CLIMATE-RELATED DISCLOSURE REPORT

Citigroup Global Markets Limited Pension and Life Assurance Scheme (the Scheme)

A report for members by the Trustee of the Scheme for the period 6 April 2024 to 5 April 2025

INTRODUCTION

Overview

This Climate Report has been prepared by the Trustee of the Scheme to comply with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the Climate Regulations).

The Climate Regulations introduced requirements relating to the Trustee's governance and disclosure of climate-related risks and opportunities and are based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. The TCFD was set up in 2015 by the Financial Stability Board (an international body promoting financial stability) to improve climate-related financial disclosures.

This Climate Report explains how the Trustee has established and maintained oversight and processes to satisfy itself that the Scheme's relevant climate-related risks and opportunities are identified, assessed and managed appropriately during the period 6 April 2024 to 5 April 2025 (the "Scheme Year").

A summary of the Climate Report is included below to help members to understand the key findings. A more detailed report then follows, split into four sections:

Section 1: **Governance** - The Trustee's governance around climate-related risks and opportunities

Section 2: **Strategy and scenario analysis** - The actual and potential impacts of climate-related risks and opportunities on the Trustee's investment and funding strategy

Section 3: **Risk Management** - The processes used by the Trustee to identify, assess and manage climate-related risks in relation to the Scheme

Section 4: **Metrics and Targets** - The metrics and targets used to assess and manage relevant climate-related risks and opportunities

These sections address the specific disclosure requirements in the Climate Regulations and have regard to the DWP's statutory guidance for trustees of occupational schemes on the governance and reporting of climate change risk (the "Statutory Guidance"). This Climate Report has also been prepared having regard to TPR's guidance on the governance and reporting of climate-related risks and opportunities, TPR's feedback to industry from their 2023 and 2024 reviews of occupational pension scheme TCFD reports and the DWP's guidance on stewardship.

Application of the Climate Regulations and Statutory Guidance to the Scheme

The Scheme is a hybrid scheme with a defined benefit (DB) Section and a defined contribution (DC) Section. This Climate Report covers both the DB Section and DC Section within the Scheme. As at 5 April 2024 the DB Section had £947.8m in net assets (total investments figure is £946.8m) and the DC Section had £325.4m in net assets (total investments figure is £318.3m). The DB Section assets are primarily invested in corporate bonds and gilts (through a liability driven investment portfolio) and the DC Section assets are invested in a range of lifestyle strategies and self-select funds held on a platform via a unit linked insurance policy.

In respect of DB assets and liabilities, the requirements relating to strategy and scenario analysis and metrics in the Climate Regulations relate to each DB 'section' within a scheme. The Scheme only has one DB 'section' for these purposes.

In respect of DC assets, the requirements relating to strategy and scenario analysis and metrics relate to each 'popular arrangement' offered by a scheme. A popular arrangement is considered to be one in which £100m or more of the scheme's assets are invested, or which accounts for 10% or more of the assets used to provide money purchase benefits (excluding assets which are solely attributable to additional voluntary contributions). The main default arrangement in the Scheme – the Drawdown Lifestyle Strategy - is considered its only 'popular arrangement' for these purposes.

This is the third Climate Report published by the Trustee of the Scheme. We hope you find it informative and welcome any feedback.

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This Climate Report is being published alongside the Scheme's annual report and accounts for the Scheme Year and is available online here: https://epa.towerswatson.com/accounts/citi/public/ifa-resource/

KEY MESSAGES

1. The Trustee decided to carry out new scenario analysis during the Scheme Year, which was undertaken in October 2024.
2. For the purposes of the scenario analysis, the Trustee decided to adopt the same overarching temperature-based climate scenarios for both the DB and DC scenario analysis for consistency and improved comparability across the DB and DC Sections of the Scheme.
3. The Trustee decided to retain its existing climate change metrics and targets.
4. The Scheme has continued to make progress towards its chosen targets across the DB Section and the DC Section.
5. The metrics that the Trustee is able to report on are still constrained by the data that investment managers can provide. As investment managers continue to adapt to the TCFD requirements, more consistent and reliable data is likely to become available. Appendix 4 sets out further information on the current issues with climate data.

For the DB Section:

- The revised scenario analysis continues to indicate (noting the limitations set out in this Climate Report) that the Scheme's DB investment strategy appears to be resilient to various climate change outcomes in the climate scenarios modelled.
- The Trustee continues to consider the impact of climate change on Citi's covenant is likely to be low, cognisant of the Scheme's current funding level and the strength of the employer covenant.
- The Trustee has concluded that the impact of climate risk is unlikely to be significant enough to create a funding deficit that could not be supported by the covenant. As such, the Trustee has concluded that climate-related risks and opportunities are unlikely to impact the Scheme's overall funding and investment strategy significantly.
- The metrics show that the absolute emissions of the DB Section have decreased by c.14% over the Scheme Year and the total carbon footprint has decreased by c.16%. These moves were largely driven by a shift in the sectors which the funds allocate to as there was a notable shift to lower emitting sectors over the year.

For the DC Section:

- The revised scenario analysis continues to indicate (again, noting the limitations set out in this Climate Report) Scheme members will be subject to climate-related risks to varying degrees, with younger members seeing the biggest potential detrimental impact to their benefits.
- The metrics demonstrate that that the DC Section's DGF equity allocation is the most exposed of any asset class in the 'popular arrangement' to climate-related risks. This reflects the member demographics of the Scheme with a significant proportion of members in the approach to retirement whereby the strategy begins de-risking and having greater exposure to lower volatile assets in the form of a DGF. This marks a change from previous years as a result of two factors:
    a. the switch from standard passive regional equity funds to low carbon alternatives in October 2023 which has reduced carbon emissions in respect of the regional equity funds; and
    b. the consolidation of the DGF allocation for the Drawdown Lifestyle Strategy into the L&G Diversified Fund, which primarily holds assets directly (meaning it is able to report on the climate impact of the majority of its holdings). Previously the Drawdown Lifestyle Strategy also allocated to another DGF, BlackRock Market Advantage Fund which artificially reduced the overall emissions profile of the DGF allocation as it invested via a significant amount of derivatives, for which the data was unavailable.

SUMMARY

The Trustee believes that climate change may represent a material financial risk to the Scheme's investments but recognises that the level of risk and the approach required is likely to differ between the DB and DC arrangements in the Scheme due to the different characteristics of each.

Governance

The Trustee maintains appropriate internal controls and processes to ensure adequate oversight of climate-related risks and opportunities. These include:

- Maintaining a climate working group which serves as a focus group in relation to the detail of the Climate Regulations and Statutory Guidance and the wider consideration of climate-related risks and opportunities in relation to the Scheme.
- Ensuring the Scheme's investment advisers can demonstrate adequate climate-related expertise and consider climate-related risks and opportunities as part of their advice to the Trustee through ensuring environmental, social and governance (ESG) is incorporated into their objectives on which they are annually assessed.
- Ensuring investment managers have appropriate skills and processes to take account of climate change risks and opportunities through the Scheme's investment advisers incorporating their assessment of the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement in their advice on the selection and ongoing review of the investment managers.
- Ensuring the DC investment managers are fully aware of the Trustee's stewardship priorities, one of which is climate change.

Metrics and targets

The Trustee decided to retain its existing climate change metrics and targets (set out below), which were adopted by the Trustee during the Scheme year to 5 April 2023, to ensure consistency of reporting over the medium-term and to enable the Trustee to assess progress against these selected metrics.

Metrics

Metric	Selected
Absolute emissions	Total GHG emissions of Scheme assets.
Emissions intensity	Carbon footprint, (this shows the total GHG emissions per unit of currency invested by the Scheme).
Portfolio alignment	% of portfolio with Science-Based Targets (SBT) (this captures the percentage of portfolio companies which have set a voluntary decarbonisation target using a science-based methodology)
Additional metric	Data coverage (calculating the % of the portfolio for which data is available). The Trustee believes this metric provides a useful "confidence indicator" in the accuracy of data available and is a useful tool in its efforts to manage climate risk by providing a basis for investors to encourage improvements in the quality of climate-related reporting that is available.

Targets (DB Section)

Metric	Target
Data coverage (calculating the % of the portfolio for which data is available).	The Trustee has agreed that by 31 March 2027, 95% of the holdings in the portfolio should have climate-related data available.
Portfolio Alignment	The Trustee has agreed that by 31 March 2032, 80% of the DB Section's portfolio financed emissions should have science-based Net Zero targets (as currently measured by the SBT metric).

Targets (DC Section)

Metric	Target
Data coverage (calculating the % of the portfolio for which data is available).	The Trustee has agreed that by 31 March 2027, 100% of the equity holdings and 95% of the corporate bond and DGF holdings in the portfolio should have climate-related data available.
Portfolio Alignment	The Trustee has agreed that by 31 March 2032, 80% of the DC Section's portfolio financed emissions should have science-based Net Zero targets (as currently measured by the SBT metric).

Metrics were calculated in respect of both the DB Section and the DC Section during the Scheme Year. This is reported in further detail in Section 4 of this Climate Report where an update on the performance against the targets is also provided.

Conclusions (DB Section)	Conclusions (DC Section)
The metrics show that the absolute emissions of the DB Section have decreased by c.14% over the Scheme Year and the total carbon footprint has decreased by c.16%. These moves were largely driven by a shift in the sectors which the funds allocate to as there was a notable shift to lower emitting sectors over the year. The Scheme has made progress against both its targets, demonstrating a 3.2% improvement in data coverage, and a 2.7% improvement in the SBT metric over the Scheme Year. The Trustee notes that whilst there is data coverage across the majority of its corporate bond holdings, both the quality and reliability of this data continue to impact the Trustee's ability to assess climate-related risk and is an area which the Trustee continues to seek improvements in from its investment managers.	Analysis of the updated climate-related metrics during the Scheme Year demonstrated that the DC Section's DGF allocation in the Drawdown Lifestyle Strategy (taken in its entirety) is the most exposed of any asset class in the 'popular arrangements' to climate-related risks. This marks a change from previous years and reflects the switch from standard passive regional equity funds to low carbon alternatives in October 2023 and the consolidation of the DGF allocation into the L&G Diversified Fund which primarily holds assets directly (meaning it is able to report on the climate impact of the majority of its holdings). The emissions data coverage for the equity funds is high and has improved compared with last year following the investment changes implemented in the Drawdown Lifestyle Strategy (October 2023). Data coverage for the Scheme's DGF allocation has also improved as a result of the strategy changes made by the Trustee. The proportion of each portfolio invested in companies with science-based targets remains low, though did improve over the Scheme Year in all asset classes for which it is reported (i.e. equities, DGF, and corporate bonds). Notably, the Trustee's expectation that the proportion of the equity portfolio with science-based targets would increase due to the replacement of the strategic equity allocations with low carbon equivalents has been borne out in practice. The Scheme made progress towards its targets across both selected metrics (i.e. data coverage and portfolio alignment) and in all asset classes over the course of the Scheme Year. This progress was underpinned by the

	investment strategy changes implemented in October 2023, specifically in relation to the equity and DGF allocations.

Assessment of climate-related risks and opportunities, and scenario analysis

The Trustee has considered the type of climate-related risks the Scheme could be exposed to (i.e. 'physical' and 'transition' risks over short, medium and long-term time horizons) and what climate change opportunities may look like.

The Trustee has identified and assessed the key risks and opportunities through a number of tools including risk registers, climate-related risks and opportunities dashboards and analysis of the climate metrics calculated during the Scheme Year (see above).

The Trustee wishes to note that poor data coverage continues to impact the Trustee's ability to assess climate-related risk and is an area the Trustee continues to seek improvements in from its investment managers.

In addition, the Trustee decided to undertake revised climate scenario analysis during the Scheme Year to help it assess the resilience of the Scheme's investment and funding strategy and the forward looking risks to members.

For the purposes of the revised scenario analysis, the Trustee decided to adopt three high-level climate scenarios based on different temperature rises across both the DB and DC Sections of the Scheme (as set out in the table below). Further details on these are set out in Section 2 of this Climate Report.

Scenario #	Description
Scenario 1	1.5°C to 2°C temperature rise by 2100
Scenario 2	3°C temperature rise by 2100
Scenario 3	Temperature rise of 4°C or greater by 2100

Conclusions (DB Section)	Conclusions (DC Section)
Due to the high funding level of the DB Section, the Trustee has adopted an investment strategy with a relatively low risk-return profile to meet its strategic objectives. As a credit investor, relevant climate-related risks are ones which would lead to downgrade or default on the Scheme's bond holdings prior to their maturity. Transition risks are likely to be most relevant given the maturity profile of the bonds, but for some medium and longer-dated bonds physical risks may become more significant. The Trustee has also identified the impact of climate on longevity as a risk, given the Trustee does not hedge its longevity risk. Whilst it is very difficult to accurately predict the impact on longevity of climate change due to the wide range of risks and the complex interactions between these risks, some scenario analysis for this risk has been performed. This indicates that mortality changes arising from the direct and indirect impact of climate change are not currently expected to have a material impact on the funding strategy, but the Trustee will keep this under review. The Trustee considers the impact of climate change on Citi's covenant is likely to be low, cognisant of the Scheme's current funding level and the strength of the employer covenant. Based on the climate scenarios modelled, the Scheme's DB investment strategy appears to be resilient to the various climate change outcomes. However, the Trustee acknowledges the growing scrutiny of current climate scenario analysis models, which has revealed that current methodologies may not accurately reflect the total threat climate change poses to the planet and society.	For members invested in the DC Section, climate-related risks are driven by the equity and DGF allocations used in the Scheme's 'popular arrangement' – the Drawdown Lifestyle Strategy. This is a significant risk, as the blended funds used in the Drawdown Lifestyle during the Scheme Year (the Growth Fund and Pre-Retirement Fund) use a high proportion of equity-based assets. Given the age profile of the DC Section of the Scheme (median age of 54, with a range of members between 41 and 76), the Trustee believes climate change transition risks to be the most significant to the Scheme, though younger members who choose to remain invested beyond their target retirement age may be exposed to the impact of physical risks on financial markets, which would be most severe if Net Zero is not reached by 2050. Older members (e.g. those around 5 years from retirement) will be most exposed to climate transition risks, in particular if Net Zero is achieved by 2050 but financial markets are slower to react, and then react abruptly, such that they could see the value of their DC pot fall significantly and potentially impact their retirement plans. Members more than 5 years away from retirement will also be exposed to volatility related to heightened transition risks over the medium-term. Deferred members of the Scheme's DC section are more at risk from the impact of climate change on financial markets than active members, due to the fact that they are no longer contributing to the Scheme and therefore do not benefit from the effect of 'pound cost averaging' over market cycles. This is particularly relevant to the Scheme as only 4% of members in the DC section are active.

DB Section (cont.) Consequently, the analysis currently has limited reliability and usefulness as a decision-making tool. Therefore, the Trustee does not rely solely on this analysis to inform its strategic decision-making but is aware that the analysis helps to highlight that climate change risks do exist. Despite these limitations, the Trustee has concluded that the impact of climate risk is unlikely to be significant enough to create a funding deficit that could not be supported by the covenant. As such, the Trustee has concluded that climate-related risks and opportunities are unlikely to impact the Scheme's overall funding and investment strategy significantly.	

Management of climate change risks

DB section	DC Section
In the DB Section, the Trustee manages the climate change risks to which it is exposed by investing in a diversified pool of high-quality credit assets. As the Trustee has adopted an investment strategy with a relatively low risk-return profile, the Trustee decided it wasn't necessary at this stage to actively consider higher-return investment opportunities arising from climate change and as such no significant investment strategy changes were deemed necessary a result of climate change considerations. Stewardship is also used as a risk management tool. In relation to the DB Section, the Trustee expects all its investment managers to practice good stewardship and to exercise influence wherever possible. As the DB Section assets are fixed income in nature, there are typically no voting rights attached to the investments. Given the low-risk nature of the portfolio, the Trustee's focus is on ensuring it understands residual climate-related risks and the ways in which the managers are engaging with the investee companies to manage these risks to minimise the risk of downgrades or defaults. The Trustee discussed these topics with two of the Scheme's investment managers, Wellington and MetLife, over the Scheme Year as part of a recurring manager meeting cycle.	In the DC Section, during 2023 the Trustee replaced the regional passive equity funds used in the Drawdown Lifestyle Strategy with climate-tilted alternatives as these funds benefit from a clear decarbonisation pathway that decreases exposure to stocks exposed to climate transition risk and increases exposure to those with green revenues. The impact of these changes is discussed further later in this Climate Report. Stewardship is also used as a risk management tool. The Trustee has delegated to its investment managers the exercise of rights and engagement activities in relation to investments, as well as seeking to appoint managers that have strong stewardship policies and processes. In relation to the DC Section, the Trustee has selected climate change as one of its stewardship priorities. The Trustee has agreed that it will engage with investment managers to ensure they are exercising stewardship in support of alignment with Paris Agreement goals and discuss its targets with them.

Signed: 

Date: 30/09/2025

Chair of the Trustee

Section 1: Governance

This section describes the internal processes and controls that are in place to ensure adequate oversight of climate-related risks and opportunities. This includes the Trustee's approach to knowledge and understanding and the roles and responsibilities of the parties involved.

1. The Trustee's role

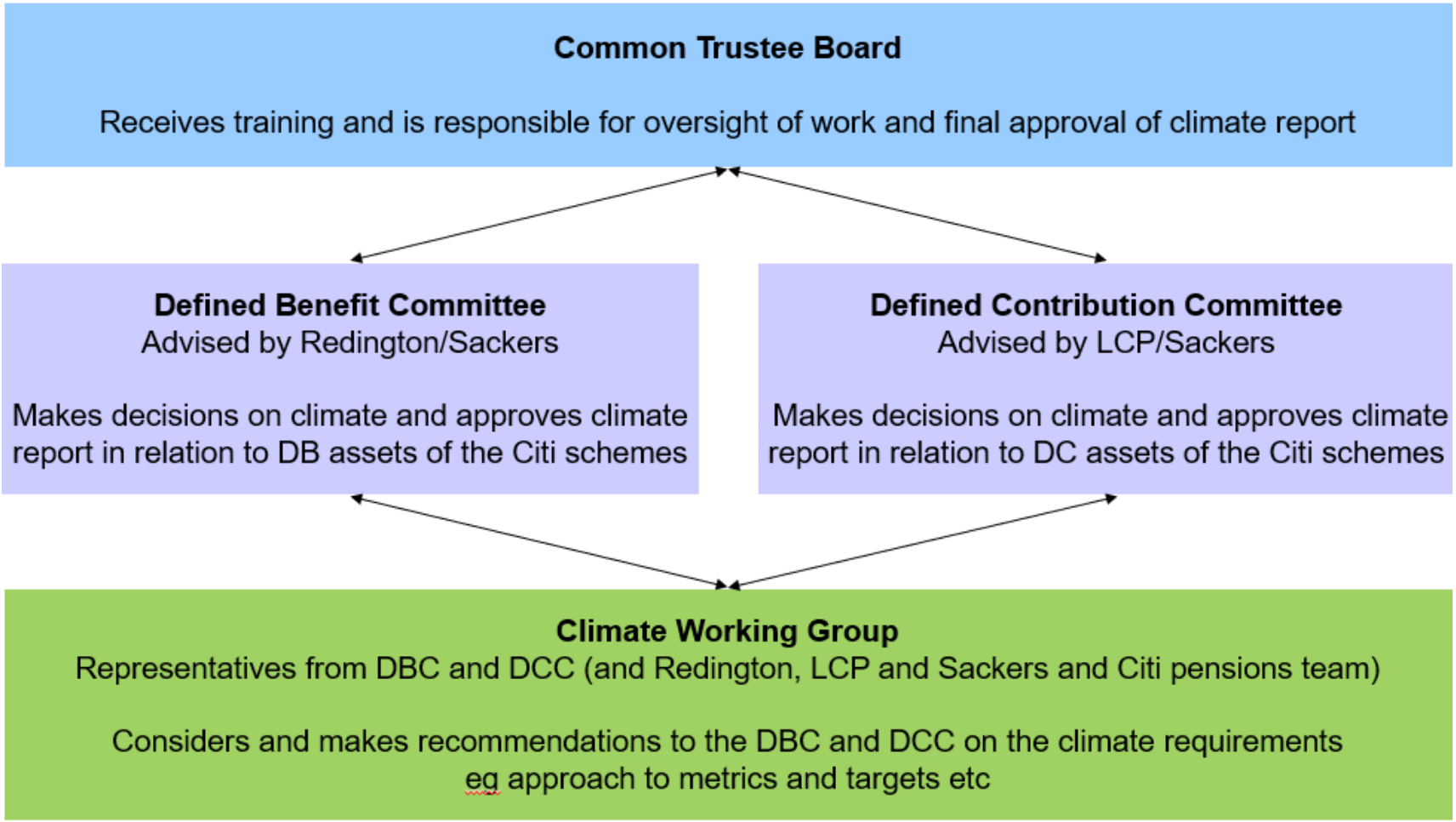
Investment beliefs on climate change

As stated in its most recent Statements of Investment Principles for the Scheme, the Trustee believes that:

DB Section	DC Section
"…. environmental, social and governance factors (including but not limited to climate risk) will be financially material over the time horizon of the Scheme but will have varying levels of importance for different types of assets invested by the Scheme… *…. The Trustee does not factor non-financial decisions (such as ethical or moral beliefs) into their investment decision-making, nor do they appoint asset managers that consider these factors."*	*"Environmental, social and corporate governance (ESG) factors are sources of risk to the Scheme's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks investment options that address these risks and to appoint investment managers who will manage these risks appropriately on their behalf where permissible within applicable guidelines and restrictions….* *…. The Trustee does not take into account any non-financial matters (i.e. matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments. However, the Trustee recognises that some members may wish to invest specifically in ethical or Shariah compliant funds and offers members appropriate funds to achieve this."*

Climate governance structure

The diagram below sets out the internal governance structure for climate-related work that was agreed by the Trustee at the beginning of 2022 and has been in operation since.



Role of the Climate Working Group (CWG)

The Trustee decided it would be beneficial to maintain the CWG (comprising members of the Defined Benefit Committee 'DBC' and Defined Contribution Committee 'DCC') during the Scheme Year to serve as a focus group in relation to the detail of the Climate Regulations and Statutory Guidance and the wider consideration of climate-related risks and opportunities in relation to the Scheme.

The CWG met twice during the course of the Scheme Year. At those meetings, the CWG received input and guidance from the Scheme's DB and DC investment advisers, legal advisers, covenant advisers and actuarial advisers on the Climate Regulations and Statutory Guidance, the consideration of climate-related risks and opportunities and the actions/decisions required from the Trustee in relation to these.

Topics and documentation considered at those meetings included:

- ✓ The Trustee's existing metrics and targets and whether to update or change them;
- ✓ Updated climate scenario analysis provided by the Trustee's investment advisers;
- ✓ Analysis of the metrics calculations carried out in the Scheme Year and the impact of these and the updated scenario analysis on climate-related risks and opportunities;
- ✓ The impact of climate change on the employer covenant and funding strategy; and
- ✓ The impact of climate change on longevity risk.

The CWG fully considered the information and advice provided by the Scheme's advisers. Under its terms of reference the CWG does not have decision-making powers but makes recommendations to the DBC and DCC respectively.

Role of the Defined Benefit Committee (DBC) and Defined Contribution Committee (DCC)

The DBC and DCC are each responsible, in relation to the DB and DC assets and liabilities of the Scheme respectively, for making any decisions required around climate-related risks and opportunities and approving the relevant sections of the Climate Report relating to the DB and DC Sections respectively.

Each committee received an update (with recommendations where relevant) from the CWG following each of its meetings during the Scheme Year and made decisions (where required) at those meetings. Decisions included whether to retain the existing metrics and targets and whether to re-run the Scheme's scenario analysis.

Each committee sought input from and interrogated and challenged the advice from its investment advisers and legal advisers at the relevant meetings before making these decisions.

Role of the Combined Trustee Board (CTB)

The CTB is responsible for oversight of the climate work and has ultimate responsibility for compliance with the Climate Regulations and Statutory Guidance. It has responsibility for final approval of the Climate Report. It received regular updates from the DBC and DCC through the Scheme Year.

Trustee training and knowledge

The CWG received ongoing training and guidance at its meetings during the Scheme Year on the Trustee's obligations under the Climate Regulations (and Statutory Guidance) including updated approaches to climate scenario analysis modelling.

The CWG concluded that no further training was required at the CTB level during the Scheme Year.

As this is a developing area, the Trustee recognises that ongoing training is essential and continues to assess any skills gaps to determine any further training needs.

2. Other parties' and advisers' roles

The Trustee operates a governance model whereby it relies on advice for specific activities from professional advisers and it also relies on an in-house executive team for support. This includes in relation to the consideration of climate-related risks and opportunities. It also delegates responsibility for day-to-day decisions on investment management (including in relation to ESG and climate change) to its investment managers.

In-house pensions team

The secretary to the Scheme (and other relevant individuals working within the Citi in-house pensions team where appropriate) attend all CWG, DBC and DCC and CTB meetings.

The secretary's role is to act as a point of continuity on climate change between the CWG, DBC and DCC and CTB, to aid the discussions around climate-related risks and opportunities (as appropriate), ensure adequate time and resources are being spent on relevant climate-related activities and that decisions were being taken by the relevant sub-committees at the correct points in time during the Scheme Year. The Scheme secretary does not make any decisions related to climate-related risks and opportunities.

Investment advisers

Redington is appointed as the Scheme's DB investment consultant including to advise on climate-related risks and opportunities in respect of the DB assets and liabilities within the Scheme. This advice was provided through the CWG and the DBC during the Scheme Year specifically in relation to, (i) updated analysis on the Scheme's chosen climate metrics and year-on-year performance against the selected climate targets, (ii) replacing the Prudential Regulation Authority (PRA) methodology, used for the previous iteration of climate scenario analysis, with the Network for Greening the Financial System ("NGFS") methodology, in line with industry best practice and, (iii) the assessment of investment managers approaches to ESG and climate change.

LCP are appointed as the Scheme's DC investment consultant including to advise on climate-related risks and opportunities in respect of the DC assets within the Scheme. This advice was provided through the CWG and the DCC during the Scheme Year specifically in relation to, (i) updated analysis on the Scheme's chosen climate metrics and year-on-year performance against the selected climate targets, (ii) the provision of updated climate scenario analysis during the Scheme Year and, (iii) the assessment of investment managers approaches to ESG and climate change. During the Scheme Year LCP also provided ad hoc input during meetings of the CWG.

As part of all investment strategy changes, LCP also reviews the Responsible Investment (RI) credentials of any fund recommendations that are made to the Trustee. Fund RI credentials also feed into the ongoing monitoring of the suitability of funds used by the Scheme.

Actuarial and covenant adviser

Mercer is appointed as actuarial and covenant adviser to the Scheme (including as Scheme actuary) in relation to the DB assets and liabilities. As part of their role, they consider the impact of the employer covenant on the DB Section's funding position, which included for this Scheme Year, preparing a high-level report which outlines the impact of climate-related risks and opportunities in relation to the employer covenant. They also consider the impact of climate change on the Scheme's DB liabilities, which in particular for this Scheme Year, included the impact of climate change on longevity risk and longevity assumptions.

Investment managers

The Trustee has delegated responsibility for the selection, retention and realisation of investments within all DB and DC investment funds to the underlying investment managers (within certain guidelines and restrictions).

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations) where permissible within the applicable guidelines and restrictions.

3. Trustee oversight

In house team

The Trustee ensured that the Scheme secretary and other relevant members of the in-house team attended all CWG meetings to ensure they were kept abreast of the ongoing climate change requirements.

Advisers

It is the Trustee's policy to ensure its investment advisers can demonstrate adequate climate-related expertise and consider climate-related risks and opportunities as part of their advice to the Trustee.

The performance of the DB investment adviser (Redington) is reviewed by the DBC on an annual basis, and the criteria for this review includes objectives related to ESG (including climate change) and stewardship. The DBC's review undertaken during the Scheme Year confirmed that the DBC was comfortable Redington had met the ESG (including climate change) objectives set, and no further recommendations were made.

The DCC, as part of its annual strategic investment consultant objectives has set the DC investment adviser (LCP) an objective to "help the DCC implement an investment strategy that integrates its policy on ESG (including climate change) and stewardship". The DCC reviewed LCP's performance against this objective during the Scheme Year. The DCC were comfortable following this review that LCP had met this objective, and no further recommendations were made.

The Scheme's advisers are members of a number of bodies such as the Institutional Investors Group on Climate Change (IIGCC), Investment Consultants Sustainability Working Group (ICSWG), Net Zero Investment Consultant Initiative (NZICI), Pensions for Purpose and Glasgow Financial Alliance for Net Zero (GFANZ). The Trustee's actuarial adviser, Mercer, also participates in the Institute and Faculty of Actuaries Climate Risk and Sustainability course.

Redington, LCP and Mercer's competence and expertise on climate-change is demonstrated through the fact they are all signatories to the UK Stewardship Code and on an ongoing basis through the provision of timely, relevant, and accurate advice and guidance on the subject at CWG, DCC, and DBC meetings.

Investment managers

The Trustee seeks to appoint managers that have appropriate skills and processes to take account of ESG (including climate change) risks and opportunities.

As part of their advice on the selection and ongoing review of the investment managers, the Scheme's investment advisers incorporate into their assessment the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement.

DB investment managers	DC investment managers
In relation to DB investment managers, Redington provides quarterly updates to the Trustee (via the DBC) on the performance of the investment managers including in relation to ESG (including climate change). Further, the DBC meets with the Scheme's DB investment managers on a broadly two-yearly cycle. As part of this process, the DBC questions the investment managers on relevant issues, including those related to climate change, such as how climate change risks and opportunities are taken into account in security selection, and how the managers undertake stewardship and engagement related to climate change issues. As the DB Section assets are fixed income in nature, there are typically no voting rights attached to the investments.	In relation to DC investment managers, the Trustee (via the DCC) reviews LCP's RI scores for the Scheme's existing investment managers and funds on a quarterly basis as part of the performance monitoring report. These scores cover the investment manager's approach to ESG factors, voting and engagement. Commentary is provided for any funds with lower RI scores so that the Trustee can monitor any steps being taken by the investment manager to improve these scores over time. In addition, an explanation is provided for any fund RI scores that change over the quarter. The fund scores and assessments are based on LCP's ongoing manager research programme, and it is these that directly affect LCP's investment manager and fund recommendations. The Trustee has taken specific actions to address the climate risks faced by members. During the previous Scheme year, the Trustee: • Replaced the L&G passive regional equity funds used in the Growth Fund and Pre-Retirement Fund in the Drawdown Lifestyle Strategy with passive low carbon equity funds as an alternative; and • introduced a new blended fund, the Early Stage Growth Fund, to the Drawdown Lifestyle Strategy for members 20 or more years from retirement. The passive equity allocations in this fund are also low carbon.

Section 2: Strategy and scenario analysis

This section describes the climate-related risks and opportunities the Trustee has identified over the short, medium and long term.

There are two types of climate risk – physical risk and transition risk.

- Physical risks relate to the physical impacts of climate change (e.g. a rise in sea levels could result in flooding and mass migration).
- Transition risks are the risks of transitioning to a lower-carbon economy which may entail extensive policy, legal, technology and market changes (e.g. changes in industry regulation, consumer preferences and technology will take place and impact on current and future investments).

Climate-related opportunities are actions that the Trustee could take to better position the Scheme's investment strategy to take advantage of the potential upside related to the climate transition, such as the emergence of new investment opportunities (e.g. new sectors, technologies, etc.). This may ultimately have a positive impact for members' investments.

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

Trustees are required to decide the short, medium and long-term time horizons that are relevant to their scheme. It is up to trustees how they determine their time horizons for the purpose of identifying and assessing climate-related risks and opportunities. Time horizons should be scheme-specific and, where a scheme has DB and DC sections, the selected time horizons are not required to be aligned.

The Statutory Guidance recommends that trustees should take account of the following considerations when setting time horizons:

In a DB scheme or a DB section of a scheme, the likely time horizon over which current members' benefits will be paid. This may be the longest time horizon they will need to consider.	In a DC scheme or a DC section of a scheme, the likely time horizon over which current members' monies will be invested to and through retirement. This may be the longest time horizon they will need to consider.

The Trustee of the Scheme has taken these considerations into account in the course of its discussions on the appropriate time horizons for the DB and DC Sections of the Scheme. In setting the time horizons, the Trustee has taken account of the membership profile of the DB Section and DC Section respectively and the timing of widely held future climate milestones. The Trustee has also had regard to TPR's guidance when considering which time horizons are appropriate for each section of the Scheme.

These time horizons informed the Trustee's climate-related considerations and decisions during the Scheme Year.

What time periods has the Trustee defined as short term, medium term and long-term time horizons relevant to the Scheme?

DB section

The Trustee has defined the time horizons set out in the table on the right for the DB Section of the Scheme.

These horizons were adopted by the Trustee during the Scheme year to 5 April 2023. The Trustee reviewed these time horizons during the Scheme Year and is of the view that the rationale for the time horizons remains appropriate for the DB Section of the Scheme. The Trustee has therefore decided to maintain the current time horizons for the DB Section of the Scheme, with the baseline date updated to reflect the date of the Scheme's most recent triennial actuarial valuation (5 April 2023).

Term	Time period	Rationale
Short	3 years from 5 April 2023	To be in line with the triennial actuarial valuation cycle
Medium	8 years from 5 April 2023	The Trustee expects to take high-level, climate-related investment and funding decisions over this period, pending changes in the quality of climate change data and in the Climate Regulations, where relevant, given its overall funding, investment and covenant positions
Long	20 years from 5 April 2023	This time period is in line with the duration of the liabilities of the Scheme assessed at 5 April 2022

DC Section

The Trustee has defined the time horizons set out in the table on the right for the DC Section of the Scheme.

During the Scheme Year, the Trustee reviewed the time horizons for the DC Section of the Scheme which had been adopted by the Trustee in the Scheme year to 5 April 2023 and decided to update these to reflect the proximity of key climate milestones.

Term	Time period	Rationale
Short	3 years from 5 April 2025	Improvements in climate data quality are expected over this period and in line with the investment strategy review timescales
Medium	8 years from 5 April 2025	Key period over which policy action will determine if Paris Agreement goals are met
Long	20 years from 5 April 2025	To reflect the closed nature of the Scheme and its older demographics

The Trustee will continue to review the designated time periods at least every three years to tie-in with the Trustee's triennial investment and funding reviews.

DB Section

What climate-related risks and opportunities relevant to the Scheme has the Trustee identified and how are these risks and opportunities expected to impact the Scheme's investment strategy?

Investment opportunities

Due to the high funding level of the DB Section of the Scheme, the Trustee has adopted an investment strategy with a relatively low risk-return profile to meet its strategic objectives. As such the Trustee has not been actively considering higher-return investment opportunities arising from climate change and the broader transition to a low-carbon economy (such as green infrastructure investments). However, the Trustee has afforded BlackRock the discretion to allocate to "Green Gilts" through its LDI portfolio. These are UK Government bonds whose proceeds will be used to finance green projects such as the construction of renewable energy infrastructure and clean transportation projects.

Investment risks

As a credit investor, relevant climate-related risks are ones which would lead to downgrade or default on its bond holdings prior to their maturity. Transition risks are likely to be most relevant given the maturity profile of the bonds, but for some medium and longer-dated bonds physical risks may become more significant and the Trustee continues to assess the resilience of the portfolio to physical risk.

Longevity risks

The Trustee, having taken advice from Mercer, has also identified the impact of climate on longevity as a risk, given the Trustee does not hedge its longevity risk. It believes that it is very difficult to accurately predict the impact on longevity of climate change due to the wide range of risks, and the complex interactions between these risks.

Over the Scheme Year, the Trustee, with advice from Mercer, has considered the impact on the Scheme's liabilities in each of the Trustee's chosen climate scenarios (as set out on page 29 below).

Modelling approach and Limitations

While the Trustee decided to use the same overarching temperature-based climate scenarios for the purposes of the longevity analysis and scenario analysis carried out during the Scheme Year, the underlying modelling approach and assumptions used between the Scheme's advisers when carrying out the modelling with these three overarching scenarios (and the associated limitations) do differ.

Further details of the key features of the underlying scenarios considered and modelling approaches (and the associated limitations) used by Mercer when carrying out the longevity risk analysis are set out in Appendix 3.

Conclusions

The modelling indicates the following scenario outcomes, each compared to mortality assumptions constructed with no explicit allowance for climate-related risks:

Scenario	Life Expectancy Change[1]		Scheme Liability Impact
	Age 25	Age 65	
1	Nil	+ 21 months	+ 5.9%
2	- 13 months	+ 12 months	+ 2.6%
3	- 59 months	- 3 months	- 2.7%

Based on the range of scenarios above, the Trustee considered the climate-related longevity impact and concluded that uncertainty is higher in respect of younger generations, though there is more funding risk associated with climate-positive scenarios and their implications for improved shorter-term mortality for current pensioners. Key drivers of differences in life expectancies between the scenarios include gross domestic product growth and health care provision, in addition to the impact of temperature rises.

Based on the analysis, mortality changes arising from the direct and indirect impact of climate change are not currently expected to have a material impact on the funding strategy, but the Trustee will keep this under review.

[1] *It is important to note that these "Results" are based on longevity projection models and third-party data which may produce output that differ materially from actual outcomes. The Results are set out for informational purposes only and should not be used for any other purpose. In particular, the Results should not be relied upon and they are not suitable for repurposing, copying, redistributing or modifying. The model provider disclaims all liability and makes no representations about the suitability for any purpose of the Results and such content is supplied on an as is basis, without any warranty of any kind.*

How are these risks and opportunities expected to impact the Scheme's funding strategy?

Based on the climate scenarios modelled in the scenario analysis included in Section 2 of this Climate Report, the impact of climate risks does not appear to be significant enough to cause a deficit to arise that could not be supported by the Citi covenant. However, the Trustee is aware of the limitations of scenario analysis and the resilience of the Scheme's portfolio to physical risk will continue to be evaluated in the future.

The Trustee has also sought input from Mercer, as the Scheme's covenant advisers, on the impact of climate related risks on the employer covenant.

Mercer provided the CWG with an update on their covenant analysis in October 2024. This concluded the financial strength of Citi to be materially unchanged from the previous assessment and that the overall covenant of Citi remained strong. Coupled with the strong funding position, Mercer were of the view that covenant risk generally remained low.

The Trustee was therefore comfortable taking a proportionate approach to the consideration of the impact of climate related risks on the employer covenant in the context of the DB funding strategy.

In May 2024 Mercer prepared a high-level paper outlining the physical and transitional risks that may impact the Citi employer covenant over the short, medium and longer term.

Mercer's view remained that as Citi is a market leader with a well-diversified revenue base by geography and sector, they do not anticipate any material risk to the business other than potentially reputational (e.g. lending exposure to projects considered to have significant negative climate impacts or greenwashing in its sustainable financing).

Going forward it has been agreed that the Trustee will continue to monitor climate-related risks which may impact the covenant on an annual basis, with a detailed review carried out at least every three years.

The Trustee will continue to engage with Citi to understand the potential climate-related risks the group is exposed to and what is being done to mitigate these, including any reduction in exposure to higher climate change risk sectors (e.g. fossil fuels).

Given the above, the Trustee has concluded that climate-related risks and opportunities are currently unlikely to impact the Scheme's overall funding strategy significantly, but they will continue to monitor the Scheme's overall reliance on covenant and its ability to underpin funding and investment risks as part of its integrated risk management approach.

DC Section

What climate-related risks and opportunities relevant to the Scheme has the Trustee identified?

The Trustee has identified and assessed the risks and opportunities to the Scheme over the short, medium, and long-term time horizons identified by the Trustee. At a high level, the risks and opportunities identified are set out in the table below.

These risks and opportunities are considered further in the rest of this Climate Report.

Time Period	Key risks	Key opportunities
Short term	Older members will be most exposed to transition risks, in particular under a Paris disorderly pathway, whereby a material market repricing event could see the value of their DC pot fall significantly and potentially impact their retirement plans.	Over the short-term, the various regulatory requirements highlight the huge opportunity for innovation to drive down carbon use across many industries through the creation and use of new technology.
Medium term	Transition risks may still be heightened over the medium-term creating volatility. Market returns may be lower if disorderly transition harms economic performance.	Over the medium-term, new low carbon industries may emerge which the Trustee could take advantage of. This may require longer term funding to scale up to meet the low carbon transition goals.
Long term	Physical risks are most severe in the Failed Transition pathway, impacting younger members (e.g. those 20 years or more from retirement).	Over the long-term, most companies should be Net Zero or even carbon negative if Paris goals are to be met. Opportunities will lie with those companies that position themselves before others to benefit from this transition.

How are these risks and opportunities expected to impact the Scheme's investment strategy?

The potential impact of climate-related risks and opportunities on the Scheme's investment strategy was explored by the CWG through their consideration of updated climate scenario analysis carried out during the Scheme year (see Section 2 below) and the most recent climate-related metrics calculated in the Scheme Year (see Section 4 below).

The updated climate scenario analysis of the potential effects on member outcomes showed again that different groups within the Scheme's DC membership are likely to be exposed to the impact of different types of climate risk on financial markets (e.g. transition risk, physical risk).

Analysis of the updated climate-related metrics during the Scheme Year demonstrated that the DC Section's DGF allocation is the most exposed of any asset class in the 'popular arrangement' to climate-related risks. This marks a change from previous years and reflects the changes made to the investment arrangements in October 2023.

The DCC also continues to receive regular updates on its DC investment adviser's view of the ESG credentials of its investment managers, including any material changes to those credentials that could have an impact on the performance of the default arrangements and self-select arrangements available to members of the Scheme. This enables the DCC to assess the impact of ESG risks and opportunities on the Scheme's investment arrangements, including those related to climate, on an ongoing basis.

2. Climate scenario analysis

Overview

This section of the Climate Report describes the resilience of the Scheme's investment and funding strategy taking into account different climate-related scenarios (including one scenario where there is an increase in the global average temperature between 1.5 degrees Celsius to 2 degrees Celsius above pre-industrial levels in line with the Paris Agreement goals) and the potential impacts on the Scheme that these scenarios have identified.

The Trustee is required to carry out scenario analysis at least every three years and following any material changes to the Scheme's DB sections or DC 'popular arrangements'.

As set out in previous Climate Reports, the Trustee first undertook scenario analysis in November 2022. Following advice from the Scheme's advisers, the Trustee decided to carry out new scenario analysis during the Scheme Year, which was undertaken in October 2024.

The Trustee's overall approach to scenario analysis will continue to be assessed regularly for appropriateness and will be updated as best practice continues to develop in this area.

Climate Scenarios Considered

When carrying out the revised scenario analysis, the Trustee decided to use the same overarching temperature-based climate scenarios for the purposes of both the DB and DC scenario analysis for consistency and improved comparability across the DB and DC Sections of the Scheme (and which are set out in the table below):

Scenario	Description
Scenario 1	c.1.5°C to c.2°C temperature rise by 2100
Scenario 2	c.3°C temperature rise by 2100
Scenario 3	Temperature rise of c.4°C or greater by 2100

Modelling Approach and Limitations

While, as noted above, the Trustee chose to adopt the same overarching temperature-based climate scenarios for the purposes of the DB and DC scenario analysis carried out during the Scheme Year, the underlying modelling approaches and assumptions used by the Scheme's DB and DC investment advisers when carrying out the modelling within these three overarching scenarios (and the associated limitations) do differ.

Further details of the key features of the underlying scenarios considered and modelling approaches used by the Scheme's DB and DC investment advisers when carrying out the revised scenario analysis are set out in Appendices 2 and 3 respectively.

Limitations

A summary of the key limitations of the modelling approaches used by the Scheme's DB and DC investment advisers when carrying out the revised scenario analysis is set out below. Further details of the limitations associated with the modelling approaches used are set out in Appendices 2 and 3 respectively.

In respect of the DB scenario analysis, the Trustee acknowledges that current methodologies may not accurately reflect the threat climate change poses to the planet and society, such as overlooking climate tipping points and underestimating the likely implied temperature rise and physical impacts of climate change. Consequently, the analysis currently has limited reliability and usefulness as a decision-making tool. As such, the Trustee does not rely solely on this analysis to inform its strategic decision-making. Nonetheless, the scenario analysis does help to highlight that climate change risks do exist, and the Trustee therefore believes that appropriate risk management steps should be taken to address and limit their potential impacts.

The DC scenario analysis is similarly subject to various limitations. As the model used for the DC scenario analysis uses a "top down" approach, investment market impacts are modelled as the average projected impacts for each asset class. However, in practice, the Scheme's investments may not experience climate impacts in line with the market average. In addition, like most modelling of this type, the model does not allow for all potential climate-related impacts and, as such, is quite likely to underestimate some-climate related risks. The scenario analysis also makes no allowance for certain other risks / impacts, for example tail risks and other systemic risks.

Scenario Analysis results – DB Section

The results of the scenario analysis detailed below provide the Trustee with an indication of the range of risk the assets and liabilities might face in different climate scenarios. These can be seen as at the analysis date, 31 March 2024, in the table below.

The impacts of these climate scenarios on both the Scheme's DB assets and liabilities have been qualified through both an impact on the Scheme's DB surplus and the estimated effect on its funding level.

Scenario	Impact on surplus (£m)	Impact on funding level (%)
Scenario 1	+4.1	+1.1
Scenario 2	+3.1	+2.1
Scenario 3	-0.0	+0.6

From the climate scenarios modelled above and noting the limitations of the analysis outlined in this Climate Report, the results indicate that as of 31 March 2024, the Scheme's DB investment strategy appears to be resilient to various climate change outcomes.

The estimated effect of rising interest rates in each scenario modelled is a reduction in both Scheme assets and liabilities and a net increase to the Scheme's funding level. This effect is the result of the Scheme hedging 100% of its liabilities but having a funding level in excess of 100%.

The impact associated with a scenario where there is a temperature rise of 4°C or greater appears to be relatively immaterial in the scenario modelled. This is partly because the impact on assets are expected to be experienced over the longer term (with their impact therefore being discounted over a longer period). It is also because life expectancy improvements are predicted to be more limited than in a base-case scenario, therefore reducing the present value of the Scheme's liabilities. The current global trajectory is closer to a scenario where temperatures rise by 4°C or greater than any transition scenario and there is a chance physical risks could occur sooner than models currently predict. The CWG plans to investigate portfolio resilience to physical climate risks during the upcoming Scheme year.

Scenario Analysis Results - DC Section

The latest scenario analysis completed in October 2024 looked at the retirement outcomes (in terms of the size of retirement pots) for individual members of different ages who are invested in the Drawdown Lifestyle Strategy (as the Scheme's only DC 'popular arrangement'). Scenarios were not considered for other lifestyle arrangements (i.e. the Annuity Lifestyle and Cash Lifestyle) or for the Scheme's self-select funds.

All three scenarios envisage, on average lower investments returns and these results in lower retirement outcomes for DC members. The scenario analysis also continued to highlight that Scheme members will be subject to climate-related risks to varying degrees. In addition to the impact over time on members' pots, the Trustee notes that market shocks for members near retirement can be particularly detrimental to their retirement planning and outcomes.

Scenario Analysis Results

For Scheme members invested in the Drawdown Lifestyle, the key results of the analysis are as follows:

- In the **short-term**, older members who may retire within the near future, active and deferred members could see the most significant decrease in their benefits under Scenario 1, particularly as their savings remain invested in return-seeking assets to some degree all the way to retirement, although the proportion decreases over time, which helps to mitigate this risk.

- In the **medium-term**, members with 8 or more years until they retire, active and deferred members are likely to see a significant impact on their retirement funds, particularly under Scenario 3, as the impacts of physical climate change affect their benefits during their period to retirement.

- In the **long-term**, younger members (active and deferred) could see the biggest detrimental impact to their benefits under Scenario 3, as increasingly severe physical impacts emerge over time, through limited effects from Scenario 1.

The tables below show the results of the climate scenario analysis for active and deferred members invested in the Drawdown Lifestyle Strategy in full.

Active members (Drawdown Lifestyle Strategy):

	Member aged 25	Member aged 35	Member aged 45	Member aged 55
Starting pot	£9,300	£38,300	£80,500	£88,700
Change relative to LCP central base case				
LCP central base case outcome	£546,700	£635,900	£466,400	£193,100
Scenario 1	£541,300 *(-1%)*	£623,200 *(-2%)*	£447,500 *(-4%)*	£186,600 *(-3%)*
Scenario 2	£438,200 *(-20%)*	£534,500 *(-16%)*	£432,900 *(-7%)*	£190,900 *(-1%)*
Scenario 3	£348,700 *(-36%)*	£430,800 *(-32%)*	£399,100 *(-14%)*	£190,000 *(-2%)*

Deferred members (Drawdown Lifestyle Strategy):

	Member aged 25	Member aged 35	Member aged 45	Member aged 55
Starting pot	£7,200	£24,800	£48,400	£52,200
Change relative to LCP central base case outcome in brackets				
LCP central base case outcome	£36,500	£80,000	£91,700	£61,400
Scenario 1	£32,800 *(-10%)*	£72,100 *(-10%)*	£82,400*(-10%)*	£58,200 *(-5%)*
Scenario 2	£25,700 *(-30%)*	£62,100 *(-22%)*	£83,100 *(-9%)*	£60,600 *(-1%)*
Scenario 3	£17,300 *(-53%)*	£45,400 *(-43%)*	£75,600 *(-18%)*	£60,200 *(-2%)*

Section 3: Risk Management

This section describes the Trustee's process for identifying, assessing and managing climate-related risks.

1. Processes and tools for identifying and assessing climate-related risks

Risk registers

The CWG considered the type of climate-related risks the Scheme could be exposed to i.e. physical and transition risks and what climate change opportunities may look like at its meetings during the Scheme Year.

The following climate specific risks are currently included in the DBC and DCC risk registers (as appropriate):

- The range of investment options is not suitable for members (including a failure to take account of relevant material financial factors, including ESG and climate change).
- The default and lifestyle arrangements are not suitable for members (including a failure to take account of relevant material financial factors, including ESG and climate change).
- Inadequate expertise, understanding, and capability and/or stewardship practices, of managers, including in relation to ESG and climate change risks.
- The investment strategy fails to take into account relevant material financial factors (including ESG and climate change risks).
- ESG and climate change risks are not understood or factored into decision making around DB funding appropriately.
- A failure to understand and take account of relevant factors (including ESG and climate change) that may affect the employer covenant.

The DBC and DCC risk registers are considered at the relevant committee meetings on a quarterly basis and any new risks identified or changes to the assessment of a risk are subsequently captured in the risk registers.

Any new or changing climate-related risks will also continue to be considered by the CWG (or DBC/DCC as appropriate) on an ongoing basis.

During the Scheme Year, the DBC and DCC with input from their investment, actuarial and legal advisers, considered their respective risk registers on a regular basis. No changes were made to the climate-related risks in the risk registers during the Scheme Year.

Integrated risk management

The Trustee also has a Risk Management Committee which focuses on looking at the approach to integrated risk management within the Scheme. This includes any further integration of climate-related risks into overall risk management within the Scheme, including within the effective system of governance ("ESOG") required by the Pension Regulator's General Code.

Assessment of employer covenant risk

The Trustee sought input from Mercer, as the Scheme's covenant adviser, on its view on the impact of climate-related risks on the employer covenant as set out in Section 2 above.

Climate metrics and scenario analysis

During the Scheme Year, the Trustee (through the CWG and DCC/DBC, and with input from its advisers), also considered the output from the latest climate-related metrics calculations (see Section 4 of this Climate Report) and the climate scenario analysis carried out in October 2024 (see Section 2) to identify the types of climate change risks (physical or transition) most likely to affect different groups of members (DB/DC, younger/older, active/deferred, etc.), the significance of these risks for these different groups of members, and potential actions the Trustee could take to mitigate these risks.

2. Management of climate-related risks

Investment strategy changes

DB Section	DC Section
In the DB portfolio, the Trustee manages climate change risks to which it is exposed by investing in a diversified pool of high-quality credit assets. No significant investment strategy changes were deemed necessary as a result of climate change considerations in the Scheme Year.	In October 2023, following the advice of the Scheme's DC investment adviser, the Trustee replaced the regional passive equity funds used in the Drawdown Lifestyle with climate-tilted alternatives. The funds implemented by the Trustee benefit from a clear decarbonisation pathway that decreases exposure to stocks exposed to climate transition risk and increases exposure to those with green revenues. No further changes have been made as a result of climate change considerations in the Scheme Year.

Stewardship

Stewardship is also used as a risk management tool.

The Trustee has delegated to its investment managers the exercise of rights and engagement activities in relation to investments, as well as seeking to appoint managers that have strong stewardship policies and processes.

The Trustee engages with investment managers to ensure they are exercising stewardship in support of alignment with Paris Agreement goals, discusses the SBT with them (see Section 4 below), and asks them what they are doing through stewardship efforts to increase the proportion of companies within their portfolios with SBT.

DB Section	DC Section
In Q2 2023, the DBC selected two key stewardship priorities one of which is Climate Change. These priorities remained during the Scheme Year. The DBC believes climate change risks are important market-wide risks and that good stewardship and engagement in this area can improve long-term financial outcomes for the Scheme's DB members. These stewardship priorities were communicated to the Scheme's investment managers in Q3 2023, along with the Trustee's expectation of all its investment managers to practice good stewardship and to exercise influence wherever possible. It is the Trustee's preference to only appoint managers with strong stewardship policies and processes. The Trustee notes that as the DB Section assets are fixed income in nature, there are typically no voting rights attached to the investments. The Trustee has in place a manager meeting schedule and uses these meetings to help assess how managers are engaging with the investee companies, to manage climate-related risks to their portfolios and minimise the risk of downgrades or defaults. The Trustee met Wellington in Q2 2024 and MetLife in Q4 2024 under this schedule. We have included a relevant engagement example from one of the Scheme's investment managers, Wellington, below.	During 2023 the DCC communicated its four stewardship priorities to its investment managers. The priorities the DCC selected are those it believes to represent key market-wide risks and areas where it believes that good stewardship and engagement can improve long-term financial outcomes for the Scheme's DC members. These four stewardship priorities were retained during the Scheme Year. Climate change is one of the priorities identified. The Trustee has also made its DC investment managers aware that it endorses the expectations that its DC investment adviser has set for investment managers in relation to Net Zero emissions in asset management. As part of its communication to its investment managers, the Trustee also indicated that it prefers managers who are signatories to the Principles for Responsible Investment, UK Stewardship Code, and Net Zero Asset Manager Initiative. During Q3 2024, the DCC reviewed LGIM's stewardship practices which included consideration of LGIM's voting and engagement practices around climate change. The DCC agreed to consider its approach to stewardship further during 2025.

Case study (DB Section): Rio Tinto Plc. (August 2024)	Case study (DC Section): Unilever PLC (May 2024)
• Wellington began engaging with Rio Tinto in March 2022 with the aim of improving the company's disclosure of Scope 3 emissions as well as their Climate Action Plan. Wellington prioritised this engagement with Rio Tinto as Scope 3 emissions are its most material emissions and Wellington believed the company was lagging industry peers. This engagement included voting against Rio Tinto's Climate Action Plan in 2022. • In November 2023, Wellington provided feedback to the company regarding the inclusion of decarbonisation targets into their incentive plan proposals. Rio Tinto incorporated this feedback into the final version of the company's Incentive Plan, with decarbonisation targets being included in the Long-Term Incentive Plan. • Following a call between the Chief Advisor on Climate at Rio Tinto and Wellington in August 2024, Wellington noted that the company's climate report was among the better that the members of their ESG team have seen, with robust discussion on strategy, risk mitigation, capex, and target setting. • Most recently, in the company's 2025 Climate Action Plan, Rio Tinto has committed to enhancing Scope 3 disclosures and outlines several goals, including supporting customers' ambitions to reduce carbon emissions from the blast furnace process by 20-30% by 2035. Rio Tinto's reporting is also TCFD-aligned and they have set reduction targets for Scope 1, 2, and 3 emissions, as well as also having a Net Zero ambition.	• LGIM invests in Unilever Plc ("Unilever") through its underlying investment funds, such as the L&G UK Equity Index Fund. Shareholders were invited to vote on 'Resolution 4 – Approve Climate Transition Action Plan' on 1 May 2024. • This vote was deemed significant as it is related to a stewardship priority selected by the Trustee – Climate Change. • LGIM voted for this proposal as the company already meets its minimum expectations for climate-related disclosures and targets. This includes the disclosure of Scope 1, 2, and material Scope 3 Greenhouse Gas (GHG) emissions, as well as short, medium, and long-term GHG reduction targets aligned with the Paris Agreement's 1.5°C goal. While LGIM acknowledges that the Science Based Targets Initiative (SBTi) recently withdrew its approval of the company's long-term Scope 3 target, LGIM notes that the company has since submitted near-term, 1.5°C-aligned Scope 3 targets for validation. Given this progress, LGIM considers the company's ambition level to be adequate and remains supportive of its net-zero trajectory at this stage. • This resolution passed. LGIM will continue to engage with the company and publicly advocate its position on this issue and monitor company and market-level progress.

Section 4 – Metrics and Targets

This section explains the metrics and targets the Trustee has set to help measure, manage and disclose climate-change impact. It also highlights some of the current challenges associated with collecting carbon and climate-related data.

1. Metrics

The Trustee is required to select one absolute emissions metric, one emissions intensity metric, one portfolio alignment metric, and one additional climate change metric, in relation to the Scheme's assets and to use the calculations of those metrics in order to assess the climate-related risks and opportunities which are relevant to the Scheme.

The metrics data provides a snapshot of the selected climate metrics at portfolio level and offers a means of helping the Trustee to monitor exposures to climate-related risks and opportunities. However, the metrics are not intended to be a comprehensive guide to climate risk in the relevant portfolios, nor do they provide a definitive understanding of a portfolio's climate characteristics.

The metrics that pension schemes are able to report on are still constrained by the data that investment managers can provide. This is because the requirement to report climate-related metrics remains relatively new. As investment managers adapt to the new requirements, more consistent data is likely to become available. Appendix 4 sets out further information on the current issues with climate data.

The Trustee decided to retain its existing climate metrics (as set out below) for the Scheme Year. These metrics apply to both the DB and DC Sections of the Scheme.

Metric	Selected
Absolute emissions	**Total GHG emissions** of Scheme assets. This is the absolute emissions metric that is recommended in the Statutory Guidance. It measures the total GHG emissions attributable to a portfolio (where data is available or can be estimated). Scope 1, 2, and 3 emissions are reported in line with industry best practice.
Emissions intensity	**Carbon footprint**, this gives the total emissions per unit of currency invested by the Scheme. Carbon Footprint is useful for comparing asset classes / portfolios to one another, and to a benchmark, because it is normalised.
Portfolio alignment	**% of portfolio with SBT**, this captures the percentage of portfolio companies which have set a voluntary decarbonisation target using a science-based methodology. The target can be aimed at one or all of: the short term, long term or Net Zero. Each company is scored with a binary 'yes' or 'no' assessment on the following target categorisations: '1.5ºC SBT', 'Well Below 2ºC SBT' or '2ºC SBT'. Targets are deemed to be 'science-based' if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement. This means that if a company has set a science-based target, it is in line with limiting the overall warming of the planet to well below 2°C above pre-industrial levels and is pursuing efforts to limit warming to 1.5°C. From a company perspective, SBT shows companies how much and how quickly they need to reduce their GHG emissions to prevent the worst effects of climate change. The Trustee notes that this metric is based on voluntary targets set by corporations and as such, is to some extent dependent on the policy environment changing.
Additional climate change	**Data coverage**, calculating the % of the portfolio for which data is available. Data coverage is an important factor in the Scheme's efforts to manage climate risk, because it provides a basis for investors to encourage continued improvements in the availability of climate-related reporting.

The Trustee has calculated these metrics during Q3 of 2024 using an as at date of 31 March 2024 (the nearest quarter end to the previous Scheme Year end date) for the underlying portfolio holdings data. The Trustee considered these calculations at meetings of the CWG, DBC and DCC in Q3 and Q4 of 2024. A further explanation of these metrics is included in Appendix 6 of this Climate Report.

DB Section

The metrics shown below relate to the corporate bond holdings of the Scheme only, as emissions from gilts are currently excluded due to methodological challenges. However, the Trustee understands that the methodology for producing climate-related metrics is an evolving area and that their DB investment advisors, Redington, have recently developed an appropriate approach for calculating emissions from gilts. It is anticipated that this new methodology will be used to calculate emissions for gilts when carrying out the metrics analysis during the next Scheme year and may in turn change the metrics presented in next year's report materially.

Metrics	As of 31 March 2023	As of 31 March 2024
Absolute Emissions		
Scope 1&2 Emissions (tonnes)	52,300	46,500
Estimated Scope 3 Emissions (tonnes)	245,500	202,200
Estimated Total GHG (GHG) Emissions (tonnes)*	106,300	91,000
Emissions Intensity		
Scope 1&2 Carbon Footprint (tCO2e/ EVIC £m)[2]	137.7	119.7
Estimated Scope 3 Carbon Footprint (tCO2e/ EVIC £m)	646.3	520.9
Total Carbon Footprint (tCO2e/ EVIC £m)	279.9	234.3
Additional Climate change		
Data Coverage (%)**	85.8%	89.0%
Portfolio Alignment		
SBT (%)	27.5%	30.2%

** Please note: total carbon emissions / carbon footprint (i.e. Scope 1 + Scope 2 + Scope 3) will equal less than the sum of its parts as the Scope 3 emissions figures have been adjusted for double counting by applying a de-duplication multiplier of 0.22 to all portfolio companies' Scope 3 emissions (there can be some degree of double counting in including Scope 3 emissions for all investments in the same portfolio, e.g. due to the*

[2] EVIC is the Enterprise Value Including Cash. This is the sum of shares, book values of total debts and minority interests with no deductions made for cash.

potential supply chain relationships between companies within the portfolio). This is the discount factor used by the Scheme's ESG data provider and is designed to reduce the portfolio's aggregated Scope 1, 2 and 3 emissions down to a level more closely reflecting the real-world footprint.
*** The data coverage metric relates to the percentage of the portfolio (excluding cash holdings) for which there is Scope 1 and 2 emissions intensity data.*

Conclusions

From the analysis above, based on the corporate bond holdings of the DB Section of the Scheme, the Trustee has concluded that:

- The carbon emissions data provides the Trustee with useful information to assist in its engagement with investment managers. The absolute emissions have decreased over the year by c.14% despite credit asset values rising throughout the year. The rise in credit asset values was more than offset by a shift in the sectors which the funds allocate to, as there was a notable shift towards lower emitting sectors.
- The carbon footprint data – which is a measure of carbon intensity and is therefore normalised for the size of investment – varies between each of the Scheme's corporate bond managers, with LGIM having the lowest value and MetLife the highest. The total carbon footprint for the Scheme has decreased from the previous year's figure of 279.9 tCO2e/£m to 234.3 tCO2e/£m, a c.16% decrease, driven by the shift in credit sectors. It is worth noting that shift in credit sectors driving the overall decrease in carbon footprint observed was large enough to offset the fall in the weighted average EVIC across assets held in each portfolio which had the opposite effect on overall carbon footprint. As EVIC is the denominator for calculating a company's emissions intensity, a smaller EVIC value generates a higher intensity value for each individual holding as emissions are spread over a smaller £m value.
- The Trustee notes that whilst there is data coverage across the majority of its corporate bond holdings, improvement in data coverage, quality, and reliability will give the Trustee greater confidence in its other climate-related metrics in future. The data coverage metric has made progress towards the data coverage target of 95% and has risen 3% over the year from 85.8% to 89.0%.
- The Scheme's SBT metric has increased by 2.7% year-on-year, driven by improvements in both the LGIM and Wellington portfolios. The MetLife portfolio saw a minor fall year-on-year. The Trustee acknowledges that SBT metrics are reliant upon voluntary targets set by corporations. In order for these voluntary targets to be achieved and the corporates to remain profitable, the policy environment will have to change for achieving these targets to make financial sense for companies. As such, there is a risk that without policy change, the metric will become redundant as voluntary action can only go so far.

DC Section

The metrics have been calculated using data made available by the Scheme's DC investment managers.

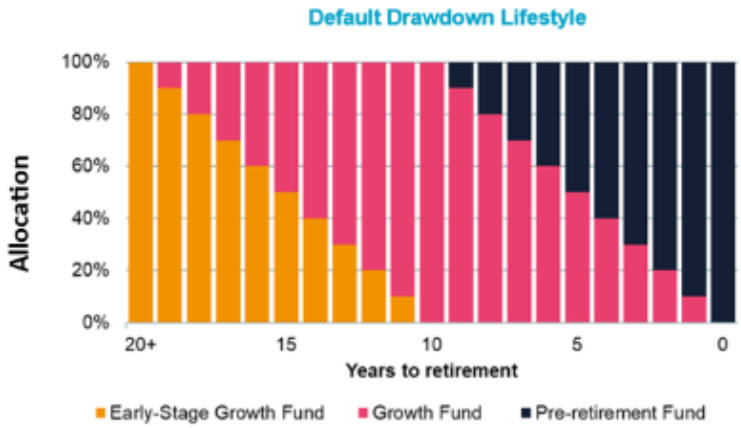
The data has been calculated in relation to the Scheme's sole 'popular arrangement', the Drawdown Lifestyle, and the Trustee has collected data on this arrangement as far as it was able to.

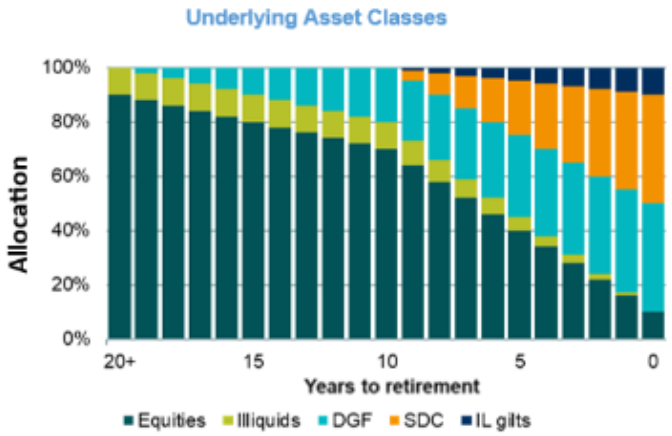
The glidepath and asset allocation for the Drawdown Lifestyle as of the date the climate metrics were calculated (31 March 2024) are shown below. In October 2023, strategic changes were implemented, resulting in updates to the glidepath, underlying passive equity funds and the DGF allocation, used in the Drawdown Lifestyle. These changes are reflected in this Climate Report and represent a significant change relative to previous Climate Reports.

The Climate Report shows Scope 1 and Scope 2 emissions (though these have been aggregated in this Climate Report) as well as Scope 3 emissions. This reflects the approach adopted last year, in line with regulatory requirements. Whilst Scope 3 emissions dominate the emissions figures shown, there remain concerns on the robustness of this data and, as a result, the Trustee has a higher degree of confidence in the data relating to Scope 1 and Scope 2 emissions.

Drawdown Lifestyle

The glidepath and asset allocation for the Drawdown Lifestyle in force at the date the climate metrics were calculated (31 March 2024) are shown below.





Climate metrics for the Drawdown Lifestyle

The table below shows a breakdown of the climate metrics by asset class for the Drawdown Lifestyle Strategy (data from last year's metrics calculations is shown in brackets).

In preparing this Climate Report, the Trustee was able to collect data for all asset classes used in the Drawdown Lifestyle Strategy, including its direct allocation to government bonds and alternative assets (it was not previously able to collect data for these asset classes). However, consistent with previous years' reports, the Trustee was unable to collect data on government bond exposure in the DGFs used in the Drawdown Lifestyle Strategy.

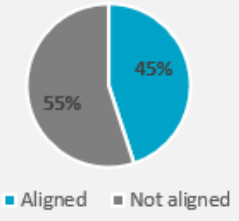
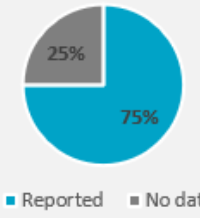
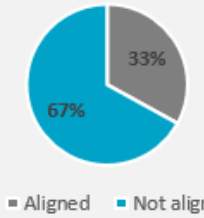
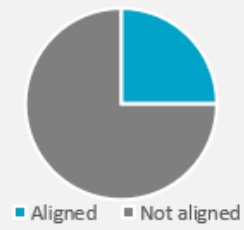
Fund	Fund value (£m)	Absolute emissions metric		Emissions intensity metric		Additional climate change metric		Portfolio alignment metric
		Scope 1 and 2 emissions (t CO2e)	Scope 3 emissions (t CO2e)	Scope 1 and 2 carbon footprint	Scope 3 carbon footprint	Scope 1 and 2 data coverage (%)[1]	Scope3 data coverage (%)[1]	Portfolio alignment (SBTI %)
Equities	61 (59)	1,903[1] (4,476)[2]	39,372[1] (31,686)[2]	31[1] (80)[2]	643[1] (567)[2]	98[1] (96)[2]	98[1] (95)[2]	45[1] (37)[2]
Corporate bonds	25 (21)	546[1] (758)[2]	3,476[1] (4,251)[2]	22[1] (59)[2]	141[1] (338)[2]	75[1] (61)[2]	81[1] (60)[2]	33[1] (25)[2]
Government bonds	6 (5)	1,042[4] (743)[4]	833[4] (467)[4]	170[4] (135)[4]	136[4] (85)[4]	100[4] (100)[4]	100[4] (100)[4]	N/A (N/A)
Diversified growth funds	38 (37)	2,785[1] (831)[2]	24,405[1] (5,287)[2]	73[1] (67)[2]	638[1] (428)[2]	66[1] (35)[2]	66[1] (35)[2]	25[1] (15)[2]
Alternatives[2]	8 (8)	26[1] (33)[2]	17[1] (32)[2]	12[1] (12)[2]	16[1] (18)[2]	29[1] (36)[2]	13[1] (23)[2]	Not reported (Not reported)

[1]Source: Investment managers (this is a new approach to data collection used by the Trustee for this Scheme Year). Holdings data as at 31 March 2024.
[2]Source: MSCI, LCP. Certain data ©2022 MSCI ESG Research LLC. Reported by permission. Holdings data as at 31 March 2023.
[3]Figures in this column represent the percentage of the total portfolio for which data is available.
[4]Government bond data calculated using a proprietary tool of the Trustee's investment adviser.

A more detailed analysis of the climate metrics is set out in Appendix 5, which shows data at the underlying fund level for the Drawdown Lifestyle Strategy.

Metrics

The charts on this page summarise the data shown on the previous page for the equity, bond, and DGF funds in the Default Drawdown Lifestyle.

	Scope 1, 2 & 3 emissions	Scope 1 and 2 data coverage	Portfolio alignment
Equities 31 March 2024 £61,000,000	41,275 tonnes CO2		
Bonds 31 March 2024 £25,000,000	4,022 tonnes CO2		
DGFs 31 March 2024 £38,000,000	27,190 tonnes CO2		

Conclusions

From the analysis of climate metrics data for the DC Section's 'popular arrangement', the Drawdown Lifestyle strategy, the Trustee has concluded that:

- Carbon emissions in the Drawdown Lifestyle strategy are more balanced across asset classes than in previous years' climate reports. The largest contributor to Scope 1 and 2 carbon emissions is the allocation to a DGF, the L&G Diversified Fund. This reflects the member demographics of the Scheme with a significant proportion of members in the approach to retirement whereby the strategy begins de-risking and having greater exposure to lower volatile assets in the form of a DGF. The change in the balance of emissions between equities and DGFs is a result of two factors: i) the switch from standard passive regional equity funds to low carbon alternatives in October 2023 and ii) the consolidation of the DGF allocation into the L&G Diversified Fund. Previously, the Drawdown Lifestyle Strategy allocated to two DGFs, with the other being the BlackRock Market Advantage Fund ("ALMA"). The presence of ALMA in the strategy artificially reduced the overall emissions profile of the DGF allocation, as it invested via a significant number of derivatives, for which data was unavailable. The significant increase in DGF-related Scope 1 and 2 emissions vs. last year is primarily a result of the fact that assets in the L&G Diversified Fund have increased (following the removal of ALMA from the Drawdown Lifestyle Strategy) and its holdings consists mainly of direct investments.
- The Trustee has secured data for the direct government bond (LGIM Over 5 Year Index-Linked Gilts Index Fund) and private markets (Partners Group Generations Fund) allocations in the Drawdown Lifestyle strategy. Emissions for the government bond have increased versus last year. Although emissions for the private markets' allocation have reduced, this is likely due to the reduction in data coverage versus the previous year. Over the medium-term, data coverage is expected to improve across assets classes in general and in private markets allocations in particular, given this is a relatively new asset class for DC schemes.
- Data coverage varies quite significantly from fund to fund. The emissions data coverage for the equity funds is high and has improved compared with last year. The investment changes implemented in the Drawdown Lifestyle strategy (October 2023) which markedly improved the data coverage for the Scheme's DGF allocation (for the reasons stated in the second bullet point above). Data coverage in the corporate bond also improved year-on-year, though, as stated above, it reduced for the Trustee's investment in private markets.
- The proportion of each portfolio invested in companies with science-based targets remains low, though did improve over the Scheme Year in all asset classes for which it is reported (i.e. equities, DGF, and corporate bonds). This suggests that manager engagement with investee companies in this area is having a positive impact on the number of companies that are targeting alignment with the goals of the Paris Agreement, but further engagement to drive improvement is necessary. Notably, the Trustee's expectation that the proportion of the equity portfolio with science-based targets would increase as a result of the replacement of the strategic equity allocations with low carbon equivalents has been borne out in practice.

2. Targets

The Trustee is required to set at least one non-binding target for the Scheme in relation to at least one of the chosen metrics and to measure performance against these targets on an annual basis.

Targets are set by reference to a baseline date against which progress is assessed, a timeline for achieving the target, and the methodology by which performance against the target is assessed.

In 2022, the Trustee selected the following metrics to set targets against (further details of which are set out below) across the DB Section and the DC Section and these have remained unchanged during the Scheme Year:

1. Data coverage
2. Portfolio alignment based on SBT

DB Section

Details of the targets set for the DB Section are as follows:

Metrics	Baseline date	Target level	Timeframe to reach target
Additional Climate change			
Data Coverage (%)*	31 March 2022	95%	31 March 2027
Portfolio Alignment			
SBT (%)	31 March 2022	80%	31 March 2032

** The data coverage metric relates to the percentage of the portfolio (excluding cash holdings) for which there is Scope 1 and 2 emissions intensity data.*

DC Section

Details of the targets set for the DC Section are as follows:

Metric	Baseline date	Target level (%)	Timeframe to reach target
Data Coverage*			
Equities	31 March 2022	100	31 March 2027
Corporate bonds	31 March 2022	95	31 March 2027
DGFs	31 March 2022	95	31 March 2027
SBT			
Equities	31 March 2022	80	31 March 2032
Corporate bonds	31 March 2022	80	31 March 2032
DGFs	31 March 2022	80	31 March 2032

Rationale for selection of targets

These targets were selected during the Scheme year to 5 April 2023. The Trustee selected these targets because:

- without complete data, the usefulness of the climate metrics in assessing climate-related risks and opportunities is limited, so achieving consistently high data coverage across all asset classes should be the first step to try to achieve in the short-term.

- SBT shows the proportion of companies that have committed to reduce their GHG emissions in line with the Paris Agreement, with the goal of limiting the overall warming of the planet to well below 2 degrees Celsius above pre-industrial levels. Setting a SBT will help the Scheme to manage climate-related risks by providing a focus for its stewardship activities, both direct and indirect (i.e. via its investment managers). The Trustee felt this was a useful way of assessing progress towards a Net Zero economy.

- these were aligned with the Trustee's fiduciary duty of acting in the best financial interests of members. The Trustee felt that setting a carbon emissions target would focus too much on portfolio optimisation to meet these targets (through disinvesting and investing) and would not help it to fulfil its role as a fiduciary.

- the Trustee had considered Citi's most recent climate report, noting that Citi has set its own target to be carbon neutral by 2050. The Trustee has sought further input from Citi in respect of its own analysis of its exposure to climate change risks and upon receipt of this, the Trustee can evaluate whether it wishes to set its own carbon neutral target in the future.

Review of existing targets

During the Scheme Year the Trustee (through the CWG and DBC / DCC and with input from its advisers) considered whether to retain its existing targets or whether these should be extended, replaced or added to.

Following these discussions, the Trustee decided to retain its existing targets on the basis that the rationale for originally selecting these targets continues to be applicable and retaining the existing targets would allow the Trustee to better chart progress over time.

The Trustee will continue to assess the appropriateness of the targets outlined in this Climate Report before the next iteration and will recalibrate these targets in the short term if needed.

Performance against targets

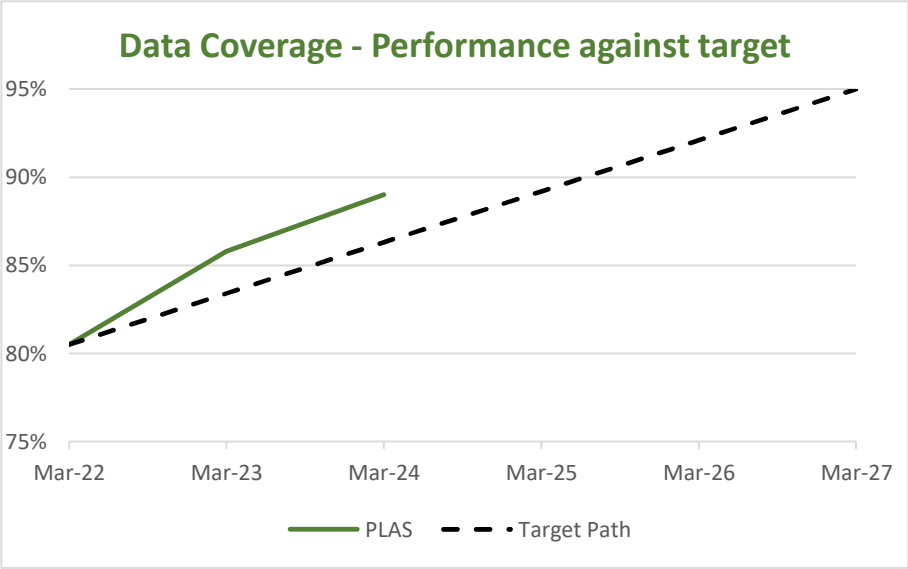
The tables and graphs below show the performance of the two metrics against their targets. An update on performance against these targets will be provided annually to chart progress over time.

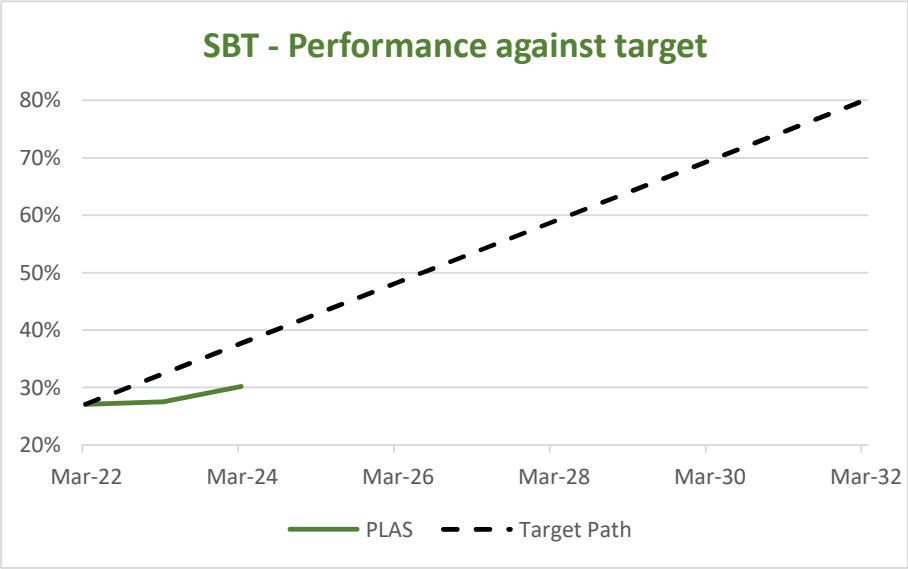
DB section

Details of the performance against these targets set for the DB Section are as follows:

Metrics	As at 31 March 2022	As at 31 March 2023	As at 31 March 2024	Target level (%)	Timeframe to reach target
Additional Climate change					
Data Coverage (%)*	80.5%	85.8%	89.0%	95%	31 March 2027
Portfolio Alignment					
SBT (%)	27.1%	27.5%	30.2%	80%	31 March 2032

** The data coverage metric relates to the percentage of the portfolio (excluding cash holdings) for which there is Scope 1 and 2 emissions intensity data.*





The Scheme has made progress towards the target of 95% for the data coverage metric, with the metric increasing by 3% during the Scheme Year.

The Scheme's SBT metric has increased over the Scheme Year by 2.7% to 30.2%. The Scheme is behind the path to reach its 80% target level, albeit with several years remaining before the target date of 2032.

DC Section

Details of the performance against the targets set for the DC Section are as follows:

Metric	Baseline date	As at 31 March 2022 (%)	As at 31 March 2023 (%)	As at 31 March 2024 (%)	Target level (%)	Timeframe to reach target
Data Coverage[1]						
Equities	31 March 2022	98	96	98	100	31 March 2027
Corporate bonds	31 March 2022	72	61	75	95	31 March 2027
DGFs	31 March 2022	37	35	66	95	31 March 2027
Portfolio Alignment (measured by Science-Based Targets)						
Equities	31 March 2022	29	37	45	80	31 March 2032
Corporate bonds	31 March 2022	22	25	33	80	31 March 2032
DGFs	31 March 2022	10	15	25	80	31 March 2032

[1]Data coverage is reported for Scope 1 and 2 emissions. Scope 3 emissions data coverage is not reported in the aggregated data presented in the table but is presented at an individual fund level in Appendix 5.

The Scheme made progress towards its targets across both selected metrics (i.e. data coverage and portfolio alignment) and in all asset classes over the course of the Scheme Year. This progress was underpinned by the investment strategy changes implemented in October 2023, specifically in relation to the equity and DGF allocations.

Steps being taken to achieve targets

Investment managers for the DB Section and DC Section have been informed of the Trustee's targets as well as the Trustee's stewardship priorities, one of which is climate change.

In relation to the DB Section, the Trustee's DB investment adviser continues to engage with managers on this topic and will encourage them to use their influence with portfolio companies to improve data coverage and increase the use of SBTs. The Trustee has met with Wellington and MetLife over the course of 2024, and meets with each of its managers biennially, where it discussed and challenged the managers on the steps being taken by them towards improving both of these metrics.

In relation to the DC Section, the Trustee's DC investment adviser encourages managers to support the goal of 'Net Zero' emissions by 2050 or earlier and has published its expectations for investment managers in relation to 'Net Zero'. This includes the use of effective voting (where applicable) and engagement with portfolio companies to encourage achievement of 'Net Zero'. The investment adviser continues to engage with managers on this topic and will encourage them to use their influence with portfolio companies to improve data coverage and increase the use of SBTs.

Most of the DC Section assets are managed by LGIM. LGIM has set an interim target of 70% of eligible assets under management to be managed in alignment with Net Zero by 2030 (this interim target excludes sovereign bonds and derivative securities, due to lack of clear industry methodologies to account for these asset classes). As at November 2021 (the latest date for which data is available), 38.2% of LGIM's eligible assets under management were covered by the Net Zero Asset Managers Commitment Statement.

The Trustee believes that achieving its data coverage target within the specified time horizon continues to be feasible. However, the Trustee is aware that for the Scheme to continue to progress against its SBT target it requires greater support from global policy. As such, the Trustee will consider during the next Scheme year whether this target needs to be amended or replaced.

Appendix 1 – Glossary of terms

DB means defined benefit.

DBC means the defined benefit committee.

DB Section means the section of the Scheme which provides DB benefits to members.

DC means defined contribution.

DCC means the defined contribution committee.

DC Section means the section of the Scheme which provides DC benefits to members.

DGF means a diversified growth fund.

Citi means the collective or "generic" name of Citigroup Global Markets Ltd and other Citi entities.

Climate Regulations means the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

Climate Report means this report, in respect of the Scheme Year, prepared to satisfy the requirements of the Climate Regulations.

CTB means the Combined Trustee Board.

CWG means the Climate-Change Working Group established by the Trustee.

ESG means environmental, social and governance.

EVIC means Enterprise Value Including Cash.

First Report means the Trustee's first climate report in respect of the year to 5 April 2023.

GFANZ means the Glasgow Financial Alliance for Net Zero**.**

GHG means Greenhouse Gas emissions.

ICSWG means the Investment consultants' sustainability working group.

IIGCC means Institutional investors Group on Climate Change.

IPCC means the UN Intergovernmental Panel on Climate Change

NGFS means the Network for Greening the Financial System.

Net Zero means achieving a balance between the amount of GHG emissions produced and the amount of GHG removed from the atmosphere.

NZICI means the Net-Zero Investment Consultants Initiative.

Paris Agreement means the legally binding international treaty agreed on 12 December 2015 and effective from 4 November 2016 which sets out long-term goals to guide all nations to substantially reduce global GHG emissions to limit the global temperature increase in this century to 2 degrees Celsius while pursuing efforts to limit the increase even further to 1.5 degrees.

PRA means the Prudential Regulation Authority.

RCP means Representative Concentration Pathways.

RI means responsible investment.

SBT means the science-based targets.

SBTi means the SBT initiative.

SSP means Shared Socioeconomic Pathways.

Scheme means the Citigroup Global Markets Limited Pension and Life Assurance Scheme.

Scheme Year means the year to 5 April 2025.

Statutory Guidance means the DWP's statutory guidance for trustees of occupational schemes on the governance and reporting of climate change risk.

TCFD means the Task Force on Climate-related Financial Disclosures.

TPR means The Pensions Regulator.

Trustee means the CTB.

Appendix 2 – DC climate scenarios – key assumptions, modelling approach and limitations

This appendix sets out further details of the key features of each of the climate scenarios considered in relation to the DC Section of the Scheme. This appendix also sets out the modelling approach used (and associated limitations) as well as the member demographics considered, when carrying out the scenario analysis for the DC Section of the Scheme.

Key features of climate scenarios considered

The key features of each of the climate scenarios considered in relation to the DC Section of the Scheme are summarised below:

Scenarios:	***NET ZERO FINANCIAL CRISIS***	***LIMITED ACTION***	***HIGH WARMING***
***Citi 'white-labelled'* nomenclature**	***Scenario 1***	***Scenario 2***	***Scenario 3***
Low carbon policies	Ambitious low carbon policies, high investment in low carbon technologies and substitution away from fossil fuels to cleaner energy sources and biofuel. Carbon Capture and Storage also used to achieve global net zero by 2050.	Moderate steps taken by policymakers to increase climate action including working towards the 2030 targets and net zero commitments. Carbon Capture and Storage also used.	There are no new* low-carbon policies enacted in this scenario and some existing ones are scaled back. Current technological trends continue (eg significant falls in renewable energy prices).
Paris Agreement outcome	Global net zero CO_2 achieved by 2050; Paris Agreement goals met.	Paris Agreement goals not met	Paris Agreement goals not met.
Global warming	Average global warming stabilises at around 1.5°C above pre-industrial levels.	Average global warming is about 1.8°C by 2050 and 2.6°C by 2100, compared to pre-industrial levels.	Average global warming is about 2°C by 2050 and 3.7°C by 2100, compared to pre-industrial levels.
Physical impacts	Moderate physical impacts.	High physical impacts.	Severe physical impacts. Multiple climate tipping points are reached and modelled and many countries suffer from extreme weather events.
Impact on GDP	Global GDP is slightly behind the Ortec Finance / Cambridge Econometrics base case by 2100.	Global GDP in 2100 predicted to be about 50% lower than in the Ortec Finance / Cambridge Econometrics base case.	Global GDP in 2100 predicted to be almost 80% lower than in the Ortec Finance / Cambridge Econometrics base case.
Financial market impacts	Abrupt repricing of assets and a sentiment shock to the financial system in 2025.	Physical risks priced in over the period 2026-2030. A second repricing occurs in the period 2036-2040 as investors factor in the high physical risks.	Physical risks priced in over the period 2026-2030. A second repricing occurs in the period 2036-2040 as investors factor in the severe physical risks.

Modelling Approach and Limitations

The climate scenario analysis carried out for the DC Section of the Scheme is based on a model developed by OrtecFinance and Cambridge Econometrics. The outputs were then applied to the Scheme's assets by LCP.

- The three climate scenarios are projected year by year, over a 40-year period. The results are intended to help the Trustee to consider how resilient the 'popular arrangement' is to climate-related risks.

- The three climate scenarios chosen are intended to be plausible, not 'worst case'. They are only three scenarios out of countless others that could be considered by the Trustee.

- Other scenarios could give better or worse outcomes for Scheme members.

The climate scenarios used by the Trustee are subject to limitations. As the model uses a 'top-down' approach, investment market impacts were modelled as the average projected impacts for each asset class. This contrasts with a 'bottom up' approach that would model the impact on each individual investment held by the 'popular arrangement'. As such, the modelling does not require extensive scheme-specific data and so the Trustee was able to consider the potential impacts of the three climate scenarios for all the Scheme's assets in the 'popular arrangement'.

However, in practice, the Scheme's investments may not experience climate impacts in line with the market average. Like most modelling of this type, the model does not allow for all potential climate-related impacts and, therefore, is quite likely to underestimate some climate-related risks. For example, tipping points (which could cause runaway physical climate impacts) are not modelled and no allowance is made for knock-on effects, such as climate-related migration and conflicts.

In addition, the model presumes that the UK government and bank counterparties will remain solvent, thereby making no allowance for credit risk on government bonds and derivative exposures. However, in a scenario where global warming exceeds 4 degrees Celsius, this assumption may no longer be valid.

The scenario modelling also makes no allowance for:

- Tail risks;
- Variations from median outcomes;
- Impacts of migration and increased likelihood of armed conflict;

- Impacts of food and other resource shortages; or
- Other systemic risks (e.g. new pandemics, financial market volatility, energy security).

Tipping points are allowed for to some extent in the High Warming scenario, but not in the other scenarios. Some aspects, such as market pricing-in shocks and the level of adaptation to climate risks are modelled, but the impact and timing is highly uncertain and could mean actual outcomes are very different to what has been modelled.

Member Demographics Considered

For the 'popular arrangement' considered, the Trustee chose to carry out scenario analysis for a representative sample of the Scheme's membership invested in this arrangement. This meant that the analysis assessed the potential outcomes under different scenarios for members aged 25, 35, 45, and 55 at the time of the analysis for the Drawdown Lifestyle. A target retirement age of 60 was assumed, in line with the default target retirement age for the Scheme.

It also meant that scenarios were considered for active and deferred members of the Drawdown Lifestyle. Given the majority of members in the Scheme are deferred (c. 96%) scenario analysis in respect of deferred members is likely to be more meaningful.

The scenarios only extend to the Scheme's target retirement age (60) and therefore, do not account for the fact that members may remain invested beyond this date (either in the Scheme or in an income drawdown arrangement outside of the Scheme). The Trustee believes the assumption that members will not remain invested post-retirement is not realistic, particularly given their current expectation that a large proportion of Scheme members will choose to gradually withdraw their pension savings during retirement (i.e. via income drawdown). However, at the time it was carried out, the modelling capability did not allow the Trustee to consider members in retirement.

Appendix 3 – DB climate scenarios –key assumptions, modelling approach and limitations

This appendix sets out further details of the key features of each of the climate scenarios considered in relation to the DB Section of the Scheme as well as the modelling approach used by Redington and Mercer (and associated limitations).

Key features of climate scenarios considered

The key features of each of the climate scenarios considered in relation to the DB Section of the Scheme are summarised below:

Scenario #	Key features - Redington	Key features - Mercer
Scenario 1: c. 1.5°C to c. 2°C temperature rise by 2100	Climate policies are introduced early, and the stringency of climate policies gradually increases. The scenario gives a 67% chance of limiting global warming to below 2°C by 2100.	Early transformation to a low carbon economy. Transition risks are high, particularly in the first half of this century. Physical risks are anticipated in the latter half of the century though are less impactful relative to higher warming pathway scenarios. Emissions peak in the 2020s. By the middle of the century coal is phased out, and the average global sea level is expected to rise with longer droughts experienced in regions across the globe.
Scenario 2: c. 3°C temperature rise by 2100	Annual emissions do not decrease until 2030 and strong policies are therefore required to limit warming by 2100.	Delayed climate action leads to failure to meet the Paris Agreement goal of limiting global warming to below 2°C by 2100. Transition risks are not experienced until post 2035 but are more material than under Scenario 1. Physical risks are greater in magnitude and will be experienced sooner. Global carbon emissions are flat by 2050 but high in absolute terms. Towards the middle of the century, irreversible physical damages will be experienced including a reduction in available water.
Scenario 3: Temperature rise of c. 4°C or greater by 2100	Some climate policies are implemented in some jurisdictions, but globally efforts are insufficient to halt significant global warming. The scenarios result in severe physical risks including irreversible impacts like sea-level rise.	No transformation to low carbon economy. Transition risks very low, and physical risks therefore higher, anticipated sooner and are more impactful than Scenarios 1 and 2. Emissions peak late in the century, the average global sea level continues to rise throughout the century and natural disasters become commonplace.

Modelling Approach and Limitations

Redington

The scenario analysis carried out during the Scheme Year in respect of the DB Section of the Scheme was updated to be consistent with the NGFS methodology in line with developing industry best practice. By switching methodologies to the NGFS from the PRA, the Scheme will benefit from:

i) More regularly updated data. The previously used PRA stress tests have not been updated since their inception in 2019;
ii) More granular and rigorous analysis at both the company and instrument level; and
iii) Analysis which captures upside potential from climate opportunities, as opposed to solely focusing on downside risks.

Mercer

In modelling the Trustee's chosen climate scenarios for mortality impacts, Mercer have made use of:

- Representative Concentration Pathways (RCPs) and Shared Socioeconomic Pathways (SSPs) as defined by the UN Intergovernmental Panel on Climate Change (IPCC), including estimated projected temperatures.
- Relationships between each SSP and a range of socioeconomic and other variables as published by the UK Climate Resilience Program and modelling of how changes to those variables would affect UK mortality rates.
- UK-based climate projections from the Met Office, with correlations between past climate data and mortality rates being used to predict future influences.

Limitations

The Trustee acknowledges the growing scrutiny of current climate scenario analysis models, which has revealed that current methodologies may not accurately reflect the threat climate change poses to the planet and society, such as overlooking climate tipping points and underestimating the likely implied temperature rise and physical impacts of climate change. Consequently, the analysis currently has limited reliability and usefulness as a decision-making tool. As such, the Trustee does not rely solely on this analysis to inform its strategic decision-making. Nonetheless, the scenario analysis does help to highlight that climate change risks do exist, and the Trustee therefore believes that appropriate risk management steps should be taken to address and limit their potential impacts.

Appendix 4 – The issues with Climate Data

Climate data sourcing for pension fund footprinting and analysis is still in its infancy. As a result, it is important to understand the following when it comes to climate data and resulting metrics:

- The availability and quality of data vary across assets classes, and even within asset classes. This means that some assets and asset classes will rely on estimated data.

- With all climate data, as both carbon data disclosure and measurement techniques improve, reported numbers are likely to change. This means that the metrics and other data published are not certain and that they may change in the future. As a result, if necessary, calculations may need to be rebased as carbon data and measurement processes change.

- Scopes 1 and 2 data are generally available for public asset classes. But disclosure of Scope 3 data is inconsistent. Scope 3 is particularly important for some sectors, for example, in oil and gas it makes up approximately 85% of emissions. In this Climate Report the Trustee has disclosed Scope 1, 2, and 3 emissions to ensure that the most representative emissions are disclosed.

- The processes for assessing carbon footprints for certain asset classes are still in development, particularly, for example, for sovereign debt. This means the results can be anomalous. In the case of sovereign debt, the footprint is apparently an order of magnitude higher than that for public equities because whole-of-economy data are used. This is because of the very substantial effect of double-counting of data reported by companies. For this reason, the Trustee has chosen not to report sovereign debt climate metrics in this Climate Report. As mentioned previously in the report, this will be addressed in the production of the next iteration of the Climate Report now that more appropriate approaches to calculating sovereign emissions have been developed by the Trustee's investment advisors.

Appendix 5 – Drawdown Lifestyle Strategy

A more detailed analysis of the climate metrics shows data at the underlying fund level for the Drawdown Lifestyle Strategy is set out in the table below (data from last year's metrics calculations is shown in brackets).

Fund	Fund value (£m)	Absolute emissions metric		Emissions intensity metric		Additional climate change metric		Portfolio alignment metric
		Scope 1 and 2 emissions (t CO2e)	Scope 3 emissions (t CO2e)	Scope 1 and 2 carbon footprint	Scope 3 carbon footprint	Scope 1 and 2 data coverage (%)[3]	Scope 3 data coverage (%)[3]	Portfolio alignment (SBTI %)
L&G Low Carbon Transition UK Equity Index Fund	10 (10)	245[1] (1,049)[2]	6,014[1] (8,775)[2]	23[1] (113)[2]	575[1] (963)[2]	96[1] (92)[2]	96[1] (90)[2]	60[1] (45)[2]
L&G Low Carbon Transition North America Equity Index Fund	14 (14)	149[1] (662)[2]	5,534[1] (4,831)[2]	11[1] (48)[2]	392[1] (351)[2]	99[1] (100)[2]	99[1] (100)[2]	46[1] (41)[2]
L&G Low Carbon Transition Europe (ex-UK) Equity Index Fund	14 (14)	354[1] (1,069)[2]	12,453[1] (6,527)[2]	25[1] (82)[2]	881[1] (498)[2]	98[1] (96)[2]	98[1] (96)[2]	62[1] (58)[2]
L&G Low Carbon Transition Japan Equity Index Fund	5 (5)	171[1] (382)[2]	5,421[1] (3,432)[2]	36[1] (86)[2]	1,151[1] (777)[2]	98[1] (98)[2]	98[1] (98)[2]	51[1] (41)[2]
L&G Low Carbon Transition Asia Pacific (ex-Japan) Developed Equity Index Fund	9 (9)	190[1] (1,107)[2]	6,012[1] (6,957)[2]	21[1] (132)[2]	676[1] (827)[2]	99[1] (99)[2]	99[1] (99)[2]	21[1] (10)[2]
JP Morgan Emerging Markets Fund	9 (9)	794[1] (208)[2]	3,938[1] (1,164)[2]	90[1] (27)[2]	444[1] (156)[2]	97[1] (88)[2]	96[1] (86)[2]	20[1] (13)[2]
BlackRock Short Duration Credit Fund	25 (21)	546[1] (758)[2]	3,476[1] (4,251)[2]	22[1] (59)[2]	141[1] (338)[2]	75[1] (60)[2]	81[1] (59)[2]	33[1] (25)[2]
LGIM Over 5 Year Index-Linked Gilts Index Fund	6 (5)	1,042[4] (743)[4]	833[4] (467)[4]	170[4] (135)[4]	136[4] (85)[4]	100[4] (100)[4]	100[4] (100)[4]	N/A (N/A)
LGIM Diversified Fund	38 (11)	2,785[1] (639)[2]	24,405[1] (3,711)[2]	73[1] (97)[2]	638[1] (563)[2]	66[1] (63)[2]	66[1] (62)[2]	25[1] (22)[2]
Partners Group Generations Fund[2]	8 (8)	26[1] (33)[2]	17[1] (32)[2]	12[1] (12)[2]	16[1] (18)[2]	29[1] (36)[2]	13[1] (23)[2]	N/A (N/A)

[1]Source: Investment managers (this is a new approach to data collection used by the Trustee for this Scheme Year). Holdings data as at 31 March 2024.

[2]Source: MSCI, LCP. Certain data ©2022 MSCI ESG Research LLC. Reported by permission. Holdings data as at 31 March 2023.

[3]Figures in this column represent the percentage of the total portfolio for which data is available.

[4]Government bond data calculated using a proprietary tool of the Trustee's investment adviser.

Appendix 6 – Climate Metrics Explained

GHG emissions

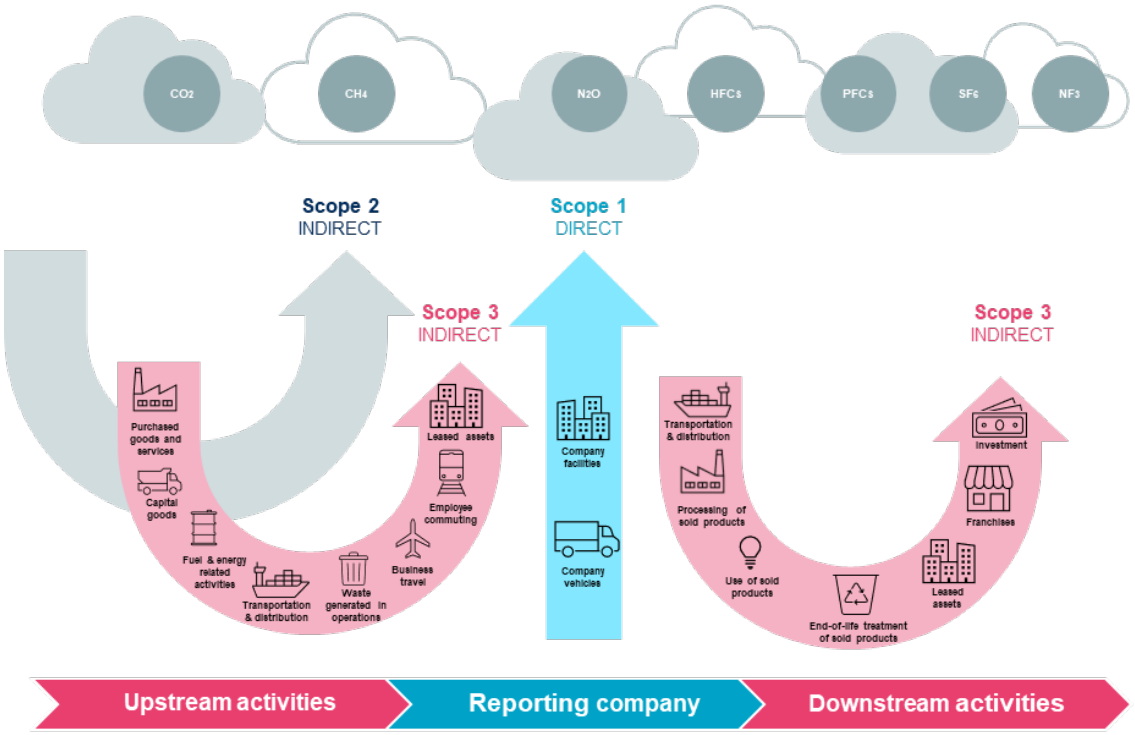
The emissions metrics relate to seven GHGs – carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6) and nitrogen trifluoride (NF_3). The figures are shown as "CO_2 equivalent" (CO_2e) which is the amount of carbon dioxide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

The metrics related to GHG emissions are split into the following three categories: Scope 1, 2 and 3. These categories describe how directly the emissions are related to an entity's operations, with Scope 1 emissions being most directly related to an entity's everyday activities and Scope 3 referring to indirect emissions in an entity's value chain. Scope 3 emissions often form the largest share of an entity's total emissions but are also the ones that the entity has least control over.

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

tCO2e indicates the real-world impact of the portfolio on the climate. However, the metric is not normalised, which makes it difficult to compare, and it may be volatile year on year, because it can be distorted by changes in portfolio size.

Financed emissions are calculated as the proportional share of the Scope 1 and Scope 2 GHG emissions for each relevant investment, based on the size of the investment relative to the EVIC of the respective company – the EVIC is a measure of a company's total value.



Source: GHG Protocol

Carbon footprint

At a portfolio level, the emissions intensity measures are calculated as the average of the emissions intensity of the underlying holdings, weighted by the value of each holding. This metric is therefore useful for portfolio decomposition and attribution analysis (because you can understand where the most concentrated carbon emissions are in a portfolio). A portfolio with a high emissions intensity will have a steeper route towards decarbonisation than a less intensive one. Hence, measuring the emissions intensity is useful in order to gauge how difficult (or easy) it will be to progressively decarbonise the portfolios.

Differences in portfolio emissions intensities are driven by differences in sector and company exposure. Portfolios with higher exposures to high-carbon sectors such as utilities, non-energy materials, energy and industrials tend to exhibit higher emissions intensities.

It can be volatile year on year, due to being distorted by changes in market cap (as opposed to portfolio size).

Science Based Target

The target can be aimed at one or all of: the short-term, long-term or Net Zero, with each company being scored with a binary yes or no assessment on three categories. The categories are: “SBTi Approved 1.5 C”, “SBTi Approved Well Below 2 C” or “SBTi Approved 2 C”.

Whilst the Trustee is aware that the “SBTi Approved 2 C” categorisation will be gradually phased out in line with the initiative’s raised ambition to 1.5 degrees Celsius, the Trustee will continue to report under the “SBTi Approved 2 C” categorisation to capture companies currently on a 2 degrees Celsius path until they increase their target ambition to 1.5 degrees Celsius in the next few years. The SBTi rating of a fund shows what percentage of the companies the fund invests in have set a decarbonisation target using science-based methodology.

Disclaimers:

MSCI

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