# TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) REPORT

Eli Lilly Group Pension Plan

1 January 2024 – 31 December 2024

## Contents:



## Executive Summary

The Trustee of the Eli Lilly Group Pension Plan (the "Plan") has prepared the following report in response to the requirements for pension schemes under the Department for Work and Pensions' Climate Change Governance and Reporting Requirements (June 2021) and statutory guidance (October 2022), which build on the recommendations from the Taskforce on Climate-Related Financial Disclosures ("TCFD").

This document is the Plan's third annual report. It has been prepared by the Trustee for the year ended 31 December 2024.

This report sets out how the Trustee identifies and manages climate-related risks and opportunities in the context of its broader regulatory and fiduciary responsibilities to its members. This report also aligns to the most recent guidance published by The Pensions Regulator ("TPR") which assessed climate-related reporting for reports published in 2023 and 2024 based on previous years' reporting, with feedback for pension schemes to introduce in order to raise the industry standards.

The Trustee supports the recommendations set out by the TCFD, which have been adapted by the Department for Work and Pensions ("DWP") for UK pension schemes, on the basis that they will allow the Trustee to assess, monitor and mitigate climate-related risks and opportunities on behalf of its members. The TCFD report explains how the Plan is currently aligning with each of the four pillars set out in the Occupational Pension Schemes (Climate Change and Governance Reporting) regulations (and in line with the recommendations of the TCFD). The Trustee believes that climate change is likely to be a financial risk that will affect all the Plan's investments to some degree.

The four pillars covered in the report are set out below:

**Governance:**

The Trustee has developed its governance structure to gather information and form an assessment of the Plan's exposure to climate-related risks and opportunities, and its level of resilience. By seeking input from its appointed advisers, the Trustee will review and reflect upon its exposure to these risks on a regular basis, with the objective of safeguarding members' future benefits.

There have not been any notable changes to the Plan's governance structure during 2024. The Trustee will continue to receive training on climate-related risks and opportunities to help in its understanding of how climate change may impact the Plan.

**Strategy**:

In 2022, the Trustee explored physical and transition climate-related risks and opportunities, and viewed these were not a material threat to the Plan's sustainability. The Plan's managers identified a range of climate-related risks and opportunities, which differed by asset class. The diversification of the Plan's assets contributes to its overall level of expected resilience to these risks.

The analysis conducted in 2022 concluded that the Plan's funding level was resilient in the scenarios tested, albeit exhibiting higher volatility over the long term under the most severe downside scenario tested. Given there have not been significant changes in the Plan's funding and investment strategy over 2024, aside for a c.5% allocation to the ICG Total Credit Fund, and no major developments in industry methodology, the Trustee has not refreshed the analysis conducted in 2022.

The Trustee is aware of the regulatory requirement to refresh the Plan's scenario analysis (and methodology) at least every third year after the initial analysis to ensure it remains appropriate, and will therefore update the Plan's scenario analysis for the next iteration of this report, as at 31 December 2025, if suitable at the time.

The Trustee acknowledges the increasing scrutiny of current climate scenario methodologies, building on similar concerns that were raised in the previous TCFD Report, with further detail outlined later in the report.

**Risk Management:**

The Trustee recognises the Plan is exposed to climate-change-related risks. At the time of the Plan's first TCFD report in 2022, the majority of the Plan's material managers (six out of the nine managers) actively collaborated with the Trustee by providing detailed input on how they assess and manage climate-related risks and opportunities within their portfolios. The Trustee integrated this process into its ongoing risk management processes and will monitor developments over time.

The Trustee remains comfortable that the Plan's managers have sufficient processes in place to monitor climate-related risks and opportunities, and to manage these risks effectively. The Trustee is comfortable with the investment managers' consideration of climate change-related risks and opportunities. For example, during September 2024, the Trustee met with Insight, where ESG factors, including Climate Change, were key topics of discussions. Further, in October 2024, the Trustee agreed to invest in the ICG Total Credit Fund. As part of this process, the Trustee, via their Investment Consultant, considered the manager's ESG and stewardship capabilities, and were comfortable.

Over the Plan year, the Trustee also adopted Climate Change as a stewardship priority to help focus its stewardship efforts as detailed in the Plan's latest Statement of Investment Principles (the "SIP").

**Metrics and Targets:**

Over 2023, the proportion of the portfolio for which the Trustee was able to gather carbon emissions data increased significantly to 67%, meaning the Plan had reached its target (set in 2022) of 61% data coverage by 2027.

As such, the Trustee reviewed the Plan's target at the November 2024 Trustee meeting. Whilst alternative targets were considered as part of the discussion, data coverage was deemed the most appropriate metric for the nature of the Plan's portfolio. This led to the Trustee's decision to **update the Plan's data coverage target to achieve 85% by 2029,** as supported by the Plan's Investment Consultant.

Following this update to the target, the proportion of the portfolio for which the Trustee was able to gather carbon emissions was **79%** over 2024, **meaning it has made good progress towards the five-year target of 85% by 2029**. Compared to the data coverage in the second TCFD Report of 67%, this has increased by 12%. This increase was largely driven by the provision of emissions and carbon footprint data from the Plan's private equity manager, following last year's report where no data was provided. Additionally, enhancements in data coverage across the Plan's wider mandates also contributed to this increase.

While the Plan's overall portfolio data coverage has improved, driven largely by enhanced carbon reporting capabilities among its managers, the Trustee recognises that progress towards the 85% target may be slower. This is largely due to the nature of the remaining assets, such as Asset-Backed Securities, for which managers currently face significant challenges in obtaining reliable emissions data. Additionally, the absence of a consistent, industry-wide carbon reporting standard for these asset classes further limits progress. The Trustee will continue to engage with managers and anticipates further improvements over time as industry methodologies become more standardised.

The Trustee was comfortable with the updated target, recognising that improved data coverage is an important initial step and will enable the Trustee to better assess the Plan's emissions profile. Additionally, as the Plan's asset allocation is expected to evolve over the coming years, particularly through the gradual reduction of the illiquid assets, the target of data coverage has been selected due to its applicability across a range of asset classes. This ensures it remains relevant and achievable, even as the portfolio composition is expected to change.

The Plan's managers have shown overall improvement in carbon emissions, data coverage, and SBTi reporting. Most notably, the SBTi alignment metric (defined below) for the Plan is now 20%, marking a significant improvement from the previous iteration of the TCFD Report, where no managers were able to provide this metric. This progress reflects an increase in the number of managers now capable of providing SBTi-aligned data. However, the Trustee does acknowledge that meaningful progress in portfolio alignment may increasingly depend on the evolution of the policy and regulatory landscape, as voluntary commitments alone may not be sufficient to drive the scale of change required, and may not be in companies' financial interests.

Moving forwards, the Trustee acknowledges key areas where they, supported by its Investment Consultant, should continue to engage with the managers to drive further progress. The Trustee will continue to engage with the four managers that were unable to supply emissions data for this analysis with the assistance of the Plan's advisers. However, given the nature of these assets, where some are also small residual allocations, the Trustee acknowledges there may be limitations in the abilities of these managers to provide improved data.

In relation to the Plan's assets, the Trustee measures the following four metrics:

- **Absolute emissions metric:** Total Greenhouse Gas ("GHG") Emissions (Scope 1,2 and Scope 3 emissions where available). It is an absolute measure of the carbon emissions associated with the Plan's investments.

- **Emissions intensity metric**: Carbon Footprint – i.e. total GHG emissions for the portfolio per million pounds[1] invested. An intensity measure of emissions that takes the total GHG emissions and weights it to take account of the size of the investment made.

- **Alignment Metric:** Science Based Target Initiative ("SBTi") portfolio alignment metric. The percentage of portfolio assets with declared Net-Zero or Paris-aligned targets validated by the SBTi.

- **Additional non-emissions-based metric:** Data Coverage (previously referred to as Data Quality). A measure of the proportion of the portfolio for which scope 1 and 2 emissions data has been obtained.

The following pages summarise the Trustee's current position with regards to the TCFD recommendations and those set out in the Regulations. The Trustee has been supported by its Investment Consultant, Redington (appointed in April 2023), in the production of its third TCFD report and collecting the data within it.

[1] Carbon footprint data was obtained directly by managers and in some cases denominated in differing currencies and converted to GBP.

# Introduction

TCFD is an initiative that developed some best practice guidance for climate risk reporting. In accordance with the UK regulations set out in 2021, the Trustee is required to meet climate governance requirements and publish an annual TCFD-aligned report on its pension scheme's climate-related risks and opportunities[2].

The Eli Lilly Group Pension Plan is a defined benefit pension plan which was closed to new entrants from 1 January 2010. As at 31 December 2024, the Plan was well funded, with assets of around £1bn. The Plan remains open to accrual and the current asset allocation reflects the Plan's long-term nature. The current asset allocation does not include public equities but has a relatively high allocation to illiquid assets (c.33%). Over the course of the next four years, the allocation to illiquid assets is expected to reduce as these investments return capital with all proceeds expected to be received by around 2033.

Better climate reporting should lead to better-informed decision-making on certain climate-related risks and opportunities. In addition, greater transparency around climate-related risks and opportunities should lead to more accountability and provide decision-useful information to investors and beneficiaries.

This report provides a summary of how the Plan is currently aligned to each of the four elements set out in the regulations (and in line with the recommendations of the TCFD). Details on these elements are below:

- **Governance:** The Plan's governance around climate-related risks and opportunities.
- **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the Plan's investment and funding strategy.
- **Risk Management:** The processes used to identify, assess and manage climate-related risks and opportunities.
- **Metrics and Targets:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

[2] For brevity, where we refer in this report to the risks and opportunities relating to climate change, we mean this to cover both the risks arising from changes in the climate itself and the risks and opportunities presented by the anticipated transition of economies and society to a lower carbon future.

# 1. Governance

**Key Takeaway:**

**The Trustee is committed to meeting all requirements set out by relevant regulation.** The Trustee developed its governance structure in 2022 to gather information and form an assessment of the Plan's exposure to climate-related risks, and its level of resilience. By seeking input from its appointed advisers, the Trustee will continue to review and reflect upon its exposure to these risks on a regular basis, with the objective of safeguarding members' future benefits.

Over the Plan year, the Trustee has updated its stewardship policy within the SIP, and selected 'Climate Change' as a stewardship priority to focus stewardship efforts going forward.

## Role of the Trustee

The Trustee is responsible for oversight of all strategic matters related to the Plan. This includes approval of the governance and management framework relating to Environmental, Social and Governance ("ESG") considerations and climate-related risks and opportunities. The Trustee will allocate sufficient time at meetings to fulfil its obligations in relation to climate change governance and reporting and will review its governance arrangements and processes periodically to ensure that this remains the case. The governance structure has not changed over the year and so the specific roles and responsibilities of the Trustee and the Plan's advisers remain appropriate.

The Trustee discussed and agreed its overarching approach to managing climate change risk in 2022. Details are set out in the SIP which is reviewed every 3 years (or sooner in the event of a significant change in investment policy) by the Trustee. During 2024, the Trustee updated its stewardship policy within the Plan's SIP to highlight Climate Change as the key focus area to best channel its stewardship efforts. Climate-related risks have been considered alongside other ESG factors through the Investment Consultant's quarterly monitoring reports, as well as captured within the Plan's governance reports.

### Time Horizons

In assessing the Plan's climate change risk exposure and opportunities, the Trustee considers these over multiple time horizons (as required by the Regulations). In 2022, the Trustee decided that the most appropriate time horizons for the Plan are:

| | Time Horizon | Rationale |
|---|---|---|
| **Short term** | 0-3 years<br><br>Risk and opportunities are likely to be transition related | This time horizon aligns with the three-year actuarial valuation cycle.<br><br>Opportunities: Changes in consumer behaviour positively impacting sectors more advanced in relation to climate-related issues.<br><br>Risks: Increases in carbon prices, increased regulation, changes in consumer behaviour negatively impacting sectors that are slower to react or impact of extreme weather events. |

| | | |
|---|---|---|
| **Medium Term** | 3-10 years<br><br>Risk/opportunities include a mixture of physical and transition factors. | This time horizon aligns with the Plan's expected full funding date and also demonstrates the importance of significant climate data improvements over the next decade to meet carbon emission reduction targets.<br><br><u>Opportunities:</u> Same as short-term, and competitive pressures to react to changes in regulation and general economic environment.<br><br><u>Risks:</u> Same as short-term. |
| **Long Term** | 10-25 years<br><br>Risk/opportunities include a mixture of transition and physical factors that are more prominent than in the medium-term. | This time horizon helps the Trustee to better consider the potential impact of physical risks. The time frame is also helpful given the long-term nature of the Plan's investments.<br><br><u>Opportunities:</u> Same as medium-term.<br><br><u>Risks:</u> Same as medium-term and may also include commodity scarcity and food price inflation. |

This covers the period over which the Plan's member benefit payments to its members are projected to peak and will be reassessed over time.

Where appropriate, the Trustee will consider transition and physical climate-related risks and opportunities separately.

The Trustee seeks input from its advisers and the Plan's Sponsor on climate-related issues on an "as-needed" basis to ensure that it has the appropriate knowledge and understanding to support good decision-making. When seeking input from advisers or third parties on governance activities, the Trustee has, and will continue to, evaluate if such advisers are required to be challenged where necessary, to ensure the Trustee remains comfortable with the activities undertaken on its behalf. Additionally, the Trustee receives meeting material ahead of Trustee meetings, and focuses its time at meetings on a review of the material provided, as well as raising questions with advisers on this material.

The Trustee requires its advisers and investment managers to bring material climate-related risks and opportunities to its attention in a timely manner, and to have the appropriate knowledge to advise on climate-related matters.

The Trustee will publish this TCFD report in line with the requirements and timeline set out by the Reporting Regulations.

## Role of advisers

<u>Investment Consultant:</u> The Plan's Investment Consultant will provide strategic and practical support to assist the Trustee in managing climate-related risks and opportunities, including:

- Provision of training and relevant updates on climate-related issues such as scenario analysis and choosing appropriate metrics and targets.

    - All Trustee Directors complete the Pensions Regulator toolkit and new Trustee Directors attend the PLSA Trusteeship course. The Trustee has previously had a program of training on climate-related risks and opportunities, and regular training on other matters is scheduled on the Trustee Business Plan based on training needs assessments carried out annually.

- Review of the appropriateness of the Plan's funding strategy model (asset, liabilities and covenant) under a range of climate change scenarios.
- Assessment of investment manager competency.
- Collection, scrutiny and consolidation of information from investment managers.
- Action planning and tracking where indicated.

Plan Actuary: The Plan Actuary will help the Trustee assess the potential impact of climate change risk on the actuarial liability assumptions underpinning the Plan's funding strategy, including, as appropriate, the strength of the covenant offered by the sponsoring employer.

Covenant Adviser: As and when covenant advice is required, the covenant adviser will take climate-related risks and opportunities into account when providing advice to the Trustee on the employer covenant.

**Monitoring climate-related risks and opportunities**:

- In February 2024, to best channel the Plan's stewardship efforts, the Trustee selected Climate Change as a key theme based on its likely financial materiality to the Plan.
- The Trustee requires investment managers to engage with issuers on relevant matters to maintain or enhance long-term value of the Plan's investments and limit negative externalities on the planet and society. This includes performance, strategy, risks, capital structure, conflicts of interest, and environmental, social or governance considerations.
- The Trustee expects the Plan's fund managers will actively monitor ESG risks within the investments, providing transparency on engagement and voting actions with respect to mitigating these risks as appropriate.
- Supported by its Investment Consultant, the Trustee reviews the stewardship activities of its fund managers on an annual basis, covering both engagement with companies in which they invest and voting actions. The Trustee will engage directly with the fund manager if concerns are raised. Concerns may include but are not limited to; lack of transparency, failure to exercise voting rights, failure to act on conflicts of interest, failure to consider risks related to ESG matters. The Trustee also engages with managers directly.
- Where voting is concerned, the Trustee requires its fund managers to recall stock lending as necessary, to carry out voting actions. Engagement with relevant persons includes the exercise of rights (including voting rights) attaching to the Plan's relevant investments which are exercised by the asset managers of the Plan, where applicable. The Plan Trustee monitors and discloses the voting records of its managers on an annual basis.
- The Trustee will continue to monitor this and report on it through its Implementation Statement and ensure the policies within the SIP are followed and remain aligned with Trustees outlook on climate-related beliefs.
- The Trustee also monitors the risk objective regarding any significant ESG or climate-related development for the Trustee to be aware of on a quarterly basis.

# 2. Strategy

## Assessing climate-related risks and opportunities

Assessing the climate-related risks and opportunities the Plan is exposed to is key to understanding the impact climate change could have on the Plan in the future.

**Key Takeaway:**

Given there have not been any significant developments in the Plan's investment strategy or any material improvements in both the availability of relevant data or industry best practice in scenario modelling, the Trustee has concluded the analysis carried out in 2022 does not need to be updated.

Overall, climate-related risks were not viewed as a material threat to the Plan's sustainability. There were a range of climate-related risks identified by the Plan's managers, which differ by asset class. The diversification of the Plan's assets contributes to its overall level of resilience to these risks.

The Trustee is aware of the regulatory requirement to refresh the Plan's scenario analysis (and methodology) at least every third year after the initial analysis to ensure it remains appropriate, and will therefore update the Plan's scenario analysis for the next iteration of this report, as at 31 December 2025, if suitable at the time.

**The results from 2022 are reproduced below:**

The Trustee has carried out a qualitative risk assessment on each asset class the Plan is invested in. From this, the Trustee has identified which of the climate-related risks and opportunities could have a material impact on the Plan.

The Plan's investment portfolio is diversified across a range of different asset classes including liquid investments such as fixed income, and less liquid assets such as private equity.

### Which investments were included?

The Trustee has focused its attention and time on the most relevant and significant risks. The Plan's investments in Liability Driven Investments (LDI) were excluded from its review as there is limited scope for the Trustee to mitigate the risk of investing in UK Government Bonds.

Non-material funds were also excluded, as were funds in wind down. Consequently, this review focused on 51% of Plan investments as at 31 December 2021. This covered five asset classes and nine investment managers as detailed in the following table.

| | Fund Allocation at 31.12.2021 | Investment Manager |
|---|---|---|
| **Bond Funds** | 23% | Insight, M&G, Schroders |
| **Equity** | 11% | MSIM (fully redeemed in 2022) |
| **Private Equity** | 8% | Adams Street |

| | | |
|---|---|---|
| **Property** | 4% | CBRE |
| **Infrastructure and Private Debt** | 5% | DIF, DRC, Ares |
| LDI | 41% | Insight |
| Non-material funds | 3% | CVC, KKR, AIL, Schroders, Walton Street, Green Oak, Alcentra, Taconic |
| Funds in wind down | 1% | |
| Cash & Derivatives | 4% | |
| **Total** | **100%** | |

**Conclusions**

Of the nine managers the Trustee requested information from (in 2022), three (Adams Street, Schroders, and Ares) did not complete the questionnaire. The Trustee notes this is not unusual given fund managers are adapting to the requirements in this area, and therefore anticipates there will be progress over time.

Accordingly, the Trustee asked its Investment Consultant to engage with the Plan's managers to encourage them to better support the Trustee in understanding climate risks in future. The Trustee takes regular advice from its Investment Consultant as to the suitability of the Plan's appointed fund managers, which includes considerations of ESG factors when reviewing the Plan's managers. The Trustee also considers managers' approaches to managing climate-related risks and opportunities when selecting managers and when monitoring their performance, supported by its Investment Consultant. Six managers completed the questionnaire which covered the following risk categories, ratings and time horizons.

- **Risk Categories:** In the analysis, the climate-related risks and opportunities have been categorised into physical and transitional risks.
    - Transitional Risks are associated with the transition towards a low-carbon economy. For example, shifts in policy, technology or supply and demand in certain sectors.
    - Physical risks are associated with the physical impacts of climate change on companies' operations. For example, extreme temperatures, floods, storms or wildfires.
- **Ratings**: The analysis uses a RAG rating system where:
    - Red denotes high level of financial exposure to a risk.
    - Amber denotes a medium level of financial exposure to a risk.

    - Green denotes a low level of financial exposure to a risk.

- **Analysis time horizons**: As set out in the Governance section, the Trustee assess the climate-related risks and opportunities over multiple time horizons:
    - Short term: 0-3 years
    - Medium term: 3-10 years
    - Long term: 10-25 years

Based on the analysis completed, the Trustee identified:

- The managers who engaged provided insightful commentary on assessment of climate risks.
- There are no mandates where significant concerns were raised needing immediate action.
- There were significant differences in the way managers assessed climate risk, which may represent methodological rather than real differences in risk exposure.

The Plan remains in surplus on a technical provisions basis, and as at 1 January 2025, the Plan was c.100% funded on a solvency basis. Given the low level of reliance on the covenant in the near term, a detailed sponsor covenant assessment of climate risk impact on the Plan sponsor was not deemed proportionate.

Following the completion of the Plan's triennial actuarial valuation as at 1 January 2023, the Trustee continues to work with its advisers to incorporate climate considerations into the assessment of the liabilities and covenant. This will also be considered leading into the next actuarial valuation, as at 1 January 2026.

## Portfolio resilience and scenario analysis

In 2022, the Trustee undertook climate change scenario analysis to better understand the impact climate change could have on the Plan's assets and liabilities.

**Key Takeaway:**

Given there have not been significant changes in the Plan's investment strategy over 2024, aside from the c.5% allocation to the ICG Total Credit Fund, or developments in industry methodology over the year, the Trustee has not renewed the analysis conducted in 2022. This scenario analysis affirms that the Plan's funding level was resilient to the range of climate scenarios tested, albeit exhibiting higher volatility over the long term under the most severe downside scenario tested.

The analysis considered three climate change scenarios. Each scenario considers what might happen when transitioning (or not) to a low-carbon economy under different conditions. The Trustee has chosen these scenarios because it believes that they provide a reasonable range of possible climate change outcomes. These scenarios were developed by Aon and are based on detailed assumptions. They are not a forecast, but rather represent a range of plausible outcomes. As such, they are illustrative and are subject to considerable uncertainty.

The scenario analysis considered the potential impact of climate change on the current strategic asset allocation (as at 31 December 2021) and liabilities (measured on the strategic liability basis) and, therefore, its funding position. Taking advice from its previous Investment Consultant, Aon, the Trustee considered a "base case" scenario against which the three climate change scenarios are compared.

| Scenario (Degree warming) | Scenario Description |
|---|---|
| Base Case<br><br>(~2ºC – 2.5ºC) | Emission reductions start now and continue in a measured way in line with the objectives of the Paris Agreement and the UK government's legally binding commitment to reduce emissions in the UK to net zero by 2050. Current pricing suggests that the market does not expect a bad climate change outcome – that is, the effects are not as damaging as first thought, and some progress is made to limit greenhouse gas emissions and global warming. |
| Worst case scenario: Disorderly transition (<4ºC) | The world economy remains oriented towards improving near-term economic prospects, with companies and governments taking a "business as usual" approach. Eventually, market participants begin to fully grasp the implications of climate change and there is a growing realisation that current levels of action are inadequate. Market values price in high levels of economic damage and irreversible loss. |
| Best case scenario: Orderly transition (<2ºC) | Increased public awareness of climate change risks galvanises opinion and leads to governments undertaking widespread action globally to aggressively mitigate and adapt to climate change. A high global greenhouse gas tax and carbon cap is introduced. |

Source: Aon. Note: Degree warming is relative to pre-industrial levels by 2100.

**Outcomes:**

Based on the climate scenario analysis, the Trustee identified that:

- The Plan's funding level was resilient in the scenarios tested, driven by the decision to reduce the allocation to equities, the diversification in the Plan's assets and the liability hedging in place.

- Under the most severe downside scenarios, the Plan remained fully funded in the long-term, albeit with higher volatility.

Since completing the above analysis for the Plan's first TCFD report as at 31 December 2022, the Trustee notes there has been a lack of global decarbonisation progress so far and there are policy headwinds going forward. Moreover, the Trustee is conscious that physical climate risks may materialise sooner than current models suggest, due to the slowing pace of progress towards the climate transition.

The Trustee acknowledges the increasing scrutiny of current climate scenario methodologies, building on concerns highlighted in the Plan's previous TCFD Report. In particular, 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 and considers qualitative assessments of risks alongside the scenario analysis output. The Trustee and its advisers will look to improve the scenario analysis in the future, appropriate to the Plan's investment strategy and industry wide methodology.

# 3. Risk Management

## Our process for identifying and assessing climate-related risks and opportunities

In 2022, the Trustee established a process to identify, assess and manage the climate-related risks and opportunities that are relevant to the Plan. This was part of the Plan's wider risk management framework and describes how the Trustee monitors the most significant risks to the Plan in its efforts to achieve appropriate outcomes for members. In the Plan's first TCFD report, there were two elements to the Trustee's approach to understanding and assessing the impact of these risks on the Plan's investments, which captured a qualitative assessment and quantitative analysis.

On review, the qualitative assessment remains appropriate to monitor the climate-related risks and opportunities on an annual basis rather than obtaining the quantitative information from managers on an annual basis. This approach considers the TPR guidance on how to improve reporting on climate-related risks and opportunities.

**Key Takeaway:**

The Trustee remains comfortable that the majority of the Plan's material managers have sufficient processes in place to monitor climate-related risks and opportunities, and to manage these risks effectively. The Trustee is comfortable with the investment managers' consideration of climate change-related risks and opportunities.

Over the Plan year, the Trustee has adopted Climate Change as a stewardship priority to help focus its stewardship efforts, as detailed in the latest SIP.

When prioritising the management of risks, the Trustee assessed the materiality of climate-related risks and opportunities relative to the impact and likelihood of other risks to the Plan. This helped the Trustee focus on the risks that pose the most significant impact when first considering the risk management processes. The Trustee recognises the long-term risks posed by climate change and has taken steps to integrate climate-related risks and opportunities into the Plan's risk management framework.

As discussed in section "2. Strategy", the Trustee recognises the Plan is exposed to climate change-related risks in the form of transition and physical risk. The Trustee considers the impact of these risks on all of the assets in which they invest via conducting and reviewing the results of climate-related stress tests on a periodic basis. Climate change is also included in the Plan's risk register and reviewed as part of the wider risk management framework.

The Trustee has previously prioritised the management of climate transition risks over physical risks, as it has judged that these pose the biggest potential for financial loss to the Plan in the short/medium term. This was achieved by monitoring the output of asset-side climate scenario analysis on a quarterly basis, and through engagement with the Plan's investment managers on their own approaches. However, as the likelihood of physical risks relating to climate change increase as global temperatures continue to rise, the Trustee expects that consideration of these risks – and the Fund's resilience to them – may become a more significant priority.

For all appointed investment managers, evaluation of ESG risk management, which includes climate-related risks and opportunities, is an explicit part of both the selection process and continued monitoring that the Trustee undertakes. The Trustee also relies on the manager research capabilities of its Investment Consultant to assess each manager's ability to effectively integrate climate-related risks and opportunities.

Active engagement with underlying companies in which the Plan is invested, specifically relating to climate-related risks and opportunities, is delegated to the Plan's investment managers. Engagement with the investment managers themselves is carried out on behalf of the Plan by the Investment Consultant which reports back at least annually to the Trustee. Given the Plan is invested in LDI and credit funds with Insight, the Trustee most recently met with the manager (alongside the Investment Consultant) in September 2024. ESG considerations and stewardship were discussed in detail at this meeting.

Further, in October 2024, the Trustee agreed to invest in the ICG Total Credit Fund. As part of this process, the Trustee, via their Investment Consultant, considered the manager's ESG and stewardship capabilities, and were comfortable.

The Trustee considered queries such as how ESG risks are integrated into the manager's counterparty approval process and how the manager considers incorporating ESG considerations into the LDI investment process. The Trustee concluded they were comfortable with Insight's consideration of climate change-related risks and opportunities.

The Trustee will continue to meet with the Plan's LDI manager on a regular basis. The Trustee's stewardship priorities will continue to be discussed and monitored.

In response to DWP's guidance, the Trustee updated its stewardship policy within the Plan's SIP in 2024. Within the updated stewardship policy, the Trustee chose to adopt a stewardship theme of Climate Change. The Trustee intends to use this theme as a lens to focus its monitoring and assessment of managers' stewardship activities. The Trustee recognises that it is useful to focus its efforts on this one theme as it aligns with its wider climate beliefs, while being manageable from a governance perspective. By holding investment managers to account for these activities (particularly focusing on Climate Change), the Trustee hopes to encourage better stewardship activities which will result in a reduction in climate change-related risk.

The Trustee will monitor risk management efforts through stewardship with the Plan's managers, where engagement with the managers' underlying companies will be reported in the Plan's annual Implementation Statement where Climate Change is a theme that is closely considered, and engagement examples are provided to support this.

# 4. Metrics and Targets

## Climate-related metrics

The Trustee uses some quantitative measures to help understand and monitor the Plan's exposure to climate-related risks and opportunities. The Trustee's choice of these measures, outlined on page 4, is aligned with the prescribed metrics required by the regulations governing the Plan.

**Key Takeaway:**

As at December 2024, the Plan's data coverage is 79%, positioning it well to achieve the updated target of 85% by 2029. The data for this report has been directly obtained from the Plan's managers.

Compared to the data coverage in the second TCFD Report of 67%, this has increased by 12%. This increase was largely driven by the provision of emission and carbon footprint data from the Plan's private equity holdings, following last year's report where no data was provided.

As the Plan has many illiquid assets, this data coverage figure is broadly aligned with expectations given the Plan's investment strategy and the complexity of the underlying investments. The Trustee will continue to monitor the Plan's emissions coverage and anticipates there will be improvements over time as industry methodology becomes more standardised.

The Trustee continues to receive these metrics on an annual basis from its Investment Consultant, with this being the third year of such reporting. The Trustee will periodically review its selection of metrics to ensure they remain appropriate for the Plan.

On review, the metrics the Trustee has chosen to report remain appropriate for the third report. However, given the Plan gathered carbon emissions for 67% of the portfolio in the last iteration of this report, and thereby surpassed its target of achieving 61% data coverage by 2027, the Trustee decided to review the Plan's target at the November 2024 Trustee meeting.

Although alternative targets were considered as part of the discussion, the Trustee decided to update the Plan's data coverage target to achieve 85% by 2029. The table below sets out the results of each of the chosen metrics broken down by broad asset class for inclusion into the Plan's third TCFD report. Please note, the data outlined below has been obtained from each of the Plan's managers directly, excluding residual assets. The data was requested as at 31 December 2024, however three of the Plan's managers were only able to provide data as at 31 December 2023, as their 2024 reporting had not yet been released.

As aggregating emissions to a portfolio level means combining different methodologies, the Trustee acknowledges that greater insight can be gained by looking at the year-on-year data at an asset class-level. As such, the below analysis is broken down by asset class and includes summary metric for the overall Plan, along with directional arrows indicating year-on-year change for comparison. Further, the Trustee notes the LDI manager has a separate carbon accounting methodology, which reflects the fact that corporate and sovereign economic activity or value need to be measured in different ways[3].

As such, the Trustee recognises this should be considered separately and has reflected this within the table below. Moving forwards, the Trustee will continue to consider best practice when reviewing the data presented in this report.

[3] Corporate emissions are normalised using each entity's enterprise value, whereas sovereign emissions are based on a country's GDP, adjusted for purchasing power parity.

**Results of each of the Plan's metrics broken down by broad asset class:**

| | % of Assets[4] | Data Coverage (% coverage)[5] | | Total GHG Emissions (tCO2e)[6] | | Carbon Footprint (tCO2e/£m)[7] | | SBTi Rating |
|---|---|---|---|---|---|---|---|---|
| | | Scope 1 & 2 | Scope 3 | Scope 1 & 2 | Scope 3 | Scope 1 & 2 | Scope 3 | |
| Property[8] | 4% | 67% ↓ | 67% ↓ | 34 ↓ | 325 ↓ | 0.9 ↓ | 8.7 ↑ | 46% ↑ |
| Private Equity | 12% | 98% ↑ | 98% ↑ | 7,972 ↑ | 78,755 ↑ | 66 ↑ | 652 ↑ | - → |
| Private Markets[9] | 18% | 71% → | 60% ↑ | 11,630 ↓ | 13,379 ↓ | 81 ↓ | 95 ↓ | 2% ↑ |
| Credit | 22% | 37% ↑ | 16% ↑ | 3,077 ↑ | 81,326 ↑ | 13.6 ↑ | 1,464 ↑ | 2% ↑ |
| Cash and derivatives | 2% | - → | - → | - → | - → | - → | - → | - → |
| LDI | 43% | 100% → | - → | 170,571 ↓ | - → | 171 ↓ | - → | - → |
| **Total portfolio** | **100%** | **79%** ↑ | **29%** ↑ | **193,284** ↓ | **173,784** ↓ | **101** ↓ | **750** ↓ | **20%**[10] ↑ |

Source: Plan's Managers

■ Favourable direction ■ Less favourable direction ■ No change

The arrows within the table provide a comparison of the results to the output as detailed in the Plan's second TCFD Report. For ease of comparison, the table below shows the data obtained for inclusion into the Plan's second TCFD report.

4 As at 31 December 2024. Figures may not sum to 100% due to rounding.
5 In the case of the Plan's illiquid mandates, some of the data received may be based on the managers' own estimations as well as emissions directly reported by underlying companies.
6 Emissions data has not been scaled up where data coverage is <100%.
7 Refers to % of portfolio where carbon data is available, either from investee company disclosures directly or indirectly via third party data providers. Carbon footprint data was obtained directly by managers and in some cases denominated in differing currencies and converted to GBP.
8 Property emissions data is provided as at 31 December 2023.
9 C.36% of private markets carbon emissions have been provided as at 31 December 2023.
10 Please note, this figure does not include funds which were unable to provide SBTi data.

| | % of Assets [11] | Data Coverage (%coverage)[12] | | Total GHG Emissions (tCO2e)[13] | | Carbon Footprint (tCO2e/£m)[14] | | SBTi Rating |
|---|---|---|---|---|---|---|---|---|
| | | Scope 1 & 2 | Scope 3 | Scope 1 & 2 | Scope 3 | Scope 1 & 2 | Scope 3 | |
| Hedge Funds | 0% | - | - | - | | - | | N/A |
| Property[15] | 6% | 89% | 79% | 490 | 554 | 7 | 8 | |
| Private Equity | 12% | - | - | - | - | - | - | |
| Private Markets[16] | 17% | 71% | 45% | 13,954 | 34,236 | 105 | 319 | |
| Credit | 16% | 22% | - | 472 | - | 3[17] | - | |
| LDI[18] | 46% | 100% | - | 207,204 | - | 179 | - | N/A |
| Cash and derivatives | 3% | - | - | - | - | - | - | N/A |
| **Total portfolio** | **100%** | **67%** | **13%** | **222,120** | **34,790** | **118** | **234** | **TBC** |

Given **total GHG emissions** reported demonstrate the total share of direct and indirect emissions for which the Plan's assets are responsible (where data was available), it is impacted by the overall value of the assets. As such, while the metric is useful to monitor, the Trustee acknowledges it has less control over absolute emissions compared to carbon intensity. Relative to the Plan's second report, total GHG emissions fell, driven largely by a fall in the carbon emissions for the Plan's property and private market assets.

Over the year, the Plan's carbon footprint fell, following a notable reduction in the carbon footprint figures provided for the property and private market mandates. There has been a slight increase in the Plan's scope 1 & 2 and scope 3 carbon footprint for the credit allocation; this was largely driven by the recent investment into an additional multi-asset fund, for which the manager was able to provide carbon footprint analysis.

In line with the statutory guidance, this report also discloses scope 3 emissions. Since last year's report, data availability for scope 3 emissions has improved, leading to notable increases in both the scope 3 carbon footprint and emissions figures for the Plan. Please note, although LDI comprises a significant proportion of the Plan's total assets, the manager was unable to provide scope 3 emissions for gilts held within the LDI portfolio due to data constraints and a lack of data availability.

[11] As at 31 December 2023. Figures may not sum to 100% due to rounding.
[12] Please note, in the case of the Plan's illiquid mandates, some of the data received may be based on the managers' own estimations as well as emissions directly reported by underlying companies.
[13] Emissions data has not been scaled up where data coverage is <100%.
[14] Refers to % of portfolio where carbon data is available, either from investee company disclosures directly or indirectly via third party data providers. Carbon footprint data was obtained directly by managers and in some cases denominated in differing currencies and converted to GBP.
[15] C.98% of the property emissions data is provided as at 31 December 2022. The remaining property allocation is a residual holding for which the manager was unable to provide data.
[16] C.20% of private markets carbon emissions have been provided as at 31 December 2022.
[17] This figure has been estimated based on data provided by the Plan's ABS manager.
[18] LDI emissions reported represent combined gilts leveraged exposure.

The **SBTi portfolio alignment metric** for the Plan is 20%, marking a significant improvement from the previous iteration of the TCFD Report, where no managers were able to provide this metric. The Trustee was encouraged by this progress following notable efforts to engage with managers to provide this data over the year. For example, when considering the new manager for the multi-asset fund in late 2024, the Trustee emphasised the importance of a manager's ability to provide this metric, as reflected in the table above. As a result of this, the new multi-asset manager, ICG, were able to provide SBTi data, which contributed to this significant improvement.

Moving forwards, the Trustee will continue to engage with managers to further improve this metric. Over time, the proportion of the portfolio held in assets where data is unavailable is expected to decrease, and data quality should improve, leading to an expected improvement in the SBTi portfolio alignment objective. However, the Trustee notes that meaningful progress in portfolio alignment may increasingly depend on the evolution of the policy and regulatory landscape, as voluntary commitments alone may not be sufficient to drive the scale of change required, and may not be in companies' financial interests.

Of note, the Plan's LDI manager is unable to report on this metric as it focuses on corporate issues, rather than sovereign bonds which are held in the LDI portfolio. In light of this, although the Trustee cannot report an SBTi rating for the UK Government bond holdings within the LDI portfolio as SBTi does not assess countries, the UK Government's statutory net zero CO2 target has been assessed as "aligned with a global 1.5C scenario" by ASCOR[19], the first public investor framework assessing sovereign bond issuers on climate change. Therefore, the Trustee deems the LDI portfolio, excluding cash and derivatives, to be aligned based on this assessment.

Given the Plan has several allocations to illiquid assets, it is important to note that due to the nature of these assets, it has proven difficult to obtain **data coverage** for these assets across the industry. This is the third time this analysis has been carried out for the Plan, and the expectation is that the output will evolve over time as data availability is expected to improve.

The Trustee uses the results to identify the climate-related risks and opportunities which are relevant to the Plan. These might include, for example, engaging with fund managers who have material carbon intensity levels or with other industry participants and updating investment guidelines for managers where the Trustee has discretion to make such changes and where this is consistent with the Trustee's wider fiduciary duty. This also allows the Trustee to continue to create real-world impact and engage with its managers, even as the composition of the portfolio changes over time.

The Trustee notes that there is no industry-wide standard on calculating some of these metrics and that different managers may use different methods and assumptions when providing data to the Trustee. These issues are common across the industry at the current time and highlight the importance of TCFD-aligned reporting to improve transparency. The Trustee anticipates that in the future, better information will be available from managers as the industry aligns to expectations and best practice standards.

Similar to last year, because not all the Plan's managers were able to provide all the requested data, the reported emissions metrics do not include all the Plan's GHG emissions. For managers that provided data with <100% data coverage, the GHG data has not been scaled to cover 100% of the portfolio, hence the metrics continue to show the Plan's GHG emissions to be lower than they really are.

The Trustee will continue to engage with its managers that were unable to supply emissions data for this analysis, with the assistance of the Plan's advisers, noting the nature of the Plan's assets may restrict the ability to obtain improved data. The Trustee also expects that, over time, industry-wide standards for climate-related data, particularly for illiquid mandates, will improve. This will be reflected in the coming years' reporting.

[19] Assessing Sovereign Climate-related Opportunities and Risks ("ASCOR").

The Plan's Investment Consultant requested data from all the Plan's managers, of which 8 managers did not provide any information due to the nature of the holdings and the Plan's investment. This figure remains unchanged from last year.

## Climate-related target

The Trustee measures the following target, with more detail below:

- Targeting data coverage of the Plan's investments to be 85% of assets by 2029.

The data coverage for the reporting period is 79%. Compared to the data coverage target in the second TCFD Report of 67%, this has increased by 12%, largely driven by the provision of emissions and carbon footprint data from the Plan's private equity manager.

As the Plan has many illiquid assets, this data coverage figure is broadly aligned with expectations given the Plan's investment strategy and the complexity of the underlying investments. The Trustee will continue to monitor the Plan's emissions coverage and anticipates there will be improvements over time as industry methodology becomes more standardised.

**Key Takeaway:**

The Plan has made good progress towards the five-year target set by the Trustee to achieve 85% data coverage by 2029. The Trustee will continue to engage with the Plan's managers to ensure data received is an accurate reflection of the data coverage.

In seeking to improve data coverage over the coming years, the Trustee will prioritise funds which are most material within the portfolio and, with the support of its advisers, engage with managers to assess if this target remains appropriate.

There are a few key reasons as to why the data coverage target has improved over this period which have been summarised below:

- Industry-wide improvements in the availability of data and in data coverage. For example, the Plan's private equity manager, who was unable to provide data for the previous iteration of this report, has provided data for 98% of assets.

- In 2024, 12 of the Plan's managers were able to provide the relevant data for this reporting period, compared to 10 for the previous iteration of this report.

- For some managers, the data coverage was provided as 100%, where a certain proportion was based on reported emissions, and the remainder as estimated emissions.

While the Plan's overall portfolio data coverage has improved, driven largely by enhanced carbon reporting capabilities among its managers, the Trustee recognises that progress towards the 85% target may be slower going forward. This is largely due to the nature of the remaining assets, such as Asset-Backed Securities, where the underlying data is complex with limited regulation on emissions reporting. As such, managers face significant challenges in obtaining reliable emissions data. Additionally, the absence of a consistent, industry-wide carbon reporting standard for these asset classes further limits progress. The Trustee will continue to engage with managers and anticipates further improvements over time as industry methodologies become more standardised.

Although there has been encouraging progress towards the target, the Trustee acknowledges that this positive trajectory is not guaranteed, and fluctuations in year-on-year data coverage can be seen.

The Trustee will continue to take the following steps to maintain the target, and revise the target where appropriate:

- Focus initially on improving the data coverage for asset classes which have the least data coverage i.e. credit and property.

- Engage with the most material managers regarding the data coverage they provide.

# Appendix A: Glossary of Terms

Source: Aon

| | |
|---|---|
| Governance | refers to the system by which an organisation is directed and controlled in the interests of shareholders and other stakeholders.[20] Governance involves a set of relationships between an organisation's management, its board, its shareholders, and other stakeholders. Governance provides the structure and processes through which the objectives of the organisation are set, progress against performance is monitored, and results are evaluated.[21] |
| Strategy | refers to an organisation's desired future state. An organisation's strategy establishes a foundation against which it can monitor and measure its progress in reaching that desired state. Strategy formulation generally involves establishing the purpose and scope of the organisation's activities and the nature of its businesses, taking into account the risks and opportunities it faces and the environment in which it operates.[22] |
| Risk Management | refers to a set of processes that are carried out by an organisation's board and management to support the achievement of the organisation's objectives by addressing its risks and managing the combined potential impact of those risks.[23] |
| Climate-related risk | refers to the potential negative impacts of climate change on an organisation. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires). They can also relate to longer term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise). Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations.[24] |
| Climate-related opportunity | refers to the potential positive impacts related to climate change on an organisation. Efforts to mitigate and adapt to climate change can produce opportunities for organisations, such as through resource efficiency and cost savings, the adoption and utilization of low-emission energy sources, the development of new products and services, and building resilience along the supply chain. Climate-related opportunities will vary depending on the region, market, and industry in which an organisation operates.[25] |
| Greenhouse gas emissions ("GHG") scope levels[26] | Greenhouse gases are categorised into three types or 'scopes' by the Greenhouse Gas Protocol, the world's most used greenhouse gas accounting standard.<br><br>Scope 1 refers to all direct GHG emissions.<br><br>Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam. |

[20] A. Cadbury, Report of the Committee on the Financial Aspects of Corporate Governance, London, 1992.
[21] OECD, G20/OECD Principles of Corporate Governance, OECD Publishing, Paris, 2015.
[22] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017
[23] Ibid
[24] Ibid
[25] Ibid
[26] World Resources Institute and World Business Council for Sustainable Development, The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition), March 2004.

Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include: the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g., transmission and distribution losses), outsourced activities, and waste disposal.[27]

Value Chain refers to the upstream and downstream life cycle of a product, process, or service, including material sourcing, production, consumption, and disposal/recycling. Upstream activities include operations that relate to the initial stages of producing a good or service (e.g., material sourcing, material processing, supplier activities). Downstream activities include operations that relate to processing the materials into a finished product and delivering it to the end user (e.g., transportation, distribution, and consumption).[28]

Climate Scenario Analysis is a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. In the case of climate change, for example, scenarios allow an organisation to explore and develop an understanding of how the physical and transition risks of climate change may impact its businesses, strategies, and financial performance over time.[29]

Net Zero means achieving a balance between the greenhouse gases emitted into the atmosphere, and those removed from it. This balance – or net zero – will happen when the amount of greenhouse gases add to the atmosphere is no more than the amount removed.[30]

[27] PCC, Climate Change 2014 Mitigation of Climate Change, Cambridge University Press, 2014
[28] 3 TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017
[29] Ibid
[30] Energy Saving Trust, What is net zero and how can we get there? - Energy Saving Trust, October 2021

## Appendix B: Greenhouse gas emissions in more detail

Source: Aon

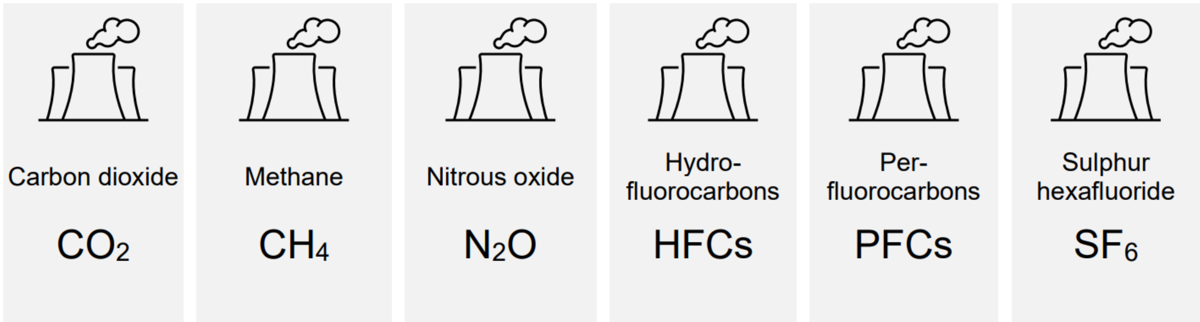
Greenhouse gases in the atmosphere, including water vapour, carbon dioxide, methane, and nitrous oxide, keep the Earth's surface and atmosphere warm because they absorb sunlight and re-emit it as heat in all directions including back down to Earth. Adding more greenhouse gases to the atmosphere makes it even more effective at preventing heat from leaving the Earth's atmosphere.

Greenhouse gases are vital because they act like a blanket around the Earth making it the climate habitable. The problem is that human activity is making the blanket "thicker". For example, when we burn coal, oil, and natural gas we send huge amounts of carbon dioxide into the air. When we destroy forests, the carbon stored in the trees escapes to the atmosphere. Other basic activities, such as raising cattle and planting rice, emit methane, nitrous oxide, and other greenhouse gases.

The amount of greenhouse gases in the atmosphere has significantly increased since the Industrial Revolution. The Kyoto Protocol[31] identifies six greenhouse gases which human activity is largely responsible for emitting. Of these six gases, human-made carbon dioxide is the biggest contributor to global warming.

Each greenhouse gas has a different global warming potential and persists for a different length of time in the atmosphere. Therefore, emissions are expressed as a carbon dioxide equivalent (CO2e). This enables the different gases to be compared on a like-for-like basis, relative to one unit of carbon dioxide.

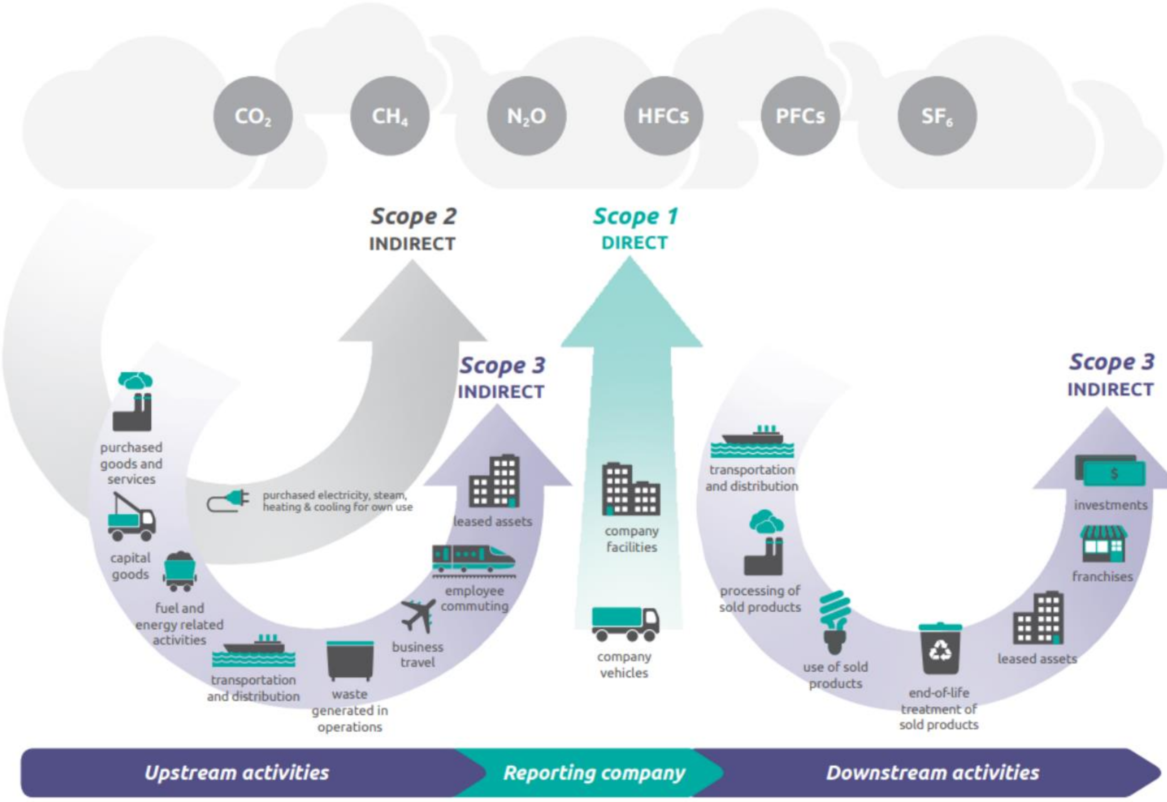
Six main greenhouse gases identified by the Kyoto Protocol




Greenhouse gases are categorised into three types or 'scopes' by the Greenhouse Gas Protocol, the world's most used greenhouse gas accounting standard.

[31] https://unfccc.int/kyoto_protocol

Overview of GHG Protocol scopes and emissions across the value chain




Source: Greenhouse Gas Protocol, Corporate value chain (scope 3) Accounting and Reporting Standard, 2011

# Appendix C: Climate scenario modelling assumptions

Source: Aon

**Note to Trustees**

The purpose of this appendix is to conform to the DWP's statutory guidance, which states that Trustees must *"Describe the key assumptions for the scenarios used and the key limitations of the modelling (for example, material simplifications or known under/over estimations)"*

The purpose of the climate scenario modelling is to consider the impact of climate-related risks and opportunities on the Plan's assets and liabilities over the long-term. The scenario modelling assumes a deterministic projection of assets and liabilities on the Technical Provisions basis, using standard actuarial techniques to discount and project the Plan's expected future cashflows.

i. It models the full yield curve as this allows for a more accurate treatment of the liabilities and more realistic modelling of the future distribution of interest rates and inflation.

ii. The modelling parameters vary deterministically for each scenario.

The liability projections are approximate, but they are appropriate for this analysis. However, a full actuarial valuation carried out at the same date may produce a materially different result.

The scenario modelling focusses on the impact of climate change on the Plan's assets and liabilities. It does not consider the impact climate change could have on the covenant risk or mortality risk.

The scenario modelling reflects recent market conditions and current market views. The model may produce different results for the same strategy under different market conditions.

This report, and the work relating to it, complies with 'Technical Actuarial Standard 100: Principles for Technical Actuarial Work' ('TAS 100'). The model complies with TAS 100.

**Key Assumptions:**

| | **Temperature risk by 2100** | **Reach net zero by** | **Carbon price (2030/2050)** | **Introduction of environmental regulation** |
|---|---|---|---|---|
| Base Case | +2-2.5C | 2050 | $75/$125 | Fragmented Coordination |
| Disorderly transition | <3C | After 2050 | $65/$340 | Late and aggressive |
| Orderly transition | 1.3C – 2C | 2050 | $100/$215 | Coordinated |