

CLIMATE-RELATED DISCLOSURE REPORT

Citigroup Global Markets Limited Pension and Life Assurance Scheme (the Scheme)

A report for members by the Trustee of the Scheme for the period 6 April 2023 to 5 April 2024

INTRODUCTION

Overview

This Climate Report has been prepared by the Trustee of the Scheme to comply with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the Climate Regulations).

The Climate Regulations introduced requirements relating to the Trustee's governance and disclosure of climate-related risks and opportunities and are based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. The TCFD was set up in 2015 by the Financial Stability Board (an international body promoting financial stability) to improve climate-related financial disclosures.

This Climate Report explains how the Trustee has established and maintained oversight and processes to satisfy itself that the Scheme's relevant climate-related risks and opportunities are identified, assessed and managed appropriately during the period 6 April 2023 to 5 April 2024 (the "Scheme Year").

A short summary of the Climate Report is included below to help members to understand the key findings. A more detailed report then follows, split into four sections:

Section 1: Governance - The Trustee's governance around climate-related risks and opportunities.

Section 2: Strategy and scenario analysis - The actual and potential impacts of climate-related risks and opportunities on the Trustee's investment and funding strategy.

Section 3: Risk Management - The processes used by the Trustee to identify, assess and manage climate-related risks in relation to the Scheme

Section 4: Metrics and Targets - The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

These sections address the specific disclosure requirements in the Climate Regulations and have regard to the Statutory Guidance. This Climate Report has also been prepared with regard to TPR's guidance on the governance and reporting of climate-related risks and opportunities.

Application of the Climate Regulations and Statutory Guidance to the Scheme

The Scheme is a hybrid scheme with a defined benefit (DB) Section and a defined contribution (DC) Section. This Climate Report covers both the DB Section and DC Section within the Scheme. As at 5 April 2023 the DB Section had £1,008.2m in net assets (total investments figure is £1,004.7m) and the DC Section had £312.2m in net assets (total investments figure is £308.1m). The DB Section assets are primarily invested in corporate bonds and gilts (through a liability driven investment portfolio) and the DC Section assets are invested in a range of lifestyle strategies and self-select funds held on a platform via a unit linked insurance policy.

In respect of **DB assets and liabilities**, the requirements relating to strategy and scenario analysis and metrics in the Climate Regulations relate to each DB “section” within a scheme. The Scheme only has one DB “section” for these purposes.

In respect of **DC assets**, the requirements relating to strategy and scenario analysis and metrics relate to each “popular arrangement” offered by a scheme. A popular arrangement is considered to be one in which £100m or more of the scheme’s assets are invested, or which accounts for 10% or more of the assets used to provide money purchase benefits (excluding assets which are solely attributable to additional voluntary contributions). For these purposes the main default arrangement in the Scheme – the Drawdown Lifestyle strategy - is considered its only “popular arrangement” for these purposes.

This is the second Climate Report published by the Trustee of Scheme. We hope you find it informative and would welcome any feedback.

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This Climate Report is being published alongside the Scheme’s annual report and accounts for the Scheme Year and is available online here: <https://epa.towerswatson.com/static/CIT/docs/citigroup-plas-tcf-report-year-2--.pdf>

SUMMARY

The Trustee believes that climate change may represent a material financial risk to the Scheme's investments but recognises that the level of risk and the approach required is likely to differ between the DB and DC arrangements in the Scheme due to the different characteristics of each.

Governance

The Trustee maintains appropriate internal controls and processes to ensure adequate oversight of climate-related risks and opportunities. These include:

- Maintaining a climate working group which serves as a focus group in relation to the detail of the Climate Regulations and Statutory Guidance and the wider consideration of climate-related risks and opportunities in relation to the Scheme.
- Ensuring the Scheme's investment advisers can demonstrate adequate climate-related expertise and consider climate-related risks and opportunities as part of their advice to the Trustee through ensuring environmental, social and governance (ESG) is incorporated into their objectives on which they are annually assessed.
- Ensuring investment managers have appropriate skills and processes to take account of climate change risks and opportunities through the Scheme's investment advisers incorporating their assessment of the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement in their advice on the selection and ongoing review of the investment managers.
- Ensuring the DC investment managers are fully aware of the Trustee's stewardship priorities, one of which is climate change.

Metrics and targets

The Trustee decided to retain its existing climate change metrics (set out below), which were adopted by the Trustee during the previous Scheme year to 5 April 2023:

Metric	Selected
Absolute emissions	Total Greenhouse Gas (GHG) emissions of Scheme assets.
Emissions intensity	Carbon footprint, (this shows the total GHG emissions per unit of currency invested by the Scheme).
Portfolio alignment	% of portfolio with Science-Based Targets (SBT) (this shows the proportion of companies within the portfolio for which the company's voluntarily disclosed company decarbonisation target is aligned with a relevant science-based pathway).
Additional metric	Data coverage (calculating the % of the portfolio for which data is available). The Trustee believes this metric provides a useful "confidence indicator" in the accuracy of data available and is a useful tool in its efforts to manage climate risk by providing a basis for investors to encourage improvements in the quality of climate-related reporting that is available.

Updated metrics were calculated in respect of both the DB Section and the DC Section during the Scheme Year (as set out in Section 4 of this report).

The Trustee also decided to retain its existing targets for the data coverage metric and portfolio alignment metric based on SBT. An update on performance against these targets is set out in Section 4 of this report.

Conclusions from the assessment of climate-related risks and opportunities, metrics calculations and scenario analysis

The Trustee has considered the type of climate-related risks the Scheme could be exposed to (i.e. “physical” and “transition” risks over short, medium and long-term time horizons) and what climate change opportunities may look like. As explained in last year’s report (the “First Report”), physical risks relate to the physical impacts of climate change and transition risks are the risks of transitioning to a lower-carbon economy, which may entail extensive policy, legal, technology and market changes. Climate-related opportunities are actions that the Trustee could take to better position the Scheme’s investment strategy to take advantage of the potential upside related to the climate transition, such as the emergence of new investment opportunities and ways to mitigate some of the climate-related risks (e.g. investment in low carbon transition funds).

The Trustee has identified and assessed the key risks and opportunities through a number of tools including risk registers, climate-related risks and opportunities dashboards and analysis of the climate metrics undertaken during the Scheme Year and the latest scenario analysis from the First Report.

The Trustee wishes to note that poor data coverage continues to impact the Trustee’s ability to assess climate-related risk and is an area the Trustee continues to seek improvements in from its investment managers.

During the Scheme Year, the Trustee considered whether to re-run the scenario analysis carried out in November 2022 and concluded that it was not necessary to do so at this point in time. The scenario analysis set out in Section 2 of this Climate Report is therefore the same as set out in the First Report.

DB Section

Due to the high funding level of the DB Section, the Trustee has adopted an investment strategy with a relatively low risk-return profile to meet its strategic objectives. As a credit investor, relevant climate-related risks are ones which would lead to downgrade or default on the Scheme's bond holdings prior to their maturity. Transition risks are likely to be most relevant given the maturity profile of the bonds, but for some longer-dated bonds physical risks may become more significant.

The Trustee has also identified the impact of climate on longevity as a risk, given the Trustee does not hedge its longevity risk. However, it believes that it is impossible to accurately predict the impact on longevity of climate change due to the wide range of risks, and the complex interactions between these risks.

The impact of climate change on Citi's covenant is likely to be low and the Scheme's DB investment strategy is projected to be resilient to the various climate change scenarios with only a modest expected deterioration in asset valuations and funding levels. The impact of climate risk is unlikely to be significant enough to cause a funding deficit to arise that could not be supported by Citi's covenant. Consequently the Trustee has concluded that climate-related risks and opportunities are unlikely to impact the Scheme's overall funding and investment strategy significantly.

DC Section

For members invested in the DC Section, climate-related risks are driven mainly by the equity allocation used in the Scheme's "popular arrangement" – the Drawdown Lifestyle strategy. This is a significant risk, as the blended funds used in the Default Drawdown Lifestyle during the Scheme Year (the Growth Fund and Pre-Retirement Fund) use a high proportion of equity-based assets.

Given the age profile of the DC Section of the Scheme (median age of 54, with a range of members between 41 and 76), the Trustee believes climate change transition risks to be the most significant to the Scheme, though younger members who choose to remain invested beyond their target retirement age may be exposed to the impact of physical risks on financial markets, which would be most severe if Net Zero is not reached by 2050.

Older members (e.g. those around 5 years from retirement) will be most exposed to climate transition risks, in particular if Net Zero is achieved by 2050 but financial markets are slower to react, and then react abruptly, such that they could see the value of their DC pot fall significantly and potentially impact their retirement plans. Members more than 5 years away from retirement will also be exposed to volatility related to heightened transition risks over the medium-term.

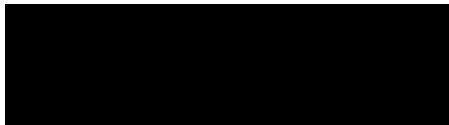
Deferred members of the Scheme's DC section are more at risk from the impact of climate change on financial markets than active members, due to the fact that they are no longer contributing to the Scheme and, therefore, do not benefit from the effect of 'pound cost averaging' over market cycles. This is particularly relevant to the Scheme as only 4% of members in the DC section are active.

Management of climate change risks

DB section	DC Section
<p>In the DB Section, the Trustee manages the climate change risks to which it is exposed by investing in a diversified pool of high-quality credit assets. As the Trustee has adopted an investment strategy with a relatively low risk-return profile the Trustee decided it wasn't necessary at this stage to actively consider higher-return investment opportunities arising from climate change and as such no significant investment strategy changes were deemed necessary a result of climate change considerations.</p> <p>Stewardship is also used as a risk management tool. In relation to the DB Section, the Trustee expects all its investment managers to practice good stewardship and to exercise influence wherever possible. As the DB Section assets are fixed income in nature, there are typically no voting rights attached to the investments. Given the low-risk nature of the portfolio, the Trustee's focus is on ensuring it understands residual climate-related risks and the ways in which the managers are engaging with the investee companies to manage these risks to minimise the risk of downgrades or defaults.</p>	<p>In the DC Section, the Trustee has replaced the regional passive equity funds used in the Drawdown Lifestyle strategy with climate-tilted alternatives as these funds benefit from a clear decarbonisation pathway that decreases exposure to stocks exposed to climate transition risk and increases exposure to those with green revenues. This change was implemented in October 2023. The impact of these changes is discussed further later in this report.</p> <p>Stewardship is also used as a risk management tool. The Trustee has delegated to its investment managers the exercise of rights and engagement activities in relation to investments, as well as seeking to appoint managers that have strong stewardship policies and processes. In relation to the DC Section, the Trustee has selected climate change as one of its stewardship priorities. The Trustee has agreed that it will engage with investment managers to ensure they are exercising stewardship in support of alignment with Paris Agreement goals and discuss its targets with them.</p>

Signed:

Chair of the Trustee



Date: 16/10/2024

Section 1: Governance

This section describes the internal processes and controls that are in place to ensure adequate oversight of climate-related risks and opportunities. This includes the Trustee’s approach to knowledge and understanding and the roles and responsibilities of the parties involved.

1. The Trustee’s role

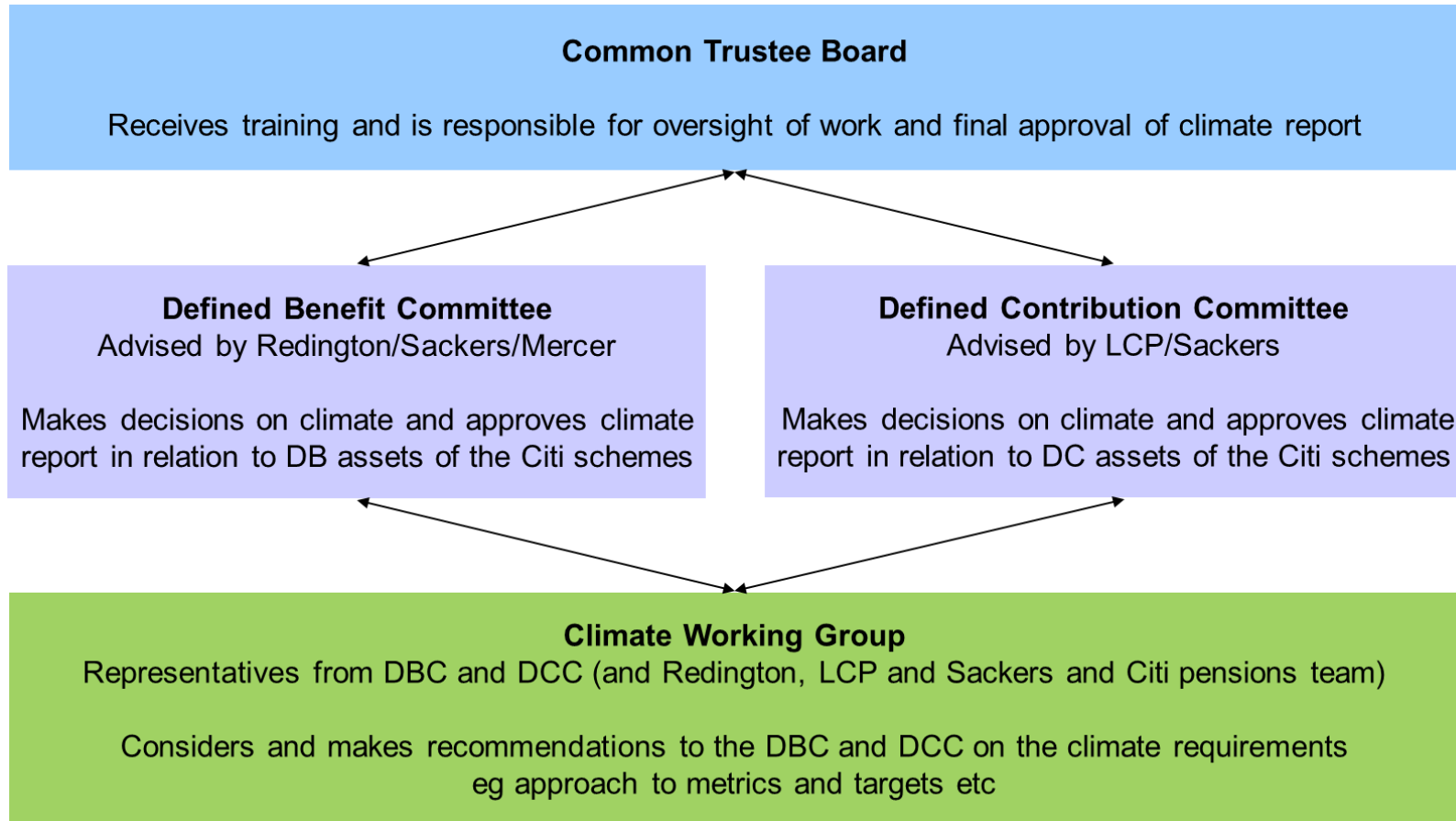
Investment beliefs on climate change

As stated in its most recent DB Section and DC Section Statements of Investment Principles, the Trustee believes that:

DB Section	DC Section
<p><i>“The Trustee believes that environmental, social and governance factors (including but not limited to climate risk) will be financially material over the time horizon of the Scheme but will have varying levels of importance for different types of assets invested by the Scheme...</i></p> <p><i>.... The Trustee does not factor non-financial decisions (such as ethical or moral beliefs) into their investment decision-making, nor do they appoint asset managers that consider these factors.”</i></p>	<p><i>“Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme’s investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks investment options that address these risks and to appoint investment managers who will manage these risks appropriately on their behalf where permissible within applicable guidelines and restrictions....</i></p> <p><i>... The Trustee does not take into account any non-financial matters (i.e. matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments. However, the Trustee recognises that some members may wish to invest specifically in ethical or Shariah compliant funds and offers members appropriate funds to achieve this.”</i></p>

Climate governance structure

The diagram below sets out the internal governance structure for climate-related work that was agreed by the Trustee at the beginning of 2022 and has operated throughout the Scheme Year.



Role of the Climate Working Group (CWG)

The Trustee decided it would be beneficial to maintain the CWG (comprising members of the DBC and DCC) during the Scheme Year to serve as a focus group in relation to the detail of the Climate Regulations and Statutory Guidance and the wider consideration of climate-related risks and opportunities in relation to the Scheme.

The CWG met twice during the course of the Scheme Year. At each of those meetings, the CWG received input and guidance from the Scheme's DB and DC investment advisers and legal advisers (and, where required, actuarial advisers) on the Climate Regulations and Statutory Guidance, the consideration of climate-related risks and opportunities and the actions/decisions required from the Trustee in relation to these.

Topics and documentation considered at those meetings included:

- ✓ The Scheme's risk registers
- ✓ The Trustee's existing metrics and targets and whether to update or change them
- ✓ The most recent scenario analysis carried out by the Trustee and whether it is necessary to carry out new analysis
- ✓ Analysis of the metrics calculations carried out in the Scheme Year and the impact of these and the latest scenario analysis on climate-related risks and opportunities
- ✓ The impact of climate change on the employer covenant and funding strategy

The CWG fully interrogated the information and advice provided by the Scheme's advisers. Under its terms of reference the CWG does not have decision-making powers but makes recommendations to the DBC and DCC respectively.

Role of the Defined Benefit Committee (DBC) and Defined Contribution Committee (DCC)

The DBC and DCC are each responsible, in relation to the DB and DC assets and liabilities of the Scheme respectively, for making any decisions required around climate-related risks and opportunities and approving the relevant sections of the Climate Report relating to the DB and DC Sections respectively.

Each committee received an update (with recommendations where relevant) from the CWG following each of its meetings during the Scheme Year and made decisions (where required) at those meetings. Decisions included whether to retain the existing metrics and targets and whether to re-run the Scheme's scenario analysis.

Each committee sought input from and interrogated and challenged the advice from its investment advisers and legal advisers at the relevant meetings before making these decisions.

Role of the Combined Trustee Board (CTB)

The CTB is responsible for oversight of the climate work and has ultimate responsibility for compliance with the Climate Regulations and Statutory Guidance. It has responsibility for final approval of the Climate Report. It received regular updates from the DBC and DCC through the Scheme Year.

Trustee training and knowledge

The CWG received ongoing training and guidance at its meetings during the Scheme Year on the Trustee's obligations under the Climate Regulations (and Statutory Guidance) as well as alternative approaches to climate scenario analysis that could be considered in future.

The CWG also considered whether further training should be carried out at the CTB level during the Scheme Year, following the training they received on 20 January 2022. The CWG concluded that no further training was required at the CTB level during the Scheme Year.

As this is a developing area, the Trustee recognises that ongoing training is essential and continues to assess any skills gaps to determine any further training needs. The Trustee anticipates further training being provided during the next Scheme year.

2. Other parties' and advisers' roles

The Trustee operates a governance model whereby it relies on advice for specific activities from professional advisers and it also relies on an in-house executive team for support. This includes in relation to the consideration of climate-related risks and opportunities. It also delegates responsibility for day-to-day decisions on investment management (including in relation to ESG and climate change) to its investment managers.

In-house pensions team

The secretary to the Scheme (and other relevant individuals working within the Citi in-house pensions team where appropriate) attend all CWG, DBC and DCC and CTB meetings.

The secretary's role is to act as a point of continuity on climate change between the CWG, DBC and DCC and CTB, to aid the discussions around climate-related risks and opportunities (as appropriate), ensure adequate time and resources are being spent on relevant climate-related activities

and that decisions were being taken by the relevant sub-committees at the correct points in time during the Scheme Year. The Scheme secretary does not make any decisions related to climate-related risks and opportunities.

Investment advisers

Redington are appointed as the Scheme's **DB investment** consultant including to advise on climate-related risks and opportunities in respect of the DB assets and liabilities within the Scheme. This advice was provided through the CWG and the DBC during the Scheme Year specifically in relation to, (i) updated analysis on the Scheme's chosen climate metrics and year-on-year performance against the selected climate targets, (ii) whether the scenario analysis should be re-run during the Scheme Year and suggestions for changing the basis going forward and, (iii) the assessment of investment managers approaches to ESG and climate change.

LCP are appointed as the Scheme's **DC investment** consultant including to advise on climate-related risks and opportunities in respect of the DC assets within the Scheme. This advice was provided through the CWG and the DCC during the Scheme Year specifically in relation to, (i) updated analysis on the Scheme's chosen climate metrics and year-on-year performance against the selected climate targets, (ii) whether the scenario analysis should be re-run during the Scheme Year and, (iii) the assessment of investment managers approaches to ESG and climate change. During the Scheme Year LCP also provided ad hoc input during meetings of the CWG.

As part of all investment strategy changes, LCP also reviews the Responsible Investment (RI) credentials of any fund recommendations that are made to the Trustee. Fund RI credentials also feed into the ongoing monitoring of the suitability of funds used by the Scheme.

Actuarial and covenant adviser

Mercer are appointed as actuarial and covenant adviser to the Scheme (including as Scheme actuary) in relation to the DB assets and liabilities. As part of their role, they consider the impact of the employer covenant on the DB Section's funding position, which included for this Scheme Year, consideration of the impact of climate-related risks and opportunities in relation to the employer covenant. They also consider the impact of climate change on the Scheme's DB liabilities, which in particular for this Scheme Year, included the impact of climate change on longevity risk and longevity assumptions.

Investment managers

The Trustee has delegated responsibility for the selection, retention and realisation of investments within all DB and DC investment funds to the underlying investment managers (within certain guidelines and restrictions).

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations) where permissible within the applicable guidelines and restrictions.

3. Trustee oversight

In house team

The Trustee ensured that the Scheme secretary and other relevant members of the in-house team attended all CWG meetings to ensure they were kept abreast of the ongoing climate change requirements.

Advisers

It is the Trustee's policy to ensure its investment advisers can demonstrate adequate climate-related expertise and consider climate-related risks and opportunities as part of their advice to the Trustee.

The performance of the DB investment adviser (Redington) is reviewed by the DBC on an annual basis, and the criteria for this review includes objectives related to ESG (including climate change) and stewardship. The DBC's review undertaken during the Scheme Year confirmed that the DBC was comfortable Redington had met the ESG (including climate change) objectives set, and no further recommendations were made.

The DCC, as part of its annual strategic investment consultant objectives has set the DC investment adviser (LCP) an objective to "help the DCC implement an investment strategy that integrates its policy on ESG (including climate change) and stewardship". The DCC reviewed LCP's performance against this objective during the Scheme Year. The DCC were comfortable following this review that LCP had met this objective, and no further recommendations were made.

The Trustee's advisers are members of a number of bodies such as the Institutional Investors Group on Climate Change (IIGCC), Investment Consultants Sustainability Working Group (ICSWG), Net Zero Investment Consultant Initiative (NZICI), Pensions for Purpose and Glasgow Financial Alliance for Net Zero (GFANZ). The Trustee's actuarial adviser, Mercer, also participates in the Institute and Faculty of Actuaries Climate Risk and Sustainability course.

Redington, LCP and Mercer's competence and expertise on climate-change is demonstrated through the fact they are all signatories to the UK Stewardship Code and on an ongoing basis through the provision of timely, relevant, and accurate advice and guidance on the subject at CWG, DCC, and DBC meetings.

IIGCC	The IIGCC brings together institutional investors and asset managers to tackle the risks and opportunities associated with climate change.
ICSWG	The ICSWG is a collaborative effort among leading UK investment consulting firms. Their mission is to enhance sustainable investment practices across the investment industry.
NZICI	The NZICI initiative aims to align the practices and recommendations of investment consultants with the objectives of the Paris Agreement and the broader transition to a low-carbon economy.
Pensions for Purpose	Pensions for Purpose is a UK-based platform that connects pension funds, asset managers, and service providers with resources and information to facilitate sustainable and impact investing.
GFANZ	The GFANZ is the world's largest coalition of financial institutions committed to transitioning the global economy to 'Net Zero' greenhouse gas emissions by 2050, in line with the Paris Agreement targets.

Investment managers

The Trustee seeks to appoint managers that have appropriate skills and processes to take account of ESG (including climate change) risks and opportunities.

As part of their advice on the selection and ongoing review of the investment managers, the Scheme's investment advisers incorporate into their assessment the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement.

DB investment managers

In relation to DB investment managers, Redington provides quarterly updates to the Trustee (via the DBC) on the performance of the investment managers including in relation to ESG (including climate change). Further, the DBC meets with the Scheme's DB investment managers on a broadly two-yearly cycle. As part of this process, the DBC questions the investment managers on relevant issues, including those related to climate change, such as how climate change risks and opportunities are taken into account in security selection, and how the managers undertake stewardship and engagement related to climate change issues. As the DB Section assets are fixed income in nature, there are typically no voting rights attached to the investments.

DC investment managers

In relation to DC investment managers, the Trustee (via the DCC) reviews LCP's RI scores for the Scheme's existing investment managers and funds on a quarterly basis as part of the performance monitoring report. These scores cover the investment manager's approach to ESG factors, voting and engagement. Commentary is provided for any funds with lower RI scores so that the Trustee can monitor any steps being taken by the investment manager to improve these scores over time. In addition, an explanation is provided for any fund RI scores that change over the quarter. The fund scores and assessments are based on LCP's ongoing manager research programme, and it is these that directly affect LCP's investment manager and fund recommendations.

During the Scheme year, LCP also provided analysis on ESG integration in the default strategy and concluded that there is some ESG integration in the default strategy through all of the funds, except for the L&G passive regional equity funds used in the Growth Fund and Pre-Retirement Fund. As a result, LCP recommended consideration be given to the use of passive low carbon equity funds as an alternative. These changes were implemented in October 2023, as part of the modifications made to the default following the conclusion of the triennial strategy review.

Section 2: Strategy and scenario analysis

This section describes the climate-related risks and opportunities the Trustee has identified over the short, medium and long-term.

There are two types of climate risk – **physical risk** and **transition risk**.

- **Physical risks** relate to the physical impacts of climate change (e.g. a rise in sea levels could result in flooding and mass migration).
- **Transition risks** are the risks of transitioning to a lower-carbon economy which may entail extensive policy, legal, technology and market changes (e.g. changes in industry regulation, consumer preferences and technology will take place and impact on current and future investments).

Climate-related opportunities are actions that the Trustee could take to better position the Scheme’s investment strategy to take advantage of the potential upside related to the climate transition, such as the emergence of new investment opportunities (e.g. new sectors, technologies, etc.). This may ultimately have a positive impact for members’ investments.

1. Identification and assessment of climate-related risks and opportunities relevant to the Scheme

Trustees are required to decide the short, medium and long-term time horizons that are relevant to their scheme. It is up to trustees how they determine their time horizons for the purpose of identifying and assessing climate-related risks and opportunities. Time horizons should be scheme-specific and, where a scheme has DB and DC sections, the selected time horizons are not required to be aligned.

The Statutory Guidance recommends that trustees should take account of the following considerations when setting time horizons:

In a DB scheme or a DB section of a scheme, the likely time horizon over which current members’ benefits will be paid. This may be the longest time horizon they will need to consider.	In a DC scheme or a DC section of a scheme, the likely time horizon over which current members’ monies will be invested to and through retirement. This may be the longest time horizon they will need to consider.
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The Trustee of the Scheme has taken these considerations into account in the course of its discussions on the appropriate time horizons for the DB and DC Sections of the Scheme. In setting the time horizons, the Trustee has taken account of the membership profile of the DB Section and DC Section respectively and the timing of widely held future climate milestones. The Trustee has also had regard to TPR's guidance when considering which time horizons are appropriate for each section of the Scheme.

These time horizons informed the Trustee's climate-related considerations and decisions during the Scheme Year.

What time periods has the Trustee defined as short term, medium term and long-term time horizons relevant to the Scheme?

DB section

The Trustee has defined the time horizons set out in the table below for the DB Section of the Scheme.

These horizons were adopted by the Trustee during the Scheme year to 5 April 2023. The Trustee is of the view that these time horizons remain appropriate for the DB Section of the Scheme.

Term	Time period	Rationale
Short	3 years from 5 April 2022	To be in line with the triennial actuarial valuation cycle
Medium	8 years from 5 April 2022	The Trustee expects to take high-level, climate-related investment and funding decisions over this period, pending changes in the quality of climate change data and in the Climate Regulations, where relevant, given its overall funding, investment and covenant positions
Long	20 years from 5 April 2022	This time period is in line with the duration of the liabilities of the Scheme assessed at 5 April 2022

DC Section

The Trustee has defined the time horizons set out in the table below for the DC Section of the Scheme which were adopted by the Trustee during the Scheme year to 5 April 2023. The Trustee is of the view that these time horizons remain appropriate for the DC Section of the Scheme.

Term	Time period	Rationale
Short	5 years from 5 April 2022	Major improvements in climate data quality are expected over this period
Medium	10 years from 5 April 2022	Key period over which policy action will determine if Paris Agreement goals are met
Long	20 years from 5 April 2022	To reflect the closed nature of the Scheme and its older demographics

The Trustee will review the designated time periods every three years to tie-in with the Trustee’s triennial investment and funding reviews.

DB Section

What climate-related risks and opportunities relevant to the has the Trustee identified and how are these risks and opportunities expected to impact the Scheme’s investment strategy?

Investment opportunities

Due to the high funding level of the DB Section of the Scheme, the Trustee has adopted an investment strategy with a relatively low risk-return profile to meet its strategic objectives. As such the Trustee has not been actively considering higher-return investment opportunities arising from climate change and the broader transition to a low-carbon economy (such as green infrastructure type investments). The Trustee has however, invested in “Green Gilts” through its LDI portfolio. These are UK Government bonds whose proceeds will be used to finance green projects such as the construction of renewable energy infrastructure and clean transportation projects.

Investment risks

As a credit investor, relevant climate-related risks are ones which would lead to downgrade or default on its bond holdings prior to their maturity. Transition risks are likely to be most relevant given the maturity profile of the bonds, but for some longer-dated bonds physical risks may become more significant.

Longevity risks

The Trustee, having taken advice from Mercer, has also identified the impact of climate on longevity as a risk, given the Trustee does not hedge its longevity risk. It believes that it is impossible to accurately predict the impact on longevity of climate change due to the wide range of risks, and the complex interactions between these risks.

The Trustee has considered some of the possible ways in which climate change could impact longevity, including:

- i. An increase in catastrophic events such as floods, fires, famines, droughts and severe storms
- ii. Interruptions to water and food supplies
- iii. Risks to health from vector-borne diseases
- iv. Increased deaths due to ‘spikes’ in temperature fluctuations
- v. Changes in health due to generally warmer temperatures
- vi. Changes in health due to changes in behaviour
 - Beneficial effects e.g. reduced air pollution / healthier lifestyles driven by more walking/cycling/public transport
 - Harmful effects e.g. consequences of energy price rises / changes to diets resulting from point (ii)
- vii. Wider macroeconomic impacts such as the reallocation of resources (i.e. away from healthcare and social care)

Over the Scheme Year, the Trustee, with advice from Mercer, has analysed the Scheme's liabilities and determined that these are predominantly UK based. As the DB Section is closed to new entrants and has been for many years, overall, the Scheme is less sensitive to those factors that might be expected to take a number of decades to substantively impact the UK. As part of the most recent triennial funding valuation (which had an effective date 5 April 2023) during the 9 June 2023 valuation sub-committee meeting, and the 28 June 2023 CTB Meeting, the Trustee considered the climate-related longevity impact and concluded that uncertainty is higher in respect of younger generations. The Trustee also acknowledges there is expected to be more funding risk (burden) associated with climate-positive scenarios and their implications for improved shorter-term mortality for current pensioners. The Trustee believes that the main risks that are likely to significantly impact the Scheme are points (vi) and (vii) in the above list and believes that these risks could either increase or reduce longevity.

Overall mortality changes arising from the direct and indirect impact of climate change are not currently expected to have a material impact on the funding strategy, but the Trustee will keep this under review.

How are these risks and opportunities expected to impact the Scheme's funding strategy?

The scenario analysis later in the report shows that the impact of climate risk is unlikely to be significant enough to cause a deficit to arise that could not be supported by the Citi covenant.

The Trustee has also sought input from Mercer, as the Scheme's covenant advisers, on the impact of climate related risks on the employer covenant.

Mercer provided the CWG with an update on their covenant analysis in October 2023. This concluded the financial strength of Citi to be materially unchanged and the overall covenant of Citi remained strong. Coupled with the strong funding position, Mercer were of the view that covenant risk generally remained low.

The Trustee was therefore comfortable taking a proportionate approach to the consideration of the impact of climate related risks on the employer covenant in the context of the DB funding strategy.

Mercer's view remained that as Citi is a market leader, with a well-diversified revenue base and operates globally they do not anticipate any material risk to the business other than potentially reputational (e.g. lending exposure to projects considered to have significant negative climate impacts or greenwashing in its sustainable financing).

Going forward it has been agreed that climate-related risks to the covenant continue to be monitored.

The Trustee will continue to engage with Citi to understand the potential climate-related risks the group is exposed to and what is being done to mitigate these, including any reduction in exposure to higher climate change risk sectors (e.g. fossil fuels).

In addition, to support the initial observations made above, the Trustee has instructed Mercer to prepare a more detailed paper to consider the physical and transitional risks that may impact the Citi employer covenant, over the short, medium, and longer-term during the next Scheme year.

Given the above, the Trustee has concluded that climate-related risks and opportunities are currently unlikely to impact the Scheme's overall funding strategy significantly, but they will continue to monitor the Scheme's overall reliance on covenant and its ability to underpin funding and investment risks as part of its integrated risk management approach.

DC Section

What climate-related risks and opportunities relevant to the Scheme has the Trustee identified?

The Trustee has identified and assessed the risks and opportunities to the Scheme over the short, medium, and long-term time horizons identified by the Trustee. At a high-level, the risks and opportunities identified are set out in the table below.

These risks and opportunities are considered further in the rest of this Climate Report.

Time Period	Key risks	Key opportunities
Short-term	Older members will be most exposed to transition risks, in particular under a Paris disorderly pathway, whereby a material market repricing event could see the value of their DC pot fall significantly and potentially impact their retirement plans.	Over the short-term, the various regulatory requirements highlight the huge opportunity for innovation to drive down carbon use across many industries through the creation and use of new technology.
Medium-term	Transition risks may still be heightened over the medium-term creating volatility. Market returns may be lower if disorderly transition harms economic performance.	Over the medium-term, new low carbon industries may emerge which the Trustee could take advantage of. This may require longer term funding to scale up to meet the low carbon transition goals.
Long-term	Physical risks are most severe in the Failed Transition pathway, impacting younger members (e.g. those 20 years or more from retirement).	Over the long-term, most companies should be net zero or even carbon negative if Paris goals are to be met. Opportunities will lie with those companies that position themselves before others to benefit from this transition.

How are these risks and opportunities expected to impact the Scheme's investment strategy?

The potential impact of climate-related risks and opportunities on the Scheme's investment strategy was explored by the CWG and the DCC in-depth through their consideration of climate scenario analysis during the last Scheme year (see section 2 below) and the most recent climate-related metrics calculated in the Scheme Year (see section 4 below).

As noted in the First Report, climate scenario analysis of the potential effects on member outcomes showed that different groups within the Scheme's DC membership are likely to be exposed to the impact of different types of climate risk on financial markets (e.g. transition risk, physical risk).

Analysis of the updated climate-related metrics during the Scheme Year demonstrated that the DC Scheme's equity allocation, (taken in its entirety) continues to be the most exposed of any asset class in the "popular arrangement" to climate-related risks.

As a result, the primary opportunity for the Scheme was to replace the existing passive regional equity funds in the 'popular arrangements' with low carbon equivalents. These changes were implemented in October 2023 and the Trustee believes that in taking this opportunity the Scheme is better placed to mitigate the climate-related risks members face to some extent.

The DCC also continues to receive regular updates on its DC investment adviser's view of the ESG credentials of its investment managers, including any material changes to those credentials that could have an impact on the performance of the default arrangements and self-select arrangements available to members of the Scheme. This enables the DCC to assess the impact of ESG risks and opportunities on the Scheme's investment arrangements, including those related to climate, on an ongoing basis.

2. Climate scenario analysis

The Trustee is required to carry out scenario analysis at least every three years and following any material changes to the Scheme’s DB sections or DC “popular arrangements”.

As set out in the First Report, the Trustee undertook scenario analysis in November 2022.

During the Scheme Year, the Trustee considered whether it was necessary or appropriate to undertake new scenario analysis. The Trustee concluded that there was no need to re-run the scenario analysis at this stage given that:

- (i) there have not been any material changes to the Scheme’s DB sections’ investment or funding strategy; and
- (ii) as the DC investment strategy changes, including the incorporation of climate-titled passive equity funds in the Scheme’s DC “popular arrangement”, were only implemented in October 2023 towards the end of the Scheme Year, any impact of these changes on the scenario analysis would be limited and instead it would be more useful for updated scenario analysis to be undertaken during the next Scheme year once the strategy changes had been implemented for a longer period of time.

As such, the scenario analysis set out in this section of the Climate Report remains the same as set out in the First Report.

The Trustee’s overall approach to scenario analysis remains under review, as best practice continues to develop in this area. During the Scheme Year, the CWG (with input from the Scheme’s advisers) discussed developing industry trends in relation to the models used for scenario analysis and further consideration will be given to this during the next Scheme Year.

Overview

This section of the Climate Report describes the resilience of the Scheme’s investment and funding strategy taking into account different climate-related scenarios (including one scenario where there is an increase in the global average temperature between 1.5 degrees Celsius to 2 degrees Celsius above pre-industrial levels in line with the Paris Agreement goals) and the potential impacts on the Scheme that these scenarios have identified.

DB Section

Climate Scenarios Considered

In order to assess the impact on the Scheme's DB assets, in November 2022, the Trustee undertook scenario analysis consistent with the Prudential Regulation Authority's (PRA) Life Insurance Stress Tests as recommended by Pensions Climate Risk Industry Group (PCRIG). The stresses are designed to show what the worst-case impact on the value of the Scheme's DB assets would be in the following scenarios:

Transition	Description
Scenario A: Fast Transition	Abrupt transition to the Paris-aligned goal occurring in three years (temperature increase kept below 2 degrees Celsius relative to pre-industrial levels)
Scenario B: Slow Transition	Orderly transition to the Paris-aligned goal occurring by 2050 (temperature increase kept below 2 degrees Celsius relative to pre-industrial levels)
Scenario C: No Transition	A no-transition scenario occurring in 2100 (temperature increase in excess of 4 degrees Celsius relative to pre-industrial levels)

Modelling Approach and Limitations

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.

Scenario Analysis results

The results of the scenarios provide the Trustee with a clear overview of how resilient the investment strategy is expected to be with regards to various different climate change outcomes. These can be seen as at the baseline analysis date, 31 March 2022, in the table below.

These impacts have been qualified through both an impact on the Scheme’s DB assets and the resulting estimated effect on its funding level.

Scenario	Impact on surplus (£m)	Impact on funding level (%)
Scenario A: Fast Transition	-8.5	-0.6
Scenario B: Slow Transition	-9.9	-0.6
Scenario C: No Transition	-9.2	-0.1

These results demonstrate that as of 31 March 2022, the Scheme’s DB investment strategy is projected to be resilient to the various climate change outcomes with only a modest expected deterioration in asset valuations and funding levels. The deterioration in all cases would still leave a material surplus on the Scheme’s funding basis. This provides an additional buffer should longevity-related impacts (not captured in the analysis above) further reduce the funding level. However, the Trustee is aware of the limitations and reliability of the current scenario analysis and in particular the plausibility of the “no transition” scenario leading to a smaller impact on the funding position than the other scenarios has to be questioned. The CWG will therefore be considering its approach to scenario analysis during the next Scheme Year.

DC Section

Climate Scenarios Considered

The Trustee carried out climate scenario analysis for the DC Section of the Scheme in November 2022 with the support of its DC investment adviser, LCP. The analysis looked at three possible scenarios, which are set out in the table below.

Transition	Description	Why the Trustee chose it
Failed Transition	Global Net Zero not reached; only existing climate policies are implemented.	To explore what could happen to the Scheme's finances if carbon emissions continue at current levels and this results in significant physical risks from changes in the global climate that disrupt economic activity.
Orderly Net Zero by 2050	Global Net Zero CO2 emissions is achieved by 2050; rapid and effective climate action (including using carbon capture and storage), with smooth market reaction.	To see how the Scheme's finances could play out if the Paris Agreement goals are achieved, meaning that the economy makes a material shift towards low carbon by 2030.
Disorderly Net Zero by 2050	Same policy, climate and emissions outcomes as the Orderly Net Zero by 2050, but financial markets are slower to react, and then react abruptly.	To look at the risks and opportunities to the Scheme if the Paris Agreement goals are met, but financial markets are volatile as they adjust to a low carbon economy.

Modelling Approach and Limitations

The scenario analysis is based on a model developed by OrtecFinance and Cambridge Econometrics. The outputs were then applied to the Scheme's assets by LCP.

- ❖ The three climate scenarios are projected year by year, over a 40-year period. The results are intended to help the Trustee to consider how resilient the popular arrangement is to climate-related risks.
- ❖ The three climate scenarios chosen are intended to be plausible, not "worst case". They are only three scenarios out of countless others that could be considered by the Trustee.
- ❖ Other scenarios could give better or worse outcomes for Scheme members.

The climate scenarios used by the Trustee are subject to limitations. As the model uses a "top-down" approach, investment market impacts were modelled as the average projected impacts for each asset class. This contrasts with a "bottom-up" approach that would model the impact on each individual investment held by the popular arrangement. As such, the modelling does not require extensive scheme-specific data and so the Trustee was able to consider the potential impacts of the three climate scenarios for all the Scheme's assets in the popular arrangement.

However, in practice, the Scheme's investments may not experience climate impacts in line with the market average. Like most modelling of this type, the model does not allow for all potential climate-related impacts and, therefore, is quite likely to underestimate some climate-related risks. For example, tipping points (which could cause runaway physical climate impacts) are not modelled and no allowance is made for knock-on effects, such as climate-related migration and conflicts.

In addition, the model presumes that the UK government and bank counterparties will remain solvent, thereby making no allowance for credit risk on government bonds and derivative exposures. However, in a scenario where global warming exceeds 4 degrees Celsius, this assumption may no longer be valid.

Although the Trustee acknowledges that many alternative plausible scenarios exist, it found these to be a helpful set of scenarios to explore how climate change might affect the Scheme in future. To provide further insight, the Trustee also compared the outputs under each scenario to a "climate uninformed base case", which makes no allowance for either changing physical or transition risks in future.

These scenarios show that equity markets could be significantly impacted by climate change with lesser but still noticeable impacts in bond markets. All three scenarios envisage, on average, lower investment returns and these result in lower retirement outcomes for DC members. The key features of each of the climate scenarios considered are summarised in Appendix 5.

Member Demographics Considered

The scenario analysis looked at the retirement outcomes (in terms of the size of retirement pots) for individual members of different ages who are invested in the Drawdown Lifestyle strategy (as the Scheme's only DC "popular arrangement"). Scenarios were not considered for other lifestyle arrangements (i.e. the Annuity Lifestyle and Cash Lifestyle) or for the Scheme's self-select funds.

For the Drawdown Lifestyle strategy, the Trustee chose to carry out scenario analysis for a representative sample of the Scheme's membership invested in this arrangement. This meant that the analysis assessed the potential outcomes under different scenarios for members aged 25, 35, 45, and 55 at the time of the analysis for the Drawdown Lifestyle. A target retirement age of 60 was assumed, in line with the default target retirement age for the Scheme.

It also meant that scenarios were considered for active and deferred members of the Drawdown Lifestyle. Given the majority of members in the Scheme are deferred (c. 96%) scenario analysis in respect of deferred members is likely to be more meaningful.

The scenarios only extend to the Scheme's target retirement age (60) and, therefore, do not account for the fact that members may remain invested beyond this date (either in the Scheme or in an income drawdown arrangement outside of the Scheme). The Trustee believes the assumption that members will not remain invested post-retirement is not realistic, particularly given their current expectation that a large proportion of Scheme members will choose to gradually withdraw their pension savings during retirement (i.e. via income drawdown). However, at the time it was carried out, the modelling capability did not allow the Trustee to consider members in retirement.

Scenario Analysis Results

As noted in the First Report, the scenario analysis carried out in November 2022 highlighted that Scheme members will be subject to climate-related risks to varying degrees. In addition to the impact over time on members' pots, the Trustee notes that market shocks for members near retirement can be particularly detrimental to their retirement planning and outcomes.

For Scheme members invested in the Drawdown Lifestyle, the key results of the analysis are as follows:

- In the **short-term**, older members who may retire within the next 5 years, active and deferred members could see the most significant decrease in their benefits under a Paris Disorderly Transition, particularly as their savings remain invested in return-seeking assets to some degree all the way to retirement, although the proportion decreases over time, which helps to mitigate this risk.
- In the **medium-term**, members with 10 or more years until they retire, active and deferred members are likely to see a significant impact on their retirement funds, initially from a Paris Disorderly Transition or, later on, under a Failed Transition scenario as the impacts of physical climate change affect their benefits during their period to retirement.
- In the **long-term**, younger members (active and deferred) could see the biggest detrimental impact to their benefits under a Failed Transition scenario as increasingly severe physical impacts emerge over time.

The tables below show the results of the climate scenario analysis for active and deferred members invested in the Drawdown Lifestyle Strategy in full.

Active members (Drawdown Lifestyle Strategy):

	Member aged 25	Member aged 35	Member aged 45	Member aged 55
Starting pot	£5,400	£30,100	£96,700	£120,600
<i>Change relative to climate-uninformed outcome in brackets</i>				
Climate-uninformed outcome	£624,500	£642,600	£504,900	£215,400
Orderly Net Zero by 2050 outcome	£587,500 (-6%)	£616,400 (-4%)	£488,500 (-3%)	£211,700 (-2%)
Disorderly Net Zero by 2050 outcome	£578,200 (-7%)	£599,800 (-7%)	£465,000 (-8%)	£205,100 (-5%)
Failed Transition outcome	£480,100 (-23%)	£508,300 (-21%)	£469,400 (-7%)	£213,600 (-1%)

Deferred members (Drawdown Lifestyle Strategy):

	Member aged 25	Member aged 35	Member aged 45	Member aged 55
Starting pot	£2,600	£24,500	£48,800	£67,600
<i>Change relative to climate-uninformed outcome in brackets</i>				
Climate-uninformed outcome	£8,900	£59,800	£79,200	£73,300
Orderly Net Zero by 2050 outcome	£7,700 (-13%)	£54,000 (-10%)	£74,100 (-6%)	£71,600 (-2%)
Disorderly Net Zero by 2050 outcome	£6,900 (-22%)	£48,600 (-19%)	£66,800 (-16%)	£69,200 (-6%)
Failed Transition outcome	£5,300 (-40%)	£40,800 (-32%)	£71,300 (-10%)	£72,700 (-1%)

Section 3: Risk Management

This section describes the Trustee's process for identifying, assessing and managing climate-related risks.

1. Processes and tools for identifying and assessing climate-related risks

Risk registers

The CWG has considered the type of climate-related risks the Scheme could be exposed to i.e. physical and transition risks and what climate change opportunities may look like at its meetings during the Scheme Year.

The following climate specific risks are currently included in the DBC and DCC risk registers (as appropriate):

- The range of investment options is not suitable for members (including a failure to take account of relevant material financial factors, including ESG and climate change).
- The default and lifestyle arrangements are not suitable for members (including a failure to take account of relevant material financial factors, including ESG and climate change).
- Inadequate expertise, understanding, and capability and/or stewardship practices, of managers, including in relation to ESG and climate change risks.
- The investment strategy fails to take into account relevant material financial factors (including ESG and climate change risks).
- ESG and climate change risks are not understood or factored into decision making around DB funding appropriately.
- A failure to understand and take account of relevant factors (including ESG and climate change) that may affect the employer covenant.

During the Scheme Year, the Trustee (through the CWG and then the DBC and DCC) with input from its investment, actuarial and legal advisers considered whether any new climate-related risks should be added to the DBC and DCC risk registers (as appropriate), however, it was agreed that no additional climate-related risks needed to be added to the risk registers at this point in time.

The DBC and DCC risk registers are considered at the relevant committee meetings on a quarterly basis and any new risks identified or changes to the assessment of a risk are subsequently captured in the risk registers.

Any new or changing climate-related risks will also continue to be considered by the CWG (or DBC/DCC as appropriate) on an ongoing basis.

Integrated risk management

The Trustee also has a Risk Committee which focuses on looking at the approach to integrated risk management within the Scheme. This includes any further integration of climate-related risks into overall risk management within the Scheme.

Assessment of employer covenant risk

The Trustee sought input from Mercer, as the Scheme's covenant adviser, on its view on the impact of climate-related risks on the employer covenant as set out in section 2 above.

Climate metrics and scenario analysis

During the Scheme Year, the Trustee (through the CWG and DCC/DBC, and with input from its advisers), also considered the output from the latest climate-related metrics calculations (see section 4 of this report) and the climate scenario analysis carried out in November 2022 (see section 2) to identify the types of climate change risks (physical or transition) most likely to affect different groups of members (DB/DC, younger/older, active/deferred, etc.), the significance of these risks for these different groups of members, and potential actions the Trustee could take to mitigate these risks.

2. Management of climate-related risks

Investment strategy changes

DB Section	DC Section
<p>In the DB portfolio, the Trustee manages the climate change risks to which it is exposed by investing in a diversified pool of high-quality credit assets. No significant investment strategy changes were deemed necessary as a result of climate change considerations.</p>	<p>During the Scheme Year, the Trustee focused on what action it could take in relation to the investment strategy of the popular arrangement in the DC Section to mitigate climate change risks.</p> <p>In October 2023, following the advice of the Scheme’s DC investment adviser, the Trustee replaced the regional passive equity funds used in the Drawdown Lifestyle with climate-tilted alternatives. The funds implemented by the Trustee benefit from a clear decarbonisation pathway that decreases exposure to stocks exposed to climate transition risk and increases exposure to those with green revenues.</p>

Stewardship

Stewardship is also used as a risk management tool.

The Trustee has delegated to its investment managers the exercise of rights and engagement activities in relation to investments, as well as seeking to appoint managers that have strong stewardship policies and processes.

The Trustee has agreed that it will engage with investment managers to ensure they are exercising stewardship in support of alignment with Paris Agreement goals, discuss the SBT with them (see section 4 below), and ask them what they are doing through stewardship efforts to increase the proportion of companies within their portfolios with SBT.

DB Section

In Q2 2023, the DBC selected two key stewardship priorities one of which is Climate Change. The DBC believes climate change risks are important market-wide risks and that good stewardship and engagement in this area can improve long-term financial outcomes for the Scheme's DB members.

These stewardship priorities were communicated to the Scheme's investment managers in Q3 2023, along with the Trustee expectation of all its investment managers to practice good stewardship and to exercise influence wherever possible. It is the Trustee's preference to only appoint managers with strong stewardship policies and processes. It notes that as the DB Section assets are fixed income in nature, there are typically no voting rights attached to the investments.

The Trustee has in place a manager meeting schedule. It uses these meetings to help assess how managers are engaging with the investee companies to manage climate-related risks to their portfolios and minimise the risk of downgrades or defaults. The Trustee reviewed LGIM in Q4 2023 under this schedule.

DC Section

Following the publication of the DWP's guidance on stewardship in June 2022, in March 2023 the DCC communicated its four stewardship priorities to its investment managers. The priorities the DCC has selected are those it believes to represent key market-wide risks and areas where it believes that good stewardship and engagement can improve long-term financial outcomes for the Scheme's DC members.

Climate change was one of the priorities identified. It, along with other stewardship priorities, was communicated to the Scheme's investment managers in March 2023. The Trustee has also made its DC investment managers aware that it endorses the expectations that its DC investment adviser has set for investment managers in relation to Net Zero emissions in asset management.

As part of its communication to its investment managers, the Trustee also indicated that it prefers managers who are signatories to the Principles for Responsible Investment, UK Stewardship Code, and Net Zero Asset Manager Initiative.

DC Section Case study: Royal Dutch Shell Plc. (May 2022)

- Legal & General Investment Management (LGIM) invests in Royal Dutch Shell PLC (“Royal Dutch Shell”) through its underlying investment funds, such as the L&G UK Equity Index Fund. Shareholders were invited to vote on ‘Resolution 20 – Approve the Shell energy transition progress update’ on 24 May 2022.
- This vote was deemed significant as it is an escalation of L&G’s climate-related engagement activity and L&G’s public call for high quality and credible transition plans to be subject to a shareholder vote.
- LGIM voted against the resolution as although it acknowledges the substantial progress made by the company in strengthening its operational emissions reduction targets by 2030, as well as the additional clarity around the level of investments in low carbon products and demonstrating a strong commitment towards a low carbon pathway, it remains concerned about the disclosed plans for oil and gas production, and would benefit from further disclosure of targets associated with the upstream and downstream businesses.

Section 4 – Metrics and Targets

This section explains the metrics and targets the Trustee has set to help measure, manage and disclose climate-change impact. It also highlights some of the current challenges associated with collecting carbon and climate-related data.

1. Metrics

The Trustee is required to select one absolute emissions metric, one emissions intensity metric, one portfolio alignment metric, and one additional climate change metric, in relation to the Scheme's assets and to use the calculations of those metrics in order to assess the climate-related risks and opportunities which are relevant to the Scheme.

The metrics data provides a snapshot of the selected climate metrics at portfolio level and offers a means of helping the Trustee to monitor exposures to climate-related risks and opportunities. However, the metrics are not intended to be a comprehensive guide to climate risk in the relevant portfolios, nor do they provide a definitive understanding of a portfolio's climate characteristics.

As noted in the First Report, the metrics that pension schemes are able to report on are constrained by the data investment managers can provide. This is because the requirement to report climate-related metrics remains relatively new. As investment managers adapt to the new requirements, more consistent data is likely to become available. Appendix 2 sets out further information on the current issues with climate data.

The Trustee decided to retain its existing climate metrics (as set out below) for the Scheme Year. These metrics apply to both the DB and DC Sections of the Scheme.

Metric	Selected
Absolute emissions	<p>Total GHG emissions of Scheme assets. This is the absolute emissions metric that is recommended in the Statutory Guidance. It measures the total GHG emissions attributable to a portfolio (where data is available or can be estimated). Initially, only Scope 1 and 2 emissions were required, with Scope 3 added this year.</p>
Emissions intensity	<p>Carbon footprint, this gives the total emissions per unit of currency invested by the Scheme. Carbon Footprint is useful for comparing asset classes / portfolios to one another, and to a benchmark, because it is normalised.</p>
Portfolio alignment	<p>% of portfolio with SBT, this examines whether a voluntarily disclosed company decarbonisation target is aligned with a relevant science-based pathway. SBT shows companies how much and how quickly they need to reduce their GHG emissions to prevent the worst effects of climate change.</p> <p>Targets are deemed to be ‘science-based’ if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement. This means that if a company has set a science-based target, it is in line with limiting the overall warming of the planet to well below 2°C above pre-industrial levels and is pursuing efforts to limit warming to 1.5°C.</p>
Additional climate change	<p>Data coverage, calculating the % of the portfolio for which data is available.</p> <p>The Trustee believes this metric provides a useful “confidence indicator” in the accuracy of data availability.</p> <p>Data coverage is an important factor in the Scheme’s efforts to manage climate risk, because it provides a basis for investors to encourage continued improvements in the quality of climate-related reporting that is available.</p>

The Trustee has calculated these metrics during Q3 and Q4 of 2023 using an as at date of 31 March 2023 (the nearest quarter end to the previous Scheme Year end date) for the underlying portfolio holdings data. The Trustee considered these calculations at meetings of the CWG, DBC and DCC in Q3 and Q4 of 2023. A further explanation of these metrics is included in Appendix 4 of this report.

DB Section

The metrics shown below relate to the corporate bond holdings of the Scheme only, as emissions from gilts are currently excluded due to methodological challenges.

Metrics	As of 31 March 2022 (Base year)	As of March 2023
Absolute Emissions		
Scope 1&2 Emissions (tonnes)	56,800	52,300
Estimated Scope 3 Emissions (tonnes)	276,600	245,500
Estimated Total GHG (GHG) Emissions (tonnes)*	117,700	106,300
Emissions Intensity		
Scope 1&2 Carbon Footprint (tCO ₂ e/ EVIC £m)	111.2	137.7
Estimated Scope 3 Carbon Footprint (tCO ₂ e/ EVIC £m)	541.0	646.3
Total Carbon Footprint (tCO ₂ e/ EVIC £m)	230.2	279.9
Additional Climate change		
Data Coverage (%)**	80.5%	85.8%
Portfolio Alignment		
SBT (%)	27.1%	27.5%

* Please note: total carbon emissions / carbon footprint (i.e. Scope 1 + Scope 2 + Scope 3) will equal less than the sum of its parts as the Scope 3 emissions figures have been adjusted for double counting by applying a de-duplication multiplier of 0.22 to all portfolio companies' Scope 3 emissions (there can be some degree of double counting in

including Scope 3 emissions for all investments in the same portfolio, e.g. due to the potential supply chain relationships between companies within the portfolio). This is the discount factor used by the Scheme's ESG data provider and is designed to reduce the portfolio's aggregated Scope 1, 2 and 3 emissions down to a level more closely reflecting the real-world footprint.

*** The data coverage metric relates to the percentage of the portfolio (excluding cash holdings) for which there is Scope 1 and 2 emissions intensity data.*

Conclusions

From the analysis above, based on the corporate bond holdings of the DB Section of the Scheme, the Trustee has concluded that:

- The carbon emissions data provides the Trustee with useful information to assist in its engagement with investment managers. The absolute emissions have reduced over the year by c.10%, primarily due to the impact of rising interest rates on asset values and an exercise to rebalance out of credit assets into Gilts to bring the Scheme back in line with the strategic asset allocation following the gilts crisis in Q3 and Q4 2022.
- The carbon footprint data – which is a measure of carbon intensity and is therefore normalised for the size of investment – is relatively similar between each of the Scheme's corporate bond managers. The total carbon footprint for the Scheme has increased from the baseline figure of 230.2 tCO₂e/£m to 279.9 tCO₂e/£m, driven by lower asset valuations within credit assets leading to similar carbon emissions being spread over smaller £m amounts.
- The Trustee notes that whilst there is data coverage across the majority of its corporate bond holdings, improvement in data coverage will give the Trustee greater confidence in its other climate-related metrics in future. The data coverage metric has made progress towards the data coverage target of 95% and has risen c.5% over the year.
- The Scheme's SBT metric has marginally improved year-on-year. The SBT metrics are broadly similar between the Scheme's corporate bond managers, and all have room for future improvement. The Trustee's view is that engagement with its investment managers should help to drive an increase in the proportion of underlying issuers with SBT targets over time.

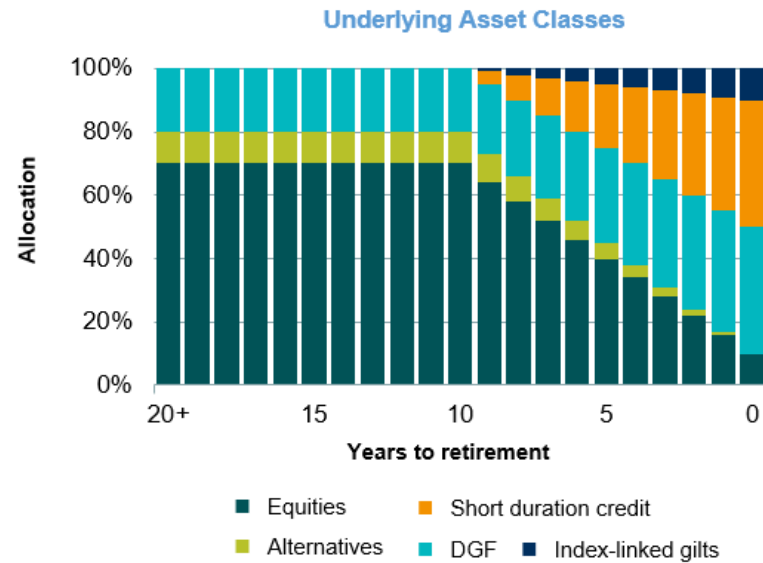
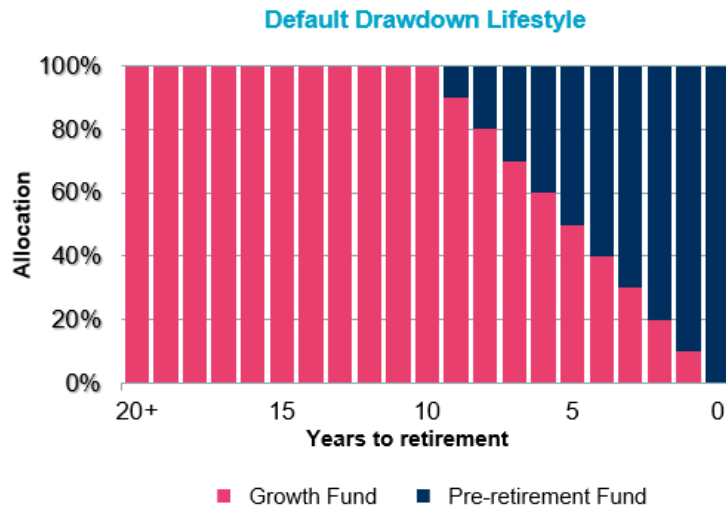
DC Section

The metrics have been calculated using data made available by the Scheme’s DC investment adviser’s climate metrics provider, MSCI ESG Research (UK) Limited and its investment managers (where appropriate).

The data has been calculated in relation to the Scheme’s sole “popular arrangement”, the Drawdown Lifestyle, and the Trustee has collected data on this arrangement as far as it was able.

Drawdown Lifestyle

The glidepath and asset allocation for the Drawdown Lifestyle in force at the date the climate metrics were calculated (31 March 2023) are shown below. Following the implementation of strategy changes, the glidepath and underlying passive equity funds, as well as the DGF allocation, used in the Drawdown Lifestyle have changed. These changes took place in October 2023 and will be reflected in the Scheme’s next climate report.



Climate metrics for the Drawdown Lifestyle

The table below shows a breakdown of the climate metrics by asset class for the Drawdown Lifestyle Strategy (data from the First Report is shown in brackets).

In preparing this report, the Trustee was able to collect data for all asset classes used in the Strategy, including its direct allocation to government bonds and alternative assets (it was not previously able to collect data for these asset classes). However, consistent with the First Report, the Trustee was unable to collect data on government bond exposure in the DGFs used in the Drawdown Lifestyle Strategy.

Fund	Fund value (£m)	Absolute emissions metric		Emissions intensity metric		Additional climate change metric		Portfolio alignment metric
		Scope 1 and 2 emissions (t CO2e)	Scope 3 emissions (t CO2e)	Scope 1 and 2 carbon footprint	Scope 3 carbon footprint	Scope 1 and 2 data coverage (%) ¹	Scope 3 data coverage (%) ¹	Portfolio alignment (SBTI %)
Equities	59 (66)	4,476 (6,307)	31,686 (Not reported)	80 (97)	567 (Not reported)	96 (98)	95 (Not reported)	37 (29)
Corporate bonds	21 (21)	758 (1,065)	4,251 (Not reported)	59 (71)	338 (Not reported)	61 (72)	60 (Not reported)	25 (22)
Government bonds	5 (Not reported)	743 (Not reported)	467 (Not reported)	135 (Not reported)	85 (Not reported)	100 (Not reported)	100 (Not reported)	N/A (N/A)
Diversified growth funds	37 (38)	831 (1,027)	5,287 (Not reported)	67 (69)	428 (Not reported)	35 (37)	35 (Not reported)	15 (10)
Alternatives ²	8 (Not reported)	33 (Not reported)	32 (Not reported)	4.4 (Not reported)	4.2 (Not reported)	36 (Not reported)	23 (Not reported)	Not reported (Not reported)

Source: Investment managers, MSCI, LCP. Certain data ©2023 MSCI ESG Research LLC. Reported by permission. See Appendix 6 for more details, including how to interpret data where coverage is less than 100%. Holdings data as at 31 March 2023.

¹Figures in this column represent the percentage of the total portfolio for which data is available.

²Partners Group is unable to provide climate metrics data as at 31 March 2023, given they only produce this data over annual periods. As a result, the metrics cited above are based on climate data as at 31 December 2022.

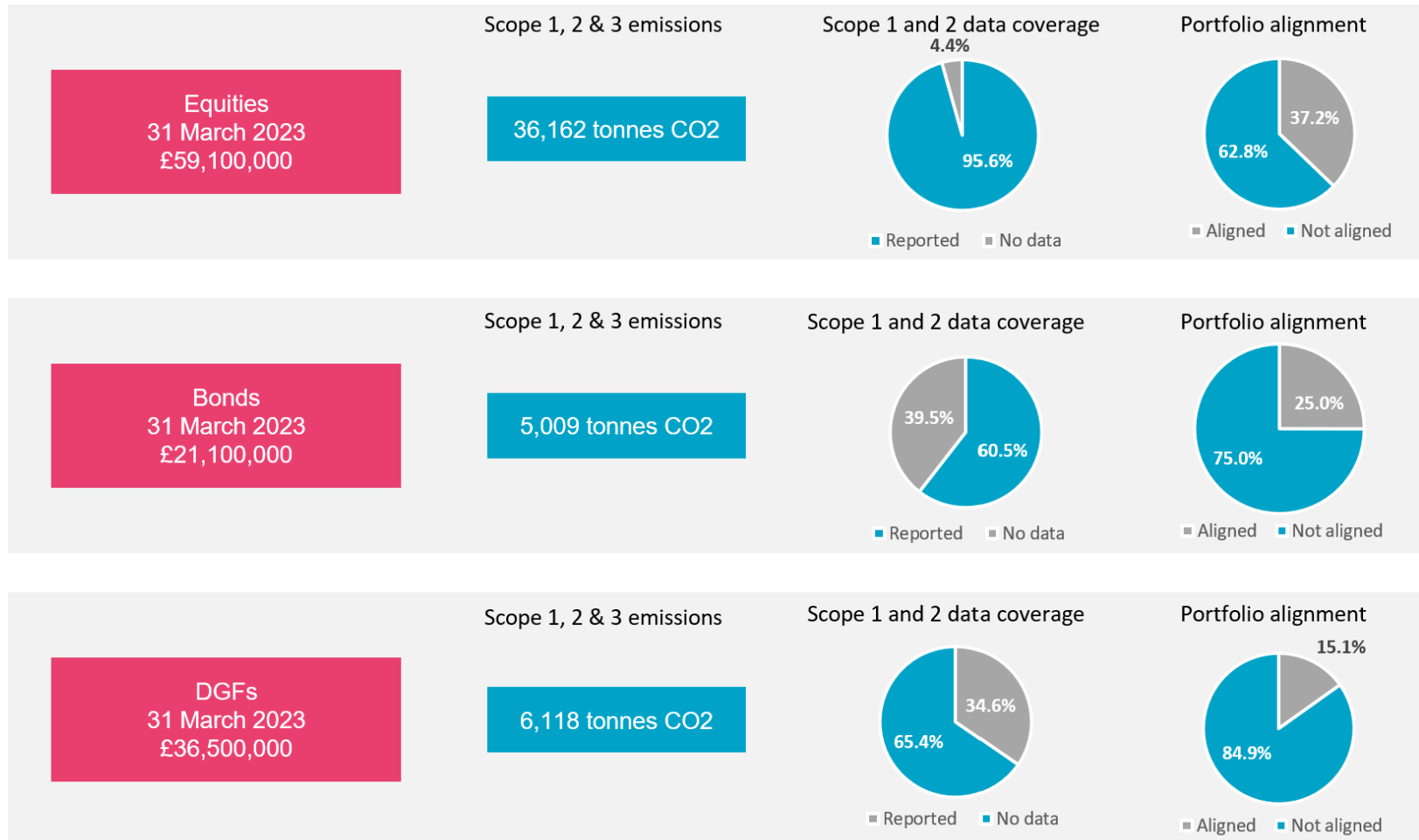
During the Scheme Year, the Drawdown Lifestyle invested in two DGFs: the BlackRock Aquila Life Market Advantage Fund and the LGIM Diversified Growth Fund. The Trustee is only able to present climate data on assets held directly by the funds in the Drawdown Lifestyle strategy. A large proportion of BlackRock Aquila Life Market Advantage Fund's underlying holdings (e.g. credit and emerging market equity exposure) are via derivatives and, therefore, data for these assets is not covered in this report. BlackRock is looking to move away from using derivatives for its equity exposure in favour of physical

holdings, so the proportion of the portfolio that can be analysed should improve over time. As a result of the data gaps in the Drawdown Lifestyle strategy's DGF holdings, the emissions data presented in this report for the strategy is understated.

A more detailed analysis of the climate metrics is set out in Appendix 3, which shows data at the underlying fund level for the Drawdown Lifestyle Strategy.

Metrics - PLAS

The charts on this page present a snapshot of the climate metrics data for the funds in the Default Drawdown Lifestyle. More detailed data is presented in Appendix 3.



Potential impact of the DC strategy changes

To illustrate the impact of the replacement of the passive equity funds with low carbon equivalents in October 2023, we have set out below a breakdown of the climate metrics for the equity allocation in the Drawdown Lifestyle Strategy accounting for the changes.

This data has been generated using benchmark data for the relevant funds in the L&G Low Carbon Transition funds range as at 31 March 2023, as well as the actual data for the JP Morgan Emerging Markets Fund (as at the same date). It provides an indication of the potential impact of moving to low carbon equivalents for the passive funds used in the Drawdown Lifestyle.

Metrics data for the actual funds will be included in the climate report for the next Scheme Year.

Fund	Fund value (£m)	Absolute emissions metric		Emissions intensity metric		Additional climate change metric		Portfolio alignment metric
		Scope 1 and 2 emissions (t CO2e)	Scope 3 emissions (t CO2e)	Scope 1 and 2 carbon footprint	Scope 3 carbon footprint	Scope 1 and 2 data coverage (%) ¹	Scope 3 data coverage (%) ¹	Portfolio alignment (SBTI %)
Equities	59	1,376	23,706	24	415	97	96	42

Source: Investment managers, MSCI, LCP. Certain data ©2023 MSCI ESG Research LLC. Reported by permission. See Appendix 6 for more details, including how to interpret data where coverage is less than 100%. Holdings data as at 31 March 2023.

¹Figures in this column represent the percentage of the total portfolio for which data is available.

Conclusions

From the analysis of climate metrics data for the DC Section's 'popular arrangement', the Drawdown Lifestyle strategy, the Trustee has concluded that:

- Carbon emissions in the arrangements are driven primarily by the "popular arrangement's" equity holdings. As per last year's analysis, we have shown Scope 1 and Scope 2 emissions (though these have been aggregated in this Climate Report). Scope 3 emissions have been shown as a new category that now must be included in this analysis. Whilst Scope 3 emissions dominate the emissions figures shown, there remain concerns on the robustness of the data.
- In October 2023, the Trustee replaced the strategic equity allocations in the "popular arrangement" with low carbon equivalents that tilt the portfolio away from the highest emitting companies, reducing headline carbon emissions. The potential impact of these changes has been illustrated in this section ('The impact of the DC strategy changes') using benchmark data for the funds (as at 31 December 2022) that have been introduced as a proxy. This analysis shows that the introduction of these funds is expected to improve the carbon profile of the equity allocation.
- The Trustee has secured data for the direct government bond (LGIM Over 5 Year Index-Linked Gilts Index Fund) and private markets (Partners Group Generations Fund) allocations in the Drawdown Lifestyle Strategy. This data was not previously available and, therefore, was not included in the Scheme's First Report. Its inclusion in this Climate Report is a clear step forward in the Trustee's ability to monitor the drivers of the Drawdown Lifestyle Strategy's carbon profile in its entirety.
- Data coverage varies quite significantly from fund to fund. The emissions data coverage for the equity funds is relatively high, but is lower for non-equity allocations, particularly the DGF and alternatives allocations. The Trustee expects higher quality data to be available from its investment managers for reports in future years, particularly following the implementation of the investment changes (October 2023) to the Drawdown Lifestyle Strategy. As part of these changes, the Trustee removed the allocation to the Blackrock Aquila Life Market Advantage Fund and replaced it with the LGIM Diversified Fund. The LGIM Diversified Fund has a substantially higher level of data coverage, so the Trustee expects to see an improvement in this metric in future years' reporting.
- The proportion of the portfolio invested in companies with science-based targets is low, though improved overall during the Scheme Year relative to the first year's reporting. This suggests that manager engagement with investee companies in this area is having a positive impact on the number of companies that are targeting alignment with the goals of the Paris Agreement, but further engagement to drive improvement is necessary. Given the analysis shown above ('The impact of the DC strategy changes'), the Trustee expects that the proportion of the equity portfolio with science-based targets will increase as a result of the replacement of the strategic equity allocations with low carbon equivalents.

2. Targets

The Trustee is required to set at least one non-binding target for the Scheme in relation to at least one of the chosen metrics and to measure performance against these targets on an annual basis.

Targets are set by reference to a baseline date against which progress is assessed, a timeline for achieving the target, and the methodology by which performance against the target is assessed.

DB Section

Details of the targets set for the DB Section are as follows:

Metrics	Baseline date	Target level	Timeframe to reach target
Additional Climate change			
Data Coverage (%)*	31 March 2022	95%	31 March 2027
Portfolio Alignment			
SBT (%)	31 March 2022	80%	31 March 2032

* The data coverage metric relates to the percentage of the portfolio (excluding cash holdings) for which there is Scope 1 and 2 emissions intensity data.

As noted in the First Report, in 2022, the Trustee selected the following metrics to set targets against (further details of which are set out below) across the DB Section and the DC Section:

1. Data coverage
2. Portfolio alignment based on SBT

DC Section

Details of the targets set for the DC Section are as follows:

Metric	Baseline date	Target level (%)	Timeframe to reach target
Data Coverage			
Equities	31 March 2022	100	31 March 2027
Corporate bonds	31 March 2022	95	31 March 2027
DGFs	31 March 2022	95	31 March 2027
SBT			
Equities	31 March 2022	80	31 March 2032
Corporate bonds	31 March 2022	80	31 March 2032
DGFs	31 March 2022	80	31 March 2032

Rationale for selection of targets

These targets were selected during the previous Scheme year to 5 April 2023. The Trustee selected these targets because:

- without complete data, the usefulness of the climate metrics in assessing climate-related risks and opportunities is limited, so achieving consistently high data coverage across all asset classes should be the first step to try to achieve in the short-term.
- SBT shows the proportion of companies that have committed to reduce their GHG emissions in line with the Paris Agreement, with the goal of limiting the overall warming of the planet to well below 2 degrees Celsius above pre-industrial levels. Setting a SBT will help the Scheme to manage climate-related risks by providing a focus for its stewardship activities, both direct and indirect (i.e. via its investment managers). The Trustee felt this was more a useful way of assessing progress towards a Net Zero economy.
- these were aligned with the Trustee's fiduciary duty of acting in the best financial interests of members. The Trustee felt that setting a carbon emissions target would focus too much on portfolio optimisation to meet these targets (through disinvesting and investing) and would not help it to fulfil its role as a fiduciary.
- the Trustee had considered Citi's most recent climate report, noting that Citi has set its own target to be carbon neutral by 2050.

Review of existing targets

During the Scheme Year the Trustee (through the CWG and DBC / DCC and with input from its advisers) considered whether to retain its existing targets or whether these should be extended, replaced or added to.

Following these discussions, the Trustee decided to retain its existing targets on the basis that the rationale for originally selecting these targets continues to be applicable and retaining the existing targets would allow the Trustee to better chart progress over time.

Performance against targets

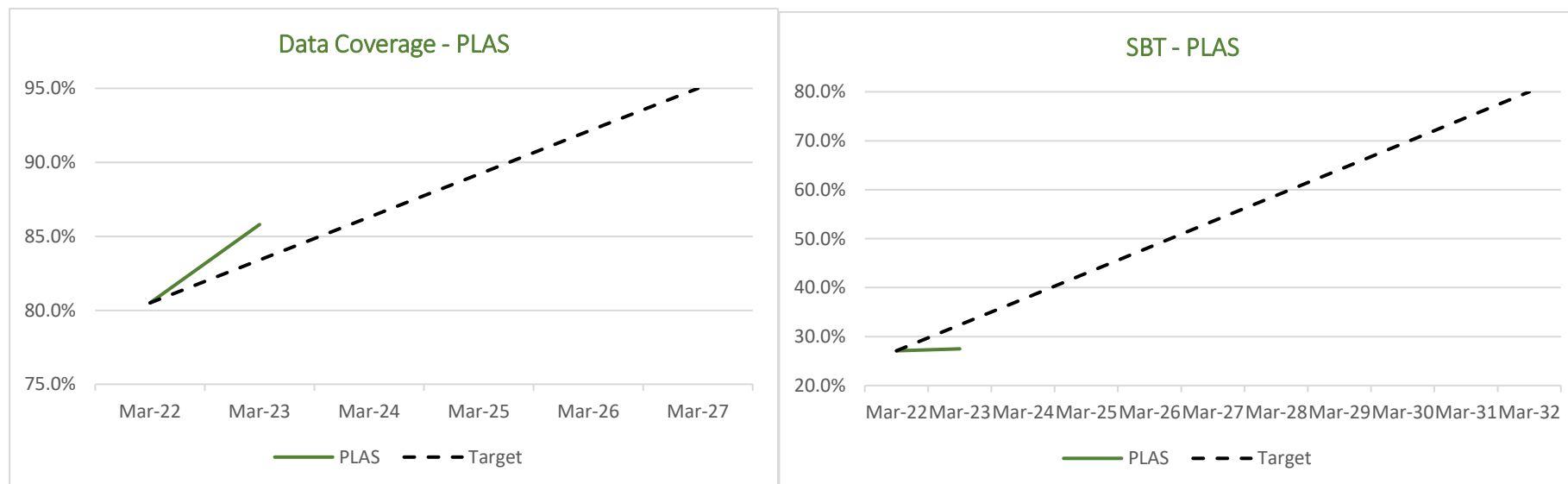
The tables and graphs below show the performance of the two metrics against their targets. An update on performance against these targets will be provided annually to chart progress over time.

DB section

Details of the performance against these targets set for the DB Section are as follows:

Metrics	As at 31 March 2022	As at 31 March 2023	Target level (%)	Timeframe to reach target
Additional Climate change				
Data Coverage (%)*	80.5%	85.8%	95%	31 March 2027
Portfolio Alignment				
SBT (%)	27.1%	27.5%	80%	31 March 2032

* The data coverage metric relates to the percentage of the portfolio (excluding cash holdings) for which there is Scope 1 and 2 emissions intensity data.



The Scheme has made progress towards the target of 95% for the data coverage metric, with the metric increasing by 5% during the Scheme Year.

The Scheme's SBT metric has marginally improved over the Scheme Year at 27.5%. The Trustee notes that this is a long-term term target and one year is a relatively short observation period.

DC Section

Details of the performance against the targets set for the DC Section are as follows:

<i>Metric</i>	<i>Baseline date</i>	<i>As at 31 March 2022 (%)</i>	<i>As at 31 March 2023 (%)</i>	<i>Target level (%)</i>	<i>Timeframe to reach target</i>
Data Coverage					
Equities	31 March 2022	98	96	100	31 March 2027
Corporate bonds	31 March 2022	72	61	95	31 March 2027
DGFs	31 March 2022	37	37	95	31 March 2027
SBT					
Equities	31 March 2022	29	37	80	31 March 2032
Corporate bonds	31 March 2022	22	22	80	31 March 2032
DGFs	31 March 2022	10	15	80	31 March 2032

Overall, data coverage for all asset classes reduced during the year to 31 March 2023. The fall in data coverage for equities was primarily the result of a change in the approach used to calculate this metric for a single fund (the JP Morgan Emerging Markets Fund), which, in this year's analysis, was based on data on underlying holdings in this fund secured directly from the fund manager. As a result, the 31 March 2023 figures present a more accurate reflection of the data coverage of the fund. The fall in data coverage for the corporate bond and DGF allocations was due to lower levels of coverage in each of the relevant underlying funds (i.e. the BlackRock Short Duration Credit Fund, the BlackRock Aquila Life Market Advantage Fund, and the LGIM Diversified Fund).

Alignment with SBT improved across all asset classes.

Steps being taken to achieve targets

Investment managers for the DB Section and DC Section have been informed of the Trustee's targets as well as the Trustee's stewardship priorities, one of which is climate change.

In relation to the DB Section, the Trustee's DB investment adviser continues to engage with managers on this topic and will encourage them to use their influence with portfolio companies to improve data coverage and increase the use of SBTs.

In relation to the DC Section, the Trustee's DC investment adviser encourages managers to support the goal of 'Net Zero' emissions by 2050 or earlier and has published its expectations for investment managers in relation to 'Net Zero'. This includes the use of effective voting (where applicable) and engagement with portfolio companies to encourage achievement of 'Net Zero'. The investment adviser continues to engage with managers on this topic and will encourage them to use their influence with portfolio companies to improve data coverage and increase the use of SBTs.

Most of the DC Section assets are managed by LGIM. LGIM has set an interim target of 70% of eligible assets under management to be managed in alignment with net zero by 2030 (this interim target excludes sovereign bonds and derivative securities, due to lack of clear industry methodologies to account for these asset classes). As at November 2021 (the latest date for which data is available), 38.2% of LGIM's eligible assets under management were covered by the Net Zero Asset Managers Commitment Statement.

The Trustee believes that achieving both its data coverage and SBT targets within the specified time horizon continues to be feasible. The Trustee will continue to review progress towards the targets each year and consider whether additional steps are needed to increase their chance of meeting the targets and whether it would be appropriate to change the targets.

Appendix 1 – Glossary of terms

DB means defined benefit.

DBC means the defined benefit committee.

DB Section means the section of the Scheme which provides DB benefits to members.

DC means defined contribution.

DCC means the defined contribution committee.

DC Section means the section of the Scheme which provides DC benefits to members.

DGF means a diversified growth fund.

Citi means the collective or “generic” name of Citigroup Global Markets Ltd and other Citi entities.

Climate Regulations means the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

Climate Report means this report, in respect of the Scheme Year, prepared to satisfy the requirements of the Climate Regulations.

CTB means the Combined Trustee Board.

CWG means the Climate-Change Working Group established by the Trustee.

ESG means environmental, social and governance.

EVIC means Enterprise Value Including Cash.

First Report means the Trustee’s first climate report in respect of the year to 5 April 2023.

GFANZ means the Glasgow Financial Alliance for Net Zero.

GHG means greenhouse gas emissions.

ICSWG means the Investment consultants’ sustainability working group.

IIGCC means Institutional investors Group on Climate Change.

Net Zero means achieving a balance between the amount of GHG emissions produced and the amount of GHG removed from the atmosphere.

NZICI means the Net-Zero Investment Consultants Initiative.

Paris Agreement means the legally binding international treaty agreed on 12 December 2015 and effective from 4 November 2016 which sets out long-term goals to guide all nations to substantially reduce global GHG emissions to limit the global temperature increase in this century to 2 degrees Celsius while pursuing efforts to limit the increase even further to 1.5 degrees.

PCRIG means Pensions Climate Risk Industry Group.

Scheme means the Citigroup Global Markets Limited Pension and Life Assurance Scheme.

PRA means the Prudential Regulation Authority.

RI means responsible investment.

SBT means the science-based targets.

SBTi means the SBT initiative.

Scheme Year means the year to 5 April 2024.

Statutory Guidance means the DWP's statutory guidance for trustees of occupational schemes on the governance and reporting of climate change risk.

TCFD means the Task Force on Climate-related Financial Disclosures.

TPR means The Pensions Regulator.

Trustee means the CTB.

Appendix 2 – The Issues with Climate Data

Climate data sourcing for pension fund footprinting and analysis is still in its infancy. As a result, it is important to understand the following when it comes to climate data and resulting metrics:

- ❖ The availability and quality of data vary across asset classes, and even within asset classes. This means that some assets and asset classes will rely on estimated data.
- ❖ With all climate data, as both carbon data disclosure and measurement techniques improve, reported numbers are likely to change. This means that the metrics and other data published are not certain and that they may change in the future. As a result, if necessary, calculations may need to be rebased as carbon data and measurement processes change.
- ❖ Scopes 1 and 2 data are generally available for public asset classes. But disclosure of Scope 3 data is rare. Scope 3 is particularly important for some sectors, for example, in oil and gas it makes up approximately 85% of emissions. As a result, while core reporting in this report is focused on Scope 1 and 2 data this year, the Trustee plans to disclose Scope 3 where possible from next year.
- ❖ The processes for assessing carbon footprints for certain asset classes are still in development, particularly, for example, for sovereign debt. This means the results can be anomalous. In the case of sovereign debt, the footprint is apparently an order of magnitude higher than that for public equities because whole-of-economy data are used. This is because of the very substantial effect of double-counting of data reported by companies. For this reason, the Trustee has chosen not to report sovereign debt climate metrics in this Climate Report. However, this may change in future reports as the methodologies for producing climate data are expected to evolve and improve over time.

Appendix 3 – Drawdown Lifestyle Strategy

A more detailed analysis of the climate metrics shows data at the underlying fund level for the Drawdown Lifestyle Strategy is set out in the table below (data from the First Report is shown in brackets).

Fund	Fund value (£m)	Absolute emissions metric		Emissions intensity metric		Additional climate change metric		Portfolio alignment metric
		Scope 1 and 2 emissions (t CO2e)	Scope 3 emissions (t CO2e)	Scope 1 and 2 carbon footprint	Scope 3 carbon footprint	Scope 1 and 2 data coverage (%) ¹	Scope 3 data coverage (%) ¹	Portfolio alignment (SBTI %)
LGIM UK Equity Index Fund	10.1 (11.2)	1,049 (975)	8,775 (Not reported)	113 (95)	963 (Not reported)	92 (92)	90 (Not reported)	45 (40)
LGIM North America Equity Index Fund	13.7 (15.6)	662 (701)	4,831 (Not reported)	48 (45)	351 (Not reported)	100 (100)	100 (Not reported)	41 (33)
LGIM Europe (ex-UK) Equity Index Fund	13.7 (15.2)	1,069 (1,375)	6,527 (Not reported)	82 (93)	498 (Not reported)	96 (97)	96 (Not reported)	58 (44)
LGIM Asia Pacific (ex-Japan) Developed	8.5 (9.9)	1,107 (1,211)	6,957 (Not reported)	132 (123)	827 (Not reported)	99 (99)	99 (Not reported)	10 (8)

Fund	Fund value (£m)	Absolute emissions metric		Emissions intensity metric		Additional climate change metric		Portfolio alignment metric
		Scope 1 and 2 emissions (t CO2e)	Scope 3 emissions (t CO2e)	Scope 1 and 2 carbon footprint	Scope 3 carbon footprint	Scope 1 and 2 data coverage (%) ¹	Scope 3 data coverage (%) ¹	Portfolio alignment (SBTI %)
Equity Index Fund								
LGIM Japan Equity Index Fund	4.5 (4.9)	382 (399)	3,432 (Not reported)	86 (81)	777 (Not reported)	98 (100)	98 (Not reported)	41 (29)
JP Morgan Emerging Markets Fund	8.6 (9.6)	208 (1,646)	1,164 (Not reported)	27 (173)	156 (Not reported)	88 (99)	86 (Not reported)	13 (5)
BlackRock Aquila Life Market Advantage Fund	26.0 (27.7)	191 (232)	1,576 (Not reported)	32 (35)	262 (Not reported)	23 (24)	23 (Not reported)	7 (5)
LGIM Diversified Fund	10.5 (10.6)	639 (795)	3,711 (Not reported)	97 (108)	563 (Not reported)	63 (69)	62 (Not reported)	22 (15)
BlackRock Short	21.1 (20.6)	758 (1,065)	4,251	59 (71)	338	60 (72)	59	25 (22)

Fund	Fund value (£m)	Absolute emissions metric		Emissions intensity metric		Additional climate change metric		Portfolio alignment metric
		Scope 1 and 2 emissions (t CO2e)	Scope 3 emissions (t CO2e)	Scope 1 and 2 carbon footprint	Scope 3 carbon footprint	Scope 1 and 2 data coverage (%) ¹	Scope 3 data coverage (%) ¹	Portfolio alignment (SBTI %)
Duration Credit Fund			(Not reported)		(Not reported)		(Not reported)	
LGIM Over 5 Year Index-Linked Gilts Index Fund	5.5 (Not reported)	743 (Not reported)	467 (Not reported)	135 (Not reported)	85 (Not reported)	100 (Not reported)	100 (Not reported)	N/A (N/A)
Partners Group Generations Fund²	8 (Not reported)	33 (Not reported)	32 (Not reported)	12.1 (Not reported)	18.5 (Not reported)	36 (Not reported)	23 (Not reported)	Not reported (Not reported)

Source: Investment managers, insurer MSCI, LCP Certain data ©2022 MSCI ESG Research LLC. Reported by permission. See Appendix 6 for more details, including how to interpret data where coverage is less than 100%. Holdings data as at 31 March 2023.

Figures in this column represent the percentage of the total portfolio for which data is available.

²Partners Group is unable to provide climate metrics data as at 31 March 2023, given they only produce this data over annual periods. As a result, the metrics cited above are based on climate data as at 31 December 2022.

Appendix 4 – Climate Metrics Explained

GHG emissions

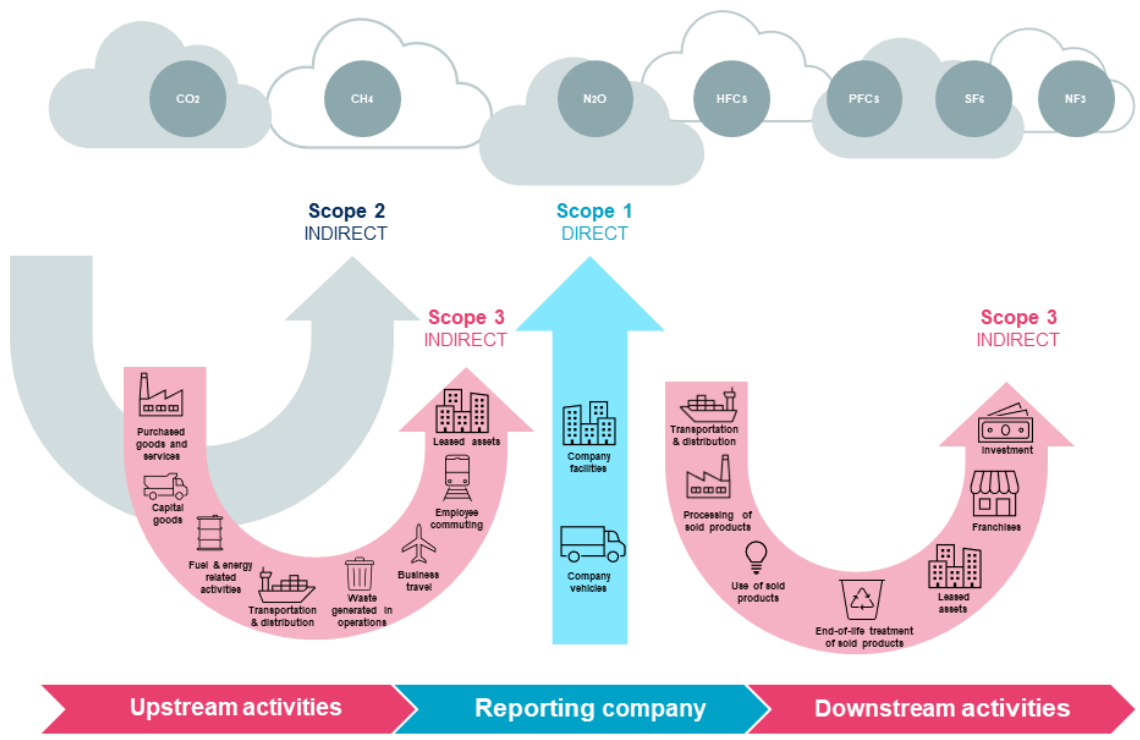
The emissions metrics relate to seven GHGs – carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF₆) and nitrogen trifluoride (NF₃). The figures are shown as “CO₂ equivalent” (CO₂e) which is the amount of carbon dioxide that would be equivalent to the excess energy being stored by, and heating, the earth due to the presence in the atmosphere of these seven GHGs.

The metrics related to GHG emissions are split into the following three categories: Scope 1, 2 and 3. These categories describe how directly the emissions are related to an entity’s operations, with Scope 1 emissions being most directly related to an entity’s everyday activities and Scope 3 referring to indirect emissions in an entity’s value chain. Scope 3 emissions often form the largest share of an entity’s total emissions but are also the ones that the entity has least control over.

Scope	Definition
Scope 1	GHG emissions are all direct emissions from the activities of an entity or activities under its control.
Scope 2	GHG emissions are indirect emissions from electricity purchased and used by an entity which are created during the production of energy which the entity uses.
Scope 3	GHG emissions are all indirect emissions from activities of the entity, other than Scope 2 emissions, which occur from sources that the entity does not directly control.

tCO₂e indicates the real-world impact of the portfolio on the climate. However, the metric is not normalised, which makes it difficult to compare, and it may be volatile year on year, because it can be distorted by changes in portfolio size.

Financed emissions are calculated as the proportional share of the Scope 1 and Scope 2 GHG emissions for each relevant investment, based on the size of the investment relative to the EVIC of the respective company – the EVIC is a measure of a company’s total value.



Source: GHG Protocol

Carbon footprint

At a portfolio level, the emissions intensity measures are calculated as the average of the emissions intensity of the underlying holdings, weighted by the value of each holding. This metric is therefore useful for portfolio decomposition and attribution analysis (because you can understand where the most concentrated carbon emissions are in a portfolio). A portfolio with a high emissions intensity will have a steeper route towards decarbonisation than a less intensive one. Hence, measuring the emissions intensity is useful in order to gauge how difficult (or easy) it will be to progressively decarbonise the portfolios.

Differences in portfolio emissions intensities are driven by differences in sector and company exposure. Portfolios with higher exposures to high-carbon sectors such as utilities, non-energy materials, energy and industrials tend to exhibit higher emissions intensities.

It can be volatile year on year, due to being distorted by changes in market cap (as opposed to portfolio size).

Science Based Target

The target can be aimed at one or all of: the short term, long-term or Net Zero, with each company being scored with a binary yes or no assessment on three categories. The categories are: “SBTi Approved 1.5 C”, “SBTi Approved Well Below 2 C” or “SBTi Approved 2 C”.

Whilst the Trustee is aware that the “SBTi Approved 2 C” categorisation will be gradually phased out in line with the initiative’s raised ambition to 1.5 degrees Celsius, the Trustee will continue to report under the “SBTi Approved 2 C” categorisation to capture companies currently on a 2 degrees Celsius path until they increase their target ambition to 1.5 degrees Celsius in the next few years. The SBTi rating of a fund shows what percentage of the companies the fund invests in have set a decarbonisation target using science-based methodology.

Appendix 5 – Climate scenario analysis key features (DC Section)

The key features of each of the climate scenarios considered in relation to the DC Section of the Scheme are summarised below:

Scenarios:	<i>Failed Transition</i>	<i>Orderly Net Zero by 2050</i>	<i>Disorderly Net Zero by 2050</i>
Low carbon policies	Continuation of current low carbon policies and technology trends	Ambitious low carbon policies, high investment in low-carbon technologies and substitution away from fossil fuels to cleaner energy sources and biofuel	
Paris Agreement outcome	Paris Agreement goals not met	Global net zero achieved by 2050; Paris Agreement goals met.	
Global warming	Average global warming is about 2°C by 2050 and 4°C by 2100, compared to pre-industrial levels	Average global warming stabilises at around 1.5°C above pre-industrial levels	
Physical impacts	Severe physical impacts	Moderate physical impacts	
Impact on GDP	Global GDP is significantly lower than the climate-uninformed scenario in 2100. For example, UK GDP in 2100 predicted to be 50% lower than in the climate uninformed scenario.	Global GDP is lower than the climate-uninformed scenario in 2100. For example, UK GDP in 2100 predicted to be about 5% lower than in the climate-uninformed scenario.	In the long term, global GDP is slightly worse than in the Orderly Net Zero scenario due to the impacts of financial markets volatility.
Financial market impacts	Physical risks priced in over the period 2026-2030. A second repricing occurs in the period 2036-2040 as investors factor in the severe physical risks	Transition and physical risks priced in smoothly over the period of 2022-2025	Abrupt repricing of assets causes financial market volatility in 2025

Appendix 6 – Further information on climate-related metrics (DC Section)

Listed equities and corporate bonds

Notes for data sourced from MSCI (shown on pages 42 to 45).

Emissions are attributed to investors using EVIC.

The total GHG emissions figures omit any companies for which data was not available. For example, if the portfolio was worth £200m and emissions data was available for 70% of the portfolio by value, the total GHG emissions figure shown relates to £140m of assets and the portfolio's carbon footprint equals total GHG emissions divided by 140. In other words, no assumption is made about the emissions for companies without data.

The SBT metric equals the % of portfolio by weight of companies that have a near-term carbon emissions reduction target that has been validated by the SBTi. The MSCI database does not distinguish between companies which do not have an SBTi target and companies for which MSCI does not check the SBTi status, so the coverage for this metric is equal to the % of the portfolio with an SBTi target.

Emissions data coverage and quality

Where coverage of the portfolio analysed is less than 100%, this is because the MSCI database:

- Does not cover some holdings (e.g. cash, sovereign bonds, bonds that have recently matured, shares in companies no longer listed when the analysis was undertaken)
- Does not hold emissions data for some portfolio companies because the company does not report it and MSCI does not estimate it, and/or
- Does not hold EVIC data for some portfolio companies, so emissions cannot be attributed between equity and debt investors.

The last of these reasons is usually the main explanation for the fairly low coverage of bond portfolios.

The MSCI database records whether emissions data is reported or estimated, and which estimation method has been used, but not whether companies' reported emissions have been independently verified. Our investment consultant has asked MSCI to introduce this distinction. Where emissions data is estimated, MSCI uses one of three methods.

1. For electric utilities, MSCI's estimate of Scope 1 emissions is of direct emissions due to power generation, calculated using power generation fuel-mix data.
2. For companies not involved in power generation, which have previously reported emissions data, MSCI starts with a company-specific carbon intensity model.
3. For other companies, MSCI uses an industry segment-specific carbon intensity model, which is based on the estimated carbon intensities for 1,000+ industry segments.

MSCI is a leading provider of climate-related data, so we would expect the coverage to compare favourably with other data sources. Our investment consultant is engaging with MSCI to encourage them to improve EVIC coverage for debt issuers and to distinguish between companies which do not have an SBTi target and companies for which it does not check the SBTi status.

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