Airbus Group UK Pension Scheme

Climate change report

A report for members by the
Trustee of the Airbus Group UK Pension Scheme

Scheme Year ending 5 April 2023

Why have we written this report?

This report provides members the opportunity to find out more about the work carried out by the Trustee of the Airbus Group UK Pension Scheme (the “Scheme”) in relation to climate change. It is the first climate change report by the Trustee for the Scheme.

Our first and foremost duty is to ensure that your pension scheme's investments are managed to produce returns that secure your financial future. In line with this responsibility, we recognise the growing importance of considering the potential impact of climate change on your pension savings, both now and in the future. In a world where the effects of climate change are increasingly apparent, we believe that this dual focus positions us well for the future, without compromising our commitment to helping you save for your retirement.

In this report, we describe how we are embracing the vital issue of climate change within our pension scheme. The world is changing, and so are the rules and regulations around how businesses operate, particularly in relation to the environment. Governments and regulators are increasingly supporting companies that are working towards a greener future. It is clear that the choices we make today can have a lasting impact on our planet, and as stewards of your pensions, we want to make the right choices.

We hope you find it informative.

Chair of Trustee

Overview

The Trustee of the Airbus Pension Scheme views climate changes as a risk to society, the economy and financial system, but also recognises that reducing carbon emissions throughout the economy presents opportunities.

These risks and opportunities may impact the Scheme's financial position, for example by impacting the businesses that the Scheme invests in. The Trustee monitors this potential impact and takes steps to reduce climate related-risks for members.

This report describes how the Trustee has identified, assessed and managed climate-related risks and opportunities to the Scheme during the Scheme year to 5 April 2023.

Contents

Published alongside the Scheme's annual report and accounts for the Scheme year to 5 April 2023 and available online

Introduction

About the Airbus Group UK Pension Scheme (the “Scheme”)

The Scheme has a Defined Benefit (“DB”) section with invested assets of c.£1.2bn as at 5 April 2023 and a Defined Contribution (“DC”) section (with assets of c.£264.7m). The DB Section is invested in a variety of asset classes including liability driven investments (“LDI”), equities, credit, property and infrastructure. The DC section offers members a number of different investment options, including pre-packaged investment strategies. Members who do not make a choice are invested in one of these pre-packaged strategies, called a “default” strategy. The DC section is split into two sections, the Airbus UK Retirement Plan and the Airbus UK Pension Scheme, which have different default strategies. The large majority of DC members are invested in the default strategies.

The purpose and structure of this report

The purpose of this report is to describe the Scheme’s governance framework for managing climate-related risks and opportunities and how it has been implemented in the year to 5 April 2023. It is the Scheme’s first report in line with the recommendations of the **Taskforce on Climate-Related Financial Disclosures (“TCFD”)**, as required by the 2021 Climate Change Governance and Reporting Regulations.

This report covers the TCFD’s thematic areas of:

- **Governance** – the Scheme’s governance around climate-related risks and opportunities;
- **Strategy** – the potential impacts of climate-related risks and opportunities on the Scheme and the resilience of the Scheme’s investment strategy and DB funding strategy under different climate-related scenarios;
- **Risk Management** – the processes used by the Scheme to identify, assess, and manage climate-related risks;
- **Metrics and Targets** – the metrics and target used to assess and manage relevant climate-related risks and opportunities to the Scheme.

The key findings of this report are set out on the next page.

Key findings

1. **Governance – the Trustee has a robust framework for managing the Scheme, including setting clear expectations and responsibilities in relation to climate change.**

A Climate Governance Statement defines the responsibilities of everyone involved

Climate-related risks and opportunities are reviewed regularly in light of the Trustee's beliefs

The Scheme's advisers support the Trustee on climate-related matters

2. **Strategy and Risk Management – the Trustee has taken steps to understand how climate change might affect the Scheme and to control the risks it has identified. Based on the analysis carried out, the Trustee expects climate change to potentially impact the Scheme more significantly over the longer term. The Trustee aims to reduce the risks to the Scheme in several ways, including:**

Investing responsibly, in line with the Trustee's beliefs. For example, the Trustee moved to low carbon equities to the Scheme's DC default arrangements during the Scheme year

Regularly reviewing the Scheme's investment managers' climate practices and engaging with managers if concerns arise

Setting Stewardship priorities and communicating these expectations to the Scheme's investment managers.

3. **Metrics and Target – the Trustee has collected and reviewed information about the greenhouse gas emissions, carbon footprint and emissions reductions targets for the assets the Scheme invests in, to help it understand the Scheme's exposure to climate risks. It has set a target to increase the proportion of companies it invests in with science-based emissions reductions targets.**

Collected and reviewed greenhouse gas emissions data for the Scheme's investments

Reported proportion of investments with no data or estimated data

Agreed to use data quality as an additional climate-related metric to help it monitor climate-related risks

Governance

How the Trustee maintains oversight of climate related risks and opportunities relevant to the Scheme

The Trustee has ultimate responsibility for making Scheme-wide decisions and ensuring effective governance of climate change risks and opportunities in relation to the Scheme.

Climate change is a financially material factor for the Scheme. It represents a systemic risk to society, the economy and the financial system, although the transition to a low carbon economy also presents opportunities. These risks and opportunities have the potential to impact the Scheme's investments, sponsoring employer and funding position. The Trustee Board identifies, assesses and manages them, with some matters delegated to the Investment Committee ("IC"), and with support from the Trustee Secretary and the Trustee's external advisers.

Establishing responsibilities

In April 2022, the Trustee agreed a Climate Governance Statement (formally the "Trustee Statement on Governance of Climate Change Risks and Opportunities"). This statement documents the division of responsibilities between the Trustee, IC, investment adviser, actuarial advisor, covenant adviser and investment managers so that it has oversight of the climate-related risks and opportunities relevant to the Scheme and that it can be confident that its statutory and fiduciary obligations are being met.

The Statement was reviewed and agreed by each of the Scheme's advisers to ensure they had a clear understanding of roles and responsibilities.

Roles and responsibilities

Trustee Chair

It is the Trustee Chair's responsibility, with support from the Trustee Secretary and Investment Committee, to ensure that sufficient time is allocated for consideration and discussion of climate matters by the Trustee, the Investment Committee and its advisers.

Trustee

In broad terms, the Trustee is responsible for:

- ensuring the Trustee Directors have sufficient knowledge and understanding of climate change to fulfil their statutory and fiduciary obligations and are keeping this knowledge and understanding up to date. This includes knowledge and understanding of the principles relating to the identification, assessment and management of climate-related risks and opportunities for the Scheme;
- putting effective climate governance arrangements in place;
- allowing for climate-related considerations when assessing and monitoring the strength of the sponsoring employer's covenant;
- ensuring that the Scheme's actuarial, investment and covenant advisers have clearly defined responsibilities in respect of climate change, that they have adequate expertise and resources, including time and staff, to carry these out, that they are taking adequate steps to identify and assess any climate-related risks and opportunities which are relevant to the matters on which they are advising, and that they are adequately prioritising climate related risks;

- considering and documenting the extent to which the advisers' responsibilities are included in any agreements, such as investment consultants' strategic objectives and service agreements;
- communicating with Scheme members and other stakeholders on climate change where appropriate, including public reporting in accordance with The Occupational Pension Schemes Regulations 2021 (Climate Change Governance and Page 2 of 4 Reporting), The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (together "TCFD reporting") when required; and
- overseeing any matters that the Trustee has delegated to its Investment Committee, as outlined below.

Investment Committee

In broad terms, the Investment Committee is responsible for:

- incorporating climate-related considerations into its investment beliefs and the Scheme's investment policies;
- incorporating climate-related considerations into strategic decisions relating to the Scheme's funding and investment framework;
- determining the short-, medium- and long-term periods to be used when identifying climate-related risks and opportunities for the Scheme;
- identifying and assessing the main climate-related risks and opportunities for the Scheme over these time periods and documenting the management of them;
- incorporating climate-related considerations into the Scheme's risk register and integrated risk management ("IRM" framework);
- ensuring that the Scheme's investment managers are managing climate-related risks and opportunities in relation to the Scheme's investments, and have appropriate processes, expertise and resources to do this effectively;
- carrying out climate scenario analysis as and when required; and
- selecting and regularly reviewing metrics to inform the Trustee's identification, assessment and management of climate-related risks and opportunities, and setting and monitoring targets to improve these metrics over time where appropriate.

Investment managers

In broad terms, the Scheme's investment managers are responsible for:

- identifying, assessing and managing climate-related risks and opportunities in relation to the Scheme's investments, in line with the investment management arrangements agreed with the Trustee and/or Investment Committee;
- exercising rights (including voting rights) attached to the Scheme's investments, and undertaking engagement activities in respect of those investments, in relation to climate-related risks and opportunities in a way that seeks to improve long-term financial outcomes for Scheme members;
- reporting on stewardship activities and outcomes in relation to the Scheme's investments on an annual basis, wherever feasible; and
- providing information to the Scheme's investment adviser on climate-related metrics in relation to the Scheme's investments, as agreed from time-to-time, and using its influence with investee companies and other parties to improve the quality and availability of these metrics over time.

Actuarial adviser

The Scheme's actuarial adviser is responsible for advising on how climate-related risks and opportunities might affect the Scheme's funding position over the short-, medium- and long-term and the implications for the Scheme's funding strategy, long-term objective, and journey plan.

Investment adviser

The Scheme's investment adviser is responsible, as requested by the Trustee or Investment Committee, and working with the Trustee, Investment Committee, and other advisers as appropriate, for:

- providing training and other updates on relevant climate-related matters;
- helping the Investment Committee to formulate the investment beliefs in relation to climate change and reflecting these in the Scheme's investment policies and strategy;
- advising how climate-related risks and opportunities might affect the different asset classes in which the Scheme might invest over the short-, medium- and long-term, and the implications for the Scheme's investment strategy and journey plan;
- advising the Investment Committee on the appropriateness and effectiveness of the Scheme's investment managers' processes, expertise and resources for managing climate-related risks and opportunities, given the Trustee's investment objectives and beliefs, and engaging with the managers to improve climate-related integration over time;
- assisting the Trustee and Investment Committee in incorporating climate change in its investment monitoring;
- advising on the inclusion of climate change in the Scheme's governance arrangements, risk register and IRM framework;
- assisting the Investment Committee in identifying, monitoring, and using suitable climate-related metrics and targets in relation to the Scheme's investments, including liaising with the Scheme's investment managers regarding provision of the metrics; and
- leading on the preparation of the Trustee's TCFD reporting, and assisting with other communication with stakeholders in relation to climate change.

Covenant adviser

The Scheme's covenant adviser is responsible for:

- considering in periodic covenant reviews how climate-related risks and opportunities might affect the employer over the short-, medium- and long-term and the implications for the Scheme's journey plan; and
- noting in the Scheme's covenant monitoring any changes in the policies and practices of the employer relating to climate change, and the employer's progress against any climate-related targets it has set.

Oversight activity

The Trustee and Investment Committee (as appropriate) ensures adequate oversight of climate-related risks and opportunities, as set out in the Climate Governance Statement, by incorporating various activities into the Trustee's annual business plan.

A summary of items reviewed by the Trustee, including their frequency is set out below.

Quarterly

- On a quarterly basis, the Trustee reviews the Scheme's risk register, IRM framework, and updates on the Scheme's investment funding position; and,
- The Investment Committee also engages with its investment managers at quarterly meetings and ensures that the Scheme's investment managers provide an update on Environmental, Social and Governance ("ESG") factors and climate change as part of their regular reporting.

Annually

- The Trustee and Investment Committee reviews and (where appropriate) revises its governance arrangements, investment beliefs and policies in relation to climate change. It also reviews:
  - data on climate-related metrics and progress against the target set in relation to these metrics;
  - whether it is appropriate to carry out scenario analysis that illustrated how the Scheme's asset and liabilities might be affected under various climate change scenarios; and
  - investment consultants' climate competency including assessing how they have performed against their climate responsibilities.

Other regular items

- A responsible investment report from the Scheme's investment consultant that reviews the Scheme's investment managers in relation to ESG factors and climate change;
- At least once every three years, the results of scenario analysis, including the time periods used, that illustrate how the Scheme's assets and liabilities might be affected under various climate change scenarios, along with commentary on the potential impacts for the sponsoring employer and the implications for the resilience of the scheme's funding and investment strategies; and,
- Its choice of metrics to inform identification, assessment and management of climate-related risks and opportunities.

The Trustee also considers climate-related risks and opportunities whenever the following activities are undertaken:

- Actuarial valuation of the Scheme's DB section;
- Review of the investment strategy for the Scheme's DB and DC sections; and
- Assessment of the sponsoring employers' covenant.

Determining the correct apportionment of resources

The key rationale for allocating resources to this area is that the Trustee believes that ESG factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors which include factors relating to climate change.

Ensuring adequate oversight of climate-related risks and opportunities

Oversight activity – appointments

The Trustee seeks input from its investment, actuarial and covenant advisers to ensure that it can identify, assess and manage climate risks and opportunities. From time to time, the Trustee will review the climate competency of its advisers and take appropriate action if any concerns are identified.

Over 2022, the Trustee and Investment Committee has undertaken activity on climate change related matters, based on information provided to them by their advisers and investment managers. Where appropriate, the Trustee has questioned the information provided to them to ensure they have a clear understanding of the risks facing their Scheme and the actions been taken to reduce these.

When appointing new advisers in the future, the Trustee will consider whether the advisers have suitable climate credentials.

With appropriate advisers in place, the Trustee ensures that climate-related risks and opportunities are considered as part of any relevant advice such as investment strategy reviews, the actuarial valuation process and assessment of the employer's covenant, with climate change included in the agenda items for each of these at the relevant meetings.

The Trustee satisfies itself that its advisers take adequate steps to identify and assess climate-related risks and opportunities (which are relevant to the matters on which they are advising) by ensuring that their advisers:

- have clearly defined responsibilities in respect of climate change–having reviewed and agreed their responsibilities in the Trustee Statement on Governance of Climate Change Risks and Opportunities;
- have documented their responsibilities in relevant agreements, such as the investment consultant's strategic objectives;
- have adequate expertise and resources, including time and staff, to carry these out; and
- are adequately prioritising climate-related risk.

Oversight activity - objectives set for advisers

In December 2022, the Trustee reviewed the investment consultant objectives against which they review their investment adviser on an annual basis. As part of the review, the Trustee agreed to add a new climate related objective to reflect their investment adviser's new responsibilities as set out in the Trustee Statement on Governance of Climate Change Risks and Opportunities.

New climate-related investment consultant objective

- Support the Trustee in relevant Responsible Investment and climate requirements and decisions, including support with preparation of TCFD climate reporting (for DB & DC)

Governance

Oversight activity – annual business plan

The Trustee reviews its business plan which outlines climate-related topics to be discussed and what advice is expected from advisers in relation to each item.

When setting its annual business plan, the Trustee ensures appropriate coverage of ESG and climate-related topics. In addition, the Trustee directors assess their knowledge and understanding of climate risks and opportunities and identify any training requirements needed to ensure they have the skills required to manage these risks and opportunities. The Trustee seeks to have suitable experience in considering climate risk, to ensure that the risks are suitability considered, documented, reviewed and kept up to date.

Climate-related training sessions typically include an update on recent developments, with interim training on any time-critical developments. They may also include training in support of specific agenda items at Trustee meetings. The training undertaken is documented in the Trustee's training log.

Activities undertaken

Ahead of the Scheme Year, in July 2021, the Trustee undertook a training session on the new TCFD-related requirements to deepen their understanding of climate risks and opportunities and ensure they were up to date on their new climate-related regulatory requirements for the year ahead.

During 2022, the Trustee and Investment Committee allocated significant additional meeting time to climate-related topics and commissioned additional advice in order to deepen its understanding of climate change, enhance the Scheme's management of climate-related risks and opportunities, and satisfy its regulatory obligations.

Climate-related agenda items in 2022/23

January 2022: Responsible investment review, ESG and climate beliefs session, overview of impact of climate threats on the Scheme.

April 2022: Finalised roles and responsibilities document for managing climate risks and opportunities.

April 2022: Selection of climate scenarios and setting short, medium, and long-term targets for the Scheme. Climate scenario modelling, including training on scenario analysis.

July 2022: High level review of the Schemes' managers' climate approaches.

July 2022: Commissioned and received climate advice from Covenant advisor.

September 2022: Confirmation all 1 October 2022 requirements had been met.

December 2022: Reviewing and agreeing climate metrics including training on various metrics.

December 2022: Review of the investment consultant strategic objectives and consideration of a new climate related objective.

January 2023: Set Stewardship Priorities – including regarding climate change – and ensuring the Scheme's managers abide by the set principles.

February 2023: Set a climate target for the Scheme.

Governance

How the Trustee incorporates climate-related risks into its Statement of Investment Principles ("SIP")

The Trustee incorporates its beliefs and policies on climate related risks into its SIP, which sets out the policy of the Trustee on various matters governing decisions about the investments of the Scheme.

Climate related beliefs within the SIP

- ESG factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors.
- long-term environmental, social and economic sustainability is one factor that trustees should consider when making investment decisions.

Climate related policies within the SIP

- The Trustee has considered how social, environmental and ethical factors should be taken into account in the selection, retention and realisation of investments.
- The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

Consideration of climate related risks in the SIP

- ESG factors are sources of risk to the Scheme's investments which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance.
- The Trustee seeks to appoint investment managers who will taking account of financially material considerations (including climate change and other ESG considerations) as appropriate when managing the portfolios of assets.

Strategy

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

Trustees must decide the short-, medium- and long-term time horizons that are relevant to their scheme. It is up to trustees how they determine their time horizons for the purpose of identifying and assessing climate-related risks and opportunities.

The Trustee has defined the below time horizons for the Scheme. In setting these time horizons, the Trustee has taken into account the membership profile and the timing of widely held future climate milestones.

The Trustee will review the designated time periods regularly and following any material change to the Scheme's membership. These time horizons have informed the Trustee's climate-related considerations and decisions during the year.

The following time horizons were agreed in April 2022 and used for the climate scenario analysis conducted in the same month.

Time period	DB Section	DC Section
Short-term	**4 years (2027)** – Will cover period to the end of the next valuation cycle when results are likely finalised (next Valuation 2023-2026). Expected improvement in climate data quality and climate regulations over this period.	**4 years (2027)** - Expected improvement in climate data quality and climate regulations over this period.
Medium-term	**9 years (2032)** – The Scheme's technical provisions discount rate reduces as at 2031. The Scheme's current investment strategy is expected to continue (in broad terms) until then. Covers period where there are likely to be significant changes made by 2030 to limit global warming to 1.5°C above pre-industrial levels.	**9 years (2032)** – Covers period where there are likely to be significant changes made by 2030 to limit global warming to 1.5°C above pre-industrial levels.
Long-term	**24 years (2050)** – Reflects approximate duration of Scheme liabilities and covers end of de-risking period assumed in the technical provisions. Longer-term exposure to climate related risks and opportunities if Scheme is maintained for longer-term.	**29 years (2052)** – Many economies are targeting to be net zero by this point.

Strategy

Overview of the climate-related risks and opportunities relevant to the Scheme that the Trustee has identified

The Trustee has identified and assessed the risks and opportunities to the Scheme within each of these time horizons, as summarised below. These risks and opportunities are considered further in the following sections where we discuss further the Trustee's approach to investment risks and opportunities and covenant.

DB Section

	Key risks	*Key opportunities*
Short term	Exposure to climate-related investment risks may be highest while you retain an allocation to growth assets	Climate-tilted equity funds aim to protect against transition risks and provide exposure to transition opportunities
Medium term	Market volatility could cause investment losses and increase time to reach full funding on buy-out basis	Climate-aware credit mandates should increase the resilience of assets to climate risks
Long term	Cost of buy-out may increase as insurers allow for climate-related risks in their pricing and reserving bases	Buy-out is expected to provide greater protection from climate risks for members' benefits

DC Section

	Key risks	*Key opportunities*
Short term	Older members within 10 years of retirement will be most exposed to transition risks in the short term in the event of a Paris disorderly pathway	Low carbon investments can mitigate the impact of market shocks due to a market repricing event
Medium term	Transition risks may still be heightened over the medium term, creating volatility. Market returns may be lower if disorderly transition harms economic performance	Impact investments can take advantage of the shift to a low carbon economy and may provide an enhanced source of return over this period
Long term	Physical risks are most prevalent in the failed transition pathway, impacting those members 20 years or more from retirement	Engagement with investment managers to ensure they are exercising stewardship in support of net zero pathways is key to avoiding a failed transition

The above risks and opportunities are considered by the Trustee on an on-going basis and will be further considered as part of the strategy review during the triennial Actuarial valuation as at 5 April 2023. Over the year the Trustee consider switching the DB Section's equity holdings into low carbon equities and will continue to investigate this further over the coming year.

As with the DB Section, the Trustee considers the above risks and opportunities on an ongoing basis and reviewed the level of responsible investment integration within the Scheme's investment offering during the Scheme year. As a result of this review, the Trustee moved to low carbon equities in the Scheme's default arrangements to better protect members against climate change risk and to reduce the environmental impact of the investments held by members. The Trustee also added two funds to the Scheme's self-select fund range that have a specific responsible and sustainable focus. The above risks and opportunities will also be considered as part of the triennial investment strategy review that is due to take place in September 2023.

Climate scenarios considered

The Trustee carried out climate scenario analysis in April 2022, with the support of its investment adviser, LCP, based on 30 June 2021 scenario sets and market conditions as at 31 December 2021. The analysis looked at three possible scenarios, which are set out in the table below.

The Trustee acknowledges that many alternative plausible scenarios exist, but found these were a helpful set of scenarios to explore how climate change might affect the Scheme in future.

To provide further insight, the Trustee also compared the outputs under each scenario to a “climate uninformed base case”, which makes no allowance for either changing physical or transition risks in the future.

These scenarios show that equity markets could be significantly impacted by climate change with lesser but still noticeable impacts in bond markets.

1. **Failed Transition:** Global Net Zero not reached; only existing climate policies are implemented

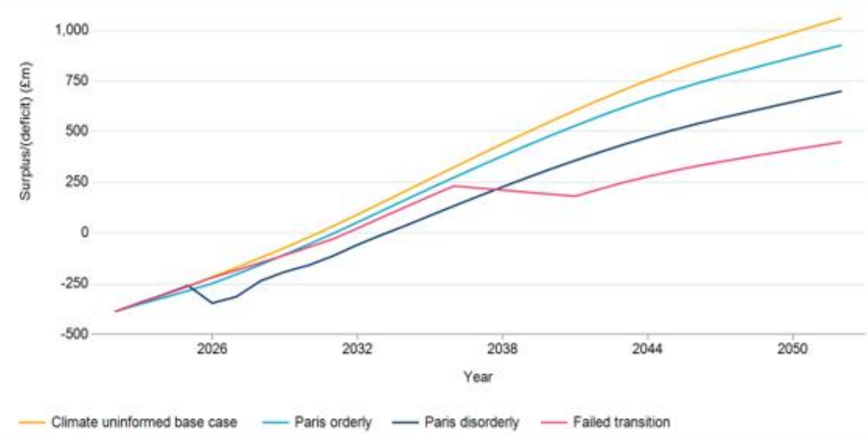
2. **Paris Orderly Transition:** Paris Agreement goals met; rapid and effective climate action, with smooth market reaction

3. **Paris Disorderly Transition:** Same policy, climate and emissions outcomes as the Paris Orderly Transition, but financial markets react slowly

Potential Scheme impacts under each scenario – DB Section

The scenario analysis looked at the impact of the Scheme's funding position over time. Given the analysis focusses on the medium and long term we adopted a liability measure consistent with the Scheme's technical provisions as at 31 December 2021 but adopting a discount rate of gilts + 0.5% pa (the long term target) throughout. We then modelled an investment strategy which was consistent with the then target of gilts +3.3% pa which is then assumed to de-risk between 2031 and 2046 to a long-term portfolio targeting gilts + 1.5% pa returns. The analysis also then considered alternative strategies which returned gilts +2.5% which then de-risks to gilts +1.5% pa, a flat gilts +1.5% pa strategy and one which allocated to climate-tilted equities.

The Trustee considered the impact on the assets, liabilities and therefore surplus/deficit for each of the of the three scenarios considered, as well as in the "climate uninformed" base case. We have shown the output of the current investment strategy scenario testing below.



Current surplus position is expected to improve with current investment strategy providing returns in excess of gilt returns.

If net zero is to be reached by 2050, there may be some minor adverse impacts to funding levels…

…and if the market reaction to the journey to net zero is volatile, these impacts could be more significant.

A failed transition would be expected to have significant impacts on the current portfolio, but the Scheme may be able to de-risk before these impacts occur.

The investment strategies with lower expected returns, showed that climate risks results in smaller impacts in each scenario. In late 2022, the Scheme de-risked its investment strategy following an improvement in the overall funding level.

It is noted that over the long-term, and particularly beyond the time horizon modelled, the largest effects on the funding position would be felt under the Failed Transition scenario. On the face of it, the results suggest that the DB section has some resilience in this scenario. This is partly because in the modelling the DB section has a low-risk long-term investment strategy with limited exposure to growth assets. Moreover, the DB section invests in a way that is designed to make it fairly immune to changes in interest rates and inflation in normal circumstances, which significantly reduces the volatility of its funding position. However, under climate scenarios with major economic disruption – such as the later years of the Failed Transition scenario – the Scheme's interest rate and inflation protection may break down, leaving it more exposed to climate risks.

Assessment of employer covenant

In October 2022, the Trustee's covenant adviser provide a report that considered at a high-level and on a qualitative basis, risks and opportunities faced by the Group (the employer) as a result of climate change and considered the potential implications this may have for the Scheme's employer covenant.

The Trustee's reviewed the findings of the report which set out that the Group categorises climate risks as Transitional or Physical and it monitors these over short (0-5 years), medium (5-10 year) and long-term (10-30 years) time horizons.

The report summarised a number of potential Transitional and Physical risks which had been disclosed in the Group's Annual Report. The covenant adviser also noted that the Group had identified a number of mitigations to these risks that were either specifical to individual risks or general mitigants.

It was noted that given the carbon intensive industry within which the Group operates in, climate change is a significant risks to the employer covenant provided by the Group. Furthermore, not all the risks highlighted are within the Group's power to control. However, it was suggested that the Group had developed sensible approaches to mitigating the majority of these risks where possible. The covenant adviser did not recommend any changes to the employer covenant rating.

The Trustee was comfortable with the assessments provided and will continue to monitor the identified risks via regular reviews of the Group's climate change disclosures.

Potential Scheme impacts under each scenario – DC Section

The scenario analysis looked at the retirement outcomes (in terms of the size of retirement pots) for individual members of different ages who are invested in the Default strategy for the Airbus UK Retirement Plan.

The analysis highlighted that members will be subject to climate risks to varying degrees. In addition to the impact over time on members' pots, the Trustee notes that market shocks for members near retirement can be particularly detrimental to their retirement planning and outcomes.

- In the short-term, older members who may retire within the next 10 years could see a sharp decrease in their benefits under a Net Zero Disorderly Transition, as their savings remains invested in return-seeking assets to some degree all the way to retirement, although the proportion decreases over time which helps to mitigate this risk. These members will not have sufficient time to recover from short-term market shocks before retirement.
- In the medium-term, members with 10 or more years until they retire are likely to see an impact on their retirement funds, either initially from a Net Zero Disorderly Transition, or later on under a Failed Transition scenario as the impacts of physical climate change impact their benefits during their period to retirement.
- In the long-term, younger members would see the biggest detrimental impact to their benefits under a Failed Transition scenario and this impact could reduce the level of their benefits by 28% or more.
- The Trustee also conducted scenario analysis for a deferred member, assuming no future contributions into the Scheme. The analysis shows that the impact under each scenario is expected to be significantly more detrimental than for active members making future contributions into the Scheme (such as those shown in the table below). This is to be expected given that no future contributions are being made to make up for the investment losses suffered due to climate risk. However, deferred members are likely to have additional pension provisions outside of the Scheme so the expected impact on their overall pots would likely be similar to the table below.

The Trustee believes that it is imperative to avoid a failed transition to prevent the worst effects of climate change being felt. The Trustee believes that it cannot do this by lowering the emissions of its investments in isolation; the whole world needs to lower emissions. The Trustee's focus therefore is to encourage companies to adopt a science based net zero target.

	Member aged 25	Member aged 45	Member aged 55
Starting pot	£1	£15,000	£25,000
Change relative to climate-uninformed outcome in brackets			
Climate-uninformed outcome	£181,500	£132,300	£85,400
Paris Orderly outcome	£165,900 (-9%)	£127,700 (-3%)	£83,000 (-3%)
Paris Disorderly outcome	£159,400 (-12%)	£120,600 (-9%)	£79,200 (-7%)
Failed Transition outcome	£130,100 (-28%)	£107,900 (-18%)	£83,400 (-2%)

The scenario numbers above reflect a projection of example members' pots to age 65 under each scenario to provide an indication of how the different scenarios could impact how much members may have in their pots at the point of retirement. Member assumptions used in the analysis are based on data provided in the Airbus Investment Guide and website. The analysis was generated using LCP Horizon Pro using climate scenarios and market conditions as at 31 December 2021.

Risk Management

Introduction

The Trustee has implemented a number of processes and tools for identifying, assessing, and managing climate-related risks and opportunities, including:

- Climate scenario analysis;
- Monitoring of managers' climate approaches;
- Monitoring of metrics; and
- Stewardship activities.

The Trustee also ensures its advisers have processes in place to help it research its investment managers' climate-related practices, thereby helping it make informed judgments about its managers.

These tools have helped the Trustee consider issues such as:

- Which climate change risks are most material to the Scheme;
- How to take account of transition and physical risks; and
- How climate change affects the Trustee's risk appetite.

The tools are used to identify the key risks that the Trustee should focus on. The Trustee assesses these risks as part of its investment decision-making processes and monitors them through its risk register to ensure all risks are being considered and managed consistently and proportionately.

How the Trustee has assessed climate exposure

The Trustee has used climate scenario analysis to identify, assess and manage climate-related risks and opportunities. In particular, it has used the analysis to identify the time horizons over which physical risks and transition risks to Scheme members could materialise.

Using the scenario analysis, the Trustee has considered what the possible impacts of climate change could be over short-, medium-, and long-term time horizons and whether its investment strategy, funding and covenant is likely to be resilient against these risks (or able to take advantage of any opportunities). Climate scenario analysis was carried out for the Scheme in April 2022.

The Trustee will carry out scenario analysis at least every three years and check annually if the review should be carried out sooner.

The results of the analysis are fed into the integrated risk management of the DB section through specific covenant, investment and DB funding focused considerations and the interaction of these.

For the DC Section, the Trustee moved to a low carbon equity fund in the Scheme's default arrangements following the climate scenario analysis undertaken in April 2022 to better protect members against climate change risk (detailed on page 13). Climate scenario analysis for the DC section will also feed into the Trustee's future discussions and decisions regarding the default investment arrangements as it illustrates how members could be impacted at different ages over different time periods. The results of this analysis will also be considered as part of the triennial investment strategy review which is scheduled to take place in September 2023.

During the year, the Scheme's actuarial adviser also provided a summary of the impact of climate risks on longevity, covering the potential economic and physical impacts for example.

Risk Management

Processes for identifying, assessing, and managing climate-related risks and opportunities

The Trustee has implemented a number of processes and tools for identifying, assessing and managing climate related risks and opportunities for the Scheme, including:

- attending climate related training to understand how climate-related risks might affect pension schemes and their investments in general terms;
- undertaking climate scenario analysis which shows how the Scheme's assets and liabilities might be affected under a range of climate scenarios;
- reviewing how the sponsoring Employer might be impacted by climate-related factors (see Appendix 2 for more detail);
- reviewing its investment adviser's assessments of the Scheme's current and prospective investment managers' climate practices, including how they incorporate climate-related factors into their investment processes and how effectively they manage climate related risks;
- ensuring good stewardship practices are in place; and
- monitoring a range of climate-related metrics in relation to the Scheme's assets.

In addition, the Trustee expects its investment managers to identify, assess and manager climate-related risks to the Scheme's assets on a day-to-day basis. The above processes are integrated into the overall risk management of the Scheme through the business plan, the risk register and regular support from its advisers.

Risk register

The Trustee maintains a risk register covering the wide range of risks applicable to the Scheme. The Trustee updated the register during 2022 and 2023 to cover the consideration of climate risks to ensure that the Trustee manages these as part of their regular risk reviews. A potential impact identified in the risk register that could arise from climate risks is investment losses.

The Trustee reviews the risks and opportunities regularly to ensure they are current, to assess any significant priority risks and opportunities to manage / embrace and to ensure regular action is maintained in monitoring and mitigating the risks identified.

The Trustee's current assessment, based on consideration of their impact and likelihood, is that climate-related risks are material for the Scheme, relative to other risks, and should continue to be monitored using existing monitoring processes.

Risk Management

Processes for identifying, assessing, and managing climate-related risks and opportunities

Investment Monitoring

The Scheme's investment adviser provides quarterly investment performance monitoring reports in respect of the DB and DC sections of the Scheme. Any concerns in relation to the investment managers are monitored as part of this process.

The Trustee also receives and reviews information about its investment managers' responsible investment credentials, including climate change mitigation, on a biennial basis. This information is provided by the Scheme's investment adviser, LCP, and is based on proprietary manager research carried out by LCP. The Scheme's investment advisers conduct engagement with the managers, encouraging them to improve their practices further, reporting back to the Trustee periodically.

The 2022 High level review of managers' climate approaches report presented by the Trustee's investment adviser, used "traffic light" systems to show the managers' Responsible Investment ("RI") capabilities against a range of different factors which included climate specific responses to LCP's 2022 RI Survey, as well as providing a more detailed review of the climate credentials for the Scheme's investment managers . These included factors such as:

- the use of climate tools to assess climate risks and opportunities (eg scenario modelling, metrics) (full details can be found in Appendix 2);
- commitments to climate goals (eg TCFD reporting, Net Zero targets);
- the quality and coverage of climate data provided; and
- evidence of stewardship and engagement on climate change.

In addition, the reports provided fund and manager specific ratings, based on the specialist asset class and climate knowledge of LCP's manager research teams.

The assessments provided key information on the actions taken by the managers to integrate good climate practices into the running of their firms including the funds in which the Scheme is invested. Based on this review, there were no urgent actions for the Trustee in relation to shortfalls in responsible investment practices. Furthermore, it was assessed that the majority of the Scheme's fund managers take a reasonable approach to net zero and climate practices (for more details please see Appendix 2). The Trustee used the output of the reviews to drive climate related conversations with their investment managers over the year. For example, for the DC Section the assessment highlighted two potential areas of engagement with one of the investment managers, namely alignment metrics reporting and climate scenario analysis.

For the DB Section the Trustee noted that for the opportunity credit mandates the data reporting standard was not up to par and the Trustee will seek to engage with the managers to pursue further details on their climate approach.

For the DC Section, all managers are subscribed to the NZAMI and all but one are subscribed to Climate Action 100+. A small proportion of DC Section assets are invested in the fund managed by the manager that is not subscribed to Climate Action 100+, via self-select.

After the Trustee had received these reports in 2022, they made the decision not to disinvest from any of the funds yet, but instead encourage better climate practices across all the managers.

During the Scheme year the Trustee also updated its SIP for the DC Section to reflect its ambition to align the Scheme's assets with net zero greenhouse gas emissions by 2050 where practicable.

Processes for identifying, assessing, and managing climate-related risks and opportunities

Changes to investment mandates

If the Trustee identifies any concerns with the way one of the Scheme's managers addresses climate related risks and opportunities, it will initially engage with the manager to raise concerns and seek improvements. If the manager does not sufficiently improve, the Trustee may switch to a different manager. Over the year under review no manager changes were made due to specific concerns over their climate approaches. However, as noted in the Strategy section of this report, the Trustee reviewed the level of responsible investment integration within the DC section and made a decision to implement a low carbon approach for the equities used in the Airbus Global Equity Fund, which is the main component of the default investment strategies. The objective of making this change is to better protect members against climate change risk and reduce the environmental impact of the investments held by members. This change resulted in a significant reduction in carbon risk for the overall Scheme as c.69% of the DC Section's assets are invested in this fund. The low carbon fund, managed by Legal & General ("L&G"), is committed to net zero emissions by 2050 and chooses investments according to L&G's climate scores, which take into account a company's climate characteristics (such as carbon emissions, fossil fuel reserves intensity and green revenues). It seeks to invest in companies that have high climate scores and to avoid those companies that have low climate scores.

The low carbon equities described above take the approach of delivering an investment return that is similar to the broader market, so that the expected growth members experience is at least maintained. However, the Trustee recognises that some members may wish to go beyond this broad approach and has also received member feedback to indicate a desire for more specialist funds. As a result, the Trustee also added two funds to the Scheme's self-select fund range that have a specific responsible and sustainable focus. In particular, one of these funds excludes companies with activities in relation to fossil fuels, tobacco and/or certain companies that do not comply with the United Nations Global Compact ("UNGC") screening criteria. The second fund applies ethical and ESG screens during the investment process and actively seeks to invest in companies that are addressing sustainability challenges.

Stewardship

The Trustee uses stewardship to help manage climate-related risks. Voting and engagement activities are delegated to the individual investment managers. The Trustee has set out two stewardship priorities:

1. Climate change;
2. Corporate transparency; and
3. Human rights.

Each manager has its own ESG policy, which includes assessment of climate-related risks and policies on voting on climate-related resolutions. In order to monitor how the individual investment managers are exercising their voting rights and undertaking engagement on behalf of the Trustee, the Investment Committee:

- periodically meets with the Scheme's investment managers, to engage with them on how they have considered ESG issues (including climate change) within their stewardship activities and will seek to challenge the investment managers on these matters where they think this is in the best interests of members; and
- further monitors the investment managers by receiving stewardship and governance reports from the investment managers on a regular basis.

During the 2022-2023 Scheme Year, the Trustee wrote to investment managers regarding the Trustee's stewardship priorities, in line with DWP's guidance. The Trustee has communicated to managers its expectations of them when they carry out responsible investment on the Scheme's behalf.

During the Scheme year the Trustee also updated its SIP for the DC Section to reflect its belief that voting and engagement are important and can create long term value, which is in the best interest of Scheme members. The Trustee, therefore, encourages managers to improve their voting and engagement practices.

Metrics and Targets

Metrics

The Trustee has chosen four climate-related metrics to help it monitor climate-related risks and opportunities relevant to the Scheme. These are listed below and reported on the following pages (as far as the Trustee was able to obtain the data).

Metric	High-level methodology
Absolute emissions: Total greenhouse gas emissions	The sum of each company's most recent reported or estimated greenhouse gas emissions attributable to the Scheme's investment in the company, where data is available. Emissions are attributed evenly across equity and debt investors. Reported in tonnes of CO_2 equivalent. This methodology was chosen because it is in line with the statutory guidance.
Emissions intensity: Carbon footprint	The total greenhouse gas emissions described above, divided by the value of the invested portfolio in £m, adjusted for data availability. Emissions are attributed evenly across equity and debt investors. Reported in tonnes of CO_2 equivalent per £1m invested. This methodology was chosen because it is in line with the statutory guidance.
Portfolio alignment: Science-based targets	The proportion of the portfolio by weight of companies that have a Net Zero target, demonstrated by a target approved Science Based Targets initiative or equivalent ("SBTi"). Reported in percentage terms. The Trustee chose this "binary target" measure because it is considered the simplest and most robust of the various portfolio alignment metrics available.
Data quality	This is the proportion of the portfolio for which each of Scope 1-2 emissions are verified, reported, estimated or unavailable.

The data has been calculated using portfolio holdings as at 30 September 2022 for the DB section and as at 31 March 2023 for the DC section except where otherwise stated.

We note that IFM (the DB Section's infrastructure manager) only report figures annually as at year end. We have therefore shown holdings and metrics data for IFM as at 31 December 2021 so that some relevant reporting is shown for consideration.

Further information about the methodologies used to calculate the metrics, including key judgements, assumptions, data inputs and treatment of data gaps is provided in Appendix 1 & 2.

Metrics and Targets – DB Section

The Trustee has aimed to report on all the Scheme's DB assets including its LDI.

The main gaps in the data provided by the DB managers relates to the illiquid asset holdings such as infrastructure, property, and private/opportunistic credit mandates. For these illiquid and private market assets classes in general, there are lower disclosure requirements and greater complexity of the underlying holdings within these asset classes which affects the collection of data. The gaps in data from these illiquid and private market holdings limits the assessment that the Trustee can make based on data, but the Trustee along with its advisors can at an overall level look to understand and assess the potential risks and opportunities from these asset classes. The Trustee, with input from its investment adviser, will look to work with its managers to improve data quality and coverage for future TCFD reports by engaging with them.

The LDI fund has the largest carbon footprint which is due to the calculation methodology, which takes account of total UK emissions. This methodology relates to the fact the fund largely invests in UK government bonds, however may result in "double counting" of emissions in the portfolio.

Aside from the LDI mandate, the Scheme's infrastructure mandate with IFM had the largest carbon footprint. This is not surprising given the nature of infrastructure assets (such as oil and gas pipelines and airports). To help mitigate manage climate risks for these assets the Trustee believes it is important that the underlying portfolio companies have credible long-term carbon reduction plans. Although the underlying companies do not have SBTi targets, it is encouraging to see that 12 of the 19 underlying portfolio companies have already implemented credible plans to reach Net Zero by 2050. IFM are working with the remaining companies to develop and implement their plans. The Trustee noted that the infrastructure mandate also provides climate opportunities, which is not reflected in the metrics data (eg investments in renewables).

Most of the Scheme's DB investment managers are seeking to improve their climate-related reporting by increasing the number of metrics they report and seeking to fill the data gaps. The Trustee therefore expects data coverage and quality to improve over time. The Trustee is encouraging these investment managers to increase, where possible, their collection and reporting of metrics.

The proportion of holdings with SBTi (science-based target initiative) portfolio alignment targets is fairly low for the Scheme's holdings. The Trustee has a long-term target related to this metric and will therefore seek to engage with its managers to encourage improvement of this over time.

Metrics and Targets

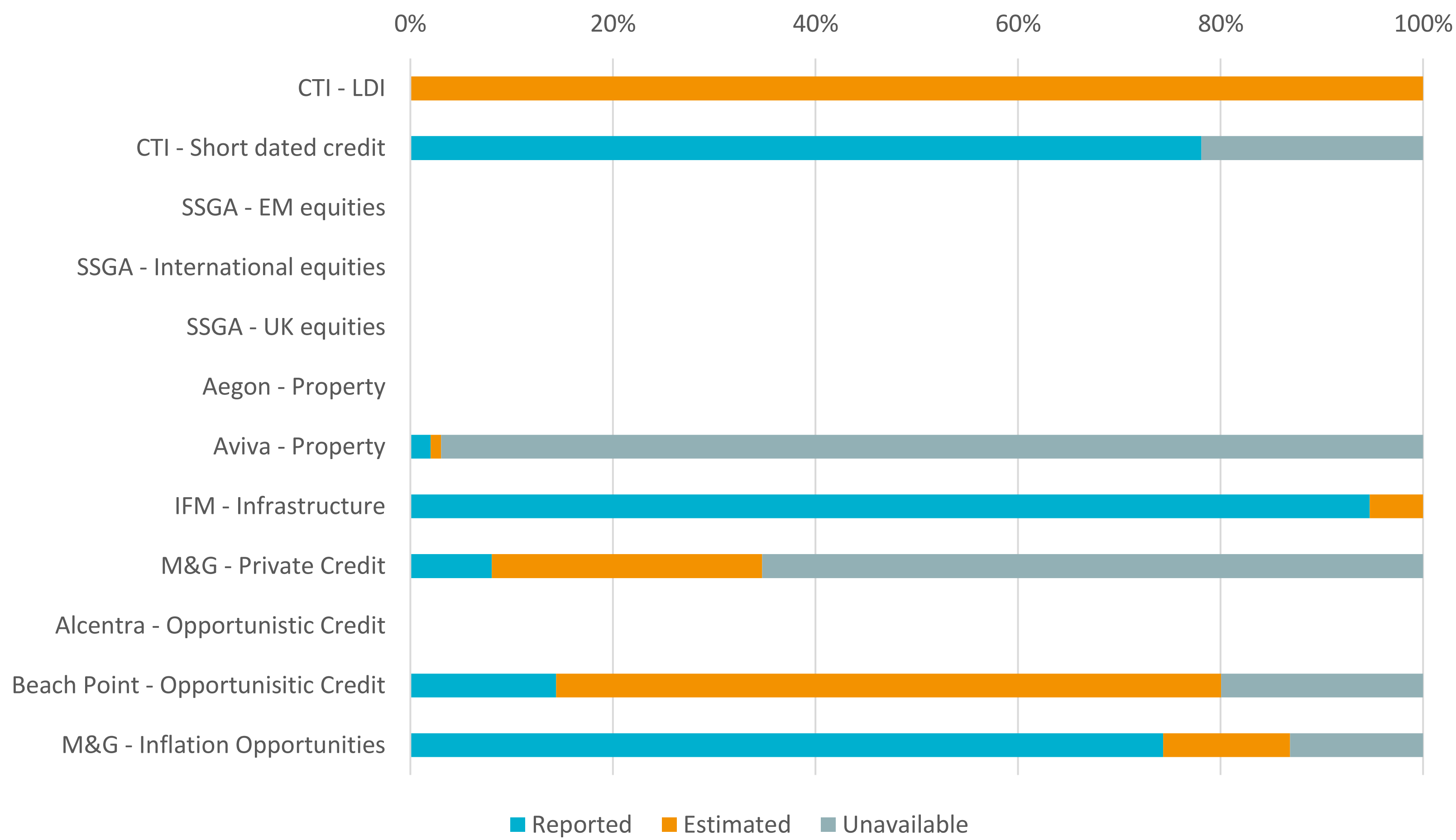
Scope 1+2 emissions – DB Section

Portfolio	Manager	Assets at 30 September 2022	Emissions (tonnes CO_2e)[1]	Carbon footprint (tonnes CO_2e per £m invested)[1]	Coverage	SBTi	Source
Listed equities	SSGA UK	£163m / 14%	**27,408**	**170**	**99%**	**50%**	Manager
	SSGA International	£140m / 12%	**7,984**	**57**	**100%**	**34%**	Manager
	SSGA EM	£26m / 2%	**2,672**	**105**	**99%**	**8%**	Manager
Inflation opportunities	M&G	£79m / 7%	**1,832**	**29**[2]	**79%**	*not available*	Manager
LDI	CTI	£254m / 22%	**95,416**	**174**	**100%**	**100%**	LCP
LDI – credit only	CTI	£34m / 3%	**11,014**	**49**[3]	**78%**[3]	**23%**[3]	Manager
Property	Aegon	£71m / 6%	*not available*	*not available*	*not available*	*not available*	Manager
	Aviva Lime	£79m / 7%	**14,550**	**346**[4]	**53%**	*not available*	Manager
Private credit	M&G	£11m / 1%	**27**	**21**	**11%**	*not available*	Manager
Opportunistic credit	Alcentra	£44m / 4%	*not available*	*not available*	*not available*	*not available*	Manager
	Beach Point	£37m / 3%	**61,713**	**2,073**	**80%**	**11%**	Manager
Infrastructure	IFM	£204m / 18%	*not available*	*not available*	*not available*	*not available*	Manager
	IFM (as at 31 December 2021)	*£151m / 10%*[5]	***112,927***[5]	***1,337***[5]	***100%***	*not available*	*Manager*

[1] Figures relate only to the assets for which data is available. Total emissions are for the Scheme's assets, not the whole pooled fund. The total emissions attributable to the Scheme were estimated by LCP based on the carbon intensity, coverage and asset value figures provided by the investment managers.
[2] Includes fund of fund holdings which report scope 3 only.
[3] Based on EVIC investor allocation. SBTi figures include gilt, repo and cash holdings, which account for over 80% of the portfolio.
[4] Calculated as tonnes of CO2e per £m Gross Market Rent.
[5] As at 31 December 2021 as carbon figures for this fund are published annually. The total emissions figures is estimated assuming 100% coverage as the manager stated the whole portfolio is covered. IFM were only able to provide emissions for the total fund, we have therefore estimated emissions figures based on the Scheme's weighting in the fund.
Figures may not sum due to rounding.

Metrics and Targets

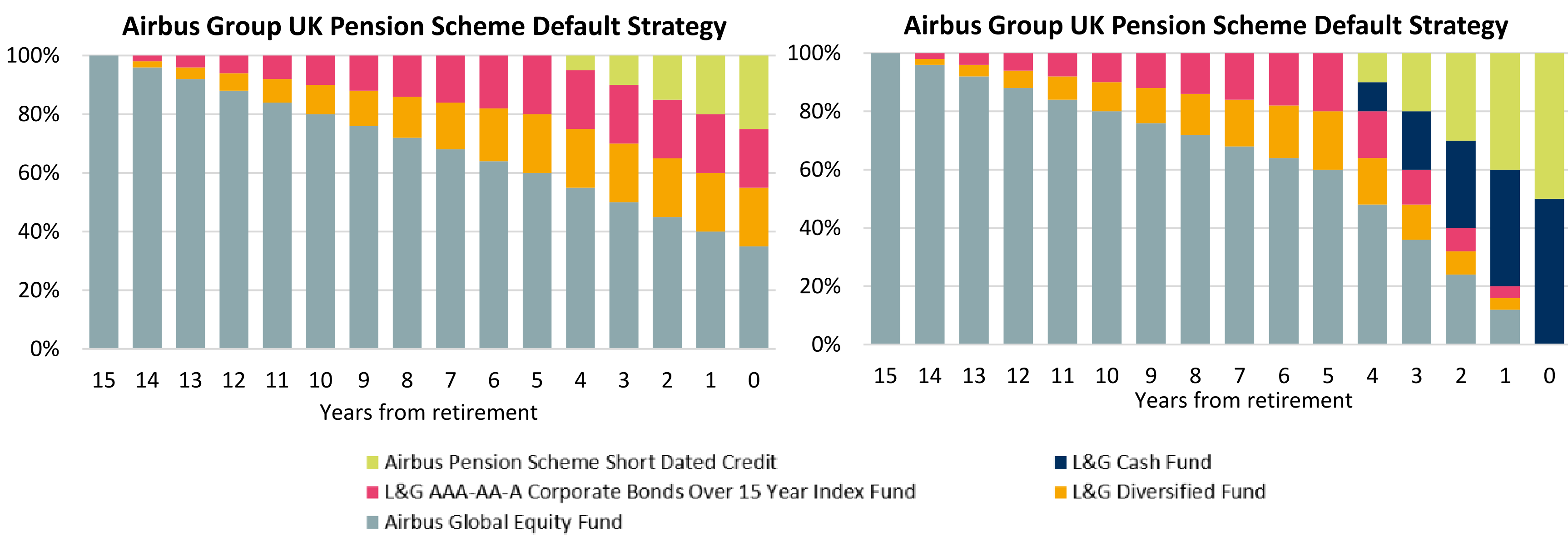
Data quality – DB Section



- Data quality has been provided based on scope 1 and 2 emissions data provided by the managers.

Metrics and Targets – DC Section

For the DC section, the Trustee is required to report climate data for each arrangement in which £100m or more DC assets are invested, or which accounts for 10% or more of the total DC assets. The only fund meeting these requirements is the **Airbus Global Equity Fund**, which is the main component of the **default investment strategies** for the two schemes that make up the DC section. The two default investment strategies are shown below:



The Trustee has requested climate data for all the Scheme's DC assets. The investment platform, Legal & General ("L&G"), was only able to provide climate data for the funds it manages directly ("L&G funds") but not for externally managed funds. Given over 94% of DC assets are invested in L&G funds, this coverage was considered adequate, however, the Trustee continues to work with L&G to improve reporting going forward.

Aside from the external funds, the DC section's property fund has also been excluded from this year's reporting, because of the illiquid asset holdings, for which there are lower disclosure requirements and greater complexity which affect the collection of data.

L&G use Institutional Shareholder Services as their third-party data source

Metrics and Targets

Scope 1+2 emissions – DC Section

Portfolio	Manager and Fund	Assets at 31 March 2023	Emissions (tonnes CO_2e)[1]	Carbon footprint (tonnes CO_2e per £m invested)[1]	Coverage (%)	SBTi (%)
Listed equities	**Airbus Global Equity Fund**	**£181.1m / 69%**	**3,841.7**	**21.4**	**99.1**	**60.0**
	L&G World (ex-UK) Equity Index	£7.0m / 3%	**499.8**	**71.8**	**99.6**	**57.8**
	L&G World Emerging Markets Equity Index	£0.7m / 0.2%	**138.2**	**220.2**	**96.3**	**26.3**
	L&G UK Equity Index	£5.0m / 2%	**494.1**	**106.3**	**92.2**	**54.1**
	L&G Ethical Global Equity	£3.5m / 1%	**201.5**	**58.3**	**98.6**	**68.9**
	L&G Global Equity FW 50:50 Index	£9.0m / 3%	**819.5**	**95.3**	**95.4**	**56.8**
	HSBC Islamic Global Equity Index	£1.3m / 0.5%	*not available*	*not available*	*not available*	*not available*
	Veritas Global Focus	£7.1m / 3%	*not available*	*not available*	*not available*	*not available*
	CT Responsible Global Equity	£0.01m / 0.002%	*not available*	*not available*	*not available*	*not available*
	Fossil Fuel Free Climate Equity	£0.1m / 0.04%	**4.2**	**37.0**	**98.9**	**67.6**
Multi asset	**L&G Diversified**	**£17.3m / 7%**	**1,867.1**	**130.5**	**82.8**	**29.1**
	Invesco Global Targeted Returns	£0.2m / 0.1%	*not available*	*not available*	*not available*	*not available*
Property	L&G Sustainable Property	£1.7m / 0.7%	*not available*	*not available*	*not available*	*not available*
Bonds	**Airbus Pension Scheme Short Dated Credit**	**£6.4m / 2%**	***not available***	***not available***	***not available***	***not available***
	L&G AAA-AA-A Corporate Bonds Over 15 Years	**£12.7m / 5%**	**209.0**	**57.8**	**31.5**	**14.6**
	L&G Over 15 Year Gilts Index	£0.7m / 0.2%	**51.0**	**82.2**	**100.0**	*not available*
	L&G Over 5 Year Index Linked Gilts	£0.3m / 0.1%	**25.9**	**82.2**	**100.0**	*not available*
	L&G Future World Annuity Aware	£0.2m / 0.1%	**11.1**	**59.4**	**77.3**	**32.8**
Cash	L&G Cash	£8.3m / 3%	**322.4**	**64.0**	**64.4**	*not available*

[1] Figures relate only to the assets for which data is available. Total emissions are for the Scheme's DC assets, not the whole pooled fund.

Metrics and Targets

Data quality – DC Section

- Data quality has been provided based on scope 1 and 2 emissions data provided by the investment platform, L&G.
- Reported, Estimated and Unavailable figures relate only to the assets for which data is available. These include equity, bonds, Exchange Traded Funds and government bonds. The remaining proportion represents other assets such as real assets, private debt and derivatives, which are currently not included in L&G's carbon reporting.

Metrics and Targets – DC Section

The Airbus Pension Scheme Global Equity Fund has the highest total absolute emissions by a significant amount, at 3,842 tonnes CO_2 equivalent. This fund represents a key component of the default strategies as shown previously and represents the largest proportion (69%) of assets held by members in the Scheme within the DC section. As a result, the Trustee has been focused on managing climate risk within this fund. In particular, the Trustee changed the composition of this fund in March 2023 to invest in lower carbon investments, which has significantly reduced both absolute emissions and carbon footprint of these investments. The Trustee's investment consultant estimated the absolute emissions and carbon footprint of the **Airbus Pension Scheme Global Equity Fund** to have reduced by approximately 76% by making this change.

The **L&G World Emerging Markets Equity Index Fund** has the highest carbon footprint. This is because of the nature of emerging markets, such as higher reliance on fossil fuels and rapid economic growth, which means funds that invest in these regions usually demonstrate a higher carbon footprint. The **L&G UK Equity Index Fund** also has a relatively high carbon footprint because of the higher exposure to carbon intensive sectors, such as energy, in the United Kingdom compared to investments in other developed countries.

L&G has reported a relatively low coverage for the **L&G AAA-AA-A Corporate Bonds Over 15 Years Fund** and the **L&G Cash Fund** (5% and 3% of the portfolio respectively). This means that climate data is unavailable for a large proportion of the investments in these funds. This is in line with expectations because these funds invest in corporate bonds and cash-like instruments, which are generally subject to less stringent regulatory requirements and industry standards and therefore exhibit lower levels of carbon reporting at present.

As with the DB section, the Trustee therefore expects data coverage and quality to improve over time. The Trustee is encouraging the investment platform to increase, where possible, its collection and reporting of climate metrics.

The proportion of holdings with SBTi (science-based target initiative) portfolio alignment targets is also relatively low for the DC section's holdings. The Trustee has a long-term target related to this metric and will therefore seek to engage with the investment platform to encourage improvement of this metric over time.

Metrics and Targets

Target

The Trustee have set the following targets for the DB and DC sections. The current proportion of those relevant DB and DC assets with SBTi targets has been calculated using a weighted average of the relevant holdings:

Target	Coverage	Reference base year
Increase the percentage of listed equities and corporate bonds with SBTi targets by 30% by 30 September 2030, from 42%* as at 30 September 2022 to at least 70% by 30 September 2030.	Listed equities and corporate bonds within the DC section's default strategies	2022 (30 September)
Increase the percentage of listed equities with SBTi targets by an absolute increase of 30% from the current level of 40% by 30 September 2027.	Listed equities within the DB section (excl. buy-ins)	

These targets were chosen as the metric is forward-looking and focussed on the transition that needs to occur in the future in order to achieve net zero aims globally. Achieving the above targets will improve the Scheme's assets' alignment with a 1.5C pathway which is expected to help manage climate-related risks to the Scheme by:

1. Reducing exposure to climate transition risks in the shorter-term by keeping up with/slightly ahead of a general market trend; and
2. Supporting collective action to meet the Paris Agreement goals, hence reducing longer-term systemic risks from the physical effects of climate change.

<u>The following steps are taken to achieve the target:</u>

1. The Trustee, with help from its investment adviser (LCP), has communicated the targets to each investment manager.
2. Investment managers are routinely invited to present at Trustee meetings as part of the existing monitoring process. When meeting with any of the Scheme's investment managers, the Trustee asks the manager how they expect the proportion of portfolio companies with SBTi targets to change over time and encourages the manager to engage with portfolio companies about setting SBTi targets, prioritising those with the highest carbon footprint.
3. The Scheme's investment adviser encourages managers to support the goal of net zero emissions by 2050 or earlier and has published its expectations for investment managers in relation to net zero. This includes the use of effective voting (where applicable) and engagement with portfolio companies to encourage achievement of net zero. The investment adviser continues to engage with managers on this topic and encourages them to use their influence with portfolio companies to increase the use of SBTi targets.
4. The Trustee reviews progress towards the targets each year and considers whether additional steps are needed to increase their chance of meeting the target.

** This figure excludes the Airbus Pension Scheme Short Dated Credit Fund as the manager was not able to report the SBTi figure for this fund. The Trustee aims to include this fund in the target monitoring calculation for next year's climate reporting. The figure also uses the SBTi of the L&G AAA-AA-A Corporate Bonds Over 15 Year Index Fund as at 31 December 2022 rather than 30 September 2022 as the latter is not available.*

Appendix 1 – Climate Scenario Analysis

Climate scenarios considered

The key features of each of the climate scenarios considered are summarised in the table below.

Scenarios:	***Failed Transition***	***Paris Orderly Transition***	***Paris Disorderly Transition***
Low carbon policies	Continuation of current low carbon policies and technology trends	Ambitious low carbon policies, high investment in low-carbon technologies and substitution away from fossil fuels to cleaner energy sources and biofuel	
Paris Agreement outcome	Paris Agreement goals not met	Paris Agreement goals met	
Global warming	Average global warming is about 2°C by 2050 and 4°C by 2100, compared to pre-industrial levels	Average global warming stabilises at around 1.5°C above pre-industrial levels	
Physical impacts	Severe physical impacts	Moderate physical impacts	
Impact on GDP	Global GDP is significantly lower than the climate-uninformed scenario in 2100. For example, UK GDP in 2100 predicted to be 55% lower than in the climate uninformed scenario.	Global GDP is lower than the climate-uninformed scenario in 2100. For example, UK GDP in 2100 predicted to be about 10% lower than in the climate-uninformed scenario.	In the long term, global GDP is slightly worse than in the Paris Orderly scenario due to the impacts of financial markets volatility.
Financial market impacts	Physical risks priced in over the period 2025-2030. A second repricing occurs in the period 2035-2040 as investors factor in the severe physical risks	Transition and physical risks priced in smoothly over the period of 2021-2025	Abrupt repricing of assets causes financial market volatility in 2025

Source: Ortec Finance. Figures quoted are medians.

Appendix 1 – Climate Scenario Analysis

Modelling approach

- The scenario analysis is based on a model developed by Ortec Finance and Cambridge Econometrics. The outputs were then applied to the Scheme's assets by LCP.
- The three climate scenarios are projected year by year, over a 40-year period. The results are intended to help the Trustee to consider how resilient the DB strategy and DC default strategy is to climate-related risks.
- The three climate scenarios chosen are intended to be plausible, not "worst case". They are only three scenarios out of countless others which could be considered.
- Other scenarios could give better or worse outcomes for the Scheme.

Modelling limitations

- As this is a "top-down" approach, investment market impacts were modelled as the average projected impacts for each asset class. This contrasts with a "bottom up" approach that would model the impact on each individual investment held by the default strategy. As such, the modelling does not require extensive plan-specific data and so the Trustee was able to consider the potential impacts of the three climate scenarios for all of the Scheme's assets in the default strategy and DB Strategy.
- In practice, the Scheme's investments may not experience climate impacts in line with the market average.
- The asset and liability projections shown reflect the current strategic journey plan. No allowance is made for changes that might be made to the funding or investment strategy as the climate pathways unfold, nor for action to be taken in response to the Scheme achieving its long-term funding target.
- Like most modelling of this type, the modelling does not allow for all potential climate-related impacts and, therefore, is quite likely to underestimate some climate-related risks. For example, tipping points (which could cause runaway physical climate impacts) are not modelled and no allowance is made for knock-on effects, such as climate-related migration and conflicts.
- In addition, the model presumes that the UK government and bank counterparties will remain solvent, thereby making no allowance for credit risk on government bonds and derivative exposures. However, in a scenario where global warming exceeds 4ºC, this assumption may no longer be valid.
- Medians from Ortec Finance's model outputs are used to project forward assets and liabilities, which means the results reflect the model's "middle outcomes" for investment markets under the three scenarios. Allowing for market volatility would result in better or worse model outputs than shown. Investment markets may be more volatile in future as a result of physical and transition risks from climate change, and this is not illustrated in the modelling shown.

Modelling approach – more details

- The scenario analysis is based on the ClimateMAPS model developed by Ortec Finance and Cambridge Econometrics, and was then applied to the Scheme's assets and liabilities by LCP. The three climate scenarios were projected year by year, over the next 40 years.
- ClimateMAPS uses a top-down approach that consistently models climate impacts on both assets and liabilities, enabling the resilience of the DB Section's funding strategy to be considered. The model output is supported by in-depth narratives that bring the scenarios to life to help the Trustee's understanding of climate-related risks and opportunities.
- ClimateMAPS uses Cambridge Econometrics' macroeconomic model which integrates a range of social and environmental processes, including carbon emissions and the energy transition. It is one of the most comprehensive models of the global economy and is widely used for policy assessment, forecasting and research purposes. The outputs from this macroeconomic modelling – primarily the impacts on country/regional GDP – are then translated into impacts on financial markets by Ortec Finance using assumed relationships between the macroeconomic and financial parameters.
- Ortec Finance runs the projections many times using stochastic modelling to illustrate the wide range of climate impacts that may be possible, under each scenario's climate pathway. LCP takes the median (ie the middle outcome) of this range of impacts, for each relevant financial parameter, and adjusts it to improve its alignment with LCP's standard financial assumptions.
- LCP then uses these adjusted median impacts to project the assets and liabilities of the Scheme to illustrate how the different scenarios could affect its funding level. The modelling summarised in this report used scenarios based on the latest scientific and macro-economic data at 31 December 2021, calibrated to market conditions at 31 March 2022.
- The modelling included contributions assumed to be paid in line with the current Schedule of Contributions, and the Trustee discussed how future planned changes to the investment strategies for both Sections would change the analysis. For the DC Section, members' starting pots values were assumed to equal the average value for Scheme members of their age, and member and employer contributions were assumed to be paid in line with the current contribution structure. No allowance was made for changes to the investment strategy or contributions in response to the climate impacts modelled.
- As this is a "top-down" approach, investment market impacts were modelled as the average projected impacts for each asset class, ie assuming that the Scheme's investments are affected by climate risk in line with the market-average portfolio for the asset class. This contrasts with a "bottom up" approach that would model the impact on each individual investment held in the Scheme's investment portfolio. As such, it does not require extensive scheme-specific data and so the Trustee was able to consider the potential impacts of the three climate scenarios for all of the Scheme's assets.

Modelling approach – more details

- In practice, the Scheme's investment portfolio may not experience climate impacts in line with the market average. The Trustee considers, on an ongoing basis, how the Scheme's climate risk exposure differs from the market average using climate metrics (which are compared with an appropriate market benchmark).
- Uncertainty in climate modelling is inevitable. In this case, key areas of uncertainty relating to the financial impacts include how climate change might affect interest rates and inflation, and the timing of market responses to climate change. ClimateMAPS, like most modelling of this type, does not allow for all climate-related impacts and therefore, in aggregate, is quite likely to underestimate the potential impacts of climate-related risks, especially for the Failed Transition scenario. For example, tipping points (which could cause runaway physical climate impacts) are not modelled and no allowance is made for knock-on effects, such as climate-related migration and conflicts.

Appendix 1: Assumptions for DC Climate Scenario Analysis

- LCP's modelling is designed to illustrate, for each climate scenario and the default lifestyle strategy, the development of a typical member's fund value.
- The key investment assumptions behind its modelling are set out overleaf.
- These assumptions are used within LCP's modelling to determine:
  - the expected fund at retirement and various measures of the risk of achieving this; and
  - the pension the member could buy and various measures of the risk of achieving this.
- A 2.5% pa real increase in the member's salary is assumed. The output is shown in real terms.
- LCP's assumptions for the long-term expected annual return and expected standard deviation of the annual returns for each asset class or investment are set out overleaf.
- The expected return assumptions are geometric average long-term annual figures.
- The assumptions are intended to be best estimates; this means for each assumption there is a 50/50 chance that the observed value will be either higher or lower than assumed. The return assumptions have been reduced to allow for the typical investment management fees required to invest in each asset class.
- The climate-uninformed expected return assumptions for cash, gilts, index-linked gilts, corporate bonds, high yield debt and emerging market debt are based on observed market yields as at 31 March 2022. Other climate-uninformed assumptions have been set by:
  - looking at analyses of historical information;
  - taking into account the views of a number of investment organisations; and
  - making pragmatic judgements.

Appendix 2: Further information on climate-related metrics

- Government bond metrics are calculated on a different basis to other asset classes, so cannot be compared with them and should not be aggregated with them. They are typically much higher than emissions metrics for corporate debt.
- The gilts emissions intensity is analogous to carbon footprint and has been calculated as "total greenhouse gas emissions produced in the UK” divided by “UK GDP using PPP methodology” using publicly available data sources. The higher the value the more carbon intensive the economy is. Total greenhouse gas emissions have been calculated as “value of the Scheme’s investment in gilts” multiplied by “emissions intensity.
- Note that manager estimates of emissions data may differ materially from those calculated by LCP due to differences in methodologies, sources of data and/or dates of calculation.
- Total Scope 1+2 greenhouse gas emissions for gilts have been calculated as:

$$\frac{value\ of\ your\ investment\ in\ gilts}{value\ of\ the\ UK's\ public\ debt}\ x\ total\ GHG\ emissions\ produced\ in\ the\ UK$$

- The corresponding carbon footprint has been calculated as:

$$\frac{total\ GHG\ emissions\ produced\ in\ the\ UK}{value\ of\ the\ UK's\ public\ debt}$$

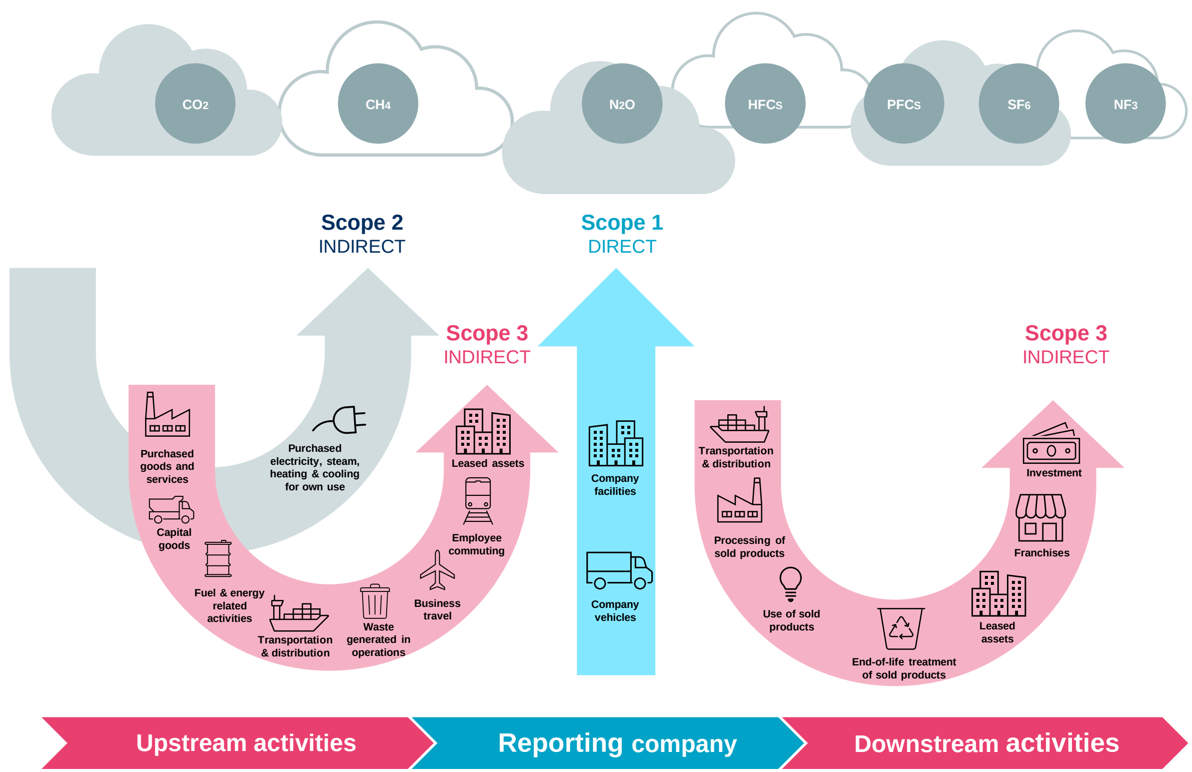
- These are measures of the UK's reliance on greenhouse emissions. There can be issues of double counting across the portfolio where UK country emissions double count UK company emissions already accounted for within other asset classes.
- In calculating metrics for your LDI exposure, we have treated derivatives as an investment in an equivalent gilt. Greenhouse gas emissions have been calculated for the gilt exposure (including the repo loan amount) but not the swap positions. This is in line with our understanding of the typical interpretation of the DWP guidance by investment managers and consultancies as not requiring estimation of emissions for swap exposures at this time.

Appendix 3 – Greenhouse gas emissions explained

Within the ‘metrics and targets’ section of the report, the emissions metrics relate to seven greenhouse gases – carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6) and nitrogen trifluoride (NF_3). The figures are shown as “CO_2 equivalent” (CO_2e) which is the amount of carbon dioxide that would be equivalent to the excess energy being stored by, and heating, the earth due to the presence in the atmosphere of these seven greenhouse gases.

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

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



Source: GHG Protocol

Appendix 4 – Glossary

Actuarial valuation – an actuarial valuation is an accounting exercise performed to estimate future liabilities arising out of benefits that are payable to members of a DB pension plan, typically once every three years. In the actuarial valuation exercise, a liability payout at a future date is estimated using various assumptions such as discounting rate and salary growth rate.

Alignment – in a climate change context, alignment is the process of bringing greenhouse gas emissions in line with 1.5°C global temperature rise targets. It can be applied to individual companies, investment portfolios and the global economy.

Asset class – a group of securities which exhibit broadly similar characteristics. Examples include equities and bonds.

Avoided emissions – these are reductions in greenhouse gas emissions that occur outside of the value chain a product's life cycle, but as a result of the use of that product. For example, emissions avoided through use of a wind turbine or buildings insulation.

Bond – a bond is a security issued to investors by companies, governments, and other organisations. In exchange for an upfront payment, an investor normally expects to receive a series of regular interest payments plus, at maturity, a final lump sum payment, typically equal to the amount invested originally, or this amount increased by reference to some index.

Buy-in – DB pension plan trustees may choose to "buy-in" some of their plan's expected future benefit payments by purchasing a bulk (i.e., one covering many individuals) annuity contract with an insurance company. This allows the trustees to reduce their plan's risk by acquiring an asset (the annuity contract) whose cash flows are designed to meet i.e., "match" a specified set of benefit payments under the pension plan. The contract is held by the trustees and responsibility for the benefit payments remains with the trustees. Common uses of buy-in arrangements have been to cover the payments associated with current pensioners or a subset of those members. Contracts to meet payments to members who are yet to become pensioners can also be purchased.

Buy-out – DB pension plan trustees may choose to "buy-out" some or all of their plan's expected future benefit payments by purchasing a bulk (i.e., one covering many individuals) annuity contract from an insurance company. The insurer then becomes responsible for meeting pension benefits due to plan members (effected ultimately by allocating to each plan member an individual annuity contract). Following a full buy-out, (i.e., one covering all plan members) and having discharged all of the trustees' liabilities, the pension plan would normally be wound up.

Carbon emissions - These refer to the release of carbon dioxide, or greenhouse gases more generally, into the atmosphere, for example from the burning of fossil fuels for power or transport purposes.

Carbon footprint – In an investment context, the total carbon dioxide or greenhouse gas emissions generated per amount invested (eg in £m) by an investment fund. Related definitions are used to apply the term to organisations, countries, and individuals

Climate change adaptation – steps taken to adapt to the physical effects of climate change such as improving flood defences and installing air conditioning.

Climate change mitigation – steps taken to limit climate change by reducing greenhouse gas emissions, for example by shifting to renewable sources of energy – such as solar and wind – and by using less energy and using it more efficiently.

Covenant – the ability and willingness of the sponsor to make up any shortfall between a DB plan's assets and the agreed funding target.

CO2e (carbon dioxide equivalent) – the standard measurement of GHG emissions in terms of the most common GHG, carbon dioxide (CO2)

Credit – long-term debt issued by a company, also known as corporate bonds. Corporate bonds carry different levels of credit risk which is indicated by their risk rating and credit spread.

Defined Benefit (DB) – a pension plan in which the primary pension benefit payable to a member is based on a defined formula, frequently linked to salary. The sponsor bears the risk that the value of the investments held under the plan fall short of the amount needed to meet the benefits.

Appendix 4 – Glossary

Defined Contribution (DC) – a pension plan in which the sponsor stipulates how much it will contribute to the arrangement which will depend upon the level of contributions the member is prepared to make. The resultant pension for each member is a function of the investment returns achieved (net of expenses) on the contributions and the terms for purchasing a pension at retirement. In contrast to a defined benefit plan, the individual member bears the risk that the investments held are insufficient to meet the desired benefits.

Debt – money borrowed by a company or government which normally must be repaid at some specified point in the future.

Default strategy – the fund or mix of funds in which contributions in respect of a DC member will be invested in the absence of any explicit fund choice(s) of that member.

Environmental, social and governance (ESG) – an umbrella term that encompasses a wide range of factors that may have been overlooked in traditional investment approaches. Environmental considerations might include physical resource management, pollution prevention and greenhouse gas emissions. Social factors are likely to include workplace diversity, health and safety, and the company's impact on its local community. Governance-related matters include executive compensation, board accountability and shareholder rights.

Equity – through purchase on either the primary market or the secondary market, company equity gives the purchaser part-ownership in that company and hence a share of its profits, typically received through the payment of dividends. Equity also entitles the holder to vote at shareholder meetings. Note that equity holders are entitled to dividends only after other obligations, such as interest payments to debt holders, are first paid. Unlike debt, equity is not normally contractually repayable.

Ethical investment – an approach that selects investments on the basis of an agreed set of environmental, social and governance (ESG) criteria that are motivated by ethical considerations.

Fossil fuels – fuels made from decomposing plants and animals, which are found in the Earth's crust. They contain carbon and hydrogen, which can be burned for energy. Coal, oil, and natural gas are examples of fossil fuels.

Funding position – a comparison of the value of assets with the value of liabilities for a DB pension plan.

Gilts – bonds issued by the UK government. They are called gilts as the bond certificates originally had a gilt edge to indicate their high quality and thus very low probability of default

Greenhouse gas (GHG) emissions (scopes 1, 2 and 3) – gases that have been and continue to be released into the Earth's atmosphere. Greenhouse gases trap radiation from the sun which subsequently heats the planet's surface (giving rise to the "greenhouse effect"). Carbon dioxide and methane are two of the most important greenhouse gases.

Investment mandate – see pooled mandate and segregated mandate

Integrated risk management – Integrated risk management is an approach used by DB pension plan trustees to identify, manage and monitor the wide range of risks (relating to investment, funding and covenant) which might impact the chances of meeting their plan's overall objectives

Liabilities – obligations to make a payment in the future. An example of a liability is the pension benefit 'promise' made to DB pension plan members, such as the series of cash payments made to members in retirement. The more distant the liability payment, the more difficult it often is to predict what it will actually be and hence what assets need to be held to meet it.

LDI (Liability Driven Investment) – an investment approach which focusses more than has traditionally been the case on matching the sensitivities of a DB pension plan's assets to those of its underlying liabilities in response to changes in certain factors, most notably interest rate and inflation expectations.

Appendix 4 – Glossary

Net zero – this describes the situation in which total greenhouse gas emissions released into the atmosphere are equal to those removed. This can be considered at different levels, e.g., company, investor, country or global.

Offsetting – the process of paying someone else to avoid emitting, or to remove from the atmosphere, a specified quantity of greenhouse gases, for example through planting trees or installing wind turbines. It is sometimes used to meet net zero and other emission reduction targets.

Physical risk – these are climate-related risks that arise from changes in the climate itself. They include risks from more extreme storms and flooding, as well as rising temperatures and changing rainfall pattens.

Pooled mandate – a feature of a collective investment vehicle whereby an investor's money is aggregated (i.e., "pooled") with that of other investors to purchase assets. Investors are allotted a share of those assets in proportion to their contribution. Ownership is represented by the number of "units" allocated – e.g., if the asset pool is worth £1m and there are 1m units then each unit is worth £1. Pooled funds offer smaller investors an easy way to gain exposure to a wide range of investments, both within markets (e.g., by buying units in a UK equity fund) as well as across markets (e.g., by buying units in both a UK equity fund and a UK corporate bond fund).

Portfolio alignment metric – this measures how aligned a portfolio is with a transition to a world targeting a particular climate outcome, such as limiting global temperature rises to well below 2°C, preferably to 1.5°C, as per the Paris Agreement. Assessments using these metrics consider companies' and governments' greenhouse gas (GHG) emissions reduction plans and likelihood of meeting them, rather than current, or the latest reported, GHG emissions.

Responsible Investment (RI) – the process by which environmental, social and governance (ESG) issues are incorporated into the investment analysis and decision-making process, and into the oversight of investments by companies through their stewardship activities. It is motivated by financial considerations aiming to improve risk-adjusted returns.

Science-based targets – targets to reduce greenhouse gas emissions that are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement.

Science-Based Targets initiative (SBTi) – a partnership that sets standards and provides validation for science-based targets set by companies and investors.

Scenario analysis – a tool for examining and evaluating different ways in which the future may unfold.

Scope 1, 2 and 3 – a classification of sources of greenhouse gas emissions.

Segregated mandate – a segregated investment approach ensures that an investor's investments are held separately from those of other investors. This approach offers great flexibility – for example, the investor can stipulate the precise investment objective to be followed and can dictate which securities can or cannot be held.

Self-select – in contrast with a default fund, a self-select fund within a DC plan is one of a range of funds that members can choose to invest in.

Stakeholder – an individual or group that has an interest in any decision or activity of an organisation. The stakeholders of a company include its employees, customers, suppliers and shareholders.

Statutory obligations – statutory obligations are those obligations that do not arise out of a contract, but are imposed by law.

Stewardship – stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. It is often implemented via engagement with investee companies and the exercising of voting rights.

Stranded assets – assets that have suffered an unanticipated loss of value before the end of their expected useful economic life. The term is most often applied to fossil fuel investments in the context of climate policy, where legislative and market developments may result in assets being worth less than the value recorded on related company balance sheets.

Appendix 4 – Glossary

Sustainable investing - an approach in which the environmental and social sustainability of a company's products and practices is evaluated and is a key consideration in the investment decision. ESG analysis therefore forms a cornerstone of the investment selection process.

Taskforce on Climate-related Financial Disclosures (TCFD) – a group of senior preparers and users of financial disclosures from G20 countries, established by the international Financial Stability Board in 2015. The TCFD has developed a set of recommendations for climate-related financial risk disclosures for use by companies, financial institutions and other organisations to inform investors and other parties about the climate-related risks they face.

Transition risk – these are climate-related risks that arise from the transition to a low-carbon economy and can include changes in regulation, technology and consumer demand.

Appendix 5 – Principles for Effective Disclosure

The Trustee has aimed to follow the Principles for Effective Disclosure (as set out in the statutory guidance) when drafting the report.

1	Disclosures should present relevant information specific to the potential impact of climate-related risks and opportunities on the plan avoiding generic or boilerplate disclosures that do not add value to members' understanding of issues.
2	Disclosures should be specific and sufficiently complete to provide a thorough overview of the Scheme's exposure to potential climate-related impacts and the trustees' governance, strategy and processes for managing climate-related risks and opportunities.
3	Disclosures should be clear and understandable showing an appropriate balance between qualitative and quantitative information.
4	Disclosures should be consistent over time to enable plan members to understand the development and/or evolution of the impact of climate-related issues on the plan.
5	Disclosures should ideally be comparable with other pension funds of a similar size and type.
6	Disclosures should be reliable, verifiable, and objective.
7	Disclosures should be provided on a timely basis. The TCFD recommends annual disclosures for organisations.