibility it is to take this forward.

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.

We recognise that climate change is a systematic risk and more extreme climate scenarios could impact the Scheme and our members in future, therefore effective stewardship is crucial. We continue 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.

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 be in a position 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.

We 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 CO2 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. We expect to carry out our next review of investment strategy for the DC section in 2025.

Update from the Trustee for the 2023-24 Scheme year – investment manager questionnaire

As noted 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. To better understand how they are assessing climate-related risks and opportunities for the funds the Scheme invests in, we issued a climate questionnaire to all of our investment managers in early 2024.

The responses from the investment managers outlined various processes in place for risk identification and mitigation. The majority of managers outlined that ESG risks are considered throughout the investment process. Most had a specific team or set of teams to carry out risk identification and research, including in some cases a specific climate and sustainability research team. The teams involved outlined a variety of modelling approaches, as well as qualitative assessment which are used to monitor both physical and transitional risks. The majority of models incorporated scenario analysis to produce a risk rating or climate heat map which illustrates levels of exposure to climate related risks across sectors and particular assets.

The responses will be analysed in further detail to allow us to engage with any managers where we feel the responses could have been more robust.

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

The Trustee uses various metrics and targets to help them understand and monitor the Scheme's performance and make decisions. Climate related metrics can help the Trustee to understand and monitor the Scheme's exposure to climate related risks, whilst targets can act as a measure of Trustee efforts to manage exposure to the identified risks. Therefore under the metrics and targets pillar of *TCFD* we summarise our chosen climate-related metrics, as well as monitoring performance against our targets.

This section will cover:

- Our chosen climate metrics and the updated metric data we have collected throughout the Scheme year.
- An outline of our actions throughout the year towards the targets set by the Scheme.

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.

Chosen metrics

Update from the Trustee for the 2023-24 Scheme year

At the 2022 Q3 Trustee Board meeting, we discussed and agreed the metrics and targets that should be included within our first *TCFD* report. The metrics collected were then reviewed at the March 2023 Trustee meeting and included in our first annual *TCFD* report. The suitability of these metrics was reviewed at the 2023 Q4 Trustee meeting, and we deem the metrics to remain suitable at this time. We will continue to review these metrics annually.

Throughout the 2023-24 Scheme year we have collected data against our agreed metrics, quarterly where possible, and at least annually. The findings were reported and discussed at our Q1 2024 Trustee meeting and are outlined in our report below.

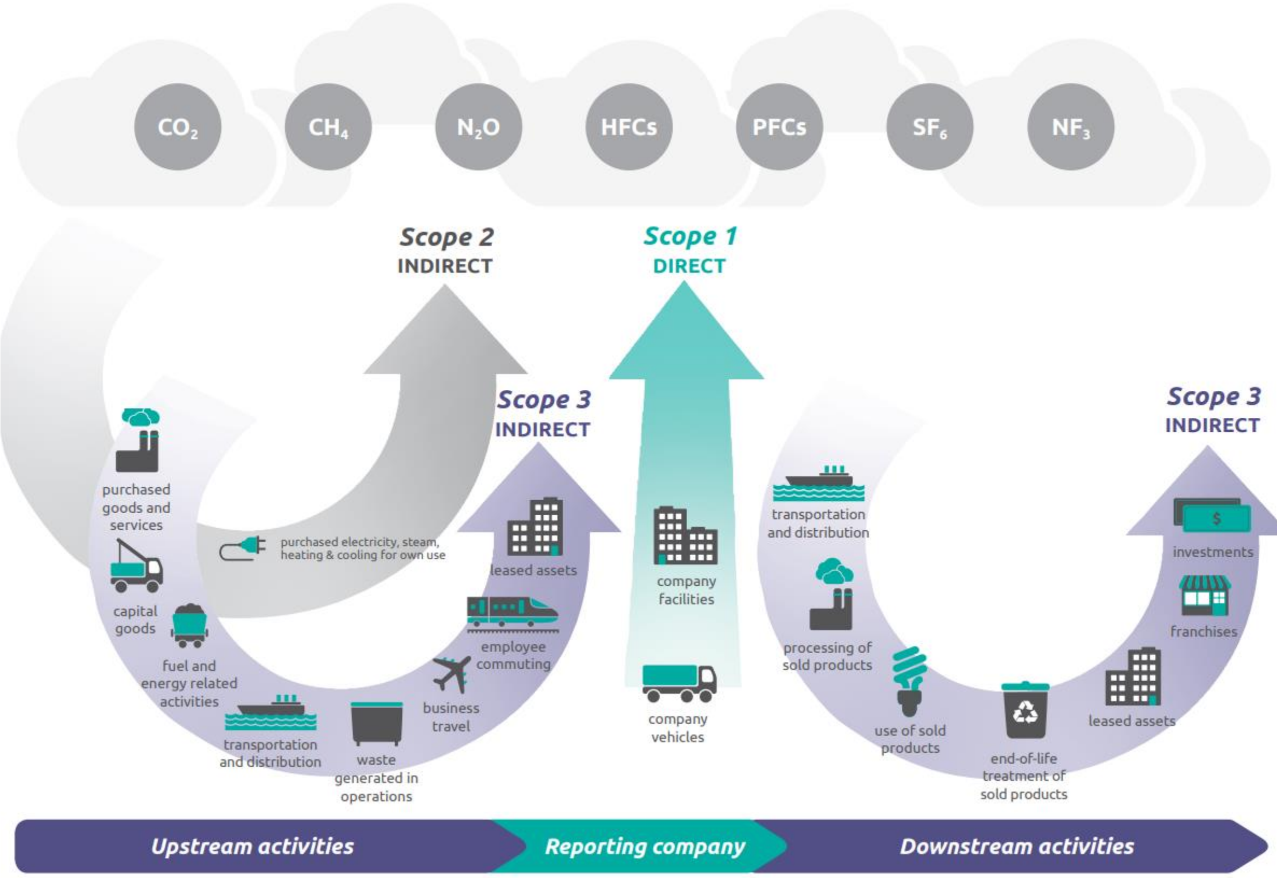
The *TCFD* requirements have set out clearly defined expectations for the categories of metrics that must be measured and reported on. The following metrics for both DB and DC sections of the Scheme are included in this report in line with the above requirements:

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 gases are composed of six gases, including carbon dioxide, methane, and nitrous oxide, which can act to trap heat in the atmosphere. If the levels of these gases in the atmosphere increases this can cause a warming effect ie. The greenhouse gas effect[1].Greenhouse Gas emissions are categorised into 3 different scopes by the Greenhouse Gas protocol (ghg-protocol-revised.pdf (ghgprotocol.org)), which currently is the world's most used greenhouse gas accounting standard, these are broadly categorised as follows:

Scope 1	Scope 2	Scope 3
All direct GHG emissions from sources owned or controlled by the company (e.g., emissions from factory operations).	Indirect GHG emissions that occur from the generation of purchased energy consumed by the company. These emissions would physically occur at the facility where the energy is generated.	Indirect emissions that arise as a consequence of the activities of the company including supply and distribution chains.

The diagram[1] below further illustrates the distribution of the various scopes across a company's supply chain. With respect to the emissions reported by our Scheme these emissions cover those reported and estimated by our investment managers across the funds the Scheme's assets are invested in.



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.

[1]source: US Environmental Protection Agency: Greenhouse Gas Emissions

[2]source: GHG protocol: Technical Guidance for calculating Scope 3 emissions

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 missions, they are also included in the government bond emissions for the relevant country.

The limitations of our data are outlined further in the following disclosures and appendix IV. In particular, it is worth noting that although we gather scope 3 data for the Scheme's investments where available, this is currently not well reported. We have therefore continued to 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.

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 continue to seek to obtain information, where it is currently missing, for future assessments.

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

Metric Data

We have collected data for both the DB and DC sections of the Scheme and disclose these separately below. This is the second time we have collected data for the Scheme. We will annually monitor the metrics and as more data is collected begin to 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 31 Dec 2023)	Total emissions (tCO_2)?	Total carbon footprint (tCO_2/£m invested)?	Binary targets (net zero or science-based target (SBT))?
Blackrock – Absolute return fund	4.52	Y	Y	Y
Blackrock – Renewables fund	0.56	N	N	N
Hayfin – Direct lending/credit fund	2.02	Y	Y	Y
Insight – Liability Driven Investment	39.12	Y	Y	Y
Insight – Farmland fund	0.02	N	N	N
LGIM – Public equity fund	1.41	Y	Y	Y
LGT – alternatives fund	3.31	Y	Y	N
PIMCO – Multi-asset credit fund	4.99	Y	Y	Y
Aviva – buy-in	26.63	Y	Y	N
L&G – buy-in	6.95	Y	Y	N
PIC – buy-in	5.70	Y	Y	N
SPV and bank account	4.77	N	N	N

A further note of the detail of our data collection is included in appendix IV and in our updates throughout the section below.

Update from the Trustee for the 2023-24 Scheme year

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 1,2 and 3 data for most mandates as at December 2023 with one manager (‘Hayfin’) reporting metrics at an earlier date – this is the first time information was able to be collected from Hayfin, as a result of the limitations around data for ‘private debt’ asset classes. We will continue to liaise with all of our managers in order to outline our expected consistency of reporting dates. We note that in some funds the carbon footprint increased, we have engaged with managers where this has been the case.

However we note that the metrics below do not include any allowance for ‘unknown’ holdings. This means it was potentially to be expected that the total carbon emissions increased for certain funds, and we expect this will likely continue to be the case as data quality improves.

Scope 1, 2 and 3 emissions metrics, data quality and binary target measurement

The scope 1 and 2 Total Greenhouse Gas (GHG) emissions and Carbon footprint metrics for 2023 are set out below alongside the prior year's figures where available. We were also able to collect scope 3 data across some of our funds, with the exceptions being Insight and LGT, and so in line with TCFD requirements we are able to report this data for the first time. We have decided to report scope 3 data separately considering the current issues with data coverage of this data type.

Mandate	*Measurement date*	*% of portfolio*	*Total carbon emissions (tCO_2)*		*Carbon footprint (tCO_2/£m invested)*		*Scope 1&2 emissions data coverage %*		*% with NZ/Science Based Targets*
			Scope 1+2	*Scope 3*	*Scope 1+2*	*Scope 3*	*Reported*	*Estimated*	
Blackrock – Absolute return fund	30 Sep 2022	7.4	4,815[1]	-	62	-	21.2	4.1	Not provided
	31 Dec 2023	4.5	4,800	20,735	78	337	45.5	5.1	22.4[3]
Insight – Liability Driven Investment[5]	30 Sep 2022	28.5	284,995	-	201	-	100.0	0.0	100.0
	31 Dec 2023	39.1	217,978	-	179	-	100.0	0.0	100.0
LGIM – Public equity fund	30 Sep 2022	4.0	3,717	-	79	-	60.4	0.0	Not provided
	31 Dec 2023	1.4	2,923	38,709	87	1,167	95.4	3.3	36.3[3]
LGT – alternatives fund	31 Dec 2021	6.8	7,260	-	44	-	80.6	0.0	Not provided
	31 Dec 2023	3.3	2,667	-	36	-	74.6	0.0	Not provided
PIMCO – Multi-asset credit fund	30 Sep 2022	7.3	132,042	-	185	-	59.8	15.4	19.1
	31 Dec 2023	5.0	10,160[4]	31,127	266	756	55.2	16.2	33.2
Hayfin – alternatives fund	30 Sep 2023	2.00	300	1,284	21	91	30.0	0.0	0.71
Aviva – buy-in[2]	31 Dec 2021	25.8	27,893	-	93	-	45.5	0.0	Not provided
	31 Dec 2023	26.6	29,030	-	92	-	50.0	0.0	Not provided
L&G – buy-in	31 Dec 2021	6.7	18,015	-	75	-	43.1	0.0	19.0
	31 Dec 2023	6.7	8,861	-	55	-	39.0	61.0	Not provided
PIC – buy-in	31 Oct 2021	5.6	7,500	-	38	-	43.5[1]	0.0	8.0
	31 Dec 2023	5.7	8,565	17,814	109	449	51.2	3.9	25.0

[1]2022 metric figure has been updated following receipt of updated data.

[2]Metrics in last year's report for Aviva referred to operational emissions only, this has been updated as they have now provided financed emissions i.e. emissions attributable to investment portfolios. Scope 3 data only relates to operational emissions as Aviva do not currently report financed Scope 3 emissions. **Also note that data coverage metrics shown reflect the overall data coverage as a split between reported and estimated is not available.**

[3]Reflect the proportion of holdings they categorise as either 'Net zero' or 'Aligned' in line with the Institutional Investors Group on Climate Change's Scale of alignment for companies.

[4]Fall in total emissions is due to improved information this year.

[5]Covers the liability hedging sub-fund only which makes up the majority of the Insight portfolio.

Update from the Trustee for the 2023-24 Scheme year – Scope 1 & 2 emissions

For the DB section, based on available **scope 1 and 2 data** (excluding the SPV, cash and funds where data cannot be collected), the Scheme has an average carbon footprint of 127 tCO2/£m invested across all mandates. **This is the average figure for the mandates who have reported data**. PIMCO contribute the most to this with intensity of c266 tCO2/£m. The second highest contributor is the Scheme's Liability Driven Investment (LDI) with intensity of c.179 tCO2/£m invested. As the largest single asset holding representing 39% of the total fund as at December 2023, the LDI pushes the carbon intensity profile of the Scheme higher. Currently the use of leverage in the LDI portfolio increases the portfolio's exposure to UK government emissions, however it is encouraging to note that the carbon footprint of this mandate has decreased from 2022 to 2023.

We are reluctant to make conclusions based on only two years of data and so will continue to collect data annually and believe that over time as data quality and consistency improves this data will prove more reliable for decision making.

The data reported and estimated varies across the different mandates and ranges from 100% to just over 30.01% 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 c69% with estimated emissions (i.e. estimated data) at c5.3%. This overall coverage is weighted by the holdings as at 31 December 2023. It is worth noting that improved data coverage in future years will cause the absolute emissions and carbon footprint metrics to show increased emissions. Over the long term we would expect the emissions metrics to show reduced emissions and investee companies and the UK government work towards their net zero plans.

Update from the Trustee for the 2023-24 Scheme year – Scope 3 emissions

Due to this being our 2nd TCFD report, scope 3 reporting became compulsory for the first time, and we received scope 3 data from some of our investment managers. We note that there remain issues with data coverage and reliability of the information at this time. In particular there is currently no scope 3 data available for the portfolios with the majority of our holdings with Insight, additionally LGT and two of our buy-ins Aviva and L&G did not provide scope 3 data. We have engaged with managers with issues with providing metrics or where data coverage remained poor and a summary of this engagement is found in the targets section.

We note that scope 3 emissions are generally a lot higher than scope 1 and 2. Given the data quality issues and lack of comparative data for scope 3 information, our focus at the moment is on improving data quality coverage. An initial step we have taken is to engage with Insight and LGT on our expectations around reporting of scope 3 data and more generally we have asked managers for further detail on how their reported data is calculated and their plans to improve coverage in future. This is further outlined in our targets section.

DC section

Update from the Trustee for the 2023-24 Scheme year

As with our DB section we reviewed the metrics for our DC section at our Q3 2023 Trustee meeting and agreed that these remain suitable at this time. 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 were able to collect data on scope 3 emissions for the DC section for the first time. However, without comparable data, our focus at this time is engaging with L&G to understand their plans around scope 3 data and to encourage improved data coverage in this area. LGIM reported scope 3 data coverage of 59.4% for the LGIM Future World Multi Asset Fund and 85.1% for the LGIM Future World Equity Fund – this figure only related to overall data coverage and didn't provide a breakdown of reported and estimated. This gives an overall data coverage figure of 70.7%, given this can't be split into reported and estimated we have given this a prudent rating of poor. Providing a further breakdown of this metric is a specific area we plan to further engage on.

Mandate	***Measurement date***	***% of DC assets***	***Total carbon emissions (tCO_2)***		***Carbon footprint (tCO_2/£m invested)***		***Scope 1&2 emissions data (%)***	
			Scope 1+2	***Scope 3***	***Scope 1+2***	***Scope 3***	***Reported***	***Estimated***
LGIM Future World Multi-asset fund	31 Dec 2022	45.8	2,847	-	17	-	35.3	25.4
	31 Dec 2023	31.4	21,454	161,647	91	686.4	84.6	12.1
LGIM Future World Equity fund	31 Dec 2022	45.8	46,973	-	168	-	87.5	12.1
	31 Dec 2023	61.2	66,605	547,757	144	1,190	93.2	6.7

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 table above make up the majority of invested assets in our DC Section of the Scheme (>92% as at December 2023). The remaining c8% of the fund is invested in cash and self-select funds.

Update from the Trustee for the 2023-24 Scheme year

In terms of our *scope 1* and 2 results, the LGIM Future Equity Fund now comprises a higher proportion of the Scheme's assets following the changes made as part of the last strategy review. The level of reporting of *scope 1* and *scope 2* and emissions is significantly higher for the LGIM Future World Multi-Asset Fund this year, increasing from 'Poor' to 'Excellent' rating, and from 'Adequate' to 'Excellent' overall. As a consequence, the total emissions have increased.

For the DC section, based on *scope 1 and 2* data the two funds above have an average carbon footprint of 126 tonnes/£m invested, with the future world equity fund contributing 144.7 tonnes/£m invested towards this. This represents an average scaled to account for some of the portfolio not reporting metric data. For the DC section, based on scope 1 and 2 data the Scheme has total absolute emissions of 88,059 tons of CO2 emissions with the future world equity fund contributing 66,605 tons towards this. As noted earlier in the report we expect this to be due to improved data coverage resulting in initial short-term increases in emissions.

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, and we further detail this in our data coverage section.

Monitoring both DB and DC sections

Update from the Trustee for the 2023-24 Scheme year

As outlined last year, we will continue to monitor the metrics for both DB and DC sections on an at least annual basis and identify whether metrics have improved or deteriorated over time. Where metrics have deteriorated, we will engage further to understand the reasoning and undertake any appropriate remedial actions if any, an example of this is included in under our targets section under disclosure 3.

We acknowledge that absolute metrics will deteriorate in the short-term as the data gaps are filled so this will factor this into any conclusions from trend data. The metrics will also be used to monitor the Scheme's performance in line with climate-related targets, which are outlined in 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

Targets

We have considered targets on a Scheme wide basis in order to appropriately reflect the action that can be taken and the key priorities for us over the coming years. 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. Whilst data quality forms our main target, in addition, we have set an ambition of achieving net-zero by 2050. Currently we are monitoring both data quality and net zero ambitions with our investment managers through frequent engagement with our investment managers, including through the quarterly data collection process. Further detail on how we measure data quality is set out below.

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 data quality target of achieving an excellent data quality rating across our investment holdings by 2027, so within 5 years of our first year of TCFD reporting. This would represent at least 75% of actual data being available or over 95% overall coverage including at least 65% actual data being achieved across all holdings. Further information on this data quality target as well as 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 this year onwards to report on the scope 3 emissions where possible and so are also targeting all funds to provide reliable scope 3 data within the next 4 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. 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.

Update from the Trustee for the 2023-24 Scheme year

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. These targets were set at the Q1 2023 Trustee meeting. We reviewed these targets at our Q4 2023 Trustee meeting and deemed that they remain suitable at this time.

We have engaged with investment managers to encourage progress on our goal of improved data quality. In addition we issued a questionnaire to our investment managers to further understand their current *net zero* ambitions and their plans to work towards these. We will consider this information further when working towards our *net zero* ambition.

Whilst data remains inconsistent across the industry we plan to continue to engage with investment mangers to drive better data quality. At this time, we believe this is the main area we can influence positive change, noting the steps we have already taken in our investment strategy. If we make any changes to our investment strategy, we will explore whether steps can be taken when selecting any new asset classes / investment managers to support our climate targets.

Data quality

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

- For scope 1 and 2 data, we are targeting excellent data quality over the next 4 years.
- For scope 3: all funds to be providing *scope 3* data over the next 4 years.

In line with last year, 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. These targets have been given a timescale in line with the beginning of our chosen medium term time horizon – as by this point we would expect the data to be excellent as a whole, albeit we are aware of certain difficulties in reporting data for certain asset classes.

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 below targets were agreed based on the current set of information provided by managers. We will undertake an annual review of targets, including interim targets, to ensure they remain appropriate and challenging. Progress against these targets will continue to be monitored and we will continue engagement with managers were improvement not to be noticed.

DB Section

Update from the Trustee for the 2023-24 Scheme year

The table below outline the data coverage of the data collected from the investment managers. We note that currently data coverage relating to scope 3 data was not provided for our DB mandates and so we have outlined our expectations of improvement in this data coverage in our ongoing dialogue with our fund managers.

Mandate	Measurement date	*Current data availability score*	*4 year target*
Blackrock – Absolute return fund	30 September 2022 31 December 2023	Poor Poor	Excellent
Insight – Liability Driven Investment	30 September 2022 31 December 2023	Excellent Excellent	Excellent
LGIM – Public equity fund	30 September 2022 31 December 2023	Adequate Excellent	Excellent
LGT – Alternatives fund	31 December 2021 31 December 2023	Excellent Good	Excellent

PIMCO – Multi-asset credit fund	30 September 2022 31 December 2023	Good Good	Excellent
Hayfin – Direct lending	30 September 2023	Poor	Excellent
Aviva – buy-in	31 December 2021 31 December 2023	Poor / Adequate Poor / Adequate	Excellent
L&G – buy-in	31 December 2021 31 December 2023	Poor Adequate	Excellent
PIC – buy-in	31 October 2021 31 December 2023	Good Adequate	Excellent

DC Section

Mandate	Measurement date	Current data availability score	4 year target
LGIM Future World Multi-asset fund	31 December 2022 31 December 2023	Poor Excellent	Excellent Excellent
LGIM Future World Equity fund	31 December 2022 31 December 2023	Excellent Excellent	Excellent Excellent

Update from the Trustee for the 2023-24 Scheme year

We are encouraged by the fact the data reported is now greater than 80% across both of the underlying DC funds, and overall both mandates have coverage >95% across reported and estimated.

The fact scope 3 emissions data was included for both mandates is encouraging for our data quality targets. For scope 3 emissions data coverage was 59% for the LGIM Future World Multi-Asset fund, and 85% for the LGIM Future World Equity Fund. 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.

Investment managers net zero targets

Update from the Trustee for the 2023-24 Scheme year

Noting our net zero ambition, we issued a questionnaire to our fund managers, where we asked them to outline any current net zero commitments and their plans to achieve those, both at an organisational and portfolio level, the findings of this survey are outlined below. We find it encouraging that the majority of our managers have listed a 2050 net zero ambition, but we note the challenge in certain asset classes with data quality makes it difficult to set a net zero ambition at this time. The majority of managers also reiterated that their focus at the moment is on engaging with existing investee companies to encourage a transition to net zero.

We expect that our portfolio alignment metric will help with monitoring towards our net-zero target. Our chosen metric is the % of portfolio at the year end aligned with net zero targets. We are able to report a portfolio alignment metric for 5 mandates this year which is encouraging. At the moment Aviva reports on temperature alignment metrics, whilst L&G and LGT did not provide a portfolio alignment metric of any kind to our data request.

Mandate	Net Zero Target	Notes
Blackrock – Absolute return fund	2050	In line with their membership with NZAMI, Blackrock is committed to supporting the goal of *Net Zero* by 2050.
Insight – Liability Driven Investment	2050	As part of their NZAMI commitment, Insight's initial targets at an investment level are on 77% of their physical AUM as at 28 February 2022.
L&G*	2050	Interim targets to reduce *Scope 1* and 2 emissions by 42% from a 2021 baseline year by 2030. As part of NZAMI commitment, LGIM have a further interim target to have 70% of AUM aligned by 2030. Specifically relating to the annuity portfolio L&G reported interim targets of reducing *greenhouse gas* intensity by 18.5% by 2025 and 50% by the end of 2030.
LGT – Alternatives fund	2050	Interim targets for committed investments, aiming for a 50% reduction in GHG emissions by 2030, against a baseline of 2020.
PIMCO – Multi-asset credit fund	No current *net zero* target	Are open to working with interested clients in their decarbonisation goals to help reach *net zero* emissions by 2050 or sooner.
Hayfin – Direct lending	No current *net zero* target	The decision not to have a target is mainly linked to the difficulty in obtaining data for the private debt asset class.
Aviva – *buy-in*	2040	Interim targets of 25% reduction in WACI of credit and equity investments by 2025 and 60% by 2030 from a 2019 baseline.
PIC – *buy-in*	2050	Interim targets of reducing the *weighted average carbon intensity* of their public corporate credit portfolio by 25% from a 2019 baseline by 2050, and by 50% by 2030.

*Legal & General's target covers our assets under the *buy-in*, DB fund and the funds underlying the DC section default strategy.

Working towards our targets across 2023/24

Over the 2023/24 Scheme year we have mainly focused on working towards our data quality targets. This has included engaging with investment managers where data quality has remained in the poor or adequate category. Additionally we engaged with managers who weren't able to provide scope 3 information for our required metrics. We also engaged with investment managers on their net zero targets for the first time, with the aim of setting our own interim targets in future.

Data Quality

The managers we engaged with noted the current limitations and difficulties around reporting scope 3 information. Some of our managers are reliant on companies calculating and then disclosing the metric information (across scope 1,2 and 3) and whilst the majority of issuers have made scope 1 and 2 information available, for scope 3 this disclosure is more limited, in most cases due to being more challenging to estimate. Managers are acting to improve this through engaging with investee companies but do anticipate it might take some time to improve reporting in this area. We feel the development of scope 3 reporting will be an important step in improving transparency of reporting and as such one of our goals is to receive scope 3 data from all of our investment managers, as well as a clear outline of the data quality associated with this data and so we will continue to engage with managers on this point if improvement is not noted over time.

We noted earlier in the report that currently we are unable to report on scope 3 data for Insight since the majority of our assets are in portfolios which are not able to provide this. Insight have informed us that whilst they currently report on scope 1 and 2 emissions, they do not report on scope 3. They outlined that this is in part due to the fact that whilst the UK emissions data is published by the UK government, the scope 3 data as defined by DWP is only available from other sources, which can take a much longer time to be reported.

Net Zero Targets

Whilst our main focus was on improving data quality through our engagement with the investment managers, as outlined in the relevant targets section we also engaged with the investment managers to gain further detail on their net zero targets, as well as any interim targets they have set. It is encouraging to note that the majority have a net zero target which aligns with that of the Scheme. We note that both of the funds with assets which fall under private debt have not felt that it is suitable to set a net zero target at this moment due to limitations of data reporting. We hope that as reporting in this area improves then setting a target for these funds might be possible in the future. Additionally, we hope that through monitoring of our portfolio alignment metric we will be able to assess how well funds are aligning towards net zero. At the moment we feel our interim data quality target to remain an appropriate focus but note that we may set interim net zero targets in future.

Appendices

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.

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).

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”).

Low carbon economy

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

Net Zero

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

Responsible Investment (“RI”)

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

Scope 1 (Greenhouse Gas Emissions)

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

Scope 2 (Greenhouse Gas Emissions)

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

Scope 3 (Greenhouse Gas Emissions)

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

Systemic risk

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.

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 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. Actual asset returns will be affected by individual investee companies and their ability to adapt businesses to the climate transition. Value of government bond holdings influenced by 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. Actual asset returns will be affected by individual investee companies and their ability to adapt businesses to the climate transition. Value of government bond holdings influenced by ability of UK Government to implement net zero policy.	Small reduction in expected return and increased downside risk in the long term. Actual asset returns will be affected by individual investee companies and their ability to manage impacts of physical risk. Value of government bond holdings influenced by ability of UK Government to manage impact of physical risks.
Liabilities	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	Limited impact – increased 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. In some cases, the modelling would result in higher pot sizes under the bad outcome scenarios. This is because the greater degree of volatility is expected in markets which would increase the range of outcomes modelled - this increased volatility could result in higher returns where a bad outcome has initially been projected.

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.

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 3 at retirement age.

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
Assets	Face slightly lower expected outcomes under all scenarios 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 Limited impact on bad outcomes	Members closer to retirement are expected to be relatively immunised 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 of scenario analysis

Climate change modelling

The modelling used in our scenario analysis 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.

Appendix IV: Further detail of data collection for DB section

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 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.

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.

Metric Calculations/Methodology

Most of the key managers provided metric data although in some cases were not able to provide information on our preferred metrics across *scope 1*,2 and 3. This was highlighted in the metrics section of this report.

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 31 December 2023 and divided this by the total assets under management and applied this to the total emissions provided by the manager of the pooled funds.

Where a total emissions figure has not been provided the total emissions figure was taken to be carbon footprint multiplied by Kingfisher's holdings in a fund divided by £1m where relevant, this was the case for LGT and L&G *buy-in*.

A number of managers do not provide coverage for certain asset classes in their portfolio, particularly sovereigns and private debt have reported issues with reporting of these metrics. This means that their data quality metric does not cover their entire portfolio. To account for this we have calculated the overall data coverage for these funds as percent of portfolio holdings covered multiplied by the percent of data reported, estimated etc. This has particularly been the case for PIMCO, BlackRock and PIC. For BlackRock and PIC their data covers corporate bonds only.

A handful of fund managers also reported on and provided other climate change metrics. We may consider these metrics in future but for now are focusing on improving reporting on the metrics we currently report on. These metrics included implied temperature rise and *WACI*.

Scope 3

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.

A specific point to note on this is that for the DB section we currently only received data coverage metrics relating to scope 3 data for LGIM, PIC and Hayfin, with data coverage figures being 98.4%(with 36.4% estimated), 28% (with 10% estimated) and 19% respectively. The other managers noted that at the moment the majority of scope 3 data is estimated. We have engaged with managers to outline our expectations that data coverage figures are provided alongside data so that data can be interpreted in a meaningful way.

Aviva, one of our buy-in providers only report on scope 3 data for operational emissions. For operational emissions their reported scope 3 figure is 9,454 tCO_2e. They did not report scope 3 data for financed emissions noting concerns around double counting, data quality and level of estimation, and therefore we have not reported a figure in the metrics section of this report.

Assets without reported metrics

We were informed the Blackrock renewables fund does not report any *scope 1*, 2 or 3 (or *TCFD* related metrics). The Fund has realised over half its portfolio and anticipates selling its remaining assets in the next couple of years.

Insight informed us that as Kingfisher have sold the majority of their holdings from the Insight farmland fund, therefore they did not provide metric data for this fund. This currently represents 0.02% of the Scheme's assets and we therefore deem this to be acceptable on the basis of materiality.

In line with last year we did not report on the 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. These assets currently represent 3.6% and 1.2% of the portfolio.

We were able to collect data for the Hayfin fund for the first time, whilst we do note their data coverage was in the poor category. We therefore further engaged with their investment manager. It was noted that they expect to be able to provide consistent annual reporting in future and that coverage is expected to improve as methods for reporting metrics related to private debt improve.

Once we allow for the above, we were able to collect data from funds that represent 95% of the total asset holdings for the DB section as at December 2023. The remaining holdings are made up of the special purpose vehicle (SPV), cash, BlackRock Renewables and Insight Farmland.