Thames Water Pension Scheme Taskforce on Climate-Related Financial Disclosures (TCFD) Statement – Year Ended 31 March 2025

Executive Summary

This report has been produced by the Trustee of the Thames Water Pension Scheme ("the Scheme") and its advisers under the requirements of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021. As part of these regulations, the Trustee is legally required to produce formal disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"). This report covers decisions and actions taken and processes applied in the period from 1 April 2024 to 31 March 2025.

This report covers the following four areas of the Climate Change Governance framework:

- **Governance**: the arrangements that have been put in place around climate-related risks and opportunities.
- **Strategy**: the actual and potential impacts of climate-related risks and opportunities on the investment and funding strategy, covenant and financial plans of the Scheme.
- **Risk Management**: how the Scheme identifies, assesses, and manages climate-related risks.
- **Metrics and Targets**: the metrics and targets used to assess and manage climate-related risks and opportunities.

Governance

The ultimate responsibility for managing climate-related risks and opportunities for the Thames Water Pension Scheme rests with the Trustee. However, the day-to-day oversight is delegated to the Investment Sub-Committee ("ISC"). The Trustee undergoes regular training on responsible investment, specifically addressing climate change issues. Additionally, the Trustee mandates the Scheme's appointed fund managers to consider and address climate-related risks and opportunities. To fulfil this requirement, the Trustee has assigned Redington, its Investment Adviser, to engage with the managers on its behalf and inform the Trustee of any pertinent updates.

Strategy

The Trustee considers climate-related risks and opportunities across short, medium, and long-term time periods relevant to the Scheme's investment and funding strategy. These risks are primarily assessed via climate scenario analysis of the Scheme's assets, liabilities and an assessment of the sponsoring company's exposure to climate-related risks and opportunities. The results of this climate analysis are reported as at 31 March 2024 (for the Scheme's assets), and as at 31 March 2023 (for the Scheme's liabilities and covenant). During the Scheme year the Trustee undertook some strategic de-risking. However, given the nature of the de-risking, the Trustee does not expect that there would be material changes to the results of the scenario analysis. Therefore, the Trustee has chosen not to update scenario analysis for this report.

The Trustee has examined potential modifications to the investment strategy to minimise exposure to climate-related risks and capitalise on climate-related opportunities. In pursuit of this objective, the Trustee regularly meets with its managers to engage with them on the

funds, including on their ESG activities, and has recently implemented an engagement tracker to record key details of the engagement, findings and any follow-up actions. The Investment Adviser also engages with managers on their ESG activities and feeds this back to the Trustee on a regular basis.

The Trustee has engaged with the Actuarial Adviser, Aon, to consider how each of the transition scenarios as described in Section 2 of this report effect the mortality of the Scheme.

- Under the Fast Transition scenario, disruption to health and social care services, and damage to related infrastructure, due to extreme weather (potentially coinciding with increased demand) may increase mortality.
- Under the Slow Transition scenario, there may be a short-term increase in mortality due to health care disruption and natural disasters. However, in the longer-term, better air quality and improved health conditions may lead to higher longevity.
- Under the No Transition scenario, there may be no long-term future improvements in mortality.

In addition, the Trustee has engaged with the Scheme's Covenant Adviser, Cardano, to understand how Sponsor strength would be impacted by various climate scenarios.

- Under a Fast Transition scenario, the UK water sector will still be exposed to increased acute and chronic physical risks, though the long-term impacts are expected to be significantly lower in frequency and intensity compared to the No Transition scenario. However, the rapid regulatory change required in a Fast Transition scenario is likely to expose the water sector to high levels of transition risk as a result of significantly more stringent emission regulations and associated financing pressures.
- Under a No Transition scenario, the UK water sector will be exposed to significantly increased physical risks, primarily as a result of increased water stress (which may vary materially by region), extreme weather events and regional migration / urbanisation.

Based on the findings of the scenario analysis, the Trustee is comfortable that the funding and investment strategies are sufficiently resilient to the climate risks they may face.

Risk Management

The Trustee acknowledges that the Scheme is susceptible to climate change-related risks. They manage these risks through conducting and reviewing climate change scenario analysis, receiving regular reporting including carbon emissions from their DB Investment Adviser Redington, and expecting investment managers to integrate climate change risks into their approach. As referred to in the Statement of Investment Principles ("SIP"), the Trustee engages with its investment managers on an ongoing basis to understand their approach to ESG integration and specifically assessment of climate-related risks. The Trustee receives annual climate-related reports from Redington, supplying pertinent information for identifying and evaluating climate-related risks at a fund-specific level. Additionally, quarterly reports will offer an overview of the Scheme's exposure to climate-related risks on a portfolio level. The Trustee also has access to live reporting of scenario stress tests through their Investment Adviser.

Metrics and Targets

On an annual basis, the Trustee monitors and reports the Scheme's total greenhouse gas emissions[1], carbon footprint[2], Partnership for Carbon Accounting Financials ("PCAF") data quality score[3] and the output of the portfolio alignment SBTi metric[4]. These metrics are reported on in this report as at the Scheme year end, with comparisons made against the previous Scheme year-end where possible. The Trustee will continue to use the results to identify the climate-related risks and opportunities which are relevant to the Scheme. Follow-up actions might include, for example, engaging with fund managers who have material carbon intensity levels or with other industry participants, exploring low-carbon alternative investment options.

Given updated regulatory guidance, this year the Trustee has begun monitoring scope 3 emissions separately for the Scheme's total greenhouse gas emissions and carbon footprint.

The Trustee has also set a target of a 50% reduction in terms of carbon footprint by 2030 across liquid credit and liquid market assets on scope 1 and 2 emissions and reviews this target on an annual basis. The carbon footprint of the Scheme's investments has fallen by 19% from the baseline assessed at 31 March 2022, towards the target reduction of 50% by 2030. The carbon footprint is slightly higher (7%) this year than last year, which is primarily due to an increase in the carbon footprint of the liquid credit mandates compared to last year.

The Trustee notes that this target was originally set on the assumption that the low-carbon transition would occur at a reasonable pace, and the most ambitious goals of the Paris Agreement would remain achievable. As the global transition is currently not on track to achieve this, and the Trustee is bounded by fiduciary duty and the prevailing policy environment, the Trustee recognises that this target may need to be recalibrated in the short-term. However, the Trustee remains very supportive of decarbonisation to net zero, believing that this is in the best long-term interests of members.

The Scheme's employer, Thames Water, is also taking steps towards becoming net zero. The Company has set a target commitment to net zero carbon emissions from operations by 2030, and a further commitment of becoming carbon net negative by 2040. The company are committed to generating more renewable energy, improving energy and fuel efficiency and reducing the use of fossil fuels.

The following pages provide further detail the Trustee's current position compared to the recommendations set out by the TCFD as set out in the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

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[1] Represents the total share of Scope 1, Scope 2 and Scope 3 carbon emissions a fund is responsible for.

[2] Measurement of the CO_2e emissions of a fund per million pounds of EVIC using Scope 1, Scope 2 and Scope 3 emissions. Given a company's direct Scope 1 emissions will inevitably be another company's indirect Scope 3 emissions, aggregating the individual Scope emissions results in a higher number of emissions than exists. To mitigate double-counting, we apply a scaling factor in accordance with MSCI's methodology. This metric may be used to assess a fund's contribution to global warming versus other funds. Previous Total Carbon Emissions (t CO_2e / £m invested) are estimated by looking at the funds' respective holdings and emissions 12 months ago.

[3] The Partnership for Carbon Accounting Financials ("PCAF") data quality score monitors the reliability of companies' emissions data.

[4] SBTi examines whether a voluntarily-disclosed company's decarbonisation target is aligned with a relevant science-based pathway. The scores are binary with a yes or no assessment.

1. Governance

The Trustee bears the ultimate responsibility for all investment-related affairs, including the effective management of climate-related risks and opportunities. Nevertheless, the majority of investment matters pertaining to the Scheme are delegated to the Investment Sub-Committee ("ISC"). The ISC is acting as a sub-committee and therefore as Trustee in carrying out its duties. The ISC regularly reports back to the Trustee at the quarterly Trustee Board meetings, to ensure the Trustee maintains oversight of investment matters, including climate-related risks and opportunities. Additionally, the Scheme has an Administration Risk & Audit Sub-Committee.

The Trustee has discussed and agreed its climate-related beliefs and overarching approach to managing climate change risk. The details of these are set out in the Trustee's SIP.

The Trustee takes independent investment advice to help assess climate-related risks and opportunities. The role of the Investment Adviser is to provide investment-related strategic and practical support to the ISC and the Trustee Board in respect of climate-related risks and opportunities. This includes provision of regular training and updates on climate-related issues and climate change scenario modelling. The Trustee requires its advisers, and others that support the Scheme, to have the necessary knowledge and skills to understand and address climate change issues in order to support the Trustee in relation to climate management, and the Trustee regularly monitors this. Effective advice to the Trustees to implement an investment strategy which adds value through the integration of ESG (including climate change) and stewardship considerations in their investment manager appointments is one of the Investment Adviser objectives against which the Adviser is reviewed against annually. In the most recent review, the Trustee was satisfied that the Adviser met that objective competently.

The Trustee encourages open and frequent communication between all relevant parties who work on the management of climate-related factors and others working on the Scheme. The report's preparation involved close collaboration among the Scheme's key advisers and service providers, including the lawyers, actuary, Investment Adviser, Covenant Adviser, and investment managers. This collaborative process facilitated the exchange of data, analysis, and regular communication among all parties involved. The Trustee is comfortable that the cohesion of its advisers and investment managers allows the effective identification and assessment of any climate-related risks and opportunities.

The Trustee receives training sessions on responsible investment with an emphasis on climate change throughout the year to assess relevant risks and opportunities. The Trustee expects its advisers to bring important and relevant climate-related issues and developments to the Trustee in a timely manner. Over the year to 31 March 2025, the Trustee received training on TCFD requirements, and TCFD metrics and targets in Q4 2024. During Q4 2024, the Trustee also received training on stewardship and the benefits of engagement as a tool to increase the Scheme's real-world impact. Following this, the Trustee agreed to implement an engagement tracker to monitor engagements with managers going forward. The Trustee will continue to assess skills gaps and undertake training accordingly and ensure adequate training is undertaken.

In addition, the Trustee receives quarterly updates on relevant discussions that have taken place at its ISC meetings. At its meetings, the Trustee has ensured that robust discussion has taken place regarding TCFD items to ensure that there is a clear understanding of the analysis and the advice it has received.

The Trustee also receives climate-related scenario analysis on different parts of the Scheme from its advisers as set out below.

Scheme component	Provider of climate scenario analysis
DB assets	Redington (Investment Adviser)
DB liabilities	Aon (Actuarial Adviser)
DB covenant	Cardano (Covenant Adviser)

2. Strategy

The Trustee considers climate-related risks and opportunities and their potential implications for the Scheme's investment and funding strategy over the short, medium, and long term. To do this, it receives scenario analysis relating to the Scheme's assets, liabilities, and covenant. This helps to ensure that climate-related factors are incorporated throughout the Trustee's funding and risk management process, from strategic asset allocation to manager selection, as well as considering potential risks to the covenant of the Scheme.

The Trustee is conscious that, given the diversified nature of the Scheme's investment portfolio, the source of climate-related risks is likely to be varied. The main known risks to the Scheme are transition risk and physical risk, which are described below. It is important to note that these are not the only risks that Schemes will face and there are many others that are either unknown, or not yet considered in climate analysis due to the difficulty in quantifying the risk due to the high uncertainty and the potential second- or third-order effects of climate change. Examples include zoonotic diseases: animal-to-human transmissible diseases whose frequency of transmission is facilitated by climate change due to higher temperatures and humidity.

- **Transition Risk:** Transition risk refers to the potential price impact on the Scheme's assets, liabilities and covenant as a result of policy actions taken to encourage economies to decarbonise, with risks being different depending on the shape of the pathway towards a low-carbon global economy. For example, policy actions are expected to affect asset values through channels such as carbon prices, and the greater adoption of renewable energy. Portfolios that continue to have high exposure to carbon-intensive businesses may be exposed to higher levels of transition risk. The transition to a low-carbon economy is also expected to produce opportunities for investing in businesses that are poised to benefit from the transition, such as producers of renewable energy.

- **Physical Risk:** Physical risk refers to the potential price impact on the Scheme's assets, liabilities and covenant as a result of changes in weather patterns and extreme weather scenarios, as well as from other physical effects of climate change such as rising sea levels. These include floods, hurricanes and droughts, or chronic effects, such as sustained increases in temperatures, air humidity and ocean acidity. These risks can affect the value of physical assets – in particular, property and infrastructure located in certain geographies such as coastal areas. An example of the knock-on effects of these risks is lower economic growth due to damage to infrastructure as a result of increased natural disasters, for instance tsunamis and earthquakes.

The regulations require the Trustee to consider climate-related risks and opportunities over different time horizons. Therefore, the Trustee considers the potential impact of these on the Scheme's investment and funding strategies over the short, medium, and long-term. For example:

- Short-term risks and opportunities may include stock price movements resulting from increased regulation directed at addressing climate change (i.e. mostly transition risk).

- Over the medium-term, it is expected that there will be changes in consumer spending habits following changes in technology, such as the uptake in electric vehicles or a reduction in overseas travel (i.e. some transition and some physical risk).
- Longer-term risks may include physical damage to real assets as a result of rising sea levels for coastal property or infrastructure assets; there may be opportunities for outperformance for organisations that put in place strategies to mitigate these potential risks well in advance of them materialising (i.e. mostly physical risk).

The first table below sets out the time horizons chosen by the Trustee for the purposes of this analysis during the Scheme year. The second table sets out examples of climate risks and opportunities over those different time horizons.

Time Horizon	Years
Short Term	4 years
Medium Term	9 years
Long Term	20+ years

	Short term (four years from now)	Medium term (nine years from now)	Long term (20 + years)
Risks and/or opportunities	Carbon prices Regulation Changes in consumer behaviour	Carbon prices Regulation Changes in consumer behaviour Competitive pressures	Extreme weather events Sea level rises Commodity scarcity Food price inflation Population migration Productivity loss

Climate scenarios

The Trustee assesses the impact of the identified climate-related risks and opportunities on the Scheme's investment strategy and funding strategy on an ongoing basis. The Trustee uses asset-side scenario analysis which is based on the Network for Greening the Financial System ("NGFS") assumptions. The NGFS scenarios are updated frequently, are granular and rigorous at company / instrument level and also capture upside potential from climate opportunities rather than focusing only on downside risk. The Trustee appreciates that there are still limitations with NGFS scenarios and as such, will keep abreast of methodologies as they evolve and update this analysis as and when necessary.

The NGFS scenarios were selected as they represent a range of possible future climate scenarios, which allows the Trustee to assess potential impacts on the funding strategy under different climate outcomes. The stresses are designed to show what the impact on the value of the Scheme's invested assets would be in the following scenarios:

- **2 degrees Disorderly Transition:** Assumes annual emissions do not decrease until 2030. Strong policies are needed to limit warming to below 2°C. CO_2 removal is limited.

- **2 degrees Orderly Transition**: Gradually increases the stringency of climate policies, giving a 67% chance of limiting global warming to below 2°C.

- **Hot House World (NDCs):** Some climate policies are implemented in some jurisdictions, but globally efforts are insufficient to halt significant global warming. The scenarios result in severe physical risk including irreversible impacts like sea-level rise.

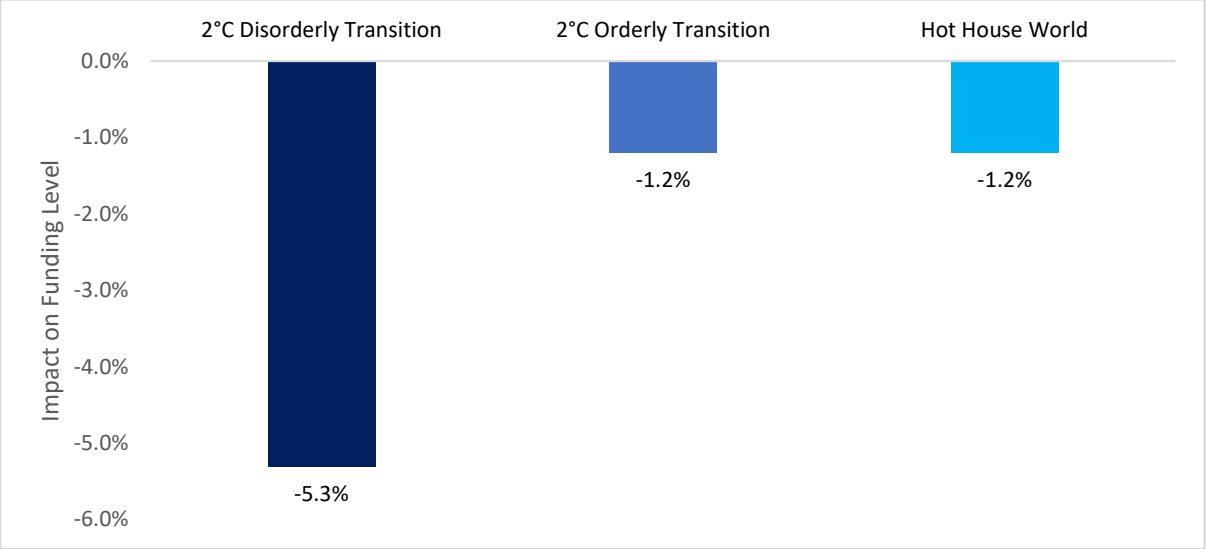
The results of the scenarios provide the Trustee with a clear overview of how resilient the investment and funding strategies are with regards to various different climate change outcomes. To further understand the impact of climate change on the Scheme, the Trustee has engaged with the Scheme Actuary, Aon, to understand how the various climate scenarios described above will impact the liabilities of the Scheme. Of the three major risks that affect the Scheme's funding level, interest rate and inflation risks are expected to have a minimal impact due to the high level of hedging in place provided by the Liability-Driven Investment ("LDI") portfolio. However, as longevity risk is predominantly unhedged, the variable life expectancy of members will have unmitigated effects on the Scheme's funding level. Subsequently, Aon have conducted a scenario analysis to assess the mortality impact of climate change into the assessment of the Scheme's broader funding strategy.

Asset scenario analysis

This analysis is considered alongside other factors when the Trustee sets the strategic asset allocation. This helps to determine whether investment strategy changes are likely to have a positive or detrimental impact on the Scheme's climate risk profiles. The Trustee has considered changes to the investment strategy to limit exposure to climate-related risks and take advantage of climate-related opportunities. In order to do this, the Trustee continues to consider the levers it could pull in terms of managing climate risks, which included the following:

- **Making strategic changes** – Over the past few years the Trustee has considered multiple strategic changes that can be made to manage climate risks, however, given the recent increased focus on liquidity, the Trustee made the decision to not allocate any further to illiquid asset classes. This shows how the climate considerations are being examined alongside other investment risks and opportunities to form strategy decisions.
- **Actively engaging with managers** - The Trustee regularly meets with its managers to engage with them on their ESG activities. Engagement continues to be a priority for the Trustee, and in Q4 2024 the Trustee agreed to adopt an engagement tracker to monitor quarterly engagements with managers. This is described in more detail under Section 3: Risk Management. The chart below shows the impact of climate risk on the funding level of the Scheme under the different climate scenarios tested during the Scheme year. The impact on the funding level is similar under the "2°C Orderly Transition" and "Hot House World" scenarios, and most pronounced under the "2°C Disorderly Transition" scenario, indicating greater exposure to transition risk.

The modelled impact of the Hot House World scenario is relatively small with a c.1.2% fall in funding level. This is in part because there is low transition risk in this scenario (as further policies to encourage a shift to a low-carbon economy are not introduced). Moreover, physical risk – which is maximised in this scenario – is expected to take some time to materialise, and discounting these risks to the present therefore reduces their impact in today's terms.



Source, Redington as at 31 March 2024

Mortality Scenario Analysis – conducted as at 31 March 2023

When conducting their analysis, Aon have allowed for the impact of each scenario as described below on mortality through adjusting the parameters under the standard mortality tables which determine the rates of future improvements. In line with current regulation, the Trustee has considered the results of the Mortality and Covenant scenario analysis conducted for their first TCFD Report. The Trustee has elected to retain this analysis as it has determined there have been no significant changes which would impact the results presented, the analysis is therefore still considered appropriate.

The scenarios utilised by Aon for their analysis are equivalent to:

Scenario A (Fast Transition) - Abrupt transition to the Paris-aligned goal occurring in three years (temperature increase kept below 2 degrees Celsius relative to pre-industrial levels).

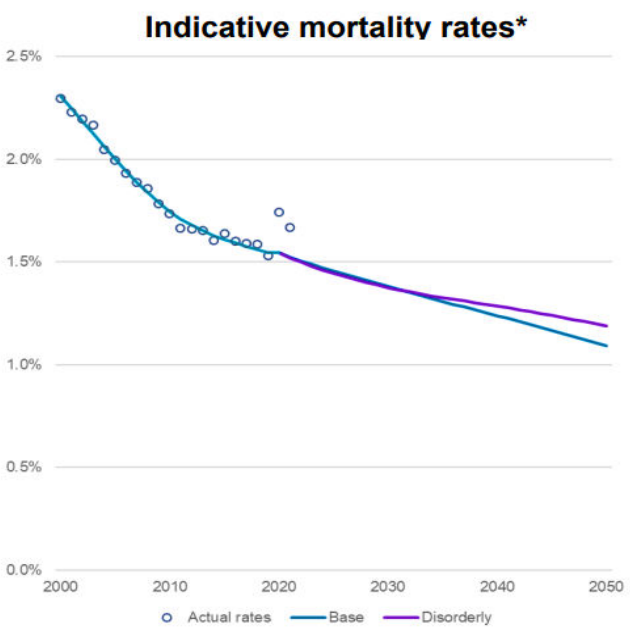
Scenario B (Slow Transition) - Orderly transition to the Paris-aligned goal occurring by 2050 (temperature increase kept within the range of 1.5 degrees Celsius above pre-industrial levels to and including 2 degrees Celsius above pre-industrial levels).

Scenario C (No Transition) - A no-transition scenario, occurring in 2100 (temperature increase in excess of 4 degrees Celsius relative to pre-industrial levels).

Fast Transition Scenario (Disorderly)

Under the Fast Transition scenario, disruption to health and social care services, and damage to related infrastructure, due to extreme weather (potentially coinciding with increased demand) may increase mortality.

Significant falls in GDP start from around year 10. Prolonged recession leads to issues with the provision of healthcare and ultimately to falls in life expectancy, with overall improvements at 1% p.a. over the long term.



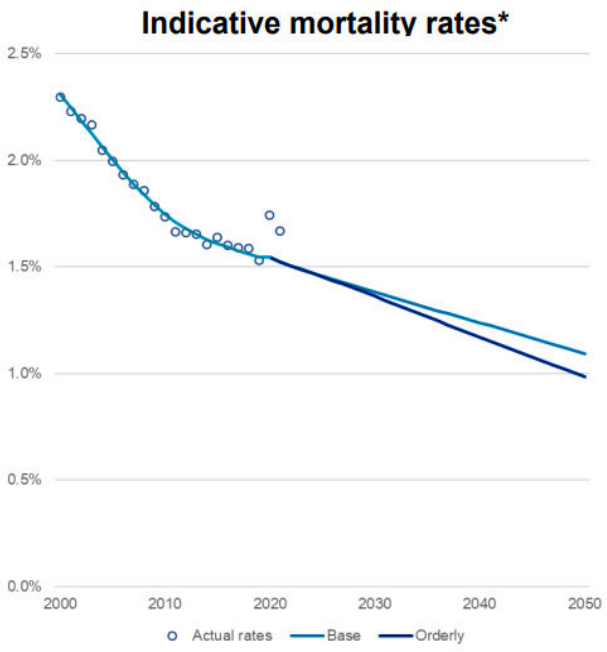
*Pension scheme (SAPS S3PMA) mortality
Standardised using European Standard Population 2013
Males aged 50-90

Slow Transition Scenario (Orderly)

Over the first three years, the global economy experiences a period of turmoil and lower growth as the economy arduously divests away from fossil fuels. Global growth and market returns remain strong relative to the base case in the long-term, supported by a brighter sustainable outlook and the positive spill-over effects from green policy adoption.

Disruption to health and social care services, and damage to related infrastructure, due to extreme weather (potentially coinciding with increased demand) may increase mortality.

However, the disruption is likely to be short-lived. In the longer-term, better air quality and improved health conditions may lead to higher longevity: overall around a 0.5 year improvement in life expectancy for the average 60-year-old.

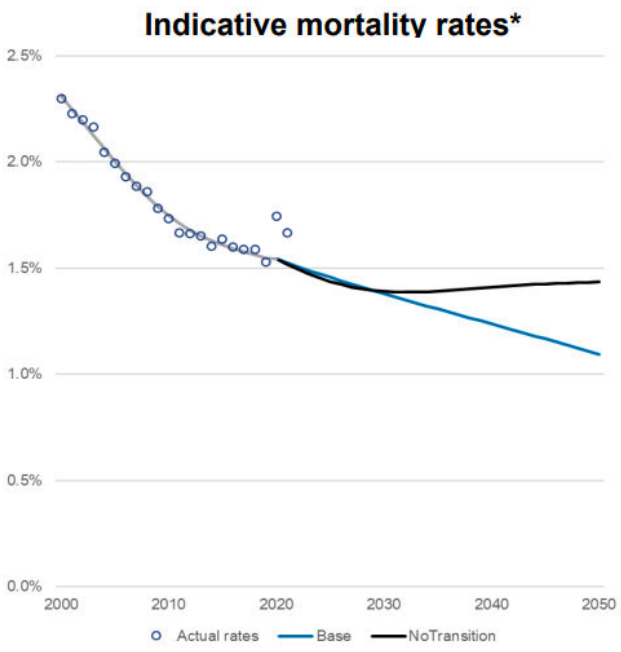


*Pension scheme (SAPS S3PMA) mortality
Standardised using European Standard Population 2013
Males aged 50-90

No Transition

Limited consideration is given to environmental challenges. Governments and businesses rely on the (false) hope that market forces will provide engineering solutions to mitigate and adapt to climate change naturally, without worldwide government intervention. In the short-term more money may be spent on health services, perhaps reducing mortality slightly.

There is growing awareness of a changing environment and the damaging effects a lack of action is having, over the intermediate term. There is a higher incidence of damaging storms, water shortages, higher pollution levels and reduced agricultural yields (leading to higher food prices). Markets become more volatile and climate change begins to have a growing drag on economic growth and asset returns. In such an environment, there may be no long-term future improvements in mortality (consistent with what we saw between 2014 and 2018).



**Pension scheme (SAPS S3PMA) mortality*
Standardised using European Standard Population 2013
Males aged 50-90

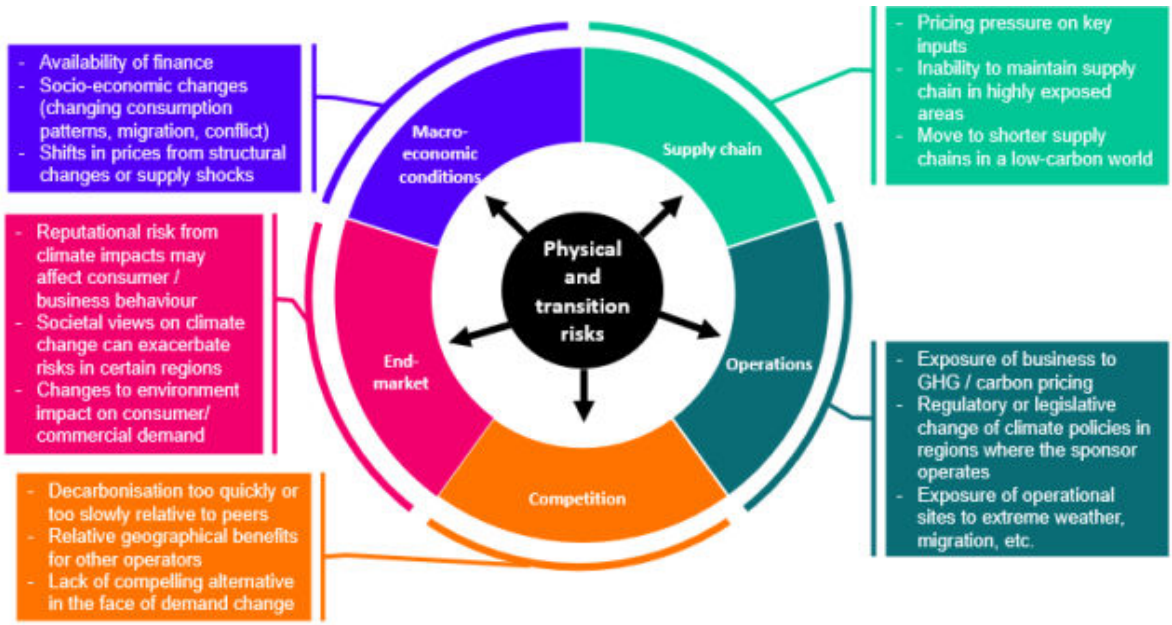
In terms of the direct climate impacts, fewer deaths from warmer winters may more than offset any impact of heatwaves but the impact is likely to be marginal.

Covenant Scenario Analysis – Conducted as at 31 March 2023

The Trustee recognises it is crucial to better understand the potential impact on the covenant of the effects of climate change, which can also impact on the long-term funding requirements and investment performance of the Scheme.

The following assessment, carried out by Cardano, sets out a high-level overview of the risks to the water sector in the UK across two illustrative scenarios and by extension the principal risks faced by the Scheme's employer covenant. To the extent considered, the focus of Cardano's analysis was on Thames Water Utilities Limited and its subsidiaries (the "Group").

Climate change can impact a business or organisation throughout the whole value-chain, and the key issues arising from climate change are complex and multi-dimensional. The chart below provides an overview of the transmission channels and the potential risks or impacts from climate change that could impact the Group and the wider UK water sector.



High-level analysis of the scenario impact on the UK water sector

The table below provides an overview of the scenario risk analysis of the water sector in the UK over the Fast Transition and No Transition scenarios. The key findings from the risk analysis are as follows:

- Under a Fast Transition scenario, the UK water sector will still be exposed to increased acute and chronic physical risks, though the long term impacts are expected to be significantly lower in frequency and intensity compared to the No Transition scenario. However, the rapid regulatory change required in a Fast Transition scenario is likely to expose the water sector to high levels of transition risk as a result of significantly more stringent emission regulations and associated financing pressures;
- Under a No Transition scenario, the UK water sector will be exposed to significantly increased physical risks, primarily as a result of increased water stress (which may vary materially by region), extreme weather events and regional migration / urbanisation.

	Fast Transition	No Transition
Water stress	Medium	High
Extreme weather events	Medium	High
Changing demographics	Medium	High
Increased leakage rates	Medium	Medium
Changing regulations	High	Medium
Conflation[11] of physical and transition risks	High	High
Financing / macro-economic risks	High	High

[11]*Due to the nature of operations, the WASCs are particularly exposed to both physical and transition risks, and there is an increase probability that both physical and transition risks manifest simultaneously, especially under a Fast Transition scenario.*

Risk Management

To address the risks noted above, the Trustee has considered the recommendations from the Covenant Adviser in each of the following areas:

- To integrate the initial climate risk analyses on covenant, funding and investment to assess whether these risks are correlated;
- To monitor the climate covenant risks identified in this assessment through the Trustee's regular monitoring framework; and
- To consider how climate risk could impact the Scheme's funding targets and desired end-game, including any acceleration in the journey planning time horizon, and any decisions on covenant risk transfer to another counterparty / insurer.

Summary

The scenario analysis performed on the different elements of the Scheme has provided the Trustee with useful insights into the climate risks and opportunities that the Scheme faces. Whilst the Trustee does not see a need to make changes to the Scheme's funding strategy as a result of the analysis performed, the analysis continues to help inform the Scheme's target and has aided the Trustee to determine where to focus engagement efforts for reducing portfolio climate risk.

After reviewing the scenario analysis, the Trustee is confident that the Scheme's investment and funding strategies adequately withstand the potential climate risks they may encounter.

3. Risk Management

Climate Risk monitoring

Climate-related risks and opportunities are considered in terms of the physical risks to assets that are expected to result from climate change, and in terms of the transition risks associated with the global shift to a low-carbon economy.

The Trustee has also integrated climate change into the Scheme's wider risk management and receives additional climate-related reporting from Redington on a quarterly basis (portfolio level reporting) and also annually at a fund level. The portfolio level reporting forms part of the Scheme's "Pension Risk Management Framework" ("PRMF"), which helps the Trustee make informed decisions when considering the investment and funding strategies. By having climate metrics reported in this framework, climate risks and opportunities are fully integrated into key decision making. This reporting contains relevant climate metrics as set out under the Department for Work and Pensions ("DWP") adoption of the recommendations of the TCFD, and includes total absolute carbon emissions, carbon footprint, the Trustee's selected non-emissions-based metric (PCAF data quality score), and output of the portfolio alignment SBTi metric.

The Scheme's Investment Adviser is required to advise on, and provide objective assessments of, differing approaches to responsible investment to help the Trustee decide on a responsible investment strategy and adopt appropriate responsible investment objectives for the Scheme. The responsibilities of the Investment Adviser were set out in more detail in Section 1: Governance. The

Trustee also requires the appointed investment managers to be cognisant of climate-related risks and opportunities within their investment processes as applied to the assets of the Scheme.

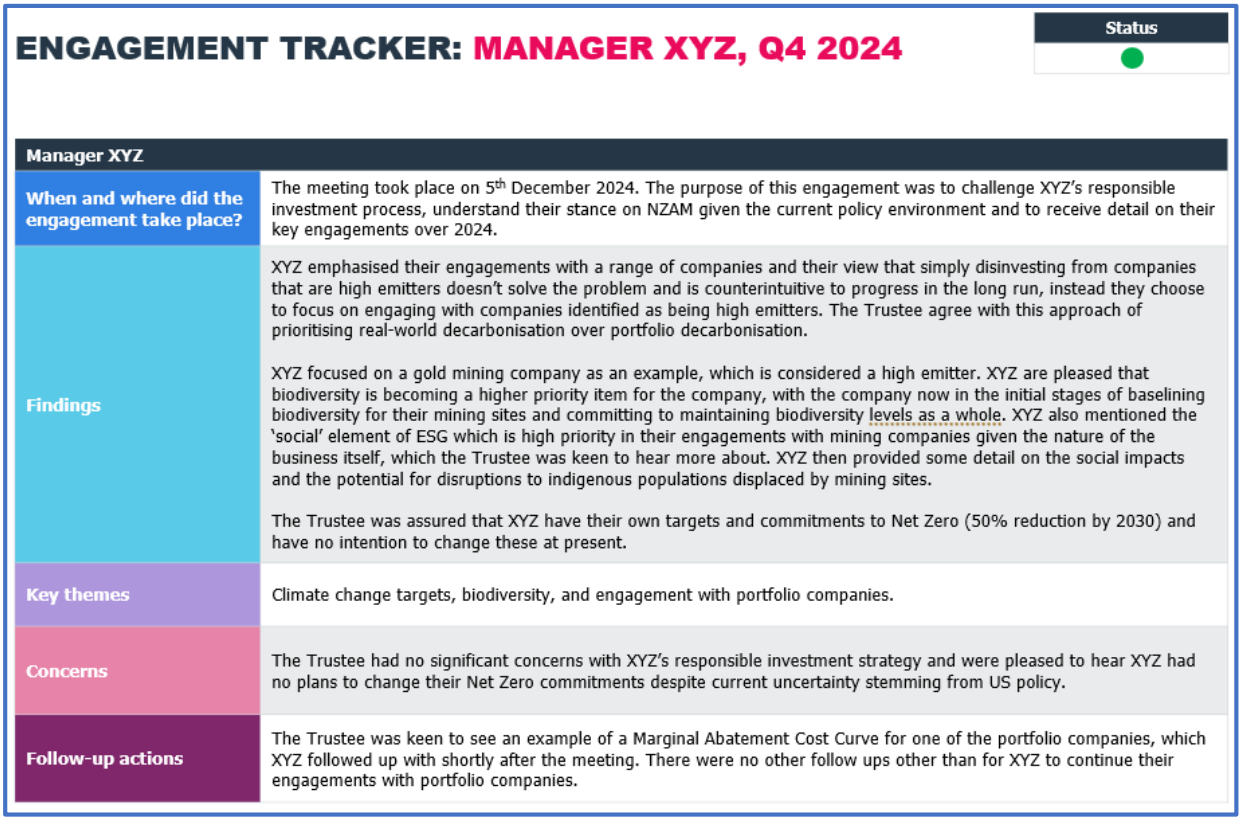
The Trustee aims to take advantage of climate-related opportunities where this is expected to improve the risk/return profile of the Scheme. This will highlight asset classes that may perform well in different climate-related scenarios. At the level of individual investments, the Trustee expects the appointed investment managers to consider climate-related opportunities when making investments and engage with portfolio companies in order to encourage them to take advantage of relevant opportunities.

Engagement and voting

The Trustee believes that engagement and voting are core components of robust risk management. Engagement is aimed at ensuring companies manage the physical and transitional risks that climate change poses. Direct engagement with underlying companies in which the Trustee owns shares and/or debt is carried out by the Scheme's investment managers. The Trustee's ability to influence investment managers' stewardship activities will depend on the nature of the investments held. As the majority of the Scheme's assets are invested in pooled funds – where the Trustee holds units in a fund rather than having any direct ownership rights – the Trustee has limited scope to directly influence managers' stewardship activities. However, in response to rising expectations regarding stewardship activities, the Trustee has considered how best it can channel its engagement and stewardship efforts.

The Trustee's policy is to delegate responsibility for engagement to its investment managers, which includes the exercising of rights (including voting rights) attaching to investments made by the investment managers. Each investment manager is expected to exercise voting rights in accordance with their guidelines. The Trustee encourages its managers to engage with investee companies and promote adherence to best practice in corporate governance. The Trustee meets with each of its managers on a regular basis to discuss their investment performance and ESG integration, including engagement and voting to satisfy itself that its managers are taking adequate steps to identify climate related risks and opportunities. To improve this process, in Q4 2024 the Trustee agreed to adopt an engagement tracker to monitor quarterly engagements with managers. This acts as a centralised database for the Trustee to actively monitor its engagement processes and assist the Trustee in recording when engagements took place, key findings and themes, concerns and any follow-up actions noted during the respective meetings. The engagement tracker leverages and improves the existing engagement the Scheme does with managers to increase accountability for both themselves and the managers engaged with. Below is an anonymous example of an entry into the Scheme’s manager engagement tracker.

Anonymous example of an entry into the Scheme's engagement tracker:



ENGAGEMENT TRACKER: MANAGER XYZ, Q4 2024

Status

Manager XYZ	
When and where did the engagement take place?	The meeting took place on 5th December 2024. The purpose of this engagement was to challenge XYZ's responsible investment process, understand their stance on NZAM given the current policy environment and to receive detail on their key engagements over 2024.
Findings	XYZ emphasised their engagements with a range of companies and their view that simply disinvesting from companies that are high emitters doesn't solve the problem and is counterintuitive to progress in the long run, instead they choose to focus on engaging with companies identified as being high emitters. The Trustee agree with this approach of prioritising real-world decarbonisation over portfolio decarbonisation. XYZ focused on a gold mining company as an example, which is considered a high emitter. XYZ are pleased that biodiversity is becoming a higher priority item for the company, with the company now in the initial stages of baselining biodiversity for their mining sites and committing to maintaining biodiversity levels as a whole. XYZ also mentioned the 'social' element of ESG which is high priority in their engagements with mining companies given the nature of the business itself, which the Trustee was keen to hear more about. XYZ then provided some detail on the social impacts and the potential for disruptions to indigenous populations displaced by mining sites. The Trustee was assured that XYZ have their own targets and commitments to Net Zero (50% reduction by 2030) and have no intention to change these at present.
Key themes	Climate change targets, biodiversity, and engagement with portfolio companies.
Concerns	The Trustee had no significant concerns with XYZ's responsible investment strategy and were pleased to hear XYZ had no plans to change their Net Zero commitments despite current uncertainty stemming from US policy.
Follow-up actions	The Trustee was keen to see an example of a Marginal Abatement Cost Curve for one of the portfolio companies, which XYZ followed up with shortly after the meeting. There were no other follow ups other than for XYZ to continue their engagements with portfolio companies.

The Trustee has adopted a stewardship policy to help focus its stewardship efforts, which identifies Climate Change and Biodiversity as key themes. Where the Trustee has met with investment managers over the reporting period, these key themes are raised and investment managers are asked to update the Trustee on their stewardship and engagement activity in relation to them.

The Trustee has, through the Investment Adviser, conducted detailed calls with two of the Scheme's investment managers over the reporting period to further understand their ESG efforts. Topics of discussion included the managers' engagement with underlying issuers, their efforts to improve the availability and quality of portfolio carbon data, and their commitments to wider industry bodies in the climate/ESG space. The outcomes of these calls were reported back to the Trustee.

When selecting a new investment manager, ESG integration, as well as stewardship and engagement are factored into the Trustee's decision-making process to the appropriate level for the specific asset class in question.

4. Metrics and Targets

Metrics

The Trustees have an obligation to select a minimum of 4 metrics for measuring climate risks and opportunities. The DWP's issued guidance for pension schemes submitting TCFD reporting that suggests that the following metrics are chosen:

- An absolute emissions metric (total greenhouse gas emissions)
- A carbon intensity metric (carbon footprint)
- An additional non-emissions based metric
- A portfolio alignment metric.

The Trustee has chosen the following metrics:

DWP suggested metric	Metric selected	Rationale
An absolute emissions metric	Total finance emissions	This is the absolute emissions metric recommended by the DWP.
A carbon intensity metric	Carbon Footprint	This is the emissions intensity metric recommended by the DWP. Additional information on the carbon footprint measure can be found in the appendix.
An additional non-emissions-based metric	Partnership for Carbon Accounting Financials (PCAF) Data Quality score	Data quality and availability are often cited as key issues with climate related data. Monitoring data quality provides useful context for interpreting the emissions-based metrics. Reviewing the Data Quality scores aides the degree of conviction the Trustees have in the data being used.
A portfolio alignment metric	Science-Based Target initiative (SBTi)	This metric examines whether a voluntarily disclosed company decarbonisation target is aligned with a relevant science-based pathway. There is evidence that companies that have set science-based targets are delivering emissions reductions in line with their ambitions, making this a key metric to monitor to drive positive change.

The chosen metrics will be reviewed at least annually to ensure they remain relevant and appropriate for the Scheme. This year, the metrics were reviewed and deemed appropriate, however due to updated regulatory guidance the Trustee decided to begin reporting scope 3 emissions separately for the absolute emissions metric and the carbon intensity metric. The Trustee also notes that the Scheme's exposure to climate-related risk will continue to be monitored and recorded in this report through the output of the Scheme's scenario analysis.

Recognising the nascency of climate metrics in an investment context, there may be further situations in the future whereby the Trustee may consider replacing its metrics with ones that are more

appropriate, for example if there are changes in methodologies or in the regulatory requirements, following changes in data quality/availability, or the emergence of more robust metrics/methodologies. The Trustee has been unable to obtain data in certain instances which has prevented it from calculating certain metrics and identifying some potential impacts - this is detailed where relevant below.

The Trustee will continue to use the results to identify the climate-related risks and opportunities which are relevant to the Scheme. These might include, for example, engaging with fund managers who have material carbon intensity levels or with other industry participants, exploring low-carbon alternative investment options, and updating investment guidelines for managers where the Trustee has discretion to make such changes (similar to some of the work already done, as described previously).

1. Total absolute emissions

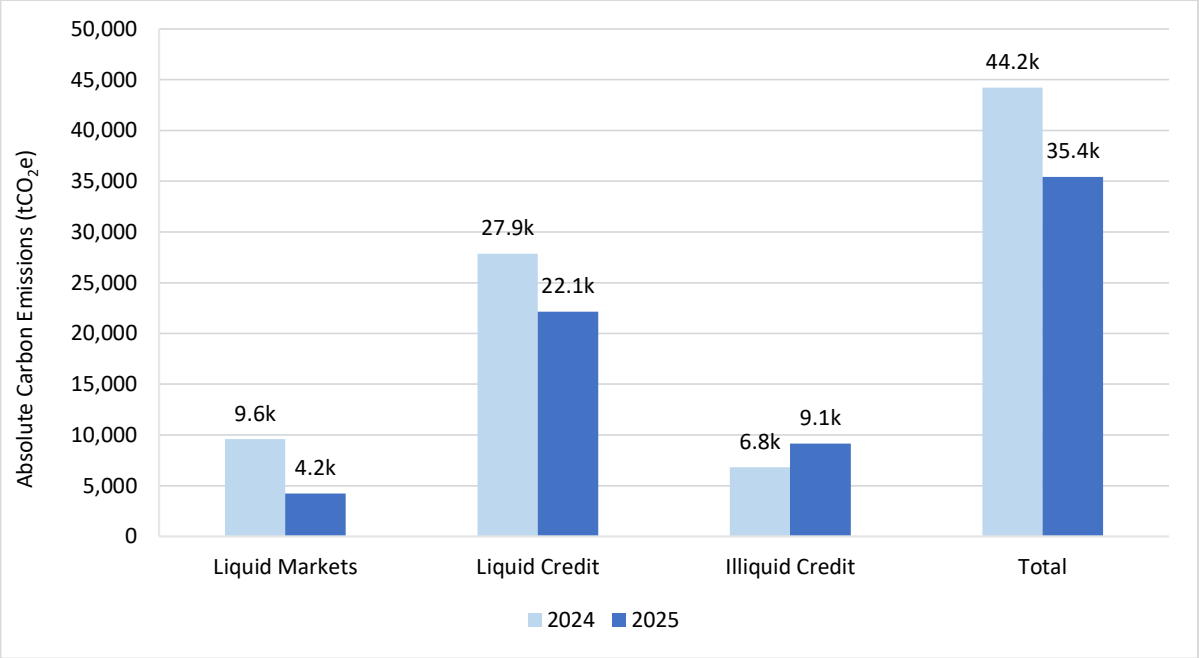
The Trustee has chosen total absolute emissions as the main metric for absolute emissions – the metric shows the total greenhouse gas emissions that are financed by the Scheme's investments, also known as category 15 (investment emissions) in the Greenhouse Gas ('GHG') Protocol.

There are three scopes of carbon emissions:

- **Scope 1** emissions are direct emissions from an entity's owned or operationally controlled sources;
- **Scope 2** emissions are those from the use of electricity purchased by an entity;
- **Scope 3** emissions are indirect emissions from the use of company's products, or any other emissions across its supply chain.

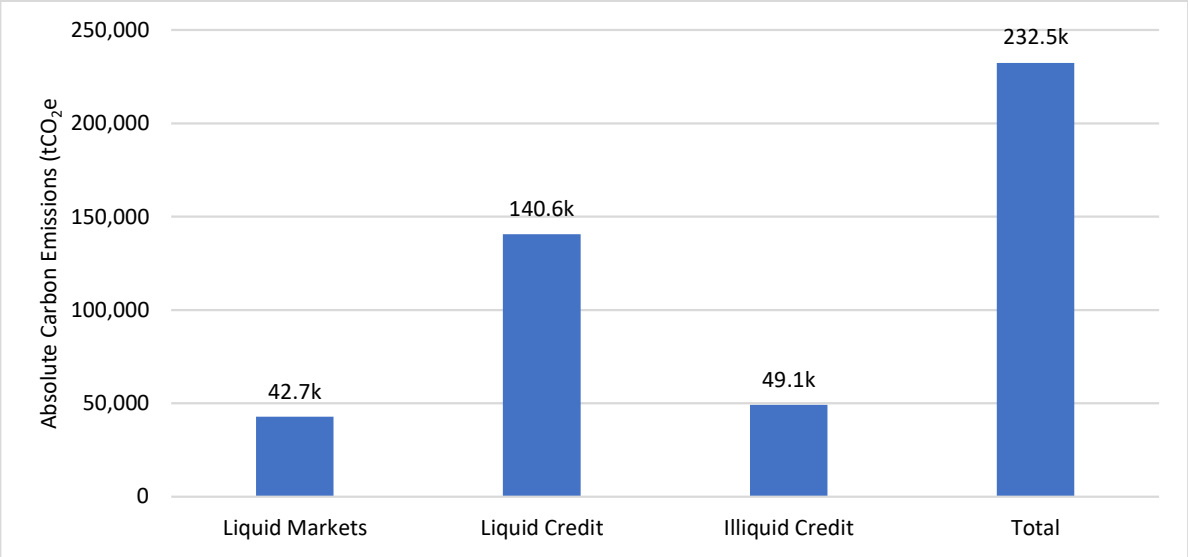
Absolute emissions are calculated as the proportional share of the Scope 1 and Scope 2 GHG emissions for each relevant investment, based on the size of the investment relative to the Enterprise Value Including Cash ('EVIC') of the respective company – the EVIC is a measure of a company's total value. For this report, the Trustee has chosen to begin reporting Scope 3 GHG emissions separately, which are shown below. Given these were not reported separately last year, there is no comparison between the previous year and this year.

Chart showing the total absolute emissions (Scope 1 & 2) for the Scheme as at 31 March 2024 and 2025



Source, Analysis by Redington as at 31 March 2025, using data from MSCI

Chart showing the total absolute emissions (Scope 3) for the Scheme as at 31 March 2025



Source, Analysis by Redington as at 31 March 2025, using data from MSCI

Key takeaway: of the Scheme's asset classes, Liquid Credit is responsible for the majority of the Scheme's total absolute emissions across both Scope 1&2 and Scope 3, but this has fallen since the previous year. Liquid markets emissions have fallen since the previous year, largely due to a decrease in the allocation to this asset class over the year. The rise in Illiquid Credit emissions is due to the increased allocation to the asset class during the Scheme year. The Scheme's total carbon emissions have fallen over the year to 31 March 2025.

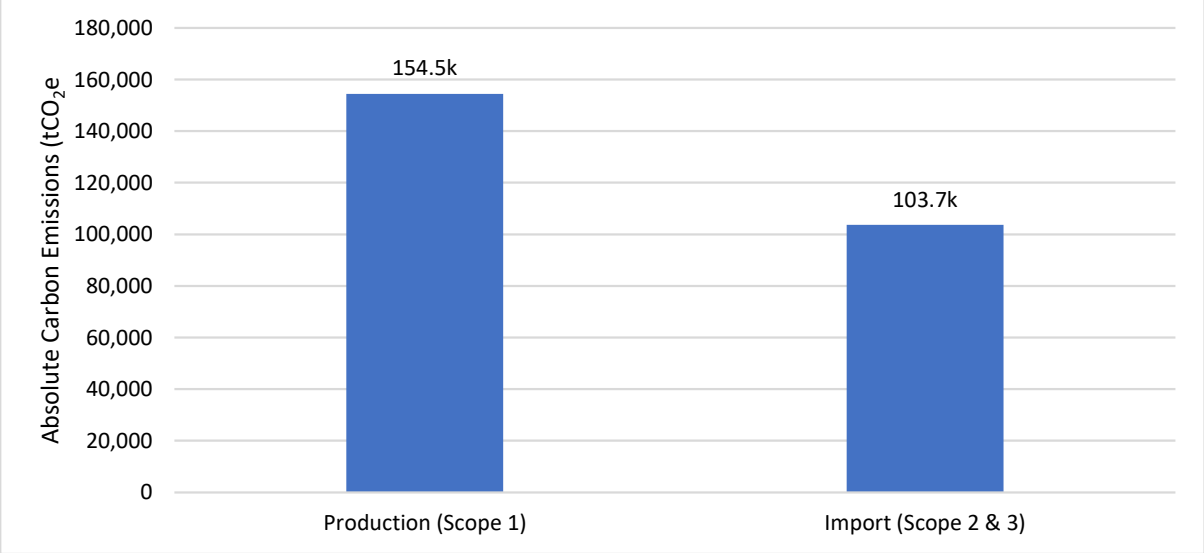
This year, in line with DWP Guidance, the Trustee has reported the emissions attributed to sovereigns (i.e. the emissions from the Scheme's LDI holdings).

For countries (and therefore sovereign bonds), distinct categories are used compared to corporate emissions:

- Production emissions: the emissions of everything produced in a country; this is broadly equivalent to scope 1 emissions.
- Import emissions: the emissions of what a country imports from other countries; this is equivalent to scope 2 & 3 emissions. In practice, for large economies, scope 2 emissions are trivial in comparison to the other scopes.

The results of this analysis are shown below. Given these were not reported separately last year, there is no comparison between the previous year and this year.

Chart showing the total absolute emissions for sovereign emissions for the Scheme as at 31 March 2025



Source, Analysis by Redington as at 31 March 2025, using data from MSCI

2. Emissions intensity

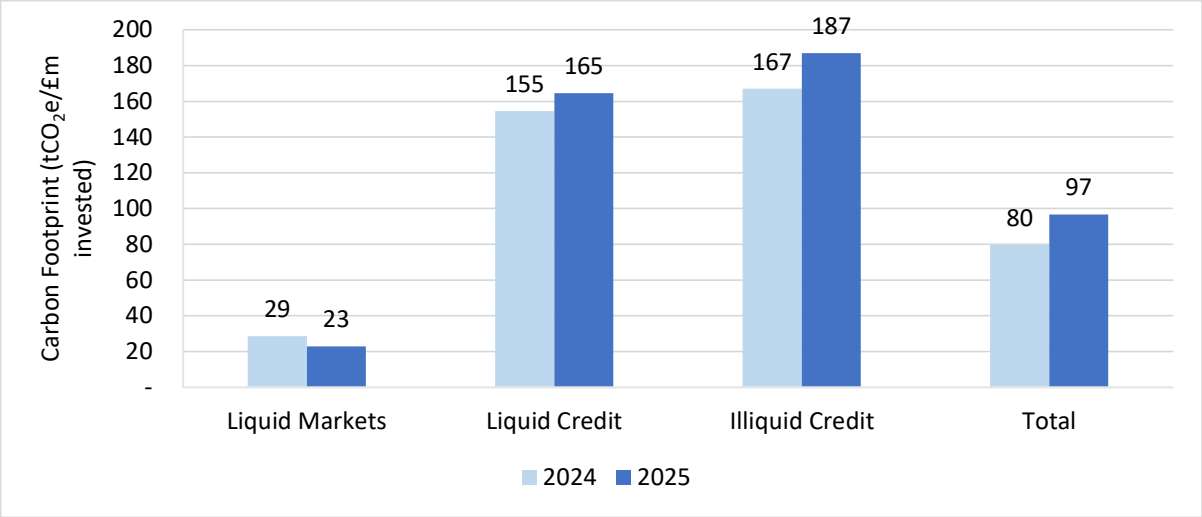
The Trustee monitors carbon footprint as its emissions intensity metric. **Carbon footprint** measures the carbon efficiency of a portfolio in terms of emissions per million pounds invested. It normalises the total absolute emissions for the value of the portfolio. In other words, it shows the emissions *per millions of pounds invested*, the metric is therefore comparable between investments of different sizes.

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. A portfolio with a high emissions intensity will have a steeper route towards decarbonisation than a less intensive one. Hence, measuring the emissions intensity across the Scheme is useful in order to gauge how difficult (or easy) it will be to progressively decarbonise its 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.

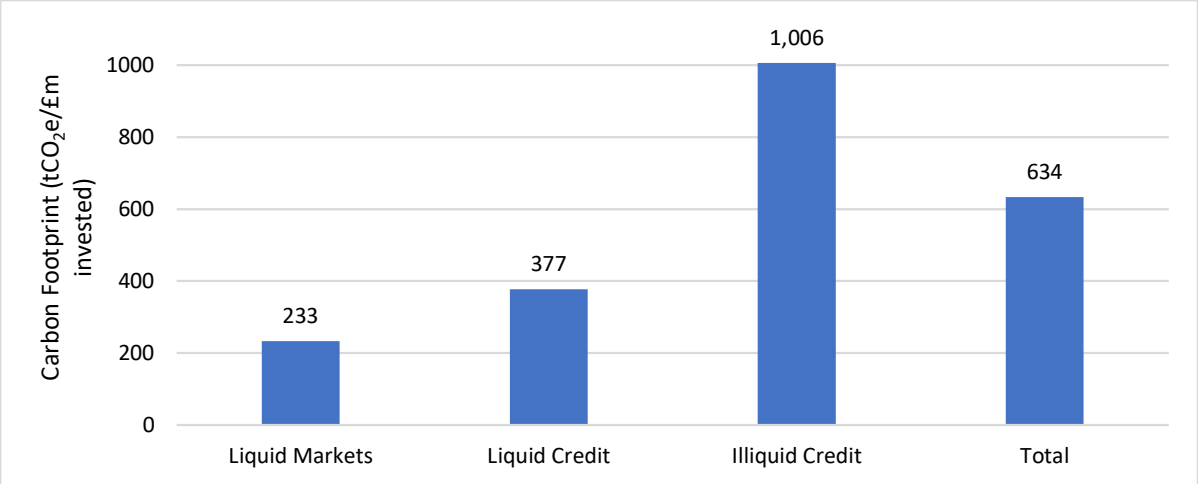
The Trustee has set its target of 50% reduction in terms of carbon footprint by 2030 across Liquid Credit and Liquid Markets assets on Scope 1 and 2 emissions against this metric. The Trustee has also begun reporting Scope 3 GHG emissions separately, which are shown below. Given these were not reported separately last year, there is no comparison between the previous year and this year.

Chart showing the total carbon footprint (Scope 1 & 2) for the Scheme as at 31 March 2024 and 2025



Source, Analysis by Redington as at 31 March 2025, using data from MSCI

Chart showing the total carbon footprint (Scope 3) for the Scheme as at 31 March 2025



Source, Analysis by Redington as at 31 March 2025, using data from MSCI

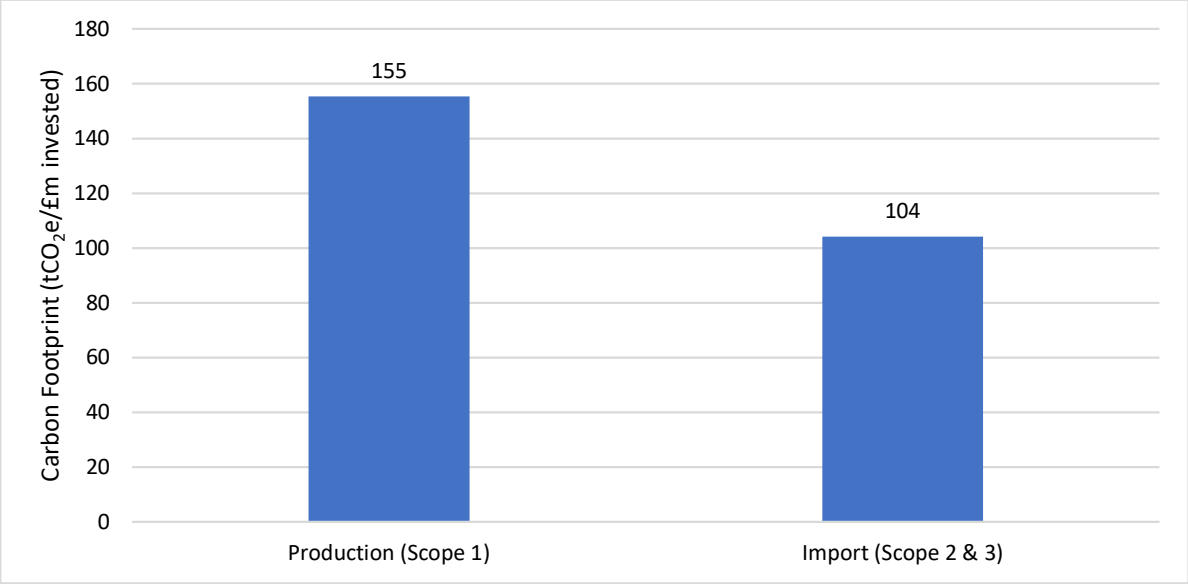
Key takeaway: Per million pounds invested, the Scheme's Illiquid Credit assets had the highest emissions across Scopes 1 & 2 and Scope 3 and while for Scopes 1 & 2 Liquid Credit was close behind this, for Scope 3, Illiquid Credit stands out significantly from the other asset classes. The total has slightly increased due to the proportionally higher allocation to illiquid credit, which have higher emissions, which means when totalling all the emissions and dividing by the £m invested, the illiquid credit has a larger impact than previous years.

Similar to with absolute emissions (metric 1), this year, in line with DWP Guidance, the Trustee has reported the emissions attributed to sovereigns (i.e. the emissions from the Scheme's LDI holdings).

The share of a country's emissions and carbon intensity is attributed by dividing a portfolio holding by a country's purchasing-power-parity-adjusted GDP. This year, in line with DWP Guidance, corporate and sovereign emissions cannot be aggregated for reporting purposes due to differing calculation methodologies. Corporate emissions are normalized using each entity's enterprise value, whereas sovereign emissions are based on a country's GDP adjusted for purchasing power parity. Additionally, as sovereign emissions encompass all domestic economic activity—including that of corporations—combining the two would result in double counting. It is noted that sovereign emissions are not in scope of the Scheme's interim net zero target.

The results of this analysis are shown below. Given these were not reported separately last year, there is no comparison between the previous year and this year.

Chart showing the total carbon footprint for sovereign emissions for the Scheme as at 31 March 2025



Source, Analysis by Redington as at 31 March 2025, using data from MSCI

3. Additional Climate Change Metric

The Trustee monitors the PCAF Data Quality Score, which monitors the reliability of companies' emissions data. The scoring system ranges from one to five, with one representing the highest data quality, which involves independently verified emissions data, and five indicating the lowest quality, characterised by estimated emissions data derived from industry peers.

Below are the results for each of the Scheme's mandates as at 31 March 2025. Please note that a PCAF Data Quality Score is only available where line-by-line data is available for the respective fund, and for publicly listed assets only.

In line with emerging best practice, this year, Trustee has decided to report a breakdown of PCAF data quality across five grades (instead of a single score previously provided). The PCAF data quality score monitors the reliability of emissions data with a scoring system which ranges from 1 to 5, with 1 representing the highest data quality, which involves independently verified emissions data, and 5 indicating the lowest quality, characterised by estimated emissions data derived from industry averages. MSCI does not currently assign a score 1 to any emissions, therefore the best available score is 2. Where data is unavailable for funds or underlying holdings, these have been estimated using asset class proxies and they have been assigned a data quality score of 5. A full breakdown of the scores is included below:

- 1 - Reported emissions, based on the Greenhouse Gas Protocol, that have been verified by a third-party auditor.
- 2 - Unverified reported emissions or estimates based on the company's energy consumption, in line with the GHG Protocol.
- 3 - Estimated emissions based on the company's production data.
- 4 - Estimated emissions based on economic data – e.g. revenue, company value and amount lent/invested.
- 5 - Estimated emissions based on economic data – e.g. sectoral revenues and asset turnover ratios.

Table showing PCAF Data Quality scoring (Scopes 1 and 2) for the Scheme as at 31 March 2025

Fund	Fund Value (£m)	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5
Fulcrum	93.4			Not available		
Ruffer	90.1			Not available		
KKR	73.8	-	14.60%	-	9.20%	76.20%
Oak Hill	60.7	-	15.40%	-	6.30%	78.30%
H.I.G.	48.8			Not available		
Total	**366.7**	**-**	**5.50%**	**-**	**2.90%**	**91.60%**

Source, Redington as at 31 March 2025

Table showing PCAF Data Quality scoring (Scope 3) for the Scheme as at 31 March 2025

Fund	Fund Value (£m)	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5
Fulcrum	93.4			Not available		
Ruffer	90.1			Not available		
KKR	73.8	-	9.70%	-	14.40%	75.90%
Oak Hill	60.7	-	7.80%	-	13.90%	78.30%
H.I.G.	48.8			Not available		
Total	**366.7**	**-**	**3.20%**	**-**	**5.20%**	**91.60%**

Source, Redington as at 31 March 2025

Key takeaway: For all of the funds the Scheme invests in, only the liquid credit managers have scores due to the nature of the asset classes. It is worth noting that although the liquid market managers did provide line by line data, due to the dynamism of the funds, estimates based on economic data have been used instead for modelling purposes, and therefore no score is available.

For the illiquid manager, H.I.G, no data was available due to the nature of the assets invested in, therefore emissions data was estimated, and no data quality score was available.

4. Portfolio Alignment

The Trustee has agreed to adopt the Science Based Target's initiative as the Scheme's portfolio alignment metric, which captures a company or issuer's progress against a self-developed decarbonisation target using science-based methodology. 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 the following target categorisations: "SBTi Approved 1.5°C", "SBTi Approved Well Below 2°C" or "SBTi Approved 2°C". Each of the categorisations all denote the implied global temperature increases that coincide with the decarbonisation target. 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°C, the Trustee will continue to report under the "SBTi Approved 2°C" categorisation to capture companies currently on a 2°C path until they increase their target ambition to 1.5°C 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.

Table showing the SBTi ratings for each of the Scheme's funds as at 31 March 2024 and 2025

Fund	SBTi Rating	
	31 March 2024	31 March 2025
LGIM Future World Global Equity Index Fund	37.6%	N/A[1]
Ruffer Absolute Return Fund I	5.6%	9.2%
Fulcrum Diversified Absolute Return Fund	2.1%	2.5%
KKR Global Credit Opportunities Fund	7.9%	6.0%
Oak Hill Diversified Credit Strategies Fund	3.8%	5.0%
H.I.G WhiteHorse Lending IV	No data available	No data available
Total	**5.9%**	**4.9%**

Source, Analysis by Redington as at 31 March 2025, using data from MSCI. Please note that totals may not sum due to changes in asset allocation over the year.

[1] The Scheme disinvested from this fund in November 2024, hence it is denoted as N/A as at 31 March 2025.

Key takeaway: Over the year to 31 March 2025, the percentage of underlying companies or issuers with decarbonisation targets set using science-based methodology decreased to 4.9%, from 5.9% in the previous year. Although all fund's SBTi ratings increased over the year aside from KKR, the Scheme's disinvestment from LGIM Equity over the year has contributed to the overall fall in SBTi coverage given this has a materially higher SBTi rating than the other funds.

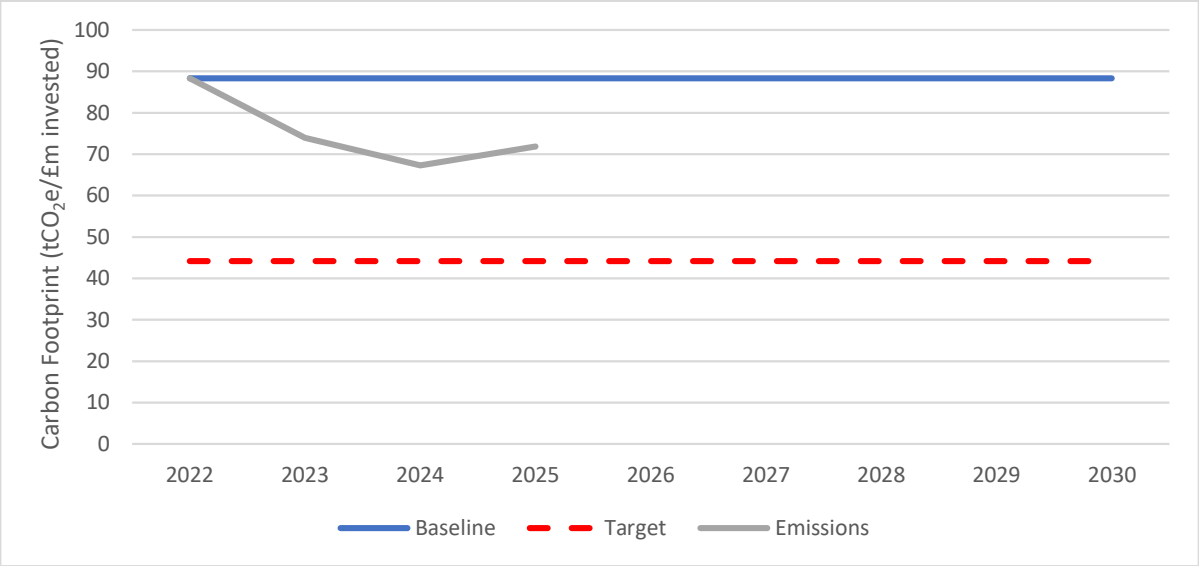
Of the Scheme's investments, one manager was unable to provide the data to calculate the SBTi rating: H.I.G, due to the nature of the assets they invest in. The Trustee continues to engage with all managers, with a focus on increasing these ratings.

Target

The Trustee has set a target of 50% reduction in terms of carbon footprint by 2030 across Liquid Credit and Liquid Markets assets on Scope 1 and 2 emissions. This target is assessed using a base year of 31 March 2022 to monitor progress against annually. The chart below shows the progress against the target.

This target was originally set on the assumption that the low-carbon transition would occur at a reasonable pace, and the most ambitious goals of the Paris Agreement would remain achievable. As the global transition is currently not on track to achieve this, and the Trustee is bounded by fiduciary duty and the prevailing policy environment, the Trustee recognises that this target may need to be recalibrated in the short-term. However, the Trustee remains very supportive of the decarbonisation to net zero, believing that this is in the best long-term interests of members.

Chart showing Carbon Footprint of Liquid Credit and Liquid Markets assets (as at 31 March of relevant year)



Source, Analysis by Redington as at 31 March 2025, using data from MSCI

Key takeaway: The carbon footprint of the Scheme's investments has fallen from the baseline established in 2022 on an overall basis, but did decrease this year compared to last year. Portfolio carbon footprint increased by 7% over the year but has fallen 19% since 2022. This is primarily driven by liquid credit having a higher carbon footprint this year than last, which is in line with expectations.

Note: All analysis is provided by the Scheme's Investment Adviser, Redington Ltd ("Redington"), and the data in the report is sourced from MSCI©.

APPENDIX A: Scenario Analysis

The Trustee uses asset-side scenario analysis which is based on the Network for Greening the Financial System ("NGFS") assumptions. The NGFS scenarios are more granular and rigorous at company / instrument level and also capture upside potential from climate opportunities rather than focusing only on downside risk.

The NGFS is a group of 138 members and 21 observers committed to sharing best practices, contributing to the development of climate- and environment-related risk management in the financial sector and mobilising mainstream finance to support the transition towards a sustainable economy.

The NGFS Scenarios have been developed to provide a common starting point for analysing climate risks to the economy and financial system and highlight a few important themes including rapid decarbonisation of electricity, increasing electrification, more efficient uses of resources, and a spectrum of new technologies to tackle remaining hard-to-abate emissions.

APPENDIX B: Carbon Footprint Analysis

Where possible and where there is reasonable data coverage, the Trustee monitors 'line-by-line' emissions reporting for funds. These tend to be more generic, long-only asset classes such as listed equity and corporate credit. However, for funds with less than 50% coverage and illiquid assets, the Trustee monitors 'asset class level' carbon estimates in the absence of reliable, reported line-by-line emissions data from MSCI. The Trustee notes using asset class modelling of emissions for assets where this data is not available enables a more holistic view of the Scheme's total portfolio emissions, albeit recognising that the modelled data is not perfect.

The asset class modelling of emissions has been provided by Redington and is based on asset class 'building blocks'. These are either calculated directly using a given index's underlying holdings emissions (such as using MSCI ACWI as a proxy for a broad equity fund) or in some cases these indices are used and extrapolated to other asset classes based on given assumptions (such as using the emissions of infrastructure firms within an index to proxy an infrastructure fund).

Emissions metrics will be calculated in line with the GHG Protocol Methodology, the global standard for companies and organisations to measure and manage their GHG emissions. The GHG Protocol provides accounting and reporting standards, sector guidance and calculation tools. It has created a comprehensive, global, standardised framework for measuring and managing emissions from private and public sector operations, value chains, products, cities and policies to enable greenhouse gas reductions across the board.

APPENDIX C: Breakdown of Scheme Assets

Fund	Asset Value as at 31/03/2025 (£m)
Schroders Segregated LDI	564.0
Ruffer Absolute Return Fund I	90.1
Fulcrum Diversified Absolute Return Fund	93.4
KKR Global Credit Opportunities Fund	73.8
Oak Hill Diversified Credit Strategies Fund	60.7
H.I.G WhiteHorse Lending IV	48.8
Cash[1]	67.2
Total	**997.9**

[1] Due to the nature of the asset class and currently methodologies available for climate metrics, Cash is not included in analysis for this report.