The Merchant Navy Ratings Pension Fund Trustee's Climate Change report for the year ended 31 March 2025

Website where this report can be found:
https://www.mnrpf.co.uk/library.php

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Section 1: Introduction and Chair Foreword

A foreword from the Chair of the Merchant Navy Ratings Pension Fund

We are very pleased to present our third Climate Change Report. In this report we deal with the impact of climate risk on the MNRPF, detailing the approach we take to manage climate-related risks and opportunities, the actions taken to date, the assessment of the Fund's and Participating Employers' exposures and the potential impact of climate change on the MNRPF over time.

We believe that Environmental, Social and Governance (ESG) and Climate factors have a material financial impact on investments and Sustainable Investment (SI) is therefore integral to the successful mission delivery for our members. Given the importance of this topic we consider the possible climate-related impacts on MNRPF's investments, security of members' benefits, Participating Employers and the support these can provide to ensure those benefits are paid.

Reporting on climate change is improving but there remains progress to be made. We should note there are still some limitations around the data available, and we continue to work on improving this, however we are pleased to see that data quality is improving and expect to see it continue to do so. Over the course of the Scheme Year the Trustee appointed a new Fiduciary Manager, Schroders Solutions, and the investment strategy has evolved accordingly. This has allowed us to add more granularity to the disclosures on data quality in this year's report, for example through the inclusion of a new forward looking portfolio alignment metric (implied temperature rise).

The Trustee supports the goals of the Paris Agreement and aims to achieve a carbon-neutral portfolio. Our ambition remains as before, to achieve net zero by 2040 or sooner. In doing so, for our formal TCFD target we have aligned to our Fiduciary Manager's forward looking portfolio alignment target, which is to achieve 2.2 degrees Celsius temperature alignment by 2030, and alignment to the Paris Agreement in the long term. We believe this approach is more supportive of our consideration of real world decarbonisation impact over the coming years. As we note above, the evolving nature of data quality and availability is an area of ongoing focus for improvement. This limits direct conclusions which can be derived from the reported metrics (particularly over short time periods), but we have reflected that this provides a good starting point for ongoing longer-term monitoring of our goals. Our focus remains to be continuing to work on improving our knowledge, monitoring and reporting in this area, acknowledging that the broader industry is evolving to be able to better collate and report data. We look forward to sharing our progress again with you next year.

Doug Ross

Chair of the Trustee of the Merchant Navy Ratings Pension Fund

1 Introduction

The Trustee of the Merchant Navy Ratings Pension Fund (hereinafter referred to as the "Trustee" and the "Fund", respectively) presents its annual report under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the "Regulations") for the year ended 31 March 2025. The Fund is a multi-employer scheme.

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

This report sets out the Trustee's approach to compliance in each of these four areas.

The climate change framework requires disclosures in four broad categories:

Governance: around climate-related risks and opportunities

Strategy: the actual and potential impact of climate-related risks and opportunities on the strategy and financial plans of the Fund under different climate scenarios

Risk management: how the Fund identifies, assesses, and manages climate-related risks

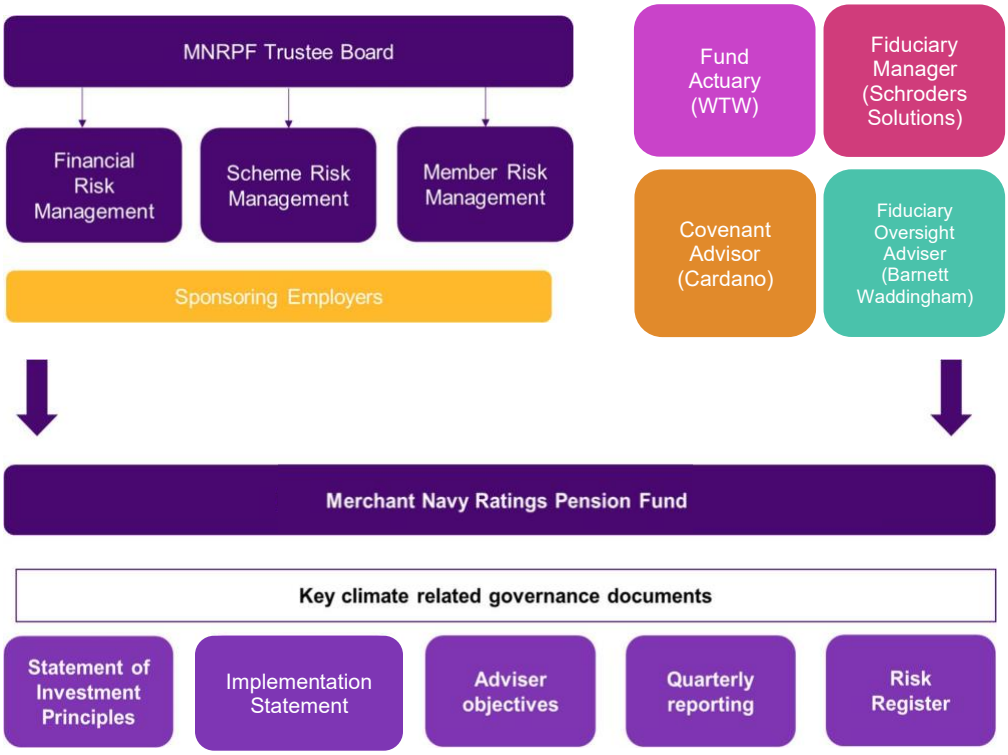
Metrics and targets: the metrics and targets used to assess and manage climate-related risks and opportunities

Section 2: Governance

Overview of strategy, investment portfolio and supporting context and changes over the year

Overview of investment structure

The Fund's governance structure is outlined in the graphic below. The Trustee is responsible directly for the Fund and is involved in day-to-day governance of the Fund. The Trustee does delegate some of its functions to efficiently govern and conduct Fund matters. As shown in the graphic below, the Fund's investment assets totalled £725m as at 31 March 2025.



Overview of context

As at 31 March 2025, the Fund's financial position stood at 82% funded on the Technical Provisions basis. It remains in deficit both on a Self-Sufficiency and on a Technical Provisions basis, and as such, the Participating Employers are expected to continue making deficit recovery contributions. The Trustee's current long-term objective is to transition towards a more secure funding position, targeting full funding on a Gilts +0.5% basis by March 2030.

During the year ending 31 March 2025, the Fund transitioned to a new Fiduciary Management arrangement with Schroders Solutions.

Building Block	Sub Asset Class	Allocation %
Completion Growth	Equities Return Seeking Credit Alternatives Commodities Cash and Sovereign Bonds	15%
Private Assets	Legacy Private Assets	25%
Contractual Assets	Investment Grade Credit	10%
Structured Equity ("EDOS")	Equity derivative instruments UK Gilts	20%
Liability Hedging	UK Gilts Cash	30% targeting 100% hedging of funded Technical Provisions liabilities
Total		**100%**

While climate change presents a significant long-term financial risk, its specific implications for the Fund will depend on both the pace of global decarbonisation and how the Fund's investment strategy evolves. The current strategic asset allocation has an objective of achieving Gilts+2.1% p.a., and therefore reflects a strong emphasis on growth over the short-medium term to close the deficit. The Fund has a notable 30% allocation to liability hedging assets designed to protect against interest rate and inflation volatility, 10% allocation to Contractual Assets (Cashflow Driven Investments, "CDI") to meet the Fund's short-term cash requirements and a diversified mix higher return-generating assets. These return-generating assets target Cash+4.0% and include 15% in Completion Growth strategies, 25% legacy private assets and 20% in structured equity – passive equity-like instruments with explicit downside protection.

Overview of key climate activities conducted over the year

Over the Fund year to 31 March 2025, the Trustee undertook a number of actions in line with the policies outlined above and to help achieve the ultimate aim of managing climate related risks and opportunities (CRRO).

Stewardship	Portfolio updates	Governance updates
Stewardship priorities – The Trustee consider that stewardship is an important tool for managing risk and improving the financial outcomes of the Fund. However, the Trustee also acknowledges that stewardship can be multifaceted and therefore it makes sense to have a small number of stewardship priorities to focus engagements in the short term. One of the selected priorities was "climate change" reflecting the Trustee's belief that this is currently the single biggest ESG risk and therefore requires specific attention. Climate change has been an area where the Trustee has carried out engagements with their managers in the past, and they will continue to prioritise this in the future. The transition to Schroders Solutions as FM enabled the Trustee to retain their stewardship priorities given they are aligned to those of the FM. Voting over the Fund's core passive equity fund and engagement with underlying managers on behalf of the Trustee is conducted in line with the FM's Engagement Blueprint, with examples detailed in this report. Monitoring covenant - The Trustee regularly monitors the employer covenant, including assessing transition and physical climate related risks that could affect the employers' financial strength. The Trustee's ongoing oversight is supported by engagement with the covenant advisor, Cardano Advisory Limited (Cardano).	**ESG action within the portfolio**: The transition to Schroders Solutions as FM meant that the Fund implemented a new investment strategy and so is now fully integrated with Schroders' key ESG considerations throughout each building block – Completion Growth, Structured Equity, LDI and CDI. The legacy private assets remain and are being managed down over time. This includes the implementation of Schroders group level exclusions and proprietary ESG tilts within the core equity portfolio utilised within Completion Growth, third-party manager ESG rating capabilities, and active ownership efforts among others. In particular, the FM incorporates a climate risk screen within the Fund's core equity and return-seeking credit portfolios where it has direct influence over security selection. Where there is no direct influence over security selection, all of the underlying mandates are reviewed on an annual basis on the extent of ESG and climate integration within the investment processes. Managers who score lower are prioritised for engagement by the FM. There is further exploration to be done to determine whether the Fund could go further and achieve greater sustainability integration, particularly in the Completion Growth portfolio where the Trustee will review the more sustainable and impact portfolio options the FM has available.	**Trustee training** – The Trustee undertook training, facilitated by Schroders as FM, on ESG integration within the investment portfolio. In addition, the Trustee received training from its advisors on the Fund's climate scenario analysis and metrics, as well as on how climate-related risks could impact the strength of the employer covenant **Risk register updates** - a detailed review of the risk register was undertaken over the year. This included the key metrics used to assist in monitoring and managing climate change risk. **Member communications** - The Trustee is also committed to keeping the Fund's members informed of the work carried out in the responsible investment space and how it impacts member benefit security. The Trustee provided one update to members during the year and is also planning to publish a member friendly summary of the outcome of the climate change report. **Adviser review** – The Trustee reviewed the Fund's advisers against their objectives over the year which included an assessment of their work in climate change. The Trustee continues to encourage further work on improving data and enhancing stewardship activities.

Over the fund year to 31 March 2025, the FM has also carried out several activities to help the Trustee meet its climate goals including:

- Confirmed UK Stewardship Code adherence for 2024/25
- Maintained climate as one of their top themes for engaging with investment managers, along with natural capital and biodiversity, and human rights as priority areas and otherwise engaged with all of the lowest 'Red-engagement' rated managers
- Engaged with all active equity and credit managers held over the year where they do not have a net zero target at the strategy level
- Led the updating of the Investment Consultants Sustainability Working Group (ICSWG) ESG metrics for asset managers template to incorporate social factors
- Over 2024 undertook 4,713 company engagements, 53% of which were on the topic of climate change
- Invested in in-house tools to develop a new biodiversity risk metric
- Engaged with and responded to several government consultations

Below are some examples of the FM's engagement in practice.

 **Case study: Engagement with Core Credit Manager**	 **Case study: Engagement on Net Zero Alignment**	 **Case study: Engagement with manager that has a low ESG rating**
The FM engaged with the core credit manager for the portfolio, to transition to a **climate transition mandate.** This has been completed by the manager where the mandate will have an explicit net zero target and enhanced climate engagement requirements The manager will include enhanced details on the FM's **watchlist** in their regular reporting, specifically designed to provide analysis and engagement details of issuers which have been flagged to have poor ESG credentials The FM has also engaged with the manager on the **high carbon emissions** associated with the portfolio in a separate engagement meeting where the manager has provided rationale and analysis of these holdings relative to the manager's proprietary net-zero framework	In accordance with their portfolio level commitment to have all listed equity and credit funds state an ambition to commit to a net zero target by 2030, the FM engaged with an active credit manager in the portfolio during the year on the topic. The manager is firmly committed to Net Zero and joined the Net Zero Asset Manager initiative in July 2021 and announced a target of 100% Net Zero aligned assets by 2050. The mandate is a dedicated fund for Schroders Solutions and was designed with the fixed income researchers at Schroders, as such the manager is open to discuss the investment guidelines with Schroders to align the Net Zero targets The engagement will continue through the next fund year with the intention to incorporate a net zero target.	Schroders FM proposition has a commitment to engage annually with their lowest rated external managers on sustainability. Their engagement with one of their hedge fund managers demonstrated some progress over the year. The overall rating remains **RED-engagement** although the manager has demonstrated some progress over 2024 after hiring an ESG consultant. Key developments: – Shared voting data for first time including case studies as well as their ESG and D&I policies, including detail as to the discussions at their ESG committee. – Made ESG commitments to reduce its operational carbon emissions. – Enhanced firmwide D&I initiatives and implemented charitable initiatives.

Overview of approach to climate change

The Trustee has identified climate change, alongside other ESG factors, as an important risk and opportunity which requires oversight and management over the long-term.

The Trustee has received training provided by its FM , WTW as Scheme Actuary and its Covenant adviser, Cardano, on climate risk and the requirements of the regulations and recommendations of the Task Force for Climate Related Financial Disclosures (TCFD). Given the pace of progress around corporate sustainability and SI, trustee training on climate and ESG has increased over recent years and is expected to remain a priority going forwards.

The Trustee's key overarching investment policies (including those in relation to climate) are detailed in the Trustee's Statement of Investment Principles (SIP) which can be found online at the following link: https://www.mnrpf.co.uk/library.php

Over the year the Trustee reviewed the risk register which incorporates the risks and opportunities associated with climate change, ESG investment beliefs, as well as their stewardship priorities. The Trustee monitors the Fund's risk register which details the controls and monitoring that the Trustee has in place to appropriately manage these risks and opportunities. The risk register is a standing item on the agenda of the quarterly Trustee Board meetings.

Whilst the Trustee may delegate certain aspects of its investment arrangements, the Trustee retains ultimate responsibility for setting the Fund's strategy, policies, and actions in this area and the Trustee ensures that such third parties are closely monitored and held accountable for the work they do on behalf of the Fund. The Trustee regularly reviews their external consultants and advisers and will be explicitly considering their risk expertise, capabilities, and resources and how they incorporate climate change into their advice as part of the next formal review process. The main parties to which the Trustee delegates some form of responsibility for implementing its policies in relation to climate change and SI more widely are outlined below.

Governance pillars - To ensure the effective management of the Fund, the Trustee has established a three-pillar governance structure comprising of a Financial Risk Management Pillar (FRM), a Scheme Risk Management Pillar, and a Member Risk Management Pillar. The FRM is responsible for progressing actions relating to TCFD and the Trustee is supported by the FM, FM Oversight, covenant and actuarial advisers. The key investment activities of the FRM pillar include:

- Ensuring strategic investment proposals consider the impact of CRRO
- Reviewing the ESG and TCFD climate metrics of the portfolio through quarterly monitoring reports
- Reviewing climate scenario analysis on an annual basis
- Monitor the FM's activities in relation of management of climate-related risks and in seeking investment opportunities which enhance the ESG and climate characteristics of the Fund's portfolio
- Reviewing the FM's annual ESG report
- Reviewing the FM and underlying managers' voting and engagement activity on an annual basis with focus on the Trustee's priority engagement themes which includes climate change.
- Engaging with the FM as required to understand or challenge its approach to managing CRRO, and in ensuring the FM is undertaking stewardship activities of its own relating to climate over the underlying managers in the portfolio
- Engage with the covenant advisor to assess the impact of climate-related risks on the strength of the covenant and to support TCFD reporting

Fiduciary Manager (FM) – As the Trustee's Fiduciary Manager, Schroders Solutions work with the Trustee on a regular basis to identify, understand, manage and monitor climate-related risks and opportunities in the Fund's investment portfolio. This includes, for example, the provision of TCFD climate metrics on an annual basis, an annual review of climate scenario analysis, an annual FM ESG report including progress against the net zero target, and ad-hoc updates on the latest developments regarding CRRO as required. The Trustee challenges Schroders on the output received and queries where relevant to ensure the Trustee is correctly interpreting the nature of the CRRO the Fund is exposed to. The Trustee has also reviewed the FM's own ESG policies and are satisfied the FM's investment approach is aligned with its beliefs and objectives. In addition, the Trustee has specified the consideration of ESG and climate risks within Schroders Solutions' objectives as investment consultant and reviews the services received each year against them.

Oversight Provider – The Trustee also appoints an FM Oversight Provider, Barnett Waddingham, who assists the Trustee with monitoring and holding the FM accountable for their actions around climate change. As part of its oversight activities, Barnett Waddingham compares Schroders' SI-related activities against those of other fiduciary managers.

Investment Managers – Responsible for managing climate change risks and opportunities within their mandates, consistent with their investment guidelines. This includes the selection of assets as well as the managers' ongoing stewardship activities. The Trustee receives reporting from the FM on an annual basis to assess the underlying managers' competencies. This provides an assessment of the managers' approach to ESG and climate integration and stewardship activities. The FM assesses the investment managers' approach to ESG integration and stewardship activities before investing on the Trustee's behalf, and on a periodic basis as part of its ongoing manager research activities, which incentivises the investment managers to remain aligned to the Fund's objectives

Other advisors – The Trustee also takes advice from the Scheme Actuary, Legal Advisor and Covenant Advisor regarding the extent to which climate change may affect the funding strategy of the Fund and the ability of the sponsors to support the Fund. The Trustee meets regularly with its advisers, challenges information given and ensures they are comfortable that they have adequate expertise and resource to assess climate-related risks.

The Trustee met 9 times over the year and climate change was discussed periodically over the period. The Trustee recognises that climate change is a fast-evolving and complex area which therefore

requires ongoing discussion and education. The Trustee ensures it possesses the relevant knowledge and understanding to govern climate-related risks and opportunities effectively. The Trustee has undertaken training regarding ESG and climate risks in the Scheme Year. The Trustee is required to partake in these sessions as recognition of their responsibility in evolving the Fund's approach in this area.

This training covered:

- How climate-related risks and opportunities have the potential to impact Fund assets, liabilities and the employer covenant now and in the future
- The Trustee's legal and regulatory obligations to consider and report on climate-related risks and opportunities
- Actions taken by the FM on the Trustee's behalf in the Fund's investment portfolio to identify and manage climate-related risks and opportunities
- How to interpret climate metrics and targets
- The evolution of and presentation of climate scenario analysis as a strategic tool

The Trustee has a strong belief that stewardship (voting and engaging with the underlying companies the Fund invests in) is an important way in which the Trustee can meaningfully influence outcomes. The Trustee has identified climate change as one of its current stewardship priorities. The Trustee delegates part of the implementation of this policy to the FM and underlying investment managers but retains overall responsibility and accountability for the policy. The Trustee considers the implementation of this policy on an annual basis.

In addition, the Trustee has also adopted a focused and structured approach to stewardship. This aligns with the FM's Engagement Blueprint, which defines six core sustainability themes that guide engagement across the investment portfolio.

The Trustee has formally adopted the FM's six themes as its own stewardship priorities, ensuring a consistent and aligned framework for exercising influence across all asset classes and investment managers. The FM with support from its client base selected three priority areas within these themes, on which to focus its active ownership efforts: Climate Change, Natural Capital and Biodiversity, and Human Rights.

Section 3: Strategy

Appropriately managing the risks and opportunities associated with climate change from a strategic perspective is a key part of the Trustee's role. The Trustee recognises that climate change could have a material impact on the potential success of the overarching funding strategy and therefore seeks to ensure that this matter is given appropriate consideration. To support this, the Trustee undertakes climate change scenario analysis to test the resilience of the Fund's funding strategy under a range of plausible climate scenarios. Importantly, the Trustee recognises that climate change could have a material impact on the investments of the Fund, the life expectancy of the Fund's members and the support provided by the sponsors' covenants. All three aspects are therefore considered as part of this analysis. This scenario analysis was undertaken for the first time in 2022. The Trustee's intention is to repeat this analysis at least every three years or sooner should there be a material change in either the Fund's circumstances or the assumptions underlying the analysis. Given the change in fiduciary manager and investment strategy, the Trustee has updated the scenario analysis for the investment, funding strategy and employer covenant, over the scheme year.

Description of risks over relevant timeframes

To appropriately assess the impact of the climate scenario analysis, the Trustee is required to identify and consider how its investment and funding strategies could be impacted by Physical and Transition risks, as defined in the Introduction of this report, over the short, medium and long-term. The Trustee has set these time horizons as shown in the table below.

These timeframes have been determined by taking into account the climate outlook, membership demographics, funding position and objectives. The Trustee will review the chosen timeframes on a regular basis and assess the extent to which it believes the Fund will have sufficient assets to meet expected future payments over its journey.

The Trustees are aware of a number of climate-related risks and opportunities across these timeframes. In particular, in the short-term we expect transition risks in general to be greatest. However, in the long-term, physical risks will ramp up and could become increasingly dominant especially if climate change mitigation actions are not undertaken.

	Short-term (1-3 years)	**Medium- term (5 years)**	**Long-term (15 years)**
Funding Horizon	Triennial strategy review cycle	Timeframe to de-risk to Low-Dependency Goal	Full-funding on Fund's Long-Term Objectives Liability Duration Net-Zero by 2040 ambition
Climate Horizon	• UN PRI Inevitable Policy Response • Improvement in data quality	• Interim 2030 targets • Stronger focus on transition - mitigation • Alignment with UN Sustainable Development Goals	• Transition becomes increasingly difficult – focus on adaptation over mitigation • Physical risks become more prevalent
Risk to Assets	• Transition risks such as carbon pricing and regulation affect asset values	• Continued transition risks • Physical risks such as extreme weather events and sea level rises increasingly affect asset values	• Physical risks dominate
Risks to Liabilities	Changes to yields (as per assets) more dominant in short to medium terms with changes to longevity expectations more dominant in medium-longer terms due to rising physical risks or changing provision and quality of healthcare		

Risks to Employers	Local transition risks (such as technology changes, regulatory emission caps or customer preferences) impact cash flows and asset values. Extreme weather events may increase in frequency	Global transition risks increase in prominence, along with economic or physical disruption of specific markets	Chronic climate change (including sea level rises, heat stress and extreme weather events) become an increasing risk to the Employers globally, compounding macro-economic risks

The next section identifies and demonstrates the potential impact of CRRO on the Fund's specific investment and funding strategies.

Climate risks and opportunities

Overview of CRRO within the Investment Strategy

The day-to-day investment decisions, including the identification and management of CRRO, are delegated to the FM who invests via a number of different underlying mandates in seeking to achieve the Fund's objectives. Within the Completion Growth allocation, the FM can invest across a range of asset classes and third-party pooled-fund managers and can alter the underlying investments between asset classes regularly to take account of market conditions including its view on emerging climate risks and opportunities. The FM rates all of the underlying mandates on an annual basis on the extent of ESG and climate integration within the investment processes. Managers who score lower are prioritised for engagement by the FM. Climate was a particular topic of engagement with the core credit manager over the scheme year as the FM identified some high emitting securities and the FM fed back its progress to the Trustee through the FM's annual ESG report. The Fund also has a sizeable allocation to investments which are expected to benefit from the transition to a low-carbon economy. These include investments in wind, solar, and opportunistic renewable energy investments.

Overview of CRRO within the Funding Strategy

In relation to the funding strategy, with support of the Scheme Actuary and Covenant Advisor, the Trustee has considered the impact of climate on financial (gilt yields) and mortality assumptions used in valuing the liabilities including the long-term funding objective, the employer covenant, and the balance between employer contributions and investment returns.

As part of each triennial funding valuation, the Scheme Actuary and the Trustee consider how climate-related risks might manifest within the Fund as part of setting the assumptions for the triennial funding valuation.

The liabilities are well-hedged against the impact of climate on the financial assumptions as the Trustee has agreed to hedge 100% of the interest rate and inflation risk based on the funded Technical Provisions, within the Liability Hedging portfolio. The Trustee has also introduced a longevity hedge covering a proportion of the Fund's members.

The covenant adviser (Cardano) carries out an assessment of the impact of CRRO on a regular basis.
Cardano have prepared a covenant-related climate risk assessment to support the Trustee's TCFD reporting due to the change in Fiduciary Manager and investment strategy, as well as changes in the underlying Employers. Detail on this is included on the following pages.

The impact of the exposures concluded within the mortality and covenant assessment is that the Fund remains exposed to climate risk.

In accordance with these findings, the Fund will consider investments in climate solutions, which offer an opportunity to earn return while contributing to the climate transition and mitigating climate risks to which the Employers are exposed. The liability hedging levels are expected to be maintained as a proportion of the liabilities.

Climate scenario analysis

Scenarios considered

Under the TCFD framework, the Trustee is required to carry out scenario analysis under at least 2 scenarios to identify the potential impact of climate change on the Fund's assets, liabilities and employer covenant, and hence understand the resilience of the Fund's investment and funding strategy.

Our FM , has partnered with Ortec Finance, a climate risk modelling specialist, to carry out this analysis on the Fund's

investment strategy. The analysis undertaken by the Trustee considers the projection of the Fund's funding progression under five climate scenarios, which are set out below:

Scenario	Temperature	Additional Details
Net-Zero	Average temperature increase by 2100 of **1.5°C**	**Early and smooth** transition **Market pricing-in** dynamics occur smoothed out in the first 3 years **Locked-in** physical impacts
Net-Zero Financial Crisis	Average temperature increase by 2100 of **1.5°C**	Sudden divestments in 2025 to align portfolios to the Paris Agreement goals have **disruptive effects on financial markets** with sudden repricing followed by stranded assets and a sentiment shock **Locked-in** physical impacts
Delayed Net Zero	Average temperature increase by 2100 of **2.0°C**	Ambitious policy commitments Physical risks are limited Financial markets price-in transition and physical risk during the late 2020s
Limited Action	Average temperature increase by 2100 of **2.8°C**	Policymakers implemented **limited NDCs** and **fall short of meeting the Paris Agreement goals**. **High** physical impacts **Markets price in physical risks** of the coming 40 years over 2026-2030, and risks of 40-80 years over 2036-2040
High Warming	Average temperature increase by 2100 of **4.2°C**	The world **fails to meet the Paris Agreement goals** and global warming reaches 4.2°C above pre-industrial levels by 2100 **Very severe** physical impacts **Markets price in physical risks** of the coming 40 years over 2026-2030, and risks of 40-80 years over 2036-2040

Tests exposure to the risks and opportunities from the systemic drivers of an orderly transition and locked-in physical risk

Shows the resilience of portfolios to sudden repricing, triggering market dislocation centered on high-emitting stocks

Reflects a future where technological breakthroughs and a step-up in policy action limits exposure to severe physical risk

Highlights how scaled-down transition policy leads to larger physical risk and material transition risk for portfolios

The main focus of this pathway is physical risk, results show the exposure to plausible, severe climate change impacts including tipping points

Source: Ortec Finance

The five scenarios outlined above were run using Fund-specific asset and liability information as at 31 March 2025. The result is a projected impact on the progression of the Fund's funding level under each scenario compared to a baseline scenario. The baseline assumes an initial target return of Gilts+2.1% p.a. in line with the current return target but takes into account what could be considered a realistic climate scenario assumption over the long-term which currently suggests a global warming increase of between 2-3 degrees.

This means for example over the long-term, the Net Zero scenario will be more favourable than the baseline with the High Warming the least favourable. The five scenarios have been projected relative to this base scenario assuming a 100% funding level starting position to give an understanding of the relative effects between the scenarios - in reality the Fund is not currently 100% funded today, however, it is the relative differences between the scenarios which are most relevant to interpret.

It should be noted that no de-risking has been allowed for in these projections and it is assumed that the Fund's current investment strategy will be retained indefinitely. That said, the Fund is currently expecting to be able to de-risk in the early 2030s ahead of the worst impacts expected from climate change. It is expected de-risking may be taken into consideration when carrying out this modelling in a future report when the evolution of the strategy is clearer post the next Actuarial Valuation.

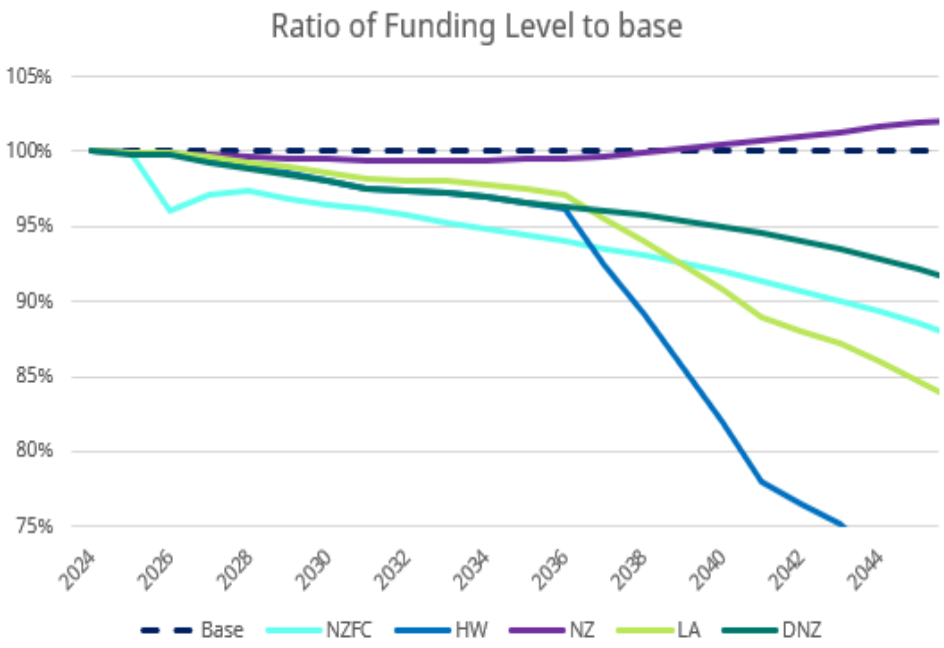
The analysis on the liabilities undertaken by the FM only considers the impact of financial assumptions on the

liabilities, therefore, the Scheme Actuary has separately provided scenario analysis on mortality assumptions which are broadly consistent with the scenarios above.

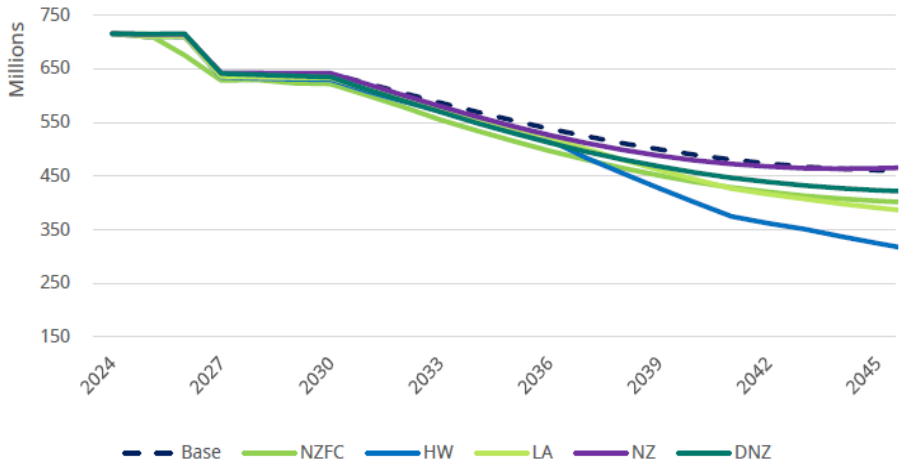
Results of scenario analysis

Effect on fund assets

These scenarios are not forecasts, nor are they under the control of the Trustee—they represent a range of plausible future climate pathways that could unfold depending on global political, technological, and economic developments. The modelling assessed the potential impact on the Fund's funding progression compared to a baseline case that excludes any climate-related financial risks.



The graph shows the relative funding level performance in each scenario over time relative to an assumed starting funding level of 100%. We have assumed no de-risking occurs – this should be considered further in future analysis for more realistic results.



The graph shows the asset projections (including LDI) in each scenario over time. We have assumed no de-risking occurs – this should be considered further in future analysis for more realistic results.

Key findings:

Significant long-term (physical) risk in most scenarios if the Fund does not de-risk by then, but also relatively significant short-term (transition) risk in a disorderly (NZFC) transition.

Focusing on the investment strategy, the results suggests the Fund should seek to de-risk to a low-dependency strategy by the end of this decade (which ties in with the Fund's Recovery Plan and Long-term objective) to improve resilience across all scenarios.

From a broader investment strategy perspective, and subject to covenant considerations, the Fund continues to need to target a return of gilts +2.1% to meet its long-term objectives. This requires ongoing investment in return-seeking assets, particularly in the near term.

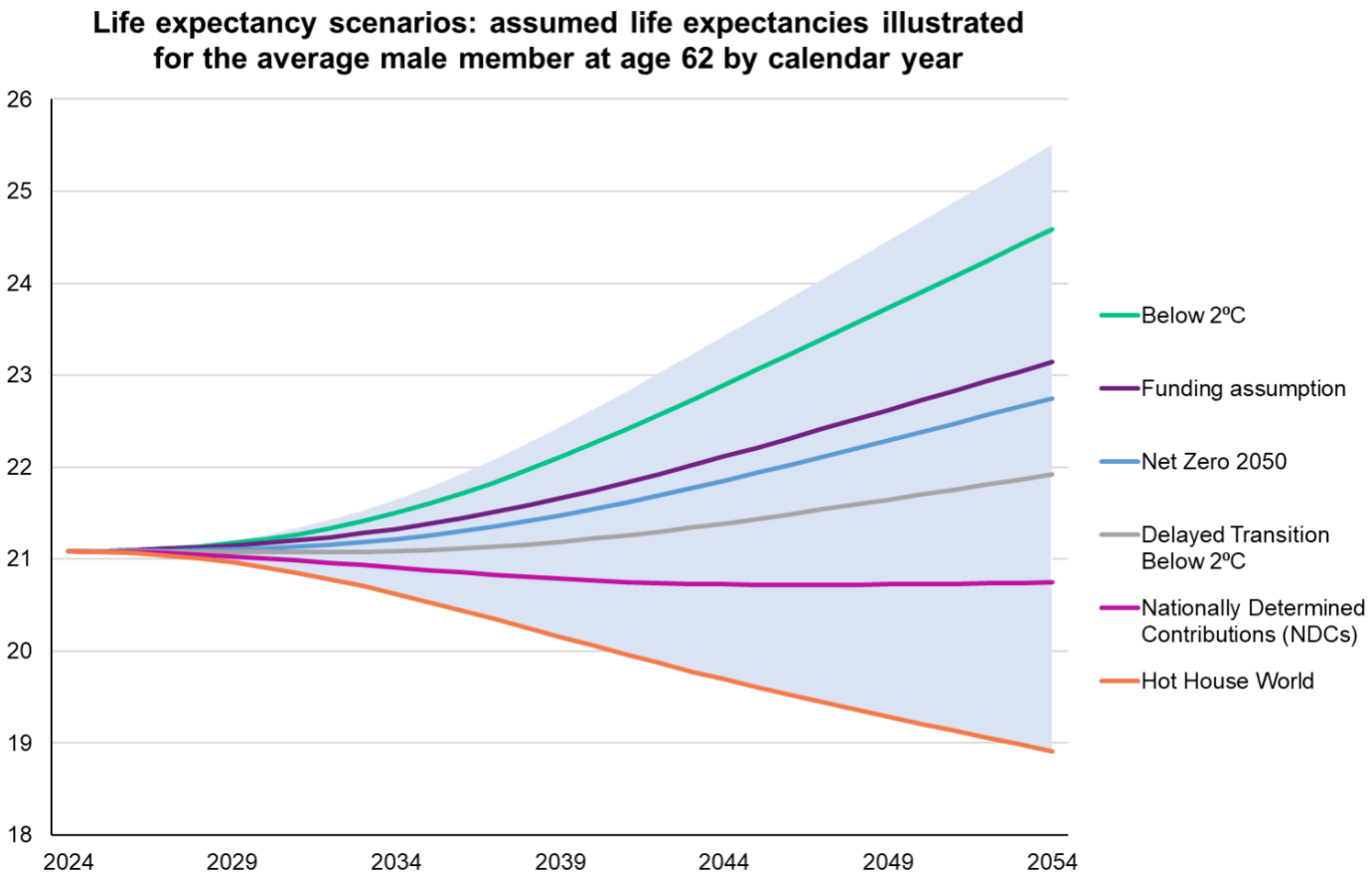
Where the Fund remains exposed to growth assets, the Fund will continue to monitor portfolio risks and take risk reduction actions (including investment stewardship) where beneficial to risk-adjusted investment outcomes –much of this is delegated to the FM however the Trustee monitors the specific activities that are being undertaken on their behalf through regular meetings as well as the annual ESG report by the FM.
The analysis assumes a static asset allocation and does not reflect any future management actions the Trustee or managers may take to reduce risk or capture opportunities. In reality, ongoing portfolio monitoring, stewardship, and adaptation will influence actual outcomes.

Effect on life expectancies

WTW has slightly different climate scenarios to those outlined above, although they broadly cover the same range of outcomes. A brief summary of WTW's standard climate scenarios is set out below:

	Description	Temperature Rise	Physical risk level (longer term)	Transition risk level (shorter term)
Nationally Determined Contributions	A "business as usual" outcome where current policies continue with no further attempt to incentivise further emissions reductions. Socioeconomic and technological trends do not shift markedly from historical patterns.	~2.5ºC	High	Low
Delayed Transition Below 2ºC	Delays in taking meaningful policy action result in a rapid policy shift around 2030. Policies are implemented in a somewhat but not completely co-ordinated manner resulting in a more disorderly transition to a low carbon economy. Emissions exceed the carbon budget temporarily, but then decline.	~2.0ºC	Medium	High
Below 2ºC	Globally co-ordinated climate policies are introduced immediately, becoming gradually more stringent over time. Companies and consumers take the majority of actions available to capture opportunities to reduce emissions.	~2.0ºC	Medium	Medium
Net Zero 2050	A more ambitious version of the 'Below 2ºC' scenario where more aggressive policy is pursued immediately. More extensive technology shifts are achieved with Carbon Dioxide Removal ('CDR') used to accelerate the transition, broadly in line with sustainable levels of bioenergy production.	~1.5ºC	Low-Medium	High
Hot House World	The world follows a Net Zero 2050 pathway, however the resultant temperature outcome exceeds 2ºC due to a lower than expected remaining carbon budget and/or the impact of climate tipping points. Use of Carbon Dioxide Reduction (CDR) technologies is relatively low.	~3.0ºC	High	High

The above scenarios are expected to have a material impact on life expectancies of Fund members. Under the scenarios above the Scheme Actuary has estimated life expectancies to project forward into the future from the current funding assumption as follows:



Compared to the current funding assumptions all of these scenarios, except the Below 2ºC scenario, lead to lower life expectancies. The following section summarises whet this could mean in terms of the Fund's liabilities.

Effect on liabilities of potential changes to life expectancy

As noted above nearly all of these scenarios lead to reductions in life expectancies, and therefore lower liabilities, based on the current prudent funding assumptions.

Based on the funding position as at 31 December 2024, although it would be very similar at other dates, the estimated impact on the liabilities would be as follows:

	Impact on liability value
Below 2ºC	**1.5%**
Net Zero 2050	**-0.4%**
Delayed Transition Below 2ºC	**-1.3%**
Nationally Determined Contributions (NDCs)	**-2.4%**
Hot House World	**-4.2%**

Note that these impacts allow for the longevity swap that the Trustee has taken out, which acts to reduce the impact of changing mortality assumptions.

Effect on covenant

The work that Cardano (the covenant advisor) prepared focuses on climate-related downside risks across trading Employers supporting c.90% of Fund liabilities, with a specific focus on the shipping and oil & gas sectors.

Two NGFS-aligned climate scenarios were considered:

- Orderly Transition (<2°C) (broadly equivalent to the 'NZFC' scenario described above): Immediate policy action, high near-term transition costs (e.g. emissions pricing, fleet upgrades), reduced long-term physical risks.
- Failed Transition (3°C+) (broadly equivalent to the 'High Warming' scenario described above): Minimal climate policy progress, lower near-term costs, but severe long-term physical disruption and GDP decline.

The scenarios considered are a subset of those used by the FM and actuarial advisors, against which specific risk

factors that might impact the employer covenant were identified.

Principal employer covenant climate risk factors

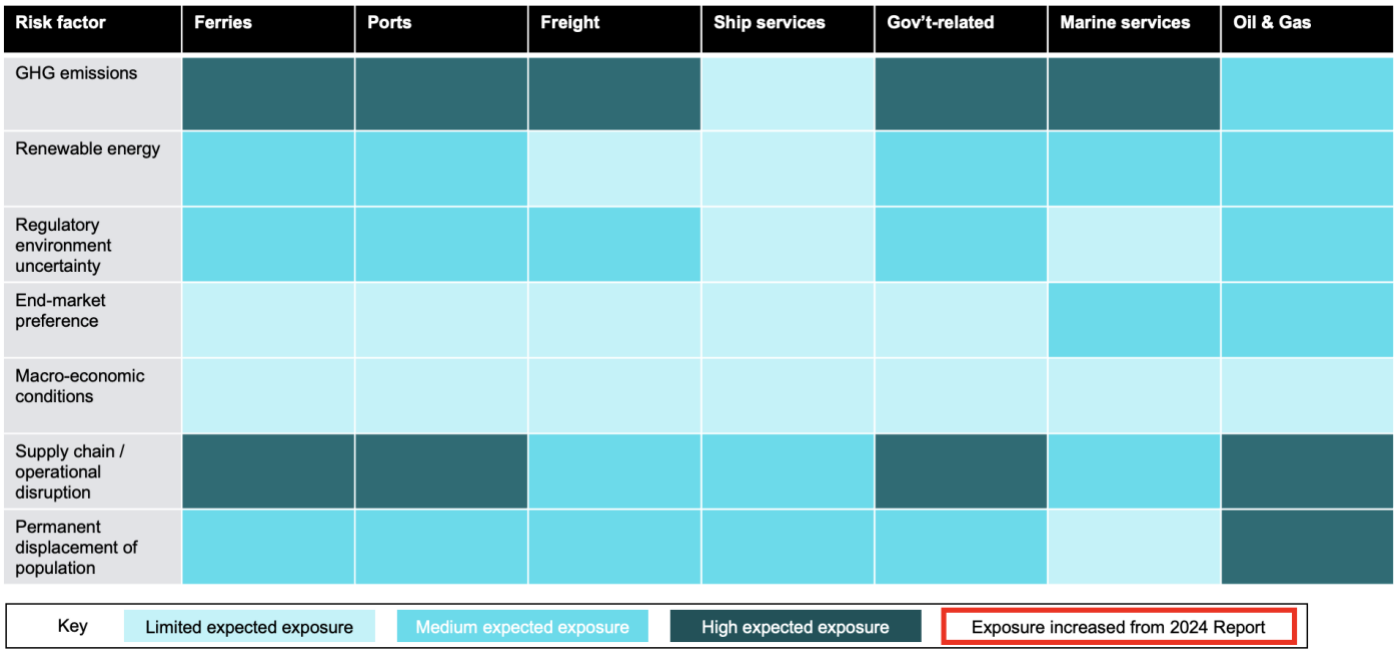
	Risk factor	Description	Transmission
Transition risks	GHG emissions	Increasing charges for emissions (Scopes 1, 2 and 3) could increase operating costs for Employers. The cost could stem from carbon taxes, increased voluntary offsets or through increased capex to transition assets / operations to a low-carbon business (for example, capital investment required to adapt vessels to low-carbon fuels or replace oil extraction assets).	Supply chain Operations
	Renewable energy	Ability to access renewable or low-carbon energy sources is crucial for shipping companies seeking to transition towards net zero targets. Greener alternative fuels face challenges such as high costs, limited availability, and technological barriers that need to be overcome before they can be more widely adopted. For oil & gas companies, the shift away from fossil fuels associated with renewable energy will also impact end-market demand and profit.	Operations End-market
	Regulatory environment uncertainty	Most Employers have a multinational footprint and are subject to different climate-related regulations. The risk is likely to be heightened where there is uncoordinated regulatory responses from different governments on decarbonisation strategies and industry targets (such as low-carbon fuels and associated infrastructure).	Supply chain Macro
	Geo-political	Security concerns are driving investment in domestic renewables and fossil-fuel infrastructure as well as encouraging the reshoring of supply chains. These shifts risk higher costs, volatile fuel prices and lower global trade, with a potentially material impact across the Employers.	Supply chain Operations
	End-market preference	End-market customer / consumer preference may shift towards greener products and services, or those less exposed to physical climate risk. Increasing adoption of renewable energy sources and a push for decarbonisation will lead to a decrease in demand for fossil fuels or transport methods that remain high-emitting; this could result in loss of business for companies that do not transition as quickly as competitors.	Competition End-market
	Macro-economic conditions	Broader macro-economic conditions driven by climate-change could reduce availability of financing to support transition / adaptation spending or impact customer spending directly. Access to financing may also be impacted as lenders face increased scrutiny regarding financed emissions.	Macro-economic
Physical risks	Supply chain/ operational disruption	Supply chains, shipping routes, vessels, ports or other infrastructure could be disrupted as a result of increased acute / chronic climate events such as storms / sea level rise. This could lead to higher operational / maintenance costs to repair any damage and remediate the disruption, increased insurance premiums, lost sailings, etc..	Supply chain Operations
	Permanent displacement of population	Employees working at key operating sites (incl. manufacturing sites and offices) or populations making use of products / services may be permanently displaced as a result of more frequent and severe acute / chronic climate events, such as coastal flooding, heat stress, etc.	Operations End-market

The scenarios were mapped across the major sectors represented by the Employers, using the specific risk factors to highlight potential exposure and ensure more detailed risk analysis was undertaken in a proportionate manner. The results of the sector analysis highlighted that some areas of risk had increased since the Trustee's last assessment in 2024:

Expected impact of an Orderly ('NZFC') scenario on the Employers' sectors

Risk factor	Ferries	Ports	Freight	Ship services	Gov't-related	Marine services	Oil & Gas
GHG emissions							
Renewable energy							
Regulatory environment uncertainty							
End-market preference							
Macro-economic conditions							
Supply chain / operational disruption							
Permanent displacement of population							

Expected impact of a Failed ('High Warming') scenario on the Employers' sectors



Focusing on key sector-specific risks, a more detailed scenario analysis was undertaken. This identified broad exposure of the Fund's employer covenant to both transition and physical risks as well as specific exposure for some Employers.

Assessed climate risk exposure of the Employers

	Short-term (2026)	**Medium-term (2027-2030)**	**Long-term (2031-2040)**
Orderly	Lower risk	Medium risk	Medium risk
Failed	Lower risk	Medium risk	Higher risk

The results of Cardano's analysis suggest that the risk to the employer covenant from climate change appears relatively limited in the very near term, due predominantly to the diversity of the Employers which support the Fund.

However, in the mid-term, risk is expected to increase, driven by adverse climate events such as storm flooding and increasing decarbonisation costs as well as increased operational disruption or cost from increasing regulatory pressure towards decarbonisation. Transition risks in the Orderly scenario are expected to increase materially after 2027 as stricter decarbonisation targets, increased customer preference for low-carbon alternatives and regulatory mechanisms (such as emission trading schemes) take full effect. In both scenarios, physical risk exposure are expected to increasingly impact the Employers, many of whom operate assets or maintain supply chains which are particularly exposed to extreme weather events.

Over the longer term, the Employers' operational routes and sites are likely to be significantly impacted by extreme weather events and chronic climate change (particularly in a Failed transition), which would result in increased capital or operational costs. In addition, negative impacts to the broader global economy from increasing physical risks could impact many of the Employers, whose industries tend to be cyclical. In an Orderly transition, physical risks are expected to be lower but decarbonisation costs and the risk of Employers failing to effectively transition to a low-carbon economy are significantly higher.

In summary, due to the nature of the Employers' business areas, they are expected to be highly exposed to CRRO over the longer-term and significantly exposed even in the medium-term.

In summary:

Overall, the scenario analysis underscores that climate-related risks are financially material to the Fund and can adversely affect both the investment strategy and employer covenant. While the Fund's strategy demonstrates some resilience from the liability hedging and fixed income assets, climate change introduces systemic challenges that cannot be eliminated entirely.

The analysis suggests that:

- A diversified, actively managed and climate-aware return-seeking portfolio is essential in the short to medium term to meet funding objectives;
- However, long-term resilience will increasingly depend on the Trustee's ability to transition toward a low-dependency asset strategy and ability to redeem from legacy private assets, some of which are more exposed to longer-term physical risks;
- And this must be done while maintaining a strong understanding of employer covenant dynamics, especially under scenarios involving higher warming or regulatory divergence, and considering how these might correlate with investment and funding risks

Accordingly, a cohesive and flexible approach to investment governance, covenant monitoring, and climate-aware stewardship will be central to maintaining resilience across a wide range of possible futures.

Limitations

While climate scenario analysis offers valuable insights into the potential long-term risks and outcomes facing the Fund, it is important to recognise the limitations inherent in the modelling approach used. These scenarios are intended to illustrate plausible futures and help inform decision-making—they are not predictions, nor are they mutually exclusive.

Key limitations of this analysis include:

- Scenario Uncertainty: It is not possible to know which specific temperature or emissions pathway the world will ultimately follow. Each scenario presented reflects just one possible route to a given climate outcome and does not capture the full range of potential dynamics or disruptions.
- Model Uncertainty: The results presented are based on modelling by Ortec Finance, using a framework that differs from traditional actuarial or Asset Liability Models ("ALM"). Ortec's analysis focuses on median outcomes, while ALM typically models more extreme percentiles (e.g., 95th percentile). The modelling does not include a range or confidence interval around projections, and different models could yield different results under the same inputs.
- Uncertainty Around Assumptions: Some scenarios rely on the deployment of emerging or unproven technologies, such as Bioenergy with Carbon Capture and Storage (BECCS). These assumptions introduce additional uncertainty, particularly in more ambitious pathways.
- Gaps in Modelling Coverage: The analysis does not account for some important factors that may significantly affect real-world outcomes. These include:
    - Changes in lifestyle (e.g., dietary shifts, reduced consumption)
    - Economic system changes (e.g., circular economy models)
    - Certain high-risk physical impacts, such as sea level rise, climate migration, population health shocks, and tipping points in climate systems.
- These omissions may result in a conservative representation of downside risks.
- Treatment of the Fund's Climate Risk Management Efforts: The model is designed to test systemic market shocks, and therefore does not fully capture the Fund's ongoing efforts to manage and reduce climate exposure. For example, the Fund's engagement activity, climate-aware investment processes, and portfolio tilts toward lower-emitting assets are not reflected in the model outputs, which may overstate the downside risks, particularly within growth assets.Static Strategic Allocation: The modelling assumes that the Fund maintains its current asset allocation over time, despite the Trustee's longer-term plan to de-risk the portfolio as funding improves. In practice, such changes would likely reduce exposure to climate-sensitive growth assets and improve long-term resilience.
- Use of the Ortec Model: The modelling is carried out using the Ortec Finance scenario tool, a widely used and independently maintained climate risk model across the pensions and investment consultancy industry. Schroders does not maintain an in-house model and therefore has no direct control over the assumptions used. This external framework provides transparency and consistency but may limit flexibility for customisation.

- Although the life expectancy projections and liability impacts in this paper serve to illustrate the potential variability in future mortality rates due to climate change, they are subjective and arguments could be made for different outcomes. They represent beliefs which are intended to form the basis of a discussion with the Trustee and it is right that they should be challenged. Detailed analysis of the drivers of mortality carried out by WTW indicates very little impact on the future path of UK longevity with these impacts much more concentrated on other populations. However, the indirect effects of climate change and the transitional risks on economic, social and health factors would appear to be of sufficient consequence to have similar impact on improvements or deterioration in longevity to that seen in the past, supporting the belief that climate change represents a demographic risk to be managed by pension schemes and their sponsors. The longevity analysis does not consider the potential impact of climate change on the Fund's assets or sponsors. Taking these into account could lead to projections of more negative or less positive effects on the Fund's funding levels than if considering the liabilities in isolation.

Section 4: Risk Management

Climate change is a key risk and opportunity and therefore receives particular attention as part of the Trustee's ongoing risk management processes. The Trustee thinks about how it integrates climate into this in the following ways:

Governance

Climate change is included within the Trustee's risk register which is monitored quarterly and reviewed in-depth annually. This clearly details the impact and likelihood of the risk, the controls in place and the actions the Trustee takes to manage, mitigate, and exploit both the risk and opportunity. Although the Trustee retains ultimate ownership, the risk register clearly sets out the parties that assist the Trustee in its responsibilities.

Top-down

The climate change scenario analysis shown in Section 3 provides the Trustee with a holistic overview of the potential impacts of climate change and how they may affect the Fund's funding strategy (across assets, liabilities, and covenant). This is an important risk management tool for a top-down risk and opportunity assessment.

Bottom up

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

Security analysis – The Trustee calculates various climate change related metrics for the underlying securities within the portfolio. This includes metrics such as absolute carbon emissions, carbon footprint and implied temperature rise. These provide the Trustee with a more detailed understanding of the Fund's exposures and climate risks arising from key sectors. In doing so the Trustee considers that different asset classes will likely have different levels of climate influence and the Trustee is comfortable that the FM takes this into account.

Manager analysis – The Trustee also conducts an annual review of the FM and underlying investment manager policies, processes, and actions in the area of SI, which includes a focus on climate change. The Trustee has been reassured in the results presented and the actions taken to date. The Trustee does however have a strict policy of engagement if any concerns are identified as part of this monitoring.

Employer analysis – The Trustee also conducts an annual review of the Fund's Participating employers, which provides an opportunity to review their response to climate change risks and considers whether any specific risks have arisen that require mitigating actions from the Trustee

Stewardship

One of the other risk and opportunity assessment tools the Trustee uses is stewardship.

The Trustee acknowledges the importance of voting and engagement with underlying companies and investment managers in order to manage climate risks. The Trustee has delegated responsibility for engagement with underlying managers (who also hold voting rights within equities) to the FM but the Trustee reviews the stewardship policies and ESG integration approach of the FM from time to time to ensure they are aligned with the Trustee's priorities and beliefs.

The FM has set 'Climate' as one of its key engagement priorities for the coming years, which covers themes such as Greenhouse Gas Emissions, Net Zero, Physical Risks and Renewable Energies. Natural Capital and Biodiversity is also a key engagement priority and is relevant in the management of climate-risks given the interlinkages.

In general the Trustee prefers an 'engagement' over 'exclusion' approach, in order to maintain influence and drive real-world change.

The FM reports back to the Trustee on voting and engagement activity on an annual basis in the annual ESG report and the Implementation Statement (IS). The IS is publicly available for members to review examples of engagements with companies and underlying investment managers which took place on the Trustee's behalf during the year.

Beyond this, the FM takes broader industry collaboration seriously due to the scale of potential influence. An example of this is their collaboration with industry participants on the design of the UK pension system and reforms to regulation, for example research on the Lifetime Savings Initiative.

By using the variety of risk tools referenced above, the Trustee has identified a number of key areas to continue further work to help exploit and manage the opportunities and risks associated with climate change. The key priorities are continuing to ensure that the investment managers are appropriately factoring climate change into their approach and stewardship activities as well as making sure that any future insurance activity includes due consideration to climate change as a factor.

Section 5: Metrics and Targets

Greenhouse gas (GHG)-related metrics and targets play a key role in measuring exposure to climate risk and progress being made towards reducing these risks. The Trustee has agreed to update its metrics following the move to Schroders Solutions as their FM provider and in light of improvements in data availability of certain metrics. The previous year's metrics are included in the appendix.

The decision was made to align to the Schroders' recommended metrics, which are defined below.

Therefore the following 4 metrics will be produced and recorded on a Fund-specific basis annually:

Metric	Description	Unit of measurement
Total GHG emissions (Absolute emissions)	Absolute greenhouse gas emissions associated with a portfolio for Scope 1, 2 and 3 emissions	Tons of CO_2e
Carbon footprint (Emissions intensity)	Total carbon emissions for a portfolio normalised by the market value of the portfolio	Tons of CO_2e / $M invested
Data coverage (Additional climate metric)	Proportion of portfolio for which data is available	%
Implied Temperature Rise (Portfolio alignment metric)	A forward-looking metric which translates the projected GHG emissions of the portfolio into an equivalent average global temperature rise which can be compared to the Paris Agreement Goal of keeping warming this century to well below 2°C	°C

The three classifications of GHG emissions are defined below:

- **Scope 1:** direct emissions from sources owned by a company (e.g. burning of fuel)
- **Scope 2:** indirect emissions from purchased energy (e.g. electricity used in company buildings)
- **Scope 3:** other indirect emissions that are produced across the whole supply chain of a company, both upstream (e.g. from suppliers) or downstream (e.g. from customers).

Scope 3 emissions are often the largest proportion of an organisation's emissions but they are also the hardest to measure due to the complexity and global nature of the supply chains.

In addition, at the current time, emissions data is currently extremely limited for certain asset classes including Alternative investments, non-UK Sovereign bonds and illiquid investments. The Trustee expects data coverage to improve over time and as industry-standard emissions methodologies for non-traditional asset classes are issued. However, this may mean that as data coverage improves, the Fund's absolute emissions and carbon footprint may increase in the coming years due to additional data coming available, rather than due to a real-world increase in GHG emissions.

While data coverage is an industry-wide issue, the Trustee does engage with the FM to understand its actions to support its clients in this area including its own monitoring of climate-risks in managing the Fund's assets. For example, the FM is a member of the UK's Investment Consultants Sustainability Working Group (ICSWG) which seeks to improve best practice in the industry and engages with investment managers' regarding their ESG reporting.

Key takeaways from the metrics over the Fund year:

- Given the higher return requirement today and lower return expectations on the legacy private assets,

the Fund has increased its exposure to return seeking assets as part of the transition to the new FM provider. There are naturally higher carbon emissions associated with these types of investments such as equities and return-seeking credit, often due to exposures to higher emitting companies and sectors than would be in low-risk gilt or bond assets. As a result:

  - Carbon footprint has gone up from 26 to 63 metric tonnes of Co2e per $m invested (taking account of the Completion Growth assets only)
  - However, absolute emissions ex LDI are currently 12,915 metric tonnes of Co2e, significantly lower than last year, driven largely by a reduction in reported emissions in the private markets holdings.

- Both LDI absolute emissions and footprint figures have significantly reduced as the source has changed.
- Scope 3 data has been made available however the Trustee does not wish to place emphasis on this as it acknowledges that Scope 3 data quality across the industry remains an issue.
- Implied Temperature Rise (ITR) is the newly agreed preferred Portfolio Alignment metric as it is forward looking. The Trustee will monitor progress towards its target of 2.2 degrees Celsius by 2030 as discussed in this report.
- Data Quality has significantly improved in public assets with the new FM's use of MSCI ESG data. Where MSCI data is not available for private holdings, or data directly from managers is unavailable, there are gaps. However, it is expected over time that these allocations will make up a smaller proportion of the Fund's total assets and therefore will be less material part of the Fund's emissions profile.

	Absolute Emissions Scope 1 & 2	Absolute Emissions Scope 3	Carbon Footprint Scope 1 & 2	Carbon Footprint Scope 3
Equity	1,693	10,555	38	277
Return Seeking Credit	2800	12,320	109	411
Completion Growth	4,493	22,875	63	326
Buy and Maintain	4,001	27,732	43	296
LDI	25,383	42,337 (Scope 1, 2 and 3)	104	173 (Scope 1, 2 and 3)
Private Markets (SIF)	4,285	n/a	37	n/a
Total Portfolio (ex LDI)	12,779	50,607	46	182

Data quality:

The tables below illustrate the portion of the equity and credit portfolios for which GHG emissions data is available, and separately for the buy and maintain portfolio and LDI portfolio.

Scope 1+2	Data Quality	Portfolio	Benchmark
Equity	Reported	89%	88%
	Estimated	10%	11%
Credit	Reported	50%	57%
	Estimated	10%	13%
Total Growth	Reported	49%	50%
	Estimated	7%	8%

Scope 1+2	Data Quality	Portfolio	Benchmark
B&M Portfolio	Reported	87%	86%
	Estimated	13%	11%

Scope 3	Portfolio	Benchmark
B&M Portfolio	76%	82%

Scope 3	Portfolio	Benchmark
Equity	82%	78%
Credit	43%	49%
Total Growth	44%	44%

Scope 1+2	Gilts Portfolio
Gilts Portfolio	100%

Scope 1+2+3	Portfolio
Gilts Portfolio	100%

Coverage	SIF
Reported	39%
Estimated	52%

Private Assets – WTW SIF Fund.

The coverage illustrates the portion of the portfolios for which GHG emissions data is available. Note estimated data covers data estimated and proxied. Data directly sourced from WTW SIF as at 31 December 2024.

Notes on the data:

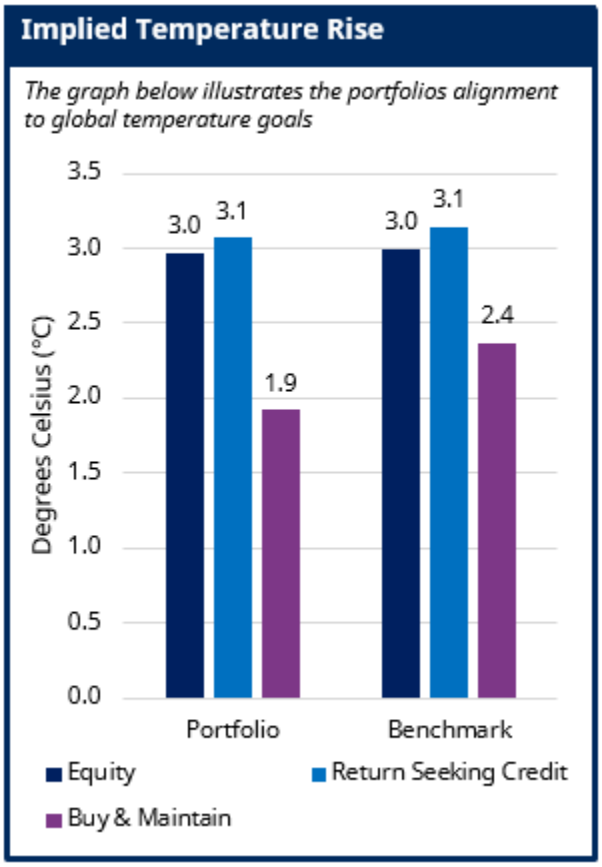
- In-scope assets exclude Cash and Derivatives. We also exclude alternatives, private assets and loans for which data is not available. Holdings weights are rebalanced to represent in-scope assets in each portfolio. Absolute emissions are scaled to 100% coverage.
- Certain information ©2024 MSCI ESG Research LLC. Reproduced by permission; no further distribution. Dated 31/12/2024
- Absolute Emissions Scope 1+2 represents the company's most recently reported or estimated Scope 1 + Scope 2 greenhouse gas emissions (if available).
- Absolute Emissions Scope 3 represents the company's Scope 3 greenhouse gas emissions, as reported. Most reports of Scope 3 emissions include only some portion of the emissions.
- Carbon Footprint represents the company's most recently reported or estimated Scope 1 and 2 emissions normalized by the investment value in million USD.
- Implied Temperature Rise represents a ‘portfolio alignment’ with global temperature goals, expressed in degrees Celsius. The Paris Agreement references a target of 1.5 degrees.

Target

The Trustee recognises that measurement of progress of the Fund and the whole investment industry in stewarding the transition to a net zero and climate-resilient economy is an important issue.

It is well acknowledged in the industry that there are several difficulties associated with measuring progress against a carbon footprint goal, such as data quality, backdating of metric information and the fact that changes in the metric are often driven largely by noise (e.g. a company value changing) rather than reductions in real world emissions.

While the Trustee continues to have a net-zero emissions by 2040 as its ultimate aim, for the purposes of ongoing monitoring against this goal in a way that prioritises real-world emissions reduction over portfolio decarbonisation alone, the Trustee has chosen to update its formal target to be a forward-looking portfolio alignment target, Implied Temperature Rise. In doing this, it has decided to align with those targets set by the Fund's FM. Schroders' Climate Transition Action Plan details their net zero framework and timescales and targets in place as a firm.



Specifically, they have set a science based target to align Schroders' clients' investment portfolios (including FM clients) at an overall level to a 2.2ºC pathway by 2030, with an ambition to align to the Paris Agreement in the long term. Schroders' targets have been formally validated by the Science Based Targets Initiative (SBTi).

The end of this scheme year (31 March 2025) will be the baseline against which progress is measured in future. Progress will be monitored in quarterly reports from the FM via the MSCI ESG data points for ITR for consistency as this is where all other metrics data is collated from, and will be aggregated to the portfolio level for all corporate and sovereign holdings for which data is available.

Implied Temperature Rise was not a reported metric last year and therefore no progress can be claimed on this metric. Versus the previous formal decarbonisation target, progress has not been made given the increase in return seeking assets and exposures to higher emitting assets. The Trustee understands that this is a more volatile year for climate metrics for this reason and is comfortable with this rationale given the Fund needs exposure to more return-seeking assets in the short-term to close the deficit.

Over time, the Trustee expects that the longer- term trend of Fund's carbon footprint will continue downwards. Alongside the formal target, the Trustee endeavors to retain its previously stated ambition and hopes to reduce the Fund's carbon footprint of the non-government bond assets (Scope 1 and 2 emissions) by 50% by 2030 and to achieve net-zero by 2040 with a baseline of 2022.

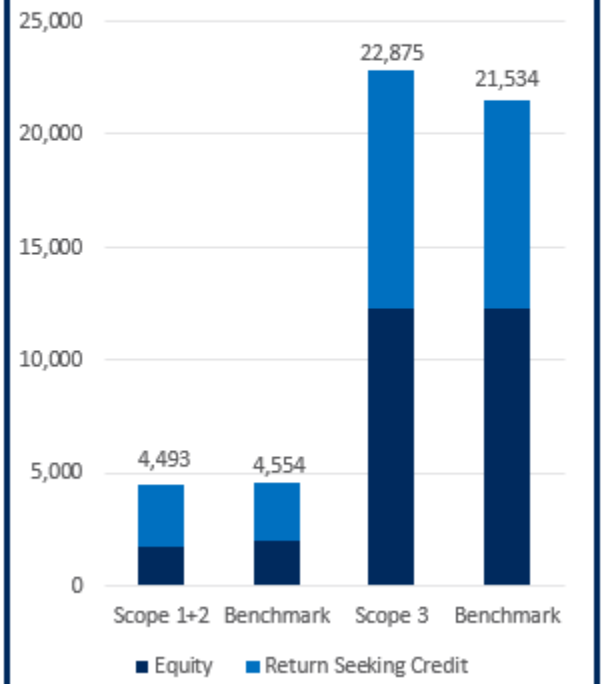
The Trustee intends that their new formal target will be achieved through engagement (with the Fund's underlying managers and companies invested in), strategic changes (investing in assets with lower climate risk) and as a result of the 'free- rider' effect and through investment in climate solutions and consideration of a lower-emissions growth portfolio which is being discussed with the FM later this year. This recognises that although the Trustee has and will take positive actions, the Trustee won't be able to achieve this goal alone and will require the continued collaboration of the global community to combat climate change.

Appendix 1 – Current year Metrics detail

Emissions reporting for the Completion Growth portfolio:

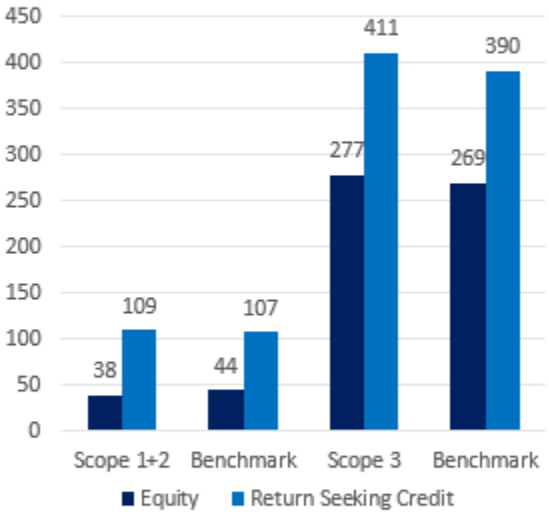
Absolute GHG Emissions

The graph below illustrates absolute GHG emissions in metric tonnes within Growth Assets.



Carbon Footprint

The graph below illustrates GHG emissions in metric tonnes per $m invested in equity and credit portfolios.

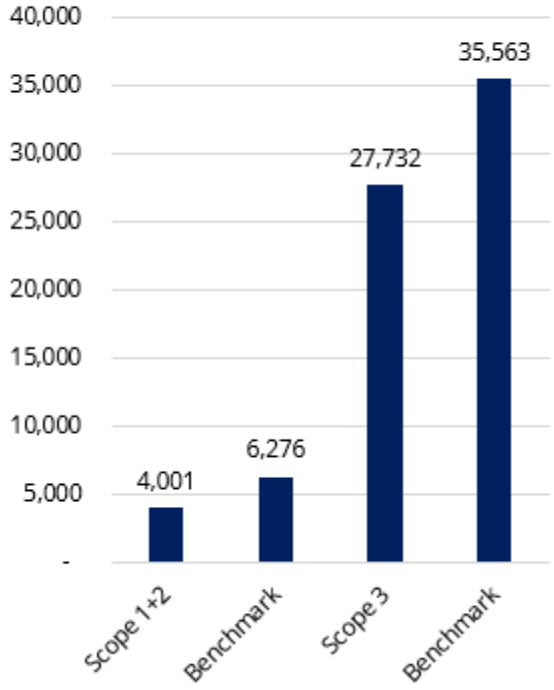


Total Growth	*Portfolio*	*Benchmark*
Scope 1+2	63	65
Scope 3	326	310

Emissions reporting for the Buy and Maintain portfolio:

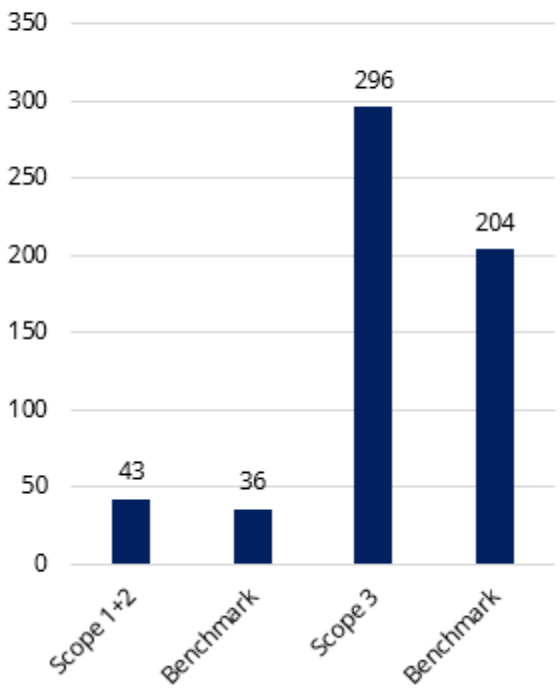
Absolute GHG Emissions

The table below illustrates absolute GHG emissions in metric tonnes within the B&M Assets.



Carbon Footprint

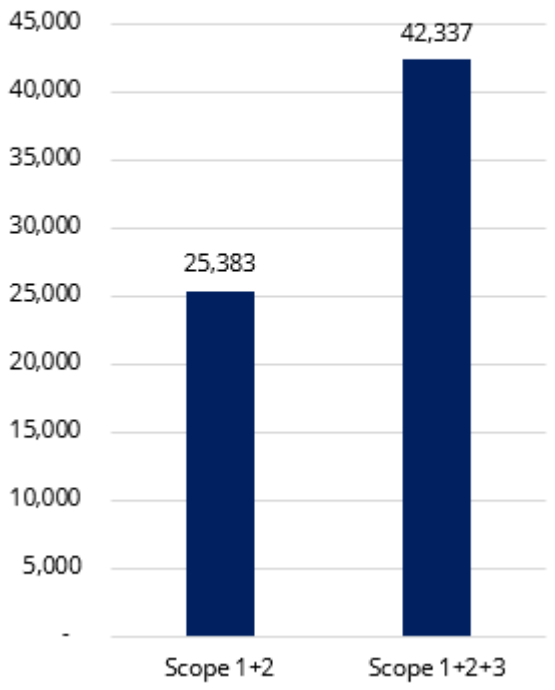
The table below illustrates GHG emissions in metric tonnes per $m invested in the B&M portfolio.



Emissions reporting for the LDI portfolio:

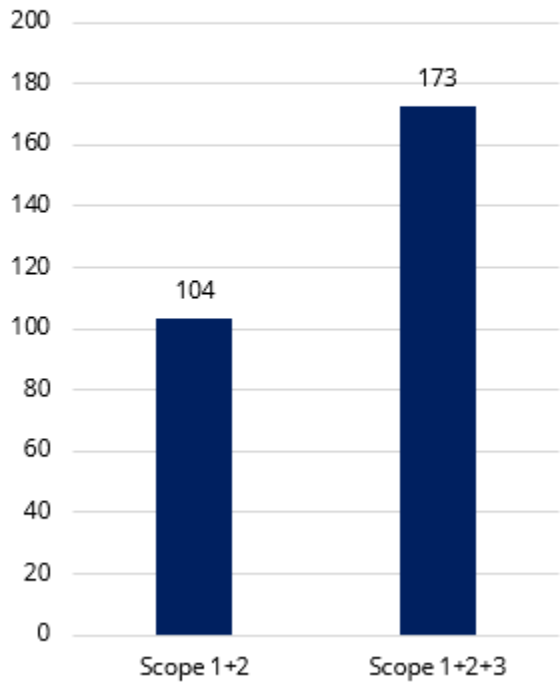
Absolute GHG Emissions

The table below illustrates absolute GHG emissions in metric tonnes within the LDI portfolio



Carbon Footprint

The graph below illustrates GHG emissions in metric tonnes per $m invested within the LDI portfolio

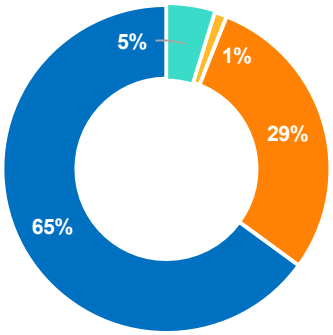


Appendix 2 – Previous year Metrics

As at 31 March 2023	Allocation	Carbon Emissions Data: Absolute Emissions (tCO2e) – Scope 1 & 2	Carbon Emissions Data: Carbon Footprint (tCO2e / $m) – Scope 1 & 2	% of assets with approved SBTs	Transition Management Score
Total assets*		27,551	26	2.3	35
Equity	4%	1,162	1	1.7	4
Alternative Credit	7%	6,370	6	0.1	4
Private Markets	26%	16,872	16	0.0	23
Diversifiers	7%	3,147	3	0.5	4
Cash	11%	See further in report			
LDI	45%				
Data as at 31 March 2022 for comparison					
*Total assets**		*38,354*	*24*	*11.4*	*64*

*LDI assets have been classified as cash for the total asset figures reported above, consistent with the approach taken last year. We have provided further information on the LDI assets in the coming pages.

Carbon emission (CE) data quality for scope 1 & 2	Data quality
Actual holdings – CE reported by company	5%
Actual holdings – CE estimated by third party	1%
Proxied holdings	29%
No data*	65%



*LDI and cash holdings within the portfolio account for 56% of the “No data” data quality allocations.

Scope 1 and 2 Emissions for government bonds

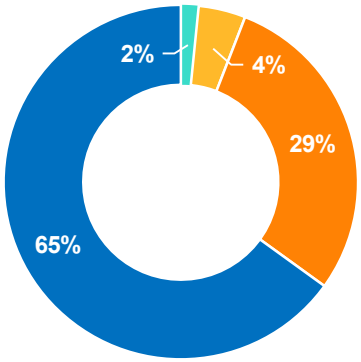
Metric	LDI portfolio
Total allocation	£395.5m
Total allocation (% of portfolio)	45.4%
Absolute Emissions (tCO2e)	92,457
Carbon footprint (tCO2e / £M invested)	175.3

Scope 3 emissions

As at 31 March 2023	Allocation	Carbon Emissions Data	
		Absolute Emissions (tCO2e) – Scope 3	Carbon Footprint (tCO2e / $m) – Scope 3
Total assets*	54.2%	99,988	93

*LDI assets have been classified as cash for the total asset figures reported above, consistent with the approach taken last year and the figures reported for scope 1 and 2 emissions earlier in this report.

Carbon emission (CE) data quality for scope 3	Data quality
Actual holdings – CE reported by company	2%
Actual holdings – CE estimated by third party	4%
Proxied holdings	29%
No data*	65%



*LDI and cash holdings within the portfolio account for 56% of the “No data” data quality allocations.