The ING UK Pension Fund

Trustees’ Report in respect of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021

For the period 1 April 2023 to 31 March 2024

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Glossary

Absolute Emissions	The total emissions attributable to the Fund's assets.
Carbon Footprint	The total carbon emissions per £ million invested (tCO_2e/£m invested).
Carbon Journey Plan	The Trustees' agreed plan to reach the Fund's carbon reduction targets by the target dates.
CO_2e	Carbon dioxide emissions or equivalent.
CTVaR	Climate Transition Value at Risk. The loss or gain in the Fund's value as a result of the net zero transition, measured as an expected change in the current value of the Fund's assets.
ESG	Environment, Social and Governance.
EVIC Methodology	Enterprise Value including Cash methodology. Emissions are weighted across equity, debt and loans.
Investment Committee (IC)	The Investment Committee of the ING UK Pension Fund, a sub-committee of the Trustee Board.
Net Zero	The position of removing as many greenhouse gases as are emitted.
Physical Risk	The direct effects of climate change on the Fund and its members.
Portfolio Alignment	The percentage of the portfolio aligned with a particular net-zero initiative.
Responsible Investment (RI)	Making investment decisions and engaging with companies in order to encourage a positive impact on the world.
SBTi	The Science-Based Target Initiative. An organisation that defines and promotes science-based emissions reduction targets.
Scope 1 Emissions	Direct emissions from a company's owned or controlled sources. This may include emissions from a firm's manufacturing processes or emissions from company vehicles.
Scope 2 Emissions	Indirect emission from the generation of purchased energy, such as heating for company facilities.
Scope 3 Emissions	All other indirect emission, including those of suppliers and customers. These may include emissions related to the transportation and distribution of goods and disposal of waste generated in operations.
Transition Risk	Risks and opportunities arising from efforts made to transition towards a net-zero economy (both domestically and globally) to limit climate change.

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Section 1: Introduction

The Trustees (which we will refer to as the "Trustees" and the "Trustee Board") of the ING UK Pension Fund (the "Fund") present their annual report under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the "Regulations") for the period from 1 April 2023 to 31 March 2024. The principal employer of the Fund is ING Services Limited. The Fund has Defined Benefit and Defined Contribution sections with total assets of around £1.3bn.

The Fund is subject to the requirement to produce disclosures in line with the recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD"). The aim is to improve and increase reporting of climate-related financial risks and opportunities.

The Trustees have set an objective of ensuring that the Fund has net zero carbon emissions by 2050 and will use future updates of this report to demonstrate the progress being made to achieve this.

The TCFD framework requires disclosures in four broad categories:

- **Governance** around climate-related risks and opportunities
- **Strategy:** the actual and potential impact of climate-related risks and opportunities on the strategy and financial plans of the Fund
- **Risk management:** how the Fund identifies, assesses, and manages climate-related risks
- **Metrics and targets:** the metrics and targets used to assess and manage climate-related risks and opportunities.

This report sets out the Trustees' approach to compliance in each of these four areas for the period 1 April 2023 to 31 March 2024.

Section 2: Governance

This section describes the governance in place to facilitate the identification, assessment and management of climate-related risks and opportunities that are relevant to the Fund.

Overall governance of Responsible Investment (RI) matters

The Trustee Board remains ultimately responsible for overseeing all investment-related matters, including climate-related risks and opportunities. However, in order to ensure sufficient focus on key areas of Fund governance, the Board has set up a number of sub-committees with remits to consider specific areas of importance in greater levels of detail.

The Trustee Board has established an Investment Committee ('IC') as a sub-committee of the Board to consider investment matters in a greater level of detail than is possible at Board meetings. The IC has taken on the responsibility of overseeing the Trustees' approach to RI (including the oversight of climate-related risks and opportunities) subject to oversight and approval by the Trustee Board. The IC meets on a quarterly basis, reporting on matters discussed and making recommendations to the Trustee Board.

The IC is made up of several members of the Trustee Board. It is advised by the Fund's DB and DC investment consultants (WTW) and draws on other resource and expertise as required in order to fulfil its duties.

The key responsibilities of the IC are to:

Policy:
- Set the asset allocation for the Fund in line with the Trustees' agreed strategic objectives.
- Determine the appropriate range of asset classes for the Fund to invest in.

Governance:
- To monitor the performance of the Fund's assets and investment managers.
- To appoint the Fund's investment managers, including determining investment restrictions and remuneration, and determine where changes might be required.
- To monitor the DB and DC custodians and administrators and make recommendations to the Trustee Board where necessary.
- To report on its activities to the Trustee Board on a regular basis.

Regulatory:
- To determine the appropriate range of investment options for the Fund's DC members and to update these where required.

Training:
- Ongoing assessment of the Trustees' investment related training requirements.

Alongside the work of the IC detailed below, the Trustees have explicitly recognised the risks associated with climate change within the Fund's Statement of Investment Principles (which can be found online via this link). The Trustees expect the Fund's investment consultant to take these risks into account in the provision of any advice to the Board.

The Trustees maintain a risk register, which is typically reviewed annually, that also recognises the risks to the Fund associated with climate change and sets out the key controls and actions identified to mitigate this. The Trustee Board and IC have received training from the Trustees' investment consultants in relation to climate change within their regular meetings.

Activity of the IC

Over the course of the year, the key focus of the Trustees was to review the Fund's DB investment strategy following advice from the DB investment consultant. This review took into account all relevant risks and opportunities facing the Fund, including climate change.

Climate change was discussed at a number of IC meetings during the period including:

- Discussions with two of the Fund's investment managers regarding their positioning of their portfolios and the climate related risks and opportunities they had identified.
- Planning and preparation for the next year of climate monitoring.
- Consideration of whether to undertake further climate change scenario analysis during the current Fund year.

Service providers

The Trustees have the following key service providers:

Actuarial Adviser: WTW

DB Investment Consultant: WTW

DC Investment Consultant: WTW

Legal Adviser: Travers Smith

As part of their ongoing governance processes, the Trustees regularly undertake assessments of each adviser's capabilities, including in relation to the incorporation of climate change risks and opportunities into the advice provided. In addition to this, the Trustees have set formal objectives for the Fund's DB and DC investment consultants, which incorporate the requirement to consider the risks and opportunities associated with all RI matters, including climate change. The investment consultants are assessed against these objectives on an annual basis by the Trustees.

The Trustees expect the Fund's investment managers to have integrated RI considerations (including those relating to climate change) into their investment processes and decision making. The Trustees have delegated responsibility for stewardship to the investment managers, subject to oversight by the IC.

The IC receives quarterly reporting from its investment consultants, which includes a summary of the investment consultant's rating for each manager and mandate. This enables the IC to monitor the activities of each manager and to ask pertinent questions of each manager during face-to-face updates, which can be scheduled on an ad-hoc basis.

The IC (through its investment consultants) has delegated responsibility for stewardship to its investment managers. The IC receives stewardship reports from the investment managers on a periodic basis, which include references to climate change-related items. The IC expects managers to adhere to the Stewardship Code and consider adopting net zero targets. The Trustees report a summary of the stewardship activities undertaken on their behalf by the investment managers in their annual Implementation Statement.

The investment consultants have also engaged actively with all managers regarding the provision of reliable and comprehensive data for the purpose of reporting against TCFD metrics and targets. The investment consultants include consideration of the approach to and engagement on RI issues, including to climate change, within their selection criteria for recommending new managers.

Section 3: Strategy

Appropriately managing the risks and opportunities associated with climate change from a strategic perspective is a key part of the Trustees' role. The Trustees recognise that climate change could have a material impact on the potential success of the overarching funding strategy and therefore seek to ensure that this matter is given appropriate consideration.

To support this, the Trustees undertake climate change scenario analysis to test the resilience of the Fund's funding strategy under a range of plausible climate scenarios. Importantly, the Trustees recognise that climate change could have a material impact on the investments of the Fund, the life expectancy of the Fund's members and the support provided by the Sponsor's covenant. All three aspects are therefore considered as part of this analysis. This scenario analysis was undertaken for the first time in 2022. The Trustees' intention is to repeat this analysis at least every three years or sooner should there be a material change in either the Fund's circumstances or the assumptions underlying the analysis.

As part of their analysis around the climate risk faced by the Fund, the Trustees identified and defined 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. The financial impact of these risks and opportunities is generally expected to occur in the medium term, with some perhaps occurring in the short term. Risks arising could include regulatory or societal changes rendering 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 Fund and its members. Whilst these comprise both acute or short-term risks (e.g., extreme weather or wildfire events), and chronic or long-term risks (e.g., rising sea levels), the main financial effects are expected to be longer term in nature. An increased number and magnitude of extreme events may cause changes to the physical landscape, which could lead to assets being devalued or destroyed. This would directly impact asset classes such as property or infrastructure, as well as the value of a company's equity and bonds if they own assets that are affected or if physical events impact their business model. Changing temperatures are also expected to have a long-term impact on the life expectancy of members.

With the timing of the impact from climate change being uncertain, the Trustees believe that it is sensible to assess how the Fund may be affected by climate change according to different time horizons. In selecting these different time horizons, the Trustees have considered a range of factors impacting the DB and DC Sections of the Fund:

Time horizon	Key considerations in selecting time horizons
Short term – *three years*	• Consistent with three-year actuarial valuation and investment strategy review cycle for the DB Section. • Over this period, further developments in relation to the climate change regulatory environment and climate data quality are expected
Medium term – *through to 2030*	• Financial effects of "transition risk" are expected to dominate • Position of considerable maturity for the DB section, with the majority of the members expected to have retired by 2030
Long term – *30 years*	• Financial effects of physical risk exposure are expected to be more pronounced • Key staging post on journey to achieve carbon neutrality by 2050 • Vast majority of DB members will have reached retirement

Annual Review of climate scenario analysis

The Trustees update the climate scenario analysis at least every 3 years. In the intervening years, the Trustees review whether any factors have changed materially to warrant an additional update to the analysis. Over the Scheme year the Trustees conducted this review and agreed that updating the climate scenario analysis was not warranted for either section as there were no material changes to the funding objectives and strategy of the Fund. This included limited changes to the Fund's asset allocation, membership, Sponsor Covenant and the underlying climate scenarios available to test the robustness of the funding strategy.

A summary of the previous analysis is outlined in Appendix I. As we note in the summary of the analysis, the Trustees are aware of concerns in the industry about the severity of some of the climate scenarios and expects to address this as part of future iterations of this analysis.

Section 4: Risk Management

There are three ways in which the Trustees integrate climate change considerations into our decision making:

1. **Through the investment advice provided by the investment consultants**

In providing strategic advice to the Trustees it is expected that the Fund's investment consultants will factor in the risks and opportunities associated with climate change. The Trustees expect the investment consultants to engage with the Fund's investment managers and the wider investment industry on its behalf and (as set out below) reviews reporting from the investment consultants on its activities.

Recognising the strength of the processes the investment consultants have in place, the Trustees invest in a best ideas Diversified Growth Fund (DGF) managed by Towers Watson Investment Management. The DGF has an Article 8 Sustainable Finance Disclosure Regulation designation. The investment manager intends for the DGF to achieve at least a 50% reduction in greenhouse gas emissions by 2030 in its portfolio and continue beyond that time to further reduce greenhouse gases from the portfolio with an aim of net zero emissions by 2050. In addition, the two other principal investment managers employed by the Fund (LGIM and Insight Investment) are signatories to the Net Zero Asset Managers Initiative, committing to achieve net zero emissions across their portfolios by 2050.

2. **Top-down analysis**

The IC considers the results of climate change scenario analysis on the Fund on at least a triennial basis, with more frequent reviews occurring if there has been a material change to the Fund's underlying investment allocation or long-term strategy. This is to provide an overview of the potential impact of climate change across assets and liabilities and understand how this might impact on the projected funding level of the Fund over time.

The Trustees are mindful that climate change might also have an impact on the Bank and its activities. However, in view of the very strong funding position of the Fund, the Trustees consider that there is limited prospect of the Fund needing to place any reliance on the Bank for the foreseeable future. The Trustees will periodically reassess whether this conclusion remains appropriate in light of the updated position of the Fund.

3. **Bottom-up analysis**

The IC also assesses the risks and opportunities associated with climate change through a deeper analysis of the attributes of the underlying investments. This analysis includes:

Security analysis – Our investment consultants report various climate change related metrics linked to the underlying securities within the portfolio. In aggregate, these metrics provide us with a more detailed understanding of the Fund's exposures and the overall characteristics of each mandate within the portfolio.

Following a review of this analysis, the IC may engage with the Fund's underlying managers to understand in more detail the nature and rationale for certain exposures within the portfolio and to obtain an understanding of the manager's engagement plans with some of the companies invested in.

Manager analysis – Our investment consultants also provide an assessment of the Fund's investment managers, which takes into consideration their RI capabilities. Again, where areas of particular concern are identified then the IC will engage with the relevant investment manager(s) to challenge as appropriate.

Managing climate risk – DB Section

The Trustees have set a target of reaching net zero carbon emissions intensity by 2050. After careful consideration, the Trustees decided not to set an interim reduction target reflecting the already low-risk nature of the Fund's portfolio, the uncertain trajectory for broader reductions across the global economy and to be consistent with the Bank's climate goals.

The Trustees have selected this as a target as it aligns with the Paris Agreement and the UK Government's climate pledge. The Fund's progress will be assessed using the carbon footprint metric. Whilst the Trustees acknowledge that there are some limitations to using this metric, carbon footprint is the most comparable metric across pension schemes of different sizes. Additionally, it provides a normalised emissions figure that identifies efficient investment managers rather than those that just produce the lowest total emissions.

There are a number of ways in which the Trustees expect to achieve the target reduction in emissions over time:

- **Engagement:** The Trustees will aim to reduce emissions associated with the Fund's portfolio through changing the behaviour of the companies it invests in. This is principally achieved through the IC's and investment consultants' engagement activities, both with the investment managers employed by the Fund and the broader investment industry. The Trustees consider this to be one of the most effective methods of mitigating the investment risk associated with climate change.

- **Mandate changes including disinvestment:** When designing investment mandates and making new investments, the Trustees will review the guidelines and restrictions, particularly in relation to disproportionately emitting strategies. Where investment managers are unable or unwilling to evolve their approach, this may ultimately result in the Fund not investing or selling assets if deemed necessary to do so.

- **Impact:** As set out above, the Trustees will regularly assess the RI characteristics of new investments, with a view to identifying strategies that might benefit from the tailwinds of the global move to net zero.

- **Free rider:** Recognising common goals across the investment industry, the Trustees expect the Fund to benefit from the actions and efforts of other participants through a decline in the emissions associated with all asset classes.

DC Section specifics

As members are responsible for their own investment allocation in the DC Section, the Trustees have a more limited ability to manage targets than in the DB Section. Through control of the DC Section, the Trustees do have the ability to influence the investments held.

The Trustees aim to reduce the carbon emissions intensity of the DC Section through similar strategies as the DB Section:

- **Engagement:** Through the IC and the investment consultants, the Trustees engage with fund managers to aim to change the behaviour of the companies in which DC members are invested. As most of the funds in the DC section are on passive style approaches, there is limited scope to shift assets held.

- **Mandate changes:** When reviewing the fund options and lifecycle strategies, the IC considers RI criteria, and climate impacts. As a result, an ESG equity fund (the MSCI Adaptive Cap ESG fund) was introduced to the self-select fund range. In June 2022 this ESG fund became the equity fund used within the lifecycle strategies, including the default strategy.

Section 5: Metrics and Targets

Introduction and Overview

A key facet of the Trustees' ongoing monitoring and management of climate change is having good data on the Fund's exposure in this area. Although there are limitations with some of the metrics presented and the completeness of data, the Trustees still have a strong belief that these can helpfully inform the ongoing monitoring and management of the Fund. The metrics disclosed have been selected from the following categories:

- An absolute emissions metric
- An emissions intensity metric
- An alignment metric
- One additional climate change metric

It is also important to be clear which emissions are captured within the above metrics and therefore the Trustees have referred to the categories of emissions as follows:

- Scope 1 emissions: all direct emissions from the activities of an entity or the activities under its control.
- 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.
- 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.

Due to the nature of the emissions, Scope 3 emissions are significantly more difficult to calculate than Scope 1 or Scope 2 emissions for any given entity. It is also the case that, for some assets, even Scope 1 and Scope 2 emissions are difficult to calculate. The Trustees have included Scope 1 and 2 emissions within the metrics displayed in this report and as far as is able, have also included Scope 3 emissions.

Overview of analysis

The following table details the rationale for the chosen metrics.

Metric	Definition	Rationale
Total Carbon Emissions ("tC02e")	An 'absolute emissions' metrics which gives a measure of carbon emissions attributable to the Fund. This is calculated in line with the Greenhouse Gas (GHG) protocol methodology. The underlying emissions data has been sourced directly from the asset managers.	Mandated as part of the Department for Work and Pensions Statutory guidance
Carbon Footprint (tCO2e / £ invested)	An 'emissions intensity' metric which gives a measure of how many equivalent tonnes of carbon emissions each million invested causes. This uses a comparable methodology as the total carbon emissions referenced above for underlying data and emissions attribution for companies.	It provides a direct measure of absolute emissions, which ultimately impact global outcomes and provides a simple comparable measure across portfolios of different sizes
Percentage of assets with approved Science based targets ("SBTi")	A 'portfolio alignment' metric which is a forward-looking measure of the percentage of assets with targets validated by the Science-Based Targets Initiative.	It provides a consistent verification of a company's alignment to the Paris agreement.

Data coverage/quality	A measure of the proportion of the Fund's assets for which the Trustees have high quality audited data, proxied data, or no data at all.	We believe it is important to monitor this as climate metrics are at an early stage and data is currently limited. We also believe that improved data quality and coverage is an area that we (through the investment consultant) can most influence our investment managers and improvements would allow better decision making on future carbon metrics.

Reflecting the above, the Fund's metrics for the DB Section and DC Section have been presented below separately as at 31 December 2022 and 31 December 2023. For the purposes of this report, all data has been sourced from the Fund's investment managers (where available). Prior year data has been restated to be on this basis.

DB Section - Metrics

The total asset value for the defined benefit section of the Fund was £1.05bn as of 31 December 2023 and £1.06bn as of 31 December 2022. For the purposes of the current year's Climate Report, data for the tables below have been sourced directly from the Fund's investment managers. As a result, prior year numbers have been restated to be on a consistent basis.

Carbon emissions

	31 December 2023	31 December 2022
Total Carbon Emissions (tCO2e) (Scope 1 and 2)	**14,765**	**16,266**
Total Carbon Emissions (tCO2e) (Scope 1, 2 and 3)	130,980	109,517
Total Carbon Emissions for UK Government bonds (tCO2e) (Scope 1, 2 and 3)	87,564	69,856
Carbon Footprint (tCO2e/£m invested) (Scope 1 and 2)	**14.1**	**15.3**
Carbon Footprint for UK Government bonds (tCO2e/£m invested) (Scope 1, 2 and 3)	126.1	87.7
% assets with approved science-based targets (excluding UK Government bonds and cash)	**38.5%**	**29.5%**
Data quality – proportion of the Fund's portfolio with direct emissions data (Scope 1 and 2) (excluding UK Government bonds and cash)	**62.9%**	**61.0%**

For UK Government Bonds, the carbon emissions are calculated as the territorial emissions in the whole of the UK (i.e. those that take place within a country's territorial boundaries and include exports but omits imports). The denominator used to attribute emissions is the total amount of UK Government Debt outstanding.

Over the past 12 months, the reported emissions for the Fund's portfolio have increased. This has principally been driven by the introduction of a new corporate bond mandate funded from UK Government bonds and cash. Despite this, the reported emissions intensity of the portfolio has fallen, driven by reductions within a number of the portfolios held by the Fund, most notably the DGFs.

In assessing these results, the Trustees recognise the limitations associated with the climate metrics given the underlying data quality and the 'proxying' of assets required. That said the Trustees reflect positively on being able to assess the portfolio through this new lens and provide an assessment of the exposure to climate change risks and opportunities.

Ultimately the Trustees were comfortable with the analysis presented but continue to use these metrics to inform the actions and engage with the Fund's Investment Consultant.

Data quality

Whilst the Trustees have aimed to carry out the analysis as far as they are able, the availability of data is dependent on external factors which are largely outside the Trustees' control such as certain companies not disclosing their carbon emissions. The table above only shows this breakdown in respect of the Fund's assets excluding LDI (Government Bonds) & Cash as reported by the Fund's investment managers.

Whilst the Trustees aim for 100% data quality for their underlying investments, it is understood that there are limitations with data availability, particularly for private assets. The expectation is that data coverage will continue to improve as pressure from the investment industry leads, including from the Fund's investment managers, to further transparency for private market assets and the Trustees will continue to monitor and encourage this over time.

The Investment Consultant, on behalf of the Trustees, is actively working with its investment managers to improve the quality of the data supplied for these purposes over time. The Trustees will monitor how these metrics evolve over time, on an annual basis, to understand the drivers of change.

Government Bonds and cash

The Trustees have agreed to exclude Government Bonds and cash from the Fund's target. The rationale for this is as follows:

- The Trustees primarily hold Government Bonds as assets to hedge the Fund's liabilities and as such, even if reducing exposure to these assets would lead to an overall improvement in climate metrics, it would open the Fund up to excessive funding and investment risk.
- The Trustees recognise their limited capacity and capability to engage with the Government on climate related metrics.
- The level of financial risk arising from these assets is perceived to be much smaller i.e. the influence of climate change on the price of Government Bonds and cash in comparison to the other assets held is likely to be lower.
- The underlying methodology for calculating emissions is materially different to that for corporate exposures.

Whilst the above provides the rationale as to why the Fund excludes liability hedging assets from its target, the Trustees believe it is still useful to monitor these figures over time.

The Trustees, via their Investment Consultant, continue to monitor that the managers of these assets appropriately consider climate change in their actions, whether that be selecting bank counterparties for derivatives or engaging with industry discussions and consultations on climate related matters.

The Trustees' view on Scope 3 emissions

Scope 3 emissions data is critical to help build a better picture as we decarbonise our portfolios and economies. However, the Trustees believe that the current reported Scope 3 emissions data is largely inadequate for many purposes including making accurate climate-informed investment decisions. Further, given data issues, the

Trustees believe that disclosing the Scope 3 emissions of investment portfolios at this stage will necessarily be subject to large estimation errors and not fit for meaningful comparison between investors or over time. Therefore, the Trustees believe any Scope 3 emissions disclosures should be disaggregated from Scope 1 and 2 emissions. The Scope 3 emissions are therefore outlined below separately.

Data providers, like MSCI, have tried to solve for this problem by providing Scope 3 datasets using proprietary models and internally vetted methodologies. However, current solutions rely significantly on top-down sector emissions data with limited use of bottom-up data (which is company-specific). Models that rely on sector information limit users' ability to distinguish companies from peers.

Whilst Scope 3 emissions disclosure is improving, we believe that the investment industry can play a proactive role in accelerating and supporting this trend. Our investment consultant is working closely with and engaging data providers to promote better disclosures. Similarly, our investment consultant engages extensively with the asset management community, including on pushing for better corporate disclosure, and for the adoption of generally accepted standards and methodologies. Our investment consultant also undertakes direct and indirect policy engagement, advocating for the adoption of common standards and methodologies, including those of the International Sustainability Standards Board. Our investment consultant believes the recently released IFRS S1 and S2, including provisions around scope 3 emissions, are a highly significant forward step.

The Trustees continue to monitor the evolving climate measurement landscape with the expectation that the robustness of the metrics will improve over time. We look forward to sharing updates on our progress in monitoring and managing climate risks and opportunities over time.

DB Section – Targets

As referenced, the Trustees have also identified carbon footprint as the metric on which to set a target. The Trustees' agreed target is to achieve net-zero carbon footprint by 2050 and the Trustees intend to continue monitoring progress against this objective in future iterations of this report. The Trustees are reassured that the investment consultant has also made a commitment that is consistent with this.

The Trustees intend to achieve this goal through engagement (with the Fund's underlying managers and companies invested in), impact investing (in assets such as green energy), strategic changes (investing in assets with lower climate risk) and also as a result of the 'free-rider' effect. This recognises that although the Trustees have and continue to take positive actions, this goal is not achievable in silo and will require the continued collaboration of the global community to combat climate change.

DC Section - Metrics

The total asset value for the defined contribution section of the Fund was £307m as of 31 December 2023 and £283m as of 31 December 2022.

The metrics shown below for the DC Section largely mirror the DB Section. Unless noted otherwise, the values exclude government bonds similarly to the DB Section.

	31 December 2023	31 December 2022
Total Carbon Emissions (tCO2e) (Scope 1 and 2)	**22,268**	**25,204**
Total Carbon Emissions (tCO2e) (Scope 1, 2 and 3)	209,692	
Total Carbon Emissions for UK Government bonds (tCO2e) (Scope 1 and 2)	6,300	5,889

Carbon Footprint (tCO2e/£m invested) (Scope 1 and 2)	**80.9**	**100.5**
Carbon Footprint for UK Government bonds (tCO2e/£m invested) (Scope 1 and 2)	92.5	109.1
% assets with approved science-based targets (excluding UK Government bonds and cash)	**39.9%**	**37.6%**
Data quality – proportion of the Fund's portfolio with direct emissions data (Scope 1 and 2) (excluding UK Government bonds and cash)	**76.6%**	**75.6%**

The emissions attributable to the DC Section have decreased over the year to 31 December 2023. This is primarily due to improved emissions from the underlying funds, as the allocation has not moved materially. Around half of the improvement comes from a 20% reduction in the carbon footprint of the diversified fund.

Appendix 1: Climate scenario analysis results

Previous climate change scenario analysis

In 2022, the Trustees carried out climate change scenario analysis for the DB and DC sections of the Fund, in partnership with WTW as our investment consultants. The aim of this analysis was to help us review the potential impact of climate change on the Fund over different time horizons and then focus on possible actions to address the risks and opportunities presented.

Whilst there were a number of assumptions underlying the analysis, the work carried out has been based on the Fund-specific asset allocation and liabilities for the DB section as at 31 March 2022 and lifecycle strategies for the DC section as at 31 March 2022. We recognise that there is a great deal of uncertainty around the assumptions used and the analysis is expected to be further refined as data and industry standards improve.

We have outlined below the DB and DC analysis and the key findings around this.

DB Section – scenario analysis

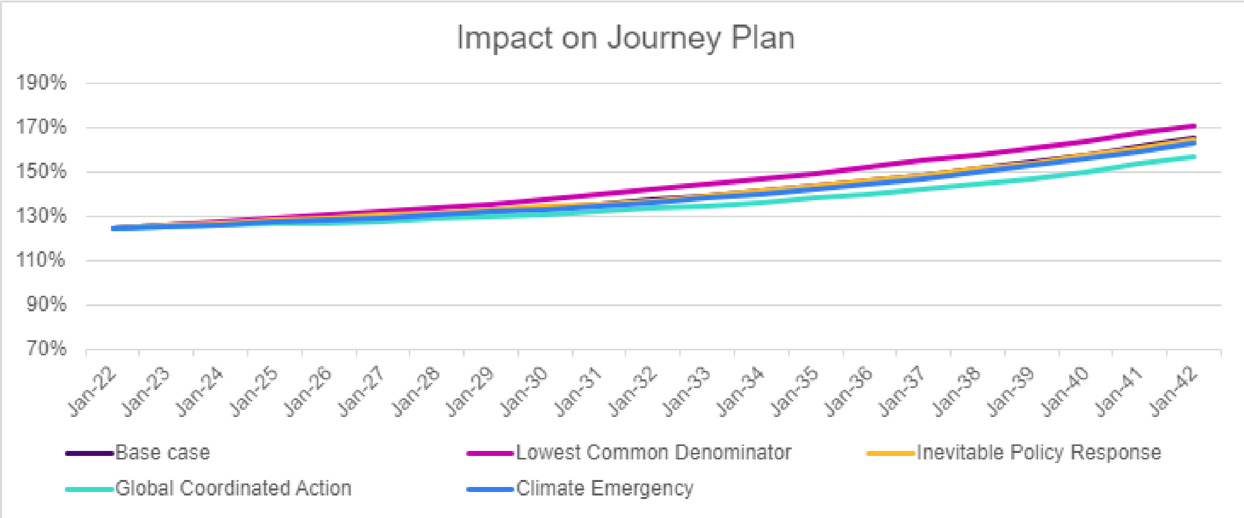
The Trustees investigated four climate scenarios which are in part defined through their success, or otherwise, in meeting the Paris Agreement target of a sub-2.0ºC temperature rise. Different financial and economic assumptions underpin these four scenarios, whereas physical and transition risks are accounted for separately, from a timing and magnitude perspective.

The approach taken is consistent with the statutory guidance for pension schemes published by the Department for Work & Pensions. The scenarios are not exhaustive, and the analysis is expected to be further refined as data and methodologies improve. Furthermore, the Trustees hope to incorporate input received from the covenant advisor into future analysis.

The key findings from the scenario analysis for the DB section of the Fund are set out below. The table below sets out the key parameters that define each underlying scenario, as well as the financial impact that climate risk has on the DB Section of the Fund.

	Lowest Common Denominator	Inevitable Policy Response	Global Coordinated 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 Coordinated 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 rise	**+3.5ºC**	**+2.0ºC**	**+2.0ºC**	**+1.5ºC**
Transition risk level	**Low**	**High**	**Low – Medium**	**Medium – High**
Physical risk level	**High**	**Low – Medium**	**Low**	**Low**
Estimated impact on funding relative to expected position	2025: +1% 2030: +4% 2042: +6%	2025: Unchanged 2030: Unchanged 2042: Unchanged	2025: -1% 2030: -3% 2042: -8%	2025: Unchanged 2030: Unchanged 2042: -2%

The analysis considered the impact on the position of the Fund over the period to 2042, which is in line with the agreed long-term time horizon as set out above.



The analysis identified that two of the four scenarios considered might be expected to have a negative impact on the funding level relative to the expected position in 2042. The most pronounced impact was in the Global Coordinated Action scenario – a shortfall relative to the expected position of around 8%. Conversely, the projected funding level under a Least Common Denominator scenario might be around 6% higher than expected over the same time period, with a reduction in longevity more than offsetting asset falls.

The scenarios assume that all other factors are equal during the efforts to transition to a low carbon economy. This is very unlikely to occur in practice. Second-order effects, such as higher levels of investment, employment, and productivity-enhancing innovation, are hard to estimate (and will likely offset some of the falls highlighted in the analysis), hence the climate scenarios cannot be the sole driver of investment strategy and risk management decisions.

Ultimately, reflecting the low-risk nature of the assets held and the strong funding position of the Fund, the Trustees believe that the DB Section's investment strategy is highly resilient to the potential impacts of the climate scenarios considered. The Trustees also noted that given the significant surplus within the Fund, it is highly unlikely that there will be any reliance placed on the Bank covenant under any scenario.

DC Section – scenario analysis

We investigated the impact of the same four climate scenarios on sample members of the DC Section. In this analysis we focused on the default lifecycle strategy – with a medium investment risk pre-retirement, and targeting drawdown at retirement.

We considered three sample members, in order to show the possible range of impacts:

- Recent starter: A member age 25 on a salary of £20,000 pa with no starting assets.
- Mid-career: A member age 45 on a salary of £40,000 pa with £100k in starting assets.
- Near retirement: A member age 60 on a salary of £80,000 pa with £300k in starting assets.

A table of the potential impacts for these three members under the four climate scenarios is shown below. The percentages show the impact on the age 65 retirement fund, relative to a base case scenario.

Member	Lowest Common Denominator	Inevitable Policy Response	Global Coordinated Action	Climate Emergency
Recent starter	-6%	-5%	-4%	-3%
Mid-career	-2%	-6%	-2%	-4%
Near retirement	0%	-1%	-1%	-1%

Those near the start of their pension saving journey have the largest impacts, due to the accumulating effect of physical and transition costs on their risky growth assets. The mid-career members see less of an impact, although they are hit by the Inevitable Policy Response scenario in particular. This is because of the large transition impacts on that scenario as policies are implemented, which hit those members just before they start to de-risk. Members near retirement see least impact, as there is little time for costs to come through.

Considering the other lifecycle strategies, there is a similar picture across the scenarios and sample members. Recent starters see more impact and those near retirement see least impact. Mid career members see medium impacts, however are worse hit under the Inevitable Policy Response scenario. Members in higher-risk lifecycles are also more at risk for larger potential losses under the four climate scenarios.