

Whitbread Group Pension Fund

Trustee's Climate Change Report

For the scheme year end 31 March 2024

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1. Introduction

The Trustee of the Whitbread Group Pension Fund (hereinafter referred to as the “Trustee” and the “Fund”, respectively) presents its second annual report to adhere with its responsibilities under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the “Regulations”), for the year ended 31 March 2024 (the Year).

The Fund is subject to the requirement to produce climate change disclosures in line with the recommendations of the Regulations, the aim of which is to improve and increase reporting of climate-related financial risks and opportunities.

Over the course of the Year, the Trustee has sought to improve its activities in the area of climate change through seeking to improve the quality of data for assessing the Fund’s climate-related metrics where possible and continued engagement with investment managers either directly or via the Fund’s advisors.

Like last year’s report, this climate disclosures report provides information on how the Trustee has considered climate-related risks and how it manages these risks as part of the ongoing management of the Fund using the four pillars recommended by the Regulation.

- **Governance** around climate-related risks and opportunities
- **Strategy:** the actual and potential impact of climate-related risks and opportunities on the strategy and financial plans of the scheme under different climate scenarios
- **Risk management:** how the scheme identifies, assesses, and manages climate-related risks
- **Metrics and targets:** the metrics and targets used to assess and manage climate-related risks and opportunities.



This report covers both the Defined Benefit (DB) and Defined Contribution (DC) Sections of the Fund. Given the different time horizon and investment approach taken in each Section, the Trustee’s approach and activities can vary.

The DB Section’s ultimate goal, as determined by the Trustee, is to target fully covering its liabilities through an insurance policy. Given the Fund’s low target return and the remaining illiquid assets, there is reduced flexibility for the DB Section to significantly alter its investment strategy or current investments in order to capture more climate-related opportunities.

The DC Section of the Fund provides benefits to members based on the value of savings built up through ongoing contributions and investment returns. The Trustee is responsible for setting a default investment strategy which is intended to be appropriate for most members of the DC Section. The membership of the DC Section is distributed across a range of ages, with most members many decades from retirement. This means investment policy and consequently, the climate policy, is set with a long-term time horizon in mind.

The Report details how the Trustee considers the Fund to be resilient to different climate change scenarios. However, as discussed in last year’s report, it is important to appreciate the limitations of the analysis throughout the report, such as the reliance on third parties for the maintenance and reporting of accurate data, validation of its assumptions and the information available at the date of the

analysis. The Trustee has signposted these limitations within the report. The Trustee continues to expect the accuracy and accessibility of data to improve and evolve over time.

2. Governance (DB and DC Section)

The Trustee continues to view climate change as both a critical risk (alongside other risks in the Fund) and an opportunity, which requires ongoing oversight and management. As a result, the Trustee has, for a number of years, assessed the Environmental, Social and Governance (ESG) characteristics of the Fund's investment portfolio, including an assessment of climate related metrics. The Trustee wishes to maintain an appropriate level of oversight and practice in this area and has increased the amount of time and governance budget assigned to this topic over time, acknowledging that this is a fast-moving and rapidly evolving area. Its key overarching investment policies, including those related to climate change, are detailed in the Fund's Statements of Investment Principles which can be found online at the following links:

<https://www.whitbreadpensions.com/media/documents/db/DB%20Statement%20of%20Investment%20Principals.pdf>

<https://www.whitbreadpensions.com/media/documents/dc/Defined%20Contribution%20Scheme%20Statement%20of%20Investment%20Principles%20v2.pdf>

The Trustee also monitors the risks and opportunities associated with climate change through the Fund's risk register which details the controls and monitoring that the Trustee has in place to appropriately manage these risks and opportunities. The risk register is a standing item on the agenda of all Trustee Board meetings.

Overview of the Fund

DB Section

The Defined Benefit Section (DB Section) has been substantially de-risked having reached a strong funding position resulting in an investment portfolio that now holds Liability Driven Investment (LDI, the majority of the DB Section), illiquid private markets, secure income assets and a Bulk Purchase Annuity (BPA, completed in June 2022). The Trustee has considered the climate change mitigation credentials of the Bulk Purchase Annuity provider when the BPA (in June 2022) was completed and it will continue to assess the climate change mitigation capabilities of any future insurer that it transacts with. As the illiquid assets pay out, the Trustee plans to make an allocation to long term, high quality corporate bonds to seek to maintain its target return. In addition to the Fund's invested assets, the DB Section also holds an interest in a Pension Funding Partnership (PFP), an asset backed funding arrangement which delivers an annual cashflow and a potential final payment depending on the funding position of the Fund at the time it ceases.

As at 31 March 2024, the funding level of the DB Section was 102% on the Secondary Funding Target liability basis (Gilts+0.5% p.a.) and the Fund is running a low level of investment risk with little sensitivity to the volatility of most financial markets. Whilst the Trustee continues to place a high-level of priority on further engaging with, monitoring and seeking to manage climate change risks and opportunities, this broader context does mean the Trustee is starting from a relatively low risk position and has fewer tools at its disposal than many other pension schemes, given the nature of the assets it holds. This does not suggest complacency on the part of the Trustees but is instead mentioned to provide context to the broader report.

DC Section

The Defined Contribution Section (DC Section) has a default investment strategy which has been carefully selected by the Trustee, after taking professional advice, taking into account the profile of its members as well as cost constraints due to a regulatory cap on the charges which may be borne by members. Mercer Limited (Mercer, or investment manager) was selected to manage the DC Section, taking on the role of setting strategic and dynamic asset allocation, underlying fund and manager

selection and benchmark and security selection where relevant. However, the Trustee remains responsible for setting investment strategy. The main objective of the default strategy is to provide good member outcomes at retirement while subject to a level of investment risk appropriate to the majority of members who do not make an active investment choice which includes reducing risk towards members' retirement in order to reduce the likelihood of significant falls in outcomes close to retirement. Members of the DC section with more than eight years to retirement are invested in the Mercer Growth SW12 Fund (also known to members as the Whitbread Growth Fund) which has an objective of generating long-term equity-like returns but with less risk than equities. Members with eight years or less until retirement are invested in either a cash retirement path or an income retirement path, via a range of target date funds.

The DC Section has a valuation of c.£300m as at 31st March 2024, up from a valuation of c.£290m as at 31 March 2023. The Trustee remain satisfied with the level of returns delivered by the strategy in the current economic environment and continue to monitor this. The Trustee recognise the importance of environmental, social and corporate governance (ESG) factors and climate risk to the development, selection and monitoring of the Fund's investment arrangements. Hence, the investment manager of the Fund is actively monitored and held accountable in following the Trustee's approach articulated in the Statement of Investment Principles (SIP) in relation to ESG factors.

Overview of the governance structure

Whilst the Trustee has delegated certain investment activities, it retains ultimate decision-making responsibility for all investment matters including identifying, assessing, and monitoring climate-related risks and opportunities and it has oversight policies and procedures in place to ensure that such third parties are monitored and held accountable for the work they do on behalf of the Fund. The main parties to whom some form of responsibility for implementing its Sustainable Investment policies is delegated to, include:

- **Funding and Investment Sub-Committee (the FISC)** – To ensure the effective management of the Fund, the Trustee has established a number of sub-committees including a Funding and Investment Sub-Committee (FISC). The FISC is responsible for implementing the investment strategy including the selection, retention, and removal of investment managers. The FISC acts within a Terms of Reference, which set out its duties and reporting obligations. The membership of the FISC currently includes two professional trustees who bring a wealth of wider industry expertise and experience.

Under its terms of reference, the FISC is responsible for carrying out tasks as appropriate under the four pillars of the Regulations requirements, to assist the Trustee in meeting its obligations. This includes (but is not limited to) setting the overall approach for climate risk management, working with the Fund's advisors to agree reported metrics and targets and monitoring the underlying managers' policies in relation to Sustainable Investment (including climate). The FISC has received additional training in this area to ensure it is suitably qualified to discuss and take decisions about sustainable investment. The FISC met four times over the year from March 2023 to March 2024 (3 of which discussed sustainable investment including the Regulations) and reported to the Trustee following these meetings. These updates at Trustee meetings have included information on the ongoing actions and plan to ensure climate change is appropriately considered and managed.

DB Section Investment Consultant – the Trustee has appointed an Investment Consultant, WTW, to assist it in managing the DB Section's investment arrangements. As part of its mandate, WTW is responsible for ensuring ESG matters, including climate change, are considered as part of its advice and assistance to the Trustee, including portfolio construction and the selection, retention and removal of underlying investment managers.

WTW holds membership of important industry bodies such as the Net-Zero Asset Managers Initiative as well as being a signatory to the UK Stewardship Code. The consideration of sustainable investment is fully embedded in their investment processes. WTW works closely with the FISC and provides regular assessment of its views on the underlying managers' capabilities and performance in relation to ESG and stewardship and a quantitative assessment of the DB Section's portfolio across a number of ESG criteria, including climate.

The Trustee's view of WTW's credentials in this area is a factor in its ongoing retention of them as its investment advisor and the Trustee has set specific objectives for them in relation to ESG and the Regulations which it uses to regularly assess their capabilities in relation to sustainable investment. These specific objectives discuss how WTW will aid the FISC in providing both top-down scenario analysis and bottom-up portfolio analysis, consistent with the requirements of the Regulations. The FISC assists the Trustee in monitoring the performance of its investment consultant on an annual basis. The Trustee was satisfied with its assessment of WTW's work in this area.

DC Section Investment Consultant – the Trustee has appointed a DC investment Consultant, Hymans Robertson, to assist it in overseeing the Fund's DC arrangements which are implemented by Mercer. As part of this, the Trustee considers how Mercer is incorporating climate change considerations in its processes and use its role as an asset owner to hold them to account with the aim of supporting financial value over the long term.

Hymans Robertson is a signatory to the UK Stewardship Code and participated in several industry initiatives aimed at solving some of the challenges in understanding climate related issues and taking action to address associated risks and opportunities. More can be found on their website: <https://www.hymans.co.uk/services/climate-change-services/>

The Trustee's view of Hymans Robertson's credentials in this area is a factor in the ongoing retention of them as its DC advisor and the Trustee has set specific objectives for them in relation to climate change. The FISC assists the Trustee in monitoring the performance of its DC consultant on an annual basis.

- **Investment Managers** – The investment managers are responsible for managing climate change risks and opportunities within their mandates, consistent with the strategies they manage. This includes the selection of assets as well as the managers' stewardship activities, where appropriate. The FISC receives reporting from WTW on an annual basis which includes their assessment of the managers' capabilities and performance in this area. This helps the FISC to assess the managers' approach to ESG integration and stewardship activities. As a policy, the Trustee expects managers to consider ESG criteria and sign up to their local stewardship code, as appropriate to their mandates. The FISC similarly receives reporting from Hymans Robertson and reviews the investment arrangements implemented by Mercer for the DC Section on an annual basis. Given the DB Section's strategy (where the majority of assets are within the Liability Driven Investment portfolio), the main focus for engagement is with the Fund's LDI manager. An example of WTW's engagement with the LDI manager of the DB Section, is discussed later in the report.
- **Other advisors** – The Trustee also take advice from the Scheme Actuary (WTW) and Covenant Advisor (Penfida) regarding the extent to which climate change may affect the funding strategy of the Fund and the ability of the sponsor to support the Fund. The Trustee receives updates from the Sponsoring Employer on evolutions to their strategy to manage climate change risks and opportunities, such as their commitment to Net Zero by 2040.

Over the last year, the Trustee has received further training provided by WTW on climate risk and the Regulations. This included training on the updated guidance for the second year of the report, in addition to an introduction to the Taskforce for Nature Related Disclosures (TNFD) framework. Additional training was also provided on the DB Section's largest holding, the LDI portfolio, on the ESG characteristics of LDI and how the LDI manager is taking action to further improve their sustainable investing. Given the pace of progress around sustainable investment, training on climate and ESG has continued to increase over recent years and is expected to remain a priority going forwards.

Over the year, WTW has also carried out numerous activities to help the Trustee to engage with climate related risks and opportunities:

- Confirmed its UK Stewardship Code adherence for 1 January 2022 to 31 December 2022 and has recently applied for the year ending 2023
- Continued its partnership with EOS
- The WTW Thinking Ahead Institute was selected by the PRI to undertake research specifically on stewardship resources in the industry
- Maintained climate as their top theme for engaging with investment managers
- Led the updating of the ICSWG (Investment Consulting Sustainability Working Group) Engagement Reporting Guide
- Active members of the UK Government's Transition Plan Taskforce working to improve organisations' climate transition planning
- Engaged with over 150 managers covering almost 300 products on the topics of sustainability and stewardship
- Researched over 140 sustainability themed strategies with a focus on climate
- Engaged with and responded to several government consultations

As mentioned in the SIP, WTW has partnered with EOS at Federated Hermes (EOS) for a number of years to enhance its stewardship activities. One element of this partnership is undertaking public policy engagement on behalf of its clients (including the Trustee). This public policy and market best practice engagement is done with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and their investors operate, a key element of which is risk related to climate change. Throughout the year, EOS actively participated in a range of global stewardship initiatives and provided 31 responses to consultations or proactive equivalents and 90 discussions with relevant regulators and stakeholders.

Case Study: WTW Engagement with UK pensions and climate regulation

WTW had several meetings with the Pensions Regulator covering several topics including:

- how climate scenario analysis can be made more robust and decision useful
- how the regulations might be applied to smaller pension schemes
- whether the regulations themselves had achieved their main purpose of getting trustees to take more steps to appropriately monitor and manage climate change risks and opportunities

As part of this, WTW talked through client examples and internal thought pieces with the Regulator. They continue to actively engage with the Pensions Regulator to input into the positive development of these regulations.

In conjunction with Hymans Robertson, the Trustee continues to prioritise climate related matters alongside other financial considerations when reviewing the investment arrangements for the DC section.

DB Section Case Study – Public Policy Engagement by EOS– UK Secretary of State for Energy Security and Net Zero

EOS at Federated Hermes signed an open letter to the UK Secretary of State for Energy Security and Net Zero from investors, their representatives, and companies. The letter welcomed an amendment to the Energy Bill, which included a specific net zero and carbon budget objective as part of Ofgem’s mandate. Ofgem is the UK’s electricity and downstream natural gas regulator. It demonstrated our support for the government to move quickly to equip Ofgem to deliver on its new mandate, following approval of the bill. EOS emphasised the need to scale up renewable energy infrastructure in the UK and to address the delays in grid connection. The letter also urged the government to finalise Ofgem’s strategy and policy statement and ensure that Ofgem has sufficient capacity and resources to deliver against its revised mandate.

Secondly, EOS supported a statement from industry about amending the Financial Services and Markets Bill to include a focus on nature. Introducing the notion of nature into the existing regulatory principle on climate change is a necessary and sensible step towards a sustainable future. The statement outlined how focusing solely on climate could risk overlooking the broader environmental challenges that we face.

3. Strategy

Appropriately managing climate change risks and opportunities from a strategic perspective continues to be an important part of its role. The Trustee recognises that climate change could have a material impact on the potential success of the overarching strategy on the investments of the Fund and therefore it seeks to ensure that this is given sufficient consideration. In addition, for the DB Section, the Trustee recognises that climate change could have a material impact on the life expectancy of the Fund’s members and the support provided by the Sponsor’s covenant, all of which will affect the funding strategy in the future. In order to support this, the Trustee conducts climate change scenario analysis on at least a triennial basis to test the resilience of the Fund’s funding strategy under a range of plausible climate scenarios. This scenario analysis was undertaken for the first time in 2022. The Trustee’s intention is to repeat this analysis at least every three years, or sooner, should there be a material change in either the Fund’s circumstances or the assumptions underlying the analysis. The Trustee is also aware of the limitations to such analysis (such as the severity of the scenarios) and that much work is being undertaken across the industry to improve the scenarios used, including the incorporation of “tipping points.” When this work is progressed sufficiently, the Trustee will consider updating the scenarios that it uses.

In producing this second report, the Trustee considered whether to re-do the scenario analysis that it had undertaken in September 2022 but determined that this was not necessary for the DB or DC Section for a number of reasons:

- The investment and funding strategies for the DB Section currently remains broadly unchanged. As a result, the short-, medium- and long-term time horizons detailed below are still deemed as appropriate for this year’s report.
- The DB section is at the mature end of its lifecycle and is currently running a low level of investment risk where it is largely invested in liability matching assets.

- For the DC Section, there have also been no changes to the default investment strategy throughout the year and, as a result, the Trustee believes the scenario analysis contained in the report ending 31 March 2023 remains appropriate.
- The Trustee's view is that the Sponsor's covenant strength, and the Fund's reliance on that covenant, remains broadly consistent with the existing analysis.

As such, the analysis from last year's report is included in the Appendix.

4. Risk Management

Climate change is an important risk and opportunity and therefore continues to be considered as part of the Fund's ongoing risk management processes. Having a robust framework for identifying, managing, and mitigating climate risks enhances the prospects of better member outcomes. The Trustee receives regular training and advice on sustainability and climate risk matters from its Investment Consultants on both the DB and DC arrangements.

There are three ways in which the risk management processes integrate climate:

Governance

Climate change is included within the Trustee's risk register which is reviewed quarterly and in-depth annually. This clearly details the impact and likelihood of the risk, and the mitigating controls in place and the actions the Trustee takes to manage, mitigate, and exploit both this risk and opportunity. This includes the consideration for transitional and physical risk (discussed within the Appendix section of the report) and their potential impact on the Fund. The FISC's views on Sustainable Investing and climate factors are incorporated into the SIP.

As mentioned in the Governance section of this report, although the Trustee retains ultimate ownership, the risk register sets out the parties (such as the FISC) that assist the Trustee with its responsibilities. The FISC takes account of risk measurement, mitigation, monitoring and strategic actions as they relate to climate change.

The Trustee receives regular training and advice on climate risk from WTW and Hymans Robertson. We have. The Trustee has included a specific objective on climate risk for WTW and it reviews their performance relative to this objective on an annual basis.

From July 2024, Hymans Robertson, as investment consultants of the DC Section, have been assessed against two additional objectives which are directly related to climate. These include considerations of the potential impact of climate risks and opportunities on the outcomes for different cohorts of members along with supporting the Trustee where opportunities could be identified.

Top-down

The climate change scenario analysis presented to us, mentioned in the previous section, provides the Trustee with a holistic overview of the potential impacts of climate change and how they may affect the Fund's strategy (including the liabilities and covenant for the DB Section) and investment positions. This is an important risk management tool for a top-down risk and opportunity assessment.

Bottom up

As mentioned, the Trustee also conducts more granular analysis to manage the risks and opportunities associated with climate change. These include:

Security analysis – The Trustee calculates various climate change related metrics for the underlying securities within the portfolio. This includes metrics such as total carbon emissions (which now includes Scope 3), carbon footprint, science-based targets as a percentage of assets and data coverage.

Manager analysis – The Trustee also conducts an annual review of the investment managers' and the Investment Consultants' approach to climate, which is incorporated as part of the annual sustainable investment reporting. In addition, engagement with managers (through WTW and Hymans Robertson) is conducted on areas including climate risk, as part of manager due diligence. WTW and Hymans Robertson challenge the investment managers on their ongoing approach to stewardship matters (including those relating to climate change).

Stewardship and engagement

For the DB section, the Trustee believes it is increasingly important to engage with the Fund's LDI manager given that the portfolio predominantly consists of LDI. Throughout the year, WTW has worked with the LDI manager to encourage the manager to engage with the portfolio's counterparties (typically investment banks involved in swap agreements) and mitigate against credit (possible defaults) and ESG risks. The LDI manager has therefore implemented a counterparty stewardship process, where they analyse the credit quality, liquidity and ESG risks of the counterparty. They then engage with the counterparty on their areas of weakness, with a particular focus on ESG matters, and set targets and timeframes for action with a clear process for escalation to the counterparties that need addressing.

Case Study – WTW engagement with asset manager – global infrastructure manager

Background and engagement: WTW recognise that infrastructure is a key long-term exposure where sustainability metrics are important. WTW have engaged specifically with the manager through annual ESG-focused meetings and analysis of its responses to WTW's sustainability questionnaires in relation to a number of key identified terms: approach to Climate Change reporting, approach to physical risk analysis, limited data availability and increasing demand for sustainability information from limited resource.

Outcomes: During 2023, the manager has expanded its sustainability team and its data collection appears to be improving. The manager will provide Climate Change reporting for all funds from 2024 with the provision of scope 1, 2 and 3 data. The manager has been working on physical climate risk modelling and ties this into capex from a resilience perspective. It has also started working with an external firm to identify the top 20 sites most at risk from physical climate risk, the worst outcomes at the firm level, and a consequent plan to mitigate these. Alongside this, the manager has been investing in bespoke software to improve the efficiency of ESG data collection and reporting. This is now being used to help raise awareness with asset managers of what best-in-class looks like to identify action plans. Our engagement will continue to monitor delivery of improved reporting of sustainability metrics in future.

For the DC Section, the Trustee delegates day-to-day ESG integration and stewardship activities (including voting and engagement) to the investment managers and Mercer, as fiduciary manager, of the Plan. Where investments are held in pooled funds, the Trustee has limited scope to directly influence the voting approach taken by the investment managers but looks to regularly engage and understand their approach. The Trustee receives an annual stewardship update from Mercer, which is also available as and when requested. These updates include any specific climate change-related items.

5. Metrics and Targets

The Trustee considers metrics across the SI spectrum, but the focus within this statement is those in climate change. The metrics used within this report remain the same as last year as they remain

appropriate given that the Fund has not had a significant change in strategy or asset allocation. The Trustee seeks to improve the usefulness and accuracy of these metrics where possible to better represent the climate-related credentials of the Fund and to reflect industry best practice. As such, when compared to last year, there have been improvements in methodology and the introduction of coverage for Scope 3 emissions.

These improvements included establishing more appropriate proxy data for private markets and unlisted real asset strategies by utilising more accurate industry sub-categorisation and geographical splits, therefore improving overall data quality and coverage of the Fund, which is discussed later in the report under the Data Quality section.

In accordance with the Regulations, the metrics disclosed have been selected from the following categories:

- **An absolute emissions metric** - the total greenhouse gas emissions attributable to the Fund’s assets
- **An emissions intensity metric** - the total greenhouse gas emissions attributable to the Fund’s assets per some form of unit (such as currency/company revenue)
- **An alignment metric** – a metric to quantify alignment to a 1.5 degree temperature rise in line with the Paris Agreement
- **One additional climate change metric** – an additional metric of Trustees’ choice

This is the second year in which the regulations apply, and therefore the Trustee has included Scope 3 emissions where possible in addition to Scope 1 and 2 (as per the 31 March 2023 report).

These terms mean:

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

Due to the nature of the emissions, Scope 3 emissions are significantly more difficult to calculate than Scope 1 or Scope 2 emissions for any given entity. It is also the case that, for some assets, even Scope 1 and Scope 2 emissions are difficult to calculate. The Trustee has included Scope 1, 2 and 3 emissions within this report where possible. Scope 1 and 2 emissions are reported separately to Scope 3 emissions given their differences in data quality and application. Further detail is provided on this under the Scope 3 section.

The Trustee is using best endeavours to make as full a disclosure as possible, subject to overriding constraints of reasonable time and cost for doing so. The Trustee (through the DB and DC Investment Consultants) continues to work actively with investment managers to improve the quality of the data supplied for these purposes over time.

Overview of analysis

The following table details the rationale for choosing these metrics from the available pool:

Metric	Definition	Rationale
Total Carbon Emissions (tCO2e)	An ‘absolute emissions’ metrics which gives a measure of carbon emissions attributable to the Fund. This is calculated in line with the Greenhouse Gas (GHG) protocol methodology and	Mandated as part of the Department for Work and Pensions Statutory guidance

	currently includes Scope 1,2 and 3 emissions. The underlying emissions data has been sourced from MSCI and, in line with the protocol, includes all the major GHG gases with a conversion into carbon emissions equivalent quantities. The Trustee has used each entity's enterprise value, including cash (EVIC) to attribute carbon emissions.	
Carbon Footprint (tCO2e/£m invested)	An 'emissions intensity' metric which gives a measure of how many tonnes of CO2 emissions each million invested causes.	It provides a direct measure of absolute emissions, which ultimately impact global outcomes and provides a simple comparable measure across portfolios of different sizes
Percentage of assets with approved Science based targets (SBTi)	A 'portfolio alignment' metric for the DB Section which is a forward-looking measure of the percentage of assets with targets validated by the Science-Based Targets Initiative.	It provides a consistent verification of a company's alignment to the Paris agreement.
Implied Temperature Rise	This metric for the DC Section provides the Trustee with a measure of how well the underlying holdings of a fund align with global climate goals which is then converted into a degree of temperature rise	Easy to understand to express portfolio alignment with global temperature targets
Data coverage/quality	A measure of the proportion of the Fund's assets for which the Trustee has high quality audited data, proxied data, or no data at all. The data quality % covers both reported and estimated data.	The Trustee believes it is important to monitor this as climate metrics are at an early stage and data is currently limited. It also believes that improved data quality and coverage is an area that the Trustee (through the Investment Consultant) can most influence its investment managers and improvements would allow better decision making on future carbon metrics.

The following tables detail the statistics for the 5 selected Metrics:

DB Section As at 31 December 2023	Allocation	Carbon Emissions Data		% of return-seeking assets with approved SBTis
		Absolute Emissions (tCO2e) – Scope 1 & 2 (tonnes)	Carbon Footprint (tCO2e / £m) – Scope 1 & 2 (tonnes)	

Total Return Seeking Assets	18%	26,302	44	8.4%
Secure Income Assets	12%	18,856	48	7.3%
Core Private Markets	3%	5,415	63	0.0%
Private Markets Alpha	3%	2,031	18	1.1%
Bulk annuities, LDI and Cash	82%	-	-	-
Standard Life BPA	28%	Excluded from analysis		
LDI & Cash	54%	See further in the report (reported separately)		

Note: This excludes Alternative Credit which is <1% of the total portfolio as at 31 Dec 2023

The carbon footprint column shows each asset class's carbon intensity (rather than weighted average contribution to total intensity), and the top row shows the total carbon intensity of the return seeking portfolio.

DC Section As at 31 December 2023	Allocation	Carbon Emissions Data		Implied Temperature Rise (°C)
		Absolute Emissions (tCO ₂ e) – Scope 1 & 2	Carbon Footprint (tCO ₂ e / £m) – Scope 1 & 2	
Mercer Growth Fund				
UK Equity	3%	23,044	87	2.3
Europe (ex-UK) Equity	4%	21,812	83	2.0
Japan Equity	2%	21,166	80	2.3
Multi-Factor Global Equity	6%	21,134	80	2.4
Sustainable Global Equity	8%	3,272	12	1.7
Emerging Markets Equity	14%	47,101	179	2.7
Small Cap Equity	8%	25,567	97	2.5
Low Volatility Equity	7%	7,787	30	1.8
Listed Infrastructure Equity	8%	45,241	172	2.2
Global REITs	10%	2,508	10	1.7
Systematic Macro	6%	-	-	-
Global High Yield Bonds	4%	37,846	144	2.8
Asia High Yield Bonds	3%	84,688	321	3.8
Emerging Market Debt	10%	-	-	-
Absolute Return Bonds	0%	15,883	60	2.3
Corporate Bonds (UK)	1%	12,364	47	1.9
Corporate Bonds (US)	1%	21,829	83	2.5
Corporate Bonds (Euro)	1%	22,507	85	2.1
Short Duration 1	2%	9,036	34	2.0
Global Inflation Linked Bonds	5%	-	-	-
Fund Total		26,164	99	2.4
Mercer Diversified Fund				
UK Equity	2%	1,465	87	2.3
European Equity	3%	1,387	83	2.0
Japan Equity	2%	1,346	80	2.3
Sustainable Global Equity	6%	208	12	1.7
Emerging Markets Equity	3%	2,995	179	2.7
Low Volatility Equity	11%	495	30	1.8
Listed Infrastructure Equity	4%	2,876	172	2.2
Global REITs	6%	159	10	1.7
Systematic Macro	5%	-	-	-
Global High Yield Bonds	4%	2,406	144	2.8
Asia High Yield Bonds	3%	5,384	321	3.8

Emerging Market Debt	6%	-	-	-
Absolute Return Bonds	0%	1,010	60	2.3
Corporate Bonds (UK)	9%	786	47	1.9
Corporate Bonds (Euro)	3%	1,431	85	2.1
Corporate Bonds (US)	0%	1,388	83	2.5
Global Credit	5%	1,248	74	2.5
Short Duration Global Bond (Fund 1)	5%	575	34	2.0
Short Duration Global Bond (Fund 2)	5%	665	40	2.2
Global Index-Linked Bonds	5%	-	-	-
Index-Linked Gilts	4%	-	-	-
UK Gilts	11%	-	-	-
Cash	1%	-	-	-
Fund Total		1,243	74	2.2
BlackRock Sterling Liquidity				
Fixed Income & Money Market Instruments	100%	10	0.7	n/a
BlackRock Corporate Bond Index Fund				
Corporate Bonds	100%	205	28	1.9
Grand Total		27,614	91	2.3

Trustee observations of analysis – DB Section

- The Trustee recognises the limitations associated with the climate metrics given the underlying data quality and the 'proxying' of assets required. Given that the Fund's return seeking assets consist of predominantly illiquid assets, all of the assets have been proxied using each strategy's split of geography and sector, to estimate the absolute carbon emissions and carbon footprint, as it was not possible to use "actual" holdings for these assets given this is not available for these private market strategies. That said, the Trustee reflects positively on being able to assess the portfolio through this lens and provide an estimated assessment of the exposure to climate change risks and opportunities. To this point, the Trustee recognises that the metrics associated with these private assets are not reflective of the holdings the DB Section actually has given the proxying required.
- Absolute Carbon Emissions - To compare with the results of last year, the Trustee is pleased to see that the absolute emissions have reduced from c.29,000 tonnes to c.26,000 tonnes. The majority of these emissions are from the secure income assets portion of the portfolio given SIAs are the largest portion of the return seeking assets.
- Carbon footprint - The Trustee notes that the carbon footprint has increased since last year by 13 tonnes between 31 December 2022 and 31 December 2023. This is because all scheme assets have been included in the metrics following more accurate proxying of the private markets assets (which is discussed later in the section), meaning that nearly all the assets could be proxied (versus last year where only 83% of the return seeking assets were considered due to constraints with data).
- % of assets approved with SBTi - The Trustee also notes that the percentage of assets approved with SBTi has dropped since last year's report by c.29%. In last year's report, this

metric was proxied using the sector and geographical splits of each strategy to estimate the % of assets with approved SBTi targets. More recently, a change has been made to the methodology for applying this metric which removes the use of proxying given that the use of the SBTi framework is very company – specific. Therefore, only companies that have officially signed up to the SBTi have been included this year. This has resulted in a drop in the % assets approved by SBTi. Whilst this change in methodology results in the metric applying to a smaller proportion of the portfolio, the Trustee has decided that the metric remains valid at this time. In addition, the Fund is due to make some changes to the asset line up over the coming period and will reassess the appropriateness of its chosen metrics after that time.

- The DB Section’s strategy is to reduce the allocation to illiquid assets over time in a phased disinvestment plan (as noted in the Governance Section) to be replaced with more liquid return seeking assets. Therefore, the Trustee would expect to see the absolute carbon emissions and the carbon footprint of the Fund reduce as these positions wind down, or are sold, on the primary or secondary market.

Trustee observations of analysis – DC Section

- For the DC Section, relative to the 2022 metrics of the previous reporting period, there has been an overall improvement in climate metrics. Whilst there is evidence of an increase in Total Carbon Emissions, it is in conjunction with a reduction in Carbon Footprint from the previous year. The Trustee therefore has comfort that the increase in carbon emissions can be primarily attributed to the increase in total Fund value rather than a material deterioration of the climate considerations of the investments. Implied Temperature Rise improved by c.18% relative to last year’s reporting, dropping to 2.3 °C.

Ultimately, the Trustee is comfortable with the analysis presented but continues to use these metrics to inform the actions referred to later in this section and engage with the Fund’s Investment Consultant.

Data Quality:

Carbon Emission (CE) Data Quality	DB Section (excluding BPA, LDI and Cash)	DC Section
Scope 1+2 CE - Actual holdings - CE reported by company	0%	60%
Scope 1+2 CE - Actual holdings - CE estimated by 3rd party	0%	
Scope 1+2 CE - Proxied holdings	99%	14%
Scope 1+2 CE - No data	1%	26%

Whilst the Trustee has aimed to carry out the analysis as far as they are able, the availability of data is dependent on external factors which are largely outside the Trustee’s control. The table above shows how the portfolio has been modelled, using proxies where direct holdings data was not available. Given that the Fund’s return seeking assets are illiquid assets (across core private markets, private markets alpha and secure income assets), the Trustee has proxied the exposure by using appropriate geographic and sector weights for the underlying holdings. The table only shows this breakdown in respect of the Fund’s assets excluding Bulk annuities, LDI (Government Bonds) & Cash.

Whilst the Trustee aims for 100% data quality for its underlying investments, the Trustee understands that there are limitations with data availability, particularly for private assets. The Trustee uses MSCI, a market leader in sustainability-related data, to provide ESG and Carbon metrics for the underlying companies that are used in the proxies. Whilst MSCI has a broad, constantly expanding and improving set of data, this primarily covers public companies due to the nature of the legislative requirements for these companies. In the DB Section, the Fund's illiquid assets are largely invested in private companies that are not always subject to the same level of transparency and thus require proxying using characteristics that map to similar public companies. Should the Fund invest in more liquid return seeking assets in future, the Trustee's expectation is that data coverage for liquid assets in particular will continue to improve as pressure from the investment industry leads to further transparency for private market assets and the Trustee will continue to monitor and encourage this over time. For the Fund's illiquid assets, the Trustee (through WTW) is actively engaging with the Fund's managers to improve the quality of data received, however there is limited focus on the vintage strategies from managers and therefore improvements in data quality are unlikely to come from the Fund's illiquid return seeking assets. Despite this, the Trustee believes that the methodology in which illiquid assets have been proxied has improved since last year's report, which is discussed in the Data Quality target section.

Where data was not available on the underlying holdings, the Trustee has followed the 'pro-rata approach' which involves scaling up the portfolio data that exists rather than assuming such positions have zero emissions. The Trustee believes this is a more accurate and prudent approach to take.

On the Trustee's behalf, WTW and Hymans Robertson are working actively with its investment managers to improve the quality of the data supplied for these purposes over time. The Trustee will monitor how these metrics evolve over time on an annual basis and understand the drivers for change.

Data Quality target (DB and DC):

The Trustee intends to monitor how these metrics evolve over time on an annual basis and understand the drivers for change. The Trustee has established a timeframe of four years from the first Climate Change report (data as at 31 December 2022) to allow its investment managers across both Sections of the Fund, to reach 95% of data quality (either reported or estimated) for the Scope 1 and Scope 2 assets.

As at 31 December, the DB Section has surpassed its target, achieving 99% of the data estimated. Given the DB Section's reliance on illiquid assets outside of its LDI portfolio, the data in this section is entirely proxied.

Over the next year, the DB Section is expected to undergo changes to its strategy such as introducing more liquid credit assets. The DC Section is yet to reach the 95% target, reaching 74% in actual plus proxied data as at 31 December 2023. Further information can be found in the table below.

Carbon Emission (CE) Data Quality (DB Section)	2023	2024	Year on Year change
Scope 1+2 CE - Actual holdings - CE reported by company	0%	0%	-
Scope 1+2 CE - Actual holdings - CE estimated by 3rd party	0%	0%	-
Scope 1+2 CE - Proxied holdings	83%	99%	+16%
Scope 1+2 CE - No data	17%	1%	-16%

Carbon Emission (CE) Data Quality (DC Section)	2023	2024	Year on Year change
Scope 1+2 CE - Actual holdings - CE reported by company	59.5%	60.1%	+0.6%
Scope 1+2 CE - Actual holdings - CE estimated by 3rd party			
Scope 1+2 CE - Proxied holdings	20.7%	14.2%	-6.5%
Scope 1+2 CE - No data	19.8%	25.7%	+5.9%

For the DB Section, the quality of data utilised in the metrics calculations has improved in a number of ways:

- Unlike last year's report, all of the manager's strategies were proxied using the strategy's geographical allocation and sector weightings, where a combination of identifiers with the same geographical and asset splits are then used as an estimate for the carbon absolute emissions and footprint of the strategy. The carbon emissions and footprint per identifier are available from the data provider, MSCI. The 1% is the combination of the portion of some of the strategies where data from MSCI for one or more of the identifiers isn't available.
- In addition, the accuracy of the proxying of the illiquid assets has improved, in that sub-classifications of sectors were introduced for GICS sub-industries (Global Industry Classification Standard), thereby more accurately specifying the sector splits per strategy. As mentioned earlier, this was also one of the main reasons for the increase in the carbon footprint, in that for one of the secure income managers, whose strategy was previously excluded as its GICS sub-industry wasn't included in the relevant asset class. However, with the consideration of more granular sub-industries, this manager has now been included into the metrics calculations.

For the DC section: Over the 12 months since the previous reporting period, the quality of data obtained has increased. This is evidenced through the improved level of actual data reported and a subsequent decrease in the proxied data.

Data not provided by fund managers consists of not only data which companies have not provided to fund managers but also includes asset allocations which are not eligible to produce climate data, e.g., Sovereign bonds. In the 12 months since the previous reporting period there has been an increase in the allocation to asset classes which are not eligible to report climate data or are unable to do so. This partially explains the increase in data which was not provided.

The Trustee is comfortable with the data quality year-on-year for Scopes 1 and 2 and has agreed to maintain the existing target across both Sections of the Fund. The Trustee continues to monitor and engage with its investment managers (via its investment advisors) to drive for improvement going forward. The Trustee will continue to assess the appropriateness of this data quality target over time as the Fund's assets evolve and as data quality across the investment industry improves.

DB Section: Government Bonds and Bulk annuity investments:

The Trustee has agreed to exclude Government Bonds and Bulk Annuities from the above metrics and to report the climate metrics for government bonds separately. The reason for the separate disclosure is because the underlying methodology is materially different.

For UK Government Bonds, for example, the carbon emissions are calculated as the territorial emissions in the whole of the UK i.e. those that take place within a country's territorial boundaries and include exports but omits imports. The denomination used to attribute emissions is the total amount of UK Government Debt outstanding. Furthermore, the Trustee also has limited capacity and ability to engage with the UK Government on climate related metrics.

The BPA is an insurance policy and is not included in any of the metrics calculations as allowed for in the Regulations. However, the Trustee will assess this on a regular basis and may choose to report information on this part of the Fund's assets in the future.

The table below shows the climate metrics provided by the Scheme's LDI manager. The Trustee, via WTW, does also continue to monitor that the manager considers climate change in their actions, whether that be selecting bank counterparties for derivatives or engaging with industry discussions and consultations on climate related matters. WTW has also partnered with a manager in this space which WTW views very positively in their approach to climate change.

Metric Description ¹	DB Section's LDI Manager (As at 31 December 2023)
Total Carbon Emissions "tCO2e) – Scope 1+2	191,000 tonnes
Carbon Footprint (tCO2e / £m invested) – Scope 1+2	178.6 tonnes
Data quality (Actual/Proxied/No data)	100% Actual

Limitations - As part of its formal guidance, the DWP recognises potential gaps in being able to obtain data and the challenges that may arise in relation to the qualification of climate risks, and in doing so highlights that trustees should carry out the required analysis under the Regulations "as far as they are able". Whilst the Trustee has endeavoured to accurately reflect the emissions of the Fund's underlying portfolio in collecting and analysing the data, this remains a developing area, giving rise to a number of limitations, particularly given the illiquid nature of the overall portfolio. As such, the Trustee expects accuracy to evolve and improve over time. The analysis excludes the PFP.

¹ The LDI manager have used government and other sources to calculate the figures referenced in this report. Interest rate swaps, inflation swaps, futures, cash and money market fund holdings have all been excluded. Short gilt positions have also been excluded. Scope 3 emissions are not included. Figures cannot be sensibly aggregated with emissions data for non-gilt assets due to the risk of double counting.

The Trustee’s view on approaching scope 3 emissions

Scope 3 emissions data is critical to help build a better picture as the Trustee decarbonises its portfolios and economies. However, the Trustee believes that current reported scope 3 emissions data is largely inadequate for purposes including making accurate climate-informed investment decisions. Further, given data issues, the Trustee believes that disclosing the scope 3 emissions of investment portfolios at this stage will necessarily be limited in coverage, subject to large estimation errors, and not fit for meaningful comparison between investors or over time. At a minimum, the Trustee believes any scope 3 emissions disclosures should be disaggregated from Scope 1 and 2 emissions. The Scope 3 emissions are therefore outlined below separately.

Data providers, like MSCI, have tried to solve this problem by providing scope 3 datasets using proprietary models and internally vetted methodologies. However, current solutions rely significantly on top-down sector emissions data with limited use of bottom-up data (which is company-specific). Models that rely on sector information limit users’ ability to distinguish companies from peers. While there is sizable support from the investment industry and others for better disclosures, the Trustee needs to be realistic around the current issues of reliability of scope 3 data available.

Whilst scope 3 emissions disclosure is improving, the Trustee believes that the investment industry can play a proactive role in accelerating and supporting this trend. WTW is working closely with and engaging data providers to promote better disclosures. Similarly, WTW engages extensively with the asset management community, including on pushing for better corporate disclosure and for the adoption of generally accepted standards and methodologies. WTW also undertakes direct and indirect policy engagement, advocating for the adoption of common standards and methodologies, including those of the International Sustainability Standards Board. WTW believes the recently released IFRS S1 and S2, including provisions around scope 3 emissions, are a highly significant forward step.

The Scope 3 emissions for the Liability Driven Investment portion of the DB Section has not been reported below. Following discussions with the Fund’s LDI manager, they noted that the only data available for LDI Scope 3 emissions has a 3yr+ lag, and therefore they deemed this data too stale to be of sufficient use. The Fund’s LDI manager has been involved in cross-industry discussions on the reporting of Scope 3 emissions for LDI and gilt mandates. They are also engaging with the ICSWG on the best practice for reporting Scope 3 emissions on LDI. In addition, WTW is continuing to encourage the LDI manager to provide sufficient data for this disclosure going forwards as industry standards progress.

DB Section As at 31 December 2023	Allocation	Carbon Emissions Data	
		Absolute Emissions (tCO2e) – Scope 3	Carbon Footprint (tCO2e / £m) – Scope 3
Total Return Seeking assets	18%	98,213	166
Secure Income Assets	12%	41,390	106
Core Private Markets	3%	31,620	369
Private Markets Alpha	3%	25,203	224
Bulk annuities & LDI	82%	-	-

Note: This excludes Alternative Credit which is <1% of the total portfolio as at 31 Dec 2023
The carbon footprint column shows each asset class’s carbon intensity (rather than weighted average contribution to total intensity), and the top row shows the total carbon intensity of the return seeking portfolio.

For the DC Section, due to the nascence of Scope 3 metrics and reporting, the Trustee is unable to obtain an asset breakdown as for Scopes 1 + 2 climate metrics. Asset breakdown is not a necessity for reporting but is considered to be best practice, therefore the Trustee has comfort in the level of detail reported below and will include Scope 3 reporting as this evolves over time and is provided for the funds invested in by the Fund.

DC Section As at 31 December 2023	Carbon Emissions Data	
	Absolute Emissions (tCO2e) – Scope 3	Carbon Footprint (tCO2e / £m) – Scope 3
Mercer Multi-Asset Growth Fund	83,084	315
Mercer Diversified Retirement Fund	75,162	4,483
BlackRock Sterling Liquidity Fund	n/a	n/a
BlackRock Corporate Bond Index	n/a	n/a

The BlackRock Funds are dominated by investment in financial institutions where the majority of emissions tend to fall under Scope 3. However, BlackRock do not currently consider Scope 3 metrics due to poor availability and quality of data. This is monitored on an ongoing basis and BlackRock have given assurances that as the market catches up in terms of availability and accuracy of Scope 3 data, this information will be provided in for future reporting.

Data Quality for Scope 3:

Carbon Emission (CE) Data Quality	DB Section (excluding BPA, LDI and Cash)	DC Section
Scope 3 CE - Actual holdings - CE reported by company	0%	67.4%
Scope 3 CE - Actual holdings - CE estimated by 3rd party	0%	
Scope 3 CE - Proxied holdings	99%	2.1%
Scope 3 CE - No data	1%	30.5%

Appendix

Climate Scenario Analysis - 31 March 2023 Report

The Trustee has considered what a short, medium and long-term timeframe for the DB Section could look like in relation to climate risks and opportunities:

- **Short term** - 4 years: This time period covers the next actuarial triennial valuation (expected in 2025 following the cessation of the PFP agreement) and results period
- **Medium term** - 10 years: This time period covers expected changes in climate change data quality and regulations. In addition, the DB Section is currently expected to be fully funded on a buyout basis in the next 10 years
- **Long term** - 15 years: This time period is approximately in line with the duration of the DB Section's liabilities and the point at which a significant proportion of member benefits will have been paid out

The Trustee has identified the following climate-related risks and opportunities:

Regulatory risk	Reputational risk	Transition risk	Physical risk
<ul style="list-style-type: none"> • Regulators are increasing pressure on pension schemes to explicitly consider climate change • Example: <ul style="list-style-type: none"> • Implementation Statement • DWP Pensions bill • Mandatory TCFD reporting 	<ul style="list-style-type: none"> • The increasing spotlight on pension schemes and climate change increases the risk of being "named and shamed" • Example: <ul style="list-style-type: none"> • 2018 EAC report on 25 biggest UK schemes 	<ul style="list-style-type: none"> • The indirect impact arising as a result of changes in society and economies to combat or adapt to climate change • Example: <ul style="list-style-type: none"> • Assets: Some industries become obsolete (e.g. coal), reinvent themselves or others emerge (electric vehicles) • Liabilities: Improvements in mortality from healthier lifestyles 	<ul style="list-style-type: none"> • The direct impact arising as a result of chronic and/or acute changes in climate and extreme weather events • Example: <ul style="list-style-type: none"> • Assets: Damage to physical assets underpinning securities (e.g. real estate and infrastructure) • Liabilities: Excess deaths arising from extreme weather

	Short Term	Medium Term	Long Term
Timeframe	To next Triennial Actuarial Valuation	Beyond expected timeframe to full buyout funding level	Broadly in line with the duration of the liabilities and beyond expected timeframe to full buyout funding level

Primary types of risk	<ul style="list-style-type: none"> Regulatory Reputational Transition 	<ul style="list-style-type: none"> Reputational Transition 	<ul style="list-style-type: none"> Transition Physical
Key risk exposure	<p>The Trustee is exposed to regulatory risks, including fines, if it does not comply with evolving regulatory requirements.</p> <p>The Trustee (and the sponsor) are exposed to reputational risks if the Trustee's policies are misaligned with peers and/or sponsor.</p> <p>The Trustee is predominately exposed to transition risks and opportunities through the Fund's exposure to illiquid assets.</p>	<p>The Trustee (and the sponsor) are exposed to reputational risks if the Trustee's policies are misaligned with peers and/or sponsors.</p> <p>The Trustee is predominately exposed to transition risks and opportunities through the Fund's exposure to illiquid assets.</p> <p>The Trustee is exposed to the impact on insurer pricing of climate risk, including the impact on future expected returns and other financial and demographic assumptions.</p> <p>Given the long-term nature of these risks, there is a high level of uncertainty in terms of the likely effect and the potential magnitude of their impact.</p>	<p>The insurer may be exposed to transition risks through its holdings in various asset classes (including equity, credit, property and infrastructure).</p> <p>The insurer may be exposed to physical risk through its holdings in various assets, in particular real assets including property and infrastructure.</p> <p>In an extreme left-tail event, exposure to, and poor management of these risks may weaken the strength of the insurer and ability to meet pensioner benefits.</p> <p>Given the long-term nature of these risks, there is a high level of uncertainty in terms of the likely effect and the potential magnitude of their impact.</p>
Potential opportunities	<p>Encouraging existing funds to consider and where possible reduce exposure to transition risks engage with companies to develop a strong transition plan.</p>	<p>Ensure that the ESG characteristics are assessed when choosing an insurer so that the Fund's assets continue to be managed in an appropriate way over the long term after the Fund has wound up.</p>	<p>N/A – Fund no longer in existence</p>

The Trustee has conducted climate change scenario analysis by modelling the long-term horizon (15 years) over which climate risks and opportunities should be considered, given that a 15-year time period (from September 2022) is approximately in line with the duration of the DB Section's liabilities and covers the DB Section's expected time frame to a full buyout funding level. These time horizons, risks and opportunities are key inputs into the Trustee's climate scenario analysis. The Trustee, in conjunction with WTW and Hymans Robertson, have conducted this scenario stress testing and

presented the results within this section. The key climate scenarios that the Trustee has considered are:

	Lothe Trusteest Common Denominator (LCD)	Inevitable Policy Response (IPR)	Climate Emergency (CE)
Description	A ‘business as usual’ scenario where current policies continue with no further attempt to incentivise further emission reductions. Socioeconomic and technological trends do not shift markedly from historical patterns.	A delay in meaningful action but a rapid shift in policy in the mid/late 2020s. Policies are implemented but not in a completely coordinated manner, resulting in a more disorderly, but still just, transition to a low carbon economy.	An immediate, ambitious and coordinated response in which aggressive policy is pursued and more extensive technology shifts are achieved.
Approximate temperature rise vs pre-industrial levels	3.5°C	2.0°C	1.5°C
Renewable energy by 2050	30-40%	80-85%	80-85%
Transition risk level (shorter term)	Low	High	Medium – High
Physical risk level (longer term)	High	Low – Medium	Low

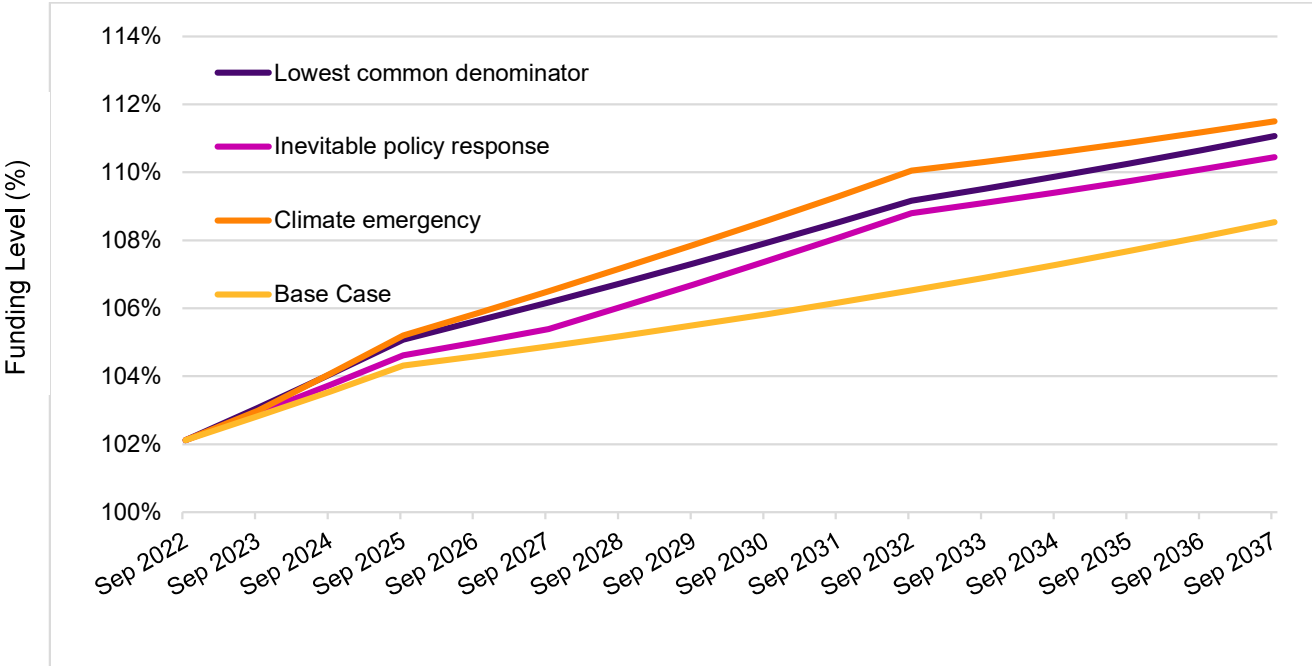
These scenarios were compared to a base case scenario, which is that climate change is currently priced into markets as a “business as usual” outcome but with no physical risk expected from climate change. The scenarios were created to reflect the differing paths that could be taken to meet, or fail to meet, the Paris Agreement target. The Paris target is to limit global average temperature increases to 1.5°C above pre-industrial levels, foster climate resilience and facilitate capital flows. The scenarios differ in the size of the physical risks, based on the resulting temperature impacts, but also in the size of the transition risks. The Trustee is aware of the limitations of the climate scenario analysis, such as the reliance on third parties for the maintenance and reporting of accurate data, validation of its assumptions, and the information available at the date of the analysis and recognize that there is the potential for more extreme outcomes than reflected in the chosen scenarios.

Below the Trustee has illustrated the impact of the three climate change scenarios on the DB Section’s funding level over the long-term horizon (15 years), relative to the funding projection as at 30 September 2022 (based on the asset allocation as at that date).

In some climate scenarios, the Trustee’s modelling process implies reduced life expectancies (relative to other scenarios and/or schemes’ central mortality assumptions) and therefore a relative reduction in the DB Section’s liabilities. This is a plausible potential outcome arising from the negative impacts of increasing climate change. This can suggest a relative improvement in the expected funding position even when combined with associated reductions in the value of the assets (given their low-risk

nature). However, it is important to recognise that an assessment of what is in the best interests of the DB Section and its members is a much broader question than the impact on funding level alone. Key considerations may be a reduction in the quality (and length) of members’ lives, and the quality of the environment that they will retire into. Consequently, the results of any such modelling should not be assumed to reflect any complacency or acceptance (either implicit or explicit) that the Trustee considers global inaction or business-as-usual with respect to climate change to be in the best interests of the DB Section or its members. The Trustee believes that climate change is a systematic risk of unprecedented scale and severity. Actions to address it are a collective priority, given the risks it presents to individual pension schemes, the ongoing resilience of the savings universe, and the planet as a whole.

DB Section – Funding Level Impact (Long Term Horizon)



DB Section – Funding Level Impact	Lowest Common Denominator (LCD)	Inevitable Policy Response (IPR)	Climate Emergency (CE)
Annual impact on asset return (weighted average across time horizon)	-0.1%	+0.0%	+0.2%
<p>Given the DB Section’s low level of investment risk and relatively short time horizon, there is limited impact on asset returns from climate change in the three scenarios shown. The allocation to Secure Income Assets (SIAs) means that the DB Section is resilient to, and even could benefit from, transition risk as these assets are expected to be positioned well for a transition to net zero. Given the level of transition risk in each scenario this leads to an increasingly positive impact to the asset return (in the Climate Emergency scenario), up to the medium-term horizon (10 years). Increasing beyond 10 years, the impact of physical risk on these SIAs starts to negatively impact the asset returns.</p>			

	-0.2%	-0.1%	0.0%
Annual impact on liabilities (weighted average across time horizon)	The economic and social consequences of the disorderly transition and failure to address the risks of climate change results in a limit to future improvements in mortality. The impact on liabilities is smoothed across the 0 to 15 year time horizon.	Whilst the direct impacts on mortality may be similar to those under an orderly transition, the transitional effects and imbalance between the activity of different individuals and organisations result in a deterioration in expectations for longevity improvements relative to typical pension scheme funding assumptions. The impact on liabilities is smoothed across the 0 to 15 year time horizon.	The changes required to address climate change in an orderly and coordinated manner require substantial changes in the actions of individuals and organisations and are such that people follow a healthier and more active path with the economic activity generating an improvement in living standards. The impact on liabilities is smoothed across the 0 to 15 year time horizon.
Funding Level impact	The impact of the negative shock to liabilities leads to a strong positive impact on funding as a result of transition risks, which is then partially negated with the negative impact of the physical risks impacting asset returns post the 10 year point. Despite this, the funding level increases at a faster rate than the base case scenario.	In the earlier years, the reduction in liabilities dominates the improvement in funding level whereas in later years, the improvement in asset returns contributes positively to the funding position too. Post 10 years, there is a slight negative drag on asset returns as a result of the physical risk impact, however, overall, across the 15 year time period, the funding level still increases at a faster rate than the base case scenario.	The impact of the most positive asset returns on the funding position leads to an improvement in the funding position. The physical risk impact on the assets from 10 to 15 years means that the journey plan is marginally less upward sloping, but similar to the other two scenarios, across the whole period, the funding level increases at a faster rate than the base case scenario.

Overall, the DB Section appears to be resilient under the three scenarios to climate risks as a result of its remaining asset allocation to SIAs which are expected to fare well in the climate transition and its strong funding position with an associated low target return. The resilience of the DB Section to these climate scenarios, combined with the scheme nearing its goal of a full buyout funding level within the medium-term horizon, means that the DB Section’s investment strategy is unlikely to change as a result. The DB Section is already invested in some climate-related opportunities (such as a renewable income fund) and the Trustee expects the portfolio of illiquid assets to reduce over time as the DB Section reaches a full buyout funding level. For the purpose of the modelling, the potential residual payment from the Pension Funding Partnership (PFP) asset value was ignored due to complications in the modelling of climate impacts of contingent assets and the low likelihood of the Fund receiving the

asset value. However the BPA was included in the analysis, which helps to reduce the longevity risk of the DB Section.

As part of the above analysis, the Trustee has also considered how the Sponsor could be impacted under the above climate scenarios considered. Whilst the Sponsor's own risk assessment of climate risk identified a number of transition and physical risks whose impact is expected to increase over time, it is noted by the Covenant advisor (Penfida) that the Sponsor is seeking to mitigate the potential impacts of these risks by focusing on the reduction of the use of natural resources, incorporating physical risks into its planning decision and improving the resilience of its estate to extreme weather events.

Given the significant headroom in the covenant and the relatively short length of covenant reliance of the Fund and the actions that are currently being undertaken or considered by the Sponsor to address potential climate change risks, Penfida believes that climate change related risks from a covenant perspective are low. Given the very strong funding position of the DB Section, the Trustee has a relatively low likelihood of reliance on the Sponsor in the future combined with a short-time horizon as well.

As a result of the combined analysis, the Trustee's assessment remains that the investment and funding strategy of the Fund is resilient against climate risk and that it is expected to be relatively well protected against the impact of climate change. This is driven by four key factors:

- **The DB Section's very strong funding position** – This was 102% (on a gilts+0.5% basis) at the date of the analysis conducted
- **The DB Section's very low-risk asset portfolio** – The DB Section has a low level of 'return-seeking' assets targeting a small investment return of Gilts+0.75% per annum
- **The allocation to climate positive investments** – The DB Section has a reasonable allocation to investments which are expected to benefit from the transition to a low-carbon economy. These include investments in renewable energy investments
- **The DB Section has a bulk annuity** – The Trustee has already mitigated some of the life expectancy risk within the Fund, with a large bulk annuity which was completed in June 2022

Although the analysis provided the Trustee with some reassurance on the robust nature of the DB Section's funding strategy, it did clearly highlight that climate change could have a material impact on the Fund's outcomes. This reiterated to the Trustee that it warrants continued focus as part of its broader approach to sustainable investing and should remain a priority area for portfolio monitoring, stewardship activities and manager engagement. In terms of next steps, the Trustee is continuing to focus on the following (and has seen improvements in since last year):

- Ongoing training for the Trustee to ensure effective decision-making in relation to consideration of climate risk
- Engagement with fund managers through the Investment Consultant
- Pursuit of securing all the DB section's liabilities

As mentioned earlier, the Trustee intends to update this analysis at least every three years and will be testing annually whether this needs to be done more frequently, including if there have been material changes to the scenarios used or the DB Section's funding strategy.

DC Section – Climate Scenario Analysis

Climate-related risks can be broadly classified into two categories:

Transition to a low carbon economy, including (but not limited to):

- **Policy changes**, e.g. carbon pricing, seek to create the changes needed in society
- **Technology development**, e.g. renewable energy, and adoption enable the changes to be adopted.

Physical impacts, including (but not limited to):

- **Chronic changes**, e.g. sea level rise, agricultural systems impact economic and social systems
- **Acute changes**, e.g. storms, wildfires create damage and give rise to costs of adaptation and reconstruction

Scenario analysis

The Trustee is required to undertake analysis to explore the potential impact of different future climate scenarios on the Scheme, which can capture the impact of transition and physical impacts. The Task Force recognises that the use of scenarios in assessing climate related issues and their potential financial implications, is relatively recent and that practices will evolve over time but believes that such analysis is important for improving the disclosure of decision-useful, climate related financial information. At least two of the scenarios must be aligned with the objectives of the Paris Agreement (i.e. a reduction in global warming potential to between 1.5°C and 2°C above pre-industrial levels), and one scenario should be based on a more pessimistic outcome. With the support of its advisors, the Trustee has undertaken climate scenario analysis at the asset class level to estimate the effect of different climate scenarios on retirement outcomes for different members of the DC Section. The Trustee has explored the following real-world scenarios as part of this analysis:

Scenario	Description
<p>Green revolution</p>	<p>Concerted policy action starting now e.g. carbon pricing, green subsidies. Public and private spending on “green solutions”. Improved disclosures encourage market prices to shift quickly. Transition risks in the short term, but less physical risk in the long term. A relatively high expectation of reducing global warming to <2°C.</p> <p>When modelling this scenario, the Trustee has assumed a greater likelihood of market disruption in the short term driven by mainly transitional impacts. The likelihood of material long-term physical climate impacts is lowest under this scenario.</p>
<p>Delayed transition</p>	<p>No significant action in the short-term, meaning response must be stronger when it does happen. Shorter and sharper period of transition. Greater (but delayed) transition risks but similar physical risks in the long term. A relatively high expectation of reducing global warming to <2°C.</p> <p>When modelling this scenario, the Trustee has assumed a greater likelihood of market disruption in the medium term driven by mainly transitional impacts. The likelihood of material long-term physical climate impacts is slightly higher under this scenario.</p>

Head in the sand

No or little policy action from governments for many years. Growing fears over ultimate consequences leads to market uncertainty and price adjustments. Ineffective and piecemeal action increases uncertainty. Transition impacts exceeded by physical risks. Little or no expectation of reducing global warming to <2°C.

When modelling this scenario, the Trustee has assumed a greater likelihood of market disruption in the long-term driven by transitional impacts and material physical climate impacts.

These scenarios were chosen as they satisfy the guidance provided by the Department for Work and Pensions and provide an intuitive way to help the Trustee understand the range of potential impacts different climate scenarios may have in terms of member outcomes. By taking a broad view, across a range of stressed scenarios, the Trustee feels it will be well placed to take action (where appropriate) to manage the most severe potential impacts.

At the time of writing there is no industry consensus on how to model different climate scenarios. The Trustee has therefore relied on the views of its advisors for the DC Section, underpinned by their research and development. The Trustee expects its advisor to continually test whether their approach represents good practice relative to the wider industry and to be proactive in suggesting revisions to improve over time.

The main limitation is that the future is unknown, and as for any forward-looking modelling, requires assumptions to be made. These assumptions may or may not be borne out in practice, so the outputs from this analysis should not be relied upon as an exact assessment of potential member impacts which could be better or worse than indicated. This limitation cannot be removed but managed over time by monitoring.

For Defined Contribution arrangements such as the DC Section, impacts should in the first instance be considered as the impact on retirement outcomes for different cohorts of members. This is in line with the requirement to define short, medium and long-term in the context of assessing climate risks. These time periods are defined as follows:

- **Short-term:** Members who are between 5 and 10 years from their retirement
- **Medium-term:** Members who are between 15 and 20 years from their retirement
- **Long-term:** Members who are more than 35 years from their retirement

The following table sets out the results of the climate scenario analysis for different cohorts of members. It should be noted that these are all stressed scenarios, and therefore generally reveal a ‘worse’ position relative to central expectations. For the purpose of the analysis, a representative 22 year old and a 39 year old member have been considered:

Impact on retirement outcomes for different climate stresses	22-year-old member	39-year-old member
Green revolution	-4%	0% to +1%
Delayed transition	-3% to -4%	-1% to +1%

Head in the sand

-2% to -3%

-2% to -4%

In general, older members are expected to be relatively well shielded from wider market disruptions caused by emerging transition and physical climate risks. This is because they are invested across a range of markets, providing diversification. Conversely, younger members will be more exposed to delayed climate transitions because the timing of transition and physical climate risks will be borne when they have accumulated sizeable levels of retirement savings.

The Trustee has concluded that strategic asset allocation decisions (particularly use of illiquid assets) could impact real-world climate risks and opportunities for members and consequently their long-term retirement outcomes. In the short to medium term, the Trustee believes that there is substantial scope to make progress through more traditional building blocks such as equities and bonds.

The Trustee believes that climate risks and opportunities will be better managed through implementation decisions, which could improve financial outcomes within asset classes, and effective stewardship, and engagement, with underlying companies to drive real world changes.

It is challenging to determine which climate-related risks and opportunities are likely to be most significant, particularly given these are likely to materialise over different time horizons. The Trustee believes that transition-related risks, such as the impact of policy intervention, are likely to impact more significantly in the short to medium term and, by nature, could trigger sudden shocks or impacts in markets. For this reason, the Trustee encourages its investment manager to engage with underlying companies to ensure they are planning appropriately for the transition to a lower carbon world, with the expectation that this will help to limit more severe impacts from policy intervention. The Trustee's investment manager has demonstrated a strong track record for engaging on climate issues and it will continue to monitor and hold them to account via the advisors.

With improved availability of data, and evolution of analytical techniques, the Trustee believes that it will be in the position to evaluate the potential impact of discrete climate-related risks in more detail and put in place further refined plans to manage these.