

TCFD REPORT

AS AT 31 DECEMBER 2023

Ulster Bank Pension Scheme

Help for what matters

 **Ulster Bank**

CONTENTS



EXECUTIVE SUMMARY

Climate change poses an existential threat to our world and a whole-economy transition is required to limit global temperature increases. This report focuses on climate-related risks and opportunities and sets climate risk in the context appropriate for the Scheme. Each of the four main areas to be addressed as prescribed by legislation are summarised as follows.



Governance

We have a governance framework in place to manage risk, including climate risk, through specialist committees and support from external advisers.

Our governance policy clearly documents the processes for maintaining effective oversight of climate-related risks, and the roles and responsibilities of everyone involved.



Strategy

To consider the potential impact of climate risks, in the previous Scheme year we modelled how the Scheme would be expected to perform under different climate change scenarios. We have not refreshed the scenario analysis that was presented in last year's report as there has been no material change to the Scheme's investment strategy since this was carried out.

The Scheme continues to have a low risk, well diversified investment strategy and aims to hedge 95% of its interest rate and inflation risk. This strategy provides a reasonable degree of protection against the potential impacts of climate change.



Risk Management

We have taken steps to identify and assess the climate-related risks facing the Scheme.

Similar to the Scheme's other risks, we assess the likelihood and financial impact of each of these risks and prioritise those which pose the most significant potential loss and are most likely to occur.



Metrics and Targets

We have four metrics for ongoing review and one target that we will measure our progress against each year.

We have collected and reviewed information about the greenhouse gas emissions, carbon footprint and net-zero emissions alignment of the Scheme's investments. We have also reported on the proportion of the portfolio for which we have high quality data.

We measure our progress against the target set last year of 100% of the applicable portfolio being aligned with science-based targets for reducing emissions by 2040.

INTRODUCTION

This climate-related disclosure report has been prepared by the Trustee of the Ulster Bank Pension Scheme (the 'Trustee' and the 'Scheme' respectively) in line with the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD').

The Trustee recognises that climate change presents both risks and opportunities to the Scheme. This report provides an overview of the governance framework, strategy, risk management, and metrics and targets used by the Trustee to identify, assess and monitor the risks and opportunities associated with climate change for the investment and funding strategies of the Scheme.

The Trustee has a fiduciary duty to act in the best interests of members, including considering all factors which could have an impact on the risk profile and sustainability of returns over time. The Scheme faces a number of risks that need to be considered proportionate to the magnitude of each. Climate change is one such risk. The Trustee recognises the financial materiality of the risks and opportunities associated with both climate change itself and the necessary transition. Therefore, it has taken action and continues to take action to prepare the Scheme.

This report has been split into four distinct sections in line with the four pillars of the TCFD recommendations set out on the right.



Governance

The governance processes established by the Trustee to maintain oversight of relevant climate-related risks and opportunities.



Strategy

The Trustee's assessment of the resilience of the Scheme's investment and funding strategies to climate risks over appropriate short, medium and long term time horizons. This section includes the output of scenario analysis undertaken.



Risk Management

How the Trustee has integrated processes to identify, assess and manage relevant climate related risks into the Scheme's integrated risk management framework. This section includes a summary of the key climate related risks identified by the Trustee.



Metrics & Targets

Discloses key climate-related metrics for the Scheme's investment portfolio and details progress against the target set by the Trustee.

GOVERNANCE

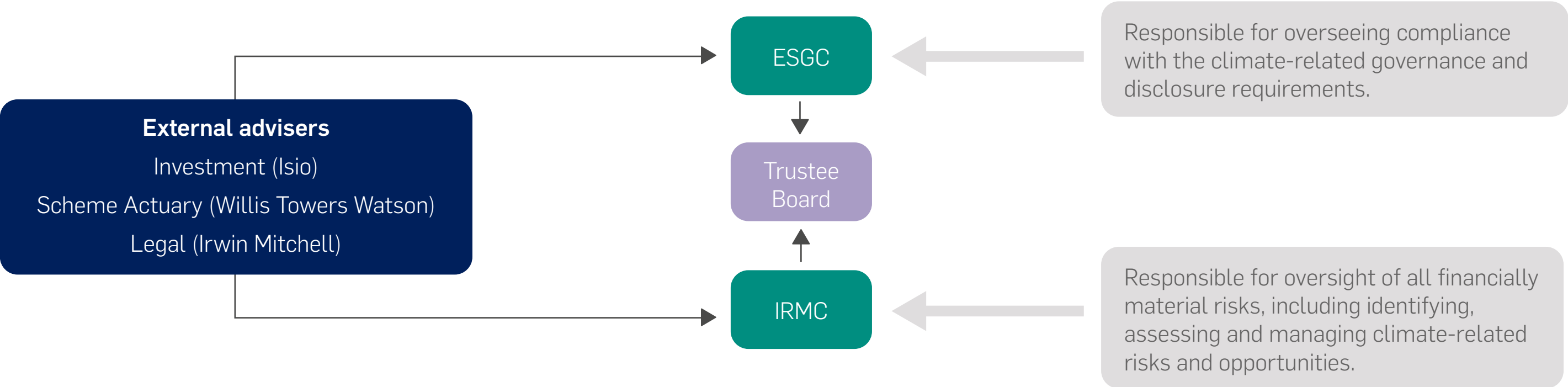
OVERSIGHT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

The Trustee Board has ultimate responsibility for ensuring effective governance of Environmental, Social and Governance factors including climate-related risks and opportunities, and for meeting its obligations under the associated legislation.

The Trustee has an established governance and risk management framework with clear roles and responsibilities delegated to committees which report back to the Trustee Board. This includes delegating certain functions within the climate governance framework to relevant committees.

The Integrated Risk Management Committee ('IRMC') is responsible for the oversight of climate-related risks within the Scheme. The ESG Committee ('ESGC') has delegated authority provided by the Trustee Board to make decisions relating to the climate-related disclosures by the Scheme. The IRMC and ESGC both meet once a quarter and feed into the Trustee Board, which addresses any items highlighted by each committee at its quarterly meeting.

The structure diagram below illustrates the delegation of roles and responsibilities of those undertaking climate-related governance activities in relation to the Scheme. These are explained in more detail on the **next page**.



ROLES AND RESPONSIBILITIES

Integrated Risk Management Committee

The IRMC recommends investment strategy changes to the Trustee Board and is responsible for implementing the investment strategy. This includes investment strategy decisions driven by climate-related risks and opportunities. The IRMC is responsible for:

- ▶ Ensuring that climate-related risks and opportunities are considered as part of the management of the Scheme.
- ▶ Selecting investment managers that demonstrate they can integrate ESG and climate principles into their investment processes that are aligned to those of the Trustee.
- ▶ Managing the ongoing implementation of the Responsible Investment Policy by monitoring that the investment managers' practices continue to be in line with the Trustee's principles.

Recognising that climate change can be a financially material risk, the Trustee allocates time and resources to the identification, assessment and management of climate-related matters over the Scheme year in proportion to all factors impacting the Scheme. The Trustee monitors this time and resource allocation on an annual basis.

ESG Committee

The role of the ESGC is to oversee compliance with the climate-related governance and disclosure requirements of the Scheme. This includes:

- ▶ Providing a forum for the Trustee Board to receive training on the climate change regulatory requirements from the Scheme's advisers.
- ▶ Reviewing the Scheme's Responsible Investment Policy and proposing updates to the Trustee Board.
- ▶ Establishing processes to identify, assess and manage relevant climate risks and opportunities.



ROLES AND RESPONSIBILITIES

Investment Adviser

- ▮ Advises the Trustee Board and IRMC on all aspects of investment strategy and oversees the implementation of the strategy, including strategy decisions in relation to climate-related risks and opportunities.
- ▮ Provides support with the identification of climate-related risks and opportunities, identifies appropriate climate-related metrics and targets, and prepares disclosures including the annual TCFD report.
- ▮ Reviews the Scheme's portfolio exclusions list and monitors that the exclusions policy is adhered to.
- ▮ Supports the Trustee to monitor stewardship activity across the investment portfolio through the annual Implementation Statement.
- ▮ Monitors the Scheme's investment portfolio and provides quarterly reporting outlining key information with regards to portfolio changes.

Scheme Actuary

- ▮ Supports the Trustee in assessing the impact of climate change on the Scheme's liabilities.

Legal Adviser

- ▮ Supports the Trustee in ensuring that the Scheme is compliant with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations (Northern Ireland) 2021 and the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations (Northern Ireland) 2021.

Assessing climate competence

The Trustee has a robust process in place to review and assess the skills of the external advisers. The Trustee reviews the Scheme's investment advisers regularly against objectives which include the following in relation to climate competency:

- ▮ Whether the investment adviser has helped the Trustee to consider ESG integration within the investment strategy, and when making recommendations to alter the investment strategy both ESG (including climate change) and stewardship have been considered.
- ▮ Whether the investment adviser has supported the Trustee with the identification and assessment of climate related risks and opportunities in the Scheme's investment portfolios.



TRAINING

The Trustee Board received the following training on the identification and management of climate-related risks and opportunities during the year to 31 December 2023:

- **7 February 2023:** Further training on climate change scenario analysis, changes in carbon pricing and the impact of different scenarios on the Scheme's asset portfolio over different time horizons. This built on training received in July 2022.
- **31 March 2023:** Training on options and methods for measuring carbon emissions from synthetic equity exposure.
- All Trustees have completed the online Trustee toolkit provided by The Pensions Regulator, including any updates to modules. In addition to formal training sessions, the Trustees take responsibility for keeping up to date with relevant developments.
- Over the first year of being captured by TCFD guidance, the Trustee received training on topics ranging from training on the regulations to specific training on each of the metrics being measured. Given the extent of this training and resource spent in ensuring the Trustee had the correct knowledge and understanding in its first year of reporting, the Trustee did not identify any skill gaps over the year and instead considers the discussions regarding ESG (including climate change) factors impacting its investment strategy as training received over the year.
- The Trustee will plan further climate training over the next Scheme year to ensure its knowledge and understanding remains sufficient to effectively manage the risks and opportunities facing the Scheme.

The purpose of these training sessions was to upskill the Trustee Board and the ESGC to ensure adequate knowledge and understanding of the topic so that they are in a position to recognise, manage and monitor the climate-related risks and opportunities relevant to the Scheme.

At ESGC meetings there is a robust discussion on all topics covered, with the committee members engaging and questioning the information provided to ensure a full understanding is achieved. The financial background and experience of ESGC members ensures the information provided is appropriately challenged.



STRATEGY

INTRODUCTION

The Trustee has considered the impact of climate-related risks and opportunities on the Scheme's investment and funding strategies.

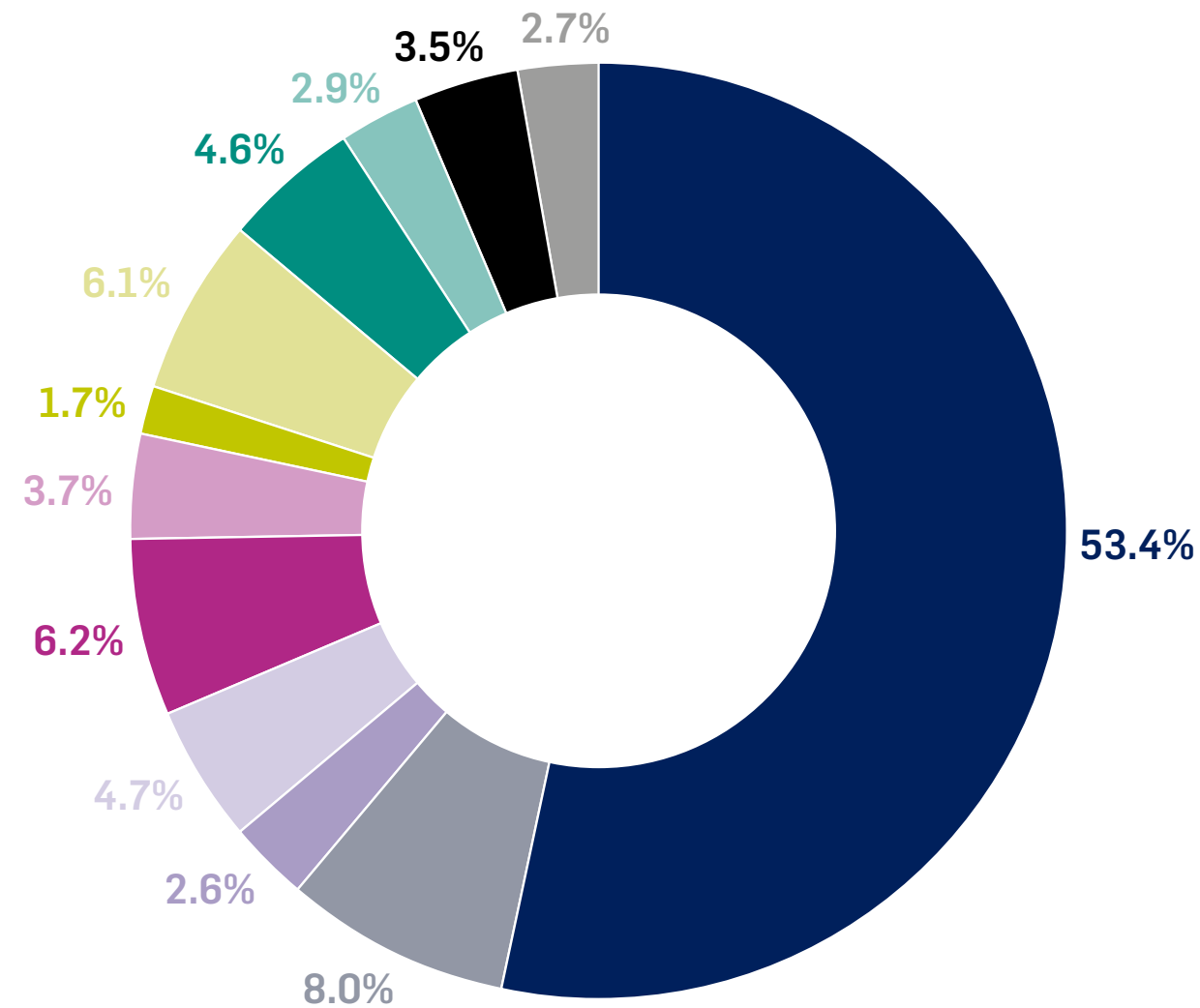
The Trustee recognises that climate change can have a material financial impact on the value of certain assets held over different time horizons. This could be an enhancement or impairment in income and/or capital value depending on the asset class and the exposure to climate change. The Trustee also recognises that climate change could impact the assumptions used for valuing the liabilities and this could have an impact on the funding level of the Scheme.

The strength of the Sponsoring Employer may also be impacted by climate change. The Trustee maintains a regular dialogue with the Sponsoring Employer and has reviewed the TCFD report and sought to understand the key risks and opportunities to the business from climate change. The Trustee will continue to monitor and consider this as part of its ongoing assessment of the strength of the Sponsoring Employer and in the context of the funding strategy.

This section highlights the key climate-related risks and opportunities that the Trustee has identified over short, medium and long term time horizons. The Trustee has chosen **5, 10 and 25 years as the short, medium and long term time horizons** based on industry guidance and the duration of the liabilities.

The Trustee carried out scenario analysis last year to inform its understanding of the resilience of the Scheme's investment and funding strategies to different climate change scenarios. The output of this analysis and the conclusions reached by the Trustee on the resilience of the strategies is included within this section.

The Trustee chose not to repeat the scenario analysis in 2023. There were no significant changes to the investment strategy over the Scheme year and, in the Trustee's view, there were no significant improvements in modelling techniques that would justify repeating the analysis this year.



- Hedging Portfolio and Cash
- Buy and Maintain Credit
- High Yield Credit
- Infrastructure Debt
- Real Estate Debt
- Long Lease Property
- Core Property
- Synthetic Global Equities
- Life-linked Insurance
- Emerging Market Debt
- Multi-asset Private Debt
- Catastrophe Insurance

The scenario analysis has been carried out based on the Scheme's portfolio as at 31 December 2022 as shown in the chart to the left. A large proportion of the Scheme's assets are invested in a liability hedging portfolio, which is intended to move broadly in line with the Scheme's liabilities in response to movements in interest rates and inflation expectations. The rest of the Scheme's assets (c. 47%) are invested across a range of asset classes and the Trustee recognises that financially material climate risks and opportunities can impact the value of these assets relative to the Scheme's liabilities.

The only change to the Scheme's investment strategy over the year was the removal of the 6.1% Synthetic Global Equities position. This was replaced with a higher allocation to Buy and Maintain Credit.

It should be noted climate risk considerations are incorporated throughout the investment process, from strategic asset allocation to manager selection and portfolio monitoring.

SCENARIO ANALYSIS - APPROACH

Last year, the Scheme’s investment adviser supported the Trustee with carrying out scenario analysis to better understand and quantify climate-related risks over the 5, 10 and 25 year time horizons. The Trustee considered three climate scenarios aligned with industry guidance, alongside a base, counterfactual scenario whereby the risks associated with climate change are not considered to have a material impact on the Scheme’s assets and liabilities.

The scenarios considered are based on those provided within the 2021 Biennial Explanatory Scenarios (‘CBES’) set by the Bank of England. Each scenario considers the transition and physical risks associated with climate change in the future. The Trustee has not sought to amend or adjust the information for any of the scenarios provided as part of CBES to reflect its opinions on the likely effects of climate change. These scenarios are not necessarily forecasts of the most likely future outcomes. Rather, they are plausible representations of what might happen based on different future paths of governments’ climate policies.



Scenario 1: Early policy action and orderly transition

Immediate and coordinated effort to transition to a net-zero economy which achieves net-zero global carbon emissions by 2050.

The policies that are implemented are successful in limiting global warming (relative to pre-industrial levels) to 1.8°C by the end of the scenario, falling to around 1.5°C by the end of century.



Scenario 2: Late policy action and disorderly transition

There is no immediate action to combat the challenges posed by climate change, with action being delayed until 2031. Following this delay, aggressive action is taken to reach the target of net-zero global carbon emissions by 2050.

Global warming is limited to 1.8°C by the end of the scenario (2050) relative to pre-industrial levels, but then remains around this level at the end of the century.



Scenario 3: No action and failed transition

No action is taken to transition economies away from carbon, leading to a growth in concentration of greenhouse gas emissions and global temperatures.

The absence of transition policies results in global temperature levels continuing to increase, reaching 3.3°C higher relative to pre-industrial levels by the end of the scenario.

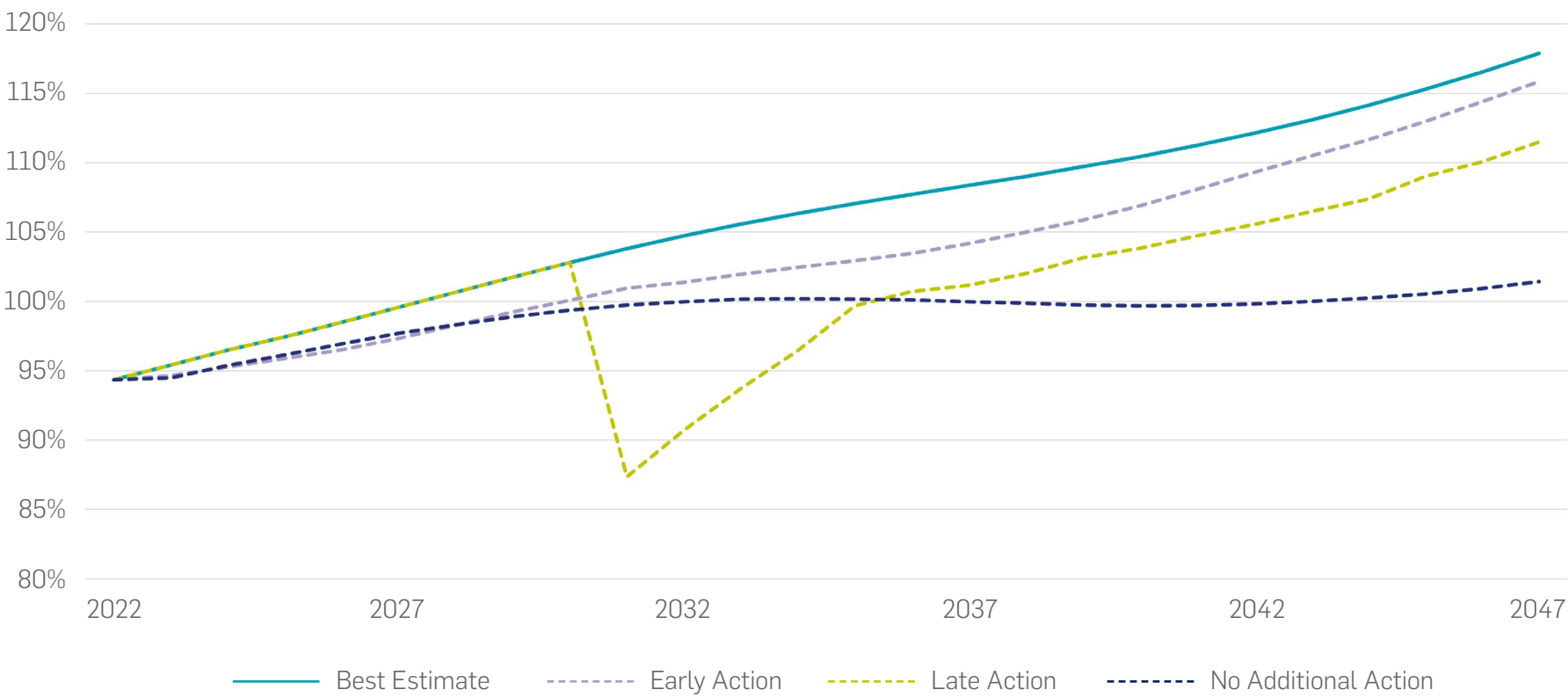
The climate scenario analysis was carried out based on the Scheme's asset allocation at 31 December 2022, assuming regular rebalancing and no future changes to asset allocation. It has also been assumed that the Scheme maintains a 95% hedge of its interest rate and inflation risk over each of the time horizons. Each of the asset classes in which the Scheme invests have been included in the scenario analysis.

The liabilities modelled are based on the 31 December 2021 Actuarial Valuation cashflows using market conditions as at 31 December 2022. The starting funding position is based on the Scheme's self-sufficiency liability basis rather than the Technical Provisions.

The Trustee recognises that scenario analysis has been completed as far as able based on data and methodology as at 31 December 2022. Methodology across the industry continues to be developed and limitations remain. The Trustee monitors improvements and will seek to complete scenario analysis again following improvements such as, for example, the modelling of physical climate risk or significant changes to the investment strategy.

SCENARIO ANALYSIS – SUMMARY OF RESULTS

Funding level progression under each climate change scenario



	2022	Short 5 years	Medium 10 years	Long 25 years
Base Scenario Surplus/(deficit)	(£45m)	(£4m)	£50m	£332m
Estimated losses vs. Base Scenario (excluding life expectancy impact)				
Early Action	-	(£20m)	(£36m)	(£40m)
Late Action	-	£0m	(£147m)	(£123m)
No Additional Action	-	(£17m)	(£51m)	(£306m)

SCENARIO ANALYSIS – IMPACT ON LIFE EXPECTANCY

The impact of changes in gilt yields and inflation expectations on the Scheme’s liabilities, net of hedging, is included in the results on the **previous page**. However, the Scheme Actuary has estimated the impact on the liabilities from changes in life expectancy as shown in the table below.

	Early Action	Late Action	No Additional Action
Expected liability impact (%)	3.5%	-2.6%	-5.4%
Expected liability impact (£m)	£29m	-£22m	-£44m
Expected change to life expectancy for a 60 year old	+12 months	-8 months	-16 months

For each scenario, there are a mixture of factors with positive and negative impacts on life expectancy. In order to model possible outcomes for each of the scenario, the Scheme Actuary considered four pathways for future mortality, ranging from a very high improvement in longevity (+3% p.a.) to a substantial deterioration in longevity (-1% p.a.) and allocated a probability to each of the pathways under each scenario. Given the different ways that mortality can impact the Scheme’s liabilities, and the uncertainty over when these may occur, the Trustee has not sought to break down the liability impact over different time horizons.

The Trustee is not proposing to make any immediate changes to the funding strategy as a result of this analysis.



- The Scheme currently adopts a high level of interest rate and inflation hedging, which reduces funding level volatility due to transitional and physical risks. The Scheme therefore only marginally benefits from the projected rise in nominal and real gilt yields under the different scenarios (albeit to differing degrees).
- The exposure to risk seeking assets leads to outperformance over the discount rate but exposes the Scheme's expected funding path to higher volatility. For example, a sharp fall in equity and property markets and significant rise in credit spreads immediately post 2030 under the Late Action scenario contributes to a material fall in the funding level in 2031.
- Over the longer term, under the Early Action and Late Action climate change scenarios the Scheme's funding position is expected to be worse off (£40m to £123m respectively) but there is still a significant surplus. The No Additional Action scenario has a much larger negative impact on the Scheme's funding position (£306m worse off), with failure to deal with climate risks resulting in sustained underperformance from return seeking assets. However, there is still not expected to be a requirement for material deficit recovery contributions that could place a strain on the Sponsoring Employer, particularly given that the projections are based on the Scheme's self-sufficiency liability basis rather than Technical Provisions.
- Early Action is expected to lead to an increase in life expectancy and a resultant increase in liabilities (+£29m). In this scenario, the liability increase due to longevity improvements amplifies the projected loss due to the fall in asset values shown in the table above. The Late Action and No Additional Action scenarios would likely lead to a decrease in life expectancy and a resultant decrease in the value of the liabilities (-£22m and -£44m respectively). The fall in liabilities due to the deterioration in longevity partly offsets the losses on the Scheme's assets in these scenarios such that the reduction in funding level in the No Additional Action scenario is less severe. Further details on the impacts on life expectancy are included on the **previous page**.



In summary, the Scheme's investment portfolio is reasonably resilient under the climate change scenarios modelled. The Scheme has a low risk, well diversified investment strategy and aims to hedge 95% of its interest rate and inflation risk. This strategy provides a reasonable degree of protection against the potential impacts of climate change.

It is expected that the change in the portfolio from removing the synthetic global equities and increasing the buy and maintain credit allocation will have reduced the Scheme's modelled losses, particularly in the No Additional Action scenario over the longer 25 year time horizon. This is expected to have improved the resilience of the investment strategy in this most adverse climate scenario.

The Trustee is not proposing to make any immediate material changes to the investment strategy as a result of this analysis, recognising that whilst a useful tool to understand the potential impact under a range of climate scenarios, the analysis should be considered in a wider context. As part of the ongoing review of the investment strategy this scenario analysis will be one of the inputs into the decision-making process.

INTRODUCTION TO CLIMATE RISKS AND OPPORTUNITIES

The Trustee considers both the transition and physical risks and opportunities of climate change to be financially material considerations to the value of the Scheme’s investments.

Transition

Transition risks and opportunities are those that arise as a result of the transition towards a low carbon economy.

An example of this would be changes in policy and regulations such as national limits on emissions, carbon pricing, subsidies and tariffs that will offer different risks and opportunities to companies. Another example is the technological changes and developments needed to achieve decarbonisation. There is reputational risk for those businesses which lag behind the transition to a low carbon economy. Climate change may also result in shifts in demand resulting from evolving consumer preferences and behaviour.



Policy and legal risk



Liability risk



Technological risk



Demand-side risk

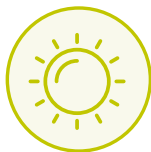
Physical risks

Changes in value of investments which are directly caused by changes in the climate, such as greenhouse emissions, pollution and land use.

The effects may be **chronic** (represents background incremental changes), such as global warming and sea level rise, or they may be **acute** events (severe and extreme events and location-specific), such as instances of extreme weather.



Flooding



Drought



Sea level rise



Heat



Extreme weather

CLIMATE RISKS IDENTIFIED

The Trustee has identified the following climate-related risks for the Scheme. The Trustee has also considered mitigation strategies for the risks with the aim of reducing the potential financial impact, the likelihood of occurrence or both.

Risk Type	Risk Description	Mitigation Strategy
Market impact and changing asset valuations (as a result of either transition or physical risks)	Abrupt/unexpected movements in gilt yields/valuations.	<ul style="list-style-type: none">▶ The Scheme holds assets to hedge the liabilities and so the overall financial impact of significant moves in yields would also largely be reflected in the liabilities.
	Significant fall in credit valuations.	<ul style="list-style-type: none">▶ Well diversified across sectors.▶ High quality credit.▶ Positions are actively managed and the investment manager considers climate risk alongside other investment criteria when selecting investments.▶ Manager actively engages on climate matters with boards of investee companies.
	Significant fall in alternative asset valuations (e.g. property, private debt).	<ul style="list-style-type: none">▶ Diversified across asset classes, geographies and sectors.▶ Portfolio managers increasingly considering climate risks as part of security selection.
Policy and legal risk	Additional reporting obligations and associated costs.	<ul style="list-style-type: none">▶ Costs relative to Scheme size for support with training, monitoring and disclosure are relatively small.
Market pricing risk	Risk of deterioration in strength of Sponsoring Employer covenant as a result of climate change	<ul style="list-style-type: none">▶ The Scheme currently does not rely on the Sponsoring Employer for deficit recovery contributions, given that the Scheme was in surplus on the Technical Provisions basis at the last Actuarial Valuation.▶ Sponsor has strategies in place to assess and monitor climate related risks to the business and has sustainability targets in place.
Market pricing, physical risks	Risk of rise in value of liabilities from changes in financial and/or demographic assumptions.	<ul style="list-style-type: none">▶ 95% of movements due to financial factors are hedged by asset portfolio.▶ Liability hedging benchmark updated regularly to reflect updates to demographic assumptions.

CLIMATE OPPORTUNITIES IDENTIFIED

The Trustee recognises that the transition to a low-carbon economy also brings investment opportunities. The Trustee has been reviewing the Scheme's investment strategy during 2024 and key inputs to this review have been climate risks and opportunities, including better aligning the portfolio with the Scheme's climate target outlined in the Metrics and Targets section of this report. For example, the Trustee is exploring opportunities to increase the level of integration of specific ESG factors (including climate) within the existing buy and maintain credit mandate.

The day-to-day management of the Scheme's assets is delegated to the investment managers. The Trustee expects the investment managers to consider the financially material impact that climate risks and opportunities may have on their respective mandates and the overall sustainability of the investment programme.



RISK MANAGEMENT

IDENTIFYING AND ASSESSING CLIMATE-RELATED RISKS

This section provides detail on the processes in place for identifying, assessing and managing climate-related risks in relation to the Scheme and how these processes are integrated within the Trustee's overall risk management of the Scheme.

Tools for identification of risks

Aside from the ongoing review and consideration of the risk register, the Trustee uses the following tools to aid its understanding of the key climate-related risks to the Scheme. Where it is appropriate to do so, the Trustee distinguishes between transition and physical risks, but more generally where climate-related risks are referred to, both transition and physical risks are included.

- Climate metrics – as set out in the final section of this report, the Trustee reviews the total greenhouse gas emissions, carbon footprint and science-based target alignment of the Scheme's investment portfolios to understand which assets are not aligned with the latest climate science data necessary to meet the goals of the Paris Agreement. The Trustee will monitor this trend over time to understand decarbonisation progress.
- Investment monitoring reports – the Trustee receives ongoing monitoring reports from investment managers and external advisers to make them aware of emerging risks and the steps being taken to manage these risks.

- Scenario analysis – the Trustee uses the results of scenario analysis to understand which asset classes are most sensitive to different climate change scenarios. The summary of this analysis was included in the Strategy section of the report.

Prioritisation of risks

The IRMC reviews the risk register holistically and prioritises the risks to the Scheme based on likelihood and financial impact metrics.

The assessment of climate-related risks has not impacted the Scheme's prioritisation and management of risks for the Scheme, with climate change considered to be a relatively low risk relative to others faced by the Scheme given the low risk investment strategy, strong funding position and current lack of reliance on the Sponsoring Employer.

MANAGING CLIMATE-RELATED RISKS

Ways in which the Trustee manages the identified climate-related risks in the Scheme are:

Investment strategy

Based on the results of the climate scenario analysis the Trustee believes that the Scheme's funding position is reasonably resilient against the climate change scenarios projected over 5, 10 and 25 year time horizons. The Scheme has a low risk, well diversified investment strategy and uses over half of the Scheme's assets to hedge interest rate and inflation risk, which provides a reasonable degree of protection against the potential impacts of climate change. However, the Trustee recognises that climate risk is systemic and cannot be addressed through diversification alone. The Trustee will continue to try and identify investment opportunities brought about by the transition to a low carbon economy.

Investment Manager Mandates

The Trustee's policy is that climate-related financial risks and opportunities should be considered by the investment managers when selecting, retaining and realising investments. The Trustee has also adopted an exclusions list that restricts investment in certain assets where the Trustee believes there is a financial risk associated with these investments from the transition towards a carbon neutral economy. More information on these policies is set out in the Statement of Investment Principles (SIP) and Responsible Investment Policy. The Scheme's compliance with the SIP is reviewed annually in the Scheme's Implementation Statement. Prior to appointing a new investment manager, the Trustee will assess the extent to which the manager incorporates ESG factors, including climate change, within their investment process.

Stewardship

Engagement and shareholder voting are an integral part of the Scheme's approach to managing climate risk and the Trustee believes that climate risk management can be meaningfully improved through focussed stewardship activities by investors.

The Scheme's stewardship and engagement policies within the Statement of Investment Principles reflect the Scheme's strategy to engage with its investee companies and other key stakeholders. The Trustee aims to protect and increase shareholder value by engaging on a range of financially material ESG investment factors, including climate change. The Trustee delegates the responsibility for voting and engagement to its investment managers and expects the managers to be actively engaging on their behalf to influence decarbonisation plans. The Trustee also ensures that the investment managers' stewardship and active engagement policies are aligned to their own. The Trustee reports on the Scheme's voting and engagement activities publicly through its annual Implementation Statement.

INTEGRATION INTO OVERALL RISK MANAGEMENT

Governance approach to integrating climate-related risks

The Trustee has a well developed governance framework for managing risks across the Scheme, with clear roles and responsibilities. This is outlined in the Governance section of the report. In summary, the IRMC is responsible for oversight of all financially material risks, including identifying, assessing and managing climate-related risks and opportunities. The ESGC is responsible for overseeing compliance with the climate-related governance and disclosure requirements.

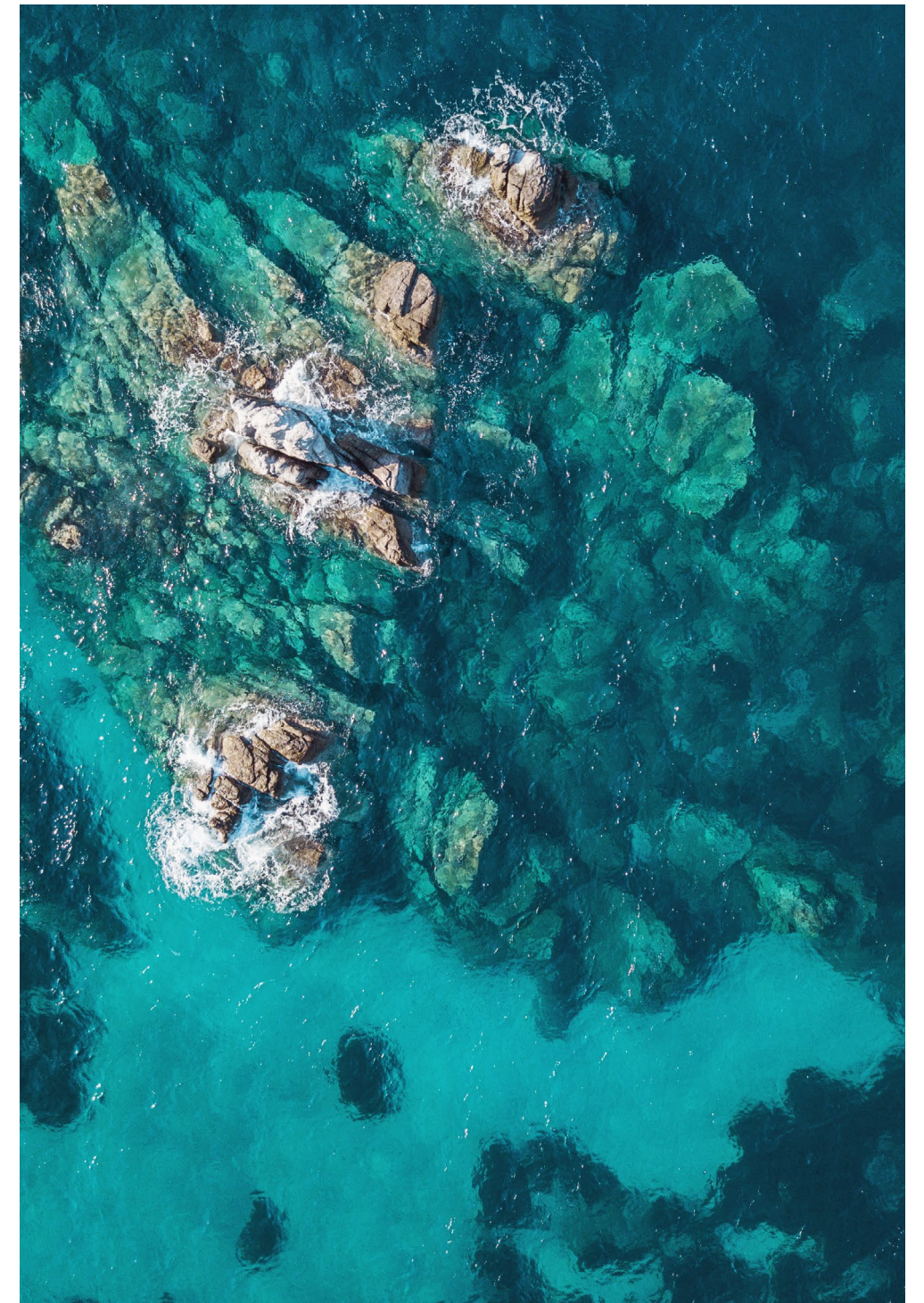
The Trustee records the climate-related risks in a section of the Scheme's risk register. The Trustee manages climate risk in different ways according to the nature, duration, magnitude and time-horizon of the risk exposure. Similar to the Scheme's other risks, the Trustee assesses the likelihood and financial impact of each of these risks and prioritises those with the most significant potential loss and that are most likely to occur, after allowing for mitigation measures.

Each risk has also been given an 'ownership' allocation which details the committee that the risk is applicable to and where it will be discussed, recognising that the Trustee has ultimate responsibility for reviewing the risk register. At each quarterly IRMC meeting a deep dive review of two risks from the risk register is undertaken.

Investment approach to integrating climate-related risks

The Trustee has undertaken climate scenario analysis to assess the impact of climate risk on the Scheme's investment and funding strategies. The Trustee has not sought to make immediate changes to the Scheme's investment strategy based solely on the results of this scenario analysis. However, as part of any future investment strategy work and consideration of climate risk, the conclusions drawn from the scenario analysis will be a key input into the decision making process.

Furthermore, as part of any investment manager selection exercises, the Trustee will assess the manager's stewardship capabilities and the extent to which the manager incorporates ESG factors, including climate change, within their investment process. These factors will be given the appropriate weighting as part of the decision making process, alongside other factors.



METRICS & TARGETS

INTRODUCTION

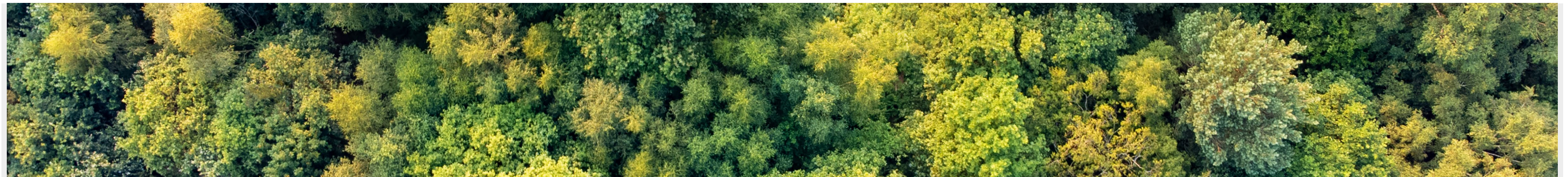
The Trustee reviews and monitors climate-related metrics for the Scheme's investment portfolio. These metrics help inform the Trustee as to which areas of the Scheme's asset portfolio are most carbon intensive and at the greatest risk of financial impairment due to the transition to a net-zero economy.

This can contribute directly into the investment strategy and risk management processes where these are deemed to be financially material. The Trustee intends to use this analysis to feed into the investment decision making process over time and to monitor progress against targets.

To enable meaningful change towards tackling climate change, a clear picture of the current position of the Scheme's investments and their corresponding Greenhouse Gas ('GHG') emissions is needed. Greenhouse gases are gases that trap heat in the atmosphere and the absolute measure of contribution to climate change is captured by

total GHG emissions. The emissions measured are the seven gases mandated under the Kyoto Protocol, converted to and expressed as carbon dioxide equivalents (CO₂ e). These gases include carbon dioxide (CO₂), methane (CH₄), and nitrous oxide (N₂O).

The Trustee has calculated the following metrics for the Scheme based on data provided by the Scheme's investment managers. The Trustee expects the quality of data to improve over time.



1. **Absolute Emissions Metric:** the total GHG emissions related to the investments of the Scheme. This year the Trustee has reported Scope 1, Scope 2 and Scope 3 emissions, where the data is available from the Scheme's investment managers.
2. **Emissions Intensity Metric:** the carbon footprint of the Scheme, which is the total GHG emissions per £m invested. It highlights the most carbon intensive assets per £m invested.
3. **Portfolio Alignment Metric:** the alignment of the Scheme's assets with the climate change goal of limiting the increase in global average temperature to 1.5°C above pre-industrial levels.
4. **Data Quality:** the additional metric that the Trustee has chosen to monitor is the proportion of the portfolio for which high quality data is available.

Further information on data coverage, exclusions and any assumptions made are explained in the **following pages**

Total GHG is the recommended Absolute Emissions Metric that should be broken down into:

- ▶ **'Scope 1'** - direct emissions from the activities of an organisation or under its control
- ▶ **'Scope 2'** - indirect emissions, for example from electricity purchased; and
- ▶ **'Scope 3'** - indirect emissions from activities of the organisation which occur from sources that the organisation does not directly control, for example disposal of the products it sells.



ABSOLUTE EMISSIONS AND EMISSIONS INTENSITY METRICS

A summary of the available data for the Scheme's Absolute Emissions (including Scope 3) and Emissions Intensity metrics is included in the table below. The Trustee assessed these metrics as far as it was able to based on the Scheme's asset portfolio breakdown as at 31 December 2023.

Asset Class / Fund	Absolute Emissions Metric				Emissions Intensity Metric		Data coverage (%)*	Invested Amount (31 Dec 23) %	Data as at
	GHG Emissions (tonnesof CO ₂ e)				GHG Emissions per £m invested (Scope 1 & 2)	GHG Emissions per £m invested (Scope 3)			
	Scope 1	Scope 2	Scope 3	Total					
Gilts and index-linked gilts	20,943.0		-	20,943.0	82.2		100%	33.4	Dec 23
Money Markets	152.8		10,581.0	10,733.8	1.0	100.9	53%	19.5	Dec 23
Buy and Maintain Credit	11,930.0		69,103.0	80,943.0	95.1	558.1	73%	16.5	Dec 23
High Yield Credit	1,367.0		85,158.0	86,525.0	61.7	4,029.6	45%	2.9	Dec 23
Emerging Market Debt	18,391.0		8,742.1	27,133.1	1,109.7	984.7	85%	2.8	Dec 23
Infrastructure Debt	16,797.4		227.8	17,025.2	545.4	7.4	100%	4.1	Dec 22
Core Property	10.4		163.1	173.5.0	0.9	14.2	79%	1.5	Dec 22
Life-Linked Insurance	0.0		0,0	0.10	0.0	0.0	100%	3.5	Dec 23
Real Estate Debt	383.0		-	383.0	8.7		97%	5.8	Sep 23
Long Lease Property	27.0		156.0	183.0	1.0	100.9	4%	3.4	Dec 23
Multi-Asset Private Debt	1,168.7		-	1,168.7	50.3		89%	3.9	Dec 22
TOTAL	71,170.4		174,041.0	245,211.5	95.9	234.6	78%	97.3	
Excluded from analysis	2.7% of Scheme assets including derivatives, cash holdings and catastrophe insurance.								

*Note that coverage varies by emission scopes. More detail is included covered by the Data Quality metric.

The majority of the Scheme's total GHG emissions, which now includes scope 3 emissions, can be attributed to the high yield credit, buy and maintain and emerging market debt holdings. It is clear from the GHG emissions per £m investment column that the emerging market debt and the infrastructure debt mandates are the most carbon-intensive investments held by the Scheme, when considering Scope 1 & 2 emissions. We note that as part of the ongoing investment strategy, the Scheme has fully divested from the emerging market debt mandate during 2024. The Trustee will monitor future trends in these metrics and consider analysis based on future decarbonisation plans to aid decision-making on climate-related risks.

PORTFOLIO ALIGNMENT METRIC

Portfolio alignment metrics can provide a clearer picture of a portfolio's climate risks, as these metrics take into account a company's plans to reduce future emissions, which contrasts with the other metrics disclosed that are based on historical emissions.

Portfolio alignment metrics also have a role to play in the target setting process as they can provide input on what needs to be done to align a portfolio with the goals of the Paris Agreement.

To transition to a net-zero economy, the greatest financing will ultimately be required in the highest emitting sectors and companies, with capital required to decarbonise certain practices. Investors therefore have to ensure that capital is allocated towards businesses that are aligned with the transition to net zero and re-directed away from those that are not.



SBT Alignment

The Trustee reports a binary target measurement for the Scheme's Portfolio Alignment Metric. This measures the percentage of the Scheme's investments with science-based targets ('SBTs') for reducing GHG emissions. Emissions reductions targets are considered science-based if they are aligned with the latest climate science data necessary to meet the goals of the Paris Agreement, limiting global warming to well below 2°C above pre-industrial levels. The table overleaf shows the proportion of the Scheme's investments that have net zero targets, either by signing up to the Paris Agreement or having declared a net-zero emissions target by 2050 or earlier.

Implied Temperature Rise

The Trustee also reports on the Implied Temperature Rise of the portfolio as an additional Portfolio Alignment Metric, where data is available. The Trustee recognises that reporting on Implied Temperature Rise continues to develop across the industry and expects to include data for more of the Scheme's mandates in future reports.

Implied Temperature Rise models project forward a company's future emissions and calculate the difference compared to their allocated carbon budget if the goals of the Paris Agreement were to be met. The extent to which the company exceeds or is under its allocated carbon budget is translated into a temperature rise. For example, if a company was given a score of 2.5°C, that would indicate that the company is exceeding its fair share of the global carbon budget. If every company exceeded its fair share by a similar proportion, it would lead to a warming scenario of approximately 2.5°C.

Asset Class / Fund	SBT alignment	Implied Temperature Rise
Buy and Maintain Credit	52%	2.5°C
High Yield Credit	24%	2.4°C
Emerging Market Debt	44%	Not reported
Infrastructure Debt	17%	2.7°C
Core Property	100%	Not reported
Life-linked Insurance	0%	Not reported
Real Estate Debt	0%	Not reported
Long Lease Property	1%	2.5°C
Total	29%	-
Not reported	Multi-asset private debt, derivatives, catastrophe insurance (c. 6.6% of total Scheme assets) along with cash and hedging assets (c. 52.9% of assets). Where SBT alignment has not been reported, the holdings are assumed to have 0% alignment with SBTs.	

In line with the guidance from the Institutional Group on Climate Change (IIGCC) Net Zero Investment Framework (NZIF), the Scheme's hedging and cash assets have not been included in the calculation of portfolio SBT alignment.



ADDITIONAL CLIMATE CHANGE METRIC: DATA QUALITY

The Trustee also reports on the proportion of the portfolio for which high-quality data is available.

The Trustee acknowledges that emissions data quality and coverage varies across asset classes and the underlying companies and that reporting methodologies for certain asset classes have not been finalised. We have reported emissions data for each investment as far as we are able. The data has been collected from the Scheme's investment managers and is reported using four categories:

- Emissions reported by companies and verified by third parties (the highest quality).
- Emissions reported by companies but not verified.
- Emissions estimated by the investment manager. For example, within the infrastructure debt portfolio the emissions associated with an energy-from-waste ('EFW') asset have been estimated based on the emissions from the manager's other EFW assets.
- Data unavailable.

Based on the data provided by the investment managers, the Trustee has been able to report Scope 1 and 2 GHG Emissions and GHG Emissions per £m invested for 78% of the Scheme's total assets as at 31 December 2023. The Trustee has been able to report Scope 3 GHG Emissions and GHG Emissions per £m invested for 32% of the Scheme's total assets as at 31 December 2023. Where emissions data for an asset class as a whole has not been reported, the reason for the exclusion and the steps being taken to address the omission is included on the **next page**. For the avoidance of doubt, for mandates where data coverage is less than 100% the Trustee has not sought

to use other methods to estimate the missing data. The majority of the Scheme's assets (c. 81% as at 31 December 2023) are managed by a single investment manager and that manager does not make use of estimation techniques. A breakdown of the level of data coverage for each asset class is included in the table on **page 24**.

Asset class / Fund	Proportion of data quality	
	Scope 1 & 2	Scope 3
Verified reported emissions	3%	3%
Unverified reported emissions	65%	16%
Estimated by investment manager	10%	13%
Not reported	22%	68%

The Trustee expects investment managers to encourage investee companies to have their emissions verified to ensure that emissions data is of the highest quality. At present, it is not possible for most investment managers to disclose the proportion of reported emissions that have been verified. Where this is the case, it has been assumed that the reported emissions are unverified. Compared to last year, the proportion of verified reported emissions has decreased. As industry standards have developed, a more prudent approach to data quality classification has arisen and as such some investment managers have adopted a higher standard for classing data as verified. Where not explicitly confirmed as verified, emissions have been categorised as unverified. Therefore a proportion of the emissions categorised as verified reported emissions last year have been categorised as unverified this year. The Trustee has tasked the investment adviser with engaging with the investment managers to ensure that they improve their reporting in this regard throughout the Scheme year, which should result in the proportion of verified reported emissions increasing. More generally, the Trustee expects that data coverage and quality will increase over time as reporting on emissions improves and methodologies for currently unreported asset classes are agreed.

Exclusions and steps being taken to address them

Emissions for the following asset classes have not been reported by the Trustee for the period to 31 December 2023. The Trustee will work with its investment adviser and investment managers throughout the Scheme year to develop estimates for this data in future periods.

Derivatives

Given the lack of a developed estimation methodology, these positions have been excluded.

Cash

Residual cash to be distributed from mandates that the Trustee has liquidated have been excluded from the analysis due to the short-term nature of the holdings and the assumption that there are no GHG emissions associated with them.

Catastrophe insurance

Given the lack of developed estimation methodology, these positions have been excluded. Furthermore, the Trustee has instructed the liquidation of this mandate and the holding will gradually reduce over the Scheme year.



TARGETS TO MANAGE CLIMATE-RELATED RISKS

The Trustee supports the Paris Agreement and the goal of the transition to a net-zero emissions economy by 2050.

Portfolio Alignment Metrics are forward looking and take into account a company's plans to reduce future emissions. To transition to a net-zero economy, the greatest financing will ultimately be required in the highest emitting sectors and companies, with capital required to decarbonise certain practices. Investors therefore have to ensure that capital is allocated towards businesses that are aligned with the transition to net zero and re-directed away from those that are not.

Last year the Trustee set the target of 100% of the Scheme's applicable portfolio being aligned with SBTs by 2040. Setting this target will help ensure that the Scheme's assets are invested in businesses with suitable decarbonisation plans in place for achieving net-zero emissions by 2050.

The Trustee considers the suitability of this target for the Scheme on an annual basis.

The Trustee also set an aim of reaching 56% SBT alignment on the applicable portfolio by 2030, which was set by using a linear scaling up each year to reach 100% alignment by 2040.

The proportion of Scheme assets aligned with SBTs increased from 21% to 29% over the year. Based on the linear scaling up from the 21% alignment in 2022, to meet the secondary aim, the Scheme would need to have 25.4% alignment by 2023. This has been achieved and the Scheme is broadly on track to meet the aim of 56% alignment by 2030.

The Trustee uses the year the target was set, 2022, as the baseline for which future progress against the target will be monitored. Data gathered from the investment managers was used to set this baseline. Data coverage for SBT alignment is also an important consideration for achieving the set targets and therefore this is also tracked over time.

The Trustee intends to continue to work with the Scheme's investment managers to engage with investee companies and encourage them to adopt SBTs. The Trustee recognises that its ability to directly influence investee companies to adopt SBTs is limited and that there is a reliance on the investment managers to engage on the Trustee's behalf. In addition, as part of the ongoing investment strategy review the Trustee is considering opportunities that would improve the alignment of the Scheme's portfolio with the climate target set.

