Building an approach to attribution and rebaselining: National Grid UK Pension Scheme

Background

The National Grid UK Pension Scheme (NGUKPS) consists of two sections (Section A and Section B) with combined assets of c. £8.5bn. Both sections are well-funded and mature with a corresponding low risk asset allocation. It has published two Climate Disclosure Reports[1] and is currently working on its third.

In addition, the Trustee strongly believes in being part of the real-world net zero transition. This mindset forms part of its fiduciary duty to manage risk and ensure the best financial outcomes for members of the Scheme. To that end, the Trustee has made a net zero commitment via the Paris Aligned Asset Owners initiative.

The assets of the Scheme are all externally managed and the Scheme has appointed a Master Manager, Russell Investment, to oversee the external managers under the guidance of the Trustees in-house team, the Trustee Executive Limited (TEL).

This case study, authored and provided by NGUKPS, focusses on the work carried out in 2022 and 2023 on attribution in climate change-related metrics and the subsequent rebaselining of the targets to help preserve their integrity. Recalculating portfolio emissions in the baseline year adjusts the reference point for tracking progress and setting future carbon reduction targets.

Targets

The Trustee has set a number of climate change-related targets, including:

- Weighted Average Carbon Intensity (WACI): target a 50% reduction by 2030 versus a baseline of 30 June 2020
- Financed Emissions/ £m invested: target a 50% reduction by 2030 versus a baseline of 30 June 2020

Attribution

After setting the targets and initially refining the quarterly ESG reporting cycle to assess the progression of the various metrics the Trustee monitors, the attention in 2022 turned to better understanding the evolution of the reported metrics from one quarter to the next. With a view to ascertain if the changes were driven by real-world carbon emissions reductions, TEL worked with Russell Investments to develop a way of attributing changes in climate change related metrics. Real world emissions reductions refer to the tangible decrease in greenhouse gas emissions achieved through implemented actions and measures, i.e. if the underlying assets of the portfolio are decarbonising their operations as opposed to divesting the portfolio of high emitting assets.

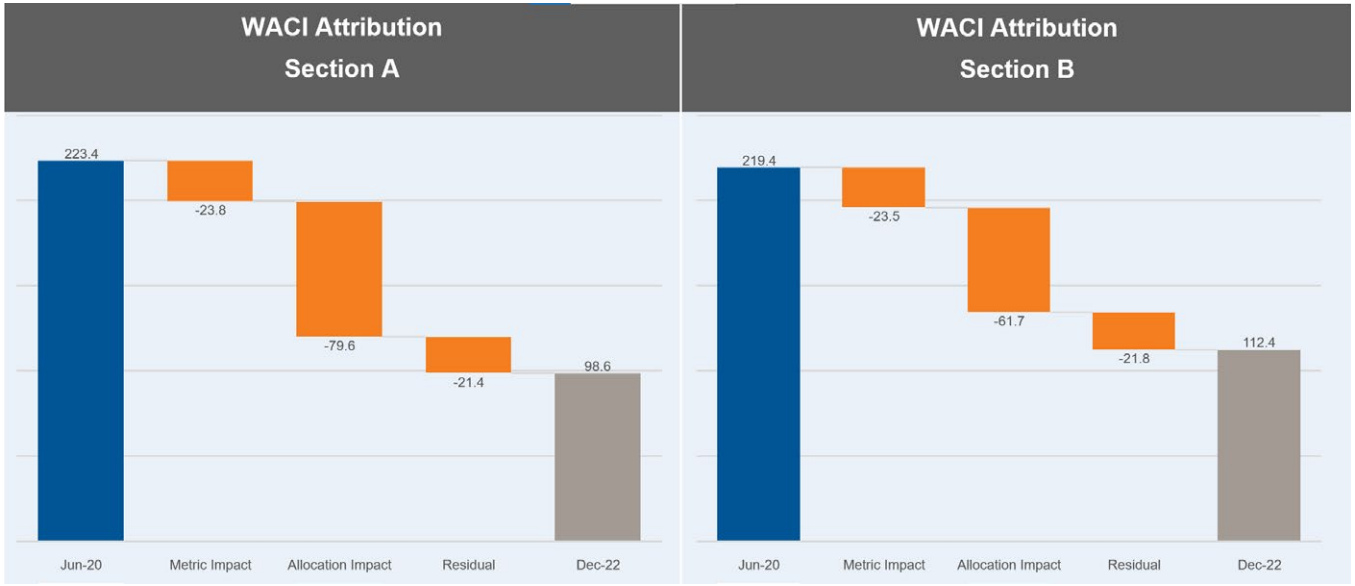
Underpinning the development of this work was a strong belief that having an approach that acknowledges any shortcomings is much preferred to having no approach. As such, the initial aim was to get an attribution analysis up and running with a view to develop the analysis over time.

The work focused on an attribution between "asset allocation" (allocation impact) and "stock selection" (metric impact)" compared to the 2020 baseline:

- **The allocation impact** provides a way to understand how asset allocation changes between portfolios through time has affected the metrics and delivery versus targets.
- **The metric impact** captures all other factors, including real world carbon reduction, but also other factors such as Enterprise Value Including Cash (EVIC) and revenue evolution, trading within the portfolios, and data/ coverage changes.

1 NGUKPS-Climate-Disclosure-Report-2022-23-Final.pdf (nationalgrid.com)

Exhibit 1: Example of WACI attribution results



As Exhibit 1 shows, for Section A and Section B, the majority of the reductions seen in WACI were a result of allocation impact, which made up c. 60% for both sections. Meanwhile, the metric impact made up c. 20% of the reduction in WACI.

Since the initial version of the model, a residual component has been added to capture data and coverage changes. We acknowledge that this approach does not generate a pure real-world carbon reduction assessment, but is a good starting point to understand the drivers of carbon reductions/increases.

Adjusting the baseline

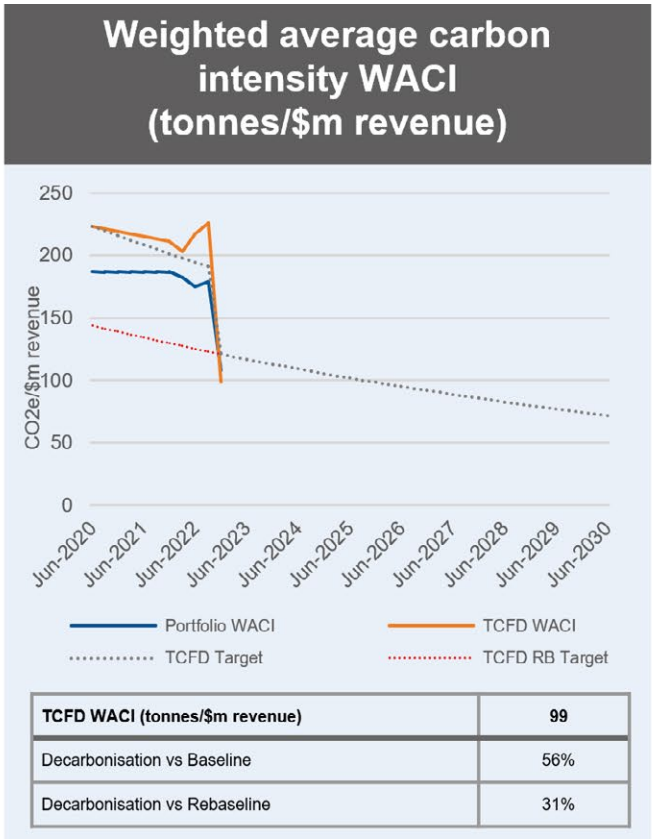
During 2022, the target of a 50% reduction in WACI was close to or had been reached for both sections. The attribution, however, showed that a large part of this reduction came from the asset allocation change and did not represent a real-world carbon emissions reduction, as shown in Exhibit 1 and described above. As such, we felt the need to rebaseline to help preserve the integrity of the targets that had been set, and to ensure that the targets remain relevant to the current asset allocation.

Rebaselining targets preserves their integrity by ensuring that they reflect accurate and current data for more effective tracking and accountability.

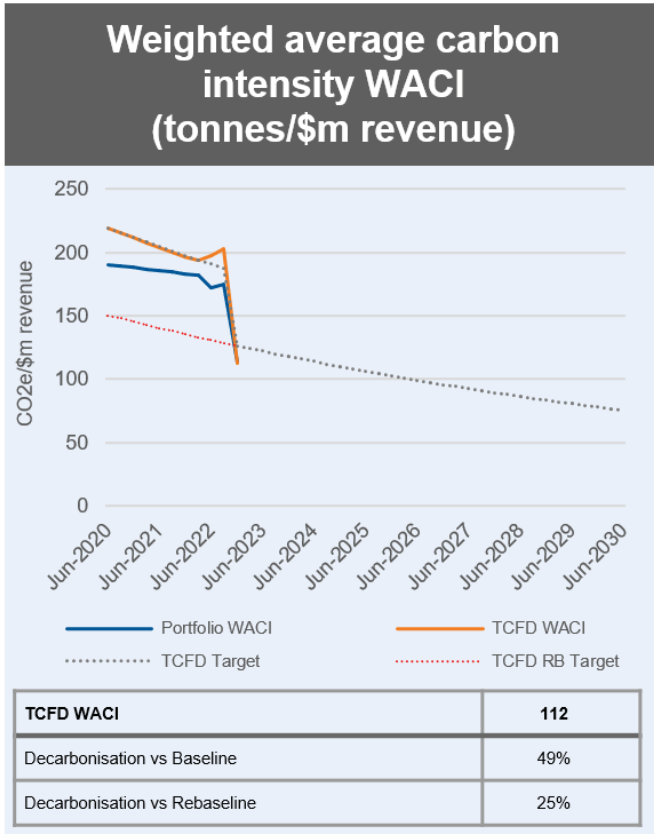
The approach to the rebaselining exercise was pragmatic: what would the baseline metric be if the portfolios that were later sold, were not included at the baseline date? This is easier shown graphically, as depicted in Exhibit 2, which shows a new red dotted line tracing back from the December 2022 asset allocation to the baseline period.

The table beneath each graph shows the impact, i.e. the WACI reduction was around 50% prior to rebaselining and around 25-30% post-rebaselining, which we believe is much more representative of progress made. The rebaselining was also applied to the Financed Emissions target, which had a less pronounced impact when compared with the WACI target.

Exhibit 2: WACI progression over time against the baseline and adjusted baseline, Section A to the left and Section B to the right



TCFD WACI (tonnes/$m revenue)	99
Decarbonisation vs Baseline	56%
Decarbonisation vs Rebaseline	31%



TCFD WACI	112
Decarbonisation vs Baseline	49%
Decarbonisation vs Rebaseline	25%

Future developments

As outlined above, we placed value on getting an attribution model up and running, acknowledging any shortcomings and then working on these. We acknowledge that this approach does not generate a pure real-world carbon reduction assessment, but is a good starting point to understand the drivers of carbon reductions/ increases.

As such, current developments are focused on better disentangling and attributing data/ coverage changes, separating out the trading effect within portfolios and tackling areas like EVIC/ revenue changes. Ultimately, we see the attribution playing an integral part in demonstrating that real-world progress is being made and provides a way to focus engagement with managers where this is not the case.