The Baptist Pension Scheme

Climate change report

A report for members by the Trustee of the Baptist Pension Scheme

Scheme year to **31 December 2024**

Why have we written this report?

We are pleased to share with you this year's TCFD report for the Baptist Pension Scheme.

As part of the Baptist Family, we have always believed in the importance of responsible investing. This report reflects our ongoing dedication to environmental stewardship and describes our evolving strategies to incorporate climate considerations into our investment decisions. We are pleased to report a reduction in scope 1 and 2 carbon footprint in 2024 and an improvement in data reporting from the fund managers we use.

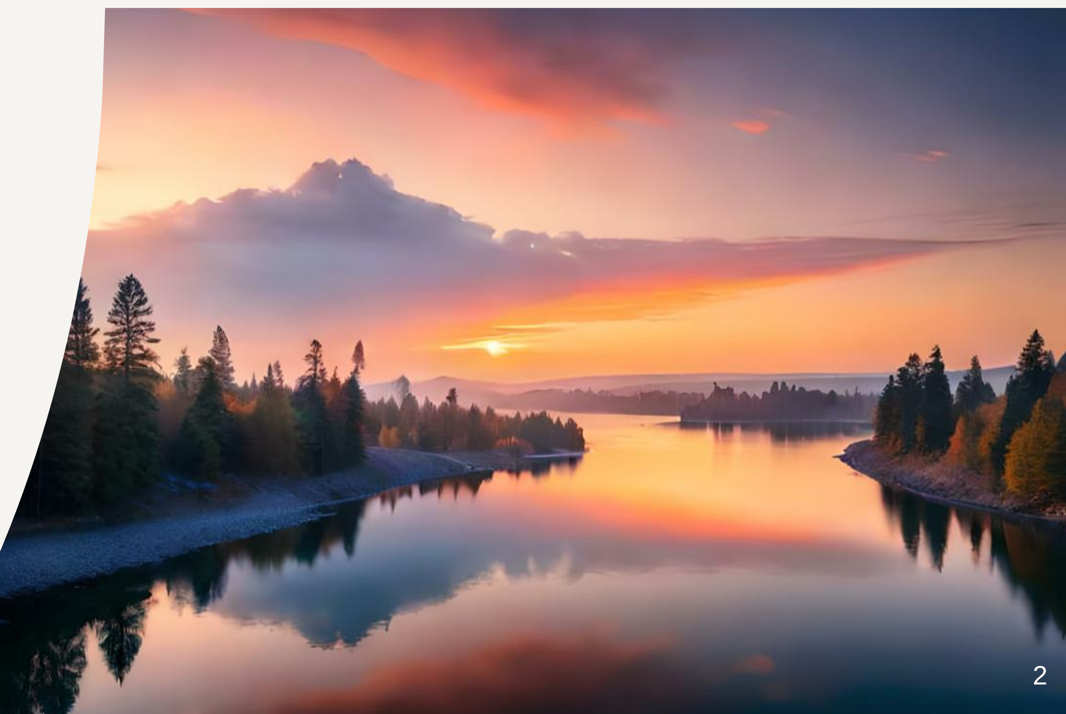
As well as stating our own beliefs, as reflected in the Baptist Union Ethical Investment Policy, we also seek to ensure that the companies we invest in are striving towards sustainability and reduced environmental impact. We believe this is in line with our Baptist Family commitment to support the global shift towards a net-zero future. You can read more about the Baptist Union's approach to climate change and its Ethical Policy document on the BUGB website.

We trust that this report is informative and strikes a chord with you. We value your feedback and invite you to share your perspectives with us as we navigate this critical aspect of our investment journey.

Thank you for your continued engagement and support.

Chris Maggs

Moderator for Baptist Pension Trust Limited



Overview

This TCFD report covers the Defined Contribution ("DC") section of the Scheme, and we refer to this section as "the Scheme" going forward. The position of the Defined Benefit ("DB") section is explained in the light blue box below.

The Trustee of the Baptist Pension Scheme recognises climate change as both a financial risk and an investment opportunity. The shift to a low-carbon economy will impact markets, businesses, and asset values, shaping the Scheme's investment landscape.

To protect members' interests and support sustainable growth, the Trustee integrates climate considerations into its investment decisions and ensures its investment managers engage with companies to encourage sustainable practices.

This report describes how the Trustee identified, assessed and managed climate-related risks and opportunities during the Scheme year to 31 December 2024.

Contents

This report should be read alongside the Scheme's annual report and accounts, which is available online via this link.

The DB section is not covered in this report. In June 2022, the DB assets were largely transferred to an insurer to purchase a bulk annuity policy, with only residual assets remaining in the Scheme. In November 2024 the DB liabilities were fully transferred to the insurer and the DB section will be wound up in June 2025. All residual DB assets will be transferred to the DC section at that time. Therefore, these assets are not included in this year's TCFD report.

Key findings for 2024

1. **Governance** *– the Trustee has a robust framework for managing the Scheme, including setting clear expectations and responsibilities in relation to climate change.*

A Climate Governance Statement defines responsibilities of everyone involved.

Climate-related risks and opportunities are reviewed regularly at Investment Committee meetings in light of the Trustee's Ethical Investment Policy.

The Scheme's advisers support the Trustee on climate-related matters.

2. **Strategy and Risk Management** *– the Trustee has taken steps to understand how climate change might affect the Scheme and to control the risks it has identified. Based on the analysis carried out, the Trustee expects climate change is likely to impact the Scheme most significantly over the longer term. The Trustee aims to reduce climate-related risks to the Scheme in several ways:*

Invest responsibly, in line with our Ethical Investment Policy, as far as it is practical.

Regularly review the Scheme's investment managers' climate practices, and factor this into the selection of new managers.

Set climate as a stewardship priority to focus voting and engagement efforts and create real change rather than simply selling underperforming companies.

3. **Metrics and Target** *– the Trustee has collected and reviewed information about the total greenhouse gas emissions, carbon footprint and emissions reductions targets for the assets we invest in, as well as the quality of the data provided in this report, to help us understand the Scheme's exposure to climate risks. We set a target to increase the proportion of companies we invests in with science-based emissions reduction targets.*

Scope 1 and 2 carbon footprint improved over the year for all funds. More detail can be found on page 19.

Scope 3 metrics are now available for government bond funds. We were able to report carbon emissions, carbon footprint and coverage figures for the Cash Fund for the first time.

The proportion of in-scope Scheme assets with approved, science-based climate targets has increased from 46% in 2023 to 50% in 2024. This remains broadly in line with the pathway to reach our target of 80% by 2030.

Section 1 – Governance

The roles of those undertaking, advising on or assisting with Scheme governance activities in identifying, assessing, and managing relevant climate-related risks and opportunities

The Trustee maintains a Climate Governance Statement (also known as "Roles and Responsibilities" document) which clearly lays out the distribution of responsibilities between the Trustee, Investment Committee and investment adviser in order to maintain appropriate oversight of the climate-related risks and opportunities relevant to the Scheme and so that the Trustee can be confident that its obligations are being met. This section reflects how the Scheme is currently governed.

The Trustee uses outputs from the TCFD reporting process to inform areas of focus for their climate-related governance activities.

1. The Trustee's role

The Trustee of the Scheme has ultimate responsibility for ensuring effective governance of climate change risks and opportunities in relation to the Scheme. This is done by the Trustee Board and Investment Committee, with support from the Pensions Manager and the Trustee's external advisers.

As the Trustee has ultimate responsibility for Scheme governance activities, its role is to review and discuss any information, decisions and proposals that have been made by the Investment Committee, the Governance and Risk Committee and/or its advisers. Having done so, the Trustee Directors will then confirm or amend any decisions or proposals made, and ensure the decisions are implemented appropriately. All decisions are ratified by the Trustee Board, including decisions relating to climate change.

The Trustee Board meets each quarter to discuss and make decisions regarding various topics related to the Scheme. As part of the work surrounding these meetings, the Trustee allocates significant time and resources to meeting its obligations on climate change governance and reporting. TCFD-related activities, such as monitoring climate metrics and reviewing the climate practices of the Scheme's investment managers, regularly represent substantive agenda items. This level of time and resources spent reflects the Trustee's view that climate change presents both a financial risk and an investment opportunity.

This structure allows third parties with climate-related responsibilities, such as investment advisers and investment managers, to have clear monitoring and review frameworks of how and when they report to the Trustee on climate-related matters.

The Trustee also ensures that the Investments and Governance and Risk Committees have suitable experience in considering climate risk, to ensure that risks are suitably considered, documented, reviewed and kept up to date.

The Trustee role also includes:

- Agreeing training requirements and scheduling them into the business plan;
- Ensuring the climate governance arrangements remain appropriate and effective;
- Signing off the Trustee's investment beliefs, investment policies and risk register, including appropriate climate-related wording;
- Communicating with Scheme members and other stakeholders on climate change where appropriate.

Oversight activity – at the regular Trustee Board meeting

At its regular Board meeting each quarter, the Trustee receives and reviews:

- An update from the Governance and Risk Committee which includes any recent review of the Scheme's risk register. Where appropriate, this includes updates in relation to the climate-related risks and opportunities identified in the risk register.
- An update from the Investment Committee and/or the investment adviser on the Scheme's investments. Where appropriate, these include updates in relation to the investment managers' climate policies, and their assessment of relevant climate-related risks and opportunities.

The Trustee also considers climate-related risks and opportunities whenever a review of the investment strategy is undertaken. Over the year, the Trustee considered opportunities to further mitigate climate risk within the Scheme's default strategy as part of the 2024 triennial investment strategy review, with the support of the IC. The agreed changes included introducing a Paris Aligned equity fund, as well as an active credit fund with a key focus on sustainability.

In addition, the Trustee reviews annually a responsible investment report from the Scheme's investment adviser that reviews the Scheme's investment managers in relation to environmental, social and governance (ESG) factors and climate change.

Section 1 – Governance

2. The role of the Investment Committee

The Investment Committee ("IC") provides the Trustee with updates and guidance following the reviews it has carried out and sets out any decisions that are required. It does this by:

- Reviewing and discussing all investment advice received, including ensuring appropriate consideration of climate change;
- Reporting back significant pieces of investment advice and recommendations to the Trustee, including any advice and recommendations relating to climate change;
- Ensuring any advice from the investment adviser is requested and carried out appropriately;
- Providing recommendations in respect of the investment adviser's competency;
- Meeting with the investment managers and receiving updates on the managers' approaches to climate risk and opportunities;
- Challenging the investment managers to improve ESG processes and reporting on climate risks. As in previous years, the Trustee's investment adviser engaged with LGIM during the Scheme year on improving its carbon metrics reporting. The investment adviser encouraged LGIM to provide more granular attribution data for its Scope 3 emissions, and LGIM expects to be able to provide this in 2025.
- Reviewing the metrics and targets to assess climate-related risks and opportunities in relation to the Scheme's investment managers.

Oversight activity – by the Investment Committee

The Investment Committee considers climate-related risks and opportunities within each investment topic and individual mandates as and when they arise at bi-annual meetings. The Investment Committee also reviews (at least annually):

- Data on climate-related metrics and progress against the target set in relation to these metrics;
- Whether it is appropriate to update the climate scenario analysis that illustrates how the Scheme's assets might be affected under various climate change scenarios; and
- Their advisers' climate competency including assessing how they have performed against their climate responsibilities.

Climate-related policies within the Ethical Investment Policy

- The Trustee seeks to achieve an acceptable balance between risk, reward and ethical considerations in its Ethical Investment Policy that will satisfy this expectation and the conscience of the Baptist constituency. The Trustee must at all times satisfy itself that its action in applying an ethical investment policy will not involve significant financial detriment. The Scheme invests in pooled funds and, in selecting which pooled funds to make available, the Trustee takes into account ethical issues.
- Through its Ethical Investment Policy, the Trustee seeks a constructive engagement with the corporate world, investing in companies that will successfully develop their business financially where responsible business practices and high standards of corporate behaviour are encouraged and supported. This policy includes the use of different approaches as described below:
  - Investing in companies or sectors which reflect Christian values in areas including environmental protection, supporting sustainable development and health (including healthy food).
  - Avoiding investment in companies or sectors undertaking a particular activity or operating in a way which may be harmful and inconsistent with the Scheme's Christian values and ethos. The Trustee will therefore avoid investment in companies with significant trading in certain areas, including the extraction, production and refining of fossil fuels. Significant trading or involvement is normally taken to mean greater than 10% of turnover.
  - Stakeholder Activism, whereby the Trustee seeks to influence a company's policies towards those which better reflect the Scheme's values and ethos. The Trustee is in regular dialogues with the Scheme's investment managers to understand how they have exercised company voting rights, noting the Trustee's agreed stewardship priorities, climate change and human rights. These stewardship priorities are also considered on an ongoing basis in fund retention and selection.

3. Other parties' and advisers' roles

Pensions Manager

The Pensions Manager's role is to ensure that the Trustee Board, Investment Committee and its advisers have full access to all the information needed on the Scheme and to help implement any decisions made. The Pensions Manager attends the Trustee's climate-related training sessions and other opportunities for similar training from investment specialists in the pensions industry.

Investment adviser

Whenever it reviews its agreements with external advisers, or appoints new advisers, the Trustee also considers and documents the extent to which the advisers' climate-related responsibilities are included in the agreements and/or any adviser objectives set. The oversight structure provides clear lines of communication between the Trustee and those working on climate-related risks and opportunities relevant to the Scheme.

The Trustee reviews the investment adviser's climate change expertise and is satisfied that they have the skill and resources to integrate climate change-related risks and opportunities into their investment advice. The Trustee has most recently reviewed the competency of its investment adviser during the Scheme year, in November 2024. No concerns were identified.

The investment adviser, LCP, updated its Responsible Investment Philosophy in September 2024, and maintains a climate competency document. LCP is a signatory to the UN PRI, UK Stewardship Code and Net Zero Investment Consultants Initiative and also an associate member of the Institutional Investors Group on Climate Change (IIGCC).

The investment adviser assists the Trustee in carrying out the following tasks:

- Manager selection and ongoing monitoring;
- Quarterly investment monitoring;
- Annual responsible investment review; and
- Annual climate metrics review.

With appropriate advisers in place, the Trustee ensures that climate-related risks and opportunities are considered as part of any relevant advice, such as the investment strategy review.

The Risk Management section provides more details on each of the monitoring and review items listed above.

ESG-related objectives set for advisers

- Help the Trustee integrate its ESG policy and stewardship in implementing the Scheme's investment strategy;
- Take into account the Scheme's ethical policy, ESG and stewardship considerations in putting in place a suitable range of alternative lifestyles and self-select funds;
- Inform the Trustee of regulatory changes and assist the Scheme in becoming compliant.

Training for the Trustee

During 2024, the Trustee and Investment Committee allocated meeting time to broader strategic considerations in light of the triennial strategy review, as well as training on the regulatory changes within the DC market. Within these sessions, climate integration within the proposed investments were a priority and thus were discussed. For example, ESG and climate factors were a key driver in the selection of a Paris-aligned equity fund and a sustainable absolute return bond fund for the default strategy. Agenda items included:

- Key considerations for DC investment strategy review (June 2024);
- Current DC topics and direction of regulatory travel (September 2024);
- DC investment strategy and training on global credit investing including climate and ESG integration (September 2024);
- Climate scenario analysis (November 2024).

Information received by the Trustee

- The Trustee receives summary of the Scheme's investment manager Responsible Investment process and climate approaches in the Annual Responsible Investment Review;
- The Trustee receives detailed climate metrics data on an annual basis. The Trustee has most recently received and reviewed climate metrics data during the Scheme year, in November 2024.

Section 1 – Governance

The processes by which the Trustee satisfies itself that the relevant third parties are taking adequate steps to identify, assess and manage those risks and opportunities

The Trustee seeks to ensure that any third parties assisting the Trustee in undertaking governance activities have suitable climate-related risk expertise and resources to carry out their role.

The Trustee considers and documents climate-related responsibilities in Scheme documents and agreements, such as the Statement of Investment Principles, the Ethical Investment Policy, the investment adviser's strategic objectives and service agreements.

In particular, the Trustee incorporates its beliefs and policies on climate-related risks into its Statement of Investment Principles and Ethical Investment Policy, which help to define the investment strategy for the Scheme. This process allows the Trustee to engage with the relevant parties, either directly or through its investment adviser, to satisfy themselves that climate-related risk has been adequately prioritised.

Climate-related beliefs within the Statement of Investment Principles

- The Scheme's Statement of Investment Principles (SIP) is designed to reflect the Department for Work and Pensions (DWP)'s 2018 guidance on matters pertaining to environmental, social and governance (ESG), including climate change.
- The Trustee believes ESG factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted investment returns by taking account of ESG factors including factors relating to climate change. This is one of the Trustee's key investment beliefs, which influence the setting of the investment arrangements.
- The Trustee has considered how ESG considerations, including climate change, should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.
- The Trustee expects its investment managers to take account of financially material considerations, including climate change. The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice. The Trustee recognises that it has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.
- The Trustee is responsible in respect of investment matters for formulating a policy in relation to financially material factors and exercise of rights and engagement activities in respect of the investments, such as those relating to ESG considerations, including climate change.
- The Trustee expects its investment adviser to be responsible, in respect of investment matters, for advising on the selection, and review, of the investment managers, incorporating its assessment of the nature and effectiveness of the managers' approaches to financially material considerations, including climate change.

The Scheme's SIP explicitly identifies climate change as a source of risk, which could be financially material over both the short and longer term. This risk is defined as relating to the transition to a low carbon economy, and the physical risks associated with climate change, such as extreme weather events. The Trustee seeks to appoint investment managers who will manage this risk appropriately.

The Trustee has set Stewardship Priorities for the Scheme, to provide a focus for monitoring investment managers' voting and engagement practices. Climate change was identified as a priority for the Scheme, alongside human rights. These priorities are reflected in the SIP and have been communicated to Legal and General, the Scheme's main Defined Contribution investment manager. The Stewardship Priorities are considered when selecting new investments, as well as in the monitoring of existing investments.

1. Identification and assessment of climate-related risks and opportunities relevant to the Scheme

The Trustee recognises that climate change is likely to affect members differently depending on the investments held and the length of time considered. The Trustee has considered climate-related risks and opportunities over the various time periods which it believes are most relevant to the Scheme.

During the Scheme year, The Trustee selected short, medium and long-term time horizons over which to formally consider the impact of climate related risks and opportunities for the Scheme. These are shown in the table below, alongside the main reason why each period was chosen.

Time horizon	Years	Reason
Short term	Up to 6 years (to 2030)	Major improvements in climate data quality are expected over this period and many companies committed to halve their emissions.
Medium term	Up to 16 years (to 2040)	Key period over which policy action will determine if Paris Agreement goals can be met.
Long term	Up to 26 years (to 2050)	Many developed economies are targeting to be net zero by this point (2050).

When selecting the above time horizons, the Trustee has considered the expected timeframe over which current members' monies will be invested to retirement and the actual investments members are expected to hold.

The Trustee recognises that members face risks and opportunities from both the physical effects of climate change, such as rising temperatures and more extreme weather events, as well as from the effect of transitioning to a lower carbon economy to help mitigate the impacts of climate change, such as government policies to reduce the use of fossil fuels, technological advantages in renewable energy, and shifts in consumer demand for "greener" products. Many of these climate-related risks and opportunities could impact the value of the Scheme's assets.

Time horizon	Risks	Opportunities
Short term	Older members, less than 6 years to retirement, will likely be less affected by physical risks than possible losses caused by equity market volatility. They will be more susceptible to losses caused by equity market volatility caused by the energy transition.	The planned investment in Paris Aligned equities is expected to improve the resilience of the default strategy to climate risks and increase exposure to companies involved in the transition to a green economy. The agreed change to the bond portfolio will also allow for greater incorporation of ESG and climate factors within the default strategy.
Medium term	Members 16 years to retirement will be exposed to transition risks in the short and medium term in the event of a Limited Action scenario but would be most materially impacted by the severe physical risks associated with the High Warming pathway.	Impact investments can take advantage of the shift to a low carbon economy and may provide an enhanced source of return over this period.
Long term	Physical risks are most prevalent in the High Warming pathway, and of most concern to young members who have a long time until retirement as their investments are more likely to be affected by the expected severe physical impacts.	Engagement with investment managers to ensure they are exercising stewardship in support of net zero pathways is key to avoiding a failed transition. The Trustee has set Climate Change as a stewardship priority which is monitored regularly in the Implementation Statement.

The climate-related risk and opportunities feed into the Trustee's policies in various ways including the Scheme's Ethical Investment Policy. The investment managers are asked to disclose whether the funds they manage on behalf of the Scheme are in compliance with the Scheme's Ethical Investment Policy. Whilst some of the investment managers are not able to report alignment with our specific criteria, our investment adviser considers this alignment in detail and reports any concerns to the Trustee on a regular basis. Overall, the investment managers' Responsible Investment practices were believed to be broadly in line with expectations following the most recent review in November 2024 (based on the version of the Ethical Investment Policy dated March 2023).

Section 2 – Strategy

Manager selection and ongoing assessment

For members who wish to take a more direct approach in mitigating climate change risk and aligning their investments with the transition to a low carbon economy, the Trustee offers a Low Carbon UK Equity fund as an investment option for members. This fund invests in the UK equity market while on a de-carbonisation path to achieve net zero by 2050. Within this fund, the investment manager excludes companies that fail to meet pre-defined minimum standards in low carbon transition and corporate governance standards.

The Trustee also offers an Ethical Global Equity fund as an option members can choose. The fund follows an investment philosophy that aims to invest in companies demonstrating specific Environmental, Social and Governance ("ESG") practices. Climate change is a key consideration in the FTSE Russell ESG ratings used to screen out the companies for inclusion in the index construction. These ratings take into consideration the sector that a particular company operates in.

The Trustee engages with current and prospective investment managers on matters including climate change but does not monitor or engage directly with issuers or other holders of bonds or equities.

1. Manager selection

The Trustee seeks to appoint investment managers that have strong responsible investment skills and processes. The Trustee favours investment managers who are signatories to the Principles for Responsible Investment and UK Stewardship Code.

When selecting new managers, the Trustee considers its investment adviser's assessment of potential managers' capabilities in this area. If the Trustee meets prospective managers, the Trustee usually asks questions about responsible investment, focusing on the stewardship priorities the Trustee has chosen, namely climate change and human rights.

These principles were key considerations in the selection of managers for the new equity and credit allocations for the default strategy during the Scheme year. The selected funds demonstrated strong RI and climate integration and aligned closely with the with the Ethical Investment Policy. The new funds are due to be introduced in 2025. More information about the new funds will be provided in next year's report, once the agreed changes to the default strategy have been implemented.

2. Manager monitoring

The Investments Committee receives information regularly to enable them to monitor the Scheme's managers' responsible investment practices and check how effective these are.

This information includes metrics such as the investment adviser's responsible investment grades for each manager, whether they are signatories to the responsible investment initiatives listed above, and (where available) carbon emissions data for the Scheme's mandates.

3. Ongoing cycle of manager engagement

Given that responsible investment is rapidly evolving, the Trustee expects most managers will have areas where they could improve. The Trustee therefore aims to have an ongoing dialogue with its managers to clarify its expectations and encourage improvements. In particular, investment managers have been invited to meetings with the Investment Committee and the investment adviser.

The Trustee reviews the information provided to them by its investment adviser to identify any concerns, for example where the managers' actions are not aligned with the Trustee's views. Where there are concerns, the Trustee will typically seek further information through its investment adviser. No climate-related concerns were raised during this reporting year.

4. Annual responsible investment review

Each year, the Investments Committee undertakes a more comprehensive review of its managers' responsible investment practices. This includes the investment adviser's qualitative responsible investment assessments for each manager, including how the manager mitigates climate change risk. This review was most recently carried out in November 2024 and concluded that the Scheme's investment managers are broadly aligned with the Trustee's expectations.

2. Climate scenario analysis

The Scheme considered updated climate scenario analysis in the Scheme year. Since the Scheme's previous climate scenario analysis in 2021, the scenarios have been developed to remove the Orderly Net Zero by 2050 scenario as the Trustee and investment adviser no longer believe this is plausible. Disorderly Net Zero by 2050 remains, now representing the only modelled pathway to Net Zero, and has been renamed as **Net Zero Financial Crisis**. The **Limited Action** scenario has been introduced, under which some action is taken to mitigate climate change but not as much as under the Net Zero Financial Crisis scenario and therefore Net Zero is not achieved in 2050. Failed Transition has been renamed **High Warming**.

During the Scheme year, the Trustee updated the time horizons to align them to the latest knowledge of significant milestones in climate policy and scientific development. The Trustee has therefore carried out the analysis for a 39-year-old, 49-year-old and 59-year-old as these members are expected to retire at the end of the long-, medium- and short-term time horizons, respectively. Additionally, following the feedback received from the Pensions Regulator (tPR), the Trustee has also provided analysis to assess the impact on a member post-retirement, with a 65-year-old member. Further information regarding modelling approach and outcomes can be found in Appendix 2.

The climate scenario analysis undertaken for the Scheme year ending 31 December 2024 looked at the retirement outcomes (in terms of the size of their retirement pot) for individual members of different ages who are invested in the default strategy. The analysis highlighted that members will be subject to climate risks to varying degrees depending on the climate scenario. In general, the default strategy has been designed in a way which reduces investment risk as members approach retirement. Climate risks are generally expected to have the greatest impact on return-seeking assets such as equities. In the default strategy, exposure to these assets is reduced as members approach retirement, which should help to reduce their exposure to climate risks.

The Trustee believes the assumption that members do not remain invested post-retirement is not realistic, particularly given their current expectation that a large proportion of Scheme members will choose to gradually withdraw their pension savings during retirement (i.e. drawdown). For this reason (and following feedback from tPR as mentioned above), the climate scenario analysis has been extended to include a member aged 65, with the modelling representing a 10-year investment in the Scheme's at-retirement allocation to cover members who remain invested past their target retirement date. This also illustrates the potential impacts of the climate scenarios on members who have not selected the correct target retirement age.

The results of the climate scenario analysis are summarised in the table below, showing percentage loss in the value of a member's savings at retirement (or 10 years post retirement for age 65). It shows how much lower expected pot sizes at retirement will be in different climate scenarios compared to a base case scenario. The analysis assumes that the 39-, 49- and 59-year-old members are actively contributing into the Scheme, and the 65-year-old is deferred (ie no longer paying contributions). The Trustee also conducted the analysis for deferred members in the first three age groups, with results shown in Appendix 2.

Scenario	**Member aged 39** (retiring at end of long-term time horizon)	**Member aged 49** (retiring at end of medium-term time horizon)	**Member aged 59** (retiring at end of short-term time horizon)	**Member aged 65** (at retirement)
Net Zero financial crisis	-1%	-3%	-4%	-3%
Limited action	-13%	-7%	-1%	-1%
High warming	-27%	-14%	-2%	-2%

Additional detail on scenarios

See Appendix 2 for details of the reasons the Trustee chose each of these scenarios, along with the key assumptions and limitations of the modelling (eg material simplifications or known under/over estimations). Potential issues with the data or its analysis which may have limited the comprehensiveness of the assessment is also covered.

Section 3 – Risk Management

1. Processes for identifying and assessing climate-related risks

The Trustee has implemented a number of processes and tools for identifying, assessing and managing climate-related risks and opportunities, including:

- attending regular training on various climate-related topics, for example training on making climate scenario analysis decision useful;
- ensuring its advisers have processes in place to help it research its investment managers' climate-related practices; and
- ensuring good stewardship practices are in place.

The Trustee expects its investment managers to identify, assess and manage climate-related risks to the Scheme's assets on an ongoing basis. The above processes are integrated into the overall risk management of the Scheme through the business plan, the risk register and regular support from its advisers. The Trustee's risk register is updated regularly to ensure all risks are being monitored and managed consistently and proportionately.

These processes have helped the Trustee consider issues such as:

- Which climate change risks are most material to the Scheme;
- How to take account of transition and physical risks across different asset classes; and
- How climate change affects the Trustee's risk appetite.

The processes and tools stated above are used to identify the key risks and opportunities that inform the Trustee's investment decision processes. In particular, our climate processes have fed into recommendations made by our investment adviser in the triennial investment strategy review and the subsequent manager selection carried out during the Scheme year.

One of the main conclusions from previous climate scenario analysis was that the Scheme's youngest members are heavily exposed to climate risk. The changes to the default strategy agreed as part of the triennial investment strategy review carried out during the Scheme year are expected to help mitigate this risk. In particular, the Trustee agreed to replace the current LGIM Ethical Equity Fund within the default strategy with the LGIM ESG Paris Aligned World Developed Equity Fund. The new equity fund has a decarbonisation target, and its index meets the European Commission's minimum criteria to be on a pathway to the 1.5°C goal of the Paris Agreement. Additionally, the Trustee agreed to replace the passive bonds within the default with an allocation to sustainable credit, which manages duration risk in the approach to retirement. The new credit fund is significantly better aligned with the Trustee's Ethical Policy and has a net zero target.

In selecting the sustainable credit fund, the Trustee considered each manager's (from a shortlist provided by the investment adviser) approach to climate change and Responsible Investment. As mentioned, the funds were analysed against the Trustee's Ethical Policy, including whether the funds aligned with the Policy's negative screens for climate related exclusions such as the production, extraction and refining of oil, gas and coal.

As part of this year's climate scenario analysis, the investment adviser modelled the expected impact of the upcoming strategy changes on member outcomes across the three scenarios. The results showed that incorporating the new allocations into the default strategy is expected to deliver better outcomes for members as a result of the improved climate resilience and better expected risk-adjusted returns of the new asset classes. This is illustrated in the table below for the 39-year-old active member, showing the percentage change in projected pot sizes relative to the current strategy.

Scenario	Projected pot for the current strategy	Projected pot for the new strategy	Expected change in pot by moving to the new strategy
Base case	£275,600	£286,000	+4%
Net Zero financial crisis	£271,600	£281,900	+4%
Limited action	£239,600	£249,000	+4%
High warming	£200,400	£211,000	+5%

How the Ethical Investment Policy addresses climate risks

The Ethical Investment Policy specifically addresses climate risks by excluding fossil fuel extraction companies, unless a company is deemed to be moving significantly to sustainable energy policies. The Ethical Policy excludes companies with significant trading in all extraction, production and refining of fossil fuels. The policy specifically addresses climate opportunities by allocating to companies involved in environmental protection and supporting sustainable development. As stated in the policy, the Trustee regards itself as "stewards of the world" and will avoid investment in companies that act without proper regard to the environment.

The Trustee, with help from its Investment Committee and advisers, has sought to align all funds with its ethical and climate beliefs, where possible, but notes this is challenging for a scheme of our size which requires the use of pooled funds.

Annual Responsible Investment Review

Process

The Investment Committee is responsible for carrying out an annual responsible investment review. The latest Annual Responsible Investment Review was produced by the Scheme's investment adviser in November 2024 and includes:

- a summary of each of the Scheme's investment manager's firmwide Responsible Investment processes, including the Scheme's investment adviser's view of their ESG practices, Net Zero ambitions, Engagement, Systemic stewardship and Voting;
- a fund-level assessment of the Responsible Investment integration within the Scheme's funds, including stewardship and climate change;
- an assessment of how the Scheme's equity and diversified growth funds align with the positive and negative screens set out in the Trustee's Ethnical Investment Policy; and
- any recommended action.

The Annual Responsible Investment Review identified which of the Scheme's funds have strong climate policies and the funds for which there are opportunities to consider taking action, noting any action would need to be proportionate based on the expected benefit for members (for example, the cost associated with taking action may outweigh the potential benefits for funds that only represent a very small proportion of members' assets).

Findings

Overall, the investment managers were believed to be broadly in line with their peers in terms of managing ESG and climate risks, and no significant issues were flagged.

The report identified the ways in which ESG integration and climate-related considerations form part of the investment process for the funds in the Scheme. The Scheme's largest equity fund reflects a clear focus on responsible investment, with ESG factors embedded into their investment processes. While the Scheme's index-tracking market capitalisation funds were shown to have more limited responsible investment integration, LGIM manages the climate and ESG risks of these passive strategies through stewardship (voting and engagement).

In terms of alignment with the Trustee's Ethical Investment Policy, the Scheme's equity funds were shown to incorporate majority or all of the positive screening requirements. However, alignment with the Policy's negative screens varied across the funds.

As a result of the triennial strategy review, the LGIM ESG Paris Aligned World Developed Equity Fund will be introduced into the default strategy and therefore this fund was also included in the report. The fund demonstrated better alignment with the Ethical Investment Policy compared to the current LGIM Ethical Global Developed Equity Fund and had an improved approach to managing climate risk. For example, the fund has a decarbonisation target and completely excludes fossil fuels such as oil, gas, tar sands and coal.

2. Tools for identifying and assessing climate-related risks and opportunities

Tools the Trustee have employed include:

- undertaking climate scenario analysis which shows how the Scheme's assets might be affected under a range of climate scenarios;
- reviewing its investment adviser's assessments of the climate practices of the Scheme's investment managers;
- monitoring a range of climate-related metrics in relation to the Scheme's assets; and
- updating the risk register regularly to ensure all risks are being monitored and managed consistently and proportionately.

The Trustee has used the climate scenario analysis as a key tool for identifying, assessing and managing climate-related risks and opportunities. In particular, the analysis was used to identify the time horizons over which the physical risks and transition risks could materialise (see page 9). The Trustee has considered what the possible impacts of climate change could be over each of these time horizons and whether its investment strategies are likely to be robust against these risks (or able to take advantage of any opportunities). See page 11 for the projected outcomes.

Investment monitoring

In addition to the Annual Responsible Investment Review referenced on the previous page, the Scheme's investment adviser provides quarterly investment performance monitoring reports to the Trustee for discussion. Any concerns in relation to the investment managers, including climate-related matters, are monitored as part of this process.

Climate metrics review

The Investment Committee receives and reviews detailed climate metrics data from its investment adviser and investment managers, on an annual basis. The Trustee most recently reviewed the climate change metrics in November 2024. The calculations and reporting of climate change metrics and other climate risk exposures were discussed at the November 2024 meeting. Climate metrics are reported in the next section of this report.

Risk register

The Trustee maintains a risk register covering the wide range of risks run in the Scheme. The Governance and Risk Committee maintains and updates the risk register, with any amendments notified to the Trustee Board.

Climate risk areas included in the risk register include:

- Knowledge and understanding of climate risks
- Compliance with climate risk legislation
- Regular review of climate risks and opportunities relevant to the investment strategy
- Reputational risks of not tackling climate risk appropriately
- Inadequate communication with members on climate risk

These are reviewed regularly to consider if any further risks need adding or amending, to assess any significant priority risks to manage and to ensure regular action is maintained in monitoring and mitigating these risks.

The Trustee's current assessment, based on consideration of their impact and likelihood, is that climate-related risks are appropriately managed for the Scheme and therefore should continue to be monitored in accordance with the current monitoring processes.

Stewardship

The Trustee expects the Scheme's investment managers to engage with investee companies on climate-related (and other) matters. The Trustee generally believes that engaging with companies is more effective at encouraging change rather than selling the Scheme's investments in those companies. Stewardship is therefore used to help manage climate-related risks. Voting and engagement activities are delegated to the individual investment managers. Each manager has its own ESG policy, which includes assessment of climate-related risks and policies on voting on climate-related resolutions. More information on the Trustee's stewardship activities can be found in its Implementation Statement.

The Trustee has set Stewardship Priorities for the Scheme, to provide a focus for monitoring investment managers' voting and engagement practices. **Climate change was identified as a stewardship priority for the Scheme**, alongside human rights. The Trustee will review these priorities regularly and update them if appropriate. The Trustee chose these priorities because they are market-wide areas of risk that are financially material for the Scheme's investments, aligned with the interests of the Scheme's members and can be addressed by good stewardship. Therefore, the Trustee believes it is in members' best interests that managers adopt strong practices in these areas. The Trustee has written to the Scheme's investment managers to notify them of the Scheme's stewardship priorities and remind them of the Trustee's expectations of them in relation to responsible investment – including ESG considerations, climate change, voting and engagement.

In order to monitor how the individual investment managers are exercising their voting rights and undertaking engagement on behalf of the Trustee, the Investment Committee:

- periodically meets with the Scheme's investment managers, to engage with them on how they have considered **climate change** and human rights (the Scheme's stewardship priorities) within their stewardship activities and will seek to challenge the investment managers on these matters where they think this is in the best interests of members; and
- further monitors the investment managers by receiving stewardship and governance reports from the investment managers on a quarterly basis.

The box to the right illustrates an example vote and associated disclosure received by the Trustee from the investment manager, in respect of its climate stewardship priority.

Case Study: Unilever Plc.

- Legal and General Investment Management (LGIM) invests in Unilever Plc. ("Unilever") through its underlying investment funds, such as the LGIM Ethical Global Equity Index Fund (where most Scheme assets were invested over the Scheme year). Shareholders were invited to vote on 'Resolution 4 – Approve Climate Transition Action Plan' on 1 May 2024.
- LGIM expect transition plans put forward by companies to be both ambitious and credibly aligned to a 1.5C scenario.
- The SBTi recently withdrew its approval of the Unilever's long-term Scope 3 emissions target. However, the company has now submitted new, short-term Scope 3 targets that are aligned with the 1.5°C climate goal and is waiting for SBTi to validate them. Because of this, LGIM takes the view that the company's climate ambition is acceptable at this time, and that its ambition continues to support the path to net zero at this stage.
- LGIM voted for this resolution, as the proposed action plan meets its minimum expectations. Expectations include the disclosure of scope 1, 2 and material scope 3 GHG emissions and short, medium and long-term GHG emissions reduction targets consistent with a 1.5°C Paris goal.
- This resolution passed, so the climate transition action plan was formally approved by shareholders. LGIM will continue to engage with Unilever, publicly advocate its position on this issue and monitor company and market-level progress.

Section 4 – Metrics and Targets

1. Metrics

The Trustee has chosen four climate-related metrics to help it monitor climate-related risks and opportunities to the Scheme. These are listed below and reported overleaf (as far as the Trustee was able to obtain the data).

Metric	High-level methodology
Absolute emissions: Total greenhouse gas emissions	The sum of each company's most recent reported or estimated greenhouse gas emissions attributable to the Scheme's investment in the company. Emissions are attributed evenly across equity and debt investors. Reported in tonnes of CO_2 equivalent **(tCO2e)**. Scopes 1,2 and 3 are reported. This methodology was chosen because it is in line with the statutory guidance.
Emissions intensity: Carbon footprint	The total greenhouse gas emissions described above, divided by the value of the invested portfolio in £m, adjusted for data availability. Emissions are attributed evenly across equity and debt investors. Reported in tonnes of CO_2 equivalent per £1m invested **(tCO2e/£m)**. Scopes 1,2 and 3 are reported. In line with market practice, the gilt funds' metrics have been calculated on a different basis, using gilts emissions intensity (analogous to Weighted Average Carbon Intensity or WACI) which is based on GDP. This is because there are no direct operational emissions or revenues to measure for governments; instead, sovereign emissions are typically assessed relative to GDP as a proxy for economic activity. For this reason, the gilts emissions figures cannot be directly compared with other. The methodologies were chosen because they are in line with the latest statutory guidance.
Portfolio alignment: Science-based targets (SBT)	The proportion of the portfolio by weight of holdings with science-based targets to reduce their greenhouse gas emissions, demonstrated by a target validated by the Science Based Targets initiative (SBTi) or equivalent. This measures the extent to which the Scheme's investments are aligned to the Paris Agreement goal of limiting global average temperature rises to 1.5°C. Reported in percentage terms. The Trustee chose this "binary target" measure because it believes it is the simplest and most robust of the various portfolio alignment metrics available.
Additional climate change metric: Data quality	The proportion of the portfolio for which greenhouse gas emissions data is verified, reported, estimated or unavailable. "Verified" emissions refers to data reported by the emitting company and verified by a third party. "Reported" emissions are reported by the emitting company but not verified. The investment manager was not able to differentiate between verified and reported data for this reporting year. As a result, "Reported" is used to describe both verified and reported data in this section of our TCFD report. This approach was chosen because it is in line with the statutory guidance.

Greenhouse gas emissions explained

- **Scope 1** greenhouse gas emissions are all direct emissions from the activities of an entity or activities under its control.
- **Scope 2** greenhouse gas emissions are indirect emissions from energy purchased and used by an entity.
- **Scope 3** greenhouse gas emissions are all indirect emissions from activities of the entity, other than scope 2 emissions, which occur from sources that the entity does not directly control.

Further information about the methodologies used to calculate the metrics, including key judgements, assumptions, data inputs and treatment of data gaps is provided in Appendix 3.

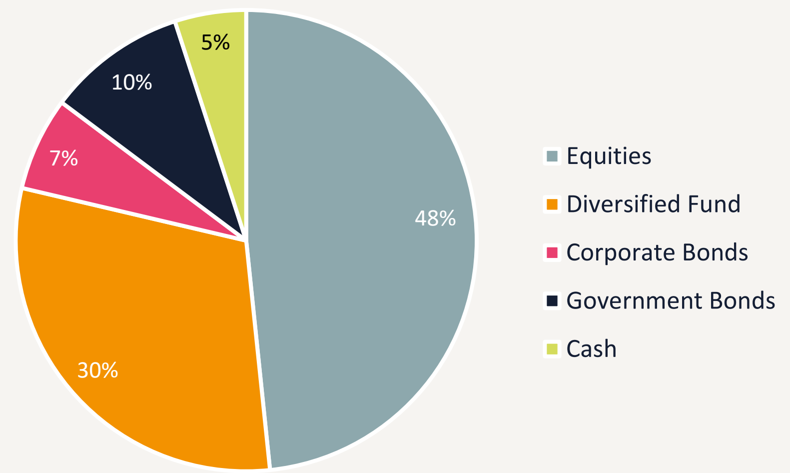
Metrics

- The data has been calculated using portfolio holdings as at 30 September 2024, using the most recent data available in November 2024, from Legal and General Investment Management (LGIM), the Scheme's investment manager.
- Government bonds and corporate holdings are reported separately because they are calculated using different assumptions and methodologies.
- Coverage for eligible assets will not always be 100%. Reasons for this include a particular company not publishing its carbon emissions data, or lower disclosure requirements for some asset classes. The Trustee has reported coverage of metrics where the investment managers disclose this information and continues to liaise with them to address limitations in coverage of different asset classes. As data coverage is less than 100%, the Scheme's total greenhouse gas emissions are understated. This metric may increase in future years as more data becomes available.

Total Scheme coverage of 89%*

Asset class (% of assets)	Details of missing data or estimations
Equities (48%)	See Appendix 3.
Corporate bonds (7%)	See Appendix 3.
Diversified Fund (30%)	See Appendix 3.
Government bonds (10%)	See Appendix 3.
Cash (5%)	The level of reporting climate data for this asset class has improved compared to our previous climate change report, which means we have been able to report the climate metrics for the first time; however, note we have no comparator figures for 2023.

Scheme asset allocation as at 30 September 2024

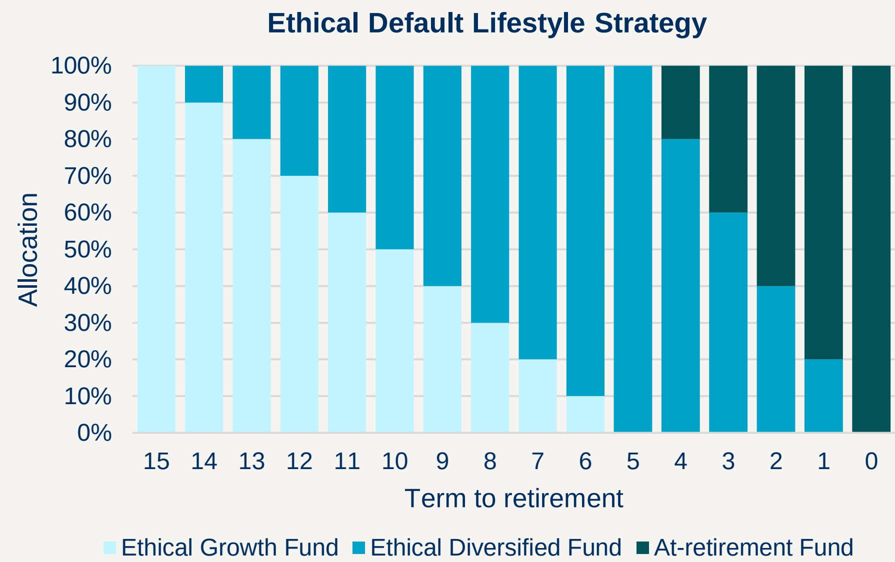


Source: Broadstone, LGIM. *This figure reflects coverage for Scope 1&2 emissions.

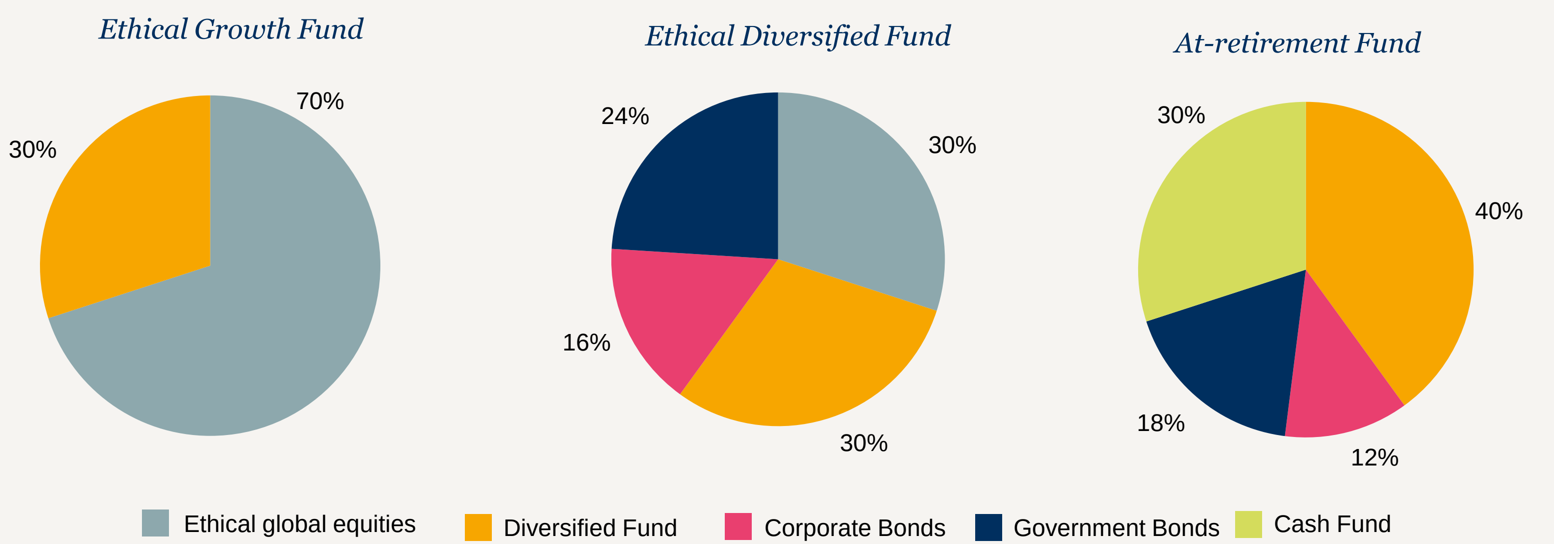
Metrics

The majority of assets are invested in the default strategy, with the assets allocated depending on members' expected retirement dates, as shown in the chart to the right.

As at 30 September 2024, 91.2% of assets were invested this way. The other assets are invested in a range of self-select funds, with the largest self-select allocation being to the LGIM Ethical Global Equity Fund, c1.6% (£1.3m), as well as a legacy lifestyle strategy. The Trustee has only collected metrics for the default strategy and not for self-select assets as it decided it was not proportionate to do so. This is in line with the guidance issued by the Department for Work and Pensions.



Each of the funds in the chart above invests across a number of asset classes. The pie charts below show the allocation for each fund. The remainder of this section reports climate metrics for the Scheme's default strategy, split by the same asset class categories.



Metrics

The absolute emissions, emissions intensity and coverage are shown here as at 30 September 2024, with the corresponding figures as at 30 September 2023 in brackets for comparison. The arrows in the table indicate whether the values of metrics have increased or decreased compared to last year's report for scope 1 and 2. We did not report the majority of the scope 3 figures last year; however, we have retrospectively included these below as the data is now available. L&G explained that the change in Scope 3 figures over the two years is partly due to increased holdings in high Scope 3-emitting sectors and evolving reporting methodologies.

	Valuation (£m)	Scope 1 + 2 emissions (for holdings with data)						Scope 3 emissions (for holdings with data)						Portfolio alignment		Data source	Date of portfolio value and holdings data
		Coverage (%)		Total GHG emissions (tCO_2e)[1]		Carbon footprint ($tCO_2e/£m$)[1]		Coverage (%)		Total GHG emissions (tCO_2e)[1]		Carbon footprint ($tCO_2e/£m$)[1]		Proportion with SBT (%)			
Ethical Global Equities	38.8 *(32.2)*	98.7 *(99.2)*	↓	1,805 *(1,802)*	↑	47 *(57)*	↓	98.7 *(99.9)*	↓	22,526 *(16,243)*	↑	588 *(509)*	↑	54.3 *(53.9)*	↑	LGIM	30/09/24 *(30/09/23)*
Corporate Bonds – corporate bond only	5.1 *(4.0)*	*47.9 (48.6)*	↓	40 *(48)*	↓	20 *(28)*	↓	*39.8 (39.6)*	↓	1,229 *(3,382)*	↓	561 *(446)*	↑	13.6 *(11.2)*	↑	LGIM	30/09/24 *(30/09/23)*
Corporate Bonds – sovereigns only[2]	0.4 *(0.4)*			41 *(41)*	=	92 *(104)*	↓										30/09/24 *(30/09/23)*
Diversified Fund – equities and corporate bonds	20.6 *(16.3)*	81.3 *(81.9)*	↓	1,249 *(1,335)*	↓	92 *(105)*	↓	65.6 *(65.9)*	↓	13,677 *(8,673)*	↑	852 *(682)*	↑	27.2 *(22.4)*	↑	LGIM	30/09/24 *(30/09/23)*
Diversified Fund – sovereigns only[2]	3.9 *(3.3)*			564 *(695)*	↓	146 *(211)*	↓										30/09/24 *(30/09/23)*
Government bonds[3]	8.2 *(6.6)*	100.0 *(100.0)*	=	1,298 *(1,192)*	↑	158 *(184)*	↓	100.0 *(100.0)*	=	17,095 *(4,222)*	↑	*2,082* *(650)*	↑	100.0[4] *(100.0[4])*	=	LGIM	30/09/24 *(30/09/23)*
Cash[5]	4.2 *(3.5)*	78.4 *(Not available)*	↑	191 *(Not available)*		58 *(Not available)*		17.5 *(Not available)*	↑	783 *(Not available)*		1,061 *(Not available)*		*0.0* *(Not available)*		LGIM	30/09/24 *(30/09/23)*

Data coverage has improved for the cash fund over the year and has reduced slightly for equity, corporate bonds and the diversified fund. Total Scope 1 & 2 emissions decreased across the diversified and corporate bond funds, while slightly increasing for the equity fund and the government bond allocations. The increase in emissions can be attributed to the greater amount of assets invested by the Scheme in these funds compared to last year, rather than an increase in their carbon footprint, which is positive. Carbon footprint for Scope 1 & 2 decreased across the board, which is also positive.

Source: LGIM [1] Figures relate only to the assets for which data is available. Total emissions are for the Scheme's assets, not the whole pooled fund.
[2]We have restated the 2023 Scope 1&2 carbon footprint figures for sovereigns only, to use LGIM's stated carbon footprint figures as in their data to 30 June 2023.
[3] Gilt funds metrics are calculated on a different basis to other mandates shown, using gilts emissions intensity (analogous to Weighted Average Carbon Intensity or WACI), so cannot be compared with the other funds in the table. The total emissions and intensity metrics shown for 2023 align with WACI methodology used for 2024, to allow a more consistent comparison.
[4]The UK has a net zero by 2050 target written into law, with carbon budgets based on advice from the independent Committee on Climate Change, so UK government bond exposure has been treated as having a credible science-based target.
[5]We have not reported climate data for the Cash Fund as at September 2023 given the data gaps in cash fund reporting at that time. The Cash Fund's SBT coverage is as at 31 December 2024 as this was the closest date for which data was available from LGIM.

Section 4 – Metrics and Targets

Metrics (continued)

There was a large increase in absolute Scope 3 emissions for most of the funds over the year. We have liaised with LGIM on this matter, and they attributed the increase to the following factors:

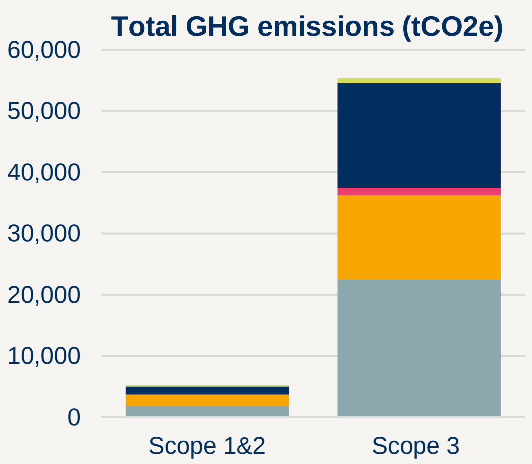
- As a result of changes in fund holdings over the year, there may have been an increase in the holdings in financial, real estate, energy or transport sector, where Scope 3 is typically high; or
- There may have been a change in reporting methods of Scope 3 intensive sectors impacting some of the holding companies, as the process for this is ever-evolving.

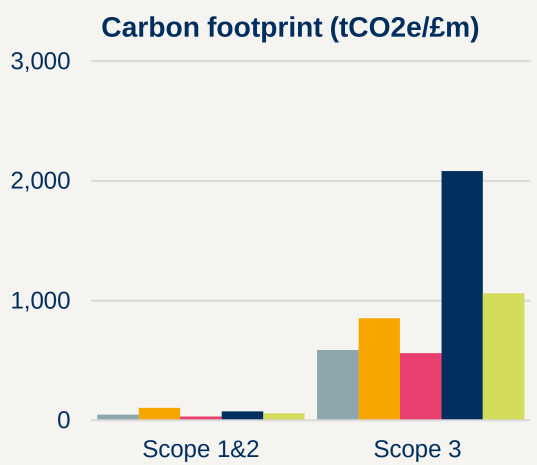
We do not believe the increases in Scope 3 emissions to be a cause for concern at this stage, although we note LGIM's explanation was high level. We remain confident in LGIM's Stewardship approach including their inclusion of climate related factors into their investment approach.

Across both charts shown below, Scope 3 emissions are significantly larger than Scope 1 and 2. This is because Scope 3 includes all the carbon emissions from the goods and services a company uses or sells, not just what the company makes or does directly. Scope 3 emissions are challenging to cut down in an investment portfolio because they come from various sources such as the customers and supply chains associated with the companies we invest in, and we do not have full control over these – for example, we have less control over how an investee company's suppliers run their business.

The chart on the bottom left shows the proportion of total carbon emissions attributable to each asset class in the default strategy. This represents the actual volume of emissions produced in the atmosphere by the Scheme investments. The largest individual fund contribution to the carbon emissions produced by the Scheme comes from the Ethical Equity Fund, as shown by the grey bars. This is because the majority of Scheme assets are invested in this fund. The more assets are invested in a fund, the higher the total emissions from that fund. For this reason, the Trustee pays particular attention to the climate approach within the Ethical Equity Fund and has agreed to replace this with a low carbon equity fund following the triennial strategy review conducted during the Scheme year.

The charts below summarise the carbon emissions data shown on the previous page.





Ethical Equity Fund
Diversified Fund
Corporate Bonds
Government Bonds
Cash Fund

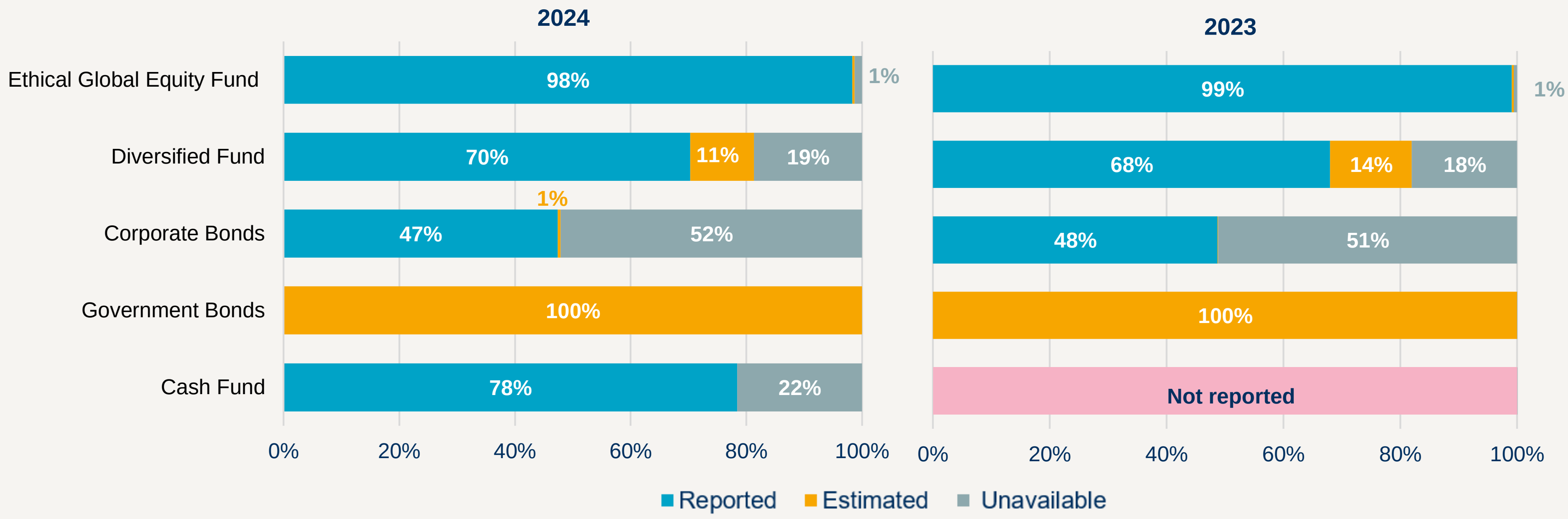
The chart on the bottom right shows the amount of emissions produced per £ million invested. This metric adjusts the volume of emissions produced by the amount invested. We note the Ethical Equity Fund has a significantly smaller Scope 1, 2 and 3 figures when adjusting for the amount invested. Gilt funds (which make up the entirety of the government bond allocation) use metrics which are calculated on a different basis to other mandates shown, analogous to Weighted Average Carbon Intensity or WACI, and therefore cannot be directly compared with other asset classes.

The Cash Fund has a high carbon footprint because of the way emissions are attributed. This is because cash funds are largely invested in bank deposits, and banks have large balance sheets that finance carbon-intensive activities. Scope 3 includes financed emissions, which are very large for big banks. Investing in a cash fund is similar to lending to banks. The carbon intensity of those loans gets attributed (pro-rata) to each cash holding, inflating its footprint.

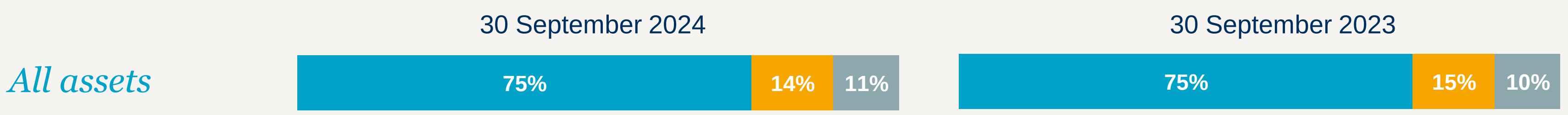
Source: LGIM.

Data Quality - Scope 1 & 2

The fourth metric, data quality, is shown below for Scope 1 & 2 and on the next page for Scope 3 as the split of portfolio value (not the split of the emissions figures).



Split of data coverage (% of assets) for Scope 1 + 2 emissions



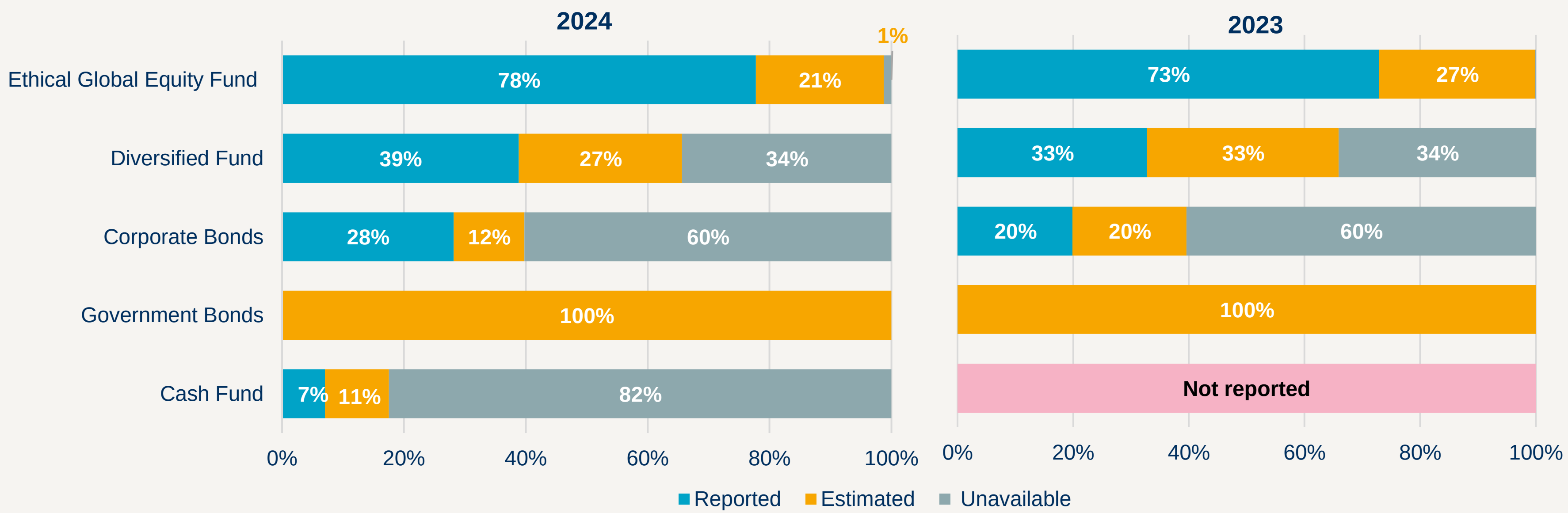
This year, we have been able to show a comparison from 2023 for the data quality across asset classes. We can see that the overall coverage remained stable. We have also been able to report on the Cash Fund this year. There have been slight reductions in the coverage for the equity fund, diversified fund and corporate bond allocation. LGIM continues to roll out quality checks on the data it receives and is considering ways to increase coverage for more asset classes in the future.

Source: LGIM. Figures may not sum due to rounding.

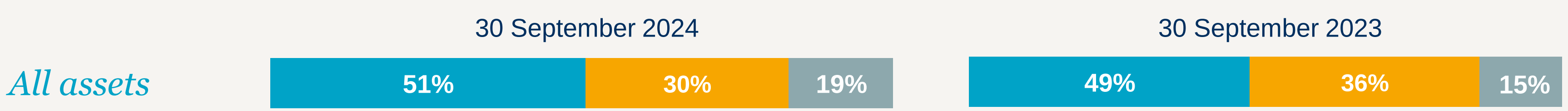
Section 4 – Metrics and Targets

Data Quality - Scope 3

Data quality is shown below for Scope 3.



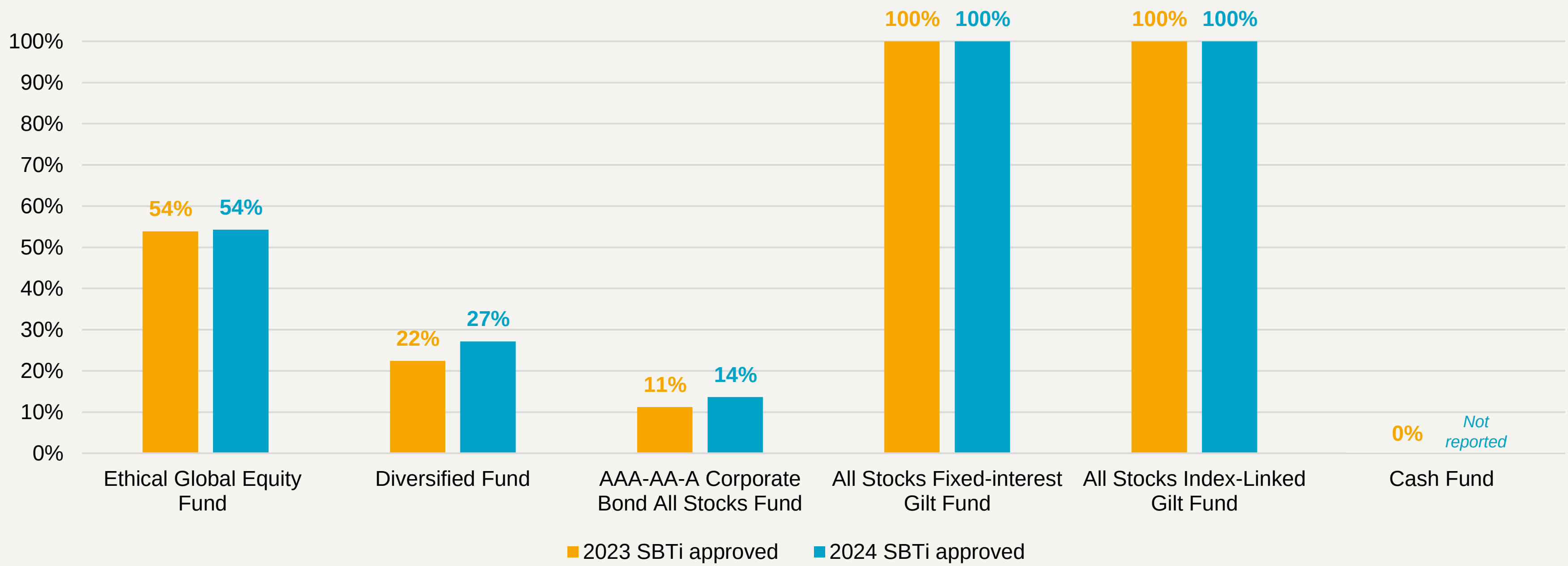
Split of data coverage (% of assets) for Scope 3 emissions



Overall data coverage for Scope 3 has slightly decreased compared to last year, primarily due to the inclusion of the Cash Fund this year. Data quality figures for the remaining funds are broadly similar to last year.

Source: LGIM. Figures may not sum due to rounding. We note that the 2023 coverage shown is for the WACI as opposed to the carbon footprint due to limited data availability from LGIM at the time.

SBTi coverage



Here we have shown the comparison of the proportion of the funds holdings where the companies have approved Science Based Targets over 2023 and 2024.

The UK has a net zero by 2050 target written into law, with carbon budgets set based on advice from the independent Committee on Climate Change. As such, we currently treat the UK's net zero target as a proxy for SBT in relation to the Scheme's UK government bond exposure. However, we continue to keep this position under review.

Source: LGIM.

2. Target

The Trustee has set the following target:

Target	Coverage	Reference base date
80% of listed equity and corporate bond investments to have set SBT by 2030	Listed equities and corporate bonds within the default investment strategy (c.81% of total assets)	2021

This target was chosen as the metric is forward-looking and focussed on the transition that needs to occur in order to achieve net zero aims globally. Achieving the above target will improve the Scheme's assets' alignment with a 1.5°C pathway, which is expected to help manage climate-related risks to the Scheme by:

1. Reducing exposure to climate transition risks in the shorter-term by encouraging investee companies to decarbonise; and
2. Supporting collective action to meet the Paris Agreement goals, hence reducing longer-term systemic risks from the physical effects of climate change.

Performance against the target

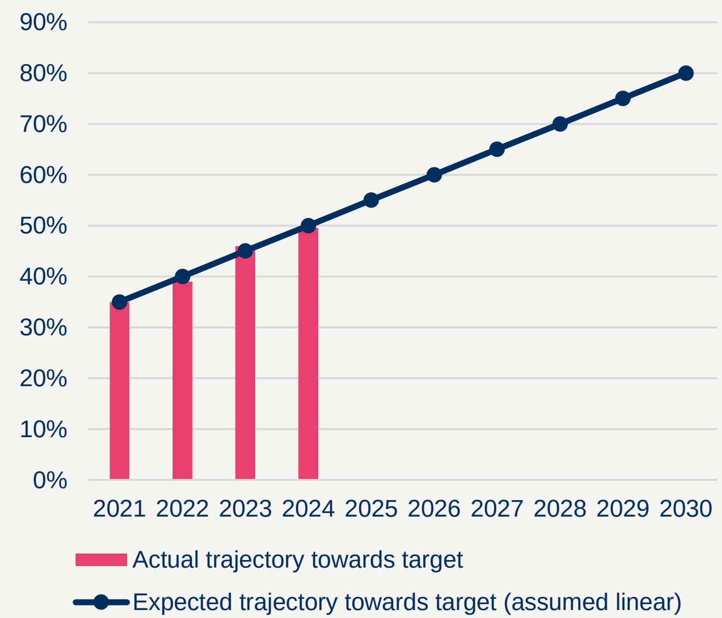
The climate reporting carried out for the Scheme during the year included an assessment of the current alignment with the above target. The chart to the right illustrates a linear pathway towards our TCFD target. Considering only the listed equities and corporate bonds funds as per the target coverage stated in the table above, the proportion of this allocation with SBT is c50%, an increase from 46% as at 30 September 2023.

The current 50% level is broadly in line with the expected trajectory, as shown in the chart to the right. The Trustee may choose to engage with LGIM to drive stronger improvement in this metric.

We note that the planned changes to the investment strategy which will be implemented in 2025 are expected to increase this SBT alignment figure.

For the portion of the portfolio for which SBT alignment data is not available, this analysis assumes that no other portfolio companies have set SBTs. The overall SBT figure is therefore likely to be understated.

Expected vs actual trajectory towards TCFD target*



Source: LGIM. *SBT alignment shown for 2021 and 2022 are calculated based on MSCI data as LGIM was only able to report SBTs using a different methodology at this time.

The following steps are being taken to achieve the target:

Investment managers are invited to present at Trustee and IC meetings as part of the existing monitoring process. When meeting with any of the Scheme's investment managers, the Trustee or IC will ask the manager how they expect the proportion of portfolio companies with SBT-validated targets to change over time and encourage the manager to engage with portfolio companies about setting SBTs, prioritising those with the highest carbon footprint. Where relevant, the Trustee or IC will ask the manager about "equivalent" methods of assessing whether emissions reduction targets are science-based, for example for holdings for which SBTi validation is not available or not well suited, with a view to extending the coverage of the SBT metric.

The investment adviser encourages managers to support the goal of net zero emissions by 2050 or earlier and has published its expectations for investment managers in relation to net zero. This includes the use of effective voting (where applicable) and engagement with portfolio companies to encourage achievement of net zero. The investment adviser continues to engage with managers on this topic and will encourage them to use their influence with portfolio companies to increase the use of SBTs.

Most Scheme assets are currently managed by LGIM. LGIM has set an interim target of 70% of eligible assets under management[1] to be managed in alignment with net zero by 2030. In 2023, 89% of the strategies launched by LGIM had ESG considerations and 24% of them were either net zero-aligned or had an existing benchmark aligned with the goals of the Paris Agreement.

In addition, the passive bond allocation within the default strategy will be replaced by an allocation to a sustainable active credit fund. As at August 2024, 19% of this fund had approved SBTi targets, which is higher than the current 14% for corporate bonds but lower than the assumed 100% SBTi figure for the current government bonds.

As a result, the new sustainable active credit fund is expected to improve the Scheme's SBT position against the target on p24, which considers only equities and corporate bonds.

The Trustee will review progress towards the target each year and consider whether additional steps are needed to increase their chance of meeting the target.

[1]For this interim target, LGIM excludes sovereigns and derivative securities due to lack of clear industry methodologies to account for these asset classes.

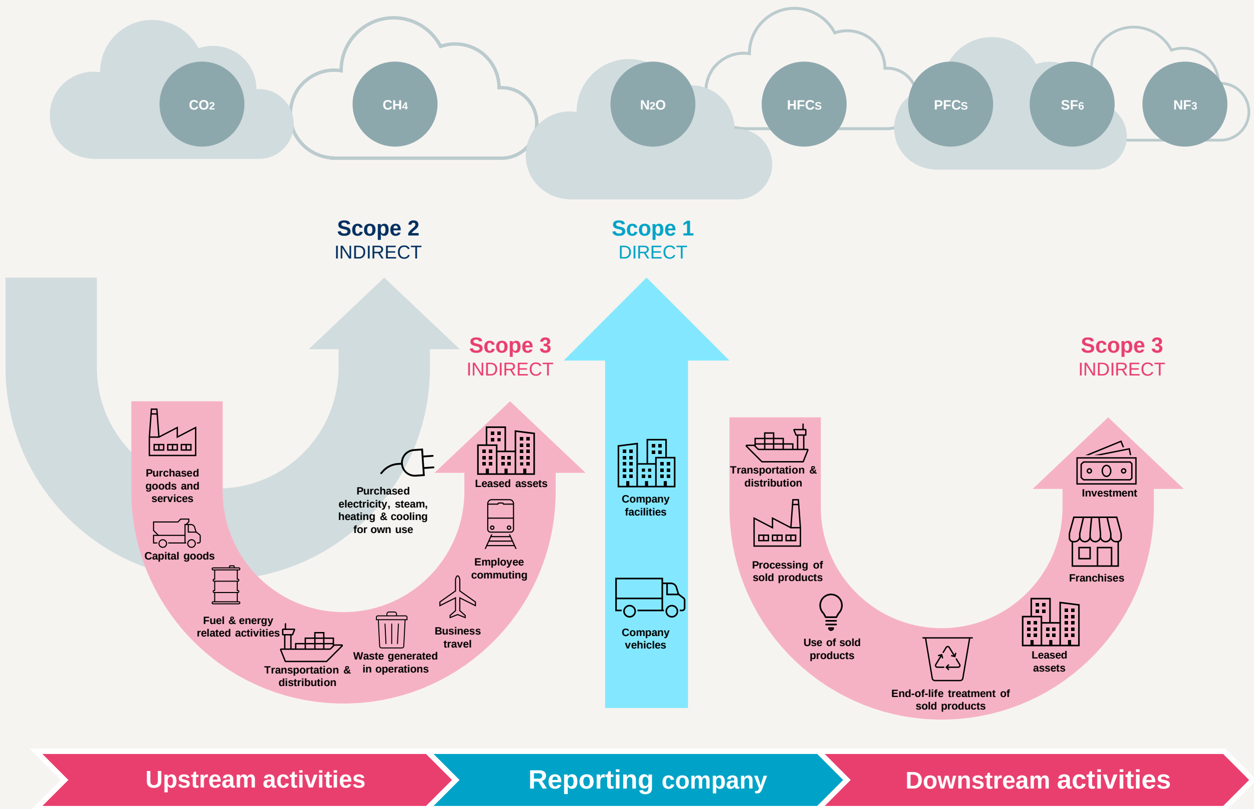
Appendices

Appendix 1 – Greenhouse gas emissions explained

Within the 'metrics and targets' section of the report, the emissions metrics relate to seven greenhouse gases – carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6) and nitrogen trifluoride (NF_3). The figures are shown as "CO_2 equivalent" (CO_2e) which is the amount of carbon dioxide that would be equivalent to the excess energy being stored by, and heating, the earth due to the presence in the atmosphere of these seven greenhouse gases.

The metrics related to greenhouse gas emissions are split into the following three categories: Scope 1, 2 and 3. These categories describe how directly the emissions are related to an entity's operations. Scope 3 emissions often form the largest share of an entity's total emissions but are also the ones that the entity has least control over.

- **Scope 1** greenhouse gas emissions are all direct emissions from the activities of an entity or activities under its control.
- **Scope 2** greenhouse gas emissions are indirect emissions from energy purchased and used by an entity.
- **Scope 3** greenhouse gas emissions are all indirect emissions from activities of the entity, other than scope 2 emissions, which occur from sources that the entity does not directly control.



Source: GHG Protocol

Appendix 2 – Climate scenario analysis

Scenarios considered and why the Trustee chose them

The Trustee carried out climate scenario analysis with the support of its investment adviser, LCP. The scenario analysis is based on macro-economic data as at 31 December 2023, calibrated to market conditions as at 30 June 2024. The analysis looked at three possible scenarios, as below. As noted on page 9, members may be affected by both physical and transition risks linked to climate change, with impacts varying across different climate scenarios and time horizons. Older members may be more exposed to short-term financial market shocks, such as those modelled in the Net Zero Financial Crisis scenario, whereas younger members may be more likely to face the longer-term risks associated with the Limited Action and High Warming scenarios.

Transition	Description	Why the Trustee chose it
High Warming	No new low-carbon policies enacted and some existing ones are scaled back. Current technological trends continue. Paris Agreement goals not met, and the resulting high warming leads to severe physical impacts. Modelling of tipping points has been included in the High Warming scenario.	To explore what could happen to the Scheme's finances if carbon emissions continue at current levels and this results in significant physical risks from changes in the global climate that disrupt economic activity.
Limited Action	Policymakers implement limited new climate policies and fall short of meeting the Paris Agreement goals, resulting in a combination of transition and physical risks.	The Limited Action scenario explores plausible physical outcomes, although the route to get there might be expected to be less smooth. This scenario reflects an attempt to correct the climate crisis but with limited success.
Net Zero Financial Crisis	Global net zero CO^2 emissions achieved by 2050 via rapid and effective climate action. Financial markets react abruptly in 2025.	Net Zero Financial Crisis gives important insight into potential volatility in financial markets caused by climate change. Financial markets react slower to corporate and consumer behaviour and an abrupt market reaction can negatively impact investments.

The Trustee acknowledges that many alternative plausible scenarios exist but found these were a helpful set of scenarios to explore how climate change might affect the Scheme in future.

The intricacies of climate systems present considerable difficulties in modelling the impacts on pension schemes' assets. This is particularly true in the High Warming scenario where over 3.7°C of warming is observed. Due to the unprecedented nature of such warming, it is challenging to encompass all potential consequences within the modelling process. Simplifications in the modelling, such as not allowing for tail risks, mean the actual impact on pension schemes is likely to be more significant than is currently being modelled. The Trustee has considered the potential impact of such limitations in the modelling. The Trustee believes that, as long as these limitations are understood, the scenarios can still provide valuable insights to inform climate risk assessment and management.

To provide further insight, the Trustee also compared the outputs under each scenario to a base case which makes some allowance for the physical risks of climate change and the transition to a low carbon economy.

The scenarios' key features are summarised on next page.

Appendix 2 – Climate scenario analysis

The climate scenarios considered by the Trustee

Scenarios as at 31 December 2023 – key features

Scenarios:	***High Warming***	***Limited Action***	***Net Zero Financial Crisis***
Low carbon policies	There are no new* low-carbon policies enacted in this scenario and some existing ones are scaled back. Current technological trends continue (eg significant falls in renewable energy prices).	Moderate steps taken by policymakers to increase climate action including working towards the 2030 targets and net zero commitments. Carbon Capture and Storage also used.	Ambitious low carbon policies, high investment in low carbon technologies and substitution away from fossil fuels to cleaner energy sources and biofuel. Carbon Capture and Storage also used to achieve global net zero by 2050.
Paris Agreement outcome	Paris Agreement goals not met.	Paris Agreement goals not met.	Global net zero CO_2 achieved by 2050; Paris Agreement goals met.
Global warming	Average global warming is about 2°C by 2050 and 3.7°C by 2100, compared to pre-industrial levels.	Average global warming is about 1.8°C by 2050 and 2.6°C by 2100, compared to pre-industrial levels.	Average global warming stabilises at around 1.5°C above pre-industrial levels.
Physical impacts	Severe physical impacts. Multiple climate tipping points are reached and modelled and many countries suffer from extreme weather events.	High physical impacts.	Moderate physical impacts.
Impact on GDP	Global GDP in 2100 predicted to be almost 80% lower than in the Ortec Finance / Cambridge Econometrics base case.	Global GDP in 2100 predicted to be about 50% lower than in the Ortec Finance / Cambridge Econometrics base case.	Global GDP is slightly behind the Ortec Finance / Cambridge Econometrics base case by 2100.
Financial market impacts	Physical risks priced in over the period 2026-2030. A second repricing occurs in the period 2036-2040 as investors factor in the severe physical risks.	Physical risks priced in over the period 2026-2030. A second repricing occurs in the period 2036-2040 as investors factor in the high physical risks.	Abrupt repricing of assets and a sentiment shock to the financial system in 2025.

Source: Ortec Finance. Figures quoted are medians.
*New compared to the International Energy Agency's World Energy Outlook 2021 – Stated Policies Scenario (STEPS)

Appendix 2 – Climate scenario analysis

Modelling approach

- The scenario analysis is based on a model developed by Ortec Finance and Cambridge Econometrics. The outputs were then applied to the Scheme's assets by LCP.
- The three climate scenarios are projected year by year, up to a retirement age of 65 for each member, apart from the 65-year-old member whose projection was modelled over 10 years.
- The results are intended to help the Trustee to consider how resilient the Scheme default strategy is to climate-related risks.
- The Trustee discussed how future planned changes to the investment strategies would change the analysis.
- The three climate scenarios chosen are intended to be plausible narratives of how the future could unfold. They are only three scenarios out of countless others which could have been considered. Other scenarios could give better or worse outcomes for the Scheme.
- The results discussed in this report have been based on macro-economic data as at 31 December 2023, calibrated to market conditions as at 30 June 2024.
- The scenario analysis is based on the ClimateMAPS model developed by Ortec Finance and Cambridge Econometrics, and was then applied to the Scheme's assets and liabilities by LCP. The three climate scenarios were projected year by year, over the next 40 years.
- The model output is supported by in-depth narratives that bring the scenarios to life to help the Trustee's understanding of climate-related risks and opportunities.
- ClimateMAPS uses Cambridge Econometrics' macroeconomic model which integrates a range of social and environmental processes, including carbon emissions and the energy transition. It is one of the most comprehensive models of the global economy and is widely used for policy assessment, forecasting and research purposes. The outputs from this macroeconomic modelling – primarily the impacts on country/regional GDP – are then translated into impacts on financial markets by Ortec Finance using assumed relationships between the macroeconomic and financial parameters.
- Ortec Finance runs the projections many times using stochastic modelling to illustrate the wide range of climate impacts that may be possible, under each scenario's climate pathway. LCP takes the median (ie the middle outcome) of this range of impacts, for each relevant financial parameter, and adjusts it to improve its alignment with LCP's standard financial assumptions.
- LCP then uses these adjusted median impacts to project the assets of the Scheme to illustrate how the different scenarios could affect its funding level. The modelling summarised in this report used scenarios based on the latest scientific and macro-economic data as at 31 December 2023, calibrated to market conditions as at 30 June 2024.
- The modelling included contributions assumed to be paid in line with the current Schedule of Contributions, and the Trustee discussed how future planned changes to the investment strategies for the Scheme would change the analysis. The Scheme members' starting pots values were assumed to equal the average value for Scheme members of their age, and member and employer contributions were assumed to be paid in line with the current contribution structure. No allowance was made for changes to the investment strategy or contributions in response to the climate impacts modelled.
- For more information about the modelling approach, see page 33.

Appendix 2 – Climate scenario analysis

Modelling limitations

- As this is a "top-down" approach, investment market impacts were modelled as the average projected impacts for each asset class. This contrasts with a "bottom up" approach that would model the impact on each individual investment held by the Scheme default strategy. As such, the modelling does not require extensive scheme-specific data and so the Trustee was able to consider the potential impacts of the three climate scenarios for all of the Scheme assets in the default strategy.
- In practice, the Scheme's investments may not experience climate impacts in line with the market average. The Trustee considers, on an ongoing basis, how the Scheme's climate risk exposure differs from the market average using climate metrics and its annual responsible investment review which considers the investment managers' climate approaches (see page 13).
- Uncertainty in climate modelling is inevitable. Like most modelling of this type, the modelling does not allow for all potential climate-related impacts and therefore is quite likely to underestimate some climate-related risks. For example, tail risks are not modelled and no allowance is made for knock-on effects, such as climate-related migration and conflicts.
- In addition, the model presumes that the UK government and bank counterparties will remain solvent, thereby making no allowance for credit risk on government bonds and derivative exposures. However, in a scenario where global warming exceeds 3.7ºC, this assumption may no longer be valid.
- Medians from Ortec Finance's model outputs are used to project forward assets and liabilities, which means the results reflect the model's "middle outcomes" for investment markets under the three scenarios. Allowing for market volatility would result in better or worse model outputs than shown. Investment markets may be more volatile in future as a result of physical and transition risks from climate change, and this is not illustrated in the modelling shown.

Potential impacts under each scenario

The scenario analysis looked at the retirement outcomes (in terms of the size of their retirement pot) for individual members of different ages who are invested in the default strategy. The analysis highlighted that members will be subject to climate risks to varying degrees depending on the climate scenario. In general, the default strategy has been designed in a way which reduces investment risk as members approach retirement. Climate risks are generally expected to have the greatest impact on return-seeking assets such as equities. In the default strategy, exposure to these assets is reduced as members approach retirement, which should help to reduce their exposure to climate risks.

The High Warming scenario is the worst outcome for younger members (aged 39 and 49) as they would be most severely impacted by the long-term impacts of the severe physical risks associated with this scenario.

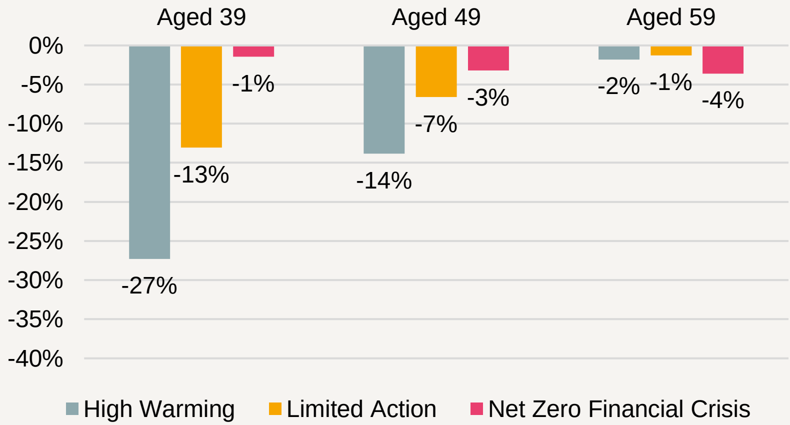
As the short-term scenario only considers the next 6 years for members aged 59, these members are unlikely to be largely impacted by the progress of the climate transition. However, they are likely to be impacted by short term market shocks in the Net Zero financial crisis scenario. Net Zero financial crisis is therefore the worst scenario for members near retirement as they will not have sufficient time to recover from short-term market shocks before retirement.

The Trustee also conducted the analysis for deferred members, with results shown in the second chart below. For these members, all scenarios are expected to have a greater negative impact on their retirement pot compared to the average active member of the same age. As deferred members are no longer making contributions, they are less able to recover from market shocks.

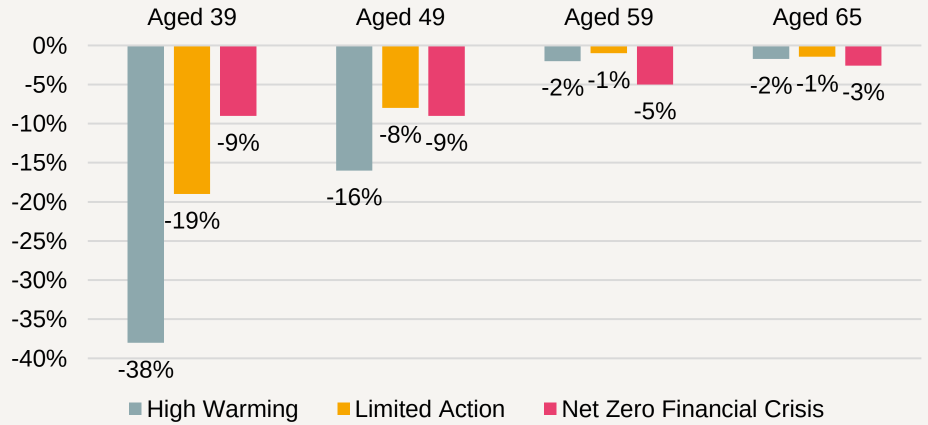
The analysis confirmed the importance of managing climate-related risks to members' pots. The Trustee does this by ensuring the Scheme's investment managers have strong climate practices (see pages 12-13); reducing members' exposure to return-seeking assets as they approach retirement (see chart on page 18); and using stewardship to encourage the companies the Scheme invests in to improve their climate practices (see page 15).

Chart showing the impact on active member pots at retirement with different scenarios and starting ages

Active members



Deferred members



Appendix 3 – Further information on climate-related metrics

- The data has been calculated using asset holdings as of 30 September 2024.
- The Trustee, through its investment adviser, LCP, exchanged emails with LGIM to understand the data provided and to clarify regulatory guidance on climate metrics. LCP also took this as an opportunity to query additional information based on the previous year's climate data to ensure that previous data gaps could be provided for this report.
- The metrics information presented in this report is sourced from LGIM and therefore uses the investment manager's calculation methodology. The 2023 figures provided in the table on page 19 for comparison purposes are calculated using the same methodology.
- Carbon emissions data and company fundamental data were sourced by LGIM from Institutional Shareholder Services (ISS).
- LGIM used data on carbon emissions from a company's operations and purchased energy for the calculation of carbon footprint.
- Our investment adviser, LCP, multiplied the carbon footprint (reported in tonnes CO_2e per £1 million invested) or the WACI (tonnes CO_2e per £1 million revenue) for gilts funds by the amount invested by the Scheme in each fund, in £ million, and adjusted for the coverage in order to derive the total carbon emissions figures.
- In LGIM's calculations, LGIM excludes ineligible and unavailable data. For example, this means the carbon footprint figures will not assume zero emissions for the portion of the portfolio with no data.
- We have reported SBTs based on companies with targets already in place rather than companies "intending to commit to a target". The latter is the approach of some investment managers (including LGIM prior to this reporting year), however the Trustee has a preference for the more stringent approach. LGIM have also aligned their reporting with this approach for this reporting year.

Appendix 4 – Glossary

Alignment – in a climate change context, alignment is the process of bringing greenhouse gas emissions in line with 1.5°C temperature rise targets. It can be applied to individual companies, investment portfolios and the global economy.

Asset class – a group of securities which exhibit broadly similar characteristics. Examples include equities and bonds.

Bond – a bond is a security issued to investors by companies, governments and other organisations. In exchange for an upfront payment, an investor normally expects to receive a series of regular interest payments plus, at maturity, a final lump sum payment, typically equal to the amount invested originally, or this amount increased by reference to some index.

Carbon emissions – These refer to the release of carbon dioxide, or greenhouse gases more generally, into the atmosphere, for example from the burning of fossil fuels for power or transport purposes.

Carbon footprint – In an investment context, the total carbon dioxide or greenhouse gas emissions generated per amount invested (eg in £m) by an investment fund. Related definitions are used to apply the term to organisations, countries and individuals

Climate change adaptation – steps taken to adapt to the physical effects of climate change such as improving flood defences and installing air conditioning.

Climate change mitigation – steps taken to limit climate change by reducing greenhouse gas emissions, for example by shifting to renewable sources of energy – such as solar and wind – and by using less energy and using it more efficiently.

Credit – long-term debt issued by a company, also know as corporate bonds. Corporate bonds carry different levels of credit risk which is indicated by their rating and credit spread.

Defined Contribution (DC) – a pension scheme in which the sponsor stipulates how much it will contribute to the arrangement which will depend upon the level of contributions the member is prepared to make. The resultant pension for each member is a function of the investment returns achieved (net of expenses) on the contributions and the terms for purchasing a pension at retirement. In contrast to a defined benefit scheme, the individual member bears the risk that the investments held are insufficient to meet the desired benefits.

Debt – money borrowed by a company or government which normally must be repaid at some specified point in the future.

Default strategy – the fund or mix of funds in which contributions in respect of a Defined Contribution member will be invested in the absence of any explicit fund choice(s) of that member.

Environmental, social and governance (ESG) – an umbrella term that encompasses a wide range of factors that may have been overlooked in traditional investment approaches. Environmental considerations might include physical resource management, pollution prevention and greenhouse gas emissions. Social factors are likely to include workplace diversity, health and safety, and the company's impact on its local community. Governance-related matters include executive compensation, board accountability and shareholder rights.

Equity – through purchase on either the primary market or the secondary market, company equity gives the purchaser part-ownership in that company and hence a share of its profits, typically received through the payment of dividends. Equity also entitles the holder to vote at shareholder meetings. Note that equity holders are entitled to dividends only after other obligations, such as interest payments to debt holders, are first paid. Unlike debt, equity is not normally contractually repayable.

Ethical investment – an approach that selects investments on the basis of an agreed set of environmental, social and governance (ESG) criteria that are motivated by ethical considerations. These can be positive – eg choosing companies involved in water conservation or negative – eg not choosing companies involved in the arms trade.

Appendix 4 – Glossary

Fossil fuels – fuels made from decomposing plants and animals, which are found in the Earth's crust. They contain carbon and hydrogen, which can be burned for energy. Coal, oil, and natural gas are examples of fossil fuels.

Gilts – bonds issued by the UK government. They are called gilts as the bond certificates originally had a gilt edge to indicate their high quality and thus very low probability of default

Greenhouse gas (GHG) emissions (scopes 1, 2 and 3) – gases that have been and continue to be released into the Earth's atmosphere. Greenhouse gases trap radiation from the sun which subsequently heats the planet's surface (giving rise to the "greenhouse effect"). Carbon dioxide and methane are two of the most important greenhouse gases. See also Appendix 1.

Gross Domestic Product (GDP) – this is the value of all goods and services produced in a country over a given period, typically a year.

Net zero – this describes the situation in which total greenhouse gas emissions released into the atmosphere are equal to those removed. This can be considered at different levels, eg company, investor, country or global.

Paris Agreement – the Paris Agreement is an international treaty on climate change, adopted in 2015. It covers climate change mitigation, adaptation and finance. Its primary goal is to limit global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels.

Physical risk – these are climate-related risks that arise from changes in the climate itself. They include risks from more extreme storms and flooding, as well as rising temperatures and changing rainfall pattens.

Portfolio alignment metric – this measures how aligned a portfolio is with a transition to a world targeting a particular climate outcome, such as limiting temperature rises to well below 2°C, preferably to 1.5°C, as per the Paris Agreement. Assessments using these metrics consider companies' and governments' greenhouse gas (GHG) emissions reduction plans and likelihood of meeting them, rather than current, or the latest reported, GHG emissions.

Responsible Investment (RI) – the process by which environmental, social and governance (ESG) issues are incorporated into the investment analysis and decision-making process, and into the oversight of investments companies through stewardship activities. It is motivated by financial considerations aiming to improve risk-adjusted returns.

Science-based targets – targets to reduce greenhouse gas emissions that are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement.

Science-Based Targets initiative (SBTi) – an organisation that sets standards and provides validation for science-based targets set by companies and investors.

Scenario analysis – a tool for examining and evaluating different ways in which the future may unfold.

Scope 1, 2 and 3 – a classification of greenhouse gas emissions. See Appendix 1.

Self-select – in contrast with a default fund, a self-select fund within a Defined Contribution scheme is one of a range of funds that members can choose to invest in.

Stakeholder – an individual or group that has an interest in any decision or activity of an organisation. The stakeholders of a company include its employees, customers, suppliers and shareholders.

Statutory guidance - refers to official advice issued under legal authority, which organizations and individuals are expected to follow. It provides practical advice and interpretation of legal requirements, supporting with how to apply the law in their specific context.

Stewardship – stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. It is often implemented via engagement with investee companies and exercising voting rights.

Appendix 4 – Glossary

Sustainable investing - an approach in which an assessment of the environmental and social sustainability a company's products and practices is a key driver in the investment decision. ESG analysis therefore forms a cornerstone of the investment selection process.

Taskforce on Climate-related Financial Disclosures (TCFD) – a group of senior preparers and users of financial disclosures from G20 countries, established by the international Financial Stability Board in 2015. The TCFD has developed a set of recommendations for climate-related financial risk disclosures for use by companies, financial institutions and other organisations to inform investors and other parties about the climate-related risks they face.

Transition risk – these are climate-related risks that arise from the transition to a low-carbon economy and can include changes in regulation, technology and consumer demand.