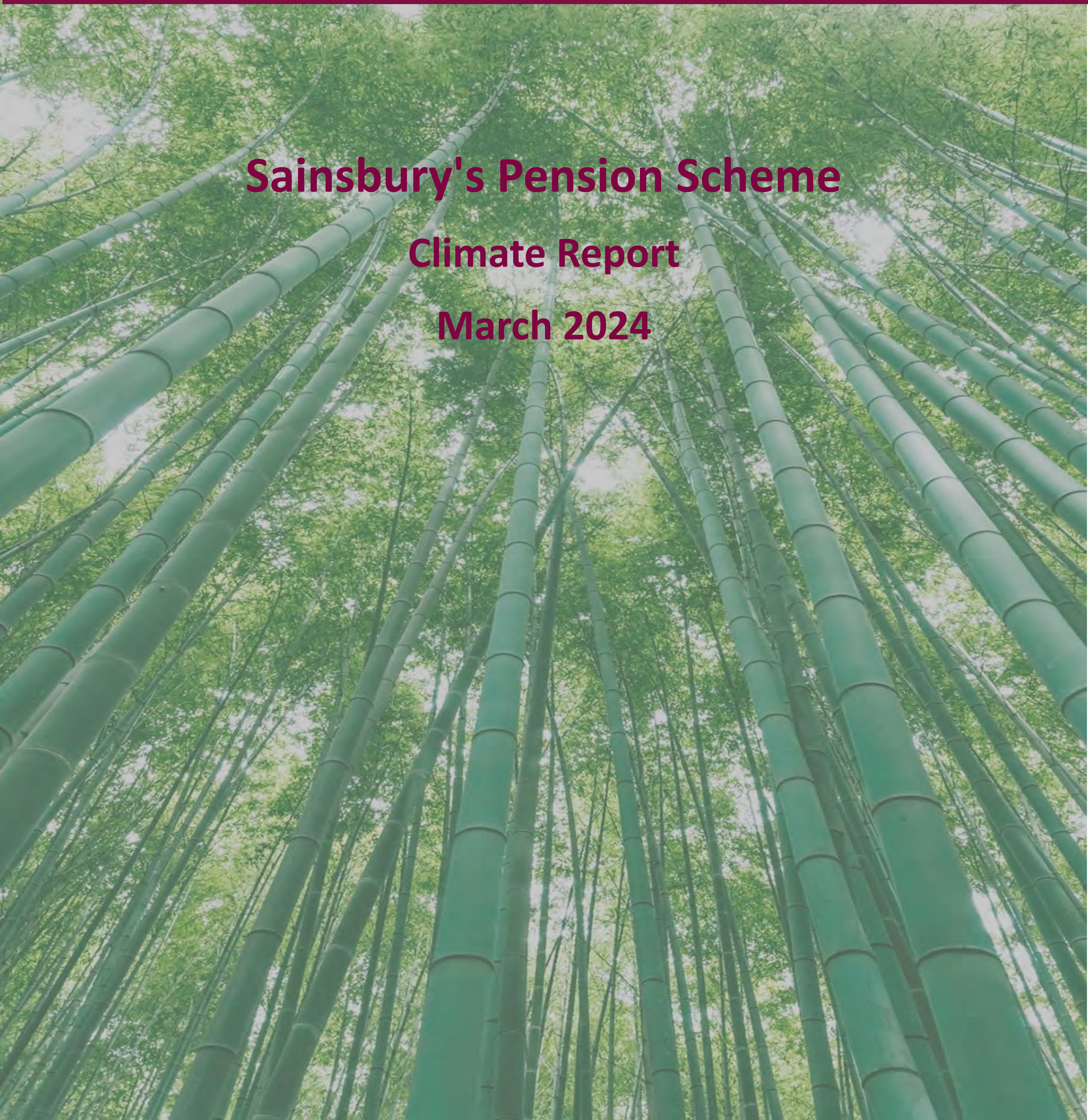
Sainsbury's Pension Scheme

Climate Report

March 2024



Contents

Climate Report 2023

This is the second Climate Report in respect of the Sainsbury's Pension Scheme. The purpose of the report is to provide a better understanding of the Scheme's exposure to climate-related risks, the Scheme's resilience to these risks and the climate related-opportunities that may be considered. The Scheme is a closed defined benefit (DB) scheme with two sections, the Sainsbury's Section and the Argos Section.

The report is based on the Scheme's position over the Scheme year to 30 September 2023 and most of the analysis has been carried out based on investments held by the Scheme at the relevant calendar year end of 31 December 2022.

This report has been prepared in line with the recommendations set out by the TaskForce on Climate Related Financial Disclosures ("TCFD") and covers the following pillars of disclosures:

Governance – which discloses the Trustee's governance structure around climate-related risks and opportunities.

Strategy – which sets out the actual and potential impacts of climate-related risks and opportunities on the Scheme where the information is material.

Risk management – which discloses how the Trustee identifies, assesses and manages climate-related risks; and

Metrics and targets – which discloses how the Trustee measures and monitors progress against climate-related metrics and targets.

The key findings from this second Climate Report are summarised in the Executive Summary over the page.

Based on these findings, the Trustee has reaffirmed its priorities over the next 12-18 months in respect of climate related risks as follows:

Executive Summary

Governance and risk management

The Trustee has established a governance and risk management framework to identify, assess and mitigate climate change risks and to identify opportunities associated with the transition to a lower carbon economy.

The Trustee has set climate change risk as one of its priorities when assessing the engagement activity undertaken by the appointed investment managers and will report on this as part of the annual Implementation Statement.

Scheme governance and related documentation has been strengthened to explicitly incorporate the ongoing assessment of climate change risks as part of decision making.

Impact of climate change risks on funding and investment strategy

The Scheme is well funded, has a high allocation to investment grade quality credit assets and maintains a high level of interest rate and inflation hedging. There has been some temporary disruption to the investment policy for both the Sainsbury's and Argos Sections following the gilts crisis. However, the medium-term investment strategy remains unchanged.

The Trustee assessed the impact of possible climate pathways in its first Climate Report. This included the impact of physical risks (e.g. extreme weather) and transition risks (the move to a lower carbon economy) under a range of potential climate pathways over the short, medium and long term. The output showed that the Scheme's investment and funding strategy was resilient over relevant timeframes and the Trustee does not believe that any immediate change is required at an asset allocation level based on the climate scenario analysis.

However, the Trustee is far more climate aware and focussed on climate-related risks and this currently manifests itself in manager selection, ongoing monitoring, and monitoring the engagements undertaken with issuers as opposed to driving asset allocation decisions. The Trustee will continue to review this position and refine the strategy as required and as the modelling and data in respect of climate risks evolves. The Trustee accepts the limitations of current modelling and will continue to review and assess how this will be developed.

The Trustee has previously reviewed the Sponsor's sustainability strategy which includes the Sponsor's approach to managing climate related risks. The Trustee also has access to the Sponsor's annual TCFD disclosures. The Trustee is comforted that the Sponsor has identified, monitors and reports on climate related risks and that the management of these risks forms part of its sustainability strategy. The Trustee will undertake a more in-depth review of covenant under various climate scenarios as part of the upcoming 2024 Valuation process.

Our Metrics

The Trustee monitors several climate metrics to understand the exposure to climate change risks and opportunities. In addition to the metrics reported in the first Climate report, the Trustee has agreed a forward looking metric and will monitor the % of holdings with targets approved by the Science Based Targets initiative ("SBTi") to assess alignment of the portfolio with net zero. The Trustee has also included scope 3 emissions, where available, in this report.

The majority of the data in this report reflects the Scheme's holdings as at 31 December 2022, shortly after the gilts crisis. There were significant short-term changes to the investment portfolios over this period which have had a material impact on the emissions metrics included in this report compared to the 2021 baseline.

To provide some context to the metrics information included in this report, the Trustee would like to highlight the following actions and approach that have been taken:

- We focus on the emissions from our non-gilt assets where we can influence outcomes through manager selection decisions, mandate changes and engagement with our managers.
- The emissions from gilts (UK government bonds) do not form part of our targets and we report on these separately (as while we hold these assets to manage our liability related risks, we have very limited influence on actions the government takes).
- Outside of our gilt holdings, most of the portfolio is invested in corporate bonds where there is relatively good emissions data, and illiquid credit (such as loans) where the data is far more limited.
- During the gilt crisis we needed to sell down most of our corporate bonds in order buy more UK government bonds to ensure that we maintained sufficient collateral assets to support our interest rate and inflation hedges.
- These actions meant that our data coverage and the emissions reported on our non-gilt holdings at the end of 2022 fell substantially.
- Our long-term strategy of holding corporate bonds remains in place and we increased holdings over 2023 which has improved the data coverage and the reported emissions (as can be seen in our indicative end 2023 numbers). However, we will continue to have a higher allocation to UK gilts than before the gilt crisis to maintain collateral buffers consistent with guidance from the regulator which means the total emissions reported on our non-gilts holdings will be lower than the baseline year even for similar levels of data coverage.
- We are also engaging with our illiquid credit managers to deliver improved data including estimated emissions.

The key metrics for each Section are summarised below.

	Sainsbury's Section			Argos Section		
	Dec 21	Dec 22	*Dec 23 indicative*	Dec 21	Dec 22	*Dec 23 indicative*
Absolute emissions (tonnes of CO_2)	296,587	46,400	*93,483*	58,117	5,486	*10,179*
Carbon Footprint (tonnes of CO2/$m invested)	85	51	*68*	82	33	*55*
Data coverage	41%	21%	*34%*	42%	32%	*41%*
% of companies with SBTi targets	n/a	2%	*7%*	n/a	3%	*8%*

Net zero goal and data coverage target

The Trustee has identified climate change risk as a material financial risk for the Scheme and has set a net zero goal by 2050.

To assess the Scheme's bottom-up exposure to climate risks and progress against its net zero goal, the Trustee believes that data quality and coverage are critical areas that need to improve, and it is engaging with its investment managers on these topics.

Target	Progress
To increase data coverage to 65% over the three years from the baseline position at 31 December 2021 to 31 December 2024 for the non-gilt assets.	Data coverage has reduced from 41% to 21% for the Sainsbury's Section and 42% to 32% for the Argos Section at 31 December 2022. This reflects the temporary disruption to the investment policy following the gilts crisis. The Trustee expects material improvements in data coverage based on subsequent changes to the investment policy to re-align with the medium-term investment strategy.

The Trustee has reviewed the data coverage target and has confirmed its view that data coverage remains a critical metric on which to focus. Following the significant disruption to the portfolio, the Trustee accepts that it may take slightly longer to achieve the target. The Trustee will continue to review this and may consider changing the target if deemed appropriate and as circumstances evolve.

Some actions we have taken over the Scheme year

1. The Trustee has set several ESG priorities which will focus its monitoring and engagement with investment managers when assessing what stewardship actions they have taken.

2. The Trustee's Investment Committee undertook training on different forward-looking metrics to assess alignment with net zero. The Trustee has agreed to monitor and report on the percentage of companies with SBTi approved targets, which has been included in this report.

3. The Trustee's Investment Committee has undertaken a review of investment managers' approach to monitoring engagement activity.

4. The Trustee's Investment Committee carries out an in-depth review of investment managers' ESG capabilities, supported by the investment adviser, prior to topping-up or introducing new mandates.

5. The annual assessment of each investment manager includes an assessment of their capabilities in supporting the Trustee on ESG matters, including on climate risks and opportunities.

Introduction

J Sainsbury Pension Scheme Trustees Limited ("the Trustee") is Trustee of the Sainsbury's Pension Scheme. The Trustee believes that climate change poses material financial risks and should be subject to specific attention and risk management. The Trustee has produced this Climate Report to comply with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021. The sub-headings in this report address the specific disclosure requirements in the regulations which are based on the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures ("TCFD").

The Trustee believes that climate change poses a material financial risk that needs to be carefully managed alongside other risks to which the Scheme is exposed. This report sets out the Scheme's exposure to climate-related risks, the Scheme's resilience to these risks and the processes in place to manage climate related risks and to identify potential climate related opportunities.

The Sainsbury's Pension Scheme consists of two segregated sections, referred to as the Sainsbury's and Argos Sections. These two Sections held c.£5.5bn and c.£0.9bn of assets as at 30 September 2023. The report covers these Defined Benefit assets and does not include Additional Voluntary Contributions.

Under the relevant legislation, all UK occupational pension schemes with assets of over £1bn are required to report in line with the recommendations set out by the TCFD. For convenience, we refer in this report to reporting in line with the applicable regulations as TCFD reporting.

The main body of this report (sections 1 to 5 and associated appendices) will cover the Scheme year to 30 September 2023 for both Sections of the Scheme. Most of the analysis has been undertaken as at the end of the relevant calendar year, being 31 December 2022.

The metrics data in this report reflects the investments held shortly after the gilts crisis. There were significant changes to the Scheme's investments in response to the gilts crisis which have had a material impact on the 2022 emissions metrics included in this report. Since then, the Trustee has taken steps to re-allocate to corporate bonds (where there is good reporting) and we have therefore included indicative figures based on the December 2023 position in this report.

On behalf of the Sainsbury's Pension Scheme

John Preston

Chair of the Trustee

Section 1 | Governance: Oversight & Investment Beliefs

The Trustee includes the oversight of the impact of climate risks and opportunities and its implications when setting the Scheme's strategy with respect to climate risk. Recognising the importance of this risk, the Trustee has set a net zero goal by 2050 for the Scheme.

The Trustee's approach to climate change and environmental, social and corporate governance ("ESG") more generally is informed by the Trustee's current ESG principles. These ESG principles are documented in the Trustee's Statement of Investment Principles and are reviewed at least annually. The Trustee believes that ESG issues, including climate change, can have a significant financial impact on short-, medium- and long-term investment returns.

Over the year, the Trustee has set specific ESG priorities to focus its efforts when it comes to the selection, oversight and engagement with its investment managers and advisors, particularly with respect to stewardship activities undertaken by the investment managers. The Trustee has set "Climate risk (with a focus on disclosures)" as one of its engagement priorities.

A risk register is maintained which includes risks arising from climate change. The Trustee is responsible for setting the risk management framework and for monitoring its implementation to ensure the underlying risks that have been identified are managed. This is reviewed at least bi-annually (or twice a year).

The Trustee is also responsible for producing the annual Climate Report for the Scheme and reviews the climate metrics associated with the Scheme's investments as well as progress against the targets that have been set. The Trustee produces an Implementation Statement each year, summarising the engagement activity carried out by the investment managers, and engagements on climate related matters including case studies are reviewed by the Trustee in the preparation of this report.

The Trustee undertakes training on a regular basis to ensure it has sufficient knowledge and understanding of climate issues.

The Trustee believes that integrating sustainable investment into its processes and decision making should lead to better outcomes for the Scheme, including by helping to manage regulatory and reputational risks. In particular:

01 The Trustee can best implement its sustainable investment strategy through its investment managers and advisers and will, therefore, closely review, monitor and challenge their activities in this area.

02 The Trustee should manage risks and exploit opportunities, particularly through ESG integration, effective stewardship, identifying attractive sustainability themes, and understanding the real-world impact of its investments.

03 Climate change poses material financial risks to the Scheme and therefore should be subject to specific attention and risk management.

04 The Trustee prefers a collaborative approach, leveraging its efforts through engagement, working with its investment managers, advisers, and Sponsor.

Section 1 | Governance: Roles and Responsibilities

The Trustee is ultimately responsible for compliance with the governance requirements which underpin the TCFD recommendations and for reporting how this has been done. The Trustee has, however, delegated the following responsibilities:

Investment Committee

The Trustee has delegated responsibility for the development, implementation and monitoring of the Scheme's investment strategy to the Investment Committee. The Investment Committee is responsible for undertaking the governance and reporting requirements relating to the identification, assessment and management of climate related risks and opportunities and for making recommendations to the Trustee to inform its overarching strategy.

The Investment Committee meets at least four times a year and considers matters relating to ESG, including climate risks, each quarter, as part of the manager monitoring and risk dashboard reports, and annually as part of formal manager review meetings with key investment managers and the annual Stewardship and Engagement Reporting from the investment adviser.

For the first climate report, a TCFD working group was setup to consider the approach taken with respect to reporting on metrics, setting targets, and undertaking scenario analysis and to make recommendations to the Investment Committee. Having completed this assessment as part of the first climate report, the working group has not met over the year but may be reinstated by the Investment Committee as required.

The Investment Committee must maintain their knowledge and keep up to date on sustainable investment and climate change-related risks and opportunities, and how these may influence investment policy decisions. The Investment Committee includes members with relevant industry experience, and updates their training as required.

Investment Adviser

The Trustee has appointed Momentum as the investment advisor for the Scheme.

Momentum specialises in advising large corporate pension schemes (most of which have assets over £1bn) across all aspects of investment policy. A key aspect of this is advising clients on the integration and assessment of ESG risks, including climate risks. Momentum has partnered with Ortec Finance, a specialist in climate risk modelling, to support clients in climate risk scenario modelling, and with Gordian Advice, a specialist responsible investment advisory firm, to stay abreast of the latest developments in ESG and sustainable investing. Momentum is a member of the Investment Consultants Sustainability Working Group and is helping to set the agenda in relation to developments in ESG and sustainability as part of this group.

Momentum is responsible for advising the Trustee on investment strategy, taking into account climate-related risks and opportunities. The investment adviser is also responsible for ensuring investment managers are aware of the Trustee's expectations with respect to the integration of ESG issues in their investment processes and supports the Trustee in its monitoring of ESG and Stewardship matters.

Momentum will support the Trustee in preparing the Climate Report each year and will collate and report on certain climate-related metrics as part of this.

Section 1 | Governance: Roles and Responsibilities

Investment Managers

The Trustee believes that active engagement is key to influencing the behaviour of corporates and governments when they issue debt to ensure a better transition to a low-carbon world. The Trustee believes that the Scheme's investment managers are best placed for the day-to-day assessment of ESG risks, including climate change, and engagement with issuers. Assessment of how effectively investment managers incorporate ESG risks and opportunities into their investment processes and engage with issuers, forms part of the Trustee's ongoing monitoring of manager performance. This assessment is undertaken through challenging managers on their approach and by taking advice from the Trustee's investment adviser. ESG integration and the approach to engagement are areas of key focus when selecting new managers although there were no new manager appointments during the Scheme year. Both as part of ongoing monitoring and as part of the selection process or when allocating further funds to existing managers, the Trustee asks managers to comment on specific holdings and explain how they have considered ESG and climate change when determining whether these should be held by the Scheme.

Scheme Actuary

The Scheme Actuary is responsible for considering the impact of climate related risks on the Scheme's liabilities for the Sainsbury's and Argos Sections. The Scheme Actuary provides quarterly updates on the funding position of the Scheme. On at least a triennial basis, the more detailed update will include an understanding of the potential funding impact from changes in demographic assumptions driven by climate change.

Covenant Adviser

The covenant adviser is responsible for supporting the Trustee in monitoring the impact of climate risks on the covenant of the sponsoring company, J Sainsbury plc (the "Sponsor"). The Sponsor publishes an annual TCFD report which the Trustee and its advisers use to inform their assessment of the impact of climate-related risks on the covenant. The assessment of climate risk on the covenant will be considered more explicitly by the Trustee based on advice from the covenant advisor as part of the triennial actuarial valuation process.

Legal Adviser

The legal adviser is responsible for updating the Trustee on the applicable legislation, regulation and guidance relating to TCFD, advising on legal issues relating to TCFD that the Trustee raises.

Section 1 | Governance: Roles and Responsibilities

Roles and Responsibilities

In complying with its governance and reporting requirements, the Trustee is supported by its professional advisers and the in-house pensions department.

The Trustee has established processes for reviewing the competency of its investment advisers and will be putting processes in place to review its other advisers and the capabilities of the pensions department to support the Trustee on climate related matters. As part of its annual assessment of the investment adviser's performance against their objectives, the Trustee will consider how the adviser has supported the climate risk policy.

Knowledge and Understanding

ESG and climate risk has been included on the training agenda for the Trustee and the Investment Committee. It is recognised that this is a fast-moving area and so these areas will continue to feature in the Trustee and the Investment Committee's broader training schedule.

The Trustee has identified further work in respect of climate scenario modelling and reporting to be covered in the Investment Committee's Annual Business Plan. The risks pertaining to ESG issues, including climate change, are separately identified in the risk dashboard which is reviewed and updated by the Investment Committee on a quarterly basis and reported to the Trustee Board.

Committees

Section 2 | Strategy: Impact on Funding and Investment Strategy

Climate related risks and opportunities over the short, medium and long term

The Trustee has considered climate risks and opportunities over the short, medium and long term. In this context, the Trustee has decided that "short term" reflects a three-year period and has considered what the potential impact would be from a climate shock assuming one took place over this three-year period. "Medium term" has been considered as the time horizon up to 2030, as this reflects the timeframe for the Scheme's transition to a low-risk investment strategy; "long term" is therefore considered as the time horizon after 2030, at which point the Trustee is expected to have implemented a low-risk strategy. The Trustee's emphasis is on the short and medium term in line with the transition to a low-risk investment strategy.

Net Zero Goal

Having considered how climate-related risks and opportunities may impact the Scheme, the Trustee has set a goal of net zero carbon emissions on its investment portfolio by 2050. The intention is to set shorter-term targets consistent with achieving this longer-term goal, and work is ongoing in this regard. The Trustee's discussions have focussed on understanding how the Scheme's investment managers seek to align portfolios with net zero through the use of forward-looking measures and engagement with issuers.

Types of risks and opportunities

The Trustee has identified "Transition Risks" and "Physical Risks", as the key climate-related risks to its investment and funding strategy, and when these risks are expected to impact the Scheme over the short, medium and long term, as set out below.

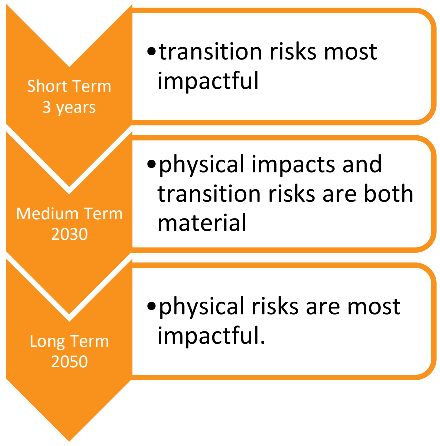
Transition Risks

This relates to the risks (and opportunities) from the realignment of the global economic system towards low-carbon, climate-resilient and carbon-positive solutions (e.g. via regulations or market forces).

In this transition, some industries may become obsolete, while others prosper as the world moves to a no (or low) carbon economy (for example, as renewable energy replaces thermal coal).

Physical Risks

This relates to the physical impacts of climate change as climate change can impact the physical assets underpinning the securities held by the Scheme. For example, extreme weather events could potentially impact business operations.



These climate related risks could have a material financial impact on the assets held by the Scheme. In particular, the value of certain assets could reduce as markets reprice and/or the risk of defaults on investments held by the Scheme could increase resulting in a loss of capital, lower cashflows to meet benefit obligations and lower investment returns.

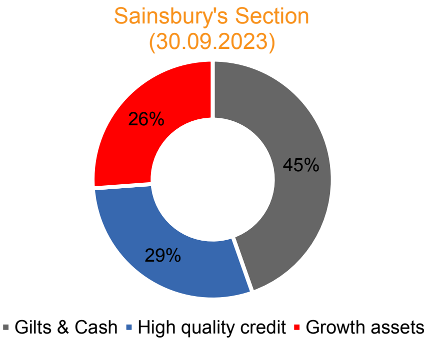
In addition, the Trustee considers the climate policy of the sponsoring employer given the impact this could have on the covenant. The Sponsor has published its own TCFD report which the Trustee and its advisers will use to inform their assessment of the impact of climate-related risks on the covenant. This will be reviewed in more detail as part of the triennial valuation.

With respect to climate-related opportunities, the Trustee has not identified any opportunities that are consistent with our strategy. However, the Trustee's Investment Committee will continue to consider any relevant opportunities supported by its investment adviser.

Section 2 | Strategy: Impact on Funding and Investment Strategy

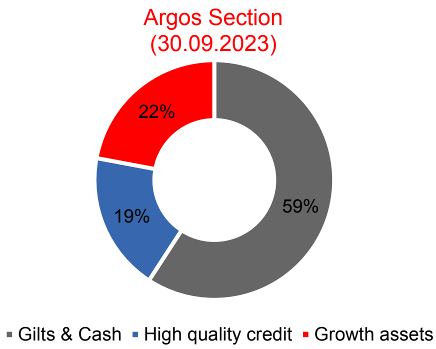
Ongoing Monitoring

The impact of climate-related risks and opportunities, such as those arising from physical and transition risks, is monitored on an ongoing basis, and the results are subject to an ongoing review.



Impact of climate-related risks and opportunities on the investment and funding strategy

The high-level allocations for each Section of the Scheme are set out in the charts. The Scheme is invested predominantly in high quality fixed income assets (more than 75%) and maintains a high level of interest rate and inflation hedging. A key objective for the Trustee is to reach full funding on a low-risk basis in the short-term, and an agreement is in place with the Sponsor to achieve this. Following the gilts crisis, the timeframe for achieving full funding on a low-risk basis has moved out by several years for the Sainsbury's Section and was broadly unchanged for the Argos Section. There have been no material changes to the medium-term investment strategy.



The Trustee has used scenario analysis to assess the potential impact of climate-related risks on the Scheme's funding position and to consider if changes are required to the investment strategy. Having carried out this analysis as part of the first Climate Report for the Scheme, the Trustee notes that the impact of climate change on the Scheme's funding position was relatively limited over all time periods and appears well-managed. The Trustee does not feel it is necessary to revise its current asset allocation because of the potential impacts of climate-related risks on Scheme funding but the Trustee has certainly become more climate aware and focussed on climate-related risks and this currently manifests itself in manager selection, ongoing monitoring, and monitoring the engagements undertaken with issuers as opposed to driving asset allocation decisions. The Trustee will continue to review its position and will consider refining its strategy and approach as required and as the modelling and data in respect of climate risks evolves. The Trustee has not repeated the scenario analysis for this report but will repeat this analysis at least every three years (which would next be in 2025).

The scenario modelling shows that the current funding and investment strategy is not heavily exposed to climate risks. However, the Trustee recognises the limitations of modelling, and that climate scenario modelling is an evolving area. In particular, scenario modelling does not capture bottom-up security level risks and opportunities. The Trustee accepts that the portfolio has exposure to climate related risks at a security level and has delegated the day-to-day management of these risks to the appointed investment managers.

The Trustee has previously reviewed the Sponsor's sustainability strategy which includes the Sponsor's approach to managing climate related risks. The Trustee reviewed the Sponsors first annual climate report and subsequent reports are reviewed by the pensions department and made available to the Trustee and its advisers. The Trustee is comforted that the Sponsor has identified, monitors and reports on climate related risks and that the management of these risks forms part of its sustainability strategy. The Trustee will undertake a more in-depth review of covenant under various climate scenarios as part of the upcoming 2024 Valuation process.

Engagement is at the core of the Trustee's strategy

The Trustee's focus at this stage is to better understand and manage the risks associated with the Scheme's underlying investments. To address the security level risks, and to bring about meaningful "real-world" change, the Trustee's approach is to engage with the investment managers to ensure that climate change considerations are fully integrated into security selection and in the managers' engagements with issuers.

The Trustee views the engagement with issuers through its investment managers as being an important tool to manage climate risks and opportunities and has set climate risk (with a focus on improved disclosures) as one of its engagement priorities. The Trustee believes improvement in the quality and availability of data will help it to be better placed to challenge its investment managers. The Trustee's Investment Committee, in conjunction with its investment adviser, engages with each investment manager, to assess the effectiveness of their engagement with underlying companies on climate-related risks and opportunities.

Section 3 | Scenario Analysis: Climate Scenarios

Climate Scenarios

The Trustee undertook climate scenario analysis for the first Climate Report to assess the potential impact on the Scheme's funding level under a range of different climate scenarios. The scenarios covered three distinct climate pathways representing:

1. An orderly transition with co-ordinated policy action and average temperature rise of 1.5°C by 2050.
2. A disorderly transition with higher impact from transition risks but average temperature rise of 1.5°C by 2050.
3. No transition resulting in high physical risks and average temperature rise of 2.5°C by 2050.

The Trustee's investment advisor undertook the analysis using Ortec Finance ("Ortec"), one of the leading independent firms specialising in modelling climate risk. Ortec is a well-respected contributor to industry and academic projects on topics relating to climate risk scenarios and temperature alignment analytics, such as Open-Source Climate, the Institutional Investors Group on Climate Change ("IIGCC") and the Institute and Faculty of Actuaries ("IFoA") working groups. The summary output from the analysis carried out for the previous report has been included in the Appendix.

Limitations

The Trustee recognises that the approach to modelling the impact of climate risks is fast evolving and will keep this under review. The Trustee also recognises the limitations of the modelling, in particular:

- Any climate pathway reflects just one possible way to achieve a certain temperature goal while, in reality, many different pathways are possible for the same temperature outcome.
- Different models lead to different results, due to different model structures and assumptions.
- There is uncertainty around assumptions adopted, for example ambitious scenarios depend on future (negative emissions) technologies such as carbon capture and storage.
- It is recognised that there are gaps in assumptions, for example certain necessary changes to achieve zero emissions, such as changes in lifestyle or economic systems, are currently not included. Furthermore, certain impacts cannot easily be modelled such as impacts of rises in sea levels, migration, health and tipping points in the climate system.
- The asset allocation is assumed to remain constant throughout the modelling period, which is unlikely to happen in practice.
- No allowance has been made for potential changes in mortality or other demographic risks in assessing the liabilities under different scenarios.

Although there are limitations, the Trustee believes that the modelling undertaken is useful in giving a high-level understanding of the potential impact on the Scheme's funding position as a result of climate change risks under different possible climate pathways.

Section 4 | Risk Management: Identifying, Assessing and Managing Risk

The Trustee has overall responsibility for the assessment and management of climate-related risks and opportunities. Delegation of the implementation of investment decisions, including those relating to climate change, lies with the Investment Committee.

The governance and reporting standards on climate-related risks that have been implemented by the Trustee will enable the Trustee to have an appropriate understanding of climate risk within the Scheme's investments and will help to guide the Trustee in setting and refining interim targets and milestones to measure progress towards the Scheme's net zero goal.

The Trustee encourages the improvement of disclosures across the corporate sector to assist with this process by actively engaging with its investment managers. The Trustee has set engagement on climate risks (with a focus on disclosures) as one of its key engagement priorities and this has been communicated to all the Scheme's investment managers.

The Trustee has adopted the following approaches to manage climate-related risks:

- ✓ The Statement of Investment Principles sets out the Trustee's policy on sustainable investment, ESG and stewardship.
- ✓ The Trustee has delegated responsibility to the Investment Committee and the Trustee's investment adviser to undertake the governance requirements relating to ESG, including the production of the annual Implementation Statement, and the monitoring of investment managers' ESG policies and practices.
- ✓ The risks pertaining to ESG issues including climate change are separately identified in the Investment Committee risk dashboard which is regularly reviewed and updated by the Investment Committee with independent challenge from the Risk and Finance Committee, and then presented to the Trustee Board.
- ✓ The Trustee is supported by its professional advisers and the in-house pensions department.
- ✓ All the Scheme's investment managers are signatories to the United Nations Principles for Responsible investment.
- ✓ Most of the Scheme's investment managers are also signatories of the UK Stewardship Code.

Section 4 | Risk Management: Identifying, Assessing and Managing Risk

An important aspect of identifying, assessing and managing climate risks and opportunities is the close monitoring of the appointed investment managers by the Investment Committee and the investment adviser.

The Investment Committee holds regular (at least annual) meetings with the Scheme's key investment managers[1] and reviews their approach to managing ESG risks. See example case studies.

The Investment Committee requires all appointed investment managers to report regularly and requests that managers disclose all engagement activity on ESG matters, including climate risk matters, undertaken on its behalf. The Investment Committee monitors the engagements undertaken by each investment manager and considers case studies of significant engagements as part of the ongoing appraisal of the Scheme's investment managers. These activities are summarised by the investment adviser in an annual Stewardship & Engagement report. See example case studies below.

Engagement examples

At the recent review meeting with two of the Scheme's key managers, the Investment Committee asked the managers to comment on specific examples of engagements/actions taken in their respective portfolios on matters relating to climate risk and actions taken to improve reporting on climate risks.

1. Reporting on climate metrics

In the asset backed securities mandate the manager noted that third party data providers had not been forthcoming despite regular engagement. Therefore, the manager was developing its own methodology to report scope 1 & 2 emissions which would cover c60% of the portfolio and was expected to be available by the middle of 2024.

2. Engagement

In the investment grade corporate bond portfolio, the manager discussed its engagement efforts with a large banking group. The manager had discussed the incorporation of net zero objectives and the impact from the bank's lending to new oil and gas exploration capacity given the potential stranded asset risks. The manager encouraged the bank to set stronger expectations on methane reduction with a more ambitious methane intensity target and direct measurement of methane in line with industry best practices. The managers will continue to engage with this issuer to assess progress on these points.

[1] The key investment managers include the investment managers that manage a significant part of the portfolio and are responsible for mandates that are expected to be maintained as a long-term part of the portfolio as the Scheme approaches its longer-term objectives.

Section 5 | Metrics & Targets: Overview

Metrics

To inform its understanding and monitoring of the Scheme's climate-related risks and opportunities, the Trustee has selected the following metrics.

Total Emissions Metric	**Total Emissions** The total scope 1, 2 and 3 Greenhouse Gas ("GHG") Emissions for the Sections' assets (measured in tonnes of CO2e emitted).
Emissions Intensity metric	**Carbon footprint** The total Greenhouse Gas emissions of the portfolio, or part-portfolio, divided by the current value of the portfolio or part-portfolio for which emissions data is available (tonnes of CO2e / $m of asset value).
Portfolio alignment metric	The percentage of portfolio holdings that have set net zero targets approved by the Science Based Targets initiative.
Additional non-emissions-based metric	**Data Coverage** The percentage of each portfolio for which carbon data is available.

What are Scope 1, 2 and 3 emissions?

- Scope 1 emissions are direct Greenhouse Gas emissions from sources that are owned or controlled by a company, such as emissions from combustion of fossil fuels in boilers or vehicles.
- Scope 2 emissions are indirect GHG emissions from the generation of purchased electricity, heat or steam consumed by a company.
- Scope 3 emissions are all other indirect GHG emissions that occur in a company's value chain, including emissions from the production of purchased materials and fuels, transportation and distribution, waste disposal, and the use and disposal of products and services.

Section 5 | Metrics & Targets: Metrics

Data for the metrics has been sourced from the investment managers and reviewed by the Trustee's investment adviser and represents the position as at 31 December 2022.

The Trustee focuses on emissions from the non-gilt assets where the Trustee can influence outcomes through manager selection decisions, mandate changes and engagement with the investment managers. The emissions from gilts do not form part of our targets (as while we hold these assets to manage our liability related risks, we have very limited influence on actions the government takes).

There has been a material reduction in the reported emissions and in the data coverage for the non-gilt assets compared to the 2021 baseline year. As explained in the executive summary, the reason for this is due to the actions that were taken during the gilts crisis.

The Trustee sold most of the Scheme's corporate bonds and other liquid assets to buy more UK government bonds to support the Scheme's interest rate and inflation hedges. As a result, the overall allocation to non-gilt assets for both Sections was much lower than before the crisis and the latest metrics in this report were on a smaller portfolio of non-gilt assets. In addition, within that part of the portfolio, there was a very low allocation to corporate bonds (where there is good emissions reporting) and a resulting higher allocation to illiquid credit and other private market assets (where emissions reporting is not as good). We are engaging with our illiquid credit managers to deliver improved data including estimated emissions and we are pleased to see that the reporting from some of these managers has improved.

Our long-term strategy of holding corporate bonds remains in place and we have increased holdings corporate bonds over 2023 as some of the capital from the illiquid assets has been returned. This has improved the data coverage. We have included indicative 2023 numbers to illustrate the impact of these actions. However, the Scheme will continue to have a higher allocation to UK gilts than before the gilt crisis consistent with guidance from the regulator which means the total emissions reported on our non-gilts holdings will be lower than the baseline year even for similar levels of data coverage.

The key metrics for each Section are summarised below.

1. Total Emissions

The total emissions analysis includes scope 1, 2 and 3 emissions for each Section of the Scheme, with the scope 3 emissions shown separately. The total emissions data on its own provides limited insights but as time goes on and the data coverage improves the Trustee will be able to assess trends from year to year. The Trustee's focus is on carbon emissions intensity metrics, specifically carbon footprint, and on relative levels between mandates where there is more complete data available. When assessing this data, the Trustee is comfortable that there are no immediate areas of concern across the relevant mandates.

Section	Value (ex LDI) 31/12/2022	GHG Emissions Scope 1 and 2 (tonnes CO_2e)		GHG Emissions Scope 3 (tonnes CO_2e)	
		Base year (2021)	2022	Base year (2021)	2022
Sainsbury's Section	£3,637m	296,587	46,400	n/a	89,925
Argos Section	£438m	58,117	5,486	n/a	20,299

The Trustee estimates that the indicative scope 1 & 2 total emissions for the non-gilt assets based on the portfolio allocations at 31 December 2023 were 93,483 for Sainsbury's Section and 10,179 for Argos Section.

2. Carbon Footprint

The carbon footprint analysis shows the scope 1 & 2 and scope 3 emissions intensity. This analysis is somewhat skewed by the reduction in available data but the figures are "normalised" based on the relevant portfolio value (in USD) for which data was available. The Trustee reports that a reduction in carbon footprint has been observed for the underlying mandates over this period.

Section	Carbon Footprint Scope 1 and 2 (tonnes CO_2e/$m invested)		Carbon Footprint Scope 3 (tonnes CO_2e/$m invested)	
	Base year (2021)	**2022**	**Base year** (2021)	**2022**
Sainsbury's Section	85	51	n/a	170
Argos Section	82	33	n/a	150

The Trustee estimates that the indicative carbon footprint (scope 1&2) for non-gilt assets based on the portfolio allocations at 31 December 2023 was 68 for Sainsbury's Section and 55 for Argos Section.

Methodology Example

The carbon footprint for an investment portfolio can be calculated as follows:

$$Carbon\ Footprint = \frac{Total\ Carbon\ Emissions}{Portfolio\ Value\ (USD\ million)}$$

Therefore, a hypothetical portfolio with total carbon emissions of 20,000 tonnes of CO2e and a Portfolio Value of $100m would have the following carbon footprint:

$$Carbon\ Fooptrint = \frac{20{,}000}{100} = 200\ CO2e/USDm$$

3. Holdings with SBTi approved targets

The Trustee has selected "% of holdings SBTi2 approved targets" as the portfolio alignment metric. The SBTi focusses on the highest emitting sectors and on large companies to drive the greatest impact (i.e. a focus on public market corporations). The majority of the Scheme's liquid, public market holdings were sold in response to the gilts crisis. Although the data coverage for this metric was particularly low, the Trustee expects coverage for this metric to improve as part of the steps taken to re-align the investment portfolios for each Section with the existing investment strategy. The % of holdings reported below is in respect of all the Scheme's non-gilt assets. However, this data is currently only reported for the corporate bond mandates.

Section	% of holdings with SBTi approved targets	
	Base year (2021)	**2022**
Sainsbury's Section	*5.4%*	2.2%
Argos Section	*7.3%*	2.8%

[2] The Science Based Targets initiative (SBTi) – an organisation that enables companies and financial institutions to set science-based emissions reductions targets.

The Trustee estimates that the indicative % of holdings with SBTi approved targets based on the portfolio allocations at 31 December 2023 was 7% for Sainsbury's Section and 8% for Argos Section.

4. Data coverage

The data coverage shows the percentage of non-gilt assets for which scope 1 & 2 data was available. There has been a material fall in data coverage following the actions taken in response to the gilts crisis – primarily redeeming from liquid, public market mandates where data availability is better and being temporarily overweight to less liquid, private market assets where data availability is low. However, the Trustee notes that several managers that were unable to report emissions for the first report have now provided estimated emissions. The Trustee will continue to engage actively with its investment managers to improve their reporting in this important area.

Section	% allocation to non-LDI assets (31.12.2022)	Data coverage for scope 1&2 emissions (% non-LDI assets)		Data coverage for scope 3 emissions (% of non-LDI assets)	
		Base year (2021)	**2022**	**Base year** (2021)	**2022**
Sainsbury's Section	60%	41%	21%	n/a	12%
Argos Section	47%	42%	32%	n/a	19%

The Trustee estimates that the indicative data coverage for scope 1 & 2 emissions for the non-gilt assets based on the portfolio allocations at 31 December 2023 was 34% for Sainsbury's Section and 41% for Argos Section.

Emissions data has been sourced directly from the Scheme's investments managers, who typically use third party data providers to provide carbon emissions data for the underlying holdings. Data coverage is limited to the data that is available from these third-party providers and estimates provided by the managers. In the case of private assets, carbon data is typically not publicly available, though the Trustee expects this to improve.

Further information is also provided in the Appendix.

Section 5 | Metrics & Targets: Data coverage target

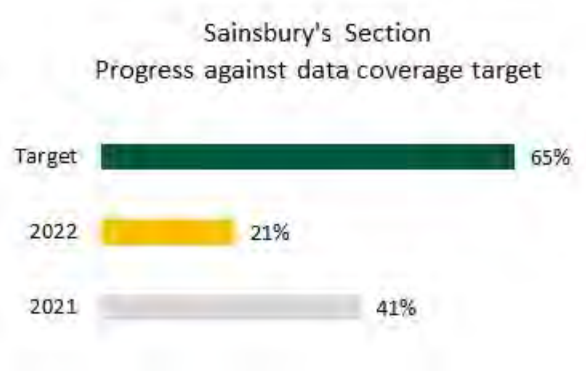
The Trustee has set a target in respect of the non-emissions-based metric of "Data Coverage". The target is as follows:

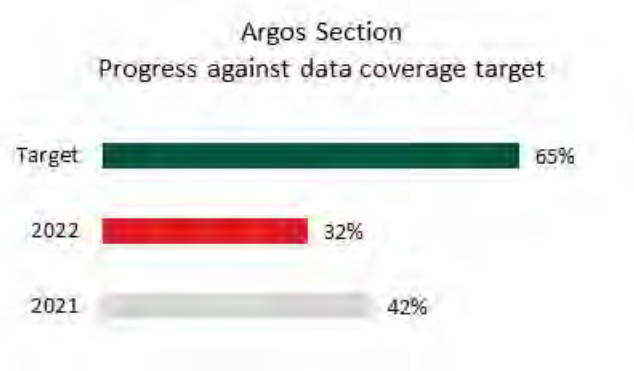
Increase the data availability to 65% over the next three years (from the baseline as at 31 December 2021 to the position as at 31 December 2024) for the non-gilt assets.

The Trustee believes that proper disclosure of emissions is critical to understand the Scheme's exposure to climate related risks and opportunities. Better data would empower the Trustee to challenge the Scheme's investment managers and to help guide investment decisions. There is currently insufficient data coverage for the Trustee to make informed decisions across the portfolio and the Trustee is actively engaging with its investment managers to improve the data coverage across the Scheme's investments.

The target has been set at 65% of non-gilt assets to account for the fact that data is unlikely to be available on legacy investments that are in run-off but is expected to represent a significant proportion of assets that the Trustee expects the Scheme to be invested in over the medium to long term.

The progress against the target is summarised in the charts below.





Data coverage for the non-gilt assets has reduced considerably following changes to the investment policies for both Sections in response to the gilts crisis although the Trustee estimates that the indicative data coverage for non-gilt assets based on the portfolio allocations at 31 December 2023 had increased to 34% for Sainsbury's Section and 41% for Argos Section. The fall in data coverage relates to asset allocation changes that have been summarised in this report. However, the Trustee is encouraged that data coverage has improved for several of the Scheme's mandates when comparing individual mandates to the baseline year (see Appendix 3).

Over time the allocation to liquid, public market assets is expected to increase for both Sections. The Investment Committee has agreed the following principles:

- to allow the private mandates to reduce over time; and
- to invest proceeds in liquid, high-quality assets (investment grade credit) provided that the target level of expected return is achieved.

The Trustee has reviewed the data coverage target and has confirmed its view that data coverage remains a critical metric on which to focus. The Trustee has decided to maintain the target and believes the target remains achievable given the anticipated policy changes over the next few years and the ongoing engagement with investment managers. Given the significant disruption to the portfolio, the Trustee accepts that it may take slightly longer to achieve the target. The Trustee will continue to review this and may consider changing the target if deemed appropriate and as circumstances evolve.

Section 5 – Metrics & Targets: Carbon Accounting for LDI

Reporting emissions on government bond assets is a complex and evolving area. The Scheme has significant exposure to UK gilts through the liability hedging mandates. The Trustee accepts that it will have limited, if any, ability to influence the UK government's climate policy and emissions associated with the UK government. There are also several complexities associated with reporting emissions on this part of the portfolio, which is why the Trustee has decided to assess and report the emissions metrics separately for the liability hedging assets from the rest of the investment portfolio.

Double-Counting

For physically held gilts, the emissions figure is based on the UK's total emissions which includes corporates, households and public sector emissions. The emissions from UK corporates could therefore be accounted for both through corporate bond holdings in the non-LDI mandates, as well as part of the emissions of the UK economy in the LDI mandate.

Green-gilts

In addition, the Trustee had to consider whether to include or exclude green gilts from the emissions for the LDI portfolios. Excluding green gilts has the impact of increasing carbon footprint as it is assumed that the total UK emissions are apportioned only to non-green gilts (i.e. traditional gilts that have not been classified as "green"). The non-green gilts therefore become 'dirtier'. The analysis below assumes that UK emissions are allocated pro-rata across all gilts, including green gilts.

Funded/Unfunded Exposure

Consideration also needs to be given to whether to include or exclude the unfunded exposure to UK government bonds achieved through derivatives instruments. Whilst there is no formal guidance, the Trustee notes that pension schemes have started to report on unfunded gilt exposures, and has included total emissions including from unfunded gilts in the footnotes to the tables below.

Sainsbury's Section	Physical gilts, index-linked gilts and cash	
	Base year (2021)	**2022**
Value (£m)	3,465	2,418
% of Section assets	33%	40%
Total Carbon Emissions (Scope 1&2)	279,754	396,371*
Carbon Footprint (Scope 1&2)	152	162

* total emissions of 1,011,686 tonnes of CO_2e for 2022 including gilt repurchase transactions (repo) and gilt total return swaps.

Argos Section	Physical gilts, index-linked gilts and cash	
	Base year (2021)	**2022**
Value (£m)	632	498
% of Section assets	40%	53%
Total Carbon Emissions (Scope 1&2)	55,011	17,961
Carbon Footprint (Scope 1&2)	70	45

* total emissions of 30,408 tonnes of CO_2e for 2022 including gilt repurchase transactions (repo) and gilt total return swaps.

Appendix 1 | Scenario Analysis from 2021

The Network of Central Banks and Supervisors for Greening the Financial System ("NGFS") model six different climate pathways which all have varying degrees of transition and physical risk.

Strong, short-term climate action leads to transition risk, but limits physical risk (Net Zero by 2050, below 2 degrees).

Such a transition can be well-coordinated, which limits transition risk, or divergent across countries and sectors, which leads to higher transition risk (“Divergent Net Zero”).

The longer any transition is delayed, the more drastic the actions required would need to be (“Delayed Transition”).

If no additional action is taken besides the currently committed government pledges (the so-called NDCs), the world will fail to meet the Paris Alignment goals and physical risk is expected to be far higher.

Following a current policies pathway leads to the highest physical risks.

	NGFS Net Zero by 2050	NGFS Below 2°C
Orderly Transition	• Early and smooth transition • Coordinated policy action across countries and sectors • Low physical risks Average temperature increase of **1.5°C**	• Early and smooth transition • Coordinated policy action across countries and sectors • Relatively Low physical risks Average temperature increase of **1.7°C**
	NGFS Divergent Net Zero	NGFS Delayed Transition
Disorderly Transition	• Early but divergent transition • Divergent policy action across countries and sectors • Low physical risks Average temperature increase of **1.5°C**	• Late and abrupt transition • Relatively Low physical risks Average temperature increase of **1.8°C**
	NGFS NDCs	NGFS Current Policies
Hot House World	• Countries implement climate policies in line with their committed pledges (NDCs) • Efforts are insufficient to halt significant global warming • High physical risks Average temperature increase of **2.5°C**	• No transition impact – Existing policy regimes are continued with the same level of ambition • Severe physical risks Average temperature increase of **2.5°C**

Climate Impact on Funding Ratio

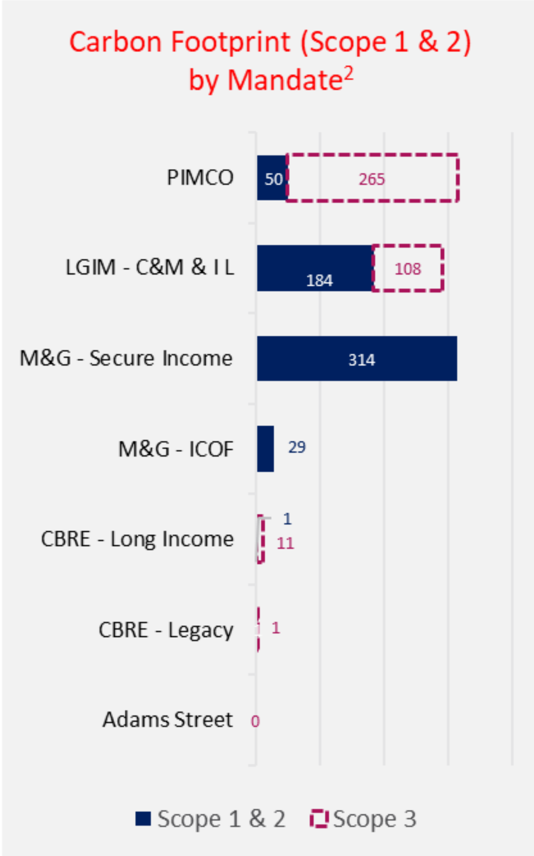
The table below shows the Scheme's funding ratio under the six scenarios relative to a baseline. This baseline is conditioned on historic relationships and long-term views based on current market conditions.

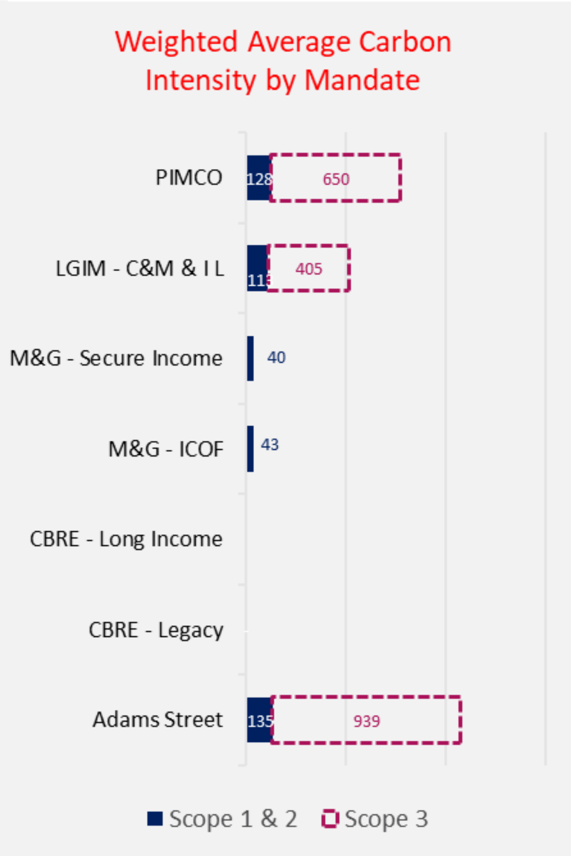
Pathway	Dec '21	Mar '22	Jun '22	Sep '22	Dec '22	Dec '23	Dec '24	Dec '25	Dec '26	Dec '28	Dec '31
NGFS Net Zero 2050	0.0%	0.2%	0.4%	0.6%	-0.0%	-0.0%	-0.1%	-0.2%	-0.3%	-0.5%	-1.4%
NGFS Divergent Net Zero	0.0%	-0.0%	-0.1%	-0.2%	-0.1%	-0.2%	-0.3%	-0.5%	-0.6%	-0.9%	-1.6%
NGFS Below 2 Celsius	0.0%	0.1%	0.1%	0.2%	-0.0%	-0.0%	-0.1%	-0.1%	-0.1%	-0.2%	-0.6%
NGFS Delayed Transition	0.0%	-0.0%	-0.1%	-0.2%	-0.1%	-0.2%	-0.3%	-0.5%	-0.6%	-0.9%	-1.6%
NGFS NDCs	0.0%	-0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.3%	-0.3%	-0.4%	-1.0%
NGFS Current Policies	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.2%	-0.1%

Appendix 2 | Metrics – Additional Information

Sainsbury's Section

The charts below summarise the total emissions and emissions intensity metrics for the Sainsbury's Section for each of the underlying mandates where data was provided.

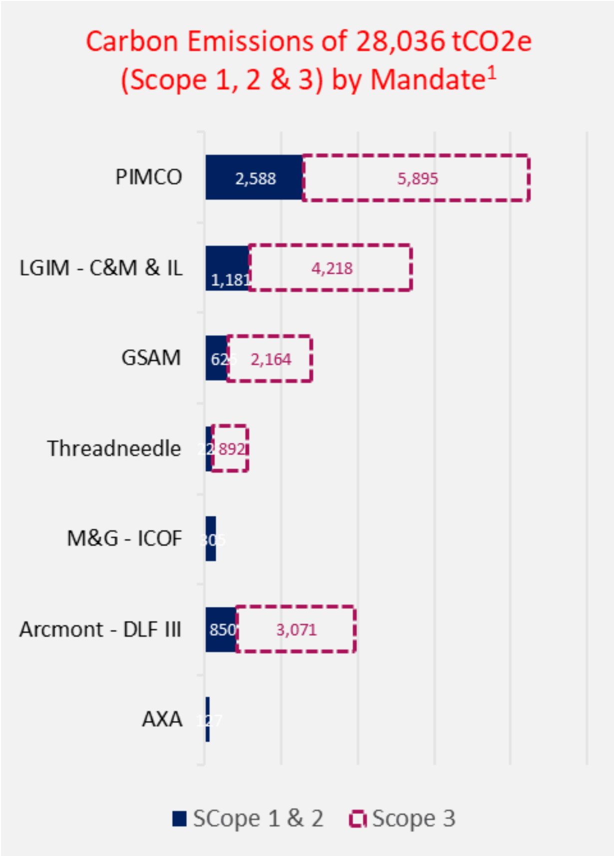


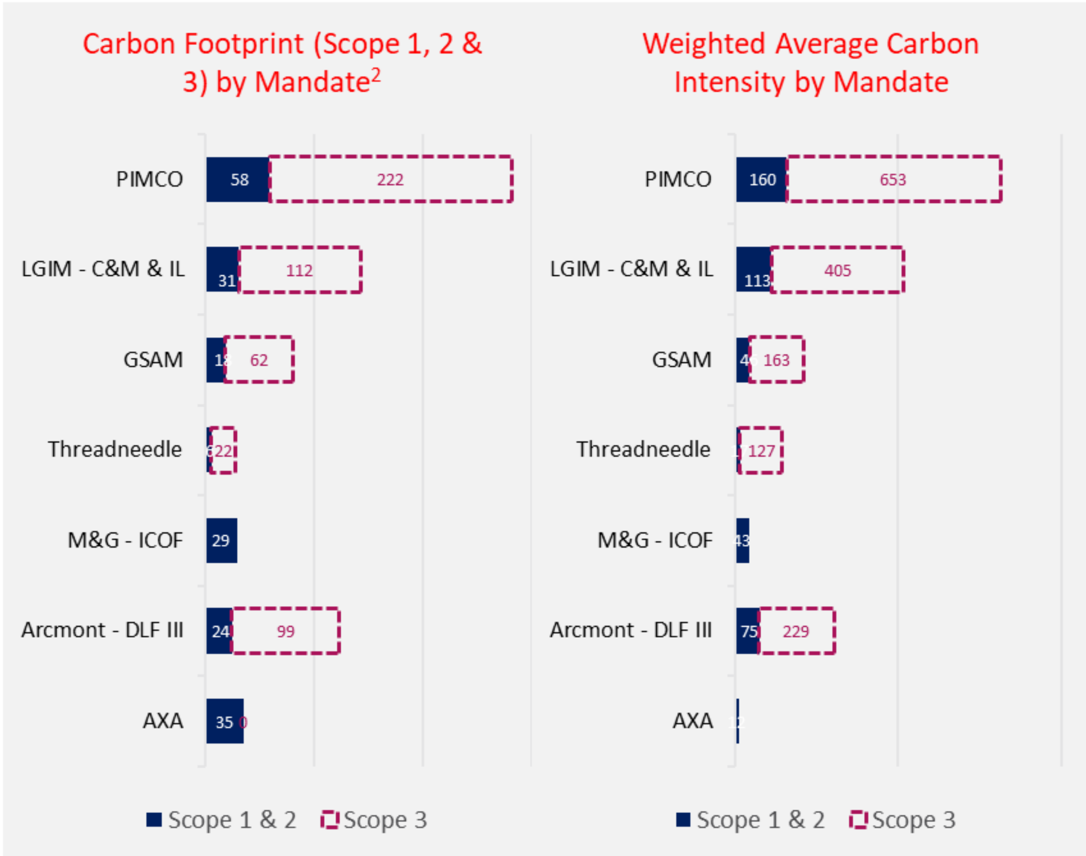


1 Tonnes of CO2e.
2 Tonnes of CO2e/Market value of investment (in USD)

Argos Section

The charts below summarise the total emissions and emissions intensity metrics for the Argos Section for each of the underlying mandates where data was provided.





1 Tonnes of CO2e.

2 Tonnes of CO2e/Market value of investment (in USD)

Appendix 3 | Data Availability – Additional Information

The table below and on the following page sets out any additional information which the Scheme's investment managers have provided during the data collection process, with regards to where the carbon data has been sourced and what it includes/excludes.

Sainsbury's Section

Mandate	Data Availability Baseline year (31.12.21)	Data Availability (31.12.22)	Notes
Adams Street	0%	0%	Only WACI reported. Absolute carbon emissions (CO2e) or portfolio carbon footprint estimates cannot be reported. Due to low coverage for those data points, the manager does not have sufficient data to report a meaningful estimate.
LGIM – Index-linked credit portfolio	13%	17%	Source: LGIM, ISS, 3rd party estimates
CBRE – Long Income	79%	99%	Source: GRESB 2022
M&G - Illiquid Credit Opportunities	37%	36%	Sources: 3rd Party Estimate - 7.04% M&G Estimate - 20.14% Company Disclosure - 9.07% Data Not available - 63.75%
M&G – Secure Income	63%	39%	Sources: 3rd Party Estimate - 4.63% M&G Estimate - 28.80% Company Disclosure - 5.45% Tennant Provided - 0.07% Data Not available - 61.04%
PIMCO – Global Credit	89%	87%	Source: MSCI. Only includes corporate holdings.

Argos Section

Mandate	Data Availability Baseline year (31.12.21)	Data Availability (31.12.22)	Notes
LGIM – Index-linked credit portfolio	13%	17%	Source: LGIM, ISS, 3rd party estimates
Threadneedle	9%	99%	Source: EVORA Global Limited.
M&G - Illiquid Credit Opportunities	37%	36%	Sources: 3rd Party Estimate - 7.04% M&G Estimate - 20.14% Company Disclosure - 9.07% Data Not available - 63.75%
AXA – Real Estate Debt	0%	100%	Source: MSCI proxy carbon emissions data.
PIMCO – Global Credit	89%	87%	Source: MSCI. Only includes corporate holdings.
Arcmont – Direct Lending	0%	100%	Source: Estimated using ClarityAI.
GSAM – Direct Lending	0%	100%	Source: Estimated (96%) and public disclosures (4%).

Glossary of key terms

ESG refers to Environmental, Social and Governance factors that could affect the performance and sustainability of a business.

Funded/Unfunded exposure refers to the use of borrowing. In an LDI portfolio, this may be through the use of derivatives such as gilt repurchase agreements (repos) or swap agreements.

Green Gilt is debt issued by the UK government, and is similar to traditional gilts, except that the proceeds from the borrowing are directly used to finance "green" projects.

Gilts-crisis refer to the period from 23 September to 14 October when there was significant volatility in gilt markets leading to very large collateral calls in respect of derivative instruments used in LDI portfolios.

Liability Driven Investment ("LDI") is an investment strategy that seeks to generate an asset return in line with the Scheme's liabilities. The LDI portfolio will have sensitivity to inflation and interest rates that will be similar to that of the liabilities.

Liquid credit refers to investment grade corporate bonds, asset backed securities and emerging market debt.

SBTi refers to the Science Based Targets initiative – an organisation that enables companies and financial institutions to set science-based emissions reductions targets.

TCFD refers to the TaskForce on Climate Related Financial Disclosures – a global initiative that provides recommendations and resources for reporting climate-related risks and opportunities.