Nestlé UK Pension Fund
2024 Task Force on Climate-related Financial Disclosures ("TCFD") Report

July 2025

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.

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 fourth TCFD Report and covers the period from 1 January to 31 December 2024, 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 interesting and informative. 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.

- We are additionally supported by the Investment Team within Nestlé Pensions and Nestlé's international Group Pensions Unit.

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. 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 recently reviewed and made changes to the Fund's DC investments, including the Lifetime Pathway (the Default Option for the Fund) and the self-select range. We considered how any changes (both from a strategic asset allocation and fund/manager perspective) could impact exposure to climate-related risks and opportunities, wider ESG risks and progress towards our net-zero ambition. This review was conducted in 2023 with the majority of agreed changes taking place in January 2024. The changes made in 2024 include:

- Making changes to our emerging market equity investments. We have reduced our exposure to emerging markets equity (from 14% to 10% within the Equities fund) and appointed a new active manager (vs the previous index-tracking strategy in place). These changes are expected to improve future return potential for members, provide better management of ESG (including climate) risks and reduce the carbon emissions associated with these investments;

- Updating our cash investments (in the Cash and Pre Retirement to Cash funds) to utilise a strategy that explicitly considers climate risks 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. The first phase (which accounted for the majority of the changes agreed) 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 (which has been updated as part of this year's report), 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-related 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 26.

Metrics and targets:
We have disclosed information on four climate-related metrics and our climate target for each of the DB and DC Sections of the Fund.

- **Climate-related metrics:**
  - Total Greenhouse Gas ("GHG") Emissions;
  - Carbon Footprint;
  - Data Quality; and
  - Portfolio Alignment.

- Over 2024, the total GHG emissions associated with our DC investments have decreased across a number of funds. Where emissions have risen 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 now have higher data availability on some of the corporate bond funds). A typical member's retirement savings in the Growth phase of the Default Option (the Lifetime Pathway) has seen a reduction in the overall GHG emissions on a like for like basis, driven by the changes made to the Fund's investments in January 2024 which have significantly reduced the carbon footprint of the Fund's default equity investments.

- **Climate target:**
  - We recognise the importance of transitioning to a Net Zero economy and have an overall ambition of reaching Net Zero portfolio emissions for the Fund by 2050.
  - To help fulfil this ambition, we have set a climate target that by 2027, 60% of the Fund's financed emissions originate from companies that 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.

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 at 31 December 2024, c.20% of the DB section's applicable financed emissions were deemed as being Paris-aligned. Of the remaining financed emissions, our latest assessment indicates that 10% of these are attributable to high impact companies that do not have a Paris-aligned pathway. Of these emissions, 9% are subject to climate related engagement by the relevant asset managers.

- As at 31 December 2024, 48% of the DC Section's financed emissions were deemed as being Paris-aligned. Of the remaining financed emissions, we have determined that 14% of these are attributable to high impact companies that do not have a Paris-aligned pathway. Of these emissions, 8% are subject to climate related engagement by the relevant asset managers. This is a meaningful improvement from last year's report where only 29.7% of the DC Section's financed emissions were deemed as being Paris-aligned, and 18% of the remaining financed emissions were attributable to companies that did not have a Paris-aligned pathway.

- We have actions in place to make further progress versus our target, including engaging with our managers to set expectations regarding stewardship and considering alternative investment strategies as necessary, and we continue to monitor our progress. The target will be reviewed each year as part of the Fund's TCFD framework by the Trustee, considering the Fund's progress and the broader market context and prevailing policy environment.

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 32.

Overview of the Fund

DB Section

Our investment 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 December 2024, the DB Section maintained total assets of c.£3,728m against total liabilities of c.£3,530m (ongoing basis), representing a funding position of c.106%.

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 that generate positive long-term returns to help the Fund meet its investment objectives.
- The Matching Plus Portfolio: This portfolio aims to achieve a modest positive returns by investing in assets that generate a predictable set of cashflows. These assets may have some element of interest rate and inflation sensitivity and 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 a 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 investment 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.89%, £234m: as at 31 December 2024).

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

DC Asset Allocation

Fund	Assets invested as at 31 December 2024 (£m)	Assets invested as at 31 December 2024 (%)
Growth*	149.6	56.9
Blended Assets*	61.0	23.2
Equities*	29.2	11.1
Pre-Retirement to Cash*	14.2	5.4
Other self-select fund options	9.0	3.4
Total	**262.9****	**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. ** Subject to rounding.

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.

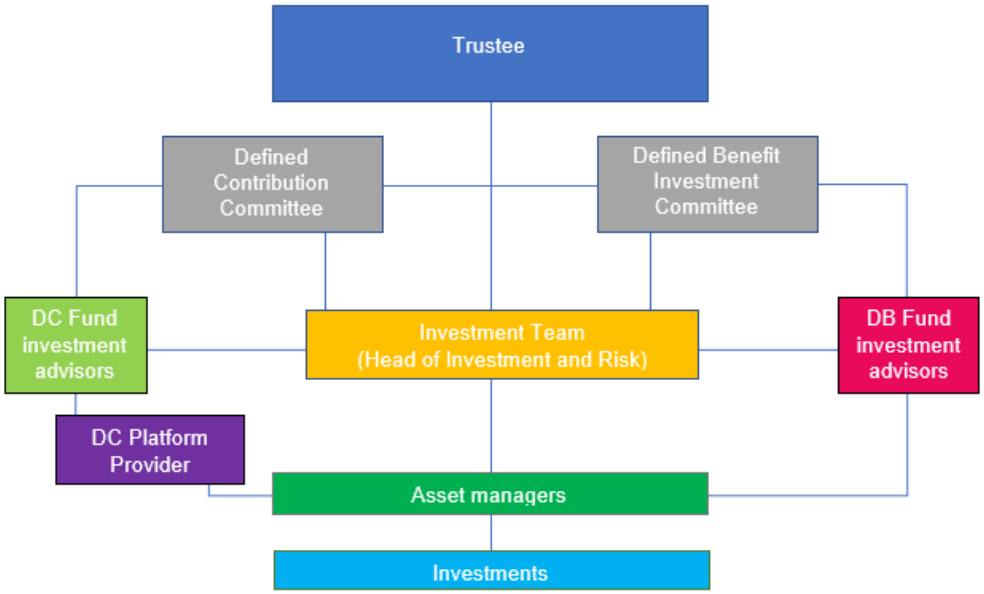
Our governance of climate-related risks and opportunities is underpinned by a set of responsible investment beliefs included within our Responsible Investment Policy. These beliefs are detailed in Appendix A.

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 December 2024 to provide further clarity on the Trustee's approach to structured engagement relating to climate risks and ongoing monitoring of advisers' climate credentials and expertise.

Governance structure

The Trustee, the DB Investment Committee, and the DC Committee are supported by the internal Investment Executive Team, headed by the Fund's Head of Investment and Risk. The Trustee may periodically establish working parties to provide extra support as required (e.g. to support the Trustee with its climate change disclosure requirements). Diagram 1 below outlines our Trustee's governance structure for dealing with climate-related risks and opportunities, with further details on the responsibilities of each of these parties set out in Appendix B.

Diagram 1: Governance Structure



Over the year to 31 December 2024, 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:

- The DBIC considered the ESG and Stewardship rating of its Global Equity and Buy & Maintain Credit managers.

- The DBIC also received training on latest stewardship best practice and developments in climate scenario analysis techniques used by asset owners.

- The DCC considered ESG ratings of its appointed investment managers on a quarterly basis over 2024 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 carried out their annual ESG deep-dive review in 2024, which includes 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.

- The DCC also received training on latest best practice and developments in quantitative climate change scenario analysis.

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 2024 and both the DB and DC investment advisors achieved the targets set by the Trustee.

The Trustee also undertakes periodic reviews of its other service providers, including actuarial and covenant advisors, in which competence in supporting the Trustee's Responsible Investing objectives is considered. A review of the investment advisors expertise and credentials was carried out over 2024 to ensure that the information and training provided to the Trustee reflects up-to-date best practices in climate and ESG-related governance. All advisers were found to have appropriate expertise.

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 and opportunities

Given the diversified nature of the Fund's investment portfolio we are conscious that 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.

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.

Time Horizon	Period	Details
Short term	<5 years	This relatively abrupt period will allow us to describe the short-term risks faced by the Fund from sudden climate-related behavioural changes. It incorporates our interim 2027 Net Zero ambition.
Medium term	5-25 years	This period encompasses a majority of the benefit payments due to members in the DB section. It also incorporates the current 2050 timeline associated with our Net Zero ambition.
Long term	25 years+	This period captures the impacts of climate change on members in the DB section which have multi-decade investment horizons.

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. The time horizons for the DC Section have been updated since our last report in order to reduce gaps between the horizons (e.g. 10-20 years) and also to align with the different phases of the Lifetime Pathway (i.e., Growth, Consolidation and Pre-Retirement phases):

Time Horizon	Period	Details
Short term	Up to 5 years *(previously 5 to 10 years)*	Reflects members closer to retirement. For members invested in the Default Option – the Lifetime Pathway – these members will be invested in a diversified range of assets with a gradually increasing allocation to cash.
Medium term	5 to 15 years *(previously 20 to 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	15 + years *(up to 30 years)* *(previously 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 climate change scenario analysis** to consider the potential impact on the funding position of the DB section and assets in the DC section 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

Quantitative climate scenario analysis helps us to assess the potential impacts of climate change on the funding and investment strategies using reasonably plausible climate change scenarios. We note that there is a reasonable level of uncertainty and complexity in building the scenarios and therefore they should not be considered as predictions of future events.

Our quantitative analysis was first completed in 2021 and 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. For this year's TCFD report, we have updated our climate change scenario analysis for both the DB and DC sections of the Fund.

The updated analysis is based on data as at 31 December 2024 for the DB Section, and as at 30 June 2024 for the DC Section. A description of the climate risks facing the Fund and the results from the 2024 scenario analysis for the DB and DC sections are provided below.

DB Section

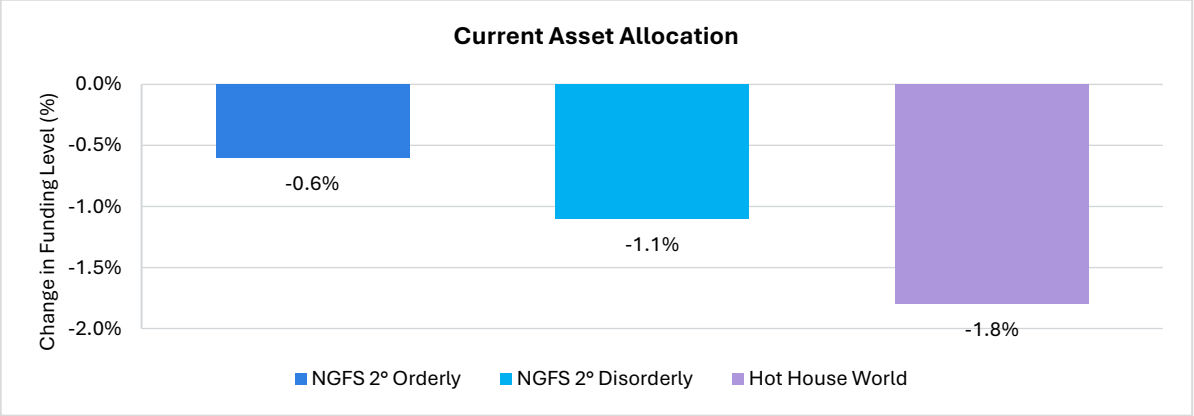
After reviewing the latest climate scenario methodologies and consulting with our investment advisors, we have adopted a new methodology to assess the impact on the Funding strategy for the DB section.

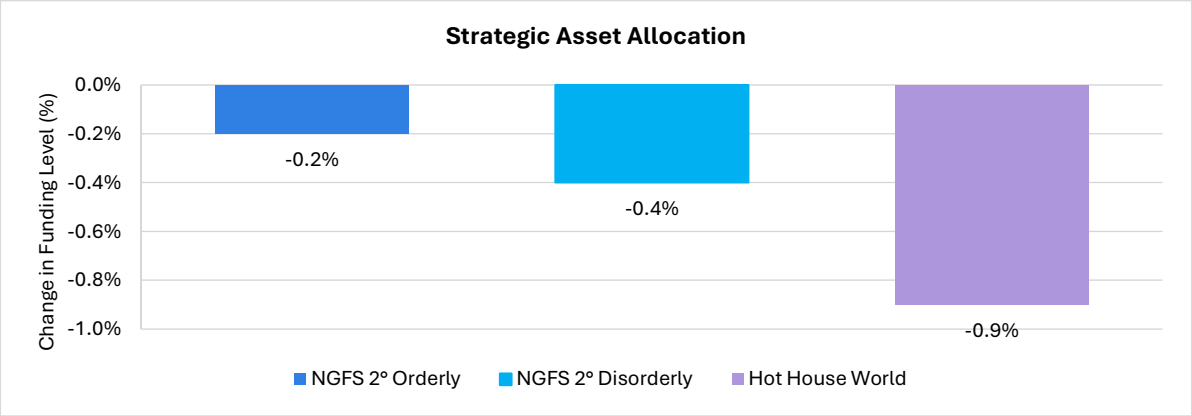
Our refreshed scenario analysis is based on the concepts of the Network for Greening the Financial System ("NGFS") Stress Tests, in keeping with regulatory requirements and industry peers. Please see *Appendix C* for further details on modelling methodologies and limitations. Summary details of each scenario are presented in the table below.

Scenario	Details
Scenario A (Orderly Transition)	Represents a situation where countries implement continual incremental changes. These gradual increases in the stringency of climate policies give a reasonable chance (67%) of limiting global warming to 2°C. Under this scenario the downside comes from a mix of **transition risk** and **physical risk**.
Scenario B (Disorderly Transition)	Represents a situation where rapid and unexpected policy changes impact many companies' profitability. This assumes annual emissions do not decrease until 2030 and a strong policy response is needed to limit warming to below 2°C. Under this scenario the downside risk comes primarily from **transition risk, with some physical risk**.
Scenario C (Hot House World)	Represents a tail risk global warming scenario. In particular what happens if a climate tipping point is reached, and warming is worse than predicted. Emissions decline but nonetheless lead global warming to more than 2°C. Under this scenario the downside risk comes almost entirely from **physical risk**.

Funding and Investment Scenario Analysis Results

The results of the Investment and Liability scenario analysis on the Fund's Current Asset Allocation and Strategic Asset Allocation are shown below, using the Fund's asset and liability position and market conditions as at 31 December 2024. This analysis was completed on the Fund's entire investment portfolio by our DB investment advisor.





Conclusions

When the stress tests are applied to the Fund's Current Asset Allocation, the estimated impact is a fall in the funding level ranging from c.0.6% - c.1.8%. When applied to the long-term Strategic Asset Allocation, the estimated impact is a fall in the funding level ranging from c.0.2% - c.0.9%. The larger impacts on the Current Asset Allocation arise from the allocation to illiquid and real assets. Across each scenario, these asset classes are expected to face more climate risk than the Fund's liquid asset classes (e.g. Global Equity, Corporate Bonds).

The results of the scenario analysis indicate to us how resilient the long-term Strategic Asset Allocation is with regards to various climate change outcomes, with the DB Section's current funding surplus not expected to be exhausted under any of the scenarios. While the Fund continues to transition towards the long-term Strategic Asset Allocation, we regularly assess our real asset exposure, including through regular engagement with our fund managers.

The results of climate scenario analysis on the Fund's investment strategy (as well as the impact of any climate-related investment opportunities) are incorporated into the investment decision-making process.

Although there are limitations, we believe that scenario analysis is useful in providing a high-level understanding of the potential impact of climate change on the Fund under different possible pathways.

Covenant Scenario Analysis

Our covenant advisor considered the resilience of our employer covenant under three scenarios broadly consistent with the scenarios considered for the funding and investment analysis. The assessment was based on Nestlé S.A., the consolidated group rather than the Fund's immediate sponsoring employers given their integrated nature.

Risks are categorised as 'higher', 'medium' and 'lower', but we note that this is a relative judgement and that higher risks do not necessarily indicate a concern around the resilience of the immediate sponsoring employer and/or Nestlé S.A. The summary output of our climate analysis on the covenant is set out in the table below:

	Near-term < 5 years	Medium-term 5- 15 years	Long-term Up to 2050
Orderly Transition	**Medium Risk**	**Medium Risk**	**Medium Risk**
Delayed Transition	**Lower Risk**	**Medium Risk**	**Higher Risk**
Hot House World	**Lower Risk**	**Higher Risk**	**Higher Risk**

Conclusions

The transition risks associated with new regulations and Nestlé S.A.'s relatively carbon-intensive supply chain have increased since the last assessment (2021), as we move closer to stated carbon reduction deadlines. These risks are materially compressed and raised in the "Delayed Transition" scenario.

The analysis indicated an increased risk of extreme weather events resulting in material disruption of Nestlé S.A.'s operations, under all scenarios. The highest risk to the covenant was assessed to be over the medium to long-term in the "Delayed Transition" and "Hot House World" scenarios. Over these time horizons, the impact of physical risk on Nestlé S.A.'s supply chain and operations was judged to be the most pronounced. This is because of their global nature and the potential for extreme weather events to increase in magnitude and frequency in the future.

In response to climate risks, Nestlé S.A. has produced a strategic response which sets out its transition plan towards achieving Net Zero in operations by 2030 and Net Zero across the value chain by 2050. Nestlé continues to progress against its targets and develop initiatives to minimise the effects of climate change on operations, which will help to mitigate risks if successfully delivered over time.

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 presented above shows that the Fund's investment and funding strategy appears to be relatively resilient in the different climate scenarios modelled.

The analysis indicates that climate risk to the investment strategy and to the sponsor is expected to be most significant under the "Hot House World" scenario, and that risk levels could increase towards the end of the Fund's journey plan. However, as noted previously, we acknowledge the limitations of current quantitative scenario analysis methodologies. We therefore continue to take a cautious approach to managing the Fund's climate risk, as outlined in the Risk Management section.

We do not plan to change the funding strategy for the DB Section based on the analysis. However, it continues to inform our engagement efforts to improve the Fund's climate risk profile. We will continue to monitor the climate risk of our funding and investment strategy and will explore options to reduce reliance on the employer covenant when opportunities arise.

DC Section

Scenario Analysis Results

We undertook scenario analysis stress testing in 2024 to test the resilience of the different DC member's retirement savings within the Lifetime Pathway (the Default Option) across three different climate scenarios[1].

We chose these scenarios because it believes that they provide a reasonable range of plausible climate change pathways. The scenarios chosen were designed by our DC investment advisors in conjunction with the Cambridge Institute for Sustainability Leadership, a well-respected industry think tank. Each scenario considers what might happen when transitioning to a low carbon economy under different conditions. These scenarios are based on detailed assumptions; they are illustrative and are subject to uncertainty.

Each of these scenarios has then also been compared to the 'base case' outcome: the 'base case' indicates the expected investment outcome based on the consensus long-term view which is currently priced into markets. The base case can be considered to be a broader expected outcome, whilst the other scenarios look at more specific climate outcomes

[1] 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 each scenario is given in the table below:

Scenario	Details	Temperature rise by 2100	Reach Net Zero by	Introduction of environmental regulation
Base Case Scenario	Emission reductions start now and continue in line with the objectives of the Paris Agreement and the UK Government's legally binding commitment to reduce emissions in the UK to Net Zero by 2050.	1.5ºC – 2.4ºC	2050	Uncoordinated
Scenario 1: 'Orderly Transition'	Immediate and coordinated action to tackle climate change is taken using carbon taxes and environmental regulation. *Most similar to the '2ºC Orderly Transition' used in the DB Section analysis*	1.3ºC - 2ºC	2050	Coordinated
Scenario 2: 'Abrupt Transition'	Action on climate change is delayed for 5 years, at which point governments are forced to address GHG emissions due to increasing extreme weather events. *Most similar to the 'Disorderly Transition' used in the DB Section analysis*	1.5ºC - 2ºC	2050	Aggressive
Scenario 3: 'Disorderly transition'	Action is delayed for 9 years, limited action taken and insufficient consideration is given to sustainable long-term polices to manage global warming effectively. *Most similar to the 'Hot House World' scenario used in the DB analysis*	<3ºC	After 2050	Late aggressive

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 have reviewed the impact of the scenarios on a broad range of members in different circumstances.

We considered the impact of the three scenarios above for four typical active members within the DC Section of the Fund:

- **Member A:** A young active member (aged 21) with a starting fund value of £0, a salary of £20,000 and ongoing contributions of 10% of their annual salary.
- **Member B**: A member aged 38 with a starting fund value of £20,000, a salary of £50,000 and ongoing contributions of 12.5% of their annual salary.
- **Member C:** A member aged 50 with a starting fund value of £23,000, a salary of £40,000 and ongoing contributions of 12.5% of their annual salary.
- **Member D:** A member aged 62 with a starting fund value of £10,000, a salary of £32,000 and ongoing contributions of 20% of their annual salary.

We have summarised the outcomes of the analysis below - more information of the outcomes for each typical member can be found in the appendices.

<u>Key takeaways – DC section scenario analysis results</u>

Across all scenarios and time horizons, **investment returns are still expected to be positive overall.** However, there is some variation in the projected outcomes under each scenario and over the different time horizons, and in some cases, members end up significantly worse-off relative to the base case.

The **worst outcome for almost all members is the disorderly transition whilst the best scenario is the orderly transition**. This however is reversed for Member D who is very close to retirement (5 years). Member D has a worse outcome under the orderly transition which assumes an immediate climate shock which would negatively impact asset values and leave Member D with little time to make back on any losses incurred prior to reaching retirement age.

Equity investments represent the biggest risk for members invested in the Lifetime Pathway and **are expected to fare the worst under any climate shock**. That said, our modelling shows that the ESG integration in place is expected to protect the value of members savings relative

to a non-ESG optimised portfolio (for example, Member A is 20% better off over 30 years under the disorderly outcome when using an ESG-optimised equity portfolio). We would therefore expect the **action that we have already taken** to embed consideration of climate risks within the Fund's default equity investments to **protect members from the worst of the outcomes across all scenarios.**

Diversification across asset classes **helps to reduce the size of falls in investment value** when climate shocks occur, meaning that members closer to retirement age (who are invested in a more diversified range of assets) tend to be more protected from climate-related shocks. However, the nature of the Lifetime Pathway (i.e. increasing diversification across asset classes when with 15 years of retirement age) can mean that members 'lock in' losses due to climate shocks by continuing to move away from growth assets after a negative shock occurs. This gives them less opportunity to make back on losses incurred. Should a significant shock occur, the structure of Lifetime Pathway could be reconsidered to give members within 15 years of retirement higher growth exposure in order to help them better recoup any losses incurred. **Ongoing contributions help to offset the impact of climate-related shocks** with larger contributions being more beneficial. **Climate-related impacts are likely to have worse effects on deferred members** who are not making ongoing contributions to their savings within the Fund.

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.

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

To supplement the quantitative analysis, we 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.

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 2024 to address these risks and capture investment opportunities are included in the **Risk Management** section.

Global Equities

Relevant to the DB and DC Sections

Risk exposure rating		Details
Physical	Transition	
Amber	Amber	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 a greater risk to global equities but note that in a world where global warming exceeds 2ºC relative to pre-industrial levels, it is possible that physical risks could also have a meaningful impact in the future, most likely in the long-term. Transition risks may emerge via: new regulations (e.g. carbon taxes, compliance activities) that increase costs for businesses; costs to switch to new technologies and cope with changing consumer demands; litigation from not complying with regulations; and reputational risks from failing to keep up with a green transition. We expect physical risks to be more significant in developing regions of the world where the Fund's equity investments currently have limited exposure. The Global Equity allocation in the DB section applies a filter that aims to invest in companies that are better placed to succeed under a future transition to a lower carbon economy. This is expected to lower the exposure to transition risks. The DC Section's developed market equity investments are made via funds 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. This is expected to lower exposure to transition risks. In 2024, we made further changes to the DC Section's emerging market equity investments by reducing the overall allocation from 14% to 10% and by moving from an index-tracking strategy (which had no explicit consideration of climate or wider ESG risks) to an actively managed strategy. This strategy is expected to offer additional performance potential but also better management of climate risks due to manager flexibility on underlying stock selection, more effective stewardship and an investment thesis that explicitly recognises climate as a material risk. We believe that this further reduces the overall exposure of the DC equity investments to climate risks.

Corporate Bonds

Relevant to the DB and DC Sections

Risk exposure rating		Details
Physical	**Transition**	
Amber	Amber	The exposure to climate-related risks is similar for corporate bonds and equities: moderate transition risk due to the diversified nature of our portfolios and increasing physical risk over time. However, because the Fund's investments in corporate bonds generally have durations that broadly correspond to the short and medium-term time horizons, the **exposure to long-term physical climate change risks is lower.** We therefore have an Amber rating. 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. We also note that 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. Similar to the Global Equity allocation, the corporate bonds in the DB section are selected based on a company's readiness to succeed under a future transition to a lower carbon economy. This is likely to lower the exposure to transition risks. In the DC Section, the corporate bond investments were switched in January 2024 to a fund that has a sustainability objective around contributing positively to the UN's Sustainable Development Goals, which includes climate risks and issues. We believe this change has further reduced 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 (the vast majority of the Fund's investments being in UK government bonds) where climate change risk is not expected to affect governments' ability to repay the principal value and/or interest payments of the bonds. However, we note that climate-related risks still exist – for example, flooding is an increasing risk within the UK which is likely to present a financial burden for the government. There may also be a financial burden in supporting the green transition e.g., tax breaks for green technologies or upgrading building insulation. These 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 are expected to have a high exposure to physical climate risks, particularly over the medium and long-term. This could materialise through direct property damage or damage to infrastructure. Transition risks also exist, for example through costs to improve insulation or retrofit buildings in line with new regulations, and/or trends such as tenants preferring eco-friendly buildings and therefore making some buildings difficult to rent in the future. Our real asset portfolios broadly consist of UK-based property and infrastructure assets, including wind and solar farms (with the latter only relevant to the DB Section of the Fund). Our infrastructure assets are therefore expected to face relatively lower transition and physical climate change risk compared to assets in other global geographical areas. 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 medium financial risk exposure over all time horizons for our real asset investments.

3. Risk management

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

We consider risks and opportunities 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. 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 2024, 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;
- Climate-related tail risks, their potential impacts on the Fund, and how they could be managed;
- Developments, guidance and limitations regarding climate scenario analysis techniques; and
- Latest stewardship best practice. This includes training on changes to the stewardship approach being taken for some of the DC investments which now have an explicit focus on decarbonisation progress.

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 recent years we have taken steps to actively incorporate climate-related considerations into the guidelines given to our investment managers. These actions include:

- **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 aims to restrict future investments to only companies that are classified as 'Paris Agreement-aligned' by our investment managers. This is 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 have recently completed a number of reviews of the DC investment strategy, including the Default Option (the Lifetime Pathway fund) and the self-select fund options. Following on from these reviews we have made several changes to the Fund's DC investments focussed not only on improving return potential and financial risk management for members, but also to embed consideration of climate and broader ESG risks within the investment process.

Changes made include:

- **Developed market equities**: switching to funds that 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. These funds are also managed under a decarbonisation-focussed stewardship policy.

- **Emerging market equities**: switching to an actively managed strategy which, relative to an index-tracking strategy, should have additional flexibility regarding where they choose to invest versus therefore supporting in the ongoing management of climate-related risks. The strategy has an objective to have a weighted average carbon intensity that is less than half of its benchmark and the appointed manager also has a strong approach to stewardship and a stewardship perspective.

- **Corporate bonds**: switch a portion of the corporate bond investments to a fund that seeks to contribute positively towards the achievement of the United Nation's Sustainable Development Goals (which includes climate-related goals) and is managed by a fund manager with a strong track record with regards to engagement.

- **Cash investments**: 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.

Risk management via stewardship

Where a climate-related risk has been identified as material, consistent with our broader investment objectives, this may be subject to further assessment by our investment 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 or specialist third-party providers where appropriate. They 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, or specialist third-party providers where appropriate, we recognise our responsibility to oversee the voting and engagement activities carried out on our behalf. The Fund's asset managers, or specialist third-party providers, are therefore required to provide qualitative and quantitative data on a regular basis regarding their recent voting and engagement activities.

DB Section:
In September 2024, 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 2024 and is due to be reviewed again in 2025 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 2024, 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 climate related metrics and climate risk exposure
- 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 for the Default Option could improve their activities around stewardship, primarily providing more transparent information and examples. Feedback has been provided to both managers, including our expectations for all managers within the Fund on stewardship on climate-related risks..

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

Risk Management via Scenario analysis

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

DB Section

For the DB Section, the results of the scenario analysis indicated that the Fund is most likely to be impacted in the longer term under the "Disorderly Transition" and "Hot House World" scenarios. The Fund's exposure to real assets and its legacy illiquid holdings were key drivers of these results. These assets are not the Trustee's primary focus, in part due to the likely time horizon over which material climate risks will manifest and their 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. That said, if a shock occurs in the short term (i.e., next 5 years), members close to retirement age may see their retirement fund value more negatively affected than other types of members as they have less time to make back any losses incurred.

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 2024 assessment for the DB section, completed using data as at 31 December 2023, highlighted that the portion of the companies within the Fund's overall portfolio deemed to be "climate laggards" remained broadly stable. This followed from significant reductions in prior periods.

In 2024, we opted to exercise a higher degree of control over the voting-focused stewardship activity related to our Global Equity mandate. Having assessed and considered the voting options available to us, we chose to appoint a third-party proxy voting provider who will implement a voting policy of our choice. Our selected voting policy closely aligns to our Core Themes, in turn increasing the likelihood that votes cast on our behalf will be a better reflection of our responsible investment beliefs (see Appendix A).

DC Section

The results of the 2024 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.

As part of the 2023 reporting, we had 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 replace this strategy with a new actively managed strategy in order to reduce the overall exposure to climate-related Watchlist breaches and improve the stewardship activities carried out on our behalf around these investments.

4. Metrics and targets

Our climate metrics

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 metrics are used to measure, manage and disclose climate risk as part of the Fund's investment decision-making process.

The chosen metrics are outlined in the table below. They allow us to identify opportunities for engagement with investment managers to understand their performance and undertake any appropriate remedial actions. The metrics are also used to monitor the Fund's performance versus our climate-related target outlined below.

In line with our governance and risk management processes, we receive an update on these metrics as part of the regular reporting provided by our investment advisors. We review our chosen metrics annually to ensure they remain appropriate for the Fund.

We have included additional details of these metrics, the methodology used to produce them, and their limitations in *Appendix E*.

Climate Metric	Details
Metric 1 - Absolute Emissions	Total greenhouse gas (GHG) emissions of the Fund's assets. Greenhouse gasses trap and hold heat in the Earth's atmosphere. Different GHGs have varying impacts on the atmosphere, with some GHGs more potent than others. In this report, Scope 1, 2 and 3 GHG emissions are expressed in tonnes of Carbon Dioxide equivalent (tCO2e). *See below for a description of the different types of emission scopes.*
Metric 2 – Emissions Intensity	Carbon footprint of the Fund's assets – i.e., total carbon dioxide emissions, normalised by the Fund's share of a company's capital structure – defined as Enterprise Value Including Cash ("EVIC"). This is measured as tonnes of CO2 equivalent emissions divided by £m invested (tCO2e/£m).

Metric 3 – Data Quality	**DB Section:** Assesses the reliability of publicly listed companies' emissions data by measuring the proportion of the emissions data that is reported by companies and independently verified, using the 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	Proportion of assets that have a verified Paris-aligned temperature pathway, i.e., a credible, verified target for achieving reduced carbon emissions or Net Zero by 2050. For data gathering purposes, we are currently focussing on assets that have a temperature pathway that has been verified by the Science-Based Targets initiative ("SBTi")[1].

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).

[1] For more details, please visit How it works – Science Based Targets

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.

Our targets were originally set on the assumption that the low-carbon transition would occur at a reasonable pace, in line with the goals of the Paris Agreement. So far, global progress against these goals has been slow and this may have implications for the Fund's future progress against its interim 2027 and long-term 2050 targets.

The Trustee remains supportive of a transition to a net zero economy and achieving net zero portfolio emissions, believing this is in the best long-term interests of members. Nevertheless, the Trustee is bound by its fiduciary duty and the prevailing policy environment.

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

Metrics Results: DB Section – as at 31 December 2024

The results of the analysis as at 31 December 2024, using the asset allocation of the Fund's DB Section 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 and Buy & Maintain Credit portfolios are calculated on a line-by-line basis, accounting for 62% of the Fund's non-LDI assets, with the remaining non-LDI assets, equal to 38%, 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.

- 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[1]. We also note for the assets held within LDI portfolios, namely sovereign bonds, unlike assets issued by companies it is not possible to attribute an EVIC. We therefore attribute sovereign bonds emissions based on PPP-adjusted GDP, making them incomparable with corporate emissions. 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 emissions estimate than the true level. The total Scope 1, 2 and 3 absolute emissions and carbon footprint are therefore reported separately.

[1] 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.

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 (Scope 1 & 2)	Data quality (Scope 3)	Proportion of assets with a verified Paris-aligned temperature pathway
Global Equities	99.8%	6,825	97,163	29	415	2.1	2.3	45.6%
Hedge Funds	N/A	4,804	26,332	89	490	N/A	N/A	N/A
Property	N/A	663	2,932	11	47	N/A	N/A	N/A
Private Equity	N/A	3,673	33,177	99	896	N/A	N/A	N/A
Structured Credit	N/A	5,042	51,236	36	370	N/A	N/A	N/A
Buy & Maintain Credit	89.2%	82,589	415,615	74	372	2.5	2.9	36.5%
Diversified Matching Illiquids	N/A	17,737	160,812	33	296	N/A	N/A	N/A
Total	N/A	121,333	787,267	56	360	N/A	N/A	N/A

Metrics 1 & 2 (LDI portfolio)

Metric	Result
Total Carbon Emissions (Production emissions - Scope 1) (tCO2e)	316,457
Total Carbon Emissions (Import emissions - Scope 2 & 3) (tCO2e)	212,323
Carbon Footprint (Production emissions - Scope 1) (tCO2e / PPP-adjusted GDP £m)	150
Carbon Footprint (Import emissions - Scope 2 & 3) (tCO2e / PPP adjusted GDP £m)	101

Scope 1, 2 and 3 of the Fund's sovereign emissions are reported separately to the Fund's corporate emissions due to differences in methodology. Sovereign emissions calculations use purchasing power parity-adjusted ("PPP-adjusted") GDP to measure the market capitalisation of a country as a standardised means of measuring and comparing the economic output of different countries.

The emissions buckets for sovereigns are different to those of corporates, with "Production emissions" (the emissions of everything produced in a country) broadly equivalent to Scope 1, and "Import emissions" (the emissions of what a country imports from other countries) equivalent to Scope 2 & 3 emissions.

Note: All DB section analysis is provided by the Fund's Investment Advisor, Redington Ltd ("Redington"), and the data in the report is sourced from MSCI©. Certain information ©2025 MSCI ESG Research LLC. Reproduced by permission. Please refer to the data disclaimer in Appendix DE.

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:

- Metric 3 is only applicable for mandates that have "line-by-line" emissions data available. As at 31 December 2024, only the Global Equities and Buy & Maintain Credit allocations met this criteria.
- Both allocations were estimated to have a Scope 1 and 2 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 by a third-party auditor. The Buy & Maintain Credit mandate has a Scope 3 PCAF score closer to 3, indicating that emissions are estimated based on the underlying companies' production data. This is around 2 for Global Equities.

Metric 4:

- Our Portfolio Alignment metric – SBTi Alignment Score – uses a methodology determined by the Science Based Targets Initiative[1]. 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 2024, 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 previous years that were intended to increase the overall allocation to companies with positive climate characteristics.
- As noted in the Risk Management section, we have implemented changes to the Buy & Maintain Credit allocations that will restrict future investments to only companies classified as

[1] We acknowledge that SBTi targets are based on voluntary targets set by corporations. In order for these to be achieved and the corporates to remain profitable, the policy environment will likely have to change. There is a risk that, without this change, the metric becomes less useful as voluntary action can only go so far.

'Paris Agreement-aligned' by our investment managers. This is expected to improve the Paris-aligned status of this allocation over time.

Performance Against Targets:

Our "Portfolio Alignment" target, and performance against this target are shown below:

*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.*

On the advice of investment adviser, we have adopted a new methodology to estimate progress against our target. This seeks to more accurately reflect the proportion of the Fund's financed emissions originating from companies with a verified Paris-Aligned temperature pathway.

(1) 20% of the financed emissions associated with our equity and credit assets are from companies with a verified Paris-Aligned temperature pathway. This is approximately in line with our 2022 baseline.
(2) Our latest assessment of the emissions that are not from companies with a verified Paris-Aligned temperature pathway indicates that 10% are attributable to high impact companies. We understand that 9% of the financed emissions are attributable to companies that have/are being engaged with by our appointed investment managers. This reflects a marginal reduction from the previous level of 13%, in large part due to a general reduction in the % of financed emissions from 'high impact' companies across our public equity and credit assets.

In recent years we have enacted various changes within the relevant asset classes to support improvement of the Scheme's alignment of the target. 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.
- Global Equities: integration of a third-party voting provider to align the ESG and climate-related voting activity with companies in the portfolio to our responsible investment beliefs.

These changes were adopted to deliver incremental progress against our target over time while balancing the Trustee's broader investment objectives, rather than bring about immediate and material progress towards our Paris Alignment target. Alongside our annual manager engagement process, we hope to make gradual progress against our target.

We continue to keep our target under review and are cognisant that it may need to be recalibrated in the future in keeping with our fiduciary duty, to account for the prevailing policy environment and global progress towards a low-carbon economy.

Metrics Results: DC Section – as of 31 December 2024

The calculated metrics for the DC Section of the Fund as of 31 December 2024 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-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. 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.

- The Growth, Equities, Blended Assets, Pre-Retirement to Cash, Ethical Growth, Corporate Bonds and Cash funds all underwent investment changes in January 2024. For Growth, Blended Assets and Ethical Growth, this included a change in asset allocation and therefore year on year metrics are not directly comparable.

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*	**2024**	**£149.6m (57%)**	**3,960**	**45,061**	**28**	**323**	**93%**	**93%**	**44%**
	2023	£119.4m (57%)	5,202	42,362	48	408	90%	87%	34%
Blended Assets*	**2024**	**61.0m (23%)**	**1,410**	**14,816**	**29**	**303**	**80%**	**80%**	**32%**
	2023	£49.8m (24%)	1,315	6,725	38	226	69%	60%	18%
Equities	**2024**	**£29.2m (11%)**	**782**	**9,132**	**28**	**327**	**96%**	**96%**	**48%**
	2023	£21.8m (10%)	1,082	9,811	50	455	99%	99%	41%
Pre-retirement to cash	**2024**	**£14.2m (5%)**	**6**	**1,291**	**0.5**	**95**	**96%**	**96%**	**4%**
	2023	£12.1m (6%)	664	Not available	65	Not available	84%	Not available	Not available

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
Ethical Growth* *2023 figures split into public (70%, top row) and sovereign investments (30%, bottom row)*	**2024**	**£2.8m (1%)**	**124**	**1,712**	**45**	**614**	**99%**	**99%**	**54%**
	2023	£2.3m (1%)	91	1,040	57	654	98%	98%	53%
			58	Not available	82	Not available	100%	Not available	N/A
Property *Listed assets (30%, top row) and real assets (70%, bottom row) shown separately*	**2024**	**£2.1m (1%)**	**4**	**34**	**6**	**55**	**97%**	**97%**	**50%**
			1.8	**1.3**	**1.2**	**14.2**	**100%**	**6%**	**Not applicable**
	2023	£2.0m (1%)	4	33	6	58	95%	95%	39%
			2.0	Not available	1.4	Not available	100%	Not available	Not available
Corporate Bonds	**2024**	**£1.1m (0%)**	**45**	**432**	**44**	**427**	**90%**	**90%**	**35%**
	2023	£1.0m (0%)	18	695	28	1,085	63%	63%	20%
Cash	**2024**	**£1.4m (1%)**	**0.6**	**125**	**0.5**	**95**	**96%**	**96%**	**4%**
	2023	£1.1m (1%)	59	Not available	65	Not available	84%	Not available	Not available

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
Ethical Consolidation *Split into public (15%, top row) and sovereign investments (85% bottom row)*	**2024**	**£0.7m (0%)**	**6**	**78**	**45**	**614**	**99%**	**99%**	**54%**
			63	**Not available**	**115**	**Not available**	**100%**	**Not available**	**Not applicable**
	2023	£0.6m (0%)	6	67	57	654	98%	98%	53%
			56	Not available	112	Not available	100%	Not available	Not available
Shariah	**2024**	**£0.7m (0%)**	**11**	**132**	**17**	**200**	**100%**	**100%**	**56%**
	2023	£0.3m (0%)	8	87	22	256	100%	100%	46%
Pre-retirement to annuity	2024	**£0.2m (0%)**	**12**	**65**	**66**	**679**	**81%**	**42%**	**31%**
	2023	£0.2m (0%)	8	44	61	605	78%	41%	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 30 June 2024 which reflects the latest available. *Growth, Blended Assets and Ethical Growth funds underwent asset allocation changes in January 2024.*

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.

- Positively, for a number of funds, we have seen a decrease in Scopes 1&2 emissions since 2023. Where Scope 1&2 emissions have risen, this is most likely driven by an increase in asset size – for example, the Blended Assets fund's carbon footprint has decreased since 2023 but total emissions have still risen slightly due to an increase in the overall assets in the fund. The Growth fund has seen a significant decrease in Scopes 1&2 emissions, despite an increase in asset size, driven by changes to the underlying portfolio over the year, in particular the removal of the sovereign investments and the change to the emerging market equity allocation, both of which have resulted in a decrease in carbon footprint.

- 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. Scope 3 emissions have risen notably for the Blended Assets fund, driven by a significant improvement in Scope 3 coverage for this fund.

Metric 2

- The highest carbon footprint (Scopes 1&2 only) comes from the sovereign investments within the Ethical Consolidation fund. We note that the calculation method for determining the carbon footprint of UK 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.

- All of the Lifetime Pathway Funds (Growth, Equities, Blended Assets and Pre-Retirement to Cash funds) have all seen a reduction in their Scopes 1&2 carbon footprint. For the Growth, Blended Assets and Pre-Retirement to Cash funds, this has been driven by changes to the underlying components of these funds, where the sovereign investments have been removed in favour of a higher allocation to developed equities with an explicit ESG objective. The new actively managed emerging markets mandate has also resulted in a lower carbon footprint for 2024. We see this as a positive change in that this has reduced the Fund's exposure to climate-related risks.

- Scope 3 carbon footprints have mostly fallen over 2024. We recognise that Scope 3 emissions are more difficult to calculate which can lead to volatility in figures and that in some cases, increases in carbon footprint are accompanied by an increase in portfolio coverage, as is the case with the Blended Assets fund (Scope 3 emissions have risen from 226 to 303, while

coverage has increased from 60% to 80%) and the Corporate Bonds fund. 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 typically lower for funds which invest across asset classes e.g. the Blended Assets fund and the Corporate Bonds fund, though we have positively seen significant improvements over 2024 (increases from c.60% to 80% and 90% respectively).

- Data coverage has generally improved versus 2023, with additional Scope 3 data now available for the Pre-Retirement to Cash and Cash funds. However, 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 Paris-aligned temperature pathways ranges from 4% (cash funds) to 56%. Positively, most funds have seen an improvement since 2023, with the others remaining broadly stable compared to last year.

- Given the portfolio alignment metric is forward looking, we may not expect large increases year on year. 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. 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	**2024**	**£234.3m (89%)**	**5,666**	**64,563**	**30**	**343**	**80%**	**80%**	**34%**
	2023	£188.3m (89%)	7,632	55,930	55	426	74%	70%	27%

Sources: LGIM, Schroders, Aon, MSCI, BlackRock, 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 31/12/2024.*

- 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. Scopes 1&2 emissions have fallen since 2023, driven by recent portfolio changes which have meaningfully reduced the carbon footprint of the component funds used within the Default Option. The Scope 3 carbon footprint has also fallen, however, the increase in total assets means that total Scope 3 carbon emissions have still increased.

- 34% of the underlying investments in the Default Option have a Paris-aligned temperature pathway that has been scientifically verified, which is an improvement on last year's figure of 27%.

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*	0.26	3.01	28	323	93%	93%	44%
Consolidation phase *5-10 yrs to retirement*	0.23	2.43	29	303	80%	80%	32%
Pre-retirement phase *2yrs to retirement*	0.10	1.52	11	170	89%	89%	15%

Sources: LGIM, Aon, MSCI, BlackRock, ***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 consistent with previous years and 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. We note however that emissions associated with the Growth phase are lower than in 2023 due to the changes made to the Growth funds in January 2024.

- Carbon emissions are marginally lower for the Consolidation Phase which may be due to lower data availability.

- The Pre-retirement phase has the lowest emissions across all scopes. This is driven by carbon data for the Pre-Retirement to Cash fund which was an explicit objective to take account of

environmental factors when investing with counterparts. This change has resulted in a significant reduction in carbon emissions within the Pre-retirement phase.

Performance Against Target:

As noted above, our climate-related target is as follows:

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 2024:

- 48.2% of the financed emissions associated with our equity and credit assets are SBTi aligned, a significant increase on last year's figure of 29.7%. This increase has been driven by the recent portfolio changes where newly implemented strategies have both lower emissions and higher SBTi alignment.

- Of the remaining emissions that are not related to SBTi aligned companies, 14.3% are attributable to high impact companies without a verified Paris-aligned pathway. We understand that 8.0% of the financed emissions are attributable to companies that have/are being engaged with by our appointed investment managers. Again, this is an improvement on last year where 18.5% of emissions were attributable to high impact companies without a verified Paris-aligned pathway, although a higher percentage of these emissions (11% vs 8% this year) have/were being engaged with.

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[1] is likely to be in the long-term financial interests of the Fund and its members and the Trustee will incorporate consideration of this goal into strategic decision making.
- 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.

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

Appendix B – Details of the key climate-related responsibilities

Responsibilities of the Trustee

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

Responsibilities of the Asset Managers

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

We require our appointed investment managers to be cognisant of climate-related risks and opportunities within their investment processes as applied to the assets of the Fund. Managers' investment strategy and decision-making with respect to climate-related factors are monitored and reviewed by our investment 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 – Network for Greening the Financial System ("NGFS") Stress Test Scenarios (DB Section only)

The NGFS is a group of central banks, supervisors, and observers committed to sharing best practices and developing environment-related risk management in the financial sector to support the low-carbon transition.

The NGFS scenarios have been developed to provide a common starting point for analysing climate risks to the economy and financial system. They incorporate important themes including increasing electrification and a spectrum of new technologies to tackle remaining hard-to-abate emissions. NGFS scenarios are periodically updated to reflect emerging best practice and developments in scientific findings.

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. These scenarios are:

- "Orderly Transition" (i.e. below 2° scenario),
- "Delayed Transition" (i.e. disorderly scenario), and
- "Hot House World"

<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.

We recognise that the approach to modelling the impact of climate risks is fast evolving and will keep this under review. We also recognise the limitations of the modelling. In particular:

- Any climate pathway reflects just one possible way to achieve a certain temperature goal while, in reality, many different pathways are possible for the same temperature outcome.
- Different models lead to different results, due to different model structures and assumptions.
- There is uncertainty around assumptions adopted; for example, ambitious scenarios depend on future (negative emissions) technologies such as carbon capture and storage.
- It is recognised that there are gaps in assumptions; for example, certain necessary changes to achieve net zero emissions, such as changes in lifestyle or economic systems, are not currently included.
- The asset allocation is assumed to remain constant throughout the modelling period, which is unlikely to happen in practice.

- The scenarios are intended to provide an indication of the risks to which the Fund might be exposed. They are not centralised cases, and are intended to be reflective of one of the many possibilities that may transpire as a result of climate change.
- The scenarios are not directly comparable between one year and the next as the impact of changes in assumptions can dwarf that of changes to a portfolio.

Liabilities

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 could have on the Fund's liabilities due to interest rate and inflation changes is expected to be offset by an 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.

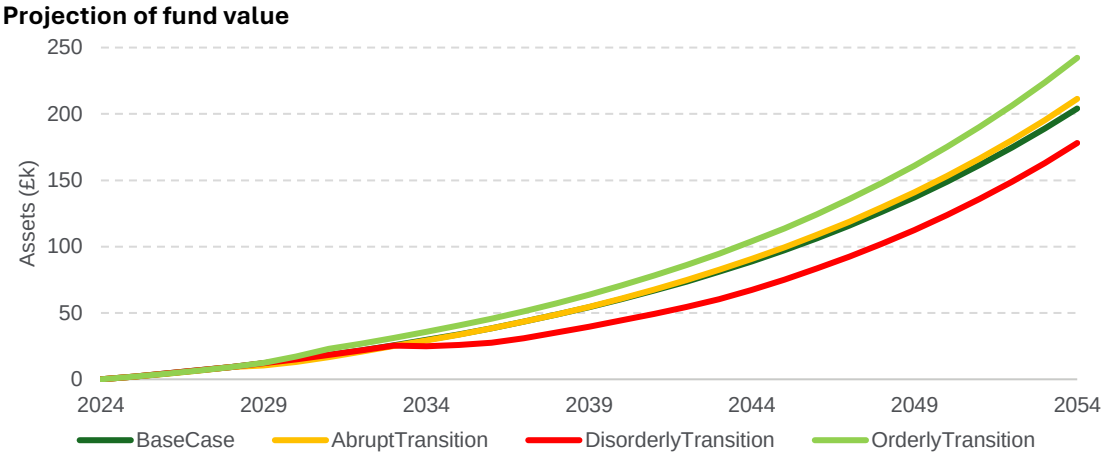
Appendix D – DC Quantitative Climate Change Scenario Analysis

Example members

For the DC section, we have used four representative active members at different ages and points of the Lifetime Pathway:

Member	Age	Salary	Salary increases (per year)	Contributions (per year)	Starting fund value	Retirement age
A	21	£20,000	1.5%	10%	£0	68
B	38	£50,000	1.5%	12.5%	£20,000	68
C	50	£40,000	1.5%	12.5%	£23,000	67
D	62	£32,000	1.5%	20%	£10,000	67

Member A



Outcomes are worst (as expected) under the **disorderly transition** scenario. This is because in this scenario we assume there is a downward shock to asset prices in 10 years time, with high-risk asset classes (equities) being hit the hardest. At the time of the shock, Member A has a 100% direct allocation to equities and so suffers a fall in fund value.

In the **orderly transition** scenario (when climate action is assumed to start immediately), Member A hardly suffers an initial downward shock as the current fund value is £0. Given the longer time to recover (30 years as opposed to 20 under the disorderly scenario) and a shift to a greener economy with higher overall returns, Member A's savings are able to grow over the period to retirement and end higher than the base case.

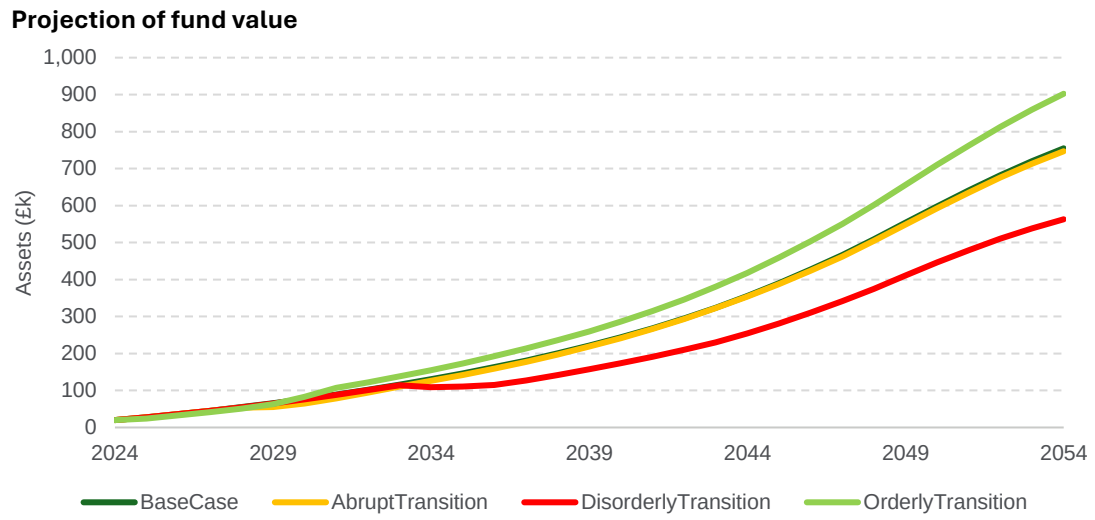
Under the **abrupt transition** scenario, performance is over the long-term similar to the base case. Although the abrupt downward shock happens around year 5 (resulting in lower short-term growth relative to the other scenarios), Member A's savings recover and grow by the time Member A reaches retirement age.

We also modelled a non-ESG integrated Equities fund to compare outcomes versus the ESG integration currently bedded in. The overall patterns were generally similar, with long-term outcomes best under the orderly transition and worst under the disorderly transition.

However, despite identical starting points, asset values are lower for the equity comparator (vs the ESG-integrated Equities portfolio) in nearly all scenarios (including base case) and over all time periods.

Over the long-term, outcomes under the ESG tilt are 0.4% - 20% higher. This indicates that even on a prudent basis we would expect member outcomes to be better when integrating ESG considerations into the investment process versus a non-ESG integrated equity index. This is particularly important for equity strategies which we would expect to be more negatively impacted by any climate-related shocks (policy related or physical).

Member B

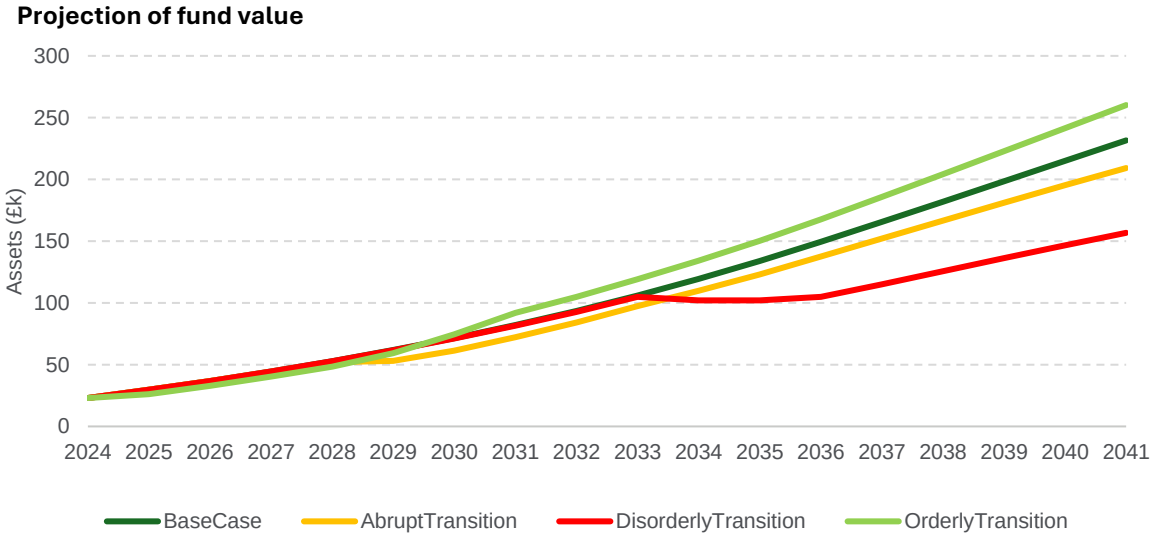


Given Member B is invested in the Growth phase of the Lifetime Pathway, the results are similar to that of Member A.

Outcomes are again worst under the **disorderly transition** scenario. Member B has a 100% direct allocation to equities, with their asset allocation shifting into more protective assets over the remaining 20 years to retirement. This means that as Member B continues to de-risk, they lock in the losses incurred under the shock and also have less opportunity to make back these losses by the time they reach their target retirement age. As a result, their investment growth under this scenario is less than Member A.

In the **orderly transition** scenario, Member B's savings have time to recover from the initial downward shock and end higher than the base case. Under the **abrupt transition** scenario, outcomes are similar to the base case. Although the abrupt downward shock happens around year 5, Member B's savings recover and grow by the time they reach retirement age as the member still has 25 years of investment growth (as well as ongoing contributions).

Member C

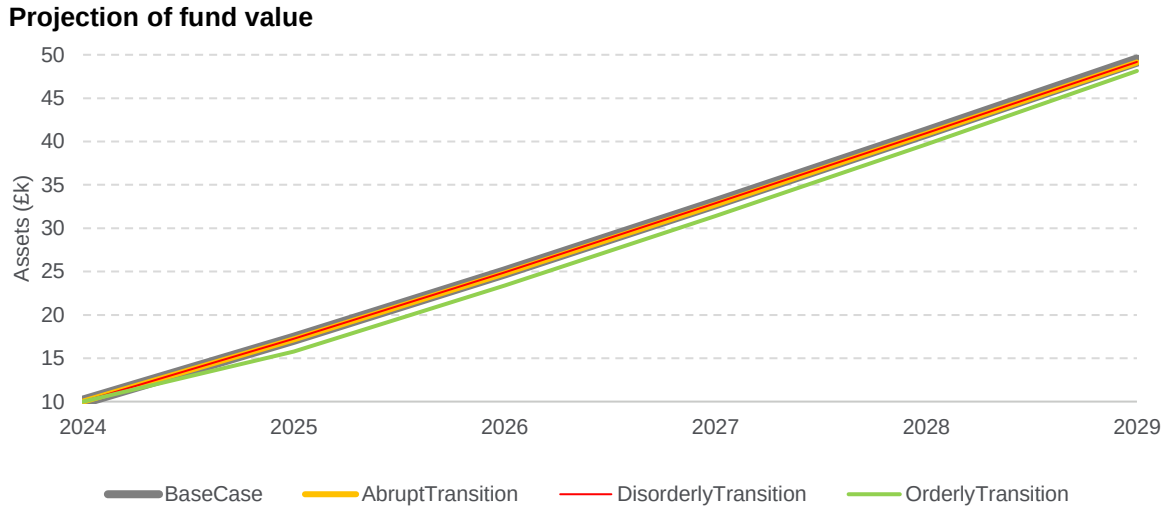


Outcomes are again worst under the **disorderly transition** scenario, for the same reasons as Members A and B. High-risk asset classes (equities) are hit the hardest by the shock in 2034 at which point Member C has a 45% allocation to Equities, with their asset allocation then shifting into more protective assets over the remaining 7 years to retirement. This means that as Member C continues to de-risk, they lock in the losses incurred under the shock and have less opportunity to make back these losses by retirement age.

In the **orderly transition** scenario, Member C suffers an initial downward shock although this is offset by ongoing contributions. However, given the longer time to recover (16 years as opposed to 7 under the disorderly scenario) and a shift to a greener economy with higher overall returns, Member C's savings are able to recover over the period to retirement and end higher than the base case.

Under the **abrupt transition** scenario, the downward shock happens around year 5 reducing the member's fund value. At the time of the shock, Member C has a c.65% allocation to Equities. Member C savings slowly recover as continued de-risking means they lock in some of the losses incurred under the shock. Ongoing contributions help to offset this but, unlike Members A and B, the member ends up worse off than the base case.

Member D



Member D is invested over a short-time horizon (5 years to retirement), this means performance and retirement outcomes under the **abrupt transition** and **disorderly transition** are very close to the base case scenario because the physical risks of climate change are yet to impact asset returns. When the climate shock hits at 2029 in the abrupt transition, the member is fully invested in cash and so their savings are not affected.

In the **orderly transition** scenario,, Member D suffers an initial downward shock to the value of their retirement savings, although this is relatively small given the diversified asset portfolio and high ongoing monthly contributions that help to offset the losses. There is a lower projected outcome for Member D under this scenario.

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	85%	10%	93%	93%
Blended Assets	76%	36%	80%	80%
Equities	87%	0%	96%	96%
Pre-retirement to cash	95%	0%	96%	96%
Ethical Growth	98%	77%	99%	99%
Property	97%	14%	99%	29%
Corporate Bonds	90%	90%	90%	90%
Cash	95%	0%	96%	96%
Ethical Consolidation	100%	12%	100%	15%
Pre-retirement to annuity	81%	34%	81%	42%
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 2024 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 30 June 2024 which is the latest data available.*
3. *Data for sovereign investments is based on reported emissions data for the UK economy. This is assumed to be 100% reported data.*
4. *Metrics for each blended fund have been calculated based on the strategic allocation across each component fund.*
5. *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 remainder of the Fund's non-LDI 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.

Due to lags in company carbon reporting, carbon footprint numbers have a one-to-two-year lag. EVICs and asset values are updated on an ongoing basis. This approach is consistent with the Partnership for Carbon Accounting Financials (PCAF) Financed Emissions standards, which encourage the use of the most up-to-date data without adjustment. However, this does create a mismatch between data items, which can affect the allocation of emissions to a portfolio.

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.

For sovereign emissions, production and import emissions are shown in line with the Department for Work and Pensions' guidance. For both of these, emissions are attributed to use PPP-adjusted GDP as recommended by PCAF. Sovereign emissions numbers only cover LDI which for most DB pension schemes represents the majority of their sovereign bond holdings.

Emissions metrics are 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.

Data Disclaimer:

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