The Bupa Pension Scheme

Climate Disclosures Report for the Year Ended 30 June 2024

November 2024

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Message from the Chair

Welcome to our second climate disclosures report.

2023 served as a reminder of the pace at which climate change is impacting the world. It was the warmest year on record, with the global average near-surface temperature of approximately 1.45°C above the pre-industrial baseline[1].

We believe that the pensions and investment industry have a key role to play in addressing the climate crisis. Climate change is a financially material risk and addressing this is essential to ensure good outcomes for our members and the wider world. Since last year, we have implemented developments that we believe continue to support the effective consideration of climate risks and opportunities within our investment decision making.

- **We have evolved how we take decisions around climate risk:** Over the Scheme year we started developing a sustainable investments policy that will formalise our climate ambitions and set out our expectations of different stakeholders with regards to managing climate risk.
- **We are an active and engaged asset owner – and demand the same of others:** Influencing and changing company behaviour through engagement is a key area of focus for the Scheme and has been an important element of any long-term partnership the Trustee has had with underlying investment managers. Throughout the year, we have formally established stewardship priorities that would enable us to undertake more focused and effective engagement with the Scheme's investment managers.
- **We are on track to achieve our target:** Based on the analysis we have carried out over the year we are pleased to report that the Scheme continues to be on track to achieve its temperature alignment target by 2040 across the Scheme's non-LDI assets.

Whilst we are proud of the progress that we have made so far, we recognise that there is more work to be done. The industry continues to evolve with climate data quality and coverage improving, and companies are taking steps to understand and address the impacts that they are having on the planet.

We look forward to continuing this journey and making meaningful progress towards our targets.

With best wishes

Mr M Potkins

Chair of Bupa Pension Scheme Trustees Limited.

[1] World Meteorological Organisation, 2024

Executive Summary

Governance	We continued to evolve our governance framework to ensure that climate change is effectively embedded into all investment decision making. Amongst other activities conducted over the year, the Trustee continued to engage with the Scheme's underlying investment managers and has also undertaken an exercise to assess the investment consultant's ESG capabilities against an industry-wide framework structured by Investment Consultants Sustainability Working Group ("ICSWG"). The Trustee is also in the process of formally documenting its policy regarding sustainable investments. The policy will be reviewed at least annually to ensure it remains aligned with the Scheme's circumstances, the Sponsor's approach and evolving practices in the area. The policy will be shared with the Trustee's advisors and the Scheme's investment managers to seek alignment between their actions and the Trustee's aspirations in this area, and to enable constructive dialogue.
Strategy	In early 2023, the Trustee worked with its Investment Consultant to carry out the first climate change scenario analysis for the DB section of the Scheme. The analysis guided the Trustee in reviewing the potential impact of climate change on the Scheme and helped focus on possible actions to address the risks and opportunities presented. The Trustee is required to update the climate scenario analysis at least every 3 years and more frequently should any of the factors have changed materially to warrant an update. Over the Scheme year, the Trustee conducted a review and agreed that updating the climate scenario analysis was not warranted at present as there were no material changes to the objectives and strategy of the Scheme. The Trustee will also incorporate any methodological developments arising and reflect the improved data quality (to the extent that they become available) in the next climate scenario analysis undertaken for the Scheme.
Risk management	Managing climate change risk is a strategic investment priority for the Trustee and sits at the core of the Scheme's risk management strategy. Over the Scheme year, the Trustee developed stewardship priorities to help drive engagement within the stewardship themes that are deemed to be of most importance to the Trustee. Climate change, biodiversity, human capital (e.g., gender equality, diversity in ethnicity) and human rights have been identified as the key stewardship priorities for the Trustee. The Trustee considers that effective stewardship of assets by the Scheme's investment managers is a critical part of the fiduciary duty towards members. Over the year, the stewardship practices adopted by the Scheme's investment managers continued to be assessed by the Trustee on an ongoing basis.
Metrics and targets	We stay committed to meeting an **alignment target of 1.5°C Implied Temperature Rise by 2040 across the Scheme's non-LDI assets**. Based on the climate metrics analysis undertaken this year, we believe that the Scheme continues to be on track to meet its targets. Over the year the analysis has been refined to reflect the inclusion of Scope 3 emissions data. In addition, the Trustee has incorporated methodological developments in the calculation of specific climate metrics and continued engaging with the investment managers on climate data.

Section 1: Introduction

The Trustee of the Bupa Pension Scheme (hereinafter referred to as the “Trustee” and the “Scheme”, respectively) presents its second annual climate disclosure report under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the “Regulations”) for the year ended 30 June 2024 (formerly, the Taskforce on Climate-Related Financial Disclosures’ (“TCFD’s”). The Scheme is subject to the requirement to produce climate change disclosures in line with the above regulation. The aim is to improve and increase reporting of climate-related financial risks and opportunities.

This report sets out the Trustee’s approach towards managing the risks and opportunities presented by climate change across the DB and DC sections of the Scheme.

The climate disclosure framework requires disclosures in four broad categories:

- **Governance**: around climate-related risks and opportunities
- **Strategy**: the actual and potential impact of climate-related risks and opportunities on the strategy and financial plans of the scheme under different climate scenarios
- **Risk management**: how the scheme identifies, assesses, and manages climate-related risks
- **Metrics and targets**: the metrics and targets used to assess and manage climate-related risks and opportunities

This report sets out the Trustee’s approach to compliance in each of these four areas. Following the transfer of the DC Section of the Scheme to Master Trust in 2021, the Scheme’s remaining DC assets (which represent a very small proportion of the Scheme) now consist of legacy investments which the Trustee cannot influence or change at present. As a result, we have not covered these assets in the Strategy or Metrics and Targets sections of the report and instead have focussed our efforts on the DB assets where the Trustee has more scope to influence.

Section 2: Governance

The Trustee recognises that an investment's financial success is influenced by a wide range of factors including Environmental, Social and Governance ("ESG") factors. The Trustee considers climate change as both a material risk and an opportunity, which should be integrated within the Scheme's investment processes and requires sustained, long-term oversight and management. To achieve this, the Trustee must have a robust and effective governance framework, which should be flexible over time to meet the needs of the Scheme and its beneficiaries.

Scheme governance

The Trustee has ultimate decision-making responsibilities on all investment matters including identifying, assessing and monitoring climate-related risks and opportunities. The Trustee is supported by sub-committees and by third-party professional advisors covering actuarial, investment and legal aspects, amongst others. A formal Terms of Reference document governs the relationship between the Trustee and its sub-committees, setting out roles and responsibilities, and how the sub-committees report to the Trustee Board. The Trustee ensures that investment managers, including the delegated manager, and the investment consultant are regularly monitored. This includes consideration of their incorporation of climate change considerations into the activities that they undertake on behalf of the Scheme.

The key overarching investment policies of the Scheme are further detailed in the Statement of Investment Principles, which was last updated in July 2024. This document can be found online at the following link: <*include website address*>

The Trustee has established a ***Risk & Administration Committee (RAC)***, which is responsible for ensuring that the Scheme maintains appropriate risk management processes. The RAC meets at least quarterly and is responsible for ensuring that appropriate focus is placed on risk management across the spectrum of the Scheme's activities, and, for reviewing and maintaining the Scheme's risk register. ESG risks, including climate are included within the Scheme's risk register which is reviewed on a quarterly basis. The RAC reports up to the Trustee on a quarterly basis.

The ***Investment Committee ("the IC")*** has delegated responsibilities relating to investment matters, including climate change-related considerations. The Trustee retains responsibility for setting appropriate frameworks and for key strategic investment decisions, such as the Scheme's net-zero target detailed later in this report, and delegates monitoring responsibilities to the IC. The IC is responsible for implementing the Scheme's approach with regards to embedding climate change into investment processes and for reviewing this on an ongoing basis, as industry practices evolve. The IC is also responsible for ensuring that any parties used in implementing the Scheme's climate change strategy are closely monitored and held accountable for the work they do on behalf of the Scheme. The IC will consider a range of sustainable investment topics and initiatives and make recommendations to the Trustee Board where appropriate. The IC typically meets quarterly, but in practice will convene as required to deal with ad hoc investment matters. The IC reports up to the Trustee on a quarterly basis and provides a summary of the key issues that it has discussed. Trustee approval for certain decisions is requested as appropriate and the Trustee has oversight of the production of this report.

The Trustee recognises that climate change is a fast-evolving and complex area which therefore requires ongoing discussion and education. Over the Scheme year, both the Trustee and the IC have received training sessions on stewardship and on the feedback provided by the Pensions Regulator ("tPR") to the industry on climate disclosure reporting. The IC receives additional training as required and regularly discusses factors (including ESG) impacting the Scheme's investments, with the ***Scheme's Investment Consultant (WTW)*** and its investment managers as appropriate. In producing this report, the IC has had several sessions focused on climate change risks and opportunities that were delivered by the Investment Consultant; the sessions covered climate metrics and targets and the developments in climate data over time.

Over the Scheme year, the Trustee has undertaken several actions to improve the Scheme's governance with respect to managing climate change risks and opportunities. Some of these key actions are highlighted below:

Stewardship priorities

Stewardship priorities

The Trustee considers that stewardship is a key tool for managing risk and improving the financial outcomes of the Scheme. The Trustee also acknowledges that stewardship can be multifaceted and therefore believes it makes sense to have a small number of stewardship priorities to focus engagements over the short term.

Over the year, the Trustee undertook an exercise to set specific stewardship priorities, as required by statutory guidance provided by the Department for Work and Pensions ("DWP"). As part of this process, the Trustee considered its activities over recent years, the Sponsor's main areas of focus, the approach taken by the Scheme's underlying investment managers and those topics most frequently spotlighted across UK asset owners. Following due consideration, the Trustee decided to select climate change, biodiversity and human capital and human rights. The Trustee intends to assess the suitability of these priorities on an annual basis going forward.

Governance updates

Sustainable Investment Policy

The Trustee is currently in the process of formally documenting its sustainable investment policy with the view to streamlining decision-making around sustainability. In developing the policy, the Trustee engaged with the Sponsor to consider their views on sustainability and to ensure consistency where possible. The Trustee notes that best practice is likely to continue to evolve over time and so the expectation is that this policy will be reviewed on an annual basis to ensure it remains fit for purpose.

Adviser review

The Trustee reviewed the Scheme's Investment Consultant against their objectives over the year which included an assessment of how the Investment Consultant supports the Trustee in meeting its sustainable investment goals. In doing so, the Trustee has also reviewed the Investment Consultant's activities relative to the Investment Consultants Sustainability Working Group ("ICSWG)" guide for assessing Investment Consultants.

Ongoing engagement

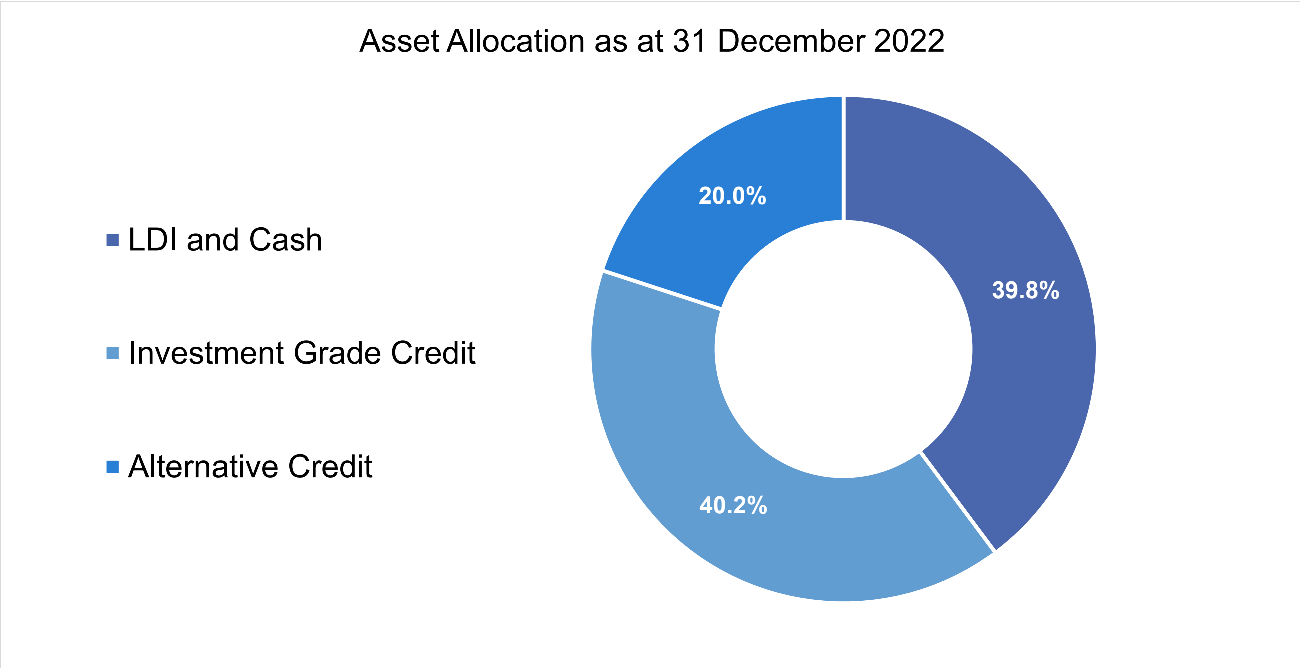
Engagement with managers

The Trustee has continued to proactively engage with the Scheme's underlying investment managers to understand their approach to sustainable investments.

Over the year, the Trustee has met with the Scheme's Buy and Maintain investment grade credit manager and the Delegated Manager to discuss their approach for integrating ESG considerations within investment decision making.

Background information on the DB Section asset allocation

As of 30 June 2024, the Scheme held around £1.4bn of assets, split as per the chart below. The Scheme has a target asset allocation of 18% in “alternative credit” assets, 40% in “corporate credit” assets and 42% in “liability matching” assets.



In addition to its role as the Scheme’s Investment Consultant, the Trustee has also delegated responsibility for the ongoing management (including asset allocation and manager selection) of the Scheme’s alternative credit assets to WTW where it acts as the Scheme’s Delegated Manager (DM). The parameters for the mandate include consideration of ESG factors, including climate risks and opportunities. The performance of the DM is also reviewed by an independent third-party oversight provider, XPS.

The rest of the Scheme’s DB assets are split between a buy and maintain investment grade credit mandate and an LDI portfolio. Whilst consideration is given to both manager’s capabilities in ESG, the focus to date has been on the investment grade credit assets. These assets are managed on a segregated basis and the Trustee has defined specific restrictions for the mandate in relation to the portfolio’s exposure to thermal coal and tar sands, alongside some other social factors.

Roles and responsibilities in respect of managing climate risk for different asset classes	
Buy and maintain investment grade credit	• Investment Consultant / Trustee reviews and monitors the ESG capabilities of the investment grade credit manager. • Trustee has delegated responsibility for stewardship with underlying investee companies to the investment grade credit manager. • Investment Consultant / Trustee engages with the investment grade credit manager on a regular basis to understand ESG developments
Alternative credit	• Alternative Credit is managed by the Delegated Manager, who has authority to make investment decisions within the parameters defined in the investment guidelines. The Delegated Manager implements their ESG views with regards to the construction of the alternative credit fund and the selection of underlying managers within alternative credit. • The Delegated Manager engages with the underlying investment managers and monitors/reviews their ESG capabilities • Investment Committee engages with the Delegated Manager on a quarterly basis with regard to the performance of the portfolio. Periodic updates on the integration of ESG are provided by the Delegated Manager.

The Scheme has set an Implied Temperature Rise (ITR) target of 2040 for its credit assets which is aligned with keeping global warming to no more than 1.5 degrees Celsius. In doing so, the Trustee has engaged with the Sponsor (i.e., the Scheme's sponsoring employer) with regards to the parameters of the net-zero strategy adopted by the Scheme, to seek alignment with the Sponsor's strategy and targets where possible and appropriate given the Trustee's wider objectives.

Interaction with our advisors and other third parties

The Scheme's Investment Consultant provides support and advice to the Trustee across a range of investment topics, including ESG matters. Over the Scheme year, the Trustee has engaged in several ESG training sessions provided by its Investment Consultant, as set out above.

The Trustee has set strategic objectives for WTW which include specific reference to supporting the Trustee in sustainable investing and with preparing this report. The Trustee assesses the Investment Consultant against these objectives, and reviews the objectives themselves, on an annual basis. No key concerns have been noted to date and the Trustee has maintained an open dialogue with its advisors throughout the year. The Trustee has also undertaken an exercise to assess WTW's ESG capabilities against the framework set out by the Investment Consultants Sustainability Working Group (ICSWG). The Investment Consultant works closely with the Trustee's other advisors, in particular the Scheme Actuary, Mercer.

The Trustee expects the Scheme's investment managers to have robust stewardship and engagement practices. The Trustee believes that the explicit integration of ESG factors into its investment process provides opportunities to increase expected financial returns and to have a positive environmental and social impact, as well as encouraging better governance practices in investee companies. The Trustee is currently in the process of formalising these views and expectations within their sustainable investment policy to help guide engagement with investment managers, which is set to be published by the end 2024. The Trustee has consulted with the Sponsor in producing this policy reflecting the desire for broad consistency with the Sponsor's sustainability policies.

The Scheme's Investment Consultant researches the ESG capabilities of the Scheme's buy and maintain credit manager and their views are formalised through ESG ratings. WTW is involved in several industry-wide collaborative initiatives and co-founded the Investment Consultants Sustainability Working Group ('ICSWG') which brings together leading UK investment consulting firms with the aim of seeking to improve sustainable investment practices across the investment industry.

When appointing the Delegated Manager, the Trustee considered several factors including the manager's capabilities and resources in relation to the incorporation of ESG. The Trustee expects its appointed investment managers to have integrated ESG factors as part of their investment analysis and decision-making process, and to undertake positive engagement with investee companies. The Trustee monitors the engagement activities of its investment managers as part of its annual implementation statement and no significant issues have been raised to date.

The Trustee has delegated sustainable investment decision-making to the Delegated Manager, who has discretion to implement their ESG views in the construction of the alternative credit portfolio, subject to the parameters defined in the mandate's investment guidelines. The Trustee meets with the Delegated Manager on a quarterly basis. The Trustee monitors the ESG performance of the alternative credit mandate on a periodic basis, and the Delegated Manager is responsible for providing the Trustee with updates in relation to any ESG developments within the mandate. No significant issues have been raised to date. The Scheme's Delegated Manager has presented the Trustee with a summary of the ESG capabilities for each manager within the alternative credit portfolio.

Examples of positive investments within the Scheme's alternative credit portfolio
Towards the end of 2023, one of the Scheme's investment managers within the alternative credit portfolio – Rivage, approached the DM to request an increase to the sector cap to renewable energy within their prospectus. The DM voted to approve the increase on the basis that the sustainability credentials of the investment would be improved. The proposal was then approved. As a result of this, the fund has been able to participate in the financing of more renewable projects. For example, in February 2024, the fund provided financing for a solar, wind and battery storage developer with plans to construct a portfolio of renewable projects across Europe.

The Trustee meets with the Scheme's investment grade credit manager (LGIM) on a biennial basis. The last meeting took place towards the end of 2023 and as part of these discussions, LGIM has provided updates on the evolution of their ESG integration approach within bond portfolios and engagement examples they have undertaken over the year.

Examples of engagement from the Scheme's investment grade credit manager over the Scheme year
Biodiversity: LGIM engaged with a consumer goods manufacturer on the topic of deforestation, having signed the COP 26 Commitment on Eliminating Agricultural Commodity Driven Deforestation from Investment portfolios. As part of this initiative, the investment manager has published a deforestation policy and have communicated their minimum expectations to the company that all companies in 'deforestation-critical sector,' for which they have data, should have both a deforestation policy and a programme of action. Whilst LGIM remain concerned about the company's lack of time-bound commitment to eliminate deforestation and have voted against the company on several governance-related resolutions, they welcome the improvement in transparency of the company's forestry practices. LGIM will continue monitoring the company's adherence to their minimum standards on deforestation.
Climate Change: LGIM has been engaging with a large oil-producer both individually and as part of their membership of Climate Action 100+. They have sought commitments that the company will not make further revisions to their climate-related targets, clarity on their production outlook beyond 2030 and details of responsible divestment of assets and clarity regarding the role of offsets in meeting their emissions targets. The company's decision to revise oil production targets in 2023, resulted in LGIM voting against the re-election of the Chair. Nonetheless, the company has made commitments to allocate a substantial share of capital to low carbon segments, including projects to develop solar energy in the US, to reduce emissions in aviation and to develop major offshore wind projects in the UK and US. LGIM will continue engaging with the company on topics including emissions targets, value chain approach and responsible divestment and/or decommissioning of assets.

Acting as Investment Consultant and Delegated Manager for the relevant parts of the portfolio, WTW researches the ESG capabilities of the investment managers and provides views as appropriate. Outside of the delegated mandate, the Trustee has a policy to engage with its investment grade credit manager if there are any major gaps identified in their practices to encourage further alignment and reserves the right to terminate a manager if appropriate measures are not taken. The Investment Consultant also provides the Trustee with a brief overview of the investment grade credit manager on sustainable investment as part of the implementation statement, which is updated annually. Within the delegated mandate, these activities are undertaken directly by the Delegated Manager. No managers have been terminated for this reason at this time.

DC assets

The majority of the Scheme's remaining DC assets are held within a with-profits policy managed by the **DC Manager (Prudential).** These assets are strategically invested to improve the long-term profit share for members but given the nature of the arrangements, the Trustee has no influence over the underlying asset allocations. As a result, the Trustee's main activity in relation to these assets is from an oversight perspective. Further information on the DC Manager's approach and work in the area of ESG and climate risks and opportunities is provided in the Risk Management section of this report.

Section 3: Strategy

DB Section

The Trustee believes that the purpose of embedding climate risk considerations into investment decisions is twofold – improving investment outcomes for members, as well as positively impacting the world they live in. Climate change is a financially material risk to the Scheme, and merits significant attention.

As part of its analysis around the climate risk faced by the Scheme, the Trustee identified and defined the following elements of this risk and examples of impacts of the crystallisation of these risks:

Transition risk

- The indirect impact arising as a result of changes in society and economies to combat or adapt to climate change
- **Example:**
  - **Assets:** Some industries become obsolete (e.g. coal), reinvent themselves or others emerge (electric vehicles)
  - **Liabilities:** Improvements in mortality from healthier lifestyles

Physical risk

- The direct impact arising as a result of chronic and/or acute changes in climate and extreme weather events
- **Example:**
  - **Assets:** Damage to physical assets underpinning securities (e.g. real estate and infrastructure)
  - **Liabilities:** Excess deaths arising from extreme weather

Reputational risk

- The increasing spotlight on pension schemes and climate change increases the risk of being “named and shamed”
- **Example:**
  - EAC report on 25 biggest UK schemes

Regulatory risk

- Regulators are increasing pressure on pension schemes to explicitly consider climate change
- **Example:**
  - Implementation Statement
  - Mandatory Climate change reporting

With the timing of these impacts being uncertain, the Trustee has sought to assess how the Scheme may be affected by climate through different time horizons. In selecting different time horizons, the Trustee has considered a range of different factors impacting the Scheme.

<table>
<tr><th></th><th>Short Term</th><th>Medium Term</th><th>Long Term</th></tr>
<tr><td>Timeframe</td><td>To next Triennial Actuarial Valuation (2026)</td><td>To 2032</td><td>To 2040</td></tr>
<tr><td>Primary types of risk</td><td>• Transition
• Reputational
• Regulatory
•</td><td>• Transition
• Physical
• Reputational</td><td>• Transition
• Physical</td></tr>
<tr><td>Commentary</td><td>Consistent with three-year actuarial valuation and investment strategy review cycle.

In addition, recent developments in relation to the climate change regulatory environment and evolution in data quality, including the Corporate Sustainability Reporting Directive (“CSRD”) means that the quality of reporting and data availability is expected to improve over the period.

Transition Risk
The Trustee is predominately exposed to transition risks through its corporate bond assets.

Reputational Risk
The Trustee (and Sponsor) are exposed to reputational risks if the Trustee’s policies are very poorly aligned with peers and/or the Sponsor.

Regulatory Risk
The Trustee is exposed to regulatory risks, including fines, if it does not comply with evolving regulatory requirements.</td><td>About halfway between short and long timeframe; new liability data available following 2032 actuarial valuation

Position of considerable maturity for the Scheme.

Transition Risk
The Trustee is most exposed to transition risks through its corporate bond assets

Physical Risk
Financial effects of physical risk exposure are expected to begin to play a bigger role

Reputational Risk
The Trustee (and Sponsor) are exposed to reputational risks if the Trustee’s policies are misaligned with peers and/or the Sponsors.</td><td>Broadly consistent with the duration of the Scheme’s liabilities. Given the long-term nature of these risks, there is a high level of uncertainty in terms of the likely effect and the potential magnitude of their impact.

Physical Risk
Financial effects of physical risk exposure are expected to be more pronounced</td></tr>
</table>

Climate scenario analysis

In 2023, the Trustee worked with its Investment Consultant to carry out climate change scenario analysis for the DB section of the Scheme. The annuities (which represent a very small proportion of the Scheme's DB assets) have been excluded from this analysis as well as from the metrics calculation in the later section. The aim of the analysis is to help the Trustee review the potential impact of climate change on the Scheme over different time horizons and then focus on possible actions to address the risks and opportunities presented.

The Trustee updates the climate scenario analysis at least every 3 years and more frequently should any of the factors have changed materially to warrant an update to the analysis. Over the Scheme year, the Trustee conducted a review of this and agreed that updating the climate scenario analysis was not warranted as there were no material changes to the objectives and strategy of the Scheme. This included limited changes to the Scheme's asset allocation, membership and Sponsor Covenant. The following climate scenario analysis is unchanged from that of the previous Scheme year.

This analysis was based on the Scheme-specific asset allocation and liabilities as of 30 September 2022. Detailed discussions took place within IC meetings around the methodologies employed. The Trustee recognised that there is a great deal of uncertainty around the assumptions used and the analysis is expected to be further refined as data and industry standards improve, and as the Scheme's investment strategy evolves. The Trustee also recognises that there are ongoing industry-wide discussions that the scenarios used by many investors may not capture the potential severity of climate scenarios, in relation to "tipping points" and will work with the Investment Consultant to consider how to incorporate this within future analysis.

The Trustee investigated four climate scenarios which are in part defined through their success, or otherwise, in meeting the temperature rise implied by the Paris Agreement. The Paris target is to limit global temperature rises to well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. They were constructed with reference to the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) and other industry research. The scenarios differ in the size of the physical risks, based on the resulting temperature impacts, but also in the size of the transition risks (see below the key parameters). These are translated into estimate GDP growth impacts which are used to inform the estimated impact on assets returns. The liability impacts modelled are focused on the climate impacts on mortality. Specifically, the Trustee assumes that the long-term rate of mortality improvement will vary in each scenario, and the liability values have been re-calculated under these different mortality assumptions. The impact of each scenario on mortality assumptions have been derived using judgement from professional actuaries at WTW and are designed to illustrate the potential direct and indirect impacts of climate on mortality. These include the impacts of climate change on weather patterns, lifestyles, and the socioeconomic situations of members. In the view of the Trustee, the four scenarios selected reflect an appropriate range of plausible decarbonisation pathways and are relevant in the context of the DB Section. The Trustee recognises that there is the potential for more extreme outcomes than reflected in the chosen scenarios.

The Scheme undertook its triennial actuarial valuation over this year and will incorporate the input received from the Scheme Actuary into future analysis. The Trustee has also discussed the approach undertaken to perform climate scenario analysis with the Sponsor, to allow for a certain level of alignment with the approach adopted by the Sponsor for its climate disclosure purposes.

The table below identifies the key parameters that define each scenario.

	Lowest Common Denominator	Inevitable Policy Response	Global Coordinated Action	Climate Emergency
Description	A "business as usual" outcome where current policies continue with no further attempt to incentivise further emissions reductions. Socioeconomic and technological trends do not shift markedly from historical patterns.	Delays in taking meaningful policy action result in a rapid policy shift in the mid/late 2020s. Policies are implemented in a somewhat but not completely co-ordinated manner resulting in a more disorderly transition to a low carbon economy.	Policy makers agree on and immediately implement policies to reduce emissions in a globally co-ordinated manner. Companies and consumers take the majority of actions available to capture opportunities to reduce emissions.	A more ambitious version of the Global Coordinated Action scenario where more aggressive policy is pursued and more extensive technology shifts are achieved, in particular the deployment of Negative Emissions Technologies at scale.
Temperature rise	~3.5ºC	~2.0ºC	~2.0ºC	~1.5ºC
Transition risk level	Low	High	Low – Medium	Medium – High
Physical risk level	High	Low – Medium	Low	Low

Further detail on the climate scenario analysis undertaken is included in the Appendix.

Conclusions

Based on the climate scenario analysis conducted, the Trustee does not expect that any fundamental changes are required to the investment strategy arising from the expected impact of climate risk on the Scheme. The Trustee will be reviewing the Scheme's investment strategy following the completion of the 2023 triennial actuarial valuation and climate change risks and opportunities will be considered as part of this review.

The scenarios assume that all other factors are equal during the efforts to transition to a low carbon economy which the Trustee acknowledges is very unlikely to occur in practice. Second order effects, such as higher levels of investment, employment, and productivity-enhancing innovation, are hard to estimate (and will likely offset some of the falls highlighted in the analysis), hence the climate scenarios are not the sole driver of investment strategy and risk management decisions. As noted above, the Trustee will look to incorporate any methodological developments arising and reflect the improved data quality (to the extent that they become available) within the next iteration of the climate scenario analysis to be undertaken for the Scheme.

Ultimately, the Trustee believes that the Scheme's investment strategy is reasonably resilient to the potential impacts of the climate scenarios considered. The Scheme's funding level continues to be strong, and the overall portfolio is relatively low risk. Furthermore, in each of the scenarios considered, the Scheme's funding level is still expected to improve over the long-term. That said, the Trustee recognises that climate risks and opportunities are likely to have a material impact on financial outcomes for the Scheme and the Trustee is committed to taking active steps to address this. The climate scenario analysis performed does not cover any implications that climate risk may have on the Sponsor covenant. However, the Scheme's sponsoring employer has extensively considered the impact that climate risk has on its business within its own climate disclosures report and has developed a plan for managing its climate risk exposure over time. The Trustee held several discussions with the Sponsor on its commitment in this area and the scenarios used in the respective modelling is considered broadly consistent in terms of the outcomes relative to the Paris Agreement targets.

Section 4: Risk Management

The Trustee aims to deliver strong and robust investment returns over the long term, whilst contributing to a sustainable and resilient financial system. Having a robust framework for identifying, managing and mitigating climate risks enhances the prospects of better member outcomes. The Trustee thinks about how it integrates climate into its risk management processes in three ways:

1. Governance – DB Section and DC assets

The Trustee views climate change as a risk that interacts with other risks faced by the Scheme and believes that climate risks and long-term investment returns are interlinked – the physical impacts of climate change and the transformation of the global economy as it decarbonises are expected to materially impact investment risk and return.

The Trustee considers climate change risks and opportunities on a regular basis and is supported by the Scheme's Investment Consultant, WTW, in the process of identifying these. The Trustee delegated responsibility to the Risk & Administration Committee (RAC) for several functions relating to the oversight of risk management. This includes maintaining the Scheme's risk register, which is reviewed on a quarterly basis by the RAC and is designed to ensure that the risks the Scheme is exposed to are monitored on a regular basis, whilst newly emerging risks are identified. The risk register clearly details the size and likelihood of the risk, the controls in place and the actions the Trustee takes to manage, mitigate, and exploit both the risk and opportunity. Although the Trustee retains ultimate ownership, the risk register clearly sets out the parties that assist the Trustee in its responsibilities.

The RAC reports quarterly to the Trustee and will take actions and make recommendations where necessary. The Trustee firmly believes that climate change is a material risk that presents significant financial, environmental, and societal challenges. Since 2021, climate change has been discussed regularly by the IC, reflecting the Trustee's desire to manage the Scheme's exposure to climate change risk.

2. Top-down – DB Section

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

3. Bottom-up – DB Section

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

- **Security analysis –** As detailed in the next section, the Trustee works with its Investment Consultant to calculate various climate metrics for the underlying securities within the portfolio. This includes metrics such as absolute carbon, weighted average carbon intensity and exposure to climate opportunities. These provide the Trustee with a more detailed understanding of the Scheme's asset exposures. The Scheme's investment managers also provide the Trustee with information on the ESG performance of the funds managed as and when required.
- **Manager analysis –** The DM provides the Trustee with periodic summaries of the ESG credentials of the underlying investment managers within the alternative credit mandate. The DM provides bespoke quarterly investment performance reporting to the Trustee and any ESG developments arising in relation to the underlying investment managers are highlighted, if relevant. The Trustee meets with the Scheme's investment grade credit manager on a biennial basis. As part of these meetings the Trustee typically seeks to explore several areas, including the managers' approach to ESG.

4. Stewardship - DB Section

There are several levers available to the Trustee to help manage the Scheme's climate risk exposure, which are expected to be addressed regularly by the IC and wider Trustee Board in the years to come.

- **Engagement –** The Trustee considers that efficient and proactive engagement as stewards of capital with the investment managers or companies they are invested in, is most likely to change behaviour and ultimately drive reductions in carbon emissions. Stewardship is one of the most powerful tools investors can use to influence companies to adapt their business approach to a low-carbon environment. The Trustee expects its investment managers to integrate climate change and other ESG factors at all steps of their investment analysis and decision-making processes. Over the Scheme year, the Trustee developed stewardship priorities to help drive engagement within the stewardship themes that are deemed to be of more relevance to the Scheme. Climate change, biodiversity, human capital and human rights have been identified as the key stewardship priorities for the Trustee. The Trustee is also currently in the process of formalising their sustainable investment beliefs into a sustainable investment policy that has been finalised in 2024 and will be shared with the Scheme's investment managers to clearly communicate the Trustee's approach and expectations in relation to ESG. To the extent that specific concerns arise in respect of certain investment managers, then the Trustee will engage with the investment manager, and is ultimately willing to disinvest from mandates if deemed appropriate.

> ***Engagement case study – investment grade credit manager***
>
> In 2023, the Scheme's investment grade credit manager engaged with one of the bank's the Scheme is exposed to in relation to their interim net-zero targets. As one of the early banks to disclose sectoral interim targets, these were set against the International Energy Agency's (IEA) Sustainable Development Scenario which have now become outdated following the publication of the revised Net-zero Economy 2050 (NZE50) scenario. Following continued engagement from the investment manager, the bank published their most recent climate report in November 2023, which includes updated targets on 9 sectors which are now based on the new scenario. The investment manager continues to monitor the bank's progress against it targets.

- **Mandate changes / design –** in addition to engagement, the Trustee either directly or via the DM will continue to review mandate guidelines, restrictions, and benchmarks, as well as implement any policies aimed at reducing emissions. The Trustee has specific restrictions or exclusions in investments in tobacco-related companies, investments in thermal coal, tar sands and controversial weapons within the Scheme's segregated credit mandates.

> ***Exclusions case study – alternative credit manager***
>
> The Scheme is invested in the JP Morgan Emerging Market Debt fund within its alternative credit mandate. The fund has several exclusions in place for investments in tobacco-related companies, investments in thermal coal and controversial weapons. These are consistent with the Trustee's policy on exclusions. Moreover, at least 10% of assets are to be invested in sustainable investments, such as renewable energy providers, and at least 51% of assets are invested in issuers with positive environmental and/or social characteristics as measured through the investment manager's proprietary ESG scoring methodology and/or third-party data.

The DM continues to explore opportunities to add investments within the alternative credit mandate that would further improve the ESG characteristics of the portfolio, while also generating an attractive financial return.

- **Industry collaboration –** The Trustee supports its investment managers working with the wider industry to bring about positive ESG developments. The Trustee receives regular reporting on the industry initiatives in which its investment managers and DM are involved with.

> ***Industry collaboration case studies***
>
> **Investment Grade Credit Manager:** The Scheme's investment grade credit manager is an active member of the collaboration on microfibers, organised by First Sentier Investors. The group seeks to put pressure on governments around the world to introduce legislation for compulsory microfiber filters on new washing machines, with the aim of addressing plastic pollution which is harming ecosystems. As a result of this engagement, several washing machine manufacturers have committed to fitting microfiber filters to their machines. The initiative is also gaining traction in California, as well as France where legislation is set to be introduced in 2025. In addition to this group, the manager is also part of a coordinated effort by the VBDO (Dutch Association of Investors for Sustainable Development) which is calling for accelerated corporate action on plastics. The VBDO privately wrote to the High Ambition Coalition governments, flagging the need to address the growing volumes of plastic produces at source, whilst also signing an open letter calling for mandatory corporate disclosure of plastics data as part of the Global Plastics Treaty.
>
> **Delegated Manager:** The Scheme's delegated manager is a signatory to the Principles for Responsible Investment (PRI). Over the year, the manager has worked with other signatories to provide input into various draft PRI papers, such as 'Private Equity Stewardship.' In addition, the Thinking Ahead Institute (a global not-for-profit research organisation founded by the delegated manager), has also been selected by the PRI to research and assess the appropriate level of resources that institutional investors should dedicate to stewardship.

DC section of the Scheme

The remaining investments within the DC section of the Scheme are delegated to Prudential and invested in line with their strategy to support long term share of profit. Whilst the Trustee recognises that it has little control over the investment strategy of the with profits fund, it is reassured by the DC Manager's actions in relation to climate change, a summary of which is provided below:

- **Net Zero:** Prudential Assurance Company, the life company through which with-profits assets are held, is part of asset manager M&G plc and its climate risk activity aligns with that of the investment manager M&G's climate risk policies. M&G plc is a member of the Net-Zero Asset Owner Alliance (NZAOA), which it joined in 2021. M&G plc is committed to achieving net zero across its investment portfolios, including the With-Profits Fund, by 2050. For business operations, it has set near-term operational carbon reduction targets, aligned with the Paris Agreement. These include:

  - reducing Scope 1 & 2 (market-based) carbon emissions from our direct operations by 46% by 2030 from a 2019 baseline;
  - reducing Scope 3 business travel carbon emissions by 46% by 2030; and
  - engaging with suppliers to encourage them to set ambitious carbon reduction targets aligned with climate science, with an aim to cover a minimum of 67% of their Scope 3 supply chain emissions by 2030.

- **Engaging on climate:** M&G Investments co-leads active engagement with three companies on the Climate Action 100+ list of the world's largest corporate greenhouse gas emitters: BP, Rio Tinto and Samsung Electronics.

- **Managing climate risks:** M&G uses several methods to identify where investments are exposed to climate risk, including scenario analysis. These scenarios include physical risks like flooding, fire and extreme wind, and also the risks to companies as they change their business models to reduce carbon emissions. It models portfolio exposures and how they behave under different climate scenarios, and will extend this capability across its strategies, with regular updates. It also considers various connected ESG issues, and their impact on climate change.

- **Thermal Coal position:** In March 2021, M&G plc published its Position on Thermal Coal, including the commitment to reduce its exposure to thermal coal power generation, mining and other sectors with thermal coal-related operations without any technologies to substantially reduce CO_2 emissions. This commitment to reduce exposure is by 2030 in developed countries and by 2040 in developing countries. M&G plc also joined the Powering Past Coal Alliance, a coalition of countries, cities, regions and organisations aiming to accelerate the coal phase out, in March 2021. Prudential Assurance Company's (PACs) Asset Owner Thermal Coal Position has existed since 2020 and was reviewed in 2021 in order to meet the requirements of the Powering Past Coal Alliance and M&G plc's position. PAC's Thermal Coal Position applies to publicly listed assets and property. Where companies fail its coal screening, it prefers to engage to phase out coal, but where engagement is unsuccessful or considered unlikely to succeed, it may exclude some companies from its portfolios. Initial exclusions and engagements commenced in 2021, with additional exclusions implemented over 2022.

- **Positive action:** In January 2021, PAC asked M&G Investments to invest £5 billion from the With-Profits Fund into private companies which are trying to solve some of the world's biggest environmental and social challenges. In its first two years, the team behind the strategy has deployed or committed over £2.4 billion to 50 companies, including emerging sectors such as carbon capture and storage, clean transport, recycling, and sustainable housing, and in breakthrough innovations in health and biotechnology.

Section 5: Metrics and Targets

DB Section

The Trustee has set a climate-related target to aid with monitoring how efficiently climate risk is being managed across the Scheme over time. Specifically, the Scheme has set an Implied Temperature Rise (ITR) target of 2040 of 1.5°C. The Trustee calculates a range of climate metrics that will be monitored on an annual basis through future publications of this report. The Trustee has reviewed the metrics chosen and considers them fit for purpose for this Scheme year. The Trustee will, however, consider future changes to the metrics to reflect industry developments and increased data availability. The table below sets out the chosen climate metrics:

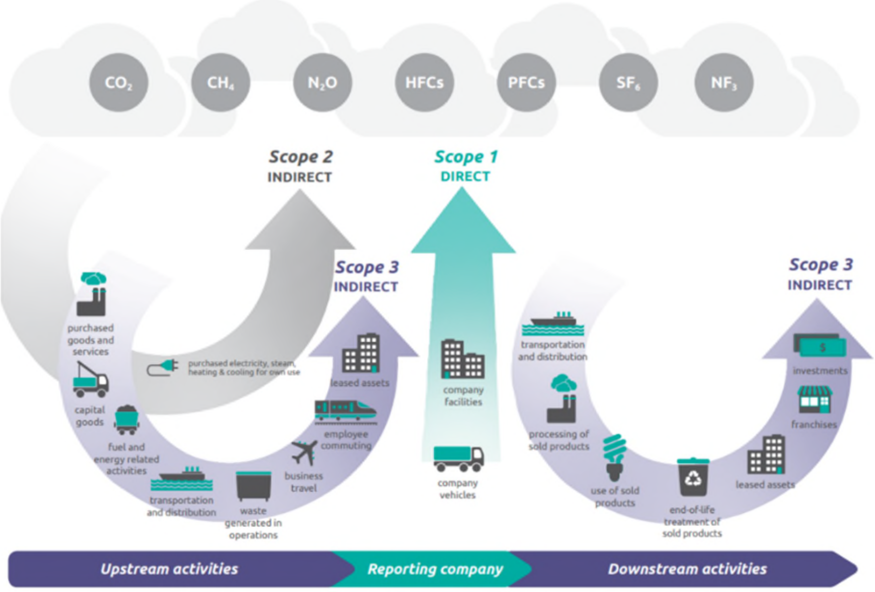
Metric	Definition
Absolute emissions	*Total Carbon Emissions (tCO_2e):* This is an "absolute" metric providing an estimate of the total carbon emissions attributable to the Scheme's assets. To compile the figure, the Trustee has used MSCI data for carbon emissions associated with each company the Scheme invests in where available. Where this information is not available, emissions have been estimated based on the country and industry sector of the company/asset in question. Although this latter approach is naturally more approximate, it does allow the Trustee to produce an emissions figure that encompasses the Scheme's entire credit portfolio rather than only a proportion of it.
Weighted Average Carbon Intensity	*Weighted Average Carbon Intensity (tCO_2e / £M sales * portfolio weights):* This is an 'emissions intensity' metric which provides a measure of the efficiency of output and calculates the carbon emissions of a company per unit of revenue generated and weights this by portfolio holding. This calculation provides a figure that is useful for peer comparison. The Trustee has elected to use WACI as its intensity metric to align with the approach taken by the Sponsor.
Portfolio alignment metric	*Implied Temperature Rise (degrees Celsius):* This is a forward-looking measure of the extent to which a portfolio is aligned with the Paris Agreement target of restricting global warming to well below 2 degrees Celsius, with efforts to limit the increase to 1.5°C. This metric calculates the temperature rise associated from holding a portfolio of assets by considering the net zero commitments or carbon emissions trajectories of the underlying investee companies within the portfolio.
Additional non-emissions based metric	*Percentage of the portfolio invested in climate-related opportunities:* Climate opportunities are determined based on companies that may be considered EU Taxonomy eligible based on the criteria set out in the taxonomy (which provides a minimum standard across sustainability disclosure requirements and puts some rigour around what investments can be considered sustainable). This is a measure of the portfolio's exposure to investments which are more likely to benefit from the transition to a low carbon economy, and therefore helps provide a balance of the risks and opportunities presented by the transition to a low carbon global economy with the potential to enhance investment returns through investment in such assets.

The metrics above have been selected in accordance with the climate disclosure framework. A key facet of the Trustee's ongoing monitoring and management of climate change is relying on having good data on the Scheme's exposure in this area. The climate disclosure reporting framework requires the Trustee to define the scope of the emissions monitored, which are as follows:

- Scope 1 emissions: all direct emissions from the activities of an entity or the activities under its control

- Scope 2 emissions: indirect emissions from electricity purchased and used by an entity which are created during the production of energy which the entity uses.

- Scope 3 emissions: all indirect emissions from the activities of the entity, other than scope 2 emissions, which occur from sources that the entity does not directly control.



From this year, we started reporting on Scope 3 emissions, and will look to include comparisons for such emissions in future years. Scope 3 emissions data is critical to help build a better picture as we decarbonise our portfolios and economies. However, the Trustee believes that current reported scope 3 emissions data is largely inadequate for purposes including making accurate climate-informed investment decisions. Further, given data issues, the Trustee believes that disclosing the scope 3 emissions of investment portfolios at this stage will necessarily be limited in coverage, subject to large estimation errors, and not fit for meaningful comparison between investors or over time.

The Trustee has taken the decision to report Scope 3 emissions separately to Scope 1 and 2 emissions, given their difference in data quality and application. The data for the climate metrics has been collated using a combination of manager-provided data, proxied data based on sector/geographical breakdowns, and relevant benchmark data. This data is then uploaded into the Investment Consultant's ESG tool (which uses MSCI underlying data) to determine the carbon related metrics that the Scheme is required to report. As data coverage and quality both improve, the Trustee will look to leverage any data sources that become available into the calculation of these climate metrics.

Whilst the analysis undertaken is intended to cover the level of emissions associated with the Scheme's asset portfolio as accurately as possible, this is a rapidly developing area, which currently gives rise to several limitations:

- **Data limitations:** The quality and breadth of data is lower for smaller companies and the coverage across different asset classes varies significantly. The quality of data is typically weaker for private companies and within illiquid mandates. For some funds within the Scheme's alternative credit portfolio, certain proxies have been used based on sectoral and geographical exposures.

- **Estimation and subjectivity involved:** It is important to note that some of the climate metrics calculations are based on estimates and/or subjective judgements made by data providers. In particular, the calculation of the Implied Temperature Rise is based on a range of assumptions used by MSCI. Different data providers may use alternative methodologies and assumptions that would lead to different results.

- **Treatment of government bonds:** The Trustee has agreed to exclude the Scheme's LDI portfolio from the Scheme's reported target. The rationale for the current exclusion of UK Government Bonds (LDI) from the Scheme's target is as follows:

    - The Trustee primarily holds UK gilts as assets to hedge the Scheme's liabilities and as such, even if reducing exposure to these assets would lead to an overall improvement in climate metrics, it would open the Scheme up to excessive funding and investment risk
    - The Trustee recognises that it has limited capacity and capability to engage with the UK Government on climate related metrics
    - The level of financial risk arising from these assets is perceived to be much smaller i.e. the influence of climate change on the price of UK Government Bonds in comparison to the other assets held is likely to be lower

Over time, the Trustee expects methodologies to evolve and industry standards to emerge to reflect improvements in data coverage. This is expected to result in some year-on-year fluctuations within the calculation of certain climate metrics. As data improves, the Trustee will thus monitor trends arising from the calculation of the climate metrics.

Climate metrics analysis as of 31 December 2023

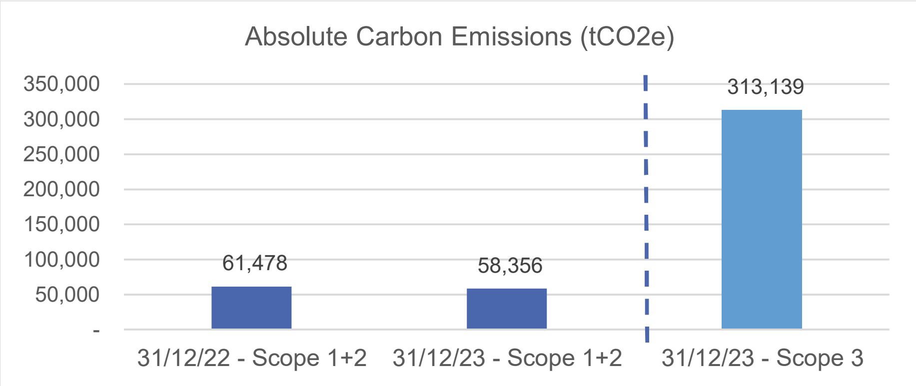
The table and charts below summarise the results of our analysis in respect of the Scheme's asset portfolio over the past two years. Starting this year, the Trustee has begun reporting on the Scheme's Scope 3 emissions, which are presented separately from the Scope 1 and 2 results show below. The table below compares the results of the climate analysis undertaken in December 2022 and 2023. The subsequent charts and commentary provide further details on the results.

The Bupa Pension Scheme – Non LDI Assets	31 December 2022	31 December 2023
Total Carbon Emissions ("tCO2e") – Scope 1 and 2	61,478	58,356
Total Carbon Emissions ("tCO2e") – Scope 3	Not measured	313,139
Weighted Average Carbon Intensity (tCO2e / £M sales * portfolio weights) – Scope 1 and 2	164	113
Implied Temperature Rise	1.7 Degree Celsius	1.6 Degree Celsius
Percentage of the portfolio invested in climate-related opportunities	10.3%	6.0%

Whilst the Trustee has opted not to include government bond assets in the calculation of the climate metrics above given the limitations outlined previously, the figures for this part of the portfolio are reported below, and have been calculated by the Scheme's LDI Manager, BlackRock.

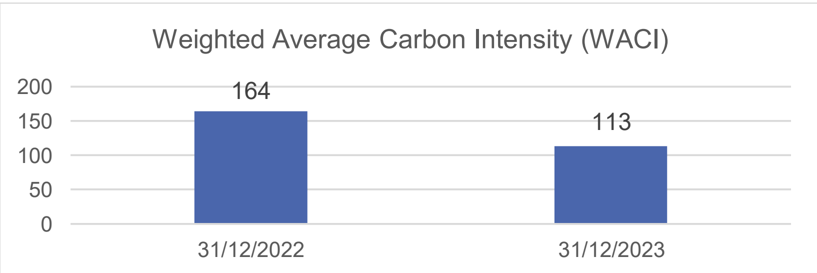
The Trustee will continue to monitor the evolving climate measurement landscape with the expectation that the robustness of the metrics will improve over time. The Trustee looks forward to sharing updates on its progress in monitoring and managing climate risks and opportunities over time.

Total Carbon Emissions



There has been a reduction in total carbon emissions over the year, driven primarily by minor changes in the Scheme's asset allocation (e.g., a few disinvestments from the more carbon intensive components of the alternative credit portfolio). In addition, the investment grade credit manager has rebalanced the portfolio to reduce exposure to industrial and utility sectors, in favour of increased exposure to consumer goods, transportation and financial sectors which have lower absolute carbon emissions.

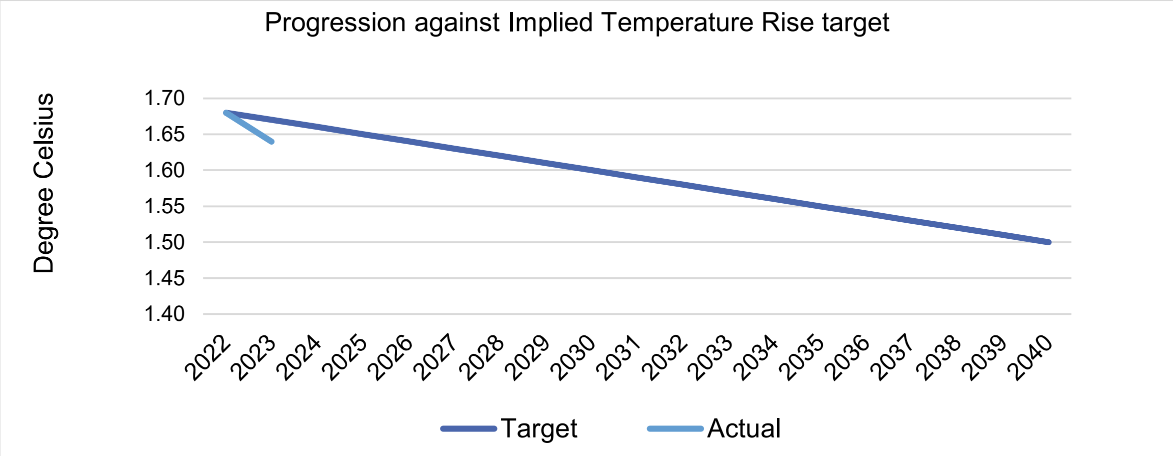
Weighted Average Carbon Intensity



The weighted average carbon intensity for the Scheme has fallen significantly between 31 December 2022 and 31 December 2023. Part of this reduction has been driven by minor changes in the Scheme's actual asset allocation, as set out above. In addition to the changes within the investment grade credit portfolio mentioned above, the exposure to oil and gas producers was also reduced in the alternative credit mandate, contributing to a reduction in WACI.

However, methodological changes adopted in the measurement of WACI have been the main driver of the reduction observed over the year. As noted previously, data quality for private companies and illiquid mandates tends to be weaker. As such, for some of the funds within the Scheme's alternative credit portfolio, certain proxies are used based on sectoral and geographical exposures. Over the year, the investment consultant's approach for selecting proxies for real assets has been updated, and now reflects the sub-industries that we expect the underlying funds to be exposed to. For example, infrastructure funds that were previously assumed to have a broad market exposure, are now modelled based on a more accurate estimate of the actual industries these funds are exposed to. This change has contributed to a reduction in our estimate of WACI. As the quality of data and coverage improves, we will look to reflect these within our calculations, which may lead to unexpected fluctuations in coming years.

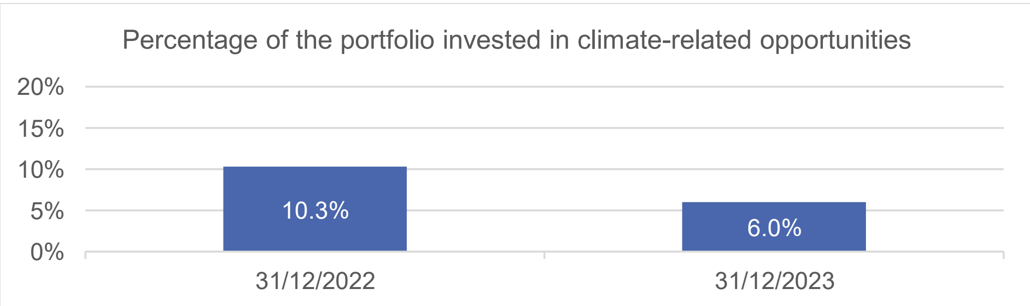
Implied Temperature Rise



As referenced above, the Trustee has identified ITR as the primary metric to use in setting a target for the Scheme. As such, the Trustee target is alignment with a 1.5°C Implied Temperature Rise by 2040 across the Scheme assets. This is measured from a baseline year of 2022. As previously mentioned, the Trustee has agreed to exclude the Scheme's LDI portfolio from the Scheme's target.

Compared to the end of 2022, the Scheme's implied temperature rise has fallen slightly from 1.68 degrees to 1.64 degrees Celsius. As such the Trustee believes that the Scheme remains on track to meet its 2040 target. We are aware that MSCI is in the process of undertaking some methodological changes to their ITR assessment model, which may lead to fluctuations over the coming years.

Percentage of the portfolio invested in climate-related opportunities



There has been a reduction in the percentage of the portfolio invested in climate-related opportunities from 10.3% in 2022, to 6% in 2023. This reduction is the result of using an updated methodology for 2023 which now incorporates an additional 'good governance' screen within the requirements, which is a more challenging target for an investment to meet to be classified as a climate-related opportunity. As a result, the figure this year is lower than the previous year's which was calculated prior to the inclusion of the additional screen. Please note that we expect the methodology and taxonomy in relation to climate-related opportunities will continue to be developed and are subject to change in future years.

The Scheme's LDI Assets

The following table summarises the key climate metrics for the Scheme's LDI assets. All figures have been provided by the Scheme's LDI manager, Blackrock.

Over the year, the Scheme's LDI assets experienced a modest decrease in total carbon emissions and weighted average carbon intensity. The LDI manager reported that this reduction reflected a fall in annual UK greenhouse gas emissions data, following lower gas usage for heated buildings because of the warmer weather over 2023. Falls in emissions from the industrial and agricultural sectors, as well as higher energy prices discouraging household energy consumption, also contributed to this reduction.

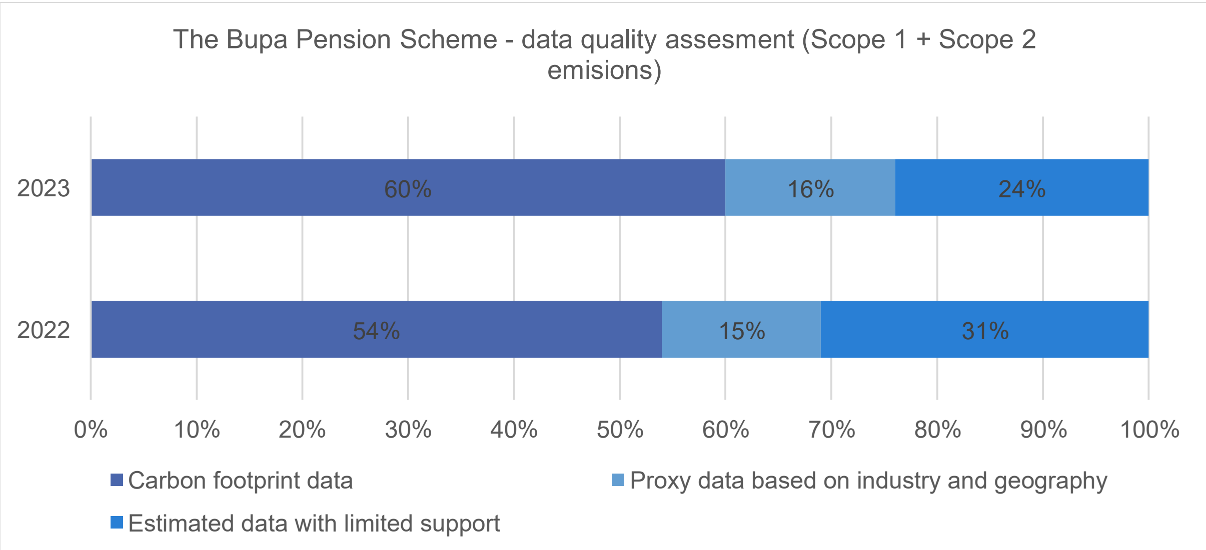
The Bupa Pension Scheme - LDI	31 December 2022	31 December 2023
Total Carbon Emissions ("tCO2e")	118,000	101,680
Weighted Average Carbon Intensity (tCO2e / £M sales * portfolio weights)	201	168
Implied Temperature Rise	2.8 Degree Celsius	2.8 Degree Celsius
Percentage of the portfolio invested in climate-related opportunities	Information not provided	Information not provided

Data quality

Whilst the Trustee has aimed to carry out the analysis as far as they are able, the availability of data is dependent on external factors which are largely outside of the Trustee's control, such as certain companies not disclosing their GHG emissions.

In calculating absolute emissions and emission intensity, the Trustee was able to obtain data covering 60% of the Scheme's asset portfolio (excluding liability driven investments) as of 31 December 2023. For the private assets that the Scheme holds, the Investment Consultant has proxied the exposure by using appropriate geographic and sector weights for the underlying holdings. This represents 16% of the total portfolio. The emissions metrics analysis is based upon MSCI's data, which is undertaken on a company-by-company basis using MSCI's Company Specific Intensity Model which will primarily use direct emissions data, but also estimates (using industry averages) where required. MSCI is a market leader in terms of their ESG research and reporting quality. CO2e represents a single unit of measurement for total greenhouse gas emissions (often referred to as CO2 and equivalents) and includes the seven gases mandated under the Kyoto protocol. The Trustee will seek to improve the quality of data in each succeeding analysis.

The chart below provides an overview of the data used by WTW in calculating the climate metrics for the Scheme's non-LDI assets as of 31 December 2023. Data quality for scope 1 and 2 emissions that underpins our analysis improved slightly over the year. This improvement has been largely driven by increased data coverage of the investment grade credit mandate, as well as a slight increase in the allocation to this asset class over 2023.



As highlighted above, from this year, we started reporting on Scope 3 emissions, and will look to include comparisons for such emissions in future years. As expected, scope 3 emissions data is less accessible than scope 1 and 2. Our climate metrics calculations are based on c.30% of scope 3 data reported by companies or estimated by third party data providers. More than 50% of this data has been estimated with very limited support. As data availability improves, we expect to be able to place more reliance on the climate metrics calculated using scope 3 data.

Looking forward

The Trustee believes that the pensions and investment industry is beyond the stage of merely acknowledging climate change as a financially material risk; the key focus should now be on taking ongoing and effective climate action by all stakeholders.

Since last year, we have implemented several developments that we believe continue to enable the effective consideration of climate risks and opportunities within investment processes. Our focus has very much been on ensuring that we have implemented a robust governance framework that enables sustainable investment decision making across all stakeholders.

More importantly, we have leveraged this governance structure over the last few years to make positive investment decisions, which support our desire and ambition to sustainably move towards our goal of achieving our alignment target of 1.5°C Implied Temperature Rise by 2040 across the Scheme's non-LDI assets. However, we understand that our job is far from done and continue to engage collaboratively with all the Scheme's stakeholders and the wider pensions and investment industry on climate change to drive meaningful and positive change.

Section 6: Appendices

Appendix 1: Glossary

Absolute Emissions	The total emissions attributable to the relevant portion of the Scheme's assets
Emission Intensity	The weighted average carbon intensity (tCO2e / £M sales * portfolio weights)
CO_2e	Carbon dioxide emissions or equivalent.
ESG	Environment, Social and Governance
Net Zero	The position of removing as many greenhouse gases as are emitted
Physical Risk	The direct effects of climate change on the Scheme and its members
Transition Risk	Risks and opportunities arising from efforts made to transition towards a net-zero economy (both domestically and globally) to limit climate change
Portfolio Alignment	The percentage of the portfolio aligned with a particular net-zero initiative
Responsible Investment	Making investment decisions and engaging with companies in order to encourage a positive impact on the world
Scope 1 Emissions	Direct emissions from a company's owned or controlled sources. This may include emissions from a firm's manufacturing processes or emissions from company vehicles
Scope 2 Emissions	Indirect emission from the generation of purchased energy, such as heating for company facilities.
Scope 3 Emissions	All other indirect emission, including those of suppliers and customers. These may include emissions related to the transportation and distribution of goods and disposal of waste generated in operations.

Appendix 2: Further details on climate scenario analysis - methodology employed and results

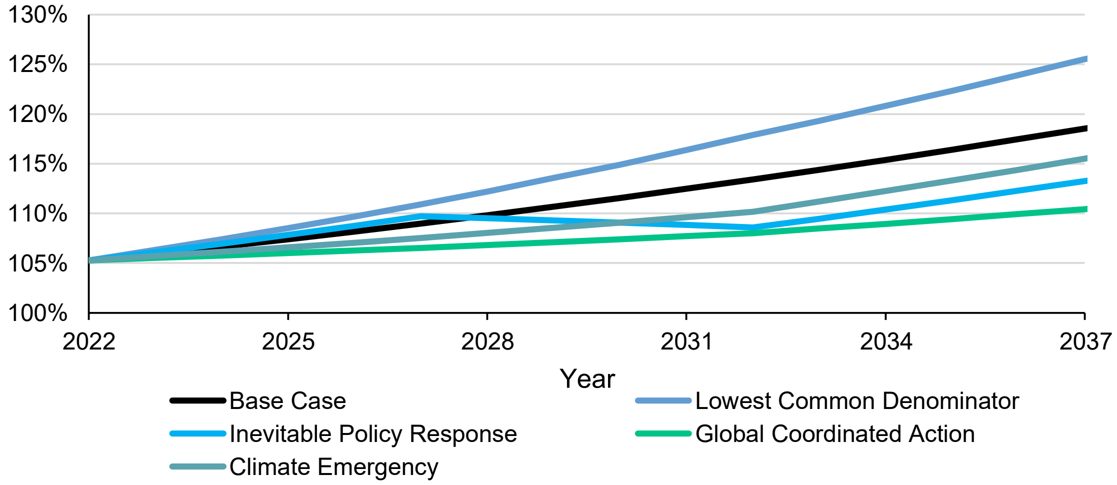
The ’base case’ used in the analysis below is the central funding projection against which the climate scenarios are considered. It projects, using the Investment Consultant’s model, the assets and liabilities of the Scheme over the period considered. This considers commonly used central UK life expectancy projections for the liabilities (which includes an assumed long-term rate of improvement of 1.5% p.a. over period). It assumes that the current asset portfolio of the Scheme remains the same. It also does not make any explicit future allowance for climate change outcomes within the assumptions, but there is an implicit assumption that future outcomes will rhyme with history (which has exhibited other such large external shocks). The assumptions underpinning the model expect that current market pricing, which is to some extent built into the model, only allows for a small amount of transition risk (similar to the Lowest Common Denominator scenario) and makes no allowance for physical risk.

Below the Trustee has illustrated the impact of the climate change scenarios considered on the Scheme’s funding level. The Trustee has considered these over a timeframe that is broadly consistent with the Scheme’s longer term time horizon and the duration of the Scheme’s liabilities. The Trustee recognises that assuming such climate scenarios are priced in gradually, year by year, is an unrealistic expectation and in practice this is likely to be far less linear. The Trustee has therefore also included a one-off shock which seeks to illustrate the impact if climate change was to be reflected instantaneously. This assumes that markets immediately price in the transition and physical risks over the next 20 years and that the market initially overreacts to this news in struggling to price in the actual impact. Whilst this is potentially unrealistic, the Trustee thinks this helpfully stress tests the assumptions made in the analysis and helps consider how robust the funding strategy might be. The Trustee also recognises the uncertainty in the underlying assumptions and that the shocks experienced could be larger.

In some climate scenarios, the modelling implies reduced life expectancies (relative to other scenarios and/or schemes’ central mortality assumptions) and therefore a relative reduction in the Scheme’s liabilities. This is a plausible potential outcome arising from the negative impacts of increasing climate change. This can suggest a relative improvement in the expected funding position for the Scheme even when combined with associated reductions in the value of the Scheme’s assets (given their low-risk nature). However, it is important to recognise that an assessment of what is in the best interests of the Scheme and its members is a much broader question than the impact on funding level alone. Key considerations may be a reduction in the quality (and length) of members’ lives, and the quality of the environment that they will retire into. Consequently, the results of any such modelling should not be assumed to reflect any complacency or acceptance (either implicit or explicit) that the Trustee considers global inaction or business-as-usual with respect to climate change to be in the best interests of the Scheme or its members. The Trustee believes that climate change is a systemic risk of unprecedented scale and severity. Actions to address it are a collective priority, given the risks it presents to individual pension schemes, the ongoing resilience of the savings universe, and the planet.

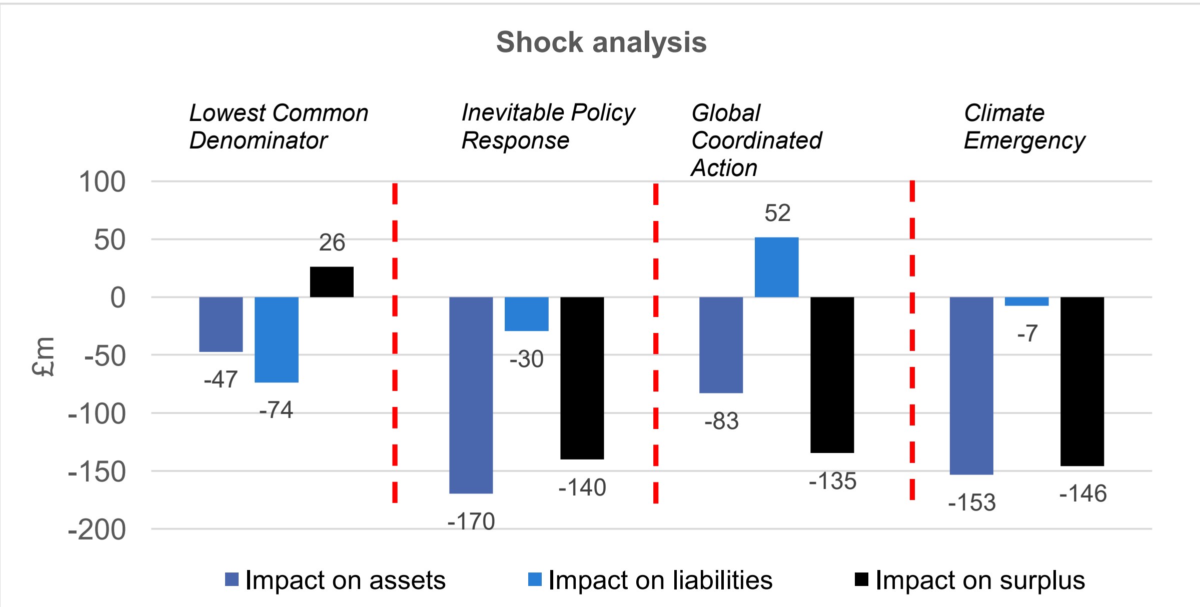
Impact of Climate Drags and Shocks on the Scheme's Funding Level (gilts + 0.5%)

The chart below shows how the DB Section's funding level is expected to evolve under the different climate scenarios considered (defined in the earlier table). This illustrates the range of potential funding outcomes. The scenarios vary based on the level of assumed transition and physical risk that occurs (shown in the earlier table), such that over the short-term a high transition risk scenario has greater impact on asset returns and in the longer term there is a greater impact of the physical risk from climate change.



The Base Case was derived from the Scheme's funding level of 105.4% (using a gilts + 0.5% basis) as of 30 September 2022. This timing coincides with the UK gilts crisis, a notably turbulent period in the markets that affected the funding levels of numerous pension schemes. Since then, the Scheme's funding level had increased to 113.7% as of 30 June 2024.

Impact of Climate Shocks on the Scheme's Funding Level (gilts + 0.5%)



	Base Scenario	Lowest Common Denominator	Inevitable Policy Response	Global Coordinated Action	Climate Emergency
Assets (£m)	1,554	1,507	1,384	1,471	1,401
Liabilities (£m)	1,475	1,401	1,445	1,527	1,468
Surplus (£m)	79	106	-61	-56	-67
Funding level (%)	105.4%	107.6%	95.8%	96.3%	95.4%