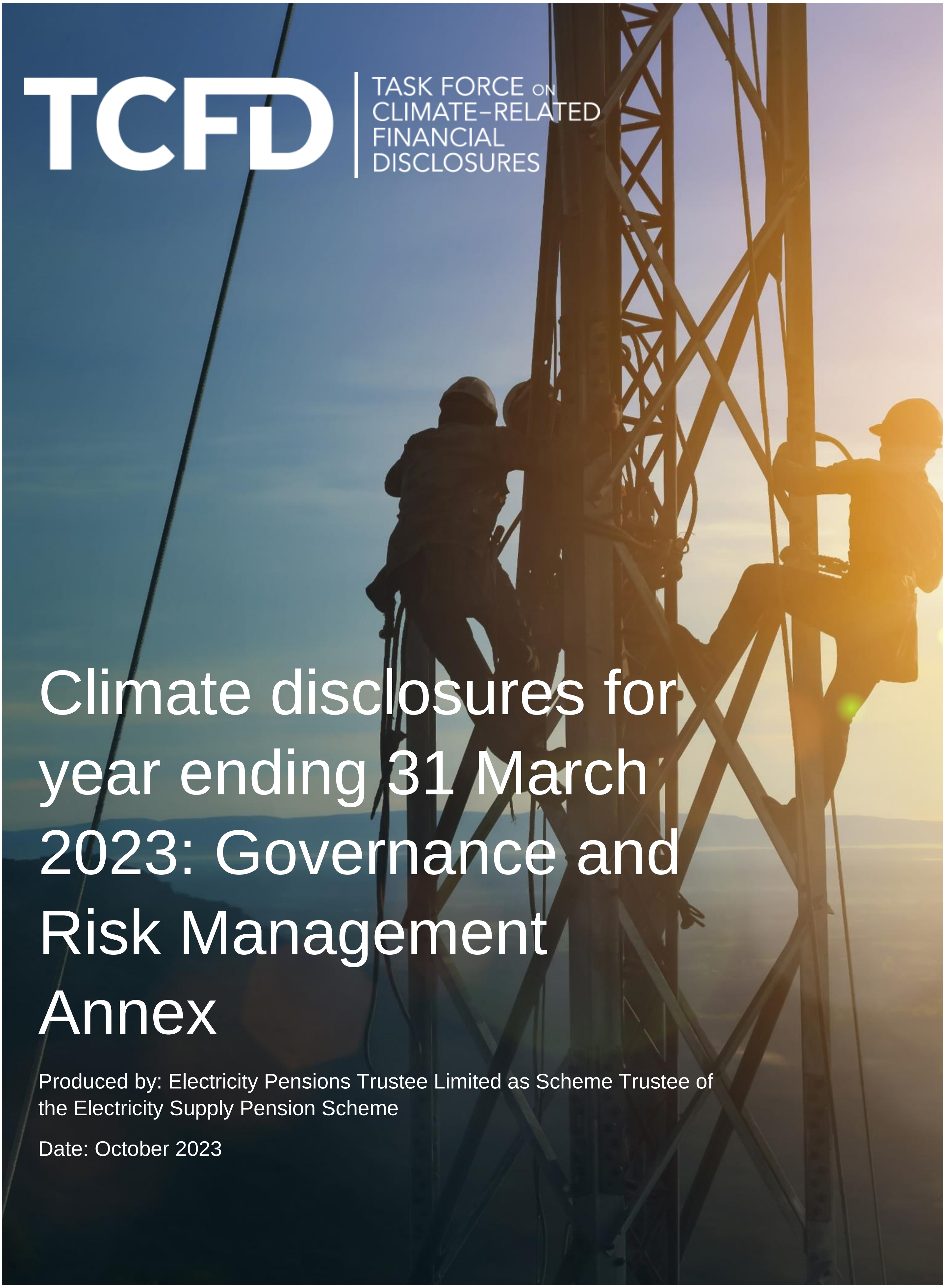

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Climate disclosures for year ending 31 March 2023: Governance and Risk Management Annex

Produced by: Electricity Pensions Trustee Limited as Scheme Trustee of the Electricity Supply Pension Scheme

Date: October 2023

Introduction

This document is an annex to the Scheme's annual TCFD report for the year ended March 2023, which has been produced to comply with the Scheme's climate reporting obligations[1]. More detail is included in the TCFD report, which is available here:

https://www.espspensions.co.uk/#useful-documentation.

The annex has been compiled by Electricity Pensions Trustee Limited as Scheme Trustee of the Electricity Supply Pension Scheme (the "Scheme Trustee"). It supplements the Scheme's full TCFD report which describes the actual and potential impact of climate risks and opportunities on the Scheme.

Background

The Scheme has a two-tiered structure which involves the central Scheme Trustee and a series of Group Trustees who have trusteeship responsibility for each of the 23 separate Groups ("Groups") of the Scheme. The Scheme Trustee has exclusive responsibility in respect of the ownership, custody, and administrative control of the Scheme's assets.

The Scheme Trustee has therefore presented the full Scheme report with significant input from Groups across the four pillars of the TCFD recommendations: governance, strategy, risk management and metrics & targets. Whilst comprehensive information is included in the report across all four pillars, the Scheme Trustee is providing additional Group-specific information in this annex report, as part of meeting its reporting requirements for the period 1 April 2022 to 31 March 2023.

Purpose of the annex

The Groups have provided detailed information to support the Scheme's TCFD report across all four of the TCFD pillars. In order to make the Scheme's TCFD Report accessible to readers, the Report consolidates and summarises information provided by Groups. Due to differences in approach between Groups it was not possible in all cases to consolidate and summarise the information in a way which retained all potentially relevant governance and risk management information provided. The purpose of this annex is to supplement the governance and risk management sections of the full report by publishing in full the governance and risk management information provided to the Scheme Trustee by Groups.

As outlined in the full report, the Scheme Trustee expects the Group Trustees to undertake their own ongoing governance activities as relevant to their Groups. The Scheme Trustee also expects the Group Trustees to undertake qualitative and quantitative analysis, to give the Scheme an overview of the climate-related risks that the Scheme is exposed to.

Scope

Not all Groups were able to provide all the information the Scheme requested to support its reporting requirements. This annex therefore contains information from the Groups who were able to provide it at the time of writing.

Note to readers on language used in this annex

Please note that in contrast to the main TCFD Report, the Scheme Trustee has not amended language provided by the Groups to ensure consistency of terminology in this annex. The content below is worded as provided by Groups to the Scheme Trustee unamended.

What is the TCFD?

The Financial Stability Board created the Taskforce on Climate-related Financial Disclosure ("TCFD") to develop recommendations on the types of information that entities should disclose to support investors, to assess and price risks related to climate change.

The TCFD has developed a framework to help companies and other organisations, including pension schemes, more effectively disclose climate-related risks and opportunities through their existing reporting processes.

[1] Governance and reporting of climate change risk: guidance for trustees of occupational schemes (publishing.service.gov.uk)

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Governance

Central Networks

Statement of the Trustee Directors' Climate Change-related Risks and Opportunities (CCRO) Governance policy

As Trustee Directors, we are ultimately responsible for identifying, assessing and managing the CCRO that the Group is exposed to.

We ensure that we have the knowledge, skills and understanding to identify climate change-related risks, monitor our service providers (including our third-party asset managers), interpret climate change-related analysis, and take actions where necessary. This includes attending training events, undertaking our own research, and reviewing information provided to us by our sponsor, advisers, and asset managers. The kind of information provided to the Trustee includes portfolio analysis, details of how managers embed climate change considerations into their investment process, manager ratings etc.

We delegate day-to-day decision making on CCRO to our asset managers with oversight from our investment adviser, Cardano Risk Management Limited (Cardano). The Trustee Directors work closely with Cardano and a number of individuals are specifically responsible for assessing and helping to manage CCRO.

In May 2022, the Trustee adopted a CCRO governance policy.

The policy describes:

- How we oversee CCRO
- The expectations of our investment adviser and asset managers
- The timelines associated with TCFD.

The full policy is available on request.

Introduction to the Trustee Directors' Climate Change Governance Policy

The Trustee Directors have put in place this governance framework to embed the climate change governance requirements into its management of the Group, which will enable it to fully consider and integrate CCRO into its decision-making.

This Policy sets out where responsibility lies and how the framework is implemented on an ongoing basis. It has been prepared in line with:

- The requirements of the Pension Schemes Act 2021
- The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the Regulations)
- Statutory guidance for climate governance and reporting of CCRO issued by the Department for Work and Pensions (DWP)
- The guidance prepared by The Pensions Regulator (tPR)
- The non-statutory guidance prepared by the Pensions Climate Risk Industry Group (PCRIG)
- Recommendations set out in the TCFD.

Trustee's Oversight

The Trustee Directors are ultimately responsible for the oversight of CCRO as they relate to the Group, and these are considered as part of its investment decision-making.

As part of their responsibility, the Trustee Directors have established processes and a sub-committee to assess, oversee, review, and effectively manage CCRO relevant to the Group. This includes ensuring that those persons who assist the Trustee Directors with governance activities take steps to identify, assess and manage any relevant CCRO. Considerations of CCRO are made when appropriate, typically on a quarterly basis as part of the review of the portfolio, including manager and general industry updates. The Trustee Directors recognise that they have a substantial holding in government bonds which has an underdeveloped approach for consistent CCRO assessment across the industry. More in-depth reviews are made on an annual basis in line with the updated TCFD analysis.

The Trustee Directors retain all strategic investment decisions and overall assessment of policy, including setting of climate-related investment beliefs and objectives but, where appropriate, the Trustee Directors have delegated certain functional responsibilities to a sub-committee.

Trustee's Knowledge and Understanding (TKU)

While the Trustee Directors are not directly involved in the day-to-day management of the assets, they are ultimately responsible for ensuring that CCRO are identified, assessed, and managed on behalf of the Group members as well as being taken into account in their strategic investment decisions. The Trustee Directors are therefore required to ensure they have sufficient knowledge and understanding of the principles relating to the identification, assessment, and management of CCRO, including understanding how scenario analysis works, setting metrics and targets and interpreting the results of any analysis and reporting.

By doing this the Trustee Directors ensure that they are sufficiently informed to be able to challenge assumptions, external advice and information received and to understand any proposals developed by the Investment Adviser and/or the asset managers. The Trustee Directors will engage their service providers to provide such training as they consider necessary to meet these revised TKU requirements. This includes training on CCRO, how they are present in the portfolio and how the Investment Advisers identify and monitor these risks which is done on at least an annual basis.

The Trustee Directors govern the portfolio and rely on the Investment Adviser and asset managers to help scan, measure and monitor the CCRO and determine their relevance to the Group. The Trustee Directors, along with their Investment Adviser and asset managers, adopt a variety of methods to help with the analysis including the following:

- Identifying regulatory developments that are relevant to the Group, including guidance from the Pensions Regulator and Department for Work and Pensions
- Engaging with peer groups, industry bodies and advisers to compare the Group's position to peers or competitors.
- Identifying relationships between events and news, and business and financial impacts to manage reputational risks.
- Identifying and assessing physical and transitional risks (discussed further below) over different time horizons.
- Considering the impact of physical and transitional, including operational, risk factors

In determining their policy, the Trustee Directors consider CCRO to include:

- Transition risks - the financial risks and opportunities associated with a company's, supra-national's or sovereign's ability to transition to a low carbon economy. For example, the financial risks of public policy change. Here we also include environmental opportunities - the financial opportunities of climate change-related solutions, such as the technology solutions necessary for low carbon energy provision.

- Physical risks - the financial risks and opportunities associated with a company's, supra-national's or sovereign's resilience to climate change-related weather events. For example, the financial risks of rising sea levels or increased droughts, floods or wildfires

With support from their Investment Adviser and asset managers, the Trustee Directors will consider the transition risks and physical risks and opportunities for the Group's investment strategy over a range of different scenarios. These scenarios broadly reflect: (i) a 1.5°C measured orderly transition to net zero tracking Paris Agreement commitments; (ii) a 2°C sudden, disorderly transition reflecting a late transition to net zero; and (iii) a 3°C hot house world reflecting high physical risks.

Investment Adviser

As Trustee Directors, we have reviewed Cardano's climate change expertise and are satisfied that Cardano has the skills and resources to integrate climate change-related risks and opportunities into their investment advice.

We were pleased to note that Cardano's skills in this area were enhanced with their acquisition of ACTIAM, a sustainable investor with 30 years' experience. It has increased their number of dedicated sustainability professionals which in turn brings additional expertise that support the work we do. Cardano has published its sustainable investment beliefs, sustainable investment policy, engagement policy, and its climate crisis action plan[2], which we have reviewed.

Cardano is a signatory to the UNPRI, a member of the Institutional Investors Group on Climate Change (IIGCC), and a signatory of the UK Stewardship Code. Cardano's engagement policy sets out how they promote and monitor the shareholder engagement activity of investment and third-party managers that are included in the portfolios that Cardano manages.

Cardano has publicly stated that they will measure their portfolio greenhouse gas emissions and set portfolio targets consistent with achieving net-zero greenhouse gas emissions by 2050, with a target to halve emissions by 2030. The Cardano Group became a net-zero firm (firm operations) in 2021.

In addition to being a signatory to the UNPRI, Cardano is a member of the Partnership for Carbon Accounting Financials (PCAF), the International Capital Market Association (ICMA), the Net Zero asset managers initiative, the Net Zero Investment Consultants Initiative, Climate Action 100+, and The Diversity Project. More detail on Cardano's approach to sustainability is available on their website[3]. In addition, the Cardano Group has signed up to the UN Global Compact.

Cardano has integrated sustainable investment throughout its business, with activities overseen by the Sustainability Steering Committee. Cardano has also employed the services of MSCI and their ESG data to assist with climate change-related reporting.

[2] https://www.cardano.co.uk/sustainability-policies/
[3] https://www.cardano.co.uk/our-approach-to-sustainability/

EDF DB

Oversight of climate-related risks and opportunities

The Group Trustee's Board is ultimately responsible for identifying, assessing, monitoring and managing climate-related risks and opportunities which are relevant to the Group. However, there is a sub-committee of the Board, the Investment Committee (IC) that has been delegated the day-to-day responsibility for ensuring that the established policy for monitoring climate-related risks and opportunities is integrated into the Group Trustee's investment strategy, risk management and decision making. In keeping with this governance structure, this report has been reviewed by the IC and approved by the Group Trustee Board. There are no other persons undertaking governance activities in relation to the DB Section.

The established policy for monitoring climate-related risks and opportunities is included in the Group's Investment Policies document, an extract of which is shown within Part 1: Appendix A subsection TCFD. The policy includes monitoring the Group's climate-related metrics and the results of climate scenario analysis, as well as engaging with the Group's investment managers on climate-related matters.

The Group Trustee also requires its appointed investment managers to be cognisant of climate-related risks and opportunities within their investment processes as applied to the assets of the Group Trustee. The Group Trustee aspires to continue increasing the level of engagement with its investment managers in order to ensure that adequate steps are being taken in this respect. The Group Trustee relies on the manager research and manager monitoring capabilities of its DB Investment Consultant, Redington, in order to effectively assess climate-related risks and opportunities, both within individual manager mandates and across the overall investment strategy. The Group Trustee also relies on their Investment Consultant, Redington, Actuary, Aon, and covenant adviser, Penfida, to raise any risks and/or opportunities which arise as a result of their respective scenario and covenant analysis.

Active engagement with the Group's appointed investment managers, specifically relating to climate-related risks and opportunities, is conducted by Redington and partly by the Group Trustee (during any meetings to which investment managers are invited). Throughout this engagement process, investment managers are asked to provide details of how climate-related risks and opportunities have been incorporated into the investment process within the relevant manager's investment guidelines.

Finally, active engagement with underlying companies in which the Group is invested, specifically relating to climate-related risks and opportunities, is delegated to the Group's investment managers. Key takeaways from any active engagement are reported to Redington who raise them with the Group Trustee on an ad-hoc basis and during quarterly Group Trustee Board meetings.

To ensure that any issues regarding the identification and assessment of climate-related risks are addressed and/or noted in an orderly fashion, the Group Trustee reviews its advisor, Redington on an annual basis against their agreed strategic objectives (these include ESG-related objectives, capturing climate-related risks) ensuring the current governance activities undertaken by the relevant sub-committee and specifically Redington are appropriate. Redington are responsible for monitoring the Group's investment managers to ensure they adequately identify and assess climate-related risks and opportunities, and any issues are reported to the Group Trustee.

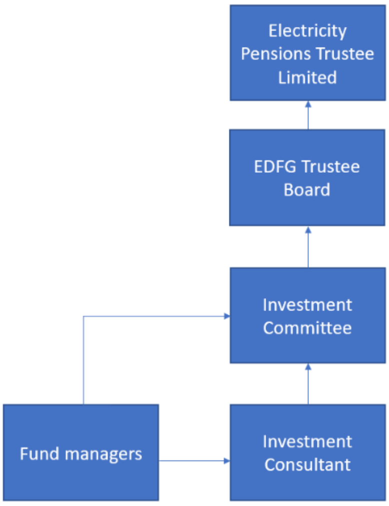
The IC reports back to the Group Trustee on a quarterly basis regarding all key investment matters, including any relevant detail on any climate-related risks and/or opportunities. The Group Trustee also receives annual reporting from Redington which contains information on the relevant metrics and targets, which have been selected for monitoring as outlined in Metrics and Targets. The IC also reviews the Group's carbon emissions and climate risk (based on the Prudential Regulation Authority's "Slow Transition" scenario stress test and also referred to in the Strategy section on a quarterly basis. The Group Trustee also reviews these two metrics when considering investment strategy changes, in particular with new asset class/investment manager investments.

Over the past year, the IC has continued to challenge the information provided by their advisers. Specific examples include the IC challenging the data quality of their investments, noting that only a small number of investment managers were able to provide material ESG fund level detail to the Group and the other investments had to be modelled on broader asset class assumptions. Redington are continuously working with the Group's investment managers to improve this for next year's report. Separately the IC also challenged Redington to provide a more detailed attribution description of the total carbon footprint movement over the period (e.g., breaking it down into changes in overall asset allocation movements and changes at fund specific level).

Trustee knowledge and understanding of climate-related risks and opportunities

Over the period, the Group Trustee received training regarding climate change in the context of investing and fiduciary responsibility. Further training was also provided on net zero targets, climate-related metrics as well as the various climate-related risks and opportunities the Group is exposed to (details of the latter are provided in Strategy). The Group Trustee deems the training it has received to be sufficient in providing the Group Trustee with the necessary knowledge and understanding of climate-related risks and opportunities; however, further training will be provided as appropriate. The Group Trustee also received stewardship training in Q1 2023 during which agreeing stewardship themes and aligning with the DWP guidance and best practices were the focal topics.

Structural diagram showing which groups of people or individual roles have responsibilities for governance of climate-related risks and opportunities.



EDF DC

Whilst the Group Trustee maintains the ultimate responsibility for ensuring effective governance of climate-related risks and opportunities, within the DC section of the Group the Group Trustee delegates day-to-day management and governance oversight of the funds to the DC Delegated Investment Manager, Mercer. For the purpose of this report, the Group Trustee will refer to the DC Delegated Investment Manager as "MWS" (Mercer Workplace Savings). As day-to-day management is delegated to MWS, the Group Trustee maintains a level of oversight by receiving regular updates on climate-related queries relevant to the scheme including both the risks to investments and opportunities available. There are no other persons undertaking governance activities in relation to the DC Section.

The Group Trustee is responsible for oversight of all strategic matters relating to the Group and is ultimately responsible for oversight of the Group. This includes approval of the governance and management framework relating to ESG considerations and climate related risks and opportunities.

The Group Trustee expects its advisers and investment managers to bring important climate-related issues and developments to its attention in a timely manner. The Group Trustee also expects its advisers and investment managers to have the appropriate knowledge on climate-related matters and assesses the DC Investment Consultant (Mercer) annually as part of the monitoring of the investment consultant's objectives.

The Group Trustee seeks to ensure that any investment decisions appropriately consider climate-related risks and opportunities within the context of the Group's wider risk and return requirements and are consistent with the climate change policy as set out in the Statement of Investment Principles (SIP).

In line with the DB Section, the Group Trustee maintains a SIP, which details its key beliefs, identified risks and approach to ESG integration which includes the importance of ESG factors (including but not limited to climate risk). The IC (as above) also has day-to-day responsibility for the DC investment policy. The Group Trustee has also incorporated climate risk (both physical and transitional) as an explicit risk within its risk register, which is reviewed and updated annually.

The Group Trustee and IC also undertake regular training on an annual basis (or more frequently if required) around ESG topics to ensure their understanding and knowledge are up to date with regulatory requirements and evolving market developments and practice and receive regular updates from MWS on its approach to climate change-related risks and opportunities. For example, the Group Trustee received training around the latest 'significant voting criteria' requirements during November 2022 and the MWS ESG report which was presented to them in September 2022.

The DC Investment Consultant attends the quarterly IC meetings quarterly to run through any material provided by MWS and detail the impact and relevance this has to the Group specifically. This will include quarterly carbon metrics and ESG ratings along with the MWS annual strategy review (inclusive of climate change analysis), ESG report and voting and engagement data annually. The Group Trustee reviews its DC Investment Consultant on a regular basis to ensure all stated processes for those managing / advising the Group on climate governance remain appropriate, and the Group Trustee has set objectives for its DC Investment Consultant which are assessed annually (these objectives include climate related risks and opportunities).

The key activities undertaken by the IC, with the support of the Group Trustee's advisers, are to:

- Ensure the investment strategy or any implementation proposals consider the impact of climate risks and opportunities.

- Engage with the Group's investment managers to understand how climate-related risks are considered in their investment approach.

- Work with the investment managers to disclose relevant climate-related metrics as set out in the TCFD recommendations.

- Ensure stewardship activities are being carried out appropriately by the investment managers on the Group's behalf.

MWS actively monitors and manages the funds used by the Group, including by the following means:

- The day-to-day investment activities (including the selection, retention and realisation of investments) are delegated by MWS to underlying investment managers (sub-investment managers). These sub-investment managers are expected to have consistent processes in place to incorporate the assessment of ESG risks and opportunities (including climate change) in their security selection and portfolio construction. MWS uses Mercer's proprietary ESG-rating system of investment managers to identify those sub-investment managers which meet these requirements. MWS will engage with sub-investment managers where they are perceived to be lagging behind peers for ESG integration and or voting behaviour and disclosures.
- MWS clients benefit from the oversight of the Mercer Workplace Savings Investment Governance Committee (MWS IGC). The MWS IGC is made up of senior individuals within Mercer's investments business. The MWS IGC meets at least quarterly and is responsible for ensuring that the investment arrangement is suitable and that it reflects Mercer's best ideas, including research from Mercer's dedicated sustainable investment team. The MWS IGC has its own Responsible Investment & Voting Policy.
- The MWS IGC includes the integration of sustainability at the strategic asset allocation (in the case of multi-asset funds) and manager selection level and monitor performance and investment managers on an ongoing basis. The MWS IGC annual investment strategy review considers the output of climate scenario analysis in relation to the strategic asset allocation of the multi-asset funds (e.g., Mercer Growth).

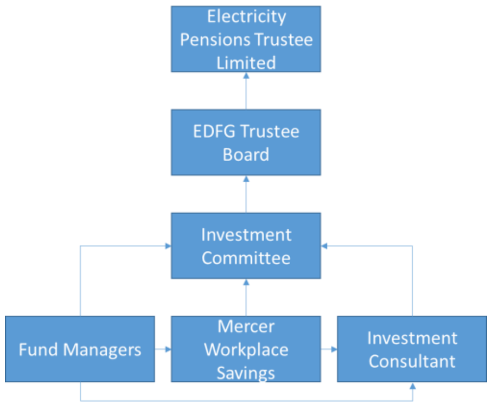
In order to monitor the activities in this area, including how MWS identifies and assesses any climate-related risks and opportunities, the following reporting and actions are carried out:

- The Group Trustee receives quarterly performance reporting from their DC Investment Consultant, Mercer. The reports provide details of Mercer's ESG rating for each of the underlying sub-investment managers (this assesses how well the manager has integrated ESG and active ownership into their investment philosophy). Reports also include carbon metrics for the active equity funds. It is expected that these reports will be expanded to include carbon metrics for more funds as data becomes available. These ratings are monitored by the MWS IGC at their regular meetings. Any changes in ratings assessed by Mercer will be highlighted for discussion along with rationale behind the relevant upgrades/downgrades.
- The Group Trustee receives the remaining metric data annually but expects this may be available on a more frequent basis in the future.
- The Group Trustee has access to the MWS IGC Responsible Investment & Voting policy which provides information about climate change management and the engagement priorities of the MWS IGC. One such engagement priority is climate change. This policy is reviewed annually, and any changes are highlighted to the Group Trustee by the DC Investment Consultant.
- The Group Trustee considers the outcome of the annual MWS strategy review and expects this to include details of climate scenario analysis considerations made with regard to the strategic asset allocation of the multi-asset funds and any developments between reviews.
- Voting and engagement data on Mercer funds, this includes significant voting information. Significant votes are identified by holding size and association with engagement priorities (including climate change). Data is available on a quarterly basis if required. This data is also considered by the MWS IGC at their regular meetings.
- The Group Trustee expects the MWS IGC to make available scenario analysis and metrics as required by the TCFD.
- The Group Trustee reviews targets and progress against targets at least annually. Progress to date is shown in Metrics and Targets.
- An annual MWS ESG report is prepared which considers, amongst other things, climate change metrics for the underlying funds used within the multi-asset funds. Going forward this report will provide an update on progress towards these funds' net-zero commitments. This report is presented by the DC Investment

Consultant and considered by the IC at one of its quarterly meetings. This report also includes information on stewardship data and feeds into the targets set by MWS, which the Group Trustee reviews annually.

- The IC meets with a member of the MWS Investment Team annually to discuss and question the reporting provided to them, including the ESG report. Excepting this meeting and the analysis undertaken for this report, the IC have not explicitly considered Climate Change Risk within the DC Section due to the delegated nature of the arrangement.

<u>Structural diagram showing which groups of people or individual roles have responsibilities for governance of climate-related risks and opportunities.</u>



E.ON

Introduction

As the Trustee of the Group, we consider climate change to be a significant risk, which is reflected in how we interpret our duties and responsibilities. The Group Trustee believes that Climate Change related Risk and Opportunities (CCRO) are, and will continue to be, a financially material factor and as such is incorporated in our investment decision making. The Group Trustee further believes that, to the extent our decisions, including investment related decisions, have an impact on climate change, it is appropriate for us to aim to minimise the harm done by our decisions to the extent this can be done without compromising our financial responsibilities.

To fulfil our duties to the Group regarding CCRO, we have prepared this CCRO Policy and also put in place a governance framework that provides structure for making climate-related decisions and to ensure that we integrate climate risks and opportunities in our decisions on behalf of our members, which include investment related decisions. It shows where responsibility lies for decision making and sets out how this work is integrated into our longer-term plans, monitoring framework and meeting cycle.

This framework has been prepared in line with the latest regulation and guidance. This includes the Pension Schemes Act 2021 and the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the Regulations), statutory guidance for climate governance and reporting of CCRO issued by the Department for Work & Pensions (DWP), the guidance prepared by The Pensions Regulator (tPR), the non-statutory guidance prepared by the Pensions Climate Risk Industry Group (PCRIG), as well as recommendations set out in the Taskforce for Climate-Related Financial Disclosures.

The framework comprises three main elements:

- Trustee Oversight
- Trustee Knowledge and Understanding
- Third-Party Providers

Trustee Oversight

The Group Trustee is ultimately responsible for the oversight of CCRO as they relate to the Group.

Climate change is a financially material risk that we consider in our decision making.

The Group Trustee sets its processes within the governance framework concerning climate change, including:

- Agreeing the types of climate-related risks and opportunities which they consider will have an effect over the short, medium and long terms on the Group's investment and funding strategies.
- Agreeing the time periods which comprise the short, medium and long term applicable to the Group, taking into account the Group's liabilities and its obligations to pay benefits as appropriate.
- Ensuring that the Group's risk management processes adequately incorporate the identification, assessment and effective management of relevant climate-related risks.
- Agreeing appropriate climate-related targets for the Group
- Agreeing the climate-related metrics that are used to measure progress towards the climate-related targets, which will include at least one absolute emissions metric, one emissions intensity metric, one alignment metric, and one additional climate change metric.
- Agreeing the Group's approach to scenario analysis, including the scenarios to model (which will include at least two scenarios where there is an increase in the global temperature and in at least one of those two scenarios the global average temperature increase selected will be within the range of 1.5 and 2 degrees Celsius above pre-industrial levels).

The Group Trustee will review the policy (including the metrics, targets, scenario analysis etc.) annually.

The Group Trustee delegates responsibility for implementing the investment strategy to the Investment Committee. The Investment Committee aligns its investment decisions with the Group Trustee's climate change policy.

The Group Trustee will maintain oversight through its quarterly reporting and meeting cycle where CCRO matters are considered. CCRO information and reporting is included in each of the meetings, including any updated information on Targets, progress against those Targets and climate change scenarios, and assessments of the impact of the climate-related risks and opportunities on the Group's investment and funding strategy.

- The Group Trustee meets with its investment advisers quarterly and receives advice and monitoring reports.
- The Investment Committee will report back to the Trustee. The investment advisers also attend Trustee meetings.

Therefore, the Group Trustee considers that the time, governance, and resources spent on CCRO (as outlined) is appropriate.

Trustee Knowledge and Understanding

While we are not directly involved in the day-to-day investment decision process, we as the Group Trustee, are ultimately responsible for ensuring that CCRO are identified, assessed and managed on behalf of the Group and its members. We are therefore required to have sufficient knowledge and understanding of the types of climate-related risks and opportunities which may have an effect on the Group and in order to set metrics and targets for our service providers and interpret the results of any analysis and reporting provided to us. We need to ensure that we are sufficiently informed so that we are able to challenge assumptions, external advice and information received and to fully understand any proposals developed by our advisers.

The Group Trustee maintains its Knowledge and Understanding with respect to climate change by:

- Identifying regulatory developments that are relevant to the Group, including guidance provided by the Pensions Regulator and the Department for Work and Pensions
- Attending specific training sessions on climate change and TCFD requirements run by our Investment Adviser.

Third-Party Providers

We do not carry out underlying investment activities ourselves but rely on our Investment Adviser and third-party asset managers to identify and assess climate change risks and opportunities. We will also consider input from other third-party providers, specifically the Scheme Actuary and Covenant Advisers.

Aon, as the Scheme Actuary:

- Advises on the funding position including an understanding of the potential funding impact resulting from changes to financial or demographic assumptions driven by climate change.
- Advises on funding strategy robustness to climate risk. Provides input to enable strategic decisions to be made considering impact of climate risks on funding strategy; and
- Provides input into scenario analysis and advises on funding implications.

The Group's covenant adviser, Cardano Advisory, advises the Group Trustee in relation to the Group sponsor's ability to continue to support the Group. The employer covenant is the extent of the employer's legal obligation and financial ability to support the Group now and in the future.

Climate-related exposures could have a positive or negative impact on the strength of the Scheme sponsor's covenant. Therefore, Cardano Advisory has begun to include climate-related matters in the covenant advice provided to the Group Trustee.

Cardano Advisory will work in conjunction with the Group Trustee and the Group's other advisers to assist the Group Trustee in producing the Group's TCFD report on an annual basis, in line with TCFD requirements.

When selecting third-party providers, we require each provider to demonstrate sufficient credentials in relation to the assessment of climate-related matters. This is done by assessing the providers in terms of their:

- Level of understanding on climate change

- Commitment to decarbonisation targets, including the Paris Climate Agreement of global warming to +1.5°C
- Corporate policies focusing on reaching stated decarbonisation targets.
- Resources in place to deliver to climate related objectives.
- Ability to report to us.
- Associations with and involvement in relevant industry bodies

The Investment Committee reviews its third-party providers on a regular basis to ensure all stated processes for those managing / advising the Group on climate governance remain appropriate. As part of this review the Investment Committee, a sub-group of the Group Trustee, review and challenge the analysis of its third-party providers.

In relation to our Investment Adviser, the Group Trustee sets objectives informed by the competency framework proposed by the Investment Consultants Sustainability Working Group. These competencies may be assessed as part of our annual assessment of our Investment Adviser.

Our Investment Adviser assesses our third-party fund managers' climate change competency. This forms part of their advice.

For the avoidance of doubt, any CCRO applying that are not associated with an aspect or aspects of integrated risk management will be picked up by the Investment Committee that have the oversight of the relevant risk and appropriately reflected in the risk management framework. Overall responsibility for climate related risk would remain with the Group Trustee and the Investment Committee should report any work carried out in this area back to the Group Trustee.

Magnox Electric

Climate Mission Statement

The Group Trustee believes that the risks associated with climate change could have a materially detrimental impact on the Group's investment returns within the timeframe that the Group Trustee is concerned about. Because of this risk, the Group Trustee seeks to integrate assessments of climate change risk into its investment risk management and strategy.

Furthermore, the Group Trustee believes that climate-related factors are likely to create investment opportunities. Where possible, and where appropriately aligned with the Group Trustee's strategic objectives and fiduciary duty, the Group Trustee will seek to capture such opportunities through its investment portfolio.

Role of the Group Trustee

The Group Trustee is ultimately collectively responsible for oversight of all strategic matters related to the Group. This includes approval of the governance and management framework relating to Environmental, Social and Governance ("ESG") considerations and climate-related risks and opportunities. Given its importance, the Group Trustee has not identified one individual to specifically be responsible for the Group Trustee's response to climate risks and opportunities. Rather, the Group Trustee has collective responsibility for setting the Group's climate change risk framework.

The Group Trustee has discussed and agreed its climate-related beliefs and overarching approach to managing climate change risk. Details are set out in the SIP for each Section, which are reviewed and (re)approved every 3 years (or sooner in the event of a significant change in investment policy) by the Group Trustee.

In summary, the Group Trustee believes that:

- the risks associated with climate change can have a materially detrimental impact on the Group's investment returns within the timeframe that the Group Trustee is concerned about and, as such, the Group Trustee seeks to integrate assessments of climate change risk into its investment decisions.
- climate-related factors may create investment opportunities. Where possible, and appropriately aligned with the Group Trustee's strategic objectives and fiduciary duty, the Group Trustee will proactively seek to capture such opportunities through its investment portfolio.
- the most appropriate time horizons for the Group are as follows:
  - short term: 1-3 years
  - medium term: 4-10 years
  - long term: beyond 10 years

Climate-related risks and opportunities are assessed over the above time horizons. Where appropriate, the Group Trustee considers transition and physical risks separately.

The Group Trustee receives training on an annual basis (or more frequently as required) on climate-related issues as part of its TCFD reporting process, to ensure that it has the appropriate degree of knowledge and understanding on these issues to support good decision making. The Group Trustee expects its advisers to bring important and relevant climate-related issues and developments to the Group Trustee's attention in a timely manner.

The Group Trustee has delegated oversight of the Group's climate change risk management framework to the Investment Committee ("IC"), which is a sub-committee of the Group Trustee. Implementation and day-to-day oversight have been delegated to the TCFD Working Group.

The Group Trustee regularly monitors and reviews progress against the Group's climate change risk management approach.

Role of the Investment Committee

Ongoing oversight of the Group Trustee's climate risk management approach has been delegated to the IC.

The IC, supported by the TCFD Working Group, seeks to ensure that any investment decisions appropriately consider climate-related risks and opportunities within the context of the Group's wider risk and return requirements, and are consistent with the climate change policy as set out in the SIP.

The IC regularly monitors and reviews progress against the Group's climate change risk management approach. The IC keeps the Group Trustee apprised of any material climate-related developments through regular updates as and when required.

Key activities delegated to the IC include:

– ensuring investment proposals explicitly consider the impact of climate risks and opportunities.

– ensuring that stewardship activities are being undertaken appropriately on the Group's behalf.

Role of the TCFD Working Group

Day-to-day responsibility for the initial implementation of the Group Trustee's climate risk management approach has been delegated to the TCFD Working Group.

The TCFD Working Group monitors and reviews progress against the Group's climate change risk management approach on a regular basis and keeps the IC and the Group Trustee apprised of any material climate-related developments through regular updates.

Key activities delegated to the TCFD Working Group include:

– engaging with the investment managers to understand how climate risks are considered in their investment approach.

– working with investment managers to disclose relevant climate-related metrics as set out in the TCFD recommendations.

Activity for the Group's Year 1 report

The TCFD Working Group met with its investment adviser 11 times to work through the TCFD recommendations and ensure a comprehensive understanding of the climate-related risks and opportunities that affect the Group. In addition, the TCFD Working Group met with each of its investment managers during 2021-2022 to challenge the information provided in respect of the climate-related risks and opportunities, including how the managers utilised stewardship as a risk management tool. The key outcomes from these meetings were communicated to the Investment Committee and Group Trustee as required (which both meet at least four times a year).

Changes expected for the Group's Year 2 report

The Group Trustee has spent a considerable amount and time and resource in understanding the Group's climate-related risks and opportunities as part of the Group's first TCFD report. The Group Trustee expects the required time and resource to reduce in future years given that a formal plan is now in place.

With this in mind, the TCFD Working Group will be disbanded following the production of the Group's first TCFD report, with the ongoing responsibilities for maintaining and reporting on the Group's climate change risk management approach to be taken-up by the IC, overseen by the Group Trustee. This includes all ongoing responsibilities currently owned by the TCFD Working Group set out in the Climate-Risk Management Plan.

Role of other advisers or stakeholders deemed relevant

Investment adviser: The Group Trustee's investment adviser provides strategic and practical support to the Group Trustee and the IC in respect of the management of climate-related risks and opportunities and ensuring compliance with the recommendations set out by the TCFD. This includes provision of regular training and updates on climate-related issues and climate change scenario modelling to enable the IC and Group Trustee to assess the Group's exposure to climate-related risks.

Scheme Actuary: The Group's Scheme Actuary will help the Group Trustee assess the potential impact of climate change risk on the Group's funding assumptions**.**

Covenant adviser: The Group Trustee's covenant adviser will help the Group Trustee understand the potential impact of climate change risk on the sponsor covenant of the participating (Atkins Limited, Cavendish Nuclear Limited, National Nuclear Laboratory Limited) and principal (Magnox Limited) employers of the Group.

Manweb

Oversight of climate-related risks and opportunities

Roles and responsibilities

The Trustee has ultimate responsibility for ensuring effective governance of climate-related risks and opportunities, and for the production of the annual TCFD report.

The Trustee's overall investment beliefs on sustainability are:

- Environmental, Social and Governance (ESG) factors, including climate risk, can affect the performance of companies and assets in which the Group invests, and should therefore be considered where relevant to the assessment of value and mitigation of investment risk.
- Climate change poses a systemic risk, and therefore consideration should be given to the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate change outcomes. However, these outputs must be carefully assessed in the context of the other risks the Trustee must also manage.
- Stewardship (or active ownership), where applicable, helps the realisation of long-term portfolio value by providing investors with an opportunity to enhance the value of companies and assets. It is therefore important to engage with each of the Group's investment managers on the assessment and management of climate-related risks and opportunities within the managers' portfolios, at least on an annual basis.

The Trustee seeks to ensure that any investment decisions appropriately consider climate-related risks and opportunities within the context of the Group's wider risk and return requirements, and are consistent with the ESG (including climate change) policies as set out in the Trustee's Statement of Investment Principles (SIP). The SIP details the key objectives, risks and approach to considering ESG factors, such as climate change, as part of the Trustee's investment decision-making process. The SIP is reviewed on at least an annual basis.

The Trustee understands that in order to ensure effective governance of climate-related risks and opportunities, appropriate time and resources need to be allocated. As such, the Trustee has delegated certain activities to the Investment Sub-Committee and the Governance Sub-Committee. Each of these Sub-Committees has specific responsibilities and areas of focus, as set out in the following 'Governance Structure' section, and both of the Sub-Committees meet quarterly, which aligns with the quarterly Trustee Board meeting cycle. The level of time and resources spent on the governance of climate-related risks and opportunities varies from to time to time and depends on whether new considerations have been identified and whether there have been any changes to the current risks and opportunities identified. The Trustee's approach is to always allocate sufficient resources and time to ensure the appropriate level of consideration is given. The Sub-Committees make recommendations to the Trustee; the ultimate decisions rest with the Trustee.

Research into how climate-related risks and opportunities impact financial markets is constantly evolving and expanding. To ensure that those undertaking Group governance activities have the appropriate degree of knowledge and understanding to properly exercise their functions, the Trustee receives training on a regular basis to keep up-to-date with developments and allocates time on meeting agendas to cover items such as climate-change scenario analysis and the reporting of metrics. During the year to 31 March 2023, the Trustee received training on climate-related investment risks and reporting requirements in line with the TCFD recommendations, including an off-site training session held on 2 November 2022. Climate-related online training has also been made available by ScottishPower UK Plc ("SPUK") to Trustee Directors of the Group who are currently employees of SPUK.

The Trustee is supported by the following independent advisors:

Mercer - Investment Consultant

- Providing advice on the Group's investment arrangments, including on strategy, risk management and investment manager appointments (where relevant) for the Group. This includes advice on managing and monitoring investment-related risks, including climate change risks.

- Mercer also provides climate-related scenario analysis, helps compile the climate-related metrics for the Group and assists the Trustee in producing the Group's TCFD report on an annual basis.

Hymans – Funding Advisor, with Martin Potter as the appointed *Scheme Actuary* for the Group

- Providing advice on the funding position of the Group, including an understanding of the potential funding impact resulting from changes to financial or demographic assumptions driven by climate change.

Ernst & Young (EY) - Covenant Advisor

- Providing an assessment of the Group Sponsor's ability to continue to support the Group. Covenant climate-related risk and opportunities are considered in addition to other factors that could have a positive or negative impact on the strength of the Sponsor's covenant. Note, although there are multiple employers for the Group, EY consider the covenant at the SPUK level on the basis that SPUK is a participating employer to the Group and therefore SPUK and its subsidiaries make up the direct covenant.

CMS Cameron McKenna – Legal Advisors

- Providing advice on legal matters that relate to the Group, including legislation in respect of climate change and TCFD requirements.

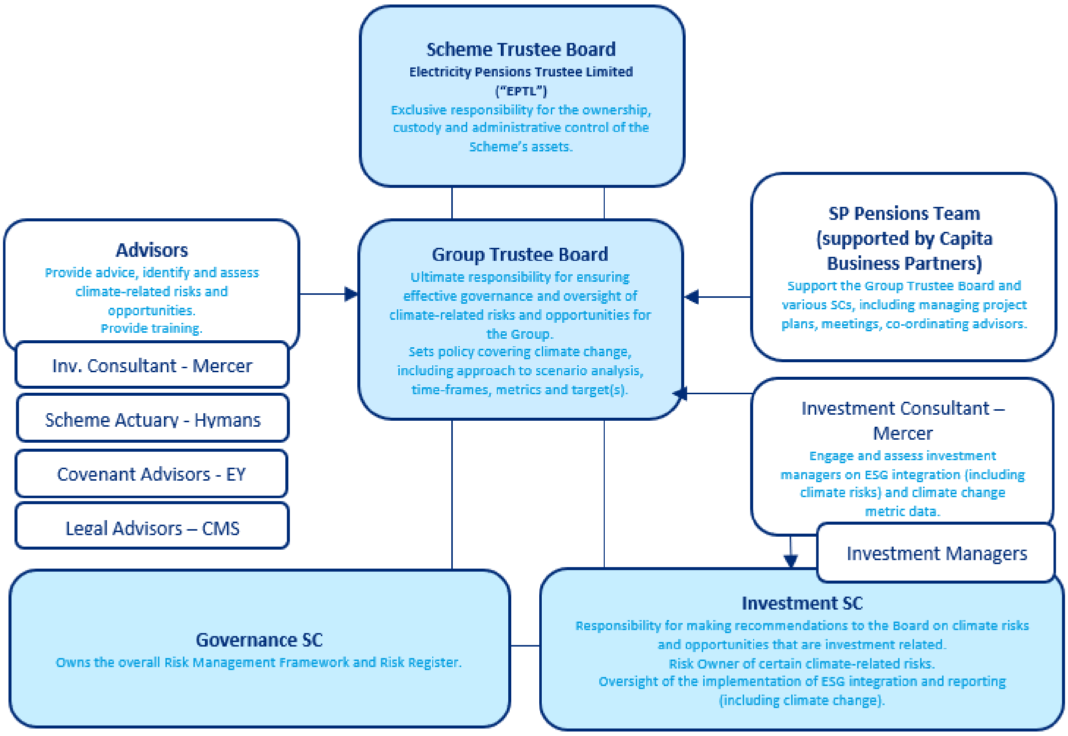
The ScottishPower Pensions Team, supported by Capita Business Partners, provide in-house support to the Trustee and Sub-Committees, as well as acting as a liaison between the Trustee, its advisors and the Group's Sponsor. As part of their role they monitor and manage the performance of the independent advisors and undertake operational and governance activities on behalf of the Trustee, including in relation to climate-related risks and opportunities. The ScottishPower Pensions Team have also received training on climate-related risks and opportunities and have access to the aforementioned online training provided by SPUK.

Governance structure

The Electricity Supply Pension Scheme (the "Scheme") has a two-tiered structure, which involves the central Scheme Trustee ("EPTL") and a series of Group Trustees who have trusteeship responsibility for each of the 24 separate Groups ("Groups") of the Scheme. The Manweb Group of the ESPS is one of those Groups.

The organisational structure of the Group Trustee, the relevant Sub-Committees and the relevant supporting external and internal parties is illustrated by the chart below:

Manweb Group of the ESPS



With the Support of the ScottishPower Pensions Team and Capita Business Partners, the Trustee reviews the appropriateness of the above organisational structure on an annual basis.

The Trustee and the Investment and Governance Sub-Committees all meet, separately, at least quarterly. The consideration of climate-related risks and opportunities is integrated into the wider monitoring and decision-making responsibilities of the Trustee and its Sub-Committees.

The Trustee also regularly considers any skills gaps, including in relation to assessing and managing climate-related risks, and appropriate training is then arranged with advisors and scheduled in the Trustee's Annual Business Plan.

Policies and processes

Identifying and assessing risks and opportunities

The Group's advisors are required to demonstrate sufficient credentials in relation to the assessment of climate-related matters. The Trustee has carried out an assessment of the ability of the Group's advisers to provide advice on climate-related risks and opportunities, as appropriate, based on the advisors' areas of specialism.

Representatives from the ScottishPower Pensions Team attend the Board and Sub-Committee meetings, and the Group's advisors also regularly attend these meetings, as appropriate. This facilitates reporting and monitoring of the activities of the in-house team and the advisors and also improves the in-house team and advisors' awareness of the Trustee's climate-related objectives and views. Any meeting actions assigned to the in-house team and / or the advisors are recorded and tracked until completion. There is also regular dialogue between the Chair of Trustee, the in-house team and the advisors during the period between meetings, to ensure timely progress of the agreed actions.

The Trustee has also set explicit objectives for its investment consultant, Mercer, which include supporting the Trustee in assessing, managing and measuring climate change risks and opportunities. On an annual basis, the Investment Sub-Committee formally reviews the performance of the investment consultant against the strategic objectives set by the Trustee, with input from the ScottishPower Pensions Team. Part of the assessment also considers the investment consultant's competencies against the criteria set out by the Investment Consultants Sustainability Working Group.

The Trustee also reviews the performance of the Scheme Actuary and Covenant Advisor on an annual basis, including how these advisors incorporate climate-related risks and opportunities into their advice to help the Trustee to continue to understand the wider resilience of the funding strategy.

The Investment Sub-Committee receives presentations from each of the Group's investment managers on, at least, an annual basis. During the investment managers' presentations, the Investment Sub-Committee discuss the climate-related risks and opportunities that relate to the manager's respective portfolio, to better understand the manager's activities in this area and enrich engagement.

Managing and monitoring risks and opportunities

The covenant review of the Sponsor is a standing agenda item at each of the quarterly Trustee meetings. The Trustee is provided with a covenant monitoring update, which includes consideration of material covenant risks in the context of the covenant strength, on a twice-yearly basis by the Group's covenant advisor, EY. Going forward twice-yearly covenant monitoring updates will include consideration of key climate-related risks and opportunities, to the extent relevant Sponsor information is available.

The funding advisor, Hymans, also attends the quarterly Trustee meetings and provides an update on the Group's funding position at each meeting, including the implications of any changes in financial assumptions. The demographic assumptions, including any impact resulting from changes driven by climate change, are reviewed at each triennial Actuarial Valuation.

The investment consultant, Mercer, attends the quarterly Investment Sub-Committee and Trustee meetings and provides advice on any changes to investment-related risks and opportunities (including those associated with climate change).

The Trustee, and the Sub-Committees as appropriate, review and regularly challenge the advice provided by the Group's advisors to ensure the robustness and reasonableness of the advice received. This includes, but is not limited to, the Trustee Directors challenging the appropriateness of the covenant advice provided in relation to the Sponsor, whereby a number of the Trustee Directors also have knowledge gained through their roles as employees of SPUK. The Trustee Board composition is diverse in its skill sets and areas of specialism, and includes a professional independent Chair, which helps enable the Trustee to provide an appropriate level of challenge to the Group's advisors.

The Trustee also meets with the Group's investment managers at least annually and asks each of the managers to demonstrate, in practice, how ESG considerations have been integrated into their portfolios. The Trustee often challenges the investment managers on specific portfolio holdings in order to better understand the ESG considerations and the related decisions that the investment managers have made.

National Grid Electricity

The Group's ESG Beliefs

The Group Trustee believes that good stewardship can lead to better returns and lower risk and that investment managers which are better at integrating ESG considerations will generate better long-term returns.

The Group Trustee should be concerned with the ESG impact of companies that are held in the Group's portfolio and should look to engage with the companies that the Group invests in.

The Group can benefit from businesses making a positive impact on society or the environment; ESG risks, including climate change, are not being adequately priced by the market, and will have a material effect on returns over the Group's lifetime.

Role of the Group Trustee

The Group Trustee is ultimately responsible for oversight of all strategic matters related to the Group and for making Group wide decisions. This includes approval of the governance and management framework relating to ESG considerations and climate-related risks and opportunities.

Given its importance, the Group Trustee has not identified one individual to be specifically responsible for the Group's response to climate risks and opportunities. Rather, the Group Trustee has collective responsibility for setting the Group's climate change risk framework. The Group Trustee is supported by its investment adviser and external support team when undertaking governance activities by developing and reviewing its climate change risk framework.

The Group Trustee has discussed and agreed its overarching approach to managing climate change risk, as part of the Group's wider approach to Responsible Investment. Details are set out in the Statement of Investment Principles ("SIP") and the Responsible Investment ("RI") policy, which is reviewed and (re)approved every year (or sooner in the event of a significant change in investment policy) by the Group Trustee.

In assessing the Group's climate change risk exposure, the Group Trustee considers various timeframes:

- the short (**1-3 years**).
- medium (**4-10 years**); and
- long (**11-20 years**) term.

Climate-related opportunities are evaluated over the same time horizons. This recognises the Group Trustee's long-term financial objective to hold sufficient assets to cover the Group's liabilities within the next 10 years, and/or to secure bulk annuities, should that be considered appropriate. However, the Group Trustee also acknowledges that the Group could be subject to much longer-term risks if the Group Trustee agrees to run-off the Group's liabilities instead of securing bulk annuities. Where appropriate, the Group Trustee considers transition and physical risks separately.

The Group Trustee receives training on an annual basis (or more frequently as required) on climate-related issues as part of its TCFD reporting process, to ensure that it has the appropriate degree of knowledge and understanding on these issues to support good decision-making.

The Group Trustee requires its advisers to bring important and relevant climate-related issues and developments to the Group's attention in a timely manner. As such the Group Trustee expects its advisers and investment managers to have the appropriate knowledge to advise on climate-related matters.

Role of the Investment Committee

The Group Trustee has delegated implementation and day-to-day oversight of the Group's climate change risk management framework to the Investment Committee ("IC"), which is a sub-committee of the Group Trustee.

The IC seeks to ensure that any investment decisions appropriately consider climate-related risks and opportunities within the context of the Group's wider risk and return requirements and are consistent with the climate change policy as set out in the SIP and the RI policy.

The IC regularly monitors and reviews progress against the Group's climate change risk management approach. The IC keeps the Group Trustee appraised of any material climate-related developments through updates as and when required.

Implementation is detailed later in this TCFD report, but key activities delegated to the IC include:

- ensuring investment proposals explicitly consider the impact of climate risks and opportunities.
- engaging with the investment managers to understand how climate risks are considered in their investment approach.
- working with investment managers to disclose relevant climate-related metrics as set out in the TCFD recommendations.
- ensuring that stewardship activities are being undertaken appropriately on the Group Trustee's behalf; and
- ensuring that actuarial and covenant advice adequately incorporate climate-related risk factors where they are relevant and material.

Activity for the Group's Year 1 report

The Group's investment adviser supported the IC at its quarterly meetings throughout 2022/23 to work through the TCFD recommendations and ensure a comprehensive understanding of the climate-related risks and opportunities that affect the Group. As part of this the IC challenged its investment adviser on the information provided via the investment managers in respect of the climate related risks and opportunities.

Changes expected for the Group's Year 2 report

The Group Trustee has spent a considerable amount of time and resource in understanding the Group's climate-related risks and opportunities as part of the Group's first TCFD report. The Group Trustee expects the required time and resource to reduce in future years given that a formal plan is now in place.

Role of the Group Trustee's external support team

The role of the Group Trustee's external support team, Barnett Waddingham, is to ensure that the Group Trustee has the appropriate governance processes in place to appropriately identify, assess and manage climate related risks and opportunities that are relevant to the Group.

Barnett Waddingham are also responsible for implementing the Group's approach to climate change risk on behalf of the Group Trustee (working with the Group Trustee's advisers as required) and facilitating training to help ensure that the Group Trustee has sufficient knowledge and understanding to make well-informed decisions on the Group's climate change risk management approach.

In addition, Barnett Waddingham ensures that the advice that the Group Trustee and the IC receive appropriately takes climate change considerations into account, where they are relevant and material to the Group, that the advisers are bringing relevant updates and opportunities for the Group Trustee's consideration, and that the advisers have the appropriate capabilities in doing so.

Role of the Group Trustee's advisers

Investment adviser

The Group Trustee's investment adviser, Aon, provides strategic and practical support to the Group and the IC, in respect of the management of climate-related risks and opportunities, and ensuring compliance with the recommendations set out by the TCFD.

This includes provision of regular training and updates on climate-related issues and climate change scenario modelling to enable the IC and the Group Trustee to assess the Group's exposure to climate-related risks.

Group Actuary

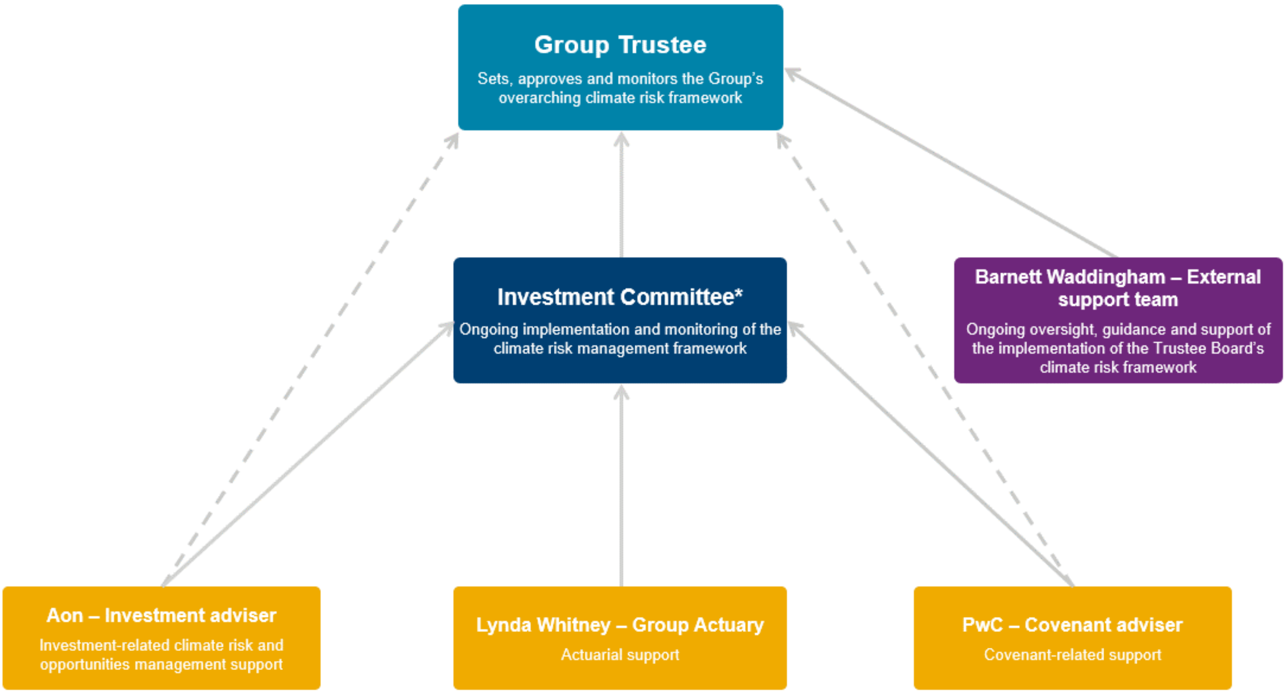
The Group Actuary, Lynda Whitney, helps the Group Trustee assess the potential impact of climate change risk on the Group's funding assumptions.

Covenant adviser

The Group Trustee's covenant adviser, PwC, helps the Group Trustee understand the potential impact of climate change risk on the sponsor covenant of the Principal Employer (National Grid Electricity Transmission plc) and each of the Participating Employers (National Grid UK Limited, National Grid Electricity System Operator Limited, and Elexon Limited) of the Group.

The chart below illustrates the relationships between the Group Trustee, the IC and their external support and advisers.

Overview of relationships between relevant parties



*Typically, also expected to comprise the Valuation Working Group during triennial actuarial valuations

Northern Powergrid

The Group's climate-related governance arrangements

Climate mission statement

The Group Trustees recognise that climate change poses material financial risks, which could negatively impact the Group's investments and the ability to achieve its objectives. In their proportionate approach to managing these risks, they aim to protect the interests of the Group's members and beneficiaries, whilst also recognising that, as a large institutional investor, the Group can help to improve the long-term future of the global environment through scrutiny in its investment decisions.

Through the actions of its appointed investment managers and advisers, an engagement-led approach allows the Group to be an active participant in improving corporate behaviour where possible, upholding high standards of corporate governance, and encouraging responsible ownership practices.

The Group Trustees also believe that the risks associated with climate change could negatively impact on the Group's investment returns within the timeframes that the Group Trustees are concerned about. Because of this risk, the Group Trustees seek to integrate assessments of climate change risk into their investment risk management and strategy where possible.

Furthermore, the Group Trustees believe that climate-related factors are likely to create investment opportunities. Where possible, and where appropriately aligned with the Group Trustees' strategic objectives and fiduciary duty, the Group Trustees will seek to capture such opportunities through the Group's investment portfolio.

Our climate beliefs

We believe that the risks associated with climate change can have a materially detrimental impact on the Group's investment returns and, as such, we have a role to play in helping to tackle climate change.

We believe that climate-related factors may create investment opportunities. We will seek to capture such opportunities through our investment portfolio where it is appropriately aligned with our strategic objectives and fiduciary duty.

Role of the Group Trustees

The Group Trustees are ultimately collectively responsible for oversight of all strategic matters related to the Group. This includes approval of the governance and management framework relating to environmental, social and governance ("ESG") considerations and climate-related risks and opportunities. This is a longstanding area of focus for the Group Trustees, and an annual training programme was established to ensure that continual upgrading of knowledge and understanding in this important area was put in place.

Given its importance, the Group Trustees retained collective responsibility for setting the Group's climate change risk framework.

The Group Trustees have discussed and agreed their responsible investment (including climate-related) beliefs and overarching approach to managing environmental, social and governance (including climate change) risk. Details are set out in the Responsible Investment Policy and Statement of Investment Principles ("SIP"), which are reviewed and (re)approved annually (or sooner in the event of a significant change in investment policy).

The Group Trustees have agreed that the most appropriate investment time horizons for the Group are as follows:

- **short term:** up to 3 years
- **medium term:** up to 10 years
- **long term:** 11 – 20 years (however, the Group Trustees recognise that the Group could be subject to longer term risks if the Group's liabilities are not secured within that time-period)

Both transition and physical risks climate-related risks and opportunities are assessed over the above time horizons, which will be re-evaluated each year in light of the Group's overall funding and strategic position.

The Group Trustees receive training annually (or more frequently as required) on climate-related issues as part of their TCFD reporting process, to ensure that they have an appropriate degree of knowledge and understanding to support good decision-making. This training is delivered primarily by a specialist member of the Group's dedicated investment consulting team but may also be delivered by other parties including the Group's appointed investment managers. The Group Trustees expect their advisers to bring important and relevant climate-related issues and developments to the Group Trustees' attention in a timely manner.

The Group Trustees have delegated implementation and day-to-day oversight of the Group's climate change risk management framework to the Funding & Investment Committee ("the F&IC"), which is a subcommittee of the Group Trustees. The Group Trustees regularly monitor and review progress against the Group's climate change risk management approach.

Role of the Funding and Investment Committee

The F&IC seeks to ensure that any investment decisions appropriately consider climate-related risks and opportunities within the context of the Group's wider risk and return requirements and are consistent with the climate change policy as set out in the Statement of Investment Principles (the "SIP").

The F&IC regularly monitors and reviews progress against the Group's climate change risk management approach. The F&IC keeps the Group Trustees apprised of any material climate-related developments.

Implementation is detailed later in this report, but key activities delegated to the F&IC include:

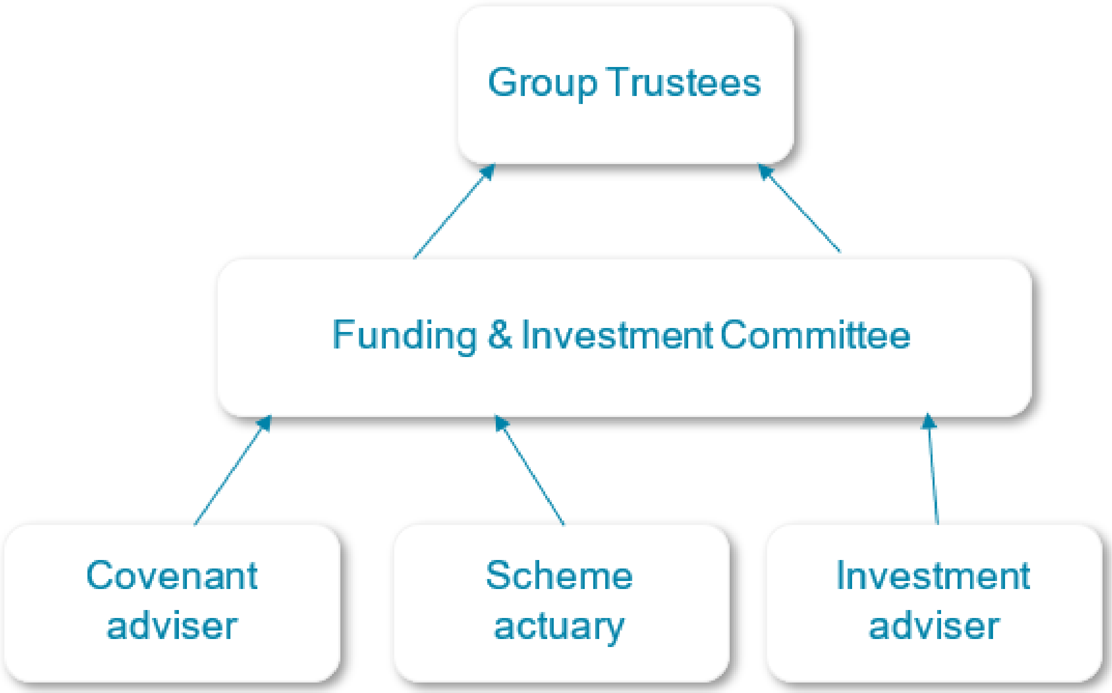
1. ensuring investment proposals explicitly consider the impact of climate risks and opportunities.
2. engaging with the investment managers to understand how climate risks are considered in their investment approach.
3. working with the investment consultant and investment managers to ensure that stewardship activities are being undertaken appropriately on the Group's behalf and relevant climate-related metrics as set out in the TCFD recommendations are disclosed.

Activity for the Group's Year 1 report

The F&IC met with its investment adviser several times during the Group year to work through the TCFD recommendations and ensure a comprehensive understanding of the climate-related risks and opportunities that affect the Group. As part of this the F&IC challenged its investment adviser on the information provided via the investment managers in respect of the climate related risks and opportunities.

Changes expected for the Group's Year 2 report

The Group Trustee has spent a considerable amount of time and resource in understanding the Group's climate-related risks and opportunities as part of the Group's first TCFD report. The Group Trustee expects the required time and resource to reduce in future years.



Role of the other advisers or stakeholders deemed relevant

Investment Consultant

The Group Trustees' investment consultant, Aon, provides strategic and practical support to the Group Trustees and the F&IC in respect of the management of climate-related risks and opportunities, and ensuring compliance with the Department for Work and Pensions' statutory guidance for pension schemes. In practical terms, the majority of support to the Group Trustees in this area is delivered by Aon in their role as investment consultant. The Group Trustees have noted Aon's qualifications and expertise in this area through their participation in cross-industry initiatives such as the Investment Consultants' Sustainability Working Group (ICSWG) and Cambridge Institute for Sustainability Leadership (CISL) and have reviewed Aon's 'climate competence' summary, in line with the ICSWG's recommendations.

Aon's support includes provision of regular training and updates on climate-related issues and climate change scenario modelling to enable the F&IC and the Group Trustees to assess the Group's exposure to climate-related risks.

Group Actuary

The Group Actuary, Philip Dennis, will help the Group Trustees assess the potential impact of climate change risk on the Group's funding assumptions.

Covenant adviser

The Group Trustees' covenant adviser, Aon, helps the Group Trustees understand the potential impact of climate change risk on the sponsor covenant of the Principal Employer (Northern Electric plc) and each of the Participating Employers (CallEnergy Resources Limited, Integrated Utility Services Limited, Northern Powergrid (Northeast) plc, Vehicle Lease and Service Limited, Northern Powergrid (Yorkshire) plc)) of the Group.

Npower

1. **Describe how the Group Trustees maintain oversight of climate-related risks and opportunities which are relevant to the Group. Describe how the Group Trustees and any relevant sub-committees are informed about, assess and manage climate-related risks and opportunities and the frequency at which these discussions take place.**

- The Npower Group has a single Defined Benefit Section which was c.£220m as of 31 March 2023. The Defined Benefit Section is well funded, c.102% (on a Gilts+0.5% basis) as of 31 March 2023 and has a relatively low-risk and well diversified investment strategy with a target return of Gilts+2.0% per annum.

- The Group also has a Defined Contribution Section, which was £52.7m as of 31 March 2023 (including £1.4m of DB AVCs). As of June 2023, these Defined Contribution assets were transferred by the Group Trustees, at the Company's instigation, into a separate master trust, with the exception of the legacy AVC arrangements held with Utmost Life and Pensions, Prudential and Clerical Medical which are comparatively very small in size.

- The Group Trustees are collectively responsible for oversight of all strategic matters for the Scheme, including the governance of environmental, social and governance ("ESG") considerations and climate-related risks and opportunities.

- The Group Trustees have clear statements in their Statement of Investment Principles that set out their policy regarding oversight of climate related risks, which generally form part of a broader group of ESG risks:

  - (DB Section) "The Group considers responsible investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) risks, which the Group Trustees take to include climate change, in the context of this broader risk management framework."

  - "The Group Trustees consider that responsible investment considerations are important, and probably as good a source of return as any other driver and should therefore be considered in a balanced risk/return framework when making investment decisions."

  - (DC and DB AVCs Section) "In setting the Group's DC investment strategy, the Group Trustees' primary concern is to act in the best financial interests of the Group and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk (given the anticipated time horizon of the Group's DC section). The Group Trustees believe that in order to fulfil this commitment and to protect and enhance the value of the Group's investments, they must act as a responsible steward of the assets in which the Group invests."

  - "The Group Trustees acknowledge that financially material considerations including Responsible Investment related risks are not always fully reflected in market prices and expect the investment managers in the DC (including DB AVCs) section of the Group to account for these considerations in a balanced risk/return framework."

  - "The Group Trustees undertake annual monitoring of their investment managers' responsible investment activities in order to monitor this, including a review of voting and stewardship activities, ESG metrics and ESG ratings provided by their DC investment consultant."

- As part of implementing these climate change related policies, the Group Trustees maintain the following governance documents:

  - **Statement of Investment Principles** – describes the high-level Responsible Investment policies which implicitly include a focus on climate change. A copy of this statement can be found at the following link: https://my-npower-pension.com/my-scheme/scheme-documents. The DB Section of the Statement is typically reviewed on an annual basis or following any material changes to investment strategy. The DC Section of the Statement is typically reviewed at least once every three years, or immediately after any material change to the investment strategy.

- **Implementation Statement –** The Group Trustees report annually on how they have implemented the policies within their SIP. This includes their Responsible Investment policies above but also sets out the Group Trustees' activities relating to voting and engagement (which may include stewardship activities carried out in relation to the management of climate-related risks) in the annual Implementation Statement. This statement provides some more specific information on the Group Trustees activities, and activities carried out on their behalf by the Scheme's appointed investment managers. A copy of this can be found at the website linked above.

- The Group Trustees receive quarterly investment monitoring reports from their DC investment advisers which include ESG ratings for each of the funds used within the DC and DB AVC investment strategy. This allows the Group Trustees to assess how the appointed investment managers integrate ESG considerations (including climate change) into their overall process, investment decision making and stewardship activities.

- The Group Trustees receive training on an ad-hoc basis on ESG-related issues including industry developments and best practice to ensure they have appropriate knowledge and understanding to support good decision making.

- The Group Trustees expect their advisers and investment managers to bring important climate related issues, developments, and concerns to their attention in a timely manner. During the year this was done through hot topic updates within meeting papers and training sessions as mentioned in this Statement. The Group Trustees require its advisers and asset managers to have the appropriate knowledge on climate related matters and this is assessed as part of selection and ongoing annual monitoring.

2. **Describe the roles of those undertaking scheme governance activities, in identifying, assessing and managing climate-related risks and opportunities relevant to those activities. Describe the rationale for the time and resources the Group Trustees spent on the governance of climate-related risks and opportunities.**

- Although the Group Trustees delegate certain aspects of the implementation of their climate policies, ultimate responsibility remains with the Group Trustees.

- **Role of the full Group Trustee Board and resources spent**

  - Ultimately responsible for setting and monitoring the Group Trustees' Responsible Investment and climate change policy, which is reviewed at least annually for the DB Section and at least triennially for the DC Section.

  - Also responsible for engaging with all reporting and monitoring in this area and, if appropriate, challenging any third parties these responsibilities are delegated to. This includes the Group's investment managers and advisers.

  - The Trustee Board met ten times during the year and climate change [was covered at three of these meetings.

  - The rationale for the time and resources committed is largely related to the time horizon of the Group and its size. Both of these are comparably small to some of the larger Groups within the ESPS as previously described. The Trustee Board resources in this area are mainly focussed on the work of the investment adviser, given their skills and broader industry context.

- The Group Trustees also have an engaged and collaborative relationship with the Sponsor, who is involved in the discussions on evolving the Group Trustees' approach to climate change.

3. **Describe the role of those advising or assisting the Group Trustees with scheme governance activities. Describe the processes the Group Trustees have established to satisfy themselves that the person advising or assisting takes adequate steps to identify and assess any climate-related risks and opportunities which are relevant to the matters on which they are advising or assisting. Describe the processes the Group Trustees have established to satisfy themselves that those**

undertaking scheme governance activities take adequate steps to identify, assess and manage those risks and opportunities.

- In order to enhance the Group Trustees' approach to Responsible Investment and climate change, the Group Trustees engage with and delegate activities to several third parties on the topic:

- **DB and DC Investment Advisers** – responsible for advising on the overall strategic climate change policy and assisting the Group Trustees in implementing and monitoring this strategy. This includes advising on suitable climate related investment opportunities as well as the appropriate climate change monitoring to assist with appropriately managing and monitoring these risks and opportunities. The DB and DC Investment Advisers are present at all Full Trustee Board meetings. The Group Trustees have set the Investment Advisers specific objective in the Responsible Investment area and review the Investment Advisers against these objectives annually.

- **Covenant Adviser –** As the Sponsor is engaged in the energy industry, climate change is a key factor to the overall assessment on an ongoing basis. The Group Trustees assess the work completed by the Covenant Adviser on a triennial basis as part of each Actuarial Valuation cycle and Covenant assessment.

- **Scheme Actuary –** Acting as an overall strategy adviser to the Group Trustees as well as providing input into the assessment of how robust the Group's funding strategy is to climate change. The assessment process of the Scheme Actuary is the same as that outlined for the Covenant Adviser.

- **Investment managers –** Providing investment vehicles to assist the Group Trustees with implementing their investment strategy as well as undertaking stewardship activities (voting and engagement) on the Group's behalf. The Group Trustees, with the assistance of their Investment Advisers, review in detail on an annual basis each manager's approach to incorporating climate change into their management along with their voting and engagement policies and activities. The Group Trustees also consider a potential new manager's ESG and Responsible Investment policies ahead of investment. The Group Trustees will engage with these managers to encourage improvements where there are shortcomings. One of the Group's DB investment managers also employs a specialist stewardship provider, EOS at Federated Hermes, who provides an additional layer of engagement activity to further enhance the activities of the investment manager.

4. **Describe whether the Group Trustees questioned and, where appropriate, challenged the information provided to them by others undertaking governance activities – or advising and assisting with governance.**

- The Group Trustees have a process of benchmarking the work of the Investment Adviser in the area of climate change by considering what other schemes in the industry are doing as well as a more explicit check in on alignment (where appropriate) with the other pension scheme with the same Sponsor. This provides a forum where the Group Trustees have challenged where there are differences in approach both from a strategy and monitoring perspective.

- Following a review of the detailed Responsible Investment monitoring report, the Group Trustees have identified some shortcomings from one of the Group's managers. This related to the structure of the mandate and also the implementation of the manager's stewardship responsibilities. The Group Trustees have therefore put the manager on watch and intend to engage with them to encourage improvement if progress has not been identified as part of next year's review.

5. **Describe, in relation to those who undertake governance activities, or advise or assist with governance of the scheme: (i) the kind of information provided to them by those persons about their consideration of climate-related risks and opportunities faced by the scheme; and (ii) the frequency with which this information is provided.**

- The Group Trustees incorporate Responsible Investment and climate change into their decision making and monitoring processes as standard but additional activities include:

- Detailed annual Responsible Investment review covering managers' policies approach and stewardship activities in the area of climate change.

- Quarterly hot topic updates which this year included an update on the new DWP climate regulations and a detailed overview of the new DWP stewardship guidance. In both instances the Group Trustees reviewed and considered how this might apply to the Group going forward.

- Quarterly DC investment monitoring reports which include ESG ratings for each of the funds used within the DC and DB AVCs investment strategy. This allows the Group Trustees to assess how the appointed investment managers integrate ESG considerations (including climate change) into their overall process, investment decision making and stewardship activities.

6. **Describe the training opportunities the Group Trustees provided for their employees in relation to climate change risks and opportunities. Where the Group Trustees identified skills gaps, they may also describe whether they encouraged external advisers to provide training opportunities.**

- A key part of the Group Trustees policy is ensuring that all Group Trustees on the Board have sufficient skill and knowledge in the areas of Responsible Investment and climate change. In line with this, all new joiners are provided with training in the area of Responsible Investment and climate change. This is facilitated by the Investment Adviser. Over the year, the Group Trustees covered the following:

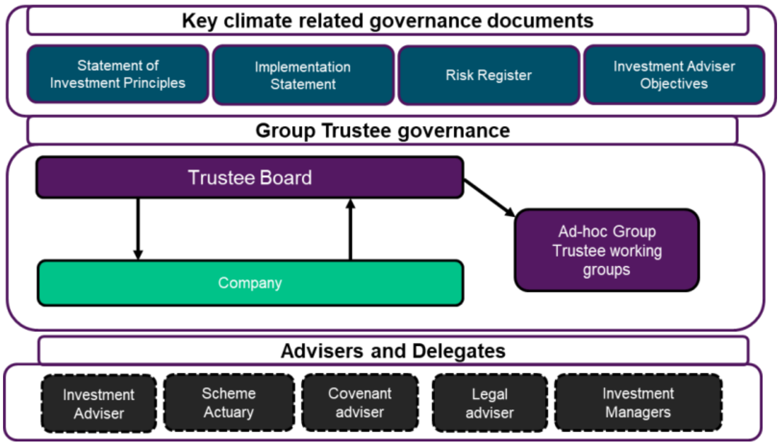
    - A training session, facilitated by the DB Investment Adviser, on climate change as a risk and opportunity and the new DWP climate regulations and recommendations of the TCFD.

    - Reviewed the underlying voting activities of the Group's investment managers with voting rights as well as the engagement activities completed during the year.

    - Updates on articles published by TPR covering their review of the approach in the pension scheme industry to climate change as well as a separate update on the newly published IPCC assessment report.

7. **We would be grateful if the Group Trustees could provide a structural diagram showing which groups of people or individual roles have responsibilities for governance of climate-related risks and opportunities. This may include executive officers, in-house teams and/or third parties engaged by the Group Trustees. No personal data needs to be included.**

- As noted, the Trustee Board has ultimate responsibility for setting and reviewing the Group's climate change strategy. The Group's climate governance framework is outlined below:



OVO Energy

1. **Describe how the Group Trustees maintain oversight of climate-related risks and opportunities which are relevant to the Group.**

    a. Whilst the Trustees are not required to comply with TCFD, they have agreed to broaden their knowledge on the regulations and comply with them as far as is reasonable.

    b. Trustees undertake annual training on Responsible Investment matters to develop knowledge and understanding.

    c. Trustees ensure specific RI beliefs are included within the Group's broader investment beliefs documentation and that they are reviewed periodically.

2. **Describe the roles of those undertaking scheme governance activities, in identifying, assessing and managing climate-related risks and opportunities relevant to those activities.**

    a. The Trustees have clearly defined roles.

    b. The Trustees have adopted a policy of delegating voting decisions on stocks to their investment manager on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. The investment manager is expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

    c. Where relevant, the Trustees may review the voting policies of their investment managers to determine that these policies are appropriate.

    d. Where appropriate, the Trustees will engage with and may seek further information from their investment managers on how portfolios may be affected by a particular issue.

    e. The Trustees do not engage directly but believe it is sometimes appropriate for its investment managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks. The Trustees will review engagement activity undertaken by their investment manager as part of its broader monitoring activity and in preparing the Group's annual Implementation Statement.

3. **Describe the processes the Group Trustees have established to satisfy themselves that those undertaking scheme governance activities take adequate steps to identify, assess and manage those risks and opportunities.**

    a. The Trustees expect its investment managers to report on the details of their engagement activity on at least, an annual basis. The manager should be able to demonstrate the reasoning behind any engagement activity, the objectives of the engagement activity, the timeframe over which the engagement is expected to take place and the consequences should engagement be unsuccessful.

    b. The Trustees conduct an annual Responsible Investment review to ensure the Group's manager is being proactive in its engagement, highlighting any key issues.

4. **Describe the role of those advising or assisting the Group Trustees with scheme governance activities.**

    a. Hymans Robertson as Investment Advisers, Aon as Group Administrator

5. **Describe the processes the Group Trustees have established to satisfy themselves that the person advising or assisting takes adequate steps to identify and assess any climate-related risks and opportunities which are relevant to the matters on which they are advising or assisting.**

    a. N/A

6. **Describe how the Group Trustees and any relevant sub-committees are informed about, assess and manage climate-related risks and opportunities and the frequency at which these discussions take place.**

    a. The Trustees conduct an annual Responsible Investment review and monitor key carbon metrics for the pooled funds in which the Group invests on a quarterly basis.

7. **Describe whether the Group Trustees questioned and, where appropriate, challenged the information provided to them by others undertaking governance activities – or advising and assisting with governance.**

    a. The Trustees consider reporting information provided by its investment manager, LGIM, and note the manager's strong ESG credentials.

8. **Describe the rationale for the time and resources the Group Trustees spent on the governance of climate-related risks and opportunities.**

    a. N/A

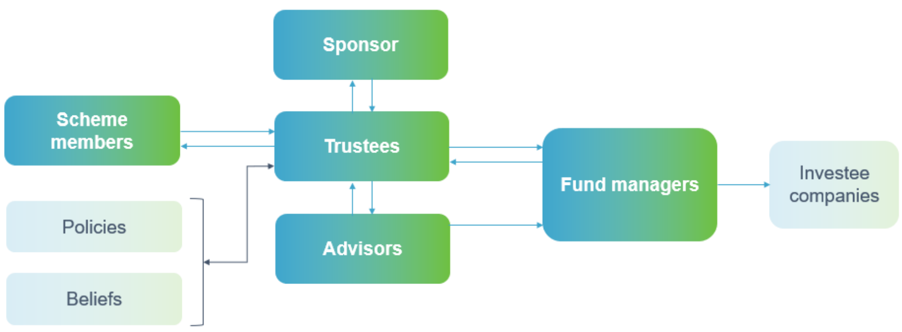
9. **Describe, in relation to those who undertake governance activities, or advise or assist with governance of the scheme: (i) the kind of information provided to them by those persons about their consideration of climate-related risks and opportunities faced by the scheme; and (ii) the frequency with which this information is provided.**

    a. N/A

10. **Describe the training opportunities the Group Trustees provided for their employees in relation to climate change risks and opportunities. Where the Group Trustees identified skills gaps, they may also describe whether they encouraged external advisers to provide training opportunities.**

    a. Group Trustees do not offer employee training. The Group Trustees do consider their own training needs.

11. **We would be grateful if the Group Trustees could provide a structural diagram showing which groups of people or individual roles have responsibilities for governance of climate-related risks and opportunities. This may include executive officers, in-house teams and/or third parties engaged by the Group Trustees. No personal data needs to be included.**



RWE

1. **Describe how the Group Trustees maintain oversight of climate-related risks and opportunities which are relevant to the Group. Describe how the Group Trustees and any relevant sub-committees are informed about, assess and manage climate-related risks and opportunities and the frequency at which these discussions take place.**

The RWE Group is split into two segregated Defined Benefit Sections, the RWE Section (c.£1.1bn of assets) and the Innogy Section (c.£3.2bn of assets). Climate change matters are considered for each Section separately, and for the Group as a whole. Both Sections are well funded on a low-risk basis and have relatively low-risk investment strategies.

The Group Trustees' overall mission is to meet the cost of accrued and future accrual of benefits through income and capital growth from assets and contributions from the employer and the Group's members. The Group Trustees hold a key belief that 'Investing [Group] members' assets responsibly, is a core part of this overall mission [and] have currently identified climate change as the single biggest ESG risk and opportunity and therefore believe it deserves ongoing focus under the Group's strategy'. At the same time, the Group Trustees also recognise that the Responsible Investment ("RI") landscape is broader than a single theme and therefore monitor a variety of different areas as part of the RI decision-making framework. As part of implementing this key belief, the Group Trustees maintain the following governance documents:

Statement of Investment Principles – this document contains the high-level RI policies with a specific focus on climate change. A copy of this statement can be found at the following link: https://epa.towerswatson.com/doc/RWH/pdf/rwe-statement-of-investment-principles.pdf. The statement is typically reviewed on an annual basis or following any material changes to the Group's investment strategy.

Responsible Investment Policy – Given the evolving nature of this area and the importance the Group Trustees place on appropriately governing climate-related risks and opportunities, the Group Trustees have established a separate RI Policy. This details the Group's overarching climate-related risk and opportunity management framework and sets out the strategic timeframes which guide the Group Trustees in assessing these risks and opportunities. This includes an overarching goal to reduce the Green House Gas ("GHG") footprint (Scope 1 and 2 emissions) of the Group's portfolio of assets (excluding government, government-related and derivative assets) by 50% by 2030 and to net-zero by 2050 or sooner. This is reviewed annually.

Implementation Statement – More broadly, the Group Trustees also report on activities relating to voting and engagement in the area of climate change in the Group's annual Implementation Statement. This provides some more specific information on the Group Trustees' activities in those areas.

2. **Describe the roles of those undertaking scheme governance activities, in identifying, assessing and managing climate-related risks and opportunities relevant to those activities. Describe the rationale for the time and resources the Group Trustees spent on the governance of climate-related risks and opportunities.**

Although the Group Trustees delegate certain aspects of the implementation of the Group's overarching climate mission, ultimate responsibility remains with the Group Trustees. The key roles are:

a. **Full Group Trustees** – Ultimately responsible for setting and monitoring the Group Trustees' RI and climate change policy. This is reviewed at least annually, and updates are provided on progress in the area of climate change at each quarterly meeting during the year. An annual review of activities is also conducted, and the Full Group Trustees have sight of the minutes and papers of all sub-committee meetings related to climate change in order to assess the quality of the work completed.

b. **Responsible Investment Committee** – The Group Trustees delegate some of the key implementation aspects of the overarching climate change policy to the Responsible Investment Committee ("RIC"), which is a sub-committee of the Group Trustees, working in collaboration with a representative of the principal employers (RWE

c. Generation UK Plc for the RWE Section and RWE Swindon Renewables for the Innogy Section) (collectively referred to as the “Sponsor”). The Terms of Reference denotes the key responsibilities of the RIC. These include the day-to-day implementation of the Group Trustees’ RI policy with a focus on evolving the Group’s strategic and monitoring approach for climate-related risks and opportunities over time. The RIC met four times during the scheme year, the Group Trustees deemed this frequency of meetings appropriate in order to efficiently manage all workstreams in relation to RI, and in order to stay on top of developing governance requirements, such as TCFD reporting. The RIC reports its activities to the Full Group Trustees via regular updates at meetings and by making the minutes from RIC meetings available to the Group Trustees.

d. **Other Committees** – Although the Full Group Trustees and the RIC are the two primary bodies setting, and implementing, the Group Trustees’ approach to climate change, other bodies are also involved. The Risk Committee for example, maintains, on the Group’s risk register, climate- related risks and opportunities with established controls and monitoring points throughout the year. The Member Communications Sub-Committee considers how the Group Trustees’ work on RI is appropriately communicated to members and external third parties. This reflects the holistic approach to the climate-related risks and opportunities taken by the Group’s various sub-committees.

The Group Trustees also have an engaged and collaborative relationship with the Sponsor, who is involved in the discussions on the Group Trustees’ approach to climate change as this evolves.

3. Describe the role of those advising or assisting the Group Trustees with scheme governance activities. Describe the processes the Group Trustees have established to satisfy themselves that the person advising or assisting takes adequate steps to identify and assess any climate-related risks and opportunities which are relevant to the matters on which they are advising or assisting. Describe the processes the Group Trustees have established to satisfy themselves that those undertaking scheme governance activities take adequate steps to identify, assess and manage those risks and opportunities.

In order to enhance the Group Trustees’ approach to RI and climate change, the Group Trustees engage with and, where they consider it appropriate, delegate activities to the following third parties:

Investment Adviser – The Investment Adviser is responsible for advising the Group Trustees on the overall strategic climate change policy and assisting them in implementing and monitoring this strategy. This includes advising on suitable climate-related investment opportunities as well as the appropriate climate metrics to assist with appropriately managing and monitoring climate-related risks and opportunities. The Investment Adviser is present at all RIC meetings. The Group Trustees have set the Investment Adviser an objective in the area of climate change and assess progress against this objective annually, as well as conducting a more in-depth overall quinquennial review.

Covenant Adviser – As the Sponsor is engaged in the energy industry, climate change is a key factor to the overall covenant assessment on an ongoing basis. The Covenant Adviser, therefore, provides input as part of the Group Trustees’ climate change scenario analysis, assessing the resilience of the covenant to climate-related risks and opportunities. The Group Trustees assess the work completed as part of the adviser review process which was recently conducted and will continue to be completed on a quinquennial basis.

Scheme Actuary – The Scheme Actuary provides strategic advice to the Group Trustees as well as providing input into the assessment of how robust the Group’s funding strategy is to climate-related risks and opportunities as part of the Group’s climate change scenario analysis. The assessment process followed is the same as that outlined for the Covenant Adviser.

Investment managers – The investment managers provide the investment vehicles, and asset management services, to assist the Group Trustees with implementing their investment strategy as well as undertaking stewardship activities (voting and engagement) on the Group’s behalf. The Group Trustees, with the assistance of their Investment Adviser, review, in detail, on an annual basis, each manager’s approach to incorporating climate change into their asset management, along with their voting and engagement policies and activities. The Group Trustees also consider any potential new manager’s ESG and RI policies ahead of any decision to appoint the manager. The Group Trustees have engaged, and will continue to engage, with the Group's current investment managers to encourage improvements where they consider there are shortcomings.

4. Describe whether the Group Trustees questioned and, where appropriate, challenged the information provided to them by others undertaking governance activities – or advising and assisting with governance.

As referenced, the Group Trustees conducted a detailed adviser review which covered all advisers outlined in the governance diagram in our response to question 7. A key point of questioning and challenge as part of this, was the work each adviser had provided in the area of climate change and RI. The rigorous process undertaken did not result in any changes in appointments but reassured the Group Trustees in the quality of advice being received in the area of climate change. In addition to the aforementioned adviser review, the Group Trustees ensure that sufficient time is allowed for during meetings at which advice is provided, so that they are able to challenge the Group's advisers on an ongoing basis, if it is deemed necessary.

As mentioned in the Metrics and the Targets sections of the TCFD report, the Group Trustees engaged with a number of the underlying investment managers on their approach to collating climate change data, and also the level of resources that they were dedicating to stewardship on climate change. The Group Trustees continue to monitor the progress of these managers and will take action as they consider necessary. By way of example, the Group Trustees challenged one investment manager on the GHG footprint of its portfolio and sought a detailed explanation as to the GHG footprint attributed to the holdings within that portfolio. The Group Trustees will be closely monitoring how, going forward, the manager engages and votes on matters raised at the AGMs of the relevant companies held in that portfolio.

5. Describe, in relation to those who undertake governance activities, or advise or assist with governance of the scheme: (i) the kind of information provided to them by those persons about their consideration of climate-related risks and opportunities faced by the scheme; and (ii) the frequency with which this information is provided.

As mentioned in the Risk Management section of this report, the Group Trustees have a holistic approach to climate change, so the majority of information received has a 'climate change angle' to it. In addition, more specific information is received during the year, including:

Detailed annual RI reviews covering investment managers' policies, approach, and stewardship activities in the area of climate change, as well as a bottom-up security-level analysis of the climate metrics of the Group's specific investments.

Top-down assessment of climate change scenario analysis testing the robustness of the Group's funding strategy. Although not re-done this year, the results of last year's analysis were discussed and re-considered, in line with government guidance.

Quarterly portfolio asset class deep dives which cover the climate credentials, risks, and opportunities of each part of the portfolio.

6. Describe the training opportunities the Group Trustees provided for their employees in relation to climate change risks and opportunities. Where the Group Trustees identified skills gaps, they may also describe whether they encouraged external advisers to provide training opportunities.

A key part of the Group Trustees' policy is ensuring that all the Group Trustees have sufficient skill and knowledge in the areas of RI and climate change. In line with this, all new Group Trustees are provided with training on RI and climate change. This is facilitated by the Investment Adviser. On an ongoing basis, all Group Trustees receive the following:

An annual update on RI from the RIC, providing an in-depth overview of the output of the meetings, the annual review of policies, and the activities being undertaken. This includes an assessment of the Group's investment managers and detailed climate metric monitoring.

Quarterly 'hot topics' updates which, over the year, covered new stewardship guidance, TPR's review of TCFD Statements, and DWP climate regulations.

Quarterly updates from RIC meetings, which covered a summary of activities such as:

a. Climate-related investment manager engagements, encouraging greater efforts on data provision, and larger focus on stewardship activities.

b. TCFD Statement progress

c. a detailed review of the Group's equity portfolio

d. In addition to this, members of the RIC were involved in:

Detailed climate metrics training, including the evolution of new, more sophisticated, metrics to assess climate-related risks and opportunities.

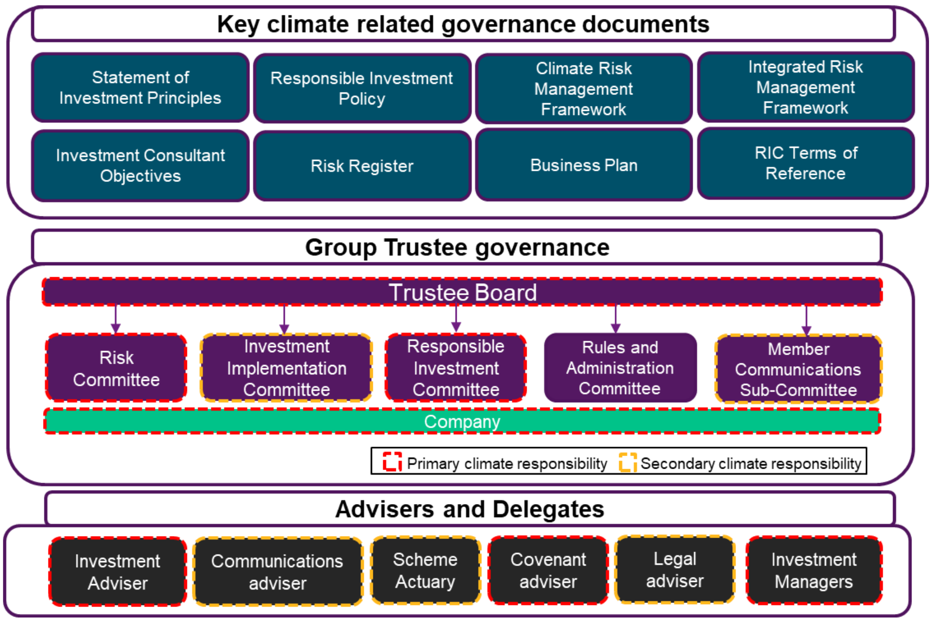
An in-depth review of the universe of climate index solutions

Ongoing education on the recommendations of the TCFD and the new climate regulations

Continued regular knowledge sharing amongst the RIC, including various updates on TPR climate guidance, the Task Force for Nature-related Financial Disclosures ("TNFD"), climate adaptation and guidance from the OECD.

7. **We would be grateful if the Group Trustees could provide a structural diagram showing which groups of people or individual roles have responsibilities for governance of climate-related risks and opportunities. This may include executive officers, in-house teams and/or third parties engaged by the Group Trustees. No personal data needs to be included.**

The Group Trustees' climate governance framework is summarised in the below diagram:



Schneider

1. Describe how the Group Trustees maintain oversight of climate-related risks and opportunities which are relevant to the Group.

The Group Trustee recognises climate-related risks and opportunities (CRRO) as a key factor to be considered alongside other ESG topics, including corporate governance, human rights, labour and environmental standards. The Trustee believes that CRRO, along with other ESG factors, can have an impact on financial performance. Accordingly, the Trustee places importance on spending time and resources on its governance of CRRO in relation to the Group. The responsibility for investment strategy, decision-making and governance for the Group rests with the Trustee. It therefore maintains strategic oversight and is ultimately responsible for CRRO within the Group.

At present, CRRO is handled at regular Trustee meetings. The Trustee maintains oversight of key management stakeholders to ensure the stakeholders fulfil their responsibilities of assessing and managing CRRO. The Trustee obtains strategic investment advice from its appointed Fiduciary Manager (SEI Investments (Europe) Ltd), including advice in relation to the Trustee's policies on CRRO. The Trustee also obtains investment advice from the same Fiduciary Manager at a more granular level, e.g., on the range of investments.

SEI became Fiduciary Manager to the Group in Q1 2023. The Group Trustee delegates responsibility for investment stewardship (including voting and engagement) to its Fiduciary Manager (and certain selected Investment Managers where funds are directly held). The Trustee receives regular reports to satisfy itself that stewardship is consistently applied in line with the Trustee's fiduciary duty. Part of the Trustee's fiduciary duty is to incorporate the climate risk-related reporting it receives from SEI into its investment decisions, to manage investment risk and enhance portfolio returns for the period during which the Group's assets are invested. The Trustee considers these factors to be financially material over a period of at least 50 years, this being the length of time it would take for the vast majority of members to begin receiving a pension. Considering its approach to CRRO and ESG more widely, the Trustee believes shareholder engagement is a necessary tool for affecting positive change. When considering climate change, companies in all sectors will face risks and opportunities, and investors have a significant role to play in influencing how companies prepare themselves to manage those risks and take advantage of any opportunities. The Trustee believes that continuing to proactively engage with the senior management of corporations on CRRO issues is the best way to enact meaningful and sustainable change and address both risks and opportunities, including CRRO, in the portfolio.

2. Describe the roles of those undertaking scheme governance activities, in identifying, assessing and managing climate-related risks and opportunities relevant to those activities.

Fiduciary Manager

The responsibility for training the Trustee on investment issues, helping develop the Trustee's investment strategy, and advising the Trustee on key aspects of CRRO governance (e.g., metrics and targets, scenario analysis etc.) rests with the Fiduciary Manager. The Fiduciary Manager advises the Trustee when choosing climate-related metrics/targets (which are both reportable and achievable for the funds used) on at least an annual basis.

Shareholder voting is used in conjunction with engagement efforts to affect meaningful change in corporate behaviour. SEI, as Fiduciary Manager, uses a proxy voting service (Glass Lewis) for all of its UCITs funds, which brings consistency and high standards to the proxy research and voting decisions that are made in relation to the Group's assets.

The Trustee is a strong advocate of investment stewardship as an effective way to enact change and ensure companies in the portfolio are adequately managing CRRO. SEI employs a third-party vendor, Sustainalytics, to assist with shareholder engagement, and Columbia Threadneedle (formerly BMO), a specialist climate engagement service provider.

Group Actuary

The Trustee takes advice from the Group Actuary and the Fiduciary Manager regarding the extent to which climate change may affect the funding position of the Group. The Trustee has asked the Group Actuary and Fiduciary Manager to consider (for future iterations of this report) the impact that climate change could have on the Group's assets and liabilities over key time horizons through scenario analysis.

3. Describe the processes the Group Trustees have established to satisfy themselves that those undertaking scheme governance activities take adequate steps to identify, assess and manage those risks and opportunities.

The Trustee Board meets quarterly and collaborates with Scheme advisors, including the Group Actuary and the Fiduciary Manager, to seek appropriate advice on their climate change responsibilities. The Trustee holds the ultimate responsibility for overseeing all strategic matters concerning the Scheme, including establishing the governance and management framework for environmental, social, and governance (ESG) considerations as well as climate-related risks and opportunities. The Trustee has engaged in discussions and reached an agreement on their beliefs and approach to managing climate change risk. These details are periodically reviewed by the Trustee.

The Trustee holds the ultimate responsibility for making significant decisions related to climate change and complying with TCFD (Task Force on Climate-related Financial Disclosures) disclosure requirements. To help inform its appraisal of those undertaking scheme governance activities and the steps they are taking to identify, assess and manage CRROs, the Group Trustee:

- Meets with key stakeholders each quarter to discuss CRROs and other climate-related issues impacting the Scheme.
- Reviews the quarterly investment reports provided by the Fiduciary Manager, SEI, which contain a summary of SEI's investment stewardship (i.e., engagement and proxy voting) activities for the quarter
- Undergoes regular training, at least annually, and more frequently if needed, on climate-related issues (run by the Fiduciary Manager/Group Actuary/external organisations) to ensure its knowledge of such issues is up-to-date.
- Actively monitors forthcoming rules, regulations and guidance from the Pensions Regulator and other relevant organizations.

4. Describe the role of those advising or assisting the Group Trustees with scheme governance activities.

See 2.

5. Describe the processes the Group Trustees have established to satisfy themselves that the person advising or assisting takes adequate steps to identify and assess any climate-related risks and opportunities which are relevant to the matters on which they are advising or assisting.

The Trustee engages with its advisors on climate change considerations as required and is satisfied they have taken adequate steps to identify and assess relevant climate-related risks and opportunities. The Trustee has engaged with the Group Actuary and the Fiduciary Manager to obtain and analyse portfolio level carbon data and Climate VaR analysis. To help inform its appraisal of its advisors and the steps they are taking to identify and assess any CRROs relevant to the matters on which they are advising or assisting, the Group Trustee:

- Meets with its advisors each quarter to discuss CRROs and other climate-related issues impacting the Scheme.

- Reviews the quarterly investment reports provided by the Fiduciary Manager, SEI, which contain a summary of SEI's investment stewardship (i.e., engagement and proxy voting) activities for the quarter

- Undergoes regular training, at least annually, and more frequently if needed, on climate-related issues (run by the Fiduciary Manager/Group Actuary/external organisations) to ensure its knowledge of such issues is up-to-date.

- Actively monitors forthcoming rules, and regulations and guidance from the Pensions Regulator and other relevant organizations.

6. Describe how the Group Trustees and any relevant sub-committees are informed about, assess and manage climate-related risks and opportunities and the frequency at which these discussions take place.

The Group Trustee receives quarterly investment reports which include proxy voting and shareholder engagement data pertaining to the Group, as well as engagement case studies. This information helps facilitate discussion between the Fiduciary Manager and the Trustee relating to the identification and assessment of CRRO. The Trustee relies upon the Fiduciary Manager's expertise to appraise these risks in the context of the Group as a whole; this assessment then lends itself to determining how the identified risks/opportunities should be managed. Quarterly discussion is typically (and has been) sufficient for the aforementioned purposes, but in the event of a new risk or opportunity emerging, the Fiduciary Manager would contact the Trustee on an ad hoc basis.

7. Describe whether the Group Trustees questioned and, where appropriate, challenged the information provided to them by others undertaking governance activities – or advising and assisting with governance.

No examples of such. SEI was only appointed Fiduciary Manager to the Group in Q1 2023.

8. Describe the rationale for the time and resources the Group Trustees spent on the governance of climate-related risks and opportunities.

The Group Trustee believes that CRRO present a material risk to the investment performance of the Group's assets over the probable investment horizon, with transition risk being more heavily weighted to the short and medium term, whilst the physical impacts of climate change are more likely to play out over the medium and long term. The Group Trustee therefore believes it is sensible to devote time and resources to the governance of CRRO, with certain responsibilities delegated to key stakeholders, as set out above (see 2.).

9. Describe, in relation to those who undertake governance activities, or advise or assist with governance of the scheme: (i) the kind of information provided to them by those persons about their consideration of climate-related risks and opportunities faced by the scheme; and (ii) the frequency with which this information is provided.

As Fiduciary Manager, SEI provides the Group Trustee with quarterly investment reports which include proxy voting and shareholder engagement data pertaining to the Group, as well as engagement case studies.

SEI also runs training sessions for the Trustee, at least annually, covering the TCFD framework, best-practice for alignment with this framework, good CRRO governance, climate metrics/targets and scenario modelling, proxy voting and shareholder engagement.

SEI assists with the publication of the Group's annual TCFD report, which is made available to the Group Trustee.

10. **Describe the training opportunities the Group Trustees provided for their employees in relation to climate change risks and opportunities. Where the Group Trustees identified skills gaps, they may also describe whether they encouraged external advisers to provide training opportunities.**

    N/A. There are no active members in the Scheme.

11. **We would be grateful if the Group Trustees could provide a structural diagram showing which groups of people or individual roles have responsibilities for governance of climate-related risks and opportunities. This may include executive officers, in-house teams and/or third parties engaged by the Group Trustees. No personal data needs to be included.**

    n/a – The Group Trustee delegates the majority of the responsibilities for governance of climate-related risks and opportunities to SEI, the Group's Fiduciary Manager.

SSE Southern

The Group's Responsible Investment (RI) policy covers broader aspects than just climate change and considers the whole ESG spectrum. However, this does include climate change and the Group Trustee gives climate change due consideration given its financial materiality. While TCFD focuses on climate change, the relevant sections in the Group's RI policy may instead refer to ESG/RI considerations more broadly.

Governance Disclosure 1: Describe the Trustee's oversight of climate-related risks and opportunities

The Group Trustee has undertaken training on climate change, specifically in relation to meeting the TCFD requirements and on how the existing LGIM Buy & Maintain corporate bond portfolio could be made "RI-aware", during the year. The Group Trustee has also undertaken training in previous scheme years in relation to both TCFD and wider ESG topics. Further training will be undertaken as required in order to maintain the Group Trustees' knowledge and understanding of the topic and how it applies to the Group.

The Group Trustee has a set of Responsible Investment (RI) beliefs in place for the Group, which include climate-related beliefs. These beliefs are documented in the Group's RI Policy and are reflected throughout the Statement of Investment Principles. The Group Trustee plans to review these beliefs at a high-level on an annual basis, with a more in-depth review being undertaken on a three-year basis.

The Group Trustee's RI policy outlines the Group's approach to climate-related issues and provides further details on oversight of climate risks and opportunities. The policy also sets out roles and responsibilities relating to climate-related issues and how these are brought to the Group Trustee's attention. This includes responsibility for ensuring all regulatory requirements are met and that the Group's governance processes are sufficient to ensure the proper management of all ESG related risks.

The Group's RI policy considers the whole ESG spectrum. However, this includes climate change, and the Group Trustee gives climate change due consideration given its financial materiality. Within this report, reference is made to climate change, however relevant sections in the RI policy may instead refer to ESG more broadly.

In fulfilling its duties, the Group Trustee delegates certain responsibilities to other parties.

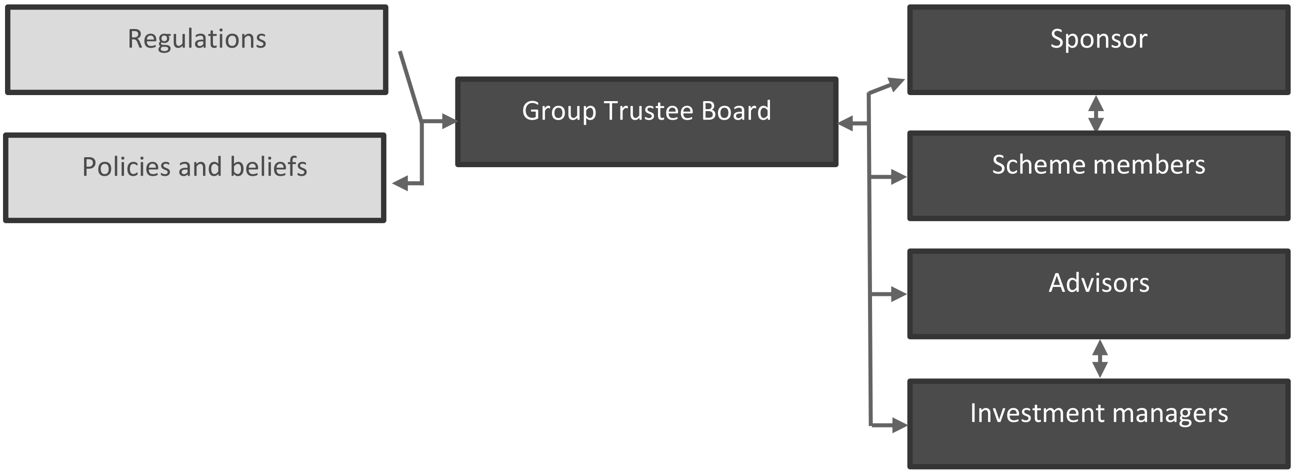
The parties with a role in the Group's management, how they incorporate the identification, assessment and management of climate related risks and opportunities into that role and the methods the Group Trustee uses to assess each party is set out in this document and in the section below. Group Trustee effectiveness reviews are carried out regularly, which include assessment of the governance structures in place.

There are a number of responsibilities delegated to the investment managers of the Group's assets. These asset managers are monitored on an ongoing basis by the Group Trustee. The Group Trustee's investment advisor assists with the ongoing monitoring of the investment managers, including rating the approach of the managers with respect to climate related issues. Further details on these responsibilities are also included under Governance disclosure 2.

The Group Trustee maintains oversight of ESG-related risks and opportunities which are relevant to the Group through the governance processes in place. The Group Trustee maintains a governance document, which records the current structure, the parties involved in the Group's management and their roles in identifying, assessing and managing climate-related risks and opportunities. The governance structure and relationship between the respective parties within the Group are set out in this document and the section below.

The Group's sponsor, SSE, maintains its own climate change Policy and Sustainability report. The Group Trustee maintains an ongoing dialogue with the Sponsor to ensure both parties are aware of each other's approach in this area. The Group Trustee ensures those issues relevant to the Group are considered where appropriate and aim to ensure synergy between the Group and Sponsor's approach to climate related issues.

The current governance structure of the Group and key relationships is illustrated in the chart below.



The Group Trustee have a dedicated section at each quarterly Investment Meeting which facilities the necessary and appropriate discussion with regards to RI considerations. In fulfilling the Group Trustee's duty as described above, the Group Trustee delegates certain responsibilities to other parties (e.g. the Group's investment managers).

Governance Disclosure 2: Describe management's role in assessing and managing climate related risks and opportunities

There are a number of parties with a role in the Group's management and how they incorporate the identification, assessment and management of responsible investment, and in particular climate related risks and opportunities. These parties and their role in the Group's overall approach to climate-related issues, including the assessment and management of climate risks and opportunities, is set out below alongside the methods that the Group Trustee uses to assess each party. Ultimately, the Group Trustee has ownership of Group wide decisions. The Group Trustee however relies on input from its advisors and investment managers to assist with assessing and managing climate related risks and opportunities at the Group wide level. The Group Trustee has delegated responsibility to the Group's investment managers to assess and manage climate related risks and opportunities on a day-to-day basis for their respective portfolios that they manage on the Group's behalf.

It is also noted within the Group's RI policy those individuals and organisations (including the Group Trustee's advisors) that have oversight, accountability and manage responsibilities for climate-related risks.

Additionally, the Group Trustee maintain ongoing dialogue with the Group Sponsor, including regular updates provided by a Sponsor representative at Group Trustee meetings. This dialogue includes the Sponsor's approach to climate-related issues to ensure those relevant to the Group are considered where appropriate and ensure synergy between the Group and Sponsor's approach to climate related issues.

The Group Trustee
The Group Trustee has ownership of the overall investment strategy, including the implementation of the Group's RI Policy. The Group Trustee is expected to incorporate RI considerations into its management of the Group's assets, identifying and managing ESG related risks and opportunities in all areas including asset allocation decisions, manager appointments and its monitoring of the Group's current investment managers. In relation to RI, the Group Trustee aims to:

- Act in line with the beliefs and principles set out in the Group Trustee's agreed RI policy.
- Continue to progress towards becoming more active in all areas of RI.
- Meet the requirements of the new climate related regulations that came into force from October 2022.

In-house Pensions Team

The In-house SSE Pensions Team support the Group Trustee in the arranging of meetings and taking forward agreed actions between meetings. The Pensions Team also has responsibility to ensure appropriate levels of resource to complete all RI associated requirements, including TCFD reporting.

Investment Advisors

The Group's investment advisors, Hymans Robertson, are responsible for assisting the Group Trustee to ensure climate related risks and opportunities are embedded into all investment decisions. They provide advice and training to the Group Trustee regarding regulatory requirements and are expected to incorporate climate considerations into any advice regarding any strategy changes or manager appointment.

The Group Trustee has set objectives for its Investment Advisor which include objectives relating to the advisor's support in all RI considerations. The Investment Advisor is assessed against these objectives annually and the objectives themselves are assessed regularly to ensure they remain appropriate.

Actuarial Advisors

The Group's Actuarial advisors, Aon, are responsible for identifying any climate considerations which should be incorporated into the Group's funding strategy (both short and long term) and in the Group's integrated risk management plan. This will include the setting of individual financial and demographic assumptions.

Covenant Advisors

The Group Trustee's assessment of the covenant of the sponsor, SSE, is undertaken through ongoing dialogue with the Company as well as formal covenant reviews undertaken by Penfida. Penfida (and the Principal Employer as outlined above), within their reviews, are responsible for identifying any climate considerations which should be incorporated into the Group's strategic discussions and in the Group's integrated risk management plan.

Investment Managers

The Group's investment managers are expected to, and indeed responsible for, integrating ESG considerations, including climate change, to the extent possible, into their management of each of the Group's mandates. The Group's investment managers are expected to provide frequent reporting on ESG topics and provide updates at the quarterly manager meetings.

On the appointment of any new manager, the Group Trustee assesses each manger's RI capabilities, with assistance from their Investment Advisor, to determine if that manager's approach is aligned with the Group Trustee's RI Policy. Once appointed, the Group Trustee monitors all managers regularly, assessing each manager's RI processes and policy and challenges managers on any issues identified.

The Group Trustee also liaises with the investment managers in relation to RI matters, as required. The Group Trustee maintains a record which is updated based on information provided by and discussions held with the investment managers during Group Trustee meetings.

UK Power Networks

Organisational Overview: UK Power Networks Group

UK Power Networks Group ('the Group') is part of the Electricity Supply Pension Scheme (ESPS), an industry-wide pension scheme formed when the UK electricity industry was privatised in 1990. The ESPS has 24 separate actuarially independent sections (one of which is UK Power Networks Group), each of which has its own assets to fund the benefits of its members.

The Group operates for the sole purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. It is principally a defined benefit pension arrangement. Membership has been closed to new employees since March 1994.

The Group's strategic objective is to work with UK Power Networks (the principal employer) to ensure that the Group is run properly, and that benefits are paid as promised.

The Group had £3,163 million in assets under management as at 31 March 2023. It delegates day-to-day investment decisions and asset allocation to BlackRock (the "Fiduciary Manager" or the Outsourced Chief Investment Officer (OCIO)). The Group retains responsibility for its strategic investment objective and for oversight of the Fiduciary Manager, and has established robust governance, management, monitoring and review processes to ensure that its assets are managed in line with this strategic objective.

What is OCIO?

Outsourced Chief Investment Officer (OCIO) is an arrangement where an asset owner outsources the investment management decisions for their pool of assets to a third party. The third party, usually an investment firm, takes on fiduciary responsibility, investment decisions, portfolio monitoring and other operational services from the asset owner. In these arrangements, asset owners retain full authority over their asset allocation policy, and risk and return objectives.

Governance And Management

An Overview of our Governance and Management Structure

The UK Power Networks Group Trustee (the Group Trustee) operates as a corporate trustee with a Board of Directors. Broadly speaking, the Group Trustee retains decisions that are strategic in nature. The Group Trustee is accountable for the management of its investment arrangements, for setting the Group's general investment policy, for managing risks to the Group's investments and for ensuring that investments are managed in line with the Group's funding objectives. The Group Trustee is expected to establish processes to satisfy themselves that parties undertaking governance activities (other than trustees) are taking steps to identify assess and manage climate related risks and opportunities.

The Group Trustee has appointed BlackRock (the 'Fiduciary Manager') to manage the Group's assets in line with the terms of the Fiduciary Management Agreement (the "FMA") that has been agreed between the Group Trustee and the Fiduciary Manager. The Fiduciary Manager is responsible for the selection of investments, including ensuring investments are appropriately diversified and suitable for the Group. The Fiduciary Manager and any underlying managers appointed by the Fiduciary Manager are also responsible for conducting stewardship, voting and engagement activities in respect of the Group's assets in line with the Group's Statement of Investment Principles (see below).

UK Power Networks Holdings provides an Executive function which is responsible for the day-to-day administration of the Group. The Executive's responsibilities include providing the administrative and other support necessary to manage the Group, analysing and managing risks relevant to the Group, managing relationships with employees and beneficiaries, and complying with statutory accounting and reporting requirements. The Executive also supports the Group Trustee through organising quarterly board meetings, preparing papers for these meetings and reviewing the information provided by the Fiduciary Manager. The Executive comprises a Head of Pensions, a Pensions Investment Manager and a number of supporting administrative and management roles.

Monitoring and Review

The Group Trustee meets at least quarterly to review investment performance and other aspects of how the Fiduciary Manager is implementing the FMA. The Fiduciary Manager provides quarterly reports which include:

- Analysis of funding level performance over the period, including discussion of the economic environment, investment market factors and the Group's portfolio positioning.
- Commentary on the risks being taken in the assets, including the outcome of stress testing or other portfolio risk assessments.
- Assessment of funding levels versus the Group's objectives.
- Asset allocation analysis.
- ESG metrics, including carbon emission figures. The ESG report includes aggregate and asset class level reporting of ESG scores relative to an appropriate benchmark. The Group Trustee uses this to measure how the overall Group assets are invested and to assess changes over time.
- Voting and cost disclosures, in line with relevant regulatory requirements.

In addition, the Fiduciary Manager provides the data and information necessary for compliance and inclusion in the Group Trustee's Annual Report and Financial Statements, including the Investment Report, the Implementation Report and the TCFD report.

With the assistance of the Executive, the Group Trustee monitors the performance of the Fiduciary Manager both in terms of its investment performance and its performance against the terms set out in the FMA. A formal assessment of the Fiduciary Manager against its objectives is undertaken on an annual basis.

Our Statement of Investment Principles

Our Statement of Investment Principles (SIP)[4] sets out our policies relating to a number of key investment matters. These include, but are not limited to, the types of assets to be held on our behalf, the balance between different kinds of investments, investment risks, the expected returns on investments, and our views on stewardship including the extent to which the social, environmental and ethical factors are considered when selecting, retaining and realising investments. The SIP also contains our investment beliefs which guide our strategic investment and governance decisions. These include beliefs relating to the importance of environmental, social and governance issues to our investments.

The SIP is reviewed every three years, with the next review scheduled for 2023. In addition, the SIP contains provisions allowing it, if needed, to be altered after any significant changes in investment policy.

We also have a monitoring framework document setting out the clauses of the SIP and how compliance against these clauses is to be monitored. We produce an annual Implementation Statement which outlines how, and the extent to which, the policies relating to stewardship, voting and engagement as outlined in the SIP have been followed[5].

Our Environmental, Social and Corporate Governance Beliefs

We believe that the Group's investment managers are best placed to implement appropriate policies with respect to good stewardship principles and the incorporation of ESG factors into investment decisions wherever it is reasonably clear that doing so will add value to the Group's investment strategy.

We believe that our active investment managers should consider ESG factors when making investment decisions.

For passive investments, we believe that an ESG-optimised index approach should be used instead of a traditional market capitalisation approach where we have confidence that using the ESG-optimised approach will not detract from our ability to meet our investment objectives. The Fiduciary Manager will be responsible for making this assessment.

[4] https://media.umbraco.io/uk-power-networks/3iulwzvw/ukpn-group-of-esps-2020-statement-of-investment-principles.pdf

[5] Our latest Implementation Statement can be found at: https://www.ukpowernetworks.co.uk/about-us/uk-power-networks-pension-arrangements/electricity-supply-pension-scheme

The Group's Fiduciary Manager is responsible for assessing and monitoring the investment managers with regards to ESG considerations and will report on this to the Group Trustee at least quarterly.

Our Approach to Responsible Investment and Stewardship

We recognise that Environmental, Social and Governance (ESG) risks could impact our ability to meet our investment objectives. We therefore seek to ensure that the Fiduciary Manager, alongside other investment risks, integrates consideration of ESG risks throughout its investment decision making processes. Specifically, we require the Fiduciary Manager to:

- Assess how all managers charged with managing Group assets integrate ESG risks considerations into the selection, retention and realisation of investments. We expect this due diligence process to take place before appointing any underlying investment manager.
- Seek consent from the Group Trustee before appointing an investment manager that has scored the lowest ESG rating in the Fiduciary Manager's manager assessment framework.
- Review the adherence of managers charged with managing Group assets to their ESG principles as part of its ongoing monitoring. We expect the Fiduciary Manager to report quarterly on key ESG metrics for these underlying managers, and to aggregate these to portfolio level where appropriate.
- Report quarterly on its execution of the voting and engagement responsibilities set by the Group Trustee. Where the Group invests in pooled funds, the Group Trustee recognises that the investment manager of the pooled funds is responsible for exercising voting rights and reporting on how they have exercised those rights.
- Where UK-domiciled investment managers are not signatories to the FRC's UK Stewardship Code, consider the investment manager's rationale for this position and, where appropriate, report these findings to the Group Trustee.

We also recognise that stewardship can enhance value over the long term and that we have a responsibility to act as a good steward and protect and grow the long-term value for the benefit of the members. We expect the Fiduciary Manager to vote and engage with underlying investee companies, as part of an effective stewardship approach that meets our expectations. We expect that the voting and engagement activities are carried out in the best financial interests of the assets being managed. As part of this responsibility, the Fiduciary Manager is expected to:

- Use reasonable efforts to obtain voting and/or stewardship policies of underlying or external managers charged with managing Group assets.
- Inquire about underlying manager's voting activity with respect to their stated policies, where appropriate.
- Request that underlying investment managers report on an annual basis a summary of the voting actions which have been taken and any votes cast which differ from the stated voting policy of that manager.
- Provide a summary to the Group Trustee of the overall level of voting activity on an annual basis.

We engage with BlackRock to understand any reports which have been provided and challenge any outcomes which they feel are not in keeping with policy. BlackRock is expected to engage with the underlying or external managers as and when required to facilitate this. Where an underlying or external manager is not adhering to this policy in line with the Trustee's expectations, the Group Trustee expects BlackRock to consider appropriate actions having regard to the long-term financial interests of the Group.

How We Integrate Climate Change into Our Governance And Management Processes

Our Climate Mission Statement

UK Power Networks Group believes that the risks associated with climate change can have a significant, negative impact on the investment returns of occupational pension schemes, and that climate change may also present significant investment opportunities. We ask our fiduciary manager to consider climate change-related risks and opportunities when making investment decisions. We are committed to establishing robust governance and oversight processes to enable us to review the effectiveness of the fiduciary manager's efforts in this regard.

We recognise the importance of climate change as an investment issue. Historically, we have managed climate change as a part of the wider range of environmental, social and governance issues that are relevant to our investment processes. In partnership with our Fiduciary Manager, we are currently developing our understanding of climate data and have increased the range of data and metrics that are provided to us. Below we describe our approach – in terms of governance and oversight, risk management, metrics and training – and how we expect this evolve over time.

The Group Trustee has developed a Climate Related Risk Register, which rates risks over the short-term (1 year), medium term (3-5 years) and long term (10 years). The Fiduciary Manager is expected to take into account these risks in managing the portfolio. This Register also reflects potential opportunities which the Fiduciary Manager may implement, subject to the constraints within the FMA.

Our Responsibilities

The Group Trustee has ultimate responsibility for our approach to climate change. The Group Trustee is responsible for

- Defining our expectations of our Fiduciary Manager in relation to climate change,
- Engaging with the Fiduciary Manager to understand how climate risks are managed in their investment approach.
- Reviewing the climate and other data provided by the Fiduciary Manager to ensure that climate-related risks and opportunities are being effectively managed, within the context of our wider risk and return requirements and consistent with our Statement of Investment Principles.
- Ensuring that we meet our climate-related reporting obligations.

To ensure that we can deliver these responsibilities, the Group Trustee receives training (see below) and we require the Fiduciary Manager to provide us with the data and information we need to allow us to effectively scrutinise and challenge their approach.

Training

The Group Trustee participates in the Pensions Management Institute's (PMI) Trustee Group Continuing Professional Development (CPD) scheme. This scheme requires all trustees to complete 15 hours of relevant trustee training per annum. The Group Trustee also organises a half-day trustee training each quarter. At least one of these sessions focuses on investment topics, which may include some focus on ESG issues.

The Group Trustee has recognised the importance of building the Trustee Board's capacity and expertise on climate change, to ensure that trustees have the appropriate degree of knowledge and understanding of the identification, assessment and management of risks from the effects of climate change and the opportunities from climate change to support good decision-making.

In 2022, BlackRock provided the Group Trustee with training on TCFD scenario analysis, metrics and targets. The aims were to develop trustees' understanding of

- TCFD-related regulatory requirements.
- The specific metrics used by BlackRock to track and assess portfolio carbon performance, and how BlackRock assesses the quality of the data underpinning these.
- How BlackRock undertakes scenario analysis modelling, and the different scenarios used by BlackRock.
- The limitations in data availability and quality, and in calculation methodologies

The Group Trustee will receive further training in July 2023 focusing on how it might use scenarios and metrics to develop expectations of its Fiduciary Manager.

Metrics and Monitoring

Since 2022, BlackRock has provided TCFD and climate change metrics to the Group annually. These include:

- Total portfolio carbon emissions.
- The portfolio carbon footprint.
- Scope 1 and 2 emissions by asset class, including information on data coverage (completeness) and data quality. Since 2023, BlackRock has also provided data on Scope 3 emissions.

In 2022, the Group Trustee focused on developing its understanding of these data. In 2023, BlackRock will start to provide analysis of trends in these data, which will allow the Group Trustee to track progress, both on portfolio related emissions and on the implications of climate change for investment performance.

One of the Group Trustee's conclusions from the data and analysis that have been provided by BlackRock to date, is that there are limited data available for important areas of the market, e.g. private markets. These data limitations constrain the board's ability to set performance or other expectations in these asset classes.

The Group Trustee has set a target to increase the data quality scores for scope 1, 2 and 3 emissions for the overall portfolio to improve to at least 50% over the medium term (3-5 years).

Risk Management and Scenario Analysis

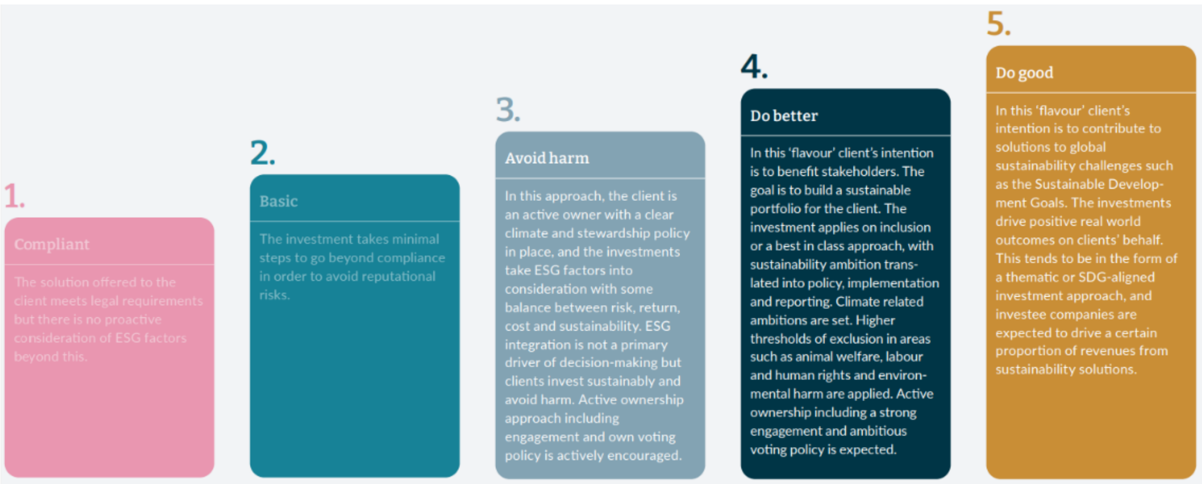
The Group Trustee has identified climate change as one of the risks that needs be managed as part of the Group's overall risk management processes. As discussed above, all investment decisions, including decisions on how to integrate climate into investment research and decision-making, have been delegated to BlackRock.

The FMA does not impose any obligations on BlackRock in terms of how it takes climate change into account in investment research and decision-making. The FMA does require BlackRock to provides scenario analysis and other data which allows the Group Trustee to understand the climate-related risks that its assets are exposed to. BlackRock provides information on how different climate policy scenarios (net zero, delated action, current policies) might affect the Group's assets, liabilities, and funding ratios (see Appendix B for a March 2023 scenario analysis prepared by BlackRock for the Group, including a discussion on how BlackRock integrates scenario analysis into its investment decision-making).

Uniper

Recommended disclosure A: Describe the Trustee's oversight of climate-related risks and opportunities

The Group Trustee's investment strategy is delegated to its appointed fiduciary manager – Van Lanschot Kempen Investment Management (VLK), which has articulated an extensive Responsible Investment Policy to which the Group Trustee has subscribed by appointing VLK as the Group's fiduciary manager. Key to this appointment is VLK's approach to Environment (including Climate Change risks), Social and Governance risks, specifically that it considers these fundamental to successful investment outcomes and to the real world outcomes for the ultimate beneficiaries of their clients' assets. The Group Trustee has oversight of the Scheme's climate-related risks and opportunities. The Group Trustee's approach to Climate Change Risk is informed by the work of VLK. This includes the provision of specialised training and regular discussion of relevant climate-related topics as agenda items during Group Trustee meetings. The Group Trustee oversees VLK as it seeks to implement a climate change risk policy across the investments. To achieve this remit, VLK selects climate-related metrics (and, if appropriate, associated exposure limits) that best align with the objectives of the Group Trustee. The climate-related metrics are used to monitor the Scheme's progress versus the Group Trustee's objectives. Additionally, VLK defines the strategy to be used with the Group's fund managers in a manner consistent with the objectives set by the Group Trustee. The framework VLK use is to score all underlying external managers which will be used within the portfolio on a Sustainability Spectrum, between 1 and 5. Levels 1 and 2 are not used within portfolios, and there is a strong commitment to, firstly, reducing the carbon intensity of investments to align with the targets set out in the Paris agreement and, secondly, to increasing the use of fund in levels 4 and 5. The manager score is reviewed periodically and VLK engages with the managers if a desirable change is identified.



VLK report to the Group Trustee on a quarterly basis. Climate Change risk is explicitly identified as a Group risk on the Group Trustee's Risk Register.

Recommended disclosure B: Describe management's role in assessing and managing climate related risks and opportunities.

The Group Trustee has delegated investment strategy responsibilities to its fiduciary manager, Van Lanschot Kempen Investment Management (VLK). VLK is responsible for performing portfolio-level climate risk analysis of the Scheme's alignment versus the Group Trustee's objectives, recommending any mitigating actions to the Group Trustee where it identifies climate risks (or the Group's managers' approach to managing it) are outside tolerance, as well as the implementation of the strategy adopted by the Group Trustee.

The Group Trustee has also delegated, via VLK, responsibility for the selection, engagement and realisation of investments to the fund managers, within certain guidelines and restrictions. The Group Trustee requires its appointed fund managers to be cognisant of climate change risks and opportunities within their investment processes and manage climate-related risks on a discretionary basis as applied to the assets of the Group Trustee. Fund managers are required to (at least) annually report on how these risks and opportunities have been incorporated into the investment process, including descriptions of any engagement activity undertaken with companies in their portfolios and qualitative responses to the issues raised by VLK's analysis, within applicable guidelines and restrictions. In such circumstances that VLK feels a fund manager has failed to operate in line with its climate-related objectives, it will engage with the fund manager (and potentially the benchmark provider in case of passive funds) with the intention of providing feedback on agreed mitigating steps to the Group Trustee. Should persistent engagement attempts fail to correct a fund manager's misalignment with VLK and the Group Trustee's objectives, VLK will undertake investment strategy and/or manager changes. VLK is expected to advise on, and provide objective assessments of, differing approaches to responsible investment to help the Group Trustee decide appropriate responsible investment objectives for the Group. This includes informing the Group Trustee of new responsible investment opportunities or emerging risks, including different risk metrics. The Group Trustee annually assesses the delivery of this advice using the Competition Market Authority's Investment Consultant Objectives framework.

United Utilities PLC

1. Describe how the Group Trustees maintain oversight of climate-related risks and opportunities which are relevant to the Group.

Introduction

The Group Trustee has ultimate responsibility for ensuring effective governance of climate-related risks and opportunities.

The Trustee maintains a Statement of Investment Principles ("SIP"), which details the Group's investment objectives, policies, and our approach to risk management. The SIP also sets out how the Trustee considers Environmental, Social and Governance ("ESG") factors, including climate change, as part of its investment governance. The SIP is reviewed as a minimum triennially, but typically annually, as well as following any significant change in investment policy.

The Trustee also maintains an ESG Policy with further details of the Trustee's approach to these issues.

The Trustee's key beliefs on climate change and wider ESG matters, as stated in the ESG Policy, are:

- That a sustainable investment approach is more likely to create and preserve long-term investment capital and, more specifically, that ESG factors can have a material impact on long-term risk and return outcomes and should be integrated into the investment process.
- Good stewardship can create and preserve value for companies and markets as a whole, hence having the potential to benefit members in the long term.
- Climate change poses a systemic risk, and accordingly the Trustee will consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate outcomes.
- Climate change, and other ESG matters, will affect more than just the asset portfolio. As such, the Trustee views these factors through an integrated risk management lens, including investment, funding, and covenant considerations.

Oversight

The Trustee maintains oversight of climate-related risks and opportunities which are relevant to the Group in a number of ways, as outlined below.

- Ensuring that the Trustee Directors have sufficient knowledge and understanding of climate change to fulfil their statutory and fiduciary obligations and are keeping this knowledge and understanding up to date.
- Putting in place climate governance arrangements, and ensuring they remain appropriate and effective.
- Considering how climate-related risks and opportunities might affect the Group's funding position over the short-, medium- and long-term, and ensuring climate factors are taken into account in any strategic decisions relating to the funding arrangements.
- Incorporating climate-related considerations into the Group's investment policies and risk registers.
- Ensuring that the actuarial, investment, covenant and legal advisers have clearly defined responsibilities in respect of climate change, and that they have adequate expertise and resources, including time and staff, to carry these out.
- Setting climate-related objectives and considering climate change in the annual review of its advisers.

2. Describe the roles of those undertaking scheme governance activities, in identifying, assessing and managing climate-related risks and opportunities relevant to those activities.

Alongside the Trustee, the following parties have key roles in relation to governance activities:

Investment Sub-Committee (ISC)

The ISC's role includes (but is not limited to):

- Incorporating climate-related considerations into strategic decisions relating to the investments.
- Ensuring that the investment managers are managing climate-related risks and opportunities in relation to the Group's investments, and have appropriate processes, expertise and resources to do this effectively.
- Selecting and regularly reviewing metrics to inform the Trustee's identification, assessment and management of climate-related risks and opportunities and monitoring targets to track and seek to improve these metrics over time where appropriate (target setting responsibility sits with the full Trustee Board, supported by the ISC).
- Working with advisers to identify new and emerging risks and opportunities in relation to climate change.

While the ISC is necessarily investment-focused, the work of the ISC is undertaken within an integrated risk management framework where funding and covenant issues are also considered. The Scheme Actuary attends all ISC meetings in order to ensure a joined-up approach is taken.

Governance, Risk and Audit Sub-Committee (GRASC)

The GRASC's role in the context of climate change includes (but is not limited to):

- Reviewing the Trustee's annual report and financial statements prior to their approval by the Trustee Board, including consideration of the various statements included in the report and financial statements, which includes the Engagement Policy Implementation Statement (covering climate change matters, among other ESG topics).
- Reporting to the Trustee Board on a quarterly basis on key risks and the internal controls in place, highlighting any areas for discussion or action. The Group's risk register is used to support this reporting and risk management (see later disclosures in the Risk Management Section).
- Reviewing the trustee training programme for Trustee Directors and making recommendations to the Trustee Board in this regard. This oversight helps the Trustee to ensure that training needs in relation to climate change are met.

Joint Working Group (JWG)

The primary role of the JWG is to facilitate collaboration and discussion between the Trustee and the Company on strategic matters.
While typically climate risk and opportunity management will sit with the ISC and the Trustee Board, the JWG is a forum that plays a role in assisting with two-way communication between the Trustee and the Company on climate matters.

The JWG will also identify and make recommendations on means of managing the Group's strategic position dynamically and proactively, by a structured consideration of risk and reward, market performance and any other relevant information, including climate change considerations.

ESG Sub-Group

From time-to-time the Trustee has put in place an ESG Sub-Group to assist the Trustee Board and its Sub-Committees in fulfilling its oversight responsibilities with regard to ESG matters, including climate change. Decision-making on ESG matters will continue to sit with the Trustee Board and the relevant Sub-Committees.

The ESG Sub-Group's remit includes:

- Overseeing the timeline and deadlines associated with TCFD reporting, where required.
- Co-ordinating (where relevant) the four strands of TCFD reporting (governance, strategy, risk management, metrics & targets) to ensure that each aspect is addressed by the appropriate Sub-Committee or the Board.
- Ensuring consistency, where relevant, in the approach taken on ESG matters across various pension arrangements within the United Utilities Group.
- Identifying risks, issues, opportunities, agenda points, training needs, and opportunities to be addressed by the Group's Sub-Committees or the Board.

For the avoidance of doubt, the ESG Sub-Group is not expected to make decisions on Scheme policies, investment strategy, or governance arrangements but will make recommendations to the appropriate executive committee from time to time.

Investment Managers

The Trustee has delegated day to day management of the assets to its investment managers, who operate under guidelines agreed with the Trustee.

The selected managers have discretion – within the mandate terms – to evaluate ESG factors, including climate change, and to exercise stewardship obligations attached to the assets. The Trustee expects its investment managers to undertake the following activities:

- Identify, assess, and manage climate-related risks and opportunities in relation to Group investments, in line with arrangements agreed with the Trustee.
- Exercise rights (including any voting rights) attached to the investments, and to undertake engagement activities in respect of those investments, in relation to climate-related risks and opportunities that seek to improve long-term financial outcomes.
- Report on stewardship activities and outcomes in relation to the investments.
- Provide information to the Trustee, the ISC, and its advisers on climate-related metrics, as agreed from time to time, and use its influence with investee companies and other parties to improve the quality and availability of these metrics over time.

3. Describe the processes the Group Trustees have established to satisfy themselves that those undertaking scheme governance activities take adequate steps to identify, assess and manage those risks and opportunities.

See also the response to question 5 in this section.

The Trustee expects its advisers and investment managers to act with integrity and diligence in fulfilling the set objectives and uses meetings with these parties to assess and challenge them. Where relevant, this includes discussion of the steps taken to identify and assess any climate-related risks and opportunities.

The approach of the investment consultant to climate change and how it is integrated into its advice and services is assessed as part of the annual adviser monitoring process. The Trustee sets its investment consultant strategic objectives, including objectives related to ESG and climate change competency. These objectives are reviewed annually, and the investment consultant is also formally assessed against these objectives annually.

4. Describe the role of those advising or assisting the Group Trustees with scheme governance activities.

The summary below covers climate change governance.

Investment Adviser

- Advises on investment arrangements, taking into account climate risk, supported through the provision of climate scenario analysis.
- Advises on the choice of climate-related metrics and targets.
- Advises on investment manager selection, taking into account the Trustee's objectives, responsible investment beliefs, and climate-related considerations.
- Supports the Trustee with stewardship activities, which may be related to climate change, such as monitoring and reporting on voting and engagement activities of the invested assets and assisting with the preparation of the annual Engagement Policy Implementation Statement.
- Advises on the preparation of the SIP, including the climate change related policies within the SIP.
- Monitors investment managers through the use of ESG ratings and relevant climate-related targets, as agreed with the ISC.
- Liaises with investment managers and other professional advisers to provide training to the Trustee and ISC on climate change, as appropriate.
- Assists the Trustee in producing the annual TCFD disclosures.

Scheme Actuary

Advises on the funding position including an understanding of the potential funding impact resulting from changes to financial or demographic assumptions driven by climate change, for example the impact on longevity.
Advises on the funding strategy's robustness to climate risk.

Covenant Adviser

- Assesses the Sponsor's ability and willingness to continue to support the Group.
- Climate-related exposures are considered alongside other factors that could have an impact on the strength of the Sponsor's covenant.
- This includes assessment of climate related risks to the covenant, including consideration of potential future climate scenarios and how the covenant may be affected.

5. **Describe the processes the Group Trustees have established to satisfy themselves that the person advising or assisting takes adequate steps to identify and assess any climate-related risks and opportunities which are relevant to the matters on which they are advising or assisting.**

See also the response to question 3 in this section.

The Trustee is advised by professional independent advisers rather than a single individual, and it is the collective experience, skills, and knowledge of the entire adviser team (and the firms they work for) that is important to the Trustee.

Specifically in relation to the investment adviser, Mercer, the firm is a founding member of the Investment Consultants Sustainability Working Group (ICSWG), which aims to improve sustainable investment practices across the investment industry. Mercer have completed assessments of their "climate competency" using the ICSWG framework which covers:

- Firm-wide climate expertise and commitment
- Individual consultant climate expertise
- Tools and software
- Thought leadership and policy advocacy.
- Assessment of investment managers and engagement with them.

Further information on this assessment is available on request.

The Group's lead investment adviser sits on the Association of Consulting Actuaries Climate Risk Group and was part of the Institute and Faculty of Actuaries' Sustainability Credential Working Group, which developed a qualification for actuaries in relation to sustainability and climate change.

6. Describe how the Group Trustees and any relevant sub-committees are informed about, assess and manage climate-related risks and opportunities and the frequency at which these discussions take place.

The Trustee and relevant sub-committees ensure they are informed about, assess, and manage climate-related risks and opportunities by incorporating various activities into the annual business plan.

The Trustee and the ISC convene at least once per quarter to discuss and make decisions regarding various topics. As part of the work surrounding these meetings, the Trustee and ISC allocate time and resources to meeting their obligations on climate change governance and reporting.

A summary of items reviewed by the Trustee and the relevant sub-committees, including their frequency, is set out below.

At its quarterly meetings, the ISC will receive and review:

- Updates on the Group's investments from the investment advisers, including the ESG ratings awarded to the investment managers and any changes to these.
- The ESG project plan, which outlines the main topics due to be carried out, including climate-related topics.
- The investment adviser's "Investment Current Topics" paper which often includes updates on climate change, such as changes in regulations, and emerging risk areas such as biodiversity.
- Investment related sections of the risk register, including climate change risks.

At least annually, the ISC will review:

- Data on climate metrics for the investments from its investment managers, and performance against any targets set in relation to these metrics.
- Whether to retain or replace any targets set in relation to these metrics.
- Voting and engagement summaries relating to the investments, and details of any significant votes or engagement activities conducted by the investment managers on the Trustee's behalf, including on climate change issues.

At least annually, the Trustee Board will review:

- The governance arrangements in relation to climate change.
- The full risk register, which incorporates climate-related risks and opportunities, following review by the sub-committees and advisers.
- The Trustee's investment beliefs and investment policies in relation to climate change.
- The advisers' climate competency including assessing how they have performed against their climate responsibilities.
- Assessment of the covenant, and any climate-related influences on covenant strength.

Other less frequent reviews

- Climate-related factors are considered as part of:
- Actuarial valuations – at least once every three years.
- Review of the investment strategy – as required, but at least once every three years in conjunction with the actuarial valuation.
- Additional Voluntary Contribution (AVC) reviews – at least once every three years.

7. **Describe whether the Group Trustees questioned and, where appropriate, challenged the information provided to them by others undertaking governance activities – or advising and assisting with governance.**

The Trustee takes a proactive and inquisitive approach to working with its advisers and investment managers, and will challenge views presented in order to ensure that the advice provided to the Trustee and its sub-committees will facilitate effective and efficient decision-making.

The Trustee has also established annual reviews of its advisers (discussed without the advisers present) in order to be able to have open discussions regarding the performance of the advisers.

8. **Describe the rationale for the time and resources the Group Trustees spent on the governance of climate-related risks and opportunities.**

The Chair of the Trustee Board, with support from the Chair of the ISC, is responsible for ensuring that sufficient time is allocated for consideration and discussion of climate matters by the Trustee and its advisers.

The Trustee Board and ISC, as part of the regular meeting schedule, will allocate agenda time to climate change, amongst other ESG matters.

During the year covered by this statement, ESG agenda items features at every quarterly Trustee Board meeting and every ISC meeting.

The Trustee is satisfied that the amount of governance time spent is reasonable and proportionate in the context of the range of risks faced by the Group and will allocate time at future meetings if any analysis or industry research requires additional Trustee consideration.

9. **Describe, in relation to those who undertake governance activities, or advise or assist with governance of the scheme: (i) the kind of information provided to them by those persons about their consideration of climate-related risks and opportunities faced by the scheme; and (ii) the frequency with which this information is provided.**

See Metrics Section and details of quarterly / annual processes under question 6 above.

10. **Describe the training opportunities the Group Trustees provided for their employees in relation to climate change risks and opportunities. Where the Group Trustees identified skills gaps, they may also describe whether they encouraged external advisers to provide training opportunities.**

The Group does not have employees.

Alongside an element of training at every meeting whenever new topics are discussed, the Trustee sets aside a full day annually for training.

At the 2022 training day the Trustee Directors completed training on climate change, which included regulatory developments, consideration of different types of climate risk, and how these risks (and opportunities) may impact the Group's investments, its liabilities, and the employer covenant.

The Trustee Directors also received training on the Pensions Regulator's Single Code (now renamed the General Code) which included aspects that related to climate change.

The United Utilities Pensions Team will complete an annual review of tPR's Trustee Toolkit and will notify the Trustee Board of any new training modules which must be completed by the Trustee Directors. Additionally, Trustee Directors will be required to undertake other training as identified in the annual Trustee Director Training Plan.

11. We would be grateful if the Group Trustees could provide a structural diagram showing which groups of people or individual roles have responsibilities for governance of climate-related risks and opportunities. This may include executive officers, in-house teams and/or third parties engaged by the Group Trustees. No personal data needs to be included.

The Pensions Team does not maintain structural diagrams of in-house and third-party responsibilities for climate related risks and opportunities, but would be happy to discuss our ways of working with the central Scheme.

Western Power Distribution

Statement of the Group Trustees' Climate Change-related Risks and Opportunities (CCRO) Governance policy

As Group Trustees, we are ultimately responsible for identifying, assessing and managing the CCRO that the Group is exposed to.

We ensure that we have the knowledge, skills and understanding to identify climate change-related risks, monitor our service providers (including our third-party asset managers), interpret climate change-related analysis, and take actions where necessary. This includes attending training events, undertaking our own research, and reviewing information provided to us by our sponsor, advisers and asset managers. The kind of information provided to the Trustees include portfolio analysis, details of how managers embed climate change considerations into their investment process, manager ratings etc.

We delegate day-to-day decision making on CCRO to our asset managers with oversight from our investment adviser (Cardano Risk Management Limited, (Cardano)). The Group Trustees work closely with Cardano and a number of individuals are specifically responsible for assessing and helping to manage CCRO.

In June 2022, the Group Trustees adopted a CCRO governance policy.

The policy describes:

- How we oversee CCRO
- The expectations of our investment adviser and asset managers
- The timelines associated with TCFD

The full policy is available on request.

Introduction to the Group Trustees' Climate Change Governance Policy

The Group Trustees have put in place this governance framework to embed the climate change governance requirements into their management of the Group, which will enable them to fully consider and integrate CCRO into their decision-making.

This Policy sets out where responsibility lies and how the framework is implemented on an ongoing basis. It has been prepared in line with:

- The requirements of the Pension Schemes Act 2021
- The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the Regulations)
- Statutory guidance for climate governance and reporting of CCRO issued by the Department for Work and Pensions (DWP)
- The guidance prepared by The Pensions Regulator (tPR)
- The non-statutory guidance prepared by the Pensions Climate Risk Industry Group (PCRIG)
- Recommendations set out in the TCFD

Trustees' Oversight

The Group Trustees are ultimately responsible for the oversight of CCRO as they relate to the Group, and these are considered as part of their investment decision-making.

As part of their responsibility, the Group Trustees have established processes and a sub-committee to assess, oversee, review and effectively manage CCRO relevant to the Group. This includes ensuring that those persons who assist the Group Trustees with governance activities take steps to identify, assess and manage any relevant CCRO. Considerations of CCRO are made when appropriate, typically on a quarterly basis as part of the review of the portfolio, including manager and general industry updates. The Group Trustees recognise that they have a substantial holding in government bonds which has an underdeveloped approach for consistent CCRO assessment across the industry. More in-depth reviews are made on an annual basis in line with the updated TCFD analysis.

The Group Trustees retain all strategic investment decisions and overall assessment of policy, including setting of climate-related investment beliefs and objectives but, where appropriate, the Group Trustees have delegated certain functional responsibilities to a sub-committee.

Trustees' Knowledge and Understanding (TKU)

While the Group Trustees are not directly involved in the day-to-day management of the assets, they are ultimately responsible for ensuring that CCRO are identified, assessed and managed on behalf of the Group members as well as being taken into account in their strategic investment decisions. The Group Trustees are therefore required to ensure they have sufficient knowledge and understanding of the principles relating to the identification, assessment and management of CCRO, including understanding how scenario analysis works, setting metrics and targets and interpreting the results of any analysis and reporting.

By doing this the Group Trustees ensure that they are sufficiently informed to be able to challenge assumptions, external advice and information received and to understand any proposals developed by the Investment Adviser and/or the asset managers. The Group Trustees will engage their service providers to provide such training as they consider necessary to meet these revised TKU requirements. This includes training on CCRO, how they are present in the portfolio and how the Investment Adviser's identify and monitor these risks which is done on at least an annual basis.

The Group Trustees govern the portfolio and rely on the Investment Adviser and asset managers to help scan, measure and monitor the CCRO and determine their relevance to the Group. The Group Trustees, along with their Investment Adviser and asset managers, adopt a variety of methods to help with the analysis including the following:

- Identifying regulatory developments that are relevant to the Group, including guidance from the Pensions Regulator and Department for Work and Pensions
- Engaging with peer groups, industry bodies and advisers to compare the Group's position to peers or competitors.
- Identifying relationships between events and news, and business and financial impacts to manage reputational risks.
- Identifying and assessing physical and transitional risks (discussed further below) over different time horizons.
- Considering the impact of physical and transitional, including operational, risk factors

In determining their policy, the Group Trustees consider CCRO to include:

- Transition risks - the financial risks and opportunities associated with a company's, supra-national's or sovereign's ability to transition to a low carbon economy. For example, the financial risks of public policy change. Here we also include environmental opportunities - the financial opportunities of climate change-related solutions, such as the technology solutions necessary for low carbon energy provision.
- Physical risks - the financial risks and opportunities associated with a company's, supra-national's or sovereign's resilience to climate change-related weather events. For example, the financial risks of rising sea levels or increased droughts, floods or wildfires

With support from their Investment Adviser and asset managers, the Group Trustees will consider the transition risks and physical risks and opportunities for the Group's investment strategy over a range of different scenarios. These scenarios broadly reflect: (i) a 1.5°C measured orderly transition to net zero tracking Paris Agreement commitments; (ii) a 2°C sudden, disorderly transition reflecting a late transition to net zero; and (iii) a 3°C hot house world reflecting high physical risks.

Investment Adviser

As Group Trustees, we have reviewed Cardano's climate change expertise and are satisfied that Cardano has the skills and resources to integrate climate change-related risks and opportunities into their investment advice.

We were pleased to note that Cardano's skills in this area were enhanced with their acquisition of ACTIAM, a sustainable investor with 30 years' experience. It has increased their number of dedicated sustainability professionals which in turn brings additional expertise that support the work we do.

Cardano has published its sustainable investment beliefs, sustainable investment policy, engagement policy, and its climate crisis action plan[6], which we have reviewed.

Cardano is a signatory to the UNPRI, a member of the Institutional Investors Group on Climate Change (IIGCC), and a signatory of the UK Stewardship Code. Cardano's engagement policy sets out how they promote and monitor the shareholder engagement activity of investment and third-party managers that are included in the portfolios that Cardano manages.

Cardano has publicly stated that they will measure their portfolio greenhouse gas emissions and set portfolio targets consistent with achieving net-zero greenhouse gas emissions by 2050, with a target to halve emissions by 2030. The Cardano Group became a net-zero firm (firm operations) in 2021.

In addition to being a signatory to the UNPRI, Cardano is a member of the Partnership for Carbon Accounting Financials (PCAF), the International Capital Market Association (ICMA), the Net Zero Asset Managers initiative, the Net Zero Investment Consultants Initiative, Climate Action 100+, and The Diversity Project. More detail on Cardano's approach to sustainability is available on their website[7]. In addition, the Cardano Group has signed up to the UN Global Compact.

Cardano has integrated sustainable investment throughout its business, with activities overseen by the Sustainability Steering Committee. Cardano has also employed the services of MSCI and their ESG data to assist with climate change-related reporting.

[6] https://www.cardano.co.uk/sustainability-policies/
[7] https://www.cardano.co.uk/our-approach-to-sustainability/

Electricity North West (ENWL)

1. **Describe how the Group Trustees maintain oversight of climate-related risks and opportunities which are relevant to the Group.**

   As the Group Trustee invests on behalf of its members, as part of its fiduciary duty, the Trustee recognises the need for the Group to be a long-term responsible stakeholder. As such, the Trustee aims to ensure that value for its members is always delivered through long-term financial returns generated in a way that is responsible. The Group Trustee therefore believes it is sensible to devote time and resources to the governance of Sustainable Investment (SI) risk factors (including climate related risks) as these can have material financial impact on the Group.

   The Trustee, on a quarterly basis (and more frequently if needed) meet with their investment adviser, Isio, to discuss the Group's investment managers' process and strategies. As part of regular reporting, the Group also receives an annual in-depth report (the impact assessment) of the SI capability and credentials of the Group's investment managers. This report often serves as the basis for discussion at meetings with the investment managers on issues relating to climate change and the impact of any ESG issues, where appropriate, which may affect the prospects for return from the portfolio.

   The Trustee also review details on engagement and voting (including case studies) in relation to the Group's investments on an annual basis.

   Whilst the Group Trustee does not fall within scope of compliance for TCFD, the Group's investment adviser regularly provide training to the Group Trustee on SI, and preparatory training on TCFD should the Group fall within the scope of compliance in future.

2. **Describe the roles of those undertaking scheme governance activities, in identifying, assessing and managing climate-related risks and opportunities relevant to those activities.**

   The Group Trustee receives regular training from Isio and updates on SI from investment manager presentations. Overall engagement activity is however delegated to the appointed managers (see question 3 below for further details)

   The Group's Actuary also advise the Trustee on the impact to Group's funding and actuarial assumptions due to changes in the investment strategy or the sponsor covenant as a result of the risks posed by climate change.

3. **Describe the processes the Group Trustees have established to satisfy themselves that those undertaking scheme governance activities take adequate steps to identify, assess and manage those risks and opportunities.**

   Whilst the day-to-day management of the Group's assets is delegated to Group's investment managers, the Group Trustee holds the ultimate responsibility for overseeing all strategic matters concerning the Group. This includes establishing the governance framework in the form of a policy for SI considerations (including climate-related risks and opportunities).

   To assess the Group's investment managers on managing SI related risks, the Group Trustee:

   - On an annual basis, conducts an in-depth review of the SI capability and credentials of the Group's investment managers, communicating actions for the managers to improve where appropriate.

   - Reviews the Group's annual Implementation Statement which includes details from the Group's investment managers on engagement and voting data (including case studies). The Group Trustee expect each of the Group's managers to be able to demonstrate the objectives of the engagement activity, the timeframe over which the engagement took place and the results of the engagement.

   - Monitors regulation and guidance from the Pensions Regular, the Department for Works and Pensions and other relevant organizations.

- The Group Trustees for all significant mandates will typically convene with the fund managers at least once per year. During these meetings, ESG matters are a key part of the agenda, as managers are requested to provide insights. This involves discussing investments within their mandates that have been influenced by ESG considerations, as well as covering developments to their processes concerning the comprehensive management of ESG-related risks and opportunities.

4. **Describe the role of those advising or assisting the Group Trustees with scheme governance activities.**

   Isio as Investment Advisors, Aon as the Group Actuary and Railpen as the Group Administrator.

5. **Describe the processes the Group Trustees have established to satisfy themselves that the person advising or assisting takes adequate steps to identify and assess any climate-related risks and opportunities which are relevant to the matters on which they are advising or assisting.**

   Please see the response to question 3.

6. **Describe how the Group Trustees and any relevant sub-committees are informed about, assess and manage climate-related risks and opportunities and the frequency at which these discussions take place.**

   On an annual basis, the Group's investment adviser, Isio, provides the Group Trustee with an impact assessment report. The report outlines the SI capabilities of the Group's investment managers based on a scorecard containing 70 questions to assess SI credentials of the investment managers. 15 of these focus on climate-related factors such as emission metrics and engagement on climate change, and the report itself outlines both an overall ESG score and a climate-specific score. These cover the manager's internal policies and how they deal with investee companies.

   The Trustee also review details on engagement and voting data (including case studies) in relation to the Group's investments on an annual basis.

7. **Describe whether the Group Trustees questioned and, where appropriate, challenged the information provided to them by others undertaking governance activities – or advising and assisting with governance.**

   No examples to provide.

8. **Describe the rationale for the time and resources the Group Trustees spent on the governance of climate-related risks and opportunities.**

   As the Group invests on behalf of its members, as part of its fiduciary duty, the Group Trustee recognises the need for the Group to be long-term responsible stakeholder. As such, the Group Trustee aims to ensure that value for its members is always delivered through long term financial returns generated in a way that is responsible. The Group Trustee therefore believes it is sensible to devote time and resources to the governance of SI risk factors (including climate related risks) as this can have material financial impact on the Group.

9. **Describe, in relation to those who undertake governance activities, or advise or assist with governance of the scheme: (i) the kind of information provided to them by those persons about their consideration of climate-related risks and opportunities faced by the scheme; and (ii) the frequency with which this information is provided.**

   On an annual basis, the Group's investment adviser, Isio, provides the Group Trustee with an impact assessment report. The report outlines the SI capabilities of the Group's investment managers based on a scorecard containing 70 questions to assess SI credentials of the investment managers. 15 of these focus on climate-related factors such as emission metrics and engagement on climate change, and the report itself outlines both an overall ESG score and a climate-specific score. These cover the manager's internal policies and how they deal with investee companies.

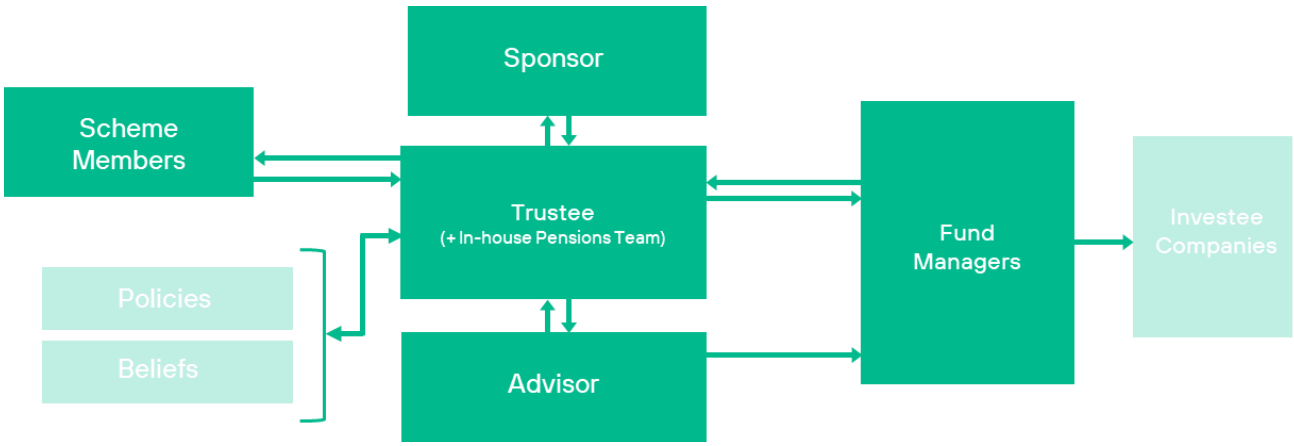
The Trustee also review details on engagement and voting data (including case studies) in relation to the Group's investments on an annual basis.

Isio, the Group's investment adviser regularly provide training to the Group Trustee on SI. These training sessions often include discussions on ways to further integrate the Group's ESG policy into the Group's investments. The Group Trustee have also received training from the Company (ENW) on the Company's climate responsibility framework and have received training on TCFD and what will be required of the Group when it falls within scope of compliance.

10. Describe the training opportunities the Group Trustees provided for their employees in relation to climate change risks and opportunities. Where the Group Trustees identified skills gaps, they may also describe whether they encouraged external advisers to provide training opportunities.

The Group Trustee currently do not offer training to members; however, the Group Trustee regularly receive training from its investment adviser on SI (including climate related risks) and on ways to further integrate the Group's ESG policy into the Group's investment portfolios.

11. We would be grateful if the Group Trustees could provide a structural diagram showing which groups of people or individual roles have responsibilities for governance of climate-related risks and opportunities. This may include executive officers, in-house teams and/or third parties engaged by the Group Trustees. No personal data needs to be included.



Powerhouse Retail

1. **Describe the roles of those undertaking scheme governance activities, in identifying, assessing and managing climate-related risks and opportunities relevant to those activities.**

The Group Trustees have ultimate responsibility for ensuring effective governance of climate change risks and opportunities in relation to the Group, in line with their responsibilities for managing other financial risks facing the Group.

The Group Trustees have not formally agreed roles for undertaking climate specific governance actions. However, the management of climate risks and opportunities falls within the Group Trustees' ongoing governance of the Group.

The Group Trustees' role includes:

- Scheduling appropriate training into the business plan as required.
- Ensuring governance arrangements remain appropriate and effective.
- Ensuring key risks and opportunities are considered in strategic decisions relating to covenant, investment, and funding.
- Signing off the Group Trustees' investment beliefs, investment policies and risk register.
- Ensuring any advice from the Group's external advisors is requested and carried out appropriately.

The Group Trustees expect relevant sub-committees to take account of climate related risks and opportunities where appropriate and proportionate to their role.

The Joint Investment Sub-Committee ("JISC") of the Hanson Schemes2 supports the Group Trustees with any issues relating to the investment of the Group's assets and taking investment decisions on behalf of the Group Trustees, subject to the Group's Statement of Investment Principles ("SIP").

Hanson Industrial Pension Scheme, Castle Pension Scheme and the Powerhouse Retail Group of the Electricity Supply Pension Scheme.

The JISC does this by:

- Reviewing and discussing all investment advice received.
- Reporting back any significant pieces of investment advice and recommendations to the Group Trustees.
- Ensuring any advice from the Group's investment adviser is requested and carried out appropriately.
- Providing recommendations in respect of the investment adviser's competency.
- Meeting with the Group's investment manager regularly and receiving updates on their approach to Environmental, Social and Governance ("ESG") factors (including climate change) where relevant.

2. **Describe how the Group Trustees maintain oversight of climate-related risks and opportunities which are relevant to the Group.**

At their regular board meeting each quarter, the Group Trustees receive and review an update from the JISC and the Group's Investment Manager on the Group's investments. Where appropriate this includes updates in relation to the investment manager's ESG policies (including climate change).

The Group Trustees also consider climate-related risks and opportunities (alongside other risks facing the Group) whenever the following activities are undertaken:

- The Group's Triennial Actuarial valuation.
- Review of the investment strategy and SIP for the Group.
- Assessment of the Group's covenant.

Where appropriate, the JISC considers climate-related risks and opportunities within each investment topic and individual mandates as and when they arise at quarterly meetings. At least annually, the JISC will review:

- A responsible investment update from the Group's investment adviser that reviews the Group's Investment Manager and assets in relation to ESG factors, including climate change.

- Their investment adviser's performance, including competency in relation to advice on climate where appropriate.

3. Describe the processes the Group Trustees have established to satisfy themselves that those undertaking scheme governance activities take adequate steps to identify, assess and manage those risks and opportunities.

Over the year, the JISC has undertaken various training sessions on climate-related matters and factors to provide them with the knowledge required to make informed decisions on climate related risks and opportunities. This has been driven by the fact another of the JISC schemes is over £1bn in assets and therefore has been undertaking a range of climate related activities in respect of that scheme. Further details of the training provided to the JISC are outlined under question 10.

In addition, the Group Trustees have received training, where relevant, from their various advisors on climate related factors where this impacts the advice provided to them.

4. Describe the role of those advising or assisting the Group Trustees with scheme governance activities.

The Group Trustees have not formally agreed roles for their advisors in relation to climate specific governance actions. However, the Group Trustees expect their advisors (and those assisting the Group Trustees) to take account of climate-related factors in their roles as appropriate. These are briefly outlined below.

The role of the Investment adviser

In broad terms, the Group's investment adviser is responsible, in respect of investment matters, as requested by the Group Trustees. This includes:

- Providing training and other updates to the Group Trustees on relevant investment matters.
- Helping the Group Trustees to formulate their investment beliefs and reflecting these in the Group's investment policies and strategy.
- Helping the Group Trustees to identify and assess financial risks and opportunities relevant to the Group's investment strategy (including climate).
- Advising on the appropriateness and effectiveness of the Group's investment manager's processes, expertise, and resources for managing ESG risks (including climate change).

The role of the actuarial adviser

In broad terms, the Group's actuarial adviser is responsible, as requested by the Group Trustees, for:

- Helping the Groups Trustees to identify and assess risks and opportunities relevant to the funding strategy of the Group (including climate change) and advising on the implications of these for the Group's long-term objectives.
- Considering climate-related risks and opportunities, as appropriate, as part of advice and calculations related to the triennial actuarial valuation.

The role of the covenant adviser

In broad terms, the Group's covenant adviser is responsible, as requested by the Group Trustees, for:

- Providing training and other updates to the Group Trustees on relevant covenant matters.
- Helping the Group Trustees to identify and assess risks and opportunities relevant to employer covenant supporting the Group (including climate change).

The role of the Group's Investment Manager

In broad terms, the Group's investment manager is responsible for:

- Identifying, assessing and managing climate risks and opportunities in relation to the Group's investments, in line with the investment management arrangement agreed with the Group Trustees.
- Exercising rights attaching to the Group's investments, and undertaking engagement activities in respect of those investments, in relation to ESG factors (including climate-related risks and opportunities).

5. Describe the processes the Group Trustees have established to satisfy themselves that the person advising or assisting takes adequate steps to identify and assess any climate-related risks and opportunities which are relevant to the matters on which they are advising or assisting.

The Group Trustees seek input from their investment, actuarial and covenant advisers to ensure that they can identify, assess and manage climate risks and opportunities, alongside other risks facing the Group. From time to time, the Group Trustees will review the competency of their advisers and take appropriate action if any concerns are raised.

When appointing new advisers, the Group Trustees and JISC will consider whether the advisers have suitable credentials, including climate-related credentials where relevant.

With appropriate advisers in place, the Group Trustees ensure ESG factors (including climate-related risks and opportunities where relevant) are considered as part of any advice such as investment strategy reviews, the actuarial valuation process and assessment of the employer's covenant.

The Group Trustees and JISC satisfy themselves that their advisers take adequate steps to identify and assess climate-related risks and opportunities (where relevant to the matters on which they are advising) by ensuring that their advisers have adequate expertise and resources, including time and staff, to carry these out.

The Group Trustees reviewed their investment consultant against their investment consultant objectives in November 2022 and concluded that the investment consultant had demonstrated value added as expected over the period considered, including through consideration of climate change where appropriate.

6. Describe how the Group Trustees and any relevant sub-committees are informed about, assess and manage climate-related risks and opportunities and the frequency at which these discussions take place.

Please see risk management section for activities undertaken by the Group Trustees and see section 2 for frequency of activity.

7. Describe whether the Group Trustees questioned and, where appropriate, challenged the information provided to them by others undertaking governance activities – or advising and assisting with governance.

The Group invests in a low-risk investment strategy, across a range of passive funds with LGIM. The Group Trustees meet with LGIM on a quarterly basis to discuss the Group's investments and will use this opportunity to challenge LGIM on a range of topics including climate. Given the Group makes use of passive funds, the Group Trustees are aware that stewardship is a key tool their investment manager can use to encourage underlying portfolio companies to better manage climate risks and opportunities. In their discussions with LGIM, the Group Trustees have therefore sought to understand how they use their influence to help ensure greater outcomes for the Group.
In addition, the Group Trustees have sought to understand from their investment adviser whether their investment strategy remains suitable in light of the potential risks of climate change, taking into account other risks facing the Group.

8. Describe the rationale for the time and resources the Group Trustees spent on the governance of climate-related risks and opportunities.

The Group is in a strong funding position and as such invests in a low-risk investment strategy. The Group Trustees understand that climate risk is one of many risks facing the Group and therefore consider it alongside a range of other financial factors when setting their investment and funding strategies. They therefore seek to take a proportionate approach to the governance of climate risks and opportunities, undertaking relevant climate related activities where the Group Trustees believe the outcome will be materially beneficial for the Group.

9. Describe, in relation to those who undertake governance activities, or advise or assist with governance of the scheme: (i) the kind of information provided to them by those persons about their consideration of climate-related risks and opportunities faced by the scheme; and (ii) the frequency with which this information is provided.

See response to question 2.

10. Describe the training opportunities the Group Trustees provided for their employees in relation to climate change risks and opportunities. Where the Group Trustees identified skills gaps, they may also describe whether they encouraged external advisers to provide training opportunities.

The Group Trustees do not have employees and therefore no training has been provided. The Group Trustees that sit on the JISC have undertaken the following climate-related training sessions at the JISC meetings:

March 2022: Training on the use of climate scenarios and how different scenarios might impact financial markets over the short, medium and long term.

May 2022: Training on how investment managers incorporate climate factors into their portfolios and how the Group's investment adviser assesses the climate capabilities of investment managers.

August 2022: Training on different types of climate metrics, how they are calculated, how they can help trustees identify, assess, and monitor climate risks, and the limitations of different metrics.

The majority of these activities relate to work undertaken on climate for another JISC Scheme, which has assets of over £1bn.

11. We would be grateful if the Group Trustees could provide a structural diagram showing which groups of people or individual roles have responsibilities for governance of climate-related risks and opportunities. This may include executive officers, in-house teams and/or third parties engaged by the Group Trustees. No personal data needs to be included.

As noted above, no formal roles have been set for the governance of climate-related risks and opportunities.

Risk management

Central Networks

How we identify and assess climate change-related risks and opportunities

The Trustee Directors have identified the following risks as posing the greatest potential loss and being the most likely to occur:

- Risk 1 – correctly identifying portfolio risks from climate change - new risks are likely to emerge (physical and transitional)
- Risk 2 – insufficient action to deviate from the "hot-house" scenario (transitional)
- Risk 3 – we do not continue to work to evolve the investment strategy as we move through time (transitional)
- Risk 4 – correlated portfolio risks - while asset managers may consider the individual climate change related risks and opportunities per company or investment, the Trustee Directors needs to consider them across the portfolio as a whole

How we integrate these processes into overall risk management for the Group

The Trustee Directors govern the portfolio and oversee the Investment Adviser and the Group's investment asset managers (asset managers) who help scan, measure and monitor the CCRO and determine their relevance to the Group. The Trustee Directors, along with their Investment Adviser, adopt a variety of methods to help with the analysis including:

- Reviewing relevant background material and identifying regulatory developments that are relevant to the Group, including guidance from TPR and the DWP
- Engaging with peer groups, industry bodies and advisers
- Identifying relationships between events and news, and business and financial impacts to manage reputational risks
- Identifying and assessing physical and transitional risks over different time horizons
- Considering the impact of physical and transitional (including operational) risk factors
- Integrating the climate related risks within the Trustee Director's wider risk management framework and risk register

The risk management tools we – and our Investment Adviser – have used and the outcomes of using those tools

Level 1: Selection of MSCI as an external sustainability data provider

In 2020, Cardano appointed MSCI as its external sustainability data provider. The appointment followed a request for proposal process which reviewed the service offerings of different providers. Cardano selected MSCI for a number of reasons, in particular, the extent of its coverage, MSCI's research process (and as such, data reliability), and portfolio scenario analysis based on degrees of warming, following the acquisition of Carbon Delta in 2019[8].

The appointment (and reappointment) is also overseen by the Cardano Group's Sustainability Steering Committee. As part of our ongoing scrutiny of Cardano, we assess Cardano's use of data providers, to ensure Cardano has access to data necessary to support our desired approach to CCRO.

[8] https://ir.msci.com/news-releases/news-release-details/msci-strengthen-climate-risk-capability-acquisition-carbon-delta

The MSCI sustainability data, utilised by our Investment Adviser provides a range of outputs, but the Trustee Directors specifically review:

- CVaR – It estimates the financial value at risk to the corporate equity and credit exposures of warming scenarios at 1.5°C, 2°C and 3°C. The expected loss is calculated by considering the loss associated with transition risks and the loss associated with physical risks.
- Emission metrics – an absolute and intensity metric, so the Group can monitor progress against its Target.

These outputs, aggregated for the Group, are outlined in this report. The Investment Committee reviews these outputs, with their Investment Advisor, to:

- Manage climate change-related risks and opportunities, and
- Align our investments to support the goal of net zero greenhouse gas emissions by 2050, in line with global efforts to limit warming to 1.5°C.

In addition, Science Based Target Initiatives (SBTI) metrics and ESG metrics are available from MSCI, which are relevant to risks and opportunities associated with the investment strategy and the Trustee Directors' beliefs. This supplements regular briefings on emerging sustainability issues provided by the Trustee Directors' advisers.

Level 2: Participation in industry groups working on methodology development, in particular, IIGCC and PCAF

We assess Cardano's participation in and contribution to multiple industry initiatives to develop and evolve metrics and reporting on climate change, in particular, IIGCC and PCAF. IIGCC is the Institutional Investors Group on Climate Change, and it hosts the Paris-Aligned Investment Initiative. The initiative sets out the advantages and disadvantages of the multiple methodologies used to determine a company's, and a portfolio's absolute emissions, emissions intensity, and more recently, environmental alignment.

Methodologies used to calculate GHG emissions: Typically, financed emissions (the emissions we are responsible for as an investor) are calculated using GHG emissions per unit of sales or per enterprise value. Our preference is enterprise value which we consider a more stable measure, allowing for year-on-year comparisons. Enterprise value consists of a company's equity, debt and cash, and goes by the acronym EVIC (enterprise value including cash).

Level 3: Internal controls

Cardano has implemented internal controls in the preparation of TCFD metrics and scenarios, which we have reviewed. We assess these internal controls to ensure they are appropriate.

Finally, we note that there will be inaccuracies in the data. In some markets, corporate greenhouse gas emissions disclosures are not regulated, and not subject to audit. Scenarios rely on multiple assumptions. The quality of the data is constantly improving. We believe that the processes we have implemented are market-leading and mitigate for known limitations in data quality and coverage. We will continue to engage with Cardano, our asset managers and, where appropriate, standard-setters, policymakers, data providers and individual companies to improve data quality.

Climate change stewardship

We believe it is important to engage with companies and governments, and (where consistent with our return) risk and sustainability objectives, to supply capital enabling the transition to net-zero GHG emissions globally.

For example, emerging markets tend to have higher carbon footprints, in part because they produce carbon-intensive goods consumed by developed markets. They need capital to transform their economies.

For these reasons, we will continue to review portfolio decarbonisation targets at least every three years to ensure they remain appropriate.

Understanding covenant risks

In addition to the implications of general economic conditions on the Group, consideration has also been given to the resilience of the Sponsor consistent with the scenarios outlined above.

The strength of the sponsor covenant is an important factor in determining the resilience of the funding strategy, given that the Group depends on the Sponsor for support in the event of adverse experience.

Climate change and the global response to it will influence Short-, Medium-, and Long-term covenant resilience and could affect the ability to pay the member benefits in full. We therefore believe it is important for us to understand the CCRO faced by our Sponsor.

To help with this we have reviewed the Sponsor's stated environmental strategy and goals, by reference to both:

- The NGED Group (as the Sponsor is part of the NGED Group); and
- The NG Group, as the NGED Group has aligned its position with the NG Group post integration of the NGED Group, and the NG Group is (as a much larger group) required to report and disclose on such matters

as well as consulted with our independent covenant adviser.

NGED Group

In its latest financial statements for the year ended 31 March 2023 ('FY23'), the NGED Group has stated:

- Its vision is to be at the heart of a clean, fair and affordable energy future:

    - Clean – tackling climate change and leading the way to net zero.
    - Fair – ensuring that no-one is left behind in the energy transition.
    - Affordable – everyone should be able to pay for their essential energy needs.

- Strategic priorities include to 'enable the energy transition for all' – increasing the positive impact that the NGED Group has on the environment and society, by innovating its networks and influencing policy to enable clean electricity and electrified heat and transport.
- During RIIO-ED2 ('ED2'), the NGED Group will prepare for the future electrification of transportation and heating, by enabling the network to cater for up to 1.5m additional electrical vehicles, 600k heat pumps and a significant increase in renewable energy.
- Decarbonisation of energy will lead to greater electricity demand, so the NGED Group will need to provide more power through the distribution network.
- It is committed to delivering net zero, whilst ensuring fairness and affordability for customers and, through its work with governments and regulators, it is delivering infrastructure and shaping policy to realise climate goals.
- It had launched its digitalisation strategy and action plan as part of the ED2 business plan submission; digitalisation is at the heart of the NGED Group's transition to build a smart and efficient energy system, delivering net zero.
- It is dedicated to conducting its business as a responsible steward of the environment.
- It monitors its impact in terms of carbon footprint, waste recycling and fluid losses.
- During RIIO-ED1 ('ED1'), it committed to achieve various environmental improvements throughout its business, such as a reduction in its carbon footprint and in the oil and gas leaks from its equipment.
- It is committed to leading in the net zero transition; while rapidly reducing emissions in its own operations, demonstrating excellent environmental performance and improving biodiversity at its sites, the NGED Group is also helping others to achieve their own net zero ambitions.
- For its commitment to net zero, the NGED Group has been listed as one of Europe's Climate Leaders for 2022 in the Financial Times-Statista list, featuring as one of 400 European Climate Leaders following scrutiny in terms of past emission reductions, current reporting standards and ratings, as well as commitments for the future.
- The NGED Group continues to work to the internationally agreed environmental standard ISO14001, to improve its environmental performance; to be certified to the standard, an organisation must consider all environmental issues relevant to its operations, such as air pollution, water and sewage issues, waste management, soil contamination, climate change mitigation and adaptation, and resource use and efficiency.

In terms of environmental targets and key performance indicators, the NGED Group's targets/monitoring can be summarised:

- **Business carbon footprint ('BCF')** – the target over the ED1 period (to FY23) was a 5% reduction based on the baseline year of FY13; as at FY23, the NGED Group was outperforming that target with a 39% reduction in BCF since FY15. During FY23, the NGED Group implemented various energy efficiency measures, including:
  - Improvements to the reporting of SF6 gas leaks from installed equipment and fully utilising the infra-red SF6 detection cameras to pinpoint the source of leaks.
  - Installation of electric vehicle charging points at many non-operational depot sites
  - Replacement of older operational fleet vehicles with more fuel-efficient alternatives and the purchase/roll out of electric operational fleet vehicles.
  - Ongoing replacement with more modern and energy efficient heating and cooling systems throughout the property portfolio and undertaking an energy efficiency review at many non-operational and operational sites.

- **SF6 emissions** – the target over the ED1 period (to FY23) was a 17% reduction (based on an average of emissions between FY10-11); the target was set at the start of ED1 and relates only to top ups % leakage as the scrap and manufacturers return data was not compiled at that time; as at FY23, the target had been met

- **Fluid cable losses** – the target over the ED1 period (to FY23) was a 75% reduction; losses from fluid filled cables can vary from year to year. In FY23, unusually high losses were reported due to a small number of isolated incidents (over half of the annual losses related to one particular incident) which resulted in the target being missed; the relevant agencies were kept fully informed, and the NGED Group continued to operate under the Environment Agency's Fluid Filled Cable Operating Code of Practice

ED2

Following the Final Determination by Ofgem in relation to ED2, the NGED Group prepared an ED2 Delivery Plan setting out how it will continue to improve on its industry-leading standards, while adapting to the changing needs of its customers and the environment in which it operates.

The NGED Group will support the UK's ambitions to achieve net zero carbon emissions by 2050, driving crucial changes in energy usage and customer green behaviour.

The NGED Group will set the benchmark by achieving net zero in its own operations by 2043 (following a Science Based Target ('SBT') initiative) and will ensure the network is ready to enable local authorities to achieve similar ambitions in their regions.

Previously, the NGED Group had been planning to achieve phased net zero targets, aiming to be net zero (excluding network losses and Scope 3 emissions) by 2028 and net zero (including network losses) in line with SBTs by 2043.

Following the integration of the NGED Group with the NG Group, instead of following the previous phased approach, the NGED Group has now aligned its net zero target with that of the NG Group and has thus set one single target to be in line with its 1.5°C SBTs by 2043. The SBTs include Scope 1 and 2 emissions (including network losses) and this is a step ahead of the initial 2028 target, which excluded network losses.

This reduction of BCF to net zero by 2043 will be delivered by:

- Reducing the amount of waste that the NGED Group sends to landfill.
- Adopting electric vehicles across its transport fleet to reduce emissions.
- Significantly reducing harmful gas and oil leaks from its equipment.
- Ensuring it enhances the local environment by delivering a net gain in biodiversity for new major projects and at selected primary sub-stations.

From a risk management perspective:

- The NGED Group is exposed to a range of uncertainties that could have a material adverse effect on its strategic objectives, financial condition, operational results, reputation and value.
- During FY23, the NGED Group reviewed its risk management framework and principal risks to align better to the NG Group's principal risks, along with its own business plan commitments. It assessed risks against the strategic business objectives of the NG Group and devised a new set of principal risks for the NGED Group, ensuring these were assessed in accordance with the NG Group's strategic objectives, risk appetite and associated key controls, which are clearly defined and assessed.
- The principal risks were subsequently reviewed following the ED2 Final Determination.
- Political and economic uncertainty continue to dominate, requiring very careful monitoring and assessment of the NGED Group's principal and other risks.
- The uncertainty has created an increase in the underlying (inherent) threat across cyber, disruption of energy, political and societal expectations, and satisfactory regulatory risks, which the NGED Group is continuously monitoring.
- In FY23, the NGED Group developed its principal climate change risk, establishing a discrete risk around its energy transition role; it also incorporated the physical impacts from climate change on its assets (adaptation) into its 'sustained loss of customer supply' risk, to ensure a clear focus on the actions needed to mitigate these different risks.
- The 'sustained loss of customer supply' risk focuses on significant disruptions of energy from network reliability and resilience issues across its operations.

Further detail on this is considered below and under the NG Group climate change risks/opportunities section.

The NGED Group has considered the following environmental risks and mitigations/mitigating actions:

- **Energy transition role and delivery of net zero** – risk of failing to meet the strategic principle of enabling the energy transition for all or failing to change sufficiently to enable the UK's transition to net zero or to meet its own net zero commitments is mitigated by a continued focus on core priorities to improve its strategic planning capability and appraisal of various options in connection with the net zero delivery risk; the NGED Group is also developing flexibility in its network to manage and monitor its load risk, whilst adopting whole system co-ordination.
- **Sustained loss of customer supply** – the risk of failing to predict and respond to a significant asset failure or severe weather event, leading to significant disruption to customer power supply/asset performance or failing to provide an adequate service response leading to customer harm, lasting reputational damage, loss of franchise or damage to investor confidence is mitigated by having widespread planning and incident response controls across its assets, systems, communications and infrastructure.

NG Group

The following commentary is intended to supplement the NGED Group commentary above. Matters already included above are not repeated here and NG Group's environment-related key performance indicators are not included although it is noted that NG Group's GHG emissions are subject to independent third-party assurance.

The NG Group's principal risks and uncertainties in its FY23 Annual Report include:

- **Climate change as a strategic risk**: the risk that the NG Group fails to identify and/or deliver on actions necessary to meet its climate change targets and enable the wider energy transition because of poor management of threats and opportunities associated with mitigating climate change, leading to a reputational impact of not enabling it to meet its net zero commitments, which are to:
  - Ensure its business model and strategy are aligned to the Paris Agreement on climate change.
  - Deliver GHG emissions reductions for its business and enable economy wide net zero transition.
  - Demonstrate climate change leadership within the energy sector.

Actions taken by management include measures to:

- Continue to evolve its environmental sustainability metrics.
- Evolve its external ESG disclosures.
- Ensure its internal reporting and governance develop, so management has oversight of key risks and opportunities related to climate change and GHG emissions performance.
- Regularly assess the potential range of net zero pathways.
- Track progress against key milestones in its decarbonisation pathways.
- Comply with the TCFD recommended disclosures including physical and transitional scenario analysis.

▪ **Climate risk as an operational risk**; the risk that the NG Group fails to predict and respond to a significant disruption of energy supply due to climate change, asset failure, storms, attacks, market failure etc - leading to significant customer harm, lasting reputational damage with customers/regulators or material financial losses and damage to investor confidence.

Management continues to apply a holistic approach to managing this risk through preventative mitigating actions to maintain network reliability and timely and effective response plans.

Climate change risk is considered as part of, and integrated into, the NG Group's Enterprise Risk Management ('ERM') process; the splitting of the risk into two distinct elements has generated greater oversight, focus and adoption of distinct and proportionate control frameworks in line with current risk appetite – mitigating downside risk and maximising opportunities, where applicable.

NG Group – TCFD

The NG Group:

▪ Recognises that addressing climate change as a result of GHG emissions is the defining challenge of the 21st century. Its networks and operations play a central role in the transition of the energy system in the jurisdictions in which it operates, and it is supportive of the 2016 Paris Agreement goal to keep the rise in global average temperature by 2100 to well below 2°C above pre-industrial levels and to pursue limits to limit the increase to 1.5°C.

▪ Has supported the recommendations of the TCFD; by helping it understand the impact of climate change on its business, has benefited the NG Group by:
  - Shaping its governance structure to effectively oversee risks and opportunities.
  - Aligning its business strategy to identify and seize transitional opportunities.
  - Developing values of sustainability in its corporate culture.
  - Embedding climate change into its risk management framework, engaging its lines of defence to manage the associated risks.

Strategy (climate related)

From a strategic perspective, the work that the NG Group has done to improve its understanding of its climate-related risks and opportunities, has helped to inform strategic decisions taken over recent years, including the strategic pivot towards electricity announced in March 2021.

This included the acquisition of the NGED Group, the sale of the Rhode Island electricity and gas businesses, and the sale of the majority equity interest in NGG. These transactions shifted NG Group's portfolio of assets from c. 60% electricity in 2021 to c. 70% electricity post completion.

It also continued to grow its investment in its National Grid Ventures business which includes its interconnectors business in the UK and National Grid Renewables and fossil fuel generation business in the US.

Scenario analysis to 2050 and beyond guides the NG Group's strategic and financial planning with respect to climate change.

Scenarios consider the potential physical impacts to the NG Group of average global temperature increases of 2°C and 4°C by 2100 from pre-industrial level. It also considers potential transitional impacts of scenarios of average global temperature increases of 1.5°C in keeping with the Paris Agreement.

Transition risks/modelling

The most recent analysis undertaken in FY22 (updated every 2-3 years) modelled 3 transition scenarios and assumptions, testing the resilience of the business strategy against the scenarios, focusing its transition risks on the scenarios associated with lower temperature rises and its physical risks on those with higher temperature rises:

- **Slow progress**: decarbonisation progress is made but too slow to meet net zero targets; increase in distributed generation and local solutions where local authorities compensate for lack of overall national progress; system becomes increasingly unequal.
- **Orderly transition**: reaches most net zero targets through an orderly approach; governments pursue suite of solutions for large scale and consumer options; co-ordinated pathway between key market players; increased investment in renewable electric generation and networks; gas network evolution.
- **Acceleration**: reaches 2030 net zero targets to be on track for 2050; electrification of heat and transport at a fast pace; accompanied by large scale investments; increased grid scale and interconnection; faster gas demand reduction.

The NG Group noted that whilst current global climate policies and actions suggest a lower than 4°C scenario, that scenario was still modelled in line with the NG Group's approach to scenario modelling. The transition impact is most significant in scenarios resulting in a lower degree of warming, given the increased action required.

5 transition insights noted are therefore more relevant to a 2°C (or lower) scenario:

- Urgent collective action required across society; reaching net zero requires new policies and technology development.
- Retaining consumer buy-in is key; to reach net zero, consumers can drive domestic heating and transport decarbonisation by switching to low-carbon alternatives.
- Electricity use and share of final demand will increase; decarbonising heating and road transport will drive increased demand and investment in the electricity network.
- Energy supply structure will shift; to power generation from renewable sources, notably wind and solar.
- Pathways will adapt to global and local realities; businesses will need to monitor and adapt.

The NG Group concluded by noting that:

- **None of the transition scenarios threaten the NG Group's resilience.**
- **It is in a strong position to adapt its portfolio to maximise the opportunities of the energy transition.**

Physical risks/modelling

Climate hazards from the 4°C scenario analysis included: coastal flooding, river flooding, storms (compound events), high wind, lightning, high temperatures, low temperatures, freeze/thaw cycles and heatwaves.

The conclusions from the Physical insights indicated:

- **Most hazards are projected to increase in frequency in the future, with high temperatures and coastal flooding of particular concern across consistent areas of the NG Group's operations.**
- **The level of risk, in most cases, is greater in a 4°C scenario than a 2°C scenario.**

The NG Group is progressing its physical risk analysis and asset vulnerability to inform its strategic planning and investment choices. By developing its Climate Change Risk Tool in-house, it can create bespoke physical risk assessments for each business area.

The NG Group began its Climate Vulnerability Assessment in December 2022; this is a phased programme of activity to deliver an adaptation plan to address assets with the highest resilience risk. It is a risk-based approach, where each business unit identifies critical assets which are physically vulnerable to climate hazards, taking account of existing adaptation plans, such as storm hardening programmes and leverages the latest climate science.

Climate-related risks/opportunities

Guided by its scenario modelling, strategic planning and risk management approaches, the NG Group has assessed the climate-related risks and opportunities that pose a material financial risk to it, assessing the relative materiality by establishing scope of impact, timeframe and likelihood for each risk/opportunity.

Timeframes used are:

- Short (up to 2025) – in line with annual planning and shorter-term budget processes.
- Medium (from 2025 to 2030) – reflecting strategic business planning processes (5-10 years).
- Long (from 2030 to 2050) – in line with longer-term emerging risk assessment timelines/up to the date of the net zero commitment.

Likelihood is based on the following categorisation: very low (remote), low (less likely), moderate (equally unlikely as likely), high (more than likely) and very high (almost certain).

The material climate-related risks and opportunities (focusing on those that impact UK operations) include:

- **Transition risk – Technology (not meeting significant increase in electricity demand) - medium and long term; moderate likelihood.**
- To meet net zero, electricity use and share of final demand will need to expand significantly with ever increasing volumes of intermittent renewable energy; if the ESO or UK and US electricity networks do not adapt to these changes, there is a risk that the NG Group will not be able to ensure reliability and security of supply:
  - Impact: current role as GB ESO is pivotal to delivering the energy transition; if the ESO is not prepared with the systems and processes to operate a decarbonised energy supply system with significantly higher intermittency, there will be significant costs from market inefficiency and the potential for network outages impacting customers; there is also a risk that the transmission and distribution networks in both the UK and the US may not be equipped to deliver the expected significant electricity demand growth to achieve net zero; in the short term, failures could affect the NG Group through reputational damage and lost regulatory incentive income, which link directly to reliability.
  - Mitigation: the ESO business is ensuring it can operate the system safely and securely at zero carbon by proactively working with the UK government on electricity market reform; in 2022 the government announced its intention to create the FSO which will take over the existing ESO roles; NG Group continues to invest substantial capital in the UK and US networks for higher supply load and system resilience; network reliability is regularly measured and reported on across transmission, distribution and interconnection networks.

- **Transition risk – Market (customer buy-in and trade-off management); short, medium and long term; moderate likelihood.**
- Policy focus on the cost of the energy transition to customers is likely to increase regulatory scrutiny of network operators; if customers and regulators perceive costs as being unreasonable, the NG Group could suffer reputational damage and regulatory repercussions:
  - Impact: missing affordability commitments could damage regulatory negotiations, trust in the market and the resulting returns and incentives of the operational frameworks; whilst difficult to quantify the level of risk, if not managed effectively, it could undermine the corporate strategy and ability to attract capital.
  - Mitigation: the NG Group's purpose is to be at the 'heart of a clean, fair and affordable energy future' and its regulatory strategy team is focused on affordability for consumers; £723m of efficiency savings were embedded in ED2 business plans; despite these efforts, the recent cost of living challenges have affected communities and a number of support initiatives have been launched.

- **Transition risk – Reputation (missing transition targets and commitments); medium and long term; moderate likelihood**

- Risks that the NG Group does not deliver its crucial role in delivering the emissions reduction targets in its various jurisdictions and fails to meet its own stretching GHG emissions targets/commitments:
  - Impact: failing to deliver major network reinforcement required to meet government renewable installation targets or failing to meet its own emissions reduction targets could undermine its corporate strategy, making it difficult to attract capital and resulting in materially weaker financial performance.
  - Mitigation: working closely with regulators to ensure policy and regulatory frameworks enable, and facilitate, net zero plans (eg ensuring they are financeable etc); in 2022 NG Group launched its Climate Transition Plan charting an ambitious roadmap to a vision of reaching net zero, and as close to 'real zero' as possible, across Scope 1,2&3 emissions by 2050.

- **Physical risk – increased frequency of extreme weather incidents and changing long-term climate trends; short, medium and long term; moderate likelihood.**
- Acute physical risks – assets are at risk of physical impacts from increased frequency of such events, leading to asset damage and operational risks.
- Chronic physical risks – assets are at risk of physical impacts from changing long-term climate trends, leading to asset damage and operational risks:
  - Impact: major weather incidents highlight the vulnerability of its energy infrastructure and communities; significant costs are incurred due to asset damage and operational interruptions due to major storms; such costs are typically recoverable in future years under regulatory frameworks; these incidents and associated costs are likely to increase unless climate adaptation is appropriately measured and implemented.
  - Mitigation: Climate Vulnerability Assessment is being undertaken for energy-carrying assets, leveraging the Climate Change Risk Tool to identify long term climate hazard risk to the energy infrastructure; once completed a Climate Change Adaptation Plan will be developed, outlining solutions for the high-risk assets and confirming the strategic approach to managing risk; in the UK, innovation projects have been commenced to understand the impacts of climate change hazards on asset performance.

- **Transition opportunity – Products/Services (identifying new products and services to deliver the future energy system); short, medium and long term; high likelihood.**
- The energy transition presents a significant opportunity for the development of new products and services, providing business opportunities to scale technologies and develop existing ones:
  - Impact: potential to benefit from significant investment opportunities in both UK and US (interconnectors, offshore wind and onshore renewables) and to partner with others in the development of other innovative solutions, leading to significantly higher capital investment and growth and ultimately increasing profits/EPS.
  - Response: National Grid Ventures is already developing plans which could significantly reduce energy costs to consumers.

- **Transition opportunity – Markets (emerging segments of the energy sector); medium and long term; very high likelihood.**
- NG Group is well positioned to capitalise on the huge growth opportunities associated with the changing global energy mix; through smart investment and proactive market engagement, it can succeed in new and existing growth markets:
  - Impact: UK Government has awarded 17/26 projects (all projects totalling £20bn) to the UK Electricity Transmission business as part of the target of 50GW of offshore wind capacity by 2030; this and other net zero investments across the business units will lead to a significant increase in NG Group capital investment over the short, medium and long term and contribute towards achieving CAGR of 8-10% out to FY26; also well placed to maximise opportunities following the strategic portfolio pivot (from 60% to 70% electricity assets).
  - Response: new appointment to the new SI business unit to deliver the magnitude of new infrastructure needed to reach net zero; as noted above, the NGED Group is focused on enabling the connection of 1.5m EVs and 600k heat pumps to the network by 2028.

Responsible Business Charter ('RBC')

The NG Group's Annual Report for FY23 sets out the various metrics/targets and performance against the 2020 RBC, as also reported in the annual Responsible Business Report ('RBR').

The new 2023 RBC has since been released; as part of the charter refresh, the NG Group has undertaken a new ESG materiality assessment. The top 6 identified material topics included: GHG emissions, decarbonisation and clean energy transition, affordability, natural capital and biodiversity, network reliability and diversity, equality and inclusion.

From an environment perspective, the message remains to 'deliver a clean energy future', to be achieved through 5 commitments:

1. Achieve net zero by 2050 for Scope 1,2 & 3 emissions with:
    - Reduction of 60% Scope 1 & 2 GHG emissions by 2030 (from a FY19 baseline).
    - Reduction of 37.5% Scope 3 GHG emissions by 2034 (from a FY19 baseline).
    - Move to a 100% electric fleet by 2030 for light-duty vehicles and pursue the replacement of medium- and heavy-duty vehicles with zero carbon alternatives.
    - Reduce SF6 emissions from operations by 50% by 2030 (from a FY19 baseline).
    - Reduce energy consumption in the flagship offices by 20% by 2030 (from a FY20 baseline).
    - Reduce annual air travel emissions by at least 50% by FY26 (FY20 baseline) and offset any remaining emissions responsibly.
    - Engage with the top 50% of its US suppliers by emissions to establish a decarbonisation roadmap/action plan towards a SBT by FY26.
    - The top 80% of UK suppliers by emissions will have formally committed to set a SBT by FY26.
2. Protect the natural environment; restore the natural environment by 10% on the land managed in the UK and preserve the natural environment in the land managed in the US.
3. Invest at least £29bn in green infrastructure and projects in the 5 years ending March 2026.
4. Report on its climate change risks and opportunities and its investment in climate change adaptation activities.
5. Report on the management of its environmental impact with a focus on pollution, waste and water use.

Principal identified risks

The NGED Group and the NG Group (and by extension the Sponsor as part of both groups) play a central role in enabling and accelerating the energy transition and the move to a cleaner future. The vision is to be at the heart of a clean, fair and affordable energy future and provide the platform for others to meet their own net zero commitments.

The energy systems will look very different in the coming decades and the NG Group is working with governments and partners globally to accelerate this transition, while balancing decarbonisation, affordability and reliability.

The NG Group's business strategy and Climate Transition Plan are aligned to a low carbon economy and decarbonising its operations, as highlighted by the pivot to electricity in its UK business (acquisition of the NGED Group) and the sale of the majority equity stake in NGG, as well as the sale of the Rhode Island businesses in the US.

From a general covenant perspective, the Trustee Directors:

- Consider the NGED Group/NG Group being central to decarbonisation and the electrification of heating and transport to be a positive (including the preparation for that in ED2 by enabling the network to cater for up to 1.5m additional electric vehicles, 600k heat pumps and a significant increase in renewable energy), in that it will lead to greater electricity demand and the associated need for investment in the network to enable more power to be provided

- Note the NGED Group/NG Group have incorporated its key mitigating and adaption responses into its business plans
- Note that NGED Group reports on various adaption actions such as substation flooding resilience programmes and storm weather responses to Ofgem as part of its normal reporting requirement. Many network assets have long useful lives; therefore, the NGED Group takes account of predicted climate change impacts when planning new installations or safeguarding existing key equipment (for example flood protection currently being provided to key assets is designed to be resilient to the end of this century)
- Note the degree of certainty around the Sponsor's/NGED Group's profitability, operational cash generation and recovered investment in the network (as a result of the various RIIO-ED price control periods)

Notwithstanding these general views, the Trustee Directors have noted the transition scenario analysis undertaken by the NG Group and the risks/opportunities associated with those various transition scenarios:

Slow transition (4°C modelled although current global climate policies and actions suggest lower than 4°C):

- Decarbonisation progress is made but too slow to meet net zero targets
- Increase in distributed generation and local solutions where local authorities compensate for lack of overall national progress
- System becomes increasingly unequal
- Transition risks generally more relevant to a 2°C (or lower) scenario
- However, there are long-term transition risks associated with:
    - Technology (not meeting significant increase in electricity demand)
    - Market (customer buy-in and trade-off management)
    - Reputation (missing transition targets/commitments)
- In response, the NG Group is:
    - Continuing to invest substantial capital in the UK network for higher supply load/system resilience
    - Regularly measuring and reporting on network reliability
    - Embedding significant efficiency savings in ED2 business plans
    - Working closely with regulators to ensure policy and regulatory frameworks enable net zero plans to be financeable
- There are also long-term transition opportunities which could materially improve financial performance:
    - Products/services (identifying new products/services to deliver the future energy system)
    - Markets (emerging segments of the energy sector)
- In response, the NG Group is/has:
    - Developing plans (via National Grid Ventures) which could significantly reduce energy costs to consumers
    - Set up the new Strategic Infrastructure (SI) business unit to deliver the magnitude of new infrastructure needed to reach net zero
- Physical risk insights indicate increased frequency of extreme weather incidents and changing long-term climate trends highlighting the significant costs incurred due to asset damage and operational interruptions; the level of risk in most cases is greater in a 4°C scenario than a 2°C scenario
- In response, such costs are typically recoverable in future years under regulatory frameworks and there are lines of vision built into price control periods given their medium to longer-term nature (and associated forecasting of recovered investment in the network)

Orderly transition (2°C modelled):

- Reaches most net zero targets through an orderly approach
- Governments pursue suite of solutions for large scale and consumer options
- Co-ordinated pathway between key market players
- Increased investment in renewable electric generation and networks
- Transition risks generally more relevant to a 2°C (or lower) scenario
- Transition insights noted include:

    - Urgent collective action required across society; reaching net zero requires new policies and technology development
    - Retaining consumer buy-in is key; to reach net zero, consumers can drive domestic heating and transport decarbonisation by switching to low-carbon alternatives
    - Electricity use and share of final demand will increase; decarbonising heating and road transport will drive increased demand and investment in the electricity network
    - Energy supply structure will shift; to power generation from renewable sources, notably wind and solar
    - Pathways will adapt to global and local realities; businesses will need to monitor and adapt
- There are medium-term transition risks associated with:
    - Technology (not meeting significant increase in electricity demand)
    - Market (customer buy-in and trade-off management)
    - Reputation (missing transition targets/commitments)
- In response, the NG Group is:
    - Continuing to invest substantial capital in the UK network for higher supply load/system resilience
    - Regularly measuring and reporting on network reliability
    - Embedding significant efficiency savings in ED2 business plans
    - Working closely with regulators to ensure policy and regulatory frameworks enable net zero plans to be financeable
- There are also medium-term transition opportunities which could materially improve financial performance:
    - Products/services (identifying new products/services to deliver the future energy system)
    - Markets (emerging segments of the energy sector)
- In response, the NG Group is/has:
    - Developing plans (via National Grid Ventures) which could significantly reduce energy costs to consumers
    - Set up the new SI business unit to deliver the magnitude of new infrastructure needed to reach net zero
- Physical risk insights indicate increased frequency of extreme weather incidents and changing long-term climate trends highlighting the significant costs incurred due to asset damage and operational interruptions; however the level of risk in most cases is lower in a 2°C scenario
- In response, such costs are typically recoverable in future years under regulatory frameworks and there are lines of vision built into price control periods given their medium to longer-term nature (and associated forecasting of recovered investment in the network)

Acceleration transition (1.5°C modelled)

- Reaches 2030 net zero targets to be on track for 2050
- Electrification of heat and transport at a fast pace
- Accompanied by large scale investments
- Increased grid scale and interconnection
- Transition risks generally more relevant to a 2°C (or lower) scenario
- Transition insights noted include:
    - Urgent collective action required across society; reaching net zero requires new policies and technology development
    - Retaining consumer buy-in is key; to reach net zero, consumers can drive domestic heating and Transport decarbonisation by switching to low-carbon alternatives
    - Electricity use and share of final demand will increase; decarbonising heating and road transport will drive increased demand and investment in the electricity network
    - Energy supply structure will shift; to power generation from renewable sources, notably wind and solar

    - Pathways will adapt to global and local realities; businesses will need to monitor and adapt
- There are short to medium-term transition risks associated with:
    - Technology (not meeting significant increase in electricity demand); more medium-term than short-term
    - Market (customer buy-in and trade-off management)
    - Reputation (missing transition targets/commitments); more medium-term than short-term
- In response, the NG Group is:
    - Continuing to invest substantial capital in the UK network for higher supply load/system resilience
    - Regularly measuring and reporting on network reliability
    - Embedding significant efficiency savings in ED2 business plans
    - Working closely with regulators to ensure policy and regulatory frameworks enable net zero plans to be financeable
- There are also short to medium-term transition opportunities which could materially improve financial performance:
    - Products/services (identifying new products/services to deliver the future energy system)
    - Markets (emerging segments of the energy sector); more medium-term than short-term
- In response, the NG Group is/has:
    - Developing plans (via National Grid Ventures) which could significantly reduce energy costs to consumers
    - Set up the new SI business unit to deliver the magnitude of new infrastructure needed to reach net zero

- Physical risk insights indicate increased frequency of extreme weather incidents and changing long-term climate trends highlighting the significant costs incurred due to asset damage and operational interruptions; however, the level of risk in most cases is lower, the lower the temperature increase scenario
- In response, to the extent relevant to a 1.5°C scenario, such costs are typically recoverable in future years under regulatory frameworks and there are lines of vision built into price control periods given their medium to longer-term nature (and associated forecasting of recovered investment in the network)

The Trustee Directors also note the NG Group's own conclusions that:

- None of the transition scenarios threaten the NG Group's resilience
- It is in a strong position to adapt its portfolio to maximise the opportunities of the energy transition

Whilst the Trustee Directors recognise that there are risks associated with climate change above, in all scenarios we currently expect continued and longer-term covenant support for the Scheme, ensuring the network remains resilient to ensure consumer demand is met.

As funding improves, and we continue to de-risk our investment strategy, we will reduce our reliance on the Sponsor covenant. This is expected to be the case over the Medium and Long-term. Although we expect the impact of any risk to reduce over time, we will continue to monitor the Sponsor covenant as part of our ongoing management of the Group and CCRO.

Understanding funding risks

Climate change may also impact the value of the Group's pension liabilities, i.e. present value of future benefit payments. This impact could be via any or all of:

1. Changes in interest rates,
2. Changes in inflation expectations,
3. Changes in life expectancy.

Whilst we acknowledge the possibility of 1) and 2), we have implemented a 'liability hedging' strategy which manages the risk up to the value of the assets. This strategy helps to mitigate risk to our funding level from adverse movements in interest or inflation rates over time.

Our Scheme Actuary does not expect material changes in life expectancy due to climate change to be apparent for at least 10-15 years. We also acknowledge that there could be a wide range of potential life expectancy outcomes under each scenario, some leading to modest improvements in funding and others to worsening. In most scenarios, the expected longevity impact of climate change would lead to modest changes to the funding in the long term. Details of the expected changes to the liability values under the different scenarios is shown in the table below.

Indicative impact of a medium-term climate shock	1.5 ^{o}C	2 ^{o}C	3 ^{o}C
Liability impact (from age 60) from mortality	+2%	-1%	-4%

These figures highlight the points made above and, in particular, that if life expectancy improvements are recognized at an earlier stage than currently anticipated (and society achieves the goal of containing heating to 1.5 degrees), the Group may be more likely to require further contributions from NGED.

EDF DB

Processes to identify, assess and manage climate-related risks

As set out in Strategy, the Group Trustee is exposed to climate-related risks in the form of transition and physical risk. The Group Trustee considers the impact of these climate-related risks on all of the assets in which it invests by conducting and reviewing the results of climate-related stress tests, within the Group's ESG report, on an annual basis. The Group Trustee uses the ESG report to review the Group's investment managers over the year, in order to identify which funds the Group Trustee should engage with, either in terms of where the largest climate risks in the portfolio arise from and/or if any of the investment managers have had a material increase in carbon footprint over the year. It was noted in the recent review of the ESG report in 2023, that many of the Group's investment managers did not have specific fund level ESG data feeding through and there is an action to continue to engage with these investment managers to provide the necessary data for the next report.

The Group Trustee also receives additional climate-related reporting from Redington on a quarterly basis which is included in the Funding and Risk Report. This report contains relevant climate metrics as set out under the DWP's adoption of the recommendations of the TCFD (and as further discussed under section 4 - Metrics and Targets). The Group Trustee has also incorporated climate risk as an explicit risk within its risk register. This allows the Group Trustee to better identify and manage the climate-related risks which are relevant to the Group on an ongoing basis.

For all appointed investment managers, evaluation of ESG risk management, which includes climate-related risks, is an explicit part of both the selection process and continued due diligence or monitoring that the Group Trustee undertakes. The Group Trustee also relies on the manager research capabilities of Redington in order to effectively assess climate-related risks and opportunities.

Trustee actions to manage climate-related risks using overall risk management framework

ESG-related factors were considered as part of a strategy review which was conducted following the consolidation of the Group in Q4 2021. These factors included the level of ESG integration in each fund, carbon emissions and the resilience of the strategy to climate scenario analysis. On this basis, the Group Trustee decided to schedule further work to look into sustainable investment strategies, including climate opportunities, which happened in H2 2022.

As a consequence of the above work and as previously mentioned, the Group Trustee appointed an ESG equity fund manager, Stewart Investors, to manage a portion of the Group's equity allocation. The Group Trustee also moved their investment in M&G Alpha Opportunities Fund to the M&G Sustainable Total Return Credit Investment Fund, in a shift to investing in more climate-aware funds.

As per the engagement policy, the Group Trustee believes that engagement with the Group's investment managers is one of the main ways in which the Group Trustee is able to manage climate-related risks and opportunities. A majority of this engagement is carried out on behalf of the Group by Redington. The Group Trustee will consider further enhancement of its engagement strategy in the future to further expand its influence as an asset owner and drive positive outcomes for its members in relation to the management of climate-related risks and opportunities. As previously mentioned, the Group Trustee has already taken steps to enhance its engagement policy in the form of stewardship and engagement training provide by Redington in Q1 2023.

EDF DC

The Group Trustee identifies investment strategy risks and includes these within the Group risk register which is reviewed quarterly. It is used to identify, prioritise, manage and monitor risks the Group is exposed to and managed through internal controls.

The Group Trustee seeks to identify and assesses climate-related risks at the total portfolio level and at the individual asset level. The Group Trustee recognises that the tools and techniques for assessing climate-related risks in investment portfolios are imperfect but are rapidly evolving. The Group Trustee therefore aims to use the best available information and tools to assess climate-related risks and will receive regular training in order to understand the latest trends in climate science.
The table below summarises the primary climate-related risk management processes and activities of the Group Trustee and its committees:

	Activity	Approach	Comments
Governance	**Training**	Receive training on climate-related issues, including the physical and transition risks of climate change, to ensure that the Group Trustee has the appropriate degree of knowledge and understanding on climate-related issues to support good decision-making.	While no training was received during the scheme year, in previous years training was received as part of the regular Group Trustee meetings. Group Trustee Directors will receive additional training as and when appropriate.
	Advisors	Review advisor objectives to ensure advisors have appropriate climate capability, and bring important, relevant and timely climate-related issues to the Group Trustee's attention.	This is reviewed annually as part of the review of the Investment Consultant's objectives in Q4 each year.
	Risk register	The Group Trustee maintains a risk register to monitor and mitigate financially material risks.	As noted above, the Group Trustee has incorporated climate risk as an explicit risk within its risk register, covering both transition and physical risks. This allows the Group Trustee to better identify and manage the climate-related risks which are relevant to the Group on an ongoing basis.
	Investment Managers	Review the ESG policies and strategies of the Group's investment managers to understand how ESG themes including climate risks are implemented in their investment approach.	The Group Trustee receives quarterly performance reporting from Mercer. The reports provide details of Mercer's ESG rating for each of the underlying investment managers (this assesses how well the investment manager has integrated ESG and active ownership into their investment philosophy) and carbon metrics for the active equity funds. It is expected that these reports will be expanded to include carbon metrics for more funds when the data becomes available. If an investment manager is considered to be 'lagging the market', MWS will engage with the relevant underlying investment manager(s) to strongly encourage that they improve their policies and practices in these areas. Any activity will be reported to the Group Trustee in ongoing reporting.

Strategy	**Scenarios**	Undertake quantitative scenario analysis to understand the impact of climate related risks on the assets.	Scenario Analysis will be undertaken on an annual basis; noting that in the event that significant changes have occurred in the data or the investment strategy this may occur more frequently.
	Scenario appropriateness	Review of scenarios in light of changes to data availability of climate science and/or in response to investment strategy change	
	Risks and opportunities	Identify and obtain specific advice on the climate-related risks and opportunities within the investment strategy and assess their likelihood and impact.	The Group Trustee considers the formal investment strategy review which is undertaken by MWS annually, which incorporates climate change risks and opportunities.
Risk Management	**Risk prioritisation**	Consider the prioritisation of identified risks, and the management of those that represent the most significant potential for loss and those that are the most likely to occur.	Both climate change related risks and wider investment risks are considered as important by the Group Trustee. The Group Trustee recognises the challenges with various metrics, tools and modelling techniques used to assess climate change risks. The Group Trustee aims to work with the DC Investment Consultant and MWS on a regular basis with the aim of improving its approach to assessing and managing risks over time. Climate change scenario analysis is strategic in nature and thus will be taken into consideration within wider strategy discussions by MWS in the design and construction of the investment solutions.
	Group documentation	Include climate-related risks and opportunities in the Group's documents such as the SIP and regularly review these.	Group documents are reviewed annually and include information on climate-related risks and opportunities as appropriate.
	Stewardship	Climate change is a stewardship priority and through stewardship the Group seeks to improve the risk characteristics of its existing investments.	The Group Trustee receives an annual ESG report from MWS which includes a section on stewardship to identify how underlying investment managers choose to vote and engage on climate issues (among other key engagement priorities). The Group Trustee has adopted MWS' key stewardship priorities for the purposes of assessing the significant votes undertaken on its behalf in its annual implementation statement.
Metrics and targets	**Metrics**	Obtain data for metrics.	Quarterly investment performance reporting includes carbon metrics for the Mercer Growth Fund. The Group Trustee will engage with MWS through its DC Investment Consultant to understand the activities undertaken with regard to climate change risk management. Annually, a formal investment strategy review is undertaken by MWS which incorporates climate change metrics and assesses progress against stated targets (as detailed in Metrics and Targets, below).
	Targets	Review progress against climate targets	
	Review	Review continued appropriateness of metrics and progress against climate-related target.	

			In addition to the scenario analysis conducted as part of the annual strategy review, MWS has set a target of net-zero absolute carbon emissions for the Mercer Growth Fund by 2050. The aim is to reduce emissions for Mercer Growth Fund by 45% from their 2019 baseline level by 2030 (considering Scope 1 and 2 emissions).

MWS will be working closely with its appointed investment managers to identify and manage a staged emissions reduction plan, oversee allocations to climate solutions, and steward an increase in transition capacity across the funds.

This target has been set to manage members' exposure to climate-related risks. Progress on reductions will be monitored on an annual basis. Mercer's Analytics for Climate Transition (ACT) tool is used to help to set a transition pathway for the funds. The output from this tool outlines companies' current emissions but also their transition capacity and will allow MWS to manage high carbon risk and to engage with companies on their ability to support a zero emissions target.

Climate change-related risks are identified both from a bottom-up and a top-down perspective. Scenario analysis, such as that discussed in the Strategy section of this report, analyses climate risks from a top-down perspective – identifying which asset classes are most exposed to climate change-related risks.

From a bottom-up perspective, the carbon intensity or implied temperature rise of component funds can be considered. These carbon metrics are included in the main Scheme report. This identifies the key sources of company / geographic / sector level risks.

The risks identified from a top-down perspective is managed through the setting of the strategic asset allocation of the funds. Other mechanisms for managing climate-related risks from a bottom-up perspective is:

- Investment manager selection – active managers can incorporate ESG factors into their investment decision making process, Mercer's proprietary ESG ratings assesses how well managers do this. Ratings are reported in quarterly investment performance reports.

- Stewardship – Investment managers are expected to use active ownership to protect long term shareholder value, this will include engaging on climate change management (one of the MWS IGC's engagement priorities). Mercer's ESG ratings consider investment managers' stewardship processes (in quarterly investment performance reports), and more detailed stewardship reporting is provided for implementation statements and within the Annual ESG Report that MWS provides to the Group Trustee.

- Index selection – a number of passive allocations within our multi-asset fund track ESG tilted indices which tilt away from carbon intense companies. Details of this are included within the Annual ESG Report.

- Exclusion – climate-based exclusions will be considered and reviewed annually – from July 2022 all companies who generate more than 1% of revenue from fossil fuel activities derived from arctic drilling, thermal coal mining or oil sands will be excluded from a number of the allocations within the Mercer Growth Fund. Details of this will be included within the Annual ESG Report.

E.ON

How we identify and assess climate change-related risks and opportunities

The Group Trustee has identified the following risks as posing the greatest potential loss and being the most likely to occur:

- Risk 1 – correctly identifying portfolio risks from climate change - new risks are likely to emerge (physical and transitional);
- Risk 2 – insufficient action to deviate from the “hot-house” scenario (transitional);
- Risk 3 – we do not continue to work to evolve the investment strategy as we move through time (transitional);
- Risk 4 – correlated portfolio risks - while asset managers may consider the individual climate change related risks and opportunities per company or investment, the Group Trustee needs to consider them across the portfolio as a whole.

How we integrate these processes into overall risk management for the Group

The Group Trustee governs the portfolio and oversees the Investment Adviser, Investment Committee and the Group’s investment asset managers (Asset Managers) who help scan, measure and monitor the climate change risks and opportunities and determine their relevance to the Group. The Group Trustee along with their Investment Adviser, adopt a variety of methods to help with the analysis including:

- Reviewing relevant background material and identifying regulatory developments that are relevant to the Group, including guidance from the Pensions Regulator and Department for Work and Pensions.
- Engaging with peer groups, industry bodies and advisers.
- Identifying relationships between events and news, and business and financial impacts to manage reputational risks.
- Identifying and assessing physical and transitional risks over different time horizons.
- Considering the impact of physical and transitional (including operational) risk factors.
- Integrating the climate related risks within the Group Trustee’s wider risk management framework and risk register

The risk management tools we – and our investment adviser – have used and the outcomes of using those tools

Level 1: Selection of MSCI as an external sustainability data provider

In 2020, our Investment Advisor, Cardano, appointed MSCI as its external sustainability data provider. The appointment followed an RFP process which reviewed the service offerings of different providers. Cardano selected MSCI for a number of reasons, in particular, the extent of its coverage, MSCI’s research process (and as such, data reliability), and portfolio scenario analysis based on degrees of warming, following the acquisition of carbon delta in 2019[9].

The appointment (and reappointment) is also overseen by the Cardano Group’s Sustainability Policy Committee.

The MSCI sustainability data, utilised by our Investment Adviser provides a range of outputs, but the Group Trustee specifically reviews:

- CVaR – It estimates the financial value at risk to the corporate equity and credit exposures of warming scenarios at 1.5°C, 2°C and 3°C. The expected loss is calculated by considering the loss associated with transition risks and the loss associated with physical risks.
- Emission metrics – an absolute and intensity metric, so the Group can monitor progress against its Target.

[9] https://ir.msci.com/news-releases/news-release-details/msci-strengthen-climate-risk-capability-acquisition-carbon-delta

These outputs, aggregated for the Group, are outlined in this report. The Investment Committee reviews these outputs, with their Investment Advisor, to:

- manage climate change-related risks and opportunities, and
- to align our investments to support the goal of net zero greenhouse gas emissions by 2050, in line with global efforts to limit warming to 1.5°C.

In addition, Science Based Target Initiatives (SBTI) metrics and ESG metrics are available from MSCI, which are relevant to risks and opportunities associated with the investment strategy and the Group Trustee's beliefs. This supplements regular briefings on emerging sustainability issues provided by the Group Trustee's advisers.

Level 2: Participation in industry groups working on methodology development, in particular, IIGCC and PCAF

The DWP's TCFD regulations set out multiple methodologies to determine corporate and sovereign greenhouse gas emissions metrics. There remain methodology challenges for 'hard to reach' asset classes, such as hedge funds, commodities and derivatives.

Our Investment Advisor participates in and contributes to multiple industry initiatives to develop and evolve metrics and reporting on climate change, in particular, IIGCC and PCAF. IIGCC is the Institutional Investors Group on Climate Change, and it hosts the Paris-Aligned Investment Initiative. The initiative sets out the advantages and disadvantages of the multiple methodologies used to determine a company's, and portfolio's, absolute emissions, emissions intensity, and more recently, environmental alignment.

Methodologies used to calculate GHG emissions: Typically, financed emissions (the emissions we are responsible for as an investor) are calculated using GHG emissions per unit of sales or per enterprise value. Our preference is enterprise value which we consider a more stable measure, allowing for year-on-year comparisons. Enterprise value consists of a company's equity, debt and cash, and goes by the acronym EVIC (enterprise value including cash). This aligns with MSCI.

Level 3: Internal controls

Our Investment Advisor has implemented internal controls in the preparation of TCFD metrics and scenarios, which we have reviewed. We assess these internal controls to ensure they are appropriate.

Finally, we note that there will be inaccuracies in the data. In some markets, corporate greenhouse gas emissions disclosures are not regulated, and not subject to audit. Scenarios rely on multiple assumptions. The quality of the data is constantly improving. We believe that the processes we have implemented are market-leading and mitigate for known limitations in data quality and coverage. We will continue to engage with standard-setters, policymakers, data providers and companies to improve data quality.

Understanding covenant risks

In addition to the implications of general economic conditions on the Group, consideration has also been given to the resilience of the sponsor consistent with the scenarios outlined above.

The Regulations require the Group Trustee to consider the resilience of the funding strategy within different warming scenarios. Covenant is viewed as an integral part of a scheme's funding strategy and therefore to address this requirement this report considers the resilience of the employer covenant to various climate scenarios. The Group Trustee's assessment, carried out by Cardano Advisory, considered the climate risks to both E. ON SE and the Scheme's UK sponsor (E.ON UK).

Given the support from E. ON SE for the Group's funding strategy, the Group Trustee's disclosure in this report has focused on the risks faced by E.ON SE.

Given E. ON SE's fundamental role in the global energy transition, for example its extensive regulated Energy Networks, it is expected that E.ON SE may benefit from climate-related opportunities which present themselves. In particular, the lower-warming scenarios (Paris Aligned 1.5°C and Late transition 2°C scenarios) will require significant investment in the regulated asset base of E. ON SE to facilitate the transition to a low carbon economy.

However, Cardano Advisory adopted a primarily risk-focused approach in order to identify downside climate exposure which might inform the Group Trustee's climate strategy and risk management.

The Group Trustee has considered the recommendations from Cardano Advisory in each of the following areas:

- to integrate the climate risk analyses on covenant, funding and investment to assess whether these risks are correlated.
- to monitor the climate covenant risks identified in this assessment through the Group Trustee's regular monitoring framework; and
- to document identified climate related risks and mitigation strategies in an integrated way within the DWP mandated disclosures.

Principal identified risks

The key risks identified by Cardano Advisory in each of the scenarios include:

Paris Aligned scenario:

- GHG emissions – risk of proliferation and extension of carbon pricing mechanisms (e.g., the inclusion of Scope 3 emissions) and higher carbon prices, although this may be mitigated by E.ON SE's SBTi validated de-carbonisation targets; and
- Capital investment – risk that the regulatory environment that underpins the necessary substantial investment to support the energy transition (i.e., network investment) changes in future.

Late scenario:

- Key risks as set out above – but with a delayed and somewhat increased impact relative to Paris Aligned scenario.

Hot House scenario:

- Climate hazards – risk of changing climate impact (including climate hazards) impacting E.ON SE's operations, including business disruption and investment in replacement assets.

Timing of identified risks

Climate risks were also considered over different time horizons to assist with a coherent climate response:

Near to medium-term

- Cardano Advisory assessed the risks to be generally greater in the Paris Aligned and Late scenarios given heightened transition risks in these scenarios whilst physical risks across the next decade are expected to be generally consistent across all scenarios considered; and

Long-term

- The Hot House scenario is likely to represent a greater risk to E.ON SE as the impact of a warming climate is expected to have a sharply increased impact on climate hazards / events over time.

Factoring in the likely opportunities for E.ON SE to support the energy transition in lower-warming scenarios (Paris Aligned and Late), on balance it is likely that the most impactful scenario to E.ON SE would be the Hot House scenario over the long-term.

As funding improves, and we continue to de-risk our investment strategy, we will reduce our reliance on the sponsor covenant. This is expected to be the case over the Medium and Long-term. Although we expect the impact of any risk to reduce over time, we will continue to monitor the sponsor covenant.

Understanding funding risks

Climate change may also impact the value of the Group's pension liabilities, i.e., present value of future benefit payments. This impact could be via any or all of:

1. Changes in interest rate expectations,
2. Changes in inflation expectations,
3. Changes in life expectancy.

Whilst we acknowledge the possibility of 1) and 2), we have implemented a liability hedging strategy which manages the risk up to the value of the assets. This strategy helps to mitigate risk to our funding level from adverse movements in interest or inflation rates over time.

The Group Trustee has also engaged with the Group Actuary, Aon, to understand how various climate scenarios will impact the liabilities of the Group.

Aon have developed their thinking to consider the impact of climate change on individuals' life expectancy, which they expect will vary by scenario and time horizon. This incorporation of mortality impacts means the scenarios analysed by the Group Trustee do not just consider economic variables, such as the impact on inflation or growth rates, but also reflect the demographic aspect which is important when considering pension scheme liabilities.

Aon have provided analysis of the mortality impact of scenarios that align closely with the scenarios chosen by the Group Trustee. Aon allows for the impact of each scenario on mortality through adjusting the parameters under the standard mortality tables which determine the rates of future improvements. Aon provides an indication of the total mortality impact on liabilities in differing climate scenarios below.

Table 2:

Indicative impact of climate scenarios	Paris Aligned (1.5 °C)	Late Transition (2 °C)	Hot House (3 °C)
Mortality impact on Gilts+0% liabilities	**+2%**	**-1%**	**-4%**

Source: Aon. Notes: Indicative analysis only. Figures are based on the impact on male life expectancy (age 60) but each scenario impacts females to the same extent. The figures are appropriate for the overall profile of the Group and the discount rate being used for the Cardano | AIM modelling.

Interpreting the mortality impact

Paris Aligned scenario: In the short to medium term Aon expect severe global economic stress in this scenario but a return to strong global growth over the longer term. With this in mind, disruption to health and social care services may increase mortality in the short term. Over the longer term, better air quality and improved health conditions may lead to lower mortality. The net effect under this scenario is an increase to liabilities.

Late Transition scenario: Aon believes the short to medium term mortality improvements in this scenario are in line with the current expectations, however, over the longer-term mortality improvements are slightly lower. The direct climate impact in this scenario is likely to be minimal, with overall a small reduction to liabilities.

Hot House scenario: In the Hot House scenario Aon expect higher incidence of extreme weather events and more volatile financial markets to be a drag on economic growth. In such an environment, particularly where the drag on economic growth coincides with a lack of spending on health and welfare, they expect there may be no long-term improvements in mortality. This will have the effect of a noticeable reduction in liabilities relative to current expectations. In terms of the direct climate impacts, fewer deaths from warmer winters may more than offset any impact of heatwaves but the impact is likely to be marginal.

Magnox Electric

Our process for identifying and assessing climate-related risks

The Group Trustee has established a process to identify, assess and manage the climate-related risks that are relevant to the Group. This is part of the Group's wider risk management framework and is how the Group Trustee monitors the most significant risks to the Group, in its efforts to achieve appropriate outcomes for members.

1

Qualitative assessment

The first element is a qualitative assessment of climate-related risks and opportunities which is prepared by the Group Trustee's investment adviser and reviewed by the Group Trustee.

2

Quantitative analysis

The second element is quantitative in nature and is delivered by means of climate change scenario analysis, which is provided by the Group Trustee's investment adviser and reviewed by the Group Trustee.

Our process for managing climate related risks

The Group Trustee recognises the long-term risks posed by climate change and has taken steps to integrate climate-related risks into the Group's risk management framework.

The Group Trustee has taken the following steps to integrate climate-related risks into their risk management framework and processes.

Training	The Group Trustee receives training on responsible investment to understand how ESG factors, including climate change, could impact the Group's assets and liabilities.
Advisers	The Group Trustee reviews its adviser objectives to ensure advisers have appropriate climate capability, and bring important, relevant and timely climate-related issues to the Group Trustee's attention.
Investment strategy	The Group Trustee ensures investment proposals explicitly consider the impact of climate risks and opportunities and seeks investment opportunities.
Actuarial and covenant	The Group Trustee ensures that actuarial and covenant advice adequately incorporate climate-related risk factors where they are relevant and material.
Managers	The Group Trustee engages with the investment managers to understand how climate risks are considered in their investment approach, and stewardship activities are being undertaken appropriately. This is completed annually alongside a review of the Group's Engagement Policy Implementation Statement. The IC also questions managers on ESG matters as part of its review of managers on an ad-hoc basis.

Climate-Risk Management Plan

Activity	Actions	Owner	Input	Frequency of review	First year schedule
Governance					
Framework	Agree Framework (Governance Statement and Climate Risk Management Plan)	Group Trustee	TCFD Working Group	One off	Agreed by the Group Trustee on 14 September 2022 by email and subsequently ratified at the 27 October 2022 Trustee Board Meeting.
Training	Receive training on climate-related issues	Group Trustee	Advisers	Annual	Schedule within existing training plan (where required).
Advisers	Review adviser objectives to ensure advisers have appropriate climate capability, and bring important, relevant and timely climate-related issues to the Group Trustee's attention	Group Trustee	Advisers	Annual	Incorporate climate objectives into existing annual review.
Investment strategy	Ensure investment proposals explicitly consider the impact of climate risks and opportunities and seek investment opportunities.	TCFD Working Group*	Investment adviser	Ongoing	Aon to factor climate-related considerations into future investment proposals and advice.
Actuarial and covenant	Ensure that actuarial and covenant advice adequately incorporate climate-related risk factors where they are relevant and material.	TCFD Working Group*	Group Actuary, Covenant adviser	Triennial	Considered as part of the 2022 actuarial valuation and to be maintained as a consideration in future actuarial valuations.
Managers	Engage with the fund managers to understand how climate risks are considered in their investment approach, and stewardship activities are being undertaken appropriately	TCFD Working Group*	Fund managers, Investment adviser	Annual	Completed.

Strategy					
Climate Scenarios	Undertake quantitative scenario analysis to understand the impact of climate related risks	TCFD Working Group*	Investment adviser	First year, Triennial thereafter	Completed.
Risks and opportunities	Identify the climate-related risks and opportunities for investment & funding strategy and assess their likelihood and impact.	TCFD Working Group*	Advisers	Annual	Completed.
Risk prioritisation	Consider the prioritisation of those climate-related risks, and the management of the most significant in terms of potential loss and likelihood.	TCFD Working Group*	Advisers	Annual	Completed. No material risks identified.
Group documentation	Include consideration of climate-related risks in the Group's other risk processes and documents, such as the risk register and the SIPs, and regularly review these.	TCFD Working Group*	Advisers	One-off, ongoing thereafter	Review as part of the IC's regular review of the Group's SIPs. Consider inclusion of climate-related risks into risk register as part of regular review.
Covenant	Seek to understand the climate-related risks to the employers over the short, medium and long term.	Group Trustee, TCFD Working Group*	Covenant adviser	Annual	Considered as part of the 2022 actuarial valuation and to be maintained as a consideration in future actuarial valuations.
Metrics and Targets					
Metrics	Obtain data for metrics	TCFD Working Group*	Investment adviser, fund managers	Annual	Completed
Targets	Review continued appropriateness of metrics	TCFD Working Group*	Investment adviser	Annual	Completed

***Note:** The TCFD Working Group will disband once the Group's first TCFD report is published. From that point, the actions currently owned by the TCFD Working Group in the above table will be undertaken by the IC.

As part of the assessment of the managers' policies and processes to identify and assess climate related risks and opportunities, the Group Trustee has posed:

- A due diligence questionnaire asking its investment managers to identify the most significant climate-related risks and opportunities affecting the Group, and to quantify these risks.
- The "top" questions as outlined in guidance from the Pensions Climate Risk Industry Group[10] ("PCRIG") to its investment managers, supplemented by some of its own questions. The questions were designed to assist the Group Trustee with its assessment of each managers' capabilities and approach to climate management and focused on areas such as TCFD reporting, managers ability to conduct climate scenario

[10] Aligning your pension scheme with the TCFD recommendations: Part II - Trustee governance, strategy and risk management: how to integrate and disclose climate-related risks (publishing.service.gov.uk)

analysis, engagement and escalation policies, managers ability to provide carbon related data and align their strategies to a particular temperature level.

All the Group's investment managers displayed some understanding of climate related risks and most of the Group's managers can provide carbon intensity and carbon footprint data on their investments.

Of the Group's 21 investment managers:

- Thirteen managers completed their TCFD reporting in line with TCFD guidance and made their reports publicly available.
- Eighteen managers are signatories to various investor-led industry initiatives related to addressing climate change; and
- Twelve managers have made a formal science-based temperature alignment or net zero commitment (including those that are signatories to the Net Zero Asset Management initiative (NZAM).

The Group Trustee views the results from the questionnaire as a base line for future TCFD reporting years. Over time, the Group Trustee expects to see improvements from its managers in respect of the availability and quality of data and evidence that action is being taken to reduce carbon emissions.

Manweb

Identifying and assessing risk

The Trustee has ultimate responsibility for ensuring effective governance of climate-related risks and opportunities for the Group. The Trustee has considered and included a number of potential risk exposures within the Group's Risk Register, including climate-related risks.

The Trustee formally reviews the Risk Register on an annual basis. The annual review of the Risk Register provides a framework for identifying, assessing and managing climate-related risks in relation to the Group, and considers these in the context of the broader integrated risk management framework for the Group.

The Governance Sub-Committee meets quarterly and reviews and maintains the Group's Risk Register. As part of this quarterly review, when deemed appropriate, the Governance Sub-Committee will recommend to the Trustee changes to the Risk Register, which are then considered at the subsequent quarterly Trustee meeting.

The Investment Sub-Committee has been assigned as the "risk owner" for a number of the climate-related risks and will consider actions and mitigations as appropriate.

As part of the Risk Register update within the past year, after giving consideration to the potential impact and likelihood of risk exposures, the Trustee has added the following climate-related risk to the Risk Register, along with their mitigating controls.

- Failure to sufficiently take into account the impact of ESG risks, including climate-related risks (transition and physical), in the sponsor covenant assessment and funding and investment strategies.
- Failure to sufficiently take into account the impact of ESG risks, including climate-related risks (transition and physical), on the investment portfolios that could lead to a negative impact on investment returns.

As outlined in the strategy section, the Trustee uses the output from the scenario analysis undertaken, to consider which climate-related risks may have an impact on the Group's investment portfolio and hence its funding position. The analysis considers both 'transition' and 'physical' risks to help understand the potential impact on the Group's investments.

Overall, the climate scenarios considered do not show a material impact on the Group's financial positions over the short, medium or long-term time periods considered. Based on the analysis, the Trustee considers the Group to be resilient to the potential impact of climate-change risks, in the context of other risks the Group is exposed to.

Manager Engagement

As set out in the Statement of Investment Principles, the Trustee has given the appointed investment managers full discretion in evaluating ESG factors, including climate change considerations. However, the Trustee believes that Stewardship (or active ownership), where applicable, helps the realisation of long-term portfolio value by providing investors with an opportunity to enhance the value of companies and assets. The Trustee therefore believes it is important to engage with each of the Group's investment managers on the assessment and management of climate-related risks and opportunities within the managers' portfolios, at least on an annual basis.

The Trustee recognises, however, that given the different nature of the Group's managers' mandates and the characteristics of the different asset classes, a uniform approach to ESG integration across all of the Group's mandates is not appropriate.

When engaging with the Group's private debt managers, for example, the Investment Sub-Committee is keen to understand how the managers monitor and assess the potential impact of climate-related risks on the credit quality of the underlying private debt deals, taking into account the term of the debt arrangements.

When engaging with the Group's property manager, the Investment Sub-Committee is keen to understand how the property manager assesses and manages both transition risks (including the covenant risk of the tenant and industry sector risk) and the physical risks (e.g., physical damage, flood risk, water usage etc.) associated with the underlying property assets. The Investment Sub-Committee also reviews how the property manager assesses the energy efficiency and carbon emissions of the properties held and the action plans to improve these metrics.

With regards to the Group's LDI portfolio, which consist predominantly of Gilt exposure, the Trustee recognises that the portfolio should benefit over time from a reduction in emissions, in line with the UK Government's policy on setting net zero targets. The Investment Sub-Committee also engages with the Group's LDI manager to understand how they assess and manage climate-related risks, whilst appropriately managing the Group's hedging arrangements in line with the Trustee's strategic objectives.

National Grid Electricity

Our process for identifying and assessing climate-related risks

The Group Trustee has established a process to identify, assess and manage the climate-related risks that are relevant to the Group. This is part of the Group's wider risk management framework and is how the Group Trustee monitors the most significant risks to the Group in its efforts to achieve appropriate outcomes for members.

1

Qualitative assessment

The first element is a qualitative assessment of climate-related risks and opportunities which is prepared by the Group Trustee's investment adviser and reviewed by the Group Trustee.

2

Quantitative analysis

The second element is quantitative in nature and is delivered by means of climate change scenario analysis, which is provided by the Group Trustee's investment adviser and reviewed by the Group Trustee.

Together these elements give the Group Trustee a clear picture of the climate-related risks that the Group is exposed to. Where appropriate, the Group Trustee distinguishes between transition and physical risks. And all risks and opportunities are assessed with reference to the time horizons that the Group Trustee has identified as relevant to the Group.

When prioritising the management of risks, the Group Trustee assesses the materiality of climate-related risks relative to the impact and likelihood of other risks to the Group. This helps the Group Trustee focus on the risks that pose the most significant impact.

Climate risk management questionnaire

The Group Trustee recognises the Group's exposure to the climate related risks stemming from transitioning to a lower-carbon economy, and as a result of physical risks from shocks caused directly by climate change. As a result, the Group Trustee has posed:

- A due diligence questionnaire asking its investment managers to identify the most significant climate-related risks and opportunities affecting the Group, and to quantify these risks; and
- The "top" questions as outlined in guidance from the Pensions Climate Risk Industry Group's ("PCRIG") recommended areas to its investment managers, supplemented by some of its own questions to better understand and assess the impact of these climate-related risks on the Group's investments.

Seven managers responded to the climate risk management questionnaire. The Group Trustee agreed that one of these managers was no longer relevant given that the Group has already disinvested, therefore has excluded this from the analysis. In summary:

- Six of the managers have produced (or are in the process of producing) their TCFD report, setting out their approach to managing climate related risks.
- Four of the managers conduct climate related risks scenario analysis and one of the managers is currently in the process of setting up this analysis on the asset class level.
- Two of the managers have committed to a long-term temperature alignment target for the portfolios they manage on behalf of the Group Trustee.

Overall, the managers have adequate frameworks and processes in place to ensure they take into account climate related risks and opportunities within their mandates. In addition, the majority of the managers are participating in broader industry initiatives.

In summary the Group Trustee is comfortable with the managers' ability to act in the best interests of the Group and to account for climate related risks and opportunities in the portfolios that they manage.

* The table below summarises the information requested/received from the Group's managers on their assessment of climate risk management.

Manager	Asset class	Proportion of assets[1]	Response requested	Response received
W. Scott	Equities	3.5%	Y	Y
Insight	Bonds/LDI	65.8%	Y	Y
PIMCO	Bonds	6.1%	Y	Y
LGIM[2]	Bonds	0.0%	Y	Y
BlackRock	Property	3.3%	Y	Y
CBRE	Property	3.3%	Y	Y
CVC	Private Credit	0.7%	N	N
HPS	Private Credit	1.8%	N	N
KKR	Infrastructure	0.0%	N	N

1. As at end Feb 2022.
2. LGIM issued with a climate risk management questionnaire following initial investment in March 2022.

Our process for managing climate related risks

The Group Trustee recognises the long-term risks posed by climate change and has taken steps to integrate climate-related risks into the Group's risk management framework.

The Group Trustee has taken the following steps to integrate climate-related risks into its risk management framework and processes.

Training

The Group Trustee receives training on responsible investment to understand how ESG factors, including climate change, could impact the Group's assets and liabilities.

Advisers

The Group Trustee reviews its adviser objectives to ensure advisers have appropriate climate capability, and bring important, relevant and timely climate-related issues to the Group Trustee's attention.

Actuarial and covenant

The Group Trustee ensures that actuarial and covenant advice adequately incorporate climate-related risk factors where they are relevant and material.

The Group Trustee also seeks to understand the climate-related risks to the employer over the short, medium and long term.

Integrated risk management framework

Climate-related risks are included in the Group's wider risk management framework, which is overseen by the IC on a regular basis.

Investment strategy

The Group Trustee ensures investment proposals explicitly consider the impact of climate risks and opportunities.

Managers

The Group Trustee engages with the investment managers to understand how climate risks are considered in their investment approach, and stewardship activities are being undertaken appropriately. The IC reviews its investment managers at its quarterly meetings and conducts ESG monitoring on them on annual basis.

Group documentation

The Group Trustee includes consideration of climate-related risks in the Group's other risk processes and documents, such as the risk register and the SIP, and regularly reviews these.

Northern Powergrid

Our process for identifying and assessing climate-related risks

The Group Trustees have established a process to identify, assess and manage the climate-related risks that are relevant to the Group. This is part of the Group's wider risk management framework and is how the Group Trustees monitor the most significant risks to the Group in its efforts to achieve appropriate outcomes.

1

Qualitative assessment

The first element is a qualitative assessment of climate-related risks and opportunities which is prepared by the Group Trustees' investment consultant and reviewed by the Group Trustees.

2

Quantitative analysis

The second element is quantitative in nature and is delivered by means of climate change scenario analysis, which is provided by the Group Trustees' investment consultant and reviewed by the Group Trustees.

Together these elements give the Group Trustees a clear picture of the Group's exposure to climate-related risks. All risks and opportunities are assessed with reference to the relevant time horizons that the Group Trustees have identified.

When prioritising the management of risks, the Group Trustees assess the materiality of climate-related risks relative to the impact and likelihood of other risks to the Group. This helps the Group Trustees focus on the risks that pose the most significant impact.

The Group's investment managers

The Group Trustees recognise the Group's exposure to the climate-related risks stemming from transitioning to a lower-carbon economy, because of physical and transition risks from shocks caused directly by climate change. As a result, the Group Trustees conducted an exercise via a manager questionnaire to better understand and assess the Group's investment managers' policies and capabilities in relation to incorporating climate related risks, disclosures and opportunities within their investment strategies.

As part of this assessment, the Group Trustees have sent:

- A due diligence questionnaire asking their investment managers to identify the most significant climate-related risks and opportunities affecting the Group, and to quantify these risks; and
- The "top" questions (as outlined in guidance from the Pensions Climate Risk Industry Group[11]) to their investment managers supplemented by some of their own questions. These questions were designed to assist the Group Trustees with their assessment of each manager's capabilities and approach to climate

[11] Aligning your pension scheme with the TCFD recommendations: Part II - Trustee governance, strategy and risk management: how to integrate and disclose climate-related risks (publishing.service.gov.uk)

management focused on areas such as TCFD reporting, managers' ability to conduct climate scenario analysis, engagement and escalation policies, managers' ability to provide carbon-related data and align their strategies to a particular temperature level.

All the Group's managers responded to the climate risk management questionnaire. In summary:

- Five of the managers have produced (or are in the process of producing) their TCFD report, setting out their approach to managing climate related risks. The Group Trustees will continue monitoring the managers' alignment with the industry TCFD reporting in future.
- Five of the managers conduct climate-related risk scenario analysis and two of the managers are currently in the process of setting up this analysis at an asset class level.
- Three of the managers have set temperature alignment targets which apply to the strategies employed by the Group. Managers will therefore seeking to invest in a way which is aligned that of the Paris Agreement of limiting global temperature increases to below 2 degrees by the end of the century.

Overall, the Group Trustees conclude that the managers have adequate frameworks and processes in place to ensure they consider climate-related risks and opportunities are considered within their mandates associated with the transition to low carbon economy. In addition, the majority of the managers are participating in market-leading industry initiatives and frameworks, such as United Nations supported Principles of Responsible Investment ("PRI"), Carbon Disclosure Project's ("CDP") climate change programme and Institutional Investors Group on Climate Change ("IIGCC").

In summary the Group Trustees are comfortable with the managers' ability to act in their best interests of the Group and to account for climate-related risks and opportunities in the portfolios that they manage.

Our process for managing climate related risks

The Group Trustees recognise the long-term risks posed by climate change and have taken steps to integrate climate-related risks into the Group's risk management framework.

The Group Trustees have taken the following steps to integrate climate-related risks into their risk management framework and processes.

Training

The Group Trustees receive training on responsible investment to understand how ESG factors, including climate change, could impact the Group's assets and liabilities.

Advisers

The Group Trustees review their adviser objectives to ensure advisers have appropriate climate capability, and bring important, relevant, and timely climate-related issues to the Group Trustees' attention.

Actuarial and covenant

The Group Trustees ensure that actuarial and covenant advice (which is formally reviewed every three years) incorporates climate-related risk factors where they are relevant and material.

The Group Trustees also seek to understand the climate-related risks to the employer over the short, medium and long term.

Integrated risk management framework

Climate-related risks are included in the Group's wider risk management framework, which is overseen by the F&IC on a regular basis.

Investment strategy

The Group Trustees ensure investment proposals explicitly consider the impact of climate risks and opportunities and seek investment opportunities.

Managers

The Group Trustees engage with the investment managers to understand how climate risks are considered in their investment approach, and stewardship activities are being undertaken appropriately. The F&IC reviews its investment managers at its quarterly meetings and conducts ESG monitoring on them on an annual basis.

Group documentation

The Group Trustees include consideration of climate-related risks in the Group's other risk processes and documents, such as the risk register and the SIP, and regularly review these documents.

Npower

Note that following the transfer of the assets relating to members of the DC Section to a separate Master Trust arrangement (completed in June 2023) the activities referred to below are no longer applicable to the DC Section although they were (where indicated below) relevant and in place for the year to 31 March 2023.

1. **Describe the processes the Group Trustees have established for identifying, assessing and managing climate-related risks in relation to the Group, and how the processes are integrated within the Group Trustees' overall risk management of the Group.**

- The Group Trustees have included ESG and climate risks in the Group's risk register, which is reviewed on a quarterly basis.

- The Group Trustees have delegated the responsibility for identifying new climate-related risks and opportunities to the Group's Investment Advisers and Investment Managers. The Investment Advisers were present at all quarterly Full Group Trustee Investment meetings and keeps the Trustees informed of any new developments and emerging risks. The Investment Advisers are also responsible for providing the necessary climate and responsible investment training to the Group Trustees on a regular basis. The Investment Advisers have specific objectives related to responsible investment and are reviewed against these objectives on an annual basis.

2. **Describe the risk tools the Group Trustees used and the outputs / outcomes of using those particular tools.**

- As mentioned above, the Group Trustees maintain a risk register which was reviewed quarterly during the year and includes controls and monitoring points relating to Responsible Investment. No material concerns were raised as part of this during the year.

- The Sponsor also provided a presentation during the year which discussed the Company's forward-looking business strategy and how it was intending to appropriately mitigate and manage future climate risks and opportunities.

- The other tool the Group Trustees utilize is the Investment Advisers' research approach in the area of climate change which provides a detailed assessment of how the underlying Investment Managers are incorporating climate change risks and opportunities into their processes, policies and activities. For the DC and DB AVCs Section, quarterly updates were provided to the Group Trustees on these assessments in the form of 'ESG ratings' for each investment fund utilized within the Section. As mentioned in the 'Governance' section, the Group Trustees are currently monitoring one of the Group's DB Investment Managers in particular due to the higher level of climate risk identified in the strategy employed by the manager.

3. **Describe how the Group Trustees have identified, assessed and managed both transition and physical risks for the Group.**

- While not explicit, this assessment is implicit within the Investment Advisers' research process which was reviewed in detail during the year.

4. **Describe how the Group Trustees' assessment of climate-related risks has impacted the Group's prioritisation and management of risks which pose the most significant potential for loss and are most likely to occur.**

- The Group Trustees consider the output of the risk identification tools noted above to identify investment funds which are exposed to greater climate risks and opportunities. As a result, the Group Trustees have prioritized the monitoring of one particular DB Investment Manager and expect to engage and review that manager in more detail over the next Scheme year.

5. **Describe how, if at all, the Group Trustees have used stewardship to help manage climate-related risks to the Group.**

- The Group Trustees recognize and seek to fulfil their stewardship responsibilities as active asset owners. The Group Trustees seek to ensure their stewardship responsibilities are being effectively implemented via delegation, across a range of activities to appropriate third parties and monitor the manner in which those third parties act.

- The Group Trustees require their investment managers to develop and maintain appropriate voting and engagement policies and review their voting and engagement activities on an annual basis. This includes a review of the number of votes cast where applicable. Based on the information provided for the year ending 31 March 2023, no material concerns were identified although the Group Trustees has noted the expectation that one DB Investment Manager will more progressively exercise their votes in the area of climate change going forward and commit greater resources to their engagement campaigns in this area.

6. **Describe how climate-related opportunities are identified, assessed and managed.**

- A key part of Investment Manager appointment and monitoring is how they have taken advantage of climate opportunities and managed risk. This makes use of the Investment Advisers' in-depth research on the topic and helps identify whether Investment Managers are appropriately exploiting climate opportunities.

- The Group Trustees were pleased to note as part of the annual DB Responsible Investment update the renewable energy investments being made by the Group's Alternative Credit manager. Another positive to note is the Alternative Credit manager's appointment of EOS, a specialist stewardship provider, who engage heavily in stewardship activities to enhance the long-term value of companies and ensure they are appropriately considering the risks and opportunities of climate change. Over 2022, their activities included:

    - Engagements with 1,138 companies on a total of 4,250 issues and objectives.

    - 33 responses to consultations or proactive equivalents and 75 discussions with relevant regulators and stakeholders.

    - Voting recommendations on 134,188 resolutions, with 24,461 against management.

    - Active participation in a range of global stewardship initiatives.

- For the DC Section, all managers provided good evidence of voting and/or engagement activity including examples of votes cast in support of climate-related resolutions.

OVO Energy

1. **Describe the processes the Group Trustees have established for identifying, assessing and managing climate-related risks in relation to the Group, and how the processes are integrated within the Group Trustees' overall risk management of the Group.**

    a. Trustees undertake an annual review of their investment manager RI practices and policies, including those in relation to climate change.

    b. The Trustees aim to meet with their investment manager on a periodic basis. The Trustees will provide their manager with an agenda for discussion, including issues relating to individual holdings and, where appropriate, ESG issues. Managers will be challenged both directly by the Trustees and by their investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

2. **Describe the risk tools the Group Trustees used and the outputs / outcomes of using those particular tools.**

    a. The Trustees currently monitor and track the RI credentials of its investments with LGIM on a quarterly basis via their Investment Monitoring Reporting.

3. **Describe how the Group Trustees have identified, assessed and managed both transition and physical risks for the Group.**

    N/A

4. **Describe how the Group Trustees' assessment of climate-related risks has impacted the Group's prioritisation and management of risks which pose the most significant potential for loss and are most likely to occur.**

    N/A

5. **Describe how, if at all, the Group Trustees have used stewardship to help manage climate-related risks to the Group.**

    a. The Trustees' own engagement activity is focused on their dialogue with their investment manager, which is undertaken in conjunction with their investment advisers. The Trustees meet their manager from time to time and consider the managers exercise of their stewardship both during these meetings and through reporting provided by their investment adviser.

    b. Investment managers will report on voting activity to the Trustees on a periodic basis. The Trustees will monitor their investment manager's voting activity and may periodically review managers voting patterns. Where the Trustees deem it appropriate, any issues of concern will be raised with their manager for further explanation.

    c. The Trustees will monitor their compliance with their Stewardship Policy on an annual basis and are satisfied that they have complied with the Group's Stewardship Policy over the last year.

6. **Describe how climate-related opportunities are identified, assessed and managed.**

    N/A

1. **Describe the processes the Group Trustees have established for identifying, assessing and managing climate-related risks in relation to the Group, and how the processes are integrated within the Group Trustees' overall risk management of the Group.**

   The Group Trustees have included ESG and climate-related risks in the Group's risk register, which is reviewed on a quarterly basis. The Group Trustees have also established a sub-committee, the Responsible Investment Committee ("RIC"), which convenes on a quarterly basis and considers the potential risks arising from climate change, along with wider ESG issues. The RIC maintains a detailed business plan for the expected work to be carried out over the next 12-18 months, as well as a longer-term plan to ensure that future industry developments are adequately considered at the appropriate time.

   The Group Trustees have delegated the responsibility for identifying new climate-related risks to the Group's Investment Adviser. The Investment Adviser is present at both the quarterly RIC meetings and the quarterly Full Group Trustee Investment meetings and keeps the Group Trustees informed of any new developments and emerging climate-related risks, which are then discussed by the Group Trustees at these meetings. The Investment Adviser is also responsible for providing the necessary climate-related and Responsible Investment ("RI") training to the Group Trustees on a regular basis. The Group Trustees have set the Investment Adviser a specific objective related to RI, and performance against this objective is assessed on an annual basis. All advisers are, however, expected to implicitly and explicitly consider climate change in an integrated manner within their advice, and the Group Trustees will challenge where they believe this has not been the case.

2. **Describe the risk tools the Group Trustees used and the outputs / outcomes of using those particular tools.**

   The Group Trustees, with the help of their Investment Adviser, Covenant Adviser and Scheme Actuary, conduct climate change scenario analysis on a triennial basis, to assist with assessing the risks and opportunities associated with climate change. A high-level review is also conducted by the Group Trustees on an annual basis to ensure the results of that assessment remain appropriate during the interim period. The triennial analysis and annual review holistically consider the impact on the assets, liabilities, and the Sponsor, to assess the potential impact on the Group's funding and investment strategy over the time horizons relevant to the Group. Furthermore, if there are any significant changes to this assessment and advice in the interim period, the advisers will inform the Group Trustees as soon as practical.
   The Group Trustees monitor ESG and climate-related risks and opportunities within the Group's portfolios and set targets to assess how these change over time. The Group Trustees, with the help of their Investment Adviser, engage with individual investment managers to collect security-level data and calculate Green House Gas ("GHG") emissions and ESG metrics for individual asset classes, and the investment portfolio as a whole. The Group Trustees then use the output of this analysis to determine and prioritise engagement with specific investment managers.

3. **Describe how the Group Trustees have identified, assessed and managed both transition and physical risks for the Group.**

   The Group Trustees have identified the transition and physical risks to which the Group is exposed, as set out below. The process for identifying and managing these risks is the same as the process set out in our responses to questions 1 and 2, in relation to broader ESG and climate-related risks.

Transition risks

- Risks and opportunities from efforts made to **transition towards a net-zero economy** to limit climate change
- More likely to occur in **short and medium term**
- Risks arising could include **regulatory or societal changes** making parts of the business of invested companies worthless. This includes companies heavily reliant on fossil fuels with **no robust transition plan.** There may also be increased **litigation risk.**
- Opportunities include early investment in assets likely to benefit from move to low carbon economy, such as **green energy providers.** Climate change **adaptation** is also likely to be a key area of development with associated risks and opportunities.

Physical risks

- Relates to direct effects of climate change on the Group and its members through **increased frequency and severity of natural disasters** amongst other impacts
- More likely to be **longer-term** as the global climate changes over time
- Risk to the assets held by the Group through direct **damage to physical property and assets**. Likely to also influence mortality outcomes through the impact on the climate in the UK.
- Less well understood and priced risk within global economies.
- Climate change **adaptation** is also likely to be a key area of development with associated risks and opportunities.

4. Describe how the Group Trustees' assessment of climate-related risks has impacted the Group's prioritisation and management of risks which pose the most significant potential for loss and are most likely to occur.

The Group Trustees consider the output of the risk identification tools noted in our response to questions 1 and 2 to identify, and act upon, individual securities or investment funds which are exposed to greater climate-related, or ESG risks. For example, the results of the metrics analysis carried out during the scheme year showed two investment managers whose GHG footprint was significantly higher than the industry benchmark. The Group Trustees, therefore, engaged with these two managers to understand how the higher GHG footprint fits into the broader investment strategy for those managers and what their risk management processes were in respect of individual security selection.

The Group Trustees have also developed a dashboard, setting out which asset classes should be prioritised for engagement by the Group Trustees, taking into account the exposure within the portfolio, the materiality of ESG and climate-related risks on each specific asset class, the availability of data, and the ability to influence the ESG and climate-related policies of investee entities. A copy of this prioritisation dashboard can be found below.

Asset class	Current exposure	Expected long-term exposure	Rating of current RI integration	Data availability	Ability to influence*
Equities	Medium	Low	Strong to Weak	High	Medium
Core Credit	Medium	High	Medium	High	Medium
Alternative Credit	Medium	Medium	Medium	Low	Medium
Secure Income Assets	Medium	Medium	Medium	Low	Medium
LDI/Liquid assets	High	High	Medium	Low	Low

Legend: Green = area of lower focus, Red = area of greater focus
*Ability to influence is based on the actual actions that can be taken by the Group Trustees and the likely influence that the Group Trustees can have on the investment managers' underlying companies.

Over time, the Group Trustees have increased their allocation to debt assets (such as core credit and alternative credit) and reduced their allocation to equity assets. This reduces the voting influence that the Group has and means that engagement becomes a more important stewardship tool.

5. Describe how, if at all, the Group Trustees have used stewardship to help manage climate-related risks to the Group.

The Group Trustees recognise and seek to fulfil their stewardship responsibilities as active asset owners. The Group Trustees seek to ensure their stewardship responsibilities are being effectively implemented via delegation, across a range of activities, to appropriate third parties and monitor the manner in which those third parties act.
The Group Trustees require their investment managers to develop and maintain appropriate voting and engagement policies, which include climate-related risks, and then subsequently review their voting and engagement policies, including number of votes cast where applicable, on an annual basis as part of the Investment Adviser's RI reports. These reports are reviewed on an annual basis by the RIC. Within the review, the RIC consider any potential concerns with regards to the Group's investment managers' approach to RI, and where applicable, highlight any potential actions that the Group Trustees may wish to take in order to mitigate potential exposures to climate-related risks. A summary of the discussions and potential actions highlighted by the RIC are reported to the full Group Trustees at their quarterly meetings, where any decisions required are discussed and agreed.

One area in particular, where the Group Trustees have engaged with investment managers is on the provision of good quality GHG emissions data. This helps the Group Trustees to monitor the Group's exposure to climate-related risk (to the extent that GHG emissions provide a proxy for this risk, albeit an imperfect one,) and helps to mitigate the risk of investment managers and companies not being transparent in terms of their climate-related risks. It also helps to reduce the risk of using proxy data over time, as, while the Group Trustees have a preference for using proxy data over excluding assets, they also acknowledge that this will not be a perfect estimate of the true GHG emissions position of the Group. The Group Trustees do, however, recognise that as data and transparency improve, this may identify additional climate-related risks and opportunities that were unclear as part of the previous RI monitoring framework, and therefore could require the Group Trustees to take action.

6. Describe how climate-related opportunities are identified, assessed and managed.

The RIC's business plan includes an annual action to explicitly consider climate-related opportunities within, or potentially available to, the investment portfolio. The identification of these opportunities is done by the Investment Adviser, who brings any proposals to the Group Trustees along with any necessary training to understand the impact of such climate-related investments on the Group's investment portfolio. These opportunities are then considered from a climate-related opportunity perspective, a broader RI perspective, and finally from a broader investment strategy perspective.

As an example, the Group Trustees have made a £100m commitment to a new private fund, which invests directly in wind, solar, biomass and other opportunistic long-term renewable assets. This is expected to provide robust long-term inflation-linked cashflows as well as benefit from the increasing focus on decarbonising global economies.

Schneider

1. **Describe the processes the Group Trustees have established for identifying, assessing and managing climate-related risks in relation to the Group.**

   The Group's SIP sets out the Trustee's investment policies, including the management of financially material risk factors (including climate change) and how this is implemented. The Trustee reviews the SIP at least annually and whenever there is any material change in investment policy.

   The Fiduciary Manager, SEI, is responsible for reporting back to the Trustee where it identifies material climate-related risk in the portfolio that warrants the Trustee's attention. SEI regularly reports back on activities it undertakes in its stewardship program. This includes regular reporting on climate-related voting (including significant votes) and its engagement activities. An annual review is included in the Group's Implementation Statement of how the Trustee's policies on voting and engagement, as set out in the SIP, have been followed during the year. The Fiduciary Manager also requires underlying Investment Managers to identify and disclose exposure to financially material risk. The Group Trustee reserves the right to divest from any fund whereby the Investment Manager(s) demonstrate(s) an unwillingness to provide the transparency required to understand the fund's impact on the climate.

2. **How are the processes integrated within the Group Trustees' overall risk management of the Group?**

   The Trustee manages a wider risk register encapsulating risks material to the Group that is reviewed periodically. Risks specifically related to Climate Related Risk and Opportunities (CRRO) are reviewed at least annually – the review of all risks relating to the ongoing governance of the Group forms part of the Trustee's decision-making process and is recorded in its meeting minutes accordingly.

   The Trustee is early in the journey towards long-term management of climate-related risks and opportunities. As such, establishing effective governance structures, tools and processes for identifying climate-related risks and opportunities has been and will be central to the Trustee's ability to manage them.

   The Trustee recognises that not all investments in carbon-intensive companies are necessarily misaligned with the management of climate-related risks and opportunities; for example, heavy emitters with ambitious and realistic science-based targets are likely to play an important role in the transition to a low-carbon economy. Recognising that most climate-related metrics are backward-looking and may not fully capture forward-looking plans, the Trustee believes that proactive and collaborative engagement with investee companies is critical to the long-term management of climate-related risks and opportunities.

   The activity of engaging with investee companies, on behalf of the Trustee, is delegated to SEI, the Fiduciary Manager. The Trustee will also consider trends in the results of climate-related scenario analysis, while recognising that the quality of climate change models evolves over time and therefore comparison of scenario analysis results across time frames may not be appropriate. For example, new physical risk models may take into account new scientific projections about interrelated impacts and positive feedback loops. Meanwhile, transition risk models may evolve to take into account the pace of policy change, progress towards country-level goals, and technological advances.

3. **Describe the risk tools the Group Trustees used and the outputs / outcomes of using those particular tools.**

   See 1. (SEI was only appointed Fiduciary Manager to the Group in Q1 2023. As such, no significant outputs/outcomes of using the aforementioned risk tools in relation to the Group's investment or funding strategies are noted.)

4. **Describe how the Group Trustees have identified, assessed and managed both transition and physical risks for the Group.**

   See 1.

   The Trustee relies on its Fiduciary Manager, SEI, and its other Investment Managers where appropriate, to manage the investments' exposure to financially material risks, such as climate change.

   For the SEI funds, investment stewardship is exercised on behalf of the Trustee through SEI's stewardship program. Where investments are made directly into funds managed by third party Investment Managers, each Investment Manager is expected to be a responsible steward of the assets and to actively manage financially material risk, including transition and physical climate risk, in the selection of underlying investments.

   For assets directly covered by SEI's stewardship program, SEI has appointed a third-party, Columbia Threadneedle (formerly BMO), to engage with investee companies on behalf of clients specifically on climate-related matters. Voting rights are exercised via SEI's proxy voting provider, Glass Lewis. The Trustee believes that proactive, ongoing and constructive engagement with companies, backed by a strong willingness to vote, can help raise standards and improve companies' accountability for impacts made on the climate.

5. **Describe how the Group Trustees' assessment of climate-related risks has impacted the Group's prioritisation and management of risks which pose the most significant potential for loss and are most likely to occur.**

   The climate risk register will be reviewed by the Group Trustees in Q3/4 2023. Climate risks impacting the Group will be identified and assessed based on their severity and likelihood. This will enable the Group Trustee to prioritise the risks identified and work with the Fiduciary Manager, SEI, to formulate an appropriate approach to managing them.

6. **Describe how, if at all, the Group Trustees have used stewardship to help manage climate-related risks to the Group.**

   Please see 1 and 3.

7. **Describe how climate-related opportunities are identified, assessed and managed.**

   See 1, 3 and 4.

   For further context, climate-related items on the Group Trustee's annual calendar are set out below:

- Annual TCFD report, incorporating:
  - An assessment of the climate risks associated with the Group's investments
  - A review of the Trustee's CRRO governance framework
  - A qualitative assessment of the CRROs associated with the Group's investments (including metrics of the funds and their benchmarks, and a review against targets in future years)
- Annual climate-related scenario analysis

- Annual review

The review intervals for the items recorded on the Group’s annual calendar are for business as usual operations. In the event that a material change occurs, the Trustee will instigate one or more reviews of the various items as it believes to be appropriate.

SSE Southern

Risk Management Disclosure 1: Describe the organisation's processes for identifying and assessing climate related risks.

As part of the Group Trustee's responsibility for the setting and implementation of the Group's Responsible Investment Policy, the Group Trustee must ensure that ESG related risks, including climate change, are identified, assessed and effectively managed. Therefore, it is crucial that the management of these risks is integrated into the overall risk management of the Group. The Group Trustee delegates aspects of this responsibility to other parties, but retains overall oversight, as set out previously in the Governance section of this report. Below, where we have referred to ESG risks more broadly, this will include consideration of climate change risks.

The Group's risk management framework takes the form of a Risk Register which is monitored periodically.

At a simple level, the Group Trustee's risk management process comprises identification, assessment, monitoring and control of risk. The Group Trustee currently takes a top-down approach to risk management, which uses their strategic objectives as the starting point for their risk management process.

Climate risks are identified by Group Trustee and their advisors as appropriate. Information from a number of sources is used to help identify risks and the Group Trustee and their advisors are responsible for identifying risks as appropriate. Once risks are identified, they are then evaluated and prioritised based on the overall threat posed to the Group. This helps the Group Trustee build up a picture of the Group's risks more widely and where climate-related risks sit in the overall risk management framework.

The Group Trustee will also undertake risk analysis at the individual asset level. This is known as a bottom-up analysis. In this instance, the Group's investment managers are also responsible for the identification and assessment of climate related risks and opportunities. This approach will use available information to assess the potential impact of climate-related risks to investment performance.

ESG and, in particular, climate related risks can be identified by various parties including the Group Trustee, investment managers or the Group's advisors as part of the ongoing management of the Group. ESG risks are identified as part of the following processes:

- **Investment strategy reviews –** The Group Trustee considers ESG risks as part of the Group's regular investment strategy reviews that are carried out alongside each Actuarial Valuation and refreshed on an annual basis. These reviews cover the extent to which social, environmental and governance considerations are taken into account in the selection, retention and realisation of investments. The Group's Investment Advisors are expected to integrate ESG considerations into their strategy advice and to highlight any key risks that are included within any potential investment strategy.

- **Valuations and covenant reviews –** The Group Trustee also considers ESG risks as part of the triennial Actuarial Valuation process ensuring that this analysis considers the funding, covenant and investment risks in a joined up way. The Group Actuary will incorporate the consideration of ESG risks in the actuarial assumptions advice and any projections which are considered to evaluate the possible long-term funding outcomes for the Group. When assessing the employer's covenant the Group Trustee takes into account the ESG risks to the employer.

- **Considering asset classes –** When assessing new asset classes, potential ESG risks are assessed and discussed as part of the training provided to the Group Trustee. Key ESG risks are taken into account when comparing alternative options.

- **Selection of investment managers –** When appointing a new investment manager, the Group's Investment Advisor provides information and their view on each manager's ESG policy and capabilities. Each manager is also asked to provide information regarding their own ESG risk management processes as part of the selection process. This information allows the Group Trustee to identify potential risks when comparing potential providers. The Group's policy also requires Investment Managers to engage on ESG issues and only divest once attempts to engage have been exhausted or for reasons other than ESG/ climate related issues.

- **Individual mandates and investments –** The Group Trustee also undertake risk analysis at the individual asset level and have adopted enhanced management of ESG issues and climate change, including new potential investment products. In this instance, the Group's investment managers are responsible for the identification and assessment of ESG, including climate related, risks and opportunities and will be expected to identify and disclose these risks to the Group Trustee in the following ways:
  - As part of their regular reporting as investment strategy is subject to regular review by the Group Trustee;
  - During their presentations when meeting with the Group Trustee;
  - By providing climate metric data in line with the TCFD requirements; and
  - By providing any relevant scenario analysis.

The Group Trustee meets with each of the Group's current investment managers regularly to gain an in-depth understanding of each managers' process and the risks inherent in each of the mandates. At these meetings each manager is asked to identify their view of the key ESG related risks facing the portfolio at that time. This assessment may be qualitative or quantitative depending on the type of mandate and data available. Any key risks identified are discussed by the Group Trustee and monitored on an ongoing basis within the climate risk dashboard.

We note that evaluation of ESG related risks and opportunities is based on relevant information and tools being available, as well as the quantification of ESG and climate-related risks and opportunities being a developing area based on continuously emerging information and evolving best practice. The Group Trustee actively engage with all managers to promote improvement in this area.

Risk Management Disclosure 2: Describe the organisation's process for managing climate-related risks

Once risks are identified and added to the Risk Register, they are then evaluated and prioritised based on the overall threat posed to the Group.

The Group Trustee prioritise risks based on the size, scope and materiality of the risk event. This includes rating the likelihood and impact of the risk event to produce a score reflecting the threat that the risk event poses to the Group, then making a decision on the appropriate action (mitigation, control or acceptance) based on this score and available courses of action. Rating the risk's likelihood and impact may be informed by scenario analysis and calculated metrics where relevant. This helps the Group Trustee build up a picture of the Group's risks more widely and where ESG risks sit in the overall risk management framework.

Risks and opportunities should be considered in absolute terms and in relation to the risk appetite of the Group. Risk appetite can be defined in terms of a willingness to take risk or the acceptability of risk.

Once the risks facing the Group have been considered and prioritised, mitigation strategies will be established and monitored to ensure that they remain effective. The Group Trustee will delegate the management of certain risks to other parties, as set out in the Governance section. Risks that are deemed to be high in likelihood, impact, or both after allowing for mitigating controls are deemed to take priority for future action.

An action in the context of risk management will aim to either introduce an additional control to mitigate the likelihood of a risk occurring or reduce the impact of a risk should it occur. This discussion will also consider whether additional Group Trustee training is required.

Expectations of investment managers

The Group Trustee's expectations of the investment managers with regard to the integration of ESG risks are set out in the Group's Statement of Investment Principles (SIP) and Responsible Investment policy. The Group Trustee monitors the ESG activities of all managers through regular reporting and meetings, as set out above.

In summary, the Group Trustee will expect all of its investment managers to:

- be aware of the investment risks and opportunities associated with climate change;
- incorporate climate considerations into the investment decision making practices and processes; and
- monitor and review companies and assets in relation to their approach to climate change.

The Group Trustee engages with current investment managers where risks have been identified to agree a plan of action. This may include setting specific targets for certain mandates and more regular monitoring of mandates at higher risk. In some circumstances, this could include instructing managers to disinvest from certain investments, e.g. sectors or geographical regions, or by disinvesting from specific investment mandates. A carbon footprint and ESG review is also undertaken and reported to the Group Trustee to assist with engagement.

The Group Trustee maintains an ESG log which is updated based on the information provided by, and the discussions held with, the Group's investment managers.

In addition, the Group Trustee, with the assistance of its Investment Advisors, prepares an annual Implementation Statement which assesses the engagement and voting activities of investment managers and is used to monitor managers' activities in this area.

The Group's approach to stewardship is also a key aspect of the management of climate-related risk. The Group Trustee expects their investment managers to consider and take appropriate steps to manage climate-related risks within their funds, including engagement with underlying investee companies on their management of climate risks.

The Group Trustee has a documented policy that sets out the processes by which investee companies are engaged with on climate-related issues. This is done through delegated engagement via the investment managers and ongoing monitoring of this engagement activity undertaken by the Group Trustee and their investment advisor. This includes understanding the asset managers' approach to voting in relation to climate-related issues and engaging with those asset managers where the Group Trustee feels that the manager's approach is not aligned with the Group Trustee's agreed objectives for the Group.

The Group Trustee receives annual reports from their investment advisor on engagement and voting activities of investment managers and use these to monitor performance in line with the agreed beliefs and resulting expectations for investment managers as well as any requirements within mandates in place. Where investment managers are not performing in line with expectations, the Group Trustee engages further with the manager to understand why and work to improve the performance, further to which the Group Trustee will consider undertaking a formal review if this does not occur.

Risk Management Disclosure 3: Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management

As set out under Risk Management Disclosure 1, the management of ESG risks is integrated into the Group's current risk management processes in the following ways, with all risks considered in the context of the overall risks inherent in any strategy:

- **Valuations and covenant reviews** – When assessing the employer's covenant the Group Trustee reviews the employer's plans to manage the ESG risks identified. The Group Trustee considers the extent to which any adjustment is needed to the funding approach or strategy as a result of any ESG risks identified through the "identifying" stage described above. This will be considered in the context of the investment and covenant risks faced by the Group and may consider the appropriateness of actuarial assumptions and of overall security provided to the Group.

- **Setting strategy and choosing asset classes** – Determining whether exposure to any asset class should be reduced, increased or avoided in light of the ESG risks identified.

- **Selection of investment managers** – The Group Trustee considers whether or not to invest with managers whose mandates are expected to introduce an unacceptable level of risk or who do not have adequate processes for the identification and management of ESG risks.

- **Monitoring current investment managers / individual mandates and investments** – The Group Trustee expects the Group's investment managers to manage the ESG risks identified within their own mandates by:

  – Integrating the analysis of these risks into the overall assessment of any potential investment (where this is possible to do e.g. in actively managed mandates).

  – Engaging with investee companies where risks have been identified, to understand and encourage their management of ESG and in particular climate related risks.

The Group Trustee sets the overall strategy and risk budget for the Group and covers responsible investment matters, including the integration of climate change within the Group's investment strategies.

Climate change is included within the Group's risk register in the context of the risk of the investment strategy or investment managers underperforming. Relevant controls and mitigating actions are also documented. The risk register is reviewed periodically by the Group Trustee.

As set out above the Group will regularly monitor and challenge all of its investment managers to support any formal Net Zero commitments made and the targets set by the Group. This will also include a review of the voting and engagement activities carried out in respect of climate change.

Consistent with the Group's investment strategy, engagement is also a long-term approach with the goal for companies and economies globally to be carbon neutral by 2050 and to enable those companies to transition effectively to a carbon neutral economy.

Climate risks are identified by the Group Trustee and their advisors as appropriate. These risks are then added to the Group's' s risk register which forms part of the Group's overarching Integrated Risk Management approach and framework. This includes rating the likelihood and impact of the risk event to produce a score reflecting the threat that a potential climate risk event poses to the Group, then deciding on the appropriate action (mitigation, control, or acceptance) based on this score and available courses of action. Appropriate controls and mitigating actions are determined and put in place as part of the process to add these risks to the Risk Register.

Uniper

Recommended disclosure A: Describe the organisation's processes for identifying and assessing climate related risks. Asset owners should describe, where appropriate, engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks to improve data availability and asset owners' ability to assess climate-related risks.

The Group Trustee has extensively discussed its approach to engagement with its fiduciary manager. The Group Trustee, aligned with VLK, subscribes to the importance of engagement, rather than exclusion, as a means to encourage greater disclosures and better practices with regard to climate-related risks. At the same time, it is the fiduciary duty of the trustees to manage the climate risk of the investments. VLK is responsible for appointing asset managers that are aligned to this approach and monitors and reports regularly to the Group Trustee on the underlying managers' voting and engagement (including on climate specific issues).

As an example, the Group Trustee's approach to aligning engagement activity with the broader investment strategy, the Group Trustee has directly invested in a climate transition focused equity fund as its core equity exposure, tracking the FTSE Developed TPI Climate Transition ex Coal ex Controversies ex Nuclear ex Tobacco Index. The Index combines data and analysis from FTSE Russell and the Transition Pathway Initiative (TPI). Within corporate bonds, VLK together with the external manager Insight have created a framework for the bonds held in the portfolio to be Paris aligned by 2025. This requires understanding the commitments of the constituent corporates whose bonds are held, and most importantly, where they are not Paris aligned, either engaging with the companies, or making a decision to disinvest if these companies are unlikely to align by 2025.

Recommended disclosure B: Describe the organisation's process for managing climate-related risks. Asset owners should describe how they consider the positioning of their portfolio with respect to the transition to a lower carbon energy supply production and use. This could include explaining how asset owners actively manage their portfolio's positioning relative to this transition.

The Group Trustee selected VLK as its fiduciary manager in part due to VLK 's approach to managing climate-related (and other responsible investment) risks and opportunities. For VLK, prioritising climate-related risks is part of their responsible investment framework and investment process. To manage these risks, they screen their portfolios and engage with companies, including on a look through basis with external underlying asset managers. Companies in which they invest that lag on transparency or clear carbon reduction targets compared to their peers, can be selected for an engagement process directly and/or in conjunction with the asset manager in whose portfolio that company sits. The rationale behind these engagements is that they expect that due to the energy transition, lagging companies in these sectors run the most material physical and transitional risks (e.g., because of their assets becoming stranded), and doing such engagement with the asset manager alongside can help to incentivize improvements in the asset managers' own responsible investment process.

Joint engagements are also achieved via their active membership in IIGCC (Institutional Investor Group on Climate Change) and the Principles for Responsible Investment. VLK is also part of an international engagement initiative called Climate Action 100+ that was launched in December 2017 and targets over 150 carbon intensive companies.

Recommended disclosure C: Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Climate-related risks and opportunities are discussed by the Group Trustee in the same way as any other risk and opportunity. Such discussions form part of the objectives set for VLK under the Competition Market Authority's Investment Consultant Objectives framework. Climate related risks are also noted on the risk register, which is regularly reviewed.

United Utilities PLC

1. **Describe the processes the Group Trustees have established for identifying, assessing and managing climate-related risks in relation to the Group, and how the processes are integrated within the Group Trustees' overall risk management of the Group.**

Risk Governance

- The Trustee's SIP is reviewed as a minimum triennially, but typically annually, as well as following any significant change in investment policy. The SIP sets out how investment climate-related risks are managed and monitored.
- The Trustee maintains a risk register which includes sustainability risks, with explicit consideration of climate risks, in order to monitor and mitigate financially material risks. The GRASC carries out an annual detailed review of the risk register (during the year covered by this statement, the annual review took place in November 2022), and the Board and Sub-Committees review the relevant risks at quarterly meetings.
- Within the GRASC's annual review of the risk register, there is an assessment of the coverage and resilience of the Group's controls. The results of the review are presented to the full Trustee Board and any updates to the risk register are incorporated.
- The Trustee has put in place an addendum to the risk register entirely focused on ESG and Climate Change, in order to ensure appropriate risk identification, monitoring, and management is in place.
- As outlined in the Governance section, the Trustee receives training from time-to-time on climate-related issues. The training allows the Trustee to challenge whether the risks and opportunities are effectively allowed for in its governance processes and wider activities, and to be able to challenge its advisers to ensure the governance support and advice adequately covers the consideration of climate matters. This process also affords the Trustee an opportunity to identify new and emerging risks related to climate change.
- Analysis of the extent to which ESG factors are integrated into investment decision making at the portfolio level is undertaken by the Trustee by monitoring the ESG ratings provided by Mercer. This monitoring takes place on a quarterly basis, with more extensive annual reviews when each of the investment managers attends their scheduled Investment Committee annual review meeting, supported by briefing papers from the adviser.

2. **Describe the risk tools the Group Trustees used and the outputs / outcomes of using those particular tools.**

The primary tools for risk assessment and management are:

- The risk register (as described above)
- Scenario analysis (as described in the strategy section)
- Climate related metrics (as described in the metrics section).

The outputs / outcomes of these tools are detailed in their respective sections, as noted above.

3. **Describe how the Group Trustees have identified, assessed and managed both transition and physical risks for the Group.**

Climate scenario analysis is used, which (as described in the Strategy Section) examines both transition and physical risks to the Group's investment and funding strategy.

When considering any change in investment strategy, for example, whether to invest in insurance policies, the Trustee ensures that ESG risk assessment (and climate change explicitly), forms part of the strategic decision-making process and in provider selection.

The impact of transition and physical climate-related risks and opportunities is an input into annual employer covenant updates.

The Trustee has also reviewed climate related metrics, and ESG ratings provided by the investment adviser, to identify risks in the investment portfolios.

4. **Describe how the Group Trustees' assessment of climate-related risks has impacted the Group's prioritisation and management of risks which pose the most significant potential for loss and are most likely to occur.**

In order to ensure that the most significant climate risks are mitigated, the Trustee, initially via the ISC, explored whether it would be appropriate to exclude certain sectors / companies from the Group's corporate bond portfolio. Considerations included the impact on risk and return expectations, alignment with the Group's ESG and climate change policies, and the timing and potential cost of any implementation of exclusions.

Following receipt of investment advice, the Trustee agreed to put in place climate-related exclusions such that the types of companies below will not be permitted within the portfolio:

- Perennial violators of the United Nations Global Compact, an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies.
- Companies involved in mining and extraction of thermal coal, thermal-coal-power generation and oil sands (generating 20% or more of revenues from these activities).
- Certain companies considered by the investment manager to be failing to meet minimum standards on climate change transition planning, including "red lines" such as not having an operational greenhouse gas emissions target, or not having any plans for coal phase-out.

The exclusions were implemented in February 2023.

5. **Describe how, if at all, the Group Trustees have used stewardship to help manage climate-related risks to the Group.**

This information is detailed in the Group's Annual Engagement Policy Implementation Statement, a copy of which is attached (note that the copy attached is draft, prior to sign-off of the annual accounts).

6. **Describe how climate-related opportunities are identified, assessed and managed.**

The Group's investment portfolio is held in defensive, liability matching assets comprising corporate bonds, gilts and liability hedging strategies, and secured finance investments.

The Trustee encourages the Group's investment managers to seek out new investment opportunities in companies (for credit mandates) that are moving towards more sustainable business practices, products, and services. Additionally, the Trustee has discussed "green gilts" at a series of meetings with its investment managers, and the investment guidelines in place with the relevant investment managers allow for the inclusion of these assets in the Group's portfolio, provided they meet our wider risk and return objectives. The Trustee, via the ISC, and working with the investment adviser, has also considered "impact" investments. However, the majority of impact investment opportunities are in more "growth" focused asset classes, and illiquid investments, such as public and private equities, infrastructure, and real estate. The Trustee will keep this area under review, should impact opportunities that align with the Group's low risk investment strategy emerge.

Western Power Distribution

How we identify and assess climate change-related risks and opportunities

The Group Trustees have identified the following risks as posing the greatest potential loss and being the most likely to occur:

Risk 1 – correctly identifying portfolio risks from climate change - new risks are likely to emerge (physical and transitional)

- Risk 2 – insufficient action to deviate from the "hot-house" scenario (transitional)
- Risk 3 – we do not continue to work to evolve the investment strategy as we move through time (transitional)
- Risk 4 – correlated portfolio risks - while asset managers may consider the individual climate change related risks and opportunities per company or investment, the Group Trustees need to consider them across the portfolio as a whole

How we integrate these processes into overall risk management for the Group

The Group Trustees govern the portfolio and oversee the Investment Adviser and the Group's investment asset managers (asset managers) who help scan, measure and monitor the CCRO and determine their relevance to the Group. The Group Trustees, along with their Investment Adviser, adopt a variety of methods to help with the analysis including:

- Reviewing relevant background material and identifying regulatory developments that are relevant to the Group, including guidance from TPR and the DWP
- Engaging with peer groups, industry bodies and advisers
- Identifying relationships between events and news, and business and financial impacts to manage reputational risks
- Identifying and assessing physical and transitional risks over different time horizons
- Considering the impact of physical and transitional (including operational) risk factors
- Integrating the climate related risks within the Group Trustees' wider risk management framework and risk register

The risk management tools we – and our Investment Adviser – have used and the outcomes of using those tools

Level 1: Selection of MSCI as an external sustainability data provider

In 2020, Cardano appointed MSCI as its external sustainability data provider. The appointment followed a request for proposal process which reviewed the service offerings of different providers. Cardano selected MSCI for a number of reasons, in particular, the extent of its coverage, MSCI's research process (and as such, data reliability), and portfolio scenario analysis based on degrees of warming, following the acquisition of Carbon Delta in 2019[12].

The appointment (and reappointment) is also overseen by the Cardano Group's Sustainability Steering Committee. As part of our ongoing scrutiny of Cardano, we assess Cardano's use of data providers, to ensure Cardano has access to data necessary to support our desired approach to CCRO.

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[12] https://ir.msci.com/news-releases/news-release-details/msci-strengthen-climate-risk-capability-acquisition-carbon-delta

The MSCI sustainability data, utilised by our Investment Adviser provides a range of outputs, but the Group Trustees specifically review:

- CVaR – It estimates the financial value at risk to the corporate equity and credit exposures of warming scenarios at 1.5°C, 2°C and 3°C. The expected loss is calculated by considering the loss associated with transition risks and the loss associated with physical risks.
- Emission metrics – an absolute and intensity metric, so the Group can monitor progress against its Target.

These outputs, aggregated for the Group, are outlined in this report. The Investment Committee reviews these outputs, with their Investment Advisor, to:

- Manage climate change-related risks and opportunities, and
- To align our investments to support the goal of net zero greenhouse gas emissions by 2050, in line with global efforts to limit warming to 1.5°C.

In addition, Science Based Target Initiatives (SBTI) metrics and ESG metrics are available from MSCI, which are relevant to risks and opportunities associated with the investment strategy and the Group Trustees' beliefs. This supplements regular briefings on emerging sustainability issues provided by the Group Trustee's Directors' advisers.

Level 2: Participation in industry groups working on methodology development, in particular, IIGCC and PCAF

We assess Cardano's participation in and contribution to multiple industry initiatives to develop and evolve metrics and reporting on climate change, in particular, IIGCC and PCAF. IIGCC is the Institutional Investors Group on Climate Change, and it hosts the Paris-Aligned Investment Initiative. The initiative sets out the advantages and disadvantages of the multiple methodologies used to determine a company's, and a portfolio's absolute emissions, emissions intensity, and more recently, environmental alignment.

Methodologies used to calculate GHG emissions: Typically, financed emissions (the emissions we are responsible for as an investor) are calculated using GHG emissions per unit of sales or per enterprise value. Our preference is enterprise value which we consider a more stable measure, allowing for year-on-year comparisons. Enterprise value consists of a company's equity, debt and cash, and goes by the acronym EVIC (enterprise value including cash).

Level 3: Internal controls

Cardano has implemented internal controls in the preparation of TCFD metrics and scenarios, which we have reviewed. We assess these internal controls to ensure they are appropriate.

Finally, we note that there will be inaccuracies in the data. In some markets, corporate greenhouse gas emissions disclosures are not regulated, and not subject to audit. Scenarios rely on multiple assumptions. The quality of the data is constantly improving. We believe that the processes we have implemented are market-leading and mitigate for known limitations in data quality and coverage. We will continue to engage with Cardano, our asset managers and, where appropriate, standard-setters, policymakers, data providers and individual companies to improve data quality.

Climate change stewardship

We believe it is important to engage with companies and governments, and (where consistent with our return) risk and sustainability objectives, to supply capital enabling the transition to net-zero GHG emissions globally.

For example, emerging markets tend to have higher carbon footprints, in part because they produce carbon-intensive goods consumed by developed markets. They need capital to transform their economies.

For these reasons, we will continue to review portfolio decarbonisation targets at least every three years to ensure they remain appropriate

Understanding covenant risks

In addition to the implications of general economic conditions on the Group, consideration has also been given to the resilience of the Sponsor consistent with the scenarios outlined above.

The strength of the sponsor covenant is an important factor in determining the resilience of the funding strategy, given that the Group depends on the sponsor for support in the event of adverse experience.

Climate change and the global response to it will influence Short-, Medium-, and Long-term covenant resilience and could affect the ability to pay the member benefits in full. We therefore believe it is important for us to understand the CCRO faced by our Sponsor.

To help with this we have reviewed the Sponsor's stated environmental strategy and goals, by reference to both:

- The NGED Group (as the Sponsor is part of the NGED Group); and
- The NG Group, as the NGED Group has aligned its position with the NG Group post integration of the NGED Group, and the NG Group is (as a much larger group) required to report and disclose on such matters

as well as consulted with our independent covenant adviser.

NGED Group

In its latest financial statements for the year ended 31 March 2023 ('FY23'), the NGED Group has stated:

- Its vision is to be at the heart of a clean, fair and affordable energy future:
  - Clean – tackling climate change and leading the way to net zero.
  - Fair – ensuring that no-one is left behind in the energy transition.
  - Affordable – everyone should be able to pay for their essential energy needs.
- Strategic priorities include to 'enable the energy transition for all' – increasing the positive impact that the NGED Group has on the environment and society, by innovating its networks and influencing policy to enable clean electricity and electrified heat and transport.
- During RIIO-ED2 ('ED2'), the NGED Group will prepare for the future electrification of transportation and heating, by enabling the network to cater for up to 1.5m additional electrical vehicles, 600k heat pumps and a significant increase in renewable energy.
- Decarbonisation of energy will lead to greater electricity demand, so the NGED Group will need to provide more power through the distribution network.
- It is committed to delivering net zero, whilst ensuring fairness and affordability for customers and, through its work with governments and regulators, it is delivering infrastructure and shaping policy to realise climate goals.
- It had launched its digitalisation strategy and action plan as part of the ED2 business plan submission; digitalisation is at the heart of the NGED Group's transition to build a smart and efficient energy system, delivering net zero.
- It is dedicated to conducting its business as a responsible steward of the environment.
- It monitors its impact in terms of carbon footprint, waste recycling and fluid losses.
- During RIIO-ED1 ('ED1'), it committed to achieve various environmental improvements throughout its business, such as a reduction in its carbon footprint and in the oil and gas leaks from its equipment.
- It is committed to leading in the net zero transition; while rapidly reducing emissions in its own operations, demonstrating excellent environmental performance and improving biodiversity at its sites, the NGED Group is also helping others to achieve their own net zero ambitions.
- For its commitment to net zero, the NGED Group has been listed as one of Europe's Climate Leaders for 2022 in the Financial Times-Statista list, featuring as one of 400 European Climate Leaders following scrutiny in terms of past emission reductions, current reporting standards and ratings, as well as commitments for the future.
- The NGED Group continues to work to the internationally agreed environmental standard ISO14001, to improve its environmental performance; to be certified to the standard, an organisation must consider all environmental issues relevant to its operations, such as air pollution, water and sewage issues, waste management, soil contamination, climate change mitigation and adaptation, and resource use and efficiency.

In terms of environmental targets and key performance indicators, the NGED Group's targets/monitoring can be summarised:

- **Business carbon footprint ('BCF')** – the target over the ED1 period (to FY23) was a 5% reduction based on the baseline year of FY13; as at FY23, the NGED Group was outperforming that target with a 39% reduction in BCF since FY15. During FY23, the NGED Group implemented various energy efficiency measures, including:
  - Improvements to the reporting of SF6 gas leaks from installed equipment and fully utilising the infra-red SF6 detection cameras to pinpoint the source of leaks.
  - Installation of electric vehicle charging points at many non-operational depot sites.
  - Replacement of older operational fleet vehicles with more fuel-efficient alternatives and the purchase/roll out of electric operational fleet vehicles.
  - Ongoing replacement with more modern and energy efficient heating and cooling systems throughout the property portfolio and undertaking an energy efficiency review at many non-operational and operational sites.
- **SF6 emissions** – the target over the ED1 period (to FY23) was a 17% reduction (based on an average of emissions between FY10-11); the target was set at the start of ED1 and relates only to top ups % leakage as the scrap and manufacturers return data was not compiled at that time; as at FY23, the target had been met.
- **Fluid cable losses** – the target over the ED1 period (to FY23) was a 75% reduction; losses from fluid filled cables can vary from year to year. In FY23, unusually high losses were reported due to a small number of isolated incidents (over half of the annual losses related to one particular incident) which resulted in the target being missed; the relevant agencies were kept fully informed, and the NGED Group continued to operate under the Environment Agency's Fluid Filled Cable Operating Code of Practice.

ED2

Following the Final Determination by Ofgem in relation to ED2, the NGED Group prepared an ED2 Delivery Plan setting out how it will continue to improve on its industry-leading standards, while adapting to the changing needs of its customers and the environment in which it operates.

The NGED Group will support the UK's ambitions to achieve net zero carbon emissions by 2050, driving crucial changes in energy usage and customer green behaviour.

The NGED Group will set the benchmark by achieving net zero in its own operations by 2043 (following a Science Based Target ('SBT') initiative) and will ensure the network is ready to enable local authorities to achieve similar ambitions in their regions.

Previously, the NGED Group had been planning to achieve phased net zero targets, aiming to be net zero (excluding network losses and Scope 3 emissions) by 2028 and net zero (including network losses) in line with SBTs by 2043.

Following the integration of the NGED Group with the NG Group, instead of following the previous phased approach, the NGED Group has now aligned its net zero target with that of the NG Group and has thus set one single target to be in line with its 1.5°C SBTs by 2043. The SBTs include Scope 1 and 2 emissions (including network losses) and this is a step ahead of the initial 2028 target, which excluded network losses.

This reduction of BCF to net zero by 2043 will be delivered by:

- Reducing the amount of waste that the NGED Group sends to landfill.
- Adopting electric vehicles across its transport fleet to reduce emissions.
- Significantly reducing harmful gas and oil leaks from its equipment.
- Ensuring it enhances the local environment by delivering a net gain in biodiversity for new major projects and at selected primary sub-stations.

From a risk management perspective:

- The NGED Group is exposed to a range of uncertainties that could have a material adverse effect on its strategic objectives, financial condition, operational results, reputation and value.
- During FY23, the NGED Group reviewed its risk management framework and principal risks to align better to the NG Group's principal risks, along with its own business plan commitments. It assessed risks against the strategic business objectives of the NG Group and devised a new set of principal risks for the NGED Group, ensuring these were assessed in accordance with the NG Group's strategic objectives, risk appetite and associated key controls, which are clearly defined and assessed.
- The principal risks were subsequently reviewed following the ED2 Final Determination.
- Political and economic uncertainty continue to dominate, requiring very careful monitoring and assessment of the NGED Group's principal and other risks.
- The uncertainty has created an increase in the underlying (inherent) threat across cyber, disruption of energy, political and societal expectations, and satisfactory regulatory risks, which the NGED Group is continuously monitoring.
- In FY23, the NGED Group developed its principal climate change risk, establishing a discrete risk around its energy transition role; it also incorporated the physical impacts from climate change on its assets (adaptation) into its 'sustained loss of customer supply' risk, to ensure a clear focus on the actions needed to mitigate these different risks.
- The 'sustained loss of customer supply' risk focuses on significant disruptions of energy from network reliability and resilience issues across its operations.

Further detail on this is considered below and under the NG Group climate change risks/opportunities section.

The NGED Group has considered the following environmental risks and mitigations/mitigating actions:

- **Energy transition role and delivery of net zero** – risk of failing to meet the strategic principle of enabling the energy transition for all or failing to change sufficiently to enable the UK's transition to net zero or to meet its own net zero commitments is mitigated by a continued focus on core priorities to improve its strategic planning capability and appraisal of various options in connection with the net zero delivery risk; the NGED Group is also developing flexibility in its network to manage and monitor its load risk, whilst adopting whole system co-ordination.
- **Sustained loss of customer supply** – the risk of failing to predict and respond to a significant asset failure or severe weather event, leading to significant disruption to customer power supply/asset performance or failing to provide an adequate service response leading to customer harm, lasting reputational damage, loss of franchise or damage to investor confidence is mitigated by having widespread planning and incident response controls across its assets, systems, communications and infrastructure.

NG Group

The following commentary is intended to supplement the NGED Group commentary above. Matters already included above are not repeated here and NG Group's environment-related key performance indicators are not included although it is noted that NG Group's GHG emissions are subject to independent third-party assurance.

The NG Group's principal risks and uncertainties in its FY23 Annual Report include:

- **Climate change as a strategic risk**: the risk that the NG Group fails to identify and/or deliver on actions necessary to meet its climate change targets and enable the wider energy transition because of poor management of threats and opportunities associated with mitigating climate change, leading to a reputational impact of not enabling it to meet its net zero commitments, which are to:
  - Ensure its business model and strategy are aligned to the Paris Agreement on climate change.
  - Deliver GHG emissions reductions for its business and enable economy wide net zero transition.
  - Demonstrate climate change leadership within the energy sector.

Actions taken by management include measures to:
- Continue to evolve its environmental sustainability metrics.
- Evolve its external ESG disclosures.
- Ensure its internal reporting and governance develop, so management has oversight of key risks and opportunities related to climate change and GHG emissions performance.
- Regularly assess the potential range of net zero pathways.
- Track progress against key milestones in its decarbonisation pathways.
- Comply with the TCFD recommended disclosures including physical and transitional scenario analysis.

- **Climate risk as an operational risk**; the risk that the NG Group fails to predict and respond to a significant disruption of energy supply due to climate change, asset failure, storms, attacks, market failure etc - leading to significant customer harm, lasting reputational damage with customers/regulators or material financial losses and damage to investor confidence.

Management continues to apply a holistic approach to managing this risk through preventative mitigating actions to maintain network reliability and timely and effective response plans.

Climate change risk is considered as part of, and integrated into, the NG Group's Enterprise Risk Management ('ERM') process; the splitting of the risk into two distinct elements has generated greater oversight, focus and adoption of distinct and proportionate control frameworks in line with current risk appetite – mitigating downside risk and maximising opportunities, where applicable.

NG Group – TCFD

The NG Group:

- Recognises that addressing climate change as a result of GHG emissions is the defining challenge of the 21st century. Its networks and operations play a central role in the transition of the energy system in the jurisdictions in which it operates, and it is supportive of the 2016 Paris Agreement goal to keep the rise in global average temperature by 2100 to well below 2°C above pre-industrial levels and to pursue limits to limit the increase to 1.5°C.
- Has supported the recommendations of the TCFD; by helping it understand the impact of climate change on its business, has benefited the NG Group by:
  - Shaping its governance structure to effectively oversee risks and opportunities.
  - Aligning its business strategy to identify and seize transitional opportunities.
  - Developing values of sustainability in its corporate culture.
  - Embedding climate change into its risk management framework, engaging its lines of defence to manage the associated risks.

Strategy (climate related)

From a strategic perspective, the work that the NG Group has done to improve its understanding of its climate-related risks and opportunities, has helped to inform strategic decisions taken over recent years, including the strategic pivot towards electricity announced in March 2021.

This included the acquisition of the NGED Group, the sale of the Rhode Island electricity and gas businesses, and the sale of the majority equity interest in NGG. These transactions shifted NG Group's portfolio of assets from c. 60% electricity in 2021 to c. 70% electricity post completion.

It also continued to grow its investment in its National Grid Ventures business which includes its interconnectors business in the UK and National Grid Renewables and fossil fuel generation business in the US.

Scenario analysis to 2050 and beyond guides the NG Group's strategic and financial planning with respect to climate change.

Scenarios consider the potential physical impacts to the NG Group of average global temperature increases of 2°C and 4°C by 2100 from pre-industrial level. It also considers potential transitional impacts of scenarios of average global temperature increases of 1.5°C in keeping with the Paris Agreement.

Transition risks/modelling

The most recent analysis undertaken in FY22 (updated every 2-3 years) modelled 3 transition scenarios and assumptions, testing the resilience of the business strategy against the scenarios, focusing its transition risks on the scenarios associated with lower temperature rises and its physical risks on those with higher temperature rises:

- **Slow progress**: decarbonisation progress is made but too slow to meet net zero targets; increase in distributed generation and local solutions where local authorities compensate for lack of overall national progress; system becomes increasingly unequal.
- **Orderly transition**: reaches most net zero targets through an orderly approach; governments pursue suite of solutions for large scale and consumer options; co-ordinated pathway between key market players; increased investment in renewable electric generation and networks; gas network evolution.
- **Acceleration**: reaches 2030 net zero targets to be on track for 2050; electrification of heat and transport at a fast pace; accompanied by large scale investments; increased grid scale and interconnection; faster gas demand reduction.

The NG Group noted that whilst current global climate policies and actions suggest a lower than 4°C scenario, that scenario was still modelled in line with the NG Group's approach to scenario modelling. The transition impact is most significant in scenarios resulting in a lower degree of warming, given the increased action required.

5 transition insights noted are therefore more relevant to a 2°C (or lower) scenario:

- Urgent collective action required across society; reaching net zero requires new policies and technology development.
- Retaining consumer buy-in is key; to reach net zero, consumers can drive domestic heating and transport decarbonisation by switching to low-carbon alternatives.
- Electricity use and share of final demand will increase; decarbonising heating and road transport will drive increased demand and investment in the electricity network.
- Energy supply structure will shift, to power generation from renewable sources, notably wind and solar.
- Pathways will adapt to global and local realities; businesses will need to monitor and adapt.

The NG Group concluded by noting that:

- **None of the transition scenarios threaten the NG Group's resilience.**
- **It is in a strong position to adapt its portfolio to maximise the opportunities of the energy transition.**

Physical risks/modelling

Climate hazards from the 4°C scenario analysis included: coastal flooding, river flooding, storms (compound events), high wind, lightning, high temperatures, low temperatures, freeze/thaw cycles and heatwaves.

The conclusions from the Physical insights indicated:

- **Most hazards are projected to increase in frequency in the future, with high temperatures and coastal flooding of particular concern across consistent areas of the NG Group's operations.**
- **The level of risk, in most cases, is greater in a 4°C scenario than a 2°C scenario.**

The NG Group is progressing its physical risk analysis and asset vulnerability to inform its strategic planning and investment choices. By developing its Climate Change Risk Tool in-house, it can create bespoke physical risk assessments for each business area.

The NG Group began its Climate Vulnerability Assessment in December 2022; this is a phased programme of activity to deliver an adaptation plan to address assets with the highest resilience risk. It is a risk-based approach, where each business unit identifies critical assets which are physically vulnerable to climate hazards, taking account of existing adaptation plans, such as storm hardening programmes and leverages the latest climate science.

Climate-related risks/opportunities

Guided by its scenario modelling, strategic planning and risk management approaches, the NG Group has assessed the climate-related risks and opportunities that pose a material financial risk to it, assessing the relative materiality by establishing scope of impact, timeframe and likelihood for each risk/opportunity.

Timeframes used are:

- Short (up to 2025) – in line with annual planning and shorter-term budget processes.
- Medium (from 2025 to 2030) – reflecting strategic business planning processes (5-10 years).
- Long (from 2030 to 2050) – in line with longer-term emerging risk assessment timelines/up to the date of the net zero commitment.

Likelihood is based on the following categorisation: very low (remote), low (less likely), moderate (equally unlikely as likely), high (more than likely) and very high (almost certain).

The material climate-related risks and opportunities (focusing on those that impact UK operations) include:

- **Transition risk – Technology (not meeting significant increase in electricity demand) - medium and long term; moderate likelihood.**
- To meet net zero, electricity use and share of final demand will need to expand significantly with ever increasing volumes of intermittent renewable energy; if the ESO or UK and US electricity networks do not adapt to these changes, there is a risk that the NG Group will not be able to ensure reliability and security of supply:
    - Impact: current role as GB ESO is pivotal to delivering the energy transition; if the ESO is not prepared with the systems and processes to operate a decarbonised energy supply system with significantly higher intermittency, there will be significant costs from market inefficiency and the potential for network outages impacting customers; there is also a risk that the transmission and distribution networks in both the UK and the US may not be equipped to deliver the expected significant electricity demand growth to achieve net zero; in the short term, failures could affect the NG Group through reputational damage and lost regulatory incentive income, which link directly to reliability.
    - Mitigation: the ESO business is ensuring it can operate the system safely and securely at zero carbon by proactively working with the UK government on electricity market reform; in 2022 the government announced its intention to create the FSO which will take over the existing ESO roles; NG Group continues to invest substantial capital in the UK and US networks for higher supply load and system resilience; network reliability is regularly measured and reported on across transmission, distribution and interconnection networks.

- **Transition risk – Market (customer buy-in and trade-off management); short, medium and long term; moderate likelihood.**
- Policy focus on the cost of the energy transition to customers is likely to increase regulatory scrutiny of network operators; if customers and regulators perceive costs as being unreasonable, the NG Group could suffer reputational damage and regulatory repercussions:
    - Impact: missing affordability commitments could damage regulatory negotiations, trust in the market and the resulting returns and incentives of the operational frameworks; whilst difficult to quantify the level of risk, if not managed effectively, it could undermine the corporate strategy and ability to attract capital.
    - Mitigation: the NG Group's purpose is to be at the 'heart of a clean, fair and affordable energy future' and its regulatory strategy team is focused on affordability for consumers; £723m of efficiency savings

were embedded in ED2 business plans; despite these efforts, the recent cost of living challenges have affected communities and a number of support initiatives have been launched.

- **Transition risk – Reputation (missing transition targets and commitments); medium and long term; moderate likelihood**
- Risks that the NG Group does not deliver its crucial role in delivering the emissions reduction targets in its various jurisdictions and fails to meet its own stretching GHG emissions targets/commitments:
    - Impact: failing to deliver major network reinforcement required to meet government renewable installation targets or failing to meet its own emissions reduction targets could undermine its corporate strategy, making it difficult to attract capital and resulting in materially weaker financial performance.
    - Mitigation: working closely with regulators to ensure policy and regulatory frameworks enable, and facilitate, net zero plans (eg ensuring they are financeable etc); in 2022 NG Group launched its Climate Transition Plan charting an ambitious roadmap to a vision of reaching net zero, and as close to 'real zero' as possible, across Scope 1,2&3 emissions by 2050.

- **Physical risk – increased frequency of extreme weather incidents and changing long-term climate trends; short, medium and long term; moderate likelihood.**
- Acute physical risks – assets are at risk of physical impacts from increased frequency of such events, leading to asset damage and operational risks.
- Chronic physical risks – assets are at risk of physical impacts from changing long-term climate trends, leading to asset damage and operational risks:
    - Impact: major weather incidents highlight the vulnerability of its energy infrastructure and communities; significant costs are incurred due to asset damage and operational interruptions due to major storms; such costs are typically recoverable in future years under regulatory frameworks; these incidents and associated costs are likely to increase unless climate adaptation is appropriately measured and implemented.
    - Mitigation: Climate Vulnerability Assessment is being undertaken for energy-carrying assets, leveraging the Climate Change Risk Tool to identify long term climate hazard risk to the energy infrastructure; once completed a Climate Change Adaptation Plan will be developed, outlining solutions for the high-risk assets and confirming the strategic approach to managing risk; in the UK, innovation projects have been commenced to understand the impacts of climate change hazards on asset performance.

- **Transition opportunity – Products/Services (identifying new products and services to deliver the future energy system); short, medium and long term; high likelihood.**
- The energy transition presents a significant opportunity for the development of new products and services, providing business opportunities to scale technologies and develop existing ones:
    - Impact: potential to benefit from significant investment opportunities in both UK and US (interconnectors, offshore wind and onshore renewables) and to partner with others in the development of other innovative solutions, leading to significantly higher capital investment and growth and ultimately increasing profits/EPS.
    - Response: National Grid Ventures is already developing plans which could significantly reduce energy costs to consumers.

- **Transition opportunity – Markets (emerging segments of the energy sector); medium and long term; very high likelihood.**
- NG Group is well positioned to capitalise on the huge growth opportunities associated with the changing global energy mix; through smart investment and proactive market engagement, it can succeed in new and existing growth markets:
    - Impact: UK Government has awarded 17/26 projects (all projects totalling £20bn) to the UK Electricity Transmission business as part of the target of 50GW of offshore wind capacity by 2030; this and other net zero investments across the business units will lead to a significant increase in NG Group capital investment over the short, medium and long term and contribute towards achieving CAGR of 8-10% out to FY26; also well placed to maximise opportunities following the strategic portfolio pivot (from 60% to 70% electricity assets).

- Response: new appointment to the new SI business unit to deliver the magnitude of new infrastructure needed to reach net zero; as noted above, the NGED Group is focused on enabling the connection of 1.5m EVs and 600k heat pumps to the network by 2028.

Responsible Business Charter (‘RBC’)

The NG Group’s Annual Report for FY23 sets out the various metrics/targets and performance against the 2020 RBC, as also reported in the annual Responsible Business Report (‘RBR’).

The new 2023 RBC has since been released; as part of the charter refresh, the NG Group has undertaken a new ESG materiality assessment. The top 6 identified material topics included: GHG emissions, decarbonisation and clean energy transition, affordability, natural capital and biodiversity, network reliability and diversity, equality and inclusion.

From an environment perspective, the message remains to ‘deliver a clean energy future’, to be achieved through 5 commitments:

1. Achieve net zero by 2050 for Scope 1,2 & 3 emissions with:
   - Reduction of 60% Scope 1 & 2 GHG emissions by 2030 (from a FY19 baseline).
   - Reduction of 37.5% Scope 3 GHG emissions by 2034 (from a FY19 baseline).
   - Move to a 100% electric fleet by 2030 for light-duty vehicles and pursue the replacement of medium- and heavy-duty vehicles with zero carbon alternatives.
   - Reduce SF6 emissions from operations by 50% by 2030 (from a FY19 baseline).
   - Reduce energy consumption in the flagship offices by 20% by 2030 (from a FY20 baseline).
   - Reduce annual air travel emissions by at least 50% by FY26 (FY20 baseline) and offset any remaining emissions responsibly.
   - Engage with the top 50% of its US suppliers by emissions to establish a decarbonisation roadmap/action plan towards a SBT by FY26.
   - The top 80% of UK suppliers by emissions will have formally committed to set a SBT by FY26.
2. Protect the natural environment; restore the natural environment by 10% on the land managed in the UK and preserve the natural environment in the land managed in the US.
3. Invest at least £29bn in green infrastructure and projects in the 5 years ending March 2026.
4. Report on its climate change risks and opportunities and its investment in climate change adaptation activities.
5. Report on the management of its environmental impact with a focus on pollution, waste and water use

Principal Identified Risks

The NGED Group and the NG Group (and by extension the Sponsor as part of both groups) play a central role in enabling and accelerating the energy transition and the move to a cleaner future. The vision is to be at the heart of a clean, fair and affordable energy future and provide the platform for others to meet their own net zero commitments.

The energy systems will look very different in the coming decades and the NG Group is working with governments and partners globally to accelerate this transition, while balancing decarbonisation, affordability and reliability.

The NG Group’s business strategy and Climate Transition Plan are aligned to a low carbon economy and decarbonising its operations, as highlighted by the pivot to electricity in its UK business (acquisition of the NGED Group) and the sale of the majority equity stake in NGG, as well as the sale of the Rhode Island businesses in the US.

From a general covenant perspective, the Group Trustees:

- Consider the NGED Group/NG Group being central to decarbonisation and the electrification of heating and transport to be a positive (including the preparation for that in ED2 by enabling the network to cater for up to 1.5m additional electric vehicles, 600k heat pumps and a significant increase in renewable energy), in that it will lead to greater electricity demand and the associated need for investment in the network to enable more power to be provided.
- Note the NGED Group/NG Group have incorporated its key mitigating and adaption responses into its business plans.
- Note that NGED Group reports on various adaption actions such as substation flooding resilience programmes and storm weather responses to Ofgem as part of its normal reporting requirement. Many network assets have long useful lives; therefore, the NGED Group takes account of predicted climate change impacts when planning new installations or safeguarding existing key equipment (for example flood protection currently being provided to key assets is designed to be resilient to the end of this century).
- Note the degree of certainty around the Sponsor's/NGED Group's profitability, operational cash generation and recovered investment in the network (as a result of the various RIIO-ED price control periods).

Notwithstanding these general views, the Group Trustees have noted the transition scenario analysis undertaken by the NG Group and the risks/opportunities associated with those various transition scenarios:

Slow transition (4℃ modelled although current global climate policies and actions suggest lower than 4℃):

- Decarbonisation progress is made but too slow to meet net zero targets.
- Increase in distributed generation and local solutions where local authorities compensate for lack of overall national progress.
- System becomes increasingly unequal.
- Transition risks generally more relevant to a 2℃ (or lower) scenario.
- However, there are long-term transition risks associated with:
  - Technology (not meeting significant increase in electricity demand).
  - Market (customer buy-in and trade-off management).
  - Reputation (missing transition targets/commitments).
- In response, the NG Group is:
  - Continuing to invest substantial capital in the UK network for higher supply load/system resilience.
  - Regularly measuring and reporting on network reliability.
  - Embedding significant efficiency savings in ED2 business plans.
  - Working closely with regulators to ensure policy and regulatory frameworks enable net zero plans to be financeable.
- There are also long-term transition opportunities which could materially improve financial performance:
  - Products/services (identifying new products/services to deliver the future energy system).
  - Markets (emerging segments of the energy sector).
- In response, the NG Group is/has:
  - Developing plans (via National Grid Ventures) which could significantly reduce energy costs to consumers.
  - Set up the new Strategic Infrastructure (SI) business unit to deliver the magnitude of new infrastructure needed to reach net zero.
- Physical risk insights indicate increased frequency of extreme weather incidents and changing long-term climate trends highlighting the significant costs incurred due to asset damage and operational interruptions; the level of risk in most cases is greater in a 4℃ scenario than a 2℃ scenario.
- In response, such costs are typically recoverable in future years under regulatory frameworks and there are lines of vision built into price control periods given their medium to longer-term nature (and associated forecasting of recovered investment in the network).

Orderly transition (2℃ modelled):

- Reaches most net zero targets through an orderly approach.
- Governments pursue suite of solutions for large scale and consumer options.
- Co-ordinated pathway between key market players.
- Increased investment in renewable electric generation and networks.
- Transition risks generally more relevant to a 2℃ (or lower) scenario.
- Transition insights noted include:

  - Urgent collective action required across society; reaching net zero requires new policies and technology development.
  - Retaining consumer buy-in is key; to reach net zero, consumers can drive domestic heating and transport decarbonisation by switching to low-carbon alternatives.
  - Electricity use and share of final demand will increase; decarbonising heating and road transport will drive increased demand and investment in the electricity network.
  - Energy supply structure will shift to power generation from renewable sources, notably wind and solar.
  - Pathways will adapt to global and local realities; businesses will need to monitor and adapt.
- There are medium-term transition risks associated with:
  - Technology (not meeting significant increase in electricity demand).
  - Market (customer buy-in and trade-off management).
  - Reputation (missing transition targets/commitments).
- In response, the NG Group is:
  - Continuing to invest substantial capital in the UK network for higher supply load/system resilience.
  - Regularly measuring and reporting on network reliability.
  - Embedding significant efficiency savings in ED2 business plans.
  - Working closely with regulators to ensure policy and regulatory frameworks enable net zero plans to be financeable.
- There are also medium-term transition opportunities which could materially improve financial performance:
  - Products/services (identifying new products/services to deliver the future energy system).
  - Markets (emerging segments of the energy sector).
- In response, the NG Group is/has:
  - Developing plans (via National Grid Ventures) which could significantly reduce energy costs to consumers.
  - Set up the new SI business unit to deliver the magnitude of new infrastructure needed to reach net zero.
- Physical risk insights indicate increased frequency of extreme weather incidents and changing long-term climate trends highlighting the significant costs incurred due to asset damage and operational interruptions; however, the level of risk in most cases is lower in a 2℃ scenario.
- In response, such costs are typically recoverable in future years under regulatory frameworks and there are lines of vision built into price control periods given their medium to longer-term nature (and associated forecasting of recovered investment in the network).

Acceleration transition (1.5℃ modelled)

- Reaches 2030 net zero targets to be on track for 2050.
- Electrification of heat and transport at a fast pace.
- Accompanied by large scale investments.
- Increased grid scale and interconnection.
- Transition risks generally more relevant to a 2℃ (or lower) scenario.
- Transition insights noted include:
  - Urgent collective action required across society; reaching net zero requires new policies and technology development.
  - Retaining consumer buy-in is key; to reach net zero, consumers can drive domestic heating and transport decarbonisation by switching to low-carbon alternatives.
  - Electricity use and share of final demand will increase; decarbonising heating and road transport will drive increased demand and investment in the electricity network.
  - Energy supply structure will shift; to power generation from renewable sources, notably wind and solar.
  - Pathways will adapt to global and local realities; businesses will need to monitor and adapt.
- There are short- to medium-term transition risks associated with:
  - Technology (not meeting significant increase in electricity demand); more medium-term than short-term.
  - Market (customer buy-in and trade-off management).
  - Reputation (missing transition targets/commitments); more medium-term than short-term.
- In response, the NG Group is:
  - Continuing to invest substantial capital in the UK network for higher supply load/system resilience.
  - Regularly measuring and reporting on network reliability.
  - Embedding significant efficiency savings in ED2 business plans.
  - Working closely with regulators to ensure policy and regulatory frameworks enable net zero plans to be financeable.

- There are also short to medium-term transition opportunities which could materially improve financial performance:
  - Products/services (identifying new products/services to deliver the future energy system)
  - Markets (emerging segments of the energy sector); more medium-term than short-term
- In response, the NG Group is/has:
  - Developing plans (via National Grid Ventures) which could significantly reduce energy costs to consumers.
  - Set up the new SI business unit to deliver the magnitude of new infrastructure needed to reach net zero.
- Physical risk insights indicate increased frequency of extreme weather incidents and changing long-term climate trends highlighting the significant costs incurred due to asset damage and operational interruptions; however, the level of risk in most cases is lower, the lower the temperature increase scenario.
- In response, to the extent relevant to a 1.5°C scenario, such costs are typically recoverable in future years under regulatory frameworks and there are lines of vision built into price control periods given their medium to longer-term nature (and associated forecasting of recovered investment in the network).

The Group Trustees also note the NG Group's own conclusions that:

- None of the transition scenarios threaten the NG Group's resilience.
- It is in a strong position to adapt its portfolio to maximise the opportunities of the energy transition.

Whilst the Group Trustees recognise that there are risks associated with climate change above, in all scenarios we currently expect continued and longer-term covenant support for the Group, ensuring the network remains resilient to ensure consumer demand is met.

As funding improves, and we continue to de-risk our investment strategy, we will reduce our reliance on the Sponsor covenant. This is expected to be the case over the Medium and Long-term. Although we expect the impact of any risk to reduce over time, we will continue to monitor the Sponsor covenant as part of our ongoing management of the Group and CCRO.

Understanding funding risks

Climate change may also impact the value of the Group's pension liabilities, i.e., present value of future benefit payments. This impact could be via any or all of:

1. Changes in interest rates,
2. Changes in inflation expectations,
3. Changes in life expectancy.

Whilst we acknowledge the possibility of 1) and 2), we have implemented a 'liability hedging' strategy which manages the risk up to the value of the assets. This strategy helps to mitigate risk to our funding level from adverse movements in interest or inflation rates over time.

Our Scheme Actuary does not expect material changes in life expectancy due to climate change to be apparent for at least 10-15 years. We also acknowledge that there could be a wide range of potential life expectancy outcomes under each scenario, some leading to modest improvements in funding and others to worsening. In most scenarios, the expected longevity impact of climate change would lead to modest changes to the funding in the long term. Details of the expected changes to the liability values under the different scenarios is shown in the table below.

Indicative impact of a medium-term climate shock	1.5 ^{o}C	2 ^{o}C	3 ^{o}C
Liability impact (from age 60) from mortality	+2%	-1%	-4%

These figures highlight the points made above and, in particular, that if life expectancy improvements are recognised at an earlier stage than currently anticipated (and society achieves the goal of containing heating to 1.5 degrees), the Group may be more likely to require further contributions from NGED.

Electricity North West (ENWL)

1. **Describe the processes the Group Trustees have established for identifying, assessing and managing climate-related risks in relation to the Group, and how the processes are integrated within the Group Trustees' overall risk management of the Group.**

   The Group's Statement of Investment Policy ("SIP") sets out the Group's investment policies, and include social, environmental, and ethical investment considerations such as climate change. The SIP is reviewed on an ongoing basis and updated whenever material changes in investment policy occurs and to reflect updated regulatory requirements.

   The Group Trustee has also worked alongside its investment adviser to establish a bespoke ESG policy. This policy outlines the Trustee's approach to ESG (including climate related risk) across 5 key areas (i) Investment Approach (ii) Risk Management (iii) Voting and Engagement (iv) Reporting and (v) Collaboration with the wider investment community. This policy recognises Sustainable Investment (SI) as a financial consideration, ensuring the Group Trustee invests in the best financial interests of the Group's members.

   On an annual basis, the Group Trustee - with aid from their investment adviser - are provided with a detailed report on how the Group's investment managers' approach integrating SI factors into their investment process, the managers' internal ESG policies and how they deal with investee companies. This report also serves as the basis for discussion at meetings with the investment managers on issues relating to climate change and the impact of any ESG issues, where appropriate, which may affect the prospects for return from the portfolio.

   The Group Trustee are also provided with an Implementation Statement on an annual basis. This statement sets out reporting from the Group's investment managers on climate-related engagement activities including voting.

2. **Describe the risk tools the Group Trustees used and the outputs / outcomes of using those particular tools.**

   On an annual basis, the Group's investment adviser, Isio, provides the Group Trustee with an impact assessment report. The report outlines the SI capabilities of the Group's investment managers based on a scorecard containing 70 questions to assess SI credentials of the investment managers. 15 of these focus on climate-related factors such as emission metrics and engagement on climate change, and the report itself outlines both an overall ESG score and a climate-specific score. These cover the manager's internal policies and how they deal with investee companies.

3. **Describe how the Group Trustees have identified, assessed and managed both transition and physical risks for the Group.**

   Please see the response to question 1.

4. **Describe how the Group Trustees' assessment of climate-related risks has impacted the Group's prioritisation and management of risks which pose the most significant potential for loss and are most likely to occur.**

   No examples to provide.

5. **Describe how, if at all, the Group Trustees have used stewardship to help manage climate-related risks to the Group.**

   N/A

6. **Describe how climate-related opportunities are identified, assessed and managed.**

   The Trustee, advised by Isio, seeks to identify opportunities to switch to more sustainable versions of existing mandates where a viable option exists, and it doesn't have a material negative expected impact on the Group's asset allocation. This is informed by Isio's in-house research and communication with the Group's investment managers. To the Group's investment managers for climate opportunities on an ongoing basis, the Group Trustee receives an annual report (the impact assessment report) from the Group's investment adviser, Isio. This report provide outlines the SI capabilities and opportunities available at the of the Group's investment managers (see question 2 above for further details).

Powerhouse Retail

1. **Describe the processes the Group Trustees have established for identifying, assessing and managing climate-related risks in relation to the Group, and how the processes are integrated within the Group Trustees' overall risk management of the Group.**

   The Group Trustees have implemented a number of processes and tools for identifying, assessing and managing financial risks and opportunities for the Group (including climate-related factors), including:

   - Receiving training from their advisers on risks facing their Group and their investments
   - Receiving advice on how the sponsoring Employer might be impacted by various risks (including climate-related factors where relevant).
   - Reviewing its investment adviser's assessments of the Group's current and prospective investment managers' ESG practices, and how they incorporate ESG factors (including climate change) into their investment processes and how effectively they manage these risks.
   - Ensuring good stewardship practices are in place.

   In addition, the Group Trustees expect their investment manager to identify, assess and manage climate-related risks to the Group's assets on a day-to-day basis.

   The above processes are integrated into the overall risk management of the Group through the business plan, the risk register and regular support from the Group Trustees' advisers.

2. **Describe the risk tools the Group Trustees used and the outputs / outcomes of using those particular tools.**

   Please see response to question 1 above.

   LCP presented its review of the Group's investment manager's climate approach at the May 2022 JISC meeting. The assessment used a "traffic light" system to show the manager's climate capabilities against a range of different criteria based on climate specific responses to LCP's 2022 Responsible Investment ("RI") Survey. These included factors such as:

   - The use of climate tools to assess climate risks and opportunities (e.g., scenario modelling, metrics).
   - Commitments to climate goals (e.g., TCFD reporting, Net Zero targets).
   - The quality and coverage of climate data provided; and
   - Evidence of stewardship and engagement on climate change.

   Whilst these were not fund specific, the assessment provided key information on the actions taken by the Group's manager to integrate good climate practices into the running of its firm.

   Overall, the JISC was satisfied that their manager had embedded climate considerations into their philosophy and management processes and that they were taking steps to improve their climate capabilities.

   In addition, the report provided fund specific ratings, based on the specialist asset class and climate knowledge of LCP's manager research teams, including:

     - fund specific RI scores which are formulated during LCP's regular due diligence meetings with the Group's managers. Each fund is rated on a 1 (weak) to 4 (strong) scale; and
     - fund specific climate scores based on how well climate factors are integrated into the funds' investment processes. Funds are given either a green (strong), amber (moderate) or red (weak) rating.

   The Group's manager received high fund specific RI scores and low fund specific climate scores – reflecting the limitations of incorporating climate considerations into index-tracking funds. The JISC noted that they were comfortable with these ratings given the mandates.

The JISC used the output of the review to drive climate related conversations with their investment manager over the year. In addition, the Group's investment adviser conducts engagement with the managers, encouraging them to improve their practices further, reporting back to the JISC periodically.

3. **Describe how the Group Trustees have identified, assessed and managed both transition and physical risks for the Group.**

As the Group holds assets of less than £200m, it was our understanding that the Powerhouse Retail Group is not required to undertake all TCFD activities (such as climate scenario analysis and metric collection) as the ESPS can report on the majority of their activity through its reporting on the larger Groups. The Group Trustees have therefore not looked specifically at the various transition and physical risks facing the Group.

4. **Describe how the Group Trustees' assessment of climate-related risks has impacted the Group's prioritization and management of risks which pose the most significant potential for loss and are most likely to occur.**

The Group Trustees recognise climate-related risk as one of many financial risks facing the Group.

5. **Describe how, if at all, the Group Trustees have used stewardship to help manage climate-related risks to the Group.**

The Group Trustees expect the Group's investment manager to engage with investee companies on climate-related (and other) matters. The Group Trustees generally believe that engaging with companies is more effective at encouraging change than selling the Group's investments in those companies.

The review of manager's climate approaches showed that the Group's investment manager frequently engaged with portfolio companies on climate change. Their investment manager provided examples of engagement on climate change within the Group's mandates as part of LCP's ongoing manager due diligence.

In November 2022, the JISC reviewed their stewardship priorities for the Group. Whilst they considered climate change as a stewardship priority, they ultimately agreed on Pollution, Human Rights and Remuneration as priorities.

The JISC noted that they would still be reviewing their manager's engagement on climate risk as part of their periodic assessment of managers' approaches to climate.

More information on the Trustee's stewardship activities can be found in its Implementation Statement.

6. **Describe how climate-related opportunities are identified, assessed and managed.**

In addition to the review of their manager's climate approach, the Group Trustees review their investment adviser's responsible investment scores for the Group's managers and funds, which consider climate factors, on a quarterly basis. The information is included in the quarterly investment monitoring reports, as well as details of any due-diligence meetings the investment adviser has conducted with the Group's managers over the quarter, including discussions on climate.

The Group Trustees meet their investment manager at each quarterly Trustee meeting. During these meetings, the Group Trustees discuss ESG related topics (including climate change) to increase their understanding of the Group's ESG related risks and challenge the adequacy of the steps being taken to manage them.