The Baptist Pension Scheme

Climate change report

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

Scheme year to **31 December 2023**

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.

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 below.

The Trustee of the Baptist Pension Scheme views climate change as a risk to society, the economy and the financial system, but also recognises that reducing carbon emissions throughout the economy presents opportunities.

These risks and opportunities may impact the Scheme's investments, for example by impacting the funds the Scheme invests in. The Trustee monitors this potential impact by looking into the underlying businesses that our funds are invested in and taking steps to reduce climate-related risks for members.

This report describes how the Trustee has identified, assessed and managed climate-related risks and opportunities during the Scheme year to 31 December 2023.

Contents

Published alongside the Scheme's annual report and accounts for the Scheme year to 31 December 2023 and available online via this link.

The Defined Benefit section is not covered in this report

In June 2022, the DB assets and liabilities were transferred to an insurer, with only residual assets remaining in the Scheme, which are in the process of being redeemed at the time of writing. The DB section will then be wound up. Therefore, these assets are not included in this year's TCFD report.

Key findings for 2023

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 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 to potentially impact the Scheme more significantly over the longer term. It aims to reduce the risks to the Scheme in several ways:*

Investing responsibly, in line with our Ethical Investment Policy, where practical

Regularly reviewing the Scheme's investment managers' climate practices

Setting 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 greenhouse gas emissions, carbon footprint and emissions reductions targets for the assets we invest in, 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, apart from one fund that invests in government bonds. The availability of data generally improved over the year. More detail can be found on page 19.

Data availability has improved since the previous year. Data quality figures are now available for Scope 3 as well as Scope 1 and 2 emissions.

The proportion of Scheme assets with approved, science-based climate targets has increased from 39% in 2022 to 46% in 2023. This is 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 and Investment Committee meet 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 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 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.

Section 1 – Governance

2. The role of the Investment Committee

The Investment Committee ("IC") provides the Trustee with regular 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 advisers' competency;
- Meeting with the investment managers regularly 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. For example, in February 2023, LGIM, the investment manager for the majority of assets, provided a training session for the IC on Stewardship. The IC challenged LGIM on the extent to which their stewardship principles rely on financial matters and how the Scheme's voting and engagement priorities are considered, one of which is Climate Change. The IC were happy with LGIM's overall approach and concluded there was evidence of LGIM demonstrating good work in this area.
- 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 quarterly meetings. The Investment Committee also reviews (at least 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. In November 2023, the Trustee identified where there were opportunities to further mitigate climate risk within the Scheme's default strategy which are being considered as part of the 2024 triennial investment strategy review. The outcome of this review will be included in next year's climate reporting.
- 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 Scheme's ethical policy was updated on 8 March 2023 to focus on the Defined Contribution section of the Scheme following the transfer of Defined Benefit assets and liabilities to an insurer on 30 June 2022. 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 are 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 advisers during the Scheme Year, in November 2023. No concerns were identified.

The investment adviser, LCP has published its Responsible Philosophy 2023 and its climate competency document. LCP is a signatory to the UN PRI, UK Stewardship Code, Net Zero Investment Consultants Initiative, the Diversity Project, and also 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
- 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.

Objectives set for advisers

- Take into account the Scheme's ethical policy, ESG and stewardship considerations in advising on the implementation of the Scheme's investment strategy;
- Help the Trustee understand climate risks within each investment mandate vs the Trustee's investment beliefs;
- Inform the Trustee of regulatory changes and assist the Scheme in becoming compliant.

Training for the Trustee

During 2023, the Trustee and Investment Committee allocated meeting time to climate-related topics and commissioned additional advice to be better placed to satisfy its regulatory obligations. Agenda items included the following:

- Training on the findings in the Scheme's second TCFD report (February 2023);
- Training on Master Trust investment strategies, including their approach to integrating climate and ESG (September 2023)
- Taking action: making climate scenario analysis decision useful (November 2023).

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 2023.

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 Statement of Investment Principles 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.

The Trustee has 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 5 years	Major improvements in climate data quality are expected over this period.
Medium term	5 to 10 years	Key period over which policy action will determine if Paris Agreement goals can be met.
Long term	10 to 27 years	Many developed economies are targeting to be net zero by this point.

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.

The Trustee has identified the following relevant climate-related risks and opportunities in relation to the Scheme over the following time horizons:

Time horizon	Risks	Opportunities
Short term	Older members within 10 years of retirement will be most exposed to transition risks in the short term in the event of a Paris disorderly Pathway.	Low carbon investments can mitigate the impact of market shocks due to a market repricing event.
Medium term	Transition risks may still be heightened over the medium-term creating volatility. Market returns may be lower if disorderly transition harms economic performance.	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 failed transition pathway, impacting those members 20 years or more from retirement.	Engagement with investment managers to ensure they are exercising stewardship in support of net zero pathways is key to avoiding a failed transition.

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 (the latest iteration of this policy shared with the managers is dated March 2023). 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 2023 (based on the version of the Ethical Investment Policy dated March 2023).

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 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, UK Stewardship Code and Net Zero Asset Managers Initiative.

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.

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 routinely invited to meetings with the Investments 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 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 2023 and concluded that the Scheme's investment managers are broadly aligned with the Trustee's expectations.

2. Climate scenario analysis

The Scheme's first climate scenario analysis was carried out in the Scheme year ending 31 December 2021. Further information regarding modelling approach and outcomes can be found in Appendix 2. The Trustee reviewed whether it is appropriate to update this analysis in November 2023. It was agreed that there have not been any material changes for the assets under scope, the availability of data or investment strategy, industry practice or modelling capabilities which warrant updating the climate scenario analysis for this report

The climate scenario analysis undertaken for the Scheme year ending 31 December 2021 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 results of the climate scenario analysis are summarised in the table below. It shows how much lower expected pot sizes at retirement will be in different climate scenarios compared to a climate unaware scenario (i.e. no effects of climate change).

Scenario	Member aged 25	Member aged 35	Member aged 45	Member aged 55
Orderly Net Zero outcome	-5.9%	-3.0%	-1.2%	-0.8%
Disorderly Net Zero outcome	-7.9%	-5.9%	-4.9%	-4.2%
Failed Transition outcome	-22.7%	-19.1%	-11.2%	-1.4%

Post-retirement scenario analysis

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). However, the current modelling capability does not allow the Trustee to consider members in retirement. For this reason, the climate scenario analysis presented in this report only extends to each example member's retirement age.

The Trustee will carry out updated climate scenario analysis for the next TCFD report, as at 31 December 2024. As part of this report, the Trustee is working with its investment adviser to include post-retirement climate scenario analysis. This is part of our continuous efforts to improve climate reporting for our members.

Additional detail on scenarios

See Appendix 2 for details of the reason why 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 manager 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, carried out after the end of this reporting year. The outcome of this review will be covered in the next TCFD report.

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 advisers in November 2023 and includes:

- a summary of each of the Scheme's investment manager's Responsible Investment processes, including the Scheme's investment adviser's view of their ESG practices;
- a summary of the Scheme's investment manager's climate approaches, including the Scheme's investment adviser's view on how climate considerations apply to each asset class; 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

The last review was carried out in November 2023. Overall, the investment managers were believed to be broadly in line with their peers in terms of managing ESG and climate risks.

The report identified the funds for which climate-related risks are an important part of the investment process. These funds have lower carbon exposure compared to the average fund with similar characteristics. In particular, one active equity fund and one passive equity fund were identified as having strong climate policies (which was expected given ESG factors, including climate risk, are an important part of the Trustee's manager selection process).

Some of the funds have an ethical focus which include policies that reduce the exposure to climate-related risks. The review noted that other funds are available, such as low carbon equity funds, that have lower carbon exposure than these ethical funds. However, these alternative funds were less well aligned with other parts of the Trustee's Ethical Investment Policy. The outcome of this paper and follow-up challenge and discussion from the Trustee has informed the investment recommendations presented by our investment adviser to the Trustee in February 2024. Any changes resulting from these discussions will be reported in the next TCFD report.

Section 3 – Risk Management

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 Scheme's investment managers' climate practices;
- 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 advisers provide quarterly investment performance monitoring reports to the Investment Committee for discussion. Any concerns in relation to the investment managers, including climate-related matters, are being 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 2023. The calculations and reporting of climate change metrics and other climate risk exposures, were discussed at the November 2023 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 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 fairly low risk for the Scheme and therefore should continue to be monitored in accordance with the current monitoring processes.

Section 3 – Risk Management

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 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: Toyota Motor Corp.

- Legal and General Investment Management (LGIM) invests in Toyota Motor Corp ("Toyota") through its underlying investment funds, such as the LGIM Ethical Global Equity Index Fund (where most Scheme assets are invested). Shareholders were invited to vote on 'Resolution 4 – Amend Articles to Report on Corporate Climate Lobbying Aligned with Paris Agreement' on 14 June 2023.
- LGIM views climate lobbying as playing a crucial in the transition to a net zero economy. LGIM voted in support of the resolution despite Toyota management recommending to vote against it. This is because LGIM believes that companies should advocate for public policies that support global climate ambitions and not stall progress on a Paris-aligned regulatory environment.
- Although LGIM acknowledges the progress that Toyota has made in relation to its climate lobbying disclosure in recent years, LGIM believes that additional transparency is necessary with regards to the process used by the company to assess how its direct and indirect lobbying activity aligns with its own climate ambitions, and what actions are taken when misalignment is identified.
- LGIM has published its intention to vote for the resolution ahead of the vote in one of its blogs.

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. 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. Scopes 1,2 and 3 are reported. This methodology was chosen because it is in line with the 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.

Section 4 – Metrics and Targets

Metrics

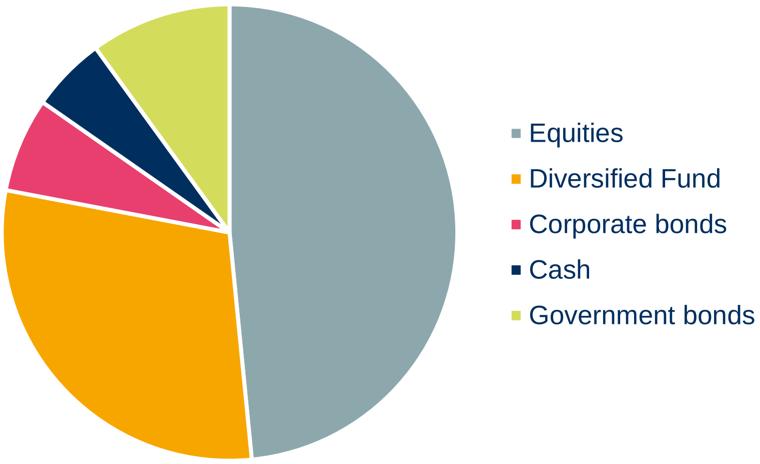
The data has been calculated using portfolio holdings as at 30 September 2023, using the most recent data available in November 2023, from Legal and General Investment Management (LGIM), the Scheme's investment manager. Government bonds and corporate holdings are reported separately because they are calculated using different assumptions and methodologies. The Trustee was unable to source coverage data on Scope 3 from the investment manager but has encouraged the investment manager to work on making this available in the future and was reassured that work is taking place in order to be able to report this in the next TCFD report. The investment adviser has exchanged emails with the investment manager regarding the regulatory guidance on climate metrics and the Trustee remains committed to obtaining this data. The investment manager advised that the coverage figures for Scope 1 and 2 emissions can be used as a proxy for Scope 3. As the coverage is less than 100% and therefore the data is incomplete, the Scheme's Total greenhouse gas emissions are understated. This metric may increase in future years as more data becomes available.

In 2021 the investment manager was not able to produce climate data and instead. LCP used the MSCI database to produce the figures. From 2022 the investment manager was able to produce climate data and the Trustee moved to this approach as it was more cost efficient. For this reason, we only present 2022 and 2023 data and do not include 2021 as the data sources and methodologies differ and results are therefore not comparable.

Total Scheme coverage of 77%

Asset class (% of assets)	Details of missing data or estimations
Equities (47%)	See Appendix 3.
Corporate bonds (6%)	
Diversified Fund (28%)	
Government bonds (10%)	
Cash (5%)	There are significant gaps in reporting climate data for this asset classes. The Trustee, through its investment adviser, continues to work with its investment managers to improve data reporting over time.

Scheme asset allocation as at 30 September 2023

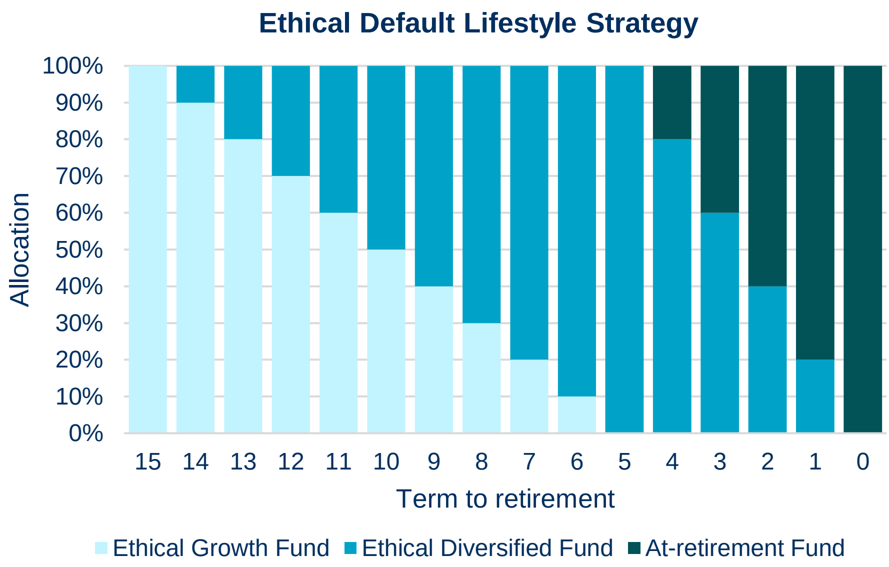


Section 4 – Metrics and Targets

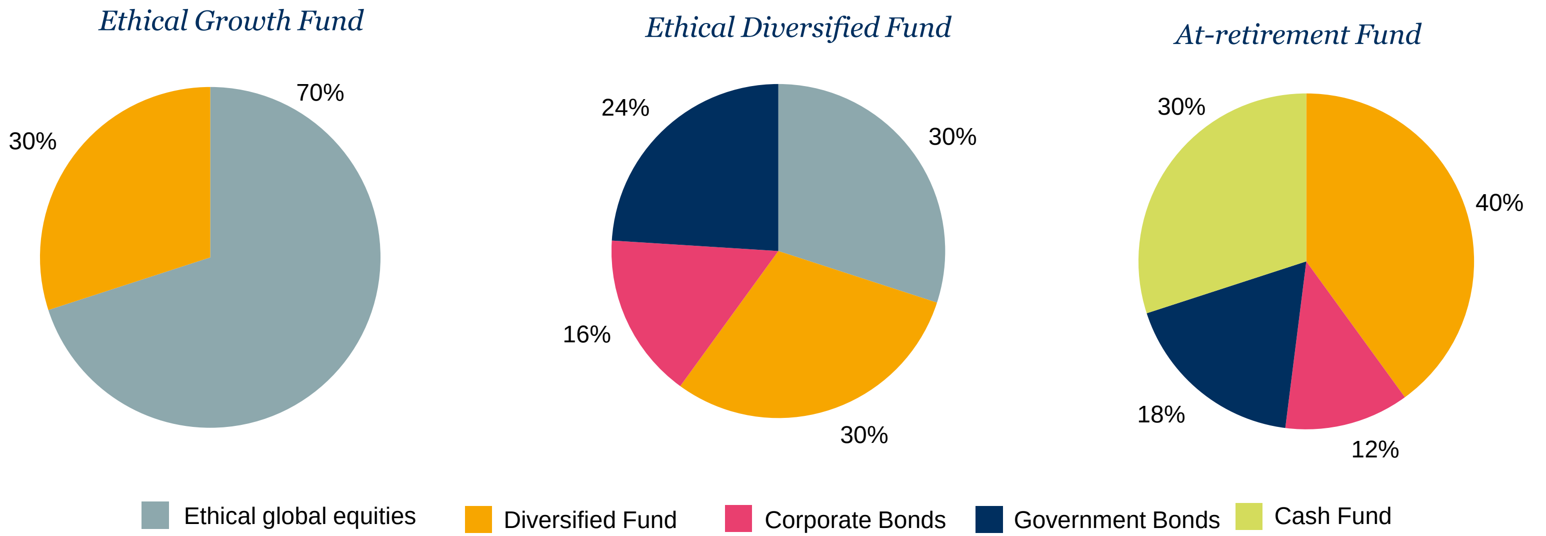
Metrics

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.

As at 30 September 2023, 90.7% 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 Cash Fund, c2.6% (£1.8m). The Trustee has not collected metrics for these other 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.



Section 4 – Metrics and Targets

Metrics

The first three metrics collected at 30 September 2023 are shown below, with the corresponding figures as at 30 September 2022 in brackets for comparison. The fourth metric is provided on pages 21 and 22. The arrows in the table indicate whether the values of metrics have increased or decreased compared to last year's report – green for an improvement and red for a deterioration. LGIM was unable to provide the Scope 3 emissions and Science Based Target (SBT) data using a consistent methodology as at 30 September 2022. LGIM was also unable to provide Scope 3 emissions data on sovereigns as at 30 September 2023.

The coverage for Ethical Global Equities and Corporate Bonds has improved over the year, while the coverage for the Diversified Fund and Government Bonds is broadly in line with 2022. Total emissions improved across all funds apart from the Diversified fund. For the equities and corporate bonds within this fund, the increase in total emissions is due to an increase in the value of assets, whereas for its sovereigns allocation, the increase is due to higher carbon footprint (discussed below).

Most of the funds have seen a reduction in carbon footprint over the year, except for the sovereign bond allocation within the Diversified Fund. The higher carbon footprint for this allocation can be explained by the changes to the holdings within the fund over the year. For example, the fund made a new investment in a Papua New Guinea government bond, which has a high associated carbon footprint due to the small number of government bonds issued by this country, which means a much higher proportion of the country's total carbon emissions are attributed to each bond.

	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]		Total GHG emissions (tCO_2e)[1]	Carbon footprint ($tCO_2e/£m$)[1]	Proportion with SBT (%)		
Ethical Global Equities	32.2 *(32.1)*	99.2 *(98.1)*	↑	1,802 *(1,779)*	↓	57 *(63)*	↓	16,243 *(Not available)*	509 *(Not available)*	53.9 *(Not available)*	LGIM	30/09/23 *(30/09/22)*
Corporate Bonds – corporate bond only[2]	4.0 *(4.0)*	38.6 *(35.1)*	↑	48 *(61)*	↓	28 *(44)*	↓	3,382 *(Not available)*	446 *(Not available)*	11.2 *(Not available)*	LGIM	30/09/23 *(30/09/22)*
Corporate Bonds – sovereigns only[2]	0.4 *(0.4)*			81 *(92)*	↓	183 *(254)*	↓	Not available *(Not available)*	Not available *(Not available)*			30/09/23 *(30/09/22)*
Diversified Fund – equities and corporate bonds	16.3 *(15.5)*	82.1 *(82.0)*	↓	1,335 *(1,288)*	↑	105 *(119)*	↓	8,673 *(Not available)*	682 *(Not available)*	22.4 *(Not available)*	LGIM	30/09/23 *(30/09/22)*
Diversified Fund – sovereigns only	3.3 *(3.5)*			752 *(546)*	↑	226 *(177)*	↑	Not available *(Not available)*	Not available *(Not available)*			30/09/23 *(30/09/22)*
Government bonds	6.6 *(6.6)*	100.0 *(100.0)*	=	542 *(514)*	↑	170 *(175)*	↓	Not available *(Not available)*	Not available *(Not available)*	100.0[3] *(Not available)*	LGIM	30/09/23 *(30/09/22)*
Cash	3.5 *(3.3)*	Not available[4] *(Not available)*									-	30/09/23 *(30/09/22)*

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 were unable to source data for corporate bonds as at 30 September 2022. Therefore, we have reported the data for this fund as at 31 December 2022.

[3] 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.

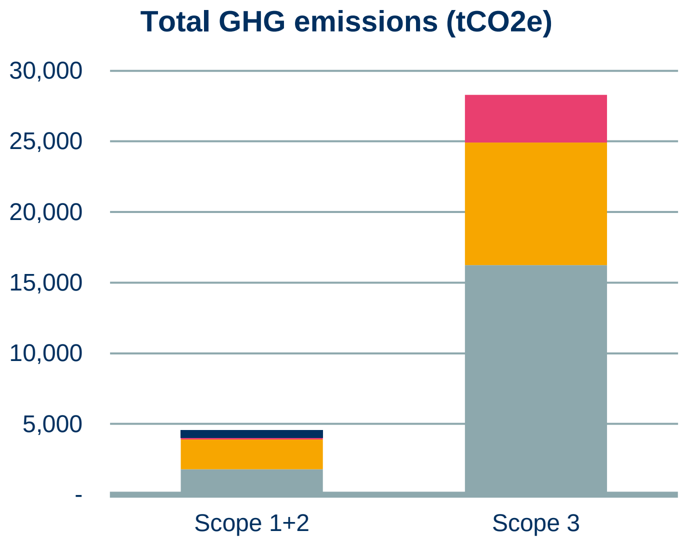
[4] We have not reported climate data for the Cash Fund given the data gaps in cash fund reporting.

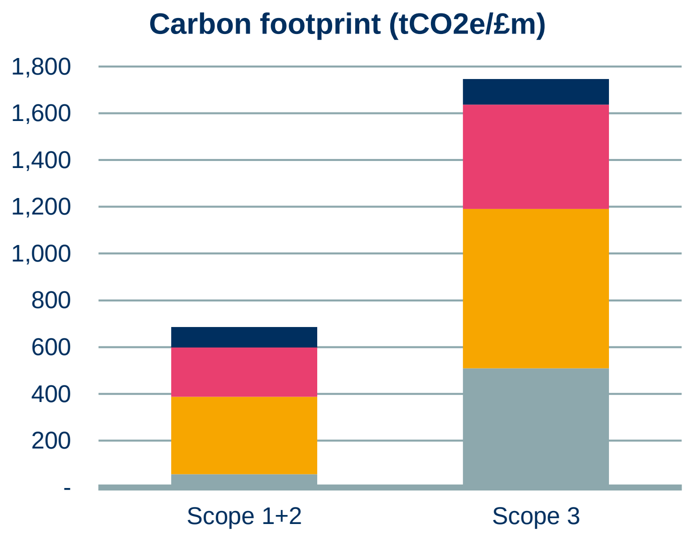
The chart on this page summarises the carbon emissions data shown on the previous page.

Across both charts shown below, Scope 3 emissions are significantly larger than Scope 1 and 2 emissions. 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 majority of the carbon emissions produced by the Scheme come from the Ethical global equities allocation, as shown by the grey bars in the chart on the left. 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 global equities allocation. This has been a topic of discussion at several meetings during the reporting year and is being considered as part of the investment adviser's recommendations in the triennial strategy review to be carried out in February 2024.

The chart on the bottom right represents the amount of emissions produced per £million invested. This metric adjusts the volume of emissions produced by the amount invested. The Corporate Bonds allocation is the highest emitter for Scope 1 and 2 and the Diversified Fund is the highest emitter for Scope 3. We note the Ethical global equities fund has a significantly smaller Scope 1 and 2 footprint when adjusting for the amount invested.



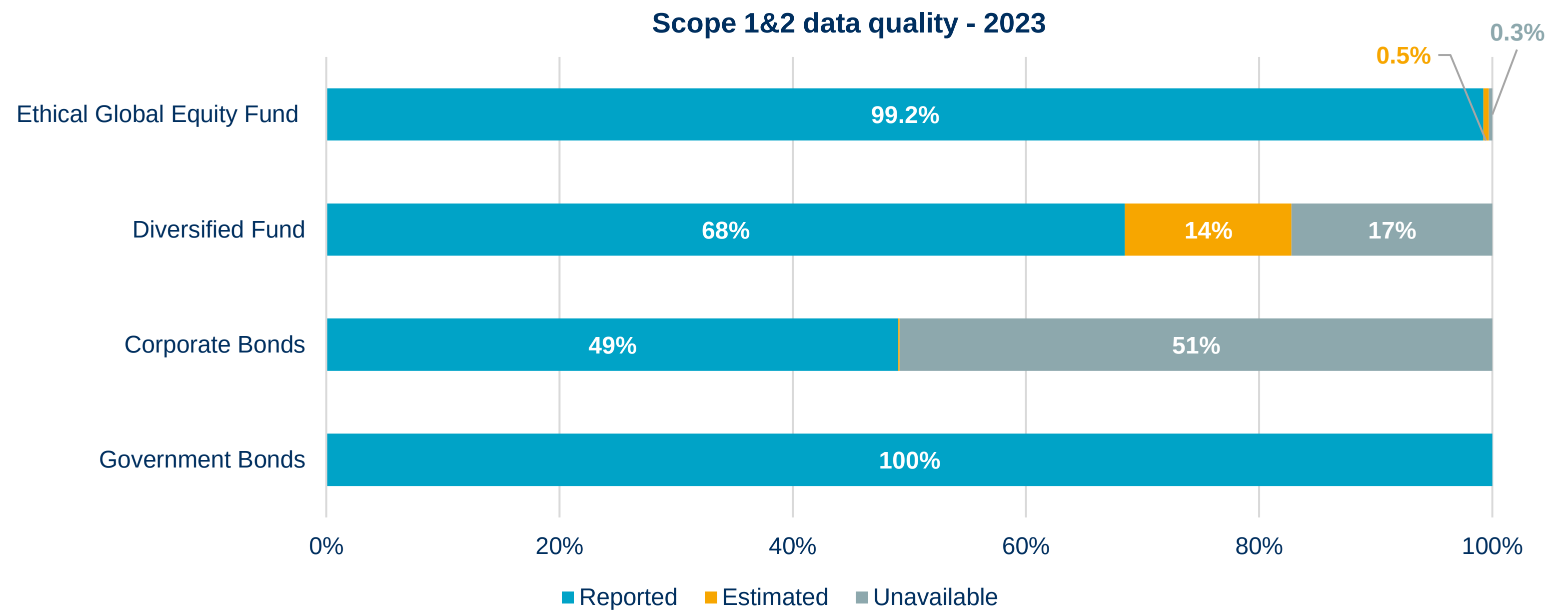


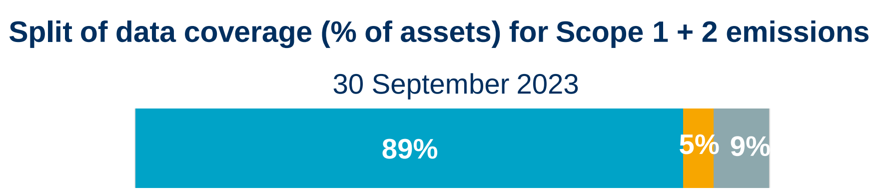
Ethical global equities | Diversified Fund | Corporate Bonds | Government Bonds

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).





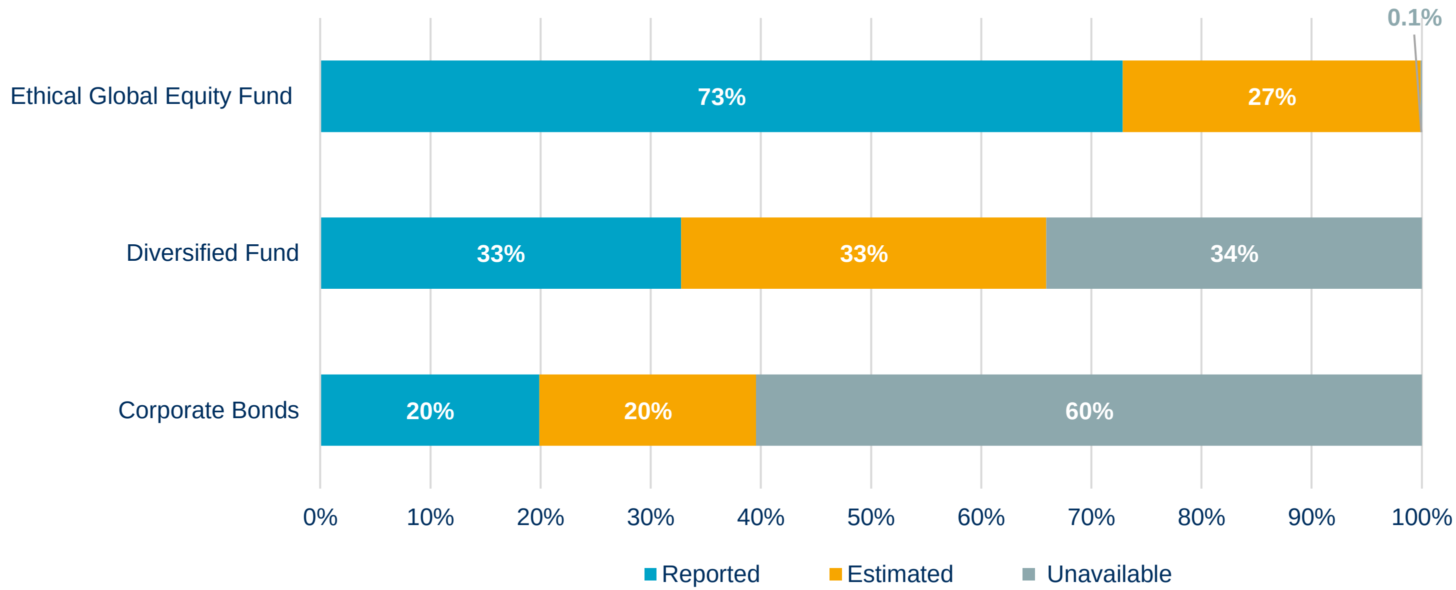
We have not shown the Scope 1&2 data quality in 2022 as the methodology changed over the year from using MSCI data in 2022 to using LGIM data in 2023. We aim to use a consistent methodology going forward and be able to show the comparison from next year.

We have not reported the data quality of the Cash Fund given the inconsistency in reporting methodology for these funds.

Source: LGIM.

Data Quality – Scope 3

Scope 3 data quality - 2023



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

30 September 2023

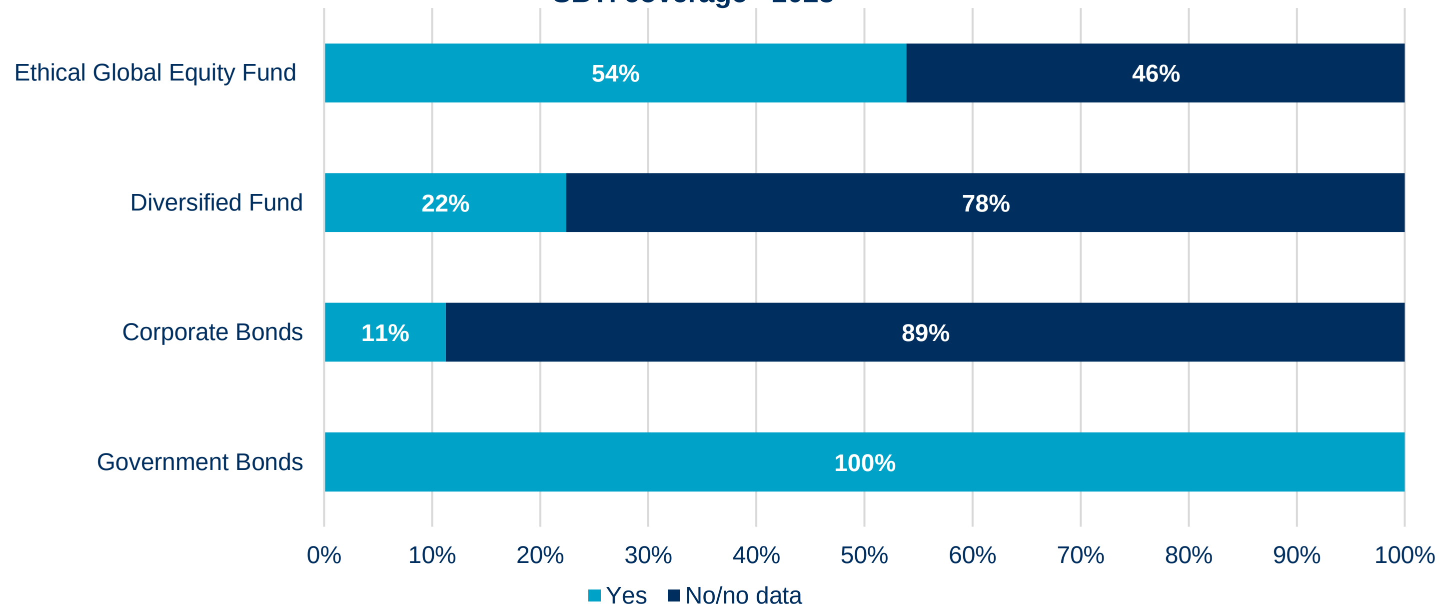
We have not shown the Scope 3 data quality in 2022 as the methodology was changed over the year from using MSCI data in 2022 to using LGIM data in 2023. We aim to use a consistent methodology going forward and be able to show the comparison from next year.

LGIM were unable to report on Scope 3 data quality for government bond holdings at the time of this report. We have not reported the data quality of the Cash Fund given the inconsistency in reporting methodology for these funds.

Source: LGIM.

SBTi coverage

SBTi coverage - 2023



Proportion of assets with approved science-based targets

30 September 2023

We have not shown the SBTi comparator figures for 2022 as the methodology was changed over the year. The SBTi figures reported by the investment manager for the previous periods were overstated by including both companies with approved SBTi targets and companies committed to set an SBTi target. We focused on only the “approved” figures in our reporting for 2023. We aim to use a consistent methodology going forward and be able to show the comparison from next year.

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, so we regard UK government bond exposure as having a credible SBT.

We have not reported the SBT coverage of the Cash Fund given the inconsistency in reporting methodology for these funds.

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:

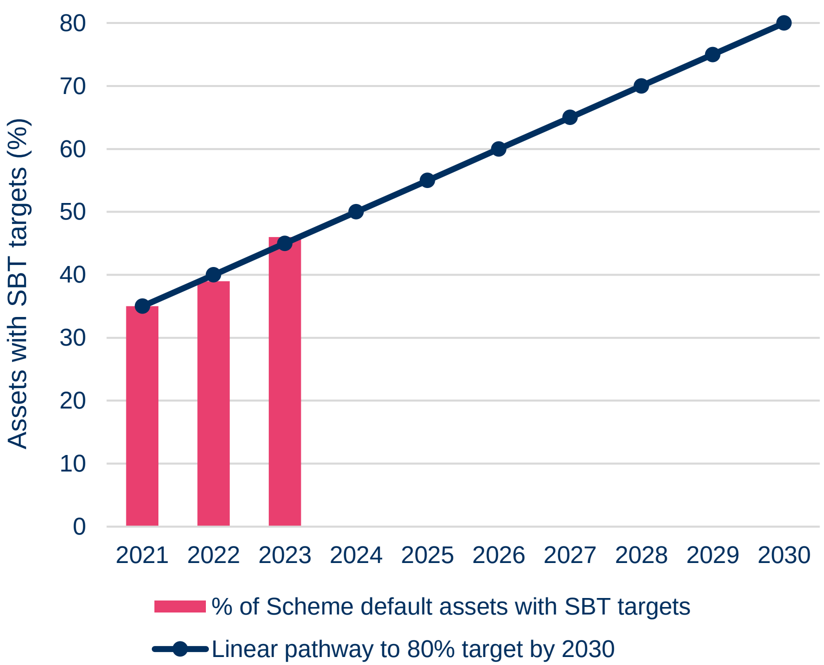
1. Reducing exposure to climate transition risks in the shorter-term by encouraging investee companies to decarbonise; and
2. Supporting collective action to meet the Paris Agreement goals, hence reducing longer-term systemic risks from the physical effects of climate change.

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. If the current rate of increase in SBT adoption continues at the same rate, we expect to be able to meet our target by 2030. We recognise this is a simplistic approach to projecting the target into the future, as we would expect to see a more significant improvement in the first few years given the increased pressure from shareholders on our investee companies to set Net Zero commitments. This suggests that progress against target may not be linear in practice.

Broadly 46% of the Scheme's listed equity and corporate bond investments within the default investment strategy had set SBT targets by 30 September 2023, based on information provided by LGIM. This is an increase from the 39% SBT adoption from last year, showing companies are taking actions in setting SBTs, however further action is needed in order to meet the Scheme's 80% target by 2030.

This section continues on the next page.



Performance against the target (continued)

We note that the 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, which was overstating figures as described on the previous page. LGIM have now adjusted their methodology. We aim to use LGIM SBT data going forward, consistent with this year's approach.

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.

The following steps are being taken to achieve the target:

Investment managers are routinely invited to present at Trustee meetings as part of the existing monitoring process. When meeting with any of the Scheme's investment managers, the Trustee 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 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 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. As at November 2021, 38.2% of LGIM's eligible assets under management were covered by the Net Zero Asset Managers Commitment Statement.

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.

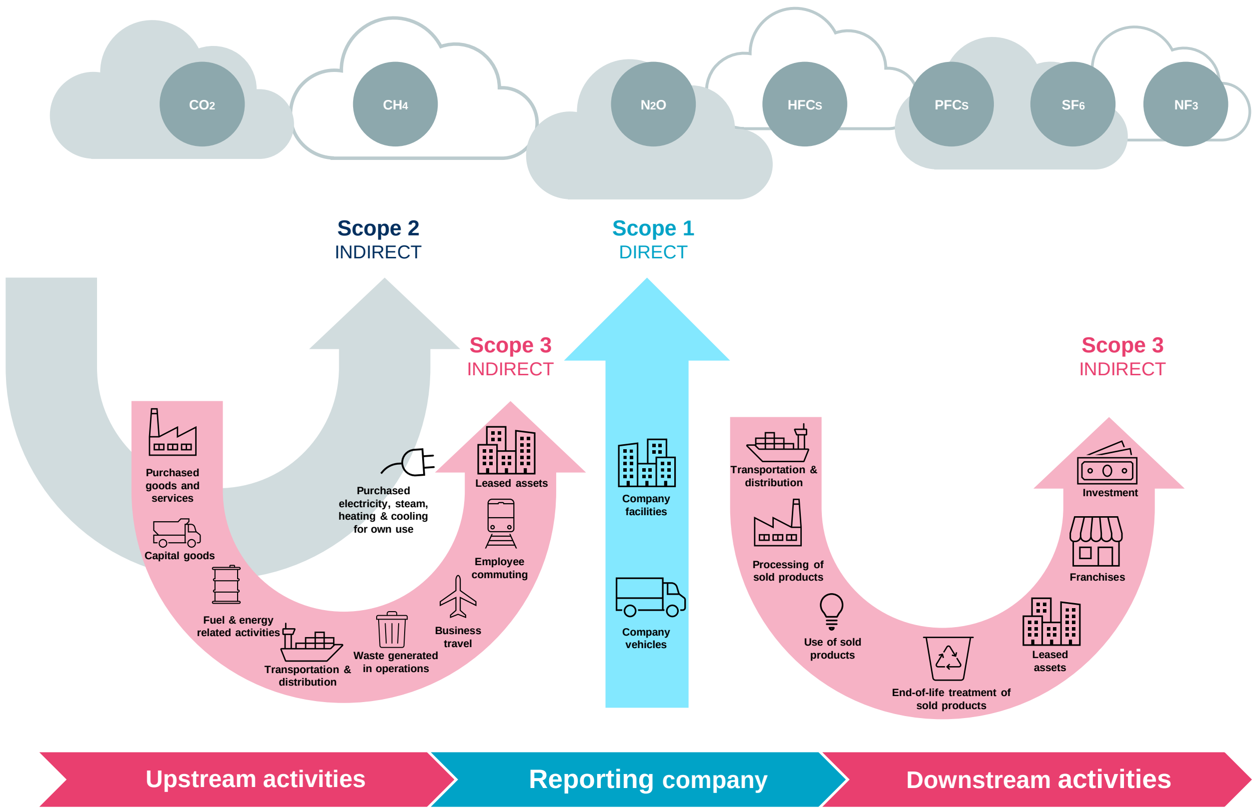
[1]For this interim target, LGIM excludes sovereigns and derivative securities due to lack of clear industry methodologies to account for these asset classes.

Appendices

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 their investment advisers, LCP. The scenario analysis is based on macro-economic data at 31 December 2020, calibrated to market conditions at 31 March 2021. The analysis looked at three possible scenarios:

Transition	Description	Why the Trustee chose it
Failed Transition	Global net zero carbon emissions are not reached by 2050 and temperatures rise significantly. The only climate policies implemented are those which were on the statute books in 2020 and are already being implemented.	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.
Paris Orderly	Paris Agreement goals met; rapid and effective climate action, with smooth market reaction.	To consider the expected impact on the Scheme assets of a material shift towards low carbon by 2030. The transition to a low carbon economy has limited positive effects on the global market value of goods and products and is more than offset by negative physical impacts.
Paris Disorderly	Same policy, climate and emissions outcomes as the Paris Orderly scenario, but financial markets are initially slow to react and then over-react.	The key difference to the Paris Orderly scenario is that financial markets react slower to the significant changes in government policy and corporate and consumer behaviour. There is an abrupt market reaction causing a worse outcome than the Paris Orderly scenario.

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 Failed Transition scenario where over 4°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 tipping points, 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 “climate uninformed base case”, that makes no allowance for either changing physical or transition risks in future.

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 2020 – key features

<table>
<tr><th>Scenarios:</th><th>Failed Transition</th><th>Paris Orderly Transition</th><th>Paris Disorderly Transition</th></tr>
<tr><td>Low carbon policies</td><td>Continuation of current low carbon policies and technology trends.</td><td colspan="2">Ambitious low carbon policies, high investment in low-carbon technologies and substitution away from fossil fuels to cleaner energy sources and biofuel.</td></tr>
<tr><td>Paris Agreement outcome</td><td>Paris Agreement goals not met.</td><td colspan="2">Paris Agreement goals met.</td></tr>
<tr><td>Global warming</td><td>Average global warming is about 2°C by 2050 and 4°C by 2100, compared to pre-industrial levels.</td><td colspan="2">Average global warming stabilises at around 1.5°C above pre-industrial levels.</td></tr>
<tr><td>Physical impacts</td><td>Severe physical impacts.</td><td colspan="2">Moderate physical impacts.</td></tr>
<tr><td>Impact on GDP</td><td>Global GDP is significantly lower than the climate-uninformed scenario in 2100.

For example, UK GDP in 2100 predicted to be 55% lower than in the climate uninformed scenario.</td><td>Global GDP is lower than the climate-uninformed scenario in 2100.

For example, UK GDP in 2100 predicted to be about 10% lower than in the climate-uninformed scenario.</td><td>In the long term, global GDP is slightly worse than in the Paris Orderly scenario due to the impacts of financial markets volatility.</td></tr>
<tr><td>Financial market impacts</td><td>Physical risks priced in over the period 2025-2030. A second repricing occurs in the period 2035-2040 as investors factor in the severe physical risks.</td><td>Transition and physical risks priced in smoothly over the period of 2021-2025.</td><td>Abrupt repricing of assets causes financial market volatility in 2025.</td></tr>
</table>

Source: Ortec Finance. Figures quoted are medians.

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, over the next 40 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 at 31 December 2020, calibrated to market conditions at 31 March 2021.
- For more information about the modelling approach, see page 33.

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.
- 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, tipping points (which could cause runaway physical climate impacts) 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 4ºC, 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.

Appendix 2 – Climate scenario analysis

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.

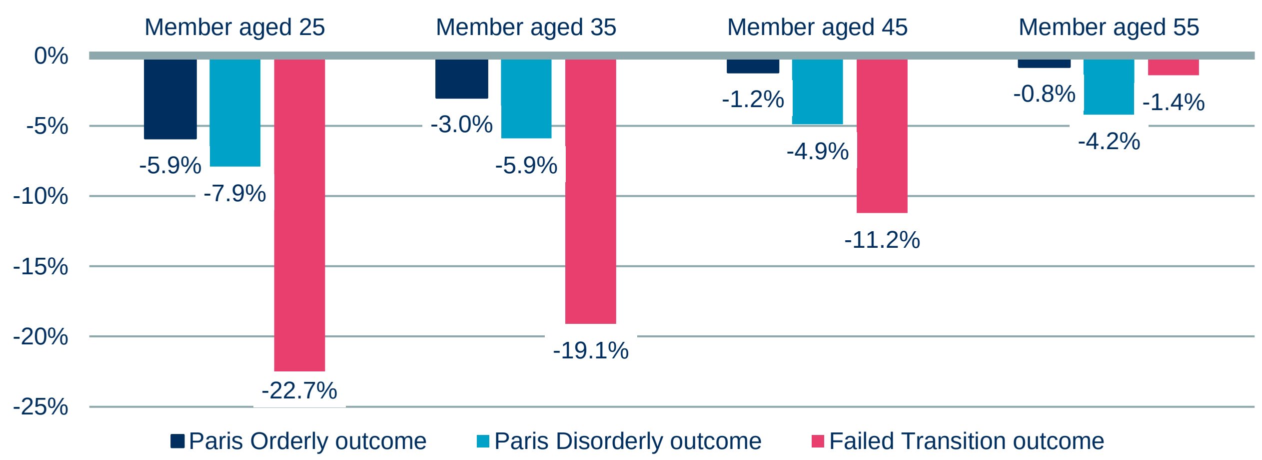
The Paris Orderly scenario leads to the best outcome for members as in this scenario the climate risks are relatively low.

The Paris Disorderly scenario includes a market shock in the short term which impacts return-seeking assets the most. This has a muted impact on most members' retirement pots as they have time to recover through future investment returns and contributions. Members within 10 years of retirement hold a low and decreasing amount of return-seeking assets so they are impacted less than younger members under this scenario.

The Failed Transition scenario has limited short term effects but larger long-term effects as it assumes increasingly severe physical impacts of climate change emerge over time. This scenario particularly impacts younger members who remain invested in the Scheme for longer.

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 member pots at retirement with different scenarios and starting ages



Appendix 2 – Climate scenario analysis

Modelling approach – more details

- 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 at 31 December 2020, calibrated to market conditions at 31 March 2021.
- 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.
- As this is a "top-down" approach, investment market impacts were modelled as the average projected impacts for each asset class, ie assuming that the Scheme's investments are affected by climate risk in line with the market-average portfolio for the asset class. This contrasts with a "bottom up" approach that would model the impact on each individual investment held in the Scheme's investment portfolio. As such, it 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's assets.
- In practice, the Scheme's investment portfolio 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. In this case, key areas of uncertainty relating to the financial impacts include how climate change might affect interest rates and inflation, and the timing of market responses to climate change. ClimateMAPS, like most modelling of this type, does not allow for all climate-related impacts and therefore, in aggregate, is quite likely to underestimate the potential impacts of climate-related risks, especially for the Failed Transition scenario. For example, tipping points (which could cause runaway physical climate impacts) are not modelled and no allowance is made for knock-on effects, such as climate-related migration and conflicts.

Appendix 3 – Further information on climate-related metrics

- The data has been calculated using asset holdings as of 30 September 2023.
- The Trustee, through our investment advisers, 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.
- At the time of finalising this report, we had not yet received the complete set from LGIM. While this poses challenges in presenting a full picture of the Scheme through our chosen climate metrics, the Trustee remains committed to improving the availability of this data for next year's climate report. The Trustee notes climate data reporting has improved since the previous reporting year.
- The metrics information presented in this report is sourced from LGIM and therefore uses the investment manager's calculation methodology. The 2022 figures provided in the table on page 19 for comparison purposes are calculated using the same methodology. In last year's report, LGIM was not able to provide metrics information in time for the production of the report and hence we relied on our investment adviser to report these instead. As a result, last year's reported figures rely on the carbon metrics methodology used by MSCI, the climate data provider used by our investment adviser. Whilst both LGIM and MSCI use metrics definitions that are aligned with our high-level methodology definitions provided on page 16, there can be more subtle differences such as in the treatment of missing data, which means the 2022 restated figures in this report differ from last year's report.
- 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) 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.
- For government bonds, LGIM calculates the carbon footprint using the production-based carbon emissions of the issuing country in tonnes CO_2e, divided by the Total Capital Stock. The latter is a measure of total value of gross fixed capital formation in a country's economy. LGIM define government bonds as Agency, Government, Municipals, Strips and Treasury Bills.
- Where reported data was not available, where possible, modelling or estimations were used to fill the gaps. Notably:
  - LGIM was unable to provide data coverage for Scope 3 emissions. LGIM has suggested using data coverage for Scope 1 and 2 emissions as a proxy, however LCP does not believe this is a valid method so have not included it in the report.
  - 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.

Avoided emissions – these are reductions in greenhouse gas emissions that occur outside of a product's life cycle of value chain, but as a result of the use of that product. For example, emissions avoided through use of a wind turbine or buildings insulation.

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.

Investment mandate – see pooled mandate and segregated mandate

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.

Offsetting – the process of paying someone else to avoid emitting, or to remove from the atmosphere, a specified quantity of greenhouse gases, for example through planting trees or installing wind turbines. It is sometimes used to meet net zero and other emission reduction targets.

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.

Pooled mandate – a feature of a collective investment vehicle whereby an investor's money is aggregated (ie "pooled") with that of other investors to purchase assets. Investors are allotted a share of those assets in proportion to their contribution. Ownership is represented by the number of "units" allocated – eg if the asset pool is worth £1m and there are 1m units then each unit is worth £1. Pooled funds offer smaller investors an easy way to gain exposure to a wide range of investments, both within markets (eg by buying units in a UK equity fund) as well as across markets (eg by buying units in both a UK equity fund and a UK corporate bond fund).

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.

Appendix 4 – Glossary

Segregated mandate – a segregated investment approach ensures that an investor's investments are held separately from those of other investors. This approach offers great flexibility – for example, the investor can stipulate the precise investment objective to be followed and can dictate which securities can or cannot be held.

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 obligations – statutory obligations are those obligations that do not arise out of a contract, but are imposed by law.

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.

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.