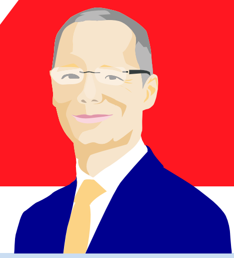
CLIMATE CHANGE REPORT
for the scheme year ending 31 March 2023

AXA UK GROUP PENSION SCHEME



Trustee foreword

In the ever-evolving landscape of climate-related financial disclosures, the Trustee of the AXA UK Group Pension Scheme is proud to present this Climate Change Report. The report has been prepared under the guidelines of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 as amended, based on the recommendations of the Taskforce for Climate-related Financial Disclosure (TCFD) framework.

The TCFD framework remains instrumental in guiding our climate change objectives, emphasising the significance of climate risk and opportunity transparency for real-world emission reductions.

As the AXA UK Group Pension Scheme progresses towards full funding, and our portfolio of assets is de-risked with a view to matching the Scheme's liabilities, we are committed to working with all of our investment managers to assess and improve their climate change related activities.

Despite the uncertainties climate change presents, it offers us a unique opportunity to support sectors in their transition to a green economy.

We continue to seek alignment between our investment strategy and the Paris Agreement objectives and have included the implied temperature rise metric to help assess the extent of this alignment.

Over the last year, we have continued to engage with the companies we invest in on a variety of strategic issues. This has covered a range of topics, but climate change has been the focus of 23% of these engagements.

We are also exploring biodiversity impacts and their financial implications, including their interactions with climate change, which we intend to explore further. We are actively exploring methodologies and data sources that will enable us to include these nature-related metrics going forward where relevant.

We recognize the potential climate-related financial risks the Scheme is exposed to. Data and technology are constantly evolving to help us better understand these risks and to analyze the impact of our investments on climate change.

While challenges persist, our proactive approach with investment managers and the integration of environmental monitoring in the manager selection process signifies our intent. We remain optimistic about the future, reinforced by global advances in decarbonisation efforts. As trustees of the AXA UK Group Pension Scheme, our vision is clear: to adopt a responsible, long-term perspective and act decisively on risks and opportunities.

Stephen Yandle
Chair of Trustee

Key highlights & summary of steps we have taken in the scheme

Key actions taken

Set up an appropriate governance structure for the Trustee to address and take action on climate risks and opportunities together with ensuring adequate training is undertaken.

Received quarterly reporting on the Scheme's environmental metrics and annual reporting on environmental performance.

Creation of detailed ESG* dashboard to regularly monitor managers and overall portfolio.

Actively phased out the allocation to coal.

Undertaken scenario analysis to consider the financial impact climate change could have on our funding and investment strategy.

Engaged with investment managers and service providers to better understand their climate change credentials.

Agreed to target a net-zero portfolio by 2050 with an interim target of reducing carbon footprint by 27% by 2031.

We have also set additional targets for the Scheme as indicated below.

Next steps

Engage with our investment providers and advisors to evaluate further green investment opportunities.

Consider further areas of improvement in transparency of reporting and data

Consider changing our investments in support of our climate objectives where appropriate.

Continue to work with AXA to understand how climate changes impact the business and sponsor covenant strength.

Establish additional targets in our carbon reduction journey plan.

*ESG means Environmental, Social and Governance

Our key targets

Environmental score	Carbon emission[1]	Exclusions	Green investments	Warming potential
Maintain and incrementally improve the integrated environmental score	Target net zero emissions by 2050, with an interim target of reducing carbon footprint by 27% by 2031	Actively exclude specific investments deemed controversial by the Trustee	Target green investments in line with the UN PRI recommendation of at least 1% by 2025	Target 1.5 degree C climate warming potential by 2050[2]

Our environmental journey so far

Created a bespoke ESG dashboard > Improved environmental score > Reduced carbon footprint to 57,000 tonnes[1] > Creation of an environmental policy and approach > Removed exposure to controversial weapons, palm oil and tobacco > 2022 TCFD disclosure

[1] Referring to absolute carbon emissions pro-rated per AXA UK Pension Scheme's holdings, expressed in T.eq.CO_2 as defined on page 19 of the AXA 2023 Climate and Biodiversity Report. [2] Referring to the contribution to global warming, expressed in °C as defined on page 19 of the AXA 2023 Climate and Biodiversity Report.

Introduction

All pension schemes are exposed to climate-related financial risk, and trustees have a legal duty to consider matters which are financially material to their investment decision-making; however, climate change risks are far-reaching and can be difficult to assess over future time periods. The changes we saw throughout 2019 and 2020 with updates to Statements of Investment Principles and the requirement for most schemes to prepare an implementation statement, helped lay the foundation for investment stewardship and climate-related disclosures.

The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, as amended, require schemes to adopt and report against the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. The regulations are supported by Statutory Guidance from the Government.

Recommended disclosures

The TCFD developed four recommendations on climate-related financial disclosures that are applicable to organisations across sectors and jurisdictions, structured around the following thematic areas:

Governance: The organisation's governance around climate-related risks and opportunities.

Strategy: The actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy, and financial planning.

Risk management: The processes used by the organisation to identify, assess, and manage climate related risks.

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

The Trustee of the Scheme is supportive of initiatives it believes will be in the long-term financial interest of members. TCFD is one such initiative, as the Trustee believes greater disclosure will lead to better investment decisions.

Where appropriate, the Trustee will also engage with its appointed fund managers to support such initiatives.

Our approach to climate change

We recognise that climate change is systematic and has a long-term material impact on the financial risk of the Scheme. It may also present opportunities. As a result, we believe we have a fiduciary duty to incorporate the consideration of risk and opportunities arising from climate change when making investment decisions where financially material. We will continue to pursue an investment strategy suitable for the security of the benefits of Scheme members, whilst managing these exposures.

The Paris Agreement is the overarching framework and roadmap for climate action. In Dec. 2015, during COP21, countries gathered in Paris to negotiate and adopt the Paris Agreement. Countries that ratified the agreement legally bound themselves to collectively hold warming to 'well below 2°C compared to pre-industrial levels' (period before 1750) and pursue best efforts to limit warming to 1.5°C by 2100.

These thresholds were chosen based on the 'level of destruction' they entail.

The Paris Agreement also highlighted the role of investors in the response to threat of climate change.

As the Paris Agreement binds Governments to collectively hold warming below safe levels by reducing greenhouse gas emissions within specific thresholds and timeframes, it requires rapid and significant emissions reductions. This low carbon transition target will have significant consequences for the 'real economy,' and in turn for investors and insurers. They may choose to develop a long-term risks & opportunities framework derived from the Paris Agreement roadmap.

This is the backdrop for the Scheme's climate action.

Disclosure and transparency

The Trustee along with the Scheme's sponsor parent (AXA SA) are proponents of the improved disclosure and transparency brought about by the new climate regulations. These require us to disclose how we identify, assess, and manage climate risk and opportunities.
We recognise that while we embark on the journey of integrating and monitoring climate-related risk within the Scheme, the analysis and evaluation of these risks is constantly evolving.

On the scope of this report, please note that Governance and Risk Management activities are carried out at the Scheme-wide level. The Scheme has several unsegregated benefit sections, all of which are defined benefit (save for certain AVCs) and all of which are invested and funded on a Scheme-wide basis. Strategy activities (including scenario analysis), Metrics, and Targets, are therefore all also addressed at Scheme-wide level.

The report is broken down into four principal areas, consistent with the TCFD recommendations:

- **Governance:** We continue to develop a robust governance framework in relation to climate-related risk and opportunities. This continued evaluation enables climate risks and opportunities to be factored into the investment process. While ultimate responsibility remains with the Trustee, we delegate to various degrees monitoring, measurement and implantation to subcommittees, our outsourcing partners and the sponsor's internal resources.
- **Strategy:** We believe that climate change is a medium to long-term risk with a complex quantification of impacts on our activities. Our strategy is not only to adapt, but also to take advantage of our expertise to access solutions that work in the wider context of the Scheme's fiduciary duty to our members.
- **Risk management:** Over the last few years, we have taken steps to incorporate climate-related risk within the decision framework of the trustee and have shared this framework to the Scheme's asset managers based on a four-pillar approach:
  - **Environmental integration and stewardship:** The Scheme's investment portfolio integrates environmental analysis into investment processes, using KPIs (Key Performance Indicators) and qualitative research.
  - **Carbon footprint and climate-related portfolio alignment:** Whilst recognising that there are limits to the quality of data available now, the Trustee will encourage fund managers to capture the carbon footprint of their investments and the Trustee will seek to assess the overall carbon footprint of its portfolio.
  - **Controversies – engagement and exclusion:** The Trustee recognises that certain activities will present a heightened level of climate-related risk, and this may therefore lead to exclusion from the portfolio. We also recognise that a cautious approach can be required for broader ESG issues.
  - **Green investment target, transition financing and Impact investments:** Impact Initiatives allocate capital to create intentional, positive, measurable, and sustainable impacts on society while simultaneously delivering financial market returns.
- **Primary targets:** The Trustee has calculated absolute emissions, emissions intensity, portfolio alignment and additional climate metrics for the portfolio. Based on these metrics, the above pillars, and to demonstrate commitment to a Responsible Investment approach, the Trustee has agreed to the following targets under which it will regularly monitor the Scheme's asset portfolio and adjust either the Scheme's strategy or implementation to meet these targets, but only to the extent that these do not have a negative financial impact. Note further information on the definitions of each metric can be found later in the report.
  - Maintain and incrementally improve the integrated environmental score.
  - Target net zero emissions by 2050. The Trustee will review an interim target to track progress against this goal. Target 1.5 degree C climate warming potential by 2050.[1]
  - Actively exclude investments that are considered controversial as defined by the Scheme's policy.
  - Target a green investment exposure in line with the UN PRI (minimum 1%) by 2025 though a multi-class asset approach.
- **Supporting targets:** The Trustee has agreed the main targets outlined above. However, to support the transition of the portfolio they have considered adopting the following interim targets in order to measure progress. These additional targets are centred around:
  - Emissions: The Trustee have an interim target of reducing the carbon footprint by 27% by 2031 from 2021.[2]

The Trustee note however that such targets are subject to consideration of the overall strategic position of the portfolio which may change materially due to the Scheme's ongoing de-risking activity.

[1] Referring to the contribution to global warming, expressed in °C as defined on page 19 of the AXA 2023 Climate and Biodiversity Report.
[2] EV-based carbon footprint of AXA UK Pension Scheme's portfolio, expressed in T.eq.CO_2/EV €m as defined on page 19 of the AXA 2023 Climate and Biodiversity Report.

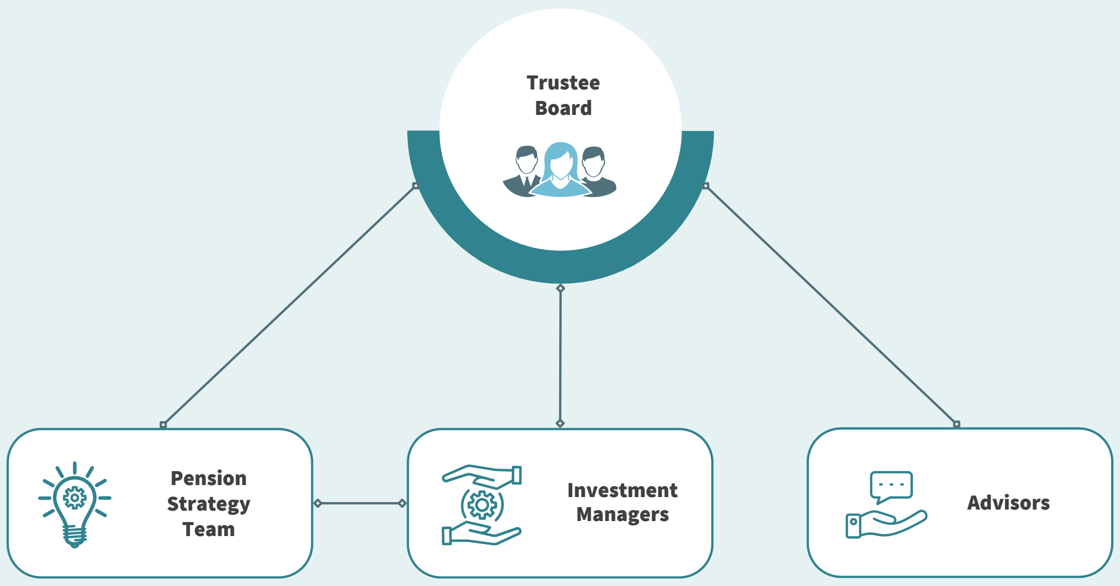
Governance

The Trustee Board has ultimate authority for all aspects of the management and strategy of the Scheme including oversight and responsibility of the integration of climate risks and opportunities in decision-making, which feeds into their overarching philosophy. Committees and working groups of the Trustee have been established to tackle key areas of focus within the Scheme.

The Trustee's advisors support the Trustee's decision-making by providing advice on their respective areas of expertise, for example actuarial advisors, investment advisors, and covenant advisors. When providing this advice, the advisors are expected to identify, assess, and manage climate-related risks and opportunities.

In addition, the Trustee utilises a dedicated resource within the Sponsor to aggregate data, delegate day-to-day monitoring activity, and conduct analysis as well as provide insights to other climate-related opportunities which may be available. As described overleaf the Trustee has delegation, implementation, monitoring and review processes in place with relevant advisers and involving the Sponsor resource team. These checkpoints help the Trustee ensure that those supporting it with climate-related governance are identifying and taking relevant issues into account.

Summary of governance structure



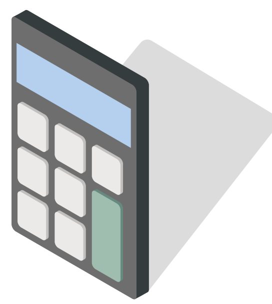
Overarching philosophy

The Trustee regularly holds a 'belief' session whereby an independent party, outside of the main Trustee board, seeks to challenge the views of the Trustee on responsible investing and climate.

The Trustee approach to responsible investment targets good practice while ensuring that regulatory requirements are met. However, climate risk and sustainability should not be considered distinct from the financial considerations involved in the construction of the investment strategy. It should be one of the many factors that can impact the Scheme's investments. In addition, the reputational risk that may occur because of the exposure to such assets should be incorporated in the overall analysis and this should be overlayed with the Sponsor view.

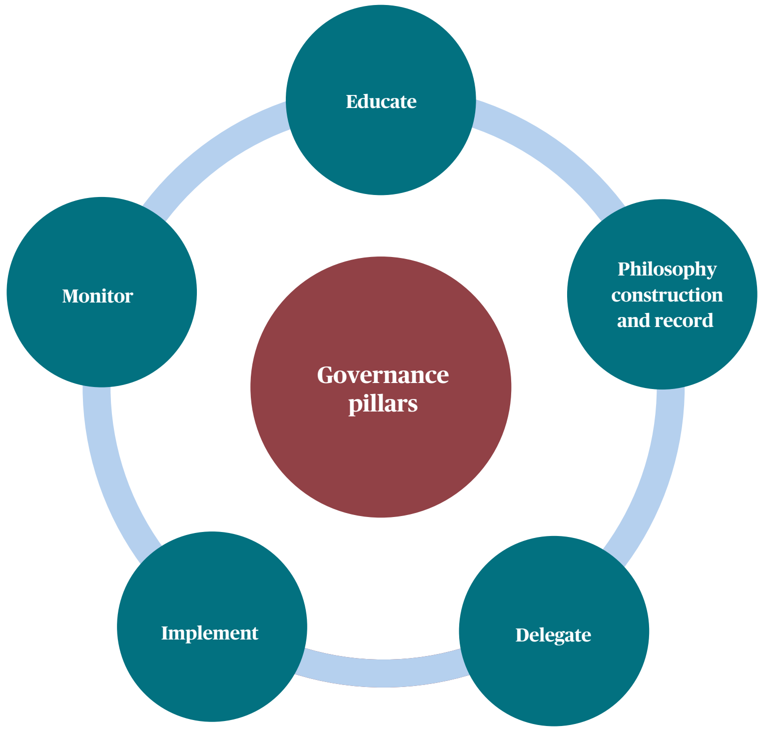
The Trustee acknowledges that climate change presents a material financial risk to the Scheme and therefore merits significant attention and governance resource. The Trustee believes that over the medium to long-term managing environmental factors within the portfolio should produce higher risk-adjusted returns; however the market does not accurately price these impacts and therefore active engagement and stewardship is also required.

The Trustee believes that integration of environmental metrics (and indeed inclusions in wider ESG calculations) is valuable in ensuring portfolio quality. This is achieved via incorporation of such metrics in the portfolio optimisation process (at strategic and day-to-day portfolio construction) and embedded alongside other reporting metrics considered by the various committees.



Governance framework

The philosophies outlined above lend to a governance structure based on 5 pillars.



1 Educate

To ensure the Scheme's climate-related risks and opportunities are monitored sufficiently, the Trustee receives regular training on climate-related topics. As part of the ongoing governance of the Scheme, the Trustee has two designated meetings per year to ensure this training occurs. These training sessions have regularly included climate risk for the last few years. For example, at the session in January 2023, the Trustee's legal advisers presented on "Approaches to ESG" covering trustee fiduciary duty on ESG as a whole, with a focus on stewardship as it related to fixed income assets. This training is delivered by a variety of stakeholders including, but not limited to, its existing advisers as well as market specialists. This training considered:

- the appropriateness of climate related risks
- the science behind metrics in the climate dashboard
- regulatory obligations of the trustee
- considerations of the sponsor's position
- stewardship and differing oversight models for asset owners
- updates of governmental and industry discussion

It is recognised that ongoing training is essential for the Trustee and its sub committees to ensure that they are making informed decisions. Therefore, a climate-related update is included at Trustee board meetings.

A skills gap analysis is taken at least biennially for both new and existing trustee directors. It is noted that the Trustee board includes professional trustees who are certified and sit on several boards. These individuals, as well as the Trustee's external advisers, help provide peer analysis and comparators for discussion.

Input of Sponsor Investment Responsible Investment Considerations

To further educate the Trustee and help to develop the overall strategy of the Scheme, the Trustee obtains expert input and opinion from AXA SA, the ultimate parent of the Scheme's sponsors.

In 2010, AXA created a Group level Responsible Investment Committee (RIC), chaired by the Group Chief Investment Officer, and including representatives from AXA Asset Management entities, the Corporate Responsibility team, and from Risk Management and Communications. The principal role of this Committee is to define, launch, implement, and follow up on the Group's responsible investment strategy.

In addition, the 'ESG Monitoring and Engagement Working Group' reviews risks posed by companies or sectors with poor ESG performance and/or serious and persistent controversies and assesses their impact on financial performance and credit quality.

The ESG Working Group also reviews issuers/industries in which AXA has invested from a pure ESG perspective, following which it is able to decide on specific follow-up actions where required. AXA's Responsible Investment (RI) policy is supported by the RI Centre of Expertise, a transversal working group from AXA's local investment teams interacting with the Sustainability network and the Group's Asset Management entities. AXA Investment Managers (IM) has also developed dedicated RI Governance resource, involving all its central management teams and investment platforms.

2 Philosophy construction and record

Through ongoing education, the Trustee reviews and develops its climate beliefs and governance framework. We consider that the strategic setting process is iterative and, given the high reliance on input and data for the Scheme's climate exposures, ever-evolving.

We believe it is important to record our views on sustainability and climate change related issues. These are defined within the Responsible Investment policy, as outlined in the Statement of Investment Principles. In order to maintain a up-to-date view of the risks in the Scheme, including climate risks, the Risk Register is regularly updated.

The Board remains responsible for the iteration and development of this philosophy.

Risk register

Climate risk is monitored as part of the regular review of the risk register. Controls include ongoing monitoring by the Trustee of climate risk, an annual performance review of the Scheme comparing outcomes against expectations and investment beliefs, and regular asset class deep dives that include coverage of responsible investment and climate risk. An assessment of the Scheme's exposures to high and low carbon assets, and to transition and physical risks, is also conducted quarterly as part of the Trustee's climate dashboard.

3 Delegate

The day-to-day management of the Scheme's investments is delegated to the Trustee's external investment managers. The Trustee also takes advice from its investment advisor on investment strategy changes. In particular it considered over the year whether an increase in the level of green investments was appropriate, given that these investments tended to be illiquid and the Scheme had a significant allocation to illiquid assets already. The Trustee will continue to consider such opportunities.

The Trustee requires investment managers to take into account financially material environmental, social, and governance (ESG) issues, including climate change risks, when making investment decisions. Investment managers are also expected to practice good stewardship by engaging with issuers of debt or equity on financially material ESG issues. The Trustee has instructed its investment advisors to engage with the managers on its behalf for this purpose and inform the Trustee of any relevant updates.

4 Implement

The Scheme's fund managers are required to report annually on their engagement activity and explain how the risks and opportunities posed by broader ESG issues have been incorporated into the day-to-day investment process. A similar approach is extended to the Scheme's advisors whereby they are required to consider environmental considerations when providing the Trustee with advice on the overarching investment strategy. This includes advice in relation to the financial and demographic assumptions used to determine funding plans.

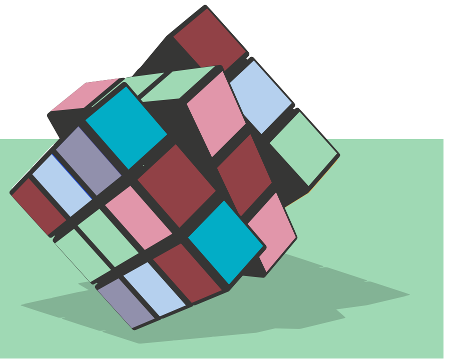
The Trustee reviews its third-party providers on a periodic basis to ensure that they are adhering to the roles ascribed to them by the Scheme's governance policy. The Trustee is also looking to set objectives for service providers which are informed by the competency framework proposed by the Investment Consultants Sustainability Working Group.

5 Monitor

The Trustee monitors on a quarterly basis the overall portfolio's exposure to the key risks as set out and defined by the Investment Committee. A formal report is then presented to the Board on an annual basis. This forms part of the education process, and it also helps to create and evolve the Scheme's climate change philosophy. Further details of the KPIs and dashboard are provided later in this report. The Trustee has regular opportunity to challenge the information provided, and any advice provided, through its board meetings and regular interaction with its advisers and supporting parties.

The Trustee receives advice in relation to the covenant strength of the sponsor as part of the triennial valuation process. The Trustee has requested that future advice includes reference to the climate risk exposure of the sponsor.

Strategy



Climate-related factors are fully integrated into our strategic funding and investment decision-making framework. Set alongside our traditional investment and risk factors we recognise that financially material impacts from climate change are unlikely to manifest uniformly across time and we therefore consider the potential impacts on the Scheme's investments over both the short, medium, and long term.

Overview of the scheme's investment and funding strategy

The Trustee takes an integrated approach to the management of the Scheme's investments and, in doing so, takes account of Investment, Funding, Covenant and Non-Investment Risk when setting the Scheme's investment strategy.

The Trustee has agreed a cashflow matching approach to asset-liability management. Once fully funded, the Scheme's assets will be invested to produce income closely matching the pension payments required. This reduces the risk of a payment shortfall occurring, meaning a lower reliance on the Sponsor. This is a "self-sufficiency" strategy.

As part of the 2018 formal valuation, the Trustee (in consultation with the Sponsor) agreed a dynamic discount rate to value to Scheme's liabilities. This dynamic discount rate is derived from the return available on an appropriate low risk cashflow matching portfolio of high-quality credit assets. Appropriate adjustments are also made for investment risks, unhedged longevity risk, and expenses. The discount rate is reviewed annually based on the methodology agreed between the Trustee and the Company.

The strategy is set by the Trustee cognisant of the funding objectives, the actuarial valuation, and the Principal Employer Covenant. The overall aim of the strategy is to allow the Scheme to achieve its investment objective while minimising the risk taken.

The Trustee seeks to invest the majority of the portfolio in low risk cashflow-generative assets to match as much of the liability cashflows as is affordable. As the Scheme's funding level improves, it will look to increase the proportion of the portfolio in cashflow generative assets.

Climate related risks the scheme is exposed to

Due to the Scheme's investment strategy, there is a material exposure to long-dated credit within the portfolio. This poses different climate risks across different time horizons. In evaluating the implications of climate-related change on the portfolio's financial position it evaluates the asset-related climate risks through the lenses of:

- **Physical risks:** Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for organizations, such as direct damage to assets and indirect impacts from supply chain disruption. Organisations' financial performance may also be affected by changes in water availability, sourcing, and quality; food security; and extreme temperature changes affecting organizations' premises, operations, supply chain, transport needs, and employee safety.
- **Transitional risks:** Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks pose varying levels of financial and reputational risk to organizations.
- **Reputational risks:** The risks the Scheme is exposed to in relation to community perception, including Scheme members, regulators, activist groups, and the general public. The risk is that the Scheme fails to meet community expectations. We consider the potential impact of the Scheme's reputation as it pertains to climate-related factors within the decision-making framework.

It is recognised that the strategy of the Scheme focuses on assets which are higher up the corporate financing structure. Therefore, whilst the Scheme can still influence corporate entities (via covenant restrictions, for example), it does not have material voting rights.

Timeline considerations

By reference to the Scheme's projected funding journey and liabilities the Trustee considers three timeframes when evaluating the strategy for the Scheme's approach to climate change:

1) Short term (up to 5 years) – the Scheme's portfolio is undergoing substantive transition to its end-state portfolio. During this time the Trustee will strive to improve data quality and reporting transparency in relation to carbon- related disclosures. This timescale also broadly aligns with the anticipated full funding date at which point the portfolio would be expected to invest in its long-term portfolio. During this period the Scheme's assets and liabilities are not as well matched as they are expected to be in the medium and long term. Transitional risk is therefore higher and there is a greater risk of the funding position being negatively impacted by changes in market conditions. Climate-related investment opportunities might be starting to evolve in the markets.
2) Medium term (up to 10 years) – 10 years is the point at which the Scheme is expected to be self-sufficient. At this point the strategic position is to match cashflows with a high level of accuracy and minimize residual risks as far as possible. Similar to the short-term horizon, the Scheme will be exposed to impacts on market conditions from transitional risks (and opportunities), and physical risks may also start to have an impact over this period. Reputational risk is expected to be a key risk to consider over this period.
3) Longer term (c.30 years) – while the Scheme is expected to be relatively mature at this stage, we align the Scheme's longer-term climate objectives to the goals of the Paris agreement. Whilst there is a greater risk of more material market movements due to transitional and physical risks over this period, the Scheme's investment strategy should mean that it is well protected against these risks. However, it is important to identify where these risks may result in higher-than-expected defaults or where they offer opportunities to improve investment efficiency. The analysis performed on portfolio 2 (results in the scenario analysis section) helps to quantify this risk based on the chosen scenarios. The impact is relatively modest due to the evolution of the investment strategy, despite potentially large changes in market conditions. Reputational risk will be a material risk for the Scheme.

Climate scenario analysis

To ascertain the climate-related impact on our funding and investment strategy, the Trustee has completed scenario analysis on the Scheme's assets and liabilities. The scenarios are built around global emissions projections to 2050. This scenario analysis has been undertaken in consultation with the Trustee, its advisors, and the Scheme sponsor. The Trustee has reviewed last year's scenario analysis and has considered whether it is appropriate to undertake a new scenario analysis this year and has chosen not to. There has been no material change in the funding or investment strategy nor in the availability of data since the last scenario analysis. The Trustee would like to see progress in the methodologies underpinning scenario analysis before this process needs to be carried out again.

The Trustee considers three scenarios: Early action, Late action, and No action. These scenarios have been selected as they are aligned with those defined by the Network for Greening the Financial System (NGFS). The NGFS is considered by the Trustee to be a reputable source that is expected to allow consistency of scenario analysis over time. The scenarios were also chosen as they are consistent with the three key scenarios currently outlined in the DWP's guidance. Within each scenario, the Trustee considers the financial implications though a review of physical and transitional risk on the assets and liabilities.

These risks are summarised below:

	Early action scenario ("EA")	Late action scenario ("LA")	No Additional action scenario ("NAA")
Description	Transition to a carbon-neutral economy begins in 2021 and continues gradually over the scenario (to 2050). Major economies to align with the Paris Agreement, with a smooth transition to 1.8°C The scenario assumes that there are limited physical risks, and transition risk prevails as the economy moves ahead. The economy grows steadily over the period.	Transition to a carbon-neutral economy is delayed until 2031 so is more sudden and disorderly. Major economies to eventually align to the Paris Agreement of 1.8°C The scenario assumes that there is limited physical risks through the disorderly transition which results in higher transitional risks. We assume a medium-term recession before regaining.	No additional government climate policy is implemented beyond 2020, so there is limited transition risk. There is an immediate need to take action to limit the physical impacts of global warming with average global temperatures already >1°C above pre-industrial levels. The scenario results in higher physical risk, though limited transitional risk as a result of no anticipated policy change.
Transition risk	Medium	High	Limited
Transition begins	2021	2031	n.a.
Nature of transition	Early and orderly	Late and disorderly	Only policies that were in place before 2021
Physical risks	Limited	Limited	High
Impact on output	**Temporarily lower growth**	**Sudden contraction (recession)**	**Permanently lower growth and higher uncertainty**

As detailed above, the Scheme targets a self-sufficient cashflow matching portfolio.

The variable in the terminal portfolio, and therefore the risk to the Scheme, is the potential failure of assets to distribute cash when liability payments fall due.

Non-performance of such assets can create a funding strain. When constructing the terminal portfolio, the rating of a bond is used as a proxy for its probability to pay. Deterioration of the rating is therefore equivalent to a lower value placed on the cashflow. This is the approach considered in the scenarios, whereby spread changes are translated into credit ratings.

Outcome of scenarios

The Trustee strives to integrate responsible investment considerations into its investment process while continuing to pursue an investment strategy suitable for the security of the benefits of Scheme members.

The Trustee considers the portfolio at two points in its lifespan, corresponding to the medium- and longer-term timeframes outlined in the Timeline Considerations section:

Portfolio 1: Journey to full funding
Evaluation of the potential impacts on the portfolio, with its current asset allocation, over a 6 to 10-year time horizon (focusing on the medium term), assuming no change to portfolio composition (i.e., a prudent view that the Scheme has not de-risked over this time horizon).

Portfolio 2: Fully funded
Evaluation of the theoretical target portfolio assuming it is fully invested by 2050.

Summary of outcomes

	Early action scenario (“EA”)	Late action scenario (“LA”)	No additional action scenario (“NAA”)
Portfolio 1 (2030) Relative to 95% funded	-4%	N/a	-4%
Portfolio 2 (2050) Relative to 100% funded	-5%	-5%	-7%

The scenarios above apply a combination of shocks including interest rates, inflation, and mortality, designed to stress the Scheme’s technical provisions funding position as of 31 March 2022. However, as the Scheme is 85% hedged on interest rates and inflation rates, and 97% of the longevity risk is hedged, the impact of these shocks is limited.

The Scheme’s matching investment strategy is to hold a diversified, high-quality portfolio of cashflow generative assets which accurately matches the liability cashflows given changes to inflation, FX rates and interest rates. The Scheme also aims to hold enough collateral, in the form of gilts and cash, to maintain derivative positions in the event of a material market shock. Given the resilience of this target portfolio, a more bespoke set of shocks underlying the scenarios were applied to the matching assets (the severity/distribution of the shocks vary by scenario):

Increasing the expectation of default – the Scheme makes allowance for the probability that some assets may default and not be able to provide the full cashflows promised. Assuming a higher level of defaults within the portfolio than our base assumption reduces the cashflows expected from the assets under the scenario.

Reducing credit ratings – the Scheme aims to hold a highly rated portfolio with various credit rating constraints on issuers and an overall aim of having an average portfolio rating of at least A-rated. In the scenarios this is achieved by the Scheme selling bonds downgraded below an A-rating and purchasing higher rated bonds. The cost of this sale/replacement causes a strain on the funding level. The Scheme would be expected to hold at least some of the downgraded positions to maturity to avoid realising this cost.

Increasing the level of collateral required – assuming larger shocks on the derivative positions increases the amount of collateral the Scheme is required to hold, pushing down the overall yield of the portfolio and increasing the overall cost, therefore reducing the funding position.

In Portfolio 1, the Scheme’s funding level is affected by traditional market shocks on the Scheme’s non-matching asset allocations, which are used to close the current funding gap.

Once the Scheme reaches fully funded status, we expect the Scheme to hold a fully matched asset portfolio with no need to hold ‘non-matching’ asset classes i.e., these shocks do not apply in Portfolio 2.

Sponsor covenant

The Trustee recognises that the Sponsor of the Scheme is likely to be affected by climate change which, in turn, may affect the resilience of the Scheme’s funding strategy over time. Therefore, the Trustee engages actively with the Sponsor to better understand the climate-related risks and opportunities to which it is exposed.

AXA has been instrumental in formulating the key climate-related disclosures as a participating member of the Task Force for Climate Related Financial Disclosures. The Trustee is therefore confident that the Sponsor recognises the risk that climate change may pose to its operations and wider business strategy. Importantly, the Sponsor has taken steps to disclose its climate change risk management approach and develop plans to integrate climate risk into its group-wide risk management policy. For further details of the Sponsor’s approach, see its TCFD disclosures.

While the Trustee considers the steps taken by the Sponsor towards addressing climate-related risk to be positive for both the wider consequences of climate change and the implications this has on the Scheme’s funding position, it will continue to review the position of the Sponsor and evaluate this in the context of the Trustee’s wider policy.

The Trustee has discussed with the Sponsor their approach to the integration of climate change into their business strategy. The Trustee is comfortable that climate risks are an important consideration for the Sponsor and will maintain an open dialogue with the Sponsor on its approach to climate change. The Trustee has not allowed for material changes to their assessment of the sponsor covenant when carrying out the scenario analysis.

Strategic positioning

The Trustee believes that the Scheme’s strategy is resilient to the potential impacts of the climate scenarios based on the analysis in this report. This is because Scheme’s funding level is strong, and the overall portfolio is relatively de-risked with riskier asset exposure diversified across a range of asset classes.
The Trustee has developed two areas of focus (shown below) to ensure that the impact on funding level from climate-related risks, shown in the scenario analysis, remains low.

Focus 1: Active stewardship and engagement

The Trustee recognises that good stewardship practices, including engagement and voting activities, are an important part of Scheme governance as they help preserve and enhance asset owner value over the long term.

Direct engagement with underlying companies (as well as other relevant persons) where the Trustee owns shares and debt is carried out by the Scheme’s investment managers.

The Trustee expects their investment managers to practice good stewardship. This includes monitoring, engaging with issuers of debt or equity on relevant matters such as performance, strategy, risks, capital structure, conflicts of interest and environmental, social and governance considerations, and using voting rights to affect the best possible long-term outcomes.

The Trustee assesses the ability of each investment manager to engage with underlying companies to promote the long-term success of the investments. This review occurs on an annual basis and focuses on determining whether the investment managers have acted in line with the Trustee’s policy.

When selecting, monitoring and de-selecting asset managers, stewardship is factored into the decision-making process at the appropriate level for the specific asset class in question.

While the Trustee chooses managers that align with its beliefs on stewardship, there are instances where the Trustee has less direct influence over the managers’ policies in the exercise of investment rights. For example, where Scheme assets may be held in pooled funds, due to the collective nature of these investments.

Engagement with relevant persons includes the exercise of rights (including voting rights) attached to the Scheme’s exposure to equity investments, which are exercised by the asset managers of the Scheme. The Trustee monitors and discloses the voting records of its managers on an annual basis.

Focus 2: Directional asset allocation

The Trustee considers directional allocation to manage the Scheme’s exposure to climate risks and opportunities. This is further bisected into two areas:

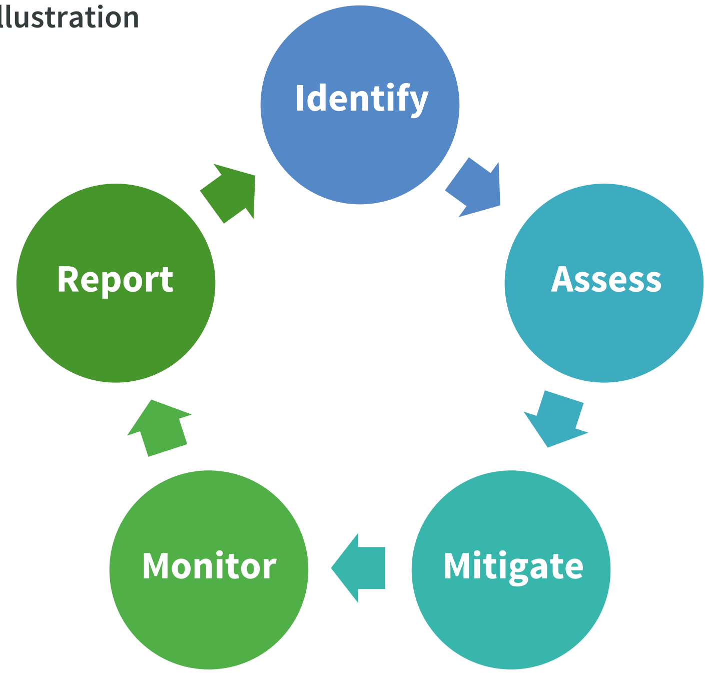
- Managing risk through exclusions and restrictions on exposure.
- Actively allocating to take advantage of opportunities within the green assets space.

Risk management

The Trustee considers the management of risks holistically, balancing the Scheme's overall objectives with investment risk, the Sponsor covenant including any risk arising from the sponsors climate-related business activity, as well as the overall funding level of the Scheme. To ensure climate-related risks are assessed in an integrated manner, it has explicitly identified climate change as a risk on the Trustee risk register, and receives a climate report on a quarterly basis.

As identified in the governance section of this report, the responsibility of monitoring and evaluating the existing and emerging risks of the Scheme is the responsibility of the Trustee and its advisers. These governance structures are used for identifying and assessing relevant climate risks, including through quarterly dashboard reporting to the Trustee board. Relevant risks are integrated into the Scheme's overall risk management processes via the Risk Register described above. The continuously evolving risk management framework is broadly based on the following illustration:

Figure 2: Risk framework illustration



To ensure a comprehensive assessment of the climate risk associated with the portfolio, the Trustee considers risk from both a top-down risk and a bottom-up perspective. Our investment managers are also invited to share their views and frameworks. When considered appropriate, a combination of the Trustee's policies and that of the investment manager's is implemented.

Mitigating climate-related risk

The Trustee's approach to responsible investment considers exclusion of controversial sectors, such as controversial weapons, but also the positive inclusion of certain assets.

The policy has a four-pillar approach, as follows.

Environmental integration and stewardship

The Scheme's investment portfolio integrates environmental analysis into investment processes, using KPIs and qualitative research. The implementation of environmental "minimum standards" based on the environmental scores provided by each fund manager and the Sponsor are expected to give a rounded measure of the climate risk associated with the fund manager. The target impact of these scores is to exclude potentially underperforming issuers which should in turn reduce climate related risk.

The Trustee ambition is to score all asset classes. AXA's proprietary methodology is in place to compute environmental scores for the main asset classes: equity issuers, debt of corporate issuers, debt of sovereign issuers and real assets (direct property, commercial real estate loans and infrastructure debt). For other asset classes the environmental assessment is based to a large degree on the results of questionnaires.

These environmental scores include an adjustment for controversies, which allows for an issuer's involvement in environmental-related incidents. This can result in an override of the quantitative analysis of an environmental score if such incidents are regular or extremely severe.

A low environmental score might not fully reflect the environmental situation of an issuer at a point in time and that is why a 'comply or explain' approach is in place. In this case the Trustee relies on a qualitative analysis by the Scheme's investment managers.

The Trustee expects all fund managers to use the rights that accrue to investors, including voting and engagement, to influence investee companies (and other invested assets). This can be used to encourage companies and other assets to deliver better performance against all the categories of the environmental assessment. The Trustee believes that this can help enhance environmental scores and, more fundamentally, it will help to reduce the negative climate risk exposure and increase exposure to climate opportunities in its investment portfolios.

The Trustee expects reporting on stewardship activities by its fund managers and seeks to encourage more effective delivery of stewardship over time. Further details of the Trustee's approach to stewardship can be found in the following section.

Carbon footprint and climate-related portfolio alignment

While recognising that there are limits to the quality of data available, the Trustee encourages fund managers to report the carbon footprint of their investments and the Trustee seeks to assess the overall carbon footprint of its portfolio. As the quality of data improves, the Trustee will measure the reduction in the Scheme's carbon footprint over time.

The Trustee aims to contain the 'warming potential' of the Scheme's investment portfolio to 1.5°C above pre-industrial levels by 2050. Carbon metrics are integrated into investment decisions. Additional climate risk KPIs are being developed to measure climate-related impact. The existing methodologies and metrics will evolve and require improvements over time.

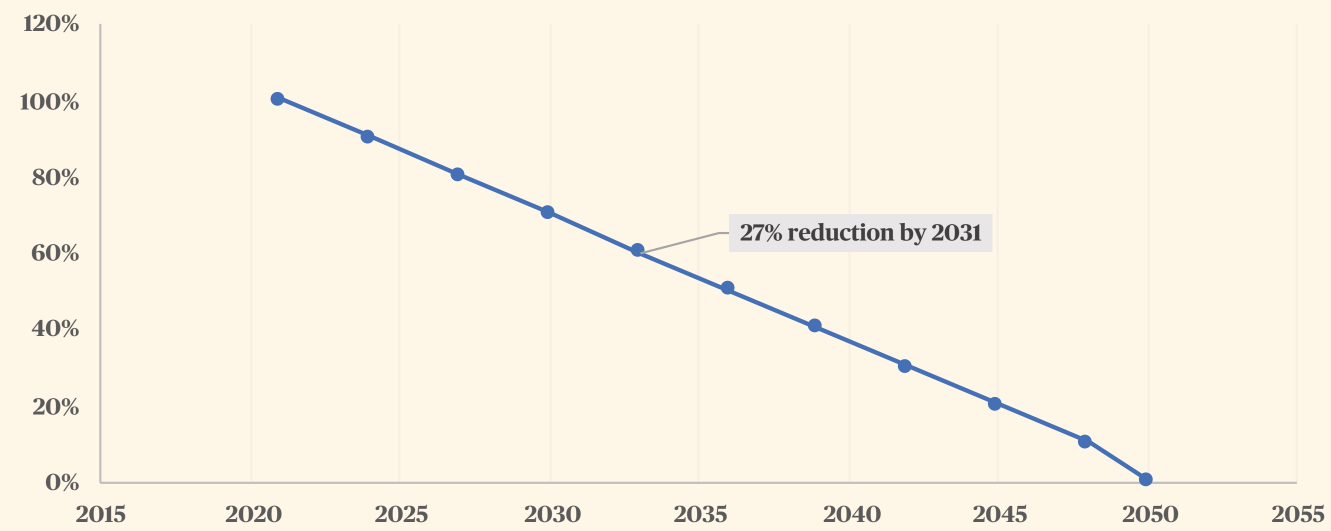
The Trustee has implemented certain climate-related exclusions in its portfolio to more effectively pursue climate-related objectives.

Journey to net zero

In order to manage the Scheme's climate risks, the Trustee has also developed the structure for a 'Carbon Journey Plan', which the Trustee believes will act as a tool in helping the Scheme to meet its ultimate net zero goals and lead to effective decision-making along the way.

Considerable time has been spent establishing a suitable governance structure for the Carbon Journey Plan, which is ultimately owned by the Trustee but is shared with the various parties who input into the Trustee decision-making process (fund managers, sponsor, consultants, advisors). As covered previously, the Trustee has set a target of net zero by 2050, with a 27% reduction in carbon footprint[1] by 2031, starting with a baseline of 31 March 2021.

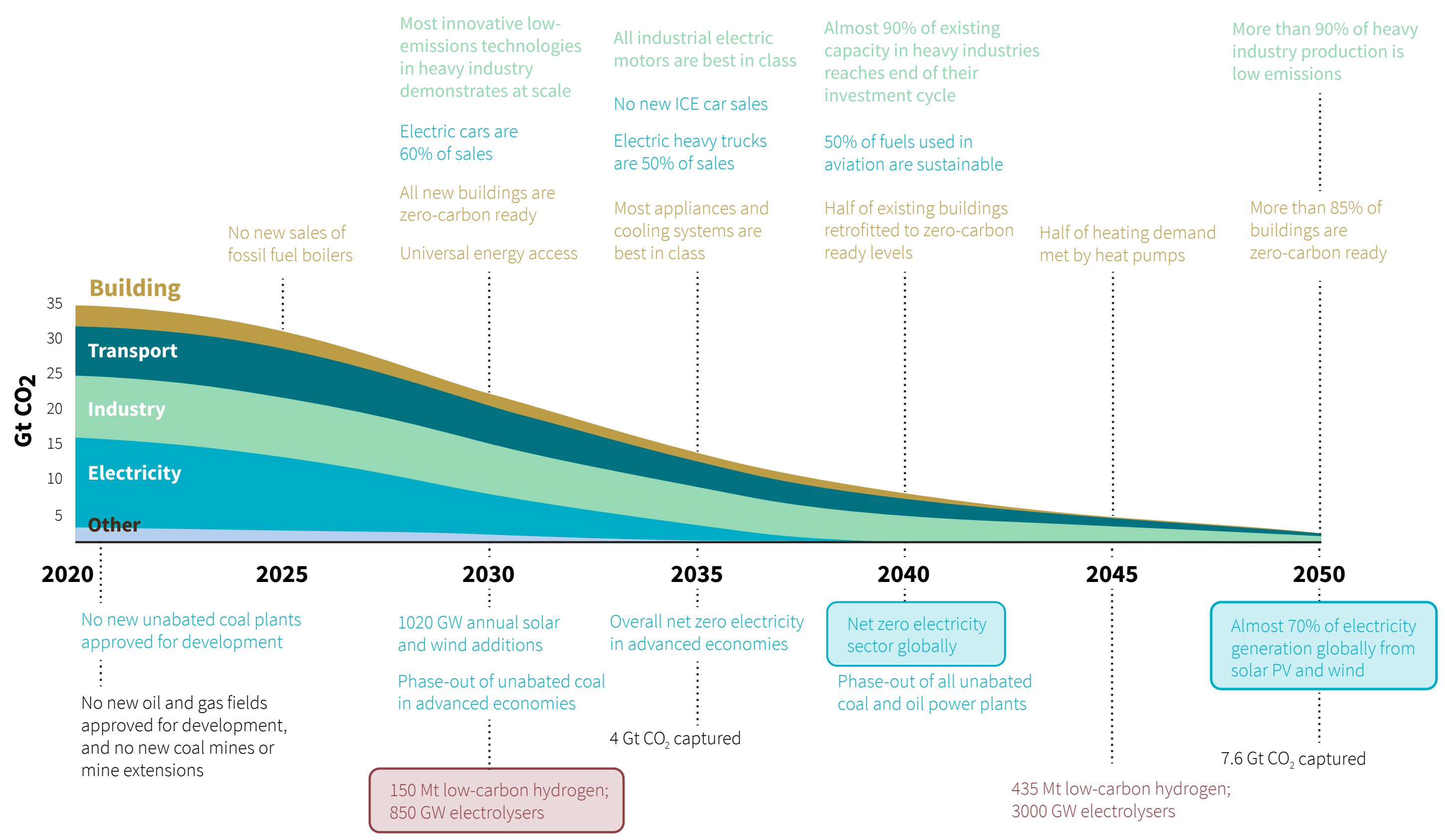
Carbon footprint journey



[1] EV-based carbon footprint of AXA UK Pension Scheme's portfolio, expressed in T.eq.CO_2/EV €m as defined on page 45 of the AXA 2022 Climate and Biodiversity Report.

Aligning to 1.5 degrees

Warming potential pathway



Source: https://www.ieo.org/reports/net-zero-by-2050

The Trustee notes the link between reducing emissions and achieving the 1.5 degree warming potential. In order to achieve this global target, the global economy will be required to reduce its total emissions output by 15 Gt CO_2 emissions by 2030. The Trustee set targets consistent with this level.

Controversies – engagement and exclusion
The Trustee recognises that some social, societal, environmental, or more general ethical issues are particularly sensitive and require a cautious approach. Certain activities and products could be inconsistent with the goals of protecting people over the long term. In this context, the Trustee has agreed specific sector guidelines and business restrictions.

Sector-based restrictions apply to sectors or companies that face acute social, human rights, ethical or environmental challenges. These currently include coal mining and coal-based power generation, tar oil sands and associated pipelines and broader ESG issues including the manufacturing of palm oil, food commodity derivatives, tobacco, and controversial weapons.

The most current Scheme's investment portfolio sector guidelines are available on the AXA Group RI website: **https://www.axa.com/en/page/responsible-investment**. The Trustee will keep these guidelines under review from time to time (including if these guidelines should materially change).

The Scheme's investment portfolio restrictions are based on sector-level blacklists and apply on a company name basis. Depending on the instrument and sector, new investments may be prohibited, or all relevant exposure may be required to be divested immediately.

Green investment target, transition financing and impact investments
In addition to 'temperature' targets and divestments, green investments encourage various sectors to improve their climate strategy.

The Trustee's target is to increase the allocation to green assets across various asset classes to support companies shifting towards less carbon-intensive business models (reaching UN PRI's 1% recommended allocation by 2025).

The selection of green investments is based on AXA's proprietary analysis and encompasses various asset classes, green bonds, infrastructure, real estate and impact investments. Some assets are externally labelled 'green', for instance by the Climate Bonds Initiative, while the rest qualify as such according to Sponsor definitions that are in line with the broad market approach.

Impact initiatives allocate capital to create intentional, positive, measurable, and sustainable impacts on society while simultaneously delivering financial market returns.

Monitoring our climate-change related exposure

A comprehensive climate risk dashboard has been established by the Trustee. The dashboard is built upon the Sponsor's scorecard of individual assets and aggregated to provide an overall climate risk factor across all asset classes the Scheme is exposed to. The intention is that this will be continually developed to monitor emerging risks and opportunities, as well as those that have been previously identified within the mandates.

The dashboard is presented to the Trustee on a quarterly basis. The Trustee and its advisers are invited to comment at each meeting on the dashboard, and governance bandwidth is provided to allow the Trustee, its advisors and its asset managers to consider any risks and discuss changes, if necessary, to the investment strategy.

Reduction in unsustainable sectors

In 2018, AXA UK Group Pension Scheme began incorporating environmental factors into its investment process in response to the Paris Agreement of 2015 and the subsequent disclosure recommendations of the Taskforce on Climate-Related Financial Disclosures.

Beginning with a period of analysis, AXA UK Group Pension Scheme determined its exposure to sectors that it considered unsustainable and therefore un-investable. Examples of unsustainable sectors include coal, palm oil and tobacco.

The Scheme has actively implemented investment restrictions across all its mandates ensuring that all new investments from Scheme assets are screened for exposure to controversial sectors such as coal and palm oil.

Any potential investment that fall into these sectors is immediately excluded from the investment process. Where the analysis of the Scheme's current asset portfolio highlighted exposure to the restricted sectors, individual investments were reviewed, and a plan formulated to sell or run off the exposure.

Investment strategy changes to align with Paris Agreement objectives

Over time, AXA Group has developed specific sector guidelines, which the Trustee has chosen apply, for activities in sectors that may pose certain risks to the scheme and AXA Group as an investor and insurer. These currently include the following sectors: thermal coal, oil and gas, manufacturers of 'controversial weapons', tobacco manufacturing, ecosystem conversion and deforestation. Among them, coal, oil and gas policies, which apply to both investment and underwriting activities, aim to contribute to the transition toward a more sustainable and less carbon-intensive economy.

The AXA Group Coal Policy

Coal is by far the most carbon-intensive form of energy and as such coal-based power generation is seen as the most at risk industry in terms of asset stranding. AXA Group is committed to a long-term exit strategy reducing exposure to the thermal coal industry to zero by 2030 in the European Union and OECD countries, and by 2040 in the rest of the world, as suggested by the main climate scenarios (such as the IEA's "Beyond +2°C" scenario). This approach is applied to AXA UK Group Pension Scheme's investments activities. To support the assessment, AXA uses the Global Coal Exit List, which is a publicly available database. However, AXA UK Group Pension Scheme reserves the right to diverge from the GCEL on a case-by-case basis when more up-to-date data is identified.

For assets in fully controlled mandates AXA UK Group Pension Scheme bans investments in the following companies:

- Power generation companies with a share of coal power production in their energy mix over 30% and/or coal expansion plans producing more than 300 MW and/or over 10 GW of coal-based power installed capacity;
- Mining companies with a coal share of revenues over 30% and/or with annual coal production over 20 million tons and/or developing new coal mines; and
- Certain coal industry partners, defined as manufacturers (e.g., equipment suppliers) and infrastructure players (e.g., port terminals or dedicated railways) developing significant new coal assets.

The AXA Group Energy Policy[1]

Since 2017, AXA Group has divested from oil sands-related businesses (defined as companies deriving more than 20% of their revenue from oil sands, including pipeline operators). As an asset owner, AXA UK Group Pension has stopped investing in new upstream oil greenfield exploration projects unless they are carried out by companies with the most far-reaching and credible transition plans.

Furthermore, AXA Group is reducing its investment exposure to unconventional exploration and production, as follows:

- Arctic: AXA Group has extended the scope of its investment restrictions to the Arctic Region, in alignment with the Arctic Monitoring and Assessment Programme (AMAP). Only companies in the AMAP Region with Norwegian operations will be excluded from the scope of restrictions, given their high environmental standards and lower operational carbon footprint. AXA Group will exclude new direct investments in companies deriving more than 10% of their production from the AMAP-based region or producing more than 5% of the worldwide volume of AMAP-based oil & gas;
- Oil sands: AXA Group has adopted a more stringent policy by ceasing direct investments in companies producing more than 5% of the worldwide volume of oil sands; and
- Fracking/shale oil and gas: AXA Group will no longer invest directly in companies deriving more than 30% of their production from fracking/shale oil and gas.

AXA UK Group Pension Scheme's Fossil Fuel Exposure

AXA UK Group Pension Scheme monitors on a regular basis its exposure, to conventional and unconventional fossil fuels. The total exposures to coal is calculated by using exclusively the companies listed in the Global Coal Exit List provided by Urgewald. The total respective exposure of AXA UK Group Pension Scheme's liquid assets to oil and gas is calculated based on Bloomberg sectors. The unconventional nature of the hydrocarbon activities of these sectors is then derived from the GOGEL list provided by Urgewald on an annual basis.:

Fossil Fuel Exposure

AXA UK Group Pension Scheme Fossil fuel exposure	Assets Under Management	% of Assets Under Management
Coal	£ 5 Mn	0.1%
Overall oil & gas	£ 47 Mn	1.1%
Unconventional oil & gas	£ 15 Mn	0.4%

Source: AXA/Urgewald

At FY 2022, AXA UK Group Pension Scheme's exposure to fossil fuels represented £47 million or 1.1% of the total value of the AXA UK Group Pension Scheme's investment portfolio. The exposure to coal totalled £5 million, decreasing by 70% since FY 2020. For unconventional oil and gas activities, the exposure was £15 million, representing a reduction of 40% compared to FY 2020.

[1]The most current Scheme's investment portfolio energy policy is available on the AXA Group RI website: https://www-axa-com.cdn.axa-contento-118412.eu/www-axa-com/c203dbca-9714-43c2-b955-b9013f6936fd_AXA_Energy_Policy_2023.pdf

Engagement strategy with issuers and management companies

Presentation of the engagement strategy

As a shareholder and/or bondholder, AXA UK Group Pension Scheme engages with the management of the companies in which it invests. Such engagement is either done by AXA Group's Credit Research Team directly or by AXA UK Group Pension Scheme asset managers according to their own engagement policy.

AXA Group's Credit Research Team conducts regular outreach with the top management of the issuers in which AXA Group has its largest investment exposure. These meetings offer an opportunity to review and discuss issuers' strategy, including on ESG, non-publicly.

As part of AXA Group's NZAOA commitments, the AXA Group Credit Research Team has also extended its engagement on Net Zero trajectories with issuers that have the largest greenhouse gas footprint in AXA Group's portfolio.

Separately, asset managers engages directly with investee companies, and as part of a coalition of investors, with companies in key sectors. AXA Investment Manager has a thematic approach to engagement and applies two different strategies to engagement: "engagement with objectives," and "sustainability dialogue."

"Engagement with objectives" is based on thematic research carried out by AXA IM Responsible Investment experts, who then lead the engagement with the support of the AXA IM investment team with an explicit goal to achieve change within a company.

"Sustainability dialogue" focuses on companies where the continued enhancement of sustainability practices aims to help support its robust, long-term profitability. This is often led by portfolio managers or credit analysts. Where weaknesses are identified "sustainability dialogue" may lead to using escalation techniques in certain cases or prompt a more formal "engagement with objectives" approach.

Assessment of the engagement strategy

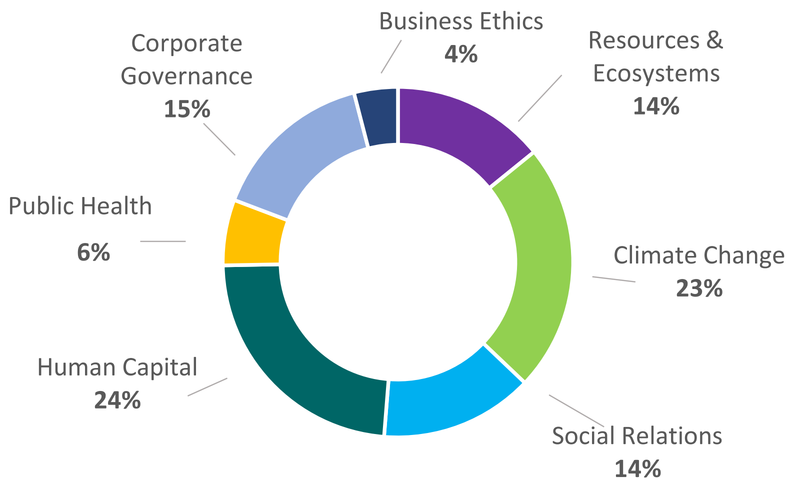
In 2022, our asset managers conducted 165 "engagements with objectives" with 76 companies in which AXA UK Group Pension Scheme's funds are invested.

Environment was the main focus of discussion, with 23% of engagement cases covering Climate Change and 14% of engagement covering Resources & Ecosystems topics.

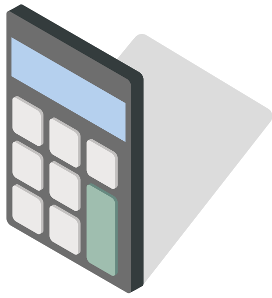
In 2022, 27% of climate change engagement was linked to corporate governance matters. Ecosystem protection was another key engagement theme addressed by our asset managers through engagement on biodiversity loss and deforestation with companies in the food products, packaging materials and electric utilities sectors.

Asset Managers prioritize direct dialogue with companies, while also participating in collaborative initiatives, which represent 5% of all engagement. Joining efforts with other investors can improve the efficiency of the engagement process and the materiality of results, on the condition that shareholders share clear goals and expected outcomes.

Engagement per ESG theme
(for engagement with objectives)



Metrics & targets



The Trustee has selected key metrics that play a role throughout the pension scheme's investment decision-making process. These metrics are used to measure, manage, and disclose climate risk the Scheme is exposed to. These metrics are aligned to the existing strategy and goals of the Trustee. However, it may change these metrics over time to reflect developments in industry best practice in what is a new and evolving area. The metrics below are a smaller subset of a wider data set that is used by the Trustee.

The information and data available in relation to monitoring the metrics below is not always available in the quantity or quality desired. For example, there is a lack of scope 3 emissions information and gaps in the data available on some asset classes (as illustrated in the coverage section below), although this should become more readily available over time. In addition, the methodologies used to determine the metrics are still developing so there are limitations on the what the Trustee is able to calculate and the accuracy of these calculations.

Key climate metrics

	Environmental score	Carbon emission[1]	Exclusions	Green Investments	Warming Potential[2] (°C) - Sovereign debt	Implied Temperature Rise[3] (°C) - Corporate bonds & Equities
2023	**6.9** Portfolio Coverage 78%	***49,691 TCO²*** Portfolio Coverage 58%	***<0.1%*** ***aggregate exposure***	***0.3%*** ***aggregate exposure***	**1.7°C**	**2.6°C**
2022	7.4	*57,621 TCO²*	***<0.6%*** ***aggregate exposure***	*0.4%* *aggregate exposure*	1.7°C *2.1°C including Corporate Debt*	N/A*
2021	6.2	*95,936 TCO²*	***<0.7%*** ***aggregate exposure***	*0.1%* *aggregate exposure*	1.7°C *1.9°C including Corporate Debt*	N/A*
Primary target	Maintain and incrementally improve the integrated environmental score (versus 2019 Level)	Target net zero emissions by 2050 with an interim target of a 27% by 2031	Actively exclude investments that are considered controversial	Target a green investment in line with the UN PRI by 2025	Target 1.5 degree C by 2050	

*Data available from FY 2021 onwards based on the Implied Temperature Rise methodology applied on Corporate bond & Equities asset class

It was noted that the holdings captured by the exclusions list were in place prior to the Trustee implementing this approach. These are expected to be sold down over time.

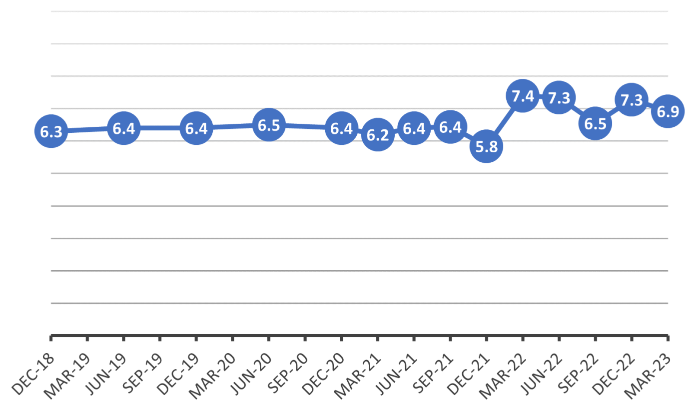
Environmental score

The Trustee with assistance from AXA IM has implemented scoring methodologies to rate issuers on environmental criteria (corporates, sovereigns, green, social and sustainability bonds). These methodologies are based on quantitative data from several data providers and have been obtained from non-financial information published by issuers, NGO, publications as well as internal and external data sources. The environmental score is defined as a ranking out of 10 and therefore the higher the score the better the environmental credentials of the portfolio.

As mentioned in prior sections, the Trustee continues to develop its approach to monitoring of environmental data and scoring methodology. It is noted that the 2022 figure quoted in this report is higher than previously calculated figures due to a change in approach (this has increased the score by c.0.4).

The environmental Score in our portfolio declined from 7.4 to 6.9 in 2023, influenced by active portfolio decisions, including new investment in Credit and Property.

Historical environmental scores to 31 March 2023



[1] Referring to absolute carbon emissions pro-rated per AXA UK Pension Scheme's holdings, expressed in T.eq.CO_2 as defined on page 19 of the AXA 2023 Climate and Biodiversity Report. [2] Referring to the contribution to global warming, expressed in °C as defined on page 19 of the AXA 2023 Climate and Biodiversity Report. [3] Referring to Implied Temperature Rise, expressed in °C as defined on page 19 of the AXA 2023 Climate and Biodiversity Report.

Carbon emissions and intensity

The Trustee considers the portfolio's carbon emission as an absolute calculation (as a headline figure), as well as considering emissions intensity metrics. The Trustee calculates and monitors Scope 1, 2 and 3 emissions, as defined below, on investments held across the Scheme's investment portfolio, where it can collect the necessary data:

- Scope 1 emissions: all direct emissions from the activities of an entity or the activities under its control. For example, the fuel combustion used to run delivery vehicles across the country.
- Scope 2 emissions: indirect emissions from electricity purchased and used by an entity which are created during the production of energy which the entity uses. For example, lighting and heating in retail stores.
- Scope 3 emissions: all indirect emissions from the activities of the entity, other than Scope 2 emissions, which occur from sources that the entity does not directly control. For example, the transport and distribution of products from stores around the world.

At this stage, the Scheme reports against aggregate in Scope 1 and 2 emissions.

The Trustee considers the following metrics in relation to carbon emissions:

- Absolute emissions – Greenhouse gas emissions from the operations that are owned or controlled by the company and greenhouse gas emissions from direct supplies. This is expressed as tons of carbon dioxide equivalents (CO_2e) whereby each gas is weighted in terms of the amount of CO_2 that would create the same amount of warming. This is calculated in line with the guidance provided by the Greenhouse Gas Protocol.
- Carbon Footprint – Total carbon emissions for the portfolio normalised by the market value of the portfolio. This metric is expressed in tons CO_2e/£M invested.
- Carbon footprint by revenue – Environmental KPI provided by Truscost S&P. The amount of carbon dioxide released into the atmosphere per millions $ of revenue. It is expressed in CO2 tons per millions $ revenue.

	Absolute emission[4]	Carbon footprint[5]	Carbon footprint by revenue[6]
2023	***49,691 TCO²*** Portfolio Coverage 58%	***60 TCO² per €mn EV*** Portfolio Coverage 58%	***118 TCO² per €mn Revenue*** Portfolio Coverage 59%
2022	*57,621 TCO²*	*66 TCO² per €mn EV*	*125 TCO² per €mn Revenue*
2021	*95,936 TCO²*	*131 TCO² per €mn EV*	*155 TCO² per €mn Revenue*

Upcoming Scope 3 Disclosure

We have not yet disclosed Scope 3 emissions due to the current immaturity of estimations provided by our data sources. Recognizing the importance of complete emissions reporting, we are actively engaging with our data providers to enhance the reliability of Scope 3 calculations and intend to include these figures in our next climate change report.

[4] Absolute carbon emissions pro-rated per AXA UK Pension Scheme's holdings, expressed in T.eq.CO^2 and is the sum of 'scope 1 Emission (TCO^2e)' and 'scope 2 Emission (TCO^2e)'. [5] Carbon Intensity normalised per Enterprise Value: EV-based carbon footprint of AXA UK Pension Scheme's portfolio, expressed in T.eq.CO /EV (Enterprise Value) €m (normalized per Enterprise Value). [6] Carbon footprint of AXA UK Pension Scheme's portfolios expressed in T.eq.CO^2/$m of revenues (corporates) or GDP (sovereigns).

Warming potential

Since 2018, AXA has been using the MSCI 'Warming Potential' model.[1] This assesses how a company's projected GHG emissions[2] align with global temperature targets for 2100. AXA only uses this model for corporate equities and debt.

It takes a top-down approach combining country-level, sector agnostic and sector-specific 'Warming Potential' functions[3] with company-specific carbon reduction capacities and targets.[4]

Implied Temperature Rise

Between 2018 and 2022, AXA used MSCI's Warming Potential model, which assesses how a company's projected greenhouse gas emissions align with global temperature targets for 2100 for corporate equities and debt.

In 2022, MSCI replaced the Warming Potential metric with an Implied Temperature Rise (ITR) model. The ITR model considers:

- The remaining carbon budget assuming global warming is to be kept well below +2°C by 2100; and
- How much greenhouse gas a company can emit (across Scopes 1, 2 and 3) to stay within the limits

At a portfolio level, the sum of a financed budget overshoot is compared to financed carbon budgets for portfolio holdings. Using the Transient Climate Response to cumulative carbon Emissions (TCRE) factor, the total overshoot is converted to a degree of temperature rise. The implied temperature rise is a portfolio alignment metric, which is mandatory this year.

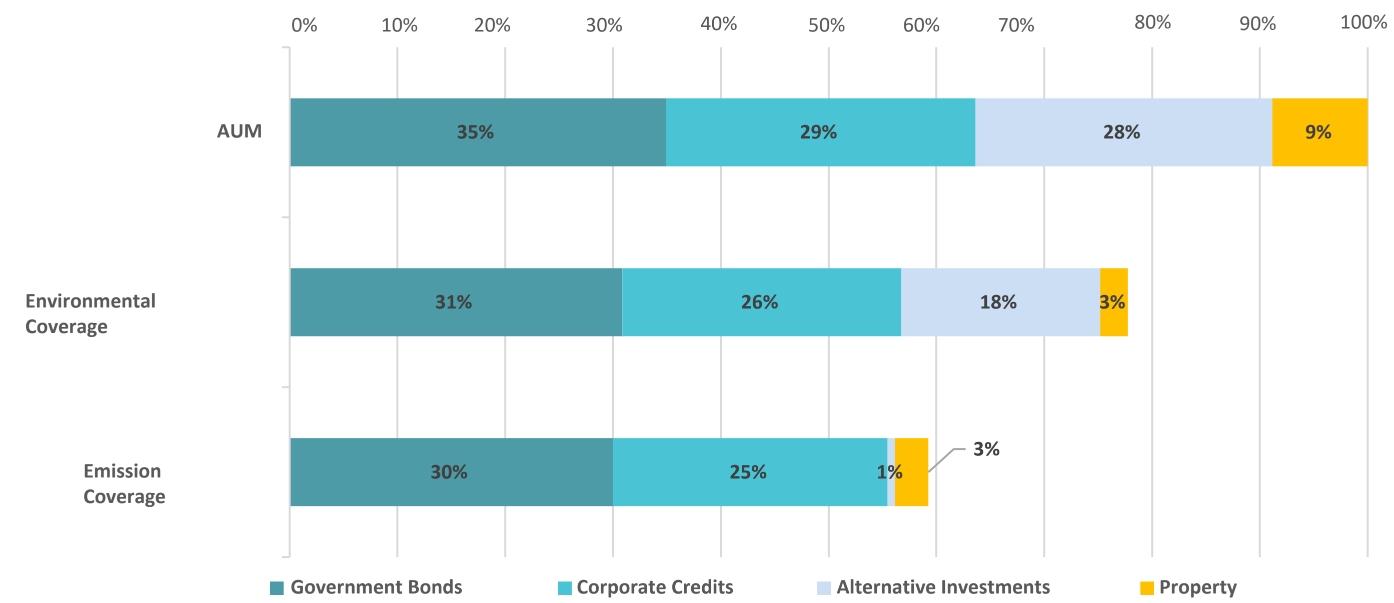
Green investment

Green Investment refers to investing in firms/activities which are environmentally friendly business practices and conserve natural resources. The Trustee utilises a strict definition across multiple asset classes which effectively defines minimum standards for what is considered green. This is expressed as a percentage of total assets.

Coverage

The use of any metric is only relevant as compared to the coverage, transparency, and data quality of the underlying information. While not a primary measure, the Trustee aims to represent the proportion of the portfolio for which the Trustee has high quality data by evaluating the coverage ratio as a whole and within asset classes. In future years, as data quality improves, we aim to expand this measure, breaking down portfolio-specific data into sub-categories, depending on how robust the information provided is. This is a key area in which the Trustee is striving for improvement over the coming years. We recognize the critical role of accurate data in our climate strategy. Our data providers are constantly enhancing coverage, and we're collaborating with our asset managers to enhance the breadth of our data coverage. This underscores our dedication to ongoing improvement and transparency.

Comparison on portfolio exposure vs data coverage as at 31 March 2023



[1] E.g., https://www.msci.com/documents/1296102/19288350/ClimateVaR_RealEstate_Methodology.pdf. [2] Direct (Scope 1) and indirect (Scope 2 and Scope 3) emissions from activities. [3] Translating tons of GHG emissions into potential global warming. [4] Referring to the warming potential metric as defined on page 19 of the AXA 2023 Group Climate and Biodiversity Report.

Scope of metrics

The table below outlines the data that is included within each metric and the date of inclusion in the metric calculations.

Climate metrics	Asset class		Reporting March 2021	Reporting March 2022	Reporting March 2023
Warming potential*	**Sovereign debt**		*Dec-2020*	*Dec-2021*	Dec-2022
Implied Temperature Rise*	**Corporate debt & equity**		*N/A***	*N/A***	Dec-2022
Carbon footprint	**Sovereign debt**	*TCO^2e per $m GDP*	*Mar-2021*	Mar-2022	Mar-2023
	Corporate debt & equity	*TCO^2e per $m revenue*	*Mar-2021*	*Mar-2022*	Mar-2023
		TCO^2e per €m EV	*Dec-2019*	*Dec-2020*	Dec-2021
		Absolute carbon emission (TCO^2e)	*Dec-2019*	*Dec-2020*	Dec-2021
AUM	**Sovereign debt, corporate debt & equity**		*Mar-2021*	*Mar-2022*	Mar-2023
Environmental score	**Sovereign debt, corporate debt, equity & real asset**		*Mar-2021*	*Mar-2021*	Mar-2022

*Please note that some parameters of the Warming Potential models are the carbon emissions, which are used with a one-year lag. Aggregate metrics have been reported, rather than metrics at an asset level, as in the Trustee's view these are more meaningful in relation to the Scheme.
**Data available from FY 2021 onwards based on the Implied Temperature Rise methodology applied on Corporate bond & Equities asset class.

Exposure to government securities

The Trustee monitors some of its metrics both with and without the inclusion of government securities. It is the view of the Trustee that, while assets such as government bonds can score positively on climate metrics, these assets are heavily reliant on governments' abilities to adhere to environmental commitments.

The Trustee also notes that engagement with governments poses different challenges to engagement with individual corporate issuers. The table below shows how the different metrics when government bonds are included and excluded.

	Environmental score	Carbon emission[5]	Exclusions	Green Investments	Warming Potential[6] (°C) - Sovereign debt	*Implied Temperature Rise[7] (°C) - Corporate bonds & Equities
Including government securities	**6.9** *Portfolio Coverage 78%*	***49,691 TCO^2*** Portfolio Coverage 58%	***<0.1% aggregate exposure***	***0.3% aggregate exposure***	**1.7°C**	**2.6°C**
Excluding government securities	**7.5** *Portfolio Coverage 74%*	***49,691 TCO^2*** Portfolio Coverage 58%	***<0.1% aggregate exposure***	***0.3% aggregate exposure***	***N/A***	**2.6°C**

*Data only applicable on Corporate bonds

A diversity of climate-related metrics and providers

The trustee acknowledges that a diverse range of climate-related data providers is required to provide transparency and coverage of the portfolio. The Trustee has worked with AXA to find a combination of data as well relevant benchmarks to assist in the disclosure of these metrics.

Data is currently provided on a quarterly basis and the Trustee notes that this data continues to evolve. As such while the overall trajectory of the scores provides insights into the climate risks associated with the Scheme, a direct comparison of year-on-year metrics must take account of the changes in coverage and methodologies over time.

[5] Referring to absolute carbon emissions pro-rated per AXA UK Pension Scheme's holdings, expressed in T.eq.CO_2 as defined on page 19 of the AXA 2023 Climate and Biodiversity Report. [6] Referring to the contribution to global warming, expressed in °C as defined on page 19 of the AXA 2023 Climate and Biodiversity Report. [7] Referring to the Implied Temperature Rise, expressed in °C as defined on page 19 of the AXA 2023 Climate and Biodiversity Report.

Looking forward

The journey of understanding and integrating the environmental, social, and governance implications of our investment decisions is ongoing. This report underscores our commitment and the areas that demand our continued focus. The Trustee Board is proud of the progress made and recognises that while the road to achieving net zero carbon emissions and aligning with the Paris Agreement may be fraught with challenges, it is also paved with opportunities.

As research in this domain advances, we anticipate the emergence of avenues that will expedite our transition to a more sustainable approach, ensuring the security of our members' benefits. AXA UK Group Pension Scheme remains committed to its mission. Through collaboration, innovation, and unwavering dedication, we aim towards a world where financial stability and environmental responsibility coexist harmoniously

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