



# **Mitchells & Butlers Pension Plan**

**Annual Taskforce for Climate-Related  
Financial Disclosures (“TCFD”) Report  
Reporting to 31 March 2024**

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# 01 Report Breakdown

The purpose of this report is to meet the climate change reporting requirements applicable over the reporting period, building on the policies set out by Mitchells & Butlers Pensions Limited (“the Trustee”) to address climate-related risks and opportunities within the Mitchells & Butlers Pension Plan (“the Plan”). This report sets out how the Trustee plans to respond to the requirements in the Climate Change Regulations.

Over the reporting period, the majority of assets were used to purchase a bulk-annuity contract with the insurer, Phoenix Life (trading as “Standard Life”), in May 2023 to secure the members’ benefit payments. The Trustee has no direct influence on the range of assets which support the payments due under the policy, and hence the majority of the climate-related risks and opportunities faced by the Plan have been transferred to the insurer. The day to day social, environmental and ethical investment decisions are delegated to Standard Life, who are viewed as the investment manager. The Plan still retains some surplus illiquid assets invested into pooled funds with AXA and M&G, and a cash portfolio managed by State Street.

The four areas covered are:

## Governance

- How the Trustee plans to maintain oversight and monitor climate-related risks and opportunities which are relevant to the Plan.
- The roles and responsibilities for managing climate-related risks and opportunities within the Plan.

## Strategy

- How the Trustee will identify climate-related risks and the definitions the Trustee will use for the short, medium, and long term.
- Consideration of the different climate-related scenarios the Trustee will use when assessing the Plan’s resilience to Climate Defence.

## Risk management

- The Trustee’s processes for identifying and assessing climate-related risks.
- Describe the Trustee’s processes for managing climate-related risks, and how the management of climate-related risks are integrated into the Plan’s overall risk management.

## Metrics & Targets

- Disclose the metrics used by the Trustee to assess climate-related risks and opportunities in line with its strategy and risk management process, including where data is not available.
- Disclose Scope 1 and Scope 2 greenhouse gas (GHG) emissions, and the related risks.

Describe the target used by the Trustee to manage climate-related risks and opportunities and performance against targets.

## Disclaimer

This document contains the opinions and views of Mitchells & Butlers Pensions Limited (“the Trustee”).

The Trustee is a distinct entity from Mitchells & Butlers plc and the Trustee acknowledges the existence of the Sponsor’s opinions and views on the same topics.

# 02 Governance summary

## Overall Governance Framework

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- > Trustee Board: The overall Environmental, Social and Governance (“ESG”) and climate change policies detailed in the SIP are set by the Trustee. The Trustee takes responsibility for staying informed of how climate change related matters and ESG considerations impact the Plan.
- > The Common Investment Fund (“CIF”) Board: The CIF Board has oversight of the investment policy and is responsible for the implementation of the policy as well as actively monitoring compliance with the policy.
- > Investment managers: Investment managers appointed by the Trustee are required to demonstrate strong capabilities in managing ESG and climate risks as well as supporting the Trustee in reporting against TCFD.
- > Investment Consultant: XPS Pensions Group (“the Investment Consultant”) is responsible for ensuring the Trustee’s policy, and requirements related to climate change, are implemented effectively and that the Trustee is well informed on relevant matters and developments in approaches to managing and measuring ESG and climate change related risks.
- > Scheme Actuary: Danny Vassiliades of XPS Pensions Group (“the Scheme Actuary”) is responsible for keeping the Trustee informed of how climate change related matters and ESG considerations impact the liabilities.
- > Covenant advisors: Penfida Ltd (“the Covenant Advisor”) is responsible for considering how the Sponsor may be affected by ESG and climate change risks.
- > Legal Advisors: Gowling WLG (“the Legal Advisor”) is responsible for ensuring the Trustee’s policies and actions are aligned to the requirements related to climate change.

Given the Trustee’s reliance on the Investment Consultant and Scheme Actuary for advice in relation to ESG and climate change issues, it is important that both are sufficiently skilled. The Trustee is comfortable that this is the case based on ongoing assessments made in relation to the quality of training, advice and communications provided on such topics.

## Investment beliefs related to climate change.

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The Trustee considers climate change to be a significant long-term financial and systemic risk that, if not managed, has the potential to adversely affect the value of the Plan’s investments.

Further details of the Trustee’s beliefs are contained in the Plan’s SIP. The Plan’s SIP will be formally reviewed at least every three years to ensure it remains appropriate and will be informally reviewed on a more frequent basis including following any changes to the Plan’s investment strategy.

## Climate-related requirements in manager selection, review, and monitoring

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The decision whether to retain or appoint a new investment manager is delegated to the CIF Board. The CIF Board considers the Investment Consultant’s manager research ratings as part of the decision making process which explicitly considers climate change within manager ratings and recommendations. This policy is detailed further in the SIP.

## Day-to-day Trustee operations

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In discharging its responsibilities, the Trustee will remain mindful of the impact of their own operations on the environment. This includes, but is not limited to, the frequency and physical location of Trustee meetings and minimising unnecessary use of paper and other resources. The Trustee also considers the extent to which environmental considerations are a priority for their providers and advisors which is reviewed periodically and as part of new appointments.

## Monitoring climate risk

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The Trustee will monitor the below aspects related to climate change;

Table 1: Reporting content

| Reporting content   | Frequency   | Responsibility for reporting                                   |
|---|-------------|--|
| Specific climate-related metrics (see Metrics and Targets Section)  | Annually    | Investment managers and Investment Consultant                  |
| Scenario analysis   | Annually    | Investment managers and Investment Consultant & Scheme Actuary |
| Progress of investment managers towards the Plan's climate target   | Annually    | Investment managers and Investment Consultant                  |
| Assessment of the investment managers' ESG and climate-related credentials from the Investment Consultant | Annually    | Investment Consultant  |
| Adherence of the investment managers to any exclusion list in place                                       | As required | Investment managers and Investment Consultant                  |
| Review of notable stewardship activity related to climate risk within the portfolio                       | As required | Investment managers  |

The Trustee is satisfied that it has monitored each of the items in accordance with the above table throughout the year. The Trustee note that scenario modelling is only required on a tri-annual basis, and hence given the insurer buy-in, scenario modelling has not been undertaken for the current reporting period. The analysis and commentary below therefore mirrors the analysis as at 31 March 2023.

### Climate change as an agenda item within Trustee meetings

The Trustee has incorporated a climate-related agenda item into Trustee meetings to enable them to actively discuss climate risk and opportunities on an ongoing basis. Topics of discussion may include:

- Relevant updates from the advisers and investment managers regarding the investment portfolio, strategic allocation and/or relevant developments within the industry.
- Input from the Sponsor where appropriate.

### Ongoing training needs

The Trustee is required to maintain sufficient knowledge and understanding of climate-related risks. Given the fast evolution and innovation within the industry, prior to the Plan buy-in the Trustee held a training session on climate-related issues alongside ESG issues on an annual basis. Climate change has been an integral part of the agenda this year. The Trustee has engaged with the Investment Consultant to aid preparing the TCFD Report.

# 03 Strategy

## Time horizons and overarching risks identified

The majority of assets have now been used to purchase a buy-in policy, with surplus assets invested in an illiquid portfolio due to amortize in the coming years and mature in 2028. With benefits to Plan members now secured by the buy-in policy, effective May 2023, the Trustee's time horizons were shortened over the period. Therefore, the Trustee has defined the time horizons below.

The requirement of the Plan's surplus assets to meet other requirements (e.g. expenses) has been considered to ensure the maximum value for these assets can be realised whilst also being invested in such a way that sufficient assets are easily marketable and realisable if and when required. Therefore, the Trustee has identified relevant climate-related risks and opportunities which will be managed as far as practicable via the overall framework.

Table 2: Risks

| Time horizon |            | Risks and opportunities   |
|--------------|------------|---|
| Short term   | 0-5 years  | Changes in consumer and corporate behaviour, driven by policy and technological change i.e., transition risk.<br><br>This can have impacts on asset prices/stock price movements.<br>Companies which adapt well can take advantage of this fundamental shift in the economy.  |
| Medium term  | 5-10 years | In the very short-term these risks are only likely to materialise if there is sudden and robust government intervention.<br><br>Physical risk exists but the most severe and frequent weather events are likely to materialise over longer time frames.   |
| Long term    | 10+ years  | Transition risk for many sectors as regulations and policies may come into force and consumer preferences change. Physical damage increases on real assets and resource availability e.g. sea level rises and more frequent severe weather events. There will be knock-on effects on input costs and supply chains. |

## Impact on investment strategy

The Trustee will assess an investment manager's ability to analyse climate change related risks and opportunities as a key feature in its due diligence when appointing new managers for the Plan's assets (noting that following the buy-in, the Trustee don't expect to conduct further manager selection exercises). Therefore, the investment managers selected are those which demonstrate clear integration of climate change risk analysis, alongside other fundamental and technical risk analysis techniques. As such, climate change is required to be a key consideration when the investment managers make investment related decisions.

Members of the CIF board may periodically meet with investment managers, allowing the manager to discuss how they may be actively screening out and engaging with investee companies which currently fall short of the required ESG credentials. This will also provide the opportunity for the CIF board to discuss how investment managers are managing climate related risks overall.

## Resilience of investment strategy

The Trustee will be able to take a view on the resilience of the Plan's current strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

The Plan's assets are to be managed in a manner whereby the investment managers integrate climate change and broader ESG issues into the management of the Plan's assets. This should enhance the resilience to climate-related risk events in the short, medium and long-term.

The resilience of the Plan's strategy to climate change is described in more depth in the scenario analysis section.

## Scenario Analysis

The Trustee undertook scenario modelling as at 31 March 2023 to form a view on the resilience of the Plans strategy and the table below sets out the climate scenarios considered. The Trustee note that as per the regulations, scenario modelling is only required on a tri-annual basis, and hence given the purchase of the bulk-annuity contract and transfer of financial risk to the insurer during the reporting period, scenario modelling has not been undertaken for the current reporting period. The analysis and commentary below therefore mirrors the analysis as at 31 March 2023.

As the Plan purchased a bulk annuity contract covering all benefit payments during the reporting period, the Trustee expects that the financial risks from gilt yields and future price inflation are mitigated as any resulting impact on the value placed on the Plan's liabilities arising from changes in financial conditions is expected to be matched by a change in the value of the Plan's insured assets. Hence any changes to interest rates and inflation resulting from climate change going forwards should have a minimal net impact on the funding position.

The scenarios represent four of the six designed by the Network for Greening the Financial System ("NGFS") which provide a good overview of possible outcomes. For added context, the NGFS scenarios explore the impacts of climate change and climate policy with the aim of providing a common reference framework.

*Table 3: Climate-related scenarios*

| Scenario              | Description  |
|-----------------------|--|
| Disorderly 1.5°C      | Reaches net zero around 2050 but with greater costs due to divergent policies introduced across sectors (leading to varying carbon prices across sectors) resulting in a quicker phase out of oil use. This scenario is also known as "Divergent Net Zero". This leads to high transition risk but the worst physical damage and risks from climate change are averted.  |
| Disorderly 2.0°C      | Assumes annual emissions do not decrease until 2030. As a result, there is higher transition risk (when compared to the orderly 2°C scenario) due to policies being delayed or divergent across countries and sectors. For example, carbon prices are typically higher for a given temperature outcome. Strong policies are needed to limit warming to below 2°C. This scenario is also known as "Delayed Transition". |
| Orderly 2.0°C         | As above, but more gradual increase in the stringency of climate policies, giving a 67% chance of limiting global warming to below 2°C.  |
| Hot House World 3.0°C | Assumes that some climate policies are implemented in some jurisdictions, but globally efforts are insufficient to halt significant global warming. Physical risks are most significant in this scenario.  |

Note: Scenarios derived from NGFS Phase 3.

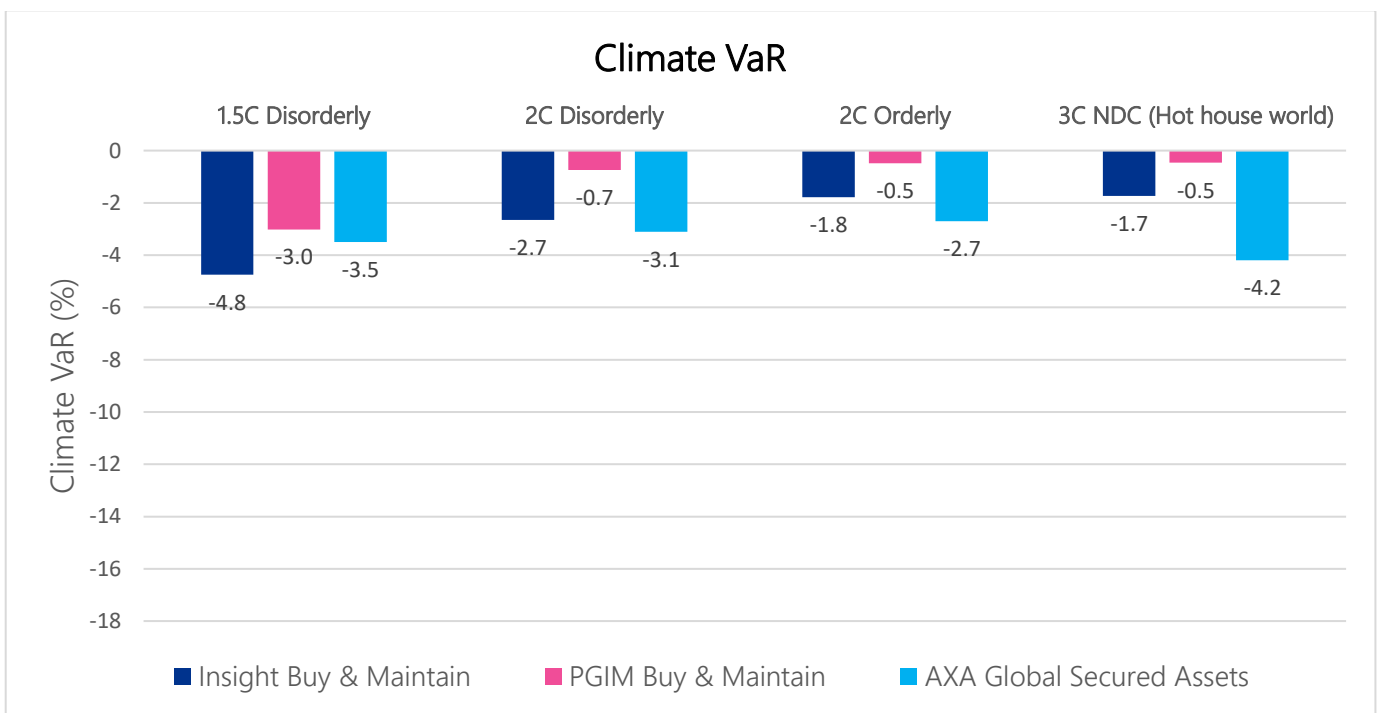
The analysis illustrates the Climate Value at Risk ("CVaR") for the Plan assets under each scenario. CVaR, a climate scenario modelling tool, provides a forward-looking and return-based valuation assessment to measure climate related risks and

opportunities in an investment portfolio. It provides insights into the potential climate-stressed market valuation of portfolios and their downside risk and can be interpreted as the percentage by which a portfolio’s value may depreciate (or appreciate) if climate risks are fully priced in today.

CVaR is a function of both:

- transition risks (downside risk arising from regulatory and policy changes, and also opportunities for companies adapting to the modelled scenario); and
- physical risks (how trends in extreme cold, extreme heat, extreme precipitation, heavy snowfall, extreme wind, coastal flooding, fluvial flooding, tropical cyclones, river flow and wildfires continue along the modelled scenario).

Chart 1: Climate Value at Risk - Defined Benefit (“DB”) assets



Notes:

1. AXA analysis provided directly from investment manager, effective 31 March 2023.
2. Insight and PGIM Data from MSCI Tool using holdings provided by managers at 31 March 2023.
3. NDC = Nationally Determined Contributions, representing countries' self-defined national climate pledges under the Paris Agreement.

The above chart shows the CVaR figures for the DB assets where data is available. Unfortunately, at the time of the analysis data was not readily available for all of the DB assets listed in Table 7 due to either limited investment manager capabilities or the nature of assets, where most frameworks do not map to government bond, alternative credit or infrastructure investments.

At the time of the analysis, a Disorderly 1.5°C scenario presented the greatest risk to the Plan’s asset valuation due to the significant transition risk embedded in this scenario. If this scenario played out these risks were expected to emerge in the short to medium term.

The narrative around the 2°C scenarios (Orderly and Disorderly) and Hot House World were more aligned to the medium and long-term timeframes defined by the Trustee. Under these scenarios, the effect on portfolio value remained material although lower than under the 1.5°C disorderly scenario as the effects are more medium- and long-term with less of an initial shock to financial markets.



The impact on the Plans assets under the Hot House World scenario appeared to be somewhat lower compared to the disorderly 2°C scenario. This indicated that the Plan was expected to be more susceptible to transition risk as opposed to physical risk, based on its portfolio composition; the Hot House World scenario carried more physical risk as opposed to transition risk. The exception was the AXA portfolio which, due to the nature of the assets, appears more highly exposed to physical risks which are most likely to arise in the Hot House World scenario.

The Trustee notes the limitations of scenario modelling and the fact it is underpinned by a series of assumptions which may or may not hold in practice, noting in particular that the investment outcomes in a Failed Transition (Hot House World), where physical risks associated with climate change are expected to be high, are hard to estimate.

However, the Trustee is comfortable that the modelling provided a helpful comparison of the resilience of the Plan in plausible future outcomes and that it served the purpose of helping the Trustee to manage climate-related risks.

There are no CVaR figures available for the Defined Contribution (“DC”) assets held with Legal and General (“L&G”) as the investment manager believes there is insufficient industry consensus on the underlying calculations of CVaR. The Trustee are expecting this to improve over time.

## Impact of, and resilience to, liability-related financial risks

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The key assumptions that have a significant impact on the assessed value of the liabilities are:

Gilt yields: a reduction in the level of the gilt yield curve increases the assessed value of the liabilities, and vice versa.

Future price inflation: an increase in the level of future expected price inflation would increase the expected payments out of the Plan, and hence increase the assessed value of the liabilities.

Life expectancy: any change in life expectancy for Plan members would impact on the length of time benefits are assumed to be paid out of the Plan and hence impact on the assessed value of the liabilities.

Discount rates (i.e., gilt yields) and future price inflation are financial risks. The following impacts have been assessed under the scenarios determined by the Trustee.

As explained above, following the purchase of the bulk annuity contract, the Trustee expects that the financial risks from gilt yields and future price inflation are mitigated as any resulting impact on the value placed on the Plan’s liabilities arising from changes in financial conditions are expected to be matched by a change in the Plan’s insured assets. Hence any changes to interest rates and inflation resulting from climate change going forwards should have a minimal net impact on the funding position.

### Disorderly 1.5°C

Under this scenario, policy reaction is immediate but divergent across sectors. Over the short-term, this is expected to lead to additional costs associated with transition risk and lead to higher energy prices. This would lead to increases in inflation over the short-term, before returning to prior trends over the medium and long-term. As a result, interest rates are expected to rise to push down demand for goods and services and reduce the impact of rising inflation. However, this may be offset by lower economic growth leading to reduced interest rates. Overall, it is expected that under this scenario, the value placed on the liabilities would increase.

Longer term increases in temperature are avoided, so the impact from physical risks on inflation and interest rates is expected to be negligible.

### Disorderly 2.0°C

Under this scenario, policy reaction is delayed. Therefore, in the short-term, there would be negligible impact on inflation and interest rates due to limited transition risk.

However, as policies are introduced over the medium-term which are divergent across sectors, this is expected to lead to additional costs associated with transition risk and lead to higher energy prices. This would lead to increases in inflation, before returning to prior trends over the long-term. As a result, interest rates are expected to rise to push down demand

for goods and services and reduce the impact of rising inflation. However, this may be offset by lower economic growth leading to reduced interest rates. Overall, it is expected that under this scenario, the value placed on the liabilities would increase.

Longer term increases in temperature are avoided, so the impact from physical risks on inflation and interest rates is expected to be negligible.

#### Orderly 2.0°C

Under this scenario, although policy reaction is immediate, there is a more gradual increase in stringency. As a result, the costs associated with transition risk would expect to be lower than under the disorderly scenarios. Therefore, we would only expect a modest increase in inflation and interest rates over the short and medium-term, before returning to prior trends over the long-term. This could marginally increase the value placed on the liabilities.

Longer term increases in temperature are avoided, so the impact from physical risks on inflation and interest rates is expected to be negligible.

#### Hot House World 3.0°C

Under this scenario, although some policies are implemented, they are insufficient to limit global warming. As a result, costs associated with transition risk are expected to be negligible. Therefore, over all time periods, transition risk is expected to have a negligible impact on inflation and interest rates, and hence have a negligible impact on the value placed on the liabilities.

Longer-term increases in temperature are expected to lead to extreme weather events, such as flooding and droughts, which are expected to cause disruptions in the food industry and increase the cost of food. This would lead to increases in inflation. However, it is expected that this may be offset by lower economic growth leading to reduced inflation. Therefore, physical risk is expected to have a negligible impact on inflation and interest rates, and hence have a negligible impact on the value placed on the liabilities.

## Impact of, and resilience to, liability-related life expectancy risks

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Life expectancy is normally considered a key risk for a pension scheme with membership numbers similar to those within the Plan, with the Trustees reviewing and setting assumptions that give prudent life expectancies at each valuation, ensuring they remain appropriate.

However, as the Plan's liabilities have been fully insured through the purchase of a bulk insurance annuity policy with Standard Life during the reporting period, these key risks have been mitigated and passed onto another party. Due to the large pool of individuals from other pension schemes that have purchased annuities with the same insurer, Standard Life, and the diversity of Standard Life's business (across general insurance, life insurance and bulk annuity purchases business in particular) means the risks that occur through changes in life expectancy can also be expected to be minimal.

However, the risk of counterparty failure should still be monitored, so that unexpected events that adversely impact the insurers risk exposed through life expectancy changes are identified.

Life expectancy changes tend to happen gradually over a long period and are rarely significant one-off hits. Over the short and medium-term, the Trustee believes it is likely that significant changes to life expectancy will not occur and it will not be easy to distinguish from the usual "statistical noise". However, over the longer term there are a range of scenarios (in both directions) that could be considered. The Trustee expects that the majority of the climate-related scenarios would result in lower life expectancy. Under the scenario's determined by the Trustee, the following impacts have been assessed.

It should be noted that:

- The Trustee has not been provided with any specific analysis on the impact of life expectancy, rather it has considered how changes in life expectancy may relate to the four scenarios considered.
- Not all climate risks have been considered in the impact on life expectancy. There may be additional climate risks that have a material impact on life expectancy.

- The membership or socio-economic profile of the Plan has not been considered when considering the potential impact on life expectancy under various climate scenarios.

#### Disorderly 1.5°C

Under this scenario, minimal impact is expected on the liabilities.

Short-term policy response is significant, so indirect benefits observed as efforts to avoid the very worst outcomes see beneficial impacts on health from things like efforts to reduce air pollution, reduce meat consumption and increased walking / cycling rather than use of transport.

Potential for significant short-term negative macroeconomic effects like reduced economic growth, increase in food prices, lower healthcare spend, poorer nutrition, etc.. Increases in energy prices might mean it is more expensive to heat homes and to import fruit and vegetables. Combined with lower supply, this could mean an upward trend in cardiovascular disease as a result of poor diet. Lower healthcare spend could lead to reduced research and development, such as little progress on cancer treatments.

Longer-term increases in temperature are avoided so there's no expected impact from this on current assumptions around life expectancy. Reactionary disorderly transition in short-term requires significant policy intervention – which may lead to amplified negative macroeconomic effects in the short to medium-term.

#### Disorderly 2.0°C

Under this scenario, minimal impact is expected on the liabilities.

Similar to the 'Disorderly 1.5°C' scenario, but with a slightly dampened transition risk in the short to medium term.

Short term policy response is limited. A reactionary disorderly transition in medium to long term requires significant policy intervention – which sees similar direct and indirect benefits as the above scenario.

It's likely that 1.5°C is breached before 2050, therefore may see direct beneficial impacts of rising temperatures, which could mean that reduction in cold-related deaths. However, this fall is likely to be more than offset by the increase in heat-related deaths so expect to see an increase in life expectancy.

Direct negative impacts of extreme weather (e.g. flooding, storms) and/or more insect-borne diseases are likely to reduce life expectancy but impact expected to be relatively small.

#### Orderly 2.0°C

Under this scenario, a modest increase is expected in the liabilities.

Short-term policy response is significant, so indirect benefits observed as efforts to avoid the very worst outcomes see beneficial impacts on health from things like efforts to reduce air pollution, reduce meat consumption and increased walking / cycling rather than use of transport.

Potential for short-term negative macroeconomic effects like reduced economic growth, increase in food prices, lower healthcare spend, poorer nutrition, etc. Increase in energy prices might mean it is more expensive to heat homes and to import fruit and vegetables. Combined with lower supply could mean an upward trend in cardiovascular disease as a result of poor diet. Lower healthcare spend could lead to reduced research and development e.g. little progress on cancer treatments, etc.

Longer-term increases in temperature are avoided so no impact from this on current assumptions around life expectancy.

#### Hot House World 3.0°C

Under this scenario, a mixed impact is expected on the liabilities.

In early years, limited impacts as temperature rises modest in early years and policy response is slow.

Longer-term beneficial impacts (i.e. increasing life expectancy)

Rising temperatures could mean that reduction in cold-related deaths is likely to be more than offset by increase in heat-related deaths, so expect to see an increase in life expectancy.

Later stage efforts to avoid the very worst outcomes see beneficial impacts on health from things like efforts to reduce air pollution, reduce meat consumption and increased walking / cycling rather than use of transport.

Longer-term negative impacts

Extreme weather (e.g. flooding, storms) and/or more insect-borne diseases likely to reduce life expectancy and impact could be significant.

Macroeconomic effects like reduced economic growth, increase in food prices, lower healthcare spend, poorer nutrition, etc.

## **Resilience to covenant-related risks**

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Due to the purchase of the buy-in and transfer of liability risk to the insurer, the risks around climate change relating to the sponsor are no longer relevant as the scheme does not have any reliance on the sponsor to meet the liabilities.

## **Resilience to insurer-related risks**

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As the Plan purchased a bulk annuity contract leading to a transfer of liability risk to the insurer, it is exposed to the risk that the insurer fails and can't meet its obligations due to the impacts of climate change. These risks have been managed as an assessment of the insurer's resilience to ESG related risks, including climate change related impacts, was conducted towards the end of the previous reporting period. Factors noted from the assessment include that the insurer was rated a leader by MSCI and CDP on ESG metrics relative to peers, and also being given an overall 'Low risk' rating from Sustainalytics. Standard & Poor's also scored the insurer as above average across all, and on environmental factors. Lastly, it was noted by MSCI that the insurer's climate change actions were consistent with a 1.3°C increase in global temperatures by 2100, which aligns it with the Paris agreement's objective of limiting warming to 1.5°C.

## **Overall assessment of resilience of the Plan's funding position**

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Given that the Plan purchased a bulk annuity contract with Standard Life during the reporting period, the impact of the above scenarios will only be material to the extent that they impact the financial strength of the insurance company. The Trustee assessed the financial strength of the insurance provider before entering into the contract and are comfortable that climate risks are sufficiently well managed.

# 04 Risk Management

## **Processes to identify and assess the potential impact of climate-related risks / opportunities**

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The Trustee recognises the importance of identifying and assessing the potential impact of climate change within the Plan's investments and have taken / agreed to the following key actions:

- Defined their investment beliefs related to climate change.
- Delegated the management of climate risk and opportunities (including stewardship of assets) to the investment managers (including Standard Life as the insurer). As such, responsibility for identifying and assessing climate-related risks has also been delegated to the investment managers.
- With assistance from the Investment Consultant, undertaken due diligence to consider the capabilities of the investment managers, and insurer, to integrate climate change and broader ESG issues into the management of the Plan's assets.

## **Processes to manage the potential impact of climate-related risks/opportunities**

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The Trustee recognises the importance of managing the potential impact of climate change within the Plan's investments and has taken / agreed the following key actions:

- Principally, the Trustee purchased a buy-in policy from an insurer to help mitigate the impact of climate-related risks, as these risks will be borne by the insurer.
- Set out a monitoring process which will include how the investment managers are assessing, managing and mitigating climate risks including each fund or mandate's positioning in relation to the transition to a lower-carbon economy. This includes conducting scenario analysis to understand the resilience of each fund to various climate scenarios as far as practicable, noting that this type of analysis is still evolving.
- Appointed investment managers who demonstrate robust stewardship and engagement with the underlying investments (recognising that active ownership is key to managing ongoing risks).
- The Trustee will engage with managers where activities or carbon performance are deemed to be lagging expectation.

## **The integration of processes for identifying, assessing, and managing climate-related risks into the Plan's overall risk management**

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The Trustee recognises the importance of integrating the considerations which surround climate change within the Plan's overall risk management and has taken / agreed the following key actions:

- Defined their investment beliefs related to climate change to gain clarity over the views of the Trustee and the necessary steps to be taken.
- Climate change is considered alongside other risks in terms of invested assets and the impact on the Plan's investment strategy.

## **Stewardship to manage climate-related risks**

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The Trustee recognises the importance of effective stewardship activities to enact change and manage risk. The Trustee has delegated all stewardship activity to the investment managers and Standard Life as they believe the managers and insurer are best placed to conduct stewardship given their expertise and access to company management. Where the Plan invests in debt assets there are no voting rights to be exercised but the Trustee expects the managers to engage on material ESG and climate-related issues alongside other non-ESG related issues.

The Trustee asked the investment managers to provide examples of engagement activities which have been undertaken during the year. Below is an example of engagement which shows the action taken from investment managers in relation to climate-related risks.

Table 4: Engagement Example - DB assets

| AXA Global Secured Assets Fund I    |   |
|-------------------------------------|---|
| <i>Company</i>                      | Oaktree Capital Management  |
| <i>Issue/engagement undertaken:</i> | AXA pushed for an enhanced investment policy at the Collateralised Loan Obligation ("CLO") transaction level in line with AXA's sector exclusion policy. Prior to investing in the CLO, AXA discussed ESG Short Term Incentive Plans ("STIPs") in the documentation to align it with AXA requirements. AXA conditioned their investment to the inclusion of these STIPs in a binding and explicit manner. |
| <i>Outcome</i>                      | The CLO manager agreed to align its ESG policy within the CLO transaction with AXA requirements.  |

For the DC assets, L&G have provided the % of the portfolio for each fund where engagement on climate related issues has occurred during the reporting year:

Table 5: Engagement - DC Assets

| Fund (L&G PMC)               | Climate related engagements (%) |
|------------------------------|---------------------------------|
| 2015 - 2020 Target Date Fund | 11.4%                           |
| 2020 - 2025 Target Date Fund | 12.0%                           |
| 2025 - 2030 Target Date Fund | 13.1%                           |
| 2030 - 2035 Target Date Fund | 14.6%                           |
| 2035 - 2040 Target Date Fund | 14.1%                           |
| 2040 - 2045 Target Date Fund | 14.5%                           |
| 2045 - 2050 Target Date Fund | 14.6%                           |
| 2050 - 2055 Target Date Fund | 14.6%                           |
| 2055 - 2060 Target Date Fund | 14.7%                           |
| 2060 - 2065 Target Date Fund | 14.6%                           |
| 2065 - 2070 Target Date Fund | 14.6%                           |
| 2070 - 2075 Target Date Fund | 14.7%                           |

# 05 Metrics - DB Section

This section of the report details the metrics used by the Trustee to assess climate-related risks and opportunities in line with the strategy and risk management process outlined. In order to illustrate the materiality of the metrics provided in this section, Table 6 summarises the breakdown of the Fund’s defined benefit assets:

Table 6: Asset allocation as at 31 March 2024

| Fund   | Allocation (%) |
|--|----------------|
| M&G - Real Estate Debt Finance Fund IV                           | 11.3%          |
| AXA - Global Secured Assets Fund I                               | 49.1%          |
| Custody cash account and additional cash balances (State Street) | 39.6%          |

Notes:

1. Figures subject to rounding.

## Data quality

The Trustee is reliant on the data and metrics provided by third parties, and a key challenge related to this is the coverage and reliability of the data and metrics which differ across asset classes, industries and geographies. A measure which attempts to summarise this is the “data quality metric” which represents the proportions of the portfolio for which the Trustee has high quality data on. The table below illustrates the coverage for carbon emissions reporting across the mandates.

Table 7: Data Quality

|                         | AXA - Global Secured Assets Fund <sup>1</sup> | M&G Real Estate Debt Finance IV Fund |
|-------------------------|---|--------------------------------------|
| Scope 1 & 2 coverage    | 76%   | Not provided                         |
| Scope 1, 2 & 3 coverage | 68%   | Not provided                         |

Notes:

1. AXA as at 31 March 2024.

## Carbon emissions

The Trustee measures the following emissions related metrics on an annual basis:

- Absolute carbon emissions
- Carbon emissions as a proportion of the company’s enterprise value including cash, normalised per \$m invested
- Weighted Average Carbon Intensity (“WACI”)

Table 8 and Table 9 present the emissions metrics for each mandate, where available. The Trustee acknowledges that forward-looking metrics must also be considered as they reflect the potential future pathway for emissions, rather than current emissions which reflect emissions at single point in time and do not account for climate change mitigation plans and adaptation efforts. Scope 3 emissions have not been included within the absolute carbon emissions metric due to lack of data. The Trustee recognises the importance of this metric and remains confident that availability of Scope 3 emissions data across the industry will improve.

*Table 8: Emissions Metrics*

|  | AXA - Global Secured Assets Fund <sup>1</sup> | M&G Real Estate Debt Finance IV Fund |
|--|---|--------------------------------------|
| Absolute Carbon Emissions (tCO <sub>2</sub> e) (Scope 1 and 2)     | 3,409 (76% Coverage)                          | Not Provided                         |
| Carbon footprint (tCO <sub>2</sub> e / \$m invested)               | 65.5  | Not Provided                         |
| Weighted Average Carbon Intensity (tCO <sub>2</sub> e / \$m sales) | 59.8  | Not Provided                         |

Notes:

1. AXA as at 31 March 2024.
2. equivalent per million pounds revenue (tCO<sub>2</sub>e / £M) expressed as a fixed decimal rounded to nearest whole metric tonne / £M

## Implied temperature rise

The implied temperature rise metric uses forward-looking estimates to indicate a global temperature rise associated with the greenhouse gas emissions of a single company or portfolio. Companies and portfolios which have an implied temperature rise of 2°C or lower are consistent with the Paris Agreement. Trustee expects AXA to continue to actively consider the carbon reduction pathway of their mandate.

*Table 9: Implied temperature rise*

|  | AXA - Global Secured Assets Fund <sup>1</sup> | M&G Real Estate Debt Finance IV Fund |
|--|---|--------------------------------------|
| Implied temperature rise of the mandate (°C) | 2.6 (26% Coverage)                            | Not Provided                         |

Sources:

1. Coverage of portfolio based on counterparty data as at 31 March 2024.
2. Data represents Scope 1 and 2 Coverage for the above.
3. Sourced directly from investment manager as at 31 March 2024.



# 06 Metrics - DC Section

This section of the report details the metrics used by the Trustee to assess climate-related risks and opportunities in line with the strategy and risk management process outlined. In order to illustrate the materiality of the metrics provided in this section, Table 10 summarises the breakdown of the Fund's DC assets held with L&G.

Table 10: Asset allocation as at 31 March 2024

| Fund                              | Allocation (%) |
|-----------------------------------|----------------|
| L&G PMC Target Date Funds         | 99.4%          |
| L&G PMC Cash Target Date Fund     | 0.4%           |
| L&G PMC Annuity Target Date Funds | 0.3%           |

Notes:

- Figures may not sum due to rounding.

## Data quality

The Trustee is reliant on the data and metrics provided by third parties, and a key challenge related to this is the coverage and reliability of the data and metrics which differ across asset classes, industries, and geographies. A measure which attempts to summarise this is the "data quality metric" which represents the proportions of the portfolio for which the Trustee has high quality data on. The table below illustrates the coverage for carbon emissions reporting across the mandates where available.

Table 11: Data quality

| Target Date Funds |                        |         |         |         |         |         |         |         |         |         |         |         |         |
|-------------------|------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|                   |                        | 2015-20 | 2020-25 | 2025-30 | 2030-35 | 2035-40 | 2040-45 | 2045-50 | 2050-55 | 2055-60 | 2060-65 | 2065-70 | 2070-75 |
| WACI              | Scope 1 and 2 coverage | 56.8%   | 60.2%   | 66.1%   | 74.6%   | 83.2%   | 85.7%   | 85.7%   | 85.7%   | 85.7%   | 85.7%   | 85.7%   | 85.6%   |
|                   | Scope 3 coverage       | 56.7%   | 60.1%   | 66.0%   | 74.4%   | 83.0%   | 85.5%   | 85.5%   | 85.5%   | 85.5%   | 85.5%   | 85.4%   | 85.4%   |
| Carbon Footprint  | Scope 1 and 2 coverage | 50.8%   | 54.3%   | 61.5%   | 71.4%   | 81.0%   | 83.7%   | 83.6%   | 83.6%   | 83.6%   | 83.6%   | 83.6%   | 83.6%   |
|                   | Scope 3 coverage       | 50.8%   | 54.3%   | 61.5%   | 71.4%   | 81.0%   | 83.7%   | 83.6%   | 83.6%   | 83.6%   | 83.6%   | 83.6%   | 83.6%   |

Notes:

- Data provided by L&G as at 31 March 2024.

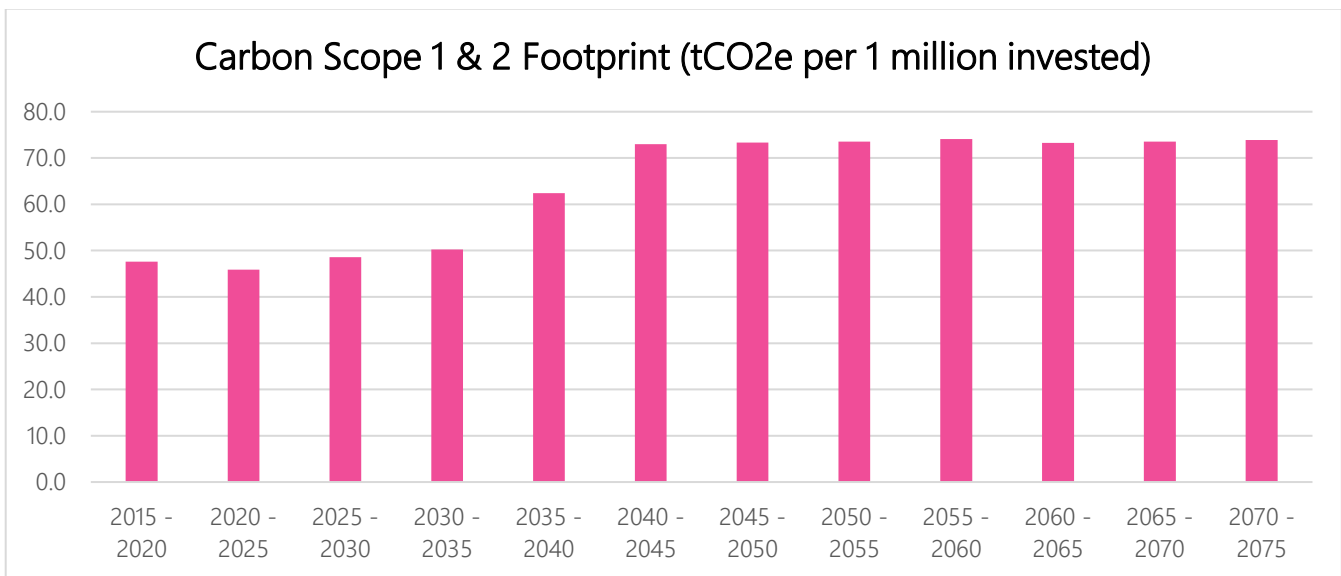
## Carbon emissions

The Trustee measures the following emissions related metrics:

- Absolute carbon emissions is a measure of absolute emissions associated with a given investment – carbon footprint times investment size. This also includes sovereign bonds.
- Carbon emissions as a proportion of the company’s enterprise value including cash, normalised per \$m invested
- Weighted Average Carbon Intensity (“WACI”)

Charts 6, 7 and 8 present the emissions metrics for each mandate, where available. The Trustee acknowledges that forward-looking metrics must also be considered as they reflect the potential future pathway for emissions, rather than current emissions which reflect emissions at single point in time and do not account for climate change mitigation plans and adaption efforts.

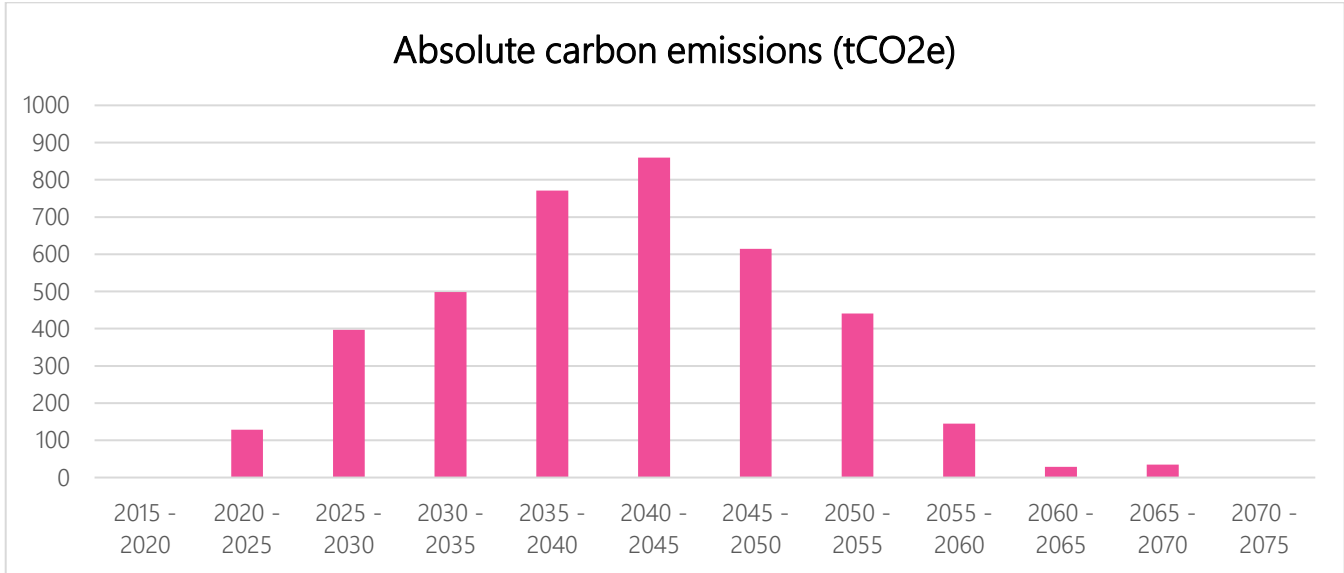
Chart 6: L&G PMC Target Date Funds - Scope 1 + 2 Carbon Footprint (tCO2e per 1 million invested)



Notes:

1. Data provided by L&G as at 31 March 2024.

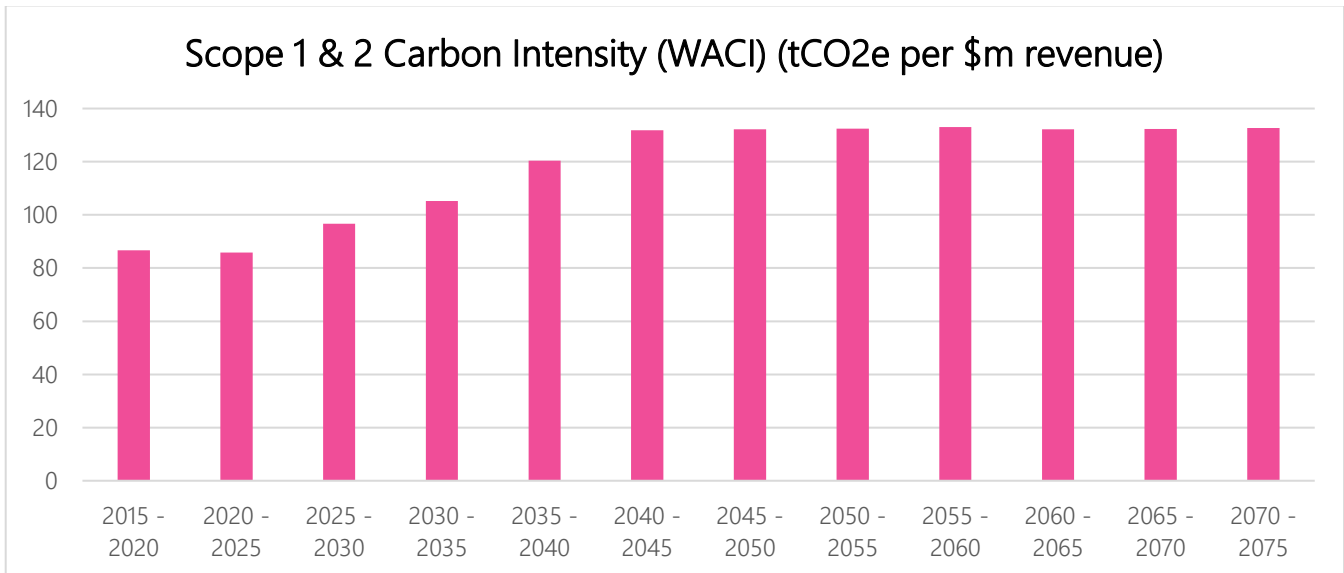
Chart 7: L&G PMC Target Date Funds Scope 1 + 2 Absolute carbon emissions (tCO2e)



Notes:

1. Data provided by L&G as at 31 March 2024.

Chart 8: L&G PMC Target Date Funds Scope 1 + 2 Weighted Average Carbon Intensity (tCO2e / \$m revenue)



Notes:

1. Data provided by L&G as at 31 March 2024.

### Implied temperature rise

The implied temperature rise metric uses forward-looking estimates to indicate a global temperature rise associated with the greenhouse gas emissions of a single company or portfolio. Companies and portfolios which have an implied temperature rise of 2°C or lower are consistent with the Paris Agreement. Based on available information, only the L&G Cash Fund is currently consistent with the Paris Agreement. The Trustee expects L&G to continue to actively consider the carbon reduction pathway of their respective mandates.

Table 12: Implied temperature rise

|                                    | Target Date<br>2015-<br>20 | Target Date<br>2020-<br>25 | Target Date<br>2025-<br>30 | Target Date<br>2030-<br>35 | Target Date<br>2035-<br>40 | Target Date<br>2040-<br>45 | Target Date<br>2045-<br>50 | Target Date<br>2050-<br>55 | Target Date<br>2055-<br>60 | Target Date<br>2060-<br>65 | Target Date<br>2065-<br>70 |
|------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Implied temp. rise of mandate (°C) | 2.6                        | 2.6                        | 2.5                        | 2.5                        | 2.7                        | 2.7                        | 2.7                        | 2.7                        | 2.7                        | 2.7                        | 2.7                        |

Notes

1. Data provided by L&G as at 31 March 2024.

## 07 Targets

### Emissions-based target

The Trustee has set target of a 50% increase in the number of engagements with high carbon emitters (on-going, closed successful or closed with restrictions) on emission reduction targets aligned with the Paris Agreement.

During the reporting year AXA engaged with 10 issuers on the topic of climate change. This compares with 23 such engagements in the previous reporting year, so the number of engagements undertaken by AXA in the current reporting year is out of line with the Trustee's targets. Data on engagements was not available from M&G at the time this report was produced.

The Trustee will continue to encourage investment managers to increase their number of engagements with high carbon emitters and ensure that engagement data is captured as much as is practicable.

# 08 Compliance

Signed for and on behalf of the Trustee

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Name: Jonathan Duck

Title: Chair

Date: XX 2024

## Appendix I - Glossary

| Glossary                          |  |
|-----------------------------------|--|
| Absolute emissions                | (tCO <sub>2</sub> e) Measures the absolute tons of CO <sub>2</sub> e for which an investor is responsible  |
| Carbon footprint                  | (tCO <sub>2</sub> e / \$m invested) The total greenhouse gas emissions 'owned' per £ million invested. This is an intensity measure but should not be confused with Carbon intensity which is typically quoted as a emissions per amount of revenues of a company.   |
| Weighted Average Carbon Intensity | (tCO <sub>2</sub> e / \$m sales) Measures portfolio exposure to carbon-intensive assets.   |
| Implied Temperature Rise          | Provides indication of portfolio alignment to Paris Agreement targets. Estimates global temperature rise (above pre-industrial levels) associated with current and estimated GHG of a company.   |
| Climate VAR                       | A scenario-based approach to analysing climate-related risks which aims to assess potential financial sensitivity to climate-related risks and opportunities. Measures the potential loss in value of a portfolio if different climate scenarios come to fruition.   |
| Scope 1 Green House Gas Emissions | Scope 1 carbon emissions are those directly occurring from sources that are owned or controlled by the institution, including: on-campus stationary combustion of fossil fuels; mobile combustion of fossil fuels by institution owned/controlled vehicles; and "fugitive" emissions. Fugitive emissions result from intentional or unintentional releases of GHGs, including the leakage of hydrofluorocarbons (HFCs) from refrigeration and air conditioning equipment as well as the release of methane (CH <sub>4</sub> ) from institution-owned farm animals. |
| Scope 2 Green House Gas Emissions | Scope 2 carbon emissions are indirect emissions generated in the production of electricity consumed by the institution.  |
| Scope 3 Green House Gas Emissions | Scope 3 carbon emissions encompass all other indirect emissions that are a consequence of the activities of the institution but occur from sources not owned or controlled by the institution" such as commuting; waste disposal; embodied emissions from extraction, production, and transportation of purchased goods; outsourced activities; contractor-owned vehicles; and line loss from electricity transmission and distribution.   |

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