Canon Retirement Benefit Scheme for the United Kingdom

Annual Task Force on Climate-related Financial Disclosures (“TCFD”) Report

Reporting to 30 September 2024

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01 Report

The purpose of this report is to meet the climate change reporting requirements, building on the policies set out by the Trustees of the Canon Retirement Benefit Scheme for the United Kingdom ("the Scheme") in the Scheme's Statement of Investment Principles ("SIP) and Environmental, Social and Governance policy ("ESG Policy") also detailed within the SIP. This report sets out how the Trustees plan to respond to the requirements in the Climate Change Regulations.

The four areas covered are:

Governance

- How the Trustees plan to maintain oversight and monitor climate-related risks and opportunities which are relevant to the Scheme.
- The roles and responsibilities for managing climate-related risks and opportunities within the Scheme.

Strategy

- How the Trustees will identify climate-related risks and the definitions the Trustees will use for the short-, medium-, and long-term.
- Consideration of the different climate-related scenarios the Trustees will use when assessing the Scheme's resilience to climate change.

Risk management

- The Trustees' processes for identifying and assessing climate-related risks.
- Describe the Trustees' processes for managing climate-related risks, and how the management of climate-related risks are integrated into the Scheme's overall risk management.

Metrics & Targets

- Disclose the metrics used by the Trustees to assess climate-related risks and opportunities in line with their strategy and risk management processes, including where data is not available.
- Disclose Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions, and the related risks.
- Describe the target used by the Trustees to manage climate-related risks and opportunities and performance against the targets.

Executive Summary

The below summarises the information and conclusions outlined in the report:

Governance

- The Trustees remain comfortable that their advisers are sufficiently competent with matters in relation to ESG and climate change issues.
- The Trustees have incorporated climate-related agenda items into Trustee meetings to enable them to actively discuss climate risk and opportunities on an ongoing basis
- In March 2024, the Trustees received training on the Scheme's current investment approach, including ESG, climate change and stewardship, and how this compares with both regulation and best practice.

Strategy

- The Trustees have undertaken scenario analysis in the accounting year ending September 2023 to gauge the Scheme's resilience to the risks associated with climate change.
- Of the four scenarios included in the analysis, the Disorderly 1.5°C scenario results in the largest impact to the Scheme's climate stressed market valuation by 2%.
- The Trustees, with the help of the Investment Consultant, will engage with the asset managers to seek to improve the data coverage and better understand the climate risks associated with the funds.

Risk Management

- The Trustees have appointed managers who demonstrate robust stewardship and engagement with the underlying investments (recognising that active ownership is key to managing ongoing risks).
- The Trustees met with two of their investment managers, Columbia Threadneedle and Partners where ESG and climate issues were a material topic of discussion.
- Climate change is considered alongside other risks in terms of invested assets and the impact on the Scheme's investment strategy.

Metrics

- The Trustees have outlined the absolute emission, carbon intensity and forward-looking measures of the portfolio to assess the climate-related impact of the Scheme's assets, including data coverage.
- The Scheme's total scope 1 and 2 absolute emissions equates to c.123,660 tonnes. However, the data available for the TwentyFour, M&G and Partners Group assets is below 50% coverage.
- We would expect the non-Columbia Threadneedle funds' total carbon intensity to increase significantly, should they have had an increased level of coverage.
- Given the materiality of this data limitation, the Trustees will focus on engaging with the Investment Managers to improve data coverage amongst the assets. This will aid future decision making as the quality of data improves.
- The data quality is notably higher for the Buy & Maintain Credit assets. Across the forward-looking measures, the fund exhibits an implied temperature rise of 2°C or lower, aligned with the Paris Agreement.

Targets

- The Trustees along with their Buy & Maintain Credit Manager (Columbia Threadneedle) have set targets for the fund to achieve, however, these targets are not guaranteed to be met. The guidelines can be found below:
    - The Portfolio Manager will endeavour to increase the proportion of the portfolio assessed as aligned or aligning to net zero or Engaged, as defined by the Portfolio Manager, to at least 70% of total portfolio financed carbon emissions in material sectors by 2030. The Portfolio Manager shall seek to limit exposure to companies who are not aligned with net zero, as defined by the Portfolio Manager.
    - The Portfolio Manager will identify potential laggard companies and/or those in high impact sectors and engage with them on specific climate-related objectives. Where a company fails to meet minimum expectations with a reasonable timeframe, as defined by the Portfolio Manager, the Buy and Maintain Credit Portfolio may divest it from the portfolio.
    - The Portfolio Manager shall aim to achieve portfolio-level emissions reductions consistent with a 1.5 degree-aligned trajectory.

- The Trustees recognise that in practice, total reported carbon emissions are expected to increase in the short term as data coverage improves. As such, the Trustees will continue to monitor the Scheme's climate characteristics and engage with the Investment Managers to understand how the position is expected to improve over the longer term. However, no investment strategy changes are expected to be undertaken at present to reduce portfolio emissions.

Disclaimer

This document contains the opinions and views of the Trustees of the Canon Retirement Benefit Scheme for the United Kingdom ("the Scheme").

The Trustees are a distinct entity from Canon ("UK") Limited and the Trustees acknowledge the existence of the Sponsor's opinions and views on the same topics.

02 Governance summary

Overall Governance Framework

The Trustees' overall governance framework consists of the following parties:

- Trustee Board: The overall Environmental, Social and Governance ("ESG") and climate change policies detailed in the SIP are set by the Trustees. The Trustees take responsibility for staying informed on how climate change related matters and ESG considerations impact the Scheme and the Sponsor. The Trustees have oversight of the investment policy and are responsible for the implementation of the policy as well as actively monitoring compliance with the policy.
- Investment Managers: Investment Managers appointed by the Trustees are required to demonstrate strong capabilities in managing ESG and climate risks as well as supporting the Trustees in reporting against TCFD.
- Investment Consultant: XPS Investment ("the Investment Consultant") is responsible for ensuring the Trustees' policy, and requirements related to climate change, are implemented effectively and that the Trustees are well informed on relevant matters and developments in approaches to managing and measuring ESG and climate change related risks.
- Actuarial advisors: Capita Employee Solutions ("the Scheme Actuary") is responsible for keeping the Trustees informed of how climate change related matters and ESG considerations impact the liabilities.
- Covenant advisors: Cardano ("the Covenant Advisor") is responsible for considering how the Sponsor may be affected by ESG and climate change risks.
- Legal Advisors: Osborne Clarke ("the Legal Advisor") is responsible for ensuring the Trustees' policies and actions are aligned to the requirements related to climate change.

Given the Trustees' reliance on the advisors listed above for advice in relation to ESG and climate change issues, it is important that they are sufficiently skilled. The Trustees deem them to be sufficiently skilled and are comfortable that this is the case based on ongoing assessments made in relation to the quality of training, advice and communications provided on such topics. In particular, the Trustees have reviewed the credentials of the Investment Consultant against the Climate Change credentials template created by the Investment Consultant Sustainability Working Group ("ICSWG").Based on discussions in the year and review of the ICSWG Climate competencies the Trustees remain comfortable that the advisers are sufficiently competent in this area.

Investment beliefs related to climate change

The Trustees consider climate change to be a significant long-term financial and systemic risk that, if not managed, has the potential to adversely affect the value of the Scheme's investments. The Scheme's SIP includes consideration as to whether a manager is a signatory to the UK Stewardship Code ("the Code"). The Trustees recognise the Code as an indication of a manager's compliance with best practice stewardship standards.

Further details of the Trustees' beliefs are contained in the Scheme's SIP. The Scheme's SIP will be formally reviewed at least every three years to ensure it remains appropriate and will be informally reviewed on a more frequent basis including following any changes to the Scheme's investment strategy.

Climate-related requirements in manager selection, review, and monitoring

The Trustees make the decisions regarding whether to retain or appoint a new investment manager. The Trustees consider the Investment Consultant's manager research ratings as part of the decision-making process which explicitly considers climate change within manager ratings and recommendations. This policy is detailed further in the SIP.

Day-to-day Trustees' operations

In discharging their responsibilities, the Trustees will remain mindful of the impact of their own operations on the environment. This includes, but is not limited to, the frequency and physical location of Trustees meetings and minimising unnecessary use of paper and other resources. The Trustees also consider, based on advice from their Investment Consultant, the extent to which environmental considerations are a priority for their providers and advisors which is reviewed periodically and as part of new appointments.

Monitoring climate risk

The Trustees will monitor the below aspects related to climate change;

Table 1- Monitoring climate risks

Reporting content	Frequency	Responsibility for reporting
Specific climate-related metrics (see Metrics and Targets Section)	Annually	Investment Managers / Investment Consultant
Scenario analysis	Annually* / Triennially	Investment Managers / Investment Consultant & Scheme Actuary / Covenant Advisor
Progress of Investment Managers towards the Scheme's climate target	Annually	Investment Managers / Investment Consultant
Assessment of the Investment Managers' ESG and climate-related credentials from the Investment Consultant	Annually	Investment Consultant
Any holdings/activity within the portfolio which requires attention from a climate-related perspective	As required	Investment Managers / Investment Consultant
Review of notable stewardship activity related to climate risk within the portfolio	As required	Investment Managers

* The Trustees will review the results of any prior scenario analysis annually and determine if they believe annual analysis is warranted, noting the requirement under TCFD is to undertake scenario analysis at a minimum every 3 years. Given the current geopolitical environment in which climate-related policy is being altered on a regular basis, the Trustees felt that a pragmatic approach to the analysis was appropriate.

The Trustees are satisfied that they have, with the assistance of their advisers, monitored each of the above items throughout the year as required. As noted in section 3, the Trustees have reviewed the prior scenario analysis as part of preparing this report and believe there have been no significant changes that would require further analysis this year. Other examples of actions taken during the Scheme's reporting year to identify and manage climate risks and carry out the governance activities required are provided within this report.

Climate change as an agenda item within Trustee meetings

The Trustees have incorporated climate-related agenda items into Trustee meetings to enable them to actively discuss climate risk and opportunities on an ongoing basis. Topics of discussions included:

- Relevant updates from the advisers and Investment Managers regarding the investment portfolio, strategic allocation and/or relevant developments within the industry.
- Input from the Sponsor where appropriate.

Ongoing training needs

The Trustees are required to maintain sufficient knowledge and understanding of climate-related risks. Given the fast evolution and innovation within the industry, the Trustees will hold a training session on climate-related issues alongside ESG issues on an annual basis.

In March 2024, the Trustees received training on the Scheme's current investment approach, including ESG, climate change and stewardship, and how this compares with both regulation and best practice. This highlighted how the Trustees good practices in place in relation to ESG and climate issues and the action that could be taken to align this with best practice. On 7 December 2023, the Trustees also received training on how they can better enhance their approach to stewardship within their investments. The Trustees have engaged with the Investment Consultant to aid in preparing this TCFD report.

03 Strategy

Time horizons and overarching risks identified

The Scheme is closed to future accrual and has a medium to long term time horizon. Therefore, the Trustees have defined the time horizons as below and identified relevant climate-related risks and opportunities which will be managed, as far as practicable, via the overall framework.

Table 2 - Rationale for time horizons

Time horizon		Rationale
Short-term	0-5 years	This horizon allows for sufficient time for climate-related decisions to be made, implemented and monitored.
Medium-term	5-10 years	It's widely agreed that a 50% reduction in global emissions by around 2030 is required in order not to exceed the available global carbon budget in order to deliver the Paris Agreement.
Long-term	10+ years	The Fund is closed to accrual, thus the long-term horizon should account for this. This horizon also aligns to the long-term global net zero goals consistent with delivering the objectives of the Paris Agreement, over which time transition risks would be expected to arise, as discussed below.

Climate-related risks identified

The Trustees believe that climate change could pose a material risk to the Scheme's funding level. Furthermore, the Trustees recognise that there are opportunities available within the investment strategy as a result of the transition to a low carbon economy.

The key risks arising as a result of climate change are:

- Transition risk: refers to the risk (and opportunities) presented from the realignment of society to a decarbonised world which is climate-resilient over the coming years. Factors causing such changes include policy and regulation, behavioural changes of society and the adoption of alternative energy solutions.
- Physical risk: refers to physical impacts of climate change on supply chains and physical assets and includes both the long term shifts in climate patterns and the impact of acute weather events. These events have a physical impact on societies and the potential to impact economies.

Table 3 - Climate risks arising in each time horizon

<table>
<tr><th colspan="2">Time horizon</th><th>Risks and opportunities</th></tr>
<tr><td>Short-term</td><td>0-5 years</td><td rowspan="2">Changes in consumer and corporate behaviour, driven by policy and technological change i.e., transition risk highly prevalent over the short and medium term.

This can have impacts on asset prices/stock price movements. Companies which adapt well can take advantage of this fundamental shift in the economy.

In the very short term these risks are only likely to materialise if there is sudden and robust government intervention.

Physical risk exists but the most severe and frequent weather events are likely to materialise over longer time frames.</td></tr>
<tr><td>Medium-term</td><td>5-10 years</td></tr>
</table>

Long-term	10+ years	In the long term physical risks may be more prevalent depending on policy response - a limited policy response is expected to lead to higher warming outcomes and physical risks dominating. Physical damage increases on real assets and resource availability may be disrupted from phenomena such as sea level rises and more frequent severe weather events. There will be knock-on effects on input costs and supply chains. Transition risk for many sectors as regulations and policies may come into force and consumer preferences change.

Impact on investment strategy

The Trustees will assess an investment manager's ability to analyse climate change related risks and opportunities as a key feature in its due diligence when appointing new managers for the Scheme's assets. Therefore, the Investment Managers selected are those which demonstrate clear integration of climate change risk analysis, alongside other fundamental and technical risk analysis techniques. As such, climate change is required to be a key consideration when the Investment Managers make investment related decisions.

Investment Managers may be invited to periodically present to the Trustees, allowing the Trustees to discuss how they may be actively screening out and engaging with investee companies which currently fall short of the required ESG credentials. This will also provide the opportunity for the Trustees to discuss how Investment Managers are managing climate-related risks overall. During the Scheme year, the Trustees met with Columbia Threadneedle and Partners Group, with ESG and climate change featuring as material topics of discussion.

The Trustees believe engagement is critical to manage climate risks and therefore review the robustness of the chosen Investment Managers' engagement efforts in relation to climate change and other ESG issues. This is part of the annual assessment undertaken by the Investment Consultant.

Scenario Analysis

The Trustees have undertaken scenario modelling as at 30 September 2023 to form a view on the resilience of the Schemes' current strategy and the table below sets out the climate scenarios considered. Scenario modelling is required to be completed on a tri-annual basis or if there have been material changes to the Scheme's investment strategy. As detailed previously in this report, the Trustees believe that due to the constantly changing geopolitical environment and the absence of material strategy changes made during the Scheme year to 30 September 2024, updating the analysis this year was not necessary. In addition to this, there have been no material developments in the nature of the quantitative climate scenario modelling available. Therefore, the following references to scenario modelling are a repeat of the analysis included last year.

The scenarios chosen for modelling represent four of the six designed by the Network for Greening the Financial System ("NGFS") which provide a good overview of possible outcomes. For added context, the NGFS scenarios explore the impacts of climate change and climate policy with the aim of providing a common reference framework.

Table 3: Climate-related scenarios

Scenario	Description
Disorderly 1.5°C	Reaches net zero around 2050 but with greater costs due to divergent policies introduced across sectors (leading to varying carbon prices across sectors) resulting in a quicker phase out of oil use. This scenario is also known as "Divergent Net Zero". This leads to high transition risk but the worst physical damage and risks from climate change are averted.
Disorderly 2.0°C	Assumes annual emissions do not decrease until 2030. As a result, there is higher transition risk (when compared to the orderly 2°C scenario) due to policies being delayed or divergent across countries and sectors. For example, carbon prices are typically higher for a given temperature outcome. Strong policies are needed to limit warming to below 2°C. This scenario is also known as "Delayed Transition".

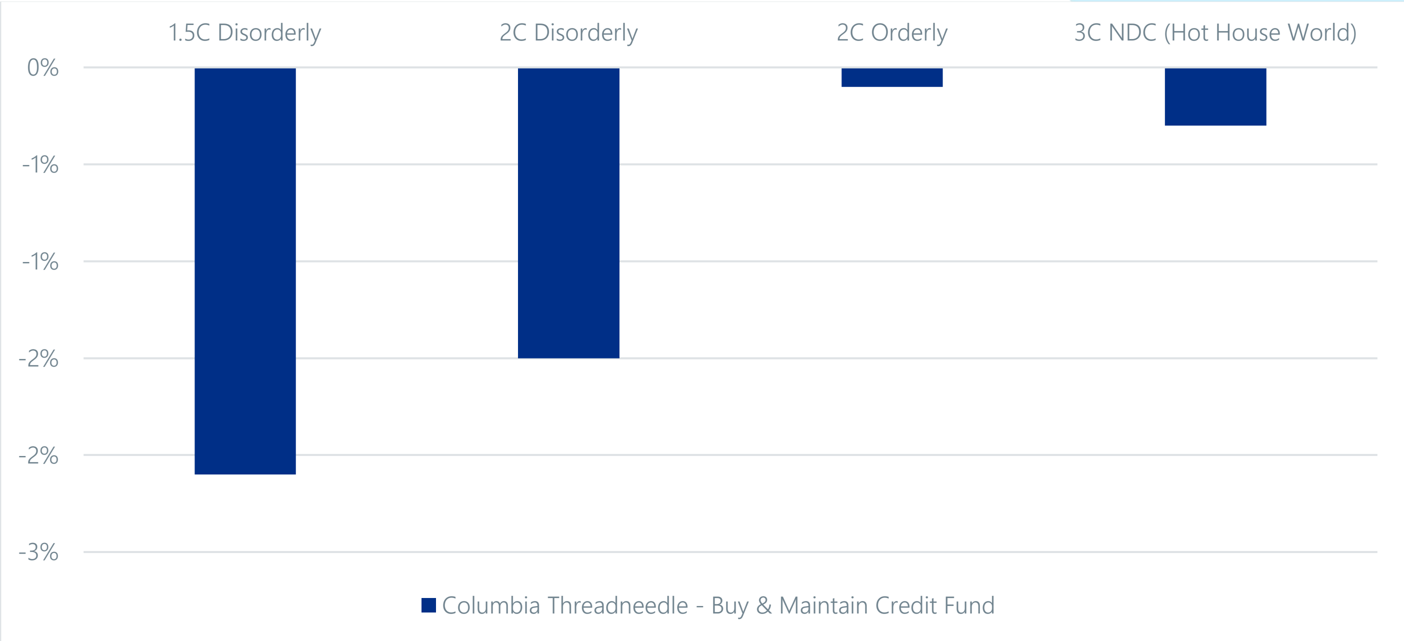
Orderly 2.0°C	As above, but more gradual increase in the stringency of climate policies, giving a 67% chance of limiting global warming to below 2°C.
Hot House World 3.0°C	Assumes that some climate policies are implemented in some jurisdictions, but globally efforts are insufficient to halt significant global warming. Physical risks are most significant in this scenario.

The analysis illustrates the Climate Value at Risk ("CVaR") for the Schemes' assets under each scenario. CVaR, a climate scenario modelling tool, provides a forward-looking and return-based valuation assessment to measure climate related risks and opportunities in an investment portfolio. It provides insights into the potential climate-stressed market valuation of portfolios and their downside risk and can be interpreted as the percentage by which a portfolio's value may depreciate (or appreciate) if climate risks are fully priced in today.

CVaR is a function of both:

- transition risks (downside risk arising from regulatory and policy changes, and also opportunities for companies adapting to the modelled scenario); and
- physical risks (how trends in extreme cold, extreme heat, extreme precipitation, heavy snowfall, extreme wind, coastal flooding, fluvial flooding, tropical cyclones, river flow and wildfires continue along the modelled scenario).

Chart 1- Climate Value at Risk



Notes

1. Sources: Columbia Threadneedle sourced from MSCI ESG Screener tool using portfolio holdings at 30 September 2023. Analyses assume an "average" physical risk outcome, i.e. the median expected costs incurred under the various scenarios due to physical risks.
2. NDC = Nationally Determined Contributions, representing countries' self-defined national climate pledges under the Paris Agreement.

Chart 1 shows the CVaR analysis for the Columbia Threadneedle Buy and Maintain Fund. Data was not available for the Scheme's other holdings listed in Table 8 due to either limited manager capabilities or the nature of assets, particularly as most climate-related frameworks do not map to alternative credit or infrastructure investments. Analysis of the Payden & Rygel Absolute Return Bond Fund was included previously but as the Scheme no longer holds investments in the fund, this data has been removed. The Trustees are expecting this to improve over time.

A disorderly 1.5°C scenario would present the greatest risk to the Schemes' asset valuation due to the significant transition risk embedded in this scenario. If this scenario played out these risks are expected to emerge in the short- to medium-term.

The narrative around the 2°C scenarios (Orderly) and Hot House World are more aligned to the medium and long-term timeframes defined by the Trustees. Under these scenarios, the effect on portfolio value remains material although lower than under the 1.5ºC disorderly scenario as the effects are more medium- and long-term with less of an initial shock to financial markets. The indicative transition risk within the 2°C scenarios (Orderly) and Hot House World for the Columbia Threadneedle Buy and Maintain Fund is very minimal, close to 0%.

The estimated impact on the Columbia Threadneedle Buy and Maintain Fund assets under the Hot House World scenario is somewhat lower compared to the disorderly 2°C scenario. This indicates that the Scheme is expected to be more susceptible to transition risk as opposed to physical risk, based on its portfolio composition; the Hot House World scenario carries more physical risk as opposed to transition risk.

The Trustees note the limitations of scenario modelling and the fact it is underpinned by a series of assumptions which may or may not hold in practice, noting in particular that the investment outcomes in a Failed Transition (Hot House World), where physical risks associated with climate change are expected to be high, are hard to estimate.

Nevertheless, the Trustees are comfortable that the modelling provides a helpful comparison of the resilience of the Scheme in plausible future outcomes and that it serves the purpose of helping the Trustees to manage climate-related risks.

Impact of, and resilience to, liability-related risks

The key assumptions that have a significant impact on the assessed value of the liabilities are:

- **Gilt yields**: a reduction in the level of the gilt yield curve increases the assessed value of the liabilities, and vice versa.
- **Future price inflation**: an increase in the level of future expected price inflation would increase the expected payments out of the Scheme and hence increase the assessed value of the liabilities.
- **Life expectancy**: any change in life expectancy for Scheme members would impact on the length of time benefits are assumed to be paid out of the Scheme and hence impact on the assessed value of the liabilities.

Gilt yields and future price inflation are financial risks. The Scheme has a 100% hedge (on the Gilts + 0.5% self-sufficiency basis) against interest rate and inflation risks and hence the Scheme should be broadly resilient to these risks. As at the date of the scenario analysis, 30 September 2023, the Scheme had a 85% hedge (on the Gilts + 0.5% self-sufficiency basis). The increased hedging since the time of the initial analysis will have increased the resilience to the above risks.

Life expectancy is a key risk from climate-related changes and is typically unhedged. Life expectancy changes tend to happen gradually over a long period and are rarely significant one-off hits. Over the short- and medium term, the Trustees believe that significant changes to life expectancy due to climate change are unlikely and it will not be easy to distinguish any climate impact from the usual "statistical noise". However, over the longer-term the impact could be more significant.

The Trustees do not currently attempt to hedge against future changes in life expectancy, and this is not easy to achieve without either using a longevity hedge or a buy-in. However, the Trustees would expect that the majority of the scenarios impacting life expectancy related to climate change would result in a lower life expectancy and therefore improve the overall financial position of the Scheme. It is also worth noting that the Trustees set a prudent mortality assumption as part of the Actuarial Valuation process and review it regularly.

The Trustees commissioned qualitative analysis on these risks under the above scenarios as at 30 September 2023 and a summary of the expected impact is given below:

Disorderly 1.5°C

There may be an increase in liabilities in the short-term due to increased inflation. This may be offset to an extent by increases in interest rates. There may be a slow-down in improvements in life expectancy over the short-term which may offset inflation increases to some extent. Overall, a modest deterioration in funding position could be expected in the short-term due to unhedged liability increases.

Disorderly 2.0°C

There may be an increase in liabilities in the medium term due to increased inflation. This may be offset to an extent by increases in interest rates. Depending on the level of liability hedging in place these changes could be offset to some extent by increases in matching assets. There may be a more significant slow-down in life expectancy improvements over the short to medium-term. The overall impact on the funding position is more uncertain, but overall, the funding position could improve due to decreased life expectancy if the inflation and interest rate impacts are hedged.

Orderly 2.0°C

There may be a modest increase in liabilities in the short-term due to increased inflation, which may be offset to an extent by increased interest rates. There may be a small improvement in life expectancy over medium-term. Overall, the impact on funding could be a modest deterioration over the short-term due to unhedged liability increases, but the impact over the medium-term is expected to be relatively low due to expected future increases in hedging levels.

Hot House World 3.0°C

There may be a decrease in liabilities over the long-term due to increased interest rates. However, to the extent that 100% hedging is expected to be in place by this time, any increase in liability may be offset by increases in matching assets. There may be a reduction in life expectancies over the long-term, leading to a fall in liability values. Overall, there may be an improvement in the funding position in the long-term due to unhedged liability movements i.e. due to life expectancy reduction which is expected to be unhedged.

Impact of and resilience to covenant-related risks

Background

The agreed funding strategy provides considerable protection against a reduction in covenant. The Scheme's investment strategy has been de-risked with a higher allocation to contractual based assets, increasing the certainty and predictability of investment returns, aiming to reduce reliance on the Sponsor in the long-term. A lower risk investment strategy and strong funding basis does not guarantee that members will be completely protected in the situation that the Sponsor becomes insolvent. The Trustees undertake periodic reviews of the covenant strength, including as part of the triennial Actuarial Valuation.

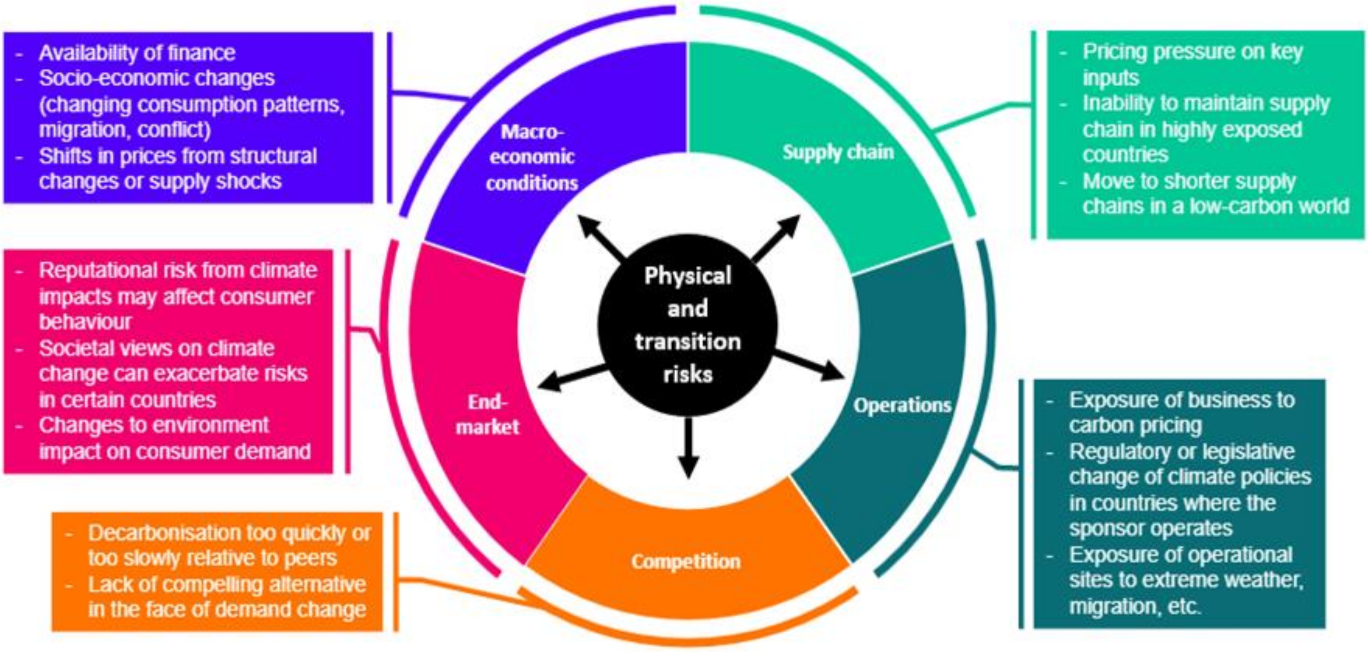
The Scheme's covenant adviser, Cardano, advises the Trustees in relation to the Scheme Sponsor's ability to support the Scheme, now and in the future. Climate-related exposures could have a positive or negative impact on the strength of the Scheme Sponsor's covenant. Therefore, Cardano includes climate-related matters in the covenant advice provided to the Trustees. More specifically, in 2024, Cardano carried out a high-level assessment of the potential exposure of the Scheme's covenant to climate-related risks. To ensure good practice going forward, the Scheme's advisors will assist the Trustees in producing the Scheme's TCFD report when required.

The Trustees recognise it is crucial to understand the potential impact on the Sponsor covenant of the effects of climate change throughout different time horizons, with a focus on how this might influence the Trustees' strategy.

The Trustees' assessment, carried out by Cardano, has primarily focussed on Canon Inc ("Canon" or the "Group"), given the integrated nature of the business, reporting-level for public disclosures and Group-wide climate-related targets. However, where possible the assessment focuses on UK-specific risks to reflect the Scheme's covenant support structure.

Transmission channels

Climate change can impact a business or organisation throughout the entire value-chain, and the key issues arising from climate change are complex and multi-dimensional. The figure below provides an overview of the transmission channels considered by the Trustees' covenant advisor and examples of the potential risks or impacts from climate change arising under these channels.



Climate scenarios

The Trustees have considered two book-end scenarios in respect of its covenant analysis, to help illustrate the most extreme physical and transition risks that Canon may face over the near-, medium- and long-term. These scenarios are aligned with two of the scenarios considered by the Trustees' investment and actuarial advisors.

Outcome of analysis

The impact of climate change arising through the transmission channels are combined into an overall assessment of risk, either "Low", "Medium", or "High", across each of the time horizons selected by the Trustees.

	Short-term < *5 years*	**Medium-term *5 – 10 years***	**Long-term *10 years* +**
Disorderly Transition	**Medium risk**	**Higher risk**	**Lower risk**
Hot House World	**Lower risk**	**Medium risk**	**Higher risk**

The table above provides an overview of the assessed climate risk over time on the Group. The key findings are:

- In the near-term, climate risks are moderate to low, with the greatest risk in a Disorderly Transition arising from costs associated with decarbonising operations and product lifecycles to meet the Group's interim net-zero targets.
- In the medium-term, the risk in a Disorderly Transition is highest due to the impact that sudden global decarbonisation (from 2030) and new regulations (e.g. waste management) could have on the Group in meeting carbon costs across the supply chain and operations, even where emissions have been reduced.
- Over the longer-term, increased frequency of extreme weather events is likely to cause significant disruptions to the supply chain and operations in the Hot House World scenario, whilst some transition costs also arise via countries with legally binding commitments to reach net zero by 2050 (e.g. the UK).
- In addition to the identified risks, the Trustees are aware that the Group may also benefit from climate-related opportunities, such as increased sales of energy-efficient products with low lifecycle CO2 emissions. This may partly offset risks identified in the Trustees' climate-risk focused assessment.

Overall, until the Scheme's benefits are secured, the Scheme is expected to retain a degree of covenant reliance, and the Trustees' covenant advisor will therefore continue to monitor climate-related risks as part of the Trustees' ongoing Scheme risk management.

Overall assessment of resilience of the Scheme’s funding position

Over the short and medium term, the impact on the funding position is expected to be relatively low due to the high levels of liability hedging (currently 100% on the Gilts + 0.5% basis). Over the long-term we could expect an improvement in the funding position due to a reduction life expectancy which is expected to be unhedged.

04 Risk Management

Risk management involves describing how the Trustees identify, assess, and regulate climate-related risks.

Processes to identify and assess the potential impact of climate-related risks/opportunities

The Trustees recognise the importance of identifying and assessing the potential impact of climate change within the Scheme's investments and have taken / agreed to the following key actions:

- Defined their investment beliefs related to climate change.
- Delegated the management of climate risk and opportunities (including stewardship of assets) to the Investment Managers. As such, responsibility for identifying and assessing climate-related risks has also been delegated to the Investment Managers.
- With assistance from the Investment Consultant, undertaken due diligence to consider the capabilities of the Investment Managers to integrate climate change and broader ESG issues into the management of the Scheme's assets.
- Added a periodic review of the integration of climate change by Investment Managers and carbon footprint of the portfolio to the Trustees' calendar which will be reported by the Investment Consultant, with managers to provide rationale for any movement in observations.
- The Trustees, with the assistance of the Covenant Advisor, will consult with the Sponsor in relation to the climate-related risks to establish the potential impact on the Sponsor, and therefore the potential impact on the Scheme.
- The Investment Consultant will undertake climate risk modelling and scenario testing in order to understand the risk exposure of the Scheme's assets to various climate scenarios. The Trustees will conduct this at least triennially.

Processes to manage the potential impact of climate-related risks/opportunities

The Trustees recognise the importance of managing the potential impact of climate change within the Scheme's investments and has taken / agreed the following key actions:

- Adopted an ESG and Climate Policy which stipulates the intended approach by the Trustees within the investments to ensure climate-related risks are appropriately managed.
- Set out a monitoring process which will include how the Investment Managers are assessing, managing and mitigating climate risks including each fund's positioning in relation to the transition to a lower-carbon economy. This includes conducting scenario analysis to understand the resilience of each fund to various climate scenarios as far as practicable, noting that this type of analysis is still evolving.
- Appointed managers who demonstrate robust stewardship and engagement with the underlying investments (recognising that active ownership is key to managing ongoing risks).
- The Trustees will engage with managers where activities or the emissions profile are deemed to be lagging expectations.

The integration of processes for identifying, assessing, and managing climate-related risks into the Scheme's overall risk management

The Trustees recognise the importance of integrating the considerations which surround climate change within the Scheme's overall risk management and has taken / agreed the following key actions:

- Defined their investment beliefs related to climate change to gain clarity over the views of the Trustees and the necessary steps to be taken.
- Explicitly documented climate change as a risk within the Scheme's risk register and included detail on the steps taken to manage the risk.
- Climate change is considered alongside other risks in terms of invested assets and the impact on the Scheme's investment strategy.

Examples of risk management from within the reporting year

The Trustees have worked with Columbia Threadneedle to ensure that ESG considerations are being considered during the selection process for securities held within the Buy and Maintain portion of the Scheme's segregated portfolio held with the manager.

Stewardship to manage climate-related risks

The Trustees recognise the importance of effective stewardship activities to enact change and manage risk. The Trustees have delegated all stewardship activity to the Investment Managers as they believe the managers are best placed to conduct stewardship given their expertise and access to company management. Where the Scheme invests in debt assets, there are no voting rights to be exercised, but the Trustees expect the managers to engage on material ESG and climate-related issues alongside other non-ESG related issues.

During the reported period, the Trustees received analysis from the Investment Consultant in relation to the Scheme's Investment Managers. This report outlined the XPS view on managers' ESG considerations, including climate change, are incorporated into the investment processes of the investment manager organisations appointed to the Scheme. The report rated each investment manager organisation in this area.

The Trustees met with two of their investment managers, Columbia Threadneedle and Partners where ESG and climate issues were a material topic of discussion. The managers reiterated their approach towards climate change and engagement, and provided evidence of engagement taking place in relation to climate change within the relevant funds.

The Trustees asked the Investment Managers to provide examples of engagement activities which have been undertaken during the year. Below are examples of engagement which shows the action taken from Investment Managers in relation to climate-related risks.

Table 4 - Engagement example

Partners Group - Partners Fund	
Company	Gren
Issue/engagement undertaken:	Gren is committed to sustainable urban development, offering district heating and cooling solutions that enhance energy efficiency and reduce emissions. Their aim is to help property owners achieve carbon neutrality by improving energy efficiency and reducing operating costs. Partners Group has been instrumental in supporting Gren's ambitions to advance sustainable energy solutions. By fostering investments in transformative projects such as the Energy on Clyde initiative in Glasgow, UK, the waste-to-energy (WtE) plant in Acone, Latvia, and the industrial energy solution for Juodeliai in Lithuania, Partners Group have engaged with the aim to enable Gren to create a long-term value through strong sustainability principles.
Outcome	The company aims to reduce GHG emissions by at least 50% by 2035 and is working towards 100% sustainably sourced biomass by 2025. Gren is also developing EV charging infrastructure at its European facilities. In 2024, Gren achieved several key milestones, significantly expanding its operations and advancing its decarbonization strategy. In the UK, Gren acquired a 50% share in the South Clyde Energy Centre, a major energy-from-waste (WtE) facility under construction in Glasgow, which will serve over 600,000 people with clean energy once operational. Similarly, the Energy on Clyde project will provide district heating to over 200,000 homes, replacing natural gas-based heating with sustainable energy, reducing emissions, and enhancing energy security. Gren made progress on transformative projects in other regions too. In Lithuania, Gren partnered with Juodeliai to deliver a tailored energy solution, transforming wood processing residues into renewable energy. This collaboration highlights Gren's ability to support industrial partners in achieving their sustainability goals and improving efficiency. In Latvia,

	the planned WtE plant in Acone, currently undergoing environmental assessment, will convert waste residues into sustainable energy, supporting national energy independence and reducing landfill reliance.

Table 5 - Engagement example

TwentyFour Monument Bond Fund & TwentyFour Sustainable Enhanced Income Fund	
Company	Principality Building Society
Issue/engagement undertaken:	Following the launch of the company's residential mortgage-backed security (RMBS) transaction TwentyFour noticed a lack of EPC data and although the company had committed to Net Zero targets for Scope 3, they left out 'Financed emissions' from their published data. TwentyFour had a meeting with their ESG team to address these issues and seek clarity on their ESG strategy.
Outcome	Since the previous transaction the company have improved the EPC coverage significantly (from 46% to 79%), and are still mapping the remaining part of the portfolio. In addition, Principality is also on course to meet their target to finance new homes with EPC of B or above. Regarding net zero, they explained that although they would like to set a target for the decarbonisation of their mortgage book they don't believe it's possible to set a meaningful target until there is more certainty over the Government's policy and investment plans in relation to achieving its net zero commitment under the Paris Agreement.

05 Metrics

This section of the report details the metrics used by the Trustees to assess climate-related risks and opportunities in line with the strategy and risk management process outlined. In order to illustrate the materiality of the metrics provided in this section, Table 7 summarises the breakdown of the Scheme's defined benefit assets:

Table 6 - Asset allocation as at 30 September 2024

Fund	Allocation (%)
Columbia Threadneedle - Private Sub Fund - LDI	38
Columbia Threadneedle - Buy & Maintain Credit	19
M&G - Illiquid Credit Opportunities Fund	19
Partners Group - Partners Fund	9
TwentyFour - Monument Bond Fund[2]	10
TwentyFour - Sustainable Enhanced Income Fund	4
Trustees Bank Account and additional cash balances	1

1. Figures subject to rounding.
2. The Scheme invested into the fund on 26 January 2024.

Data quality

The Trustees are reliant on the data and metrics provided by third parties, and a key challenge related to this is the coverage and reliability of the data and metrics which differ across asset classes, industries, and geographies. A measure which attempts to summarise this is "coverage" which represents the proportions of the portfolio for which the Trustees have climate-related data available for. Table 8 & 9 illustrate the coverage for carbon emissions reporting across the mandates as at 30 September 2023 and 30 September 2024, respectively.

All managers that were invested in over the two periods have improved their data quality with the exception of M&G and TwentyFour which have decreased. Further, Partners Group began reporting on Scope 3 coverage.

Table 7 - Data quality as at 30 September 2023

Metrics	Columbia Threadneedle - LDI	Columbia Threadneedle - Buy & Maintain Credit	M&G Illiquid Credit Opportunities Fund	Partners Group - Partners Fund	Payden & Rygel Absolute Return Bond Fund	TwentyFour - Sustainable Enhanced Income Fund
Scope 1 and 2 coverage	100%	76%	15%	25%	37%	60%
Scope 3 coverage	Not provided	98%	7%	Not provided	Not provided	Not provided

Notes:

1. M&G, TwentyFour and Columbia Threadneedle LDI data sourced directly from respective Investment Managers. as at 30 September 2023.
2. Partners data sourced directly from the investment manager. as at 31 December 2022.
3. Payden & Rygel data as at 30 June 2023 (closest date to disinvestment).
4. Columbia Threadneedle Buy & Maintain data obtained from MSCI ESG screener Tool using holdings provided by the investment manager as at 30 September 2023.

Table 9 - Data quality as at 30 September 2024

Metrics		Columbia Threadneedle - LDI	Columbia Threadneedle - Buy & Maintain Credit Fund	M&G - Illiquid Credit Opportunities Fund	Partners Group - Partners Fund	TwentyFour Monument Bond Fund	TwentyFour - Sustainable Enhanced Income Fund
Carbon intensity and emissions	Scope 1 +2	Not Provided	75%	8%	31%	40%	46%
Weighted Average Carbon Intensity		100%	97%	8%	31%	Not Provided	Not Provided
Carbon intensity and emissions	Scope 3	Not Provided	75%	8%	15%	Not Provided	Not Provided
Weighted Average Carbon Intensity		Not Provided	96%	8%	15%	Not Provided	Not Provided
Climate VaR and Implied Temperature Rise		0.30%	75%	Not Provided	Not Provided	Not Provided	Not Provided

Notes:

1. M&G, TwentyFour and Columbia Threadneedle LDI data sourced directly from respective Investment Managers. as at 30 September 2024.
2. Partners data sourced directly from the investment manager. as at 31 December 2023.
3. Columbia Threadneedle Buy & Maintain data obtained from MSCI ESG screener Tool using holdings provided by the investment manager. as at 30 September 2024.

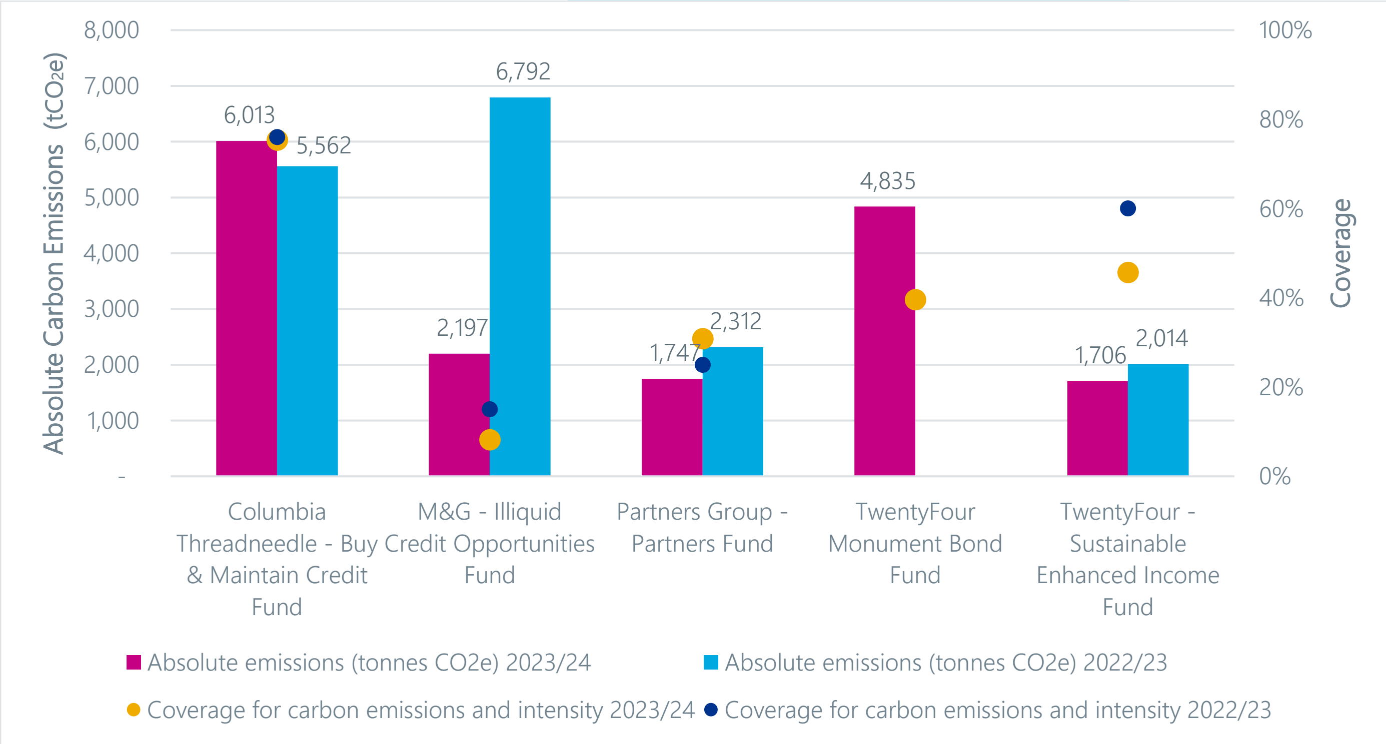
Carbon emissions

The Trustees measure the following emissions related metrics on an annual basis:

- Absolute carbon emissions
- Carbon emissions as a proportion of the company's enterprise value including cash, normalised per £m invested
- Weighted Average Carbon Intensity ("WACI")

Charts 2 - 80 present the emissions metrics for each fund, where available. The Trustees acknowledge that forward-looking metrics must also be considered as they reflect the potential future pathway for emissions, rather than current emissions which reflect emissions at single point in time and do not account for climate change mitigation plans and adaptation efforts. Scope 3 emissions have been included where available. The Trustees recognise the importance of this metric and remains confident that availability of Scope 3 emissions data across the industry will improve over time as is with the case with Partners Group who began reporting this metric over the year.

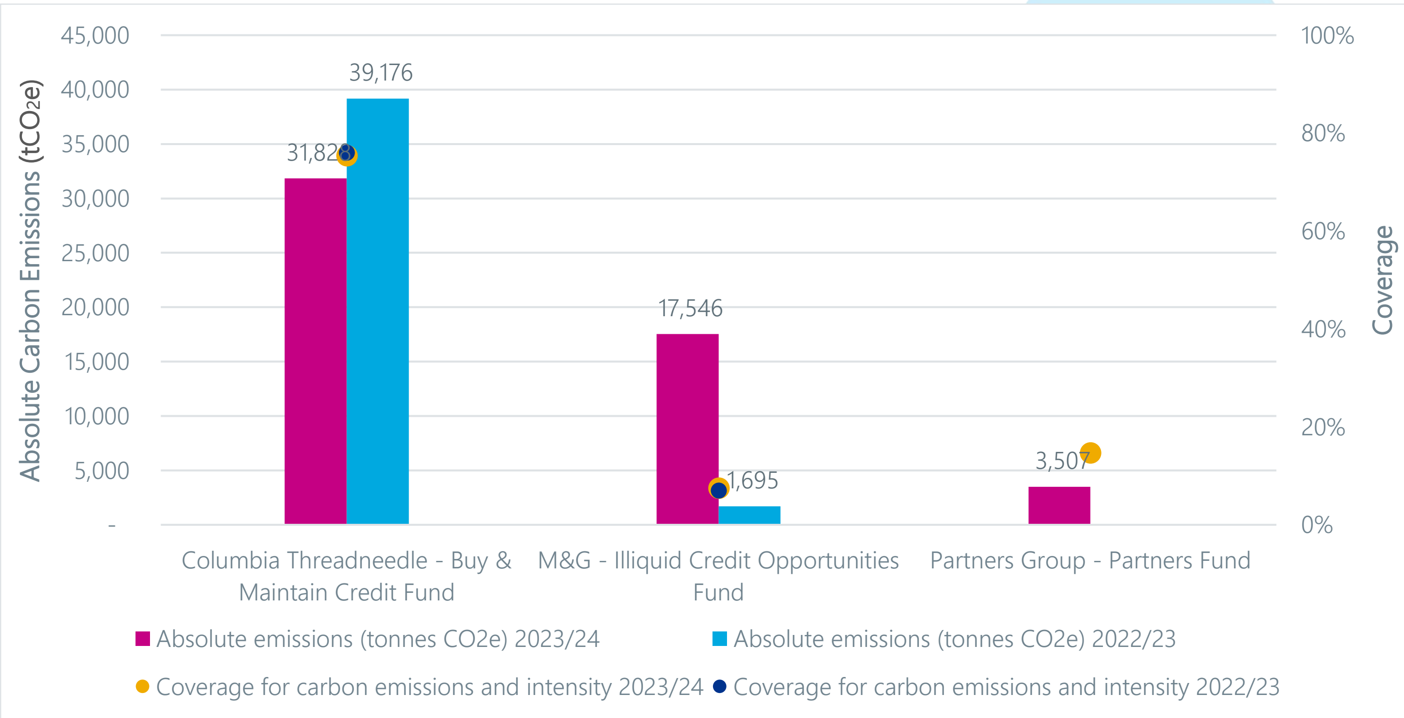
Chart 2 - Absolute Carbon Emissions - Scope 1 and 2



Notes:

1. M&G and TwentyFour data sourced directly from respective Investment Managers as at 30 September 2023 and 30 September 2024.
2. Partners data sourced directly from the investment manager as at 31 December 2022 and 31 December 2023.
3. Columbia Threadneedle Buy & Maintain data obtained from MSCI ESG screener Tool using holdings provided by the investment manager as at 30 September 2023 and 30 September 2024.
4. M&G metric for 30 September 2023 has been restated for updated methodology which calculates absolute emissions through carbon footprint data as opposed to reported absolute emissions from M&G. As a result, the figures shown above will differ from those stated in last year's report.
5. Emissions data has been re-normalised to reflect 100% of the funds.

Chart 3 - Absolute Carbon Emissions - Scope 3



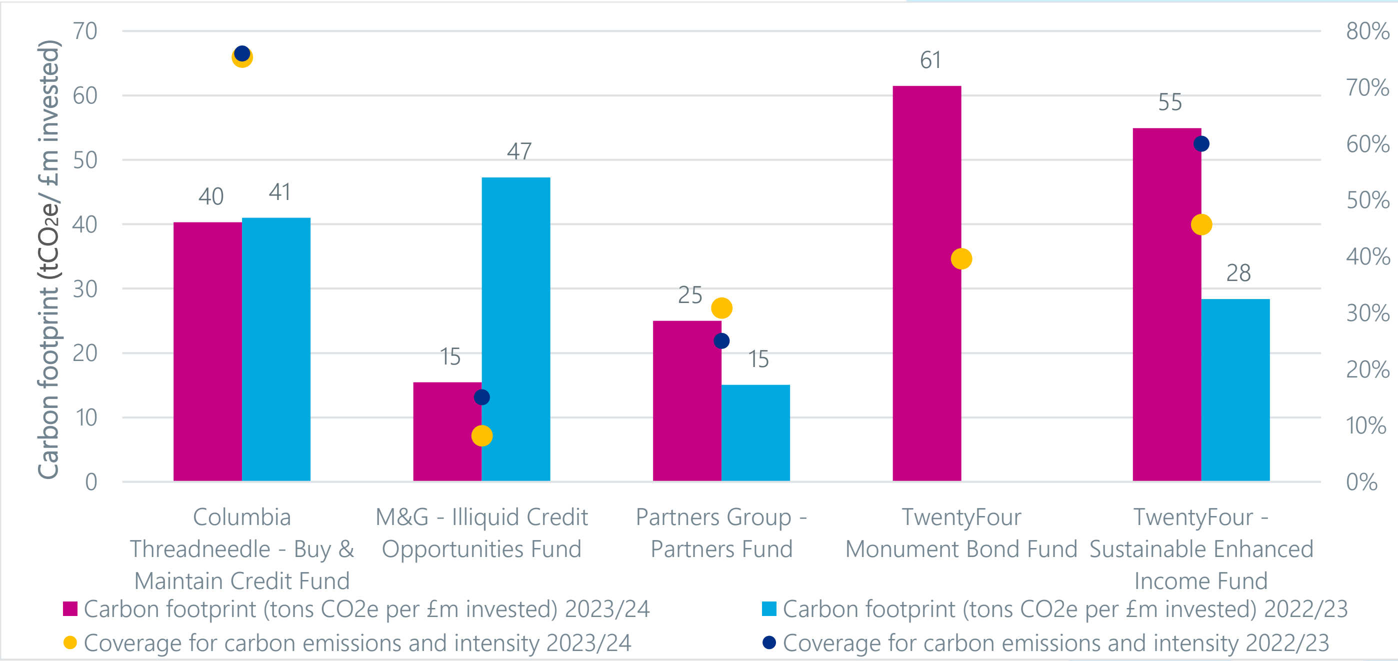
Notes:

1. M&G data sourced directly from the investment manager as at 30 September 2023 and 30 September 2024.
2. Columbia Threadneedle Buy & Maintain data obtained from MSCI ESG screener Tool using holdings provided by the investment manager as at 30 September 2023 and 30 September 2024.
3. Partners data sourced directly from the investment manager as at 31 December 2023.
4. Emissions data has been re-normalised to reflect 100% of the funds.

Absolute carbon emissions represent the total tonnes of greenhouse gasses attributable to the Scheme's holdings based on the ownership of the underlying assets. All funds reported have reduced their Scope 1 and 2 emissions over the reporting year with the exception of the CT Buy and Maintain Fund.

The CT Buy and Maintain Fund reduced scope 3 absolute carbon emissions with a notable increase in the emissions produced by M&G holdings. Additionally, Partners Group began reporting scope 3 absolute carbon emissions.

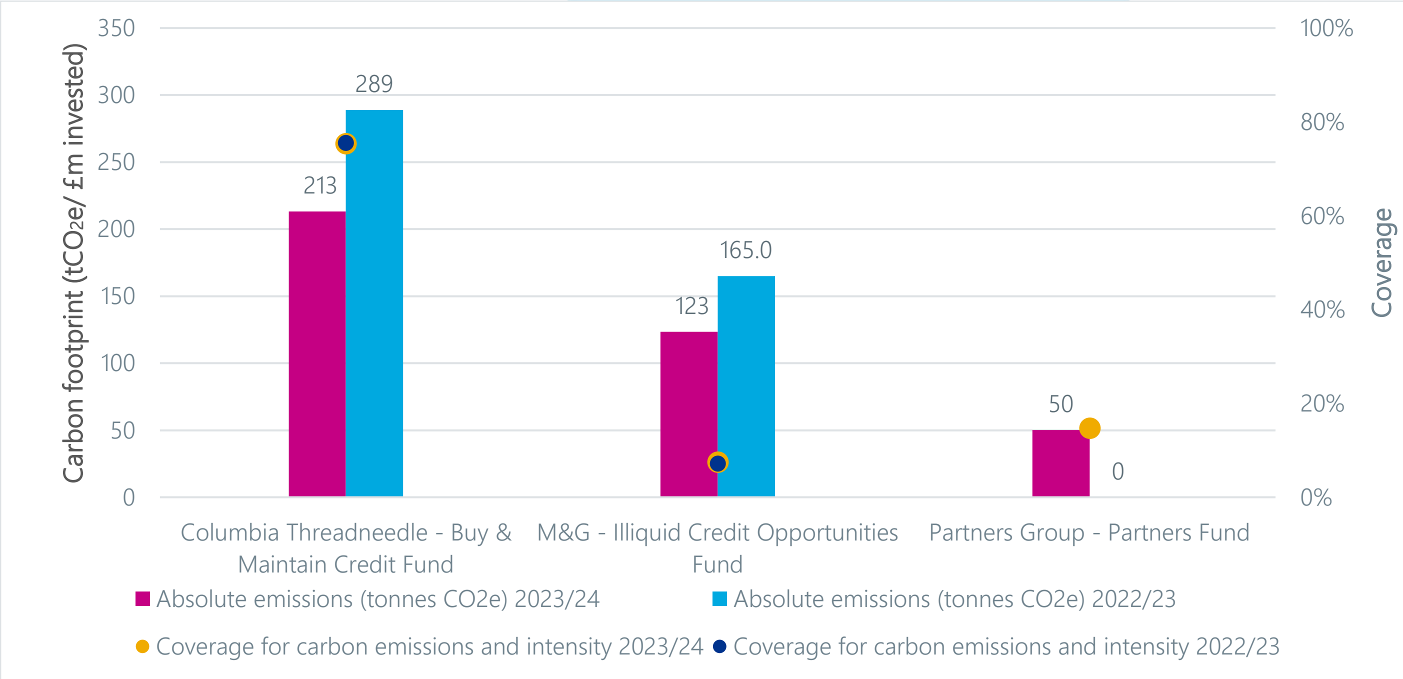
Chart 4 - Carbon Footprint - Scope 1 and 2



Notes:

1. M&G and TwentyFour data sourced directly from respective Investment Managers as at 30 September 2023 and 30 September 2024.
2. Partners data sourced directly from the investment manager as at 31 December 2022 and 31 December 2023.
3. Columbia Threadneedle Buy & Maintain data obtained from MSCI ESG screener Tool using holdings provided by the investment manager as at 30 September 2023 and 30 September 2024.
4. Emissions data has been re-normalised to reflect 100% of the funds.

Chart 5 - Carbon Footprint - Scope 3

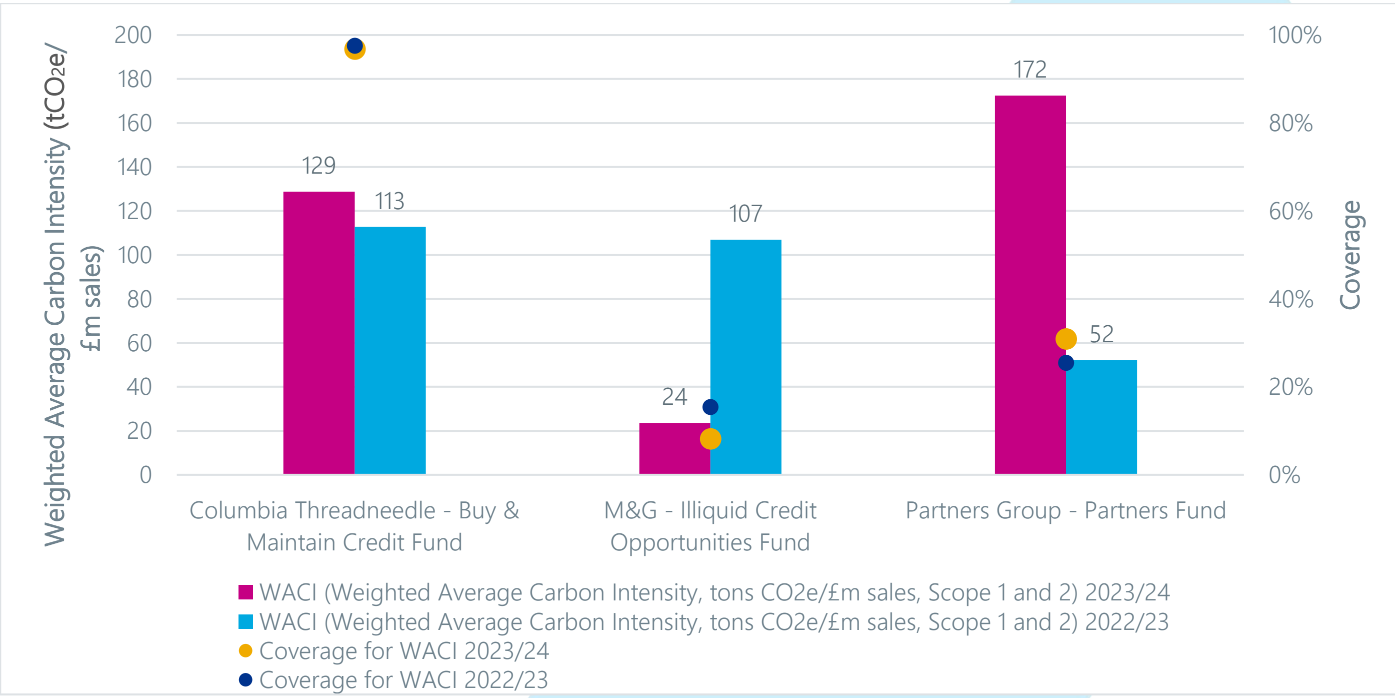


Notes:

1. M&G data sourced directly from the investment manager as at 30 September 2023 and 30 September 2024.
2. Columbia Threadneedle Buy & Maintain data obtained from MSCI ESG screener Tool using holdings provided by the investment manager as at 30 September 2023.
3. Partners data sourced directly from the investment manager as at 31 December 2023.
4. Emissions data has been re-normalised to reflect 100% of the funds.

Carbon footprint is an intensity metric, showing the total carbon emissions normalised by the value of the investment. This is useful to show comparison of emissions intensity for portfolios of different sizes.. All funds that have reported Scope 3 emissions have reduced their exposure over the 2 reporting periods. Changes in Scope 1 and 2 emissions remained fairly static for the CT Buy and Maintain Fund. The M&G Fund has made the largest reduction in its carbon footprint in the reporting period, although noting that coverage has decreased, whereas the Partners Fund and TwentyFour SEI Fund have materially increased their levels of carbon footprint.

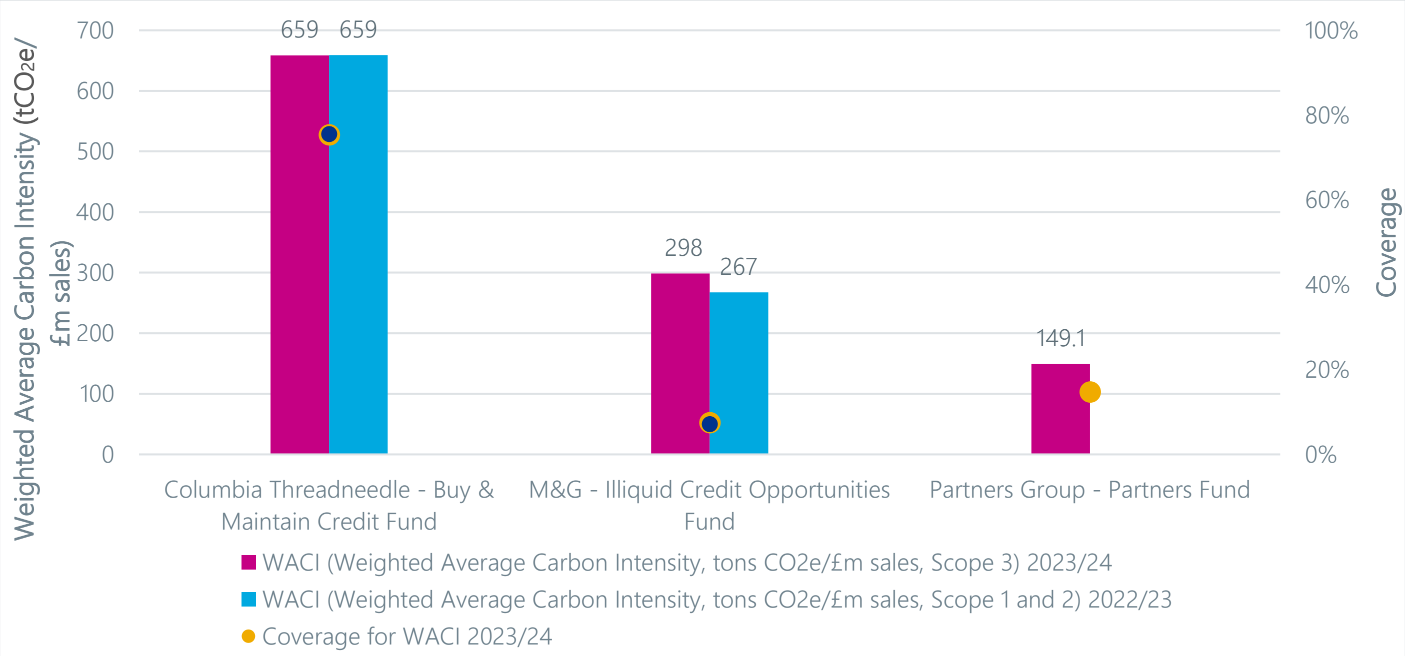
Chart 6 - Weighted Average Carbon Intensity (WACI) - Scope 1 and 2



Notes:

1. M&G and TwentyFour sourced directly from respective Investment Managers as at 30 September 2023 and 30 September 2024.
2. Partners data sourced directly from the investment manager as at 31 December 2022 and 31 December 2023.
3. Columbia Threadneedle Buy & Maintain data obtained from MSCI ESG screener Tool using holdings provided by the investment manager as at 30 September 2023 and 30 September 2024.
4. Emissions data has been re-normalised to reflect 100% of the funds.

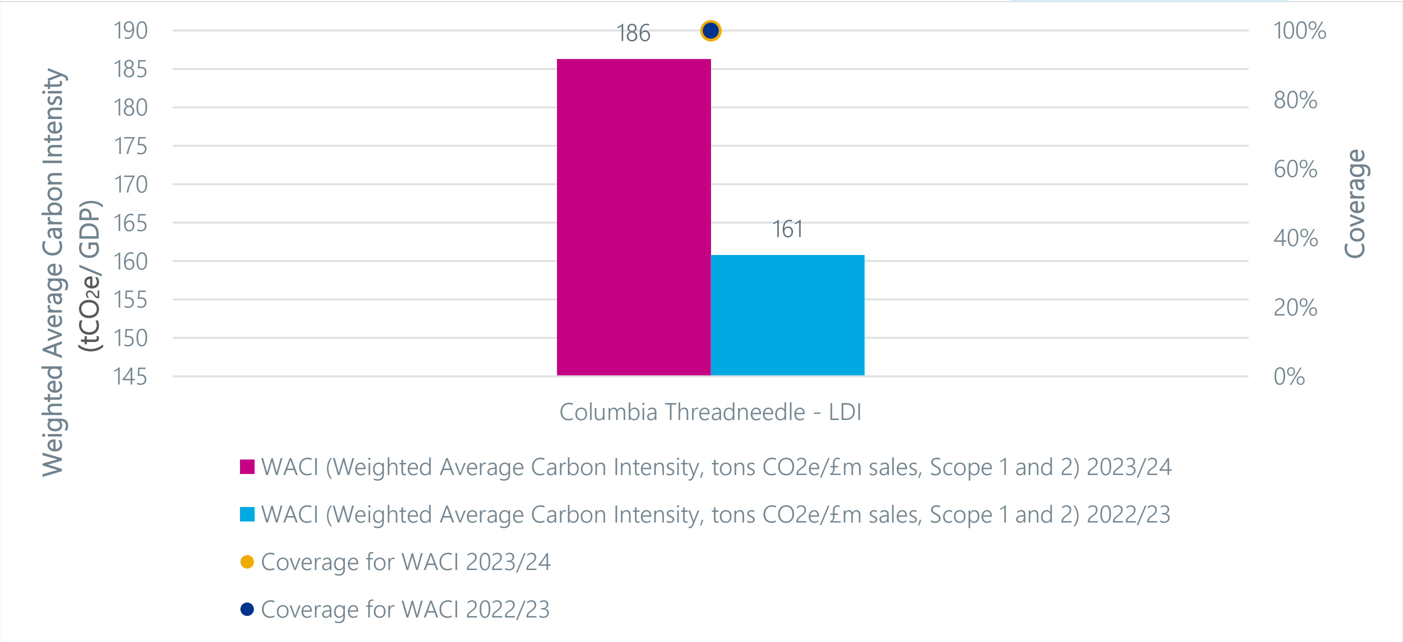
Chart 7 - Weighted Average Carbon Intensity (WACI) - Scope 3



Notes:

1. M&G data sourced directly from investment manager as at 30 September 2023 and 30 September 2024.
2. Columbia Threadneedle Buy & Maintain data obtained from MSCI ESG screener Tool using holdings provided by investment manager as at 30 September 2023 and 30 September 2024.
3. Emissions data has been re-normalised to reflect 100% of the funds.

Chart 8 - Weighted Average Carbon Intensity (WACI) - Sovereign bonds



Notes: Columbia Threadneedle LDI data obtained from MSCI ESG screener Tool using holdings provided by investment manager as at 30 September 2024 and 30 September 2023.

Weighted Average Carbon Intensity (WACI) is another intensity measure. Charts 6, 7 and 8 illustrate the WACI of the Scheme's funds. Scope 1 & 2 emissions have been split across two charts (Charts 6 and 8) because WACI utilises revenue as the denominator for corporate holdings but GDP for sovereign holdings, hence these are not comparable. The WACI illustrates how efficient the investments held are with respect to their carbon emissions. The CT LDI Fund has the highest Scope 1 and 2 intensity, followed by the Partners Fund. The M&G Illiquid Credit Opportunities Fund has had a significant decrease in intensity over the reporting period, noting the decreased level of coverage in the Fund.

Implied temperature rise

The implied temperature rise metric uses forward-looking estimates to indicate a global temperature rise associated with the greenhouse gas emissions of a single company or portfolio. Companies and portfolios which have an implied temperature rise of 2°C or lower are consistent with the Paris Agreement. Based on available information, the Columbia Threadneedle Buy & Maintain Credit Fund is aligned with the Paris Agreement, although it has a higher implied temperature rise than the desirable 1.5ºC outcome. The implied temperature rise and level of coverage of the Buy and Maintain Credit Fund has remain broadly similar over the reported years. The Columbia Threadneedle LDI Fund is not aligned with the Paris Agreement with an insignificant level of coverage.

Table 10 - Implied temperature rise

	Columbia Threadneedle - LDI	Columbia Threadneedle - Buy & Maintain Credit Fund
Implied temperature rise of the mandate (°C)	2.2%	1.8%
1.5°C Aligned	0%	36%
2°C Aligned	0%	31%
Misaligned	100%	24%
Strongly Misaligned	0%	9%

This metric was not available for other funds held by the Scheme. The Trustees recognise this is an area of development in the market for non-listed assets. The Trustees intend to engage with its managers on the availability of this information and expects this to become increasingly available over time.

Additional metrics

Table 11 - Forward-looking exposure to opportunities

	Columbia Threadneedle - Buy & Maintain Credit Fund		Partners Group - Partners Fund		TwentyFour - Monument Bond Fund		TwentyFour - Sustainable Enhanced Income Fund	
Data as at	30 September 2023	30 September 2023	30 September 2023	30 September 2024	30 September 2023	30 September 2024	30 September 2024	30 September 2024
Exposure to low carbon solutions	6%	5%	N/A	Not Provided	N/A	2%	Not Provided	3%
Exposure to green revenues	8%	8%	N/A	Not Provided	N/A	Not Provided	Not Provided	Not Provided
Low carbon transition risk	Not Provided	16%	N/A	Not Provided	N/A	Not Provided	Not Provided	Not Provided
Renewable energy	Not Provided	33%	N/A	3%	N/A	Not Provided	Not Provided	Not Provided

Note: Exposures are taken from the MSCI ESG screener Tool using holdings provided by investment managers.

The Trustees will continue to monitor these exposures as an indication of the contribution of the Scheme's assets to addressing climate change and the opportunities present for companies to benefit from the reorganisation of the economy.

Table 12 - Forward looking commitments of underlying companies

	Columbia Threadneedle - Buy & Maintain Credit Fund	
Data as at	30 September 2023	30 September 2024
Total % portfolio with SBTi verified targets	46%	52%
% portfolio with SBTi verified target of 1.5 degrees Celsius	Not Provided	45%
% portfolio with SBTi verified target of well-below 2 degrees Celsius	Not Provided	4%
% portfolio with SBTi verified target of 2 degrees Celsius	Not Provided	3%
% portfolio with no evidence of SBTi verified targets	Not Provided	1%

Table 12 states the proportion of the Columbia Threadneedle Buy and Maintain Credit Fund's underlying holdings which have verified Science Based Targets, as verified by the Science Based Targets initiative (SBTi). The SBTi is a global company which assesses the current emissions and emission reduction plans of companies and assigns a temperature alignment score (e.g. 1.5ºC aligned) based on the credibility of the plans. It is promising that 52% of the Fund's holdings have approved SBTi targets as it illustrates commitment by management to put robust climate transition plans in place. This is an improvement from last years 46% of holdings having approved targets. Columbia Threadneedle have also provided more granular data on the various temperature alignments of the verified targets. The Trustees will monitor this going forward.

06 Targets

Data quality

The Trustees have set a target is to increase average data quality relative to the prior year, as measured by coverage of the given portfolios for which climate-related data is available. The Trustees believe that intuitive and high-quality data are critical to enable better understanding of current risks, and hence what action the Trustees may need to take. The Trustees believe this is relevant for all asset classes.

Overall data quality of the Scheme's portfolio has varied over the year with Partners Group having improved their data coverage over the past year and have been able to increase the granularity of data provided. Columbia Threadneedle remained broadly constant with the level of coverage provided. TwentyFour's data coverage has materially reduced since 2023, largely due to the reduction in the SEI Fund's holding in Residential Mortgage Backed Securities, which was the Fund's main source of emissions data. The Trustees will continue to engage with the investment managers to understand these issues and discuss their beliefs.

The Trustees work closely with the Investment Consultant to understand the actions that need to be taken to progress towards the Trustees' target. Examples of continued efforts to work towards the target are:

- Better integration of climate considerations in the manager selection process.
- Pushing managers to enhance their voting and engagement practices.
- Continuing to identify and allocate to solutions which deliver return opportunities as well as emission reduction targets.

The Trustees will review the progress against our target every year and review the target itself at least every three years. This is to ensure it remains consistent with the latest scientific thinking and is appropriately incentivising the economic transition that is needed.

Appendix - Glossary

Glossary	
Absolute emissions	(tCO2e) Measures the absolute tons of CO2e for which an investor is responsible
Carbon footprint	(tCO2e / $m invested) The total greenhouse gas emissions 'owned' per £ million invested. This is an intensity measure but should not be confused with carbon intensity which is typically quoted as an emissions per amount of revenues of a company.
Weighted Average Carbon Intensity	(tCO2e / $m sales) Measures portfolio exposure to carbon-intensive assets.
Implied Temperature Rise	Provides indication of portfolio alignment to Paris Agreement targets. Estimates global temperature rise (above pre-industrial levels) associated with current and estimated GHG of a company.
Climate VaR	A scenario-based approach to analysing climate-related risks which aims to assess potential financial sensitivity to climate-related risks and opportunities. Measures the potential loss in value of a portfolio if different climate scenarios come to fruition.
Scope 1 greenhouse gas emissions	Scope 1 emissions are those directly occurring from sources that are owned or controlled by the institution, including: on-campus stationary combustion of fossil fuels; mobile combustion of fossil fuels by institution owned/controlled vehicles; and "fugitive" emissions. Fugitive emissions result from intentional or unintentional releases of GHGs, including the leakage of hydrofluorocarbons from refrigeration and air conditioning equipment as well as the release of methane from institution-owned farm animals.
Scope 2 greenhouse gas emissions	Scope 2 emissions are indirect emissions generated in the production of electricity consumed by the institution.
Scope 3 greenhouse gas emissions	Scope 3 emissions encompass all other indirect emissions that are a consequence of the activities of the institution but occur from sources not owned or controlled by the institution such as commuting; waste disposal; embodied emissions from extraction, production, and transportation of purchased goods; outsourced activities; contractor-owned vehicles; and line loss from electricity transmission and distribution.
SBTi approved targets	Active carbon emissions reduction target/s as approved by the Science Based Targets initiative.

MSCI disclaimer

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xpsgroup.com