Nestlé UK Pension Fund
2022 Task Force on Climate-related Financial Disclosures ("TCFD") Report

July 2023

Introduction

The Taskforce on Climate-related Financial Disclosures ("TCFD") was commissioned in 2015 by Mark Carney in his remit as Chair of the Financial Stability Board. In 2017 the TCFD published its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies for how climate related risks and opportunities are being managed.

This report sets out our approach - as the Trustee of the Nestlé UK Pension Fund (the "Fund") - for the assessment, ongoing management and mitigation of climate-related risks and opportunities in the context of our regulatory and fiduciary responsibilities for managing the Fund on behalf of its members.

We are committed to being a responsible investor and believe that Environmental, Social and Governance ("ESG") factors, including climate change, can have a material impact on the financial performance of the Fund's investments. We expect that considering these factors as part of the strategic decision-making process can lead to more complete investment analysis. This in turn helps to reduce investment risk in the Fund and enhance long-term investment returns, while also aiming to help secure a more sustainable world for society as a whole.

The report provides an update on how the Fund is currently aligning with each of the four elements set out in the regulations, which link to the recommendations set out by the TCFD. These elements are:

- **Governance:** The Fund's governance around climate-related risks and opportunities.
- **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the Fund's investments and funding strategy, and integration into investment decision-making.
- **Risk Management:** The processes used to identify, assess, and manage climate-related risks and integration into overall risk management.
- **Metrics and Targets:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

This is our second TCFD report, and covers the period from 1 January to 31 December 2022, the Fund's full financial year.

The investment and pensions industries are adapting to these new reporting requirements. This report provides details of our position using data available at the time of writing. We expect the situation to evolve and for more meaningful, higher quality data to become available in time, which will enhance the breadth and depth of our reporting.

Finally, this report is not designed to be a tool to help financial decision making for our members – you should not make any investment decisions based on the information in this report. We do hope though that you find the report useful and would be happy to hear any feedback you have on the contents or structure of the report. Please get in touch with Nestlé Pensions if you have any feedback or questions on the report.

Signed on behalf of the Trustee by:

Steve Delo

Steve Delo
For PAN Trustees UK LLP
Chair of the Nestlé UK Pension Fund Trustee Board

Note: The Fund is managed by a Trustee Company: Nestlé UK Pension Trust Ltd. The company acts through its board of directors, who we generally refer to as the "Trustee".

Summary

This section of the report provides a summary of our progress in each of the four elements set out above.

Governance:

- We maintain a robust framework for assessing climate-related risks and opportunities, including clearly identifying the roles that we, the Trustee, and our advisers carry out.

- We have updated our responsible investment policy to more accurately reflect our approach to climate-related stewardship and our net zero ambition.

- Our DB Investment Committee (DBIC) and DC Committee (DCC) regularly review climate risks and opportunities. We are additionally supported by the Investment Team within Nestlé Pensions, Nestlé's Group Pensions Unit and a specialist TCFD Working Group. All of these committees discussed climate-related risks and opportunities on a regular basis over the year to 31 December 2022.

You can read more about the governance structure we have put in place and the responsibilities of each of the key parties in section one, starting on page 6. You can also find our investment beliefs in Appendix A.

Strategy:

- We have taken steps to understand how climate change might affect both the DB and DC sections of the Fund. This includes an assessment of the potential impact on the Fund under several possible climate change scenarios, as well as qualitative analysis of the potential impact climate-change risks may have on different types of investments.

- Within the **DB section**, we continue to reduce the exposure to riskier, and more carbon-intensive, assets.

- Within the **DC section**, we have reviewed and made changes to our equity investments, which account for most the Fund's DC assets. The changes were made in November 2022 and mean that our equity investments now have a significantly lower carbon footprint and explicitly account for ESG considerations in the investment decision-making process. We expect this to ultimately reduce exposure to climate-related risks. A review of the Fund's wider DC assets, including exposure to climate-related risks and opportunities, is continuing in 2023.

- Across **both the DB and DC sections**, we continue to **engage** with our advisers and investment managers to understand, review and improve their climate practices, including both investment decision making and stewardship activities.

You can read more about the climate scenarios and the potential impact of each on the DB and DC sections of the Fund, in section two, starting on page 10.

Risk management:

- We believe climate change is a material financial risk to the Fund, its sponsor and its members and we have incorporated climate risk into our Risk Management and Monitoring policy.

- We have processes in place to help us identify climate related risks and opportunities at the total Fund-level and individual portfolio-level. This includes quantitative climate scenario analysis, qualitative climate-risk and opportunity analysis and climate-related metric reporting.

- We seek to manage the Fund's exposure to climate related risks via portfolio-specific guidelines and requirements, targeted stewardship and engagement, and in-depth reporting. We expect these processes to evolve over time.

You can read more about how we are managing climate related risks in section three of the report, starting on page 22.

Metrics and targets:

- We have disclosed information on four climate-related metrics for each of the DB and DC Sections of the Fund:
    - Total Greenhouse Gas ("GHG") Emissions;
    - Carbon Footprint;
    - Data Quality; and
    - Portfolio Alignment (new for 2022).

- As above, we have reported on one additional metric this year, referred to as Portfolio Alignment. This measures how aligned the Fund's assets are with the **Paris Agreement** by measuring what proportion of the underlying investments have a scientifically verified Paris-aligned temperature pathway.

What is the Paris Agreement?

"The Paris agreement is a legally binding international treaty on climate change…

Its overarching goal is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels."

- As part of our first TCFD report published last year, we noted that there were gaps in the data available to us. As a result, we set a **target to improve the**

quality of the data available year on year. Some gaps remain this year, and we have chosen to keep this target in place.

For the DB section, we have achieved a meaningful year-on-year increase in the proportion of verified emissions coverage, increasing from 48% to 65%.
For the DC Section, there has been a 1% increase in the proportion of verified emissions coverage for Scopes 1&2 emissions (from 55% to 56%). We note that for the DC Section there have been changes to how these metrics have been calculated versus our first report (reflecting a change in our investment advisers) meaning that these figures are not directly comparable. Our advisers have reached out to all investment managers to set expectations regarding the quality of available data and we expect to report a more significant improvement in our next TCFD report.

- We have also chosen to set an **additional target**. Recognising the importance of the transition to a net zero economy, we agreed in 2022 to set an overall ambition of reaching net zero portfolio emissions by 2050. To help fulfil this ambition we are targeting that by 2027 60% of the Fund's financed emissions from companies: have a scientifically verified Paris-Aligned temperature pathway, or for high-impact companies that are flagged as not having a verified Paris-aligned pathway, ensuring these companies are subject to structured engagement.

  For the DB section, our baseline position shows that for the applicable assets, 20% of the financed emissions are in companies with a verified Paris-aligned temperature pathway.

  For the DC Section, our baseline position shows that for applicable assets, 31% of the financed emissions are in companies with a verified Paris-aligned temperature pathway.

You can read more about the metrics and target we have set, as well as the Fund's current emissions, in section four of the report, starting on page 27.

1. Governance

An excerpt from the Trustee's Responsible Investment Policy

We are committed to being a responsible investor… We believe that ESG factors can have a material impact on financial performance and that considering these issues leads to more complete investment analyses and better-informed investment decisions, consistent with the Trustee's fiduciary duties. We believe this can help to reduce investment risk in the Fund and enhance long-term portfolio returns, whilst also potentially contributing to secure a sustainable world for society.

The Trustee Board retains overall responsibility for oversight of climate related risks and opportunities, but we make use of our sub-committees and advisers to assist us in carrying out these responsibilities on a day-to-day basis. This includes the setting and implementation of our overall climate change risk management framework.

Our governance of climate-related risks and opportunities is underpinned by a set of responsible investment beliefs included within our Responsible Investment Policy. These beliefs are detailed in Appendix A.

Together with our advisers, the DBIC, DCC and the Trustee Board as a whole review the Responsible Investment Policy and our governance framework on an annual basis to ensure it accurately reflects our beliefs, industry best practice and any key market developments (including in relation to climate-related risks and opportunities). Where appropriate we will update the Responsible Investment Policy and/or our governance framework more generally, including the roles and responsibilities of the Fund's different stakeholders, as is deemed appropriate.

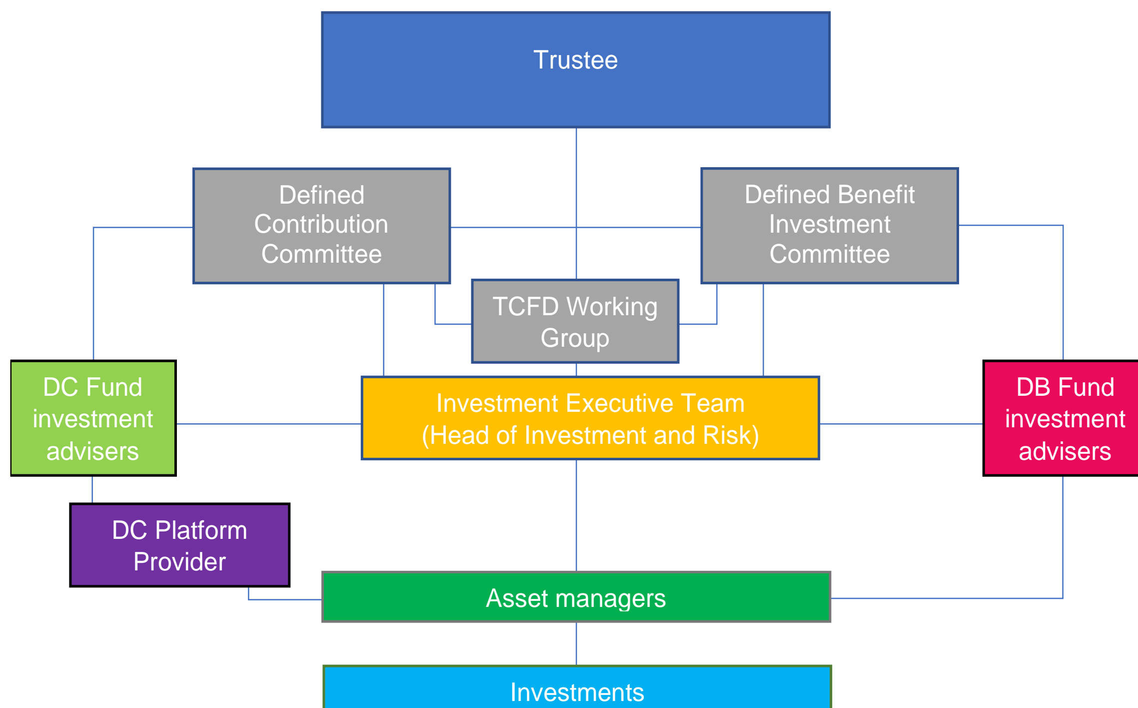
In December 2022, we decided to update the Responsible Investment Policy to more accurately reflect our approach to climate-related stewardship, including the work we carry out as part of our TCFD reporting and our net-zero ambition, which was formally adopted in December 2022. The updated Responsible Investment Policy was formally adopted in April 2023.

Governance structure

The Trustee and our sub-committees are supported by Nestlé's internal Investment Executive Team, led by the Head of Investment & Risk. We are additionally supported by a TCFD Working Group, which is a dedicated resource comprising Trustee Directors and representatives of the sponsor to support us with meeting our Climate Change Governance and Reporting requirements.

The diagram overleaf outlines our Trustee's governance structure for dealing with climate-related risks and opportunities, with further details on the responsibilities of each of these parties set out in Appendix B.

Diagram 1: Governance Structure



Over the year to 31 December 2022, both the DBIC and DCC discussed climate change risk and opportunities as part of their regular ESG monitoring of the DB and DC Sections of the Fund respectively, with the findings and outcomes fed back to the full Trustee board. The TCFD Working Group also met on multiple occasions over the year to discuss climate-related risks and opportunities, again with outcomes of discussions and recommendations fed back to the full Trustee board, DCC and DBIC.

We regularly review the competence and credentials of those supporting us in our oversight and decision-making regarding the Fund. This includes having a responsible investment-related objective for our investment advisers which we assess them against annually. In 2022, we chose to change our DC investment advisers. We explicitly considered the responsible investment credentials of the prospective DC investment advisers (for example, the number of dedicated responsible investment specialists) as part of the selection process. Our in-house team will be required to regularly demonstrate their ongoing Continuing Professional Development relating to ESG and Climate Change going forwards.

We have provided a case study below which shows how this structure works in practice.

Case study: Adopting a net zero ambition

Objective

Two of our responsible investment beliefs are that:

- *"Climate change risk in particular represents a long-term material financial risk for the Fund…"; and*

- *"Achieving alignment with the goals of the Paris Agreement*[1] *is likely to be in the long-term financial interests of the Fund and its members and the Trustee will incorporate consideration of this goal into strategic decision making."*

We recognised that setting a climate-related target which reflects these views required meaningful thought and consideration, and felt considerable time and resources was needed to achieve this.

The TCFD Working Group met regularly between April and December and served as the main platform for discussions and challenges around setting a strategic climate-related ambition and target for the Fund. In December, the group was tasked with recommending a suitable Net Zero ambition and interim target to the Trustee Board.

Discussions

The Investment Executive Team and the DB and DC investment advisers worked together to put forward an initial proposal to the TCFD Working Group.

The proposal was based on:

- the Trustee's investment beliefs, whereby engagement (as opposed to divestment) is the preferred means of aligning the Fund's investments with the goals of the Trustee;

- Discussions with the Nestlé Group Pensions Unit to agree that any ambition – in this case, a Paris-aligned portfolio – should focus on targeting real-world behavioural change rather than just portfolio emissions reduction; and

- Best practice regarding target setting in that any long-term ambition (e.g., achieving net zero by 2050) should be supported by shorter-term interim targets.

The Investment Executive Team and the DB and DC advisers held a discussion with the TCFD Working Group to discuss their proposals in November 2022, prior to putting forward a final recommendation to the Trustee. The TCFD Working Group agreed with the proposal put forward by the Investment Executive Team and the investment advisers: to

[1] The 2015 Paris Agreement is an international treaty on climate change. Its goal is to substantially reduce global greenhouse gas emissions and to limit the global temperature increase in this century to 2 degrees Celsius while pursuing means to limit the increase even further to 1.5 degrees, compared to pre-industrial levels. You can read more about this here: https://www.un.org/en/climatechange/paris-agreement

set an ambition for the Fund to be net zero by 2050, and to set an interim target that by 2027, 60% of the Fund's financed emissions (initially equity and corporate credit assets only) have a scientifically verified Paris-aligned temperature pathway or are subject to a structured engagement.

Outcome

The Trustee approved the recommendations of the TCFD Working Group and set an overall ambition of reaching net zero portfolio emissions by 2050, in line with the 2015 Paris Agreement, as well as the interim target set out above. The target will be reviewed annually as part of the Fund's TCFD framework by both the TCFD Working Group and the Trustee, and progress will be reported on as part of the Trustee's regular TCFD disclosures.

2. Strategy

Climate-related factors and their potential implications for the Fund's investment and funding strategy are incorporated into all aspects of our strategic decision-making. We consider the long-term position of the Fund to be of particular importance, but we also evaluate the implications of short and medium-term climate-related risks and opportunities.

Defining climate-related risks

We are conscious that, given the diversified nature of the Fund's investment portfolio, the source of climate-related risks is likely to be non-uniform and varied. To account for these differing sources, we evaluate the impact of climate-related risks through two lenses:

- **Transition Risk:** This includes policy, legal, technology, market and reputation risk factors that could arise from the adjustment towards a carbon-neutral economy – the severity of the impact will depend on whether the transition is orderly or disorderly.

- **Physical Risk:** Physical risks from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns and include risks such as a rise in sea levels, with impacts including flooding, and the destruction of biodiversity. These physical risks could have financial implications for the Fund, such as direct damage to assets and indirect destabilising impacts from supply chain disruption. Other potential impacts of physical changes in the climate are wider economic and social disruption, including mass displacement, environmental-driven migration and social strife.

Defining climate-related opportunities

As well as risks, climate change and the transition to a greener economy is expected to create investment opportunities, which have the potential to benefit the Fund and its beneficiaries.

Relevant time-horizons

The risks and opportunities associated with climate change could manifest over different time horizons. The relevant time horizons for the Fund differ for each of the DB and DC Sections:

DB Section

For the DB Section, we assess climate-related risks and opportunities over the following time horizons, which we deem appropriate in light of the Fund's existing strategic objectives:

We note that these time horizons are longer than those considered for the DC Section of the Fund (set out below). This is largely due to the periods over which the chosen scenario framework operates, which is described in more detail below.

Time Horizon	Date	Details
Short term	Up to 2025	This relatively abrupt period will allow us to describe the short-term risks faced by the Fund from sudden climate-related behavioural changes.
Medium term	Up to 2050	This is aligned with our 2050 net zero ambition and reflects our belief that aligning the investment strategy with the goals of the Paris Agreement is likely to be in the best interests of the Fund's members.
Long term	Up to 2100	This reflects a period that is long enough for the Fund's liabilities to feasibly be fully accounted for in the climate stress tests, aligning with best practice guidance.

DC Section

For the DC Section, we assess time horizons, based on the likely time horizon over which current member monies will be invested to retirement and so consider the following time horizons:

Time Horizon	Date	Details
Short term	2026 – 2031 (5- 10 years)	Reflects members closer to retirement. For members invested in the Default Option – the Lifetime Pathway Fund – these members will be invested in a diversified range of assets with a gradually increasing allocation to cash.
Medium term	2041-2046 (20 – 25 years)	Reflects members in the mid-late career stage. For members invested in the Lifetime Pathway Fund, these members will be invested primarily in growth-targeting assets.
Long term	2056 and beyond (35+ years)	Reflects the youngest members in the Fund with the longest term to retirement. These members are likely to be invested in growth-targeting assets.

We note that the 35-year time horizon roughly aligns to 2050, the date by which countries bound to the Paris Agreement have agreed to meet net-zero requirements.

Our analysis

We have undertaken analysis in two ways:

1) **Quantitative analysis by means of climate change scenarios**, to consider the potential impact on the Fund's assets and liabilities under various climate outcomes; and

2) **Qualitative analysis** on the climate-related risks and opportunities that the Fund is exposed to at an asset class level.

1) **Quantitative analysis: Climate change scenario analysis**

The quantitative analysis was first completed in 2021, as part of the production of our first TCFD report. We are required to repeat this exercise at least every three years, or following any material changes to the strategic funding, investment strategy or developments to best practice methodologies.

There have been no significant changes to either of the DB or DC Sections over 2022 and so we believe our previous analysis as at 30th September 2021 remains appropriate. Over the coming year, we will review the position of the Fund and consider whether to include updated climate scenario analysis in our 2023 TCFD report, one year ahead of schedule.

A description of the climate risks facing the Fund and the results from the 2021 scenario analysis for the DB and DC sections are summarised below.

Please see *Appendix C* for the inputs and *Appendix D* for the full results of the 2021 scenario analysis.

DB Section

To assess the impact to the Funding strategy via the Fund's investments, we completed scenario analysis on the Current Asset Allocation and Strategic Asset Allocation based on the concepts of the Prudential Regulation Authority's (PRA) 2019 Life Insurance Stress Tests ("the PRA stress test scenarios"), as recommended by the Pensions Climate Risk Industry Group. Summary details of each scenario are presented in the table below.

Scenario	Details
Scenario A (Fast Transition)	Abrupt transition to the Paris-aligned goal occurring in 2024 (temperature increase kept well below 2 degrees Celsius relative to pre-industrial levels). Under this scenario the downside risk comes almost entirely from **transition risk**.
Scenario B (Slow Transition)	Orderly transition to the Paris-aligned goal occurring in 2050 (temperature increase kept well below 2 degrees Celsius relative to pre-industrial levels). Under this scenario the downside comes from a mix of **transition risk** and **physical risk**.
Scenario C (No Transition)	A no-transition scenario with impacts assessed at 2100 (temperature increase in excess of 4 degrees Celsius relative to pre-industrial levels). Under this scenario the downside risk comes almost entirely from **physical risk**.

Investment and Liability Scenario Analysis Conclusions
Please see the conclusions from the previous analysis on the Fund's Asset Allocation and Strategic Asset Allocation as at 30th September 2021 below:

- The results suggested the impact to the funding level is likely to be more subdued under the Strategic Asset Allocation than the Current Asset Allocation. This reflects the de-risked nature of the assets within the Strategic Asset Allocation versus the current asset allocation, with a larger allocation to developed market investment grade credit and smaller allocation to illiquid and real assets. The Fund is currently in the process of transitioning towards the Strategic Asset Allocation.

- The funding level was likely to be most severely impacted under Scenario C (No Transition). The key driver of this impact is the Fund's exposure to real assets, which are expected to be most significantly affected by physical risks that develop under a longer-term, no transition scenario.

The results of the scenario analysis indicate to us how resilient the long-term investment strategy is with regards to various climate change outcomes. We assess the results of these climate scenarios on the Fund's investment strategy and incorporate them (as well as the impact of any climate-related investment opportunities) into the investment decision-making process.

Covenant Scenario Analysis

We requested that Cardano Advisory ("Cardano") consider the resilience of the employer covenant in two scenarios consistent with the funding and investment risks assessed separately: "Fast Transition" (i.e. low-warming) and "No Transition" (i.e. high-warming). In order to be proportionate, we took the decision not to undertake a third scenario analysis of the impact of a "Slow Transition" on the basis that the "Fast" and "No" transitions represent 'book-ends' of possible outcomes and should be sufficiently informative for this first assessment.

Cardano's analysis assessed the potential impact of climate-related risks and opportunities over the short-term, the medium-term and the long-term to facilitate integration with funding and investment risks and to support our strategic decision making. Cardano's assessment was based on the Nestlé SA Group rather than the Fund's immediate sponsoring employers given the integrated nature of the Group and the guarantees from Nestlé SA.

Conclusions

The summary output from Cardano's climate analysis on the covenant is set out in the table below:

	Near-term < 3 years	Mid-term 3-13 years	Long-term 13 years
Fast transition	Medium risk	Medium risk	Medium risk
No transition	Lower risk	Medium risk	Higher risk

The highest risk to the employer covenant was assessed to be in the long-term in the No Transition scenario as the changing global climate over the long-run would be expected to impact on the ability of the business to source commodities such as coffee. However, the near-term risks in the No Transition scenario were assessed to be limited on the basis that this effectively represents the status quo.

The Fast Transition scenario was assessed to be medium risk throughout all time horizons, as a result of:

1. Carbon pricing impact on Nestlé's relatively carbon-intensive processes.
2. Changing consumer preferences for less carbon-intensive products.
3. Rising cost of underlying supply chains due to rising costs associated with the global energy transition.

In response to climate risks, Nestlé has produced a strategic response which sets out its transition plan towards its net zero emission target in 2050. A number of behavioural and operational changes which, if effectively implemented, would have the effect of reducing emissions and diminishing the potential impact of Fast Transition risks set out above.

Implications for the Fund and the Trustee's strategy
Our strategy is to materially remove reliance on the employer covenant (i.e. be financially independent from the employer) by 2036. The analysis performed above indicated that medium climate-change risk to the sponsor will exist over this timeframe. While we determined that our current strategy remains appropriate, we will continue to monitor our covenant-related climate risks alongside our regular monitoring of the employer covenant.

Furthermore, the analysis highlighted that in a No Transition scenario, risk levels could be increased towards the end of the Fund's journey plan. In addition to the ongoing monitoring of covenant-related climate risks, we will also explore options to accelerate reducing reliance on the employer covenant when opportunities arise.

DC Section

Scenario Analysis Results
The TCFD Working Group undertook scenario analysis stress testing in 2021 to test the resilience of the DC section of the Fund in three different climate scenarios.

Regulation requires that strategy analysis is carried out on popular arrangements, which includes any arrangement that accounts for 10% or more of a scheme's DC assets; or holds £100m or more. The Fund's only popular arrangement – and therefore the focus of the climate change scenario analysis - is the Lifetime Pathway Fund, which is the Default Option for the Fund.

A summary of the three scenarios is given in the table below:

Scenario	Details
Scenario 1: 'Green revolution'	Concerted policy action starting now e.g. carbon pricing, green subsidies etc with increased public and private spending on "green solutions". Ultimately leading to a high expectation of achieving a less than 2°C temperature increase. *Most similar to the 'Fast Transition' used in the DB Section analysis*
Scenario 2 'Delayed Transition'	No significant action in the short-term, meaning response must be stronger when it does happen. There will be a shorter and sharper and period of transition. There is still a high expectation of achieving a less than 2°C temperature increase. *Most similar to the 'Slow Transition' used in the DB Section analysis*
Scenario 3 'Head in the sand'	No or little policy action for many years leading to growing concern over ultimate consequences leading to market uncertainty and price adjustments. There is a low/no expectation of achieving a less than 2°C temperature increase. *Most similar to the 'No Transition' scenario used in the DB analysis*

These scenarios are similar in nature to those considered for the DB section, although not identical due to differences in approach taken by our DB and DC investment advisers.

The nature of the DC section, where the potential impact of climate risk is dependent on a range of factors such as pot size, salary and years to retirement makes it more difficult to provide a single quantitative output from the scenario analysis than for the DB section. To address this, the TCFD Working Group discussed the impact of the scenarios on a broad range of members in different circumstances.

The TCFD Working Group considered the impact of the three scenarios above for three typical members within DC Section of the Fund.

- **A young member aged 25,** could potentially be impacted both negatively and positively by all the modelled climate scenarios because of their long investment horizon. A 'green revolution' scenario in which high volatility in the early part of their savings journey (associated with policy action) becomes embedded represents the greatest downside risk to their projected pension income.

- **A member aged 40,** faces the risk of slightly larger losses as a result of policy action in the short to medium term, but under the current strategy the expected retirement income is less affected, even in adverse scenarios.

- **For a member much closer to retirement, for example age 55,** the scenarios in which policy action is delayed for a number of years are not expected to affect their pension and, should policy action be immediate, the lower risk strategy as a member approaches retirement is likely to offer protection for their savings showing that the current strategy helps to reduce downside risk.

It should be noted that the scenario analysis we have described is based on the output of modelling. The specification of the modelling methodology and the setting of underlying assumptions often requires subjective judgement and different approaches will lead to different results.

<u>Impact of climate-related risks and opportunities on the DC investment strategy</u>
There are a range of possible tools at the Trustee's disposal to help manage climate-related risks and opportunities. Details of these are set out in the table below:

Action	Managing climate risk	Capturing climate opportunities
Amend strategic asset allocation of the Default Option	Our analysis shows that different asset classes are expected to be impacted in different ways in each climate change scenario. The current Default Option, the Lifetime Pathway Fund, switches between asset classes as members approach their selected retirement age. Separate consideration must be given to each asset class and the likely goals of members as they move towards retirement to manage climate-related risks appropriately. The DCC will consider this as part of each triennial investment strategy review, including the 2023 review. Timeframe: Short term and ongoing thereafter	There may be scope to capture opportunities through investment in new ventures/projects supporting the climate transition, which could offer scope to improve outcomes for members. The DCC will be responsible for considering incorporating the opportunities into the DC investment strategy. Timeframe: Short term and ongoing thereafter

Improve efficiency at fund level	There are several investment funds available across asset classes that aim to directly manage exposure to ESG risks, including climate-change, as well as funds that target investing in ESG or climate-change opportunities.	In 2022, the DCC decided to transfer most the Fund's DC equity investments to a combination of two funds that have explicit objectives to manage exposure to ESG and climate-related risks. One of these funds also aims to reduce its carbon emissions over time to achieve net zero emissions by 2050, helping to manage members' exposure to climate-related risks. Further opportunities are being considered as part of the 2023 investment strategy review and the DCC and Trustee expects their investment advisers to raise new opportunities over time as they arise. Timeframe: Short term and ongoing thereafter

Action	Managing climate risk	Capturing climate opportunities
Improve efficiency at fund level	There are several investment funds available across asset classes that aim to directly manage exposure to ESG risks, including climate-change, as well as funds that target investing in ESG or climate-change opportunities.	In 2022, the DCC decided to transfer most the Fund's DC equity investments to a combination of two funds that have explicit objectives to manage exposure to ESG and climate-related risks. One of these funds also aims to reduce its carbon emissions over time to achieve net zero emissions by 2050, helping to manage members' exposure to climate-related risks. Further opportunities are being considered as part of the 2023 investment strategy review and the DCC and Trustee expects their investment advisers to raise new opportunities over time as they arise. Timeframe: Short term and ongoing thereafter
Effective steward-ship	As investors, there is significant scope for us to influence progress towards longer-term climate goals through effective stewardship. The DCC will continue to work with managers to understand how they are engaging with underlying security issuers to manage climate-related risks with a particular focus on engagement with companies that (1) breach the core themes identified in the Trustee's Responsible Investment Policy; and (2) high impact companies seen as critical to achieving global climate change goals. Timeframe: Ongoing	The scope to capture opportunities may be more limited but could still be value enhancing. The Working Group, DCC and Trustee Board can engage with all fund managers to understand and assess how they manage climate risk and capture opportunities through stewardship. Timeframe: Ongoing

We are currently undertaking a review of the Fund's DC investment strategy, and as part of this, we are assessing the appropriateness of the strategy and alignment to the agreed climate-related investment beliefs. As part of this review, we are considering the impact that any such strategy will have on our agreed targets set out later in this document, including our net zero ambition.

2) Qualitative analysis: Assessment of climate-related risks and opportunities

To supplement the quantitative analysis, over 2022, we – with the support of our DB and DC investment advisers – have carried out a further qualitative assessment of the climate-related risks and opportunities the Fund faces at an asset class level.

The table below illustrates the conclusion of this assessment for the asset classes held across the DB and DC sections of the Fund.

We have used Red-Amber-Green rating system whereby:

- **Red** denotes a relatively high level of financial exposure to a risk.
- **Amber** denotes a medium level of financial exposure to a risk.
- **Green** denotes a relatively low level of financial exposure to a risk.

Global Equities

Relevant to the DB and DC Sections

Risk exposure rating		Details
Physical	Transition	
Amber	Red	We invest in publicly listed equity securities on a global basis, meaning our portfolios are invested in a diverse range of companies with different business models and in various locations across the globe. We believe that **transition risks present the highest potential risk** to global equities **over all time horizons**. It is expected that the movement towards a lower carbon economy will increase regulation on firms (e.g. carbon taxes, compliance activities) which will increase costs. Companies will also need to switch to new technologies and cope with changing consumer demands. There is also the potential for increased litigation costs from not complying with regulations, and reputational risks from failing to keep up with a green transition. While there are still significant **physical risks**, these are **lower in the short to medium term and higher in the longer-term**, resulting in an overall amber rating. It is also worth noting that we expect physical risks to be more significant in developing regions of the world. The global diversification, and limited exposure of the Fund's equity investments to these regions, limits the overall exposure of our equity investments to physical risks. The recent changes to the DC equity investments to invest less in the highest carbon emitters also reduces potential exposure to transition risks, as it is the highest carbon emitters who are most likely to incur costs as part of a green transition.

Corporate Bonds

Relevant to the DB and DC Sections

Risk exposure rating		Details
Physical	Transition	
Amber	Amber	The overall pattern of exposure to climate-related risks is similar for corporate bonds and equities: higher transition risks overall and increasing physical risks over time. However, because the Fund's investments in corporate bonds have durations that broadly correspond to the short- and medium-term time horizons, the **exposure to long-term physical climate change risks is lower.** It is also worth noting that **compared to equities, the overall impact of climate risk on the investment value of corporate bonds is expected to be lower**. We only seek to invest in high-quality corporate bond securities that are less exposed to climate transition risks, although the diversified nature of our portfolios means we still face moderate transition risks. A key risk for corporate bonds is interest rate risk. As governments around the world have to issue debt to adapt and mitigate the effects of climate change, central banks may be forced to keep interest rates low in order to manage the levels of government debt interest payments. Inflation is likely to rise, which may erode the value of fixed income investments. The Fund may also opt to reduce these risks through hedging, depending on its relevance for a given investment.

Government bonds

Relevant to the DB and DC Sections

Risk exposure rating		Details
Physical	Transition	
Amber	Amber	We only seek to hold predominantly the government bonds of countries in developed regions where climate change risk is not expected to affect their ability to repay the principal value and/or interest payments of the bonds. However, we note that these investments are not entirely immune to climate-related risks – for example, a physical risk such as flooding is an increasing risk within the UK which is likely to have costs associated with it, both direct and indirect. There is also likely to be a financial burden on governments in supporting the green transition e.g., tax breaks for green technologies, upgrading insulation, which could pose a financial burden to the government. These medium-level risks are more likely to materialise over the medium and long-term.

Real Assets
Relevant to the DB and DC Sections

<table>
<tr><th colspan="2">Risk exposure rating</th><th rowspan="2">Details</th></tr>
<tr><th>Physical</th><th>Transition</th></tr>
<tr><td>Amber</td><td>Amber</td><td>Real assets in general can be expected to have a high exposure to physical climate risks, particularly over the medium and long-term. This is because climate change could lead to property damage and material financial impacts particularly in geographically vulnerable areas. Longer term (chronic) issues such as rising sea levels could have an impact on certain assets depending on their location.

Transition risks relevant to property investments, such as tenants preferring eco-friendly buildings and therefore making some buildings difficult to rent are expected to be significant over time horizons longer than 10 years.

Our real asset portfolios broadly consist of UK-based property and renewable infrastructure assets, such as wind and solar farms (with the latter only relevant to the DB Section of the Fund).

Our infrastructure assets may benefit from a transition towards a carbon-neutral economy, presenting a low transition risk exposure.
Our UK property assets are expected to be relatively more resilient to climate-change risks versus other geographical areas. As a result, we believe there is a medium-level of financial risk exposure over all time horizons for our real asset investments.</td></tr>
</table>

Although we feel that the Fund is in a relatively strong position, we are conscious that it is not immune to climate change risks. We therefore continue to explore means to address the climate-related risks faced by our assets to limit the likelihood of adverse financial impacts occurring in the future.

As well as presenting risks to the Fund and its sponsor, the transition to a lower carbon economy and the mitigation of and adaptation to the physical risks of climate change may create new investment opportunities.

Details of the activity we completed in 2022 to address these risks and capture investment opportunities are included in the **Risk Management** section.

3. Risk management

We believe that the transition and physical risks in relation to climate change present material long-term financial risks for the Fund which could impact the Fund's investments, the Fund's sponsor, and the world into which its members will retire. As such, climate change has been specifically identified as a principal risk exposure of the Fund.

We are currently in the process of updating the Fund's Risk Register and expect to expand the assessment and management of climate-related risk within it. This is likely to involve rating the likelihood and impact of each risk event to produce a score reflecting the threat that the risk event poses to the Fund, then making a decision on the appropriate action (mitigation, control or acceptance) based on this score and available courses of action. Rating the risk's likelihood and impact will be informed by scenario analysis and calculated metrics where relevant.

Risks and opportunities should be considered in absolute terms and in relation to the risk appetite of the Fund. Risk appetite can be defined in terms of a willingness to take risk or the acceptability of risk.

The financial risks and opportunities arising from the impacts of climate change may include physical and transition risks. We seek to identify, with the support of our investment advisers, the impact of climate-related risks on all the assets in which we invest. Identification includes:

- conducting and reviewing the results of climate-related stress tests,
- the use of emissions and non-emissions based climate metrics on a regular basis, and
- annual reporting by and engagement with the Fund's asset managers.

The Fund's investment advisers are expected to advise on, and provide objective assessments of, differing approaches to responsible investment to help us decide on a responsible investment strategy and adopt appropriate responsible investment objectives for the Fund. The responsibilities of the investment advisers were set out in more detail in Section 1: Governance, and Appendix B.

To ensure the ongoing suitability of our approach to climate-related risks, we receive regular training on climate-related topics. Over 2022, the Trustee Board and members of the DBIC and DCC received training on managing climate-related financial risks. This included training in the context of net zero, including potential implementation avenues such as targeted engagement, investment in climate solution assets, and real-world/portfolio decarbonisation. Training also included climate deep dives on specific asset classes (e.g. impact investing), climate alignment metrics, and strategies for enhanced engagement.

Portfolio-level risk management
We require our appointed investment managers to be cognisant of climate-related risks and opportunities within their investment processes as applied to the assets of the Fund.

DB Section
Within the DB Section, which is currently in the process of reducing risk across its portfolio as it transitions to the Strategic Asset Allocation, we have actively sought to incorporate climate-related considerations into the guidelines given to the investment managers. This includes activity such as optimising a portfolio's emissions profile versus a representative benchmark to the reduce overall climate risk and considering the temperature alignment of a mandate's emissions.

We are currently exploring updates to the investment universe of our Global Equity and Buy & Maintain Credit portfolios in the DB section to improve their alignment with the goals of the 2015 Paris Agreement. As this work is ongoing, we will look to provide an update on the outcomes in future TCFD Reports.

The managers of the Fund's Real Asset portfolios have both taken steps to improve the climate profile of their respective mandates. For example, they have begun to use climate-related loan covenants in the direct loans they make, incentivising borrowers to improve their climate profile. Additionally, the use of climate solution-based assets, such as renewable infrastructure including solar and wind farms, will help to both reduce the portfolio's climate risk and capture opportunities over time.

DC Section
Within the DC Section we are currently undertaking a review of the DC investment strategy. This commenced in 2022 with a review of the Fund's core DC equity fund, Equities, which is used within the Lifetime Pathway Fund.

The 2022 review of the equity holdings had a focus on improving the consideration of ESG risks and opportunities, including climate change, whilst also delivering competitive financial returns. We decided to replace the existing underlying developed equity fund within Equities, with a combination of two new funds. The new funds both have a specific ESG objective, including the lowering of carbon emissions within the portfolio (versus the broader market). One of the funds also has an objective to reduce its emissions annually in line with a target of achieving net-zero emissions by 2050, which is in line with our own net zero ambition. This change is expected to reduce the climate-related risk that our DC members are exposed to.

The change to the equity investments was implemented in November 2022. Our focus for 2023 is to carry out a similar review on the Fund's wider DC investments both in the Lifetime Pathway fund (the Fund's Default Option) and the Self-Select range.

Risk management via stewardship

Where a climate-related risk has been identified as material, consistent with our broader investment objectives, this may be subject to further assessment by our investment advisers, who will in turn report to the DBIC or DCC as appropriate on the potential impact of the risk to the Fund and engage with the relevant manager(s) to understand the source of this risk and the steps being taken to address it.

If engagement highlights that the degree of alignment to our climate-related policies and objectives remains at an unsatisfactory level, we will be notified and this will be used to inform future manager selection and, if appropriate, asset allocation decisions. Arrangements with the existing manager may also be altered or in some cases their appointment terminated.

We prefer engagement over disinvestment when considering good stewardship of investments. This means that where voting rights are held (e.g., through the ownership of shares), these rights should be exercised where appropriate. We also expect managers without voting rights to engage with companies on issues that are material to the performance of the asset.

We have delegated the execution of voting and engagement activity to the Fund's asset managers. Managers are expected to employ the full range of engagement tools at their disposal and engage with companies on our behalf in relation to ESG considerations and other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest). Managers are expected to escalate their engagement activities consistent with their own stewardship policies, which should reflect leading industry standards.

Whilst we delegate voting and engagement activities to the Fund's asset managers, we recognise our responsibility to oversee the voting and engagement activities carried out by managers on our behalf. The Fund's asset managers are therefore required to provide qualitative and quantitative data on a regular basis regarding their recent voting and engagement activities.

In August 2022, we assessed the stewardship approach of the managers of the Global Equity Fund and Buy & Maintain Credit arrangements within the DB section. These allocations form part of our long-term allocation so it is important that the managers are performing effective stewardship regarding climate-related matters on our behalf. Our investment adviser presented views on the managers' stewardship capabilities, as informed by their recent voting practices as well as the broader engagement that they perform on an ongoing basis. This considered the internal consistency of their voting activity against the managers' own stated policies and the consistency of their actions with our own climate-related beliefs .

This exercise highlighted how important it is that our managers collect and disclose their engagement data to enable us to make informed decisions. This was expressed to the

managers. We are currently exploring means to enhance the strength and impact of our engagement.

We continue to engage, via our investment adviser and Investment Executive Team, with the managers to encourage them to better incorporate ESG including climate change factors into their investment strategies. This includes assessing the forward-looking alignment of the portfolio, as per our new target (see Section 4: Metrics and Targets). Progress against this target will be reviewed again in 2023 as part of our annual assessment.

Risk Management via Scenario analysis

One of the key risk management tools we use is the scenario analysis described in Section 2: Strategy above.

DB Section

For the DB Section, the results of the scenario analysis indicated that the Fund is most likely to be impacted under a No Transition scenario due in part to the real asset exposure of the Current and Strategic Asset allocations. We receive specific updates on the climate-related risks of these assets each quarter from the relevant asset managers.

The 2021 Report noted scenario analysis showed the Fund's Property, Aircraft Leasing and Private Equity mandates are likely to suffer the largest aggregate impact under all three scenarios. It was also noted that the Fund is currently divesting from these mandates for wider strategic reasons. We have made further progress on this front, although the divestment process remains ongoing.

These assets are not subject to specific Trustee focus, in part due to the likely time horizon over which material climate risks will manifest and their small size in the context of the Fund's total portfolio. Nonetheless, we continue to receive climate-related reporting, where relevant, pertaining to these mandates which is considered as part of the Fund's broader climate risk exposure.

DC Section

For the DC Section, the climate change scenario analysis showed that the overall outcome in terms of a typical member's projected pension income varies on several factors, including term to retirement and investment choice.

On the whole, members closer to retirement invested in the Lifetime Pathway Fund were less affected by climate-related volatility and shocks than younger members (who are more heavily invested in growth assets such as equities) due to their more diversified asset base and shorter investment horizon.

Due to the individual nature of the DC Section of the Fund, the analysis showed that it is important that we ensure consideration of climate-related risks and opportunities is

embedded within all the Fund’s DC investments. This is a focus for us and the DCC in the 2023 investment strategy review following the action already taken for the Fund’s DC equity investments in November 2022 (see above for further detail).

Risk Management via Specialised Reporting

Another key risk management tool is the annual Watchlist Report received by the DBIC and DCC from their investment advisers. This report assesses the exposure of our key strategic portfolios to companies deemed to face material ESG including climate change risks. It also assesses the engagement and voting activities of various investment managers. The DBIC and DCC use this report to monitor the portfolios’ performance against our agreed responsible investment beliefs and expectations of investment managers, including any specific requirements established within mandates, such as a decarbonisation objective.

The results of the 2022 assessment, completed using data as at 31 December 2021, encouragingly highlighted that the proportion of companies within the Fund’s overall portfolio deemed to be "climate laggards" had materially fallen over 2021.

For the DB Section, we continue to monitor the approach of the manager of our Global Equity mandate regarding voting-focused stewardship activity. It is on our agenda for 2023 to consider whether it remains appropriate to fully delegate our voting rights to the manager or whether an alternative approach should be used, such as a third-party proxy voting provider.

4. Metrics and targets

Our climate metrics

Climate-related metrics are expected to form an important part of the Fund's investment decision-making process to measure, manage and disclose climate risk.

We have considered advice from our advisers when selecting which metrics to use in measuring the climate-related risks and opportunities present for the Fund. The selected metrics will also aid us in identifying opportunities for further engagement with investment managers and underlying investee companies. We annually review our chosen metrics to ensure they remain appropriate for the Fund.

The chosen metrics are as follows:

- **Metric 1 ("absolute emissions metric**"): Total greenhouse gas emissions of the Fund's assets. Greenhouse gases are gases in the Earth's atmosphere that are capable of absorbing infrared radiation and thereby trap and hold heat in the atmosphere. The main greenhouse gases are:
    - carbon dioxide ("CO2")
    - methane
    - nitrous oxide

  Different GHGs have different levels of impact on the atmosphere, with some gases being more potent than others. For example, methane is 25x more potent than CO2 whereas Nitrous Oxide is 298x more potent. For the purposes of calculating Scope 1, 2 and 3 GHG emissions as set out below, GHG emissions are expressed in terms of tonnes of Carbon Dioxide equivalent (**tCO2e**).

- **Metric 2 ("emissions intensity metric"):** Carbon footprint of the Fund's assets – i.e., total carbon dioxide emissions, normalised by the investor's share of the company's capital structure – defined as Enterprise Value Including Cash ("EVIC"). This is measured as tonnes of CO2 equivalent emissions, over £m invested (**tCO2e/£m**).

- **Metric 3 ("data quality metric"):** Proportion of assets in which the fund invests with scope 1, 2 and 3 emissions data disclosed and calculated by the companies themselves subject to verification by an established data provider.

- **Metric 4 ("portfolio alignment metric"):** Proportion of assets that have a verified Paris-aligned temperature pathway, i.e., a credible, verified plan for achieving reduced carbon emissions or net zero by 2050. For data gathering purposes, we are currently focussing on which assets have a temperature pathway that has been verified by the Science-Based Targets initiative ("SBTi") . The SBTi[2] sets out a framework through which companies can set out their decarbonisation pathway and have them assessed against the goals of the Paris Agreement.

[2] For more details, please visit How it works - Science Based Targets

We have included information on the data coverage in Appendix E, along with more details of these metrics, the methodology used to produce them and relevant data disclaimers.

In line with our governance and risk management processes, we receive an update on these metrics and the Fund's progress against the specific targets as part of the regular reporting provided by our investment advisers. Where performance has deteriorated, we will look to engage with investment managers further to understand the reasoning and undertake any appropriate remedial actions. The metrics will also be used to monitor the Fund's performance versus our climate-related targets outlined below.

What are the different types of emissions we are estimating?

Definitions of Scope 1,2 and 3 Greenhouse Gas Emissions	
Scope 1	Scope 1 emissions are direct emissions produced by the activities of the emitter.
Scope 2	Scope 2 emissions are indirect emissions generated by the electricity, heat, or steam consumed and purchased by the emitter.
Scope 3	Scope 3 emissions are other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities not covered in Scope 2, outsourced activities, waste disposal, etc. These emissions may be upstream (within the supply chain of a company) or downstream (within the use of the products or services provided by a company).

Our climate targets

Target 1
In 2021 we set a target to **achieve a minimum of a 10% improvement (weighted by portfolio weight) over 2022 in terms of scope 1, 2 and 3 emissions data, disclosed and calculated by the companies in the portfolio in which the fund invests, subject to MSCI verification.** This target has been amended slightly, now being to **achieve a 10% per-year improvement (weighted by portfolio weight) in terms of Scope 1, 2 and 3 emissions data, subject to verification by an *established data provider*.** The updated target reduces reliance on a single data vendor (MSCI) and facilitates the inclusion of data for more asset classes.

Target 2
In 2022, we decided to set an **additional target** as part of our wider net-zero ambition. This target is to **achieve 60% of financed emissions in companies assessed as: (1) having a verified Paris-Aligned temperature pathway; or (2) for high impact companies that are flagged as not having a Paris-Aligned pathway, ensuring these companies are subject to structured engagement.** This target currently applies to our **public equity and credit assets** and the timeframe for achieving this target is 2027.

The relevance of our targets is reviewed annually to ensure they remain appropriate for the Fund.

Our current position against these targets and actions we are taking to achieve them are set out in the following sections for each of the DB and DC Sections of the Fund.

We have included information on the data coverage in Appendix E, along with more details of these metrics, the methodology used to produce them and relevant data disclaimers.

Metrics Results

DB Section – as at 31 December 2022

The results of the analysis as at 31 December 2022, using the Fund's DB section's asset allocation at that time, are shown below. On the advice of our investment adviser, the absolute emissions and emissions intensity metrics have been calculated using line-by-line holdings data for mandates for which line-by-line data coverage is above 50%, and on an asset class basis for mandates where line-by-line coverage is below 50%, using emissions data provided by MSCI. The table below outlines which how the DB portfolio has been assessed:

Asset modelling:

Asset modelling type	Proportion
Line by line modelling	77.1%
Asset class modelling	22.9%

As such, the Fund's Global Equity, Buy & Maintain Credit and Liability Driven Investment ("LDI") portfolios are calculated on a line-by-line basis, with the remainder of the assets modelled on an asset class basis. This allows us to have a more holistic view of the Fund's absolute carbon emissions and carbon footprint by ensuring a larger proportion of assets are included in the analysis, while recognising the asset-class modelled data may not be perfect.

The absolute and emissions intensity of the Fund's LDI portfolio has been provided by Legal and General Investment Management, the Fund's LDI manager. This analysis excludes derivative instruments including repurchase agreements. LGIM assumes the carbon intensity of government bonds should reflect carbon emissions of the entire country. To that end, carbon intensity is measured as the total carbon equivalent GHG emissions within a country border normalised for GDP (tC02e/£m GDP). For the carbon footprint, the numerator remains the same whilst the denominator is the total capital stock, a measure of total value of investment in the economy at a point in time (tCO2e/£m invested).

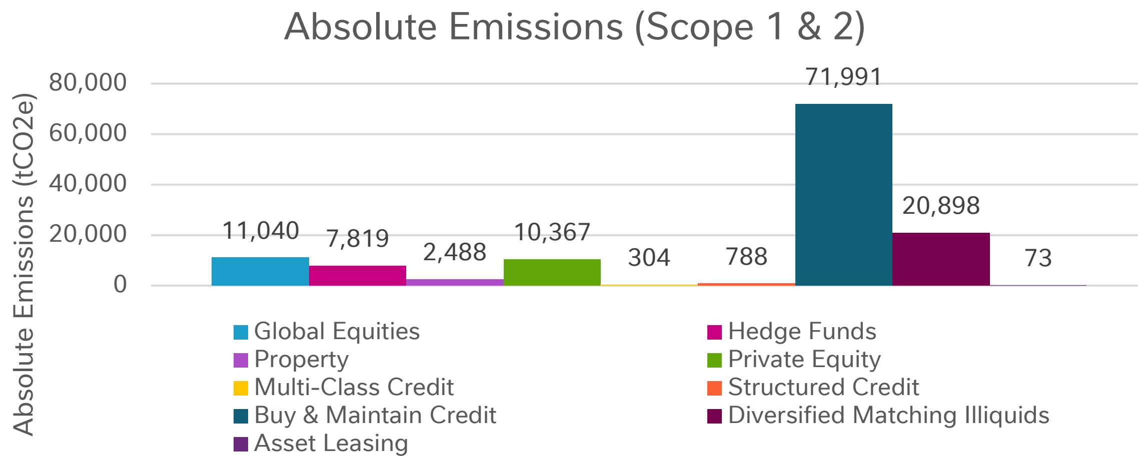
We note that carbon accounting analysis on LDI portfolios is unlikely to inform asset allocation decisions given the need for the Fund to hold these assets to allow for interest rate and inflation hedging[3]. We also note there is not currently a standardised accounting methodology for quantifying the climate risks associated with the assets held within LDI portfolios, namely sovereign bonds and derivative instruments, and we therefore have reservations regarding the robustness of the metric outputs. For these reasons, the emissions metrics for the LDI portfolio have been reported separately.

We recognise that when calculating the CO2e (carbon dioxide equivalent) emissions of a fund using Scope 1, Scope 2 and Scope 3 emissions, a company's direct Scope 1 emissions are likely to form part of another company's indirect Scope 3 emissions. Therefore, aggregating the individual Scope emissions could result in a higher emission estimate than the true level. To mitigate this double counting, a scaling factor of 0.22 is applied to Scope 3 emissions in accordance with MSCI's methodology. The total Scope 1, 2 and 3 absolute emissions and carbon footprint are reported separately.

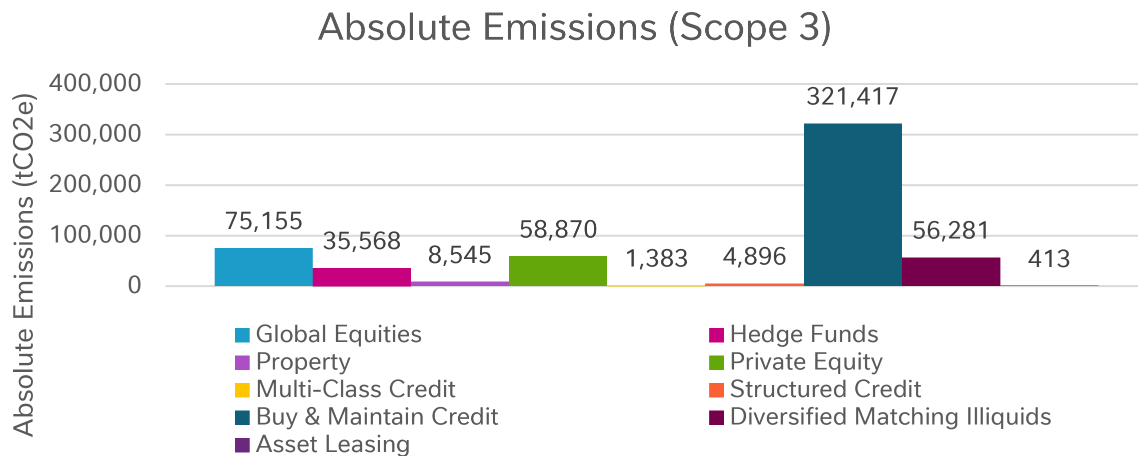
Additional details and information on the methodologies applied are provided in Appendix E.

[3] This is consistent with leading industry frameworks (including the IIGCC's NZIF) that recommend excluding assets that are held for liability matching purposes from climate-related risk analysis.

Metric 1 - Absolute Emissions (Scope 1 and 2) - Total: 125,768 tCO2e

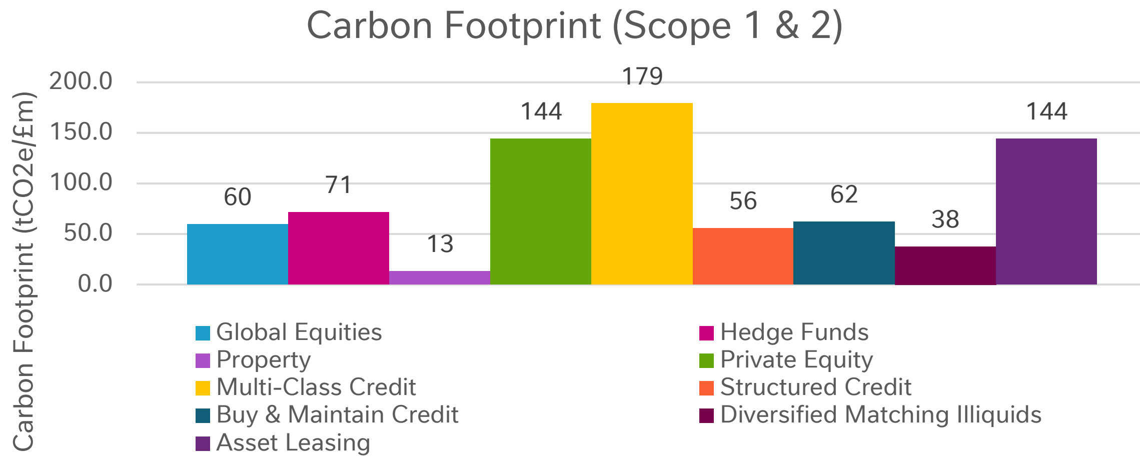


Metric 1: Absolute Emissions (Scope 3) - Total: 562,528 tCO2e

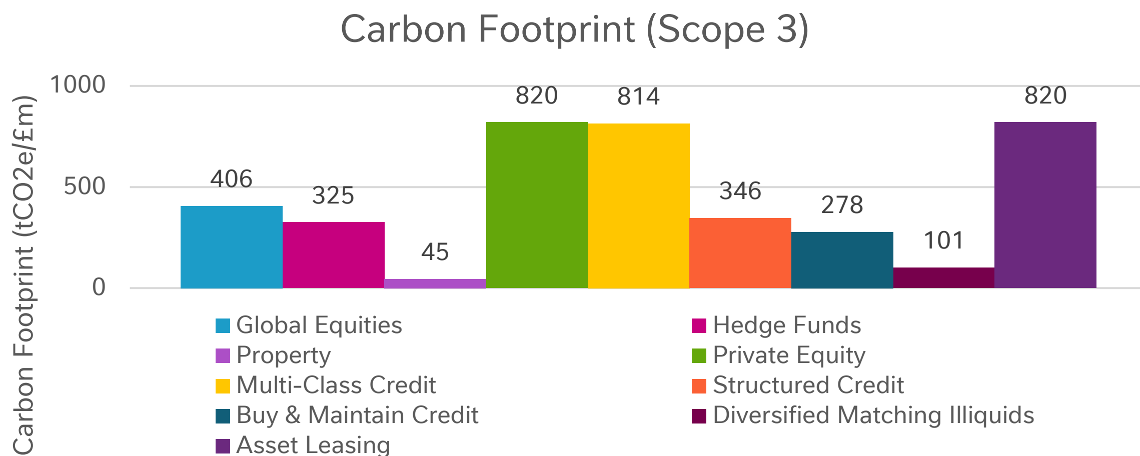


The absolute emissions of a mandate is naturally a function of its size, with larger mandates in terms of assets invested likely to have larger total emissions. Consistent with this relationship, the analysis showed that the Fund's Buy & Maintain Credit and Diversified Matching Illiquids mandates had the largest absolute Scope 1 & 2 emissions, followed by the Global Equity mandate. The Buy & Maintain Credit allocation also accounted for the largest source of Scope 3 emissions, followed by the Global Equity and Diversified Matching Illiquids mandates. These mandates are among the largest allocations of the Fund's non-LDI portfolio.

Metric 2: Carbon Footprint (Scope 1 and 2) – Total 55 tCO2e/£m



Metric 2: Carbon Footprint (Scope 3) – Total 246 tCO2e/£m



The analysis of carbon footprint showed that the Multi-Class Credit, Private Equity, and Asset Leasing mandates, modelled using an asset class basis rather than line-by-line data, had the highest scope 1 and scope 2 carbon footprints, respectively. Since the calculation date of 31 December 2022, the Fund has fully divested from the Asset Leasing mandate. The Fund is currently in the process of fully divesting from the Multi-Class Credit and Private Equity as part of its transition to the Strategic Asset Allocation. The results also highlighted that even though the Buy & Maintain Credit mandate came out as the highest in the absolute emissions analysis (due to its large allocation), the mandate's carbon footprint does not stand out as compared to overall carbon footprint of the Fund.

Note: All DB section analysis excluding LDI portfolio analysis is provided by the Fund's Investment Adviser, Redington Ltd ("Redington"), and the data in the report is sourced from MSCI©. Please refer to the data disclaimer in Appendix E.

Metrics 1&2 (LDI portfolio):

Metric	Result
Estimated Absolute Emissions Scope 1 & 2 (tCO2e)	154,964
Estimated Carbon Footprint Scope 1 & 2 (tCO2e/ £m)	85.3

Note: Analysis is issued by Legal and General Investment Management Limited ("LGIM"), and the data is sourced from ISS. Please refer to the data disclaimer in Appendix E.

Metric 3: Data quality

We monitor the data quality of the Fund's emissions data and have set a target to achieve a minimum of **10% per-year improvement (weighted by portfolio weight) in terms of Scope 1, 2 and 3 emissions data, subject to verification by an established data provider.** This target encompasses the Fund's entire portfolio.

Where a mandate does not achieve this annual improvement, we will, via our investment advisers and Investment Executive Team, engage with the relevant managers to understand what steps they are taking to improve the data reporting quality of the companies within their mandate.

As at 31 December 2022, verified emissions data was available for three of the Fund's allocations where it is possible to achieve a minimum level of coverage. These were:

- Global Equities
- Buy & Maintain Credit
- LDI

The table below shows the portfolio-weighted (using the Fund's respective allocation to each mandate as at 31 December 2022) proportion of holdings for which emissions data verified by an established data provider was available. Due to their complex nature, the emissions data related to Scope 3 emissions is all estimated rather than reported and verified. The portfolio-weighted verified coverage is therefore 0.0%.

	Portfolio-weighted verified coverage % (Scope 1 & 2)	Portfolio-weighted verified coverage % (Scope 3)
DB assets	64.5	0.0

Metric 4: SBTi Alignment Score

Our Portfolio Alignment metric – SBTi Alignment Score – uses methodology determined by the Science Based Target Initiative. This metric is applicable to financial institutions and companies from all sectors. However, the metric is not applicable to assets issued by non-corporate entities, such as public-sector institutions and governments. It also cannot be applied to private or physical assets such as real estate and infrastructure.

As at 31 December 2022, the portfolio alignment data was available for two of the Fund's allocations. These were:

- Global Equities
- Buy & Maintain Credit

Asset Class	Proportion of assets invested SBTi-aligned (%)
Global Equities	39.5
Buy & Maintain Credit	23.3

Performance Against Targets:

As noted above, we have adopted two climate targets:

1) Achieve a minimum of a 10% per-year improvement (weighted by portfolio weight) in terms of scope 1, 2 and 3 emissions data, subject to verification by an established data provider.

2) Achieve 60% of financed emissions in companies assessed as: (1) having a verified Paris-Aligned temperature pathway; or (2) for high impact companies that are flagged as not having a Paris-Aligned pathway, ensuring these companies are subject to structured engagement. This target currently applies to our public equity and credit assets.

The table below sets out the Fund's performance against target 1 and the baseline position for target 2, as at 31 December 2022.

Year	Target 1 – Data Quality (% Verified coverage)		Target 2 - Portfolio Alignment (% Financed Emissions)
	Scope 1 & 2	Scope 3	
2021	48.0	0.0	-
2022	64.5	0.0	20.0

Target 1: The results showed that for the DB section, the Fund achieved and exceeded target 1 with a 34% improvement in verified emissions coverage over the year. This reflects an increase in the proportion of verified emissions data for the Global Equity and LDI allocations. The proportion of verified emissions coverage has fallen slightly for the Buy & Maintain Credit allocation, from 67% to 63%.

Target 2: The baseline position for Target 2 shows that for the DB section of the Fund, 20% of the applicable financed emissions are Paris-aligned. Of the remaining portfolio, 10% of the financed emissions are attributable to high impact companies. An assessment of which of these companies are currently subject to structured engagement and which companies require additional focus will be completed during 2023.

DC Section – as of 30 September 2022

The calculated metrics for the DC Section of the Fund as of 30 September 2022 are presented in Table 1.

It is important to note the following when interpreting the DC metrics:

- The metrics for the DC Section have been calculated as of 30 September 2022. This is because changes were made to the DC Section's investments in November 2022, and we have therefore decided to report on the position before these changes took place as this is most reflective of the Fund's position over the full year. We will report on the DC metrics as of 31 December in our next TCFD report to align with the DB Section. Based on indicative data, the changes we made (replacing the State Street Global Equity Multi Factor Fund with two BlackRock ESG Equity Tracking funds) has resulted in a significant reduction in the Total Carbon Emissions and Carbon Footprint of the Growth, Equities and Blended Assets Funds. We look forward to reporting further detail on this change in our 2023 report.

- Absolute emission and intensity metrics have been calculated using line-by-line holdings data where this was available. For certain investments where either underlying holdings data is less transparent (multi-asset and property investments), or, where there is no industry-accepted way of calculating emissions data (e.g., sovereign bond investments), data has been gathered directly from the manager.

- Metrics have been shown at the 'blended' fund level to reflect the investment options available to members. Each blended fund is made up of one or more

individual underlying funds. As above, this may include funds invested in different asset classes with different calculation methodologies.

- The Total Carbon Emissions and Carbon Footprint information gathered reflects emissions for which carbon-data was available. This means that Metrics 1 and 2 may show emissions data that is lower than the actual emissions associated with the DC Section’s investments. We expect that data coverage will improve over time, but this may mean that our reported emissions increase in the short-term as data availability improves.

- All metrics have been gathered and calculated by our new DC investment advisers. This means that in some cases, the approach to calculating and gathering metrics differs to that taken for our previous TCFD report and so figures are not directly comparable. This reflects a wider industry issue and we expect improvements in the alignment of calculation methodologies over time.

Table 1: DC Section metrics

Fund	Asset allocation (£m / %)	Metric 1		Metric 2		Metric 3		Metric 4
		Total Scope 1+2 Carbon Emissions (tCO_2e)	Total Scope 3 Carbon Emissions (tCO_2e)	Carbon Footprint (Scope 1 & 2) (tCO_2e/EVIC £m)	Carbon Footprint (Scope 3) (tCO_2e/EVIC £m)	Portfolio-weighted coverage % (Scope 1 & 2)	Portfolio-weighted coverage % (Scope 3)	Proportion of assets that have a verified Paris-aligned temperature pathway
Growth	**£86.6m** (55%)	**4,662**	**25,742**	**62**	**352**	**87%**	**84%**	**35%**
Blended Assets	**£39.0m** (25%)	**1,113**	**4,822**	**49**	**253**	**58%**	**49%**	**22%**
Equities	**£17.2m** (11%)	**1,114**	**6,403**	**65**	**373**	**100%**	**100%**	**41%**
Pre-retirement to cash	**£9.2m** (6%)	**No data available**						
Ethical Growth	£2.0m (1%)	114	468	57	336	100%	70%	43%
Property	£2.0m (1%)	1.5	Not available	1.1	Not available	70%	Not available	0%
Corporate Bonds	£0.8m (1%)	24	166	61	418	48%	48%	21%
Cash	£1.0m (1%)	No data available						
Ethical Consolidation	£0.5m (0%)	57	24	120	336	100%	15%	9%
Pre-retirement to annuity	£0.0m (0%)	6	Not available	80	Not available	72%	Not available	25%

Sources: LGIM, BlackRock, Schroders, Aon, MSCI, State Street, Fidelity, PIMCO. ***Notes:*** *Total emissions (for both Scopes 1&2 and Scope 3), and the equivalent emissions intensity figures are based on a combination of reported and estimated data. See Appendix for breakdown of reported and estimated data. Data coverage figures represent a weighted average for each blended fund based on the data available for each underlying fund. Total carbon emissions reflect the total carbon emissions for which data is available. This means the information shown likely shows lower emissions than the Fund's total emissions. Property Fund figures are as at 31 December 2021 which reflects the most recently available data for this Fund. This means the information shown likely shows lower emissions than the Fund's total emissions.*

- The majority of the DC Section's emissions come from investments in the Growth fund used within the Default Option. The Blended Assets and Equities funds also contribute significantly to overall DC emissions. This is not unexpected given the level of absolute emissions is naturally a function of asset size, and these three funds account for over 90% of the DC Section's assets. That said, the Growth and Equities funds also have the highest data coverage, making it difficult to make comparisons with the other funds that have lower (or zero) data coverage. We are working with our appointed managers to improve this so that we can draw more meaningful conclusions regarding the carbon emissions of the Fund's investments.

- The fund with the highest carbon footprint (Scopes 1&2 only) is the Ethical Consolidation Fund. This fund invests in a combination of ethical equities (15% of fund) and UK government bonds (85% of the fund), with the bond allocation driving the higher carbon footprint figure. As above, the calculation methods for determining the carbon footprint of equities and government bonds are extremely different. Our appointed fund managers for the gilts investments measure carbon metrics for UK government bond investments by considering carbon intensity for the whole UK economy, which can be higher than other investment portfolios which only account for emissions of a select sub-set of companies/security issuers.

- Scope 1 and 2 emissions data coverage is highest for equity funds, reflecting that most companies are either required by regulations, or expected to disclose this information to their shareholders. Data is lower for funds which invest across asset classes e.g. the Blended Assets fund and the Corporate Bond fund. For these funds, it is difficult to draw meaningful conclusions from their emissions and footprint data due to the poor data coverage. We understand that this is an industry-wide problem for certain asset-classes, and we, together with our adviser, are engaging with our investment managers to improve this position.

- The percentage of underlying holdings that have verified Pairs-aligned temperature pathways ranges from 0% to 43%. In some cases, this is because this measurement is not relevant to the underlying investments (for example, government bond investments or direct property holdings).

- Data was not available for all underlying funds, in particular Scope 3 emissions for the Property Fund, the underlying government bond funds (affecting the Growth, Blended Assets, Ethical Growth and Ethical Consolidation funds) and the Pre-Retirement to Annuity fund. Additionally, not all data was available in a consistent format. As above, we, together with our DC investment advisers, are engaging with the fund managers who were unable to provide the data as requested in order to improve the availability of this information going forwards.

Default Option Metrics

The funds shown in **bold** in the table above are used within the Default Option, which most members invest in. To estimate the metrics for the overall Default Option we have estimated the proportion invested in each fund via the Default Option[4]. Table 2 below shows the estimates for metrics 1 to 4 for the aggregate Default Option.

Table 2: Default Option Metrics

Fund	Asset allocation (£m / % of total Fund DC assets)	Metric 1		Metric 2		Metric 3		Metric 4
		Total Scope 1+2 Carbon Emissions (tCO2e)	Total Scope 3 Carbon Emissions (tCO2e)	Carbon Footprint (Scope 1 & 2) (tCO2e/EVIC £m)	Carbon Footprint (Scope 3) (tCO2e/EVIC £m)	Portfolio-weighted coverage % (Scope 1 & 2)	Portfolio-weighted coverage % (Scope 3)	Proportion of assets that have a verified Paris-aligned temperature pathway
Default Option Total	**£143.1m** (90%)	6,643	35,717	66	375	70%	66%	28%

Sources: LGIM, Schroders, Aon, MSCI, State Street, PIMCO. ***Notes:*** *Total emissions (for both Scopes 1&2 and Scope 3), and the equivalent emissions intensity figures are based on a combination of reported and estimated data. See Appendix for breakdown of reported and estimated data. Data coverage figures represent a weighted average for each blended fund based on the data available for each underlying fund. Total carbon emissions reflect the total carbon emissions for which data is available. This means the information shown likely shows lower emissions than the Fund's total emissions.*

- The Default Option accounts for most of the Fund's DC emissions, which is unsurprising given the majority of members and their savings are invested in this option. This is again driven by investments in the Growth fund.
- 28% of the underlying investments in the Default Option have a Paris-aligned temperature pathway that has been scientifically verified.

Indicative Member Metrics

Recognising that the exposure to climate-related risk will differ for members at various stages of their journey through the Default Option we have also presented estimates of these metrics for members in each phase of the lifestyle arrangement in Table 3 overleaf. The figures for Metric 1 are shown assuming a member invests £10,000.

[4] We have based this estimate on the fund values of members invested in the Default Option and their term to retirement. The fund values and allocations are dated January 2022, expected to be similar to the split at 30 September 2022 due to the relatively few members making changes to their holdings.

Table 3: Indicative Member Metrics *(shown for a £10,000 member investment in each phase)*

	Metric 1 (shown for a £10,000 investment)		Metric 2		Metric 3		Metric 4
Member in Default Option	Total Scope 1+2 Carbon Emissions (tCO2e)	Total Scope 3 Carbon Emissions (tCO2e)	Carbon Footprint (Scope 1&2) (tCO2e/ EVIC £m)	Carbon Footprint (Scope 3) (tCO2e/ EVIC £m)	Portfolio-weighted MSCI-verified coverage % (Scope 1 & 2)	Portfolio-weighted MSCI-reported coverage % (Scope 3)	Proportion of assets that have a verified Paris-aligned temperature pathway
Growth phase *More than 15yrs to retirement*	0.54	2.97	62	352	87%	84%	35%
Consolidation phase *5-10 yrs to retirement*	0.29	1.24	49	253	58%	49%	22%
Pre-retirement phase *2yrs to retirement*	0.11	0.50	49	253	23%	20%	9%

Sources: LGIM, Schroders, Aon, MSCI, State Street, PIMCO. ***Notes:*** *Total emissions (for both Scopes 1&2 and Scope 3), and the equivalent emissions intensity figures are based on a combination of reported and estimated data. See Appendix for breakdown of reported and estimated data. Data coverage figures represent a weighted average for each blended fund based on the data available for each underlying fund. Total carbon emissions and carbon footprint reflect the total carbon emissions for which data is available. This means the information shown likely shows lower emissions than the Fund's total emissions.*

- Carbon emissions are highest for members invested in the Growth phase. This is unsurprising give the majority of investments in this phase are equity-investments which tend to have a higher carbon footprint. There is also more data available for the Growth phase investments which could also be driving the higher carbon footprint.

- Carbon emissions are lower for the Consolidation Phase and lower again for the Pre-Retirement Phase. It is worth noting that Metric 2 shows the carbon footprint for the percentage of the portfolio for which data is available. Because the only data available for the Consolidation and Pre-Retirement phases is that available for the Blended Assets fund (and at the time of writing, no data was available for the Cash fund), both phases are shown as having the same carbon footprint. Again, this reflects issues with the availability of underlying data and

we are engaging with our investment managers to improve the availability of data in future.

Performance Against Targets:

As noted above, we have adopted two climate targets:

1) Achieve a minimum of a 10% per-year improvement (weighted by portfolio weight) in terms of scope 1, 2 and 3 emissions data quality, subject to verification by an established data provider.

2) Achieve 60% of financed emissions in companies assessed as: (1) having a verified Paris-Aligned temperature pathway; or (2) for high impact companies that are flagged as not having a Paris-Aligned pathway, ensuring these companies are subject to structured engagement. This target currently applies to our public equity and credit assets.

The table below sets out the DC Section's performance against Target 1 and the baseline position for Target 2, as at 30 September 2022.

Table 4: Progress versus Targets

Year	Target 1 – Data Quality (% Verified coverage)		Target 2 - Portfolio Alignment (% Financed Emissions)
	Scope 1 & 2	Scope 3	
2021	55%	49%	-
2022	56%	18%	31.0%

Target 1: The results showed that for the DC section, the Fund has not achieved the target of a 10% per-year improvement in verified emissions coverage. Since 30 September 2021, we are reporting an increase in the availability of the verified Scopes 1&2 data of 1% and a 27% reduction in the availability of Scope 3 data. This primarily relates to a change in calculation methodology between years resulting from a change in our DC investment advisers. Our new investment advisers are engaging with all our appointed fund managers to ensure that there is an increase in the data available for our next TCFD report to enable us to meet this target.

Target 2: The baseline position for Target 2 shows that for the DC Section of the Fund, 31% of the applicable financed emissions have a Paris-aligned temperature pathway. Of the remaining portfolio, 6% of the financed emissions are attributable to high impact companies. An assessment of which of these companies are currently subject to

structured engagement and which companies require additional focus will be completed during 2023.

To reach these targets, we (with the support of our investment advisers) are:

- Engaging with the Fund’s managers to increase data availability and coverage;

- Carrying out annual monitoring on how our managers are engaging with companies, specifically high impact companies identified. This includes follow-up discussions with managers as required to better understand the actions they are taking to support these companies as we go through the transition to a greener economy;

- Keeping alternative structures and investments under review so that if investments or managers are not properly managing exposure to climate-related risks and opportunities, we are able to make changes to address this.

Appendices

Appendix A – The Trustee's investment beliefs & engagement policy

The following investment beliefs are pertinent to our responsible investment policy.

We believe that:

- ESG, including climate-related factors, are financially material and should be measured and monitored.
- Climate change risk in particular represents a long-term material financial risk for the Fund, which could impact the Fund's investments, sponsor and members. Risks to the Fund arising from climate change include economic, demographic and asset risks – whether from the physical impacts of climate change itself or the impact of transition to a lower carbon economy.
- In the long term, better financial returns are likely to be achieved by investing in companies and assets that demonstrate they contribute to the long-term sustainable success of the global economy.
- Engagement is the preferred means of aligning the Fund's investments with the goals of the Trustee, but the Trustee will consider an exclusion and divestment strategy where engagement fails to yield meaningful alignment and where consistent with the Trustee's fiduciary duties.
- Achieving alignment with the goals of the Paris Agreement[5] is likely to be in the long-term financial interests of the Fund and its members and the Trustee will incorporate consideration of this goal into strategic decision making.
- The impact of ESG including climate-related factors is of growing importance for strategic decision making. The Trustee recognises that there is ongoing development in the understanding of these factors overall and the financial impact they can have. Therefore, the Trustee will endeavour to evolve its thinking over time to further incorporate future developments in this area.

The Trustee prefers engagement over disinvestment when considering good stewardship of their investments. This means that where voting rights are held (e.g., through the ownership of shares), these rights should be exercised where appropriate.

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[5] The 2015 Paris Agreement is an international treaty on climate change. Its goal is to substantially reduce global greenhouse gas emissions and to limit the global temperature increase in this century to 2 degrees Celsius while pursuing means to limit the increase even further to 1.5 degrees, compared to pre-industrial levels. You can read more about this here: https://www.un.org/en/climatechange/paris-agreement

The Trustee also expects managers without voting rights to engage with companies on issues that are material to the performance of the asset.

The Trustee has delegated the execution of voting and engagement activity to the Fund's asset managers. Such managers are expected to vote at company meetings and engage with companies on the Trustee's behalf in relation to ESG considerations and other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest).

The Fund's asset managers are required to provide qualitative and quantitative data to the Investment Executive Team on a regular basis regarding their recent voting and engagement activities, including in respect of issues addressed by the Core Responsible Investment Themes, which is reviewed and monitored by the relevant sub-committee on an ongoing basis using the following framework:

- Companies in which the Fund hold an indirect investment via its asset managers are evaluated based on the six Core Themes[6] selected by the Trustee.
- Those companies whose business operations cross the thresholds against which the Core Themes are judged are flagged and placed on a watchlist for further assessment.
- The voting and engagement activities with regards to companies that have been flagged and placed on the watchlist are then examined in further detail, distinguishing between Environmental, Social and Governance factors.

Following engagement, if there remain material concerns surrounding the practices of companies held by the Fund, the sub-committee and Head of Investment and Risk will advise the Trustee on appropriate measures to mitigate these, including consideration of exclusions or divestment.

The Trustee expects their asset managers to be signatories to the FRC's UK Stewardship Code. Where a manager is not a signatory, the Trustee will seek to understand why this is the case and encourage them to become signatories.

Appendix B – Details of the key climate-related responsibilities

Responsibilities of the Trustee

We are ultimately responsible for the identification, assessment, and management of climate-related risks and opportunities. This includes the approval of the Fund's climate-related targets, climate metrics and scenario analysis methodology. The climate-related

[6] The six Core Themes are Environment, Human rights, Corporate governance, Climate change, Labour, Corruption

targets, climate metrics, and scenario analysis methodology included in this report are selected by us following recommendations from the TCFD Working Group.

We receive annual reports from our investment advisers on how the Fund's managers are addressing key climate-related risks and opportunities, as well as periodic updates that are pertinent to our investment decision-making.

Responsibilities of the DBIC, DCC and Investment Executive Team

We have delegated the responsibility for the ongoing day to day assessment of climate-related risks and opportunities to the DBIC and DCC for the DB and DC Sections respectively. This includes the assessment of climate risk and opportunities highlighted by our investment advisers, and reviewing of climate-related metrics. The DBIC and DCC are also responsible for reviewing the credentials, competence and performance of the advisers and asset managers against their respective climate-related objectives and providing us with recommended action should their performance fall below expectations.

The DBIC and DCC are supported in their efforts by the Fund's Investment Executive Team, headed by the Fund's Head of Investment and Risk, who work with the Fund's advisers and Nestlé's Group Pensions Unit to agree the implementation of our climate-related beliefs and objectives and to provide oversight of the Fund's asset managers.

In order to ensure the ongoing suitability of our approach to climate-related risks, the Fund's Head of Investment and Risk ensures that the Trustee, including new Trustee directors, and members of the DBIC and DCC receive regular training on climate-related topics. As part of their annual business planning, we will ensure that periodic training sessions are directly focused on climate change, with updates on key developments (including in relation to climate-related risks and opportunities).

We mainly receive training from our investment advisers and asset managers, but we also use external specialists and other engaged pension funds to provide exposure to a range of opinions and approaches for effective governance.

Responsibilities of the Investment Advisers

Our investment advisers are expected to identify, advise on, and provide objective assessments of climate-related risks and opportunities, and to help us decide an appropriate responsible investment and climate-related strategy that adopts appropriate objectives for the Fund. This includes the provision of advice that will enable us to effectively monitor climate-related risks and opportunities of the Fund's portfolios and be promptly informed of new investment opportunities or emerging risks that the advisers believe would help the Fund meet its long-term goals and objectives.

The Fund's advisers are also expected to assist with the completion of climate scenario analysis to assess the Fund's resilience to climate-related risks and opportunities,

regularly measure and review climate-related metrics, including emissions- and non-emissions-based metrics and provide advice concerning climate-related targets.

To ensure the Fund's advisers are taking adequate steps to identify and assess risks and opportunities related to ESG factors, we have included specific objectives in our investment advisers' annual appraisal to:

- Develop our policies and beliefs, including those in relation to Responsible Investment (including climate change).
- Ensure the investment adviser's advice reflects our own policies and beliefs, including those in relation to Responsible Investment.
- Help us meet our reporting obligations on ESG, voting and engagement matters in respect of our investment arrangements, liaising with asset managers as necessary.

The Investment Executive Team annually assesses the delivery of this advice using the Competition and Markets Authority's Investment Consultant Objectives framework and provide a report for the DBIC and DCC with its view on whether the advisers have met the requirements set out in their annual objectives. It is the responsibility of the DBIC and DCC to provide the Trustee Board with recommended escalation steps should they deem that the objectives have not been adequately met.

Responsibilities of the Asset Managers
The day-to-day management of the climate-related risks associated with the Fund's assets is delegated to the Fund's appointed asset managers, who are responsible for all day-to-day decisions regarding the implementation of our investment strategy.

We require our appointed investment managers to be cognisant of climate-related risks and opportunities within their investment processes as applied to the assets of the Fund. Managers' investment strategy and decision-making with respect to climate-related factors are monitored and reviewed by our investment advisers and Investment Executive Team on a continual basis, who assess performance against their objectives and alignment with our climate-related investment policies.

When selecting new investment managers or funds, where relevant to the investment mandate, we explicitly considers potential managers' approach to responsible investment, based on advice from their investment advisers. The advisers provide us with recommendations based on extensive research, which itself incorporates an assessment of potential candidates' incorporation of ESG factors, including climate change, within their decision-making and risk management processes.

We require all of the Fund's asset managers to provide reporting on ESG factors, including climate change, where possible. This is monitored by the Fund's investment

advisers and Investment Executive Team. Should this monitoring process reveal that a manager's integration of climate-related risks and opportunities is not aligned with our objectives, the Investment Executive Team, supported by our advisers as appropriate, will engage with the manager to discuss how alignment may be improved. The findings of this engagement are reported to the DBIC or DCC as appropriate, who may decide further escalation is necessary.

Appendix C – PRA Stress Test Scenarios

As part of its 2020 biennial stress tests, the Bank of England's PRA conducted an exploratory exercise to test the impact of future climate change scenarios on the assets and liabilities of insurers, using predictions by the Intergovernmental Panel on Climate Change and academic literature as the basis for their modelling assumptions.

Using the same methodology, our advisers have constructed similar tests that allow us to examine the impact on the funding position, via the effect on asset and liability values, of the Fund under three scenarios.

<u>Investments</u>

To assess the impact to the Funding strategy via the Fund's investments, we completed scenario analysis on the Current Asset Allocation and Strategic Asset Allocation. The stresses are designed to demonstrate the impact to the value of the Fund's assets under three scenarios. To enable equivalent comparisons, in each case the impact of time-value of money has been offset by discounting back to current values.

The magnitude of each of the physical and transition shocks varies across industries under each scenario, meaning some assets may be better or worse in terms of resilience to shock, under one scenario compared to another.

The PRA recognise that feedback loops between climatic shocks and structural economic change need to be incorporated when assessing the financial impacts on businesses of physical and transition risk under each emissions scenario. However, due to existing modelling and data constraints, this is a complexity that is purposely excluded from the modelling.

There is also an acceptance that the timing and sequence of financial impacts will be complex, as behavioural changes could result in physical risks preceding transition risks and vice versa. For the purpose of simplicity, where an asset is subject to both physical and transition risk, the shocks are applied consecutively, with the physical shock applied second.

<u>Liabilities</u>

When assessing the Fund's liabilities, we consider three primary risk factors that could directly impact the present value of the Fund's liabilities. These are:

- Interest rate
- Inflation
- Longevity

Following advice from our investment adviser, at this stage, we do not feel there are sufficient tools in place to accurately understand how climate change could affect longevity risk for the Fund's membership. We are conducting a review of the Fund's longevity risk in 2023 and hope to complete an assessment of climate-related longevity risk factors in future TCFD reports.

Therefore, we have focused on how climate-related issues could affect the Fund's liabilities via their impact on UK interest rates and inflation.

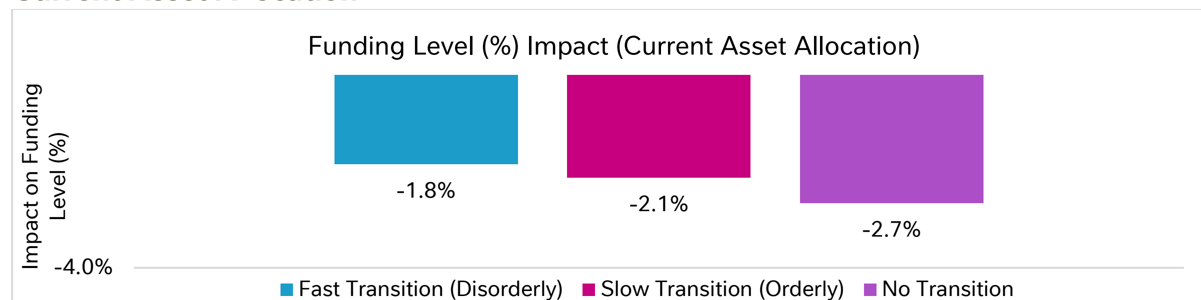
Regarding interest rate and inflation risks, we have taken a strategic decision to hedge liability risks related to these factors by employing a Liability Driven Investment ("LDI") strategy, which invests in assets with specific interest rate and inflation sensitives that match the sensitivity of the Fund's liabilities to interest rate and inflation changes. In practice, this means that the impact that climate change risk can have on the present value of the Fund's liabilities due to interest rate and inflation changes is expected to be offset by the opposite change in value of the LDI portfolio. As a result, the overall impact on the Fund from climate-related changes in interest rates and inflation will be negligible.

To consider how climate scenarios could affect interest rate and inflation specifically for the UK, we used, via our investment adviser, country-level research from the University of Notre Dame. Their findings based on this research showed that potential climate change risk on UK interest rate and inflation was in the level of spurious accuracy (0.03% - 0.26%), which also reflects the PRA stress test approach.

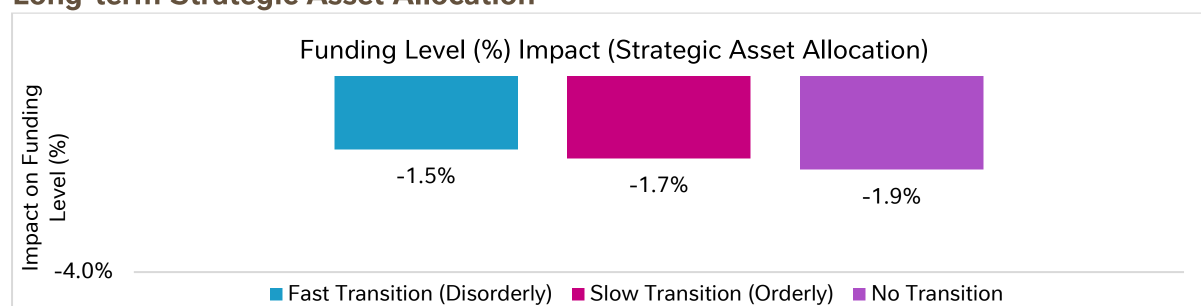
Therefore, based on the rationale listed above, at this stage, we have assumed that changes to UK interest rates and inflation as a result of climate change is likely to have no quantitative impact on our liability modelling.

Appendix D – 2021 Full Scenario Analysis Results

Current Asset Allocation



Long-term Strategic Asset Allocation



When the stress tests are applied to the Fund's funding level using the Current Asset Allocation, the estimated impact is a fall in the funding level ranging from c.1.8% - c.2.7%. When applied to the long-term Strategic Asset Allocation, the estimated impact is a fall in the funding level ranging from c.1.5% - c.1.9%. The Strategic Asset Allocation represents a lower-risk total portfolio allocation. The results suggest the impact to the funding level is likely to be more subdued under the Strategic Asset Allocation than the Current Asset Allocation. This reflects the de-risked nature of the assets within the Strategic Asset Allocation versus the current asset allocation, with a larger allocation to developed market investment grade credit and smaller allocation to illiquid and real assets. The Fund is currently in the process of transitioning towards the Strategic Asset Allocation.

In both cases, the funding level is likely to be most severely impacted under Scenario C (No Transition). The key driver of this impact is the Fund's exposure to real assets, which are expected to be most significantly affected by physical risks that develop under a longer-term, no transition scenario. We regularly engage with the asset managers overseeing these portfolios, via our investment advisers and the Investment Executive Team, to ensure they are adequately monitoring, and seeking to reduce where possible, the climate-related risks of the assets within the portfolio.

The results of the scenario analysis indicate to us how resilient the long-term investment strategy is with regards to various climate change outcomes. We assess the results of these climate scenarios on the Fund's investment strategy and incorporate these (as well

as the impact of any climate-related investment opportunities) into the investment decision-making process.

Appendix E - Climate Metric Analysis

DC Section

Data coverage

The table below shows the line-by-line coverage achieved for each fund.

	Coverage of verified/reported carbon emission data (excluding estimated data)		Coverage (including estimated data) of carbon emission data	
Fund	**Scope 1+2 (verified data)**	**Scope 3 (reported data)**	**Scope 1+2**	**Scope 3**
Growth	**69%**	**23%**	**87%**	**84%**
Blended Assets	**30%**	**6%**	**58%**	**49%**
Equities	**85%**	**30%**	**100%**	**100%**
Pre-retirement to cash	**0%**	**0%**	**0%**	**0%**
Ethical Growth	62%	29%	100%	70%
Property	54%	0%	70%	0%
Corporate Bonds	48%	24%	48%	48%
Cash	0%	0%	0%	0%
Ethical Consolidation	13%	6%	100%	15%
Pre-retirement to annuity	0%	0%	72%	0%

1. Data for the DC Section calculations has been sourced from MSCI for non-gilt funds. Metrics have been calculated as at 30 September 2022 as far as practicable.
2. A standardised approach has been calculated for investment in gilt funds based on total UK gross emissions for 2021, divided by total government debt as at 31 December 2022. This figure has been applied for all gilt funds, assuming this should be reported as Scope 1+2 emissions only.
3. Metrics for each blended fund have been calculated based on the strategic allocation across each component fund.
4. Data coverage figures represent a weighted average for each portfolio.

DB Section

The absolute emissions and emissions intensity metrics have been calculated using line-by-line holdings data for the Fund's Global Equity, Buy & Maintain Credit, and LDI mandates. The emissions data for the Global Equity and Buy & Maintain Credit is from MSCI. The emissions data for the LDI portfolio is provided by LGIM. The remainder of the Fund's assets have been modelled at an asset class level by the investment adviser, also using emissions data from MSCI. We have adopted this combined approach to enable a more holistic view of the Fund's total portfolio emissions, while recognising the asset-class modelled data may not be perfect.

The asset class modelling of emissions is based on asset class "building blocks". These are either calculated directly using a given index's underlying holdings emissions (such as using MSCI ACWI as a proxy for a broad equity fund) or in some cases these indices are used and extrapolated to other asset classes based on given assumptions. The emissions modelling will be reviewed and updated on an annual basis.

Line-by-line data coverage for the Fund's mandates is shown in the table below. Line-by-line data was only available for five mandates due to the illiquid nature of the assets held within the remaining mandates. The five mandates for which line-by-line data was available were:

- Global Equities
- Multi-Class Credit
- Structured Credit
- Buy & Maintain Credit
- Liability Driven Investment

Of these mandates, coverage only exceeded 50% for the Global Equity mandate, the Buy & Maintain Credit mandate, and the Liability Driven Investment mandate. As a result, we have used line-by-line emissions calculation for these three mandates only. The remaining assets have been modelled on an asset class basis.

Emissions metrics calculated in line with the GHG Protocol Methodology, the global standard for companies and organisations to measure and manage their GHG emissions. The GHG Protocol provides accounting and reporting standards, sector guidance and calculation tools. It has created a comprehensive, global, standardised framework for measuring and managing emissions from private and public sector operations, value chains, products, cities, and policies to enable greenhouse gas reductions across the board.

Summary – Non-LDI assets

Asset class	Estimated Total Carbon Emissions Scope 1 & 2 (tCO2e)	Estimated Total Carbon Emissions Scope 3 (tCO2e)	Estimated Scope 1 & 2 Carbon Footprint (tCO2e / £m)	Estimated Scope 3 Carbon Footprint (tCO2e / £m)
Global Equities	11,040	75,155	60	406
Hedge Funds	7,819	35,568	71	325
Property	2,488	8,545	13	45
Private Equity	10,367	58,870	144	820
Multi-Class Credit	304	1,383	179	814
Structured Credit	788	4,896	56	346
Buy & Maintain Credit	71,991	321,417	62	278
Diversified Matching Illiquids	20,898	56,281	38	101
Asset leasing	73	413	144	820
Total	125,768	562,528	55	246

All Grand Totals are weighted averages with the exception of Total Mandate Carbon Emissions (tCO2e). Carbon calculations are performed at the asset class level for funds for which the MSCI Climate Metrics Coverage is less than 50%. ESG and MSCI Carbon Metrics meet the current minimum UK DWP's TCFD-aligned "Metrics and Targets" regulations. However, regulations are subject to change. Redington monitors developments closely.

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LDI – LGIM Methodology Details and Data Disclaimer

Methodology:

Sovereign carbon metrics: LGIM define 'Sovereigns' as, Agency, Government, Municipals, Strips and Treasury Bills and is calculated by using: the CO2e/GDP, Carbon Emissions Footprint uses: CO2e/Total Capital Stock. LGIM assumes the carbon intensity of government bonds should reflect carbon emissions of the entire country. To that end, carbon intensity is measured as GHG emissions within a country border / GDP (i.e. tC02e/£m GDP). For the carbon footprint, the numerator

remains the same whilst the denominator is the total capital stock, a measure of total value of Investment in the economy at a point in time (tC02e/£m invested).

Data Disclaimer:
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