Invensys Pension Scheme

Climate Change Report 2023

Issued by Invensys Pension Trustee Limited (the **Trustee)** in its role as trustee of the Invensys Pension Scheme (the **Scheme**)

Scheme Registration Number: 10143856

Executive Summary

Introduction

This is the Trustee's first Climate Change Report. The report covers the Scheme year ending 31 March 2023.The report has been prepared in accordance with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the Climate Regulations), which came into force on 1 October 2021 and are based on the recommendations of the Taskforce on Climate-related Financial Disclosures. The requirements under those Regulations have applied to the Scheme since 1 October 2022. The report is organised around four main sections covering Governance, Strategy, Risk Management, and Metrics and Targets.

Executive Summary

The Trustee recognises the conclusions of the Intergovernmental Panel on Climate Change's (the **IPCC**) that human activities, principally through emissions of greenhouse gases, have unequivocally caused global warming effects of climate change and that continued greenhouse gas emissions will lead to increasing global warming[1]. This has already led to widespread adverse impacts and related losses and damages to nature and people and further global warming will intensify the multiple and concurrent hazards.

Over the last 24 months, the Trustee has enhanced its governance arrangements that cover the identification, assessment, and management of climate-related risks and opportunities (CRROs). This has led to a clearer allocation and documentation of responsibilities between the Trustee Board, Board Committees, the Executive Office and the Trustee's service providers. The Scheme's risk framework and internal reporting were also amended to explicitly address CRROs.

Analysis has been completed to identify and assess CRROs and how these might impact on the Scheme's strategy to fund benefits as they fall due. The Trustee completed a climate scenario analysis for the first time. The Trustee considered the impact of three scenarios, Fast Transition, Slow Transition and No Transition, on the Scheme's investments, on the liabilities of the Scheme and on the support likely to be available to the Scheme from its Sponsor, Invensys Ltd, and its Guarantor, Schneider Electric SE.

The outcomes of those analyses suggest that the Scheme's funding and investment strategy is resilient in the face of risks arising from climate change. The resilience arises from the following factors:

- The Scheme's investment strategy is relatively low risk with approximately half of its assets invested in UK government bonds and most of the other assets invested in bonds issued by companies with an investment-grade rating. High levels of hedging against the risk of changes in interest rates and inflation also contribute to the resilience.
- The Scheme's Actuary does not expect that changes in life expectancy arising from climate change will increase or decrease the Scheme's liabilities dramatically. This is in part due to the maturity of the Scheme.
- The Scheme does not currently require deficit contributions and expects that it will be able to rely on the strength of its employer covenant to make contributions in the short term if required. The Trustee believes that the Schneider Electric group is also likely to benefit from investments that are needed to transition to a greener economy.

This initial analysis does not make the Trustee complacent. We expect that increased data accuracy and greater sophistication of modelling will lead to a better assessment on the potential impacts on the Scheme. Whilst the scenario analysis is required to be updated at least every three years, the Trustee intends to do so in the coming year as the modelling tools available are rapidly evolving.

The Trustee has selected a set of metrics that will be monitored in order to support the assessment of CRROs. The information required to calculate some of those metrics are not always available in the quantity or quality desired. This creates limitations on the ability to calculate those metrics, their accuracy, and the Trustee's ability to rely on them. The Trustee will continue to work with its investment managers and climate data provider in order to enhance the coverage and quality of data.

The Trustee has set an ambition of aligning the investments of the Scheme with the goals of the Paris Agreement, to the extent that it is not in contradiction with the financial interests of members. The Trustee expects as a result that, by 2050, the Scheme will be invested in a portfolio of assets with Net Zero emissions. As part of that ambition, the Trustee has set the target that, by 31 March 2028, at least 35% of bonds held within the Scheme's Active Bond Funds should be issued by companies that are aligned or aligning with the Paris Agreement. This compares to 22% as at 31 March 2023.

The Trustee will review during the coming year whether the metrics and targets remain appropriate.

[1] IPCC AR6 Synthesis Report Climate Change 2023 [https://www.ipcc.ch/report/ar6/syr/resources/spm-headline-statements]

Governance

Contextual information about the Scheme

The Scheme provides defined benefit pensions to approximately 52,000 members. The Scheme has been closed to new accruals since 31 March 2015, and more than two thirds of these members are retired and receiving their pension. The Scheme is therefore considered to be mature. The Scheme has a relatively low risk investment portfolio. At 31 March 2023, more than 85% of the Scheme's assets were held in gilts, investment grade bonds or cash (including cash funds). The Scheme does not currently invest in equities.

Mandate category	Value (£m)	Allocation (%)	Main type of assets within mandates
Liability Matching Fund and Cash	1,900	54	Government bonds, cash and derivatives
Active Bond Funds	1,212	35	Mainly investment grade bonds. Also includes a small proportion of sub-investment grade bonds
Higher Performance Funds	388	11	Loans, sub-investment grade bonds, and regulatory capital transactions
Total	**3,502**	**100**	

The numbers in this table may not add up exactly because of rounding differences.

The Scheme provided money purchase benefits (MPBs), up until March 2023 when they were transferred to the Aon Master Trust. As a result, only the 'Governance' and 'Risk Management' sections of this report apply to the MPBs. The trustee had been exploring the possible transfer of the MPBs throughout the period when the Climate Regulations applied to the Scheme. Disclosure in relation to a category of benefits that no longer exists and assets that are no longer held would serve no purpose given the Scheme would no longer be the vehicle under which members were exposed to any climate risk, and so may be misleading. Preparing such a disclosure would also have likely involved disproportionate costs and claims on the time and resources of the Trustee. Climate considerations were taken into account when performing due diligence on the Aon Master Trust.

Governance

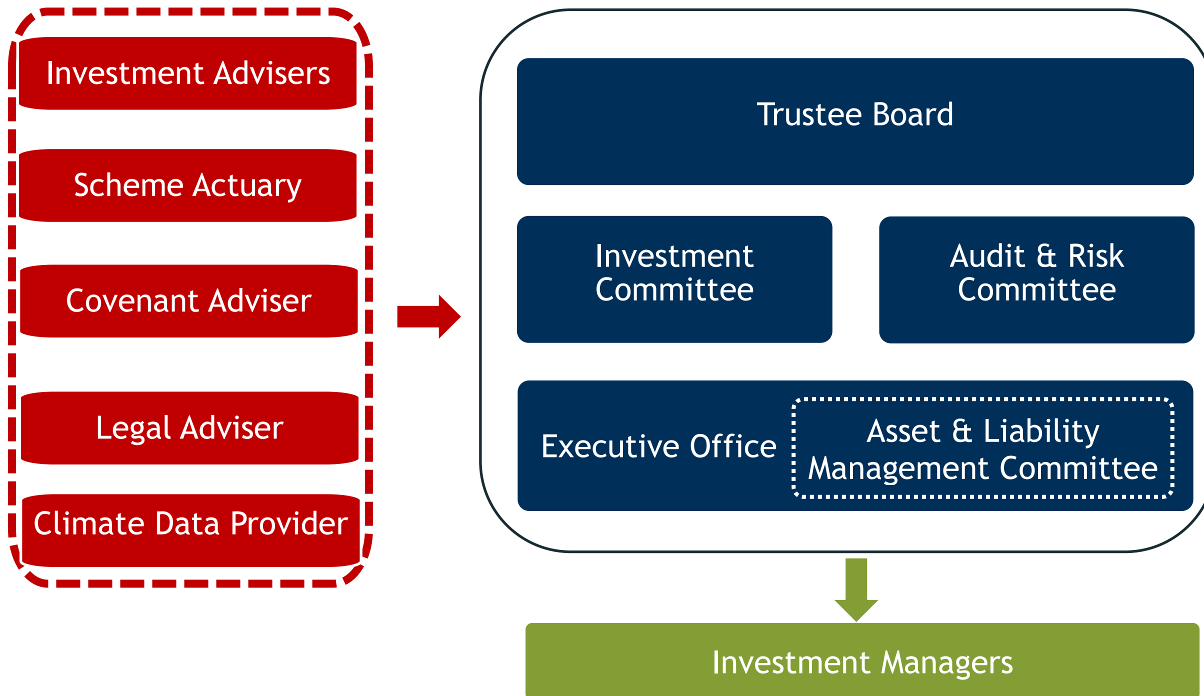
Under the Climate Regulations, trustees must establish and maintain oversight of the CRROs which are relevant to their scheme.

The Trustee Board has overall responsibility for the proper management of CRROs. As part of the process for assessing the appropriate governance structure for CRROs, the Trustee Board has articulated beliefs related to climate change which are reproduced below. The Trustee Board believes that this is helpful in documenting consensus views that have been reached, so that they can be used to inform future decision making and monitoring where that has been delegated. As in many areas set out in this report the beliefs will develop over time.

Statement of Belief	Application
• The scientific consensus supports the finding that limiting global warming to 1.5°C would require: ○ rapid and far-reaching transitions in land, energy, industrial buildings, transport and cities ○ emissions of carbon dioxide to fall by around 45% from 2010 levels by 2030 and to reach net-zero by 2050	• Significant and immediate actions are required to prevent global temperatures to rise. • The Trustee is seeking to align its investment strategy with achieving the goals of the Paris Agreement to the extent that it is not in contradiction with the financial interests of members to so do.
• Climate change may impact the performance of the Scheme's investments, due to both physical and transition risks. The timing and extent of the impact is hard to predict. • Climate-related factors will likely create investment opportunities that the Trustee should consider taking advantage of as appropriate within its wider investment objectives.	• The Trustee considers climate-related risks and opportunities when setting the Scheme's investment strategy, including the effect that climate change may have on individual asset classes or investment mandates. • Climate risks and opportunities should be considered for all the Scheme's investments, irrespective of the maturity or expected holding period.
• Climate-related risks and opportunities need to be considered alongside and balanced against other relevant investment risks and considerations when evaluating investments.	• The Trustee acknowledges that it may not always be able to minimise climate-related risk if doing so would be to the detriment of wider strategic objectives and/or its fiduciary responsibilities.
• Measuring climate risk is a complex area. The availability and quality of data, and best practices, will continue to evolve.	• The Trustee, supported by its investment advisers and data provider, will monitor relevant developments. • The Trustee will be mindful of setting goals which may lead to unintended consequences whether due to the availability or quality of data or the simplicity of the metric considered.
• Engagement (including the exercise of voting rights) is an effective means of helping to manage the Scheme's climate-related risks.	• Engagement with underlying companies (as well as other relevant organisations) is carried out primarily by investment managers on behalf of the Trustee. • The Trustee may disinvest from businesses or asset managers who are inadequately managing their climate related risks if attempts to engage with these parties to address this are not successful. • While the Trustee believes that the exercise of voting rights is an effective risk management tool, the Trustee has no or minimal exposure to investee companies with voting rights.

Governance

The diagram and table below provide an overview of the governance structure in place for the management of CRROs. The Trustee Board and its committees are supported by professional advisers, and by the Executive Office, a small group of professionals employed by the Trustee to serve the Board and to assist in the oversight of and communication with the Trustee's advisers and service providers.



The Trustee has delegated some of its responsibilities set out in the table below. Key decisions on matters such the selection of metrics and targets, remain with the Trustee Board. The Trustee Board oversees the work of its committees and receives regular reports from them on their climate related work. The committees' terms of reference have been amended accordingly.

	Responsibilities
Trustee Board	Retains overall responsibility for the management of CRROs, and delegates some of its duties to its committees. Oversees the activity of those committees through regular reporting which include climate-related work. The climate-related activity of investment managers are reported on a quarterly basis, and the metrics and the comparison to any target, are reported on a semi-annual basis. Oversees the integration of climate-related considerations in the covenant assessment and longevity assumptions. Approves the metrics and target(s) adopted by the Trustee.
Investment Committee (IC)	Oversees the detailed analysis of the impact of climate change on investment risk and returns. Sets approach for achieving the target(s), including how they feed into the implementation of the investment strategy and their potential incorporation into investment management mandates. Monitors and queries the activity of investment managers with respect to incorporating climate-related considerations in their processes and engaging with investee companies. This is also done by the Asset Liability Management Committee (ALCo). Monitors the evolution of metrics and progress toward achieving the targets. Reviews appropriateness of metrics and targets, and makes recommendations of changes to the Trustee Board.
Audit & Risk Committee	Ensures that climate-related considerations are properly reflected in the Scheme's Risk Management Framework. This includes the maintenance of the risk register. Also reviews the Risk Dashboard, which includes the climate-related metrics at the Scheme level, updated on a semi-annual basis.

Governance

Over the past 24 months, the Trustee has sought the inputs from its advisers in the development of its approach towards the management of CRROs and compliance with the Climate Regulations. This included advisers providing training, performing scenario analysis on assets & liabilities, advising on appropriate metrics and targets, and engaging with and reviewing investment managers. The training to the Trustee Board, committees and Executive Office, covered a wide range of areas including regulation, the impact of climate change on investment risk, life expectancy and the employer covenant, metrics and targets. This training enhanced the Trustee's (at Board, individual and Executive Office level) expertise in climate change and helped the Trustee determine whether its selected advisers had appropriate climate-related expertise, experience and resources.

The statement of objectives provided to the Trustee's investment advisers includes a section on how they will support the Trustee with regard to CRROs. Where it was deemed necessary, the Trustee appointed an additional adviser to supplement its existing advisers in order to provide specialist inputs on climate-related matters. The Trustee receives on a semi-annual basis carbon emissions data about investee companies from both its investment managers and a third-party provider. The data from the third-party provider is compared to the data from the investment managers, and is also used to perform cross portfolio analysis.

The work of the Trustee's service providers and their interaction with the Trustee Board and the various committees are generally coordinated by the Executive Office. This includes the climate-related work completed over the past 24 months. The Executive Office prepares papers for the Board that set out decisions that need to be made by the Trustee, articulates options and makes recommendations for the Board or committees to consider and debate. The Executive Office also performs the annual reviews of the Trustee's advisers, which in the case of investment, covenant and actuarial advisers cover their climate-related work. The outcome of those reviews is then reported to the Trustee Board.

The Trustee believes that, given the nature of the Scheme's investments, factors such as climate change are primarily relevant to the allocation decisions between sectors and companies. The investment managers decide which countries, sectors and companies to invest in, within guidelines, which are specified in the documentation of pooled funds, or set by the Trustee in the case of segregated mandates. The Trustee expects its investment Managers, when exercising discretion in the mandates that they manage for the Scheme, to integrate all relevant and material financial factors, including climate change, into the investment decision making process. The guidelines of some of the segregated mandates have been amended, in order to incorporate the target set by the Trustee, as described in the 'Metrics and Targets' section and progress against this target will be reported on by the managers semi-annually. The integration of climate change considerations forms part of the selection of new investment managers and the annual review of existing managers. It is an important element of the broader assessment of the responsible investment credentials of those managers.

Strategy

The Trustee has developed its strategic thinking and analysis regarding climate change with the support of its advisers and Executive Office team. As part of this process the Trustee has:

- Identified the relevant time horizons used to consider CRROs;
- Performed analysis of the financial impact of climate change on the Scheme's assets and liabilities and the covenant offered by its Sponsor and Guarantor in three different climate change Scenarios;
- Agreed an overall ambition and target for the Scheme.

Time horizons used to consider CRROs for the Scheme

Under the Regulations, the Trustee is required to define short-term, medium-term and long-term horizons over which CRROs will be considered. These time horizons will be reviewed as part of any review of the Scheme's funding and investment strategy, which will take place at a minimum as part of each triennial valuation.

The time horizons adopted by the Trustee and the rationale for these timescales are set out below.

Horizon	***Adopted***	***Rationale***
Short-Term	0 to 5 years	• The horizon during which benefit payments are fully funded by expected distributions from existing investments and consistent with investment horizon of most investment managers (with the exception of the Liability Matching Fund). • A few re-allocations by the Investment Committee may take place in this period to manage the risk/return profile of the assets.
Medium-Term	5 - 10 years	• Included the expected horizon to achieve the "Long-Term Objective" (**LTO**), which is to be fully funded with liabilities measured with a discount rate of gilt + 50bps.[i]
Long-term	10 years and beyond	• Set with regard to the average duration of liabilities, which can be thought of as the weighted-average of the timing of benefit payments.

[i] The Long Term Objective target has been reached during the year to 31 March 2023, which was earlier than expected.

Types of risks arising from climate change

The risks arising from climate change are often divided into Physical and Transition risk categories.

Physical Risk

This relates to the Impact on economic activity resulting from the physical impacts, such as damage and disruption from extreme weather events, of climate change. This is a current risk and not just a future risk with extreme weather events occurring at a far greater frequency that previously experienced.

Physical risks may have financial implications for organisations, such as direct damage to assets and indirect impacts from supply chain disruption.

Organisations' financial performance may also be affected by changes in water availability, sourcing, and quality; food security; and extreme temperature changes. These may affect organisations' premises, operations, supply chains, transport needs, and employee safety.

The adverse effects can be considered to be either acute which are likely to be severe and often location-specific (for example droughts, extreme rainfall, heatwaves, wildfires and hurricanes) or chronic (such as sea level rise, changes in average temperatures and precipitation) which are more likely to develop over decades.

Strategy

Transition Risk

Transitioning to a lower carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change.

Increased regulation could include the abrupt imposition of carbon taxes or emission performance limits. This could result in 'stranded assets'. An example is the risk of fossil fuel assets, which may no longer be able to earn an economic return before the end of their economic life. Changes in individual and company behaviour may also result in significant losses in revenues, for instance for carbon-intensive businesses. Growth opportunities could arise for providers of mitigation technologies that increase energy efficiency or capture carbon dioxide emissions. Growth opportunities may also arise related to adaptation of infrastructure to make it more resilient and the introduction of new products and services related to changed environmental conditions.

The vast majority of assets held within the Scheme, with the exception of UK government bonds held within the Liability Matching Fund, is invested in debt with a time to maturity falling within the short-term horizon as described before, with most of the rest of those assets falling in the medium-term horizon. This is largely the result of the Scheme being mature and the profile of its liabilities. This short-to medium-term horizon of the investments means that transition risk, rather than physical risk, is likely to be the dominant source of risk for the Scheme. Such risk concerns a broader set of sectors and companies. Physical risk already is particularly relevant where the Scheme holds bonds backed by real-estate.

The Scheme's investment managers are expected to consider climate change as a source of risk as well as opportunities for the companies that they invest in. This may mean funding companies which are well positioned to provide adaptation or mitigation products, or funding the transition of high-emitting companies. In the case of the Scheme's Active Bond Funds, this expectation is expressed by setting a target to the managers that by a certain date a minimum proportion of their portfolio should be invested in companies aligned with the Paris Agreement, as explained in the "Metrics and Targets" section.

Scenario Analysis and Impact on Funding & Investment Strategy.

The Trustee's advisers have performed scenario analysis of the impact of CRROs on the Scheme's funding and investment strategy. The scenarios used for the investment analysis are set out below. These are based on the Prudential Regulation Authority's 2019 Life Insurance Stress Tests ("the PRA stress test scenarios"). These scenarios are recommended by the Pensions Climate Risk Industry Group ("PCRIG"). They are further described in the Appendix. Variants of the PRA stress test scenarios were used to assess the impact on longevity and the covenant.

Transition risks ← Illustrative exposure of scenario to transition or physical risk → **Physical risks**

Fast Transition

- A sudden and disorderly transition in which the downside comes almost entirely from **transition risk.**
- For example, companies whose business models are not orientated to the changing economic landscape would be expected to perform poorly under this scenario e.g. fossil fuel power generation companies.
- A temperature increase being kept below 2°C.

Slow Transition

- A long-term orderly transition that is broadly in line with the Paris Agreement, in which the downside comes from a mix of transition risk and physical risk.
- Under this scenario, any business that has not aligned their operating model to the Paris Agreement is likely to underperform and lose value.
- Maximum temperature increase being kept well below 2°C.

No Transition

- No transition to a low-carbon economy takes place and the downside comes entirely from physical risks.
- For example, physical assets such as property and infrastructure may be damaged/unusable under an extreme climate scenario, reducing or entirely removing overall asset values.
- Temperature rise is well above a 2°C increase.

Strategy

The outcome of the analysis is summarised in the table below:

	Fast Transition	Slow Transition	No Transition
Impact on TP* funding ratio from investment performance	Minus 0.8% pt	Minus 0.9% pt	Minus 0.9% pt
Impact on TP* funding ratio from longevity changes	Plus 0.5% to Plus 1.0% pt	Minus 1.0% pt to no impact	Plus 1.5% to +2.0% pt
Impact on covenant	> 0 (as transition opportunities are likely to exceed other costs and risks)	> 0 (as transition opportunities are likely to exceed other costs and risks)	Between 0 and minus 5% of Schneider Electric SE's current market cap

*The analysis was based on the asset allocation as at 1 April 2022. The impacts (which will occur in the future) are expressed in terms of the equivalent change in asset values at the date of the analysis. *'TP' refers to 'Technical Provisions', the amount required by the Trustee to provide for the Scheme's liabilities on an ongoing basis. Source: Trustee's investment, covenant and actuarial advisers.*

The key conclusions of the scenario analysis are that:

- Climate change could have a sizeable impact on the investment performance, longevity and the covenant, taken separately.
- To a degree, the impacts can offset each other. In a No Transition scenario, reduction in liabilities resulting from reduced life expectancy may offset, partially or fully, a reduced investment performance. While this might be a positive impact on the Scheme's funding position, it is clearly not in the best interest of members as it would result from lower life expectancies. In the Fast/Disorderly and Slow/Orderly Transitions, the employer covenant might benefit from a greater demand for solutions to limit climate change.
- In the scenarios contemplated, even when ignoring the potential for offsets, the impact on the funding level would be limited and the Sponsor would likely remain strong enough to continue to support the Scheme. The analysis therefore suggests that the ability of the Scheme to pay members benefits, and its strategy to do so, are not likely to be significantly affected.

The resilience of the Scheme's funding level to climate scenarios results from the Scheme having a low-risk, fixed-income based portfolio with no direct exposure to real assets (property or infrastructure investments). The bulk of the Scheme's assets are invested in either UK Government Bonds or bonds issued by companies with an investment grade rating, and therefore a low risk of default.

The Trustee recognises the relatively muted impact of climate-related risks as calculated by the stresses. To ensure that these long-term risks are effectively managed, the Trustee will continue to evolve the methodology used to ensure it remains in line with emerging best practices, and scientific consensus.The Trustee emphasises that the scenario analysis does have limitations:

- Whilst there is a scientific consensus regarding the cause and direction of climate change, the extent and speed of future changes to the climate are difficult to predict. The scenarios chosen by the Trustee may not be sufficiently "extreme". The IPCC states that "extremes become more widespread and pronounced with every increment of warming"[2].
- The reactions to the effects of climate change, which may include significant changes in government policy and spending, population migration, war, impacts on global trade and supply, and markets are hard to predict.

Whilst the scenario analysis is required to be updated at least every three years, the Trustee intends to do so in the coming year as the modelling tools available are rapidly evolving.

More details are provided in the Appendix on the scenario analysis.

[2] https://www.ipcc.ch/report/ar6/syr/downloads/press/IPCC_AR6_SYR_SlideDeck.pdf slide 6

Risk Management

The responsibilities for identifying, assessing and managing climate-related risks are shared between the Trustee Board, its committees, the Executive Office and the Trustees' service providers, as described in the 'Governance' section. The Trustee retains ultimate responsibility and provides oversight of how CRROs are managed. Those activities also occur at different times and frequencies.

The key processes associated with climate-related risks are documented in the Scheme's overall risk framework and the risk register which are maintained by the Audit & Risk Committee and approved by the Trustee Board. Those documents incorporate climate-related risks following the first comprehensive review of the Trustee's approach to CRROs as previously described. They are reviewed at least once a year.

The table below provides details of when and by whom certain risks will be addressed as part of routine activity. The review of risks in the relevant area might indicate the emergence of new risks or material changes in the severity of existing risks that might require a more detailed assessment. In addition to this, the Trustee's initial assessment of risks came through the scenario analysis as previously described. The Trustee will undertake, at least on a triennial basis, new scenario analysis, which will aim at incorporating all material climate-related risk areas.

Area of potential impact	Mitigating Action	Direct Responsibility	Supported by	Frequency
Covenant	Consider climate-related risks as part of ongoing review of the employer covenant, and more extensively in triennial valuation discussions. Engage with sponsor as needed	Trustee Board	Covenant Advisor	Annual (with deeper dive on a triennial basis)
Liabilities (longevity)	Oversee the integration of climate-related considerations in longevity assumptions.	Trustee Board	Scheme Actuary	At least as part of triennial valuation
Investment and liabilities (interest rates and inflation)	Choice of metrics and targets	IC with changes approved by Trustee Board	Investment Adviser(s)	Annual
	Evolution of metrics and progress towards achieving targets	IC and Trustee Board	Investment Adviser(s)	Annual
	Consider when reviewing potential changes to asset and risk allocations	Investment Committee	Investment Adviser(s)	Ongoing
	Engagement with managers to assess how climate-related risks are reflected in their investment processes. Where possible, incorporate climate-related targets into the mandate guidelines	Investment Committee	Investment Adviser(s)	Prior to appointment, and at least as part of annual reviews
	Selection of companies to invest into Voting and engagement with investee companies	Investment Managers		Ongoing, with annual reviews by Investment Committee & Asset-Liability Management Committee

Metrics and Targets

The Trustee has selected metrics in order to assess CRROs. It has also adopted a target in respect of one of those metrics.

The information required to calculate some of those is not always available in the quantity or quality desired. In addition, the methodologies to calculate some of them are not fully consistent between asset classes and are still developing. This creates limitations on the calculations of those metrics, their accuracy, and the Trustee's ability to rely on them.

The Trustee will continue to work with its investment managers and climate data provider in order to enhance the coverage and quality of data. The Trustee also intends to review those metrics during the coming year and decide whether they remain appropriate, as the tools and industry best practice evolve.

The data were provided as at 31st March 2023, which is the latest date within the financial year that this report corresponds to.

Absolute Emissions

The Absolute Emissions metric provides the total greenhouse gas ("GHG") emissions attributable to the Scheme's assets. It is expressed in tonnes of carbon dioxide equivalent ("tCO2e"). The numbers included in this report reflect Scope 1 & 2 emissions[3]. Scope 3 emissions will be included in next year's report, to the extent the Trustee is able to.

The data were provided by the Scheme's investment managers, using a variety of sources. The methodologies for allocating emissions to gilts and for the Regulatory Capital Funds differ from the approach used in the other mandates. The numbers cannot therefore easily be compared. The Scheme's assets held in bank deposits and cash funds were excluded from the table below.

	Liability Matching Fund	Active Bond Funds	Broad Bonds	Loans	Regulatory Capital Funds
Value (£m)	£1,718	£1,212	£119	£182	£89
Total emissions (tCO2e)	284,000[i]	60,005[ii]	9,262[ii]	12,783[ii]	47[iii]

[i] Calculated as tCO2e for the UK x (Value of gilts in the portfolio / Public debt). This is based on data from MSCI data and Bloomberg data. Emissions associated with cash, swaps and Network Rail Bonds within the LMF have not been included. There is not a market consensus on reporting carbon emissions metrics for sovereign debt. Emissions reported extend beyond the public sector. Double counting could occur with Scope 1 and 2 emissions generated by other sectors.
[ii] The emissions associated with the Scheme's investments are calculated by applying an 'attribution' factor, defined as the ratio of the value of that investment and the enterprise value, including cash of the company.
[iii] The number reported corresponds to the Scope 1 & 2 emissions of the originating banks rather than those of the companies that the banks have lent to and which are the object of the particular transaction between the bank and the funds. The 'attribution' factor is also based on the notional of the loans that the deal provides protection against, pro-rated for the size of the Scheme's investment, and the bank's enterprise value, including cash.

Emissions Intensity

The Emission Intensity metric provides the carbon footprint associated with the Scheme's assets. It is measured as the total GHG emissions per £m invested by the Scheme ("tCO2e/£m"). It is the 'intensity' metric that the Department for Work and Pensions have recommended in their guidance on the governance and reporting of climate risk. This metric enables comparison between different mandates, irrespective of their size, and to benchmarks. The metric reported in this year's report reflects Scope 1 & 2 emissions. Scope 3 emissions will be included in next year's report to the extent the Trustee is able to. The data were provided by the Scheme's investment managers, using a variety of sources. The methodologies for allocating emissions to gilts and for the Regulatory Capital Funds differ from the approach used in the other mandates. The numbers cannot therefore easily be compared.

[3] 'Scope 1' emissions are created by an investee company's activities. They occur from sources that are directly owned or controlled by the company, for example emissions from combustion in owned or controlled furnaces of company facilities or company vehicles. 'Scope 2' emissions arise from the generation of purchased electricity consumed by the company including heating and cooling. 'Scope 3' emissions result from activities of the company from sources not owned or controlled by the company, such as suppliers or customers.

Metrics and Targets

	Liability Matching Fund	Active Bond Funds	Broad Bonds	Loans	Regulatory Capital Funds
Carbon Footprint (tCO2e/£m)	166[i]	85[ii]	149[ii]	74[ii]	0.6[ii, iii]

[i] Calculated as tCO2e per £1m of public debt. This is based on MSCI data. More details are provided on the methodology in the section 'Absolute Emissions'.

[ii] Calculated as tCO2e attributed to the investments divided by the total value of the investments to which they correspond.

[iii] The number reported corresponds to the Scope 1 & 2 emissions of the originating banks rather than those of the companies that the banks have lent to and which are the object of the particular transaction between the bank and the funds. This is largely why the intensity numbers are much lower.

Data Coverage and Quality

The purpose of these metrics is to provide some information on the proportion of assets for which absolute emissions were available and how those data were obtained. The metric 'Coverage' corresponds to the proportion of portfolio for which emissions data are provided by companies or third parties, including estimated data based on companies' characteristics. The metric 'Quality' corresponds to the proportion of assets for which emissions data was included in this report and which were reported by companies, rather than being estimates based on their characteristics.

Cash, derivatives and government bonds have been excluded from the calculations. The information for the Liability Matching Fund is not included in the table below. Its main assets are bonds issued by the UK government. The approach for providing the emissions associated with this mandate is described in the previous section.

	Active Bond Funds	Broad Bonds	Loans	Regulatory Capital Funds [i]
Coverage	63%	71%	98%	85%
Quality	88%	88%	57%	100%

[i] The number reported corresponds to the Scope 1 & 2 emissions of the originating banks rather than those of the companies that the banks have lent to and which are the object of the particular transaction between the bank and the funds

The reported Quality within the loans fund is unsurprisingly lower due to the private nature of companies in that fund. When not reported by the companies themselves, emissions have instead been estimated by the manager or by a third-party using characteristics of the companies, such as their sector and revenues. The reported Coverage and Quality in the Regulatory Capital Funds are also high because they relate only to the originating banks. The reported Coverage for Active Bond Funds is comparably lower. This is largely because little to no data is currently available for asset-backed securities, where the underlying assets are pools of debt holdings.

Portfolio Alignment

The purpose of the Portfolio Alignment metric(s) is to assess the alignment of investee companies with the Paris Agreement's goal of limiting global temperature rises. Assessing alignment is a subjective matter and various methods can be used. It also requires information from companies which they may be unwilling or unable to provide. The Trustee has decided to use the data from the Science Based Targets initiative (SBTi[4]), due its relative simplicity, the higher coverage than some of the alternatives and because the data is publicly available. This measure also enables the Trustee to identify the companies' level of ambition with regard to setting climate-related objectives.

This metric has been provided for the Active Bond Funds, Broad Bond and Loans mandates and the Regulatory Capital Funds. The SBTi applies to corporates and does not include governments which is why the Liability Matching Fund in not included in the table below. The UK has ratified the Paris Agreement. It has committed to a 'net-zero' target by 2050.

The Trustee is aware of the limitation resulting from relying only on one provider to assess the alignment of companies. It is discussing with its investment managers how the targets validated by the SBTi could be complemented by alternative measures. The transparency of tools and consistency of approaches between investment managers are two key challenges

[4] More details on the SBTi can be found on the website: https://sciencebasedtargets.org

Metrics and Targets

faced by the Trustee in that process. The Trustee also expects managers to encourage issuers to participate in the SBTi as part of their engagement activities.

The table below provides the proportion of investments, in market value terms, in companies broken down between those that, according to SBTi, have a (1) 1.5°C aligned strategy, (2) a well below 2°C aligned strategy, (3) 2°C aligned strategy or (4) no alignment strategy validated by SBTi. Companies with target validated by SBTi that is consistent with a 1.5 °C, or well below 2°C or a 2°C scenario are deemed to be "aligned or aligning" with the goals of the Paris Agreement for the purpose of that report.

Alignment according to SBTi	Active Bond Funds	Broad Bonds	Loans	Regulatory Capital Funds
1.5°C	16%	6%	5%	0%
Well below 2.0°C	5%	5%	0%	10%
2.0°C	1%	1%	0%	0%
No strategy validated	78%	88%	95%	90%
Total [i]	**100%**	**100%**	**100%**	**100%**
Total Aligned or Aligning (excluding unverified)	**22%**	**12%**	**5%**	**10%**

[i] *Cash, government debt and derivatives have been excluded.*

In addition to this metric, the Trustee is monitoring the proportion of financed carbon emissions (scope 1 and 2 only) of investments in companies in High Impact Sectors and Companies that are "aligned or aligning" with the goals of the Paris Agreement or subject to a collective engagement. The purpose of this metric is to ensure the Trustee, and its asset managers, are focused on companies with the highest carbon footprint. Initially, this metric would also be based only on the SBTi. The metric was inspired by the Net Zero Investment Framework proposed by the Institutional Investors Group on Climate Change. The metric is currently only considered for the Active Bond Funds as those are segregated mandates, where the Trustee can set investment guidelines in agreement with the investment managers.

	Active Bond Funds
Proportion invested in High Impact Sectors and Companies [i]	28%
Proportion of financed carbon emissions accounted for by High Impact Sectors and Companies	80%
Proportion of financed carbon emissions in 'aligned/aligning' companies or subject to a collective engagement [ii]	56%

[i] *High Impact Sectors and Companies are those having a high emissions intensity, as identified by the Transition Pathway Initiative, plus the real estate sector. High Impact Companies are those on the Climate Action 100+ focus list.*

[ii]. *"Collective engagement" refers to a bond issuer that is subject to ongoing engagement from the Manager or a recognised industry group, such as Climate Action 100+ that seeks to achieve the adoption of the goals of the Paris Agreement.*

Metrics and Targets

Target

The Trustee has adopted a statement of ambition to align the investments of the Scheme with the goals of the Paris Agreement to the extent that it is not in contradiction with the financial interests of members. The Trustee expects as a result that, by 2050, the Scheme will be invested in a portfolio of assets with net-zero emissions,

As part of that ambition, the Trustee has set the target that, by 31 March 2028, at least 35% of bonds held within the Active Bond Funds should be issued by companies that are aligned or aligning with the Paris Agreement. This compares to 22% as at 31 March 2023. It is worthwhile noting that c. 20% of the proportion of the GBP-denominated investment grade corporate debt market[5], which is the main market from where the managers of those mandates are expecting to select bonds, are currently deemed to be 'aligned or aligning', according to the SBTi.

The objective is restricted to the Active Bond Funds because they are segregated mandates, where the Trustee controls the guidelines. The other mandates (except the LMF which is primarily invested in gilts & cash) involve pooled funds. The Active Bond Funds represent 76% of the Scheme assets, excluding the LMF and cash funds.

This alignment target has been incorporated in the guidelines for those mandates. The managers are required to raise with the Trustee if this objective materially hinders their ability to achieve the financial return and risk objectives of their mandate. The Trustee is mindful of the fact that relying solely on the SBTi may be overly restrictive as companies might be committed to a 'net-zero' strategy, whilst not submitting their target for validation by the SBTi. The Trustee will consider in the coming year the evolution of companies' usage of the SBTi and assess whether the metric should be amended as a result.

The Trustee has assessed a variety of targets as an alternative to or to complement the chosen alignment target described above. In particular, the Trustee considered whether it should set an objective of reducing in the short or medium term the carbon intensity of its investments. The Trustee has decided against that target for several reasons. These include the coverage and quality of data, which were deemed to be too low to provide a suitable baseline. There was also a concern about the effectiveness of this approach as a target may be achieved by simply avoiding the debt of high emitters rather than financing the transition of those companies to lower emissions. Finally, the active nature of those mandates also means that their composition in terms of countries and sectors may significantly change over time, which raises the issue of setting a target that remains appropriate.

[5] Based on the ICE BofA 1-10yr Sterling Corporate Index

Appendix

Further details on climate related scenario analysis and results

Description of scenarios used to assess investment risks

As part of its 2020 biennial stress tests, the Bank of England's Prudential Regulation Authority ("PRA") conducted an exploratory exercise to test the impact of future climate change scenarios on the assets and liabilities of (re)insurers, using predictions by the Intergovernmental Panel on Climate Change ("IPCC") and academic literature as the basis for their modelling assumptions.

Using the same methodology, the investment advisers have constructed similar tests that allow the Trustee to examine the impact on the funding position, via the effect on asset values and liabilities, of the Fund under three scenarios.

The magnitude of each of the physical and transition shocks varies across industries under each scenario, meaning some assets may fare better or worse under one scenario compared to another. For "Fast Transition": the asset downside comes almost entirely from transition risk. For "Slow Transition": the asset downside comes from a mix of transition risk and physical risk. For "No Transition": the asset risk is entirely physical risk.

The analysis applied to the Schemes assets shows that overall impact is almost identical across all three scenarios. The composition of the drivers however varies. The Fast Transition scenario delivers predominantly transition risk and an immaterial amount of physical risk, whereas the No Transition scenario impact reflects physical risk and minimal transition risk. Given the overall high credit quality of the Scheme's assets, the stresses suggest there will not be a material increase in defaults over the time period. Credit defaults would be the biggest cause of financial loss for the scheme if they were to occur.

Real assets are affected the most by physical risks. As the Scheme has no material real asset exposure, the outcome of the No Transition scenario is comparable to the other stresses. For some schemes with higher allocations to real estate and infrastructure, a No Transition scenario would be materially worse. For the Scheme, the largest driver of physical risk in the No Transition scenario comes from the Diversified Growth Fund, which has some exposure to higher-risk assets.

In terms of the assumptions made under these scenarios, the PRA recognised that feedback loops between climatic shocks and structural economic change need to be incorporated when assessing the financial impacts on businesses of physical and transition risk under each emissions scenario. However, due to existing modelling and data constraints, this is a complexity that is purposely excluded from the modelling.

There is also an acceptance that the timing and sequence of financial impacts will be complex, as behavioural changes could result in physical risks preceding transition risks and vice versa. For the purpose of simplicity, where an asset is subject to both physical and transition risk, the shocks are applied consecutively, with the physical shock applied second.

Approach to assessing the impact on the Scheme's liabilities to members

The Trustee asked the Scheme Actuary to produce analysis of the potential impact of climate change on the liability to pay future benefits. The analysis of the impacts was high level and based on analysis of the climate risks that the UK is exposed to. The analysis did not reflect the membership profile of the Scheme. The age profile, location and socio-economic status of the Scheme's membership could lead to a different impact on future life expectancies.

The factors affecting life expectancy included:

Physical impacts: As result of climate change, it is predicted that winters in the UK will be warmer and wetter and summers hotter and drier. Extreme weather events will also be more frequent and severe. Consequences considered included: increasing temperatures affecting heat- and cold-related mortality and morbidity; the impact of flooding; potential disruption to health care services and water quality and water supply interruptions.

Economic impacts: The impact of both climate change and the cost of implementing mitigating action could have significant macroeconomic impacts. These could result in lower economic growth, the pressures of a higher cost of living as a consequence of higher food and fuel costs and reduced healthcare expenditure.

Mitigating actions improving health: Actions taken to reduce emissions may result in healthier dietary choice; more active travel (walking and cycling); improved access to "green" spaces and more energy efficient housing.

The high-level impact analysis suggests a moderate impact on life expectancy in each scenario, with macro-economic factors being the most significant drivers.

The Scheme Actuary's views will develop in line with future developments in the area of climate change risks and the development of the Actuary's internal models.

Approach to assessing the impact of climate change on the Scheme Covenant

Appendix

The analysis of covenant focussed on the impact of climate risk on the Schneider Electric SE group rather than on the participating employers to the Scheme. The Trustee does not believe that it would be proportionate to attempt to analyse the individual participating employer companies separately from the SE group. The guarantee to the Scheme in relation to the liabilities of the participating employers is provided by Schneider Electric SE ("SE") which in turn depends upon its subsidiaries for its income.

SE's management believes that the group's ability to assist its customers to reduce emissions is a major opportunity. SE has also set ambitious carbon-reduction plans. Sustainability is firmly embedded within SE's approach to business. They have stated "Our purpose is to empower all to make the most of our energy and resources, bridging progress and sustainability for all. Our mission is to be your digital partner for Sustainability and Efficiency."

Even excluding the opportunities, the total adverse risks to Schneider Electric arising from its direct emissions, electricity use and potential climate impact on its value chain and physical assets appear unlikely to have a materially detrimental effect on the value of the group and therefore the ability to support the Scheme.

The Trustee has therefore concluded that based on current knowledge climate-related change does currently not represent a significant risk to the support that would be available to the Scheme if needed.

The EO and the Scheme's Covenant Adviser will continue to monitor the information available. The Scheme's Covenant adviser agreed that at this stage the approach taken was appropriate and proportionate but should be monitored during subsequent years. The range of analysis and information is likely to develop rapidly alongside the understanding of the actions that governments intend to take.

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