The ING UK Pension Fund

Trustees’ Report in respect of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021

For the period 1 October 2022 to 31 March 2023

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Glossary

Absolute Emissions	The total emissions attributable to the Fund's assets.
Carbon Footprint	The total carbon emissions per $ million invested (tCO_2e/$m invested).
Carbon Journey Plan	The Trustees' agreed plan to reach the Fund's carbon reduction targets by the target dates.
CO_2e	Carbon dioxide emissions or equivalent.
CTVaR	Climate Transition Value at Risk. The loss or gain in the Fund's value as a result of the net zero transition, measured as an expected change in the current value of the Fund's assets.
ESG	Environment, Social and Governance.
EVIC Methodology	Enterprise Value including Cash methodology. Emissions are weighted across equity, debt and loans.
Investment Committee (IC)	The Investment Committee of the ING UK Pension Fund, a sub-committee of the Trustee Board.
Net Zero	The position of removing as many greenhouse gases as are emitted.
Physical Risk	The direct effects of climate change on the Fund and its members.
Portfolio Alignment	The percentage of the portfolio aligned with a particular net-zero initiative.
Responsible Investment (RI)	Making investment decisions and engaging with companies in order to encourage a positive impact on the world.
SBTi	The Science-Based Target Initiative. An organisation that defines and promotes science-based emissions reduction targets.
Scope 1 Emissions	Direct emissions from a company's owned or controlled sources. This may include emissions from a firm's manufacturing processes or emissions from company vehicles.
Scope 2 Emissions	Indirect emission from the generation of purchased energy, such as heating for company facilities.
Scope 3 Emissions	All other indirect emission, including those of suppliers and customers. These may include emissions related to the transportation and distribution of goods and disposal of waste generated in operations.
Transition Risk	Risks and opportunities arising from efforts made to transition towards a net-zero economy (both domestically and globally) to limit climate change.

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Section 1: Introduction

The Trustees (which we will refer to as the “Trustees” and the ”Trustee Board”) of the ING UK Pension Fund (the “Fund”) present their annual report under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the “Regulations”) for the period from 1 October 2022 to 31 March 2023. The principal employer of the Fund is ING Services Limited. The Fund has Defined Benefit and Defined Contribution sections.

The Fund is now subject to the requirement to produce disclosures in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (“TCFD”). The aim is to improve and increase reporting of climate-related financial risks and opportunities.

The Trustees have set an objective of ensuring that the Fund has net zero carbon emissions by 2050, and will use future updates of this report to demonstrate the progress being made to achieve this.

The TCFD framework requires disclosures in four broad categories:

- **Governance** around climate-related risks and opportunities
- **Strategy:** the actual and potential impact of climate-related risks and opportunities on the strategy and financial plans of the Fund
- **Risk management:** how the Fund identifies, assesses, and manages climate-related risks
- **Metrics and targets:** the metrics and targets used to assess and manage climate-related risks and opportunities

This report sets out the Trustees’ approach to compliance in each of these four areas for the period 1 October 2022 to 31 March 2023.

Section 2: Governance

This section describes the governance in place to facilitate the identification, assessment and management of climate-related risks and opportunities that are relevant to the Fund.

Overall governance of Responsible Investment (RI) matters

The Trustee Board is ultimately responsible for overseeing all investment-related matters, including climate-related risks and opportunities. However, in order to ensure sufficient focus on key areas of Fund governance, the Board has set up a number of sub-committees with remits to consider specific areas of importance in greater levels of detail.

The Trustee Board has established an Investment Committee ('IC') as a sub-committee of the Board to consider investment matters in a greater level of detail than is possible at Board meetings. The IC has taken on the responsibility of developing the Trustees' approach to RI (including the oversight of climate-related risks and opportunities) subject to oversight and approval by the Trustee Board. The IC meets on a quarterly basis, reporting on matters discussed and making recommendations to the Trustee Board.

The IC is made up of several members of the Trustee Board. It is advised by the Fund's DB and DC investment consultants (WTW) and draws on other resource and expertise as required in order to fulfil its duties.

The key responsibilities of the IC are to:

Policy:

- Set the asset allocation for the Fund in line with the Trustees' agreed strategic objectives.
- Determine the appropriate range of asset classes for the Fund to invest in.

Governance:

- To monitor the performance of the Fund's assets and investment managers.
- To appoint the Fund's investment managers, including determining investment restrictions and remuneration, and determine where changes might be required.
- To monitor the DB and DC custodians and administrators and make recommendations to the Trustee Board where necessary.
- To report on its activities to the Trustee Board on a regular basis.

Regulatory:

- To determine the appropriate range of investment options for the Fund's DC members and to update these where required.

Training:

- Ongoing assessment of the Trustees' investment related training requirements.

Alongside the work of the IC detailed below, the Trustees have explicitly recognised the risks associated with climate change within the Fund's Statement of Investment Principles (which can be found online via this link). The Trustees expect the Fund's investment consultant to take these risks into account in the provision of any advice to the Board.

The Trustees maintain a risk register, which is typically reviewed annually, which also recognises the risks to the Fund associated with climate change and sets out the key controls and actions identified to mitigate this. The Trustee Board and IC have received training from the Trustees' investment consultants, introducing and familiarising them with the topic of climate change within their regular meetings.

Activity of the IC

Over the course of the year, a key focus of the IC was to ensure the Trustees were able to meet their climate risk management and reporting requirements. This resulted in extensive training and Fund analysis being provided to the Committee on the subject to ensure that it was suitably qualified to discuss and take decisions about the Fund's overall approach to managing the risks and opportunities climate change presents.

Climate change was discussed at all IC meetings during the period:

- Formalising the Fund's approach to governance in respect of climate risks and opportunities.
- Identification of risks and opportunities through analysis of climate metrics.
- Consideration of appropriate metrics to monitor the Fund's exposure to climate change and agreement of a carbon emissions reduction target.

Service providers

The Trustees have the following key service providers:

Actuarial Adviser: WTW

DB Investment Consultant: WTW

DC Investment Consultant: WTW

Legal Adviser: Travers Smith

As part of their ongoing governance processes, the Trustees regularly undertake assessments of each adviser's capabilities, including in relation to the incorporation of climate change risks and opportunities into the advice provided. In addition to this, the Trustees have set formal objectives for the Fund's DB and DC investment consultants, which incorporate the requirement to consider the risks and opportunities associated with all RI matters, including climate change. The investment consultants are assessed against these objectives on an annual basis by the Trustees.

The Trustees expect the Fund's investment managers to have integrated RI considerations (including those relating to climate change) into their investment processes and decision making. The Trustees have delegated responsibility for stewardship to its investment managers, subject to oversight by the IC.

The IC receives quarterly reporting from its investment consultants and expects future reporting to include an assessment of each manager's RI capabilities. This will enable the IC to more closely monitor the activities of each manager in this area, and to ask pertinent questions of each manager during face-to-face updates, which can be scheduled on an ad-hoc basis.

The IC (through its investment consultants) has delegated responsibility for stewardship to its investment managers. The IC receives stewardship reports from the investment managers on a periodic basis, which include references to climate change-related items. The IC expects managers to adhere to the Stewardship Code and is in active discussions with them regarding net zero targets via the investment consultants. The investment consultants have also engaged actively with all managers regarding the provision of reliable and comprehensive data for the purpose of reporting against TCFD metrics and targets. The investment consultants include consideration of the approach to and engagement on RI issues, including to climate change, within its selection criteria for recommending new managers.

Section 3: Strategy

The Trustees firmly believe that the purpose of embedding climate risk considerations into investment decisions is twofold – improving investment outcomes for members, as well as positively impacting the world they live in. Climate change is a financially material risk to the Fund, and merits significant attention.

As part of their analysis around the climate risk faced by the Fund, the Trustees identified and defined the following elements of this risk:

- **Transition risks.** This relates to the risks and opportunities arising from efforts made to transition towards a net-zero economy (both domestically and globally) to limit climate change. The financial impact of these risks and opportunities is generally expected to occur in the medium term, with some perhaps occurring in the short term. Risks arising could include regulatory or societal changes rendering parts of the business of invested companies worthless – for example, fossil fuels 'in the ground' which become economically unviable to extract due to a lack of a suitable market or due to regulations preventing their extraction. Opportunities include early investment in assets which are likely to benefit from climate change adaptations, such as green energy providers.

- **Physical risks.** This relates to the direct effects of climate change on the Fund and its members. Whilst these comprise both acute or short-term risks (e.g., extreme weather or wildfire events), and chronic or long-term risks (e.g., rising sea levels), the main financial effects are expected to be longer term in nature. An increased number and magnitude of extreme events may cause changes to the physical landscape, which could lead to assets being devalued or destroyed. This would directly impact asset classes such as property or infrastructure, as well as the value of a company's equity and bonds if they own assets that are affected or if physical events impact their business model. Changing temperatures are also expected to have a long-term impact on the life expectancy of members.

With the timing of the impact from climate change being uncertain, the Trustees believe that it is sensible to assess how the Fund may be affected by climate change according to different time horizons. In selecting these different time horizons, the Trustees have considered a range of factors impacting the DB and DC Sections of the Fund:

Time horizon	Key considerations in selecting time horizons
Short term – *through to 2025*	• Consistent with three-year actuarial valuation and investment strategy review cycle for the DB Section. • Over this period, further developments in relation to the climate change regulatory environment and climate data quality are expected
Medium term – *through to 2030*	• Financial effects of "transition risk" are expected to dominate • Position of considerable maturity for the DB section, with the majority of the members expected to have retired by 2030
Long term – *through to 2042*	• Financial effects of physical risk exposure are expected to be more pronounced • Key staging post on journey to achieve carbon neutrality by 2050 • Vast majority of DB members will have reached retirement

Climate scenario analysis

In 2022, we carried out climate change scenario analysis for the DB and DC sections of the Fund, in partnership with WTW as our investment consultants. The aim of this analysis was to help us review the potential impact of climate change on the Fund over different time horizons and then focus on possible actions to address the risks and opportunities presented.

Whilst there were a number of assumptions underlying the analysis, the work carried out has been based on the Fund-specific asset allocation and liabilities for the DB section as at 31 March 2022 and lifecycle strategies for the DC section as at 31 March 2022. We recognise that there is a great deal of uncertainty around the assumptions used and the analysis is expected to be further refined as data and industry standards improve.

We have outlined below the DB and DC analysis and the key findings around this.

DB Section – scenario analysis

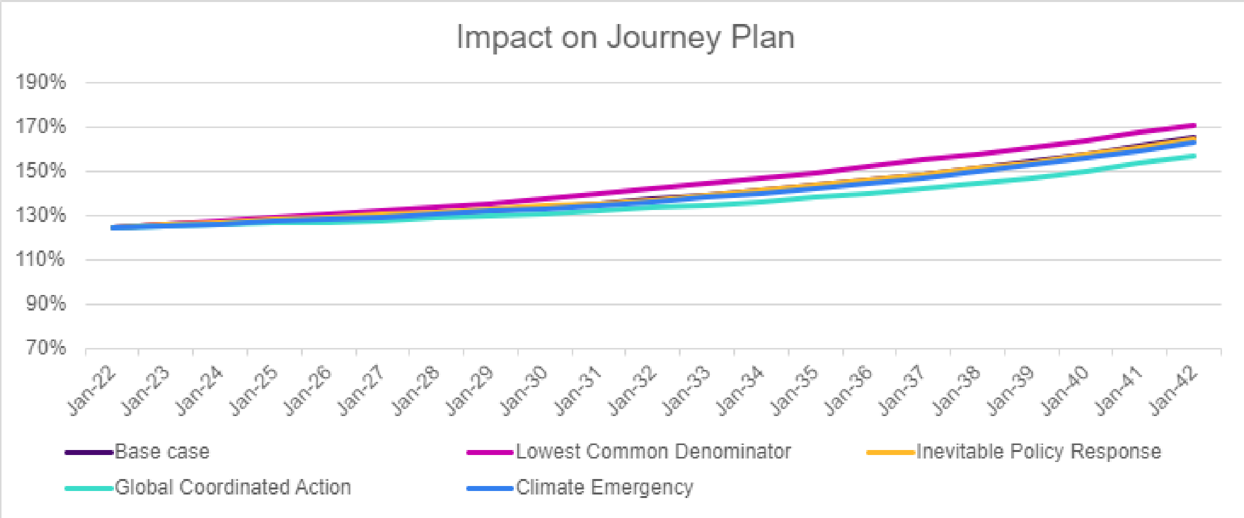
The Trustees investigated four climate scenarios which are in part defined through their success, or otherwise, in meeting the Paris Agreement target of a sub-2.0ºC temperature rise. Different financial and economic assumptions underpin these four scenarios, whereas physical and transition risks are accounted for separately, from a timing and magnitude perspective.

The approach taken is consistent with the statutory guidance for pension schemes published by the Department for Work & Pensions. The scenarios are not exhaustive, and the analysis is expected to be further refined as data and methodologies improve. Furthermore, the Trustees hope to incorporate input received from the covenant advisor into future analysis.

The key findings from the scenario analysis for the DB section of the Fund are set out below. The table below sets out the key parameters that define each underlying scenario, as well as the financial impact that climate risk has on the DB Section of the Fund.

	Lowest Common Denominator	Inevitable Policy Response	Global Coordinated Action	Climate Emergency
Description	A "business as usual" outcome where current policies continue with no further attempt to incentivise further emissions reductions. Socioeconomic and technological trends do not shift markedly from historical patterns.	Delays in taking meaningful policy action result in a rapid policy shift in the mid/late 2020s. Policies are implemented in a somewhat but not completely co-ordinated manner resulting in a more disorderly transition to a low carbon economy.	Policy makers agree on and immediately implement policies to reduce emissions in a globally co-ordinated manner. Companies and consumers take the majority of actions available to capture opportunities to reduce emissions.	A more ambitious version of the Global Coordinated Action scenario where more aggressive policy is pursued and more extensive technology shifts are achieved, in particular the deployment of Negative Emissions Technologies at scale.
Temperature rise	**+3.5ºC**	**+2.0ºC**	**+2.0ºC**	**+1.5ºC**
Transition risk level	**Low**	**High**	**Low – Medium**	**Medium – High**
Physical risk level	**High**	**Low – Medium**	**Low**	**Low**
Estimated impact on funding relative to expected position	2025: +1% 2030: +4% 2042: +6%	2025: Unchanged 2030: Unchanged 2042: Unchanged	2025: -1% 2030: -3% 2042: -8%	2025: Unchanged 2030: Unchanged 2042: -2%

The analysis considered the impact on the position of the Fund over the period to 2042, which is in line with the agreed long-term time horizon as set out above.



The analysis identified that two of the four scenarios considered might be expected to have a negative impact on the funding level relative to the expected position in 2042. The most pronounced impact was in the Global Coordinated Action scenario – a shortfall relative to the expected position of around 8%. Conversely, the projected funding level under a Least Common Denominator scenario might be around 6% higher than expected over the same time period, with a reduction in longevity more than offsetting asset falls.

The scenarios assume that all other factors are equal during the efforts to transition to a low carbon economy. This is very unlikely to occur in practice. Second-order effects, such as higher levels of investment, employment, and productivity-enhancing innovation, are hard to estimate (and will likely offset some of the falls highlighted in the analysis), hence the climate scenarios cannot be the sole driver of investment strategy and risk management decisions.

Ultimately, reflecting the low-risk nature of the assets held and the strong funding position of the Fund, the Trustees believe that the DB Section's investment strategy is highly resilient to the potential impacts of the climate scenarios considered. The Trustees also noted that given the significant surplus within the Fund, it is highly unlikely that there will be any reliance placed on the Bank covenant under any scenario.

DC Section – scenario analysis

We investigated the impact of the same four climate scenarios on sample members of the DC Section. In this analysis we focused on the default lifecycle strategy – with a medium investment risk pre-retirement, and targeting drawdown at retirement.

We considered three sample members, in order to show the possible range of impacts:

- Recent starter: A member age 25 on a salary of £20,000 pa with no starting assets.
- Mid-career: A member age 45 on a salary of £40,000 pa with £100k in starting assets.
- Near retirement: A member age 60 on a salary of £80,000 pa with £300k in starting assets.

A table of the potential impacts for these three members under the four climate scenarios is shown below. The percentages show the impact on the age 65 retirement fund, relative to a base case scenario.

Member	Lowest Common Denominator	Inevitable Policy Response	Global Coordinated Action	Climate Emergency
Recent starter	-6%	-5%	-4%	-3%
Mid-career	-2%	-6%	-2%	-4%
Near retirement	0%	-1%	-1%	-1%

Those near the start of their pension saving journey have the largest impacts, due to the accumulating effect of physical and transition costs on their risky growth assets. The mid-career members see less of an impact, although they are hit by the Inevitable Policy Response scenario in particular. This is because of the large transition impacts on that scenario as policies are implemented, which hit those members just before they start to de-risk. Members near retirement see least impact, as there is little time for costs to come through.

Considering the other lifecycle strategies, there is a similar picture across the scenarios and sample members. Recent starters see more impact and those near retirement see least impact. Mid career members see medium impacts, however are worse hit under the Inevitable Policy Response scenario. Members in higher-risk lifecycles are also more at risk for larger potential losses under the four climate scenarios.

Section 4: Risk Management

There are three ways in which the Trustees integrate climate change considerations into our decision making:

1. **Through the investment advice provided by the investment consultants**

In providing strategic advice to the Trustees it is expected that the Fund's investment consultants will factor in the risks and opportunities associated with climate change. The Trustees expect the investment consultants to engage with the Fund's investment managers and the wider investment industry on its behalf and (as set out below) reviews reporting from the investment consultants on its activities.

Recognising the strength of the processes the investment consultants have in place, the Trustees invest in a best ideas Diversified Growth Fund (DGF) managed by Towers Watson Investment Management. The DGF has an Article 8 Sustainable Finance Disclosure Regulation designation. The investment manager intends for the DGF to achieve at least a 50% reduction in greenhouse gas emissions by 2030 in its portfolio and continue beyond that time to further reduce greenhouse gases from the portfolio with an aim of net zero emissions by 2050.

2. **Top-down analysis**

The IC considers the results of climate change scenario analysis on the Fund on at least a triennial basis, with more frequent reviews occurring if there has been a material change to the Fund's underlying investment allocation or long-term strategy. This is to provide an overview of the potential impact of climate change across assets and liabilities and understand how this might impact on the projected funding level of the Fund over time.

The Trustees are mindful that climate change might also have an impact on the Bank and its activities. However, in view of the very strong funding position of the Fund, the Trustees consider that there is limited prospect of the Fund needing to place any reliance on the Bank for the foreseeable future. The Trustees will periodically reassess whether this conclusion remains appropriate in light of the updated position of the Fund.

3. **Bottom-up analysis**

The IC also assesses the risks and opportunities associated with climate change through a deeper analysis of the attributes of the underlying investments. This analysis includes:

Security analysis – Our investment consultants calculate various climate change related metrics linked to the underlying securities within the portfolio. In aggregate, these metrics provide us with a more detailed understanding of the Fund's exposures and the overall characteristics of each mandate within the portfolio.

Following a review of this analysis, the IC may engage with the Fund's underlying managers to understand in more detail the nature and rationale for certain exposures within the portfolio and to obtain an understanding of the manager's engagement plans with some of the companies invested in.

Manager analysis – Our investment consultants also provide an assessment of the Fund's investment managers, which includes consideration of their Responsible Investment capabilities. Again, where areas of particular concern are identified then the IC will engage with the relevant investment manager(s) to challenge as appropriate.

Managing climate risk – DB Section

The Trustees have set a target of reaching net zero carbon emissions intensity by 2050. After careful consideration, the Trustees decided not to set an interim reduction target reflecting the already low-risk nature of the Fund's portfolio, the uncertain trajectory for broader reductions across the global economy and to be consistent with the Bank's climate goals.

The Trustees have selected this as a target as it aligns with the Paris Agreement and the UK Government's climate pledge. The Fund's progress will be assessed using the carbon footprint metric. Whilst the Trustees acknowledge that there are some limitations to using this metric, carbon footprint is the most comparable metric across pension schemes of different sizes. Additionally, it provides a normalised emissions figure that identifies efficient investment managers rather than those that just produce the lowest total emissions.

There are a number of ways in which the Trustees expect to achieve the target reduction in emissions over time:

- **Engagement:** The Trustees will aim to reduce emissions associated with the Fund's portfolio through changing the behaviour of the companies it invests in. This is principally achieved through the IC's and investment consultants' engagement activities, both with the investment managers employed by the Fund and the broader investment industry. The Trustees consider this to be one of the most effective methods of mitigating the investment risk associated with climate change.

- **Mandate changes including disinvestment:** When designing investment mandates and making new investments, the Trustees will review the guidelines and restrictions, particularly in relation to disproportionately emitting strategies. Where investment managers are unable or unwilling to evolve their approach, this may ultimately result in the Fund not investing or selling assets if deemed necessary to do so.

- **Impact:** As set out above, the Trustees will regularly assess the Responsible Investment characteristics of new investments, with a view to identifying strategies that might benefit from the tailwinds of the global move to net zero.

- **Free rider:** Recognising common goals across the investment industry, the Trustees expect the Fund to benefit from the actions and efforts of other participants through a decline in the emissions associated with all asset classes.

DC Section specifics

As members are responsible for their own investment allocation in the DC Section, the Trustees have a more limited ability to manage targets than in the DB Section. Through control of the DC Section, the Trustees do have the ability to influence the investments held.

The Trustees aim to reduce the carbon emissions intensity of the DC Section through similar strategies as the DB Section:

- **Engagement:** Through the IC and the investment consultants, the Trustees engage with fund managers to aim to change the behaviour of the companies in which DC members are invested. As most of the funds in the DC section are on passive style approaches, there is limited scope to shift assets held.

- **Mandate changes:** When reviewing the fund options and lifecycle strategies, the IC considers RI criteria, and climate impacts. As a result, an ESG equity fund (the MSCI Adaptive Cap ESG fund) was introduced to the self-select fund range. In June 2022 this ESG fund became the equity fund used within the lifecycle strategies, including the default strategy.

Section 5: Metrics and Targets

Fund metrics and target

As part of the Trustees' commitment to net zero and the TCFD framework, the Trustees have selected a number of metrics and targets that will be monitored on an annual basis through future publications of this report.

These comprise the following:

1. Absolute emissions: Total Carbon Emissions (tCO_2e): This is an "absolute" metric providing an estimate of the total carbon emissions attributable to the Fund's assets. To compile the figure, we have used MSCI data for direct and indirect (Scope 1 and 2) emissions associated with each company the Fund invests in where available. Where this information is not available, emissions have been estimated based on the country and industry sector of the company/asset in question. Although this latter approach is naturally more approximate, it does allow us to produce an emissions figure that encompasses the Fund's whole asset portfolio rather than only a proportion of it.

2. Carbon Intensity: Carbon Footprint calculated as the total carbon emissions per $m invested ($tCO_2e$/$m invested): This is a carbon emissions "intensity" metric, providing a figure that can be compared with other investors.

   The Trustees have set a long-term target to achieve net zero emissions intensity by 2050 across the DB and DC assets. We will monitor our progress in reducing this metric in future iterations of this report.

3. Alternative: Data quality (percentage of data with issuer-specific data vs. percentage of data modelled using proxies): This aims to measure the proportion of the Fund's assets for which we have high quality data.

4. Portfolio alignment: Percentage of assets with Science-Based Targets ("SBTi") or equivalent: The Science-Based Targets Initiative ("SBTi") is a partnership between the Carbon Disclosure Project, the UN Global Compact, World Resources Initiative and the World Wildlife Fund for Nature. The Initiative provides an external mechanism for companies to have their carbon reduction plans validated as being in line with an objective to limit global warming to 1.5 degrees. Over time, the Trustees expect an increasing proportion of the Fund's investments to be aligned with this objective.

These metrics have been selected in accordance with the TCFD framework. The Trustees chose Carbon Footprint as the intensity measure over WACI as this is recommended by the DWP in its guidance and will therefore allow for greater comparability across the industry.

The TCFD reporting framework also requires the Trustees to define the scope of the emissions monitored, which are as follows:

- Scope 1 Emissions: direct emissions from a company's owned or controlled sources. This may include emissions from a firm's manufacturing processes or emissions from company vehicles.

- Scope 2 Emissions: indirect emission from the generation of purchased energy, such as heating for company facilities.

- Scope 3 Emissions: all other indirect emission, including those of suppliers and customers. These may include emissions related to the transportation and distribution of goods and disposal of waste generated in operations.

Reporting

The data for the metrics has been collated using a combination of manager-provided data, proxied data based on sector/geographical breakdowns, and relevant benchmark data. This data is then uploaded into the investment consultants' ESG tool (which uses MSCI underlying data) to determine the carbon related metrics the Fund is required by TCFD regulation to report.

The emissions associated with UK Government bonds have not been included in the Fund's Carbon emissions figures as the Fund is required to hold UK gilts to hedge its pension liabilities. The Trustees also have limited capability to effectively engage the with the UK Government. In future reports, the Trustees expect that the emissions from the UK gilts will still be calculated as the tons of carbon emissions per £m of nominal GDP and monitored separately.

Reflecting the above, the Fund's metrics for the DB Section and DC Section have been presented below separately as at 31 March 2023.

31 March 2023	DB Section	DC Section
Total Assets	£1,085.0m	£291.4m
Total Carbon Emissions (tCO2e)	13,543	20,162
Carbon Footprint (tCO2e/$m invested)	12	69
Data Quality %	10.4	58.4
% of assets with SBTi targets	3.7	23.8

Going forward the Trustees expect to report against each metric on an annual basis in future iterations of this report. Progress against the Trustees' agreed targets for the DB and DC assets will also be monitored through a "Carbon Journey Plan", which will track the Carbon Footprint of each portfolio relative to a target of reaching net zero by 2050.