



The ITB Pension Funds Climate Change Report

Year ending 31 March 2025



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Executive Summary

CLIMATE CHANGE REPORTING IS A LEGAL REQUIREMENT

This is the Funds' fourth Climate Change Report, and it follows the relevant legislation and guidance, most importantly the disclosures recommended by the Task Force on Climate-Related Financial Disclosures (TCFD).

CHANGE AT THE ITB PENSION FUNDS

Following the year end, on 22 August 2025 the Trustee transferred the Open Fund Defined Contribution (DC) Section to the L&G Mastertrust. The Trustee has acted in the best interests of DC members throughout this transition, which began in July 2024, and has changed the investment strategy during the year to further reduce climate change risk and take related investment opportunities. The Trustee also considered environmental, social and governance (ESG) factors including consideration of climate change risk, when it selected the L&G Mastertrust as the long-term destination of DC members' pension pots.

In addition, the Open Fund Defined Benefit (DB) Section and the Closed DB Fund are both fully insured through buy-in policies. The DB sections' assets that are in excess of the buy-in insurance policies are invested in low-risk investments to protect the value of these assets for stakeholders; they are invested in corporate bonds, government bonds and cash funds. Therefore, climate change risk and the Trustee's ability to take advantage of climate change related opportunities in the DB sections is limited to what is possible within the investment strategy.

UNDERSTANDING THE RISKS AND OPPORTUNITIES POSED BY CLIMATE CHANGE

The Trustee Directors maintain their understanding of how climate change might affect the Funds, and they continue to manage the risks and opportunities with the aim of achieving better financial outcomes for members. The Trustee Directors have reviewed the set of Climate Related Risk Beliefs during the year, and they are set out in Appendix 1.

THE RISKS AND OPPORTUNITIES FACED BY THE FUNDS

The Funds face risks and opportunities from both the physical effects of changes in the climate itself and the transition to a lower carbon economy. For example, there are risks and opportunities related to more frequent

storms, rising temperatures and changing rainfall patterns and, due to the need to transition to a lower carbon economy to limit the extent of climate change, government policies to restrict or discourage the use of fossil fuels, technological advances in renewable energy, and increased consumer demand for "green" products.

In May 2024 the Trustee Directors considered an amended set of scenarios in a revised climate risk scenario analysis, using data as at 31 December 2023 to analyse how climate change might affect the funding and investment strategies. The Trustee has identified that climate change could result in lower investment returns in the DC Section, which invests largely in equity funds, and higher volatility in investment markets. This highlights the importance of appointing an investment manager for the DC Section that has the right skills and processes to properly allow for climate change in their decisions.

As the DB sections are fully insured through buy-in policies, the Trustee concluded that the only significant risks remaining for the DB sections in relation to climate change are insurer failure and wider systemic market disruption. Being fully bought-in the Trustee has effectively transferred the DB sections' exposure to climate risk to the insurers. As a result, to mitigate these risks, the Trustee will monitor the insurers to identify whether any climate related risks impact on the insurance contracts.

MANAGING CLIMATE CHANGE INVESTMENT RISK

To help mitigate the risks posed by climate change, the Trustee invests the DC Section default fund in a low carbon equity fund and a multi-asset fund that factors significant ESG issues into its investment strategy.

The Trustee also assesses the Funds' investment managers' and insurance providers' approach to managing climate-related risks. It generally finds that they are all taking action to address the potential impact of these risks on the Funds' investments, although all have room to improve. This is unsurprising because this is a relatively new and challenging area for most investors. The Trustee will encourage the investment managers and insurance providers to address any weaknesses identified and are setting ambitious expectations for them to improve.

Furthermore, the Trustee has selected climate change as one of three stewardship priorities, which form a focus for the Trustee's stewardship activities. The Trustee has selected climate change, equality, diversity and inclusion and executive pay as its stewardship priorities and investment managers are required to report on these priorities on a regular basis, including reporting on the engagement and voting they undertake in relation to managing these risks and the threat they pose to long-term asset returns and valuations.



METRICS AND A TARGET

The Trustee has requested the Funds' investment managers to target that at least 75% of listed equity and corporate bond investments have a greenhouse gas emission reduction target, which is accredited by the Science Based Targets initiative ("SBTi"), by 2030. This will enable the Trustee to assess the extent to which the Funds' equity and corporate bond investments are aligned to the Paris Agreement goal of limiting global average temperature rises to 1.5°C above pre-industrial levels. SBTi is a partnership between the Carbon Disclosure Project, the United Nations Global Compact, World Resources Institute and the World-Wide Fund for Nature. As at 31 March 2025 the proportion of companies within the Funds' equity and corporate bond investments that have set SBTi targets stands at 50% (2024 – 39%) for the Open Fund DC Section and 52% (2023 – 44%) for the Closed Fund. The improvements in the proportion of companies within equity and corporate bond funds with SBTi targets has increased steadily over the four years the Funds have been reporting on this target. The Open Fund DB Section no longer invests in listed equity or corporate bonds, so the target no longer applies to that section.

IN SUMMARY

Overall, the Trustee believes that the Funds are relatively well positioned to manage the risks arising from climate change and to benefit from investment opportunities that the transition to a lower carbon economy might bring. The DB Sections are largely "de-risked" and have very low exposure to climate risk, whereas the DC Section continues to invest in equity aiming to achieve long-term higher than inflation returns so it has a higher exposure to climate change risk, albeit through low carbon equity funds and an ESG risk aware future world multi-asset fund. During the year progress has again been made towards meeting the climate change risk target.



1. CONTEXT FOR THE REPORT

The ITB Pension Funds (“the Funds”) is a non-associated multi-employer pension scheme providing retirement benefits for employees of two Industry Training Boards and five industry training board successor bodies. The Funds comprise two separate Funds – the Open Fund and the Closed Fund. The Open Fund comprises a defined benefit (DB) section and a defined contribution (DC) section, whereas the Closed fund is purely a defined benefit scheme. Both defined benefit parts of the Funds are fully insured through buy-in insurance policies, and both are at an advanced stage of buying-out these contracts and transferring the pension obligations to pension insurance companies. There remain excess residual assets within the defined benefit sections that are invested in cash and corporate and government bonds. The Open Fund DC Section was transferred to the L&G Mastertrust after the year end, in August 2025. At the year-end the DC funds were invested in a range of investment funds, including equity, that were appropriate for the membership.

Climate-related risks and opportunities have the potential to impact the Funds’ DC investments, sponsoring employers and, to a lesser extent, the funding position. Identifying, assessing and managing them is a priority for the Trustee. The Trustee has established an Investment Governance Working Group (“Working Group”), which reports to the Management Committee, and has support from the Trustee’s secretariat (the “Funds Office”) and the Trustee’s external advisers. The Working Group is responsible for supporting the Trustee in ensuring compliance with the requirements of legislation and guidance to act on climate-related risks.

The Trustee’s focus on climate change risk mitigation, adaptation to the physical effects of climate change, and the successful transition to a low-carbon economy plays an important role in how the DC funds are managed. As a result of this activity, the Trustee has previously switched the Funds’ equity allocations from broad market value index-based funds to low carbon-based funds and, during the year, switched the multi-asset allocation to a multi-asset fund that is more focused on mitigating ESG risks.

As the DB sections main investments are buy-in insurance policies the Trustee’s focus with this part of the Funds is to monitor and discuss the pension insurance companies’ strategy for climate change risk mitigation. Any excess residual assets are invested in cash and bonds where the risks and opportunities regarding climate change are limited.

The Taskforce on Climate-related Financial Disclosures (TCFD) was established by the Financial Stability Board in 2015 to develop a set of recommendations for climate-related financial risk disclosures for use by companies, financial institutions and other organisations. The recommendations aim to encourage routine consideration of the effects of climate change in business and investment decisions,

helping smooth the transition to a more sustainable, low-carbon economy. This is the Trustee’s fourth statutory climate change report, covering the Funds’ activities between 1 April 2024 to 31 March 2025, based on the TCFD’s recommendations. This report covers the TCFD’s four thematic areas and the eleven recommended disclosures:

- **Governance:** The Funds’ governance of climate-related risks and opportunities:
 - The Trustee’s oversight of climate-related risks and opportunities
 - The Trustee’s role in assessing and managing climate-related risks and opportunities
- **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the Funds and its investment and funding strategy:
 - Climate-related risks and opportunities the Funds have identified over the short, medium and long term
 - Impact of climate-related risks and opportunities on the Funds’ strategy
 - Resilience of the Funds’ strategy, taking into consideration different climate-related scenarios, including a 2C or lower scenario
- **Risk Management:** The processes used by the Funds to identify, assess, and manage climate-related risks:
 - Funds’ processes for identifying and assessing climate-related risks
 - Funds’ processes for managing climate-related risks
 - How processes for identifying, assessing and managing climate-related risks are integrated into the Funds’ overall risk management
- **Metrics and Targets:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities:
 - Metrics used by the Funds to assess the climate-related risks and opportunities in line with its strategy and risk management process
 - Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions and the related risks – greenhouse gas emissions are explained in Appendix 2
 - Target used by the Funds to manage climate-related risks and opportunities and performance against targets

2. GOVERNANCE

2.1 The Trustee’s oversight of climate-related risks and opportunities

The Trustee has primary responsibility for ensuring effective governance of climate change risks and opportunities in relation to the Funds.

Climate change is a financially material factor for the Open Fund DC Section. Therefore, the Trustee has allocated sufficient time and resources to the governance of climate-related risks. Climate change represents a systemic risk to society, the economy and the financial system, although the transition to

a low-carbon economy also presents opportunities. These risks and opportunities have the potential to impact the Fund's DC investments, sponsoring employers and, to a lesser extent, the funding position. The Trustee has made climate change a priority and consistent with this, climate change featured on the Management Committee's meeting agendas as necessary throughout the year to 31 March 2025. The Trustee Board has established an Investment Governance Working Group ("Working Group") led by a Trustee Director, which reports to the Management Committee, and has support from the Trustee's secretariat (the "Funds Office") and the Trustee's external advisers. The Working Group is responsible for supporting the Trustee in ensuring compliance with the requirements of legislation and guidance and to act on mitigating the impact of climate-related risks and consider any climate-related opportunities that are consistent with the investment objectives and strategy of the Funds.

The Trustee has agreed a set of climate related beliefs by gathering opinions from all the Trustee Directors, following a training and discussion session, and distilling these opinions down to a set of cohesive beliefs agreed by all the Trustee Directors. These beliefs were reviewed during the year and the Trustee concluded that they remain valid. The Trustee's statement on climate related beliefs is set out in Appendix 1.

2.2 The Trustee's role in assessing and managing climate-related risks and opportunities

The Trustee has agreed a Climate Governance Statement which clearly lays out the roles and responsibilities of the Trustee Directors, the Scheme Actuary, the investment adviser, the covenant adviser, the legal adviser and the investment managers and insurance providers to ensure appropriate consideration of the climate-related risks and opportunities relevant to the Funds and so that the Trustee can be confident that its statutory and fiduciary obligations are being met. The Statement on Governance of Climate Change Risks and Opportunities is available on the Funds' website www.itb-online.co.uk and is reviewed annually by the Trustee.

The Trustee has ultimate responsibility for ensuring effective governance of climate change risks and opportunities in relation to the Funds. The work necessary to ensure effective governance is done by the Working Group.

The Trustee's primary role is to oversee the identification, assessment and management of climate-related risks and opportunities that are relevant to the Funds. The processes the Trustee has established to satisfy itself that adequate steps are being taken to oversee climate-related risk and opportunities are set out below.

The Trustee is supported by advisers in incorporating climate change throughout the Funds' activities as appropriate. The Funds' investment adviser leads on climate-related risk training and advises on scenario

analysis, impact on investment strategy, metrics and selection of an appropriate target. The Funds' actuarial adviser leads on climate-related matters in relation to advice about funding strategy and the covenant adviser has assessed the impact of climate-related risk on the strength of covenant provided by the participating employers. The legal adviser assists the Trustee to identify and interpret the relevant legislation. All advisers work collaboratively with the other advisers whenever this is needed to ensure an integrated approach.

The investment advisers attended all climate change Management Committee agenda items, with the actuarial, legal and covenant advisers also advising the Trustee Board on relevant aspects, to ensure that the Trustee is fully informed in its discussions and decision making in all climate-related aspects of investment, funding, and covenant issues. The Trustee Directors review, discuss and, where appropriate, challenge the information and advice they receive.

The Trustee has assessed the knowledge and understanding of climate related risks of the investment adviser, which summarised its expertise in a comprehensive document. Furthermore, the Trustee has set climate-related risk objectives for the investment adviser, and its performance against these is assessed formally by the Management Committee as part of a wider annual assessment.

The Trustee Chair is responsible for ensuring that an appropriate amount of time is allocated for consideration and discussion of climate matters by the Trustee and by the Management Committee and that the Working Group meets sufficiently frequently. The Chair allocated an appropriate amount of time at Board and Management Committee meetings to discuss climate change related risks. The allocation allowed time for discussion by the Trustee Directors while balancing climate change with other Funds priorities, such as the transfer of the Open Fund DC Section to the L&G Mastertrust and the buy-out of Open Fund benefits.

As climate change is a relatively new area for the Trustee, and one where the external landscape and market practice is evolving rapidly, the Trustee continues to receive training in climate related risk and opportunities from the investment adviser. In March 2025 the Management Committee reviewed the climate metrics and target using data as at 31 December 2024. The general conclusions from the review were that investment fund Scope 1 and 2 emissions were generally similar for the DC equity fund compared to the 2023 data, whereas Scope 3 emissions had increased. However, it was noted that Scope 3 emissions for this fund were still largely estimated and so reliance on these numbers should be treated with some degree of caution. Furthermore, following the DC triennial investment review and replacing the Multi Asset Fund with the Future World Multi Asset Fund, Scope 1 and 2 emissions were lower compared to 2023 for the multi asset fund allocation, since the newly implemented Future World Multi Asset Fund had integrated decarbonisation targets. Finally,

good progress had been made over the year towards meeting the Trustee’s target to aim for at least 75% of listed equity and corporate bond holdings having an SBTi-aligned target by 2030.

The Trustee receives reporting on climate risks and opportunities regularly. Each quarter the Management Committee receives reports from investment managers which include commentary and data on exposure to climate related risks. The Management Committee reviews, discusses and challenges this information with the investment managers, if necessary. The investment adviser produces annual dashboards for each of the managers’ funds which show their greenhouse gas emissions and carbon footprint, the potential emissions from fossil fuel reserves, climate change revenues and the percentage of each fund with SBTi accredited emission reduction targets.

At least annually, the Trustee reviews and (where appropriate) revises its governance arrangements, investment beliefs and policies in relation to climate change.

In 2024, the Trustee re-performed the scenario analysis that illustrates how the Funds’ assets and liabilities might be affected under various climate change scenarios, along with commentary on the potential impacts for the sponsoring employers and the implications for the resilience of the Funds’ funding and investment strategies. Due to the circumstances of the Funds, as described in Section 1 above, the Trustee will not re-perform the scenario analysis in future.

3. STRATEGY

3.1 Climate-related risks and opportunities the Funds have identified over the short, medium and long term

The Trustee has selected the periods to 2026, 2030 and 2040 as suitable short-, medium-, and long-term time horizons for considering the climate-related risks and opportunities faced by the DB sections. For the DC Section 2026, 2040 and 2060 have been identified as suitable time horizons.

The Funds face risks and opportunities from both the physical effects of changes in the climate itself – for example, more frequent storms, rising temperatures and changing rainfall patterns – and from the effects of transitioning to a lower carbon economy to limit the extent of climate change – for example, government policies to restrict or discourage the use of fossil fuels, technological advances in renewable energy, and shifts in consumer demand towards “greener” products.

Many of these climate-related risks and opportunities could affect the value of the Funds’ assets. Others could affect the sponsors and their ability to provide financial support to the Funds. Some risks and opportunities may affect the DB sections’ pension liabilities, for example through affecting members’ life expectancy or the inflationary increases made to pensions each year.

The liabilities in the DB sections are fully insured, therefore, the risk to DB section members not receiving their pensions is very low. However, the Trustee engages with the buy-in insurance providers about their exposure to climate related risks.

	Open and Closed DB Sections		Open DC Section	
Time period	Range	Rationale	Range	Rationale
Short Term	1 year (to 2026)	The period over which transition to buy-out may be completed.	1 year (to 2026)	Climate scenario impacts are most prominent for equities. Most DC members are in the default fund, in which the equity allocation reduces towards retirement. A 1-year timeframe reflects when the impacts from climate change may start to be more widely experienced across the DC membership and considers the likely timescales for transferring to the L&G Mastertrust.
Medium Term	5 years (to 2030)	The period over which risks associated with a transition to a low carbon economy may manifest.	15 years (to 2040)	With longer time to retirement and higher equity allocation, middle-aged members have larger impacts than older members under a Failed Transition scenario (See table on p18). Members whose equities are invested in low carbon and future world funds will have some compensating protection.
Long Term	15 years (to 2040)	A longer timescale which may be relevant if buy-out is not completed or wider market risks significantly affect the insurers.	35 years (to 2060)	The impact is more significant for younger members, reflecting the longer time horizon to retirement.

The Trustee has considered the main area of risk to the Funds' financial position to be that climate change diminishes DC Section members' funds at retirement.

3.1.1 Climate change diminishes members funds at retirement (DC Section)

Through climate scenario analysis, the Trustee identified that the physical impacts of the changing climate and the transition to a low carbon economy could both result in lower real investment returns, linked to lower economic growth. Some of these effects may be felt gradually as the economic impacts occur and others may occur more suddenly as investment markets anticipate the impacts and asset prices adjust accordingly, for example a market shock in reaction to a specific weather-related disaster or an unexpected international policy development.

Physical impacts are expected to have a negative economic effect, particularly over the medium to long-term. Even if temperature rises are limited to 1.5°C in line with the Paris Agreement, quite significant physical impacts are likely. In higher temperature scenarios, the long-term impacts on the economy could be very severe.

Transition risks could cause volatility in investment markets as the economy undergoes a significant shift in the way energy is generated and consumed, and financial markets adjust to these changes. The current decade will be critical in determining whether the Paris Agreement goals will be met, and investment market volatility may be heightened over this period as governments introduce policies to achieve the Agreement's decarbonisation and adaptation goals, and investors continually update their assessments of the likelihood of different climate outcomes.

All investment portfolios will be affected by physical and transition impacts to some extent due to their economywide nature. However, the extent of the impacts will depend on how the individual assets in the investment portfolio are affected.

The DC fund investment manager appointed by the Trustee invests in the equity and debt of a range of companies, whose products and services each have varying levels of exposure to climate-related factors. Investments may be made in companies that are highly exposed to the effects of the transition to a low carbon economy, for example those whose business model is reliant on fossil fuels, and do not have good strategies to deal with those effects.

One specific risk is that assets become "stranded", i.e. they suffer an unanticipated loss of value before the end of their expected useful economic life. For example, companies in the coal, oil and gas sectors may find fossil fuel reserves are less valuable than expected due to falling demand during the low carbon transition, causing them financial difficulties.

There are also opportunities to invest in companies whose products and services enable emissions reductions, improve physical resilience or ensure

the more efficient use of resources, or are simply managing the low carbon transition well. These companies also have various levels of exposure to climate-related physical risks. For example, companies in the food and textile sector are likely to be affected by changing weather patterns' effect on crop yields, and all companies may experience weather-related disruption to their supply chain. The equity funds are invested in low carbon funds, where the investment manager 'tilts' the investments relative to market weighted indices towards companies that manage exposure to carbon (e.g. fossil fuels) well compared with the market weighted equity index.

The balance of risks and opportunities to the Funds' assets will depend on the specific assets selected by the investment managers, which in turn will depend on the effectiveness of the managers' processes to identify, assess and manage climate-related risks and opportunities.

For self-select DC members the risks and opportunities also depend on the range of funds the Trustee makes available, and which funds the members choose to invest in.

Risks relating to lack of data

There is a risk that the DC Funds' investment manager does not have adequate data to identify, assess and manage climate factors, both in terms of coverage and quality. Any missing or incomplete data leaves the Trustee without the information it requires to properly monitor climate risks the Funds are exposed to.

In relation to carbon emissions, lower quality data is less likely to accurately reflect a company's actual emissions and so may give a misleading impression of the climate risk exposure. If the data available for a company improves and reveals very different emissions figures from those previously used, the price of the company's shares and bonds may change, impacting on the value of the Funds' assets. This repricing could happen quickly and remains a risk while data quality is poor.

3.2 Impact of climate-related risks and opportunities on the Funds' strategy

The impact of climate-related risks and opportunities on the DB sections' strategy has been assessed against the background of the integrated risk management approach common to pension schemes and the Trustee's climate related risks beliefs. This approach integrates three elements – funding strategy, investment strategy and strength of covenant. As to funding strategy, both the DB sections are well funded on prudent bases.

The Open DB Section's latest triennial valuation as at 31 March 2022 showed the Fund to be 105% funded on a prudent basis which includes a provision for potential costs relating to climate-related risks, whereas the Closed DB Fund's latest triennial valuation as at 31 March 2024 showed the Fund to be 402% funded on a prudent basis. Since these valuations the Open DB Section has invested in a further buy-in and is now

fully insured, with the remaining assets invested in government bonds and cash. The investment strategy of the remaining assets in the Closed DB Fund is also low risk, and all pensions are insured. The investment strategy for the Closed DB Fund's invested assets aims to achieve low volatility of the assets relative to annuity pricing. The covenant adviser assesses the overall strength of the combined covenants of the Open Fund's participating employers.

Therefore, as regards the DB sections the impact of climate-related risks is assessed against this background. The impact of climate-related risks has been fully considered and assessed (see section 3.3 below), and the Trustee believes the DB sections are well placed to deal with the risks presented.

The DC Section of the Funds is a master trust and complies with the regulatory regime applicable to master trusts. This includes demonstrating the financial sustainability of the section and reserving for costs of wind-up. The impact of climate-related risks on the DC Section is assessed against this background. The impact of climate-related risks has been fully considered and assessed for the DC Funds (see section 3.3 below) and as a result the Trustee believes that the DC Section is exposed to potential negative outcomes because of climate related-risks in certain scenarios. The Trustee's strategy is to monitor the impact of these risks to ensure action is taken appropriately. The investment strategy of the DC Section is reviewed periodically, and climate risk scenario analysis forms part of these reviews. The Trustee wishes to balance the need for long-term growth of the DC funds with managing risks, including climate-related risks. At the last strategy review in 2023 the Trustee decided to reallocate the multi-asset allocation in the lifestyle funds, including the default fund, from a standard multi-asset fund to a multi-asset fund that factors significant ESG issues into the fund's investment strategy. The equity allocation of the lifestyle funds, including the default fund, is allocated to low carbon equity funds. 92% of members invested in the default fund.

3.3 Resilience of the Funds' strategy, taking into consideration different climate-related scenarios

The Trustee assesses the risks and opportunities they have identified using two main tools: climate scenario analysis and climate-related metrics. The first one is covered in this section and the second in section 5.

3.3.1 Climate scenario analysis

Scenario analysis is a tool for examining and evaluating different ways in which the future may unfold. In May 2024 the Trustee Directors considered a revised set of scenarios to use in the scenario analysis, using data as at 31 December 2023 to analyse how climate change might affect the funding and investment strategies. For information about the modelling approach, see Appendix 3.

The three revised climate scenarios within the model were as follows:

- **High Warming:** Continuation of low carbon policies in force and current technological trends. The world fails to meet the Paris Agreement goals and the resulting high warming leads to severe physical impacts.
- **Limited Action:** Policymakers implement limited new climate policies and fall short of meeting the Paris agreement goals, resulting in a combination of transition and physical risks.
- **Net Zero Financial Crisis:** Global net zero CO2 emissions achieved by 2050 via rapid and effective climate action. However, financial markets are slow to react and then react abruptly.

To provide further insight, the Trustee compared the outputs under each scenario to a "climate uninformed base case", that makes no allowance for either changing physical or transition risks.

The scenarios' key features are summarised in the table below. The three climate scenarios chosen are intended to be plausible, not "worst case". The Trustee acknowledges that many alternative plausible scenarios exist and that other scenarios could indicate better or worse outcomes for the Funds.



Scenarios	High Warming	Limited Action	Net Zero Financial Crisis
Low carbon policies	Continuation of current low carbon policies and technology trends (e.g. significant falls in renewable energy prices).	Moderate steps taken by policymakers to increase climate action including working towards the 2030 targets and net zero commitments. Carbon capture and storage also used.	Ambitious low carbon policies, high investment in low carbon technologies and substitution away from fossil fuels to cleaner energy sources and biofuel. Carbon capture and storage also used to achieve net zero by 2050.
Paris Agreement outcome	The world fails to meet the Paris Agreement goals	Paris Agreement goals not met	Global net zero CO ₂ achieved by 2050; Paris Agreement goals met
Global warming	Average global warming is about 2°C by 2050 and 4°C by 2100, compared to pre-industrial levels	Average global warming is about 1.8°C by 2050 and 2.8°C by 2100, compared to pre-industrial levels	Average global stabilises at around 1.5°C above pre-industrial levels
Physical impacts	Severe physical impacts	High physical impacts	Moderate physical impacts
Impact on GDP	Global GDP is significantly lower than the climate-uninformed scenario in 2100. For example, UK GDP in 2100 predicted to be 50% lower than in the climate-uninformed scenario	Global GDP is lower than the climate-uninformed scenario in 2100. For example, UK GDP in 2100 predicted to be about 30% lower than in the climate-uninformed scenario	Global GDP is lower than the climate-uninformed scenario in 2100. For example, UK GDP in 2100 predicted to be about 5% lower than in the climate-uninformed scenario.
Financial market impacts	Physical risks priced in over the period 2026-2030. A second repricing occurs in the period 2036-2040 as investors factor in the severe physical risks	Physical risks priced in over the period 2026-2030. A second repricing occurs in the period 2036-2040 as investors factor in the high physical risks	Abrupt repricing of assets causes and a sentiment shock to the financial system in 2025

Reasons for the Trustee's choice of scenarios

The Trustee acknowledges that many alternative plausible scenarios exist but found these three were a helpful set of scenarios to explore how climate change might affect the Funds in future.

- The Trustee considered the High Warming scenario to explore what could happen to the Funds' finances if carbon emissions continue at current levels and this results in severe physical risks from changes in the global climate that disrupt economic activity.
- The Trustee considered the Limited Action scenario to see how the Funds' finances could play out if the Paris Agreement goals are not achieved, although some steps are taken to limit the impact of warming.
- The Trustee considered the Net Zero Financial Crisis scenario to analyse the risks and opportunities for the Funds if the Paris Agreement goals are met, but financial markets are volatile as they adjust to a low carbon economy.
- To provide further insight, the Trustee also compared the outputs under each scenario to a "climate uninformed base case", that makes no allowance for either changing physical or transition risks in future.

For more information on the modelling approach see Appendix 3.

Potential impacts on the Funds' financial positions under each scenario

Open Fund DB Section

The Open Fund DB Section is 96% invested in buy-in insurance contracts. The Trustee considers that the only significant risks remaining for the Open Fund DB Section in relation to climate change are insurer failure and wider systemic market disruption. Being fully bought-in the Trustee has effectively transferred the Open Fund DB Section exposure to climate risk to the insurers. The scenarios do not model the more extreme outcomes of climate change, so they assume that insurers have been able to fully absorb and manage the effects.

As a result, to mitigate these risks, the Trustee will monitor the insurers to identify whether any climate related risks impact on the Section's insurance contracts.

Closed Fund DB

The benefits of the Closed DB Fund are also fully bought-in and, therefore, the Trustee considers that the only significant climate-related risks remaining to meeting the Closed Fund benefits are similar to the climate-related risks for the Open Fund DB Section. To mitigate these risks, the Trustee will monitor the insurer

to identify whether any climate related risks impact on the Closed Fund's insurance contract.

Open Fund DC Section

Members may be impacted in different ways depending on the investments held, contribution rate, fund value and proximity to retirement. The modelled potential outcomes in the table below assume that all members are invested in the default fund with an expected retirement age of 65.

	Member aged 25	Member aged 35	Member aged 45	Member aged 55
	Change relative to climate-uninformed outcome			
Climate-uninformed outcome	0	0	0	0
Net Zero Financial Crisis outcome	-11%	-9%	-8%	-7%
Limited Action outcome	-23%	-17%	-13%	-5%
High Warming outcome	-34%	-27%	-21%	-4%

The High Warming is the worst outcome for most DC members (in terms of expected pension pot). A Net Zero Financial Crisis scenario impacts all DC members, but it is the worst scenario for members aged over 55.

4. RISK MANAGEMENT

4.1 Funds' tools and processes for identifying and assessing climate-related risks

The Trustee has identified and assessed climate-related risks and opportunities to the Funds through discussions with its advisers, along with:

- Attending climate change training to understand how climate-related risks might affect pension schemes and their investments in general terms;
- Commissioning scenario analysis which shows how the Funds' assets and liabilities might be affected under a range of different climate scenarios, and advice on the implications of the analysis for the Funds' funding strategy, investment strategy and achieving its investment objective;
- Considering advice on how the participating employers might be affected by climate-related factors, and the implications for their ability to provide financial support for the Funds;
- Reviewing the investment adviser's assessments of the Funds' investment managers' and insurance providers' climate practices, including how they incorporate climate-related factors into investment process and how effectively they manage climate-

related risks; and

- Monitoring a range of climate-related metrics in relation to the Funds' assets.

In addition, the Trustee expects the investment managers and insurance providers to identify, assess and manage climate-related risks to the Funds' assets on a day-to-day basis. The Management Committee discusses climate change risk when it meets investment managers and insurance providers, to increase its understanding of the Funds' climate-related risks and test the adequacy of the steps being taken to manage them.

4.2 Funds' tools and processes for managing climate-related risks

Review of investment mandates

If the Management Committee identifies any concerns with the way any of the investment managers and insurance providers are addressing climate-related risks and opportunities, it intends to engage with them – either directly or through the investment adviser – to raise the concerns and seek improvements. If an investment manager does not improve sufficiently, the Trustee will consider switching to a different investment manager.

The Management Committee conducts a periodic review of the DC and AVC Funds investment strategy. As part of these reviews, the Trustee considers the risks to the investment arrangements arising from climate change.

As a result of these reviews and in order to help address the risks posed by climate change, the DC and AVC lifestyle investment strategies have invested in a low carbon equity fund (currency hedged and unhedged versions) and a future world ESG risk aware multi-asset fund in order to reduce exposure to companies with high levels of carbon dioxide emissions and wider climate change risk.

Equity Fund

Compared to a standard global equity fund that aims to track a market weighted benchmark, the equity fund invested in (L&G Low Carbon Transition Fund) reduces allocations to companies with high levels of carbon emissions and has slightly higher allocations to companies that pollute less. The worst companies by this measure (e.g. coal miners) may not have any exposure in the fund. The current fund objective is to reduce carbon emissions exposure by 70% compared to a standard global equity fund benchmark, and over time to reduce the exposure further.

Multi-Asset Fund

In the 2023 investment strategy review, the Trustee decided to invest the DC and AVC lifestyle funds in a multi-asset fund that that factors significant ESG issues into the fund's investment strategy.

Engagement and other stewardship activities

The Trustee's investment consultant uses its influence with policymakers and regulators with the aim of

achieving better long-term outcomes for its clients, including the Funds. A particular focus is addressing systemic risks that could cause instability or even collapse in financial markets, and the consultant has initially focused on climate change as one of the most material risks.

The Trustee also expects the Funds' investment managers to engage robustly with investee companies on climate-related matters. The Trustee generally believes that engaging with companies is more effective at encouraging change than selling the Funds' investments in those companies.

Ideally, investment managers would be engaging with companies to improve the management of climate factors, as well as disclosure of climate-related data, so that the Funds are not exposed to companies that are unprepared for the impacts of climate change or the transition to a low carbon economy. The Trustee also expects the investment managers to increase their influence through engaging in collaboration with other investors and to use policy advocacy to address systemic climate risks. For example, encouraging governments to provide clear policy signals that reduce uncertainty about the low carbon transition and to take stronger action that increases the chance of meeting the Paris Agreement goals and hence reducing the risk that the Funds face significant physical climate risks in the longer term.

The investment adviser assesses investment managers' responsible investment practices and reports its findings to the Management Committee every two years. The report rates investment managers over their approach to ESG issues, climate approaches including net zero, engaging with companies, policy advocacy and systemic stewardship and voting (where applicable). The latest assessment in December 2024 found that of the four investment managers appointed by the Funds, three were rated "green" and one rated "amber" on the climate approach including net zero aspect.

More information on the Trustee's stewardship activities can be found in the Statement of Principles Implementation Statement.

4.3 How processes for identifying, assessing and managing climate-related risks are integrated into the Funds' overall risk management

The identification, assessment and management of climate-related risks are integrated into the Funds' overall risk management processes. These risks are identified by the Working Group and Management Committee with the assistance of the investment advisers, covenant advisers and legal advisers and incorporated into the periodic review of the risk register and risk and control framework. Each of the risks, including the climate-related risks, are rated as to potential loss, impact and likelihood. There is then an assessment of the risks after considering the effectiveness of preventative and detective controls, resulting in an overall residual risk rating. The Funds Office senior management performs quarterly reviews

of the risk and control framework. The Trustee's review and oversight of the risk and controls framework is as follows: the Management Committee reviews the climate-related risks and performs a detailed review of the entire risk and control framework each year and the Trustee also reviews the framework annually at a higher level. The climate-related risks are fully integrated into this identification, assessment and management process.

5. METRICS AND TARGETS

The Trustee has set a long-term target for listed equity and corporate bond investments and monitors metrics for these asset classes. Metrics are also monitored for the buy-in insurance investments; however, a target has not been set for these investments as the Trustee has very little influence over the way insurance companies invest. Furthermore, the Open Fund DB section does not now invest in listed equity or corporate bonds and neither does the Closed Fund invest in listed equity. For the Open Fund DC Section, the target applies to the listed equity and multi-asset funds within the default DC strategy, and these funds make up 87% of funds by value. The Trustee does not consider it necessary to obtain data on the assets currently excluded from the target on the grounds of materiality. This approach is in line with the guidance issued by the Department for Work and Pensions.

The Trustee's climate-related target is that at least 75% of listed equity and corporate bond investments should have greenhouse gas emissions reduction targets approved by the Science Based Targets initiative (SBTi) by 2030. Due to the short life now envisaged for the DB sections before they are transferred to the insurance providers, and the lack of influence the Trustee has over insurance company investment strategy, the Trustee did not consider it appropriate to widen the scope of the climate-related target to the buy-in insurance contracts, even though data for these assets is now available and is disclosed below.

5.1 Metrics used by the Funds to assess the climate-related risks and opportunities in line with the strategy and risk management process

The investment adviser collected the latest available data from the Funds' investment managers for the metrics and presented it to the Management Committee in March 2025 along with training on interpretation of each of the four metrics:

1. **Absolute emissions** e.g. tonnes of CO₂ (tCO₂e) – "Total GHG emissions" in the tables and charts below.
2. **Emissions intensity** e.g. tonnes of CO₂ per £1million invested (tCO₂e/£m) – "Carbon footprint" in the tables and charts below.
3. **A portfolio alignment metric** – an approved Science Based Targets initiative (SBTi) carbon reduction targets metric – "Portfolio alignment" in the tables and charts below.
4. **Data quality** – Proportion of the portfolio for which

the trustees have high quality emissions data – “Data coverage” in the table and charts below.

Details of these metrics are as follows:

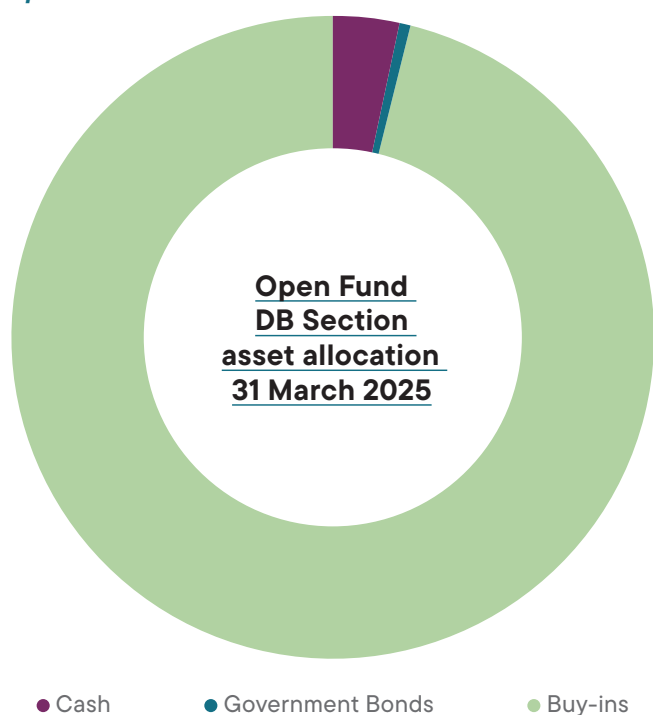
Metric	Detail
Absolute emissions	This measures a portfolio's total greenhouse gas (GHG) emissions associated with the Funds' assets. It represents the Funds' share of its portfolio companies' emissions if emissions are split between equity and debt investors in proportion to the value of their investment in the company.
Emissions intensity	This is a carbon footprint metric, expressed as the total GHG emissions per £m invested by the scheme (the “carbon footprint”). It is equal to total greenhouse gas emissions divided by the value of the portfolio. As the metric adjusts for the value of the portfolio, it allows emissions exposure of different portfolios to be compared.
Portfolio alignment	This is an emissions reduction target metric, which measures the extent to which the Funds' investments are aligned to the Paris Agreement goal of limiting global average temperature rises to 1.5°C. It is calculated as the proportion of companies with SBTi-accredited targets to reduce their greenhouse gas emissions. The Trustee chose this “binary target” measure because it is the simplest and most robust of the various portfolio alignment metrics available.
Data quality	Proportion of the portfolio for which the Trustee has high quality emissions data – i.e. the proportion of the portfolio for which Scope 1-2 and 3 emissions are verified, reported, estimated or unavailable.

The Trustee chose to report these metrics as they are consistent with those which they expect are required to report under the legislative requirements.

5.2 Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions and the related risks

The metrics for the Funds' investments are shown below, based on the latest investment fund data available up to the end of the financial year at 31 March 2025.

Open Fund – DB Section



Open Fund – DB Section Data Coverage

Asset class (% DB assets)	Details of missing data or estimations
Buy-ins (96%)	Buy-in assets are expected to largely comprise public debt (both corporate credit and government) and private holdings. The insurers' emissions calculations largely consider corporate debt only (public and private). PIC has excluded government absolute emissions calculations as part of its summarised metrics. Just measures the carbon emissions, for which an investor is responsible, per GBP million invested, by their total overall financing and emissions are apportioned across its entire investment portfolio. This methodology differs to guidance offered by the DWP. Consequently, data reported for buy-in assets is not directly comparable with other asset classes/holdings.

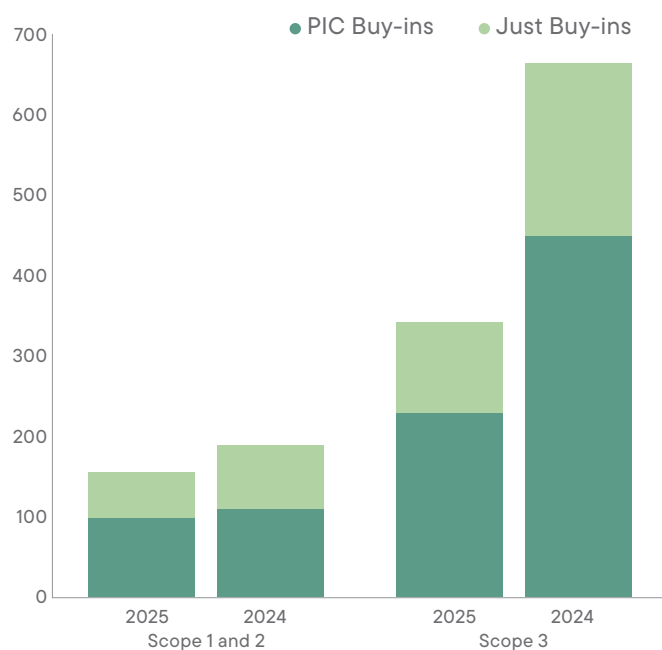
Open Fund – DB Section Metrics

Manager, asset class and valuation (£m)	Scope 1 and 2 emissions			Scope 3 emissions			Portfolio alignment	Data source	Date of portfolio value and data
	Data coverage (%)	Total GHG emissions (tCO2e)	Carbon footprint (tCO2e/£m)	Data coverage (%)	Total GHG emissions (tCO2e)	Carbon footprint (tCO2e/£m)	Proportion with SBTi target (%)		
Just – 2 buy-ins (£284m)	4.0*	N/A	57	4.1*	N/A	113	14	Just	Value – 31/3/25 Data – 28/06/24
PIC – 3 buy-ins (£274m)	78	21,025	98	43	27,296	229	25	PIC	Value – 31/3/25 Data – 31/12/24

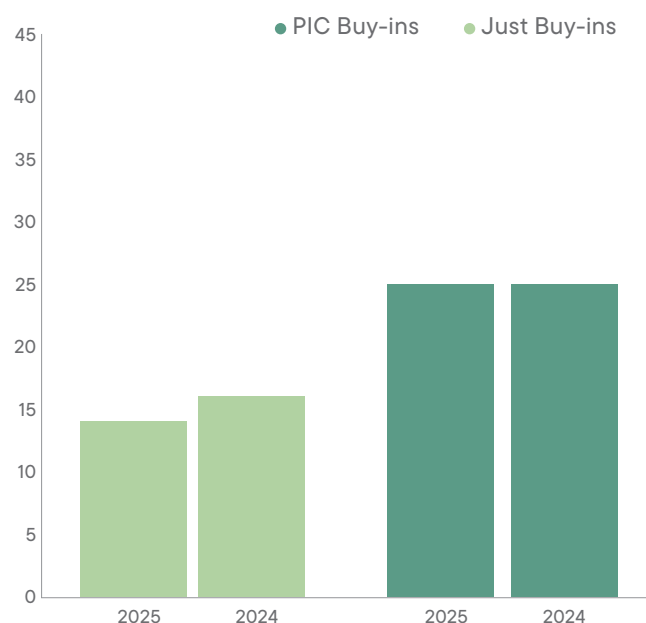
* Weighted average scores based on quality of data split by scope for the investment portfolio. Scores range from 1 (Disclosed verified and reported data) to 5 (emissions based on estimates where no underlying disclosure available).

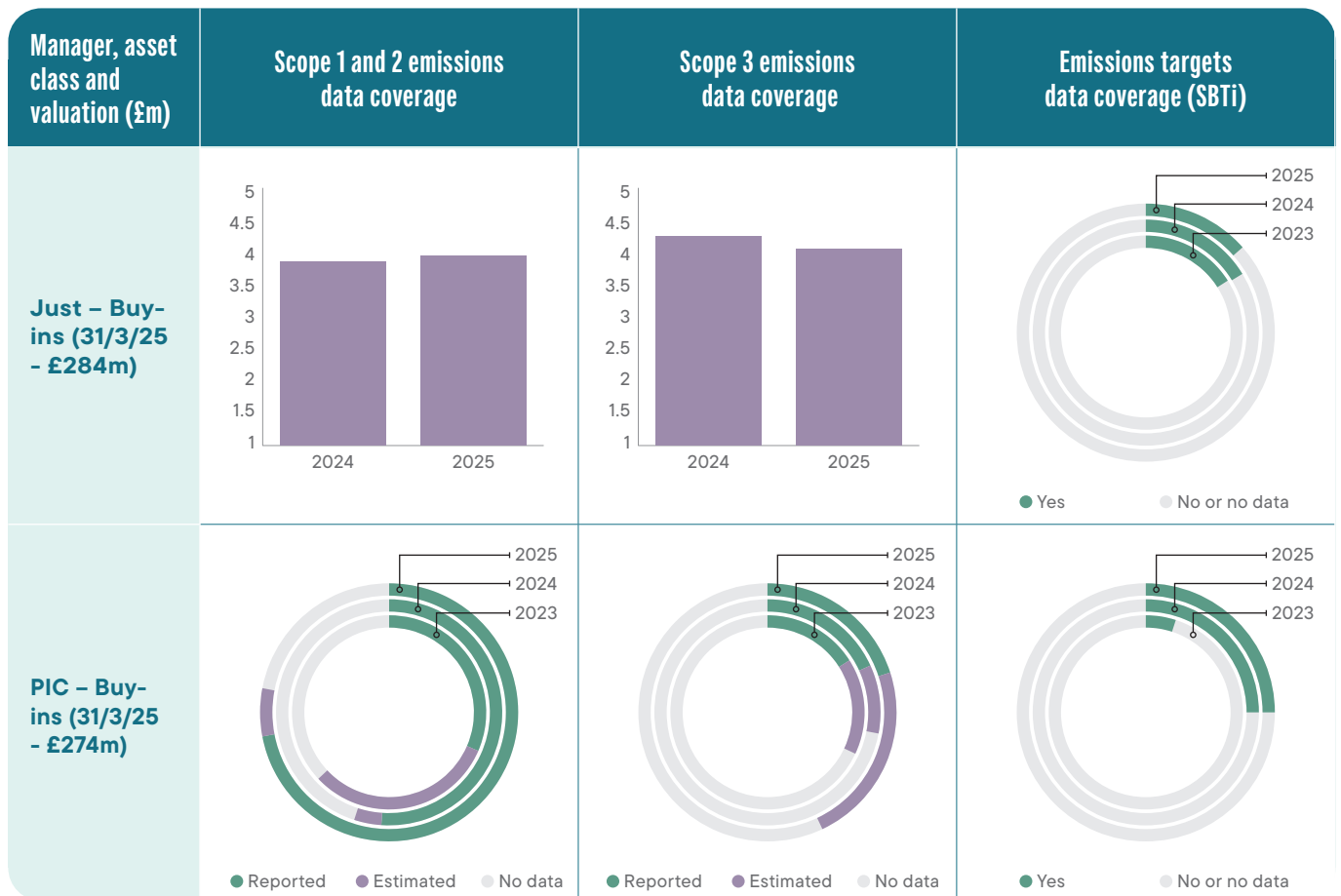
N/A – data not available. The overall impact of the unavailable data is uncertain.

Carbon footprint (tCO2e/£m)



Proportion with SBTi targets (%)





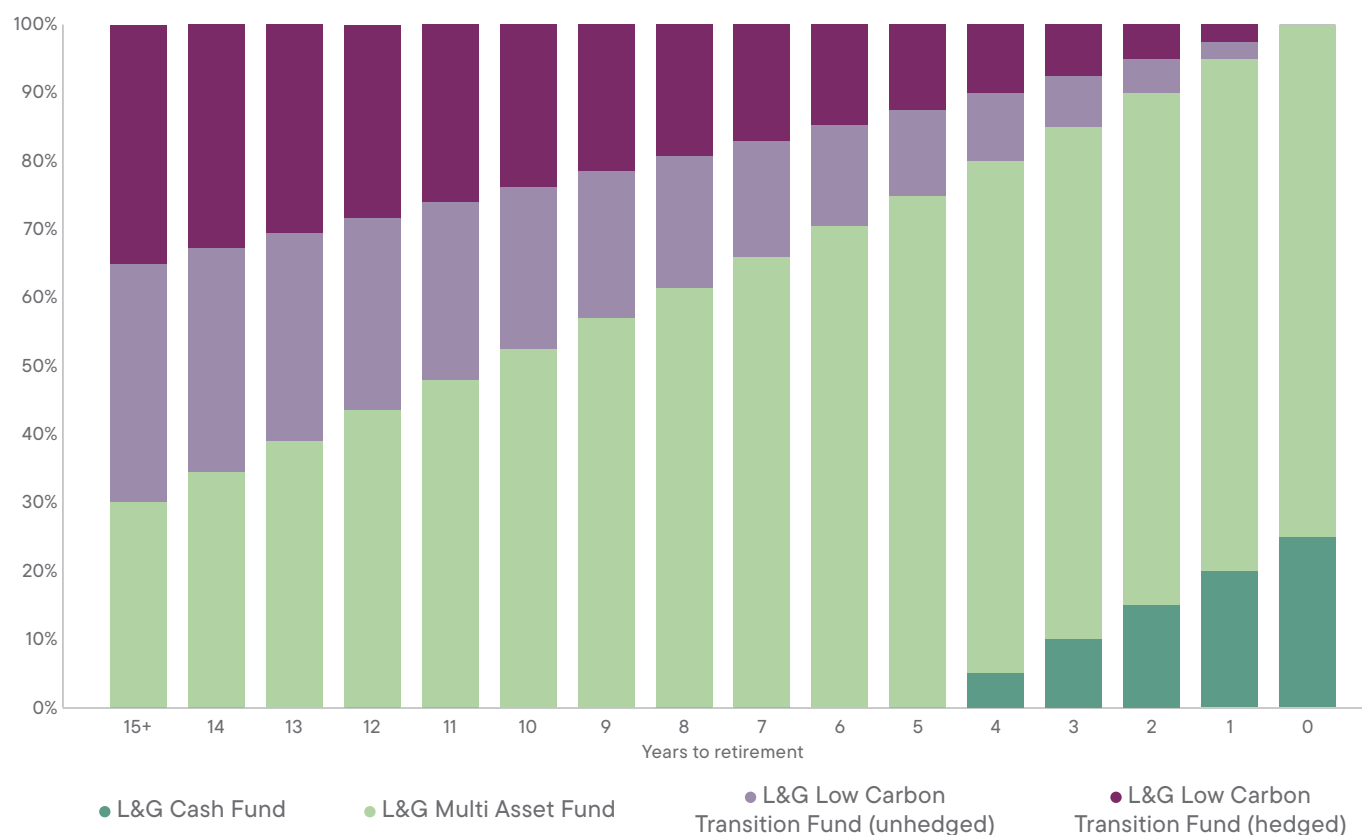
Open Fund – DC Section

Most DC assets are invested in the default strategy. Assets in the default strategy are allocated to funds depending on members' target retirement dates. As at 31 March 2025, 92% of members were invested in the default strategy. The other members have chosen to invest in a range of self-select funds. The assets in each category as at 31 March 2025 were as follows:

Asset Funds	£	%
Low-carbon Equity	24,044,691	44
Future World Multi-asset	23,092,594	43
Multi-asset	2,072,426	4
Cash Funds	2,057,395	4
Global Equity	1,728,821	3
Ethical Equity	856,102	2
Islamic Equity	155,929	0
Over 5 Year Index Linked Gilts	112,207	0
Over 15 Year Gilts	66,702	0
Corporate Bonds	44,082	0
Total	54,230,949	100

The Trustee has only collected metrics for the Multi-asset and Low-carbon equity funds. It was not felt proportionate to monitor metrics for the other funds as they are small in comparison with the Multi-asset and Low-carbon equity funds. This is in line with the guidance issued by the Department for Work and Pensions.

DC Default Fund Asset Allocation



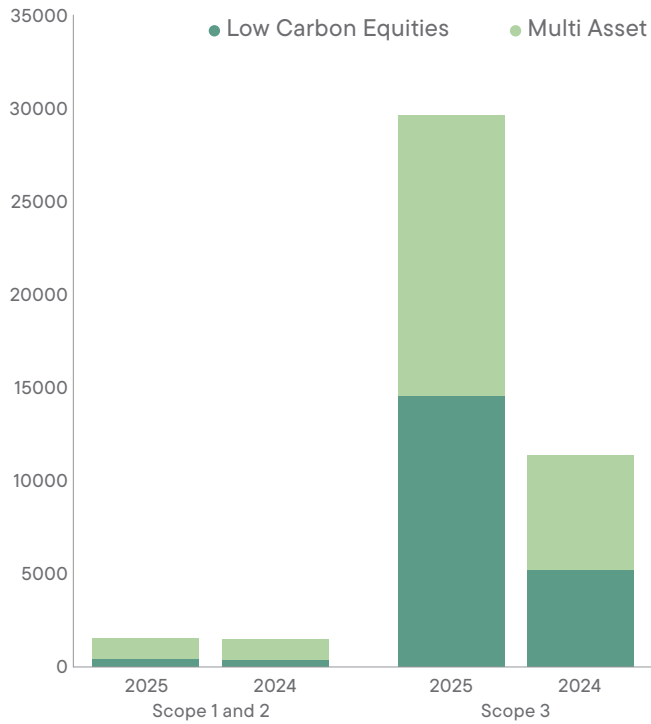
Open Fund – DC Section Data Coverage

Asset class (% DC assets)	Details of missing data or estimations
Low carbon equity (44%)	See Appendix 4
Future World Multi-asset (43%)	

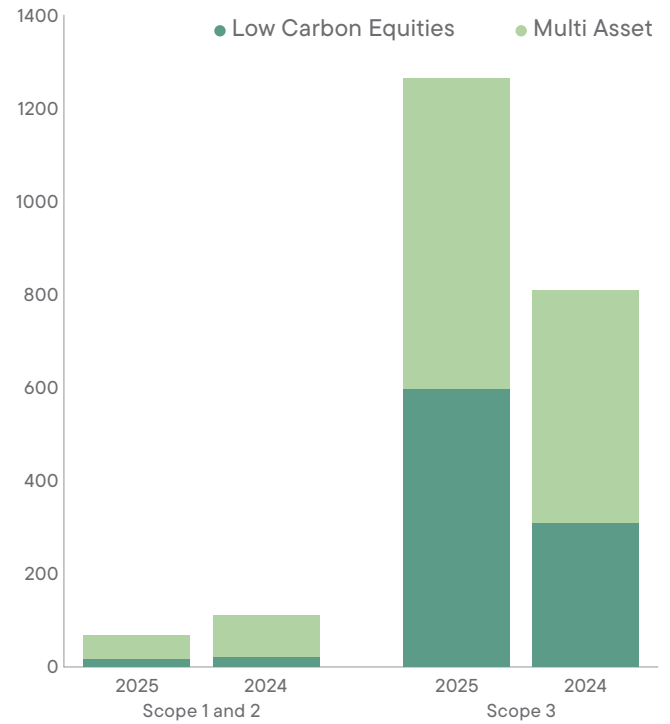
Open Fund – DC Section Metrics

Manager, asset class and valuation (£m)	Scope 1 and 2 emissions			Scope 3 emissions			Portfolio alignment	Data source – See Appendix 4	Date of portfolio value and data
	Data coverage (%)	Total GHG emissions (tCO2e)	Carbon footprint (tCO2e/£m)	Data coverage (%)	Total GHG emissions (tCO2e)	Carbon footprint (tCO2e/£m)	Proportion with SBTi target (%)		
L&G – Low carbon equity (£24m)	95	390	16	69	14,542	596	58	LGIM	Value – 31/3/25 Data – 31/12/24
L&G – Future World Multi Asset Fund (£23m)	69	1,148	51	47	15,053	669	41	LGIM	Value – 31/3/25 Data – 31/12/24

Total GHG emissions (tCO₂e)

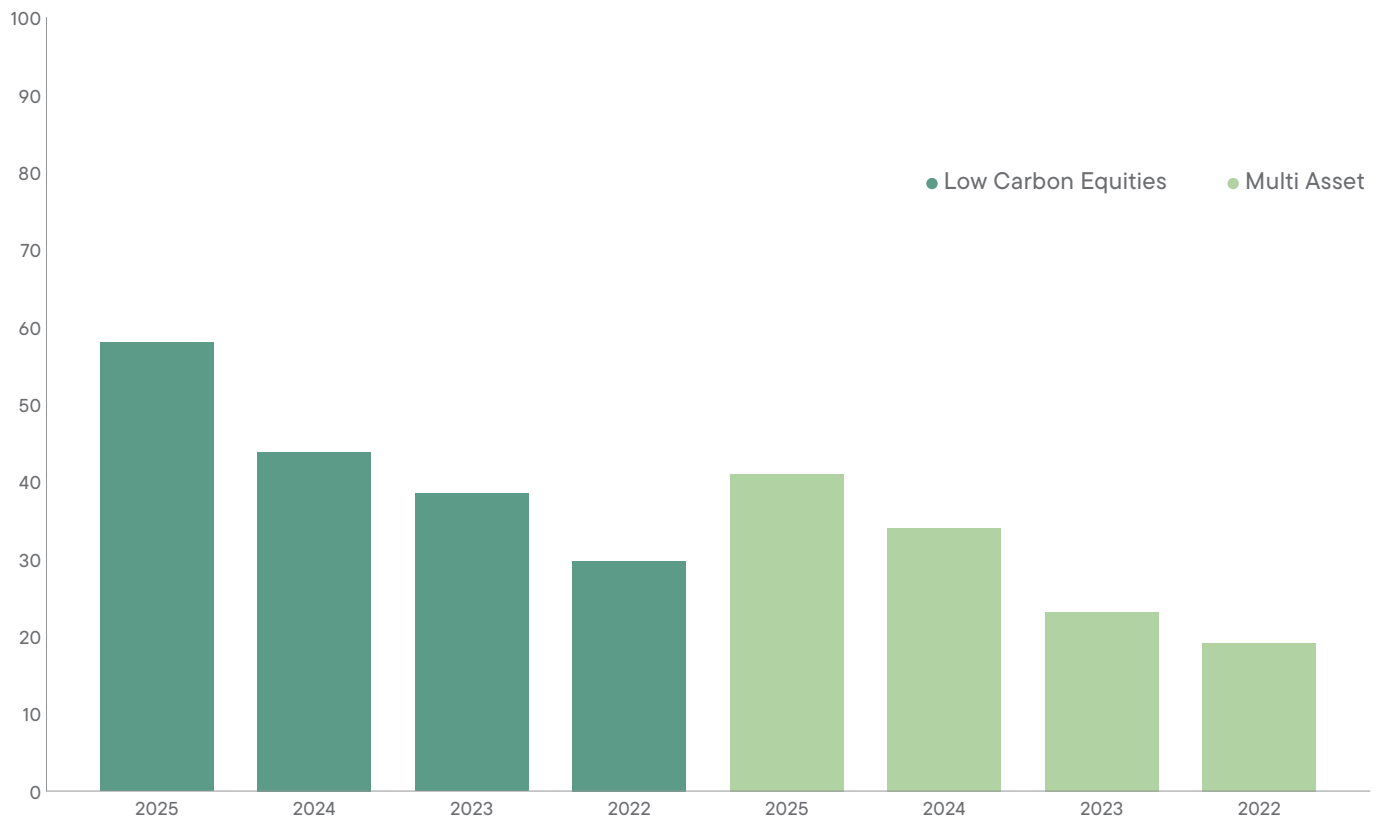


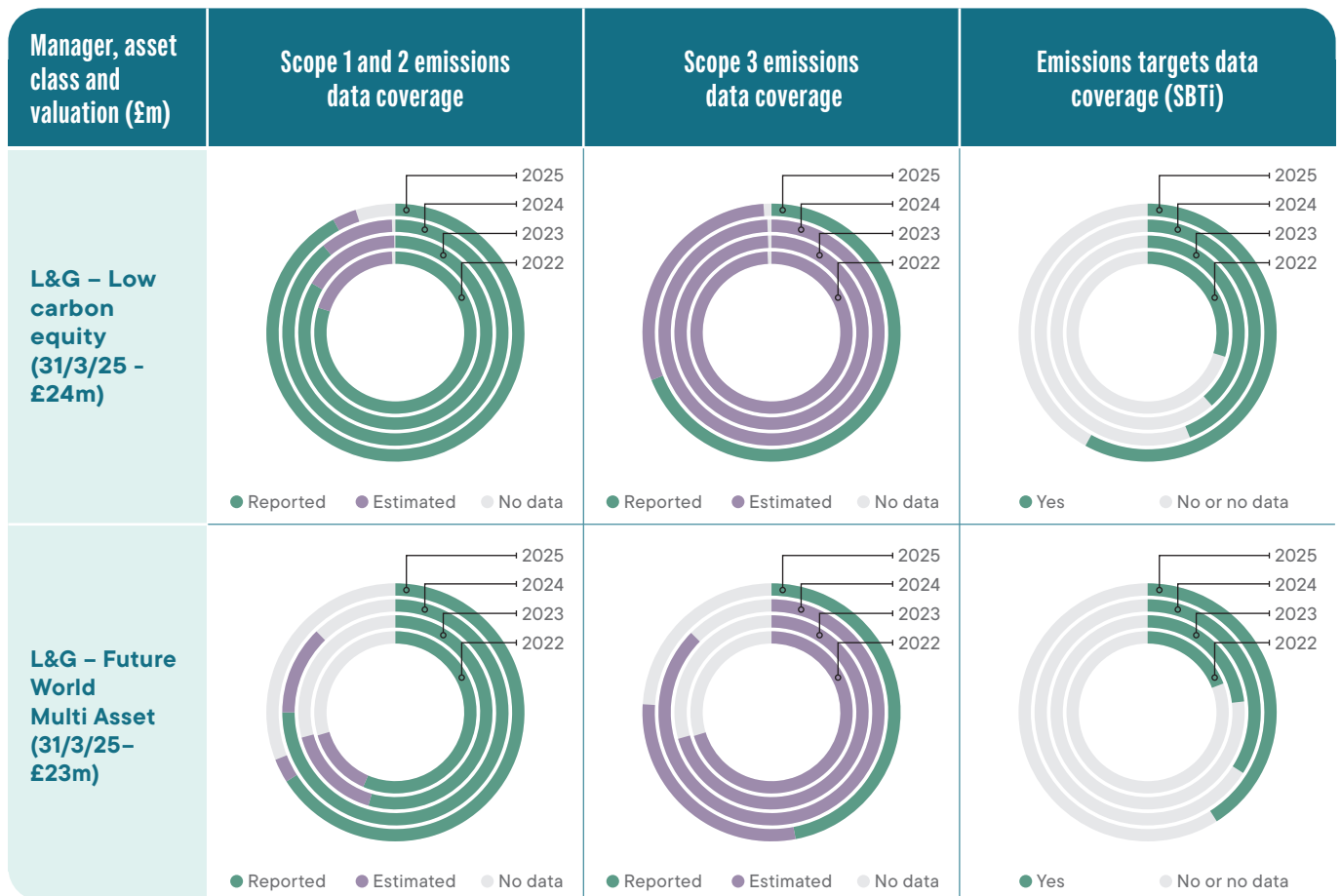
Carbon footprint (tCO₂e/£m)



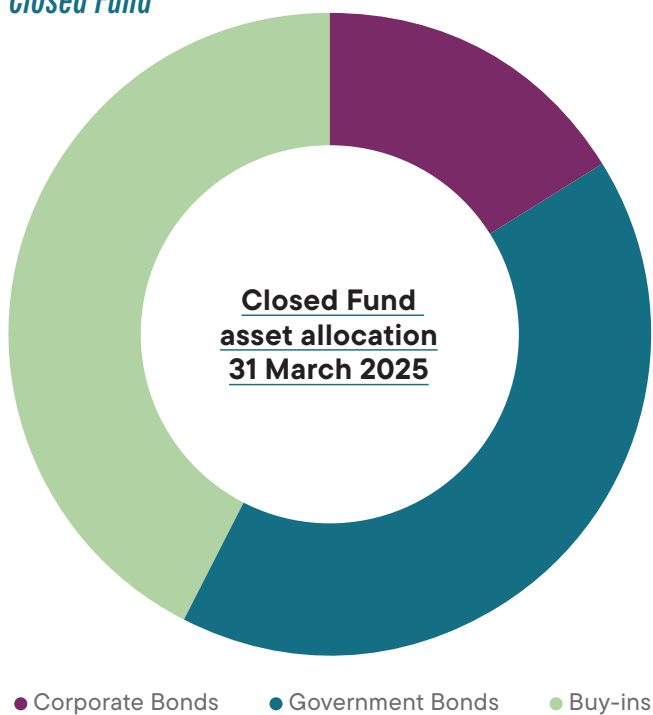
The emissions data for 2025 is provided by LGIM, whereas MSCI data was used in the previous year. This has likely caused the increase in Scope 3 emissions, which are largely estimated.

Proportion with SBTi targets (%)





Closed Fund



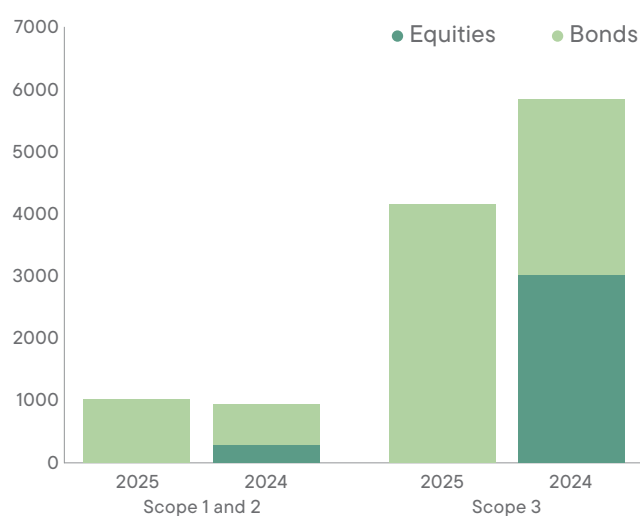
Closed Fund – Data Coverage

Asset class (% DC assets)	Details of missing data or estimations
Government index-linked gilts (39%)	Gilts metrics are calculated on a different basis to other mandates shown, so cannot be compared with them. The emissions intensity has been calculated as "total greenhouse gas emissions produced in the UK" divided by "UK GDP using PPP methodology" using publicly available data sources. Total greenhouse gas emissions have been calculated as "value of your investment in gilts" multiplied by "emissions intensity".
Buy-ins (44%)	Buy-in assets are expected to comprise largely public debt (both corporate credit and government) and private holdings. The insurers' emissions calculations largely consider corporate debt only (public and private) and they have excluded government absolute emissions calculations as part of their summarised metrics. This methodology differs to guidance offered by the DWP and calculations for the Fund's other gilt-based holdings. Consequently, data reported for buy-in assets is not directly comparable with other assets classes/holdings.

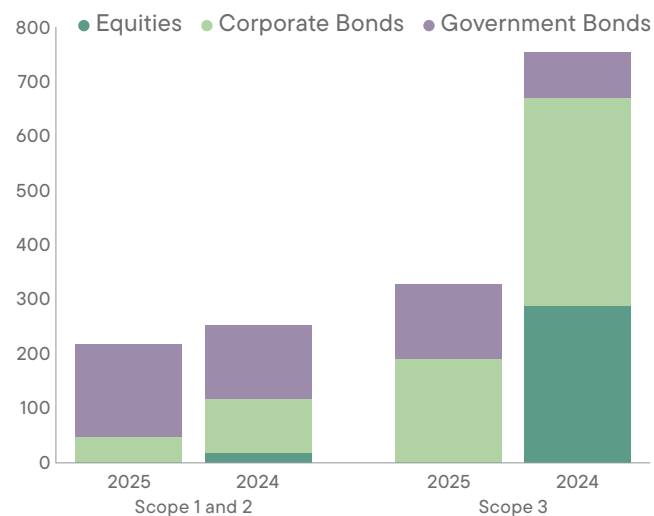
Closed Fund – Metrics

Manager, asset class and valuation (£m)	Scope 1 and 2 emissions			Scope 3 emissions			Portfolio alignment	Data source	Date of portfolio value and data
	Data coverage (%)	Total GHG emissions (tCO2e)	Carbon footprint (tCO2e/£m)	Data coverage (%)	Total GHG emissions (tCO2e)	Carbon footprint (tCO2e/£m)	Proportion with SBTi target (%)		
BlackRock – Corporate credit (£22m)	95	1,020	47	95	4,123	190	52	Black Rock	Value – 31/3/25 Data – 31/12/24
BlackRock – Index-linked Gilts (£50m)	100	N/A	170	100	N/A	136	100	LCP	Value – 31/3/25 Data – 31/12/24
PIC – Buy-in (£56m)	78	4,283	98	28	5,561	229	25	PIC	Value – 31/3/25 Data – 31/12/24

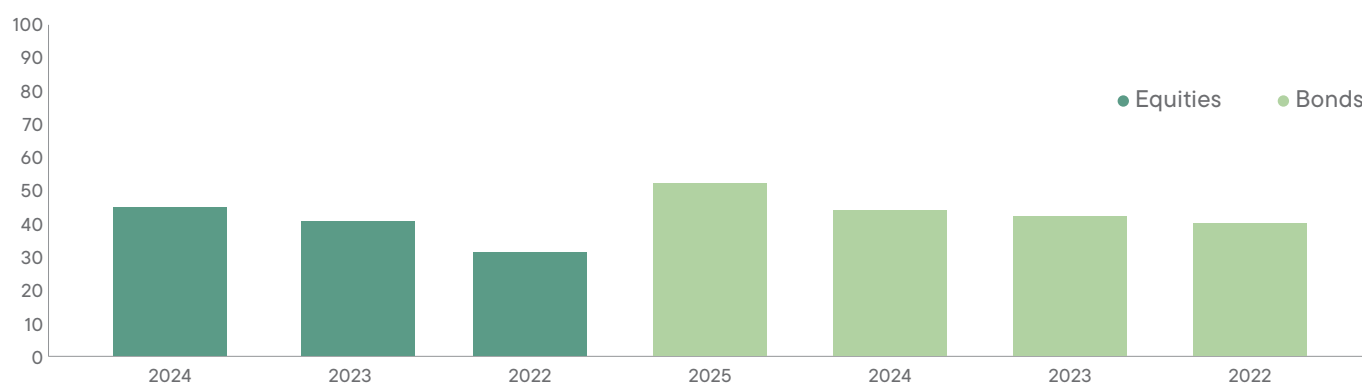
Total GHG emissions (tCO2e)



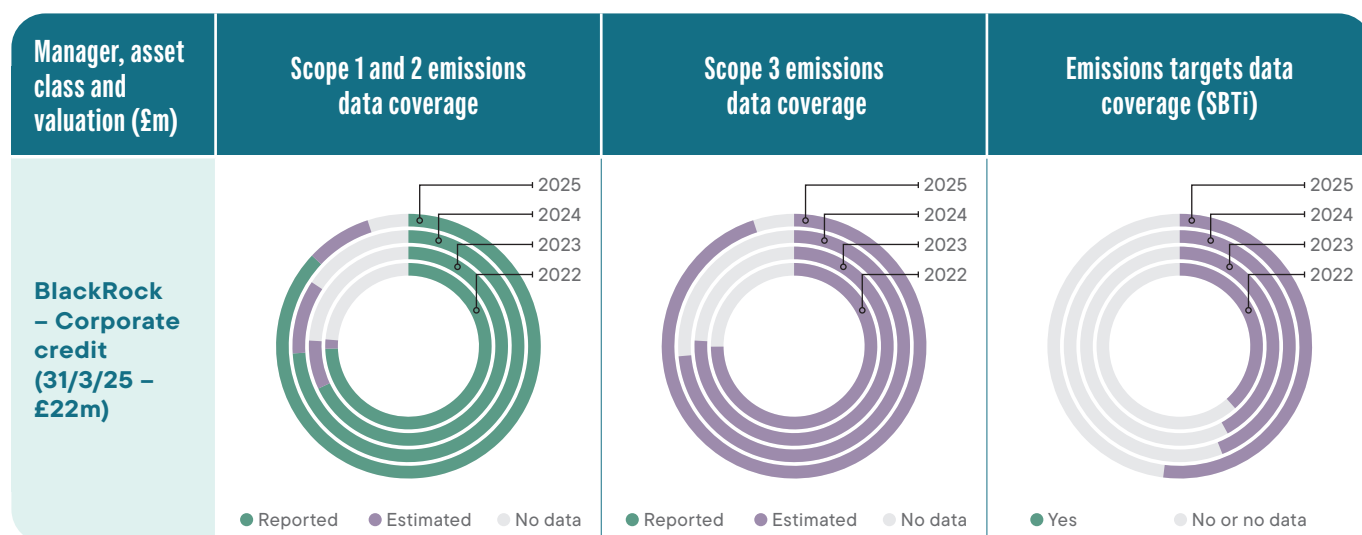
Carbon footprint (tCO2e/£m)



Proportion with SBTi targets (%)



There is no metric for proportion with SBTi targets for equities in 2025 as the Closed Fund had no equity investments in 2025.



The equivalent charts for the Closed Fund PIC buy-in is as the PIC charts in the Open Fund section above.

5.3 Target used by the Funds to manage climate-related risks and opportunities and performance against targets

The Trustee has set the following target:

Target	Open Fund DB Section	Open Fund DC Section	Closed DB Fund
At least 75% of listed equity and corporate bond investments to have set SBTi targets by 2030.	There are no listed equities or corporate bonds in the Open Fund DB Section.	Listed equities and corporate bonds (70% of total DC assets).	Corporate bonds (29% of total invested assets). There are no listed equities in the Closed Fund.

Performance against the target

The climate reporting carried out for the Funds during the year included an assessment of the current alignment with the above target. The weighted averages of the Funds' listed equity and corporate bond investments that have set SBTi targets by 31 March 2025 are as follows:

Target	Open Fund DB Section	Open Fund DC Section	Closed DB Fund
75% by 2030	2025 – N/A* 2024 – 44.0% 2023 – 37.7% 2022 – 30.0%	2025 – 49.7% 2024 – 38.9% 2023 – 30.8% 2022 – 25.1%	2025 – 52.0% 2024 – 44.4% 2023 – 41.4% 2022 – 36.4%

*N/A – The Open Fund DB Section had no investments in listed equity or corporate bonds at 31 March 2025.

The proportion of each fund with set SBTi targets is broadly in line with a comparable relevant market index with similar characteristics. The Trustee has agreed upon the most appropriate equity and corporate bond funds upon which to focus their engagement, which are expected to result in the most significant improvement in the Funds' alignment with its target. The following steps are being taken to achieve the target:

- The Trustee has communicated the target to each investment manager.
- Investment managers are routinely invited to present at Management Committee meetings as part of the investment monitoring process. When meeting with any of the Funds' investment managers, the Trustee

will ask the manager how they expect the proportion of portfolio companies with SBTi targets to change over time and encourage the manager to engage with portfolio companies about setting SBTi targets, prioritising those with the highest carbon footprint.

- The investment adviser encourages managers to support the goal of net zero emissions by 2050 or earlier and has published its expectations for investment managers in relation to net zero. This includes the use of effective voting (where applicable) and engagement with portfolio companies to encourage achievement of net zero. The investment adviser continues to engage with managers on this topic and will encourage them to use their influence with portfolio companies to increase the use of SBTi targets.

APPENDIX 1 - ITB PENSION FUNDS - CLIMATE RELATED RISK BELIEFS

Duty

The Trustee has primary responsibility for managing climate risks to the Fund's assets, recognising this is a wider societal issue that investment managers, companies and governments also have responsibility for. The Trustee will delegate the implementation to the investment managers and buy-in insurance providers.

The Trustee wants to follow best practice when it comes to regulatory requirements, rather than take a minimum compliance approach.

Assessing and managing climate-related risks and opportunities is both our legal duty and entirely consistent with protecting the long-term returns of the Funds and is therefore acting in the best long-term interests of our members.

Impact of climate risks at a strategic level

Climate risks will have an impact on the macroeconomic environment, impacting asset returns and funding assumptions.

Climate change represents a risk that could have some impact on investments in the Open Fund DB Section and Closed Fund and represents a material risk that could negatively impact investments in the Open Fund DC Section.

A collective failure by governments, companies and other actors to mitigate the transitional and physical risks associated with climate change would negatively impact investments in Defined Benefit and Defined Contribution pension schemes.

Appropriate treatment of climate related risks and opportunities is likely to improve outcomes for members through enhanced long-term returns and mitigation of downside risks.

The Trustee's fund managers and buy-in insurance providers should consider and mitigate climate risks and identify opportunities when selecting investments for our portfolios and inform us of their activities.

Market pricing of climate risks and opportunities

Climate risks and opportunities are not likely to be properly priced into markets currently.

Specific beliefs for the Funds

The Trustee should reduce climate-related risk where practical to do so.

Investing in fossil fuels presents a significant risk to our investment portfolios especially over the long-term. Selective risk-based divestment from fossil fuels is appropriate for the Funds in the medium-term.

Engagement through the fund managers and buy-in insurance providers is an essential component to move to a low carbon economy.

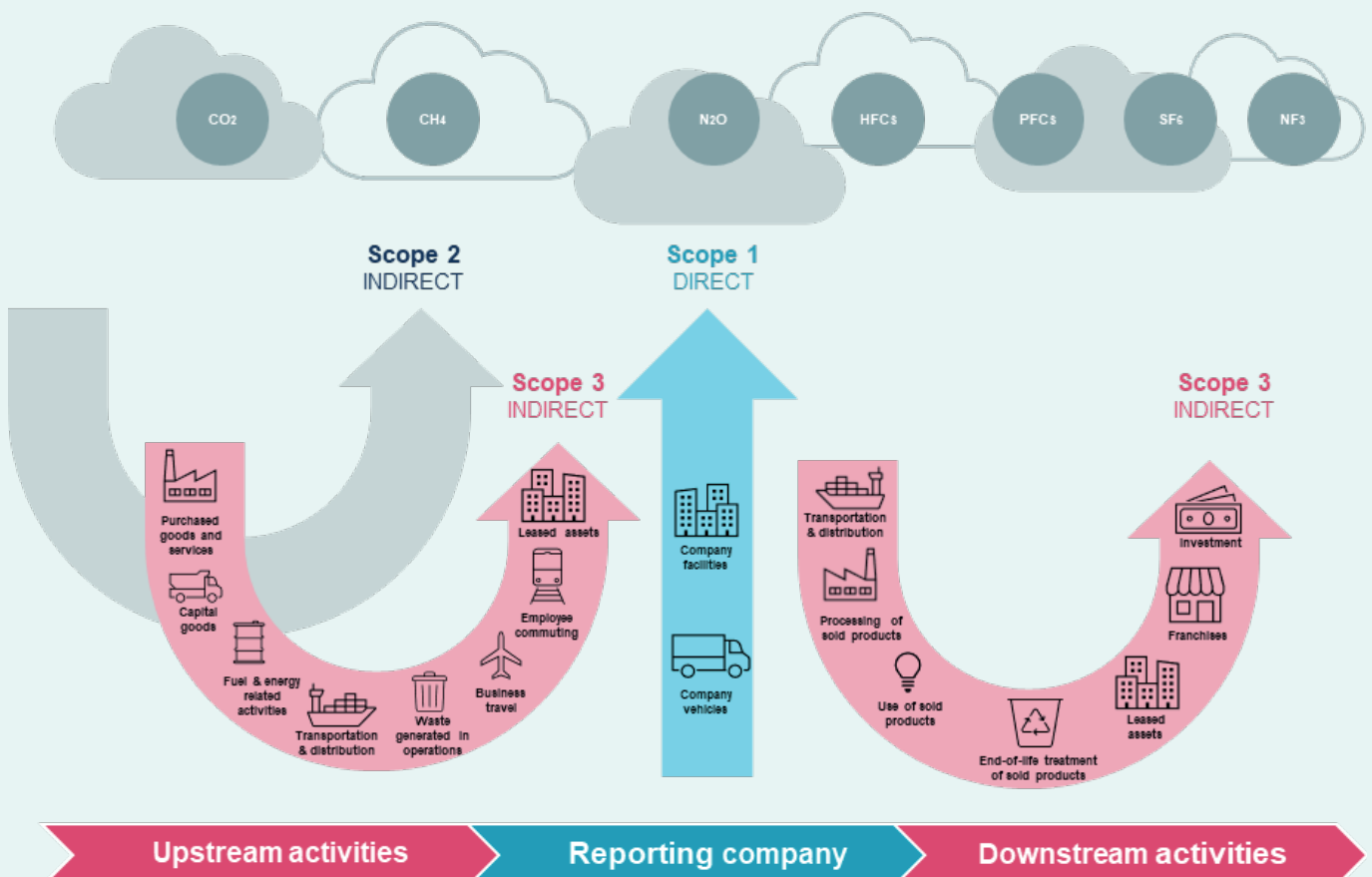
Climate-related factors will be given special attention when selecting managers since they are likely to be a source of better risk-adjusted returns.

APPENDIX 2 – GREENHOUSE GAS EMISSIONS EXPLAINED

Emissions metrics relate to seven greenhouse gases – carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF₆) and nitrogen trifluoride (NF₃). The figures are shown as “CO₂ equivalent” (CO₂e) which is the amount of carbon dioxide that would be equivalent to the excess energy being stored by, and heating, the earth due to the presence in the atmosphere of these seven greenhouse gases.

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

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



Source: GHG Protocol

APPENDIX 3 – CLIMATE SCENARIO ANALYSIS MODELLING APPROACH

Modelling approach

The scenario analysis is based on a model developed by OrtecFinance and Cambridge Econometrics. The outputs were then applied to the Scheme's assets and liabilities.

The three climate scenarios are projected year by year, over the next 40 years.

The results are intended to help the Trustee to consider how resilient the DC default strategy is to climate-related risks.

The three climate scenarios chosen are intended to be plausible, not "worst case". They are only three scenarios out of countless others which could have been considered. Other scenarios could give better or worse outcomes.

The modelling results are based on macro-economic data at 31 December 2022, calibrated to market conditions at 31 December 2023.

Modelling limitations

As this is a "top-down" approach, investment market impacts are modelled as the average projected impacts for each asset class. This contrasts with a "bottom up" approach that would model the impact on each individual investment held by the DC default strategy. As such, the modelling does not require extensive scheme-specific data and so the Trustee was able to consider the potential impacts of the three climate scenarios for all the DC default strategy.

In practice, the investments may not experience climate impacts in line with the market average.

Like most modelling of this type, the modelling does not allow for all potential climate-related impacts and therefore is quite likely to underestimate some climate-related risks. For example, tipping points (which could cause runaway physical climate impacts) are not modelled and no allowance is made for knock-on effects, such as climate-related migration and conflicts. In addition, the model presumes that the UK government will remain solvent, thereby making no allowance for credit risk on government bonds. However, in a scenario where global warming exceeds 4°C, this assumption may no longer be valid.

Medians from OrtecFinance's model outputs are used to project forward assets and liabilities, which means the results reflect the model's "middle outcomes" for investment markets under the three scenarios. Allowing for market volatility would result in better or worse model outputs than shown. Investment markets may be more volatile in future because of physical and transition risks from climate change, and this is not illustrated in the modelling shown.

The Scheme currently has an insurance contract covering the DB benefits payable. As this contract exactly matches the DB benefits payable to members, it has been considered qualitatively for the analysis.

APPENDIX 4 – DATA SOURCED FROM LGIM

- i. Carbon dioxide equivalent (CO₂e) is a standard unit to compare the emissions of different greenhouse gases.
- ii. The choice of this metric follows best practice recommendations from the Task Force on Climate-related Financial Disclosures.
- iii. Data on carbon emissions from a company's operations and purchased energy is used.
- iv. This measure is the result of differences in weights of companies between the index and the benchmark and does not depend on the amount invested in the fund. It describes the relative 'carbon efficiency' of different companies in the index (i.e. how much carbon was emitted per unit of sales), not the contribution of an individual investor in financing carbon emissions.
- v. LGIM have previously set a quality threshold for reportable funds such that 1) the assets eligible for coverage (eligible ratio) needed to be greater than or equal to 50% and 2) the carbon coverage of the eligible assets (eligible coverage) needed to be greater than or equal to 60%. Under the FCA ESG source book regulations and the recommendations of TCFD there are no thresholds currently applied. As a result, and for TCFD reporting purposes; the LGIM thresholds have been removed meaning that in some cases the funds will show low coverage.
- vi. Eligibility % represents the % of the securities in the benchmark which are eligible for reporting including equity, bonds, ETFs and sovereigns (real assets, private debt and derivatives are currently not included for carbon reporting). The Coverage % represents the coverage of those assets with carbon scores.
- vii. Derivatives including repos are not presently included and the methodology is subject to change. Leveraged positions are not currently supported. In the instance a leveraged position distorts the coverage ratio over 100% then the coverage ratio will not be shown.
- viii. LGIM define 'Sovereigns' as, Agency, Government, Municipals, Strips and Treasury Bills and is calculated by using: the CO₂e/GDP, Carbon Emissions Footprint uses: CO₂e/Total Capital Stock.
- ix. Total carbon emissions are a way of attributing the absolute emissions to a fund position based on the proportion of its market value compared to the issuer's EVIC.
- x. Sovereign carbon data available to LGIM does not separate Scope 1 and Scope 2.
- xi. The carbon reserves intensity of a company captures the relationship between the carbon reserves the company owns and its market capitalisation. The carbon reserves intensity of the overall benchmark reflects the relative weights of the different companies in the benchmark.
- xii. Green revenues % represents the proportion of revenues derived from low-carbon products and services associated with the benchmark, from the companies in the benchmark that have disclosed this as a separate data point.
- xiii. Carbon Reserves and Green Revenues are rounded to 1dp. Therefore 0.0 is between 0 and 0.05.
- xiv. LGIM's temperature alignment methodology computes the contribution of a company's activities towards climate change. It delivers a specific temperature value that signifies which climate scenario (e.g. 3°C, 1.5°C etc.) the company's activities are currently aligned with. The implied temperature alignment is computed as a weighted aggregate of the company-level warming potential.
- xv. Engagement figures do not include data on engagement activities with national or local governments, government related issuers, or similar international bodies with the power to issue debt securities.
- xvi. Where the Information includes scope 3 greenhouse gas emissions data (as defined in the Final Report on the Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017) ("Scope 3 Data")), please note that: Legal & General relies on third party sourced model-based estimates for Scope 3 Data, as most within scope companies do not publish Scope 3 Data; and Legal & General makes no representation and/or warranty that Scope 3 Data provided to you may be utilised to satisfy any requirements you may have under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

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APPENDIX 5 – GLOSSARY

Carbon emissions

These refer to the release of carbon dioxide, or greenhouse gases more generally, into the atmosphere, for example from the burning of fossil fuels for power or transport purposes.

Carbon footprint

In an investment context, the total carbon dioxide or greenhouse gas emissions generated per amount invested (e.g. in £m) by an investment fund. Related definitions are used to apply the term to organisations, countries and individuals.

Climate change adaptation

Steps taken to adapt to the physical effects of climate change such as improving flood defences and installing air conditioning.

Climate change mitigation

Steps taken to limit climate change by reducing greenhouse gas emissions, for example by shifting to renewable sources of energy – such as solar and wind – and by using less energy and using it more efficiently.

Environmental, social and governance (ESG)

An umbrella term that encompasses a wide range of factors that may have been overlooked in traditional investment approaches. Environmental considerations might include physical resource management, pollution prevention and greenhouse gas emissions. Social factors are likely to include workplace diversity, health and safety, and the company's impact on its local community. Governance-related matters include executive compensation, board accountability and shareholder rights.

Greenhouse gas (GHG) emissions

gases that have been and continue to be released into the Earth's atmosphere. Greenhouse gases trap radiation from the sun which subsequently heats the planet's surface (giving rise to the "greenhouse effect"). Carbon dioxide and methane are two of the most important greenhouse gases. See also Appendix 1.

Net zero

This describes the situation in which total greenhouse gas emissions released into the atmosphere are equal to those removed for example via man-made technologies (to capture carbon and store it) or nature-based solutions (such as the planting of trees). This can be considered at different levels, e.g. company, investor, country or global.

Paris Agreement

The Paris Agreement is an international treaty on climate change, adopted by global governments in 2015. It covers climate change mitigation, adaptation

and finance. Its primary goal is to limit global warming to well below 2°C, with ambitions towards 1.5°C, compared to pre-industrial levels.

Physical risk

These are climate-related risks that arise from changes in the climate itself. They include risks from more extreme storms and flooding, as well as rising temperatures and changing rainfall patterns.

Science-Based Targets initiative (SBTi)

an organisation that sets standards and provides accreditation for science-based targets set by companies and investors.

Scenario analysis

A tool for examining and evaluating different ways in which the future may unfold.

Scope 1, 2 and 3

A classification of greenhouse gas emissions. See Appendix 1 for an explanation.

Stewardship

Stewardship is defined by the Financial Reporting Council as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. It is often implemented via engagement with investee companies and exercising voting rights.

Stranded assets

Assets that have suffered an unanticipated loss of value before the end of their expected useful economic life. The term is most often applied to fossil fuel investments in the context of climate policy, where legislative and market developments may result in assets being worth less than the value recorded on company balance sheets.

Taskforce on Climate-related Financial Disclosures (TCFD)

A group of senior preparers and users of financial disclosures from G20 countries, established by the international Financial Stability Board in 2015. The TCFD has developed a set of recommendations for climate-related financial risk disclosures for use by companies, financial institutions and other organisations to inform investors and other parties about the climate-related risks they face.

Transition risk

These are climate-related risks that arise from the transition to a low-carbon economy and can include changes in regulation, technology and consumer demand.