M&S
PENSION SCHEME

2023 CLIMATE CHANGE REPORT.

The M&S Pension Scheme

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Almost 40% of all members are already supporting our journey to a net zero future by choosing to receive digital communications. Thank you.

If you're not one of them, register your pension account on the M&S Pension Scheme Portal at **www.hartlinkonline.co.uk/mandspensionscheme** and you'll automatically receive your communications digitally going forward.

Please consider the environment before printing this report.

FROM THE CHAIR.

On behalf of the Trustee, I'm pleased to present our 2023 Climate Change Report. It explains the steps we've taken towards our ambitious 2040 net zero greenhouse gas emissions target. It also looks at how we monitor the effects of climate change and the potential risks to the M&S Pension Scheme.

As Trustee, our key priority is to pay pensions to members of the Scheme as and when they fall due. We invest the Scheme's money to get the returns we need to make sure we meet this duty. We firmly believe that investing sustainably plays an important part in securing members' pensions and shaping a better future for everyone.

We continue to see evidence of how climate change has serious consequences and we know it is a risk to the Scheme that must be managed. At the same time, we believe there are and will be opportunities to invest sustainably that will provide long-term value and protect members' pensions, whilst supporting action against the impacts of climate change.

Since the first report published last year, we have focused on continuing to develop our governance around the Scheme's approach to sustainable investments, engaging with investment managers to develop our understanding of how they manage Environmental, Social and Governance (ESG) issues and investigating opportunities to improve the quality of the data that measures the Scheme's carbon footprint, (for example through exploring different data suppliers).

As you'll see from this year's report, the way that we calculate the Scheme's carbon emissions has evolved as the pensions and investment industries develop their thinking about how carbon metrics can be measured. Similarly, the availability of data for the Scheme's investments has grown as more industries develop ways to calculate carbon emissions. As we receive better quality data, you will see reported carbon emissions increase in some areas of the Scheme's investments. Using the best data available to understand our position is an important part of our journey that will provide a more accurate picture of the Scheme's impact on climate and shape the actions we need to take.

Our engagement with the investment managers of our most significant investments has been an important activity. We know that we cannot achieve our net zero target alone. We want to make sure they're playing their part by being aware of how ESG issues are managed and what actions they are taking.

We're in the early stages of our journey to net zero and there is a lot to do to reach our 2040 target. I believe this year's report demonstrates our commitment and continued progress.

Graham Oakley
Chair of the M&S Pension Trust

SUMMARY.

The Trustee remains committed to playing its part in protecting the planet by progressing towards the commitments set out in our ambitious Net Zero Target, as set out in our Net Zero Journey Plan. We believe this will ultimately contribute to our primary objective of paying member benefits as and when they fall due.

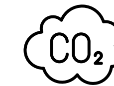
WHAT WE'VE DONE.

- Continued to progress our ESG annual objectives through our ESG Committee
- Increased engagement with investment managers and service providers to better understand how they integrate sustainability into their services and investments
- Agreed Climate Commitments and established ESG Governance Beliefs and Priorities to guide our actions
- Updated our analysis of Scheme Climate Risk and monitored our Carbon Emissions
- Monitored M&S' approach to managing how climate change risks may impact the business in its role as Scheme sponsor

WHAT ACTIONS WE'LL TAKE.

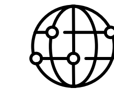
- Continue to engage with our existing investment managers and service providers to influence wider change
- Consider changing our investments and divest where appropriate, in line with our ESG Governance Beliefs
- Consider risks and opportunities within ESG, ensuring security of member benefits are protected from adverse climate change impacts
- Monitor changes in the pensions and investment industries as the world responds to climate risks and make sure the Scheme benefits from these
- Continue to work with M&S in their role as the Scheme's sponsor to understand how climate change risks may impact the business

NET ZERO JOURNEY PLAN.



2022.

2040 net zero target announced

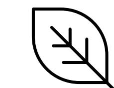


2025.

Improve quality of data

2030.

Reduce emissions by half



2040.

Reach net zero

We may need to use jargon that can be difficult to understand. You can read an explanation for many of the technical words we use in the glossary at **www.mandspensionscheme.com/glossary**

INTRODUCTION.

The Trustee of the M&S Pension Scheme ('the Scheme') remains committed to addressing the Scheme's climate change risks and opportunities. Over the past year, it has built upon the foundations set out in the 2022 Climate Change Report and progress towards the Scheme's 2040 Net Zero Target remains a priority. The Trustee firmly believes that the actions taken to achieve this target will benefit members of the Scheme, the economy and society as a whole.

The 2023 Climate Change Report provides information about how the Trustee has considered climate-related risks and how it will manage these risks as part of achieving its long-term net zero greenhouse gas emission target. Positive progress has been made over the past year and the Trustee hopes to continue in this direction.

The Scheme is legally required to produce formal disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The Trustee fully supports the TCFD's aim to improve and increase reporting of climate-related financial risks and opportunities.

This report follows the TCFD's framework to provide disclosures in four broad categories:

- **GOVERNANCE:** the arrangements that have been put in place around climate-related risks and opportunities
- **STRATEGY:** the actual and potential impact of climate-related risks and opportunities on the strategy, covenant and financial plans of the Scheme
- **RISK MANAGEMENT:** how the Scheme identifies, assesses, and manages climate-related risks
- **METRICS AND TARGETS**: the metrics and targets used to assess and manage climate-related risks and opportunities

What does net zero mean?

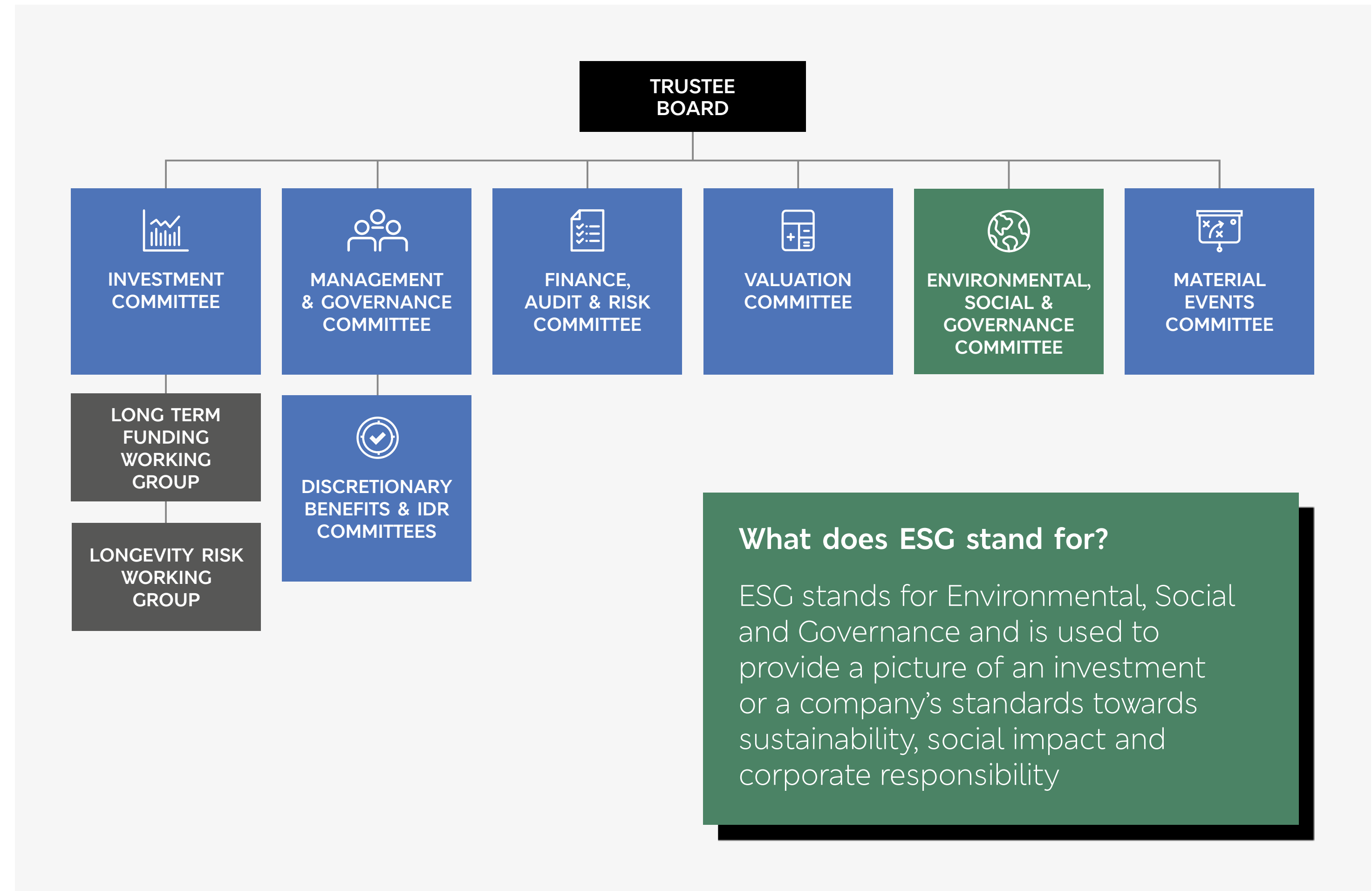
Net zero means that we don't add any more greenhouse gas emissions to the atmosphere than we take out of it.

1. GOVERNANCE.

The Trustee is ultimately responsible for all decisions related to the Scheme. However, committees and working groups have been established to tackle key areas of focus within the Scheme, ensuring efficient and effective decision making by trustees with relevant experience and supported by expert advisers.

The Investment Committee (IC) manages investment related matters. In 2021, the Trustee established the ESG Committee (ESGC) to be responsible for exploring the opportunities and risks posed by ESG factors. This Committee has remained a key forum for the consideration and understanding of climate change risks and opportunities and continues to guide the actions the Trustee is taking to address ESG factors in the Scheme's investments and wider strategy.

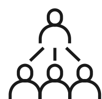
The Trustee sees climate change as both a key risk and an opportunity, which requires sustained, long-term oversight and management. The Trustee's desire to be a leader in this area resulted in the ESGC being established, tasked with accelerating the Scheme's progress to the forefront of good practice in sustainable investment.



What does ESG stand for?

ESG stands for Environmental, Social and Governance and is used to provide a picture of an investment or a company's standards towards sustainability, social impact and corporate responsibility

A formal Terms of Reference document was agreed in 2021 between the Trustee and ESGC that sets out the ESGC's role and responsibilities, and how it reports to the Trustee Board and other committees. This is summarised below:



GOVERNANCE.

Advise the Trustee Board and aid them to ensure regulatory requirements are met.

Determine an appropriate ESG Governance Framework for the Scheme.

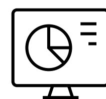
Develop the Scheme's Sustainable and Responsible Investment Policy.

BELIEFS AND FOCUS.

Develop the Scheme's investment beliefs in relation to sustainable and responsible investment.

Identify key areas of focus for the ESGC within ESG.

Consider and recommend wider industry ESG initiatives for the Trustee to participate in.



APPROACH.

Determine the appropriate approach for monitoring ESG across the Scheme's Investment Managers and suppliers.

Explore the risks and opportunities presented by ESG factors.

Appoint appropriate advisers to assist the ESGC.

Although much of the detail in developing the Trustee's approach to ESG is considered by the ESGC, decisions are made by the Trustee.

The ESGC typically meets quarterly and more frequently when required. It is made up of several members of the Trustee Board and the Scheme's internal Trustee Executive Team (TET), is chaired by an independent Trustee Director with ESG expertise, and has a diverse representation with a wide variety of experiences and skillsets. The ESGC seeks to ensure the TET provides the right support required, but decisions are ultimately made by the Trustee with support from its advisers.

The importance of climate-related risks to the Scheme and the Trustee's desire to be an industry leader in this area means that as well as meeting regulatory requirements, the ESGC undertakes training to ensure that the Committee is suitably qualified to discuss and take decisions about sustainable and responsible investment. The Trustee views such training as crucial to staying ahead of key developments in this fast-progressing area. Climate and ESG topics are also formally included in the wider Trustee training schedule, with training sessions provided to the Trustee Board and other committees. This ensures that the full Board is kept up to date on developments in sustainable and responsible investment both at Scheme level and within the industry as a whole.

SERVICE PROVIDERS.

The ESGC is supported by independent advisers including WTW as the Scheme's investment consultant and actuary, and EY as covenant adviser (assessing M&S plc's financial ability to support the Scheme now and in the future). The Trustee reviews the ability of the Scheme's advisers to provide advice on ESG matters and climate-related risks and opportunities by considering their competencies against the criteria set out by the Investment Consultants Sustainability Working Group. The Trustee undertakes these reviews at least annually. The Trustee has also set explicit objectives for its investment consultant which include reference to supporting the Trustee in assessing, managing and measuring climate change risks and opportunities. The investment consultant is assessed against these objectives on a yearly basis by the Scheme's Investment Committee.

The Trustee expects its appointed investment managers to have integrated ESG factors as part of their investment analysis and decision-making process and, where relevant, exercise their voting rights. The Trustee has delegated stewardship activities to its investment managers, within approved guidelines. The Trustee and various underlying committees (including the ESGC) receive regular reporting from the Scheme's investment managers and have encouraged managers to include details of suitable ESG ratings and metrics that apply to each manager's portfolio. Members of the TET regularly engage with investment managers to understand the actions they are taking to manage the Scheme's investments in a responsible way.

In August 2022, the Trustee contacted all of its investment managers to confirm compliance with the Scheme's Statement of Investment Principles, which explicitly includes expected integration of ESG considerations into investment management. The aim was to better understand the investment managers' engagement with the Trustee's investment beliefs and stewardship policies. Upon review of responses and materials provided as evidence by managers at the Scheme's Investment Committee, the Committee was satisfied that managers were adhering to the Scheme's ESG beliefs where applicable. The responses from this exercise have been considered by the ESGC when monitoring the activities of individual managers in respect of sustainable investment, including when the TET has engaged with managers to evaluate ESG integration into investment management over the past year.

Since last year, the TET has developed an ESG evaluation and scoring model for managers, which is used to monitor developments at individual manager level and within specific asset classes. These activities all contribute to enabling the Trustee to monitor the activities of the Scheme's managers in this area and enrich engagement with key mandates.

What is sustainable investing?

Sustainable investing means investing in companies that are striving to have a positive impact on the world.

MISSION STATEMENT AND BELIEFS.

The Trustee believes that ESG factors are financially material considerations and has therefore developed a well-considered set of ESG Beliefs as well as a mission statement. The mission statement remains unchanged from last year and a formal governance priorities document has been created to capture the Trustee's ESG priorities and thus guide the actions taken by the Trustee in Responsible Investment. This document includes the Trustee's position on engagement, divestment and significant votes.

The Scheme should be managed sustainably to create long-term value, provide security to members, and contribute to better outcomes for everybody.

Mission Statement

The Trustee currently has five ESG Beliefs across a range of topics, including the strength of conviction of each belief, and detailed implications of the actions required to invest in line with the beliefs. The ESG Beliefs now form part of the Scheme's Investment Beliefs.

As part of these beliefs, the Trustee notes that ESG factors may have differing materiality impacts on the Scheme, whilst recognising that the three sub-categories (E, S and G) are often highly interconnected. The ESG Beliefs are reviewed on an annual basis.

The key overarching investment policies of the Scheme are detailed in the Statement of Investment Principles, which was last reviewed in March 2022. This document can be found online via the following link:

Statement of Investment Principles

The Trustee also maintains a risk register which is reviewed at least annually. Responsibility for maintenance of the risk register and management of the underlying risks lies with the relevant committees the risks have been assigned to and, ultimately, the Trustee Board.

The ESGC has included risks arising from climate change on the risk register and has reviewed these risks and how best to control them during the current Scheme year.

The Trustee recognises that climate change offers opportunities as well as risks, for example through the return potential of investment in climate solutions. The Trustee will consider climate related investment opportunities where these opportunities fit into wider Scheme strategy.

2. STRATEGY.

The Trustee believes that it is part of its fiduciary duty to manage climate change and associated risks and opportunities within the Scheme's investment portfolio. Climate change is a financially material consideration that will have significant influence on the future success of companies and their ability to service debt, and of security of cashflows and asset values. As such, climate-related risks impact all investment strategies and mandates, across both long and short time horizons.

The Scheme's asset allocation is substantially focussed on longer dated assets, including direct lending to companies and real assets such as infrastructure, to better match its liability cashflows. The Trustee is therefore very focused on the sustainability of these assets and their long-term cash flows, not least because of their illiquid nature.

What is an illiquid asset?

Illiquid assets are investments which are more difficult to convert into cash quickly.

This has implications for the extent the impact of climate change poses risks to the Scheme. As a result, climate-related risk considerations have a significant influence on the design and implementation of the investment strategy of the Scheme. Over the past year, the Trustee and TET have engaged with managers to understand how investments are managed in a sustainable manner and this monitoring informs Trustee decisions on ESG strategy.

The Trustee has looked at the potential effects of climate change over a range of identified time horizons for the Scheme. This allows the Trustee to identify risks by time period and form opinions on the most effective way to manage these risks.

- **SHORT TERM.** The period to 2025 in which the Trustee is striving to improve data quality for carbon-related disclosures. This timescale also broadly aligns with the triennial valuation period, when any sudden shock to the portfolio would become crystallised.
- **MEDIUM TERM.** The period to 2030 in which transition risk is expected to dominate and the target for a 50% reduction in carbon footprint, as detailed in Section 4.
- **LONG TERM.** The period to 2040 in which the Scheme will reach significant maturity. This period starts to incorporate a greater degree of physical risk exposure and reflects the long-term net zero target of the Scheme, as set out in Section 4.

As part of its analysis around the climate risk faced by the Scheme, the Trustee has split out the following elements of this risk, which are consistent with those identified last year:

TRANSITION RISKS.

This relates to the risks and opportunities arising from efforts made to transition towards a net zero economy (both domestically and globally) to limit climate change. These risks and opportunities are generally expected to occur in the medium term, with some occurring in the short term. Risks arising could include regulatory or societal changes making parts of the business of invested companies worthless – for example, fossil fuels 'in the ground' which become economically unviable to extract due to a lack of a suitable market or due to regulations preventing their extraction. Opportunities include early investment in assets which are likely to benefit from climate change adaptations, such as green energy and battery providers.

PHYSICAL RISKS.

This relates to the direct effects of climate change on the Scheme's investments, Scheme members and M&S plc as the Scheme's sponsor. These risks are expected to be longer-term in nature and reflects the impact of climate change-related weather and other natural events on invested companies and assets and the Scheme's covenant, and the effect of changing temperatures on the mortality of Scheme members. These could have varying effects on the investment strategy of the Scheme, but the direction and size of the effects is unlikely to be clear for a considerable period of time.

CLIMATE SCENARIO ANALYSIS.

The Trustee has carried out another climate change scenario analysis this year in partnership with its investment and actuarial advisers due to changes in the Scheme's asset allocation over the past year. The Trustee's covenant adviser undertook analysis of the impact of climate change on covenant risk in 2022 with the aim of helping the Trustee to quantify the potential effects of climate change on the Scheme's assets, liabilities and covenant.

Compared to last year, the impacts are lower as a result of the portfolio changes which occurred in the latter part of 2022, notably a decrease in allocation to credit and equity and an overall decrease in asset value. This may reverse as a result of changes to investment strategy in the future.

The Trustee considered four separate scenarios which are in part defined through the success, or otherwise, in meeting the Paris Agreement target of a sub-2.0°C temperature rise. These scenarios are the same as those considered in last year's scenario analysis and this year's analysis reflects portfolio composition changes over the past year. The scenarios differ in the size of the physical risks, based on the resulting temperature impacts, but also in the size of the transition risks. For example, compared to the Global Co-ordinated Action scenario, which reflects a more managed response to tackling climate change, the Climate Emergency scenario and the Inevitable Policy Response scenario present bigger transition risks.

This analysis assists the Trustee in identifying which climate risks the Scheme faces are likely to materialise during each time period (short, medium and long term) and thus consider how to manage these risks appropriately.

These scenarios have been considered as the Trustee believes that they cover a plausible and comprehensive range of climate outcomes over the long term.

Each scenario the Trustee considered included the following:

1) A clear transition narrative that describes the socioeconomic pathway, both globally and regionally, from climate policies implemented to the resulting technological and societal shifts.

2) Modelled emissions pathways (typically communicated using the Representative Concentration Pathways developed by the Intergovernmental Panel on Climate Change) to assess the level of temperature rise resulting from the implementation of public policies and technologies.

3) A set of economic costs and benefits resulting from physical and transition risks and opportunities.

4) The impact on financial returns at the asset class level.

Most importantly, the scenarios are designed using a 'narrative-first' approach, rather than starting with a pre-defined temperature outcome and 'backing-out' a transition narrative consistent with this, which may not be plausible in reality.

The Trustee recognises that there is a great deal of uncertainty around the assumptions used, and the expected outcome, under each of the scenarios.

	Lowest Common Denominator	Inevitable Policy Response	Global Co-ordinated Action	Climate Emergency
Description	A 'business as usual' outcome where current policies continue with no further attempt to incentivise further emissions reductions. Socioeconomic and technological trends do not shift markedly from historical patterns.	Delays in taking meaningful policy action result in a rapid policy shift in the mid/late 2020s. Policies are implemented in a somewhat but not completely co-ordinated manner resulting in a more disorderly transition to a low carbon economy.	Policy makers agree on and immediately implement policies to reduce emissions in a globally co-ordinated manner. Companies and consumers take the majority of actions available to capture opportunities to reduce emissions.	A more ambitious version of the Global Co-ordinated Action scenario where more aggressive policy is pursued and more extensive technology shifts are achieved, in particular the deployment of Negative Emissions Technologies at scale.
Temperature risk	~3.5°C	~2.0°C	~2.0°C	~1.5°C
Renewable energy by 2050	30-40%	80-85%	65-70%	80-85%
Physical risk level (longer term)	High	Low – Medium	Low – Medium	Low
Transition risk level (shorter term)	Low	High	Low – Medium	Medium – High
Output from the climate scenario analysis	**The funding level would be expected to increase by 0.6% under this scenario,** resulting in reaching full funding approximately 9 months earlier. If this scenario looks likely to materialise, the Trustee will seek to minimise potential physical risk for assets most likely to be affected, in advance of the longer term. The funding improvement in this scenario is partly caused by a higher probability of a reduction in longevity for members.	**The funding level would be expected to decrease by 0.3% under this scenario**, resulting in reaching full funding very slightly later. If this scenario looks likely to materialise, the Trustee will seek to ensure transition risks do not have a significant impact on the Scheme by reviewing investment strategy and identifying where risk is highest in the short to medium term. Though physical risk is lower under this scenario than Lowest Common Denominator, the Trustee will aim to mitigate these risks in advance of the long-term.	**The funding level would be expected to decrease by 3.7% under this scenario,** resulting in reaching full funding later. If this scenario looks likely to materialise, the Trustee will seek to ensure the Scheme benefits from timely action whilst identifying where transition risks adversely impact the Scheme's investments in the short to medium term. Though physical risk is identified as low, the Trustee will aim to minimise the impact to the Scheme of any physical risk materialisation by acting in advance to identify and mitigate any identified risks.	**The funding level would be expected to decrease by 0.7% under this scenario**, resulting in reaching full funding slightly later. If this scenario looks likely to materialise, as with the Inevitable Policy Response scenario, the Trustee will act decisively to ensure the medium to high transition risks do not have a significant impact on the Scheme by reviewing investment strategy and identifying where risk is highest in the short to medium term. In the longer term, the Trustee will monitor physical risk and consider action where appropriate to protect the Scheme from adverse impact.

SUMMARY OF CLIMATE RISK SCENARIOS ON THE SCHEME AND COMPARISON WITH LAST YEAR'S ANALYSIS.

The analysis identified that the same three of the four scenarios considered are expected to have a negative effect on the Scheme's funding level. The Trustee recognises the limitations to the modelling and that these scenarios might not represent the worst case scenario. Should the financial impact of climate change be more marked than this modelling suggests, as well as reviewing investment strategy the Trustee might seek additional funding from the sponsor.

Compared to last year, the impact of all four scenarios, be that positive or negative, is less pronounced. This is due to significant disinvestment from equity and credit investments, which had significant impact on the asset return drags during the transition period. These assets had a high contribution to asset shocks, so their absence in the portfolio has reduced this.

However, as the Scheme rebuilds its investment strategy following adverse market conditions in October 2022, some of these investments may be reinstated, meaning the level of risk and associated impacts of transition and physical risk on the Scheme could return to previous levels.

As in the 2022 analysis, the scenario with the most pronounced impact was in the Global Co-ordinated Action scenario – a potential loss over the full 20-year period crystallised today would see the funding level fall ~4%. Also consistent with last year's analysis was that the Lowest Common Denominator scenario is most favourable for the funding level due to a higher probability of a reduction in longevity. However, this scenario is most harmful to the climate in the long term and would be negative for members and society when considering wider impacts.

The impact under the Global Co-ordinated Action scenario is driven by an increase in the value of the liabilities, largely due to a lower mortality rate and a modest return drag. The Scheme has mitigated this longevity risk to an extent, through bulk annuity purchases carried out over recent years, and the Trustee recognises that any future action taken to reduce the risk associated with uncertainty over future life expectancy will help reduce the potential impact further.

All of the scenarios see a net shock to the Scheme's assets over the long term. However, under each scenario other than Lowest Common Denominator, certain assets held by the Scheme, such as renewable energy infrastructure, are expected to benefit over the long term. The Trustee remains open to exploring such climate-focused opportunities where they align with Scheme strategy and provide benefit to the Scheme, as is consistent with the Trustee's responsible investment aspirations.

POTENTIAL COVENANT IMPACT.

The covenant provided to the Scheme by M&S plc as sponsor is exposed to a range of potential climate-related risks and opportunities. The covenant adviser's analysis in 2022 highlighted potentially relevant risks including, for example, the impact of transition policies on the cost of key inputs to the business such as protein and cotton, or the impact of physical risks such as extreme weather on disruption to trade and damage to property.

The Trustee agreed that there was likely no material change in climate impact on covenant risk compared with last year and therefore decided not to undertake further analysis on covenant risk for this report. However, the Trustee will continue to monitor this going forward and will undertake further analysis if required.

The Scheme continues to have a strong funding position and relatively derisked investment strategy, meaning that even under the different climate scenario stresses, the Scheme's reliance on the covenant is relatively modest. The covenant adviser has indicated that transition risks are more relevant to covenant than the more extreme physical risks, which under current modelling are more likely to have an impact when the Scheme is no longer reliant on M&S.

The covenant adviser highlighted that the Scheme's covenant has lower resilience to downside risk (using a Value-at-Risk event as an illustration of a potential impact on funding) under the Climate Emergency and Global Co-ordinated Action scenarios but noted that such outcomes are considered unlikely over the short term. The possibility of a funding shortfall materialising over the medium term would likely represent the most challenging scenario. If this were to coincide with the most substantial impacts of high carbon pricing and required investment in alternatives, the impact on M&S' profit and cash flow could limit affordability to fund any deficit arising. However, in reviewing the outputs of the Scheme and the Company's scenario modelling, the covenant adviser highlighted that since no deficit arises in the Scheme's climate scenarios, the requirement for cash support from M&S would only emerge if these scenarios were accompanied by additional Scheme volatility, unrelated to the climate impacts.

CONCLUSION ON SCHEME RESILIENCE.

Ultimately, the Trustee believes that the Scheme's investment strategy is resilient to the potential impacts of the climate scenarios based on this year's analysis. Despite the changes to the portfolio over the year, the Scheme's funding level remains strong and the overall portfolio is de-risked against the Scheme's liabilities with risks diversified across a range of asset classes. The Scheme's expected return is sufficiently ahead of liabilities that under all of the scenarios considered, the funding level would expect to improve over the long term.

Further developments of the Scheme's asset allocation could reintroduce various climate risk considerations to the Scheme's portfolio. The Trustee will undertake further scenario analysis as necessary to consider how changes in asset allocation impact climate risks at portfolio level.

Other potential limitations from the scenarios considered in this analysis arise from the assumption that all other factors are unchanged during the efforts to transition to a low carbon economy. This is unlikely to occur in practice. Second order effects, such as higher levels of investment, employment, and productivity-enhancing innovation, are hard to estimate, and represent one reason why the climate scenarios cannot be the sole driver of investment strategy and risk management decisions. Furthermore, the scenarios assume that most sovereign bonds will not be materially impacted by climate risk over the time horizons analysed. This assumption may not apply to all sovereign bonds as, for example, some are commodity driven sovereigns in the emerging market sector, where the issuer is more exposed to climate change risk. However, the Scheme's exposure to such bonds is limited.

3. RISK MANAGEMENT.

The Trustee views climate change as a risk which overlaps with the majority of the other risks faced by the Scheme, in that those risks may all be changed, mitigated or worsened by the effects of climate change.

The Trustee regularly reviews the Scheme's Risk Register and has implemented a number of risk management disclosures, including for climate-related risks.

In 2022, the Trustee added Transitional and Physical Risk headings to the Risk Register, along with their mitigating controls and this remains a crucial risk considered by the Trustee when making Scheme decisions. The annual review of the Risk Register, at full Trustee Board level, provides a framework for identifying, assessing and managing climate-related risks in relation to the Scheme, and considers how such risks fit in with the wider risks faced by the Scheme.

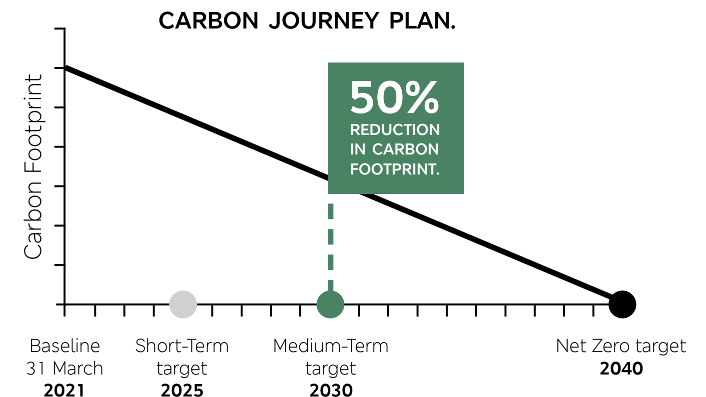
Any outcomes from the review from a climate perspective are filtered through to the Investment Committee and ESGC to consider action as appropriate.

Furthermore, the output from the climate scenario analysis undertaken by the Trustee, as covered in the previous section, provides a holistic overview of the ways in which climate-related risks may affect the Scheme's funding and investment positions at a high level, splitting analysis of risks into 'transition' and 'physical' risks as a way to understand the potential impact on the Scheme's investments. The Trustee undertook further climate scenario analysis in 2023 due to changes in asset allocation over the previous year.

Consistent with last year, the analysis identified that the Scheme is resilient to the potential impact of climate change, whilst the output has been designed to be considered in the context of the wider risks faced by the Scheme and will allow the Trustee to prioritise the risks which pose the most significant potential for loss and are most likely to occur.

In order to manage the Scheme's climate risks, the Trustee also monitors its 'Carbon Journey Plan', which the Trustee recognises as a key tool in helping the Scheme meet its ultimate net zero goals and in facilitating effective decision-making towards this end. The Carbon Journey Plan also plays a role in helping the Trustee to identify where it may be able to take advantage of opportunities which may arise because of climate change.

The governance structure established last year for the Carbon Journey Plan, which is ultimately owned by the Trustee but incorporated into the activities of the ESGC and all other committees, is reviewed and progressed through the ESGC. As covered in more detail in the following section, the Trustee has set an ambitious target of net zero by 2040, with a 50% reduction in carbon footprint by 2030, starting with a baseline of 31 March 2021.



There are a number of ways in which the Trustee is aiming to achieve this, all of which will feature heavily on the agenda of the ESGC and wider Trustee Board in the years ahead. This includes:

1. ENGAGEMENT.

The Trustee will aim to reduce emissions through changing the behaviour of investment managers, advisers and suppliers. This involves engaging with managers of key investment mandates and the Scheme's buy-in providers and expecting them to do the same with their underlying holdings. Third party stewardship and engagement services may be used where appropriate, whilst the Scheme will also look to lend its voice to industry-wide collaborative initiatives.

Engagement is a key section within the Scheme's ESG Governance Priorities and Beliefs and the Trustee views this as a crucial and effective method to help achieve its Net Zero Targets as a responsible asset owner. These Beliefs and Priorities include the Trustee's positions on stewardship, climate and biodiversity. The Trustee expects managers to invest in line with these beliefs and will work with managers to ensure the priorities are addressed.

By way of example, over the year the Scheme met with a number of investment managers, including but not limited to Knight Frank Investment Management, CBRE, Alpha Real and BlackRock, to understand how sustainable investment is being integrated into their investment management processes pertaining to the Scheme's mandates and at company level. These meetings provided further understanding of current and potential future practice in this area and meetings with other managers have produced similar outcomes.

The Trustee aims to engage with all managers but will prioritise those managing the highest proportion of Scheme assets and those managing investments of a nature identified as most vulnerable to climate risk by the Trustee. For example, assets recognised as relatively vulnerable to transition risks, such as real assets, will require timely engagement over the short to medium term when such risks are likely to materialise.

2. MANDATE CHANGES INCLUDING DIVESTMENT.

The Trustee will continue to review mandate guidelines, restrictions and benchmarks. This includes implementing policies to reduce emissions, reviewing investment strategies to understand any disproportionally emitting strategies, and ultimately selling assets that are most exposed to climate risk if deemed necessary to do so. The Trustee aims to achieve most change through engagement with managers and service providers but reserves the use of divestment to achieve its aims as appropriate.

3. IMPACT.

Whilst the Scheme's investment strategy is mature, the Trustee will continue to review the current and future strategy to understand opportunities to add impact investments, providing capital to market participants offering new technology and/or solutions to reduce emissions.

4. FREE RIDER.

Recognising common goals across the investment industry, the Scheme will expect to benefit from a reduction in emissions due to the actions taken by other market participants, such as other large investors and the UK Government, and notes that financial markets may move more quickly as companies look to meet their own targets and high carbon industries fall in value or are taken private. However, this effect alone will be insufficient to meet the Trustee's ambitions and goals.

PORTFOLIO CONSTRUCTION.

Sustainable investment, including management of climate risk, has been an increasingly important focus for the Trustee over recent years when considering the construction of the Scheme's investment portfolio. The Trustee's approach to monitoring and integrating ESG issues into the management of the Scheme has evolved over time.

As the Scheme is closed to future accrual, the Trustee holds long-dated assets that match the liability cashflows of the Scheme. These include credit and real assets. Because of the nature of these assets, the Trustee is very focused on sustainability and the companies and other entities in which they invest or lend to.

The Trustee believes that ESG factors, including climate change, are financially material considerations that will have significant influence on the future success of companies and their ability to service debt and of security of cash flows and asset values. Integration of ESG factors is fundamental to the design and implementation of the investment strategy of the Scheme.

In appointing investment managers, the Trustee, with input from WTW as investment consultant, considers in detail their experience and capabilities in managing ESG factors and sustainability in the securities or assets in which they invest. This assessment forms a part of the regular on-going monitoring of the investment managers. The Trustee regularly receives ESG reporting on both the Scheme's investment managers and underlying assets, which over the past year included a comprehensive assessment of managers' sustainable investment capabilities by WTW. This has been utilised when engaging with managers.

The Trustee expects managers to integrate ESG considerations into their management of the Scheme's assets and recognises that as investors in a diversified portfolio of various underlying asset classes with different objectives and characteristics, a 'one size fits all' approach to ESG is not optimal. Therefore, the expectations of managers are not uniform across all of the Scheme's funds, but based upon the individual characteristics of the Scheme's different mandates.

CASE STUDIES.

GENERATION IM CLIMATE SOLUTIONS FUND II.

The Scheme is invested in the Generation IM Climate Solutions Fund II.

The Fund is invested in growth-stage climate solutions businesses with innovative, proven technology and commercial traction, run by mission-driven management teams. This fund has helped to avoid approximately 5.0m tonnes of CO_2 emissions, which is equivalent to taking 1.1 million cars off the road for a year.

SYNTHETIC EQUITY – ESG INTEGRATION.

At the start of 2023 the Trustee introduced equity exposure in synthetic form to the Scheme's portfolio.

The decision on the equity index was made with consideration of ESG integration. The index ultimately chosen was the MSCI World Low Carbon Target Index. This index aims to achieve at least 50% reduction in the carbon footprint of the parent index by excluding companies with the highest carbon emissions intensity and the largest owners of carbon reserves per dollar of market capitalization.

This choice reflected the Trustee's desire to integrate ESG into investment strategy where possible and is in line with the Trustee's ESG goals.

4. METRICS AND TARGETS.

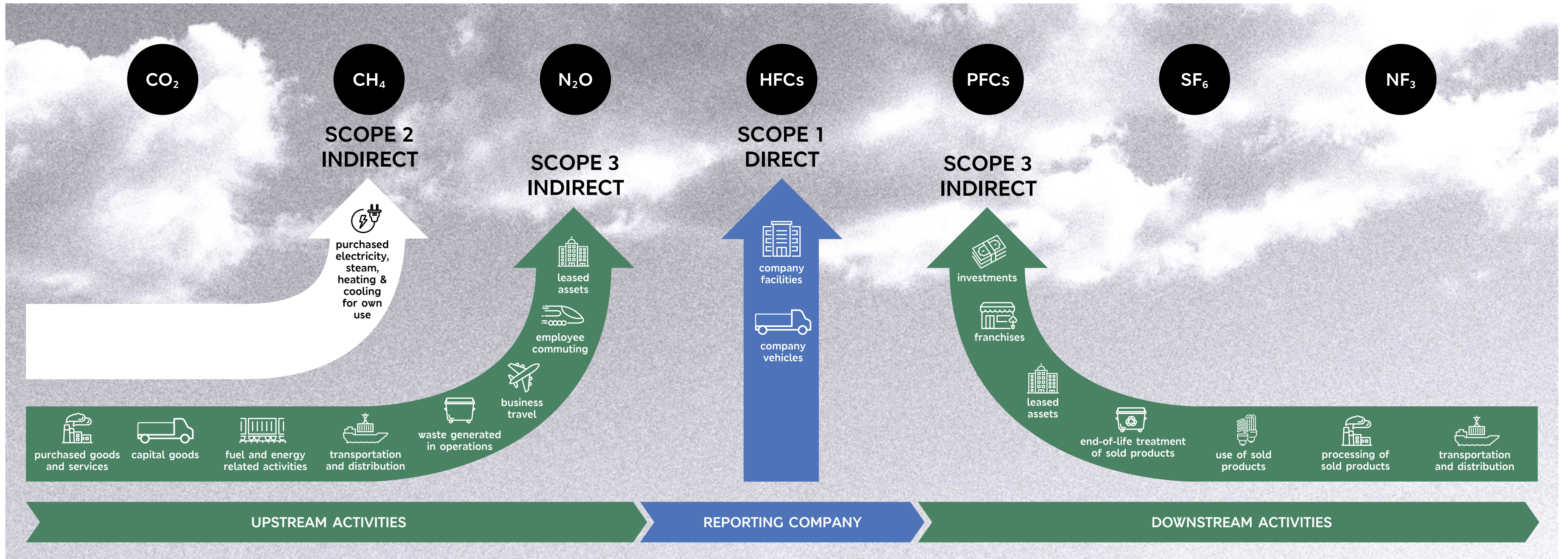
In 2022, the Trustee set an ambitious long-term target of reaching net zero greenhouse gas emissions by 2040, with a medium-term target to reduce the Scheme's carbon footprint (as defined below) by 50% by 31 March 2030. The Trustee remains committed to aligning the Scheme's investment strategy with these ambitious climate-related targets and will monitor performance against these targets over time to guide decision making.

As set out in our last report, as one of the UK's largest pension funds, the Trustee believes it has a responsibility to be an industry leader in its ambitions and adopted a 2040 target because it can and should strive to achieve better outcomes. This is also aligned with M&S plc's net zero target, reflecting a strong commitment on the part of both parties to invest responsibly and effect positive change.

In order to achieve these targets, the Trustee has undertaken to calculate and monitor Scope 1, 2 and 3 emissions as defined below, on investments held across the Scheme's investment portfolio, where it can collect the necessary data:

- **SCOPE 1 EMISSIONS:** all direct emissions from the activities of an entity or the activities under its control. For example, the fuel combustion used to run delivery vehicles.
- **SCOPE 2 EMISSIONS:** indirect emissions from energy purchased and used by an entity which are created during the production of energy which the entity uses. For example, lighting and heating in retail stores.
- **SCOPE 3 EMISSIONS:** all indirect emissions from the activities of the entity, other than Scope 2 emissions, which occur from sources that the entity does not directly control. For example, the transport and distribution of products from suppliers around the world.

4. METRICS AND TARGETS.



Source: GHG Protocol

In 2022, the Trustee chose a set of climate change metrics it believes are appropriate for assisting the Scheme in achieving its net zero targets.

The Trustee seeks to improve the usefulness and accuracy of these metrics where possible to make them more effective for decision making. This year, there have been improvements in methodology and the introduction of coverage for Scope 3 emissions and an additional forward-looking 'portfolio alignment' metric has been added.

Last year we provided data as at 31 March 2021 and this year we have provided data as at 31 March 2022 to show the 12 month progress. However, the Trustee has also chosen to disclose data as at 31 December 2022 given the changes in asset allocation and asset values in the latter part of 2022. This reflects the most up to date asset allocation for which reliable asset emissions data is available. The Trustee believes in providing the most up to date and therefore useful metrics possible.

Unlike last year, this year's analysis captures all sovereign emissions from the Scheme's bond portfolios and allows for the categorisation of "corporate" and "sovereign" emissions. Scope 3 emissions, which are the result of activities from assets not owned or controlled by the reporting organisation, but that the organisation indirectly affects in its value chain, were not included in last year's analysis but are included in this year's analysis, in line with regulatory guidance. The quality and coverage of the Scope 3 data available at the time of last year's report was low due to the infancy of the data, but has improved greatly since and is expected to continue to improve.

WTW, as investment consultant and supplier of the Scheme's climate metrics, evolved the methodology they used to calculate this year's metrics to reflect industry best practice. Methodology changes include the carbon emissions and carbon footprint (metrics 1 and 2) being calculated using enterprise value including cash (EVIC). EVIC reflects a company's debt and equity value, which ensures that carbon emissions are shared across debt and equity holders, preventing the double counting of emissions and distortion of company value. This is the valuation method used in calculating the carbon footprint of the underlying companies invested, as well as the Scheme's overall carbon footprint, and total carbon emissions. Last year, the metrics were calculated using only the equity value of a company, its Market Value, which made comparison across sectors less accurate as equity and debt issued by the same company were assigned the same level of emissions.

As a result of the changes – the use of EVIC, introduction of Scope 3 emissions and inclusion of all sovereign emissions – comparison between previous analysis and this year's metrics would not provide an accurate representation of changes over the period. The Trustee therefore decided to present this year's data in comparison to last year's using a "like for like" method. This involves presenting the Scope 1 and 2 March 2021 and March 2022 figures, calculated using the old methodology, alongside the Scope 1 and 2 March 2022 and December 2022 figures calculated using the new methodology. This allows a comparison of the metrics under each methodology over the period. This is then presented next to the March 2022 and December 2022 Scope 3 data calculated using the new methodology to provide the most up to date figures.

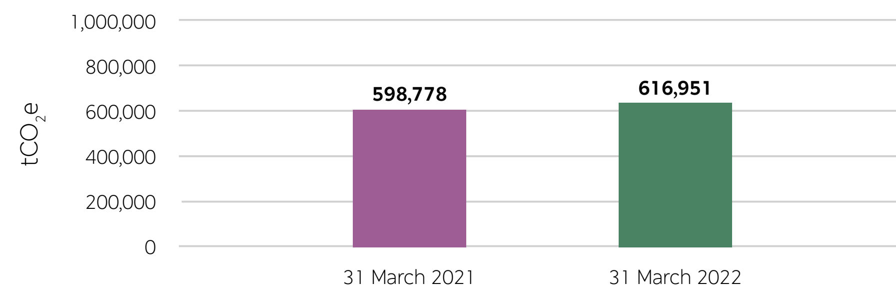
1. TOTAL CARBON EMISSIONS.

This is an 'absolute emissions' metric which gives the total greenhouse gas emissions attributable to the Scheme's assets. This is calculated in line with the guidance provided by the Greenhouse Gas Protocol. To compile the metric this year, WTW has used MSCI estimates for direct and indirect (Scope 1, 2 and 3) emissions. Where the company doesn't report a raw value in tCO_2e, MSCI uses a Company Specific Intensity Model, using previously reported data from the particular company. If no Company data is reported, MSCI uses the Global Industry Classification Sub-Industry Model, which is more generalised but based on the MSCI emissions database.

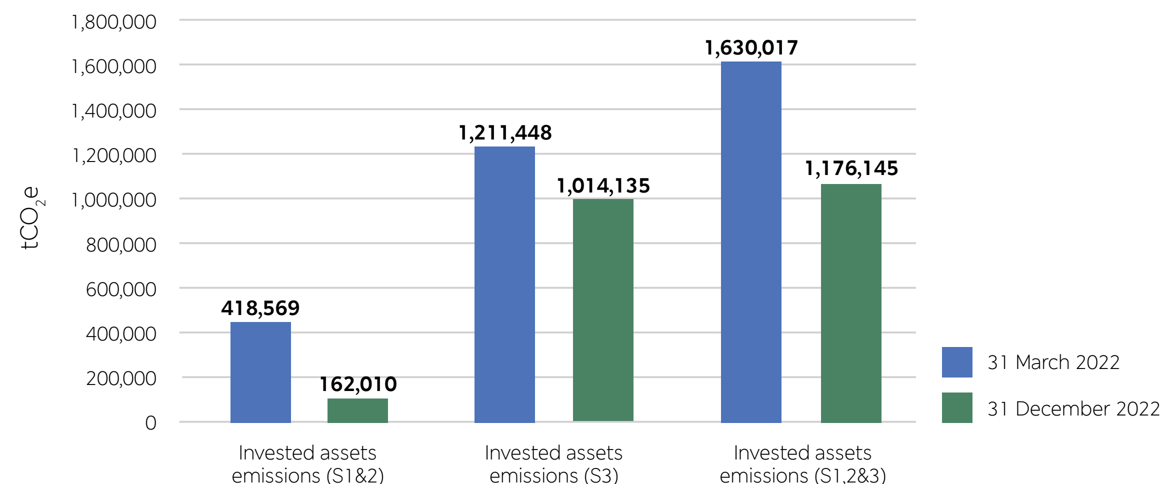
Between March 2022 and December 2022, there was a significant drop in absolute Scope 1 and 2 emissions primarily as a result of a decrease in the Scheme's asset value over the period. Additionally, disinvestment from Buy & Maintain credit and equity holdings within the portfolio led to a decreased proportion of the portfolio invested in typically high-emitting asset classes.

Scope 3 emissions is a new requirement for TCFD reporting and contribute the most to overall emissions, overshadowing the Scope 1 and 2 emissions as expected. However, these have also reduced by around 15% between 31 March 2022 and 31 December 2022 in absolute terms, due to a reduction in the Scheme's 'invested assets' - Scheme assets excluding cash, Liability Driven Investments (LDIs), buy-ins and Company-provided assets).

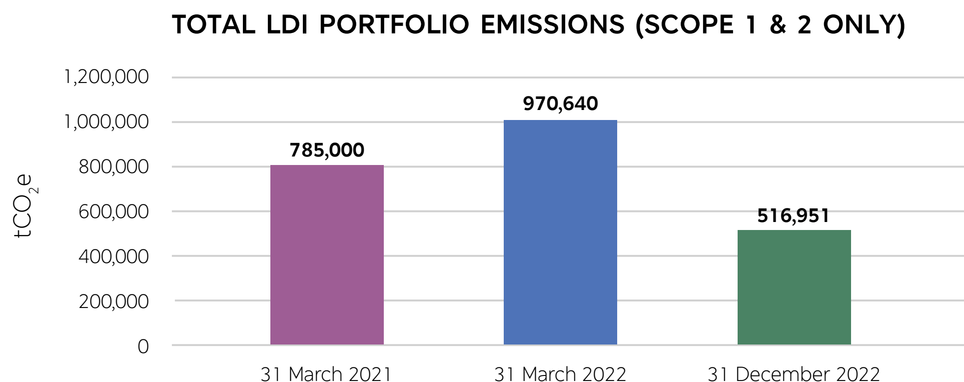
SCOPE 1 & 2 ABSOLUTE EMISSIONS (OLD METHODOLOGY)



SCOPE 1, 2 & 3 ABSOLUTE EMISSIONS (UPDATED METHODOLOGY)



As with last year's analysis, estimated LDI emissions are reported separately from the Scheme's "invested emissions", owing to the use of different methodologies. The absolute emissions from the Scheme's LDI portfolio have decreased over the period. This is as a result of climbing UK gilt yields over the period, which result in decreased value of the Scheme's LDI portfolio.



Given their substantial proportion of total Scheme assets, the Trustee is committed to reporting on the Scheme's buy-in asset emissions. The Trustee has worked on gaining greater data availability over the year through engagement with the Scheme's three insurers, Phoenix Group, Pension Insurance Corporation (PIC) and Aviva. However, data for Aviva was not available this year and has therefore been estimated using emissions per £ pension liability insured from the other two insurers.

As in last year's report, the data outlined here is based on the buy-in providers' respective methodologies, which typically reflect the emissions from corporate bond holdings as part of their underlying annuity books. As such, we have not aggregated each of the metrics outlined, due to slight differences in each of the insurer's methodologies.

Absolute Emissions - Buy-in Assets	
Emissions (tCO_2e)	**31 December 2022**
Phoenix emissions (Scope 1 & 2 only)	32,312
Phoenix emissions (Scope 3)	117,753
PIC emissions (Scope 1 & 2 only)	62,318
PIC emissions (Scope 3)	266,297
Aviva emissions (Scope 1 & 2 only)	55,967
Aviva emissions (Scope 3)	227,140

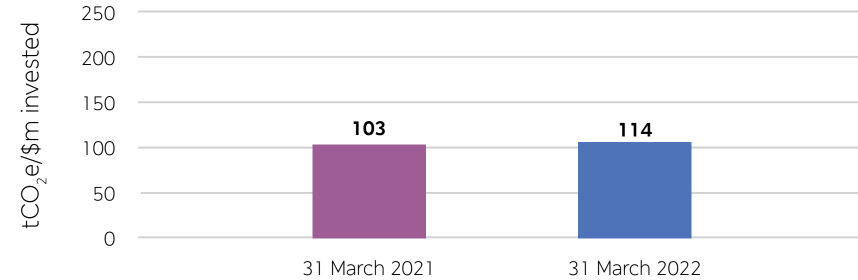
2. CARBON FOOTPRINT.

This is an 'emissions intensity' metric, and the primary metric that is monitored as part of the Scheme's Carbon Journey Plan. This metric gives the total greenhouse gas emissions attributable to the Scheme's assets, per $m invested. This is an important complement to the total carbon emissions metric, as well as aiding comparability over time and to industry peers. This is also the preferred metric as set out in DWP guidance, helping to ensure regulatory alignment. The methodology for the calculation of this metric takes the total carbon emissions as calculated and divides it by the total value of the assets to which the emissions refer.

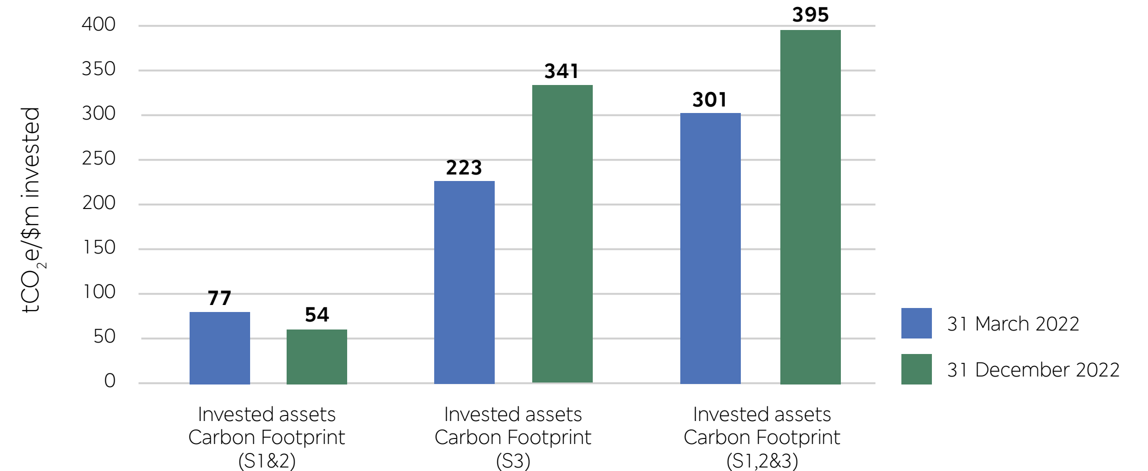
The carbon footprint for Scope 1 and 2 emissions has fallen meaningfully, driven by the reduction of investment-grade credit within the Scheme's "invested assets", which was the most carbon intensive asset based on reporting as at 31 March 2022. The Trustee may reintroduce similar investments as part of its investment strategy, which may cause the carbon footprint to increase in the future.

Conversely, the carbon footprint for the Scope 3 emissions has increased over the period. This is largely due to improved data availability for a number of asset classes with significant Scope 3 emissions rather than an actual increase in emissions, as well as portfolio rebalancing which left a higher portion of capital invested in these asset classes.

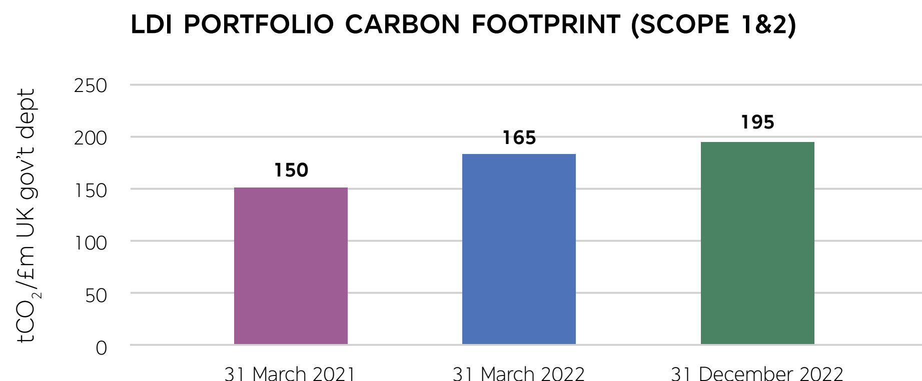
INVESTED ASSETS CARBON FOOTPRINT SCOPE 1 & 2 (OLD METHODOLOGY)



INVESTED ASSETS CARBON FOOTPRINT (NEW METHODOLOGY)



Whilst the Scheme's overall LDI emissions are shown to have decreased, the Carbon Footprint of gilts (the assets within LDI) has increased. This is largely as a result of an approximate 16% decrease in the value of total UK government debt used by the Scheme's LDI manager to calculate this figure. This is a result of a decrease in prices of government bonds over the period.



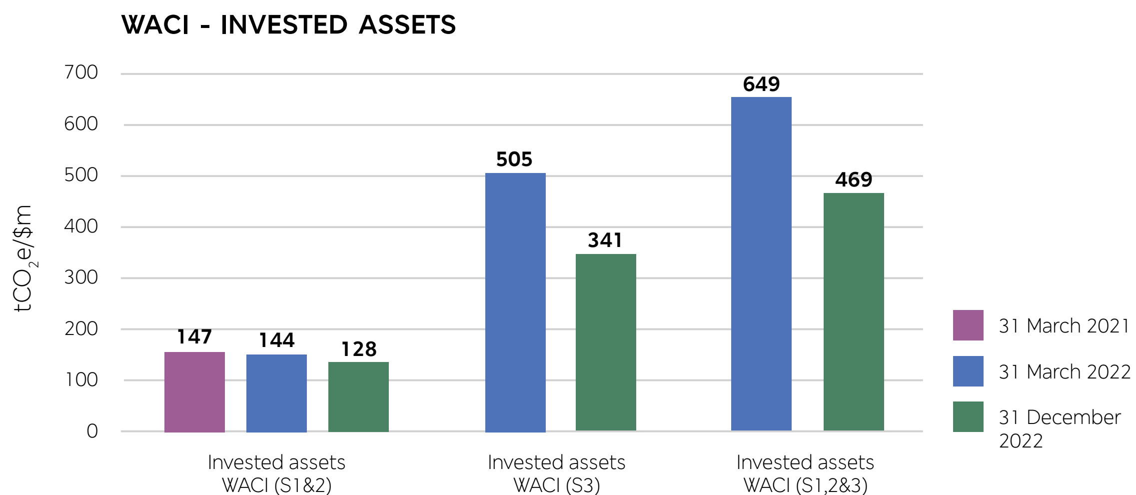
The Trustee also gathered information on buy-in providers' Carbon footprint, presented here. As mentioned above, the data outlined is based on the buy-in providers' respective methodologies. As such, it is not possible to aggregate each of the metrics outlined, due to slight differences in each of the insurer's methodologies. As above, data for Aviva is not available this year and has been approximated using figures from the other two insurers.

Intensity - Footprint - Buy-in Assets	
Footprint (tCO_2e/£m invested)	**31 December 2022**
Phoenix emissions (Scope 1 & 2 only)	98
Phoenix emissions (Scope 3)	319
PIC emissions (Scope 1 & 2 only)	83
PIC emissions (Scope 3)	353
Aviva emissions (Scope 1 & 2 only)	107
Aviva emissions (Scope 3)	397

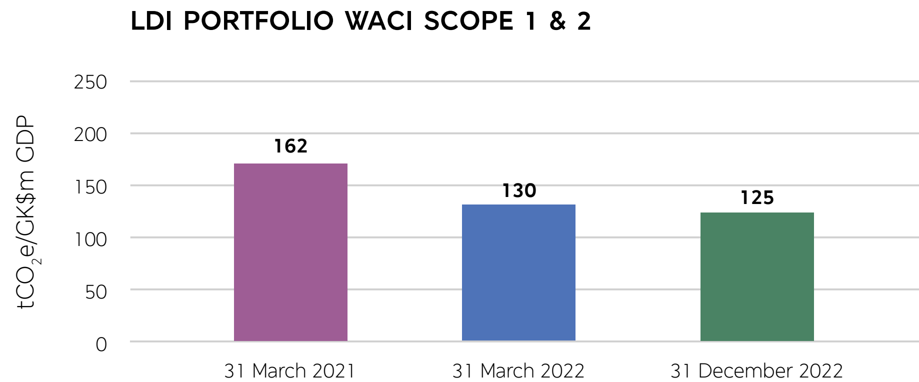
3. WEIGHTED AVERAGE CARBON INTENSITY (WACI).

This is a secondary 'emissions intensity' metric, measured by the volume of carbon emissions per million dollars of revenue for each holding in the portfolio. These figures are then averaged using the portfolio weights to produce the WACI metric. This additional measure is included to allow the Trustee to incorporate data from the Scheme's three buy-in providers, who primarily report against this measure. Given the buy-in assets are a relatively large proportion of Scheme assets, the Trustee believes monitoring these assets is crucial to understanding the Scheme's impact on the climate.

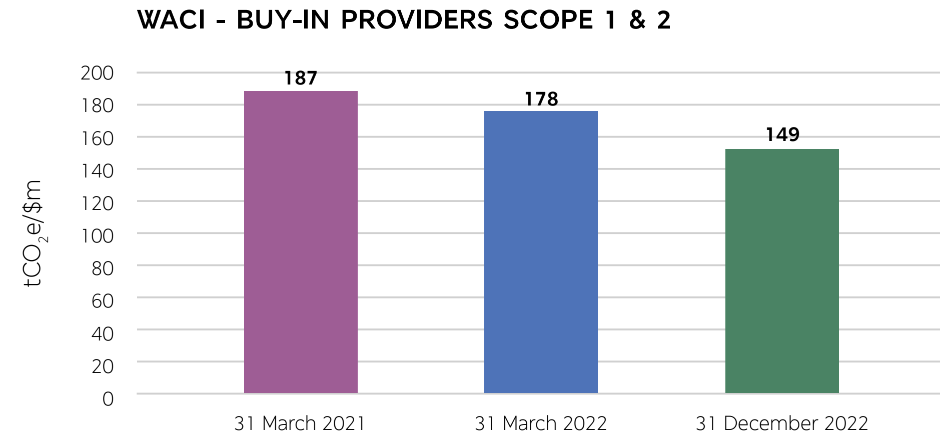
The WACI metric has improved over the period, decreasing for Scope 1, 2 and 3 across invested assets, within the LDI portfolio and across the buy-ins. One notable positive was the significant progress in the data availability and metrics provided by the Scheme's buy-in providers over this period.



Despite an increase in the LDI portfolio's carbon footprint, the WACI decreased over the period. This is a result of an increase in the UK GDP estimate, used to calculate the portfolio's WACI. Scope 3 emissions are not a concept currently applied to government debt, which already uses a country's emissions, rather than specifically the emissions related to government activities.



As mentioned opposite, this metric is useful as it allows the buy-in providers to be integrated into our reporting. There has been an overall decrease in the Scheme's WACI with respect to its buy-in assets.

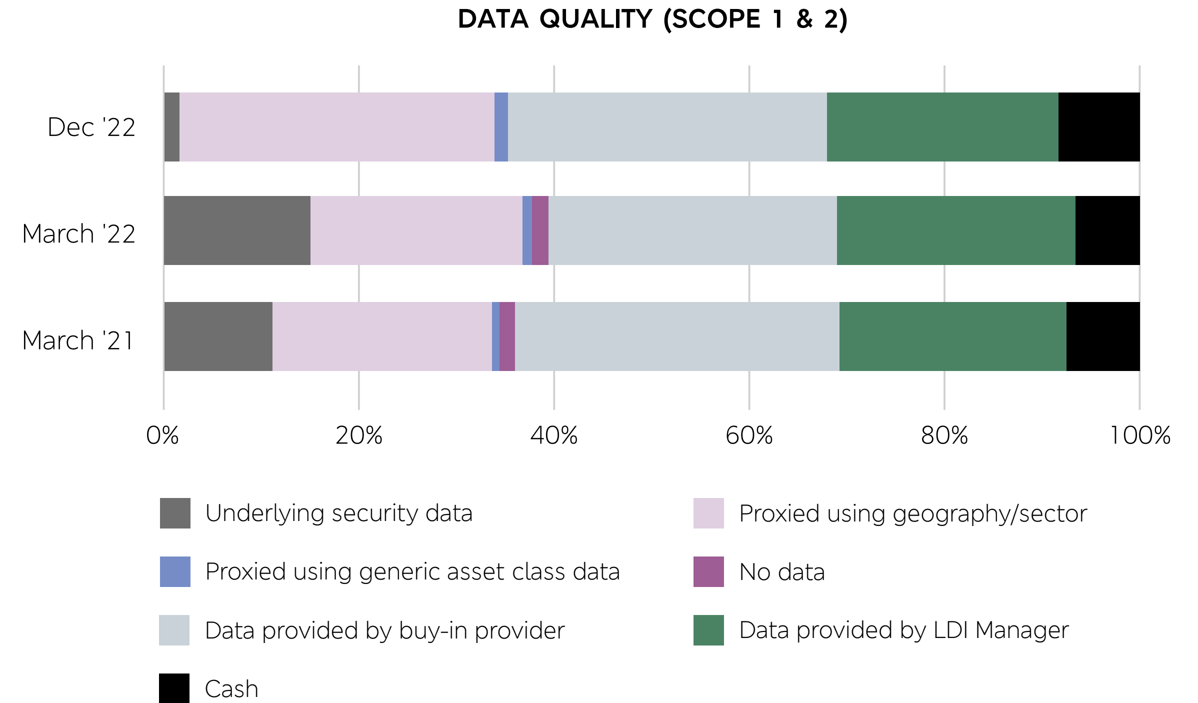


4. DATA QUALITY.

This measure aims to present the proportion of the portfolio for which the Trustee has high quality data, and improving the quality of this metric remains one of the Trustee's key short-term goals.

Data quality progress was mixed this year, primarily due to a significant decrease in the proportion of the portfolio allocated to listed assets, for which direct security data is available. As a result, a higher proportion of the Scheme's invested assets are now in illiquid, private markets, for which emissions are difficult to estimate. Ultimately, 90% of data for 'invested assets' was modelled via geography and sector proxy, an increase on last year.

The Trustee expects that data quality will improve over the coming years as providers improve their tools. Due to increased accuracy of the proxies for the Scheme's unlisted funds, the proportion of the invested assets portfolio with no available data has decreased from approximately 3.7% to 0.4%. A further notable positive this year was significant progress in accessing data from the Scheme's buy-in providers.



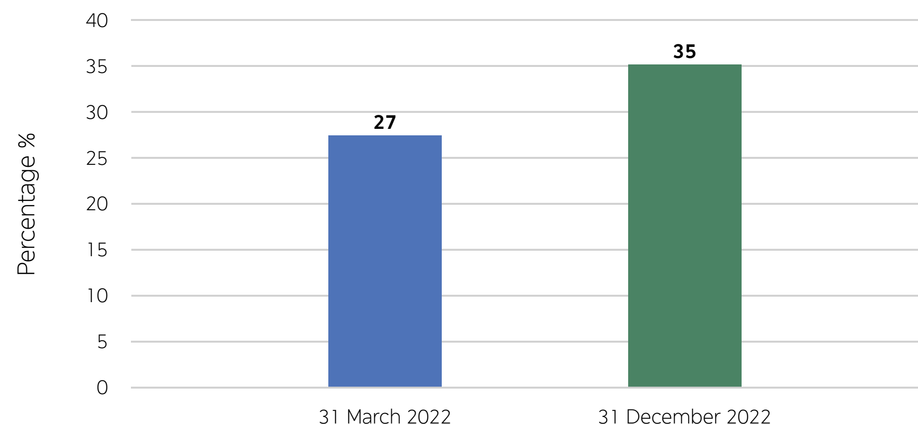
5. BINARY ALIGNMENT METRIC.

The Trustee has introduced a new 'portfolio alignment' metric to include in this year's report. This new metric is intended to be forward-looking rather than historical and aims to measure the extent to which assets are aligned with the Paris Agreement climate targets. This is in line with the Trustee's desire to improve the quality and information provided in reporting over time.

The Trustee decided to choose the Binary Alignment Metric, reporting on the proportion of the Scheme's invested assets aligned with Science Based Targets (SBTs) or equivalent. The Trustee believes this metric is the most applicable for the Scheme, as it allows the Trustee to identify and monitor which of its investments are strategically committed to achieving Net Zero and which are not. This further allows the Trustee to identify where engagement with managers may be required to further the sustainable management of its investments.

Unlike other metrics, a Binary Alignment Metric is relatively independent of data quality and the resulting consistency should assist the Trustee in monitoring progress over the long run which should be useful as the risk of transition risks materialising increases. This metric is also comparable across schemes.

The Scheme's alignment with the Science Based Targets Initiative (SBTi) has improved over the period 31 March 2022 to 31 December 2022 from 27% to over 35%. This is due to increased data coverage for the Scheme's infrastructure and Secure Income Alternative (SIA) funds, along with increased portfolio allocation for these asset classes. Further, some increase can be attributed to invested assets making up a lower percentage of the portfolio as at 31 December 2022. With respect to the Scheme's buy-in assets, 13.3% of the Phoenix buy-in portfolio and 5% of the PIC buy-in portfolio were aligned with SBTs.



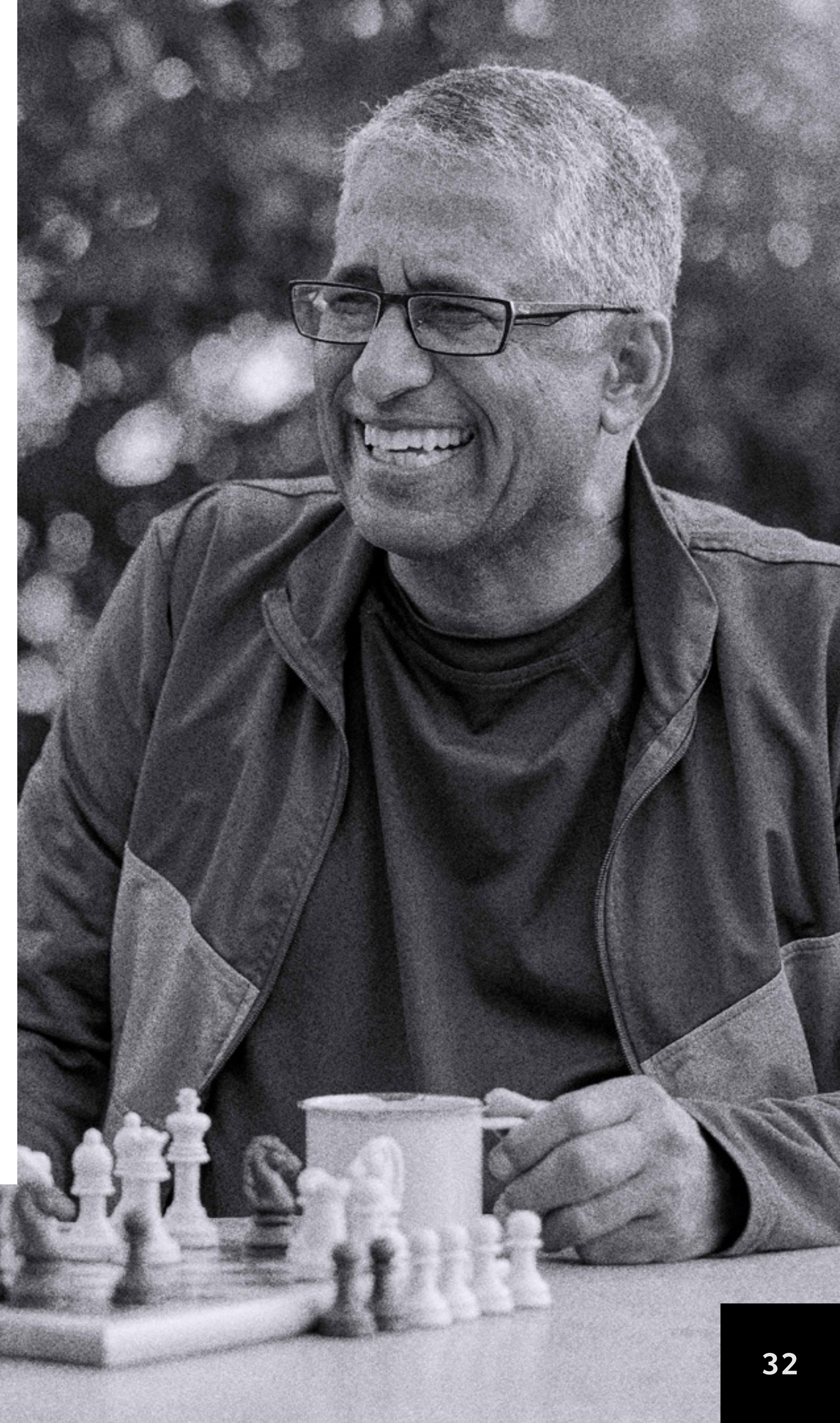
*or equivalent

The Trustee's choice of metrics may change over time to reflect developments in industry best practice in what is still a new and evolving area. This year's addition of a 'binary target' metric will help the Trustee measure the alignment of the Scheme's investment portfolio with the aspiration to limit global temperature rises to 1.5-2.0 degrees Celsius, in line with the Paris Agreement.

The collation and analysis of the data used for the metrics was carried out by WTW, the Scheme's investment adviser, using a combination of manager-provided data, proxied data and relevant benchmark data, and is based around MSCI's market-leading ESG analysis on a company-by-company basis.

The Scheme's investment advisers conducted a review of over 10 sustainability data providers and concluded that MSCI was best suited to cover all key ESG and climate metrics required. MSCI is a market leader in terms of their quality of research. The ESGC will continue to monitor where the most useful, best quality metrics are to be accessed.

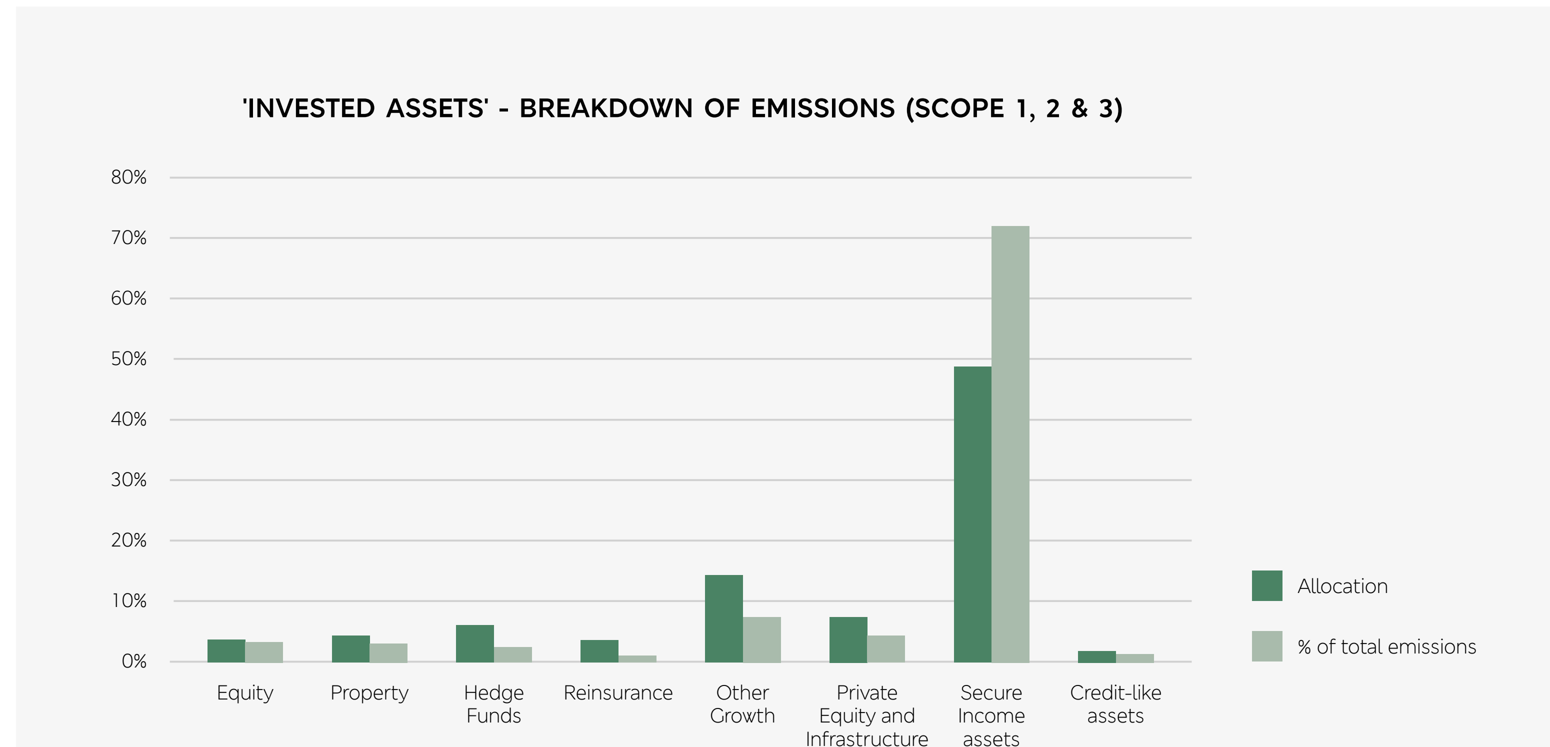
Additionally, the ESGC has and will continue to consider whether other possible service providers might be better placed to provide data than WTW. During the year, AMX provided sample data on the Scheme's metrics for the ESGC's consideration before the decision was made to retain WTW as data supplier.



Similar to last year and as mentioned above, a material proportion of the data has been proxied based on sector and geographical data of the underlying funds within the Scheme's 'invested assets'. This year, the Scheme was able to access data on emissions directly from its LDI manager, however LDI data remains reported separately from invested assets data due to differing methodologies. Further, emissions data from buy-in providers is based on their respective methodologies, and typically reflects the emissions from credit assets as part of their wider annuity books. The Trustee is committed to improving the robustness of the data over time through engagement with its investment adviser, investment managers and buy-in providers, amongst others.

As part of the ESGC's review of the output, analysis has also been broken down by asset class so that the Trustee is able to identify the greatest contributors to overall emissions within the portfolio, as shown in the graph opposite.

The breakdown of emissions for the Scheme's buy-ins and sovereign bond asset classes have not been included in the below chart because emissions from these holdings cannot be directly affected by the Trustee's investment decisions (for example, through engagement or divestment).



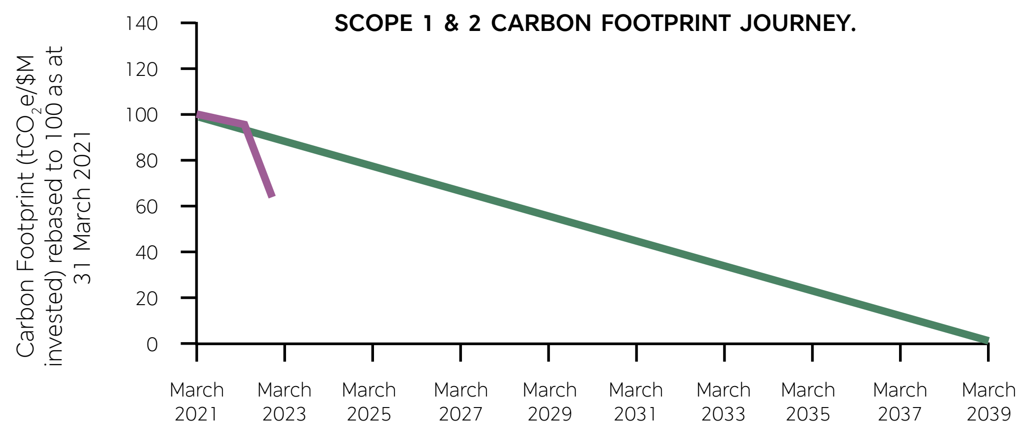
Recognising some of the limitations in gathering data, the analysis has been carried out on a best endeavours basis. The Trustee firmly believes that the changes to how the metrics were calculated for this year's report make the figures more accurate and therefore more effective for decision making.

The Trustee monitors progress against the Scheme's Carbon Journey Plan. The introduction of Scope 3 emissions this year inevitably increased total reported emissions, though the Trustee recognises this as crucial in understanding the Scheme's position. Scope 3 data is still in its infancy, and availability was extremely poor at the 31 March 2021 baseline date the Trustee is using for Scope 1 and 2. Therefore, the Trustee has adopted a baseline of 31 March 2022 for Scope 3 emissions. Even at this date, the reported Scope 3 emissions figure is unlikely to be reliable. Comparing our year end figure to the baseline, the Scheme's carbon footprint for Scope 3 has increased, but the Trustee believe increased data coverage within Scope 3 will be a significant part of this. There is also an increased proportion of the portfolio in funds with a higher carbon footprint for Scope 3 emissions post the changes to asset allocation in the latter part of 2022. Going forward, the Trustee recognises there may be short term deviations in metrics in some years, due to changes to the portfolio, developments in data quality and methodology changes, and will seek to understand and report on these changes and their implications.

As such, the Trustee decided to retain a focus on Scope 1 and 2 emissions for the purposes of the Scheme's Carbon Journey Plan in this report, given the greater accuracy of data on this basis. However, the ultimate objective of the Scheme is to reduce emissions across all three scopes as part of its vision to contribute to better outcomes for everyone. Therefore, as confidence grows around the accuracy of Scope 3 figures, the Trustee will seek to incorporate such emissions into the carbon journey plan in future.

The Trustee remains committed to the Scheme's Net Zero targets of a 50% reduction in carbon footprint by 2030 and Net Zero emissions by 2040. The Trustee will account for these reductions only within Scheme assets excluding Gilts within the Scheme's LDI portfolio and the Scheme's buy-in assets. This is because emissions from these holdings cannot be directly affected by the Trustee's investment decisions (for example, through engagement or divestment). However, the Trustee wishes to see alignment across the whole portfolio and will continue to engage with LDI and buy-in providers with the expectation that they too share the Trustee's ambitions.

The Scheme has made a c.27% progress towards its Journey for Scope 1 and 2 emissions, well on track to meet its medium-term target of a 50% reduction by 2030.



LOOKING FORWARD.

Climate change is a long-term issue that will be present until every member and beneficiary has received their pension.

It's important that the Trustee considers the risks it presents to the Scheme today so that it always has a plan in place to protect each and every pension due.

At the same time, taking action against climate change is a long-term commitment that will require continued effort, not just from the Trustee but all those who invest the Scheme's assets and support the ongoing management of the Scheme.

As this report highlights, the Trustee cannot achieve its 2040 net zero target alone. The Trustee believes that engaging with its investment managers regularly to monitor their approach to ESG, as well as how the Trustee itself manages ESG factors, is crucial to its own target and to supporting wider change. Similarly, it is only by engagement with others that the Trustee will receive the better quality data that it needs to accurately measure how the Scheme is progressing towards it target and to reach its first milestone in 2025. How and when we interact with others and what we do to encourage change will be a priority for the Trustee going forward.

The last year has also demonstrated that the Trustee's responsibility to secure members' pensions may mean that during adverse market events it may need to make difficult decisions about the Scheme's investments to meet this duty. The Trustee will always be guided by its ESG investment beliefs, but it could mean that its journey towards net zero in future will not always be straightforward. However, by having a plan in place to monitor the Trustee's progress and by being committed to its net zero target, it will always seek to recover its position to remain on track.

Going forward, the ESG Committee will continue to play a key role in how the Trustee monitors the risks and opportunities that climate change present and how it will remain on track to reach its net zero target.