



# Climate Change Report 2023

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# Creative Pension Trust (the “Scheme”) Climate Change Report

## A report for members by the Trustees of Creative Pension Trust

### Scheme Year to 31 March 2023 (the “Scheme Year”)

### Introduction from the Chair

I am pleased to publish the Trustees’ second annual Climate Change Report (the “Report”), prepared in accordance with The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the “Regulations”), which are based on the recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”) reporting requirements. In the process of compiling this Report, we’ve incorporated feedback from The Pensions Regulator (“TPR”) received regarding our first Climate Change Report published in 2022. We are pleased that the efforts made by the Trustees in developing our governance of climate-related risks and opportunities and producing a comprehensive report were recognised, and we also appreciated the detailed feedback and suggestions on specific aspects from TPR, which enabled us to improve this year’s Report.

The global environment continues to evolve and the likely impacts of climate change demand a response. Our Scheme is the fifth largest master trust in the UK by number of participating employers, so we (the “Trustees”) believe it is imperative that employers and their employees who save with us can clearly see our actions regarding climate change. We recognise our responsibility primarily to seek to protect members’ savings from risks relating to climate change.

We believe that climate change, particularly in the medium to long term, is an important issue which will have a significant impact on the financial performance of businesses and hence the returns that our members will receive. Therefore, our priority is to effectively mitigate risks that arise from climate change and embrace opportunities that emerge as we transition towards a climate-friendly and low carbon economy. We remain committed to being a responsible investor on behalf of all our members and have a long-term plan in place to deliver outcomes that meet our responsibilities to our members.

There is an increasing recognition of the challenges posed by climate change, matched by ongoing development in research as well as investment and stewardship practices. Therefore, we are working closely with our investment adviser (the “Investment Adviser”) and investment providers (the “Investment Providers”) to ensure that our knowledge and understanding of climate change and its impacts and challenges remains up to date. We continue to consider climate change as a key factor in our annual processes such as the Trustees’ annual business planner, risk register and any strategy advice we receive from our Investment Adviser. We have also made a commitment to achieve Net Zero status on carbon emissions for all member investments under management by 2050 and set an interim commitment of a 50% reduction in carbon emissions by 2030 compared with the level in 2021 – our ZeroByFifty and FiftyByThirty initiatives. We recognise that this is just the start of a journey, but also believe that we have already made progress towards achieving our ambitions. We have developed a climate change governance and reporting framework (the “Framework”), and update it regularly, which helps us to effectively identify, assess and manage climate change risks and opportunities. We have also formalised roles and responsibilities relating to climate change for the investment professionals supporting us in our role and continue to monitor their performance against these standards.

Climate change presents a material risk to the investments held by the Scheme. However, we are also aware of other risks faced by the Scheme and recognise the importance of operating an effective integrated risk management system. We continue to work with our Investment Adviser to enhance climate change policies and have embedded climate-related risk management into our governance processes. We have designed our investment strategies in the best financial interests of members and with the aim of reducing climate-related risks and increasing exposure to climate-related opportunities. We have also communicated our Environmental, Social and Governance beliefs and policies and stewardship priorities to our Investment Adviser and Investment Providers and any engagement work conducted on our behalf considers climate-related issues as is appropriate. We continue to monitor the engagement of our underlying fund managers at least annually.

We support the goals of the Paris Agreement, which aims to strengthen the global response to climate change and aims to limit the global warming to well below 2°C, and preferably to 1.5°C, above pre-industrial levels by 2050.

We conduct climate scenario modelling regularly to assess how the Scheme is expected to be affected by climate-related risks under different scenarios depending on how climate change is managed. Our analysis considers physical risks, such as rising sea levels and extreme weather conditions, and transition risks, where firms face the challenge of being ready to operate in a low carbon economy. We analyse these results to evaluate the resilience of our investment strategies under different scenarios and the potential impact on members' savings to find ways to improve expected outcomes for our members. As well as presenting risks to the Scheme, the transition to a lower carbon economy and the mitigation of and adaptation to the physical risks of climate change may create new investment opportunities if managed appropriately.

While our investment strategies have integrated a range of approaches with the aim of mitigating the impact of climate risk, since the end of the Scheme Year we commenced a more significant and wide ranging review of the Scheme's investment strategies with the aim of improving overall outcomes for members, including further significant carbon emissions reductions with greater United Nations Sustainable Development Goals alignment.

We will continue to monitor our progress as data quality improves, enhance our process of integrating the effects of climate change into our investment strategy, to address the climate emergency and meet our Net Zero commitment by 2050.

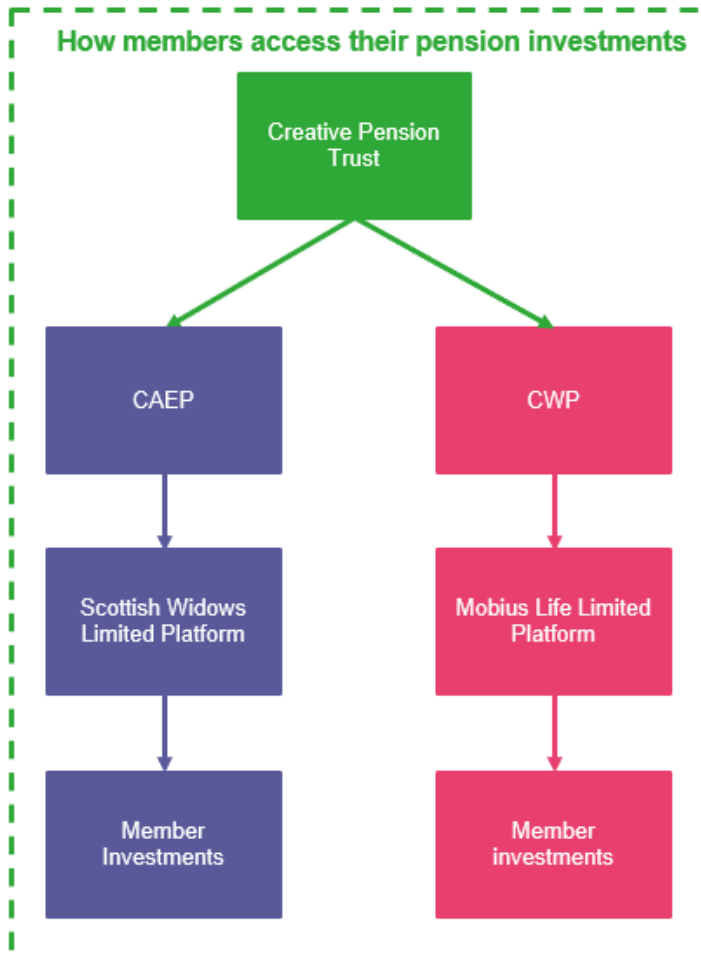
This Report details the actions taken by the Trustees in relation to climate-related risks and opportunities during the Scheme Year and our future reports will record the progress we make towards our commitments and targets. I hope you find the information in this Report of interest and the Trustees would welcome any feedback you have.

**For and on behalf of the Trustees of Creative Pension Trust**

**Roger Mattingly**

**October 2023**

## Overview



The Scheme has two sections, the Creative Auto Enrolment Pension section ("CAEP") and the Creative Workplace Pension section ("CWP").

CAEP was designed as a complete auto enrolment solution for smaller employers without an existing workplace pension arrangement. CWP was designed for small to medium sized employers with existing workplace pension arrangements.

Member savings within CAEP were invested through the Scottish Widows Limited platform during the Scheme Year, while CWP section members are invested through the Mobius Life Limited platform (together, the "Investment Providers").

The Investment Providers offer a platform for the Scheme to invest member savings in several investment funds, each of which is managed by a dedicated investment manager (the "Investment Managers"). The Trustees also have an Investment Adviser, responsible for providing advice on and monitoring the Scheme's investment strategies. During the Scheme Year the Trustees appointed a new Investment Adviser, Lane Clark & Peacock LLP ("LCP") with effect from 23 June 2022.

The main objective of this Report is to provide our members with the opportunity to engage with the Scheme's climate related risks and opportunities, and the potential impacts on their pension savings.

This Report is split into four sections, in line with the Regulations and the most recent guidance from the Department for Work and Pensions (“DWP”) and TPR available at the time of writing. These core areas (which are based on the TCFD recommendations) are described below: -



#### **Governance**

The organisation's governance around climate-related risks and opportunities

#### **Strategy**

The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning

#### **Risk Management**

The processes used by the organisation to identify, assess and manage climate-related risks

#### **Metrics and Targets**

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

This Report is published for the Scheme Year ending 31 March 2023 and is available online:- <https://www.creativebenefits.co.uk/creative-pension-trust/about/#climate-change>

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## **Executive Summary**

In this Report we describe our approach and activities to understand and reduce climate-related risks affecting the Scheme and its members' retirement savings.

The structure of this Report follows the Regulations and the guidance provided by the Department for Work and Pensions for climate reporting by Occupational Pension Schemes, which is broadly based on the TCFD recommendations. The Regulations came into force from 1 October 2021 and aim to improve both the quality of governance and the level of action by trustees in identifying, assessing and managing climate risk.

We support these aims and believe they are aligned with our view that the challenge of global warming and its likely impacts demands a response, and we must play our role to seek to protect member savings from risks relating to climate change.

We summarise below the key disclosures and findings for each of the four TCFD pillars.

## **Governance**

We have a robust Framework for managing climate change risks and opportunities in the Scheme, including setting clear expectations and responsibilities for our Investment Adviser and other parties. We regularly ensure that our knowledge of climate change issues is up to date and that we receive regular training from our Investment Adviser and other third parties.

We have refined the Scheme's approach to climate change management as evidenced in our latest Framework to clarify the roles and responsibilities of all the organisations supporting us.

We support the goals of the Paris Agreement and consider climate change risk to be a key investment risk for the Scheme, which must be assessed and managed appropriately. We expect the organisations supporting us in managing the Scheme, such as our Investment Adviser, Investment Providers and Investment Managers, to consider our views in carrying out their role. We monitor this alignment regularly, for example by setting climate-related objectives for our Investment Adviser and assessing its performance against these objectives.

## **Strategy**

This section considers the potential impact of climate-related risks and opportunities on members in the future, under four different climate scenarios.

We believe that climate change poses a significant risk. Climate change risks can be divided into physical risks (risks affecting the environment because of the global temperature environment) and transition risks (economic effects from transitioning to a low-carbon economy and climate-resilient solutions to restrict global temperature rises and manage climate change impacts to limit and manage physical risks). We have set short, medium, and long time horizons to consider the impact of these risks on members of different ages.

Our climate scenario modelling shows that the most significant consequences of climate change risks is expected over the medium to long-term. Young members under a failed transition type scenario experience the largest expected impact, caused by expected falls in the market value of their investments. This means the value of young members' pension savings is expected to be lower compared to a scenario that assumes current conditions remain the same (which means there is no change in physical or transition climate risks in future). This failed transition scenario represents the Net Zero global ambition not being met by 2050, or at all; so that the Paris Agreement goals are not achieved.

We have considered the impact of this analysis on our membership and how our investment strategies integrate climate factors with the aim of mitigating these risks. We commenced a detailed review of the CAEP investment strategies during the Scheme Year and, since the end of the Scheme Year, have implemented significant changes to the CAEP investment strategies, including additional climate change factoring. We intend to conduct a similar review for the CWP section shortly and will report on this in next year's report.

## **Risk Management**

This section describes our processes for the identification, assessment, and management of climate-related risks and opportunities affecting the Scheme. Our focus is on risks that are financially material for members and how these interact with other investment risks.

We define climate-related risks in key Scheme documents such as our Climate Change Governance and Reporting Framework and the Statements of Investment Principles ("SIPs") of each section within the Scheme. We share these policies with our Investment Adviser and Investment Providers. We also have separate policies documenting our expectations from our Investment Adviser and Investment Providers and ask them for statements of compliance with these. The Trustees' stewardship priorities, including climate change, are also communicated to the Scheme's Investment Managers.

We incorporate climate-related risks in our risk register (the "Risk Register"), which also describes the controls we have in place to manage these risks.

We regularly review our policies and performance against expectations in terms of reducing the carbon exposure within the Scheme's investments. For example, climate considerations are part of our investment strategy reviews.

Over the Scheme Year, we have continued to consider climate risks as part of our annual business planner update, the Risk Register and the annual Implementation Statements on the SIPs. As part of the Implementation Statements, we have also assessed examples of our Investment Providers' engagement with companies in an effort to improve climate outcomes.

## **Metrics and Target**

This section provides our climate-related metrics and the target we set to assess and manage climate-related risks and opportunities.

We collected data in respect of each of our selected metrics as far as we were able to obtain this data from the Investment Providers. We are working with our Investment Adviser and with our Investment Providers to improve data availability. In particular, we have set a formal target to improve data quality within the Scheme by 31 March 2027 in relation to the default investment strategy for each Scheme section.

We have relayed our expectations in terms of climate metrics data to the Investment Providers through our Investment Adviser, who engaged with the Investment Providers throughout the Scheme Year and subsequently to ensure the data we receive is correct and fulfils the regulatory requirements. These engagements were mainly carried out via virtual meetings, emails and phone calls, and had a strong focus on providing detailed and accurate data and associated disclosures.

We have an ambition to achieve Net Zero status on carbon emissions by 2050, with an interim commitment to achieve 50% reduction by 2030 for all member investments under management – our ZeroByFifty and FiftyByThirty initiatives. We believe supporting the goals of the Paris Agreement helps us integrate climate risk mitigations into the Scheme’s investment strategy reviews and monitoring.

## 1. Governance

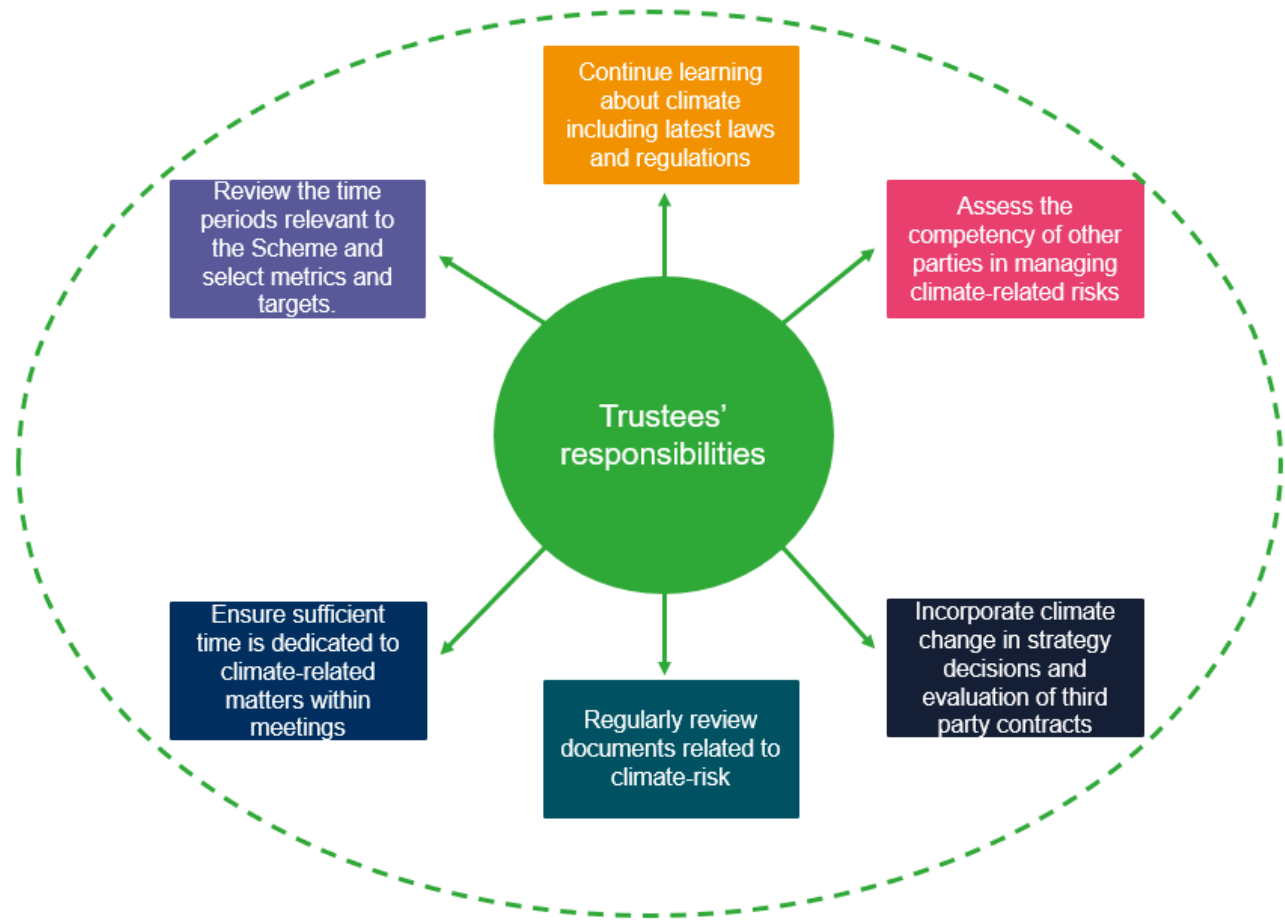
We maintain a separate document outlining the Scheme’s approach to climate change, in line with the Regulations. This document is called the Climate Change Governance and Reporting Framework (the “Framework”) and its most recent version is dated December 2022. It is reviewed at least annually but may be updated more or less frequently. All of the material aspects of the Framework have been replicated in this Climate Change Report.

The Framework explains how we manage risks and opportunities resulting from climate change, and how they will report on those activities. This includes a comprehensive list of the roles and responsibilities of both the Trustees and third parties in identifying, assessing, and managing relevant climate-related risks and opportunities.

We have provided an overview of this below.

**Climate-related risks and opportunities:** These refer to the potential positive and negative impacts of climate change on businesses, economies, and society at large, which in turn affect the value of members’ investments in the Scheme.

### The Trustees’ role



The Trustees are responsible for maintaining oversight of climate-related issues to identify, assess and manage climate-related risks and opportunities for the benefit of the members and their beneficiaries. The Trustees maintain the oversight of climate-related issues at board level rather than delegating to any sub-committee.

Our responsibilities include the following: -

- **Keep themselves informed on climate change matters to identify and manage related risks and opportunities, following the latest laws, regulations, and guidance through continuous learning;**

For example, see the first paragraph under this bullet point list describing trustee training;

- **Verify the capability of the Investment Adviser and Investment Providers in managing climate change risks and opportunities, with dedicated discussion time in meetings;**

For example, see the "Investment Adviser Objectives" in the "Other parties' and adviser's roles – Investment Adviser" section for a description of how climate-related objectives are integrated within the wider objectives for the Investment Adviser to ensure advice and reporting is monitored and of appropriate quality in relation to identification, assessment and management of climate-related risks and opportunities;

- **Ensure climate change is incorporated in strategy decisions along with evaluation of third-party contracts;**

For example, see the "Strategy" section of this Report for a detailed description of how climate change is incorporated into investment strategy decisions;

- **Conduct regular reviews of the Framework and the annual Climate Change Report, and discuss climate change during the annual review of policies including climate risk and any relevant meetings with third parties;**

For example, as stated at the start of this section, the Framework was most recently reviewed in December 2022, during the Scheme Year. The Trustees also discussed climate risk integration as a part of their meeting in January 2023 with fund managers from the proposed new CAEP default investment strategy that was implemented after the end of the Scheme Year in October 2023, which highlighted the fund managers' clear progress in this area;

- **The Chair of the Trustees must ensure sufficient time is dedicated to climate-risk matters in meetings;**

For example, see the list of climate-related topics covered at Trustees' meetings during the Scheme Year later in this section;

- **The Trustees must review the time periods to be used for scenario analysis and select the metrics and targets for this Report.**

For example, during the Scheme Year, the Trustees have received advice from their Investment Adviser regarding the continued appropriateness of the scenario analysis used in this Report, as well as advice regarding the most appropriate metrics to use for each section of the Scheme. These are discussed in more detail in the "Strategy" and "Metrics and Target" sections of this Report, respectively.

We recognise the importance of understanding the rapidly changing landscape relating to climate change as existing practices develop and new practices emerge. In order to continue developing our knowledge and understanding in this area we receive regular training from our Investment Adviser and third parties, such as our Investment Providers. We continued to work to update our knowledge on climate related risks and received training from our Investment Adviser on climate scenario analysis and climate metrics and targets during the Scheme Year in August 2022 and subsequently in May 2023.

Climate risk and opportunities have been discussed at every quarterly meeting during the Scheme Year, as part of a range of agenda items, including: -

- A review of the risk register which includes several items related to climate-related risks, such as the risk that climate change risk is not adequately identified, assessed and managed;
- Scenario analysis advice where the Trustees reviewed the continued appropriateness of the Scheme's scenario analysis modelling and were informed of upcoming developments, for example upcoming changes to the scenarios modelled and additional scenarios being considered;
- The investment review of the CAEP section, in which the Trustees considered how the wider master trust pension scheme universe is approaching the management of climate risks and the level of climate risk integration of the current strategy compared to the new Cushon Core default investment strategy implemented after the end of the Scheme Year in October 2023;



- Quarterly performance reports within which the Trustees are informed of any updates in their underlying fund managers' approaches to incorporating climate considerations and their Investment Adviser's views on the underlying fund managers' responsible investment credentials; and
- Meeting some of the underlying fund managers in January 2023 in relation to the then proposed new CAEP investment strategies, when those fund managers were asked to present their approaches in taking advantage of the opportunities that arise from climate change showcasing how well they were progressing in this area.

## Statements of Investment Principles

The Trustees, in consultation with Creative Auto-Enrolment Limited (the "Scheme Sponsor & Manager"), prepare two separate SIPs, in respect of each of the two sections of the Scheme. The most recent versions of these documents are available on the Scheme website: -

<https://www.creativebenefits.co.uk/creative-pension-trust/about/#scheme-principles>

**We consider climate change risk to be a key investment risk for the Scheme**, which must be assessed and managed appropriately and is therefore documented in the SIPs. In doing this, we aim to take members' circumstances into consideration.

**Climate change risk is defined as the risk that the Scheme's investments are adversely affected by the impact of climate change and includes physical risks, such as rising sea levels and extreme weather conditions, as well as transition risks resulting from actions taken to limit global temperature increases, such as new legislation and changes in consumer behaviour.** We measure these risks in various ways including monitoring metrics such as carbon emissions and Net Zero commitments by the Investment Managers, as well as conducting scenario analysis.

In the SIPs, we have also set a summary of our investment policies covering Environmental, Social and Governance ("ESG") factors, including a distinct section on climate change. As part of this policy, we have documented our support for the goals of the Paris Agreement and have made the following ambitions: -

- **ZeroByFifty – For the Scheme to achieve Net Zero status on carbon emissions for member investments under management by 2050.**
- **FiftyByThirty – For the Scheme to achieve a 50% reduction on carbon emissions for member investments under management by 2030.**

In support of these commitments, we expect the Investment Providers and/or the Investment Managers to report relevant climate-related metrics and voting and stewardship activities on at least an annual basis.

**The Trustees, with support from our Investment Adviser, monitor progress annually against our climate-related target.**

We are responsible for setting the overall investment strategy for the Scheme, including the structure of the **default investment strategies** and selection of the other self-select investment options for members.

We delegate the day-to-day management of the Scheme assets to the Investment Providers and Investment Managers.

***Default investment strategies:** The fund or mix of funds in which member contributions are automatically invested if that member does not make an active choice to select any particular fund or strategy offered by the Scheme.*

## Investment beliefs

In addition to the Framework mentioned at the start of this section, we have a separate policy covering our investment beliefs and ESG strategy (the "ESG Strategy"). The ESG Strategy was last updated in February 2023 and is complementary to the SIPs described above.

The ESG Strategy has a separate section addressing climate change, which defines our beliefs in relation to climate-related risks and opportunities as follows: -

- The Trustees believe that **climate change is the single most significant financially material ESG issue** (ESG factors are "financially material" if they could impact the value of investments) for the Scheme and its members and that the **biggest risk from climate change is longer-term physical risk.**
- In order to mitigate that risk the **Trustees support the goals of the Paris Agreement** to limit the global warming to well below 2.0°C, and preferably to 1.5°C, above pre-industrial levels, by 2050.

- The Trustees expect that **achieving those goals will have significant economic costs and a material impact on investment markets** (due to the impact of transition risk), but according to current scenario analysis **that is expected to have a lower financial impact than the physical risks from higher global temperature rises.**
- While the impact of Climate Change on investment returns for Scheme members is the immediate concern, **the Trustees will also seek to exert influence to mitigate non-investment risks** (these are risks which might not impact the immediate financial position but can shape the future prospects of member investments) **for the long-term benefit of members.**

Our expectations of the Investment Providers and the expected frequency of Investment Manager reporting also form part of this policy and are provided in the Risk Management section that follows later in this Report.

## Investment monitoring

We conduct regular monitoring of the Scheme's investment strategies in line with our **Annual Business Planner**. The most recent annual review of all the Scheme's investment strategies, including the default investment strategies, was completed within the Scheme Year on 1 April 2022. The review covered the integration of climate risk considerations within the underlying investments. The CWP section review noted that the underlying investments for the ML Retirement Age and ML Retirement Ready

**Annual Business Planner:** This is a document that outlines the objectives and tasks, including their timelines, that the Trustees seek to complete at each meeting within a given Scheme year.

fund had switched 50% of their target developed market equity allocation in May 2021 to the LGIM Future World fund range, which increases allocation to companies with higher environmental scores and reduces allocation to companies with lower environmental scores. The CAEP section review highlighted the positive impact of the increase in the allocation to the BlackRock ACS Climate Transition World Equity fund within the SW Pension Portfolio Three and SW Pension Portfolio Four funds. It was agreed that the Trustees should continue monitoring the climate change management of the underlying funds as part of any future reviews. We have also received further advice relating to the CAEP section and **proposed strategy** changes from our Investment Adviser as part of the **transition to the new Cushon strategies** after the end of the Scheme Year in May 2023. The Cushon Core default investment strategy implemented after the end of the Scheme Year in October 2023 aims to make a positive impact on our members' likely retirement outcomes, as well as our climate and society. The new investment approach will hold a well-diversified blend of investments, including global equities aligned to the UN Sustainable Development Goals and bonds with a lower total carbon footprint and a focus on climate and social impacts.

### CAEP change of investment strategy

As communicated to members and participating employers in August 2023 the CAEP investment strategies have been transitioned to new Cushon investment strategies including the new Cushon Core default investment strategy in October 2023. Cushon Group is a provider of workplace savings, investments and pensions, and manages the Cushon Master Trust which, like Creative Pension Trust, is chosen by many employers to help members save for the future. Based on the advice from our Investment Adviser, the new CAEP investment strategies are expected to provide better outcomes for members and provide the additional benefit of more effectively integrating climate risk within the investment options.

We also received and reviewed investment update reports on a quarterly basis and presentations from our Investment Adviser at the ordinary quarterly Trustees' meetings during the Scheme Year. As part of our responsibilities, we reviewed the Framework in December 2022.

We have also questioned and challenged advice on climate change to make sure the advice was appropriate. For example, during the Scheme Year, we received information on our Investment Adviser's views of our Investment Providers' stewardship capabilities and advice regarding the Scheme's climate metrics. The Trustees questioned and challenged the advice and as a result of this, it was agreed to conduct an additional in-depth training session on scope 3 emissions, portfolio alignment metrics and stewardship. This session was conducted following the Scheme Year end in May 2023.

## Other parties' and adviser's roles – Investment Adviser

During the Scheme year, we appointed Lane Clark and Peacock LLP ("LCP") as our Investment Adviser. The Investment Adviser is responsible for making recommendations to the Trustees on appropriate aspects of the Scheme's investment strategies, report on the investment strategies at least quarterly and provide annual review and recommendation reports. It also advises the Trustees on several investment related Scheme documents, negotiates with third parties such as the Investment Providers, conducts engagement work on behalf of the Trustees and provides information, guidance and training for the Trustees where necessary or appropriate.



The Investment Adviser is responsible for the following: -

- **assist the Trustees by providing comprehensive training, including selecting climate metrics and targets to report on as part of the annual climate change reporting;**
- **provide advice to the Trustees in relation to the time horizons being selected and the proportion of assets on which to conduct scenario analysis;**
- **incorporate climate change risks and opportunities as part of any advice relating to the investment strategies;**
- **provide relevant information and updates to the Trustees and ensure they are well aware of any significant climate change developments either through their quarterly investment reports or otherwise;**
- **engage with the Investment Providers and Investment Managers on behalf of the Trustees on any climate related issues; and**
- **assist the Trustees in preparing this Report including complying with any relevant regulatory requirements.**

## Investment Adviser Objectives

We have included climate-related objectives within the wider objectives for the Investment Adviser to ensure advice and reporting from the Investment Adviser is monitored and of appropriate quality in relation to identification, assessment and management of climate-related risks and opportunities. These include: -

- **Aid the Trustees in executing their investment strategy by incorporating ESG considerations** (for example, reviewing of the Investment Managers' ESG credentials), **including managing climate change risks and opportunities, and perform at least annual reviews.**
- **Review and advise on the Trustees' Framework, with yearly updates as necessary.**
- **Help in preparing the annual Climate Change reports to ensure they meet all legal and regulatory standards.**
- **Consider the guidelines in the SIPs, Trustees' ESG Strategy, and Trustees' Framework when offering advice and information to the Trustees.**

We monitor and assess the Investment Adviser against these objectives at least annually.

**How do the Trustees satisfy themselves that the Investment Adviser is taking adequate steps to identify, assess and manage climate-related risks and opportunities?**

- We included climate-related objectives within our wider Investment Adviser objectives, as described in the section above. These objectives would also apply to the selection of a new investment adviser, as applicable. More information regarding the climate competency of our Investment Adviser can be found on their website using the following link: [LCP's climate competency as investment consultants | Lane Clark & Peacock LLP](#).
- We **require the Investment Adviser to consider the Framework** when preparing investment monitoring reports for the Scheme.
- We **require the Investment Adviser periodically to review the voting activity for the Scheme's funds and identify areas where reporting could be improved** in terms of the quality of company engagement data available. The Investment Adviser engages with the Investment Providers on these matters to improve future reporting. **The Investment Adviser will take into account the Trustees' stewardship priorities as part of this engagement.** The Investment Adviser has reported voting activity to the Trustees as part of the Implementation Statements covering the Scheme Year, including significant votes that relate to the Trustees' stewardship priorities. The Implementation Statements are available on the Scheme website: <https://www.creativebenefits.co.uk/creative-pension-trust/about/#implementation-statements>
- The **Investment Adviser continues to liaise with both the Investment Managers and the Investment Providers on behalf of the Trustees to ensure improvements in the availability of climate metrics data.** The Investment Adviser has done this throughout the Scheme Year and subsequently with periodic calls and correspondence to make all parties aware of the relevant regulatory requirements and monitor progress against these.
- The **Investment Adviser incorporates any relevant climate change updates as part of reporting to the Trustees**, such as the annual review and recommendation reports, quarterly investment update reports, and any advice or recommendations on the investment strategies outside of annual investment reviews.

**Voting:** This refers to the Investment Managers participating in the decisions made by the companies they invest in by using their shareholder rights to vote on company matters.

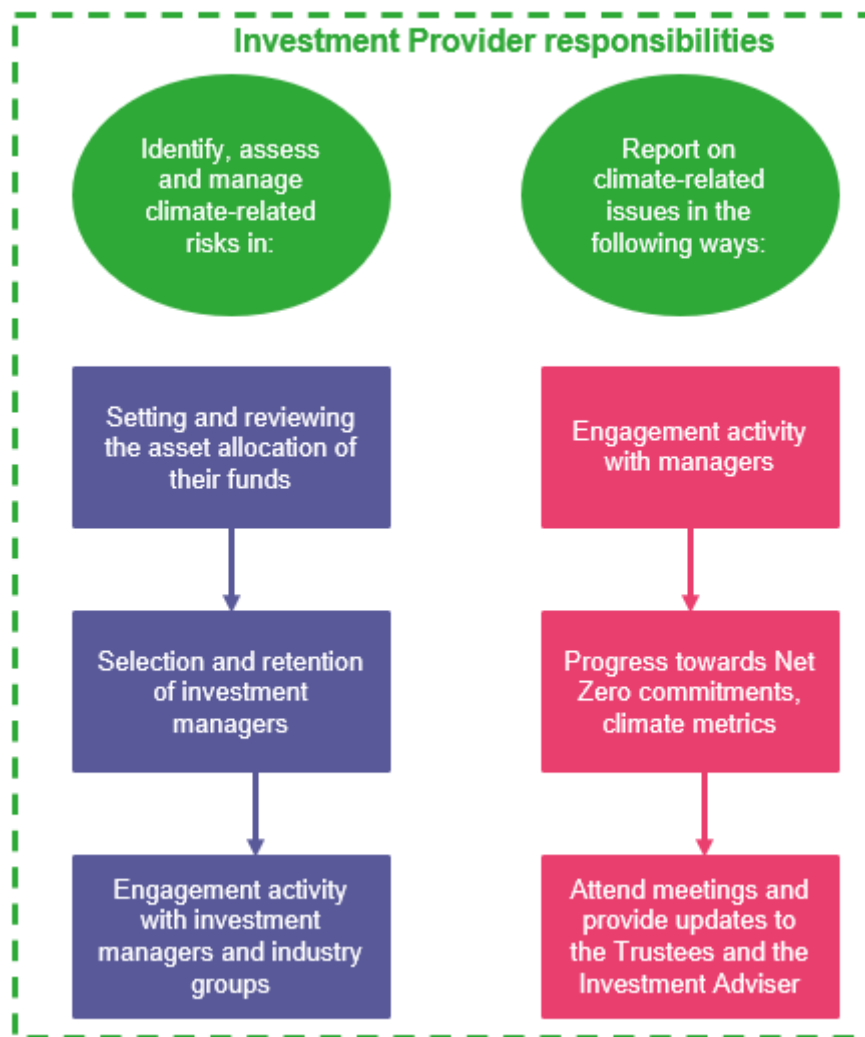
**Engagement:** Communication with company management to influence their policies and performance in order to align company behaviour with the investors' (in this case, our members') objectives.

**Stewardship priorities:** Key themes the Trustees would like the Investment Managers to focus on, in their voting and engagement activities.

## Other parties' and adviser's roles – Investment Providers

The Investment Providers provide access to the various investments for the Scheme's investment strategies on a day-to-day basis on behalf of the Trustees. The Investment Providers are responsible for conducting their own reviews of the mix of asset classes they invest in, including potential to integrate climate related factors within their investments. They are also responsible for engaging with the Investment Managers on climate-related issues.





How do the Trustees satisfy themselves that the Investment Providers are taking adequate steps to identify, assess and manage the climate-related risks and opportunities?

- **The Investment Providers conduct their own reviews of the mix of asset classes they invest in, to explore potential changes that can help reduce greenhouse gas emissions within their funds.** The Trustees review any changes to the underlying asset allocations as part of their investment strategies review process.
- **We expect the Investment Providers to include ESG considerations, including climate change, in the selection and retention of investment funds within each of the investment mandates they make available.** The Trustees review the ESG credentials of underlying fund managers as part of the quarterly investment reports received from the Investment Adviser. The Trustees also receive Responsible Investment and/or ESG reports from the Investment Providers.
- **We also expect our Investment Providers to engage with the Investment Managers on climate-related issues to reduce risk and benefit from opportunities, both in the shorter and longer term.** The exposure to climate-related risks and opportunities is reviewed by the Trustees as part of the process of creating this Report.
- **The Investment Providers and the Investment Managers must take climate-related risks and opportunities into consideration in their voting and engagement activities and reporting to the Trustees.** In addition, **the Investment Providers have been informed of our stewardship priorities to take into consideration during voting and engagement.** The Trustees satisfy themselves that the Scheme's investments are managed in line with their stewardship priorities by reviewing significant votes carried out by the Investment Managers during the Scheme Year.

We are satisfied that our expectations were met during the Scheme Year. The Investment Providers have also provided various updates to the Trustees on their engagement activity with the Investment Managers and their alignment with the Trustees’ policies during the Scheme Year. Additionally, our Investment Adviser has liaised with the Investment Providers on our behalf throughout the Scheme Year in relation to reporting climate metrics, including setting expectations and challenging their service in line with the principles outlined above. Further information on this interaction can be found in the Metrics section of this Report.

## 2. Strategy

We believe that climate change is a significant financially material issue for the Scheme and its members, especially in the medium to long term.

As a result, climate-related considerations are a key factor in setting the Scheme’s investment strategies. Details of our approach to incorporating our beliefs relating to climate change into the Scheme’s investment strategies are set out in the Trustees’ ESG Strategy document.

### The time periods the Trustees have defined as short term, medium term and long term time horizons relevant to the Scheme and why the Trustees have chosen those time horizons

We have set short, medium and long time horizons for considering the impact of physical and transition climate risks and opportunities on investment performance. These time horizons have been broadly aligned to Scheme milestones.

The same time horizon periods were used for both sections of the Scheme.

Time horizons	CWP section and CAEP section
Short term	2025 – Major improvements in climate data quality are expected over this period. This time horizon is most relevant to members close to retirement, who are less affected by long-term physical risk but more likely to be affected by short-term market shocks.
Medium term	2030 – Key period over which policy action will determine if the interim Net Zero target has been met (at a global level rather than a Scheme level). This time horizon is most relevant for members who are further from retirement and may have started de-risking their assets but remain exposed to transition risk, while also being able to benefit from investing in the low carbon transition.
Long term	2050 – Many economies are targeting to be Net Zero by this point. This time horizon is most relevant to young members who are likely to remain invested throughout this period and hence will be impacted by changes in the economic and political landscape, as well as longer term physical risk.

We review these time periods on a regular basis, for example following a material change in the membership.

### Identification of climate-related risks and opportunities relevant to the Scheme and how these are expected to impact the Scheme’s investment strategies

We believe that risks from climate change can primarily be divided into two categories: -

- **Physical Risks:** Risks affecting the environment because of global temperature rises; and,
- **Transition Risks:** Economic challenges due to shifting to environmentally friendly practices aimed at controlling global warming and building resilience to physical risks, by reducing the potential damage from climate events.

Alongside these, there are also **Litigation Risks** and **Reputational Risks**, resulting from failure to account for physical and transitional risks, and legislation and regulation. These risks are likely to be experienced simultaneously over various time horizons and asset types and sectors.

We believe that these primary risks will impact the performance of Scheme’s assets in various interrelated ways: -

- **Stranded Assets** – Investments in companies heavily dependent on fossil fuels are more likely to lose value as we move towards a low carbon economy, because they are heavily exposed to carbon emissions;
- **Rising Operating Costs** – Climate change might lead to higher costs for many businesses (for example, because of the increased energy costs or higher insurance premiums), which could lower their profits, decrease their value, or potentially harm independent evaluations of their ability to repay their debt;

- **Inflation Risk** – Climate change could cause prices to rise due to increased operating costs (see above), supply disruptions, taxes, and increased government spending in response to climate change, which could reduce the value of certain assets and also raise living costs for members;
- **Interest Rate Risk** – If inflation rises due to climate issues, central banks may increase interest rates to manage it. This can affect the value of certain assets (for example, bond assets typically lose value when interest rates increase) and slow down economic activity. There are also plausible climate scenarios in which interest rates fall;
- **Other Pricing Risk** – The value of members' investments may not correctly reflect their true value because climate risks are not accurately factored in. It is also possible that "green" assets might be overvalued, if a large number of investors buy into green projects, driving up their price; and
- **Opportunity Failure Risk** – As the economy moves away from fossil fuels and towards a lower carbon economy, some assets will benefit, for example investing in companies that offer products and services that mitigate the effects of climate change. Not investing in these types of assets could be a missed chance to provide investment returns for members. These assets can also be used to balance out investments in other areas, which could be negatively affected by climate change.

We recognise that these risks have a direct financial impact on the Scheme's assets, and on the Scheme and members in other ways, such as rising inflation, which would affect the cost of living for members and the cost of services provided to the Scheme. We consider these risks both separately and in combination. An orderly transition to low carbon solutions will reduce future physical risks but is highly likely to come with increased shorter-term transition risks.

For both sections, members are expected to be impacted in different ways depending on their investments held, the value of their savings, their contribution rate their and proximity to retirement. There are both risks and opportunities associated with each time period, as outlined in the table below.

Time period	Key risks	Key opportunities
<b>Short term (next 2 years)</b>	Older members within 3 years of retirement are less likely to be affected by transition and physical risks given the very short time frame considered and the lower risk investments held by members in the default investment strategies at this stage.	Low carbon investments can mitigate the impact of extreme market shocks due to a market repricing event
<b>Medium term (next 7 years)</b>	Older members within 8 years of retirement will be most exposed to transition risks in the event of a Disorderly Net Zero pathway (please see the following page for more details on this). Members invested in the default investment strategies will hold a diversified portfolio at this stage, including equity and bond assets. Different asset classes and investments in different geographical regions are likely to be affected by transition risks to different extents.	Impact investments can take advantage of the shift to a low carbon economy and may provide an enhanced source of return over this period
<b>Long term (next 27 years)</b>	Physical risks are most prevalent in the Failed Transition pathway, which is expected to have a major impact on younger members, who are further away from retirement. Most young members are invested predominantly in equities, which are likely to be affected by physical risks causing disruptions to operations, increased costs or damage to physical assets, ultimately affecting the profitability of companies and hence their share price.	Engagement with Investment Managers to ensure they are exercising stewardship in support of Net Zero pathways is key to reducing the risk of a Failed Transition scenario

The above risks and opportunities are based on the period to retirement and the asset allocation of the default investment strategies or "popular arrangements".

We note that increasingly members choose to remain invested during retirement and gradually sell their investments over time, depending on the level of income they need. As a result, many members will be exposed to the climate-related risks noted in this section for longer than suggested by the climate scenario analysis below. The impact of remaining invested for longer will depend on the mix of investments held by members at and during retirement, with the majority likely to be invested in the default investment strategies, which are described in detail later in this report, at the start of the “Metrics and Target” section.

The default investment strategies of both sections invest in cash at retirement, which is less likely to lose value as a result of a market shock, compared to other types of investments such as equities or bonds. However, as mentioned earlier in this Report the default investment strategy for the CAEP section has been changed in October 2023 and no longer targets a 100% cash investment at members’ target retirement age given that increasingly members are choosing to remain invested during retirement. We will consider the impact on members of that change and those who are beyond their retirement age when we next come to undertaking climate scenario analysis (see next section for more details on this).

## Climate scenario analysis

In addition to the risks identified above, the most recent climate scenario analysis carried out by the Trustees (as at 31 March 2022) considered how different example members would be impacted by different climate scenarios. For simplicity, members were assumed to be invested in the default investment strategies and, in the case of the CWP section of the Scheme, also in three of the ML Retirement Age target date funds (“TDFs”), in line with the time horizon periods set out above and assumed an expected retirement age of 65.

**Target date funds (“TDFs”):** These are investment options which automatically adjust the asset allocation over time to invest in more conservative asset classes (such as bonds and cash) the closer you get to the target retirement year.

We have used the climate scenario analysis as a key tool for identifying, assessing and managing climate-related risks and opportunities. In particular, we have used the analysis to identify how the physical risks and transition risks associated with climate change could impact member outcomes over the three time horizons and whether the current investment strategies are likely to be resilient against these risks (or able to take advantage of any opportunities).

Scenario analysis must be carried out for each “popular arrangement” in the Scheme, as defined in the DWP guidance. This is any strategy in which £100m or more of the Scheme’s assets are invested, or which accounts for 10% or more of the Scheme’s assets used to provide money purchase benefits. Using this definition, the popular arrangements are the default investment strategies of the CWP and CAEP sections and the TDFs of the CWP section.

Climate scenario analysis was last carried out for each section’s popular arrangements during the 2021 / 2022 scheme year. We are required to conduct scenario analysis at least every three years and assess annually whether the next analysis should be conducted sooner, for example, if or when there are significant changes to the investment strategies that the scenario analysis relates to, or where other investment options available to members are deemed to have become “popular arrangements”. We may also decide to update the scenario analysis outside of the normal review cycle if there has been a material change to the available data on which the scenario analysis is based or if there are significant changes in the industry.

Our Investment Adviser carries out an annual review to assess whether the previous scenario analysis remains appropriate for understanding the potential impact of climate change on the Scheme’s assets and the resilience of the Scheme’s investment strategies under these scenarios. During the Scheme Year, we agreed that the existing scenario analysis carried out in 2022 remained appropriate. This was in line with our Investment Adviser’s recommendations. In particular, the advice outlined that during the Scheme Year there has not been a material increase in data availability or material changes in either best practice or the Scheme’s investment strategies, which would trigger a recommendation to update the climate scenario analysis.

The results for each section fed into our discussions and decisions regarding the relevant investment options, allowing an assessment of how members of different ages could be impacted over different time periods.

### Details of the climate scenarios used in the most recent scenario analysis

We carried out climate scenario analysis as at 31 March 2022 with the support of our Investment Adviser, Investment Providers and Ortec Finance B.V., a provider of technology and solutions for investors. The analysis looked at three possible scenarios: -



Transition	Description	Why the Trustees chose it
<b>Orderly Net Zero by 2050</b>	Global Net Zero carbon emissions is achieved by 2050; rapid and effective climate action (including using carbon capture and storage), with smooth market reaction. Average global warming stabilises at around 1.5°C above pre-industrial levels.	To see how the Scheme's assets could change in value if the global Net Zero carbon emissions is achieved by 2050, meaning that the economy makes a material shift towards low carbon by 2030.
<b>Disorderly Net Zero by 2050</b>	Same policy, climate and emissions outcomes as the Orderly Net Zero Transition, but financial markets are initially slow to react and then react abruptly. Average global warming stabilises at around 1.5°C above pre-industrial levels	To look at the risks and opportunities for the Scheme if the global Net Zero carbon emissions is achieved by 2050, but financial markets are volatile as they adjust to a low carbon economy.
<b>Failed Transition</b>	Net Zero is not met by 2050, or at all; the Paris Agreement goals are therefore not achieved. Only existing climate policies are implemented. Average global warming is about 2°C by 2050 and over 4°C by 2100, compared to pre-industrial levels.	To explore what could happen to the Scheme's assets if carbon emissions continue at current levels and this results in significant physical risks from changes in the global climate that disrupt economic activity.

We have agreed the scenarios based on realistic expectations of a transition (or otherwise) to a low carbon global economy.

The first scenario is optimistic and expects transitional measures to be sufficient to limit and then stabilise the global temperature rise at the upper limit of the Paris Agreement.

The second scenario looks at the possible consequences of a disorderly transition where different governments, sectors and organisations do not make consistent or early progress, or where the delivery of new technologies and infrastructure to manage climate change is not a smooth process.

We have also considered a Failed Transition scenario where transitional activity is significantly limited and/or not implemented globally where the global temperature rise is toward the upper end of projected levels by 2050 based on current climate-related policies but could continue to rise thereafter.

We acknowledge that many alternative plausible scenarios exist but found these were a helpful set of scenarios to explore how climate change might affect the Scheme in the future.

To provide further insight, we also compared the outputs under each scenario to the Investment Adviser's (LCP) base case, that assumes the modelled asset class risk and returns remain constant and thus makes no allowance for either changing physical or transition risks in future.

The scenarios' key features are summarised within Technical Section 2 towards the end of this Report.

### Modelling approach

The scenario analysis is based on a model developed by Ortec Finance B.V. and Cambridge Econometrics Limited. The outputs were then applied to the assets of each Scheme section. The three climate scenarios are projected year by year, over the next 40 years. The results are intended to help us consider how resilient each section's investment strategies are to climate-related risks.

The three climate scenarios chosen are intended to be plausible, not "worst case". Other scenarios could give better or worse outcomes for the Scheme.

The results discussed in this Report have been based on macro-economic data as at 31 December 2021, calibrated to market conditions as at 31 March 2022. For more information about the modelling approach and for modelling limitations, see Technical Section 2.

### How resilient are the investment strategies in these climate scenarios?

These scenarios show that equity markets could be significantly impacted by climate change with lesser but still noticeable impacts in bond markets. All three scenarios envisage, on average, lower investment returns and these result in lower retirement outcomes for members.

More specifically, the climate scenario analysis showed the following: -

- For older members, the short term risk of market shocks in a Disorderly Net Zero or Failed Transition is relatively small. This is true for both active and deferred members invested in either of the default investment strategies applicable during the Scheme Year or the TDFs;
- The LCP base case scenario assumes the asset class assumptions detailed in the report remain constant over the period shown, meaning any climate transition impacts are not considered. Relative to the base case, members eight years from retirement are at risk of market shocks because of a Disorderly Net Zero transition;
- For younger members, longer term impacts would be more significant as there is a risk of lower investment returns over an extended period. Volatility in equity markets will also be a main concern for members as they approach their retirement age and look to crystallise their benefits. A Failed Transition leads to larger losses for those members further from retirement; and,
- Climate scenario analysis was also conducted for deferred members. The results of this analysis and corresponding charts are included in Technical Section 2. Overall, deferred members are expected to be more significantly affected under each scenario. This is because, unlike active members, deferred members no longer pay contributions into the Scheme, which would help improve outcomes, particularly following a market shock.

We have taken several steps to formally incorporate ESG within the investment strategies. In particular, several of the underlying investment options incorporate ESG considerations as follows: -

- The underlying passive equity funds used within the CAEP default investment strategy during the Scheme Year incorporated ESG “screens”. This means preventing investment in areas that contribute highly to carbon emissions such as thermal coal and oil sands.
- The CAEP default investment strategy also included an allocation to the BlackRock Climate Transition World Equity fund during the Scheme Year (c13% in the SW Pension Protector Three fund and c7% in the SW Pension Portfolio Four fund), which seeks to gain exposure to companies within the MSCI World Index which are well positioned to take advantage of opportunities and minimise the potential risks associated with a transition to a low carbon economy.
- In the CWP section, 50% of the developed market equity allocation within the Risk Rated funds invest in the LGIM Future World fund range. The LGIM Future World fund range applies LGIM’s ESG scoring covering 30 different metrics in the stock allocation process.

The above have been in place during the Scheme Year and were also in place at the time scenario analysis was carried out.

The new CAEP Cushon Core default investment strategy implemented in October 2023 provides members with the benefit of integrating additional climate factoring, aligning it with Net Zero objectives and the United Nations’ Sustainable Development Goals. In order to do this, Cushon Core utilise funds that prioritise climate factors through targeting significant CO<sub>2</sub>e emission reductions and excluding non-compliant entities. Moving to this investment strategy will therefore represent a material reduction in the exposure to transition and physical risks for members. The majority of the new CAEP self-select available from October 2023 also invest in underlying LGIM Future World funds.

### **What are the potential impacts on the CAEP section’s assets identified under each scenario?**

The scenario analysis looked at the retirement outcomes for individual members of different ages (in terms of the size of their retirement pot) who are invested in the CAEP default investment strategy (see Technical Section 2 for further details). The analysis highlighted that members will be subject to climate risks to varying degrees depending on the climate scenario. In general, the default investment strategy has been designed in a way which reduces investment risk as members approach retirement. Climate risks are generally expected to have the greatest impact on risky assets such as equities. In the default investment strategy, exposure to these assets is reduced as members approach retirement, which should help to reduce the potential impact on asset values from climate risks.

- The Orderly Net Zero scenario leads to the least detrimental outcomes for members as in this scenario the climate risks are relatively low. The CAEP default investment strategy in force prior to October 2023 invested c13% and c7% of the asset allocation of the SW Pension Portfolio Three and SW Pension Portfolio Four funds in the BlackRock Climate Transition Fund;
- The Disorderly Net Zero scenario includes a market shock in the medium term which impacts risky assets the most. This has a muted impact on younger members’ retirement pots as they have time to recover through future investment returns (and contributions for active members). Members eight year from retirement have a shorter period to recover from the market shock. These members are most affected by a Disorderly Net Zero transition and,

- The Failed Transition scenario has limited short-term effects but larger long-term effects as it assumes increasingly severe physical impacts of climate change emerge over time. This scenario particularly impacts younger members who remain invested in the Scheme for longer. The Trustees have diversified their equity exposure between regions (to diversify the impact of a localised physical risk event).

As mentioned previously in this Report the transition to the new Cushon Core default investment strategy for CAEP members in October 2023 results in additional factoring for climate risk throughout the period to retirement.

The analysis confirmed the importance of managing climate-related risks to members' pots. Whilst it might not be possible to completely remove the impact of climate change, we manage some of this risk by ensuring the Investment Managers have strong climate practices; reducing members' exposure to risky assets as they approach retirement (see the charts in the Metrics and Target section later in this Report for further details); and using voting and engagement to encourage the companies the Scheme invests in to improve their climate practices (see the Risk Management section later in this Report for further detail).

**Table showing impact on member pots at retirement with different scenarios and starting ages**

CAEP default investment strategy (pre-October 2023)	Member aged 62	Member aged 57	Member aged 37
Starting pot	£48,900	£45,400	£22,300
<i>Change relative to climate-uninformed outcome in brackets</i>			
Modelled outcomes at age 65 under different scenarios			
LCP base case	£52,600	£64,100	£117,100
Orderly Net Zero outcome	£52,500 (0%)	£63,500 (-1%)	£116,300 (-1%)
Disorderly Net Zero outcome	£52,700 (0%)	£61,900 (-3%)	£112,300 (-4%)
Failed Transition outcome	£52,700 (0%)	£63,800 (0%)	£101,300 (-13%)

As mentioned above, younger members are expected to incur bigger losses, due to their longer investment horizons and because they are invested more in riskier assets (equities). However, younger members also have a greater ability to recover from market shocks through future contributions and investment returns realised on these contributions.

The "Disorderly Net Zero" scenario presents a mid-term market shock, with significant implications for members aged 57 (nearing retirement), due to the short recovery window, whereas the "Failed Transition" scenario has a more limited effect on older members as their time horizons are too short for physical risks such as extreme weather events to materialise.

We have focused our efforts of integrating climate considerations into the investment strategy on the equity portion initially, as this is expected to have the greatest impact for members.

The impact on deferred members of the scenarios modelled and graphical analysis is shown in Technical Section 2.

### **What are the potential impacts on the CWP section's assets identified under each scenario?**

The scenario analysis looked at the retirement outcomes for individual members of different ages (in terms of the size of their retirement pot) who are invested in the CWP default investment strategy and the ML Retirement Age TDFs (see Technical Section 2 for further details). The analysis highlighted that CWP members invested in those two strategies will be subject to climate risks to varying degrees depending on the climate scenario. In general, the default investment strategy and TDFs have been designed in a way which reduces overall investment risk as members approach the target retirement year. Climate risks are generally expected to have the greatest impact on risky assets such as equities. In the default investment strategy and TDFs, exposure to these assets is reduced as members approach retirement, which should help to reduce their exposure to climate risks.

- the Orderly Net Zero scenario leads to the least detrimental outcomes for members as in this scenario the climate risks are relatively low;
- The Disorderly Net Zero scenario includes a market shock in the medium term which impacts risky assets the most. This has a muted impact on younger members' retirement pots as they have time to recover through future investment returns (and contributions for active members). Members eight years from retirement have a shorter period to recover from the market shock. Members retiring over the medium term are therefore most affected by a Disorderly Net Zero transition and,

- The Failed Transition scenario has limited short-term effects but larger long-term effects as it assumes increasingly severe physical impacts of climate change emerge over time. This scenario particularly impacts younger members who remain invested in the Scheme for longer.

We have considered how a potential change in the investment strategy could reduce or mitigate these risks and at the date of this Report our review is ongoing.

The analysis confirmed the importance of managing climate-related risks to members' pots. We do this by ensuring our Investment Managers have strong climate practices; reducing members' exposure to riskier assets as they approach retirement (see the charts in the Metrics and Target section later in this Report for further details); and using voting and engagement to encourage the companies the Scheme invests in to improve their climate practices (see the Risk Management section later in this Report for further detail).

#### Tables showing impact on member pots at retirement with different scenarios and starting ages

CWP default investment strategy	Member aged 62	Member aged 57	Member aged 37
Starting pot	£86,300	£77,900	£35,100
<i>Change relative to climate-uninformed outcome in brackets</i>			
Modelled outcomes at age 65 under different scenarios			
LCP base case	£89,400	£98,400	£138,200
Orderly Net Zero outcome	£89,100 (0%)	£97,100 (-1%)	£136,200 (-1%)
Disorderly Net Zero outcome	£89,500 (0%)	£94,300 (-4%)	£130,800 (-5%)
Failed Transition outcome	£89,400 (0%)	£97,900 (-1%)	£118,100 (-15%)

Mobius Life Retirement Age TDFs – popular arrangement	Member aged 62 (2025 Retirement Age)	Member aged 57 (2030 Retirement Age)	Member aged 37 (2050 Retirement Age)
Starting pot	£74,600	£61,600	£34,600
<i>Change relative to climate-uninformed outcome in brackets</i>			
Modelled outcomes at age 65 under different scenarios			
L base case	£81,900	£87,200	£157,200
Orderly Net Zero outcome	£80,700 (-1%)	£86,000 (-1%)	£154,900 (-1%)
Disorderly Net Zero outcome	£82,500 (+1%)	£82,300 (-6%)	£147,400 (-6%)
Failed Transition outcome	£82,100 (0%)	£85,400 (-2%)	£127,600 (-19%)

Due to the longer-term nature of climate risks, younger members with longer investment horizons show bigger losses, as we would expect. Being invested for longer means these members are more likely to still be in the Scheme when market shocks and physical impacts occur. Additionally, younger members are invested more in equities, which we expect would suffer greater losses from climate risks compared to other types of assets such as bonds or cash. For example, physical risks (most prevalent in the Failed Transition scenario) include damage to company assets and supply chains, which would first and foremost affect stock prices (hence the equity investments of our members), with a more limited impact on bonds as bondholders have priority and receive agreed payments. Similarly, transition risks (most prevalent in the Disorderly Net Zero scenario) include increased regulations and societal demands, which impact profitability and growth. Once again, bondholders receive agreed payments whereas the value of equities is linked to the profitability and growth of the company, meaning members invested in equities would see larger losses.



The "Disorderly Net Zero" scenario presents a mid-term market shock, with significant implications for members aged 57 (nearing retirement), due to the short recovery window. By contrast, younger members would suffer greater losses (as they are invested in equities) but can make up a lot of this loss with future investment returns and contributions into the Scheme for active members. The "Failed Transition" scenario, characterised in particular by physical impacts such as extreme weather events, has a more limited effect on older members as their time horizons are too short for physical risks to materialise in this scenario.

We have focused our efforts of integrating climate considerations into the investment strategies on the equity portion initially, as this is expected to have the greatest impact for members.

The CWP default investment strategy is more resilient than the Retirement Age TDFs across all scenarios. This is because of its lower allocation to equities in favour of cash for members close to retirement.

The impact on deferred members of the scenarios modelled and graphical analysis is shown in Technical Section 2.

### **Changes to investment strategies**

- As a result of the outcomes of the scenario analysis we have taken several steps to formally incorporate ESG within the investment strategies. In particular, several of the underlying investment options incorporate ESG considerations as follows: -
  - The underlying passive equity funds used within the CAEP default investment strategy during the Scheme Year incorporated ESG "screens". This means preventing investment in areas that contribute highly to carbon emissions such as thermal coal and oil sands.
  - The CAEP default investment strategy also included an allocation to the BlackRock Climate Transition World Equity fund during the Scheme Year (c13% in the SW Pension Protector Three fund and c7% in the SW Pension Portfolio Four fund), which seeks to gain exposure to companies within the MSCI World Index which are well positioned to take advantage of opportunities and minimise the potential risks associated with a transition to a low carbon economy.
  - In the CWP section, 50% of the developed market equity allocation within the Risk Rated funds invest in the LGIM Future World fund range. The LGIM Future World fund range applies LGIM's ESG scoring covering 30 different metrics in the stock allocation process.
- The new CAEP Cushon Core default investment strategy implemented in October 2023 provides members with the benefit of integrating additional climate factoring, aligning it with Net Zero objectives and the United Nations' Sustainable Development Goals. In order to do this, Cushon Core utilise funds that prioritise climate factors through targeting significant CO<sub>2</sub>e emission reductions and excluding non-compliant entities. Moving to this investment strategy will therefore represent a material reduction in the exposure to transition and physical risks for members. The majority of the new CAEP self-select available from October 2023 also invest in underlying LGIM Future World funds.

## **3. Risk Management**

We believe that: -

- Climate change is a significant financially material ESG issue for the Scheme and its members, especially in the medium to long term;
- The biggest risk from climate change is the longer-term Physical Risk; and,
- The immediate concern is the impact of climate change on risk-adjusted investment returns.

With regard to risk management: -

- We consider climate change risks and opportunities across a range of aspects of managing the Scheme. Within governance, this includes consideration of ESG factors in updating Scheme documents such as the Trustees' Annual Business Planner. We also consider climate change risks and opportunities as part of any detailed investment analysis. For example, following the Scheme Year end, we considered the ESG credentials of the proposed new CAEP investment strategies including the default investment strategy implemented in October 2023.
- Our primary focus is on identifying climate-related risks that are financially material for our members, and how they integrate with other investment risks. As part of this the Scheme's Investment Adviser keeps us updated on any developments regarding the Scheme's investments as part of quarterly performance reports.
- We expect the biggest impact to be experienced on, and result from, the management of the investments and the Scheme's investment strategies. The performance of the investment strategies is reviewed on a quarterly basis to ensure they continues to meet our aims and objectives.

We have designed policies and put in place processes, which enable us to identify, assess and manage climate-related risks and opportunities, and integrate management of climate-related risks into the overall risk management structure of the Scheme.

### **The processes the Trustees have established to identify climate-related risks in relation to the Scheme**

We maintain a Framework that specifically defines how we handle the climate-related risks and opportunities that may affect the Scheme and its members. This Framework sets out the policies and processes designed for effective oversight by the Trustees. The Framework is reviewed on at least an annual basis to ensure it remains appropriate.

We also include consideration of climate-related risks while updating the Scheme governance documents. This includes the following: -

- **The Trustees' Annual Business Planner:** This sets out items to be actioned during the Scheme Year and reviews of certain Trustees' policies. We have updated the document to include key aspects of climate-related considerations and reporting to ensure that appropriate time and oversight is dedicated to the identification, assessment and management of relevant issues, and reporting deadlines are met. The review of the Net Zero ambition stated by the Scheme and the progress made toward meeting these is included in the document, as well as reviewing the Trustees' ESG Strategy document mentioned previously in this Report and assessing Trustee training needs relating to climate change.
- **The Scheme's SIPs:** These have been updated for each section of the Scheme to include climate change risks and how they will be managed or mitigated.
- **The Scheme's Implementation Statements:** We prepare annual Implementation Statements for each section of the Scheme to provide details of how we have complied with the SIPs over the Scheme Year. Therefore, these provide details on how the Scheme has complied with policies relating to climate risks. The Implementation Statements also includes a description of voting behaviour (including "most significant votes" by, or on behalf of, the Trustees).

Furthermore, to ensure that the Scheme's risk management is comparable to competitors, the Scheme's Investment Adviser has provided information for the Trustees to consider regarding the level of ESG integration within the Scheme's investment strategies compared with that of other Master Trusts. The Scheme's quarterly investment reporting also includes information on the ESG integration of the Scheme's underlying investments and Investment Managers.

### **The processes the Trustees have established to assess climate-related risks in relation to the Scheme**

We recognise that ESG considerations, including climate change, can have a material financial impact on the Scheme's investments. We therefore consider ESG including climate change issues with help from our Investment Adviser and evaluate and manage these risks and opportunities when reviewing the Scheme's investment strategies and in the selection and retention of their Investment Managers. Following the Scheme Year end, we were provided with a review of the ESG integration within the new proposed new investment strategies for the CAEP section, which has formed part of our decision-making process regarding the transition to those new strategies in October 2023.

We have set out a process in our Framework to measure these climate risks in various ways, including monitoring metrics such as carbon emissions and the Net Zero commitments by the Investment Managers, as well as conducting scenario analysis.

We have included consideration of climate-related risks (or failure to take advantage of opportunities) within the Scheme's Risk Register to help ensure they are managed appropriately. We have the following risk in the Scheme's Risk Register: -

*Risk that Climate Change risk is not adequately identified, assessed and managed in relation to the Scheme investments (including failure to take advantage of opportunities)*

For this risk, we have the following controls in place: -

- **Control 1: We have and will continue to receive advice from our Investment Adviser on climate-related issues, including annual investment reviews and quarterly investment update reports.**
- **Control 2: We maintain a Climate Change Governance and Reporting Framework which is reviewed at least annually and publish an annual Climate Change Report from 2022 onwards in accordance with the Trustees' Annual Business Planner.**
- **Control 3: The Trustees have committed to ongoing training to ensure that they fully meet statutory requirements and keep up to date with best practice and regulatory expectations in relation to climate change risks and opportunities and reporting.**

- **Control 4: Consideration of climate-related risks and opportunities is embedded into regular investment processes, reporting and relevant documents including monitoring of climate-related metrics and scenario analysis.**

The documents that we review in relation to this risk include quarterly investment reports, annual review of the SIPs, annual review of the Framework, annual review of the Trustees' ESG Strategy, and annual investment review reports. We regularly review the Risk Register, which includes consideration of climate risks as noted above.

In addition to the above, we have a Service Provider Appointments and Relations Policy document in place which details policies in relation to the appointment and management of relations with third-party service providers. We have included climate-related considerations within that policy document, especially for relations with the Investment Adviser and Investment Providers, to help manage risks and opportunities when reviewing, updating or renewing the service agreements, mandates and Key Performance Indicators ("KPIs") or Service Level Agreements ("SLAs"), and as part of any tendering process.

Regarding due diligence and assessing fitness and propriety in relation to the appointment and review of third parties, we have included the following in the document: -

*"When selecting or reviewing an Investment Adviser and/or Investment Provider appointment, the Trustees will include consideration of the competency and experience of the service provider in relation to Environmental, Social and Governance (ESG) factors including the identification, assessment and management of climate-related risks and opportunities."*

This allows us to assess the competency of our Investment Adviser and Investment Providers in relation to identification, assessment and management of climate change risks, opportunities, and reporting.

#### **The processes the Trustees have established to manage climate-related risks in relation to the Scheme**

We have documented our support for the Paris Agreement and commitments made by the Scheme in relation to this, as described in the Governance section of this Report.

We have an ESG Strategy in place, which was last reviewed in February 2023, and outlines our collective core investment beliefs and ESG strategy and is complementary to the SIPs. The ESG Strategy includes our policy on climate change risk management and serves as the basis for the selection and retention of the Scheme investments and Investment Managers. The Investment Adviser takes account of the beliefs and expectations set out in the ESG Strategy when providing advice, recommendations, and reporting on Scheme investments.

The ESG Strategy includes a 'Climate Change' section, which documents our beliefs regarding climate change risk management (detailed in the Governance section of this Report), as well as our expectations of the Investment Managers and the Investment Providers and the expected frequency of reporting. These expectations are noted below: -

- We are **committed to ensuring the Scheme investments are aligned with the goals of the Paris Agreement and will exert influence** over the Investment Managers, to **commit to a "Net Zero" Green House Gas ("GHG") emissions by 2050 target** for Scheme's assets under management, if they have not done so already;
- Once the Investment Manager has made such a commitment, we expect **at least an annual progress report** from each Investment Manager;
- We expect Investment Managers to have a **Climate Change policy** in relation to the assets they manage and will check and review that annually;
- In line with UK Government proposals for DC Master Trust pension schemes, **we manage climate change risks and opportunities in relation to the Scheme's investments in line with the TCFD recommendations and publish Climate Change reports annually;**
- We expect the **Investment Providers to obtain and collate available GHG emissions and at least one non-GHG emissions climate change metrics annually**, in relation to at least the Scheme's popular arrangements (described in the Climate scenario analysis section of this Report) and report these to the Trustees;
- We expect the **Investment Providers to report the same metrics for the other Scheme investment options as soon as possible thereafter** if they are not provided at the same time as those for the popular arrangements; and,
- We expect the **Investment Providers to run climate change scenario analysis and modelling on the Scheme assets they manage** and share that with the Trustees if they have not done so already. We expect that scenario analysis will be updated at least every 3 years.

We expect the Investment Managers to use shareholder voting rights and engagement activities to influence positive outcomes from the investee organisations in relation to climate change risks and opportunities, in line with our stewardship and engagement views, which are also disclosed in the Trustees' ESG Strategy.

We will continue to consider climate change risks and opportunities when reviewing and updating the SIPs and ESG Strategy. We, through our Investment Adviser, have communicated to the Investment Providers the ESG Investment Policy within the SIPs as well as relevant elements of our ESG Strategy and our Climate Change Governance and Reporting Framework and request statements of compliance from the Investment Providers.

We prefer engaging with companies rather than selling investments for reasons of non-compliance. A significant proportion of the Scheme's assets are currently invested in passive index tracking funds. However, some of those funds track indices with climate-focused exclusions. Some of the funds the Scheme invests in are also tilted to hold a higher proportion of the fund in investee organisations with better ESG scores and less of those with lower scores. These approaches support us with managing climate-related risks and opportunities for the Scheme. An example of an engagement activity carried out by one of our Investment Managers during the year is described below.

#### Engagement Case Study: Amazon

*Scottish Widows invests in Amazon through its underlying investment funds. Scottish Widows believes that while Amazon, the world's largest online retailer, is active on climate change and has pockets of good practice, it is reluctant to tackle emissions from its supply chain and other third parties. Therefore, Scottish Widows has asked the company to go further across a range of climate and environmental metrics. These include publishing a detailed transition plan with medium term targets and interim milestones encompassing its supply chain, emissions disclosures to include third-party products, embedding sustainability into executive remuneration and objectives, setting targets on sustainable sourcing of packaging, and showing progress on mitigating commodity-related deforestation. Scottish Widows is awaiting a response but will be directing its votes to support positive change and action.*

We typically conduct annual reviews of the default investment strategies for both the sections and consider climate-related issues and developments as part of these reviews. The annual investment reviews includes an ESG section, which provides details on exclusions and tilts applied to the funds that the Scheme is invested in, and an update on stewardship and engagement and progress in relation to Net Zero commitments. Considering the transition for the CAEP section investment strategies after the Scheme Year end, we were provided with the ESG credentials of the proposed new strategies as part of the transition advice from our Investment Adviser.

The Investment Providers have also conduct regular reviews of their investment strategies, in particular in relation to the asset allocations within the funds they manage.

## 4. Metrics and Target

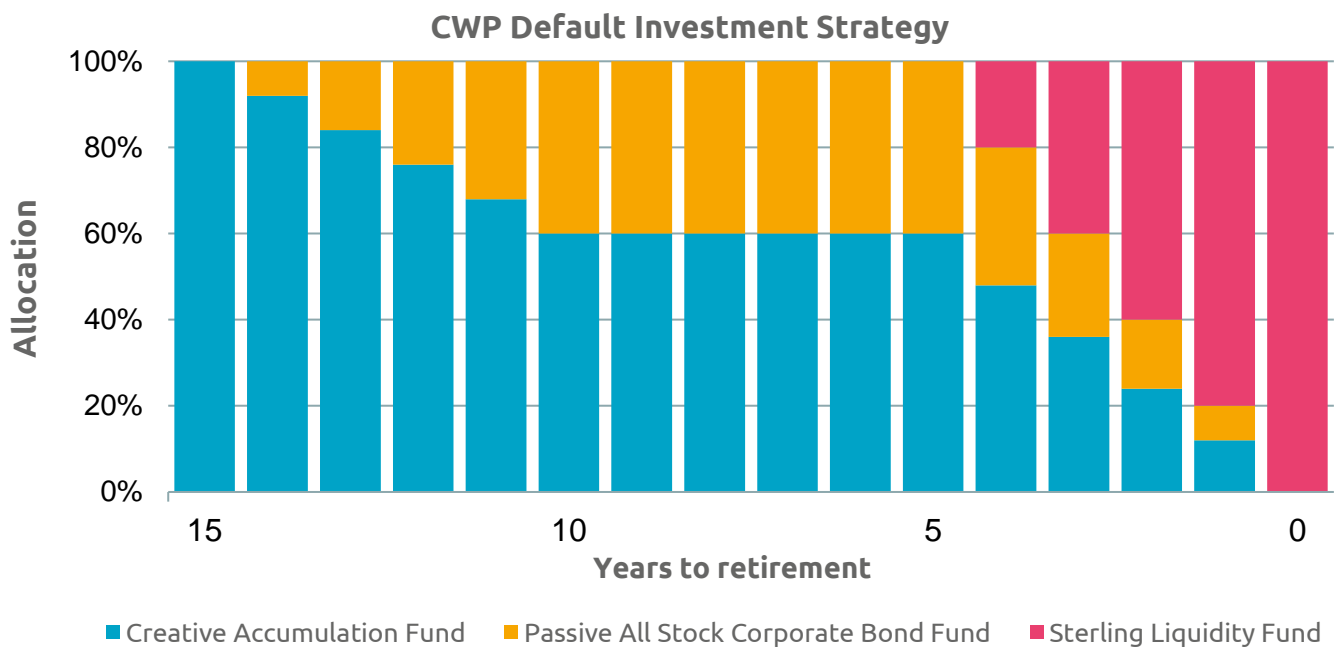
### Metrics – CWP

We have chosen four climate-related metrics, as required by the Regulations, to help us monitor climate-related risks and opportunities relevant to the CWP section. These are listed below and reported in the following pages (as far as we were able to obtain the data).

Metric	High-level methodology	Our rationale for selecting this metric
<b>Absolute emissions: Total greenhouse gas ("GHG") emissions</b>	The sum of each company's most recently reported or estimated GHGs emissions attributable to the Scheme's investment in the company, where data is available. Emissions are attributed evenly across equity and bond investors. Reported in tonnes of Carbon Dioxide equivalent ("CO <sub>2</sub> e").	Absolute emissions communicate the Scheme's contribution to climate change and are required by Regulations.
<b>Emissions intensity: Carbon footprint</b>	The total GHG emissions described above, divided by the value of the invested portfolio in £m, adjusted for data availability. Emissions are attributed evenly across equity and bond investors. Reported in tonnes of CO <sub>2</sub> e per £1m invested.	We consider carbon footprint to be a transparent and comparable metric across asset classes. It allows carbon-intensive assets to be identified for strategic re-allocation or engagement.

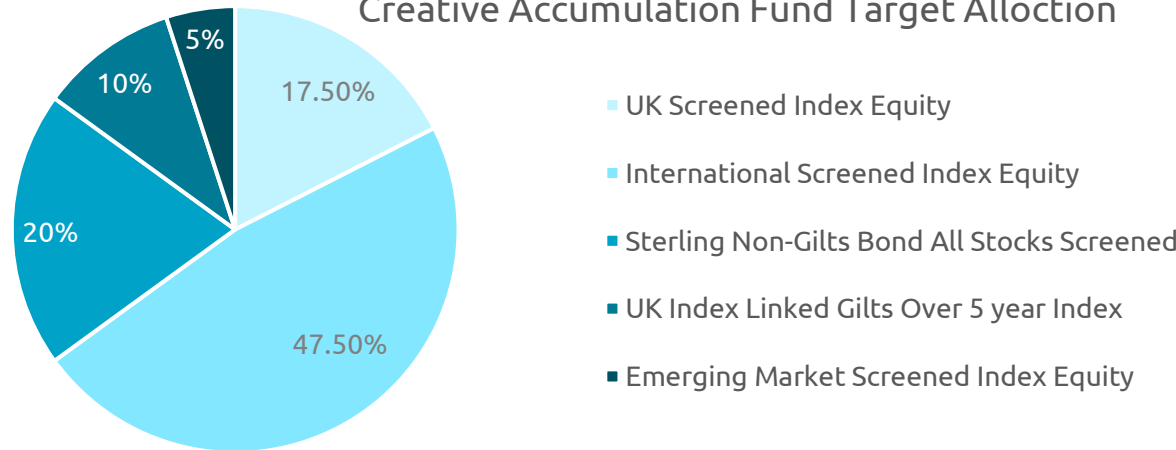
<b>Portfolio alignment: Implied Temperature Alignment ("ITA")</b>	<p>This metric estimates expected future emissions based on current GHG emissions or other data and assumptions. This estimate is translated into a projected increase in global average temperature (in °C) above preindustrial levels that would occur if all companies in corresponding sectors had the same carbon intensity as the selected assets.</p> <p>This metric has been obtained from the Investment Provider and uses the Investment Managers' methodologies.</p>	<p>This metric is expressed in a single temperature unit or range that is comparable to widely understood potential climate outcomes (e.g. 1.5°C, 2°C, 3.5°C). This allows us to monitor the alignment of the investment strategies with the goals of the Paris Agreement to limit global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels.</p>
<b>Additional climate change metric: Data Quality</b>	<p>This metric provides the proportion of investment portfolio emissions which are verified, reported, estimated or unavailable.</p> <p>The CWP Investment Provider has not been able to provide data quality information at the time of writing.</p>	<p>The first step in understanding our exposure to climate-related risks and opportunities is having good data. If there are lots of data gaps, our Investment Managers may not have enough information to adequately manage climate risk in the investment strategies. If most emissions data are estimated, the information our Investment Managers are using is less reliable.</p>

The data has been calculated using portfolio holdings as at 31 March 2023, using the most recent data available in September 2023, from the Investment Providers. During the Scheme Year covered by this Report, the data has also been calculated as at 31 March 2022 and that is shown in the Technical Section 3. We note data availability has improved since the end of the Scheme Year and for this reason we have decided to report the most recently available data (and hence the most complete available data set) at the time of completing this Report, in line with the expectations stated in the statutory guidance. The climate metrics are required to be calculated in relation to each "popular arrangement" within the Scheme, as mentioned previously in this Report. There are two strategies that meet the definition of a "popular arrangement" in the CWP section, namely the CWP default investment strategy and the Retirement Age TDFs. This is because the amount invested in these strategies accounts for more than 10% of the Scheme's assets. The asset allocation within each of these strategies changes as members approach retirement. The asset allocations for these strategies are shown below: -

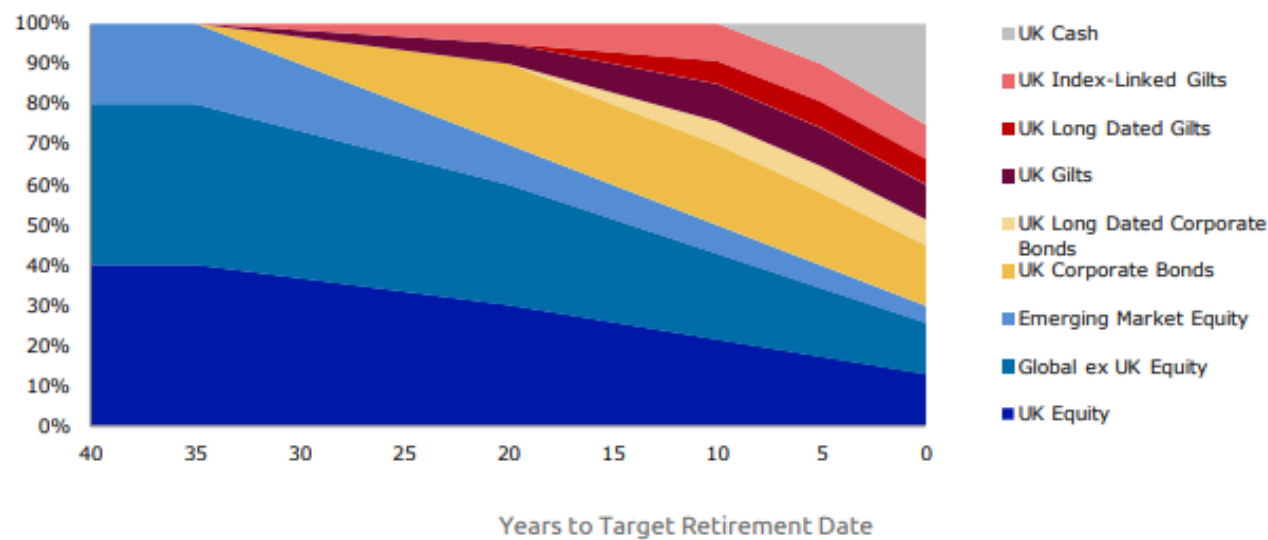




Creative Accumulation Fund Target Allocation



Retirement Age Target Date Funds



There are different versions of the Retirement Age TDFs to suit members’ different expected retirement dates. Each Retirement Age TDF will have a target retirement year set at intervals of five years, starting from 2025.

## Metrics collected – CWP Default Investment Strategy Assets

Please note that the first table below relates to scope 1 and 2 emissions and the second table relates to scope 3 emissions.

Scope 1 and 2 emissions		Data quality			Scope 1 and 2 emissions (For holdings with data)			Implied Temperature Alignment (°C) <sup>5</sup>
Asset class and valuation (£m)		Reported (%) <sup>2</sup>	Estimated (%) <sup>2</sup>	Unavailable (%) <sup>2</sup>	Coverage (%)	Total GHG emissions (tCO <sub>2</sub> e) <sup>3</sup>	Carbon footprint (tCO <sub>2</sub> e/£m) <sup>4</sup>	
UK Equity	18.3	92.4	1.3	6.3	93.7	1,613	95.0	3.1
International Equity	45.5	91.5	8.4	0.1	99.9	2,710	60.8	2.5
Emerging Markets Equity	4.6	81.3	17.7	1.0	99.0	894	198.1	2.9
UK Non-Gilts Bonds	20.5	74.6	5.4	20.0	80.0	712	44.5	1.8
UK Index-Linked Gilts	10.7	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
AAA-AA-A Corporate Bonds	42.0	46.2	0.0	53.8	46.2	1,804.6	42.9	2.6
Cash	20.1	64.4	0.0	35.6	64.4	1,287.3	64.0	1.9

Scope 3 emissions		Data quality			Scope 3 emissions (for holdings with data)		
Asset class and valuation (£m)		Reported (%) <sup>2</sup>	Estimated (%) <sup>2</sup>	Unavailable (%) <sup>2</sup>	Coverage (%)	Total GHG emissions (tCO <sub>2</sub> e) <sup>3</sup>	Carbon footprint (tCO <sub>2</sub> e/£m) <sup>4</sup>
UK Equity	18.3	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	17,830.9	971.8
International Equity	45.5	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	21,713.9	476.9
Emerging Markets Equity	4.6	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	3,256.5	704.5
UK Non-Gilts Bonds	20.5	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	4,966.7	241.9
UK Index-Linked Gilts	10.7	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
AAA-AA-A Corporate Bonds	42.0	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Cash	20.1	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	150.0	34.7

Date of portfolio value and holdings: 31 March 2023.

Source: Mobius Life Limited, State Street Global Advisors Limited.

<sup>1</sup>Data is Not Available. Although the extent of our reporting has increased materially since 2022, we acknowledge that significant gaps remain. The Trustees have been liaising with Mobius Life Limited through their Investment Adviser and given continuous feedback on data gaps and the Trustees' responsibilities in providing these metrics. Unfortunately, due to lack of consistency in the data provided by Mobius Life Limited, the Trustees instructed their Investment Adviser to liaise directly with the Investment Manager to obtain a more complete set of carbon metrics data.

<sup>2</sup>Data quality metrics have been reported by the Investment Manager. We would expect the sum of reported, estimated and unavailable data to be 100%. Where the data quality breakdown provided was marginally greater than 100%, we have adjusted the reported figure downward. In cases where the data quality provided sums to less than 100%, we have adjusted the unavailable figure. This is a prudent approach that avoids overstating data quality.

<sup>3</sup>Scheme specific total GHG emissions have been calculated by our Investment Adviser using the proportion of assets invested in the underlying funds. State Street Global Advisors Limited has provided scope 1 and 2 total GHG emissions and scope 1, 2 and 3 GHG emissions. Therefore, our Investment Adviser has deducted scope 1 and 2 emissions from the total emissions figure to calculate scope 3 emissions.

<sup>4</sup>The underlying Investment Manager has assumed carbon footprint is zero for the proportion of the funds without coverage, such that carbon footprint is equal to total GHG emissions divided by the assets invested. While the Trustees realise this approach understates the carbon footprint, they have maintained it for consistency in reporting.

<sup>5</sup>The ITA is calculated as a weighted aggregate of the company-level warming potential.

## Metrics collected – CWP – Retirement Age TDF Assets

The metrics for the investments used in the Retirement Age TDFs is shown below. Please note that the first table below relates to scope 1 and 2 emissions and the second table relates to scope 3 emissions.

The metrics are reported at fund level and have not been aggregated at asset class level. This is because the Investment Provider was only able to report data at fund level and aggregating metrics can be challenging and involve additional assumptions which may affect results, particularly when dealing with complex metrics such as implied temperature alignment.

Scope 1 and 2 emissions data		Scope 1 and 2 Data Quality			Scope 1 and 2 emissions (For holdings with data)			Implied Temperature Alignment (°C) <sup>5</sup>
Asset class and valuation (£m)					Reported <sup>2</sup>	Estimated <sup>2</sup>	Unavailable <sup>2</sup>	
Emerging Markets Equity Fund	17.9	78.8	20.5	0.6	99.4	2,930.1	164.9	N/A <sup>1</sup>
All Stocks Gilts Index Fund	5.1	99.8	0.0	0.2	99.8	419.4	82.2	1.9
Over 15 Year Gilts Index Fund	2.4	100.0	0.0	0.0	100.0	195.7	82.2	1.9
Over 5 Year Index-Linked Gilts Index Fund	4.6	100.0	0.0	0.0	100.0	376.6	82.2	1.9
Cash Fund	20.1	64.4	0.0	35.6	64.4	1,287.3	64.0	1.9
AAA-AA-A Corporate Bond - All Stocks Index Fund	42.0	46.2	0.0	53.8	46.2	1,804.6	42.9	2.6
AAA-AA-A Corporate Bond - Over 15 Year Index Fund	5.9	31.5	0.0	68.5	31.5	343.7	57.8	2.3
Future World Europe (ex UK) Equity Fund	6.9	97.8	1.2	1.0	99.0	344.4	50.0	2.6
Future World (ex-UK) Developed Equity Index Fund	14.2	91.5	7.9	0.6	99.4	394.5	27.8	2.7
Future World Japan Equity Fund	4.5	95.9	2.2	1.9	98.1	167.2	36.8	2.9
Future World Asia Pacific (ex Japan) Fund	1.8	98.6	0.4	1.0	99.0	92.3	50.2	3.4
Future World UK Equity Fund	16.4	97.1	0.4	2.5	97.5	577.4	35.2	2.1
UK Equity Index Fund	18.2	91.7	0.5	7.8	92.2	1,932.7	106.3	2.6
Japan Equity Index Fund	5.7	93.6	5.0	1.4	98.6	531.0	93.9	2.9
North America Equity Index Fund	9.9	89.8	10.2	0.0	100.0	531.2	53.7	3.0
Europe (ex UK) Equity Index Fund	9.0	94.6	1.7	3.7	96.3	875.1	97.4	2.7
Asia Pacific (ex Japan) Dev Equity Index Fund	2.7	95.1	3.0	1.9	98.1	351.4	132.1	3.2

Scope 3 emissions data		Scope 3 Data Quality			Scope 3 emissions (for holdings with data)		
Underlying Fund and valuation (£m)							
		Reported <sup>2</sup>	Estimated <sup>2</sup>	Unavailable <sup>2</sup>	Coverage (%)	Total GHG emissions (tCO <sub>2</sub> e) <sup>3</sup>	Carbon footprint (tCO <sub>2</sub> e/£m) <sup>4</sup>
Emerging Markets Equity Fund	17.9	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
All Stocks Gilts Index Fund	5.1	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Over 15 Year Gilts Index Fund	2.4	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Over 5 Year Index-Linked Gilts Index Fund	4.6	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Cash Fund	20.1	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	150.0	34.7
AAA-AA-A Corporate Bond - All Stocks Index Fund	42.0	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	16,874.2	446.7
AAA-AA-A Corporate Bond - Over 15 Year Index Fund	5.9	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	2,775.1	466.8
Future World Europe (ex UK) Equity Fund	6.9	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	3,657.7	530.9
Future World (ex-UK) Developed Equity Index Fund	14.2	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	5,512.5	388.5
Future World Japan Equity Fund	4.5	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	3,757.6	826.5
Future World Asia Pacific (ex Japan) Fund	1.8	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	1,119.4	608.5
Future World UK Equity Fund	16.4	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	9,550.6	582.2
UK Equity Index Fund	18.2	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	21,494.2	1,182.0
Japan Equity Index Fund	5.7	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	5,655.7	1,000.7
North America Equity Index Fund	9.9	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	4,680.5	473.2
Europe (ex UK) Equity Index Fund	9.0	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	6,661.8	741.7
Asia Pacific (ex Japan) Dev Equity Index Fund	2.7	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	2,228.4	837.8

Date of portfolio value and holdings: 31 March 2023.

Source: Mobius Life Limited, Legal & General Investment Management (Holdings) Limited ("LGIM"), BlackRock Advisors (UK) Limited.

<sup>1</sup>Data is Not Available. Although the extent of our reporting has increased materially over since 2022, we acknowledge that significant gaps remain. The Trustees have been liaising with Mobius Life Limited through their Investment Adviser and given continuous feedback on data gaps and the Trustees' responsibilities in providing these metrics. Unfortunately, due to lack of consistency in the data provided by Mobius Life Limited, the Trustees instructed their Investment Adviser to liaise directly with the Investment Managers to obtain a more complete set of carbon metrics data.

<sup>2</sup>Data quality metrics have been reported by the Investment Managers. We would expect the sum of reported, estimated and unavailable data to be 100%. Where the data quality breakdown provided was marginally greater than 100%, we have adjusted the reported figure downward. In cases where the data quality provided sums to less than 100%, we have adjusted the unavailable figure. This is a prudent approach that avoids overstating data quality. LGIM relies on third party sourced model-based estimates for scope 3 data as most companies do not publish scope 3 data yet. LGIM is unable to provide data quality figures for scope 3 at the time of finalising this Report.

<sup>3</sup>Scheme specific total GHG emissions have been calculated by our Investment Adviser using the proportion of assets invested in the underlying funds.

<sup>4</sup>The underlying Investment Managers have assumed carbon footprint is zero for the proportion of the assets without coverage, such that carbon footprint is equal to total GHG emissions divided by the assets invested. While the Trustees realise this approach understates the carbon footprint, they have maintained it for consistency in reporting.

<sup>5</sup>The ITA is calculated as a weighted aggregate of the company-level warming potential.



## CWP details of missing data or estimations

As part of our commitment to ensure more complete data is provided for the climate metrics reporting, the Trustees, through our Investment Adviser, have liaised with the Investment Provider throughout the Scheme Year and following Scheme Year end. This included the following: -

- The Investment Adviser set-up an initial call with the Investment Provider in January 2023 to go through the regulatory requirements applicable to the Scheme and set expectations. This included talking through the required climate metrics data and stressing the importance of ensuring a complete set of data is made available. The Investment Provider took the action of liaising with the Investment Managers to ensure all data could be provided.
- The Investment Adviser emailed the Investment Provider on 8 February 2023 to ask for an update on the actions from the call. An additional call was set for 14 February 2023 to discuss updates regarding expectations of data availability. The Investment Adviser provided support on how metrics should be calculated and appropriate checks to identify any queries that should be raised with the Investment Managers in respect of the climate data provided.
- In response to a follow-up email from the Investment Adviser, the Investment Provider provided an update on 1 March 2023. This update highlighted potential data gaps given recent communications from the Investment Managers, particularly in relation to Scope 3 emissions. The Investment Adviser pointed out the relevant regulatory requirements to be shared with the Investment Managers in order to apply pressure for addressing these data gaps in time for this Report being published.
- The Investment Adviser exchanged several emails over the following months to reiterate regulatory guidance on climate metrics and ensure that the Investment Provider was providing adequate pressure on the Investment Managers to provide the required data. The Investment Adviser also took this as an opportunity to query additional information based on the previous year's climate data to ensure that previous data gaps, including the disclosure of material assumptions, could be provided for this Report.
- An additional call was set-up with the Investment Provider in June 2023 for an update on providing the required data. The Investment Provider agreed to provide the required data. However, when that data was received it contained significant gaps and the Investment Adviser queried this further.
- Following numerous queries from the Investment Adviser and escalating this through its contacts, an updated set of data was provided on 8 September 2023. The Investment Adviser still had several concerns with this data.
- The Trustees and the Scheme Sponsor & Manager representatives have received updates throughout this process, including at the quarterly Trustees' meetings.

As at the time of finalising this Report we have not yet received the complete set of data from the Investment Provider. While this poses challenges in presenting a full picture of the Scheme through our chosen climate metrics, we remain committed to obtaining this data. Therefore, along with escalating the urgency of our requests to underscore the importance of obtaining this data to the Investment Provider to aid in future reporting, our Investment Adviser has also liaised directly with the Investment Managers to address some of the gaps in the data and we have reported this below, along with any assumptions used. For some cases of incomplete data, where possible, modelling or estimations were used to fill the gaps.

Carbon emissions data and company fundamental data is sourced from third party data vendors. Coverage for eligible assets will not always be 100%. Reasons for this include a particular company not publishing its carbon emissions data, or the correct mapping not being found between a bond and its parent company to apply the correct carbon data to the correct company. The Trustees have reported coverage of metrics where the Investment Manager discloses this information and continues to liaise with the Investment Provider to address limitations in coverage of different asset classes.

Reported climate data was only available for listed equity (63% of overall CWP assets) and corporate bond (22% of overall CWP assets) investments within the popular arrangements. Any climate data reported in respect of government bonds (8% of overall CWP popular arrangements assets) will be entirely estimated as the UK Government does not report this at present. There are gaps in reporting climate data for other asset classes, such as for cash funds (7% of overall CWP popular arrangements assets). The Trustees are working with the Investment Provider to improve data reporting over time for the CWP popular arrangements.

## Metrics – CAEP section

We have chosen three climate-related metrics, as required by the Regulations for the most recent Scheme Year, to help us monitor climate-related risks and opportunities relevant to the CAEP section. These are listed below and reported in the following pages (as far as the Trustees were able to obtain the data).

Metric	High-level methodology	Trustees' rationale for selecting this metric
<b>Absolute emissions: Total greenhouse ("GHG") gas emissions</b>	The sum of each company's most recent reported or estimated GHG emissions attributable to the Scheme's investment in the company, where data is available. Emissions are attributed evenly across equity and bond investors. Reported in tonnes of Carbon Dioxide equivalent ("CO <sub>2</sub> e").	Absolute emissions communicate the Scheme's contribution to climate change and are required by the Regulations.
<b>Emissions intensity: Carbon footprint</b>	The total GHG emissions described above, divided by the value of the invested portfolio in £m, adjusted for data availability. Emissions are attributed evenly across equity and bond investors. Reported in tonnes of CO <sub>2</sub> e per £1m invested.	The Trustees consider carbon footprint to be a transparent and comparable metric across asset classes. It allows carbon-intensive assets to be identified for strategic re-allocation or engagement.
<b>Portfolio alignment: Science Based Targets Initiative ("SBTi")</b>	<p>The proportion of the portfolio by weight that has set an emissions reduction target that has been accredited by the SBTi or equivalent.</p> <p>This metric is reported in percentage terms and represents the organisations classified by SBTi as "targets set", indicating that the SBTi has validated their climate targets. It does not include organisations that have simply "committed" to set a science-based target in the future.</p>	<p>A "binary target" measure is the simplest and most robust of the various portfolio alignment metrics available and one of the recommended methods set out in the Statutory guidance.</p> <p>This is different from the portfolio alignment metric used for the CWP section because the CAEP Investment Provider was not able to report ITA.</p>
<b>Additional climate change metric: Data quality</b>	The proportion of the portfolio for which GHG emissions data is verified, reported, estimated or unavailable. Reported emissions are reported by the emitting company but not verified.	The quality of the available emissions data underpins the reliability of all the other metrics reported. Selecting it as a metric provides a basis for investors to encourage continued improvements in the quality of reporting that is available.

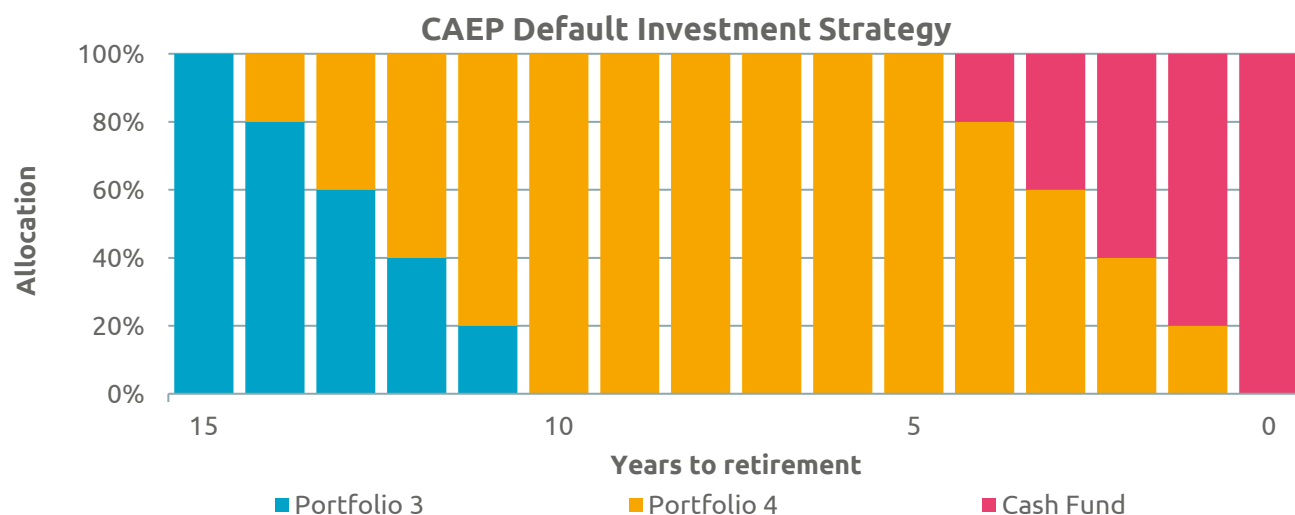
The data has been calculated using asset holdings as of 31 December 2022, using the most recent data available in September 2023, from the Investment Provider.

In the course of preparing this report, our Investment Adviser actively sought the collaboration of the CAEP Investment Provider, Scottish Widows Limited to gather the climate metrics data. Our Investment Adviser consistently engaged with the Investment Provider, articulating the regulatory requirements and the Trustees' expectations for the delivery of pertinent metrics data. This communication involved numerous email communications and several dedicated discussions over calls to underline the urgency and significance of the data needed.

As at the time of finalising this Report, we have not yet received the complete set of data from the Investment Provider. While this poses challenges in presenting a full picture of the Scheme through our chosen climate metrics, we remain committed to obtaining this data. We have escalated the urgency of our requests to underscore the importance of obtaining this data. Where possible, our Investment Adviser has provided estimates for the outstanding figures, which are clearly labelled as such in the tables below, together with the relevant assumptions made in order to derive these estimates. While we have reported this delay as being out of line with our expectations from our Investment Provider, we recognise the complexity of this evolving landscape.

The climate metrics are required to be calculated in relation to each "popular arrangement" within the Scheme.

The default investment strategy for CAEP (the only popular arrangement for the CAEP section) during the Scheme Year is shown below: -



### Metrics collected – CAEP Default Investment Strategy Funds

Please note that the first table below relates to scope 1 and 2 emissions and the second table relates to scope 3 emissions.

Scope 1 and 2 emissions		Data Quality				Scope 1 and 2 emissions (for holdings with data)		SBTi	Date of portfolio value and holdings
Fund and valuation (£m)		Equities and corporate bonds	Reported	Estimated	Unavailable	Total GHG emissions (tCO <sub>2</sub> e) <sup>1</sup>	Carbon Footprint (tCO <sub>2</sub> e/£m)		
SW Pension Portfolio Three	396.5	92%	77%	12%	11%	25,103	71.1	54.1%	31/12/22
SW Pension Portfolio Four	108.2	94%	72%	16%	12%	6,185	65.2	50.4%	31/12/22
SW Cash	31.1	97%	69%	21%	10%	8	0.3	45.7%	31/12/22

Scope 3 emissions		Data Quality				Scope 3 emissions (for holdings with data)		Date of portfolio value and holdings
Manager, asset class and valuation (£m)		Equities and corporate bonds	Reported	Estimated	Unavailable	Total GHG emissions (tCO <sub>2</sub> e) <sup>1</sup>	Carbon footprint (tCO <sub>2</sub> e/£m)	
SW Pension Portfolio Three	396.5	89%	35%	54%	11%	164,961	468.0	31/12/22
SW Pension Portfolio Four	108.2	88%	34%	54%	12%	34,311	360.8	31/12/22
SW Cash	31.1	90%	16%	74%	10%	939	33.4	31/12/22

Source: Scottish Widows Limited. <sup>1</sup> Total GHG emissions figures have been estimated by our Investment Adviser by adjusting the Total GHG emissions for the entire fund, using the investment amount held by the Scheme.

### CAEP Section details of missing data or estimations

As with the CWP section, the Trustees, through our Investment Adviser, have liaised with the Investment Provider throughout the Scheme Year and following Scheme Year end regarding the provision of suitable metrics data for this Report. This included the following: -

- The Investment Adviser offered an initial call with the Investment Provider in January 2023 to go through the regulatory requirements applicable to the Scheme and set expectations. The Investment Provider did not take up this offer. However, it took the action of preparing a full summary of the metrics data that could be provided in time for this Report to be published.
- The Investment Adviser emailed the Investment Provider on 17 January 2023 with an initial list of metrics. However, the data provided included material data gaps relative to our expectations. Our Investment Adviser raised a number of queries in response, in particular to highlight the missing data and to ask for a commitment that the full data set would be provided.
- The Investment Provider provided a response to part of the queries raised on 8 February 2023 and, following numerous follow-up emails sent by our Investment Adviser, has stated on 11 April 2023 that no portfolio alignment metric will be reported but that the remaining climate data would be provided by the start of July 2023.
- The Investment Adviser immediately raised the lack of portfolio alignment reporting as a significant issue that would cause a breach of regulations. The Investment Provider's proposition in response to this was to deliver Weighted Average Carbon Intensity as opposed to a Portfolio Alignment metric. The Investment Adviser deemed this unacceptable and, as before, out of line with the applicable regulations.
- After a number of further follow-ups from our Investment Adviser, the Investment Provider agreed to provide a portfolio alignment metric on 2 June 2023, namely the Implied Temperature Rise.
- The data was not provided by the initially agreed deadline in July 2023. This was raised as a concern by our Investment Adviser during a Trustees' meeting and an escalation process was agreed. Following successful further engagement by our Investment Adviser, the metrics data was obtained on 25 August 2023.

The Investment Provider confirmed the data provided has been calculated in line with the methodology outlined in the DWP's guidance.

*Why does the data not fully cover the portfolio?*

Not all underlying companies and governments issuing the investment instruments we hold were able to report climate data over the period. For example, public companies generally have better reporting of climate data due to the increased regulatory and shareholder pressure to do so. As a result, we were only able to report the metrics described earlier in this section for part of the popular arrangement set out above.

*What data gaps remain?*

Climate data was reported for c75% and estimated for c14% of the CAEP popular arrangement assets. Most of the data gaps are in respect of asset classes other than listed equity and corporate bonds. We have been working with the Investment Provider to improve data reporting over time. Notably, this year we reported Scope 3 carbon emissions, which was not available for last year's Report.

*What is the impact of data gaps on the scope of the analysis or calculations the Trustees have been able to do?*

Where reported data was not available, where possible, modelling or estimations were used to fill the gaps. Carbon emissions data and company fundamental data was sourced from third party data vendors. We have reported coverage of metrics where the Investment Manager discloses this information and continue to liaise with the Investment Provider to address limitations in coverage of different asset classes.

*Where estimations or models have been used to fill gaps, are there assumptions that could impact significantly on the results?*

Carbon emissions data and company fundamental data is sourced from third party data vendors. The Investment Provider has aggregated this data. There may be a lag between companies reporting emissions and the data becoming available. As a result, although the reported data is the latest emissions data available at the reporting date, this data may not be completely up to date.

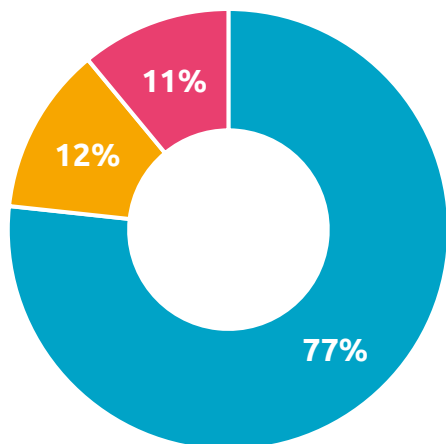
*What steps are the Trustees taking to address these gaps?*

With help from our Investment Adviser, we have informed the Investment Provider of our expectations and our Investment Adviser has engaged with the Investment Provider regularly throughout the Scheme Year and subsequently to apply pressure, offer support and query inconsistencies.

## Breakdown of emissions data quality - CAEP Section

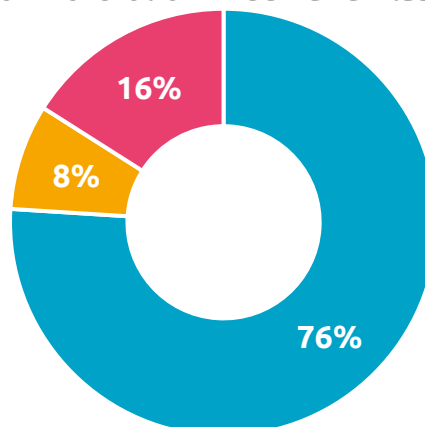
This is shown as the split of the investment portfolio value (not the split of the emissions figures).

**Pension Portfolio Three Fund**



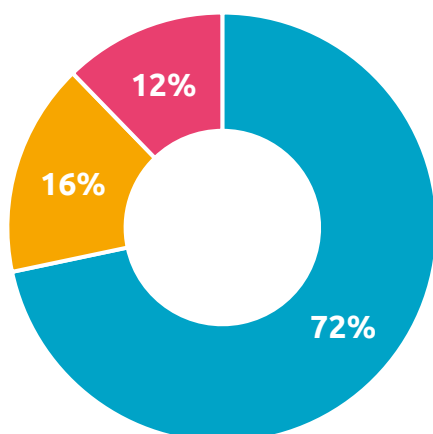
■ Reported ■ Estimated ■ Unavailable

**Pension Portfolio Three Fund - last report**



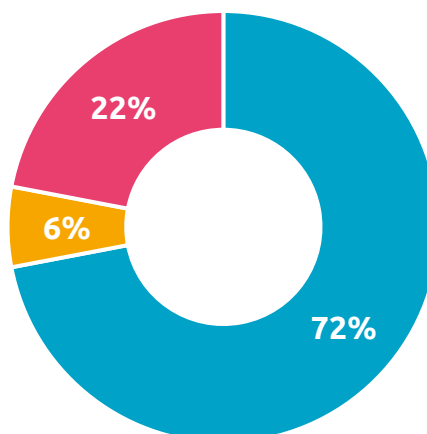
■ Reported ■ Estimated ■ Unavailable

**Pension Portfolio Four Fund**



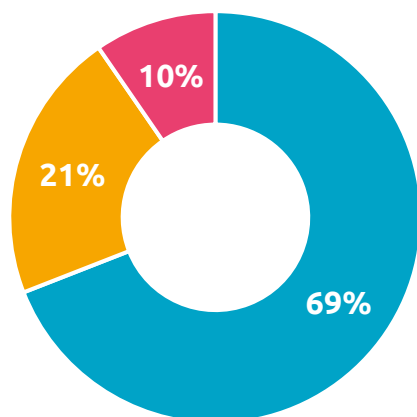
■ Reported ■ Estimated ■ Unavailable

**Pension Portfolio Four Fund - last report**



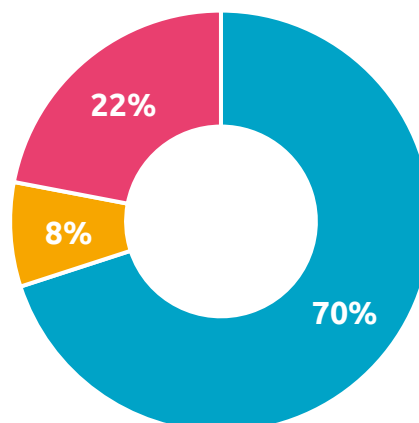
■ Reported ■ Estimated ■ Unavailable

**Cash Fund**



■ Reported ■ Estimated ■ Unavailable

**Cash Fund - last report**



■ Reported ■ Estimated ■ Unavailable



## Targets

We have set the following targets in relation to one of the metrics selected for the Scheme: -

Target	Coverage	Reference base year
Improve the data quality (as measured by the proportion of assets for which reported carbon footprint figures are available) by 10%, from 75% to 85% by 31 March 2027.	The target applies to the CAEP default investment strategy.	2022
Improve the data quality (as measured by the proportion of assets for which reported carbon footprint figures are available) by 10%, from 86% to 96% by 31 March 2027.	The target applies to the CWP default investment strategy.	2023

### Measuring performance against the targets

The climate reporting carried out for the Scheme for the Scheme Year included an assessment of the current alignment with the above targets. As a reminder, data quality represents the proportion of the portfolio for which GHG emissions data is verified, reported, estimated or unavailable. Reported emissions are reported by the emitting company rather than estimated by a third party. For the carbon emissions data reported in respect of the CWP and CAEP default investment strategies, reported data was available for broadly 86% and 75% of assets respectively.

For the CWP default investment strategy, the remaining 14% was made up of a combination of estimated data and unavailable data. This is the first reporting year for which we have been able to collect data quality information for the CWP section.

For the CAEP default investment strategy, the remaining 25% was made up of a combination of estimated data and unavailable data for listed equity and corporate bond investments, and allocations to other asset classes for which data quality is not available, such as cash or government bonds. We note there was no significant improvement in the CAEP reported data since last year's report, which our Investment Adviser had raised with the Investment Provider. The changes to the default investment strategy for the CAEP section implemented in October 2023 included a change to the Investment Provider. The Trustees expect the performance relative to target for the CAEP section to improve as a result of this change. The Trustees will engage with the new Investment Provider regarding the target and assess whether the Scheme assets are managed in accordance with this target.

We consider on an annual basis whether to retain or replace our target, taking into account performance against the target. We have decided to retain the data quality target for the CAEP default and have selected an equivalent target for the CWP default for the current Scheme Year, which we will measure performance against next year.

### Net Zero ambition

We believe the biggest risks linked to climate change are the longer-term physical risks, such as rising sea levels and extreme weather conditions, and also transition risk, where organisations face real challenges to reduce their emissions. Supporting the goals of the Paris Agreement helps us integrate potential mitigations of these risks into our investment strategies reviews and monitoring, as well as seeking training opportunities to develop our knowledge and understanding in this area.

Our Net Zero ambition and interim aim do not constitute targets under the Regulations but are separate ambitions. Whilst we aspire to formalise these ambitions in our future Climate Change Reports, there are currently significant gaps in reporting reliable and consistent emissions data across the Scheme's investment strategies. We are therefore focused on engaging with our Investment Providers to improve the quality of the available data as a first step in our Net Zero journey.

We have communicated the ambition to each Investment Provider, with help from our Investment Adviser.

When meeting with any of the Scheme's Investment Providers and Investment Managers, we discuss how they expect to improve the level of reporting over time and encourage the Investment Manager(s) to engage with investee companies about providing more accurate data.

The Investment Adviser encourages Investment Managers to support the goal of improving data quality by 2027 to ensure that the Trustees can more accurately monitor the emissions of companies the Scheme invests in.

Our Investment Managers and one of our Investment Providers (Scottish Widows Limited) during the Scheme Year have Net Zero commitments in place, although they have not all committed to the interim 50% reduction in carbon emissions by 2030, our medium-term commitment.

## Technical Section 1 – Greenhouse gas (“GHG”) emissions explained

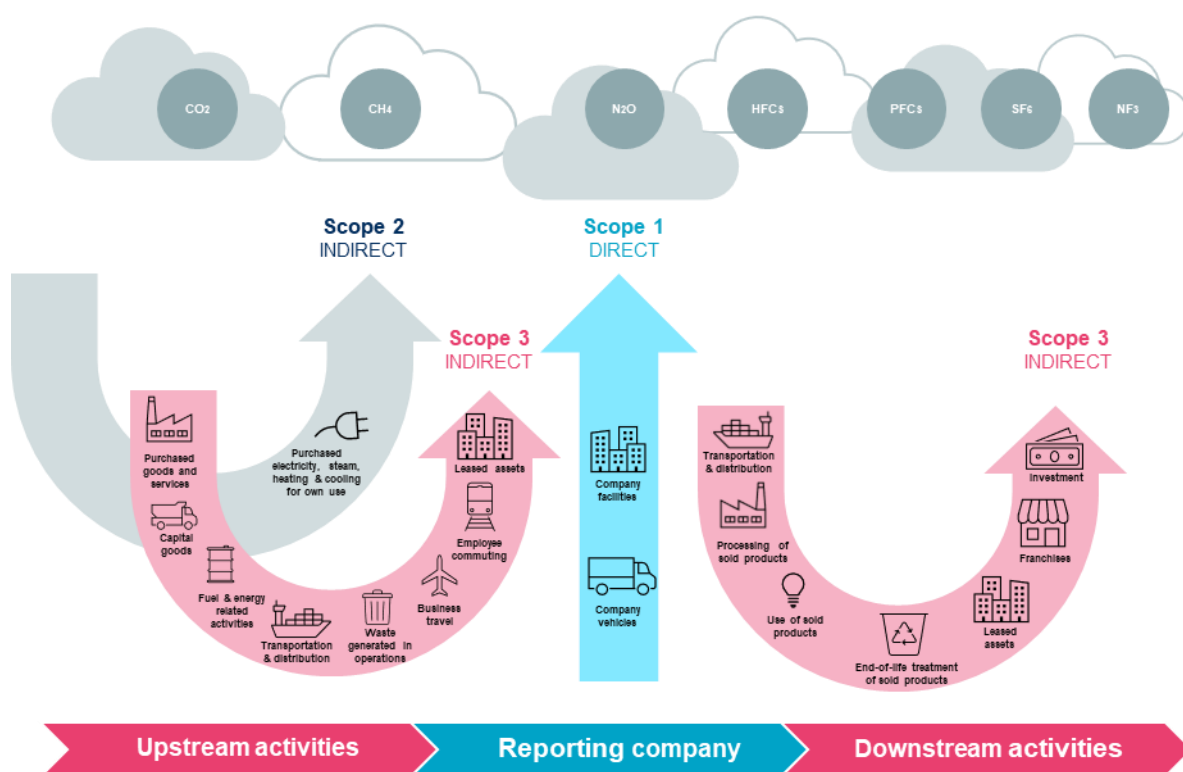
Within the ‘Metrics and Target’ section of the Report, the emissions metrics relate to seven GHGs – carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF<sub>6</sub>) and nitrogen trifluoride (NF<sub>3</sub>). The figures are shown as “CO<sub>2</sub> equivalent” (CO<sub>2</sub>e) 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 GHGs.

The metrics related to GHG 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** GHG emissions are all direct emissions from the activities of an entity or activities under its control.

**Scope 2** GHG 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** GHG 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

## Technical Section 2 – Climate scenario analysis

### The climate scenarios considered by the Trustees – key features

<b>Scenarios:</b>	<b><i>Failed Transition</i></b>	<b><i>Orderly Net Zero by 2050</i></b>	<b><i>Disorderly Net Zero by 2050</i></b>
<b>Low carbon policies</b>	Continuation of current low carbon policies and technology trends	Ambitious low carbon policies, high investment in low-carbon technologies and substitution away from fossil fuels to cleaner energy sources and biofuel	
<b>Paris Agreement outcome</b>	Paris Agreement goals not met	Paris Agreement goals met	
<b>Global warming</b>	Average global warming is about 2°C by 2050 and over 4°C by 2100, compared to pre-industrial levels	Average global warming stabilises at around 1.5°C above pre-industrial levels	
<b>Physical impacts</b>	Severe physical impacts	Moderate physical impacts	
<b>Impact on GDP</b>	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 5% lower than in the climate-uninformed scenario.	In the long term, global GDP is slightly worse than in the Orderly Net Zero scenario due to the impacts of financial markets volatility.
<b>Financial market impacts</b>	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	Transition and physical risks priced in smoothly over the period of 2022-2025	Abrupt repricing of assets causes financial market volatility in 2025

Source: Ortec Finance B.V. Figures quoted are medians.

### Modelling approach – Net Zero definition

Net Zero refers to a state in which the human caused GHGs going into the atmosphere are balanced by removal out of the atmosphere. The term Net Zero is important because the scientific consensus is that global CO<sub>2</sub> emissions need to reach Net Zero no later than 2050 for there to be a good chance of limiting global temperature rises to 1.5°C above the pre-industrial level.

The scientific advice is that reaching "Net Zero CO<sub>2</sub>" globally by 2050 would give a good chance of limiting temperatures rises to 1.5°C. Net GHG emissions would likely still be positive at this point and action to reduce them should continue so that "Net Zero GHGs" globally is reached not long after.

The analysis uses "Net Zero CO<sub>2</sub> emissions" as the focus, with Net Zero CO<sub>2</sub> by 2050 being the main driver of economic impacts from climate change or the transition to a low carbon economy.

## Modelling approach – more details

The scenario analysis is based on the ClimateMAPS model developed by Ortec Finance and Cambridge Econometrics and was then applied to the Scheme's assets by the Trustees' Investment Adviser LCP. The three climate scenarios were projected year by year, over the next 40 years. The model output is supported by in-depth narratives that bring the scenarios to life to help the Trustees' understanding of climate-related risks and opportunities.

ClimateMAPS uses Cambridge Econometrics' macroeconomic model which integrates a range of social and environmental processes, including carbon emissions and the energy transition. It is one of the most comprehensive models of the global economy and is widely used for policy assessment, forecasting and research purposes. The outputs from this macroeconomic modelling – primarily the impacts on country/regional Gross Domestic Product ("GDP") – are then translated into impacts on financial markets by Ortec Finance using assumed relationships between the macroeconomic and financial parameters.

Ortec Finance runs the projections many times using stochastic modelling to illustrate the wide range of climate impacts that may be possible, under each scenario's climate pathway. LCP takes the median (i.e. the middle outcome) of this range of impacts, for each relevant financial parameter, and adjusts it to improve its alignment with LCP's standard financial assumptions.

The modelling summarised in this Report used scenarios based on the latest scientific and macro-economic data at 31 December 2021, calibrated to market conditions at 31 March 2022.

The modelling included contributions assumed to be paid in line with the minimum auto enrolment contribution requirements, and the Trustees discussed how future planned changes to the investment strategies for both Scheme sections would change the analysis. For each investment strategy, members' starting pots values were assumed to equal the average value for Scheme members of their age invested in that investment strategy (based on asset projections in the Annual Statement regarding Governance dated 31 March 2021). Member and employer contributions were assumed to be paid in line with minimum auto enrolment contribution requirements. No allowance was made for changes to the investment strategy or contributions in response to the climate impacts modelled.

As this is a "top-down" approach, investment market impacts were modelled as the average projected impacts for each asset class, i.e. assuming that the Scheme's investments are affected by climate risk in line with the market-average portfolio for the asset class. This contrasts with a "bottom up" approach that would model the impact on each individual investment held in the Scheme's investment strategies. As such, it does not require extensive Scheme-specific data and so the Trustees were able to consider the potential impacts of the three climate scenarios for both of the Scheme's default investment strategies and the Mobius Life Retirement Age TDFs. In practice, the Scheme's investment strategies may not experience climate impacts in line with the market average.

The Trustees note that the three climate scenarios chosen are intended to be plausible, not "worst case", and the modelling is based on median outcomes. It therefore illustrates how the centre of the "funnel of doubt" surrounding asset projections might be affected by climate change. It does not consider tail risks within that funnel, nor does it consider how the funnel might be widened by the additional uncertainties arising from climate change. In addition, only three scenarios out of infinitely many have been considered. Other scenarios could give better or worse outcomes for the Scheme.

Uncertainty in climate modelling is inevitable. In this case, key areas of uncertainty relating to the financial impacts include how climate change might affect interest rates and inflation, and the timing of market responses to climate change. ClimateMAPS, like most modelling of this type, does not allow for all climate-related impacts and therefore, in aggregate, is quite likely to underestimate the potential impacts of climate-related risks, especially for the Failed Transition scenario. 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.

## Modelling limitations

As this is a "top-down" approach, investment market impacts were 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 Scheme's default investment strategies and other popular arrangement. As such, the modelling does not require extensive Scheme-specific data and so the Trustees were able to consider the potential impacts of the three climate scenarios for the assets in the default investment strategies and other popular arrangement. In practice, the Scheme's 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.

## Potential impacts under each scenario – CWP Section

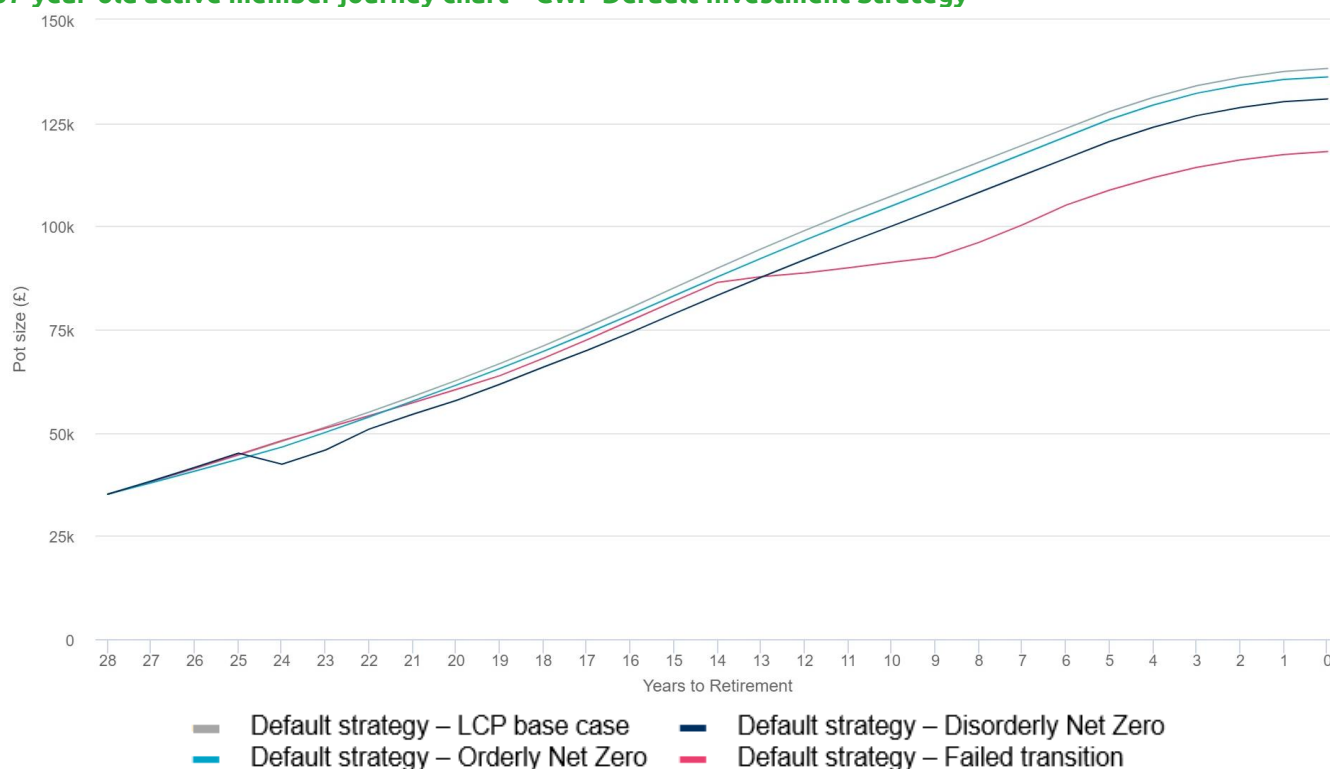
### CWP Default Investment Strategy – Active members

Note the member ages are those when the modelling was undertaken.

CWP – default investment strategy	Member aged 62	Member aged 57	Member aged 37
Starting pot	£86,300	£77,900	£35,100
<i>Change relative to climate-uninformed outcome in brackets</i>			
Modelled outcomes at age 65 under different scenarios			
LCP base case	£89,400	£98,400	£138,200
Orderly Net Zero outcome	£89,100 (0%)	£97,100 (-1%)	£136,200 (-1%)
Disorderly Net Zero outcome	£89,500 (0%)	£94,300 (-4%)	£130,800 (-5%)
Failed Transition outcome	£89,400 (0%)	£97,900 (-1%)	£118,100 (-15%)

Below is the graphical depiction of the impact of all three scenarios to active members invested in the CWP default investment strategy.

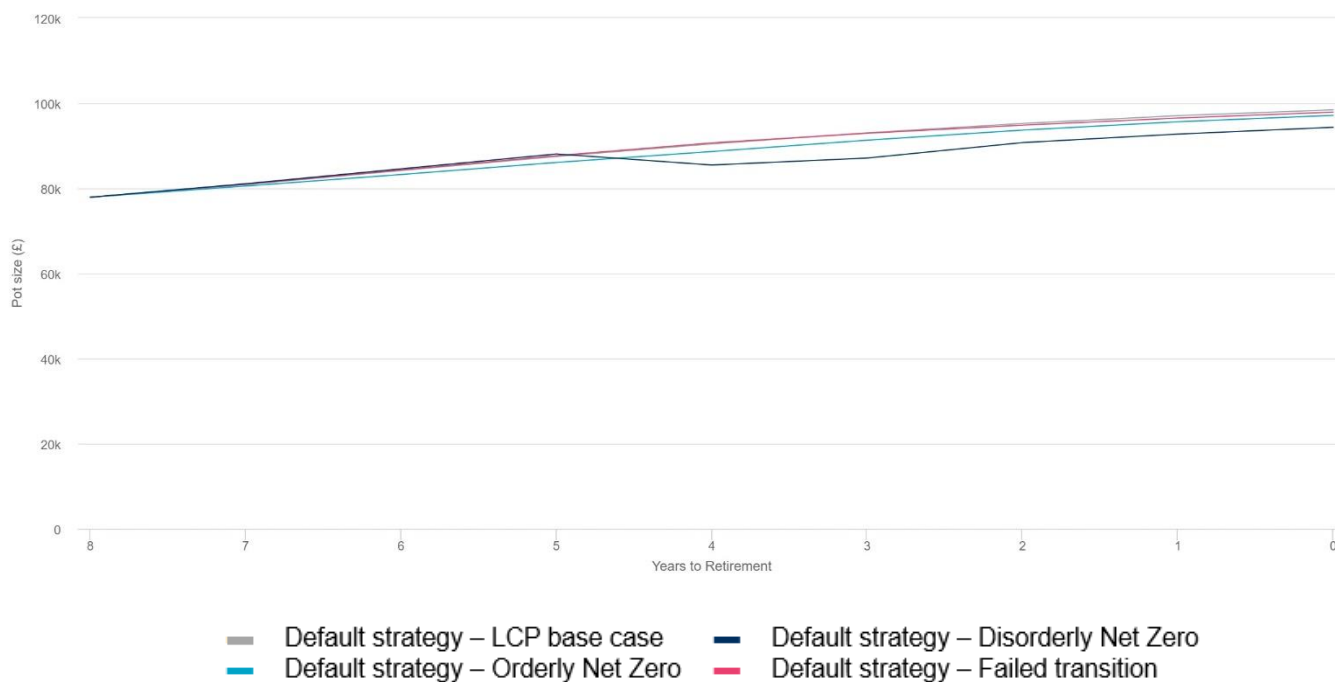
### 37-year-old active member journey chart – CWP Default Investment Strategy



As discussed in the Strategy section of this Report, members furthest from retirement are susceptible to market shocks stemming from a failed transition, shown in the disparity between the pink and grey lines.

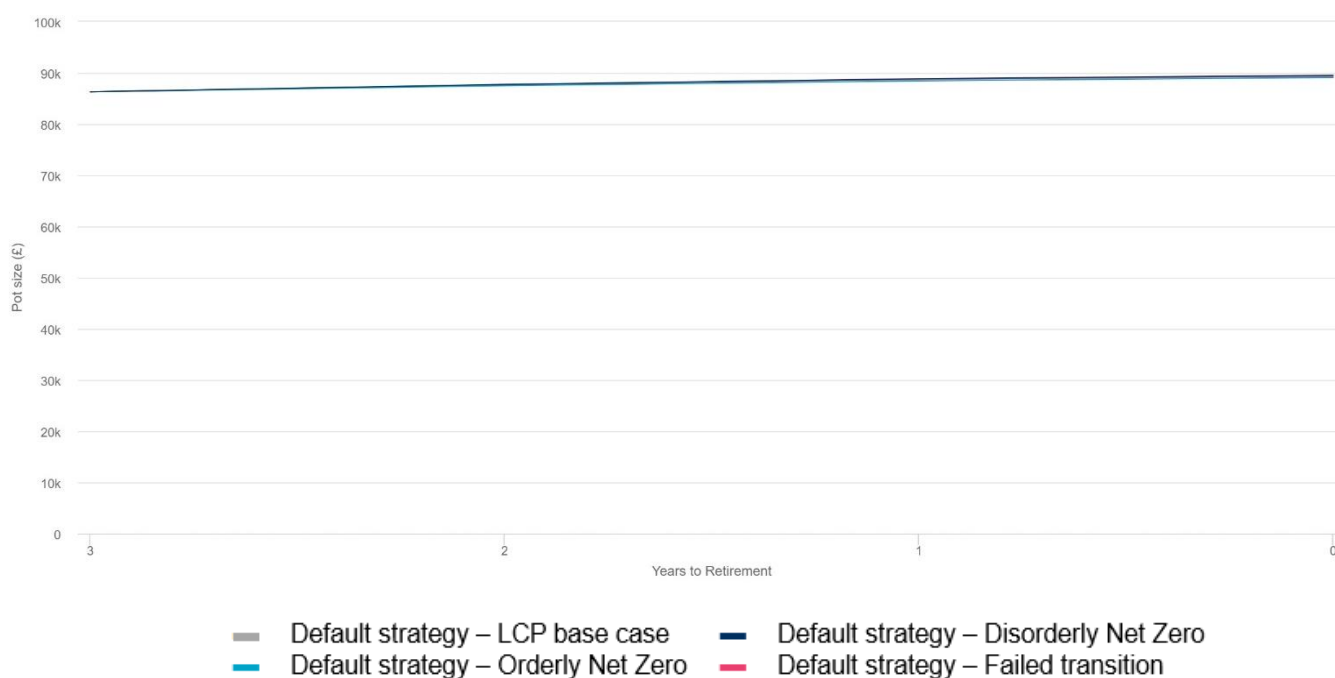


## 57-year-old active member journey chart – CWP Default Investment Strategy



57-year-old active members invested in the CWP default investment strategy are susceptible to the medium term risk of market shocks because of a Disorderly Net Zero transition. Due to the relatively short time frame, these members have been modelled to have a 4% smaller retirement pot under a Disorderly Net Zero outcome.

## 62-year-old active member journey chart – CWP Default



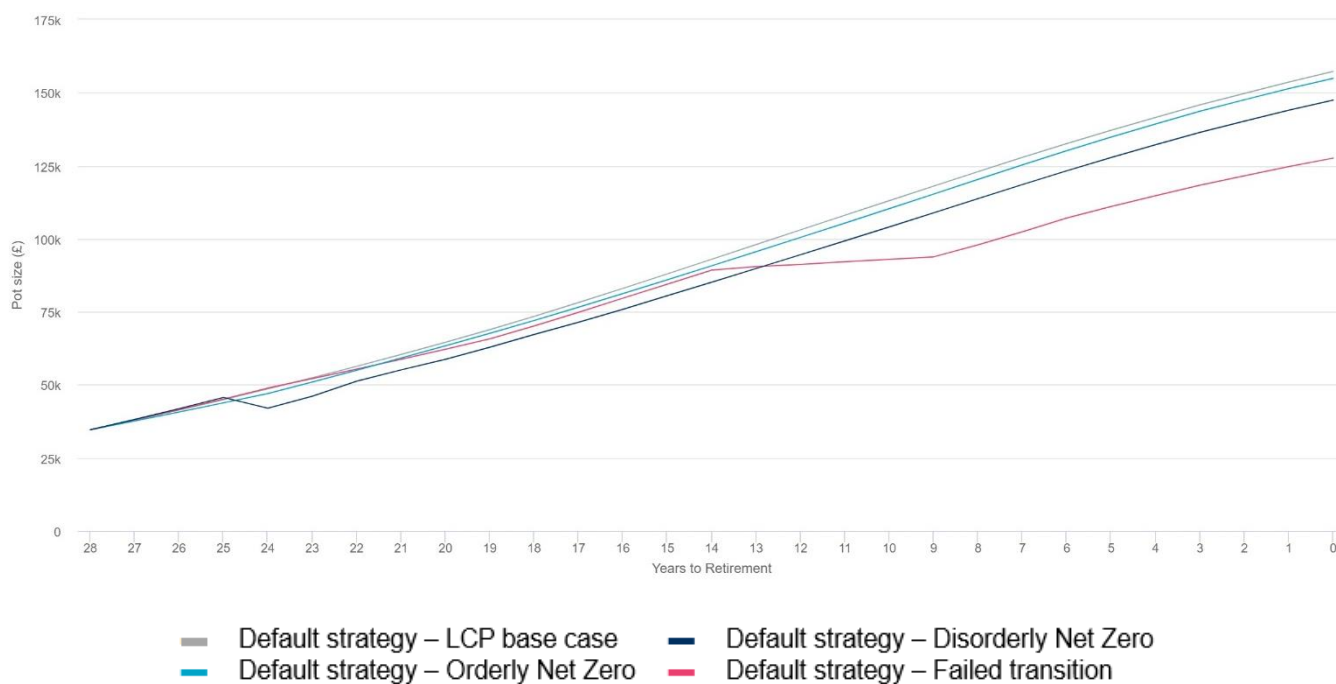
Active members invested in the CWP default investment strategy close to retirement are not expected to experience any material impacts on their retirement pots under any of the scenarios modelled.

## Mobius Life Retirement Age TDFs – Active members

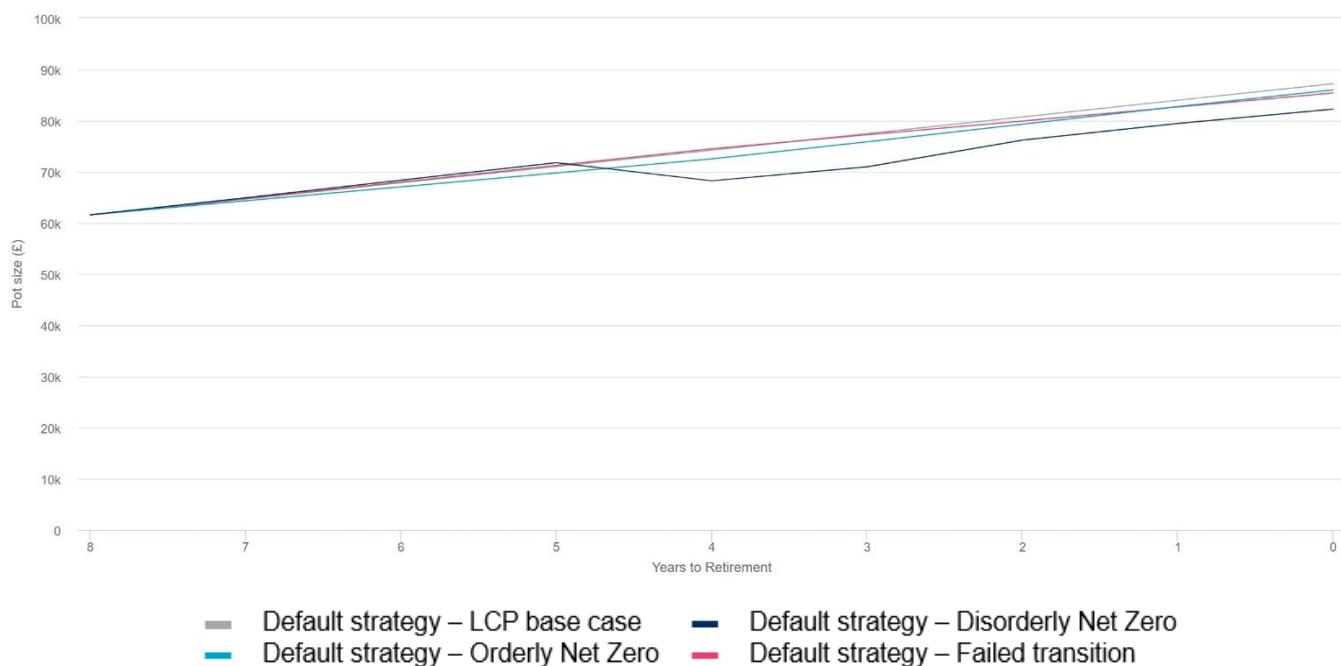
Below is the graphical depiction of the impact of all three scenarios to active members invested in the Mobius Life Retirement Age funds within CWP. Note the member ages are those when the modelling was undertaken.

Active members			
Mobius Life Retirement Age TFDs	Member aged 62 (2025 TDF)	Member aged 57 (2030 TDF)	Member aged 37 (2050 TDF)
Starting pot	£74,600	£61,600	£34,600
<i>Change relative to climate-uninformed outcome in brackets</i>			
Modelled outcomes at age 65 under different scenarios			
LCP base case	£81,900	£87,200	£157,200
Orderly Net Zero outcome	£80,700 (-1%)	£86,000 (-1%)	£154,900 (-1%)
Disorderly Net Zero outcome	£82,500 (+1%)	£82,300 (-6%)	£147,400 (-6%)
Failed Transition outcome	£82,100 (0%)	£85,400 (-2%)	£127,600 (-19%)

## 37-year-old active member journey chart – Mobius Life 2050 Retirement Age TDF

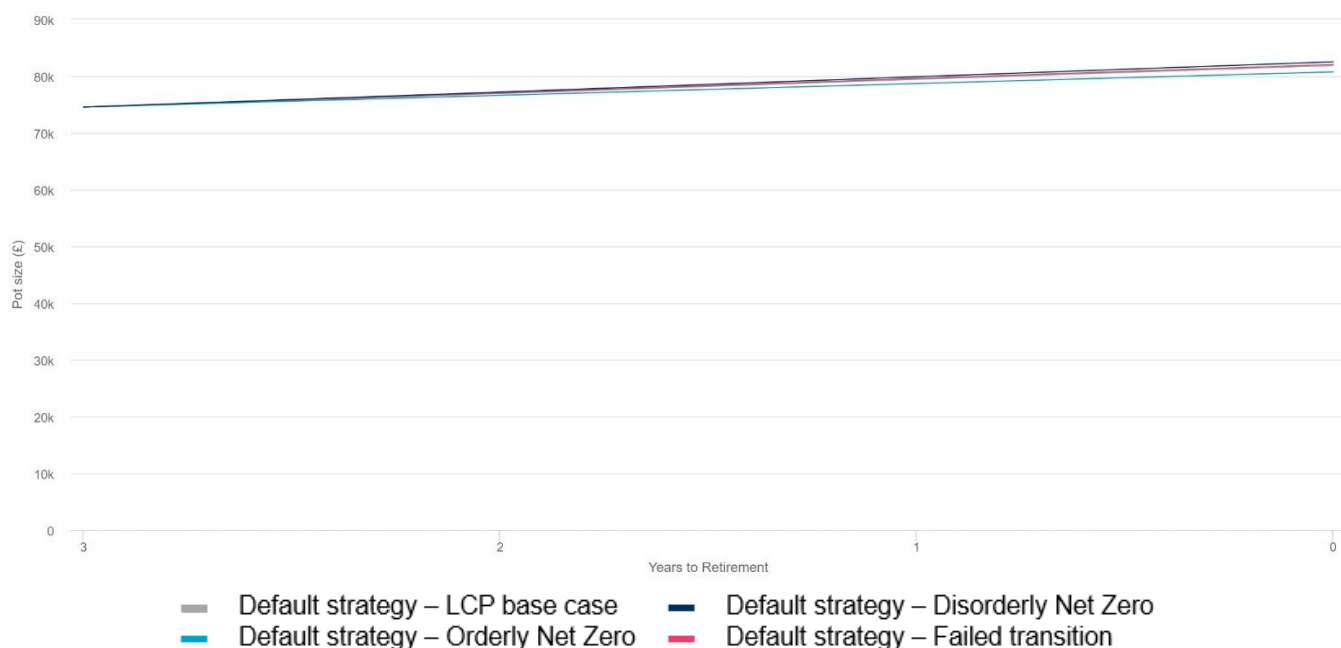


### 57-year-old active member journey chart – Mobius Life 2030 Retirement Age TDF



57-year-old active members invested in the Mobius Life 2030 Retirement Age TDF are susceptible to the medium term risk of market shocks because of a Disorderly Net Zero transition. Due to the relatively short time frame, these members have been modelled to have a 6% smaller retirement pot under a Disorderly Net Zero outcome.

### 62-year-old active member journey chart – Mobius Life 2025 Retirement Age TDF



Active members invested in the Mobius Life 2025 Retirement Age TDF close to retirement are unlikely to experience any material impacts on their retirement pots under any of the scenarios modelled.

## CWP Default Investment Strategy – Deferred members

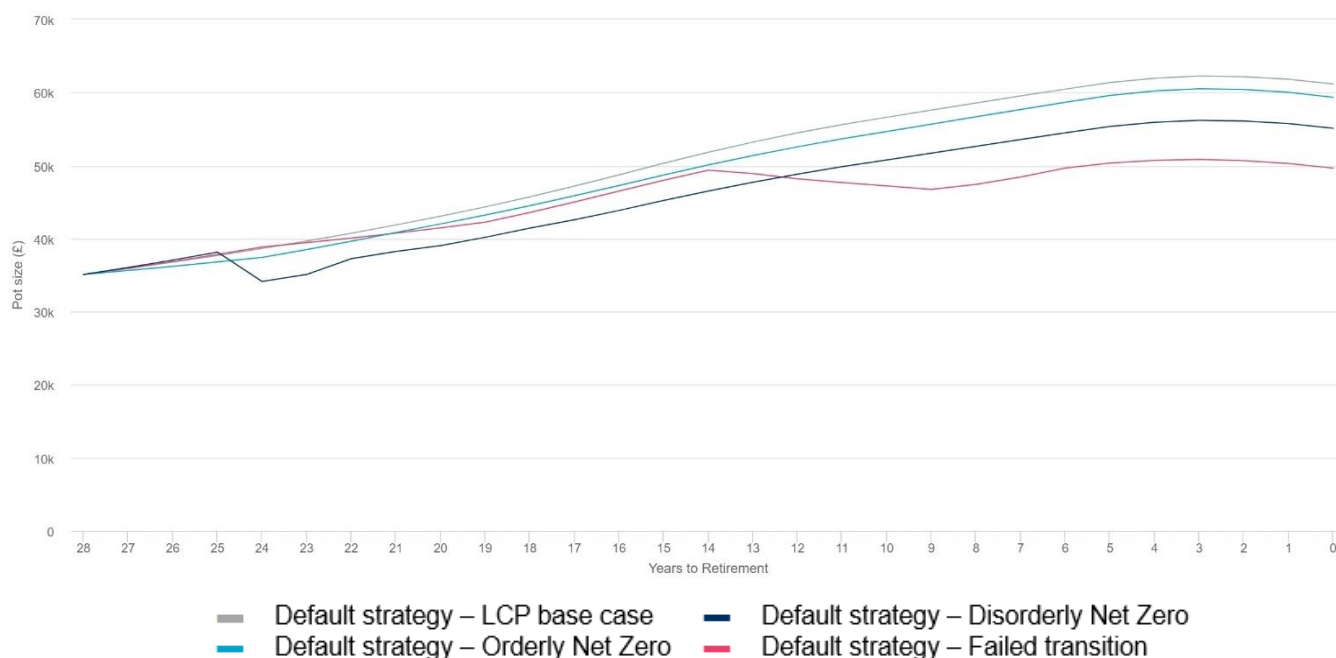
Young, deferred members in the CWP default investment strategy, not contributing to the Scheme, are expected to lose a larger proportion of their retirement pot relative to active members under both the Disorderly Net Zero and Failed Transition outcomes. These members do not have the additional contributions being invested into the Scheme to overcome the medium term risk of market shocks under the Disorderly Net Zero transition or the long term risk of market shocks under the Failed Transition. Note the member ages are those when the modelling was undertaken.

Deferred members nearer to retirement are unlikely to be more detrimentally impacted than active members by the scenarios modelled.

CWP– default investment strategy	Member aged 62	Member aged 57	Member aged 37
Starting pot	£86,300	£77,900	£35,100
<i>Change relative to climate-uninformed outcome in brackets</i>			
Modelled outcomes at age 65 under different scenarios			
LCP base case	£84,600	£81,900	£61,200
Orderly Net Zero outcome	£84,400 (0%)	£80,600 (-2%)	£59,300 (-3%)
Disorderly Net Zero outcome	£84,800 (0%)	£78,100 (-5%)	£55,100 (-10%)
Failed Transition outcome	£84,700 (0%)	£81,400 (-1%)	£49,700 (-19%)

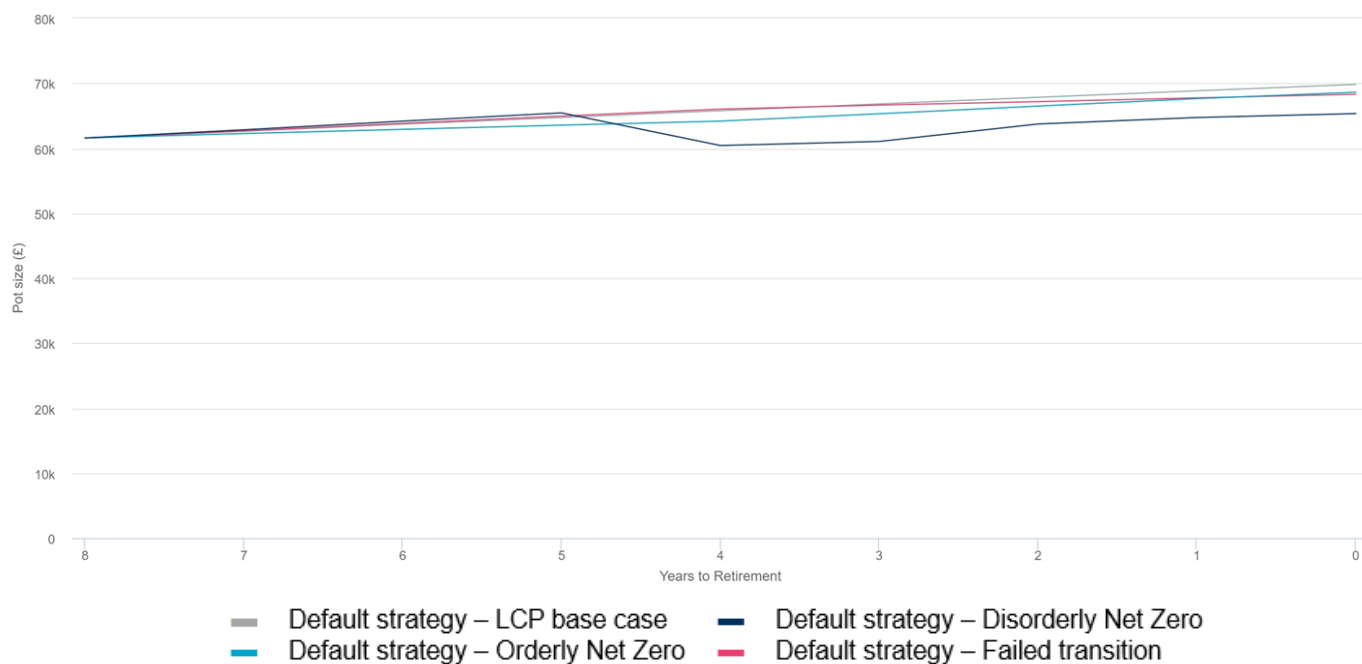
Below is the graphical depiction of the impact of all three scenarios to deferred members invested in the CWP default investment strategy.

### 37-year-old deferred member journey chart – CWP Default Investment Strategy



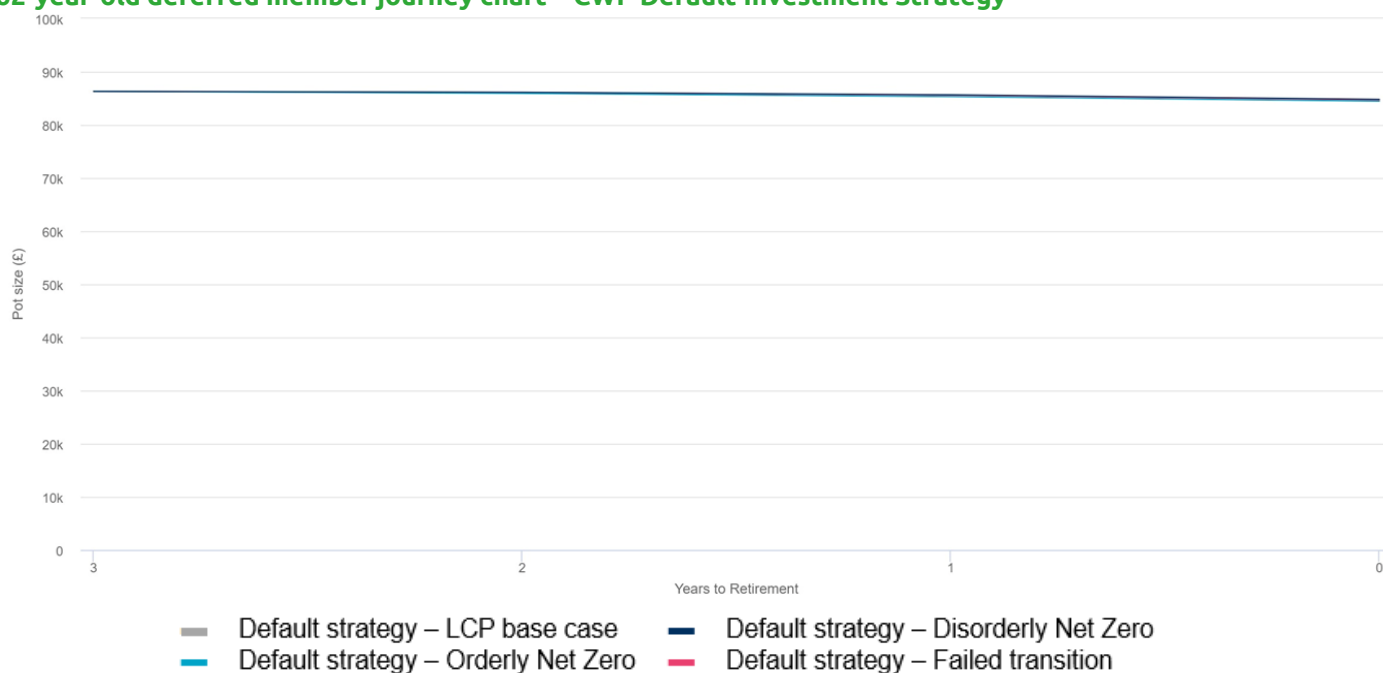
Members furthest from retirement are susceptible to market shocks stemming from a failed transition, shown in the disparity between the pink and grey lines.

### 57-year-old deferred member journey chart – CWP Default Investment Strategy



57-year-old deferred members invested in the CWP default investment strategy are susceptible to the medium term risk of market shocks because of a Disorderly Net Zero transition. Due to the relatively short time frame, these members have been modelled to have a 6% smaller retirement pot under a Disorderly Net Zero outcome.

### 62-year-old deferred member journey chart – CWP Default Investment Strategy



Deferred members invested in the CWP default investment strategy close to retirement are unlikely to experience any material impacts on their retirement pots under any of the scenarios modelled.

## Mobius Life Retirement Age TDFs – Deferred members

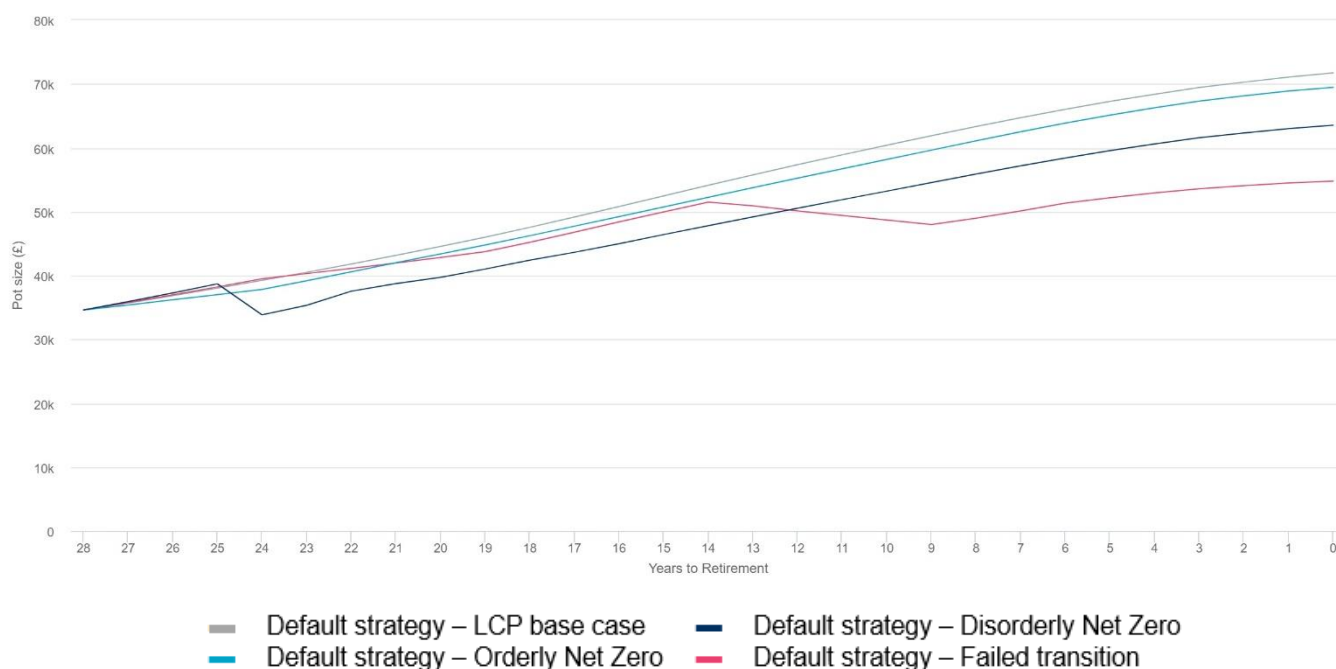
Young, deferred members invested in the 2050 Retirement Age TDF are expected to lose a larger proportion of their retirement pot relative to active members under both the Disorderly Net Zero and Failed Transition outcomes, approximately 5% greater loss in both scenarios. These members do not have the additional contributions being invested into the Scheme to overcome the medium term risk of market shocks under the Disorderly Net Zero transition or the long term risk of market shocks under the Failed Transition. Note the member ages are those when the modelling was undertaken.

Deferred members nearer to retirement are unlikely to be significantly more detrimentally impacted than active members by the scenarios modelled.

Mobius Life Retirement Age TDFs	Member aged 62 (2050 TDF)	Member aged 57 (2030 TDF)	Member aged 37 (2025 TDF)
Starting pot	£74,600	£61,600	£34,600
<i>Change relative to climate-uninformed outcome in brackets</i>			
Modelled outcomes at age 65 under different scenarios			
LCP base case	£77,000	£69,800	£71,400
Orderly Net Zero outcome	£76,000 (-1%)	£68,600 (-2%)	£69,200 (-3%)
Disorderly Net Zero outcome	£77,700 (+1%)	£65,300 (-6%)	£63,300 (-11%)
Failed Transition outcome	£77,200 (0%)	£68,300 (-2%)	£54,600 (-24%)

Below is the graphical depiction of the impact of all three scenarios to deferred members invested in the Mobius 2050 Retirement Age TDF.

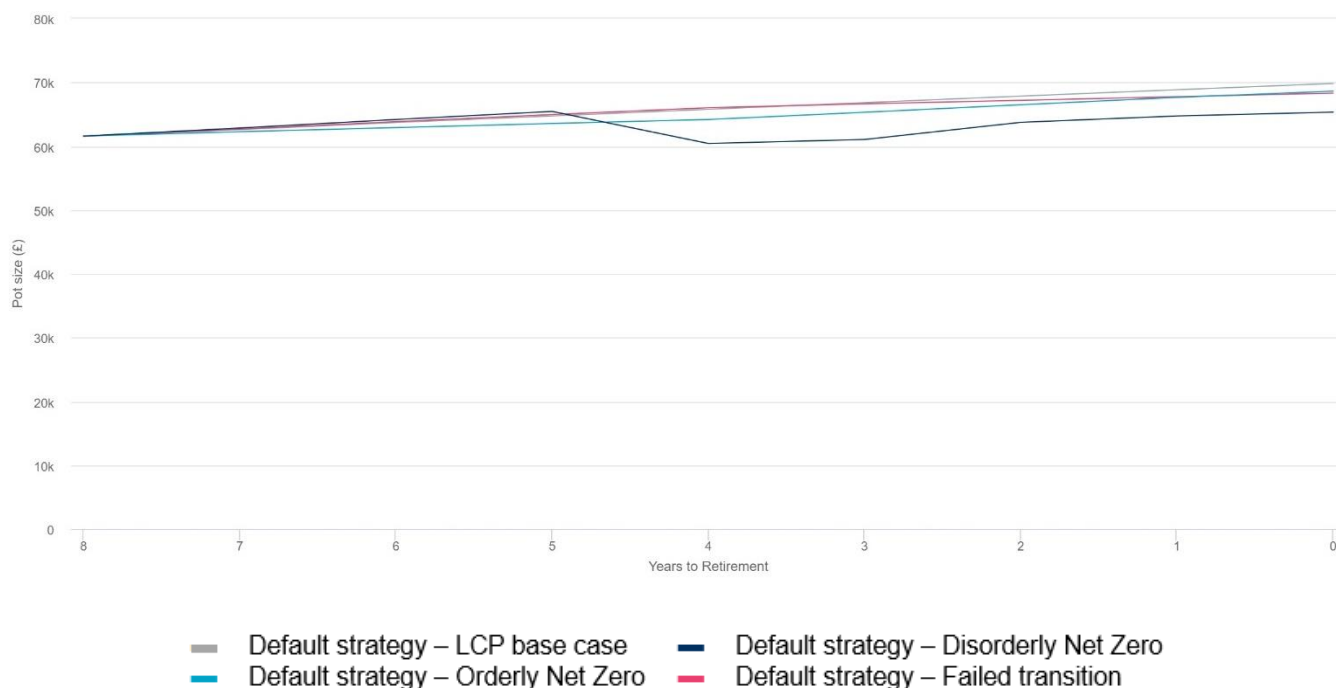
### 37-year-old deferred member journey chart – Mobius Life 2050 Retirement Age TDF



Members furthest from retirement are susceptible to market shocks stemming from a failed transition, shown in the disparity between the pink and grey lines.

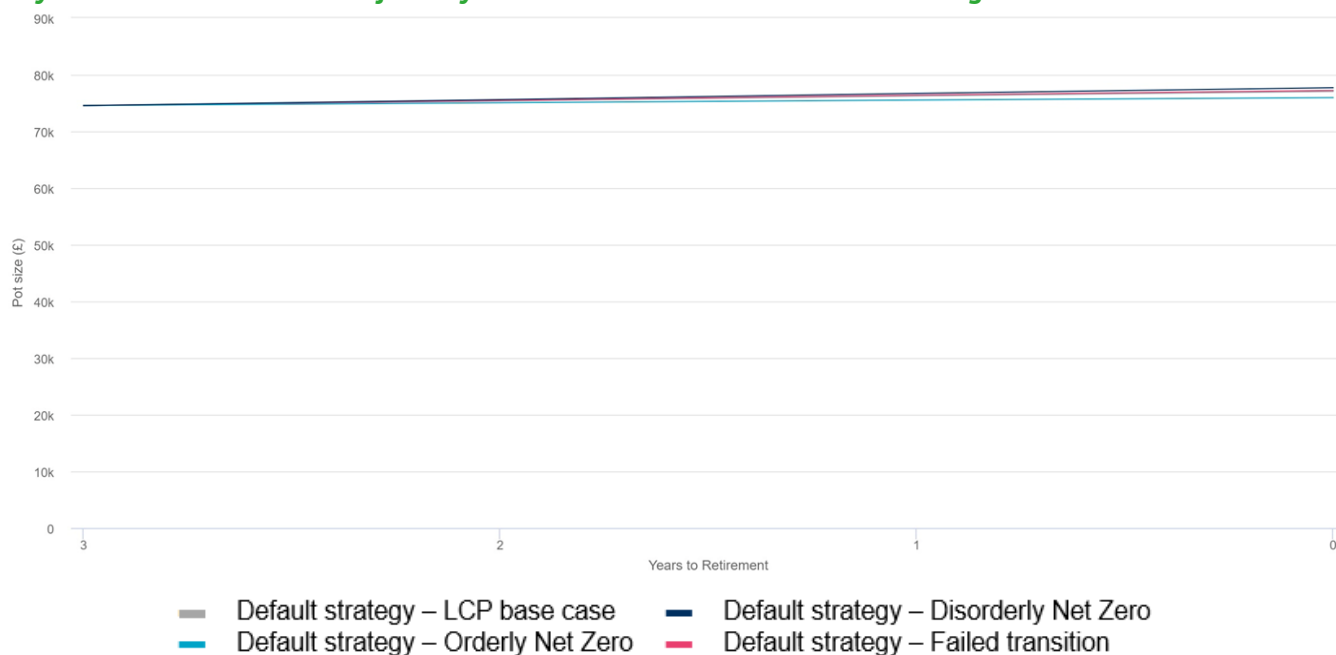


### 57-year-old deferred member journey chart – Mobius Life 2030 TDF



57-year-old active members invested in the Mobius Life 2030 Retirement Age TDFs are susceptible to the medium term risk of market shocks because of a Disorderly Net Zero transition. Due to the relatively short time frame, these members have been modelled to have a 6% smaller retirement pot under a Disorderly Net Zero outcome.

### 62-year-old deferred member journey chart – Mobius Life 2025 Retirement Age TDF



Deferred members invested in the Mobius Life 2025 Retirement Age TDF close to retirement are unlikely to experience any material impacts on their retirement pots under any of the scenarios modelled.

## Potential impacts under each scenario – CAEP Section

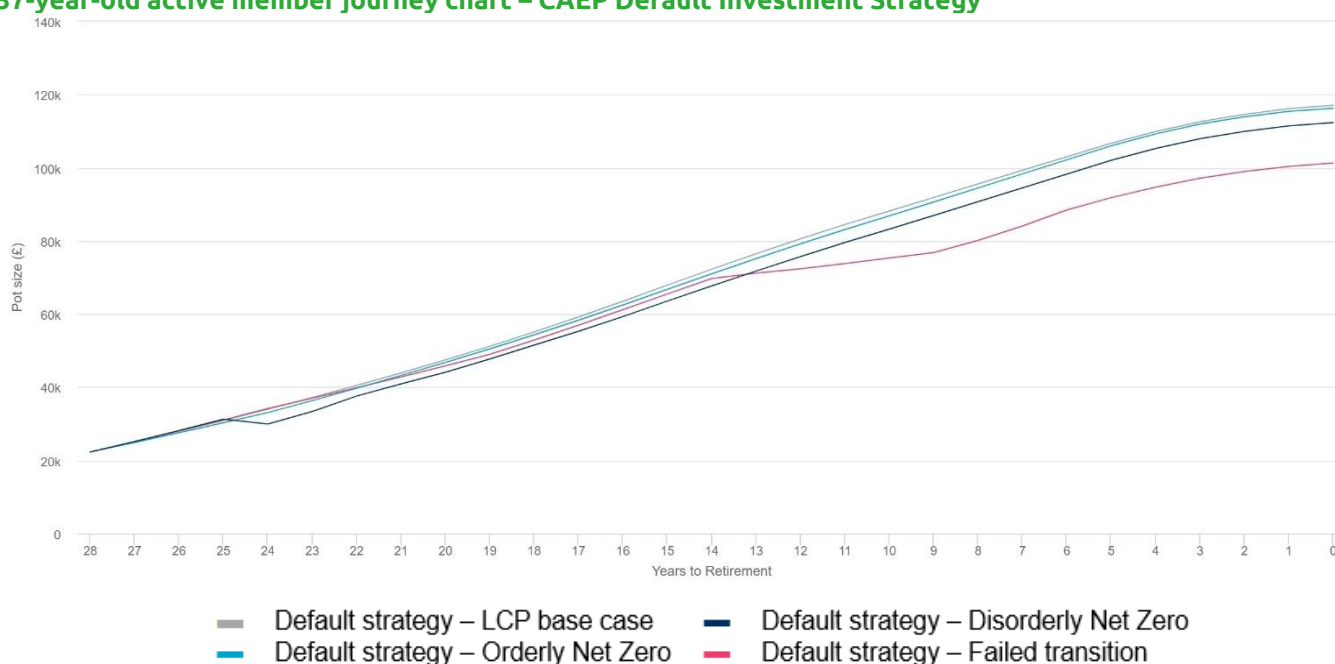
### CAEP Default Investment Strategy – Active members

Note the member ages are those when the modelling was undertaken.

CAEP – default investment strategy	Member aged 62	Member aged 57	Member aged 37
Starting pot	£48,900	£45,400	£22,300
<i>Change relative to climate-uninformed outcome in brackets</i>			
Modelled outcomes at age 65 under different scenarios			
LCP base case	£52,600	£64,100	£117,100
Orderly Net Zero outcome	£52,500 (0%)	£63,500 (-1%)	£116,300 (-1%)
Disorderly Net Zero outcome	£52,700 (0%)	£61,900 (-3%)	£112,300 (-4%)
Failed Transition outcome	£52,700 (0%)	£63,800 (0%)	£101,300 (-13%)

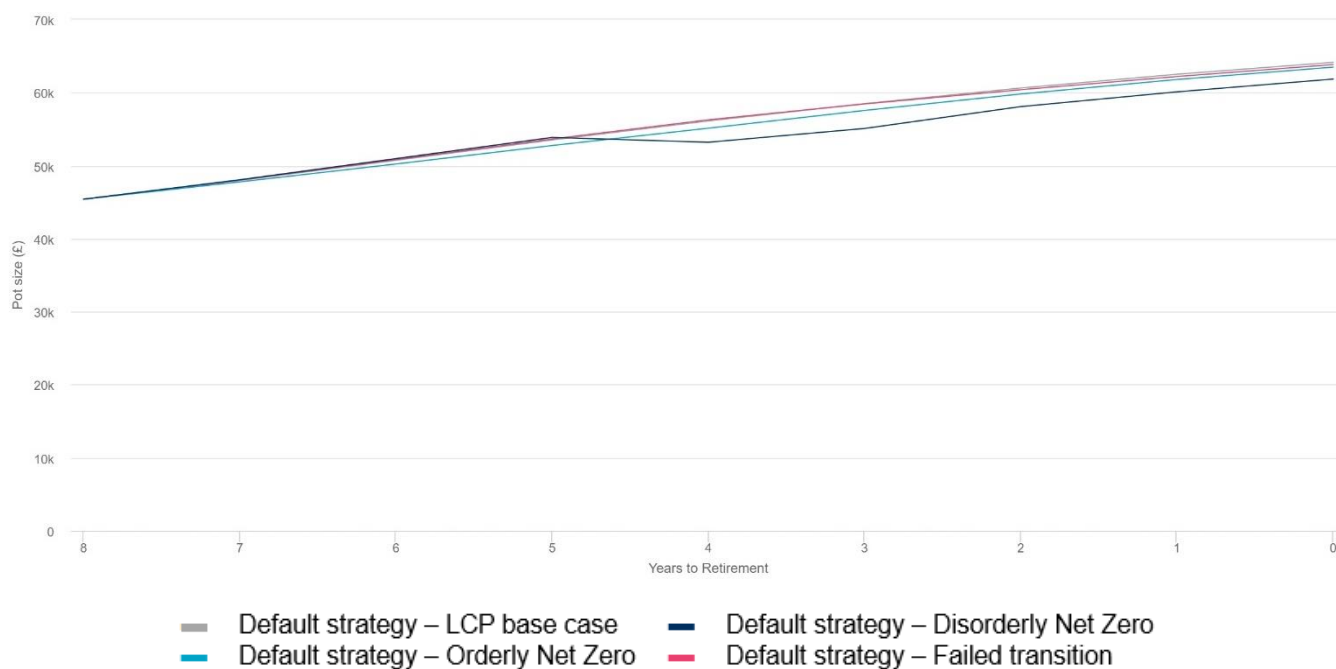
Below is the graphical depiction of the impact of all three scenarios to active members invested in the CAEP default investment strategy.

### 37-year-old active member journey chart – CAEP Default Investment Strategy



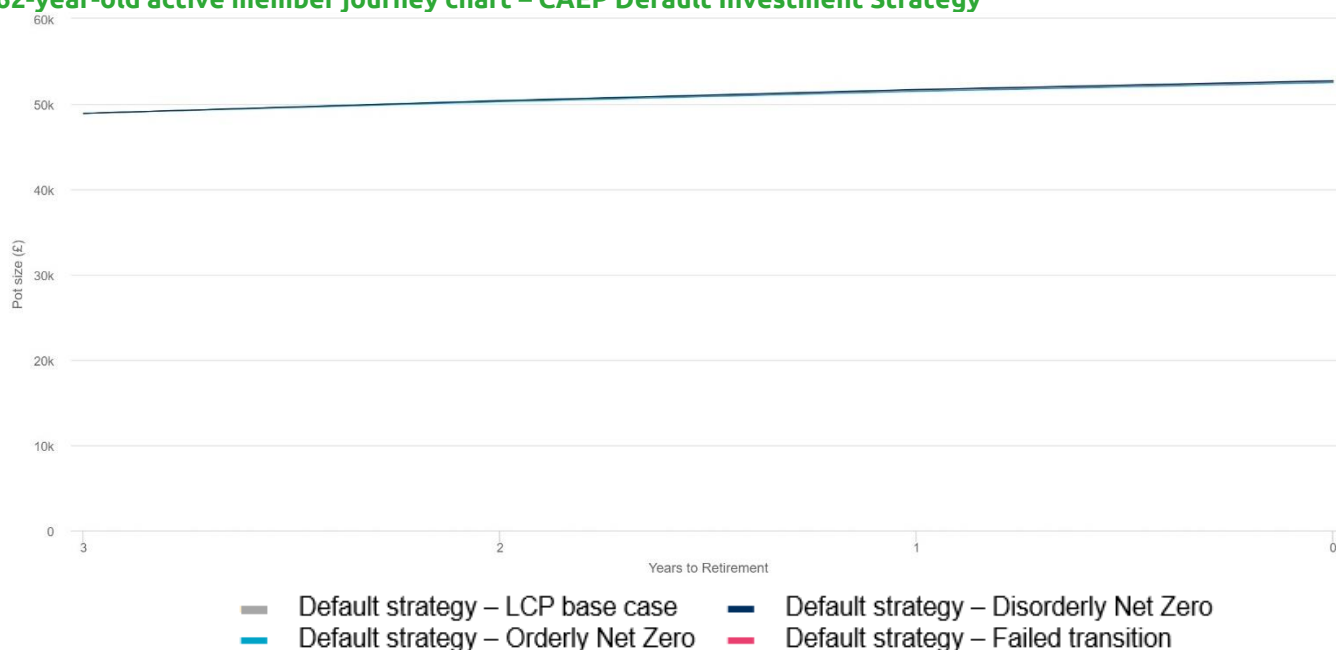
Members furthest from retirement are susceptible to market shocks stemming from a failed transition, shown in the disparity between the pink and grey lines.

## 57-year-old active member journey chart – CAEP Default Investment Strategy



57-year-old active members invested in the CAEP default investment strategy are susceptible to the medium term risk of market shocks because of a Disorderly Net Zero transition. Due to the relatively short time frame, these members have been modelled to have a 3% smaller retirement pot under a Disorderly Net Zero outcome.

## 62-year-old active member journey chart – CAEP Default Investment Strategy



Active members invested in the CAEP default investment strategy close to retirement are unlikely to experience any material impacts on their retirement pots under any of the scenarios modelled.

## CAEP Default Investment Strategy – Deferred members

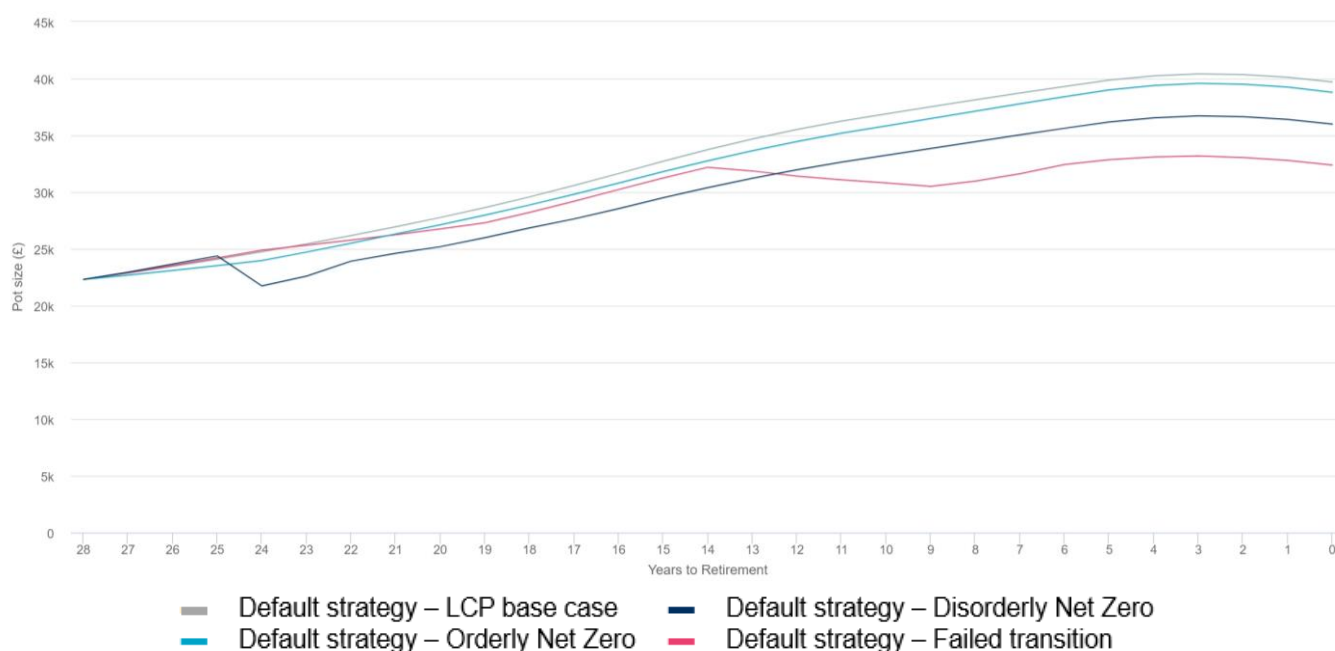
Young, deferred members invested in the CAEP default investment strategy, not contributing to the Scheme, are expected to lose a larger proportion of their retirement pot relative to active members under both the Disorderly Net Zero and Failed Transition outcomes. These members do not have the additional contributions being invested into the Scheme to overcome the medium-term risk of market shocks under the Disorderly Net Zero transition or the long term risk of market shocks under the Failed Transition. Note the member ages are those when the modelling was undertaken.

Deferred members nearer to retirement are unlikely to be significantly more detrimentally impacted than active members by the scenarios modelled.

CAEP – default investment strategy	Member aged 62	Member aged 57	Member aged 37
Starting pot	£48,900	£45,400	£22,300
<i>Change relative to climate-uninformed outcome in brackets</i>			
Modelled outcomes at age 65 under different scenarios			
LCP base case	£48,000	£47,600	£39,700
Orderly Net Zero outcome	£47,800 (0%)	£47,000 (-1%)	£38,800 (-2%)
Disorderly Net Zero outcome	£48,100 (0%)	£45,600 (-4%)	£36,000 (-9%)
Failed Transition outcome	£48,000 (0%)	£47,400 (0%)	£32,400 (-18%)

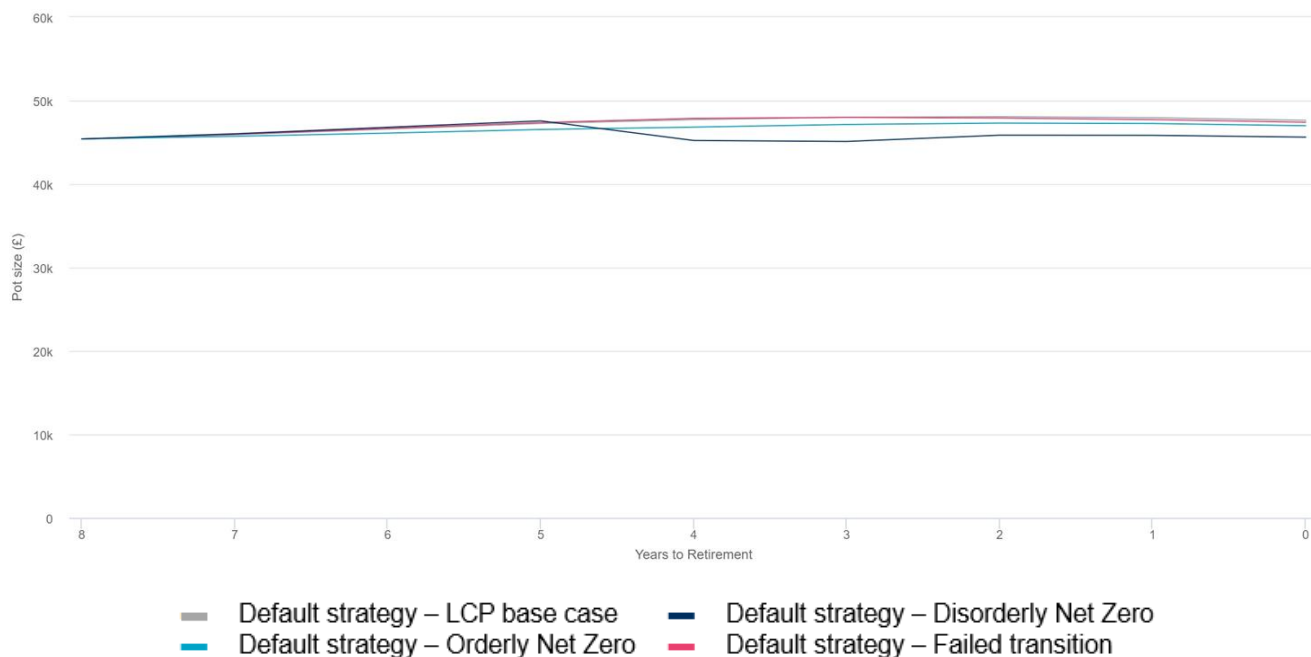
Below is the graphical depiction of the impact of all three scenarios to deferred members invested in the CAEP default investment strategy.

### 37-year-old deferred member journey chart – CAEP Default Investment Strategy



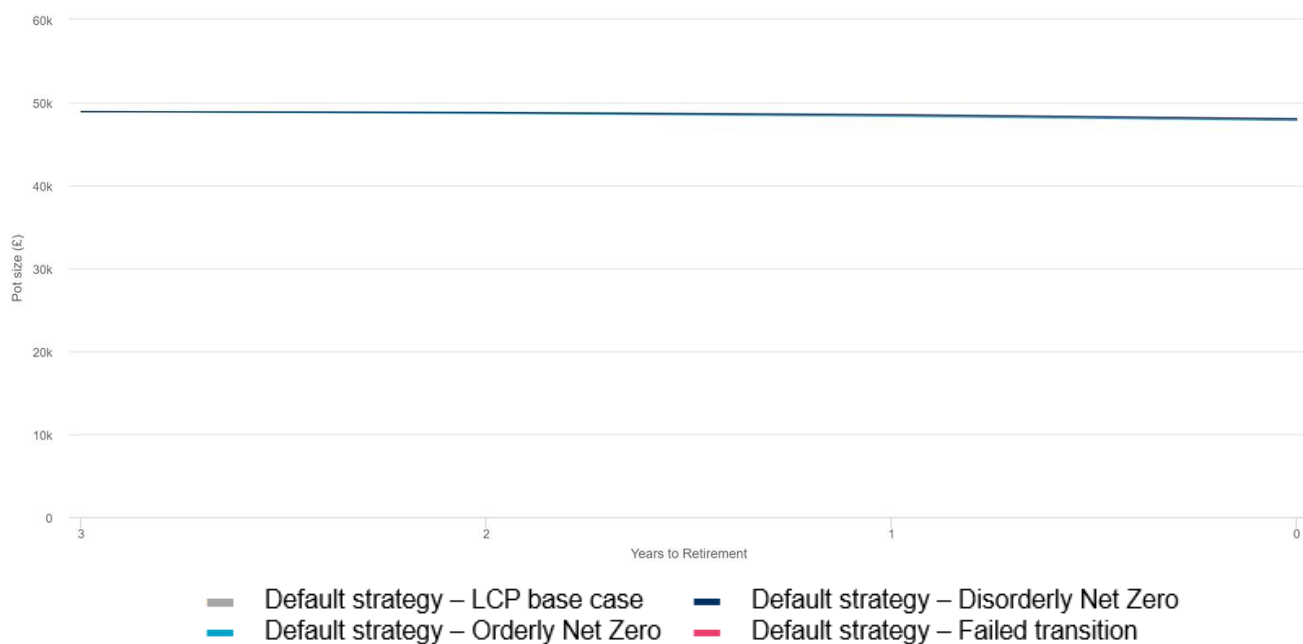
Members furthest from retirement are susceptible to market shocks stemming from a failed transition, shown in the disparity between the pink and grey lines.

## 57-year-old deferred member journey chart – CAEP Default Investment Strategy



57-year-old active members invested in the CAEP default investment strategy are susceptible to the medium term risk of market shocks because of a Disorderly Net Zero transition. Due to the relatively short time frame, these members have been modelled to have a 4% smaller retirement pot under a Disorderly Net Zero outcome.

## 62-year-old deferred member journey chart – CAEP Default Investment Strategy



Deferred members invested in the CAEP default investment strategy close to retirement are unlikely to experience any material impacts on their retirement pots under any of the scenarios modelled.

## Technical Section 3 – Climate metrics calculated during Scheme Year

The following provides a summary of the metrics data obtained and calculated during the Scheme Year in their ongoing identification and assessment of the climate-related risks and opportunities relevant to the Scheme.

### Metrics collected – CWP Default Investment Strategy Assets

Manager, asset class and valuation (£m)		Scope 1 and 2 emissions (for holdings with data)			Implied Temperature Alignment (°C)	Data source	Date of portfolio value and holdings
		Coverage (%)	Total GHG emissions (tCO <sub>2</sub> e)	Carbon footprint (tCO <sub>2</sub> e/£m)			
UK Equity	13.5	94.8	2,536.3	197.7	3.2	Mobius Life	31/03/22
International Equity	37.9	99.9	4,725.7	124.7	2.7	Mobius Life	31/03/22
Emerging Markets Equity	3.4	99.4	1,371.9	408.7	4.5	Mobius Life	31/03/22
UK Non-Gilts Bonds	13.8	79.0	729.7	67.1	1.8	Mobius Life	31/03/22
UK Index- Linked Gilts	7.2	N/A*	N/A*	N/A*	N/A*	Mobius Life	31/03/22
AAA-AA-A Corporate Bonds	34.9	41.1	733.6	51.2	N/A*	Mobius Life	31/03/22
Cash	15.7	N/A*	N/A*	0.4	N/A*	Mobius Life	31/03/22

Source: Mobius Life Limited.

\*Data is Not Available.



## Metrics collected – CWP – Retirement Age Funds Assets

Underlying Fund and valuation (£m)		Scope 1 and 2 emissions (for holdings with data)			Implied Temperature Alignment (°C)	Data source	Date of portfolio value and holdings
		Coverage (%)	Total GHG emissions (tCO2e)	Carbon Footprint (tCO2e/£m)			
Emerging Markets Equity	17.6	N/A*	N/A*	183.9	N/A*	Mobius Life	31/03/22
All Stocks Gilts Index	4.6	100.0	433.3	94.9	N/A*	Mobius Life	31/03/22
Over 15 Year Gilts Index	2.3	99.2	215.6	94.9	1.9	Mobius Life	31/03/22
Over 5 Year Index-Linked Gilts Index	4.1	99.5	387.0	94.9	1.9	Mobius Life	31/03/22
Cash	15.7	N/A*	N/A*	0.4	N/A*	Mobius Life	31/03/22
AAA-AA-A Corporate Bond All Stocks Index	34.9	41.1	733.6	51.2	N/A*	Mobius Life	31/03/22
AAA-AA-A Corporate Bond Over 15 Year Index	5.0	32.6	97.4	60.0	N/A*	Mobius Life	31/03/22
Future World Europe (ex UK) Equity	5.8	96.5	307.0	55.1	N/A*	Mobius Life	31/03/22
Future World (ex-UK) Developed Equity Index	12.8	97.4	390.2	31.3	2.8	Mobius Life	31/03/22
Future World Japan Equity	4.1	93.2	172.2	44.9	N/A*	Mobius Life	31/03/22
Future World Asia Pacific (ex Japan)	1.7	95.8	134.9	83.4	N/A*	Mobius Life	31/03/22
Future World UK Equity	14.9	93.6	760.8	54.8	N/A*	Mobius Life	31/03/22
UK Equity Index	15.7	88.0	1,547.2	112.1	2.6	Mobius Life	31/03/22
Japan Equity Index	5.1	96.7	514.4	104.8	N/A*	Mobius Life	31/03/22
North America Equity Index	9.0	97.8	532.0	60.3	N/A*	Mobius Life	31/03/22
Europe (ex UK) Equity Index	7.6	95.7	865.4	118.9	N/A*	Mobius Life	31/03/22
Asia Pacific (ex Japan) Dev Equity Index	2.6	92.5	357.0	150.8	2.9	Mobius Life	31/03/22

Source: Mobius Life Limited.

\*Data is Not Available.

## Metrics collected – CAEP Default Investment Strategy Funds

Manager, asset class and valuation (£m)		Data Quality				Scope 1 and 2 emissions (for holdings with data)		Date of portfolio value and holdings
		Equities and corporate bonds	Reported	Estimated	Unavailable*	Total GHG emissions (tCO <sub>2</sub> e)	Carbon footprint (tCO <sub>2</sub> e/£m)	
SW Pension Portfolio Three	370.2	91%	76%	8%	8%	532,033	62.7	31/03/22
SW Pension Portfolio Four	95.0	89%	72%	6%	11%	480,756	62.5	31/03/22
SW Cash	23.8	95%	70%	8%	16%	290	0.3	31/03/22

Source: Scottish Widows Limited.

\* Unavailable data in respect of listed equities and listed corporate bond investments only.

## Technical Section 4 – Glossary

**Alignment** – In a climate change context, alignment is the process of bringing greenhouse gas emissions in line with 1.5°C temperature rise target. It can be applied to individual companies, investment portfolios and the global economy.

**Asset class** – A group of securities which exhibit broadly similar characteristics. Examples include equities and bonds.

**Avoided emissions** – These are reductions in greenhouse gas emissions that occur outside of a product's life cycle of value chain, but because of the use of that product. For example, emissions avoided through use of a wind turbine or building insulation.

**Bond** – A bond is a security issued to investors by companies, governments and other organisations. In exchange for an upfront payment, an investor normally expects to receive a series of regular interest payments plus, at maturity, a final lump sum payment, typically equal to the amount invested originally, or this amount increased by reference to some index.

**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. per million pounds Sterling, or £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 risk** – Risks to the Scheme which are linked to climate change. These risks are often subdivided into two main types - physical risk and transition risk. See separate entries.

**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.

**Credit** – Long-term debt issued by a company, also known as corporate bonds. Corporate bonds carry different levels of credit risk which is indicated by their rating and credit spread.

**Defined Contribution (DC)** – A pension scheme in which the sponsor stipulates how much it will contribute to the arrangement which will depend upon the level of contributions the member is prepared to make. The resultant pension for each member is a function of the investment returns achieved (net of expenses) on the contributions and the terms for purchasing a pension at retirement. In contrast to a defined benefit scheme, the individual member bears the risk that the investments held are insufficient to meet the desired benefits.

**Debt** – Money borrowed by a company or government which normally must be repaid at some specified point in the future.

**Default investment strategy** – The fund or mix of funds in which contributions in respect of a DC pension scheme member will be invested in the absence of any explicit fund choice(s) by that member.

**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.

**Equity** – Through purchase on either the primary market or the secondary market, company equity gives the purchaser part-ownership in that company and hence a share of its profits, typically received through the payment of dividends. Equity also entitles the holder to vote at shareholder meetings. Note that equity holders are entitled to dividends only after other obligations, such as interest payments to bond holders, are first paid. Unlike bonds, equity is not normally contractually repayable.

**Ethical investment** – An approach that selects investments based on an agreed set of environmental, social and governance (ESG) criteria that are motivated by ethical considerations. These can be positive – e.g. choosing companies involved in water conservation or negative – e.g. not choosing companies involved in the arms trade.

**Fiduciary obligations** – A legal obligation of one party (a fiduciary) to act in the best interest of others. Fiduciaries are people or legal entities that are entrusted with the care of money or property on behalf of others. They include pension scheme trustees.

**Fossil fuels** – Fuels made from decomposing plants and animals, which are found in the Earth's crust. They contain carbon and hydrogen, which can be burned for energy. Coal, oil, and natural gas are examples of fossil fuels.

**Gilts** – Bonds issued by the UK government. They are called Gilts as the bond certificates originally had a gilt edge to indicate their high quality and thus very low probability of default.

**Greenhouse gas (GHG) emissions (scopes 1, 2 and 3)** – 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 Technical Section 1 for further details.

**Investment mandate** – See pooled mandate and segregated mandate.

**Net Zero** – this describes the situation in which total greenhouse gas emissions released into the atmosphere are equal to those removed. This can be considered at different levels, e.g. company, investor, country or global.

**Offsetting** – The process of paying someone else to avoid emitting, or to remove from the atmosphere, a specified quantity of greenhouse gases, for example through planting trees or installing wind turbines. It is sometimes used to meet Net Zero and other emissions reduction targets or commitments.

**Paris Agreement** – The Paris Agreement is an international treaty on climate change, adopted in 2015. It covers climate change mitigation, adaptation and finance. Its primary goal is to limit global warming to well below 2°C, preferably to 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.

**Pooled mandate** – A feature of a collective investment vehicle whereby an investor's money is aggregated (i.e. "pooled") with that of other investors to purchase assets. Investors are allotted a share of those assets in proportion to their contribution. Ownership is represented by the number of "units" allocated – e.g. if the asset pool is worth £1m and there are 1m units then each unit is worth £1. Pooled funds offer smaller investors an easy way to gain exposure to a wide range of investments, both within markets (e.g. by buying units in a UK equity fund) as well as across markets (e.g. by buying units in both a UK equity fund and a UK corporate bond fund).

**Responsible Investment (RI)** – The process by which environmental, social and governance (ESG) issues are incorporated into the investment analysis and decision-making process, and into the oversight of investments companies through stewardship activities. It is motivated by financial considerations aiming to improve risk-adjusted returns.

**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 Technical Section 1 for further details.

**Segregated mandate** – A segregated investment approach ensures that an investor's investments are held separately from those of other investors. This approach offers great flexibility – for example, the investor can stipulate the precise investment objective to be followed and can dictate which securities can or cannot be held.

**Self-select** – In contrast with a default investment strategy, a self-select fund within a DC scheme is one of a range of funds that members can choose to invest in.

**Statutory obligations** – Statutory obligations are those obligations that do not arise out of a contract but are imposed by law.

**Stewardship** – Stewardship is 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.

**Sustainable investing** – An approach in which an assessment of the environmental and social sustainability a company's products and practices is a key driver in the investment decision. ESG analysis therefore forms a cornerstone of the investment selection process.

**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** – Economic effects resulting from transition to low-carbon and climate-resilient solutions to restrict global temperature rises and manage climate change impacts to limit and manage physical risks.



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