Dear Paul,

Thank you for your email of 14 March. On behalf of the Northern Powergrid Group Trustees, I have responded to the questions raised as to how the Group Trustees seek to fulfil their fiduciary duty to members by considering the major risks that the Group is exposed to, including climate change risk.

1. Do the trustees accept the TCFD conclusion that pension funds are potentially exposed to financial risks through climate change?

Yes, the Group Trustees accept the conclusion.

2. Which climate-related financial risks are you most concerned about?

The Group Trustees consider there to be two primary aspects to climate-related financial risk, namely 1) Impact on the long-term covenant of the sponsoring employer; and 2) Impact on the investments held by the Group (directly or indirectly).

3. Has your pension scheme formally considered climate change risk at Board (or Investment Committee) level?

The Group Trustees consider climate change risk within the overall attention given to ESG-related risks.

4. If you have considered climate change related risks, what actions have you taken in response to these risks? We are interested, for example, in the development of specific investment strategies on this issue, whether you have taken formal advice, any changes in your investment strategy made or planned, and the exercise of your ownership responsibilities on this issue (either directly, or through your investment managers).

The Group Trustees’ position on ESG is set out in the Group’s Statement of Investment Principles (the relevant extract has been included as an Appendix). Day-to-day decisions on voting and other matters relating to Responsible Ownership (including ESG) are delegated to the Group’s investment managers. Our managers are required to take account of ESG matters as part of their decision-making. Each year the Group Trustees receive an update, via our investment advisor, Aon, on the corporate governance and ESG policies of our equity and bond managers. In addition, a sub-set of the Group Trustees regularly meets with our investment managers and questions them on the same. Although we engage with managers on these issues, all the Group’s investments are via pooled funds so, in reality, the Group Trustees have very little control over the decisions made by managers.

The Group Trustees’ investment advisor, Aon, is a member of the Investment Leaders Group (ILG), convened by the University of Cambridge Institute for Sustainability Leadership. The ILG is a global network of pension funds, insurers and asset managers committed to advancing the practice of responsible investment. Aon is participating in various working groups which are endeavouring to shape the evolving landscape around best practice within responsible investment. The Group Trustees are likely to allocate time over 2018 for Aon to share its expertise in this area and provide guidance around changes in best practice in the area of Responsible Investing.

5. Are you planning to adopt the TCFD recommendations in your scheme’s reporting? If so, please indicate your planned timing.

No, there are no current plans to incorporate the TFCD recommendations in the Group’s reporting.
6. **How would you suggest the Government and regulators implement the recommendations on climate-risk reporting? Is a voluntary approach sufficient to ensure widespread adoption?**

The Group Trustees consider a voluntary approach to be sufficient until such time as the industry resolves issues around a standardised approach, methodology and metrics. Looking forward, if comparable information became available from our investment managers (for example on carbon output), the Group Trustees would certainly consider reporting on these areas. We expect widespread adoption of climate risk reporting is unlikely without regulation, as opposed to guidance.

7. **Would guidance from Government or regulators on climate-risk reporting be helpful for pension funds?**

Yes, we think that guidance would be beneficial in assisting trustees of pension funds to consider, report on and manage these risks.

8. **Have you discussed climate change with your actuarial advisors, having regard to the Risk Alert that the Institute and Faculty of Actuaries (FoA) issued to its members last year.**

We have not explicitly discussed climate change from an actuarial perspective given that the Group’s funding plan has not been discussed in detail since the publication from the IFoA. Our actuarial advisers, Aon, include climate change (together with other long-term risks) as standard in their guidance on actuarial valuations and so this will form part of the next actuarial valuation due as at 31 March 2019.

The Group Trustees have an integrated approach to addressing funding, investment and covenant issues. To the extent that climate risk is relevant to the covenant and investment strategy, this will, therefore, feed into the Group’s funding plans.

9. **Please share with us any other information you think may be relevant as we develop our understanding of the approach UK pension funds are taking to climate change and, more generally, green finance.**

Climate change is one of many risks that the Group Trustees have to assess and manage. The Group Trustees' primary responsibility is to ensure members receive the benefits due and time and focus is spent on monitoring and controlling risk in those areas which pose the largest threats to meeting that objective.

That said, along with risk comes opportunity. Market opportunities can and are being created by changing market regulations surrounding areas such as 'clean' energy, waste management, circular economy sectors and other ESG themes. From this perspective, integrating the consideration and hedging of risk factors can present investment opportunities to outperform.

More broadly, we consider that the marketplace is still subject to a high degree of inertia around the consideration of these risks given the perception that these are not imminent. Therefore, in this regard, increasing regulation and guidance will be a principal driver of change.
Appendix

Extract from the Group's Statement of Investment Principles:

"Environmental, social and corporate governance (ESG) issues

3.8 The Trustees have carefully considered the appropriate stance to take with regard to environmental, social and corporate governance (ESG) issues, bearing in mind that they have delegated responsibility for the day-to-day management of the Group’s assets (i.e. the selection, retention and realisation of investments) to its Investment Managers.

3.9 The Trustees have reviewed the Investment Managers’ statements on these issues and are satisfied that the managers take account of ESG issues to the extent that the managers believe such considerations are consistent with the investment style of the mandate and will not adversely affect performance and/or increase risk. The Trustees are satisfied that this approach fulfils their responsibilities to the beneficiaries. Monitoring of performance in this regard is undertaken through regular reports to the Funding & Investment Committee and meetings with the Investment Managers.

3.10 The Trustees support the principles of the Stewardship Code. The Trustees have reviewed the policies and practices of the Group’s relevant Investment Managers and are satisfied that they are currently operating in accordance with principles outlined in the Stewardship Code and in line with best practice."