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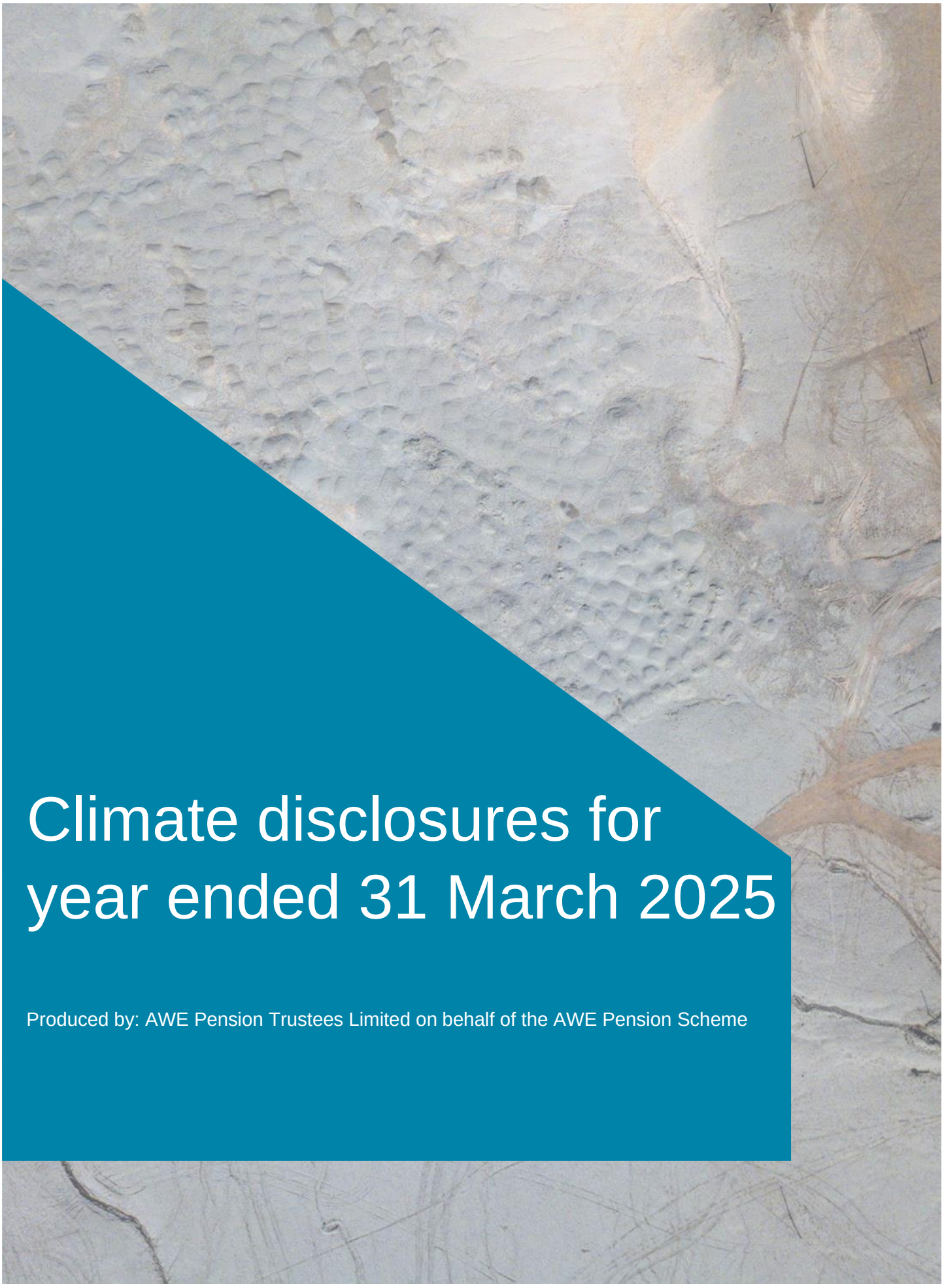


Climate disclosures for year ended 31 March 2025

Produced by: AWE Pension Trustees Limited on behalf of the AWE Pension Scheme

Introduction

Climate change is affecting the planet, causing extreme weather events, impacting crop production and threatening Earth's ecosystems. Understanding the impact of climate change and the AWE Pension Scheme's (the "Scheme") vulnerability to climate-related risks will help us to mitigate the risks and take advantage of any opportunities.

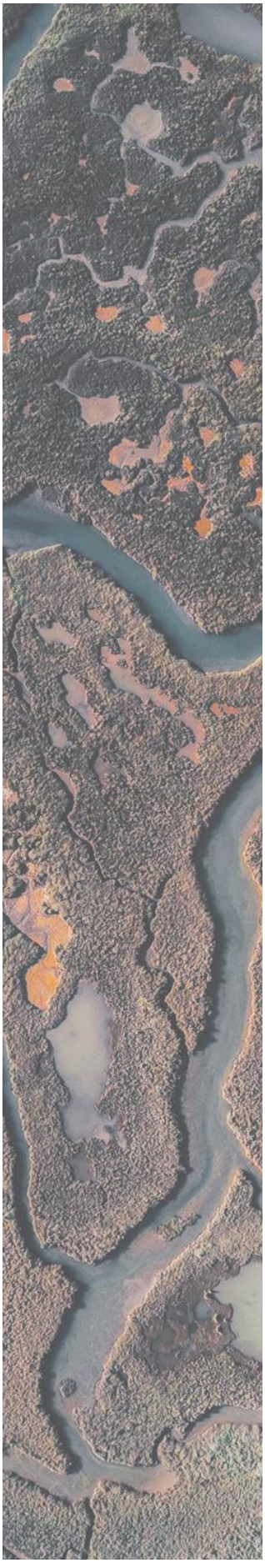
UK regulations require trustees of pension schemes with more than £1bn in assets to meet certain climate governance requirements and publish an annual report on their scheme's climate-related risks.

Better climate reporting should lead to better-informed decision-making on climate-related risks. And on top of that, greater transparency around climate-related risks should increase accountability and provide decision-useful information to investors and beneficiaries.

This report is the annual climate disclosures for the Scheme for the year ended 31 March 2025. The four elements covered in the report are:

1)	**Governance:**	The Scheme's governance around climate-related risks and opportunities.
2)	**Strategy:**	The potential impacts of climate-related risks and opportunities on the Scheme's strategy and financial planning.
3)	**Risk Management:**	The processes used to identify, assess and manage climate-related risks.
4)	**Metrics and Targets:**	The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

This report has been prepared by the AWE Pension Trustees Limited (the "Trustee", "we", "us") in accordance with the regulations set out under The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the "Regulations") and is aligned to the Taskforce for Climate-related Financial Disclosures ("TCFD") framework.



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Executive summary

This report sets out the actions that we, the Trustee, have taken to understand the potential impact climate change could have on the Scheme.

We have worked closely with our investment adviser to identify the climate-related risks and opportunities faced by the Scheme, and to understand ways we can manage and mitigate those risks.

Overview of the Scheme

The Scheme is a Defined Benefit ("DB") pension scheme invested in a range of assets, including alternatives, property, multi-asset credit and sovereign bonds.

Actual asset allocation as at 31 March 2025

Sovereign bonds	Property	Credit	Alternatives	Other
24%	9%	17%	40%	9%

Source: Managers. "Other" includes cash and derivatives.

Within this report we consider the impact of climate-related risks on these asset classes, the investment strategy and potential impact on the funding of the Scheme. The Trustee has been supported by its investment adviser, Aon Investments Limited ("Aon") in producing this report.

Governance

- We, the Trustee, take responsibility for ensuring that consideration of climate related risks and opportunities are integrated into the Scheme's investment strategy, implementation, and reporting.
- We have delegated oversight of climate change risk management to the Investment Committee ("IC") where it relates to investment and funding matters, to manage our response to climate risks and opportunities.
- We require our investment managers and advisers to take account of climate-related risks and opportunities in the roles that they perform for us and the Scheme. These are monitored through a bi-annual Environmental, Social and Governance ("ESG") Dashboard which covers a range of different ESG aspects, including climate change, and annual reporting on stewardship. As part of this we undertake ongoing engagement with our managers to help improve the quality of information they provide to complete this report.

Strategy

- Our qualitative analysis showed that the asset classes in which the Scheme invests in are impacted to some degree by climate-related risks and over time, the risk exposure is expected to increase. This is consistent with last year's findings.
- Our managers also identified several investment opportunities for the different asset classes. The decision on how to incorporate these opportunities is delegated to our investment managers.

- We conducted climate scenario analysis as at 31 March 2025, which showed the Scheme is much more resilient to climate-related risks compared to the 2022 analysis. The Scheme is still exposed to material risks under certain scenarios, due to the significant allocation to growth assets.

Risk Management

- We continued to follow our established process to identify, assess and manage the climate-related risks and opportunities the Scheme is exposed to. This is integrated into the Scheme's wider risk management framework.
- Our Climate Risk Management framework is set out on pages 22-24.
- Details of training we have undertaken through the Scheme year are included in the Governance Risk Management sections of this report.
- In addition, we have a clear policy on ESG considerations within our Statement of Investment Principles ("SIP") and a dedicated Responsible Investment policy, which includes the steps we take to monitor and assess ESG-related risks and opportunities.

Metrics and Targets

We have disclosed information on four climate-related metrics for the Scheme:

- Total Greenhouse Gas (GHG) Emissions.
- Carbon Footprint.
- Data Coverage.
- Portion of the portfolio with Net Zero, or Paris Aligned targets.

Our target is to achieve data coverage of at least 70% by 31 March 2027. The data coverage continues to improve across all asset classes in the Scheme's portfolio. We will continue to engage with the relevant investment managers where data gaps persist. These engagements aim to understand challenges with providing complete and consistent data, and find an appropriate solution. Where methodologies for certain assets are not yet developed, we will encourage our managers to participate in industry initiatives and consultations to develop these.

We are keen to understand the carbon emissions in the Scheme's portfolio but note that at the current time, data is limited for certain asset classes. We expect that in the future better information will be available from managers as the industry aligns to expectations and best practice standards. We have reported the emissions for the portion of the portfolio where we have been able to obtain carbon data. For now, we have reported emissions only for the parts of the portfolio where carbon data is available. As we get more complete data, our reported emissions and carbon footprint may go up, which is expected as data coverage improves.

We have implemented a climate-risk monitoring framework in line with the recommendations of the TCFD and will use this to continue to monitor the potential impacts of climate change on the Scheme.

We hope you enjoy reading this report and understanding more about how we are managing climate-related risks and opportunities within the Scheme.

AWE Pension Trustees Limited

Governance

Governance is the way the Scheme operates and the internal processes and controls in place to ensure appropriate oversight. Those undertaking governance activities are responsible for managing climate-related risks and opportunities. This includes us, as the Trustee, and others making Scheme-wide decisions, such as those relating to the investment strategy or how it is implemented.

Our Scheme's governance

As the Trustee of the Scheme, we are responsible for overseeing all strategic matters related to the Scheme. This includes the governance and management frameworks relating to ESG considerations and climate-related risks and opportunities.

We have discussed and agreed our climate related beliefs and overarching approach to managing climate change risk. Details are set out in our SIP, and Responsible Investment Policy. These documents are reviewed regularly, at least every three years.

Our climate beliefs

We, the Trustee of the AWE Pension Scheme, believe that the risks associated with climate change may have a detrimental impact on the Scheme's investment returns within the timeframe that we are concerned about. We are supportive of the key outcomes and goals from COP26, such as the Glasgow Climate Pact. As such, we integrate assessments of climate change risk into our investment decisions. Climate change, whether managed or unabated, carries direct risks through physical damage, changes in health, disruptions to the world economy etc. The global response to climate change carries consequential risks, through restructuring of the economy, regulatory changes, fiscal changes etc.

We influence and engage with our investment managers with regards to climate related factors, rather than simply divesting from assets that are currently not aligned. This approach is one that has the potential to have a real-world impact, which is important given the systemic risk posed by climate change and the potential macroeconomic impacts. We recognise that, ultimately, divestment is an option if engagement is not expected to achieve the desired results.

We liaise with the employer to understand its approach to climate change and take action where necessary.

Where possible, and appropriately aligned with our strategic objectives and fiduciary duty, we will consider investment opportunities linked to climate-related factors.

Climate-related risks and opportunities are integrated into our risk management framework so we can maintain oversight of the climate-related risks and opportunities that are relevant to the Scheme. Where appropriate, we consider transition and physical climate-related risks separately.

We receive training on an annual basis (or more frequently if required) on climate-related issues to ensure that we have the appropriate knowledge and understanding to support good decision-making.

We are responsible for oversight of all strategic matters relating to the Scheme. This includes approval of the governance and management framework relating to environmental, social and governance ("ESG") considerations and climate related risks and opportunities.

2025 Trustee update

Policy changes

Over the year, we reviewed our SIP and Responsible Investment Policy ensuring the policies set out previously were still in line with our Responsible Investment goals. We expect our investment managers to prioritise and actively monitor these risks within their respective investment processes, including ongoing engagement and voting activities.

Training

We received training on feedback shared by the Pensions Regulator regarding their latest review of TCFD reports, including recommendations for best practice. We also undertook a workshop covering the requirements for the Scheme's third year of TCFD reporting.

The purpose of this training session was to better equip us ahead of the preparation of our third TCFD report and to consider further actions to help protect the Scheme against potential climate-related risks.

We have delegated oversight of climate change risk management to the Investment Committee, a subset of the Trustee, where it relates to investment and funding matters. We are updated on material climate related developments on a regular basis (at least annually).

Role of the Investment Committee ("IC")

The key activities undertaken by the IC, with the support of our advisers, are to:

- ensure investment strategy or implementation proposals consider the impact of climate risks and opportunities.
- seek investment opportunities which enhance the ESG and climate change focus.
- engage with the investment managers to understand how climate risks are considered in their investment approach.
- ensure that stewardship activities are being undertaken appropriately by the investment managers.
- ensure that funding advice adequately incorporates climate related risk factors where they are relevant and material.
- to work with the investment managers to disclose relevant climate related metrics as set out in the TCFD recommendations; and
- to align the Scheme to the new requirements to report on climate related risk.

The IC monitors and review progress against our climate change risk management framework on a bi-annual basis. It will also monitor and review progress as part of the triennial valuation cycle, annual funding updates and monitoring of the covenant strength.

2025 Trustee update

The IC has undertaken activities throughout the year to ensure is the IC has understanding of how investment managers are incorporating climate risks and stewardship into their mandates.

This includes monitoring via a dashboard which focusses on ESG issues, including climate change, and annual reporting on stewardship activities (including voting and engagement).

TCFD-related items including climate-related risks and opportunities remained key discussion points for the IC and were considered as part of investment strategy and investment manager changes.

The IC kept us updated through regular updates.

How we work with our advisers

We expect our advisers and investment managers to bring important climate-related issues and developments to our attention in a timely manner. We expect our advisers and investment managers to have the appropriate knowledge on climate-related matters.

We annually review the quality of our advisers' provision of advice and support on climate-related issues. The IC will specifically work alongside our advisers to review, suggest and implement updates to the Scheme's approach to ESG. Then the IC advises the Trustee to develop views on Responsible Investment by providing appropriate training and monitoring performance of investment managers. For our investment adviser this is part of the annual review of investment consultant objectives.

Investment adviser - our investment adviser, Aon, provides investment related strategic and practical support to the IC in respect of the management of climate related risks and opportunities. This includes provision of regular training and updates on climate related issues, climate change scenario modelling and ESG ratings.

Scheme Actuary - the Scheme Actuary, at Government Actuary's Department, helps the IC assess the potential impact of climate related risks on funding.

2025 Trustee update

We have set clear expectations for our investment advisers around the need to bring important and relevant climate-related issues and developments to our attention in a timely manner.

Strategy

It is crucial to think strategically about the climate-related risks and opportunities that will impact the Scheme if we are to stand a chance of mitigating the effects of climate change.

Assessing the climate-related risks and opportunities the Scheme is exposed to is key to understanding the impact climate change could have on the Scheme in the future.

What climate-related risks are most likely to impact the Scheme?

Each year, we carry out a qualitative risk assessment of the asset classes the Scheme is invested in. From this we identify which climate-related risks could have a material impact on the Scheme. We also identify suitable climate-related opportunities.

Given the number of asset classes the Scheme invests in, we completed this exercise to the best of our ability. To help us with our assessment, we surveyed our investment managers asking them to rate the climate-related risks and opportunities they believe their fund(s) is exposed to. At the time of writing one manager (Partners Group) has not been able to provide any information for the risk assessment, which is a relatively small portion of the Scheme's portfolio (c.6%). We are engaging with the manager, with support from our investment consultant Aon, to encourage it to better support our understanding of climate risks. Also, the analysis excludes synthetic equity and cash given limited ability to measure climate-related risks for these asset classes.

Over the reporting year we took action to align the Scheme's investment strategy with its long-term objectives, some of the relevant strategy changes included:

- Restructuring the Scheme's sovereign bond (or 'gilt') portfolio.
- Reducing synthetic equity exposure to 15% of total Scheme assets, materially reducing leverage.
- Instructing a termination of the JP Morgan hedge fund mandate.

Trustee's update

During the last year of reporting, we asked our investment managers to assess their exposure to climate-related risks for the funds the Scheme is invested in. This year, we asked our managers to review their risk assessments and update them if necessary.

How the risk assessment works

Risk categories

In the analysis, the climate-related risks have been categorised into physical and transition risks.

Physical risks are associated with the physical impacts of climate change on companies' operations.

Transition risks are associated with the transition towards a low-carbon economy.

Ratings

The analysis uses a RAG rating system where:

Red denotes a high level of financial exposure to a risk.

Amber denotes a medium level of financial exposure to a risk.

Green denotes a low level of financial exposure to a risk.

Time horizons

We assessed the climate-related risks and opportunities over multiple time horizons considering the liabilities of the Scheme and its obligations to pay benefits. We decided the most appropriate time horizons for the Scheme are:

- short term: 1-3 years
- medium term: 4-10 years
- long term: 11-20 years

More details about transition and physical risks can be found in the *Appendix*.

Climate-related risk assessment

Key conclusions

Diversification across asset classes, sectors and regions is important to manage climate-related physical and transition risks for the Scheme. The climate-risk assessment of the Scheme's assets this year is similar to prior year's analysis, demonstrating broadly increasing climate-related risk exposure over time.

The Scheme's sovereign bond manager assessed the **sovereign bonds** as low risk across all three-time frames. The manager indicated that any negative changes in gilt prices and yields will impact both the assets and liabilities equally, resulting in minimal financial consequences for the Scheme.

The Scheme's **Property** assets were assessed as predominantly medium risk. Acute risks are a medium concern at all time horizons, while chronic risks become more significant in the long term. Transitional risks are deemed medium risk across regulatory, market, and reputation categories, indicating the potential for immediate impact.

The Scheme's **Multi-Asset Credit** manager perceives low physical risks in the short- and medium- term but expects long-term risks to be significant, especially from potential severe weather events and rising sea levels. For transitional risks, regulatory and market risks are considered low overall, despite increased pressure to reduce emissions. Reputational risks are anticipated to worsen in the long term as companies adapt to climate pressures, while technological risks are considered medium across all time horizons due to high costs and slow adoption of clean technology, which offset potential benefits.

The Scheme's **Alternative** assets face medium to high acute physical risk exposure due to the impact of severe weather events. Chronic risks are low initially but rise over time. Transitional risks are low to medium in the short term, mainly due to regulatory and legal pressures in utilities and energy sectors. Technological risks increase over time as industries shift to cleaner methods, while long-term market risks stem from changing customer behaviour and rising costs of raw materials. Reputational risks remain low across all timeframes.

How are we mitigating these risks:
Proactive steps which the Trustee has taken over the year to mitigate climate-related risks, include:

- close monitoring of stewardship/climate-related activities carried out by our investment managers (to ensure they are appropriately engaging with investee companies on the management of climate risks);
- selecting new equity and credit investment managers (post year-end), taking an active approach to impact/sustainable investment;
- utilising actively managed strategies where appropriate (allowing greater scope to select investments whilst accounting for climate-related risks and opportunities); and
- engaging with our investment managers when we have identified inadequate management of climate-related risks. This is undertaken at least twice a year.

The tables below summarise the physical and transition risks for each asset class the Scheme is invested in.

Sovereign bonds – 24% of portfolio

Physical Risks

	Acute	Chronic
Short	G	G
Medium	G	G
Long	G	G

The Scheme's sovereign bond manager considers the physical risks to be green as any adverse movements in gilt prices affects the assets and liabilities equally and so there will be minimal financial impact on the Scheme.

Source: Manager

Transitional Risks

	Regulatory	Technology	Market	Reputation
Short	G	G	G	G
Medium	G	G	G	G
Long	G	G	G	G

The Scheme's sovereign bond manager sees transition risks for the government as loss of revenue from taxes on fossil fuels and subsidies on green energy. If either of these risks resulted in costs to the UK government, there may be an increase in the issuance of debt and a potential increase in yields, reducing the value of the UK sovereign bonds. However, the manager sees this as a low risk as liabilities would be impacted in a similar way.

Property – 9% of portfolio

Physical Risks

	Acute	Chronic
Short	A	G
Medium	A	G
Long	A	A

The short-term physical risks are rated as medium for acute risks due to increased capital expenditure, maintenance, and insurance costs driven by extreme weather events, which also lead to higher yields due to higher perceived risks. Chronic risks are rated as low in the short term, as longer-term issues like rising sea levels are not expected to significantly impact assets within this timeframe.

However, the risk exposure increases in the long term as these chronic risks could lead to lower revenue and decreased tenant demand due to disruptions in operations and infrastructure.

Source: Managers

Transitional Risks

	Regulatory	Technology	Market	Reputation
Short	A	G	A	A
Medium	A	A	A	A
Long	A	A	A	A

In the short term, transitional risks are rated medium across the regulatory, market, and reputation categories, indicating the potential for immediate impact. In the medium term, these risks continue to persist due to increased capital expenditure, higher operating costs from carbon charges, and reduced revenue from carbon-intensive assets affected by tenant ESG commitments.

In the long term, these risks stay at a medium level, highlighting the need for ongoing strategic attention to manage these transitional risks effectively.

Multi-Asset Credit – 17% of portfolio

Physical Risks

	Acute	Chronic
Short	G	G
Medium	G	G
Long	R	R

The Scheme's multi-asset credit manager perceives minimal physical risks in the short and medium term.

Nonetheless, it anticipates that, over the long term, advancements in tools for assessing and analysing physical risks will improve, making the integration of these risks into investment decisions crucial.

Additionally, the manager foresees that, in the long term, the risk of more severe weather events and rising sea levels will be significant if the impact of climate change remain unaddressed.

Transitional Risks

	Regulatory	Technology	Market	Reputation
Short	G	A	G	G
Medium	G	A	A	R
Long	G	A	A	R

Despite the anticipation of increased pressure from investors and governments to reduce emissions, which could significantly impact issuers, the overall portfolio impact of regulatory risk is expected to be limited in the context of larger multi-national issuers where cost of increased reporting can be reduced.

In the long term, reputational risks are considered high as companies are expected to adapt their brands and business models to sustain customer demand amid rising climate pressures.

Technological risks are considered medium risk across all time horizons due to the high costs but slow market adoption of new technologies which balance out the risks.

Source: Manager

Alternatives – 40% of portfolio

Physical Risks

	Acute	Chronic
Short	A	G
Medium	A	A
Long	R	A

In the short term, acute physical risks are considered to be a medium risk due to severe weather affecting operations and finances. In the medium term, acute risks remain a medium risk, requiring technology and insurance investments to evaluate asset-level exposures to climate risks like extreme heat and flooding.

Overtime, chronic risks rise, impacting sectors such as Food and Beverage, and Leisure and Tourism due to climate change affecting crop production and demand respectively. In the long term, acute risks worsen, whereby physical risks may become critical across industries. Chronic risks stay limited in North America and Europe but increase across Emerging Markets and sectors like food and beverage, and agriculture.

Source: Managers

Transitional Risks

	Regulatory	Technology	Market	Reputation
Short	A	G	A	G
Medium	A	A	A	G
Long	A	A	R	G

In the short term, managers face low to medium risks due to policy and legal pressures, particularly in the Utilities and Energy sectors, which may incur financial strain from necessary adaptations.

Technological risks are low in the short-term but become significant as banks reduce lending to carbon-intensive industries, forcing costly transitions to cleaner methods. High market risks in the long-term arise from changing customer behaviour and potential increased cost of raw materials, affecting demand and pricing. Reputational risks remain low overtime, with no immediate concerns.

Climate-related opportunities

We have identified some climate-related opportunities which may be suitable for the Scheme over the short-, medium- and long-term time horizons.

Multi-Asset Credit	The Scheme's manager identified the following climate-related investment opportunities: • There is a growing issuance of green bonds, sustainability-linked bonds, and loans with margin ratchets tied to sustainability performance within the high yield bond and leveraged loan asset classes. These instruments provide opportunities for investment in companies committed to projects with an environmental impact. • Enhanced disclosure from issuers, particularly in global high yield, is improving steadily allowing for more detailed analysis of sustainability profiles and decarbonisation efforts. This transparency supports informed investment decisions and the identification of companies with strong ESG commitments.
Property	The Scheme's managers outlined several climate-related investment opportunities: • Resource Efficiency: Opportunities in adopting more efficient modes of transport, production, and distribution processes, as well as transitioning to more efficient buildings. Reduced water usage and consumption can further enhance resource efficiency. • Energy Source: The portfolio can benefit from using lower-emission energy sources, leveraging supportive policy incentives, and adopting new technologies.
Alternatives	The Scheme's manager identified several climate-related investment opportunities: **Short-term** • Companies can benefit from an early-move advantage when looking to integrate climate-related features into their operations and transition plans. • Higher rental premiums from assets with Energy Performance Certificates. **Medium-term** • Renewable energy production, infrastructure and 'Green transport' with non-combustion propulsion • Sustainable food and agriculture, alongside alternative packaging production due to sustainable/biodegradable alternatives. **Long-term** • Possibility to enhance returns through use of renewable energy e.g., adding rooftop solar to industrial assets

Source: Managers

How resilient is the Scheme to climate change?

This year we carried out climate change scenario analysis to better understand the impact climate change could have on the Scheme's assets and liabilities.

The analysis looks at five climate change scenarios. We chose these scenarios because we believe that they provide a reasonable range of possible climate change outcomes. The climate scenarios are compared to a "base case" scenario.

Each climate scenario considers what may happen to the Scheme when transitioning to a low carbon economy under different temperature-related environmental conditions. These scenarios were developed by Aon and are based on detailed assumptions. They are only illustrative and are subject to considerable uncertainty.

The climate scenarios intend to illustrate the climate-related risks the Scheme is currently exposed to, highlighting areas where risk mitigation could be achieved through changing the investment portfolio.

Other relevant issues such as governance, costs, and implementation (including manager selection and due diligence) must be considered when making changes to the investment strategy.

Investment risk is captured in the deviance from the Base Case, but this is not the only risk that the Scheme faces. Other risks include covenant risk, longevity risk, timing of member options, basis risks and operational risks.

Trustee update

Under the Regulations, climate scenario analysis must be carried out at least every 3 years, with an annual review in interim years. Circumstances which may require the climate scenario analysis to be re-done may include but are not limited to:

- a significant/material change to the investment and/or funding strategy; or
- the availability of new or improved scenarios or modelling capabilities or events that might reasonably be thought to impact key assumptions underlying scenarios.

Given the significant changes made to the Scheme's investment strategy over the reporting year, we considered it appropriate to update the scenario analysis this year. As further changes are ongoing, the analysis on assumptions aligned with the long-term strategic target asset allocation.

Details of the climate scenarios we chose are set out in the table below.

Scenario	Reach net zero by	Warming vs pre-industrial levels by 2100	Introduction of environmental regulation	Scenario description
Base Case	2050	+1.5ºC - 2.4ºC	Fragmented policy coordination	Emission reductions start now and continue in a measured way 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.
No Transition	After 2050	+4ºC	None	No new climate policies are implemented beyond 2025, leading to significant global warming and increased exposure to physical climate change risks.
Disorderly Transition	After 2050	<3ºC	Late and aggressive	Action delayed for 10 years, Limited action is taken and insufficient consideration is given to sustainable long-term policies to manage global warming effectively.
Orderly Transition	2050	1.3 ºC - 2ºC	Coordinated	Immediate and coordinated action to tackle climate change is taken using carbon taxes and environmental regulation.
Abrupt Transition	2050	1.5 ºC - 2ºC	Aggressive	Action on climate change is delayed for four years at which point, governments are forced to address GHG emissions due to increasing extreme weather events.
Disinflationary Transition	2045	<1.5ºC	High coordination	Rapid advancement of green technology and government action on climate change drives a smooth transition to a low carbon economy.

Source: Aon.

Impact Assessment

Key conclusions

The analysis showed the Scheme's strategy shows some resilience under some of the climate scenarios. However, there are some scenarios that are likely to have a negative impact on the Scheme's funding. This exposure is primarily due to three factors: a high allocation to growth assets; a low level of interest rate and inflation hedging; and the Scheme's increasing maturity over the next 10 years.

Scenarios involving a planned or gradual climate transition (**Disinflationary** and **Orderly Transition**) lead to better funding outcomes over time. In contrast, abrupt or disorderly transitions, or no transition at all, are associated with declining funding levels, with the **Disorderly Transition** scenario posing the greatest risk. This suggests that proactive and well-managed climate strategies are critical for maintaining or improving funding levels in the long-term.

We observed that the range of outcomes under the five scenarios is smaller than the previous analysis completed in 2022.

The largest short-term risk faced by the Scheme is the **Orderly Transition** scenario. This is due to high inflation and poor equity performance having a negative impact on asset returns. This suggests that a sudden climate policy shift could quickly erode funding levels even in the short-term; this is followed by a material recovery in later years.

In the medium-term, the two worst outcomes are the **Abrupt Transition** and the **Disorderly Transition** scenarios. Under the **Abrupt Transition** scenario the funding level falls to around 80% by 2031, and although it stabilises, it remains below the other scenarios. The **Disorderly Transition** scenario, after a brief improvement, begins a steep decline after 2032, dropping below 80% by 2035.

In the long-term, the **Disorderly Transition** scenario suffers the most, with the funding level declining steadily to around 60% by 2045.
The **Abrupt Transition** and **No Transition** scenarios also fall, ending near 70% and 80%, respectively. These outcomes suggest that failure to transition effectively, or doing so in a disorderly or abrupt manner, can have severe negative impacts on the funding level over the long term.

We will continue to consider how these risks may be mitigated as part of the Scheme's ongoing strategy review with support from our investment consultant, Aon.

The table below describes the impact of each scenario on the Scheme over the short-, medium- and long-term time horizons. The effective date of the impact assessment is 31 March 2025.

Base case Temperature rise +1.5ºC- 2.4ºC Reach net-zero by 2050 Uncoordinated environmental regulation	Summary of the Scenario The base case is based on Aon's Capital Market Assumptions which consider what is currently priced into the market. This includes climate-related impact. In the base case, action is taken to tackle climate change, but the approach is fragmented. The transition to a low carbon economy is expected to happen in a slow but orderly fashion.	Summary of the impact to the Scheme The funding level gently increases accelerating over time.
No Transition Scenario Temperature rise +4ºC Reach net-zero After 2050 No environmental regulation	Summary of the Scenario **In the short term:** No action is taken to combat climate change. **In the medium term:** No action is taken to combat climate change. Impacts from physical risks gradually become more severe other time leading to a drag on economic growth and risk asset returns. **In the long term:** Climate change headwinds grow and act as a drag on economic growth and asset returns. Impacts from physical risks become more severe and irreversible.	Summary of the impact to the Scheme **In the short term:** There is no initial impact on the Scheme as the performance of the assets and the funding level is expected to follow a similar path to the base case. **In the medium term:** The funding level stays relatively stable before beginning to deteriorate near the end of the period. **In the long term:** The funding level increasingly deteriorates as a result of the impact on assets returns, falling to below 80% by the end of the modelling period. The Scheme's sponsor may be required to make up any funding shortfall.
Disorderly Scenario Temperature rise <3°C Reach net-zero After 2050 Late and aggressive environmental regulation	Summary of the Scenario **In the short term:** Insufficient consideration given to long-term policies and there is no action taken to combat climate change. **In the medium term:** Late but coordinated action is taken to tackle climate change. The late timing means it is less effective and more costly to implement. Adverse impacts from climate change leads to a drag on risk assets. **In the long term:** After the costly implementation to tackle climate change and the resulting drag on risky assets, the transition to clean technologies and green regulation begins to boost economic growth when considering the very long term. However, the late and disorderly climate transition means that physical climate risks remain prominent over the very long term.	Summary of the impact to the Scheme **In the short term:** There is no initial impact on the Scheme as the performance of the assets, and the funding level is expected to follow a similar path to the base case. **In the medium term:** The funding level peaks due to gains in assets before sharply deteriorating as a result of late and aggressive action to tackle climate change. This may lead to the Scheme's sponsor being required to make up any funding shortfall. **In the long term:** The funding level continues to deteriorate and does not recover by the end of the 20-year time horizon, leaving the Scheme materially worse off relative to the base case. This is driven by increasing value of the liabilities, low levels of hedging, and increasing maturity of the Scheme. This is the worst-case scenario for the Scheme

Orderly Scenario Temperature rise 1.3°C - 2°C Reach net-zero 2050 Coordinated Environmental regulation	Summary of the Scenario	Summary of the impact to the Scheme
	In the short term: Immediate coordinated global action is taken to tackle climate change. Risky assets perform poorly.	**In the short term:** The Scheme experiences a sudden fall in funding level as a result of poor assets returns. This could lead to the Scheme's sponsor being required to make up the shortfall via contributions.
	In the medium term: The rapid transition to clean technologies and green regulation begins to boost economic growth.	**In the medium term:** The funding position begins to recover as risky assets perform well, benefiting from economic growth. The Scheme enters a surplus position.
	In the long term: The rapid shift to clean technologies and green regulation drives strong economic growth, marking the fastest green economy transition with minimal physical impacts from climate change despite high initial costs.	**In the long term:** The funding position continues to stay in surplus and outperforms the base case.
Abrupt Scenario Temperature rise 1.5°C - 2°C Reach net-zero 2050 Aggressive environmental regulation	Summary of the Scenario	Summary of the impact to the Scheme
	In the short term: Despite growing public awareness, material action is not undertaken to combat climate change.	**In the short term:** The funding level initially follows a similar path to the base case.
	In the medium term: Increasing effects of extreme weather lead to a rapid introduction of policies to tackle climate change. The delayed action leads to higher costs to tackle climate change and risky assets perform poorly as a result. The higher costs are the result for the economy being forced to transition away from fossil fuels.	**In the medium term:** The funding level experiences a sudden fall of nearly 20%, because of the higher cost to implement steps to tackle climate change which leads to assets returns performing poorly and the value of the liabilities increasing. The funding level then starts to recover as the economy begins to recover but the Scheme remains in a deficit.
	In the long term: Following rapid action in the medium term, the longer-term benefits from tackling climate change lead to higher growth.	**In the long term:** The funding position lags the base case and follows a slight downward path remaining in a deficit to the end of the modelling period. This may lead to the Scheme's sponsor having to make up the funding shortfall. This is driven by the increasing value of the liabilities, low levels of hedging, and increasing maturity of the Scheme.
Disinflationary Transition Temperature rise <1.5°C Reach net-zero 2045 Environmental regulation High coordination	Summary of the Scenario	Summary of the impact to the Scheme
	In the short term: Collective and coordinated action in the short term, despite initial costs of funding the structural costs to transition the economy, leads to innovation and green technology development which boosts growth.	**In the short term:** The Scheme is expected to benefit, relative to the base case and enters into a surplus position.
	In the medium term: The rapid technological advancement combined with government actions drives a smooth transition to a low carbon economy and enjoys growth.	**In the medium term:** The Scheme's funding level improves driven by strong performance of its assets due to high levels of economic growth.
	In the long term: The rapid technological advancement combined with government actions drives a smooth transition to a low carbon economy. Risk assets perform well.	**In the long term:** Economic growth continues to boost asset performance thereby improving the Scheme's funding. This is the best outcome for the Scheme.

Source: Aon. Effective date of the scenario modelling is 31 March 2025. **Please note:**
The results of the scenario modelling are illustrative and rely on many assumptions.
These are subject to considerable uncertainty.

Modelling limitations

Scenario modelling relies on many assumptions. They are only illustrative and subject to considerable uncertainty. Please see the *Appendix 3 – Climate scenario modelling assumptions* for more information on the assumptions underpinning the scenarios.

The climate scenarios modelling illustrates the potential impact climate change could have on the asset portfolios. It does not consider the impact climate change could have on other risks for our clients, such as timing of member options, operational risks, covenant risk and longevity risk.

The scenario modelling reflects market conditions and market views at the effective date of the modelling. The model may produce different results for the same strategy under different market conditions.

Covenant – summary from the Trustee

The Scheme has been granted a Crown Guarantee by the UK government which secures the fulfilment of the Scheme's pension obligations, therefore we believe this mitigates the impact of any material deterioration in the covenant of the sponsoring employer.

Risk management

We must have processes to identify, assess and manage the climate-related risks that are relevant to the Scheme and these must be integrated into the overall risk management of the Scheme.

Reporting on our risk management processes provides context for how we think about and address the most significant risks to our efforts to achieve appropriate outcomes for members.

Our climate risk management framework

We recognise the long-term risks posed by climate change and have taken steps to integrate climate-related risks into the Scheme's risk management framework.

We have developed a risk management framework to manage climate-related risk and opportunities. The risk management framework clearly sets out who is involved, what is done and how often. We have delegated a number of key tasks to different committees but retain the final responsibility. The processes for managing climate-related risks and opportunities are summarised in the tables below.

Governance

Activity	Delegated responsibility	Adviser / supplier support	Frequency of review
Climate change governance framework (this document)	IC	Investment Adviser	Ad-hoc
Publish a TCFD report and implementation statement	IC	Investment Adviser	Annual
Add / review climate risks and activity on key Scheme documentation (e.g., risk register)	IC	Investment Adviser	Ongoing
Review climate change beliefs	Trustee	IC, Investment Adviser	Triennial
Receive training on climate-related issues	Trustee / IC	Advisers	Annual
Review adviser objectives to ensure advisers have appropriate climate capability, and bring important, relevant, and timely climate-related issues to our attention	Trustee	Advisers	Annual
Ensure investment proposals explicitly consider the impact of climate risks and opportunities and seek investment opportunities.	IC	Investment Adviser	Ad-hoc
Ensure that actuarial and covenant advice adequately incorporate climate-related risk factors where they are relevant and material.	Trustee	Scheme Actuary, Covenant Adviser	Triennial
Engage with the investment managers to understand how climate risks are considered in their investment approach, and stewardship activities are being undertaken appropriately	IC	Fund managers, Investment Adviser	Annual

2025 Trustee update

We monitor the above activities as part of our management of climate-related risks and opportunities. We have delegated responsibilities of several activities to the IC. We, and the IC, have received training during the year on climate-related issues, including training on the requirements for the third year of TCFD reporting. We also reviewed what lessons could be learnt from our second year of TCFD reporting, and recent guidance and observations from the Pensions Regulator regarding best practice.

We continue to monitor progress of the IC and its respective implementation of the climate change governance framework through the year, receiving regular updates from the IC and querying information as and when required. We are aided with the IC's ongoing monitoring through the ESG dashboard.

Strategy

Activity	Delegated responsibility	Adviser / supplier support	Frequency of review
Identify the climate-related risks and opportunities for investment & funding strategy and assess their likelihood and impact	IC	Fund managers /Investment Adviser	Annual
Climate scenario analysis - annual review for the continuing suitability of the results	IC	Investment Adviser	Annual
Climate scenario analysis - refresh modelling	IC	Investment Adviser	Triennial
Actuarial valuation	Trustee	Scheme Actuary	Triennial

2025 Trustee update

The IC, supported by the Investment Adviser, updated the climate risk and opportunities analysis, asking each manager for details on how they incorporate climate-related risks and opportunities into their respective portfolios.

Alongside this, we reviewed the appropriateness of the climate change scenario analysis carried out in 2022. There have been significant investment strategy changes since then so we decided to refresh the Scheme's climate change scenario analysis this year to reflect the latest strategy.

The conclusions of all these elements have been included in the Strategy section of this report.

Risk management

Activity	Delegated responsibility	Adviser / supplier support	Frequency of review
Identify, assess, and manage key climate-related risks.	IC	Investment Adviser	Ongoing
Consider the prioritisation of those climate-related risks, and the management of the most significant in terms of potential loss and likelihood.	IC	Advisers	To consider with strategy review/actuarial valuation

2025 Trustee update

We have processes in place for identifying and assessing climate-related risks as part of the producing this annual TCFD report. This is integrated into the ongoing activities of the Scheme and reviewed at least annually.

We delegated the review of the underlying investment managers to our advisers, including how ESG (including climate change) is integrated within the managers' decision-making processes. We also asked for details on how these have been implemented in practice, including key themes for engagement, such as climate change. This is monitored bi-annually through our ESG dashboard and within this report. The purpose of the ESG dashboard is to help us prioritise engagements with our managers, and to understand the outcomes of these engagements.

Metrics and Targets

Activity	Delegated responsibility	Adviser / supplier support	Frequency of review
Agree/review approach for metrics	IC	Fund managers/Investment Adviser	Annual
Obtain data for agreed metrics	IC	Fund managers/Investment Adviser	Annual
Review continued appropriateness of target	IC	Investment Adviser	Annual

2025 Trustee update

Supported by our investment adviser, we collect metrics data on an annual basis to understand the emissions associated with the Scheme's assets. Carbon emissions metrics have been collected in line with industry practice. We have reported on carbon metrics data, covering Scopes 1, 2, and 3.

We reviewed the appropriateness of the target set in the Scheme's initial TCFD report and noted the target remains appropriate.

More details can be found in the Metrics and Targets section of this report.

Assessing our managers

To assess our managers' abilities to manage climate-related risks, we asked them 10 questions designed by the Pensions Climate Risk Industry Group to help trustees do just that. The questions cover a range of topics including the manager's approach to climate management, net zero, whether they produce their own TCFD reporting, their ability to conduct climate scenario analysis, their engagement policies, and their ability to provide GHG emissions data.

Key conclusions

Most managers support reporting in line with TCFD. Eight managers have finished their TCFD-aligned report, and one is still working on it.

All managers participate in industry initiatives such as the Climate Action 100+, Institutional Investors Group on Climate Change, United Nations Principles for Responsible Investment ("UN PRI") and Science Based Targets Initiative ("SBTI").

Seven managers carry out (or are working towards) climate scenario analysis and incorporate ESG considerations into their investment processes.

Eight managers have set net zero commitments. The remaining managers are working towards making a commitment or becoming aligned with the Paris Agreement.

All managers are working towards improving their climate risk management processes.

Overall, the managers have suitable frameworks and processes in place to ensure they consider climate-related risks and opportunities within their mandates.

In summary, we are comfortable with the managers' ability to act in the best interests of the Scheme and to account for climate-related risks and opportunities in the portfolios that they manage. The Trustee sees the managers' improvements as a positive step to identify, manage and assess climate-related risks and opportunities.

We are not taking any immediate action based on these findings. We will continue to engage with our managers on the issue of climate change.

Metrics & Targets

Metrics help to inform our understanding and monitoring of the Scheme's climate-related risks. Quantitative measures of the Scheme's climate-related risks, in the form of both greenhouse gas emissions and non-emissions-based metrics, help us to identify, manage and track the Scheme's exposure to the financial risks and opportunities climate change will bring.

Our climate-related metrics

We use some quantitative measures to help us understand and monitor the Scheme's exposure to climate-related risks. Measuring the greenhouse gas emissions related to our assets is a key way for us to assess our exposure to climate change.

Greenhouse gases are produced by burning fossil fuels, meat and dairy farming, and some industrial processes. When greenhouse gases are released into the atmosphere, they trap heat in the atmosphere causing global warming, contributing to climate change.

Greenhouse gases are categorised into three types or 'scopes' by the Greenhouse Gas Protocol, the world's most used greenhouse gas accounting standard.

Scope 1

All direct emissions from the activities of an organisation which are under their control; these typically include emissions from their own buildings, facilities and vehicles

Scope 2

These are the indirect emissions from the generation of electricity purchased and used by an organisation

Scope 3

All other indirect emissions linked to the wider supply chain and activities of the organisation from outside its own operations – from the goods it purchases to the disposal of the products it sells

Scope 3 emissions are often the largest proportion of an organisation's emissions, but they are also the hardest to measure. The complexity and global nature of an organisation's value chain make it hard to collect accurate data.

For more explanation about GHG emissions, please see the *Appendix*.

Our climate-related metrics – in detail

In our first year of TCFD reporting, we decided what metrics to report on annually; these are described below. This year we reviewed the metrics, and we believe they continue to be suitable for us to report against.

Total Greenhouse Gas emissions

The total greenhouse gas (GHG) emissions associated with the portfolio. It is an absolute measure of carbon output from the Scheme's investments and is measured in tonnes of carbon dioxide equivalent (tCO2e).

Carbon footprint

Carbon footprint is an intensity measure of emissions that takes the total GHG emissions and weights it to take account of the size of the investment made. It is measured in tonnes of carbon dioxide equivalent per million pounds invested (tCO2e/£m).

Data Coverage

A measure of the proportion of the portfolio that has high quality data for (i.e., data which is based on verified, reported, or reasonably estimated emissions, versus that which is unavailable).

The Trustee has focused on the coverage of data (which includes reported and estimated data from the managers). The Trustee did not need to make any estimations as the data was directly provided by the managers. Please note some managers used estimates of their data, details of which are not shared as part of this document.

Portion of the portfolio with net zero, or Paris Aligned targets

A metric which shows how much of the Scheme's assets are aligned with a climate change goal of limiting the increase in the global average temperature to 1.5˚C above pre-industrial levels.

It is measured as the percentage of underlying portfolio investments with a declared net zero or Paris-aligned target or are already net zero or Paris-aligned.

Carbon metrics

Growth assets			Scopes 1 & 2			Scope 3			% of the portfolio with net zero/Paris aligned targets
Asset class	**Year**	**Allocation**	**Data Coverage** (%)	**Total GHG emissions** (tCO_2e)	**Carbon footprint** (tCO2e/£m)	**Data Coverage** (%)	**Total GHG emissions** (tCO_2e)	**Carbon footprint** (tCO2e/£m)	
Alternatives*	2024	32%	74%	23,203	122	45%	76,860	669	17%
	2023	*46%*	*56%*	*31,867*	*113*	*29%*	*92,608*	*640*	*4%*
Property	2024	11%	64%	643	11	43%	528	13	18%
	2023	*7%*	*62%*	*480*	*8*	*41%*	*451*	*12*	*16%*
Multi-Asset Credit	2024	20%	32%	7,355	144	29%	35,729	770	10%
	2023	*12%*	*29%*	*7,842*	*194*	*29%*	*30,610*	*759*	*10%*
Equities	2024	0%	-	-	-	-	-	-	-
	2023	*29%*	*89%*	*5,498*	*109*	*89%*	*12,294*	*243*	*58*
Emerging Market debt	2024	0%	-	-	-	-	-	-	-
	2023	*2%*	*100%*	*5,576*	*215*	-	-	-	-
Total (excl. sovereign bonds)	2024	63%	59%	31,202	104	39%	113,117	561	15%
	2023	*96%*	*56%*	*51,262*	*112*	*33%*	*135,962*	*497*	*10%*

Sovereign bonds			Scopes 1 & 2		
Asset class	**Year**	**Allocation**	**Data Coverage** (%)	**Total GHG emissions** (tCO_2e)	**Carbon footprint** (tCO2e/£m)
Physical	2024	100%	100%	43,827	141.2
Physical	*2023*	*90%*	*100%*	*47,802*	*170.2*
Synthetic		*10%*	*100%*	*5,234*	*170.2*

Footnotes for the tables

Source: Investment managers / Aon. Please note figures may not sum directly due to rounding based on asset data as at 31 December 2024.

*Alternatives excludes fund in liquidation, accounting for 24% of total assets as these would distort picture of metrics associated with assets held.

Emissions associated with the Scheme's synthetic equity (c. 16% of total assets) have been excluded from the reporting this year as the assets are not physically held by the scheme.

One of the property managers has been unable to split the data into scopes 1 and 2, and scope 3. In this instance, the data has been reported under scopes 1 and 2.

Scope 3 emissions are not applicable to sovereign bonds. For the sovereign bonds, the 2023 carbon metrics are shown solely in relation to the Scheme's physical and repurchase (repo) holdings; in 2024 the carbon metrics are shown exclusively in relation to the physical gilt as there is no leverage in place. Please find further information overleaf to see how sovereign bond emissions have been calculated.

Observations

Over the year, the investment strategy changes include divesting from equities and emerging market debt. So, these asset classes are not part of this year's analysis. As we continue to evolve the investment strategy, next year's reporting may look different again.

Alternatives

Since last year, data coverage significantly improved for scopes 1 and 2, and scope 3, but emissions decreased. This is mainly due to excluding one manager with a material allocation because the fund is in liquidation.

There has been a notable improvement in the data available for the portion of the portfolio with net zero or Paris aligned targets.

Property

Emissions increased slightly compared to last year due to small increases in data coverage, carbon footprint and the value of the assets.

The portion of the portfolio with net zero or Paris aligned targets increased slightly over the year.

Multi-asset credit

The scopes 1 and 2 emissions are slightly lower than last year. This is because data coverage and the value of the assets have remained similar to last time.

Scope 3 emissions are higher than last year primarily because the value of the assets have increased over the year. The data coverage and carbon footprint are broadly similar to last year.

The portion of the portfolio with net zero or Paris aligned target has remained consistent.

Sovereign bonds

The carbon footprint is lower than last year because there was the material reduction in the UK emissions used to calculate the footprint.

Notes on the data

Our investment adviser, Aon, collected information from the Scheme's investment managers about their greenhouse gas emissions. Aon collated this information to calculate the climate-related metrics for the Scheme's portfolio of assets.

Availability of data

- All managers were able to disclose at least one carbon metric.
- Seven managers provided scopes 1,2 and 3 emissions where this was applicable. One manager was unable to split out scopes 1, 2 and 3 emissions.
- Some alternative managers stated that they are not yet able to calculate the requested portfolio alignment data. We have not made any estimates for missing data.

Because not all the Scheme's managers were able to provide all the requested data, the reported emissions metrics do not include all the Scheme's GHG emissions. And so, the metrics show the Scheme's emissions to be lower than they really are.

We expect that in the future better information will be available from managers and this improvement will be reflected in the coming years of reporting. We plan to engage with our managers that were unable to supply emissions data to communicate our expectations for future reporting.

How we collected the carbon data

Our investment adviser, Aon, collected the carbon emissions data from our managers on our behalf 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 seeks to provides a standardised set of data to help pension schemes meet their climate reporting obligations.

Notes on the metrics calculations

We use the industry standard methodology for calculating metrics where available. There currently is no industry-wide standard for calculating the metrics for some assets yet and different managers may use different methods and assumptions. These issues are common across the industry and highlight the importance of climate reporting to improve transparency. We

expect that in the future better information will be available from managers as the industry aligns to expectations and best practice standards.

The carbon metrics

Aon collected carbon metrics from managers before aggregating by asset class. The methodology used for this aggregation does not make any assumptions about the carbon emissions for assets for which data was unavailable. The aggregation methodology is as set out below:

G = A x C x F
G = Total GHG expressed as (tCO2e).
A = Assets expressed in £ Millions.
C = Data Coverage expressed as a decimal between 0 and 1.
F = Carbon Footprint expressed as (tCO2e/£M invested).

The methodology used follows the industry-standard best-practice established within the Carbon Emissions Template ("CET")[1]. We have not aggregated metrics across the whole portfolio because the methodologies used for some asset classes are significantly different and therefore it is not appropriate to combine them.

Sovereign bonds

The carbon footprint was calculated by Aon using UK GHG emissions and PPP-adjusted GDP and assumes data coverage to be 100%. This is in line with the methodology recommended by the Department for Work and Pensions ("DWP").

Derivatives

Carbon metrics relating to derivative investments, including synthetic equity, have been excluded. The DWP) notes that methodologies for calculating metrics in relation to certain asset classes, particularly derivatives, are not yet established. At this time, trustees are not expected to be able to readily calculate emissions associated with derivatives.

Portion of the portfolio with Net Zero, or Paris Aligned targets

Aon requested the portion of the portfolio with net zero or Paris Aligned targets for each fund from our investment managers and aggregated the results based on the portion of assets invested in each fund. Aon does not make any estimates for missing data. The Scheme's measurement only represents the portion of the portfolio for which we have data.

Currently, there is no standard approach for calculating this metric for sovereign bonds.

[1] https://www.plsa.co.uk/Policy-and-Research/Document-library/Carbon-Emissions-Template

Looking to the future
Our climate-related target

Climate-related targets help us track our efforts to manage the Scheme's climate-change risk exposure.

In our first year of reporting, we set a target to improve data coverage. Without meaningful data from the investment managers, it is very hard for us to measure our climate-risk exposure. So, it is important to set a target to improve the data coverage of the GHG emissions data from the managers.

We recognise that positive outcomes for some of the assets invested in may be outside our control. As a result, the target focuses on where we expect to be able to have the greatest influence.

Data coverage target

Target	2024	2023
70% by 2027	59%	56%
Scopes 1 & 2 excluding sovereign bonds		

Since last year, the data coverage has increased slightly by c.3% driven by changes in the Scheme's strategy over the last year. As a result, and in anticipation of further changes to the investment strategy, we have chosen to maintain the current target.

Steps we are taking to reach the target

We are taking the following steps to reach the target. We will continue to track interim progress of our engagement through the ESG dashboard, which is produced by our investment adviser bi-annually.

1 Increasing data availability

Observation

Coverage of data is an area for improvement **across all asset classes and funds.**

We acknowledge that for some fixed income assets, such as Muti Asset Credit, data coverage and therefore quality may be lower.

Solution

We will **engage with the relevant investment managers** directly, or through our investment adviser.

Through engagement, we are expecting that this will identify opportunities to improve data availability or

2 Making reporting consistent

Observation

There were inconsistencies with the data provided by our managers. We will continue to follow guidance for collecting carbon data in line with the industry standard CET.

Solution

We will engage with the managers directly, or through our investment adviser to understand challenges with providing consistent data and find an appropriate solution.

Where methodologies for certain assets are not yet developed, we will encourage our managers to

Trustee update

Each year we review the suitability of the target we have set. Based on the data collected and the metrics calculated this year, we believe the target continues to be suitable.

investigate alternative sources of data, particularly where there are significant gaps in the data.

Engagement may also identify areas to improve the portion of assets with Net Zero or Paris-Aligned targets.

participate in industry initiatives and consultations to develop these.

2025 Trustee update

Over the year, we identified a few areas of concern with five of the Scheme's underlying managers which called for engagement. We engaged with one manager questioning whether it was taking part in any industry initiatives to promote the availability of ESG data within private assets. We engaged with another manager to better understand its engagement practices and discuss areas in which it was behind its peers. As an outcome we, with the support from our investment adviser, engaged with all five managers and were overall satisfied with their responses.

Appendices

Please see the appendices for additional information about our climate disclosures report.

01 Glossary

Governance	refers to the system by which an organisation is directed and controlled in the interests of shareholders and other stakeholders.[2] Governance involves a set of relationships between an organisation's management, its board, its shareholders, and other stakeholders. Governance provides the structure and processes through which the objectives of the organisation are set, progress against performance is monitored, and results are evaluated.[3]
Strategy	refers to an organisation's desired future state. An organisation's strategy establishes a foundation against which it can monitor and measure its progress in reaching that desired state. Strategy formulation generally involves establishing the purpose and scope of the organisation's activities and the nature of its businesses, taking into account the risks and opportunities it faces and the environment in which it operates.[4]
Risk management	refers to a set of processes that are carried out by an organisation's board and management to support the achievement of the organisation's objectives by addressing its risks and managing the combined potential impact of those risks.[5]
Climate-related risk	refers to the potential negative impacts of climate change on an organisation. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise). Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations.[6]
Climate-related opportunity	refers to the potential positive impacts related to climate change on an organisation. Efforts to mitigate and adapt to climate change can produce opportunities for organisations, such as through resource efficiency and cost savings, the adoption and utilization of low-emission energy sources, the development of new products and services, and building resilience along the supply chain. Climate-related opportunities will vary depending on the region, market, and industry in which an organisation operates.[7]
Value chain	refers to the upstream and downstream life cycle of a product, process, or service, including material sourcing, production, consumption, and disposal/recycling. Upstream activities include operations that relate to the initial stages of producing a good or service (e.g., material sourcing, material processing, supplier activities). Downstream activities include operations that relate to processing the materials into a finished product and delivering it to the end user (e.g., transportation, distribution, and consumption).[8]
Net zero	means achieving a balance between the greenhouse gases emitted into the atmosphere, and those removed from it. This balance – or net zero – will happen when the amount of greenhouse gases add to the atmosphere is no more than the amount removed.[9]

[2] A. Cadbury, Report of the Committee on the Financial Aspects of Corporate Governance, London, 1992.

[3] OECD, G20/OECD Principles of Corporate Governance, OECD Publishing, Paris, 2015.

[4] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017

[5] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017

[6] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017

[7] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017

[8] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017

[9] Energy Saving Trust, What is net zero and how can we get there? - Energy Saving Trust, October 2021

02 Climate risk categories

Climate-related risks are categorised into physical and transition risks. Below are examples of transition and physical risks.

Transition risks

Transition risks are those related to the ability of an organisation to adapt to the changes required to reduce greenhouse gas emissions and transition to renewable energy. Within transition risks, there are four key areas: policy and legal, technological innovation, market changes, and reputational risk.

Policy and legal

Examples

Increased pricing of GHG emissions
Enhanced emissions-reporting obligations
Regulation of existing products and services

Potential financial impacts

Increased operating costs (e.g. higher compliance costs, increased insurance premiums)
Write-offs, asset impairment and early retirement of existing assets due to policy changes

Technology

Examples

Cost to transition to lower emissions technology
Unsuccessful investments in new technologies

Potential financial impacts

Write-offs and early retirement of existing assets
Capital investments in technology development
Costs to adopt new practices and processes

Market

Examples

Changing customer behaviour
Uncertainty in market signals
Increased cost of raw materials

Potential financial impacts

Reduced demand for goods and services due to shift in consumer preferences.
Abrupt and unexpected increases in energy costs.
Re-pricing of assets (e.g., fossil fuel reserves, land valuations, securities valuations).

Reputational

Examples

Stigmatisation of sector
Increased stakeholder concern or negative stakeholder feedback

Potential financial impacts

Reduced revenue from decreased demand for goods and services.
Reduced revenue from decreased production capacity

Physical Risks

Physical risks refer to the physical impacts of climate change on a firm's operations. They directly impact a firm's ability to perform its function due to climate disruption. They fall into two subcategories: acute and chronic. Acute risks are extreme climate events, and chronic risks are trends that appear over time.

Acute

Examples

Extreme heat
Extreme rainfall
Floods
Droughts

Chronic

Examples

Water stress
Sea level rises
Land degradation
Variability in temperature

03 Modelling assumptions

The climate scenarios were developed by Aon and are based on detailed assumptions. They are only illustrative and are subject to considerable uncertainty. They consider the exposure of the Scheme to climate-related risks and the approximate impact on asset/liability values over the long-term.

The purpose of the model is to consider the long-term exposure of the Scheme to climate-related risks and the pattern of asset returns over the long term.

In particular, the model considers different climate change scenarios and the approximate impact on asset/liability values over the long-term.

Our model assumes a deterministic projection of assets and liabilities, using standard actuarial techniques to discount and project expected cashflows.

It models the full yield curve as this allows for an accurate treatment of the liabilities and realistic modelling of the future distribution of interest rates and inflation. It also allows us to truly assess the sensitivities of the assets and liabilities to changes in interest and inflation rates.

The parameters in the model vary deterministically with the different scenarios.

The liability update and projections are considered appropriate for the analysis. However, they are approximate, and a full actuarial valuation carried out at the same date may produce a materially different result.

The model intends to illustrate the climate-related risks the Scheme is currently exposed to, highlighting areas where risk mitigation could be achieved through changing the portfolio allocation.

Other relevant issues such as governance, costs and implementation (including manager selection and due diligence) must be considered when making changes to the investment strategy.

Climate-related risks are considered on an asset class level, and do not consider the specific geographical locations which will have a strong influence on the climate-related risk the Scheme is exposed to.

Investment risk is only captured in the deviance from the Base Case, but this is not the only risk that the Scheme faces; other risks include covenant risk, longevity risk, timing of member options, basis risks and operational risks.

The model has been set up to capture recent market conditions and views; the model may propose different solutions for the same strategy under different market conditions.

04 Additional information on the metrics calculations

Where possible we use the industry standard methodologies for calculating metrics. There currently is no industry-wide standard for calculating metrics for some assets, and different managers may use different methods and assumptions.

These issues are common across the industry and highlight the importance of climate reporting to improve transparency. We expect that in the future better information will be available from managers as the industry aligns to expectations and best practice standards.

The carbon metrics for non-sovereign bond asset classes

Emissions data was collected from the managers using the CET[10]. Managers provided carbon footprint and data coverage for their fund(s).

Aon calculated the total GHG emissions for each fund as follows:

carbon footprint x *£m Plan assets invested in the fund* x *data coverage.*

Where necessary Aon aggregated the carbon metrics for each asset class. The methodology used for aggregating did not make any assumptions about the carbon emissions for assets for which data was unavailable. The aggregation methodology is as set out below:

$$\textit{carbon footprint for the asset class} = \frac{\sum Gi}{\sum(Ai \times Ci)}$$

Where i is each fund in the asset class
G_i = Total GHG for fund i (tCO_2e)
A_i = Assets invested in fund i (£M)
C_i = Data Coverage of fund i (%)

The carbon metrics for sovereign bonds

Emissions associated with sovereign bonds include physical emissions (emissions associated with physical assets that are held within the portfolio).

The carbon footprint was calculated by Aon as follows:

$$\frac{\textit{UK national emissions scopes 1 and 2}}{\textit{PPP-adjusted GDP}}$$

Where UK national emissions scopes 1 and 2 as at 31 December 2023 as reported by the Emissions Database for Global Atmospheric Research; and PPP (Purchasing Power Parity)-adjusted GDP as at 31 December 2023 as reported by the World Bank Group.

Total GHG emissions for sovereign bonds were estimated for the physical exposure as follows:

£m of Scheme's physical exposure x carbon footprint x data coverage

Where data coverage is assumed to be 100% estimated.

[10] https://www.plsa.co.uk/Policy-and-Research/Document-library/Carbon-Emissions-Template

05 GHG emissions

Greenhouse gases in the atmosphere keep the Earth's surface and atmosphere warm because they absorb sunlight and re-emit it as heat in all directions including back down to Earth. Adding more greenhouse gases to the atmosphere makes it even more effective at preventing heat from leaving the Earth's atmosphere.

Greenhouse gases are vital because they act like a blanket around the Earth making it the climate habitable. The problem is that human activity is making the blanket "thicker". For example, when we burn coal, oil, and natural gas we send huge amounts of carbon dioxide into the air. When we destroy forests, the carbon stored in the trees escapes to the atmosphere. Other activities, such as raising cattle and planting rice emit methane, nitrous oxide and other greenhouse gases.

The amount of greenhouse gases in the atmosphere has significantly increased since the Industrial Revolution. The Kyoto Protocol[11] identifies six greenhouse gases which human activity is largely responsible for emitting. Of these six gases, human-made carbon dioxide is the biggest contributor to global warming.

Each greenhouse gas has a different global warming potential and persists for a different length of time in the atmosphere. So, emissions are expressed as a carbon dioxide equivalent (CO_2e). This enables the different gases to be compared on a like-for-like bases, relative to one unit of carbon dioxide.

Six main greenhouse gases identified by the Kyoto Protocol

CO_2
Carbon dioxide

CH_4
Methane

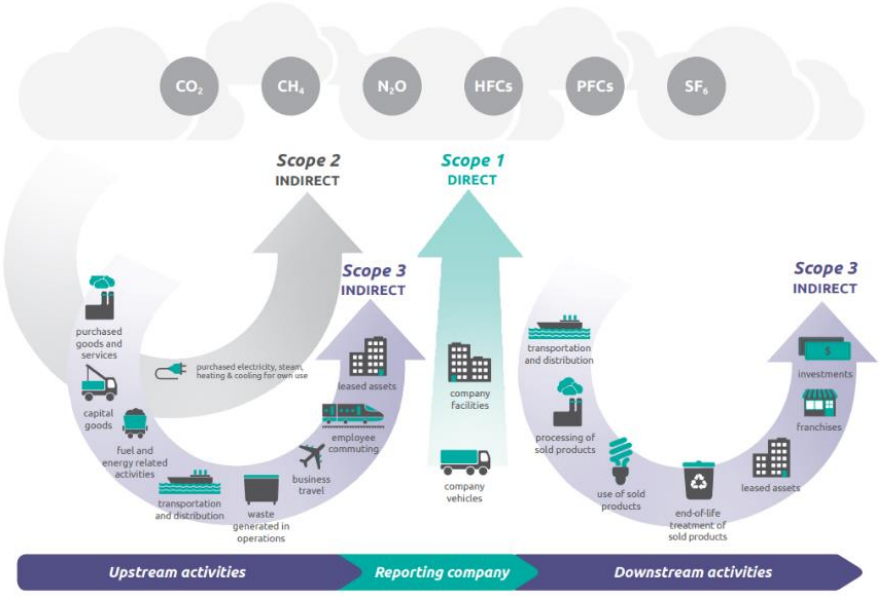
N_2O
Nitrous oxide

HFCs
Hydrofluorocarbons

PFCs
Perfluorocarbons

SF_6
Sulphur hexafluoride

Overview of GHG Protocol scopes and emissions across the value chain



Source: Greenhouse Gas Protocol, Corporate value chain (scope 3) Accounting and Reporting Standard, 2011

[11] https://unfccc.int/kyoto_protocol