Nestlé UK Pension Fund
2023 Task Force on Climate-related Financial Disclosures ("TCFD") Report

July 2024

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 third TCFD report and covers the period from 1 January to 31 December 2023, the Fund's full financial year. It provides details of our position using data available at the time of writing. Given the ongoing evolution of climate-related data reporting, we expect more meaningful and higher quality data to become available over 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 advisors carry out.

- We maintain a responsible investment policy that reflects 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 both on a standalone basis and as part of wider reviews of environmental, social and governance (ESG) factors in the Fund's portfolios. Both groups discussed this on multiple occasions over 2023.

- We are additionally supported by the Investment Team within Nestlé Pensions and Nestlé's Group Pensions Unit. In previous years, we have also been supported by a specialist TCFD working group. However, given TCFD reporting is no longer a new requirement and that our ESG and climate-related activities are now fully embedded in the business-as-usual activities of the DBIC and DCC, this group is no longer active.

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 9. 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 reviewed and made changes to our developed market equity investments (which account for most the Fund's DC assets) in November 2022. The changes significantly reduced the carbon footprint of the Fund's DC

investments and mean that ESG considerations are explicitly integrated into the investment decision-making process.
Over 2023 we carried out a wider review of the Fund's DC investments and decided to make changes across the board, including the Lifetime Pathway (the Default Option for the Fund) and the self-select range. Throughout the review we explicitly considered how any changes (both from a strategic asset allocation and investment manager perspective) would impact the exposure to climate-related risks and opportunities (as well as wider ESG risks) as well as our net-zero ambition. Changes agreed include:

- Making further changes to our equity investments, this time focussing on the emerging markets exposure. We have chosen to switch to an actively managed emerging markets strategy which is expected to improve future expected returns, improve management of ESG (including climate) risks and further reduce our carbon footprint;
- Updating our cash investments to utilise a strategy that explicitly considers climate and wider ESG factors; and
- Making changes to our corporate bond investments to utilise a strategy that focuses on contributing positively to the United Nations Sustainable Development Goals, which includes climate-related issues.

These changes will be implemented in phases across 2024 and 2025. The first phase was completed in January 2024.

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

You can read more about our strategy activities, including our climate scenario analysis, in section two, starting on page 12.

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 regular training, quantitative climate scenario analysis, qualitative climate-risk and opportunity analysis, climate-related metric reporting and annual monitoring covering a broad range of ESG issues (including climate change).

- 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, including specific activities we have carried out over the year, in section three of the report, starting on page 28.

Metrics and targets:

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

- Over 2023, the total GHG emissions associated with our DC investments have increased. This is mostly driven by an increase in total assets due to ongoing contributions from members and investment growth, but also reflects better data availability for some asset classes (e.g. we have been able to gather carbon data for our cash investments this year which was previously unavailable). However, a typical member investment in the Default Option has seen a reduction in the overall GHG emissions on a like for like basis, driven by the changes to our developed market equity investments made in November 2022 which significantly reduced our equity carbon footprint.

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 in 2022, 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. We review our targets annually to ensure they remain appropriate, and moving forwards have decided to remove this target. More detail is given in Section 4.

- Our remaining target (initially set in 2022) recognises the importance of the transition to a Net Zero economy and our overall ambition of reaching Net Zero portfolio emissions for the Fund by 2050. To help fulfil this ambition, by 2027 we are targeting that 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.

- The Fund's DB section has achieved a meaningful (+45%) improvement in the percentage of applicable financed emissions which are Paris-aligned. This was 29% vs the 20% baseline established in our 2022 Report. In 2023, we also completed an exercise to assess the level of climate-related engagement. We estimated that 13.9% of the DB section's financed emissions originate from high impact companies identified as not having a Paris-Aligned emissions pathway. Of this, a significant majority (12.7%) are subject to climate-related engagement across the relevant asset managers.

- As at 31 December 2023, 28% of the DC Section's financed emissions were deemed as being Paris aligned. Of the remaining financed emissions, we have determined that 18% of these are attributable to high impact companies that do not have a Paris aligned pathway. Of these emissions, 11% are subject to climate related engagement by the relevant asset managers.

- Whilst we have actions in place to make progress versus our target (including engaging with managers to set expectations regarding stewardship and consider alternative investment strategies as necessary), we are planning an in-depth review on how we will achieve this target later in 2024.

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 35.

Overview of the Fund

DB Section

Our objectives for the DB Section of the Fund are:

- Primarily to invest the assets of the Fund to meet its liabilities when they fall due.
- Manage investment risk.
- Maintain suitable liquidity of assets such that the Fund is not forced to sell investments at particular times to pay member benefits or meet potential collateral calls.

As at 31/12/2023, the DB Section maintained total assets of approximately £4,107m against total liabilities of approximately £3,960m, representing a funding position of 103.8%.

Assets are invested taking into account the nature and duration of the Fund's liabilities and to ensure appropriate diversification between asset categories. Three key portfolios make up the Fund’s Strategic Asset Allocation (“SAA”):

- The Growth Portfolio: The intention of this portfolio is to invest in assets such as equities and private equity that look to generate positive long-term returns to help the Fund meet its investment objective.
- The Matching Plus Portfolio: This portfolio aims to achieve a modest excess return by investing in assets that have the characteristics of generating a set of cashflows, which may have some element of interest rate and inflation sensitivity. These assets will, therefore, provide risk reduction and help the Fund meet its liabilities when they fall due.
- The Matching Portfolio: This portfolio is invested in assets that look to match the interest rate and inflation sensitivities of the liabilities. These assets have the sole purpose of reducing interest rate and inflation risk that the Fund is exposed to through the valuation of the liabilities.

The DB Section is currently transitioning towards its long-term SAA, which consists of predominantly Matching and Matching Plus assets. It represents a lower risk investment strategy designed to ensure that the DB Section retains its strong funding position.

DC Section

The Trustee’s objective for the DC Section is to invest contributions in the best interests of members and their beneficiaries, with the aim of supporting members in achieving good retirement outcomes. The Trustee offers members the option to invest in:

- The Lifetime Pathway: a lifestyle strategy which, on a member-by-member basis, gradually moves investments between different funds as each member approaches retirement age. It is the Default Option for the Fund, and the majority of members and Fund assets are invested in it (c.90%, £188m).

- Ten self-select funds covering a range of asset classes and investment styles.

DC Asset Allocation

Fund	Assets invested as at 31 December 2023 (£m)	Assets invested as at 31 December 2023 (%)
Growth*	119.4	56.7
Blended Assets*	49.8	23.6
Equities*	21.8	10.4
Pre-Retirement to Cash*	12.1	5.7
Other self-select fund options	7.6	3.6
Total	**210.7**	**100.0**

*Form part of the Lifetime Pathway. With the exception of the Growth fund, all of these funds are also available as self-select investment options.

Further information on the investment strategies for the DB and DC Sections of the Fund can be found in the DB and DC Statement of Investment Principles which are available on the NUKPF website.

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 advisors 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.

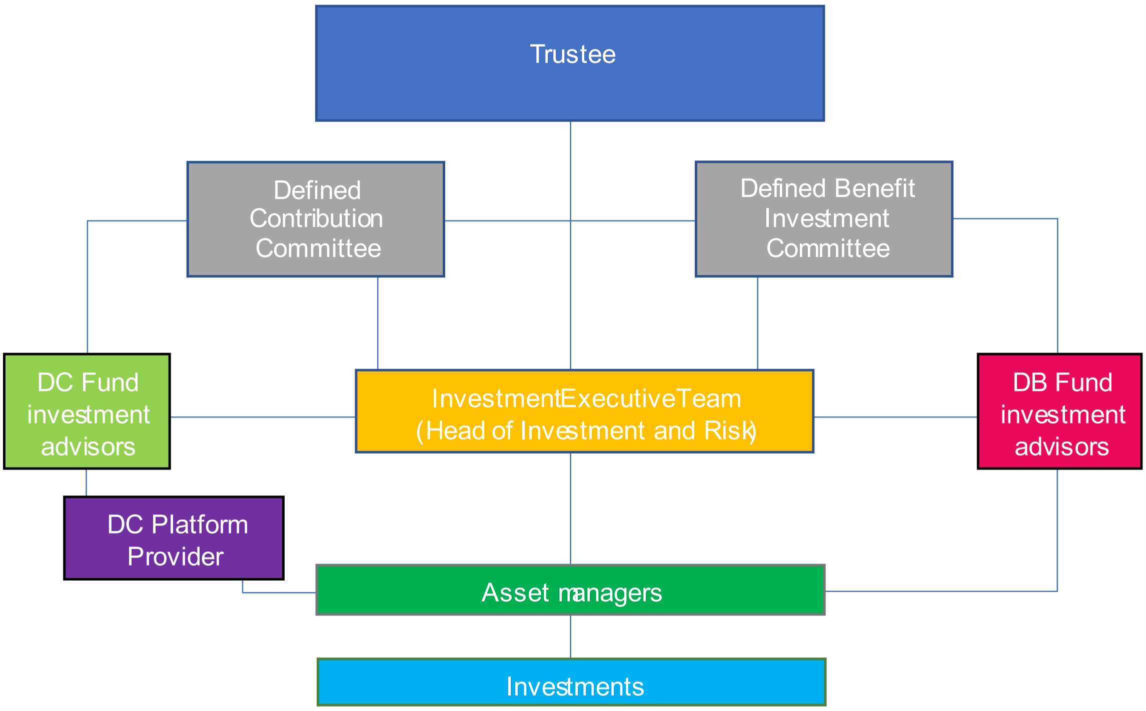
Together with our advisors, the DBIC, DCC and the Trustee Board as a whole, we review the Responsible Investment Policy and our governance framework on an annual basis to ensure it accurately reflects our beliefs, industry best practice and any key market developments (including in relation to climate-related 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. The Responsible Investment Policy was last formally updated in April 2023 to account for our Net Zero ambition.

Governance structure

The Trustee and our sub-committees are supported by Nestlé's internal Investment Executive Team, led by the Head of Investment & Risk.

The Diagram 1 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



The Fund's TCFD Working Group referenced in our previous TCFD reports was disbanded in 2023. The TCFD Working Group was established in 2021 to support the Trustee to meet its Climate Change Governance and Reporting requirements. Having helped to produce the Fund's first two TCFD reports, the Trustee felt it was appropriate to delegate management and consideration of climate-related risks and opportunities directly to the DBIC and DCC, and Investment Executive Team. These parties continue to be supported by the DB and DC investment advisors who previously supported the TCFD Working Group.

Over the year to 31 December 2023, 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:

- Managing the Fund's climate change risk and opportunities was an agenda item for the DBIC each quarter during 2023.
- The DCC considered ESG ratings of its appointed investment managers on a quarterly basis over 2023 and no concerns or issues were raised with all managers deemed to be assessing ESG risks (including climate risks) and carrying out stewardship activities to an acceptable level. The DCC also carried out their annual ESG deep-dive review in September 2023 which included detailed reporting on the highest risk holdings from a climate perspective within the Fund's DC investments and how managers were engaging regarding these risks. One manager who had

been found not to carry out any engagements with high-risk holdings identified has since been replaced.
- The DCC also received training on impact equity investing which aims to capitalise on climate and wider ESG-related opportunities.

Outcomes and findings of all discussions regarding climate-related risks and opportunities were fed back to the full Trustee Board.

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 advisors which we assess them against annually. The last review was completed in November 2023 and DB and DC investment advisors achieved target. The Trustee also undertakes periodic review of its other service providers, including actuarial and covenant advisors, in which competence in supporting the Trustee's Responsible Investing objectives is considered.

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 taking into account 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	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	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	35+ years	Reflects the youngest members in the Fund with the longest term to retirement. These members are likely to be invested in assets with high growth potential.

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 and investment strategy or developments to best practice methodologies.

There were no significant changes to either of the DB or DC Sections over 2023 and so we believe our previous analysis as at 30th September 2021 remains appropriate. We recognise that there have been several reports published across the market looking at how climate change scenario analysis has been carried out to date by pension schemes. Over the coming year, we will review the latest available climate scenario methodologies and perform updated analysis for disclosure in our 2024 TCFD report, as required by regulation.

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 by 2025 (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. Since 2021, the Fund has made good progress in transitioning the portfolio towards the Strategic Asset Allocation, thereby lowering the climate-related risks faced by the Fund.

- 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 Fund is in the process of reducing its allocation to real assets, and this is expected to fall further over time, pre-empting some of the more severe estimated impacts under Scenario C from being realised.

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 the 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 advisors.

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, we discussed the impact of the scenarios on a broad range of members in different circumstances.

We 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 Lifetime Pathway 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. In 2023, the DCC reviewed the DC investment strategy and agreed to make a number of changes. Changes were initially agreed at the strategic asset allocation level with the aim of improving retirement outcomes for members, as we believe that strategic asset allocation (e.g. increasing the allocation to high growth potential assets when far away from retirement) is the most important factor in determining retirement outcomes and meeting our overall objective. Whilst this may increase exposure to climate risks (as higher growth assets typically have higher exposure to climate-risks) we have ensured that we have selected managers and strategies in order to minimise this risk. When selecting managers in order to implement the strategic asset allocation, the DCC considered prospective managers' approaches to managing climate-related risks with preference being given to managers whose beliefs and actions align with	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. Over 2023, the DCC received training and considered the role that impact equity investing (which seeks to contribute positively to environmental and/or social issues) could have in the Fund's DC investment strategy. The DCC agreed not to make any immediate changes to incorporate impact investment although this will be re-considered at a later date. **Timeframe:** Ongoing

Action	Managing climate risk	Capturing climate opportunities
	our responsible investment beliefs as detailed in the SIP. Further detail on the changes at a manager level are detailed below. **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. This was also considered as part of the 2023 triennial investment strategy review. During the manager selection process for the Equities, Blended Assets, Growth, Cash, Pre Retirement to Cash and Corporate Bonds funds, preference was given to managers deemed to have a strong climate-risk management process as well as strong investment thesis. The DCC agreed to make the following changes as a result: • Appointing an active emerging markets equity manager. The active approach allows greater	The changes agreed as part of the 2022 equity changes and the 2023 investment strategy review considered climate opportunities as well as risk management. For example, the ESG equity funds invest more heavily in (relative to a broad market index) companies with strong ESG profiles. A new corporate bond strategy which forms part of the Blended Assets and Corporate Bonds funds also aims to contribute positively to the UN Sustainable Development Goals. For example, it invests in companies that are considered to promote renewable infrastructure. Following training in 2022 and 2023, the DCC plans to further consider the role of impact equity investing in investment strategy the future. The DCC and Trustee expect their investment advisors to raise new opportunities over time as they arise. **Timeframe:** Ongoing

Action	Managing climate risk	Capturing climate opportunities
	scope to select investments whilst accounting for climate-related risks and opportunities and better opportunity for engagement. We also note the fund chosen has a significantly lower carbon footprint, implicitly reducing climate risk exposures; and • Switching our cash investments to a strategy that gives explicit consideration to environmental criteria (e.g. excluding holdings that are considered to be higher risk) and that also utilises a portion of fees paid to the manager to retire carbon credits. These changes are due to be implemented in phases over 2024 and 2025. **Timeframe: Short-term and ongoing**	
Effective stewardship	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[1] identified in the Trustee's Responsible Investment Policy; and (2) high impact companies seen as critical to achieving global climate change goals.	The scope to capture opportunities may be more limited but could still be value enhancing. The DCC and Trustee Board will continue to engage with all fund managers to understand and assess how they manage climate risk and capture opportunities through stewardship. **Timeframe:** Ongoing

[1] Our Core Themes are Environment, Human rights, Corporate governance, Climate change, Labour, Corruption

Action	Managing climate risk	Capturing climate opportunities
	As part of the investment changes agreed in 2023, preference was given to managers with strong stewardship track records. Managers with weaker records were also replaced. **Timeframe:** Short-term and Ongoing	

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

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

The tables below illustrate 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. Changes implemented in 2023 to the Global Equity allocation in the DB section will see the Fund invest in companies that are better placed to succeed under a future transition to a lower carbon economy. This is likely to lower the exposure to transition risks. Changes made to the DC equity investments in 2022 included employing mandates that invest less in the highest carbon emitters to reduce 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. In 2023, the DCC agreed to make further changes to the Fund's DC equity investments, namely the emerging markets equity investments. The DCC chose to

		replace the existing index-tracking mandate with an actively managed strategy. The new strategy is expected to offer additional performance potential but also better management of climate risks due to manager flexibility on underlying company selection, more effective stewardship and an investment thesis that explicitly recognises climate as a material risk.

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. In 2023, the DCC agreed to incorporate additional corporate bond investments via a mandate that has a sustainability objective around contributing positively to the UN's Sustainable Development Goals, which includes climate risks and issues. This change will be implemented in 2024 and is expected to further reduce the climate-risk exposure, as well as improve

		exposure to climate related opportunities for the DC Section's corporate bond investments.

Government bonds

Relevant to the DB and DC Sections

Risk exposure rating		Details
Physical	Transition	
Amber	Amber	We only seek to hold 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 or 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

Risk exposure rating		Details
Physical	Transition	
Amber	Amber	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.

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 activities we completed in 2023 to address these risks and capture investment opportunities are included in the **Risk Management** section.

3. Risk management

We believe that climate change-driven transition and physical risks 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.

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 advisors, 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 advisors 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 advisors are 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 2023, the Trustee Board and members of the DBIC and DCC received training on managing climate-related financial risks. This included:

- potential changes to the pool of companies that the Fund can invest in to support the Fund's Net Zero ambition,
- the relationship between nature-related risks and the Trustee's Net Zero ambition,
- impact equity investing and how this links to climate-related opportunities, and
- emerging climate-related risk metrics.

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 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.

In our 2022 TCFD Report, we noted updates to the investment universes of our Global Equity and Buy & Maintain Credit allocations were being explored. We can report that, over 2023, we have implemented updates including:

- **Global Equities**: transition of our Global Equities allocation to a solution which integrates climate change and ESG exclusionary screens aligned to our Core Themes. This is expected to improve the overall Net Zero alignment of the Global Equities allocation.

- **Buy & Maintain Credit**: changes to the investment universes of our Buy & Maintain Credit mandates, which restrict future investments to only companies that are classified as 'Paris Agreement-aligned' by our investment managers. This is also expected to improve the overall Net Zero alignment of the Buy & Maintain Credit allocation.

The managers of the Fund's Real Asset portfolios have also taken steps to improve the climate profile of their respective mandates, including:

- Using climate-related loan covenants in the direct loans they make, incentivising borrowers to improve their climate profile.

- Placing a greater emphasis on measuring and monitoring the emissions of the underlying real assets, helping to identify climate risk hotspots and implement methods to achieve emissions-reductions.

- Investing in climate solution-based assets, such as renewable infrastructure including solar and wind farms, that will help to both reduce the portfolio's climate risk and capture opportunities associated with the transition to a lower carbon economy over time.

DC Section
Within the DC Section we completed a review of the DC investment strategy in 2023, including the Default Option (the Lifetime Pathway fund) and the self-select fund options.

The review followed on from our review of the Fund's equity holdings in 2022. The 2022 review focussed on improving the consideration of ESG risks and opportunities (including climate change) within the Fund's developed market equity investments, whilst also delivering competitive financial returns. The review resulted in us deciding to replace the existing developed equity fund with a combination of two new funds. The new funds have specific ESG objectives, 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. We believe this change has reduced the climate-related risk that our DC members are exposed to.

The main focus of our 2023 review was ensuring that the Default Option and self-select fund options remained appropriate for meeting the needs of our DC members. Following the review, we agreed to make a number of changes to both the Default Option and self-select fund range. This includes making changes to the underlying strategies employed by the Fund to better align with our responsible investment beliefs and objectives, including improving how ESG risks (including climate change risks) are considered as part of the investment process. The changes agreed include:

- Changing the **Cash** and **Pre Retirement to Cash** fund to utilise strategies that explicitly consider environmental factors, in line with our Responsible Investment policy and beliefs. This includes the exclusion of securities that derive more than 5% of their revenue from thermal coal or fossil fuels mining, exploration and refinement, and the potential to invest in green bonds. We believe this improves the management of climate risks for members whilst also increasing the potential climate-related opportunities for them to invest in;
- Changing the allocation to **corporate bonds** within the **Blended Assets** and **Corporate Bonds** funds to improve diversification and consideration of ESG risks by investing in a fund that seeks to contribute positively towards the achievement of the United Nation's Sustainable Development Goals (which includes climate-related goals); and
- Changing the fund's allocation to **emerging market equities** (used in **Equities, Growth** and **Blended Assets**) to be via an actively managed strategy. We expect the active approach to add value not only from an investment return perspective but also from a climate risk management perspective (given the manager has additional flexibility regarding where they choose to invest versus an index-tracking approach) and a stewardship perspective. We have also selected a strategy that has an objective to have a weighted average carbon intensity that is less than half of its benchmark, thus further reducing exposure to climate-related risks.

<u>Risk management via stewardship</u>
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 advisors, 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.

DB Section:
In May 2023, 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 advisor 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 continue to explore means to enhance the strength and impact of our engagement.

We continue to engage, via our investment advisor 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 "Portfolio alignment" target (see Section 4: Metrics and Targets). Progress against this target was reviewed in 2023 and will be reviewed again in 2024 as part of our annual assessment. Results showing performance against this target are provided in Section 4 of this Report (see "Performance Against Targets").

DC Section

We assessed the stewardship activity of our appointed fund managers in September 2023, as part of our annual ESG review of the Fund. This exercise focussed on ensuring managers were engaging on areas we deem to be important, namely our Core Themes and companies that form part of the Climate Action 100+ list. We were supported by our DC investment advisor in reviewing:

- Manager voting and engagement policies;
- Whether or not managers were engaging with companies deemed as breaching our Core Themes;
- Whether or not managers were engaging with companies on the Climate Action 100+ list; and
- Detailed examples of significant votes cast and engagements carried out to ensure these activities were in line with our expectations.

Based on the information provided, our advisors flagged that two of our appointed managers were potentially lagging our expectations regarding stewardship, including stewardship on climate-related risks. Both of these managers have since been replaced as part of the 2023 investment strategy review.

We will continue to monitor our managers' stewardship on at least an annual basis to ensure that climate-related risks are being properly managed.

<u>Risk Management via Scenario analysis</u>

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. A full divestment from the Fund's Aircraft Leasing mandate was completed in 2023. We continue to make progress in the divestment of our Property and Private Equity mandates.

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 (the Default Option) are expected to be 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. We considered this as part of the 2023 investment strategy review and have taken action accordingly (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 advisors. This report assesses the exposure of our key strategic portfolios to companies deemed to face material ESG risks, including climate change, in line with our Core Themes. 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.

DB Section

The results of the 2023 assessment for the DB section, completed using data as at 31 December 2022, encouragingly highlighted that the proportion of companies within the

Fund's overall portfolio deemed to be "climate laggards" had decreased over 2022. This followed a material reduction in 2021.

We continued to monitor the approach of the manager of our Global Equity mandate regarding voting-focused stewardship activity. We also specifically considered over 2023 whether it remained 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. We expect to report progress on this activity in our 2024 Report.

DC Section

The results of the 2023 assessment were considered as part of the DCC's annual ESG review. We noted that climate-related issues still account for a significant proportion of the overall breaches of our Core Themes (second only to Governance related breaches) but positively, most managers are engaging with these "climate laggards" holdings, in line with our expectations.

We noted that the Fund's emerging market equity allocation was a significant driver of the number of climate laggards within the DC Section of the Fund and that the appointed manager had failed to engage with any of these holdings. We have since taken action to change the emerging markets equity strategy in order to reduce the overall exposure and improve the stewardship activities carried out on our behalf.

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 advisors 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.

DB Section – changes to data quality metric
Following a review in November 2023, we have refined our "data quality" metric (Metric 3) from this Report onwards for the DB Section of the Fund. Where previously the quality of the DB Section's emissions data was assessed using a binary scale that distinguished between verified and estimated emissions data, we have now adopted a data quality metric with a more granular scale that considers both the type (reported or estimated) and nature (verified or proxied) of the emissions data.

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"):**
  - **DB Section:** Assesses the reliability of publicly listed companies' emissions data by measuring the proportion of the emissions data that is reported by the companies themselves and independently verified. Assessment is conducted via a PCAF Data Quality Score.
  - **DC Section:** 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. Assessment is conducted by reviewing what percentage of carbon data has been reported and verified, versus what percentage has been estimated.
- **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.

We have included additional details of these metrics, the methodology used to produce them and relevant data disclaimers in Appendix E.

In line with our governance and risk management processes, we receive an update on these metrics and the Fund's progress against specific targets as part of the regular reporting provided by our investment advisors. 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.

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

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 target

"Portfolio Alignment" target
In 2022, we decided to **set a 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 target(s) is reviewed annually to ensure it remains appropriate for the Fund. In this context, moving forwards we have elected to remove the data quality target adopted in 2021. We believe the Fund should focus its efforts on meeting our Net Zero ambition as a means to drive real-world change and achieve our broader responsible investment objectives.

Our current position against the Portfolio Alignment target for each of the DB and DC Sections of the Fund are set out below.

Metrics Results: DB Section – as at 31 December 2023

The results of the analysis as at 31 December 2023, using the Fund's DB section's asset allocation at that time, are shown in the table below.

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

- On the advice of our investment advisor, 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. On this basis, the Fund's Global Equity, Buy & Maintain Credit and Liability Driven Investment ("LDI") portfolios are calculated on a line-by-line basis, accounting for 78.7% of assets, with the remaining assets, equal to 21.3%, modelled on an asset class basis. We have adopted this combined approach to enable a more holistic view of the Fund's total emissions, 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. Details of LGIM's estimation methodology are included in Appendix D.

- 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 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. The total Scope 1, 2 and 3 absolute emissions and carbon footprint are therefore reported separately.

- As noted earlier in this Section, we have refined the implementation of our data quality metric. For the DB section of the Fund, we now assess data quality using the Partnership on Carbon Accounting Carbon Accounting Financials ("PCAF") Data Quality Score. This aims to assess the reliability of publicly listed companies' emissions data using a scoring system that ranges from one to five. A score closer to one

[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.

represents the highest emissions data quality, classified as reported and independently verified. A score closer to five represents the lowest emissions data quality, classified as estimated emissions data derived using broad economic data different industries.

DB Section Metrics

Asset class	Emissions-Metrics Coverage (Metric 1 & Metric 2)	Metric 1		Metric 2		Metric 3	Metric 4
		Total Carbon Emissions (Scope 1 & 2) (tCO2e)	Total Carbon Emissions (Scope 3) (tCO2e)	Carbon Footprint (Scope 1 & 2) (tCO2e / £m)	Carbon Footprint (Scope 3) (tCO2e / £m)	Data quality	Proportion of assets with a verified Paris-aligned temperature pathway
Global Equities	100.0%	7,958	62,736	37	294	2.1	43.1%
Hedge Funds	N/A	5,521	24,127	84	368	N/A	N/A
Property	N/A	1,112	8,164	7	50	N/A	N/A
Private Equity	N/A	6,815	46,992	134	927	N/A	N/A
Structured Credit	N/A	1,615	10,767	40	266	N/A	N/A
Buy & Maintain Credit	93.0%	90,029	356,327	76	301	2.3	26.7%
Diversified Matching Illiquids	N/A	14,024	49,785	26	91	N/A	N/A
Total	N/A	127,074	558,898	56	247	N/A	N/A

Note: All DB section analysis excluding LDI portfolio analysis is provided by the Fund's Investment Advisor, Redington Ltd ("Redington"), and the data in the report is sourced from MSCI©. 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. Certain information ©2024 MSCI ESG Research LLC. Reproduced by permission. Please refer to the data disclaimer in Appendix E.

Metrics 1 & 2 (LDI portfolio):

Metric	Result
Total Carbon Emissions (Scope 1 & 2) (tCO2e)	140,594
Carbon Footprint (Scope 1 & 2) (tCO2e / £m)	77.6

Note: LDI portfolio 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 1:

- 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 Fund’s Buy & Maintain Credit and Diversified Matching Illiquids mandates had the largest absolute Scope 1 & 2 and Scope 3 emissions, followed by the Global Equity mandate. These mandates are among the largest allocations of the Fund’s non-LDI portfolio.

Metric 2:

- The Private Equity and Hedge Funds allocations, modelled using an asset class basis rather than line-by-line data, had the highest Scope 1 & 2 and Scope 3 carbon footprints, respectively. The Private Equity and Hedge Fund allocations continue to be liquidated as part of the 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.

Metric 3:

- As with the Fund's previous “data quality” metric, this is only applicable for mandates that have “line-by-line” emissions data available, and for publicly listed companies; PCAF scoring is not performed for sovereign bonds, and thus the LDI portfolio (which is comprised of sovereign bonds) is omitted from the calculation of the metric. As at 31 December 2023, only the Global Equities and Buy & Maintain Credit allocations met this criteria.
- Both allocations were estimated to have a PCAF score around 2, indicating that the majority of their emissions data is reported by the underlying companies in line with the Greenhouse Gas Protocol, but unverified.

Metric 4:

- 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 2023, only the Global Equities and Buy & Maintain Credit allocations met this criteria.
- The results showed that the Global Equities allocation has a higher proportion of assets with a verified Paris-aligned temperature pathway. This is not unexpected given the ESG and climate-related objectives incorporated over 2023 that should increase the overall allocation to companies with positive climate characteristics.

- As noted in the Risk Management section, during 2023 we implemented changes to the Buy & Maintain Credit allocations that will restrict future investments to only companies classified as ‘Paris Agreement-aligned’ by our investment managers. This is expected to improve the Paris-aligned status of this allocation over time.

Performance Against Targets:

As noted earlier in this Section, we elected to remove our emissions data quality target. We therefore have one target to report against, our “Portfolio alignment” target:

> *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 *part (1)* of the target as at 31 December 2023. Note that the baseline position for this target was established in our 2022 Report.

Year	Portfolio Alignment (% Financed Emissions)
2022	20.0
2023	29.0

The results show the portfolio of the Fund’s DB section has achieved a meaningful (+45%) improvement in the percentage of applicable financed emissions which are Paris-aligned, against the baseline established in our 2022 Report. Over 2023 we enacted various changes within the relevant asset classes which have contributed to this improvement. These changes include:

- Buy & Maintain Credit: updates to the investment universes of our Buy & Maintain Credit mandates which restrict purchases to those from only ‘Paris Agreement-aligned’ issuers.
- Global Equities: transition of our Global Equities mandate to a solution which integrates climate change, and ESG exclusionary screens aligned to our Core Themes.

During 2023, we also completed an assessment for *part (2)* of our target, using data as at 31 December 2022. This showed that an estimated 13.9% of the DB section’s financed emissions originate from high impact companies identified as not having a Paris-Aligned emissions pathway (i.e., they are not expected to reduce their emissions over time to the level required to reach the goals of the Paris agreement to keep temperatures well-below 2°C compared to pre-industrial levels). Of this total, a significant majority (12.7%) are subject to climate-related engagement across the relevant asset managers. The Trustee's target is for all of these companies to be subject to climate-related engagement.

To achieve the target by 2027, the Fund will require its investment managers to make meaningful progress in their engagement efforts. This is a key focus of the Investment Executive Team and the Trustee's investment advisors. It will also be supported by the recent Paris-aligned guideline changes implemented across the Buy & Maintain Credit mandates.

An assessment using data as at 31 December 2023 will be completed during 2024 and disclosed in our next TCFD report.

Metrics Results: DC Section – as of 31 December 2023

The calculated metrics for the DC Section of the Fund as of 31 December 2023 are presented in the table overleaf.

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

- Absolute emission and intensity metrics have been calculated using data provided by our appointed investment managers, using the industry standard Carbon Emissions Template (CET). The CET was developed by a joint industry initiative of the Pension and Life Savings Association, the Association of British Insurers and Investment Association Working Group. The CET provides a standardised set of data to help pension schemes meet their obligations under the Climate Change Governance and Reporting Regulations, and associated DWP Statutory Guidance. Where managers were unable to provide the requested data in this format, line with the line-by-line holdings data has been utilised.

- 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. For 2023, where there are significant differences in calculation methodologies for material portions of a fund (for example, the Ethical Consolidation and Ethical Growth funds have material investments both in listed assets and sovereign investments), metrics have been shown separately for each asset class within the fund. This reflects best practice and helps to avoid misinterpretation of results.

- The Total Carbon Emissions and Carbon Footprint information gathered reflects emissions for which carbon-data was available. No estimates have been made to fill gaps in data provided by our managers. 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.

DC Section metrics

Fund	Year	Asset allocation (£m / %)	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
Growth*	**2023**	**£119.4m** (57%)	**5,202**	**42,362**	**48**	**408**	**90%**	**87%**	**34%**
	2022	£86.6m (55%)	4,662	25,742	62	352	87%	84%	35%
Blended Assets*	**2023**	**£49.8m** (24%)	**1,315**	**6,725**	**38**	**226**	**69%**	**60%**	**18%**
	2022	£39.0m (25%)	1,113	4,822	49	253	58%	49%	22%
Equities	**2023**	**£21.8m** (10%)	**1,082**	**9,811**	**50**	**455**	**99%**	**99%**	**41%**
	2022	£17.2m (11%)	1,114	6,403	65	373	100%	100%	41%
Pre-retirement to cash	**2023**	**£12.1m** (6%)	**664**	**Not available**	**65**	**Not available**	**84%**	**Not available**	**Not available**
	2022	£9.2m (6%)	Not available						
Ethical Growth *Split for 2023 into public (70%, top*	**2023**	**£2.3m (1%)**	**91**	**1,040**	**57**	**654**	**98%**	**98%**	**53%**
			58	**Not available**	**82**	**Not available**	**100%**	**Not available**	**N/A**

Fund	Year	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
row) and sovereign investments (30%, bottom row)	2022	£2.0m (1%)	114	468	57	336	100%	70%	43%
Property *Listed assets (30%, top row) and real assets (70%, bottom row) shown separately*	**2023**	**£2.0m (1%)**	**4**	**33**	**6**	**58**	**95%**	**95%**	**39%**
			2.0	**Not available**	**1.4**	**Not available**	**100%**	**Not available**	**Not available**
	2022	£2.0m (1%)	1.5	Not available	1.1	Not available	70%	Not available	0%
Corporate Bonds	**2023**	**£1.0m (0%)**	**18**	**695**	**28**	**1,085**	**63%**	**63%**	**20%**
	2022	£0.8m (1%)	24	166	61	418	48%	48%	21%
Cash	**2023**	**£1.1m (1%)**	**59**	**Not available**	**65**	**Not available**	**84%**	**Not available**	**Not available**
	2022	£1.0m (1%)	Not available						
Ethical Consolidation *Split for 2023 into public (15%, top row) and sovereign investments (85% bottom row)*	**2023**	**£0.6m (0%)**	**6**	**67**	**57**	**654**	**98%**	**98%**	**53%**
			56	**Not available**	**112**	**Not available**	**100%**	**Not available**	**Not available**
	2022	£0.5m (0%)	57	24	120	336	100%	15%	9%
Shariah	**2023**	**£0.3m (0%)**	**8**	**87**	**22**	**256**	**100%**	**100%**	**46%**

Fund	Year	Asset allocation (£m / %)	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
	2022	-	-	-	-	-	-	-	-
Pre-retirement to annuity	**2023**	**£0.2m (0%)**	**8**	**44**	**61**	**605**	**78%**	**41%**	**25%**
	2022	£0.0m (0%)	6	Not available	80	Not available	72%	Not available	25%

Sources: LGIM, BlackRock, Schroders, Aon, MSCI, State Street, Fidelity, ***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. Values for the real assets within the property fund are shown as at 31 December 2022 which reflects the latest available Data for the underlying LGIM funds (used within the Cash, Pre Retirement to Cash, Ethical Growth, Ethical Consolidation, Property (listed assets only) and Pre Retirement to Annuity funds) are as at 30 September 2023 which reflects the most recent data available. *Gilt sovereign emissions have not been reported separately for Growth and Blended Assets due to limited exposure to sovereign investments through these funds.*

Metric 1

- 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.
- Emissions have, on the whole, increased since 2022. This is most likely driven by an increase in asset size – for example, the Growth fund's carbon footprint has decreased since 2022 but total emissions have still gone up due to an increase in the overall assets in the fund.
- We note that Scope 3 emissions remain significantly higher than Scopes 1&2 emissions. This is not unexpected given the nature of Scope 3 emissions (they cover the entire value chain) as well as the high likelihood of double counting emissions across the portfolio.

Metric 2

- The highest carbon footprint (Scopes 1&2 only) comes from the sovereign investments within the Ethical Consolidation and Ethical Growth funds (112 and 82 respectively). We note that the calculation method for determining the carbon footprint of government bonds involves 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. We also have limited control regarding the carbon footprint of sovereign investments but continue to monitor these closely to ensure they remain appropriate for Fund members.

- The Growth, Equities and Blended Assets funds have all seen a reduction in their Scopes 1&2 carbon footprint. This has been driven by portfolio changes made to the developed market equity investments within these funds, whereby we switched to a combination of two funds that have explicit objectives to manage exposure to ESG and climate-related risks. These two funds have a lower carbon footprint than the previous fund utilised by the Scheme and have reduced the Fund's carbon footprint for 2023. We see this as a positive change that has reduced the Fund's exposure to climate-related risks.

- Scope 3 carbon footprints have generally increased over 2023. We recognise that Scope 3 emissions are more difficult to calculate which can lead to volatility in figures and that in some cases, the increase in carbon footprint is accompanied by an increase in portfolio coverage. Whilst we have less control regarding the scale of Scope 3 emissions, we will keep this metric under review and engage with our managers as necessary.

Metric 3

- Scope 1&2 emissions data coverage remains the 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 poorer data coverage.
- Generally, however, data coverage has improved versus 2022 for most funds, with data now available for the Cash and Pre-Retirement to Cash funds, as well as additional Scope 3 data for the Pre-Retirement to Annuity fund.
- Scope 3 and portfolio alignment data remains unavailable for some investments, predominantly those that involve sovereign investments or direct property investments. These metrics are less applicable to these types of investments. However, we recognise that the UK government and our property manager have net-zero commitments which implies these investments are Paris-aligned.
- Recognising improvements could still be made, we, together with our advisor, will continue to engage with our investment managers to improve data quality.

Metric 4

- The percentage of underlying holdings that have verified Pairs-aligned temperature pathways ranges from 18% to 53%. Some funds have seen a slight improvement whilst others have remained broadly stable or even fallen slightly compared to last year.
- Given the portfolio alignment metric is forward looking, we may not expect large increases year on year. Whilst the small falls are disappointing, we are continuing to engage with our managers to understand how they are engaging with underlying companies in order to increase this percentage over time.

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]. The table below shows the estimates for metrics 1 to 4 for the aggregate Default Option.

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	**2023**	**£188.3m** (89%)	7,632	55,930	55	426	74%	70%	27%
	2022	£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. Assets invested in the default strategy have been estimated based on member holdings as at 31/3/2023.*

- 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 a high proportion of investments being in the Growth fund. Whilst total emissions have increased since 2022, we note that the Scope 1&2 carbon footprint has fallen, meaning the increase in emissions is driven by higher asset values as opposed to more intense emissions from the underlying investments themselves.

- 27% of the underlying investments in the Default Option have a Paris-aligned temperature pathway that has been scientifically verified, which is broadly similar to last year's figure of 28%.

[4] We have based this estimate on the members invested in the Default Option and their term to retirement. This data is based on information as at 31 March 2023 but is expected to be similar to the split at 31 December 2023 due to the relatively few members making changes to their holdings.

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 the table. The figures for Metric 1 are shown assuming a member invests £10,000.

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*	0.44	3.55	48	408	90%	87%	34%
Consolidation phase *5-10 yrs to retirement*	0.26	1.35	38	226	69%	60%	18%
Pre-retirement phase *2yrs to retirement*	0.44	0.54	56	227	78%	24%	7%

Sources: LGIM, Schroders, Aon, MSCI, State Street. ***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 across all scopes 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 scope 1 and 2 emissions due to lower equity allocation but also lower data availability.

- The Pre-retirement phase has higher emissions than the Consolidation Phase. This is driven by carbon data for the Pre-Retirement to Cash fund. The cash investments are predominantly UK government investments, and as above, this then means emissions data tends to be higher as data reflects emissions for the entire UK economy.

Performance Against Target:

As noted above, we have one climate-related target:

> *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.*

As at 31 December 2023:

- 29.7% of the financed emissions associated with our equity and credit assets are SBTi aligned

- Of the remaining emissions that are not related to SBTi aligned companies, 18.5% are attributable to high impact companies without a verified Paris-aligned pathway. We understand that 11.0% - just over half - of the financed emissions are attributable to companies that have/are being engaged with by our appointed investment managers.

In order to ensure we make further progress versus our target, we (with the support of our investment advisors) are:

- Engaging with the Fund's managers to set understand their stewardship activities and set expectations regarding future engagement activity;

- Continuing with our 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.

[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 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

<u>Responsibilities of the Trustee</u>

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 targets, climate metrics, and scenario analysis methodology included in this report are selected by us following recommendations from the DBIC and DCC. We receive annual reports from our investment advisors 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 advisors and reviewing of climate-related metrics. The DBIC and DCC are also responsible for reviewing the credentials, competence and performance of the advisors 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 advisors 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 advisors 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 Advisors

Our investment advisors 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 advisors believe would help the Fund meet its long-term goals and objectives.

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

- Develop our policies and beliefs, including those in relation to Responsible Investment (including climate change).

- Ensure the investment advisor'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 advisors 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.

<u>Responsibilities of the Asset Managers</u>
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 advisors 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 consider potential managers' approach to responsible investment, based on advice from their investment advisors. The advisors 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 advisors 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 advisors 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 advisors 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 advisor, 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. Therefore, we have focused on how climate-

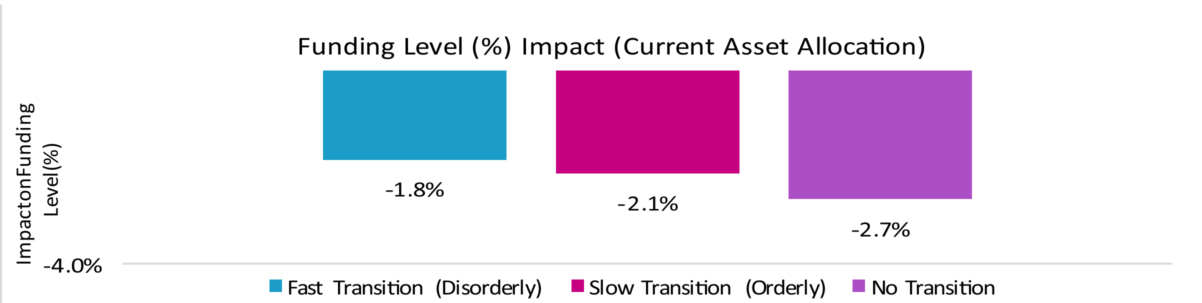
related issues could affect the Fund's liabilities via their impact on UK interest rates and inflation.
Regarding interest rate and inflation risks, we have taken a strategic decision to hedge liability risks related to these factors by employing a Liability Driven Investment ("LDI") strategy, which 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 advisor, 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.

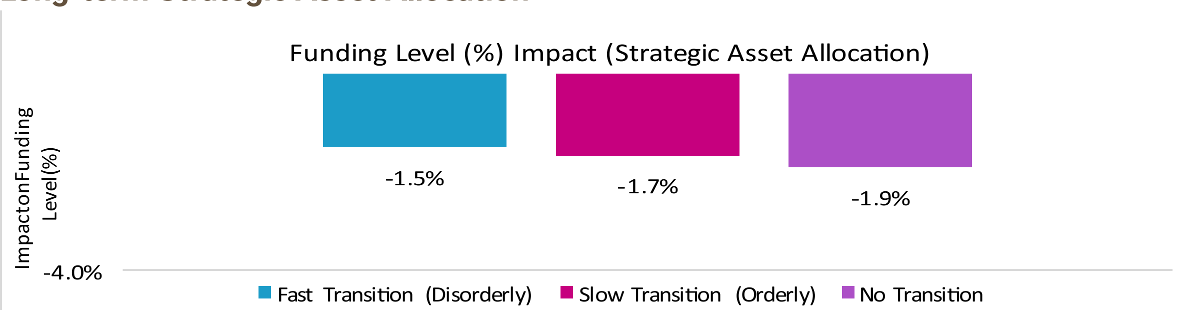
Therefore, based on the rationale listed above, at this stage, we have assumed that changes to UK interest rates and inflation as a result of climate change is likely to have no quantitative impact on our liability modelling.

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 advisors 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	84%	17%	90%	87%
Blended Assets	65%	25%	69%	60%
Equities	93%	12%	99%	99%
Pre-retirement to cash	84%	0%	84%	0%
Ethical Growth	83%	51%	99%	69%

Property	94%	11%	99%	29%
Corporate Bonds	63%	63%	63%	63%
Cash	84%	0%	84%	0%
Ethical Consolidation	100%	11%	100%	15%
Pre-retirement to annuity	78%	30%	78%	41%
Shariah	100%	100%	100%	100%

1. *Data for the DC Section calculations has been sourced from managers where possible, where managers were unable to provide data, this has been sourced from MSCI. Metrics have been calculated as at 31 December 2023 as far as practical. Where data has been sourced from MSCI, we have assumed this is reported data.*
2. *Data for the real allocation within the property fund reflects data as at 31 December 2022 which is the latest data available.*
3. *Data for the underlying LGIM funds (Ethical Growth, Ethical Consolidation, Cash, Pre Retirement to Cash, Pre Retirement to Annuity) reflects data as at 30 September 2023, which is the latest available.*
4. *Data for sovereign investments is based on reported emissions data for the UK economy. This is assumed to be 100% reported data. In previous years this has been classified as estimated.*
5. *Metrics for each blended fund have been calculated based on the strategic allocation across each component fund.*
6. *Data coverage figures represent a weighted average for each portfolio.*

DB Section

Redington Methodology Details and Data Disclaimer

Methodology:

The total carbon emissions, carbon footprint, data quality, and SBTi alignment metrics have been calculated using line-by-line holdings data for the Fund's Global Equity and Buy & Maintain Credit allocations using data 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 advisor, 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.

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.

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LGIM Methodology Details and Data Disclaimer

Methodology:

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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