M&S
PENSION SCHEME

CLIMATE CHANGE REPORT.

The M&S Pension Scheme

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CONTENTS.

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FROM THE CHAIR.

As one of the UK's largest pension funds, we know that how and where we invest matters. We firmly believe that investing sustainably supports long-term value, reduces risk and contributes to better outcomes for everyone.

The rapid rate of climate change means that it's a clear and present risk to the M&S Pension Scheme, not just a future risk. If we don't all take action now, climate change will have serious consequences for economies and investments around the world.

On behalf of the Trustee, I'm pleased to present our first Climate Change Report. It explains the steps we're taking to make a difference and shape a better future. It also looks at how we can protect the Scheme from the effects of climate change.

Over the last decade, we've seen the positive impact of sustainable investments and we've made a lot of progress. We currently hold more than £100m in renewable energy, and sustainable investment already forms an important part of where we decide to invest the Scheme's assets. We've set up an Environmental, Social and Governance (ESG) Committee to accelerate our progress. But we know we need to do more.

We've committed to an ambitious 2040 net zero greenhouse gas emissions target because we can and should strive to achieve better outcomes. It's not something we can do alone. Data on emissions needs to improve and our investment managers, advisers and suppliers will need to play their part.

We're working closely with M&S, not just because they're important to the future security of the Scheme but because they're also committed to a net zero future. We want to share knowledge and expertise to help the Trustee achieve its goals.

With over 100,000 members, the Scheme must provide security to its members and their beneficiaries for many years to come. We know that taking action against climate change now will support the financial health of the Scheme in the future. However, the actions of the rest of the world will also determine what the impacts of climate change will be. We've looked at the risks the Scheme might face based on the action or inaction of others because we need to plan for security for members, whatever others do.

We want to take you on our journey and be held to account for our actions. This report is an important part of that. It tells you the progress we've made to understand the risks and opportunities that climate change presents and the actions we're taking to achieve our net zero target. We'll report on our progress each year going forward.

Graham Oakley
Chair of the M&S Pension Trust

SUMMARY.

WHAT WE'VE DONE.

- Established an ESG Committee to accelerate our progress
- Engaged with investment managers and service providers to better understand their climate change credentials
- Received quarterly reporting on the Scheme's ESG metrics and annual reporting on ESG performance
- Completed an analysis of different scenarios to understand the risks of climate change for the Trustee
- Liaised with the M&S 'Plan A' team to understand how climate change risks may impact the business

WHAT ACTIONS WE'LL TAKE.

- Engage with our existing investment managers and service providers to influence wider change
- Consider changing our investments and divest where appropriate
- Choose new investments based on their climate credentials, doing more of what we've done already
- Make sure the Scheme benefits from changes in the finance and investment industries as more companies respond to climate risks
- Continue to work with M&S to understand how climate change risks may impact the business

NET ZERO JOURNEY.

NOW.
Carbon footprint of 102.8 tons of CO_2 equivalent per million $ invested (31 March 2021)

2025.
Improve quality of data

2030.
Reduce emissions by half

2040.
Net zero

INTRODUCTION.

The Trustee of the M&S Pension Scheme has taken great strides to improve its understanding of the Scheme's exposure to climate risks and put in place a plan to achieve net zero greenhouse gas emissions by 2040. The Trustee firmly believes this will benefit members of the Scheme, the financial system and society as a whole.

This 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.

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

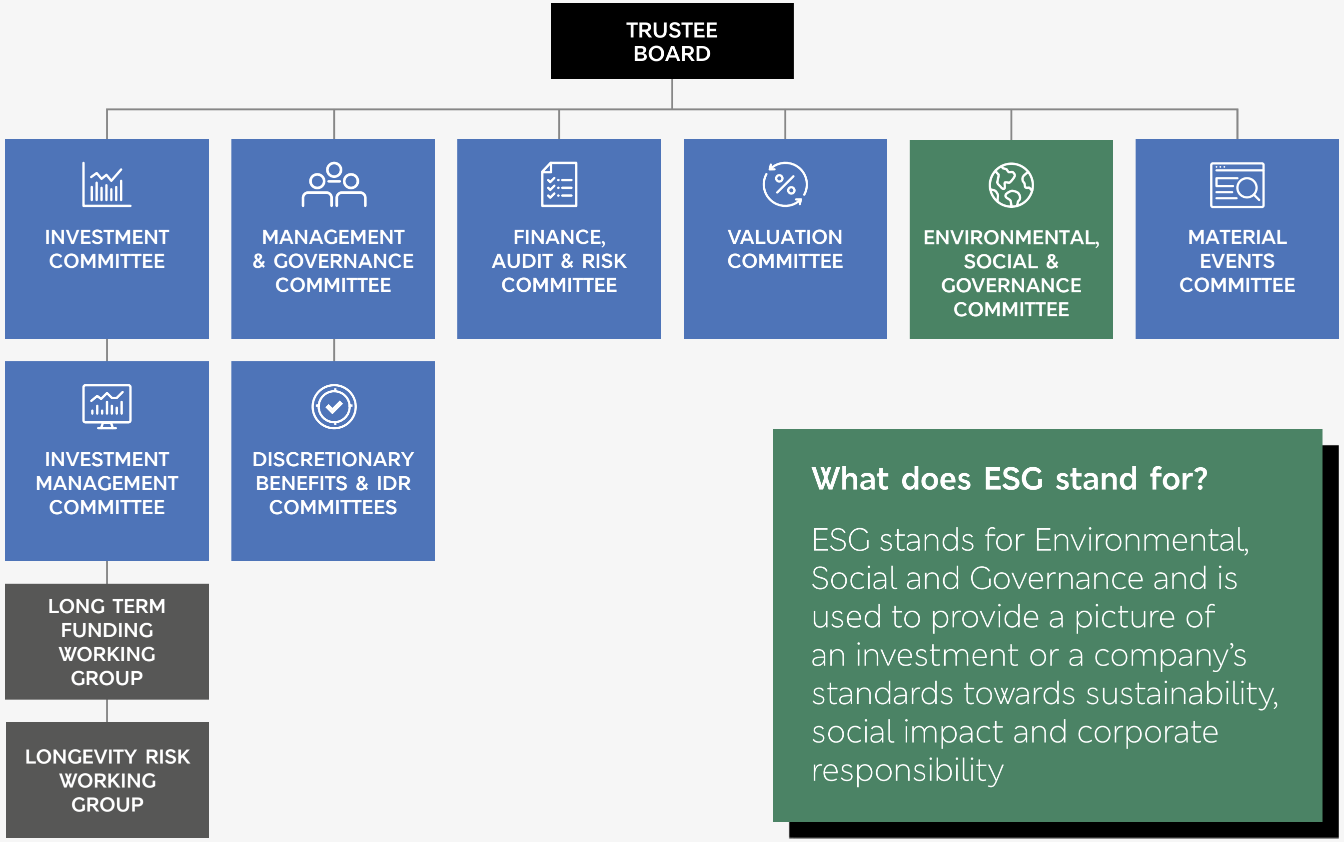
What does net zero mean?

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 decisions on all investment matters. However, most investment matters are delegated to the Investment Committee (IC). Further committees and working groups of the Trustee have been established to tackle key areas of focus within the Scheme. For example, the Investment Management Committee is tasked with implementing the Scheme's agreed asset allocation to those assets outside of the Scheme's dedicated liability driven investment (LDI) and Longevity Hedging portfolios. In 2021, the Trustee established an ESG Committee (ESGC) to be responsible for exploring the opportunities and risks posed by ESG factors.

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 between the Trustee and ESGC and sets out the ESGC's role and responsibilities, and how it will report 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 ESG Governance Framework.

Develop a Sustainable and Responsible Investment Policy.

BELIEFS AND FOCUS.

Develop a set of 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 an 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.

The Trustee Board undertook a Climate Risk and Reporting workshop in March 2022

The ESGC meets at least quarterly and has met more frequently since its establishment. It is made up of several individuals from 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 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 looking to prioritise meeting regulatory requirements, the ESGC has undertaken extensive training. This has ensured that the Committee is suitably qualified to discuss and take decisions about sustainable and responsible investment. 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 by the Scheme's Investment and Covenant advisers. 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 investment consultant and Scheme Actuary, and EY as covenant adviser (assessing M&S plc's financial ability to support the Scheme now and in the future). The Trustee has carried out an assessment of 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 will review these assessments on an annual basis. The Trustee has also set explicit objectives for its investment consultant which includes 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 responsibility for stewardship to its investment managers, within approved guidelines. The Trustee and various underlying committees (including the ESGC) receive regular reporting from its investment managers and have encouraged managers to include details of suitable ESG ratings and metrics that apply to each manager's portfolio.

In August 2021, shortly after the ESGC was established, the Trustee contacted all of its managers with a series of questions as suggested by the government and industry-backed Pensions Climate Risk Industry Group. This aimed to better understand the investment managers' engagement with the Trustee's investment beliefs, stewardship and investment policies. The responses from this process have been considered by the ESGC when monitoring the activities of individual managers in respect of sustainable investment.

The Trustee receives quarterly reports on ESG metrics for the Scheme's liquid equity and credit mandates and an annual report summarising ESG performance, both from an individual manager perspective and across the whole portfolio. These updates 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 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 investment 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. As part of the beliefs, the Trustee notes that ESG factors may have differing materiality impacts on the Scheme, whilst recognising that these three sub-categories 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 on at least an annual basis. 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 during the current Scheme year.

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 is increasingly holding a larger proportion of longer dated assets, including credit and real assets, to better match its liability cashflows. The Trustee is therefore very focused on the sustainability of these assets, as a result of their illiquid nature amongst other things. Therefore, climate-related risk considerations have a significant influence on the design and implementation of the investment strategy of the Scheme.

The Trustee has looked at the potential effects of climate change over a range of identified time horizons for the Scheme using 31 March 2021 as the baseline, representing the most recent actuarial valuation date and the start of the Scheme year during which the TCFD requirements came into effect for the Scheme.

- **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:

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 possibly 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 providers.

PHYSICAL RISKS.

This relates to the direct effects of climate change on the Scheme and its members. These risks are expected to be longer-term in nature and limited in scope to the effects of climate change-related weather and other natural events on the businesses of invested companies, 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 climate change scenario analysis in partnership with its investment, actuarial and covenant advisers. The aim of this analysis was to help the Trustee to quantify the potential effects of climate change on the Scheme's assets, liabilities and covenant.

The Trustee considered four separate scenarios which are in part defined through their success, or otherwise, in meeting the Paris Agreement target of a sub-2.0°C temperature rise.

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, the Climate Emergency scenario, where decisive action is taken, and the Inevitable Policy Response scenario, where transition is more disorderly due to delays in meaningful action, represent bigger transition risks than the Global Coordinated Action scenario, which reflects a more managed response to tackling climate change.

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 with reality.

Whilst there were no issues with the data or its analysis limiting the comprehensiveness of the assessment of the scenarios, 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 Coordinated Action	Climate Emergency
Description	A ‘business as usual’ scenario where current policies continue with no further attempt to incentivise further emission reductions.	A delay in meaningful action but a rapid shift in policy in the mid/late 2020s. Policies are implemented but not in a completely coordinated manner.	Policy makers agree on and immediately implement policies to reduce emissions in a globally coordinated manner.	An immediate, ambitious and coordinated response in which aggressive policy is pursued and more extensive technology shifts are achieved.
Temperature rise vs pre-industrial levels	3.5°C	2.0°C	2.0°C	1.5°C
Renewable energy by 2050	30-40%	80-85%	65-70%	80-85%
Transition risk level (shorter term)	Low	High	Low – Medium	Medium – High
Physical risk level (longer term)	High	Low – Medium	Low	Low
Output from the climate scenario analysis	The **funding level would increase by 2.0%** under this scenario, resulting in reaching **full funding 1 year sooner** on a solvency basis, with longevity improvements materially lower than expected.	The **funding level would decrease by 1.7%** under this scenario, resulting in reaching **full funding only 3 months sooner** on a solvency basis as long-dated assets suffer high transition costs, albeit longevity improvements are lower than expected.	The **funding level would decrease by 4.8%** under this scenario, resulting in reaching **full funding 9 months later** on a solvency basis, with longevity improvements materially better than expected.	The **funding level would decrease by 2.5%** under this scenario, resulting in reaching **full funding 3 months later** on a solvency basis with high immediate transition costs.

SUMMARY OF CLIMATE RISK SCENARIOS ON THE SCHEME.

The analysis identified that three of the four scenarios considered are expected to have a negative effect on the Scheme's funding level. The most pronounced impact was in the Global Coordinated Action scenario – a potential loss over the full 20-year period crystallised today would see the funding level fall ~5%. By contrast, it was identified that the Lowest Common Denominator scenario is favourable for the funding level (with longevity improving significantly less than current expectations); however, this scenario is most harmful to the climate in the long term.

The impact from the Global Coordinated Action scenario is driven by an increase in the value of the liabilities, largely due to a lower mortality rate. The Scheme has mitigated this risk, to an extent, by the 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. Incrementally increasing exposure to such climate-focused opportunities is expected to deliver further, albeit modest, benefit and is consistent with the Trustee's responsible investment aspirations.

POTENTIAL COVENANT IMPACT.

The covenant provided to the Trustee by M&S plc as sponsor is exposed to a range of potential climate-related risks and opportunities. The covenant adviser has 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.

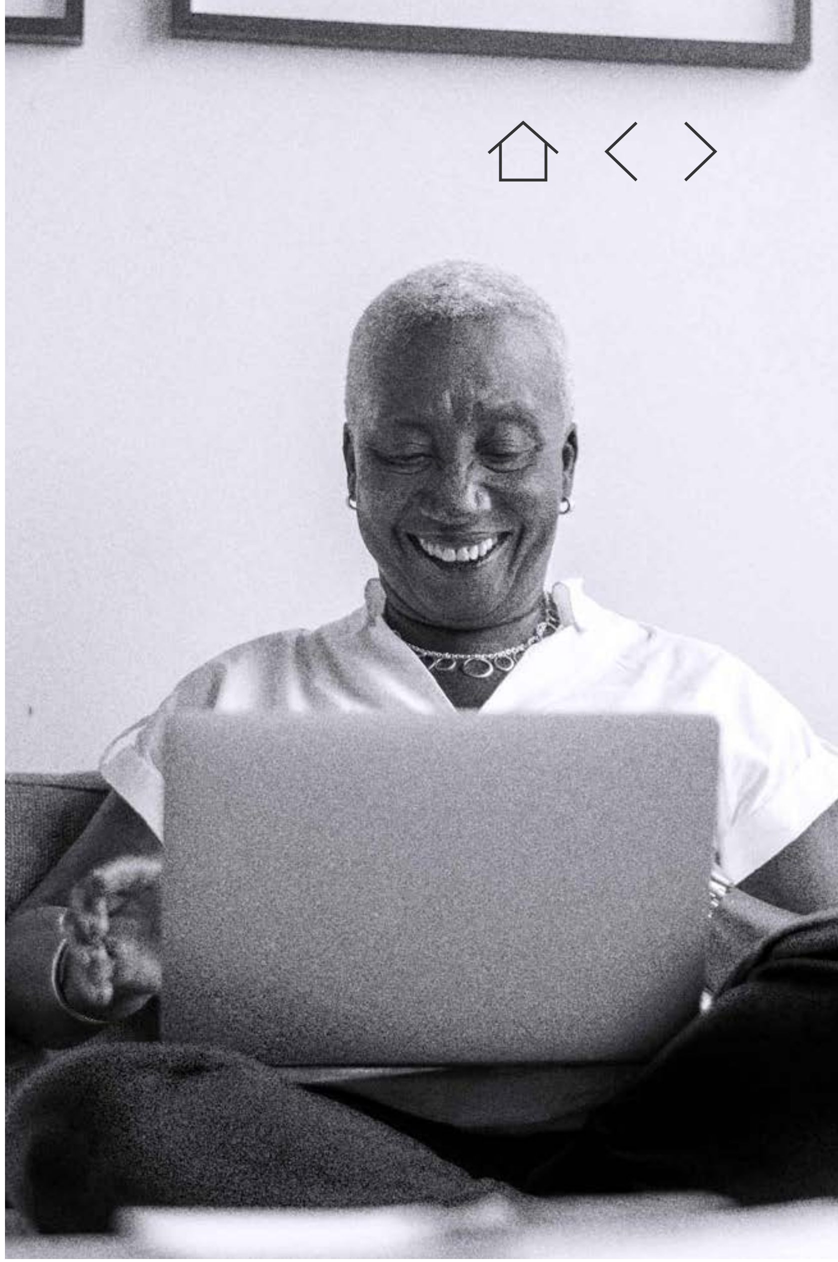
However, the Scheme's current strong funding position and relatively short length of time to full funding means that even under the different climate scenario stresses, the Scheme's reliance on the covenant is relatively modest. The covenant adviser has indicated that transition risks are more relevant 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 Coordinated Action scenarios but noted that such an outcome is 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 on M&S' profit and cash flow, it 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 the analysis. The Scheme's funding level is strong and the overall portfolio is relatively de-risked with risky asset exposure 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.

A potential limitation from the scenarios considered in this analysis is that they are derived on the basis of all other factors being equal 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 the 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.

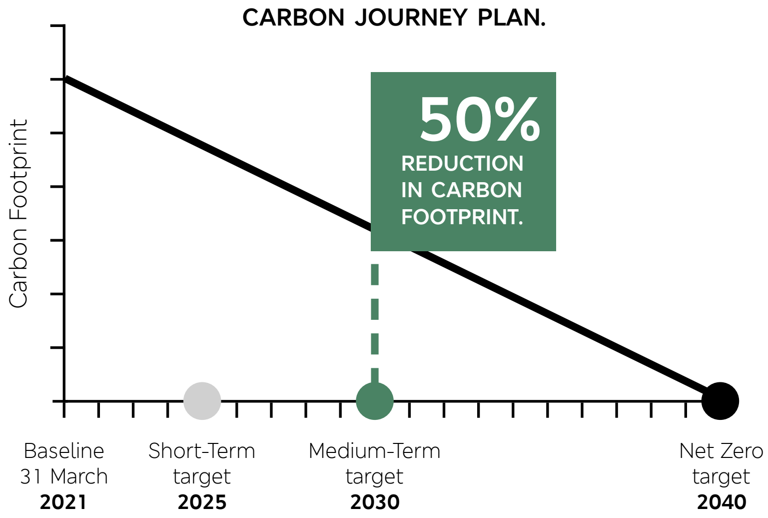
The Trustee views climate change as a risk which cuts across the majority of the other risks faced by the Scheme, in that those risks may all be changed, mitigated or worsened by the effects of climate change.

The Trustee has reviewed and implemented a number of risk management disclosures within the Scheme's Risk Register, including climate-related risks. As part of the Risk Register update within the past Scheme year, the Trustee added Transitional and Physical Risk headings to the register, along with their mitigating controls. 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 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 has also developed the structure for a 'Carbon Journey Plan', which the Trustee believes will act as a tool in helping the Scheme to meet its ultimate net zero goals and lead to effective decision-making along the way.

Considerable time has been spent establishing a suitable governance structure for the Carbon Journey Plan, which is ultimately owned by the Trustee but incorporated into the activities of the ESGC and all other committees. 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 existing companies. This will involve engaging with managers of key 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. By way of example, in 2021 the Trustee consolidated the Scheme's equity exposures within the portfolio to Legal & General Investment Management's Future World Global Equity Index Fund, which tilts exposure towards those companies with strong ESG credentials, rewarding those companies who are leaders in this area and responsive to engagement.

2. MANDATE CHANGES INCLUDING DIVESTMENT.

The Trustee is reviewing, and 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.

3. IMPACT.

Whilst the Scheme's investment strategy is mature and in a relatively steady state, 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 finance industry, the Scheme will expect to benefit from a reduction in emissions due to the actions taken by other market participants, such as 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 now closed to future accrual, the Trustee increasingly holds longer-dated assets that better 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 the sustainability of these assets 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 ESGC receives quarterly ESG reporting on the Scheme's liquid investments by the Scheme's managers, and annual ESG reporting on both the Scheme's investment managers and underlying assets.

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.

GREENCOAT SOLAR II LP.

Greencoat's solar business acquires and manages ground mount solar assets in the UK. Each solar farm has a life span of over 25 years and preserves natural habitats through hedgerow and tree planting, placement of bat and bird boxes, and animal grazing from neighbours.

- In 2020, Greencoat acquired 28 operating solar PV assets adding a further 224MW to its renewable power generation capacity.
- As at 31 December 2021, Greencoat owned 123 solar farms, managing 912GWh of net generation capacity.
- In 2021 alone, Greencoat's solar farms saved 365,000 tonnes of CO_2 from entering the atmosphere, and generated energy equivalent to powering 315,000 homes.

LEGAL & GENERAL INVESTMENT MANAGEMENT – FUTURE WORLD GLOBAL EQUITY INDEX FUND.

At the start of 2021 the Trustee began the process of transferring all of the Scheme's equity assets into LGIM's Future World Global Equity Index Fund.

This fund rewards companies exhibiting strong ESG credentials by giving them a higher weighting in the portfolio.

In 2021 LGIM introduced a new 'temperature alignment' metric as part of the process behind constructing the portfolio. The Trustee welcomed this enhancement as a way of better capturing climate-related risks and opportunities in a forward-looking manner within the fund.

4. METRICS AND TARGETS.

In order for the Scheme's investment strategy to match the Trustee's ambitions in managing climate risk, the Trustee has set a number of climate-related targets and will monitor performance against them.

The Trustee has 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.

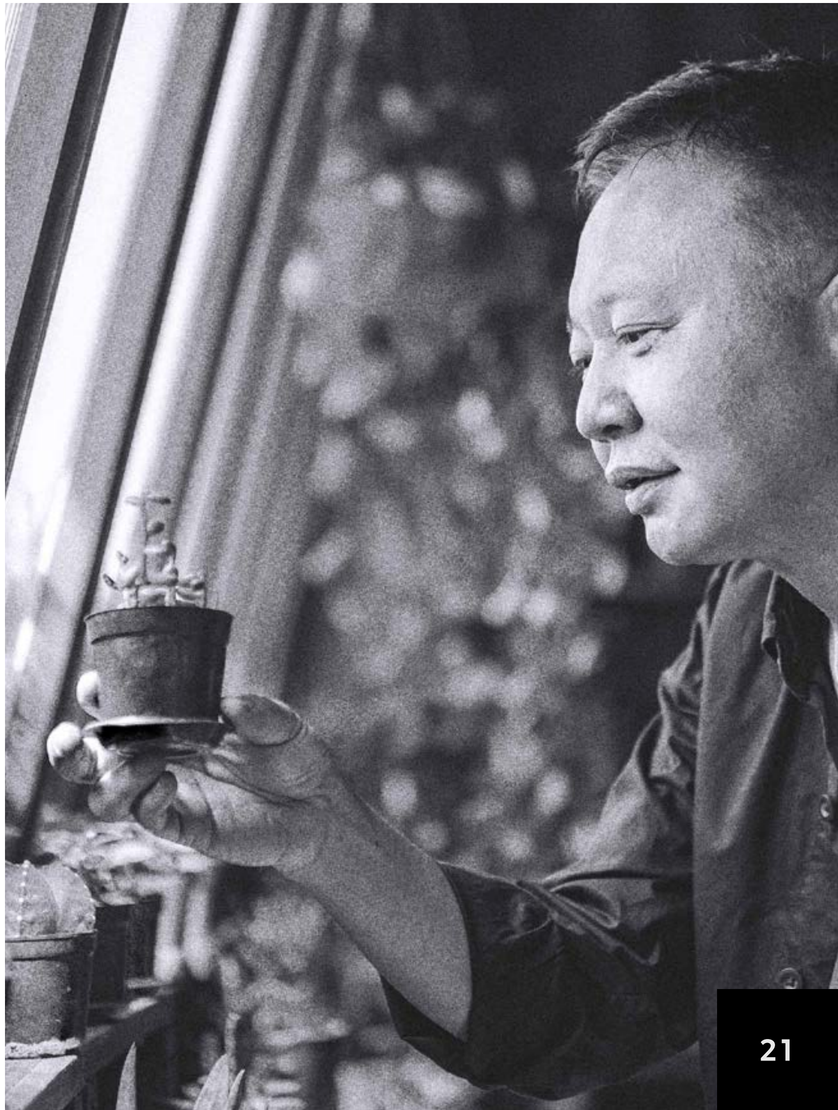
As one of the UK's largest pension funds, the Trustee believes it has a responsibility to be an industry leader in its ambitions and adopted a 2040 target because it can and should strive to achieve better outcomes. This is also aligned with M&S' net zero target, reflecting a strong desire on the part 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:

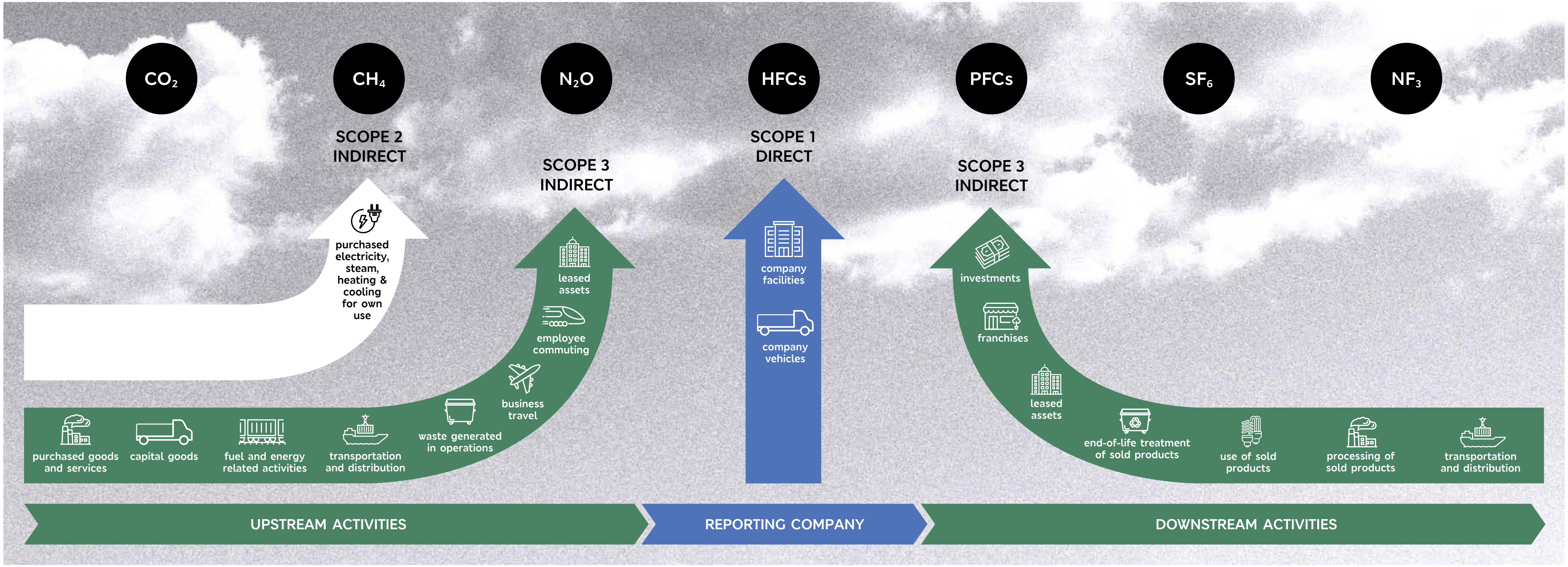
- **SCOPE 1 EMISSIONS:** all direct emissions from the activities of an entity or the activities under its control. For example, the fuel combustion used to run delivery vehicles across the country and leaks of greenhouse gases from retail store air conditioning units.

- **SCOPE 2 EMISSIONS:** indirect emissions from electricity 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 stores around the world.



4. METRICS AND TARGETS.



Source: GHG Protocol

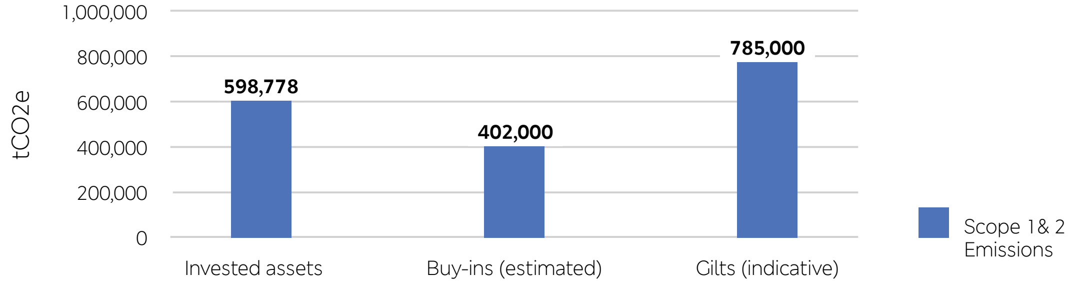
For the purposes of this first Climate Change Report the Trustee has calculated Scope 1 and Scope 2 emissions. In future, with expected improvements in data availability and accuracy, we will also include Scope 3 emissions in our reporting and integrate them into the Scheme's Carbon Journey Plan.

In seeking to achieve its net zero targets, the Trustee has agreed and calculated a set of climate change metrics, as follows:

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, we have used MSCI estimates for direct and indirect (Scope 1 & 2) emissions. Where the manager 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.

ABSOLUTE EMISSIONS (SCOPE 1 & 2) AS AT 31 MARCH 2021



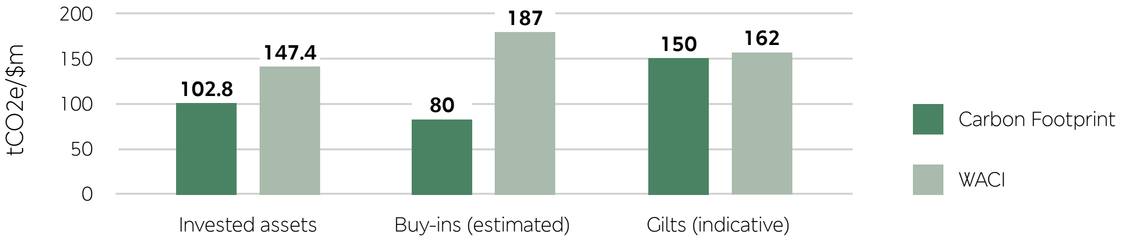
2. CARBON FOOTPRINT.

This is an 'emissions intensity' metric, and the primary metric that will be 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.

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 has been included to allow the Trustee to incorporate data from the Scheme's three buy-in providers, who primarily report against this measure.

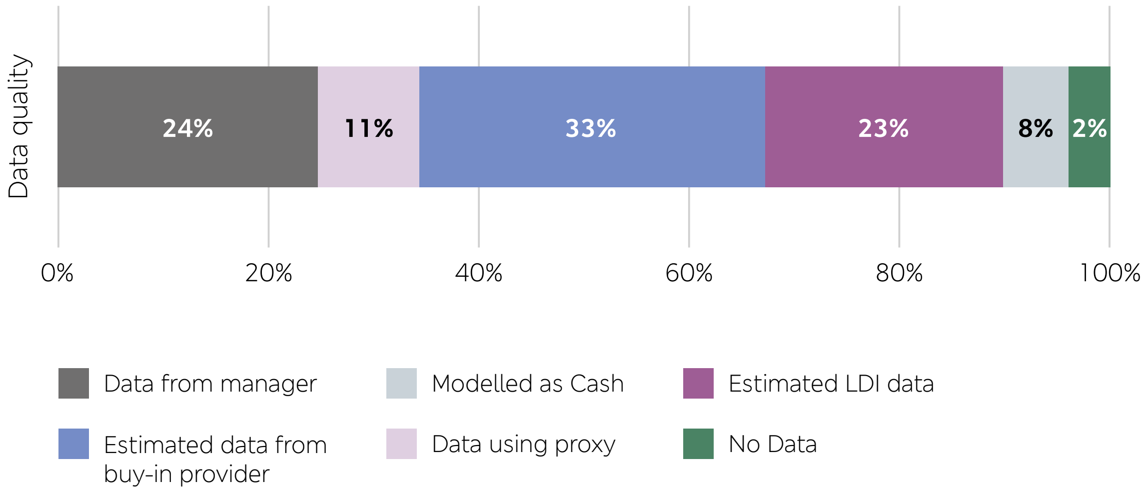
EMISSIONS INTENSITY (SCOPE 1 & 2) AS AT 31 MARCH 2021

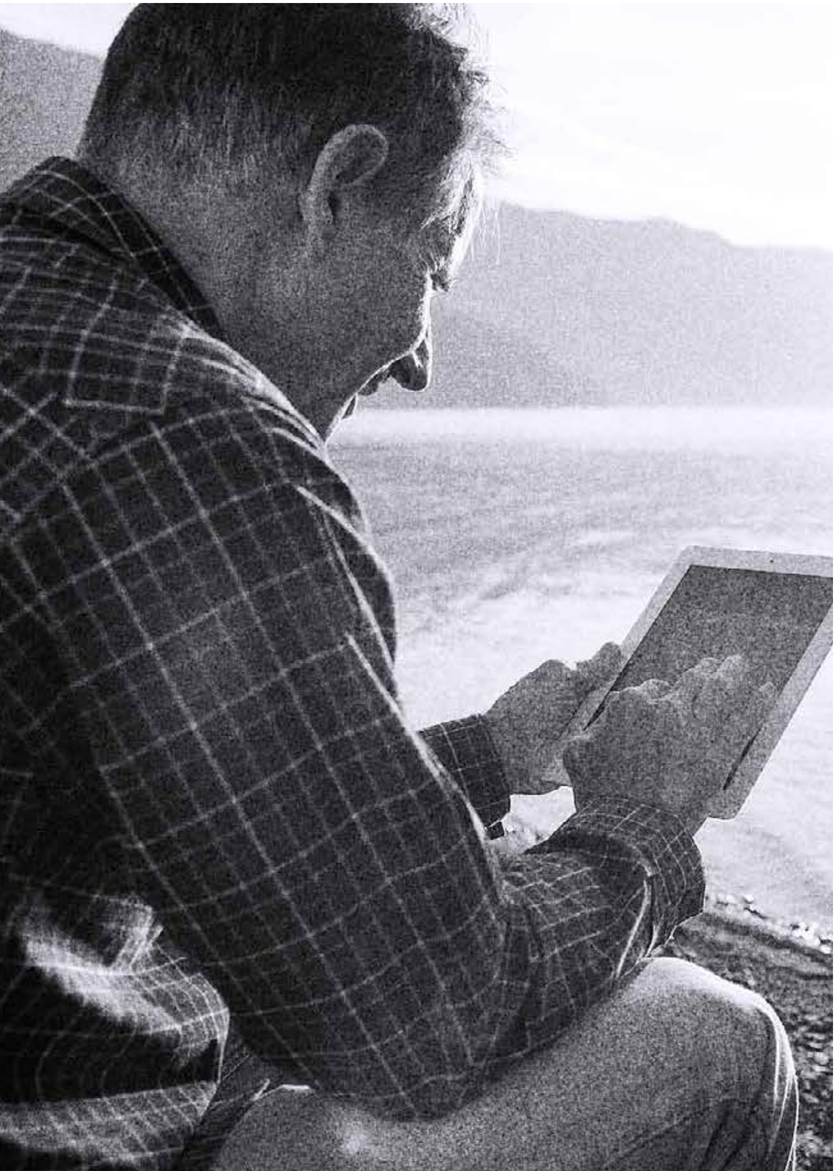


4. DATA QUALITY.

This measure aims to represent the proportion of the portfolio for which the Trustee has high quality data, and is a key area in which the Trustee is striving for improvement over the coming years. For this first report, we have reported on the proportion of data available based on actual portfolio holdings, and that data calculated from proxies displaying similar characteristics in terms of asset class, geography and sector to actual assets held. In future years, as data quality improves, we aim to expand this measure, breaking down portfolio-specific data into sub-categories, depending on how robust the information provided is.

DATA QUALITY (SCOPE 1& 2) AS AT 31 MARCH 2021





We may change these metrics over time to reflect developments in industry best practice in what is a new and evolving area. In next year's report, we are aiming to include an additional metric to 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 initial exercise in gathering and interrogating data has been carried out by 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. They have recently released several data sets, including climate and impact series, which will contribute to the development of the Scheme's metrics analysis in future.

We include information as at 31 March 2021, representing the baseline date for the Scheme's Carbon Journey Plan, the most recent Actuarial Valuation date, and the start of the Scheme year during which the formal reporting requirements came into force for the Scheme. We have included data for 'invested assets' (which represents 36% of the portfolio, and excludes LDI, cash, buy-ins and assets contributed by the Sponsor), buy-ins, and gilts (as a proxy for the LDI portfolio).

Given that the Scheme currently only has emissions data at a single point in time, we have not been able to include in this first Climate Change Report tracked performance of the Scheme against the targets set. However, since this date we have taken material steps to seek a reduction in the Scheme's carbon emissions and the tracked progress of the Scheme will form a key part of future reporting.

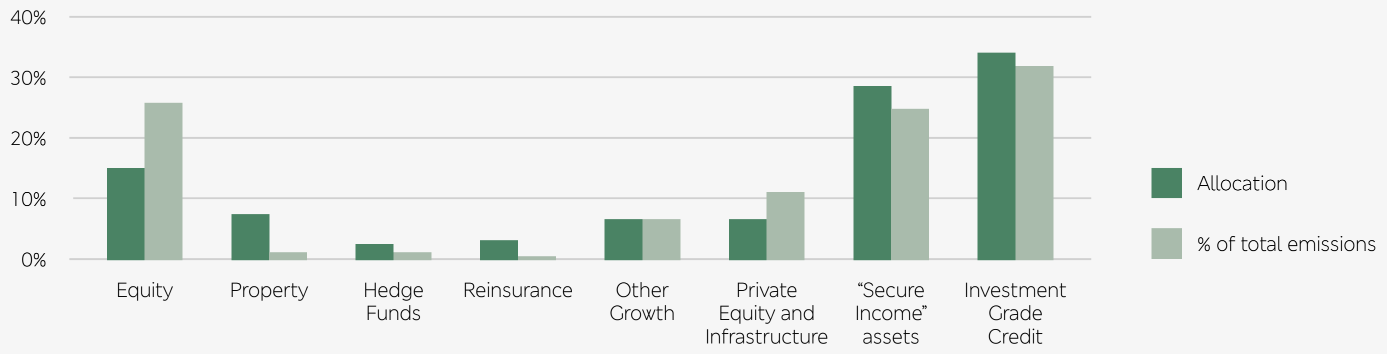
Recognising some of the limitations in gathering data, the analysis has been carried out on a best endeavours basis, noting that the data quality metric itself will help gauge the improvement in the Scheme's output over time, which is a key goal of the Trustee.

As reflected by the data quality metric, a material proportion of the data has been proxied based on sector and geographical data of the underlying funds. The calculation for the WACI of the Scheme's LDI portfolio is based upon information from the Bank of England and whilst guidance around the methodology for the calculation of absolute emissions from gilts has been provided by the DWP, this is an area that remains under discussion within the industry and is expected to be refined over time. 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).

"INVESTED ASSETS" - BREAKDOWN OF EMISSIONS (SCOPE 1 & 2)



Additional notes

1. 'Invested Assets' excludes LDI, cash, buy-ins and assets contributed by the Sponsor. Emissions from Invested Assets calculated by WTW using MSCI data
2. Gilts estimate based on combined value of physical gilts and repo held by the Scheme (£3.8bn as at 31 March 2021). Carbon footprint estimated by WTW, WACI based on Bank of England data.
3. Buy-in data based on data provided by insurers, and predominantly based on corporate bonds held within providers' underlying annuity books. Absolute emissions and carbon footprint of buy-ins just based on single provider (Phoenix Life) given data availability. WACI based on weighted average of all 3 providers.

LOOKING FORWARD.

Taking action against climate change is a commitment the Trustee has made not just for today but for many years to come.

A long and complicated journey to net zero lies ahead and we know there'll be bumps in the road. As we learn more about greenhouse gas emissions created from managing the Scheme, it may look like we're not making much progress. As more data becomes available, our identified carbon footprint is likely to increase before it decreases. But recognising the impact the Scheme has on climate change is an important part of understanding the actions we need to take to help shape a better future.

As this report shows, we cannot do this alone and the action (or inaction) of others towards climate change presents potential risk to the long-term financial health of the Scheme that the Trustee must monitor and manage. As a Scheme with over £10bn in assets, we know we have the opportunity to influence wider change and engaging with our investment managers and advisers will be crucial going forward.

The ESGC has and will continue to accelerate the Trustee's progress towards ESG issues, identifying future opportunities that will contribute towards the Scheme's ultimate goals. But we want to reassure members and their beneficiaries that securing members' pensions will always be its priority.