XPS ICSWG Climate Change Competency Framework Summary Report

Climate Competency Theme	How XPS Pensions Group provides solutions and supports our clients under these themes
Firmwide climate expertise and commitment	In 2021, XPS Pensions Group pledged to become carbon neutral by offsetting carbon emissions across our value chain, as part of our journey to limit the business's environmental impact while helping clients and stakeholders also move towards a more sustainable future. In 2022, we went further and **formally committed to a science-based net zero strategy** that **limits our operational emissions to a level consistent with or below a 1.5°C global temperature rise**, in line with the Paris Agreement, with clear interim targets along the way. You can read more about our progress against the commitment in our Group annual report. We also have firm level **commitment to considering the impact of climate change on our clients** and our business through our Sustainability Committee. You can read more about the role and activities of the committee **here**. XPS Investment's approach to Responsible Investing is led by Alex Quant, Head of ESG Research, and overseen by Simeon Willis, Chief Investment Officer. Our Investment Committee (comprised of the most senior members of the investment team and led by Ben Gold, Head of Investment) has oversight of our overall investment approach, including embedding responsible investment into all our advice. XPS Investment believes **consideration of climate change is a critical and fundamental component of investment decision making and that investor engagement should not be seen as optional for investors**. Further, we consider ESG integration and the stewardship of underlying investments, including proxy voting and engagement, to be not only an essential part of risk management but also key to generating sustainable long-term returns. Our ESG research team is comprised of 15 individuals from across the team, including three members of our Investment Committee. It is focussed on implementing and evolving our ESG and climate change research approach and framework to assess ESG and stewardship practices of investment managers. Within our advisory business, XPS Pensions recognises climate change to be a systemic risk that needs to be assessed, managed and mitigated for pension schemes as a whole, including investments, liabilities and covenant. As part of our core research and development function, XPS has a **Climate and Environment Solutions Team that is focussed on helping clients meet climate related regulatory requirements** from an investment, actuarial and covenant perspective and **leading research and our future developments in this area**. We are members of the UN PRI, Pensions for Purpose and Impact Investors Institute, as well as being a signatory to the 2020 UK Stewardship Code. You can read our Stewardship Code submission **here**.
Individual consultant climate expertise	Alex Quant (FIA) is the Head of XPS Investment's ESG research team and is responsible for setting the agenda for research, education of the wider investment consultant team, and production of our central resources in relation to ESG and climate change. Alex and his team of 15 consultants have a deep understanding of climate change risks as they apply to pension schemes and in particular the TCFD reporting requirements which pension schemes must now comply with. **Alex has supported numerous client teams with their broader climate change risk management work**, and specifically £1bn+ schemes with compliance with the TCFD reporting requirements. Alex sits on the Steering Committee of the ICSWG and recently led a working group set up to form a collective view on reporting carbon emissions for sovereign bonds. We offer investment staff the opportunity to study for the CFA Certificate in ESG Investing, and Alex has completed this Certificate.

	Sarah Keighley (FIA) is Head of our Climate & Environment Solutions Team and is responsible for central research and production of materials in relation to climate change across XPS Pensions. The Climate & Environment Solutions Team includes **11 members including 1 partner**. Sarah is an expert on the climate change requirements for pension schemes and is responsible for ensuring all of our advisory businesses – investment consultants, pensions actuarial and covenant – are equipped with knowledge and tools to support their clients in complying with the requirements. Sarah leads production of our market insight pieces, many of which have concerned the evolution of climate change reporting requirements. Please find our latest updates **here**. Simeon Willis (CFA) is our Chief Investment Officer and is responsible for oversight of all our research, including ESG and climate change. Kelvin Xu and Elizabeth Hamilton are the covenant representatives on our Climate & Environment Solutions Group and they have significant experience in helping our clients understand the potential implications of climate change from a covenant perspective. **We provide ongoing training** to our investment consultants around responsible investing including climate change. We also encourage attendance at seminars hosted by fund managers to raise awareness of the different approaches taken across the industry alongside achieving relevant professional qualifications. We have a baseline expectation that knowledge of ESG and climate change is a core competency for our investment consultants. ESG and climate change integration into institutional investment strategy now forms an integral part of graduate training programme. In practice, we have several clients who are either subject to new climate reporting regulations, or who have made steps in their portfolios to become more climate-aligned, and so the majority of our consultants have advised on climate issues for a client.
Tools and Software	We have a clear framework for helping our advisory clients with their approach – rooted in establishing their own beliefs on ESG and climate change, including the importance of engagement with their managers and underlying holdings. One of the key features of our approach is **our use of technology to help clients better understand the options and make decisions**. We have an **online questionnaire tool** to collate and summarise views of the individual trustees on a trustee board around climate change and sustainability. This provides a powerful tool for aiding a productive discussion and unearthing views from the whole trustee board. We offer this service for free to all clients and non-clients. Our **Responsible Investment Framework** then sets out a range of approaches that can be taken with regards to further embedding climate change into the investment strategy – from conducting further engagement with your current managers, setting a scheme wide net zero target, and possibly switching into funds with explicit climate aware objectives which support a scheme's strategy. Our Member Analytics tests the opinions and preferences of scheme members (particularly DC scheme members) on a range of issues including further integration of climate change into the investments. We developed a **carbon-related monitoring dashboard** which we introduced to clients in November 2020, and have evolved since then. The dashboard provides an indication of exposure to climate change risk within the current investments vs peer group of funds and fund benchmarks, capturing current emissions using TCFD-supported metrics, as well as other forward-looking indicators of climate change risk. Furthermore, we have appointed MSCI, a market leading data provider, to enhance our client reporting on climate change risks. We can provide comprehensive reporting on carbon emissions, as well as forward looking climate transition alignment indicators such as implied temperature rise, exposure to physical risk, and green technology within a given portfolio. The tool also allows us to stress test portfolios to understand resilience to future climate scenarios. We are encouraging all or clients to undertake this sophisticated climate analysis, with particular focus on those clients undertaking TCFD climate reporting. A key benefit of this analysis is providing our clients a platform to engage with their managers on key sources of risk and opportunity. The scope of the reporting available is growing all the time, with metrics on biodiversity impact recently added, so our clients will benefit from this evolution.

	We have developed a climate change longevity scenario modelling tool – by analysing the interaction of economic and lifestyle factors under the future scenarios, and translating this into forward looking impacts on the longevity of a given scheme's member population. We have now used this modelling to provide liability scenario impacts for a number of clients that report under TCFD, as well as expanding this to provide qualitative analysis on wider liability-side risks including unhedged interest rate and inflation risks.
Thought leadership and policy advocacy	We routinely provide clients with ongoing tailored advice pieces on topical matters at no extra charge. These include bulletins, seminars and conferences that capture the latest investment market developments and technical issues. For example recently: Update on changes to climate change disclosures (July 2022); Carbon reduction pathway – how your scheme can become net zero aligned now (July 2022); What can schemes learn from first wave of TCFD reports (Nov 2022); FCA proposal on UK SDR and fund labelling regime (Nov 2022); COP27 – Key outcomes and implications for schemes (Dec 2022). You can find the full range of articles **here**. Our latest was a webinar on 'Latest on Sustainable Investing – Actions required for Pension Schemes' in May 2023 and covered how schemes should set a bespoke responsible investment policy, how to set a net zero investment strategy within a portfolio, and how to effectively monitor your investments in terms of climate change and other sustainability outcomes. We actively contribute to industry efforts to advance consideration of climate change, through collaboration with the ICSWG, participating in Pensions for Purpose and Impact Investing Institute forums, and responding to various consultations on from, for example, The Pensions Regulator, DWP, FCA. We are a member of the Net Zero Investment Consultant Initiative, which requires us to self-assess annually against nine Principles relating to how we encourage our clients understand and support progress towards global Net Zero. XPS is represented on the following industry groups: ACA's Climate Risk Group, the SPP's ESG Committee and the Investment Consultants Climate Steering Committee.
Assessment of investment managers and engagement with them	We assess investment managers using detailed ESG questionnaires that comprise of around 70 targeted questions covering 5 key ESG aspects, alongside face-to-face meetings as required. The 5 key aspects include: • Philosophy – Firm level philosophy relating to ESG, stewardship and broader sustainability issues. • Integration – Implementation of the firm's ESG philosophy at individual fund level through robust processes. • Climate Change – Explicit climate change considerations within the investment processes and stewardship. • Stewardship – Approach to voting and engagement including being a Stewardship Code signatory. • Reporting – Transparent communication of activity to stakeholders. Our due diligence results in an overall ESG rating of Green, Amber or Red. The ESG rating is integral to our overall view of a fund to the extent that a fund that is rated "Red" on ESG will not be recommended to our clients**.** Our proprietary RI framework has been developed using the UN PRI principles as a foundation and aims to assess the genuine commitment of managers to ESG and stewardship activity. In addition to our established approach to researching new funds, which has been in place since 2018, we conduct a comprehensive review of our clients' existing holdings each year. Investment managers' policies and practices are evolving rapidly in this space and this annual review ensures we will continue to provide assessment of suitability along with assessment of improvement relative to prior years. You can find the results of our 2022 study **here**. At XPS, we facilitate engagement between our clients and their investment managers in relation to ESG and stewardship. For example, where the fund manager rating is not satisfactory, we will have a discussion with our clients regarding the next steps which may include; engagement/discussion with the manager, providing alternative fund recommendations

Detail against key indicators

Theme 1 – Firmwide Climate Expertise and Commitment

ICSWG'S Positive Indicators	XPS Approach
Clear governance structure and responsibilities stated to ensure appropriate oversight of climate-related factors into client services	Our approach to Responsible Investing is led by Alex Quant, Head of ESG Research, and overseen by Faye Clark, Head of Manager Research, and Simeon Willis, Chief Investment Officer. Our Investment Committee (comprised of the most senior members of the investment team and led by Ben Gold, our Head of Investment) has oversight of our overall investment approach, including embedding responsible investment into all our advice. The ESG research team is comprised of 15 individuals from across the team, including three members of our Investment Committee. It is focussed on implementing and evolving our ESG and climate change research approach and framework to assess ESG and stewardship practices of investment managers. We have firm level commitment through our Sustainability Committee. The Committee was created in 2021 to support the XPS Board with driving ESG initiatives that have a material impact on business strategy, business performance and the long-term sustainability of the Company.
Assigned senior leader (partners / board member) responsibility for the oversight of climate-related issues	Our Sustainability Committee is chaired by one of XPS's Non-Executive Directors. It has oversight of the views and interests relating to sustainability of the internal and external stakeholders of the Company, with activities revolving around our five sustainability pillars (governance, employees, clients, communities, and environment). Our CFO Snehal Shah is a member of this group and it is overseen by two Non-Executive Directors. Simeon Willis, Partner and Chief Investment Officer is responsible for our full research effort including ESG and climate change within investments. There are three Partners sitting on the ESG Research Team. Our Sustainability Committee has independent oversight of climate related issues across the company.
Firm-wide strategic response to manage climate-related risks and opportunities and steward an orderly transition which is publicly available (for example, in line with the recommendations of the Task Force on Climate-related Financial Disclosures)	XPS Pensions Group report annually against the Task Force on Climate-related Financial Disclosures in the annual report for the year. This provides detail on our Group pledge to become carbon neutral by offsetting carbon emissions across our value chain. You can read more about this commitment in our annual report.
Specialists with depth of climate expertise	• Alex Quant (FIA) is a qualified actuary and the Head of our ESG research team. He holds the CFA Certificate in ESG Investing. • Sarah Keighley (FIA) is Head of our Climate & Environment Solutions Group. • Faye Clarke is Head of Manager Research and is responsible for oversight of all our research, including ESG and climate change. • Simeon Willis (CFA) is our Chief Investment Officer.

	• Kelvin Xu and Elizabeth Hamilton are the covenant representatives on our Climate & Environment Solutions Group and they have significant experience in helping our clients understand the potential implications of climate change from a covenant perspective. We have supported multiple clients in consider their climate change risk exposure, embedding climate aware investment strategies including setting net zero targets. We have also supported clients in complying with the TCFD reporting requirements.
UN PRI signatory	XPS Pensions Group are a signatory of the UN Principles of Responsible Investing.
Signatory to the UK Stewardship Code 2020 (from mid-2021)	XPS Investment is a recognised signatory of the 2020 UK Stewardship Code - our submission for 2022 can be found here.
Conflicts policy which addresses potential conflicts related to advice on climate as a result of differences between the investment consultant's commercial interests and the trustees' climate objectives, or business relationships between the investment consultants and the asset managers or trustees	Our conflict policy is available on request.
ICSWG's Best Practice Indicators	**XPS Approach**
Performance assessment of the investment consulting firm's consultants and senior leaders is aligned with helping clients achieve their climate-related objectives	Our clients are encouraged to assess us, which includes an evaluation on ESG and Stewardship and how we have helped our clients achieve their wider objectives. Our consultants are incentivised through their remuneration to provide high quality tailored advice to our clients and conduct themselves in a manner that is in keeping with our values. This relates to the full range of aspects of their advice to clients, including the importance of ESG matters. All consultants are expected to understand ESG matters and advise clients appropriately, this is not delegated to the ESG team. Through our annual performance development process, each consultants' end of year rating, which informs their bonus and progression, is linked to performance against each of our values and based on doing a great job for clients, which is everyone's number one objective. Line managers hold their people to account in terms of proactively bringing ESG and climate change advice to their clients.
Signatory of (or affiliated to) other climate related initiatives	We are an active member Pensions for Purpose, which exists as a bridge between asset managers, pension funds and their professional advisers, to encourage the flow of capital towards impact investment. We participate in the Paris Alignment Forum and Impact Forum, attending sessions and contributing to the debate on how investors can align their portfolio to successful delivery of the Paris Agreement and incorporate real world impact alongside financial returns. The learnings from these sessions feed into our research and client advice. We also support the Impact Investing Institute – which has developed four principles to accelerate the growth and improve the effectiveness of the impact investing market. We annually undertake a self-assessment against these principles.
Produce climate risk management thought pieces	Taking advantage of our scale and the commonality of issues across the pension industry, we routinely provide clients with ongoing tailored advice pieces on topical matters at no extra charge.

	In addition to these tailored pieces of advice, we also issue thought pieces and briefing notes. During 2022 we issued the following thought leadership papers specifically on climate change matters: • Update on changes to climate change disclosures (July 2022). • Carbon reduction pathway – how your scheme can become net zero aligned now (July 2022). • Fund ESG ratings review 2022 (Sept 2022). • What can schemes learn from first wave of TCFD reports (Nov 2022). • FCA proposal on UK SDR and fund labelling regime (Nov 2022). • COP27 – Key outcomes and implications for schemes (Dec 2022). We participated in numerous external events specifically focused on sustainability, including the following: • Presentation to Association of Consulting Actuaries conference on climate change reporting for pension schemes. • Investment manager webinar titled 'How ESG and climate policy can improve the DB outlook'. • Roundtable between investment consultants and investment managers on sustainable equity funds and how they can help schemes deliver impact.
Inclusion of climate-related issues in regular client communications	We help our clients monitor and engage with their investment managers in respect of their ESG integration topics that include climate-related issues. We issue regular updates on climate policy, regulations, and climate focused materials.
Demonstrate an awareness of climate justice, including a just transition	We fully recognise the importance of a fair and equitable transition. In our conversations with investment managers we ensure they give due consideration to the social implications of any investment decisions which look to address climate change. We note more formal frameworks for investors such as the Impact Investment Institute just transition challenge, and as our research process evolves we will look to embed the principles of such frameworks into our assessment criteria.

Theme 2 – Individual Consultant Climate Expertise

ICSWG'S Positive Indicators	XPS Approach
All investment consultant colleagues receive regular and appropriate climate-specific training by both internal and external experts	All aspects of ESG form an integral part of our graduate training programme. We provide ongoing training to our consultants around responsible investing and climate change specifically. During the year 2022 XPS Investments held two team-wide training - sessions, one on ESG more broadly and one on climate change specifically. We encourage all consultants to attend seminars hosted by fund managers to raise awareness of the different approaches taken across the industry alongside achieving relevant professional qualifications.
Seek to understand client needs and views on climate change, and where relevant educate clients on climate-related risks to their investments	We recognise that one size does not fit all when it comes to ESG and stewardship and we work with our clients to ensure that our advice and solutions are tailored to their specific needs. We work with our clients to understand their specific beliefs and priorities to help develop a tailored approach using our Responsible Investing framework. This provides trustees with practical steps they can take to meet their responsible investing objectives aligned with generating long term sustainable returns for their members. We have developed an **online questionnaire tool** to collate and summarise views of the individual trustees on a trustee board around ESG and climate change. The output is an anonymised summary for each client, indicating areas of strong consensus and areas for further discussion. Given the use of technology to provide scale we offer this service at no charge to both clients and non-clients. We regularly provide training to clients on climate change risks and opportunities – for both investment and actuarial clients. We also have an online resource platform, Arena, which contains free training resource, including a specific topic area covering ESG and climate change issues. We have a clear framework to help our clients develop and implement bespoke strategies capturing their specific beliefs around ESG integration and sustainability.
Able to identify and assess climate-related risks and opportunities	We have a clear understanding of climate change risks as they pertain to the investment markets and pension schemes and their sponsoring employers. We are able to provide detailed climate risk reporting (across a range of metrics) and risk analysis to help our clients understand the key exposures to physical and transition risks as well as sources of opportunity in respect of climate change, both within the scheme and related to their sponsors. In particular, through our MSCI ESG Screener tool we can undertake Climate Value at Risk analysis to estimate financial losses on portfolios under a range of possible future climate scenarios. For the sponsoring employers, we are able to undertake quantitative scenario analysis, depending on the sponsor's disclosures, to assess the potential impact on the sponsor's financial position from various climate scenarios. We are also able to undertake qualitative assessments on the potential covenant climate change impact.

A working understanding of how to apply and disclose against the recommendations of the Task Force on Climate-related Financial Disclosures	We understand that complying with the TCFD reporting requirements can feel overwhelming for many clients. We have a clear understanding of how to help schemes effectively comply with the TCFD reporting requirements. But beyond compliance, we have found that taking clients through the process leads to better understand and facilitates better decision making. We have developed a clear project plan which we use to support clients through the process – including what the key decisions are that need to be made, and what the key milestones are for various activities. We have produced a series of Insight documents explaining the nature of the reporting requirements. We have a full suite of reporting tools, including using our proprietary carbon dashboard and external data provider, to support clients meet the minimum requirements but also go further to fully understand their exposure to climate risk and opportunity. Our pensions actuarial team has developed a climate change longevity scenario modelling tool – by analysing the interaction of economic and lifestyle factors under the future scenarios and translating this into forward looking impacts on the longevity of a given scheme's member population. We have now used this modelling to provide liability scenario impacts for a number of clients that report under TCFD, as well as expanding this to provide qualitative analysis on wider liability-side risks including unhedged interest rate and inflation risks. Our covenant advisory team is fully versed in climate risk as they pertain to corporates both from a quantitative and qualitative perspective and we have experience in conducting climate change analysis on the sponsors and feeding the key findings in to TCFD reporting from across advisory teams, in particular for the larger schemes for whom the reporting is compulsory.

ICSWG's Best Practice Indicators Demonstrate record of helping clients:	XPS Approach
...develop climate related beliefs and understanding of key issues	As described above the first step in any conversation around climate change is to establish a trustee group's own beliefs and priorities. This is often supported with thorough training to fill in any gaps in knowledge so trustees can develop informed opinions. We have collected the views of over 300 trustees and pension professionals and used these to directly inform decisions on the objectives and implementation of their respective pension schemes.
...shape voting policy to include explicit guidance on climate-related voting, including policies on shareholder proposals, and influencing asset managers to accept these	We recognise that robust stewardship including voting and engaging with companies is key to drive responsible practices and positive long-term outcomes. The vast majority of our clients invest through pooled funds and therefore delegate voting responsibility to their investment managers. Our approach is to thoroughly assess a given managers' approach to voting and engagement – stewardship is one of the 5 sub-ratings within our ESG ratings framework. We explicitly ask for evidence of engagements on climate change to ensure it receives significant weight within a given managers approach, and in doing so encourage improvement in the market to more proactively vote and engage on climate issues.
...develop climate-related targets (such as Paris alignment, decarbonisation and other targets) in line with recommendations of the Task Force on Climate-related Financial Disclosures	Several of our largest clients set specific climate targets – including specific targets to be Net Zero by 2050 – and we have been supporting them implement those targets into their mandates with managers, which have clear frameworks and parameters for delivering that objective. We have clear understanding of industry standards in relation to achieving Net Zero, and/or Paris Alignment, for example well recognised benchmark approaches such as the Climate Transition Benchmark, or Paris Aligned Benchmark, and how key aspects of these can be applied to scheme level targets, as well as requirements in relation to Net Zero defined by the Science Based Targets initiative.
...develop climate-related policy frameworks	All of our clients have a policy on ESG and climate change within their Statement of Investment Principles. We have also encouraged clients to go further. For example, we have issued clients with a framework on how they can assess where they stand in terms of minimum and market best practice in relation to ESG. Where clients have a desire, we are strong advocates of setting more explicit objectives and defining a standalone policy on Responsible Investment, including climate change. We have introduced this concept across our client base and taken multiple clients through this process. We have 11 clients who have a bespoke standalone responsible investment policy and seven of these have an explicit carbon reduction objective contained, whilst the others refer to the need to continue engaging with managers and receive reporting on sustainable alignment from XPS. Faye and Alex support our consultants with engaging with clients when they are thinking about making developments in this area.
...integrate climate-related considerations across all asset classes	Integration of climate change risk assessment forms part of our research across all assets. We have 28 recommended funds that we have designated "sustainable" funds, which go beyond a basic ESG approach, more proactively targeting climate aligned objectives. We have set the bar high and this represents a real achieve for managers to be awarded this designation.
...shape their investment strategy, incorporating climate-related risks, pricing opportunities and climate-related impacts	We have helped a number of clients embed climate considerations into their investment strategy, for example bespoke Net Zero targets implemented into segregated credit mandates, through to switching a number of clients into sustainable funds across a range of asset classes. In particular, we have a number of clients in a sustainable passive equity fund which looks to tilt towards those companies best aligned to the Transition pathway initiative, thereby minimising risks associated with the transition to a low carbon economy.

...with practical recommendations to reduce their climate-related risk exposure and/or develop strategies to steward an orderly transition to a net zero and resilient economy	One of our five sub-ratings with the ESG ratings framework is climate change, and this gives clients a clear picture of the extent to which they are exposed to climate change mismanagement. Where a manager is underperforming in this regard, we encourage clients to engage with the manager, and they may ultimately switch into funds which have explicit climate alignment – our climate aware funds focus on investing in companies best placed to adapt and contribute to the low carbon transition, rather than simply reducing day 1 carbon emissions – and this is a mindset we encourage our clients to adopt. In 2022 we published a detailed briefing note on exactly how clients can set Carbon Reduction Pathways.
...with guidance on climate-related reporting	We have supported our largest clients through compliance with TCFD reporting requirements, but beyond that have provided information on carbon emissions and other climate risk factors to our full range of clients, where they don't have the regulatory requirement to undertake reporting. We produce this reporting centrally using information requested from investment managers and can therefore provide it in a cost effective way to a large range of clients.
...fully integrate climate considerations into manager selection and monitoring	As described climate change is one of the five sub-ratings of our ESG research framework which underpins all of our client advice and manager recommendations. Our clients have access to our ESG ratings report and carbon dashboard which provide ongoing insight into the extent to which climate change is well managed across their portfolio.
...keep abreast of and meet regulatory expectations	We routinely produce Insight pieces on latest regulatory developments which we issue to clients free of charge. Our latest content can be found **here**.

Theme 3 – Tools and Software

ICSWG Positive Indicators	XPS Approach
Have a database of climate metrics for investments covering for example: • **Carbon intensity** • **Carbon emissions** • **Alignment with goals of the 2015 Paris climate agreement and implied temperature rise** • **Climate Value at Risk** • **Exposure to 'green' revenues** • **Help clients monitor climate-related metrics**	In 2020, XPS developed a carbon-related monitoring dashboard which is incorporated into client reporting. The contents of this are consistent the TCFD framework requirements. The dashboard covers carbon emissions and also forward-looking climate risk indicators including exposure to high-risk sectors, and engagement across the portfolio on climate risk. From the list here this includes carbon intensity, carbon emissions, Implied Temperature Rise, as well as other climate risk indicators such as exposure to fossil fuels, and how much engagement is taking place on climate change issues. We have found this to be a useful tool in prompting discussion with investment managers around plans to reduce emissions, or increase their investment in companies with well-defined climate transition plans. As part of our annual ESG ratings exercise we collect the data required for the carbon dashboard for all our clients' funds – where the data is available. In relation to the 12 months to 31 December 2022, we have stored detailed climate related metrics information in relation to 255 funds across 63 managers in which our clients invest. We note that through our external data provider MSCI we are able to obtain all the listed metrics for a given portfolio (where data is available for those companies), however at present do not store this en masse for all our rated funds.

Use freely available tools such as PACTA or PRA stress test data to help clients assess climate risk	We are experienced users of open-source tools such as the PACTA analysis to provide clients with an indication of climate change scenario analysis. We also find the Transition Pathway Initiative and Science Based Targets initiative to be very credible resources which can provide clients with an indication of climate resilience across their portfolio.
Help clients set and monitor appropriate climate-related targets.	As mentioned, we have helped numerous clients set and implement climate-based investment objectives, for example net zero pathways within bespoke mandates. We have encouraged all clients to consider their approach to this, for example with our briefing note on setting Carbon Reduction Pathways, link available **here**. Our proprietary carbon dashboard gives all clients the ability to monitor their climate risk exposure and can be used by schemes with specific climate objectives to track progress against those.
ICSWG Best Practice Indictors	**XPS Approach**
Capability to conduct scenario analysis for assets, liabilities and sponsor covenant to help clients understand how climate change might affect investment returns and value at risk over the short, medium and long-term	We are clear that effective portfolio climate change risk analysis requires a bottom-up, company level approach, rather than being based on asset class outcomes. Therefore, we have appointed an external data and modelling provider so that we can offer our clients market-leading climate risk analysis. Through the MSCI ESG Screener tool we can undertake Climate Value at risk analysis, which allows us to stress test portfolios to understand resilience to future climate scenarios. We are encouraging all or clients to undertake this sophisticated climate analysis, with particular focus on those clients undertaking TCFD climate reporting. A key benefit of this analysis is providing our clients a platform to engage with their managers on key sources of risk and opportunity. As described above, we have developed a climate change longevity scenario modelling tool which analyses the interaction of economic and lifestyle factors under the future scenarios and translating this into forward looking impacts on the longevity of a given scheme's member population. Our covenant advisers are able to conduct climate-based scenario analyses from both a quantitative and qualitative perspective to help inform our clients on the potential covenant implications of various climate change scenarios over different timeframes.
Consideration of an orderly transition, disorderly transition and failed transition scenario with their associated direct transition and physical risks as well as systemic risks that could arise	In addition to our climate related liability scenarios described above, we are in the process of partnering with an external data and modelling provider and will be able to leverage their scenario modelling capability – which will cover a range of possible scenarios including orderly transition, disorderly transition and failed transition.
Where relevant, help clients consider real world impacts on climate change of their investment choices	We are clear in our training to clients that contributing to positive real-world outcomes which support a just transition is critical, beyond attaining positive portfolio outcomes (e.g. low carbon footprint). Our range of sustainable funds focus on delivering long term sustainable outcomes, with many having specific investment objectives relating to the UN Sustainability Goals so that clients can clearly see the real-world impacts of their investments.

Theme 4: Thought Leadership and Policy Advocacy

ICSWG Positive Indicators	XPS Approach
Encourage better standards of corporate governance of climate-related risks, for example through positive contributions to public consultations on guidance and regulation of climate-related risks	Climate change is captured in our ESG ratings assessment and therefore we implicitly encourage clients to invest in funds which better manage climate risks. Our detailed annual feedback to all managers on all funds assessed makes it clear this is an important aspect for us and our clients, thereby demanding more from them. We have produced numerous thought leadership pieces on climate-related issues – including on the use of carbon credits for pension schemes, and on how to successfully implement a net zero pathway, what schemes can learn from the first wave of TCFD reporting, and the implication for investors of the annual COP summits. We responded to various consultations on climate change matters, including recently: • WPC inquiry into Pension Stewardship and COP 26 (June 2021) • IFoA Consultation on proposed changes to regulatory framework on climate change & sustainability (Dec 2021) • DWP consultation on Climate and investment reporting: setting expectations and empowering savers – consultation on policy, regulations and guidance (Jan 2022) • IIGCC call for input on Proposals for Climate Resilience Investment Framework (Oct 2022) • FCA consultation on Sustainability Disclosure Requirements (SDR) and investment labels (CP22/20) (Jan 2023) We have also participated in responding to more consultations through our role in the ACA Climate Group.
Supportive of public policy initiatives on climate change	We have shown our support through becoming a supporter of TCFD, and by annually reporting against the TCFD framework as a company . We are a member of the Net Zero Investment Consultants Initiative, and will annually report against the 9 Principles.
Collaboration as part of climate industry groups	We are active members of the ICSWG – contributing to the ICSWG Metrics guide which brings clarity to ESG reporting. We have also provided input into an Asset Owners guide, providing clarity on the steps asset owners can take when integrating ESG and climate change. Through Pensions for Purpose and the Impact Investors Institute we contribute to industry debate on creating more climate aware investment strategies.
ICSWG Best Practice Indictors	**XPS Approach**
Engage with regulators on latest climate-related policies	XPS understands the importance of the key regulators within the pension industry and as such responds positively to DWP and The Pensions Regulator policies. We support our clients in meeting regulatory requirements such as preparing annual Implementation Statements that disclose voting and engagement activity over the accounting year.
Engage with the developers of climate reference scenarios	To date we have not engaged with the developers of climate reference scenarios, however we remain abreast of developments in scenarios which exist so that we can provide advice to clients on the most appropriate to use in their given circumstances.

Contribute meaningfully to system decarbonisation and achieving the goals of 2015 Paris climate agreement	We recognise the importance of pension schemes as investors contributing to a successful energy transition in line with the Paris Agreement objectives. We actively encourage schemes to consider a sustainable investment approach, which may include funds which have explicit objectives linked to the Paris Agreement or Net Zero. We are explicit in challenging investment managers who have signed up to Net Zero Asset Managers Initiative on what they are actually doing to deliver their goals. We do this through our annual ESG ratings exercise and associated engagement. As a company we have a net neutral carbon commitment and a clear strategy to reduce absolute emissions across our value chain.
Active monitoring of related developments, for example, nature-related financial risks such as biodiversity loss	We actively monitor developments of climate-related policies via our Climate & Environment Solutions Team, and we have dedicated resource which tracks updates from a wide variety of stakeholders (TPR, DWP etc) on these issues. The team periodically circulates updates and requests input from our consultants on consultations, for example, as required. We are familiar with the progress being made with regards to the Taskforce for Nature-Related Financial Disclosures, which aims to promote better management of biodiversity risks for companies, and how this framework may one day apply to pension schemes.

Theme 5: Assessment of Investment Managers and Engagement with them

ICSWG Positive Indicators	XPS Approach
Engage with investment managers about their climate practices (eg integration into investment decisions, voting and engagement)	Climate change is one of the five sub-ratings within our ESG ratings framework. Therefore, we explicitly consider the extent to which climate change is considered in the investment decision making process, and what tools / data / processes the fund manager uses to support their assessment. Climate change is a regular agenda item at formal due diligence meetings and also ad hoc catch ups on fund developments / performance across all asset classes. Following our 2022 annual ESG assessment we provide detailed fund specific feedback to 60 managers with face to face follow up meetings with a further eight managers. Since 2022 we have disclosed all XPS fund recommendation ratings to managers for their funds to as well as providing their ESG ratings. This exercise covered 184 investment managers. This comprehensive exercise will be repeated annually. In addition, we produce an annual analysis report which summarises the ESG ratings across all funds, with key observations and commentary on trends – we feel this transparency is very important in raising the bar across the industry. Our latest report can be found **here**.
Climate change is integrated into manager research and is a topic of discussion at research meetings	As noted above, climate change is part of our ESG research framework. It is therefore discussed in research meetings with existing and new managers – furthermore, ESG and climate change are increasingly a standard agenda item on all manager research meetings, in addition to those explicitly about ESG credentials. We set minimum ESG requirements for funds that we recommend to clients and do not compromise on this irrespective of how strong the fund is in any other respect.

Provide assessment of investment managers' firmwide approaches to climate change risk management, including through both asset allocation and stewardship	We assess managers' firmwide climate approaches through our annual ESG ratings review for our clients' funds. This informs our overall view of a given fund and whether we will recommend a fund to our clients. As such it forms part of our minimum requirements. In our experience managers are better at articulating an appropriate firm-wide position than they are at their fund specific approach and so whilst a firm-wide approach is important, it is a necessary but not sufficient condition to meet our minimum requirements. In addition, when researching new funds, we undertake an annual review of our assessment of investment managers' ESG integration and stewardship practices and provide detailed feedback to our clients' managers thereby working to raise industry standards.
ICSWG Best Practice Indicators	**XPS Approach**
Provide assessment of investment managers' fund specific approaches to climate change risk management	Our ESG ratings report provides our sub-rating on climate change, and commentary on anything notable from the manager's approach overall. We also provide detail on whether that manager is a supporter of TCFD, a member of Net Zero Asset Managers Initiative, and if they are able to provide carbon emissions data on their portfolio – as indicators of the extent to which climate risk is fully considered.
Disclose details of methodologies and framework for assessing investment managers' approaches to managing climate-related risks and opportunities	We provide detail to clients and the managers themselves on the various factors we use to assess funds under the five ESG sub-ratings and overall. As part of our individual feedback to managers we are more detailed in terms of areas where they could do better.
Investment managers' approaches to managing climate-related risks and opportunities feed into the consultant's ratings of investment managers	As noted above climate change is part of our ESG research framework informing our ESG rating which supports our overall fund rating. This directly influences which managers we will recommend to clients.
Prepared to exclude fund recommendations on sustainability criteria	The ESG rating is integral to our overall view of a fund to the extent that a fund that is rated "Red" on ESG will not be recommended to our clients. The climate change sub-rating is an important element of the overall rating.
Encourage improvement in investment managers' climate competencies including on stewardship, and set expectations on best practice	We provide detailed feedback to managers on our ESG assessment, including climate change integration. We ask managers explicitly about the extent to which they consider physical and transition risk when making investment decisions, and what tools / resources they use to support their process. In this way we have an expectation that all managers are doing this to some degree to ensure climate risks are fully considered. We make it clear that in order to receive a green rating on climate change managers need to demonstrate they can undertake thorough physical and transition risk analysis as well as conducting climate stress testing on their investment portfolio.
Encourage investment managers to become signatories to the UK Stewardship Code 2020	One of our questions on the ESG ratings questionnaire is whether the manager is a signatory to the UK Stewardship Code – so this informs the overall rating. We have a minimum requirement that managers receiving our Sustainable designation must be signatories to the UK Stewardship Code. In 2021, we produced a free summary for our clients of whether their managers were signatories, and engaged directly where we had exposure to managers which were not to reinforce the importance of becoming a signatory.

If you would like to find out more, please get in touch with Alex Quant or speak to your usual XPS Investment contact.

Alex Quant
Head of ESG Research

T: 020 8059 7652
E: alex.quant@xpsgroup.com

XPS Pensions Group