Caterpillar Pension Plan

Climate change governance and reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”)

Reporting period: 12 months to 30 September 2024

December 2024

Executive Summary

In 2021, the Department for Work & Pensions ("DWP") introduced new requirements for UK pension scheme trustees for integrating the Task Force on Climate-related Financial Disclosures ("TCFD") framework into their investment and governance processes. This TCFD Report is the second annual TCFD Report covering the Caterpillar Pension Plan over the Plan's financial year ending 30 September 2024 and has been created to help you understand the climate-related risks and opportunities related to the Plan.

Summary of findings

Governance	The Trustee, supported by the Investment Sub-Committee ("ISC"), maintains clear oversight of climate-related risks and opportunities through: • annual review of the Statement of Investment Principles ("SIP"), which details key objectives, risks and the approach to ("Environmental, Social and Governance ("ESG") factors, such as climate change; • assessment of all advisers assisting the Trustee with respect to governance activities on an ongoing basis, including formal assessment of the investment consultant against objectives set by the Trustee at least annually; and, • refresher training on climate-related risks and opportunities to the extent deemed necessary.
Strategy	The Trustee have explored both transition and physical risks arising from climate change and considered risks and opportunities over the short (to 2028), medium (to 2043) and long-term (to 2063) time horizons. The key conclusion from the 2023 scenario analysis is that the Plan's investment and funding strategy is resilient over all time horizons; however, the Trustee notes that a successful transition is an imperative, as despite the low-risk nature of the Plan's investments, changes in market conditions can have an impact on the cost of future bulk annuity policies. As there have been no material changes to strategy or improvements in methodology, the Trustee decided not to undertake new scenario analysis for the 2024 TCFD Report.
Risk Management	The Trustee have clear policies, processes and controls in place for identifying, assessing and managing climate-related risks. The primary climate-related risk management processes and activities of the Trustee include the SIP and risk register, which help the Trustee identify and manage the materiality of climate-related risks, both in absolute terms and relative to other risks that the Plan is exposed to.
Metrics and Targets	The Trustee reports against four climate metrics: absolute emissions, emissions intensity, portfolio alignment and data quality. The metrics reflect the Plan's uninsured assets (excluding AVCs) and include Scope 1, 2 and 3 emissions for corporate bond holdings, and production and consumption emissions for sovereign bonds. The Appendix includes climate metrics attributable to Aviva's annuity assets. Overall, the Plan's metrics improved over the Plan year; however, it is important to note that there are a number of factors that can influence these metrics including (but not limited to) changes to the underlying holdings (including changes in the value of holdings), data provider and availability/quality of data, which remains a challenging factor. The Trustee have set the following targets for the Plan and will monitor progress against these on an annual basis: • Target a 32% reduction to the sovereign carbon intensity metric by 2030 relative to the 2023 levels; and, • Decarbonisation of the corporate bond holdings, targeting alignment to 1.5 degrees by 2030.

Metrics

The Plan's metrics, based on the actual asset allocation as at 31 March 2024 (excluding the bulk annuity contract/AVCs), are summarised below.

Sovereign Bonds

LGIM LDI	Emissions	Sovereign Carbon Intensity (tCO2e / $M PPP-Adjusted GDP)		Absolute Emissions (tCO2e)	
		Metric	Coverage	Metric	Coverage
31 March 2024	Consumption	167.3	100.0%	111,888	100.0%
	Production (incl. LULUCF)	120.6	100.0%	80,618	100.0%
31 March 2023	Production (incl. LULUCF)	136.1	100.0%	178,113	100.0%

Source: Mercer, using data from MSCI (2024) and the World Bank Website (2023). Full details on the approach that has been taken are set out on p19 and included in the Technical Appendix.

Corporate Bonds

Corporate Bond Mandates		Emissions	WACI (tCO2e / $M sales)		Carbon Footprint (tCO2e / $M invested)		Absolute Emissions (tCO2e)		Implied Temperature Rise (ºC)	
			Metric	Coverage	Metric	Coverage	Metric	Coverage	Metric	Coverage
31 March 2024	LGIM Buy & Maintain mandate	Scope 1 & 2	135.3	86.4%	38.5	56.3%	11,069	56.3%	1.9°C	77.1%
		Scope 3 (Upstream)	223.0	86.1%	85.9	56.1%	24,042	56.3%		
	RLAM Active Credit	Scope 1 & 2	60.0	73.9%	23.3	43.4%	4,456	43.4%	1.9°C	67.7%
		Scope 3 (Upstream)	169.2	73.0%	76.8	43.4%	14,068	43.4%		
31 March 2023	LGIM Buy & Maintain mandate	Scope 1 & 2	155.8	88.2%	37.5	57.3%	18,644	57.3%	1.7°C	57.0%
	RLAM Active Credit	Scope 1 & 2	67.7	73.2%	27.1	44.4%	4,420	45.1%	1.8°C	38.8%

Source: Mercer, using data from MSCI. Full details on the approach that has been taken are set out on p19-p20 and included in the Technical Appendix.

Progress over the year

Sovereign Bonds

Over the year to 31 March 2024, the carbon intensity for Sovereign bonds has fallen by c. 11% and needs to fall a further c. 21% to reach the Trustee's target reduction of 32% between 2023 and 2030. The fall in the Absolute Emissions over the year has been driven by the fall in the value of the LDI portfolio following the buy-in, which was partially funded through Sovereign bonds.

Corporate Bonds

The Plan's aggregate Carbon Footprint reduced over the year to 31 March 2024, driven entirely by the Royal London Asset Management ("RLAM") corporate bond portfolio. The Plan's other carbon intensity metric, WACI, also reduced over the year to 31 March 2024 (both Legal and General Investment Management ("LGIM") and RLAM's WACI reduced). The Absolute Emissions for LGIM fell over the 12 month period as a proportion of the LGIM Buy & Maintain mandate was used to fund the buy-in. The implied temperature rise of the Plan's corporate bond holdings increased slightly over the year to 31 March 2024, to 1.9°C. This was consistent with the wider market benchmark for the Plan's corporate bond holdings. The Trustee's are targeting alignment to 1.5°C by 2030.

Engagement activities

Over the Plan year, increased engagement has taken place with RLAM and LGIM on the carbon exposure within their respective funds. Engagement activities are ongoing with significant progress achieved on the forward-looking alignment of the Plan's corporate bond holdings and the level of reporting the Plan will receive.

There has been further engagement with LGIM on the decarbonisation of the Plan's LGIM Buy & Maintain Credit fund, with trading carried out to reduce the carbon intensity in the fund. The Trustee have engaged with LGIM on accelerating the temperature alignment of the fund with discussions ongoing on targeting alignment to 1.5 degrees by 2030.

The Trustee also engaged with Aviva on their approach to managing climate-related risks and opportunities. The Trustee will continue to engage with Aviva on the bulk annuity contract held by the Plan.

Notwithstanding that there are factors outside of the Trustee's control, **the Trustee's intention is to meet its targets, and it engages with its investment managers to make clear its requirements**.

Next steps

The Trustee recognises the importance of climate-related risk management for the Plan and has identified the following areas of focus for the Plan year to September 2025:

1. Consider additional monitoring that can be incorporated into regular reporting to understand the impact of the decarbonisaiton of the LGIM corporate bond fund and progress on targeting alignment to 1.5 degrees by 2030;
2. Continue to engage with RLAM to understand whether improvements can be made in respect of the carbon exposure of the Plan's investment in RLAM and how the data quality could be improved;
3. Discuss the engagement activities that both LGIM and RLAM are carrying out with the underlying companies in which they invest;
4. Consider whether investment should be made in climate focused funds for the Plan;
5. Continue to engage with Aviva to monitor their progress versus their overall climate strategy and the decarbonisation of the assets held within their bulk and individual annuity policy business. The Trustee view it as important that Aviva continue to assess climate related risks and opportunities on behalf of the Plan.

Contents

Section 1
Introduction

Dear Members,

Welcome to our second climate change report, which has been prepared in line with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") and the statutory requirements prescribed by the Department of Work and Pensions[1].

The Trustee of the Caterpillar Pension Plan ("the Plan") has a legal fiduciary responsibility to invest the Plan's assets to make sure that the Plan remains sufficiently funded to meet the expected obligations to the beneficiaries of the Plan. As part of this responsibility, the Trustee recognises climate change as a risk that could impact the financial security of members' benefits if it is not properly measured and managed. The Trustee also recognises that climate change presents an opportunity, by investing in companies or assets that are expected to perform well in an economy that is positioned to address the challenges associated with climate change.

The Trustee's assessment of climate-related risks and opportunities has been carried out based on information that is currently available, both in terms of data from the companies and assets in which the Plan invests. This data is subject to change as climate change reporting improves.

Climate change is one risk amongst many that the Trustee measures, monitors and manages. To this extent, climate change needs to be considered alongside these other risks in a balanced and proportionate way. The Trustee will therefore continue to invest in companies where there is a sufficiently attractive investment case and the asset manager believes there is an opportunity to engage and influence change in the behaviour and actions of a company.

Whilst the core policies and processes of the Trustee have not materially changed over the Plan year, we are pleased to confirm the Trustee achieved the aims outlined in the previous TCFD report for the Plan year to 30 September 2024. This report reflects some positive updates to the climate-related analytics approach:

- **Increased engagement with the Plan's investment managers:** We are pleased to report that increased engagement has taken place with Royal London Asset Management ("RLAM") and Legal and General Investment Management ("LGIM") on the carbon exposure within their respective funds. Engagement activities are ongoing with significant progress achieved on the forward-looking alignment of the Plan's corporate bond holdings and the level of reporting the Plan will receive.
- **Implementation of Targets:** We are pleased to report that there has been engagement with LGIM on the decarbonisation of the Plan's LGIM Buy & Maintain Credit fund, with trading carried out to reduce carbon intensity in the fund. The Trustee have engaged with LGIM on accelerating the temperature alignment of the fund with discussions ongoing on targeting alignment to 1.5 degrees by 2030.
- **Climate-related metrics:** Whilst the level of unavailable data has remained relatively constant, overall data availability has improved for the corporate bond funds compared to the previous year. The impact is a reduction in estimated data.

[1] The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 and the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations 2021

In November 2023, the Trustee purchased a bulk annuity contract with Aviva, whereby around two thirds of the pensioner members' benefits were insured. This resulted in a proportion of the Plan's holdings in corporate bonds and gilts being passed to Aviva to purchase the bulk annuity contract. This is known as a "buy-in policy" and it is now an asset of the Plan..

The assets associated with the bulk annuity contract held with Aviva are managed in aggregate with other bulk and individual annuity contracts written by Aviva. The assets are held within Aviva Life & Pension UK Limited ("ALPUK"). ALPUK reports climate-related metrics on an annual basis via the Aviva plc Climate-related Financial Disclosures (the latest reporting period is to 31 December 2023). Given the assets are invested in aggregate with other contracts, the Trustee is not able to attribute the proportion of the ALPUK metrics pertaining to the Plan. The most recent climate-related metrics for ALPUK are included in the Appendix of this report and the full Aviva plc TCFD report is available here. The Trustee regularly engage with Aviva on their approach to climate change, including reviewing their TCFD report as part of their overall risk management process.

The analysis outlined in the main body of this report covers the Plan assets excluding the buy-in policy. We note the importance of fully understanding the reasons for the change in our climate-related metrics year-on-year to determine the proportion that is driven by the portfolio management decisions made by our asset managers versus the proportion attributed to general market forces. Further details are provided in the 'Metrics and Targets' Section of the report.

Climate change is one risk amongst many that the Trustee measures, monitors and manages. To this extent, climate change needs to be considered alongside these other risks in a balanced and proportionate way.

This report has been split into several sections to help members understand:

Governance: How the Trustee incorporates climate-related risks and opportunities into its decision making;

Strategy: How potential future climate warming scenarios could impact the Plan (based on the current asset allocation and financial approach to managing the DB assets);

Risk Management: How the Trustee identifies, assesses, and manages climate-related risk in its risk management processes; and

Metrics and Targets: How the Trustee measures and monitors progress against different climate-related indicators (known as metrics).

The Technical Appendix sets out the methodology and assumptions used to produce the information contained in this report.

As always, members are encouraged to contact the Trustee if there are comments you wish to raise.

Adrian Kennett
Dalriada Trustees Limited
Chair of the Trustee of the Caterpillar Pension Plan

Section 2
Governance

Trustee’s governance approach

The Trustee has ultimate responsibility for ensuring effective governance of climate-related risks and opportunities. The Trustee maintains a Statement of Investment Principles (“SIP”), which details the key objectives, risks and approach to considering Environmental, Social and Corporate Governance (“ESG”) factors, such as climate change, as part of its investment decision making. The document is reviewed on at least a triennial basis or following a significant change in investment policy.

The Trustee’s key beliefs on ESG and climate change are:

- ESG factors may have a material impact on investment risk and return outcomes.
- Good stewardship can create and preserve value for companies and markets as a whole.
- Long-term sustainability issues, particularly climate change, present risks as well as opportunities that increasingly may require explicit consideration.

Roles of those undertaking scheme governance activities

The Trustee is responsible for understanding and maintaining oversight of the Plan’s climate-related risks and opportunities and takes independent advice from its professional advisors and input from its investment managers to assist with this objective.

The Trustee is responsible for agreeing the strategic asset allocation and the funding strategy for the Plan and will take into account the impact of climate-related risks and opportunities on strategy. The Trustee is responsible for any changes to the Plan’s risk register and integrated risk management framework, and for ensuring the applicable climate-related risks are documented.

The Trustee has also reviewed the roles of others undertaking scheme governance activities, in particular the investment sub-committee that has been established and their respective decision-making powers. The Trustee will consider the recommendations of the investment sub-committee and will ratify any decisions that require its approval.

Of relevance to the oversight of climate-related risks and opportunities are:

The Investment Sub-Committee (ISC)

The ISC is responsible for the implementation of the investment strategy for the Plan. This includes the appointment and ongoing review of investment managers and performance considerations. The ISC will support and guide the Trustee’s work on ESG related topics, improved engagement reporting, and will ensure compliance with the climate change governance and reporting regulations, which are consistent with the TCFD recommendations.

Roles of advisers

The Trustee has appointed advisers to the following roles:

Investment consultant

The Trustee has appointed Mercer as investment consultant to the Plan. The investment consultant:

- Advises on strategic asset allocation taking into account climate risk, supported through the provision of climate scenario analysis;

- Advises on the choice of climate-related metrics and targets as well as changes to investment mandates;
- Advises on manager selection, taking into account the Trustee's sustainability beliefs and climate-related targets;
- Monitors investment manager performance against relevant climate-related targets;
- Supports the Trustee with stewardship activities, which may be related to climate change, such as monitoring and reporting on voting and engagement activities of the invested assets.
- Liaises with investment managers and other professional advisers to provide training to the Trustee on climate change, as appropriate; and
- Assists the Trustee in producing the Plan's TCFD report on an annual basis.

Actuarial Adviser

The Trustee has appointed Mercer as actuarial adviser (including Scheme Actuary) to the Plan. Roles include:

- Advises on the funding position including an understanding of the potential funding impact resulting from changes to financial or demographic assumptions driven by climate change;
- Advises on funding strategy robustness to climate risk. Provides input to enable strategic asset allocation decisions to be made considering impact of climate risks on funding strategy; and
- Provides input into scenario analysis and advises on funding implications.

Assessment of Advisors: The Trustee expects advisers to act with integrity and diligence in fulfilling the set objectives and use meetings with the advisers to assess and challenge them. Where relevant, this includes discussion of the steps taken by advisers to identify and assess any climate-related risks and opportunities.

The approach of the investment consultant to climate change and how it is integrated into its advice and services is assessed as part of the adviser selection and monitoring process. The Trustee sets its investment consultant annual objectives, including ones related to ESG and climate change competency, which were last reviewed in April 2024. The investment consultant is formally assessed against these objectives annually.

Time and resources spent on climate change-related matters

The Trustee is responsible for ensuring that sufficient time is allocated for consideration and discussion of climate matters by the ISC and its advisers.

There are a number of workstreams that are to be completed regularly in order for the Trustee to fulfill its responsibility for managing climate risks and opportunities. It is important to note that many of the workstreams will cover wider ESG risks other than just climate change risk, as the Trustee does not consider climate risks in isolation but holistically alongside the various other ESG risks the Plan may be facing. The workstreams are listed below as well as the frequency of which each task will be carried out:

- Climate change training session (expected frequency = annual)
- Scenario analysis modelling the investment strategy and funding strategy (minimum frequency = first year and every 3 years thereafter)
- Metrics data collection (minimum frequency = annual)
- Target setting / target appropriateness review (minimum frequency = annual)
- Progress against target assessment (minimum frequency = annual)
- ESG beliefs (including climate change) update / review (minimum frequency = annual)
- Review of manager ESG ratings, climate policies (minimum frequency = annual)

- Stewardship, covered as part of the Trustee's annual implementation statement (minimum frequency = annual)
- Risk frameworks update/review e.g. risk register (minimum frequency = annual)
- Drafting annual TCFD report (minimum frequency = annual)

Training

During the year to 30 September 2024, the ISC received training from the Trustee's Investment Consultant during an ESG review of the LGIM and RLAM corporate bond funds, which included discussions on decarbonisation with wider climate-related metrics analysis carried out. Looking ahead, the Trustee and ISC will continue to receive refresher training on climate-related risks and opportunities to the extent deemed necessary.

Section 3
Strategy

The effects of climate change will be felt at different times in the future and to different extents.

The Trustee recognises that it is important to understand how the Plan's exposure to climate-related risks may change over time, when the risk-exposure may be greatest and what actions can be taken now, or in the future, to avoid those risks becoming financially material to the Plan.

Short, medium and long-term risks and opportunities

As a long-term investor, the Trustee recognises the risks and opportunities arising from climate change are diverse and continuously evolving. In relation to climate-related risks, the Trustee believes it is important to understand how the Plan's exposure to these risks may change over time, when the risk exposure may be greatest and what actions can be taken now, or in the future, to avoid those risks becoming financially material to the Plan.

To help with this assessment, during 2023 the Trustee defined short-, medium- and long-term time horizons for the Plan:

Short-term	Medium-term	Long-term
5 years (2028)	20 years (2043)	40 years (2063)
Assess the potential impact of transition risk causing re-pricing of assets.	Assess the potential impact of physical damage risk that is expected to emerge in the late 2020s and 2030s. Over this timeframe, the Plan is expected to pay out approximately half of its remaining benefits.	Assess the impact over the long term, where physical damage risks dominate. Over this timeframe, the Plan will have reduced in size materially. Over this timeframe, the Plan is expected to pay out over 90% of its remaining benefits.

The Trustee will review the time horizons at least triennially, or earlier if there are material changes to the Plan. The scenario analysis was last carried out in 2023, and full details of the short, medium and long-term drivers of risks and opportunities considered by the Trustee are included in the 2023 TCFD Report and in the appendix. The Trustee has reviewed the 2023 analysis and have agreed not to undertake updated analysis this Plan year as there have been no material changes to the strategy or improvements in methodology. The main conclusions from the 2023 analysis are outlined below.

Key conclusions

Conclusion 1 – The Plan's investment and funding strategy is resilient

The Trustee has considered the potential impact of these scenarios over all time horizons and has concluded that the investment and funding strategies for the Plan remains appropriate, having taken into account the wider investment and funding objectives and other risks the Plan is exposed to.

Conclusion 2 – A successful transition is an imperative

Over the long-term, for nearly all investors, a successful transition leads to enhanced projected returns when compared to scenarios associated with higher temperature outcomes, due to lower physical damages under a successful transition scenario.

The quantitative analysis in the 2023 report highlights the negative financial impact associated with the Failed Transition and the corresponding need for trustees to invest to support a successful transition within their fiduciary duty.

The Trustee note that due to the fact the Plan is 100% invested in matching assets via LDI, corporate bonds and a bulk annuity policy, the funding level impacts are not as material for the Plan in comparison to, for example, schemes invested in growth assets (e.g. equities). However, the analysis highlighted that negative scenarios could materially impact market conditions, and the Trustee will be aware of this at the point it pursues further buy-in/buy-out opportunities for the Plan.

Conclusion 3 – Sector exposure is key

Climate impacts are naturally sector specific.

Supporting the quantitative analysis in the 2023 report, sector level analysis highlighted that differences in return impact are most visible at an industry-sector level, with significant divergence between scenarios.

As return impacts in the modelling are expressed relative to a climate-informed baseline, sector-specific impacts are driven both by what happens under the scenarios, but also by what does not happen (but was priced in). For example, there is a positive impact on the low carbon electricity sector under the Rapid Transition, which is an intuitive outcome. Alternatively, there is a positive impact on the oil & gas sector under the Failed Transition, which is a result of the sector performing better than expected in this scenario (i.e. more revenue than expected for underlying companies).

This finding informs Trustee thinking when reviewing the Plan’s corporate bond holdings, and specifically the underlying sector exposures. The Trustee has already consented to one of the Plan’s portfolio managers implementing a coal exclusion policy. Further, following a review of the corporate bond funds in June 2024, there has been engagement with LGIM on the decarbonisation of the Plan’s LGIM Buy & Maintain Credit fund, with trading carried out to reduce carbon intensity in the fund in September 2024, and an additional focus on accelerating temperature alignment of the fund, targeting alignment to 1.5 degrees by 2030. The Trustee will continue to take account of climate risk across different sectors in future reviews.

Conclusion 4 – Investors should be aware of future pricing shocks

Investors, and therefore “the market”, look to predict future events / impacts and allow for them in asset prices. As particular events become more likely, market pricing will change before the events occur. This means that longer-term impacts, including transition impacts and particularly physical damages, could impact portfolios earlier than they occur.

The quantitative analysis in the 2023 report sought to demonstrate the impacts of such shocks.

This finding informs Trustee thinking in relation to managing climate-related risks and in particular the risk of pursuing further buy-in/buy-out opportunities for the Plan at an inopportune time due to climate related impacts on market conditions.

Section 4
Risk Management

A key part of the Trustee's role is to understand and manage risks that could have a financially material impact on both the Plan's investments and the wider funding position. Climate change is one of the risks that the Trustee considers alongside other financially material risks that may impact outcomes for members.

This section summarises the primary climate-related risk management processes and activities of the Trustee. These help the Trustee understand the materiality of climate-related risks, both in absolute terms and relative to other risks that the Plan is exposed to. The Trustee prioritises the management of risks primarily based on its potential impact on the security of members' benefits/prospective investment returns.

Governance

- The Trustee's Statement of Investment Principles is formally reviewed on a triennial basis (but often more frequently) and sets out how investment climate-related risks are managed and monitored. This was last updated in November 2023 following the bulk annuity transaction.
- The Trustee maintains a risk register, which includes explicit climate risks. This is regularly reviewed by the Trustee, with the last review taking place during September 2024.
- The Trustee will receive training from time-to-time on climate-related issues. The training allows the Trustee to challenge whether the risks and opportunities are effectively allowed for in its governance processes and wider activities, and to be able to challenge its advisers to ensure the governance support and advice adequately covers the consideration of climate-related risks and opportunities. This process also affords the Trustee an opportunity to identify new and emerging risks related to climate change.

Stewardship

- The Trustee's Statement of Investment Principles also sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship.
- The Engagement Policy Implementation Statement is updated on an annual basis, and documents how, and the extent to which, the Engagement Policy in the Statement of Investment Principles has been followed over the year.
- During the Plan year to 30 September 2024, the ISC engaged with RLAM and LGIM on the carbon exposure within their respective funds, with significant progress achieved on the forward-looking alignment of the Plan's corporate bond holdings and the level of reporting the Plan will receive.
- The Trustee engaged with Aviva during the Plan year to 30 September 2024, on their approach to managing climate-related risks and opportunities across their organisation. The Trustee will continue to engage with Aviva on their progress on climate-related policies and their overall climate strategy.

Strategy

- The Plan's advisors will take climate-related risks and opportunities into account as part of the wider strategic investment advice provided to the Trustee and its ISC. This includes highlighting the expected change in climate-risk exposure through proposed asset allocation changes, both from the top-down level (via climate scenario analysis) and bottom-up (via climate-related metrics).
- The Trustee believes that good stewardship and ESG issues may have a material impact on investment risk and return outcomes and will therefore be considered as part of the Plan's

investment process. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that require explicit consideration. When setting investment strategy, ESG factors, including climate change, will be considered alongside a number of other factors that can influence investment strategy.

- Climate scenario analysis for the investment and funding strategy of the Plan will be reviewed at least triennially, or more frequently if deemed appropriate. Key findings from the Trustee's latest climate scenario analysis was set out in the previous section.

Reporting

- The Trustee will receive annual reports of climate-related metrics and progress against targets in respect of the assets held in the Plan. The Trustee may use the information to engage with the investment managers.
- The Trustee receives a voting and engagement activity summary on an annual basis as part of the preparation of the Engagement Policy Implementation Statement. The low-risk nature of the Plan's investment strategy (no equities are held) means that the Plan's managers do not vote on issues on behalf of the Plan but the Trustee expects the Plan's managers to engage on climate-related issues (among other key engagement priorities) with the underlying companies they invest in. The statement is available on the Plan's website.

Manager Selection and Retention

- The Trustee, with advice from Mercer in its role as Investment Consultant, will consider an investment manager's firm-wide and strategy-specific approach to managing climate-related risks and opportunities when either appointing a new manager, in the ongoing review of a manager's appointment, or as a factor when considering the termination of a manager's appointment.
- Mercer rates investment managers on the extent of integration of ESG factors (including climate change) into their processes. A manager's stewardship process forms part of the rating assessment. This is considered at the firm level and at the investment strategy/fund level. The ratings are presented in quarterly investment performance reports and are reviewed by the Trustee.
- During the diligence process associated with selecting Aviva for the bulk annuity contract the Trustee considered Aviva's approach to managing climate-related risks and opportunities. The Trustee will engage with Aviva on their approach to climate-related risk as part of their ongoing monitoring of the bulk annuity contract.

Section 5

Metrics and Targets

Metrics

The Trustee has chosen to present climate-related metrics across four different categories in this report. The climate-related metrics help the Trustee to understand the climate-related risk exposures and opportunities associated with the Plan's investment portfolio and identify areas for further risk management, including investment manager portfolio monitoring, voting and engagement activity and priorities:

Metric category	Selected metric	Further detail
Absolute emissions	Total Greenhouse Gas Emissions	Tonnes of carbon dioxide and equivalents (tCO2e) that the Plan is responsible for financing.
Emissions intensity	Carbon Footprint	The amount of carbon dioxide and equivalents (tCO2e) emitted per million dollars of the Plan's investments.
	Weighted Average Carbon Intensity (WACI)	The exposure of the Plan to carbon-intensive companies, measuring the amount of carbon dioxide and equivalents (tCO2e) emitted per million dollars of holding company / issuer revenue[2] on average.
Portfolio Alignment	Implied Temperature Rise (ITR)	A forward-looking assessment of how aligned the Plan's portfolios are relative to the Paris Agreement's 1.5°C target. This is estimated based on the activities and decarbonisation targets of portfolio companies / issuers, relative to what global decarbonisation needs to be to achieve 1.5°C.
Additional	Data Quality	Represents the proportions of the portfolio for which the trustees have high quality data.

The metrics consider listed assets and cover Scope 1, 2 and 3 emissions for corporate bonds and production and consumption emissions for Sovereign bonds. This is a slight update from the 2023 metrics, which only reported on Scope 1 and 2 emissions for corporate bonds[3] and production emissions for Sovereign bonds, but as more data has become available it has allowed the Trustee to extend the analysis. We also note that the data for Sovereign bonds was sourced from the World Bank Website for the 2023 metrics, whilst for the 2024 analysis, data has been sourced directly from MSCI. As such, caution needs to be taken when comparing year-on-year data. For definitions and further details on the approach/methodology, please see the Technical Appendix.

The metrics presented in the main body of this report are based on the actual asset allocation as at 31 March 2024, but reflect the uninsured assets within the Plan's investment portfolio only (i.e. the metrics do not reflect the bulk annuity contract purchased in November 2023[4]). The metrics also exclude analysis of the Plan's AVC holdings with Aviva Life, Phoenix Life and Prudential Assurance given the availability of data and the materiality of the holdings.[5]

[2] For sovereign bonds, Greenhouse Gas Emissions are expressed relative to Purchasing Power Parity adjusted Gross Domestic Product (PPP-adjusted GDP), in line with the Partnership for Carbon accounting of Financials guidance (PCAF).

[3] Trustees are not required to obtain Scope 3 emissions in the first TCFD Report.

[4] Aviva manage all of their annuity assets in aggregate, with metrics calculated as at 31 December 2023. Information on these metrics can be found in their TCFD Report. The Trustee include details of the climate metrics attributable to Aviva's annuity assets in the Appendix.

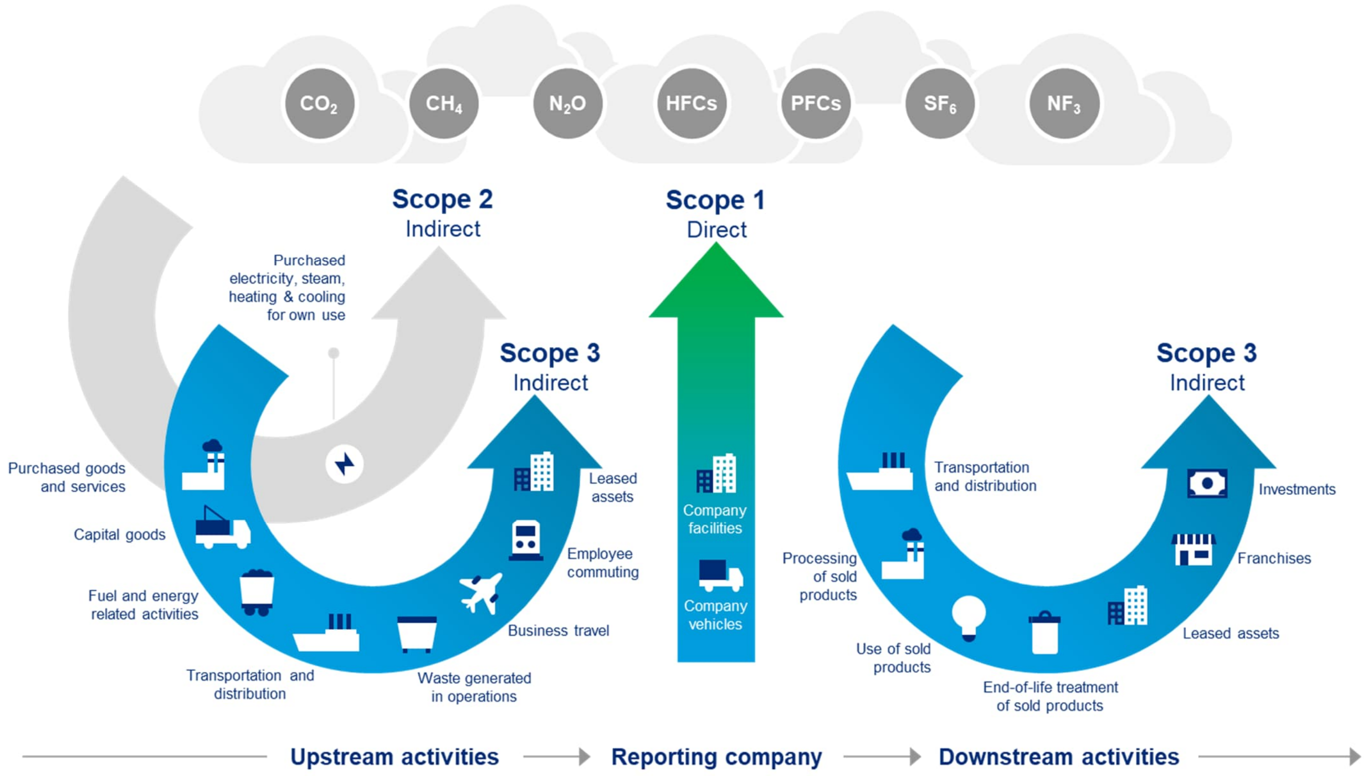
[5] Trustees are not required to report on AVC holdings where there is no DC Section.

The Trustee recognises the challenges associated with various metrics, tools and modelling techniques used to assess climate change risks. The Trustee aims to work with its investment adviser and investment managers to continuously improve the approach to assessing and managing risks over time as more data becomes available. The Technical Appendix of this report sets out the data limitations and assumptions used in collating these metrics.

Total Greenhouse Gas Emissions

This metric takes an ownership approach to answer what proportion of a company's or asset's emissions an investor owns and is therefore responsible for financing. It includes the seven types of greenhouse gas ("GHG") (as defined in the Kyoto Protocol), across the three scopes of emissions, as summarized below.

Figure 1



Source: GHG Protocol

Emissions of the seven greenhouse gases have different impacts on climate change. In order to simplify reporting, each greenhouse gas is calibrated relative to carbon dioxide and is reported as 'carbon dioxide equivalent' emissions (CO_2e). In this way the Trustee can compare companies that emit different amounts of different gases on a consistent basis.

In respect of sovereign debt investments, the Trustee follows the Partnership for Carbon Accounting of Financials ('PCAF') to derive absolute emissions. Recognising the different methodologies used to calculate absolute emissions for sovereigns and corporates, the Trustee reports sub-totals at the corporate and sovereign levels as well as a grand total greenhouse gas emissions figures.

The Trustee has chosen this metric to understand the absolute amount of emissions financed by the Plan's investments.

Carbon Footprint

Carbon Footprint is an intensity measure of emissions that takes the Plan's total GHG Emissions figure and normalises it to take account of the size of the investment.

Analysing an investment fund's Carbon Footprint assists the Trustee in identifying carbon-intense sections of the Plan's portfolio. The Trustee has therefore chosen this metric to assist them in prioritising carbon intense parts of the investment strategy for potential re-allocation or engagement as a means of mitigating associated climate-related risks.

Weighted Average Carbon Intensity

Weighted Average Carbon Intensity (WACI) is an alternative intensity measure of emissions that normalises a company's total GHG Emissions figure by its revenue. This metric is calculated by taking the total carbon emissions of the investment and dividing by annual company revenue. A different approach is taken for sovereign bonds, where the specified sovereign GHG Emissions are normalised by Purchasing Power Parity adjusted Gross Domestic Product (PPP-adjusted GDP). A portfolio level intensity metric is calculated as the weighted average of the underlying holdings' intensity metrics.

Analysing a fund's WACI assists the Trustee in identifying how carbon efficient the business models of the companies held within a portfolio are. Alongside Carbon Footprint, the Trustee has chosen this metric to assist them in prioritising carbon intense parts of the investment strategy for potential re-allocation or engagement as a means of mitigating associated climate-related risks.

Implied temperature rise

This is a forward-looking metric that considers the pledges, commitments and business strategy changes that underlying investee companies/issuers have made. It provides a prediction of the potential temperature rise over the rest of the century based on the activities of those companies and issuers. The metric illustrates the degree of portfolio alignment with the goals of the Paris Agreement.

The calculation of the level of warming is determined by mapping a given company's/issuer's level of over/undershoot (relative to its carbon budget) to a temperature outcome.

The Trustee has chosen this metric to include in this report because of its simplicity in presentation and a useful way to see, at a glance, the positioning of a fund relative to 1.5°C economy. This is also a measure of climate transition risk with greater transition risk highlighted in asset allocations with a higher Implied Temperature Rise.

Data Quality

Data Quality aims to represent the proportions of the portfolio for which the Trustee has high quality data. The Trustee has considered whether the underlying emissions data has been verified by a third party, reported by the company, estimated by the data provider, or unavailable to determine how representative the analysis is of the Plan's actual portfolio.

Data Quality also assists the Trustee in monitoring quality of reporting over time, as companies are expected to continually improve their reporting on climate-related metrics. As the quality of data improves, the decision usefulness of the climate metrics reported on the Plan's portfolio increases. In addition, the Trustee is able to identify the companies in the portfolio that are not currently reporting emissions data and use this as the basis for engagement.

Data collection

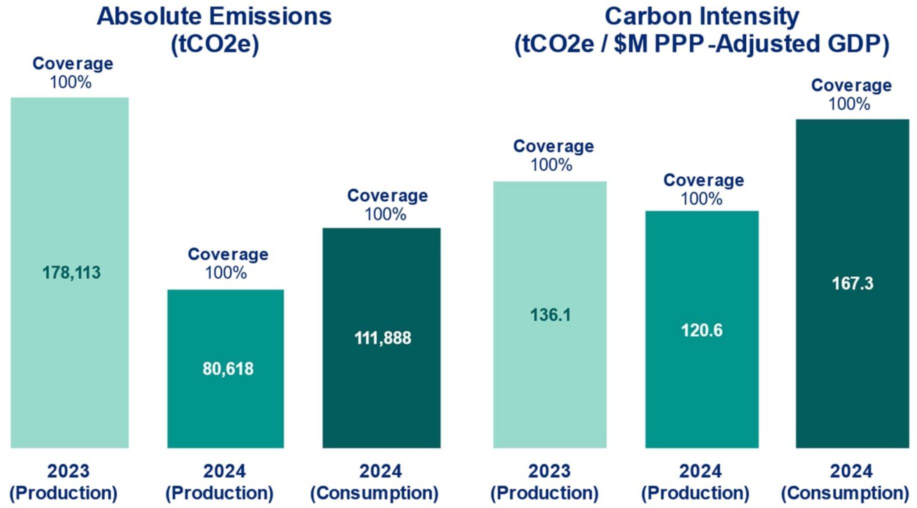
The Trustee notes the following in relation to the data collection for metric report purposes:

- Data was collected for the whole of the Plan's uninsured portfolio, i.e. across the Plan's two corporate bond funds with LGIM and RLAM and the LDI mandate with LGIM;
- All data was provided directly by the investment managers, and Mercer analysed and compiled the results;
- While data was provided for the whole portfolio, the managers did not have complete coverage of the companies within the Corporate Bond mandates, as some companies do not yet measure or report on emissions.

Metrics analysis

Sovereign Bonds

Figure 2



Source: Mercer, using data from MSCI for 2024 metrics. 2023 data is taken from previous report. 2024 data is based on stocklists as at 31 March 2024, using metric calculations and data feeds as at 13 August 2024, or latest available. Sovereign emissions data shown are consistent with the Partnership for Carbon Accounting Financials (PCAF) definition of Scope 1 sovereign emissions, aligning with the UNFCCC definition of domestic territorial emissions, including emissions from exported goods and services. Emissions data presented including land use, land-use change and forestry (LULUCF). For sovereign bonds, Scope 1,2 and 3 emissions data have been mapped to the following metrics: Production emissions = Scope 1, Consumption emissions = Scope 1+Scope 2+Scope 3-exported emissions. Full details, including emissions data excluding LULUCF included in the Technical Appendix.

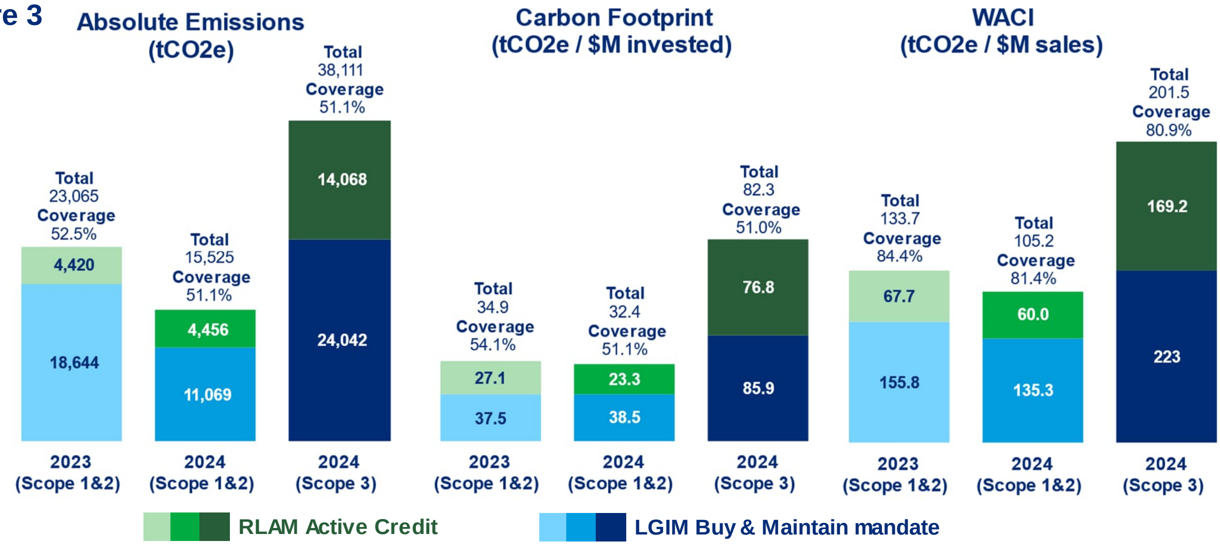
A key driver for the fall in Scope 1 & 2 Absolute Emissions for Sovereign bonds over the year to 31 March 2024 is the fall in value of the LDI portfolio following the buy-in, which was partially funded through Sovereign bonds.

The Carbon Intensity has fallen over the year to 31 March 2024, which will capture both changes in emissions, in addition to any changes in PPP-adjusted GDP over the year. The methodology used for Sovereign bonds has improved over the years, and we also note that the data was sourced from the World Bank Website for the 2023 metrics, whilst for the 2024 metrics, data has been sourced directly from MSCI. Caution therefore needs to be taken when comparing year-on-year data.

Corporate Bonds

The chart below summarises the Absolute Emissions, Carbon Footprint and WACI metrics across the corporate bond portfolios as at 31 March 2023, and the updated metrics as at 31 March 2024.

Figure 3



Source: Mercer, using data from MSCI. 2023 data corresponds to stocklists from 31 March 2023 and is taken from previous report. 2024 data is based on stocklists as at 31 March 2024, using metric calculations and data feeds as at 13 August 2024, or latest available. Scope 3 Upstream metrics reflected above. Full details, including Scope 3 Downstream metrics included in the Technical Appendix.

In the previous report, the Trustee only reported on Scope 1 & 2 Emissions; however, Scope 3 Emissions have been included in the chart above in line with the year 2 reporting requirements.

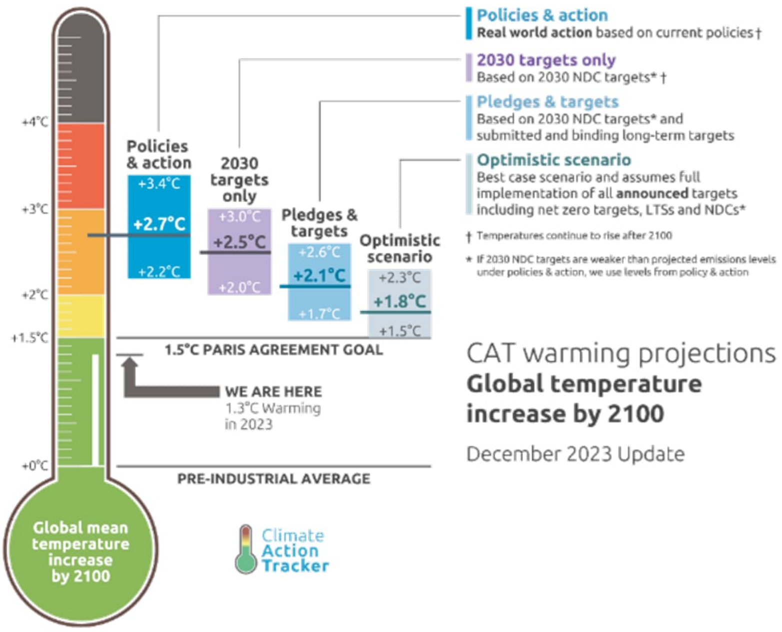
A key driver for the fall in Scope 1 & 2 Absolute Emissions for corporate bonds over the year to 31 March 2024 is the fall in value of the corporate bond holdings following the buy-in, which was partially funded through corporate bond holdings. Any other changes in the underlying holdings (i.e. the sale or purchase of new bonds and/or a change in the bond holdings) can impact Absolute Emissions, as well as changes in the USD/GBP exchange rate (as the company values are typically reported in USD).

Over the year, the Plan’s aggregate corporate bond portfolios experienced a decrease of c. 7.2% in terms of the Carbon Footprint for Scope 1 & 2 Emissions, driven entirely by the RLAM corporate bond portfolio. This metric is normalised to take into account the size of the investment and therefore it is not directly impacted by a change in the value of the corporate bond holdings but will capture changes in issuer’s Enterprise Value including Cash (“EVIC”) in addition to changes in emissions. During the same period, the WACI for Scope 1 & 2 Emissions decreased by c. 21.4%. Similar to the Carbon Footprint metric, WACI is normalised (by revenue rather than EVIC), so the fall in WACI may reflect an increase in $ revenue and may not solely reflect a fall in actual emissions. As for Absolute Emissions, any changes in the underlying holdings (i.e. the sale or purchase of new bonds and/or a change in the bond holdings) can impact both the Carbon Footprint and WACI metrics, as well as changes in the USD/GBP exchange rate.

Data coverage in aggregate has worsened slightly for all metrics. As data coverage reflects the metrics available for the underlying holdings from MSCI, it is dependent on the data provider and availability, as well as any changes in the bond holdings.

Implied Temperature Rise (“ITR”)

Figure 4



Source: Climate Action Tracker

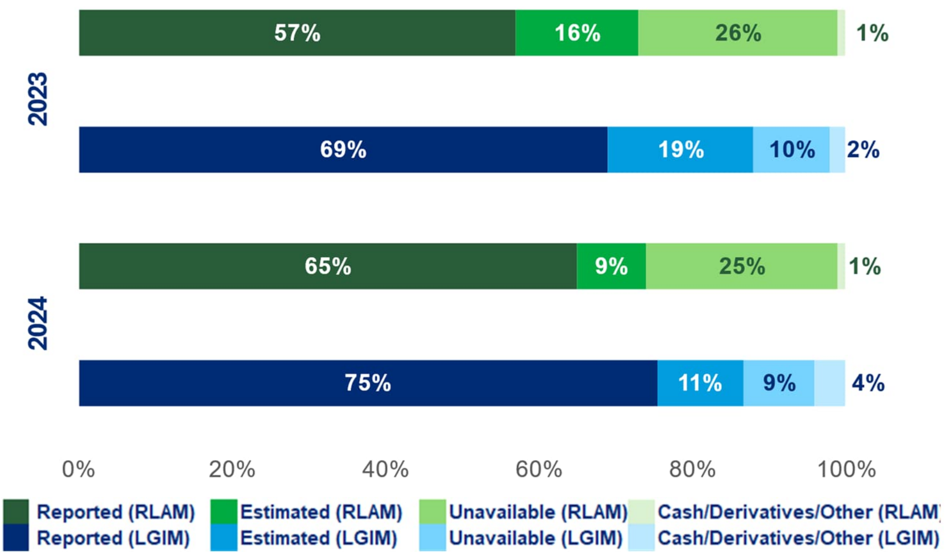
The ITR of the corporate bond funds in aggregate for Scope 1 & 2 Emissions was 1.9ºC as at 31 March 2024. This is consistent with the corporate bond fund benchmark and broadly consistent with the Paris Agreement ambition of “well below 2ºC” and less than the global policies and pledges expected to result in a 1.7ºC - 2.6ºC outcome this century.

The ITR of the corporate bond funds in aggregate for Scope 1 & 2 Emissions has increased slightly over the year to 31 March 2024.

Data quality

The chart overleaf summarises the data quality of the corporate bond funds for Scope 1 and 2 emissions compared to 2023. Data quality is not measured for the LDI mandate as 100% coverage is assumed under the methodology used. Further, we note that for Scope 3 emission metrics, estimated data has been used throughout due to the poor quality/availability of Scope 3 data. For this reason, data quality is 100% ‘Estimated’ for Scope 3.

Figure 5



Source: Mercer, using data from MSCI. 2023 data is taken from previous report. 2024 data is based on stocklists as at 31 March 2024, using metric calculations and data feeds as at 13 August 2024, or latest available. Full details included in the Technical Appendix.

Key findings

- The exposure to Sovereign bonds is the largest exposure through the leveraged LDI portfolio and therefore these funds make up the largest proportion of the Plan's Absolute Emissions. These hedging assets provide good protection against changes in interest rates and inflation.
- Whilst the Absolute Emissions of both the sovereign bond holdings and corporate bond holdings have notably fallen, care needs to be taken when comparing year-on-year data. Many factors can impact on this, in particular the fall in value of corporate and sovereign bonds included in the analysis (given a proportion were used to fund the buy-in) resulting in a material impact on this metric.
- As at 31 March 2024, the corporate bond holdings had a c. 1.8% lower Carbon Footprint compared to the iBoxx Sterling Non-Gilts Index Benchmark.
    - The primary contributor to the Carbon Footprint is exposure to utilities, with both LGIM and RLAM holding corporate bonds within the utility sector.
    - The total Carbon Footprint of the aggregate corporate bond holdings improved marginally compared to the prior year, with the primary driver of the improvement being the RLAM corporate bond fund, which improved c. 14% against the Carbon Footprint metrics calculated for RLAM as at 31 March 2023, contributing to the overall reduction in the Carbon Footprint of the corporate bond holdings of 2.5 tCO_2e per $million.
    - The LGIM corporate bond fund saw a marginal increase in its Carbon Footprint of 2.7% compared to the prior year, with the mandate being the primary contributor to the Plan's overall corporate bond Carbon Footprint.
- The ITR of the corporate bond holdings for Scope 1 & 2 Emissions as at 31 March 2024 was 1.9ºC. Whilst this is broadly consistent with the Paris Agreement ambition of "well below 2ºC" and less than the global policies and pledges expected to result in a 1.7-2.6ºC outcome this century, the Trustee notes that this has increased over the year. As the ITR is calculated by scaling up the emissions to estimate coverage for 100% of the mandates, changes in data coverage can materially impact the ITR and this metric may move up or down until such a time that coverage becomes consistently high. Changes in the composition of the underlying corporate bonds held can also have a material impact.
- Data quality varies significantly by fund with coverage for RLAM's corporate bond fund the lowest of the three mandates used by the Plan, due to the types of assets held within the RLAM portfolio. The Trustee notes that there has been positive engagement with RLAM in respect of data quality since 31 March 2024, and hopes to see this reflected in the 2025 TCFD Report.

Targets

Sovereign bonds

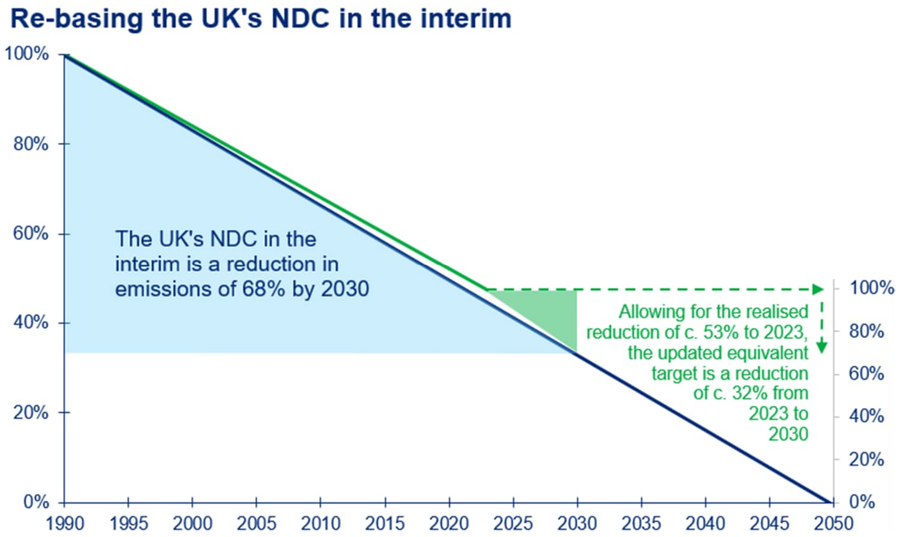
The UK's Nationally Determined Contribution, as updated in September 2022, states the following objectives with reference to 1990 levels:

i. Reduce economy-wide greenhouse gas emissions by 68% by 2030; and,
ii. Reduce economy-wide greenhouse gas emissions to net-zero by 2050

The Trustee recognises that the low-risk nature of the Plan's investment strategy (whereby a significant proportion of the Plan's exposure is to UK government bonds) means that the Trustee is reliant on the UK government meeting its decarbonisation targets and is limited in the actions they can take to accelerate progress to target. With this in mind, the Trustee has set a climate-related target to align its funded gilts (i.e. the gilts the Plan uses to hedge its liabilities) within the LDI portfolio with the UK government target which is a 68% reduction in absolute emissions by 2030 (compared to 1990 levels[6]).

The provisional figures for UK production emissions data (including LULUCF) for the year to 31 March 2023 show a reduction of 52.7% relative to the 1990 levels. By allowing for this realised reduction of 52.7% from 1990 to 2023, the emissions reduction of 68% by 2030 relative to the 1990 levels can be rebased to an emissions reduction of 32% by 2030 relative to the 2023 levels. Figure 6 illustrates this further.

Figure 6



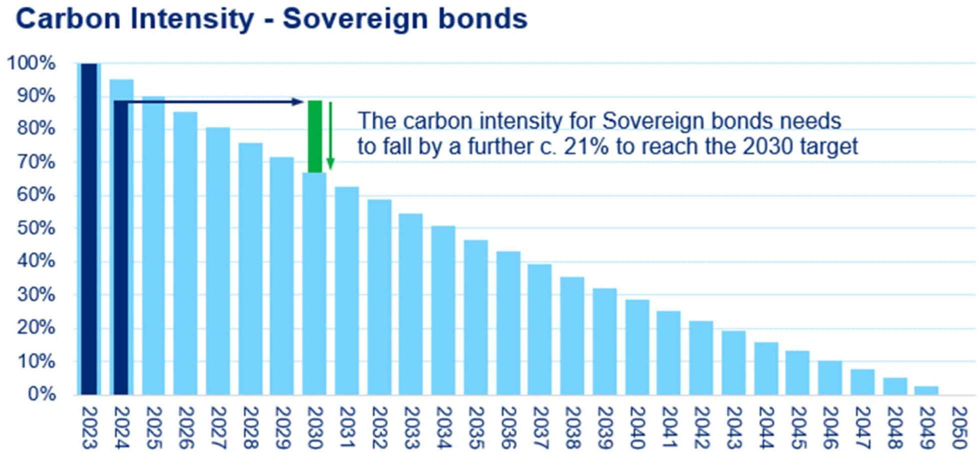
Source: Mercer, using data from the UK's Nationally Determined Contribution – updated September 2022.

The Trustee notes that the Absolute Emission metrics can be significantly impacted by changes in the exposure value, such as the fall in sovereign bond holdings following the buy-in transaction in November 2023, which can result in progress against the target being artificially positive. Whilst the Emissions Intensity metric can be impacted by changes (or lack thereof) in PPP-Adjusted GDP for sovereign bonds, this metric is expected to be less volatile. With this in mind, the Trustee has translated the rebased target for emissions reduction by 2030 to target a 32% reduction of the Sovereign Carbon Intensity metric between 2023 and 2030.

[6] 1990 is the baseline year for the UK's Nationally Determined Contributions, submitted to the United Nations Framework Convention on Climate Change

The chart below shows the progress to target over the year to 31 March 2024:

Figure 7



Source: Mercer. The decarbonisation curve (light blue bars) shown in the chart above reflect the NDC of a 68% reduction against 1990 levels by 2030 and a 78% reduction against 1990 levels by 2035 (published in the UK's Sixth Carbon Budget).

Corporate bonds

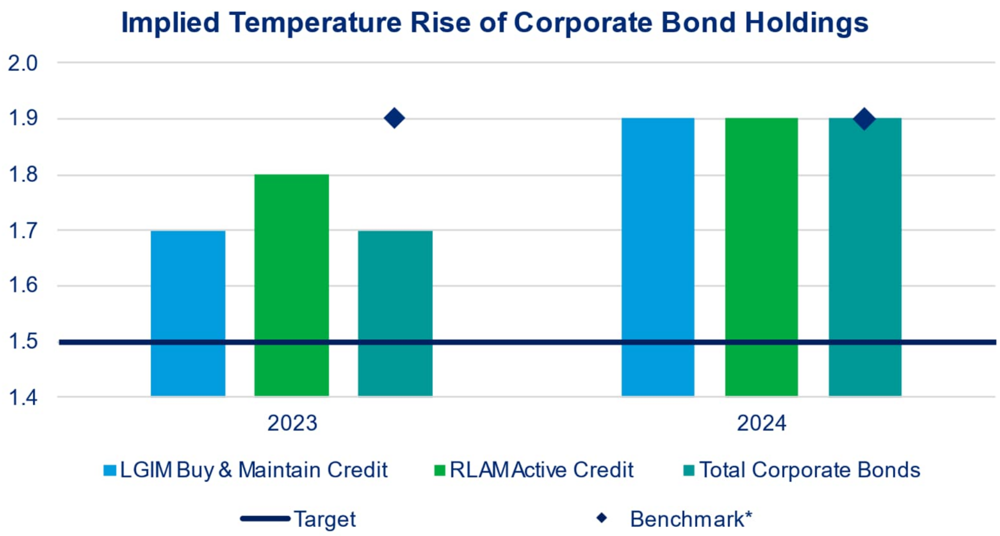
The ISC and Trustee engaged with the Plan's corporate bond fund managers (LGIM and RLAM) during the year in respect of the decarbonisation of the corporate bond holdings, with a view to improve the climate alignment of the mandates. Following discussions with the managers, LGIM carried out trading in September 2024 within the Buy & Maintain Credit fund to reduce Carbon Intensity, with an additional focus on accelerating temperature alignment of the fund, targeting alignment to 1.5 degrees by 2030.

The Trustee will continue to engage with LGIM and monitor the progress of the Buy & Maintain Credit fund temperature alignment over the coming 12 months. Should the Trustee determine through engagement discussions that the Plan holdings with LGIM are no longer aligned with the 1.5 degrees target by 2030, the Trustee will consider what action (if any) should be taken alongside wider risk, return and liquidity considerations for the Plan. The Trustee engagement activities with RLAM have focused on reporting and improving the data quality of their portfolio. The Trustee will continue these discussions into 2025.

The Trustee will also continue to work with both corporate bond fund managers to obtain better data from the underlying companies. Both LGIM and RLAM are members of The Institutional Investors Group on Climate Change ("IIGCC").

The chart below shows the change in ITR over the year to 31 March 2024:

Figure 8



Source: Mercer, using data from MSCI.

*iBoxx Sterling Non-Gilts Index

Bulk Annuity Contract with Aviva

Following the buy-in transaction implemented in November 2023, future progress versus the legacy objectives for a proportion of the Plan assets is (largely) contingent on the decarbonisation pathways followed by Aviva. Aviva has set a 2040 net zero target, and the Trustee will monitor progress against the 2040 target when engaging with Aviva.

Reviewing targets

The Trustee will review its target at least annually to ensure it remains appropriate. It may set additional targets and incorporate, for example, Scope 3 emissions, as data quality improves/more data becomes available and there are suitable methodologies.

A wide range of factors will affect whether the Trustee achieves its targets and the Trustee has varying degrees of control over these factors. For example, the quality and availability of data means that the quoted greenhouse gas emissions are likely to change. For the LDI portfolio, the progress of the UK Government in achieving the UK's decarbonisation commitments will have a significant influence over the timing of reaching net zero by 2050, and interim target at 2030.

Ultimately achieving the desired level of decarbonisation will depend on global economies overall successfully decarbonising. Notwithstanding that there are factors outside of the Trustee's control, the Trustee's intention is to meet its targets and it engages with its investment managers to make clear its requirements.

Aims for the Plan – Year to September 2025

The Trustee recognises the importance of climate-related risk management for the Plan. Alongside the regular worksteams outlined in Section 2 of this report, and the risk management activities outlined in Section 4, the Trustee aims to progress the following specific items during the Plan year to September 2025:

1. Consider additional monitoring that can be incorporated into regular reporting to understand the impact of the decarbonisaiton of the LGIM corporate bond fund and progress on targeting alignment to 1.5 degrees by 2030;
2. Continue to engage with RLAM to understand whether improvements can be made in respect of the carbon exposure of the Plan's investment in RLAM and how the data quality could be improved;
3. Discuss the engagement activities that both LGIM and RLAM are carrying out with the underlying companies in which they invest;
4. Consider whether investment should be made in climate focused funds for the Plan;
5. Continue to engage with Aviva to monitor their progress versus their overall climate strategy and the decarbonisation of the assets held within their bulk and individual annuity policy business. The Trustee view it as important that Aviva continue to assess climate related risks and opportunities on behalf of the Plan.

RLAM have committed to provide enhanced climate conviction disclosure for the portfolio, which would disclose the alignment for the direct holdings today, as well as an expectation that this will improve organically over time, as both coverage increases and companies' operations evolve. Whilst this is a welcome addition to reporting, the Trustee will continue to engage with RLAM to understand whether further decarbonisation of the portfolio can be implemented.

Appendix A
Technical Appendix

Asset Allocations Modelled

Strategic Asset Allocation modelled

The strategic asset allocation for the uninsured assets (i.e. excluding the bulk annuity contract purchased in November 2023) as set out in the Statement of Investment Principles:

Portfolio	Modelling Asset Class	Static Asset Allocation (%)
UK Sovereign Bonds (Gilts)	UK Sovereign Bonds	50%
Corporate Bonds	iBoxx Sterling Non-Gilts	50%

Due to the low-risk natures of the Plan’s asset allocation, it has been modelled as a static allocation with no further de-risking as the Plan matures.

2023 Scenario Analysis

As a long-term investor, the Trustee recognises the risks and opportunities arising from climate change are diverse and continuously evolving. In relation to climate-related risks, the Trustee believes it is important to understand how the Plan's exposure to these risks may change over time, when the risk exposure may be greatest and what actions can be taken now, or in the future, to avoid those risks becoming financially material to the Plan.

To help with this assessment, the Trustee has defined short-, medium- and long-term time horizons for the Plan.

Short Term	Medium Term	Long Term
5 years (2028)	20 years (2043)	40 years (2063)
Assess the potential impact of transition risk causing re-pricing of assets.	Assess the potential impact of physical damage risk that is expected to emerge in the late 2020s and 2030s. Over this timeframe, the Plan is expected to pay out approximately half of its remaining benefits.	Assess the impact over the long term, where physical damage risks dominate. Over this timeframe, the Plan will have reduced in size materially. Over this timeframe, the Plan is expected to pay out over 90% of its remaining benefits.

The Trustee has considered the following short, medium and long-term drivers of risk in relation to climate change:

- Over the short term (out to 5 years), risks may present themselves through rapid market re-pricing relating to climate transition as:
  - Scenario pathways become clearer. For example a change in the likelihood of a well below 2°C scenario occurring (i.e. an increase in probability would be expected to drive additional transition risk).
  - Market awareness grows. For example, the cost and impacts of the transition suddenly influence market pricing.
  - Policy changes unexpectedly surprise markets. For example, if a carbon price or significant regulatory requirement was introduced across key markets to which the portfolio is exposed, at a sufficiently high price to impact behaviour.
  - Market sentiment is shocked. For example, falls in markets could create a downward spiral where economic sentiment worsens and asset values fall.
  - Perceived or real increased pricing of greenhouse gas emissions/carbon.
  - Substitution of existing products and services with lower emission alternatives may impact part of the portfolio.
  - Litigation risk relating to dangerous warming becoming more prevalent.
  - Increases in the energy/heat efficiency of buildings and infrastructure.

  As well as risks associated with these drivers, there could also be opportunities. For example, investing in climate solutions as policy support strengthens.

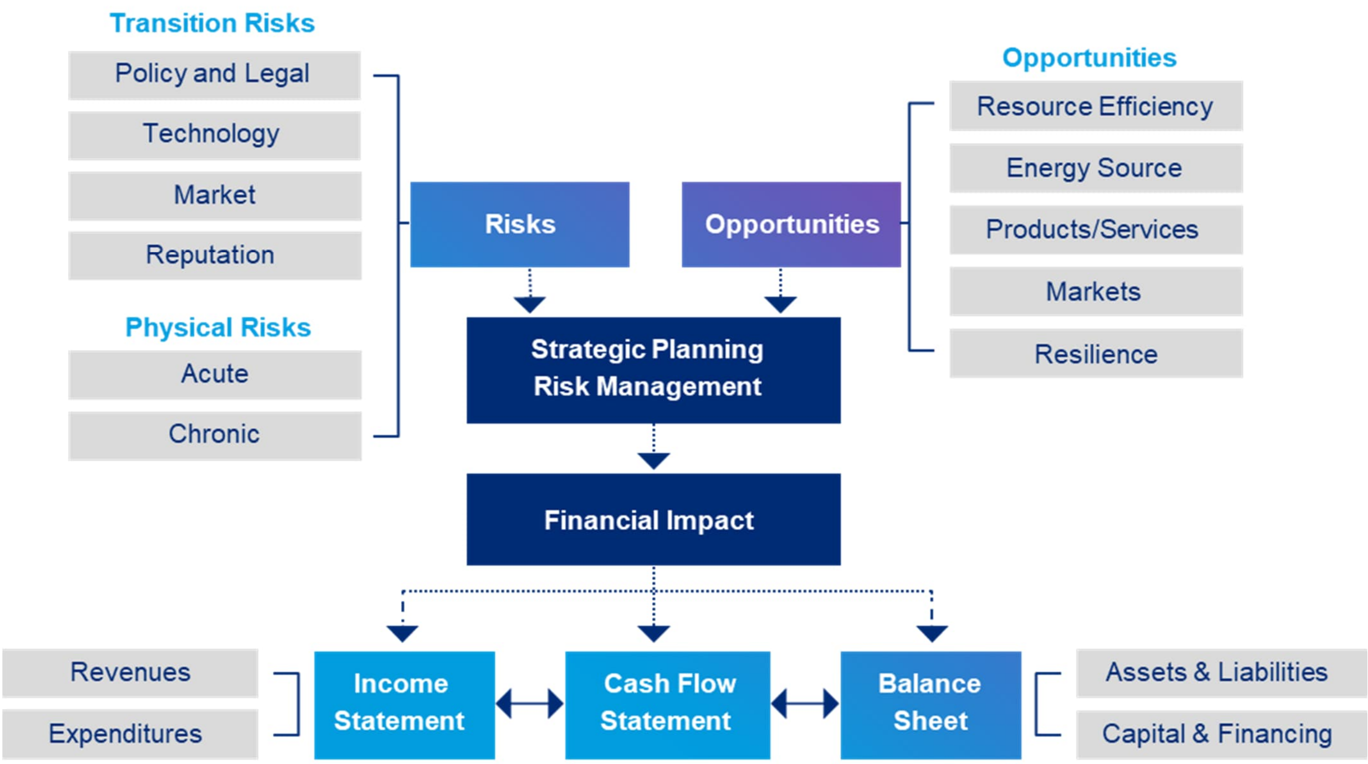
  The Trustee's ability (and that of the Plan's investment managers) to understand these short-term changes can positon the Plan favourably, for example taking advantage of the climate transition by avoiding and reducing investment in high-emitting carbon sensitive businesses/assets that do not have a business plan that supports the transition to a low carbon economy.

- Over the medium term (out to 20 years), risks are likely to be more balanced reflecting both transition and physical risk. Over this time period the transition pathway will unfold and the level of anticipated physical damage will become much clearer. While the full extent of the physical damage is unlikely to have occurred, markets are likely to be allowing for it to a large degree in asset pricing.

The Trustee's ability (and that of the Plan's investment managers) to understand these changes and evolve the portfolio as the pathway develops should help to control risk and potentially enhance returns. The Trustee seeks to select managers and choose indices that can identify potential emergence of low carbon opportunities and the decline of some traditional sectors.

- Over the long term (beyond 25 years), physical risks are expected to come to the fore. This includes the impact of natural catastrophes leading to physical damages through extreme weather events. Availability of resources is expected to become more important if changes in weather patterns (e.g. temperature or precipitation) affect the availability of natural resources such as water. The impact of global heating on productivity, particularly in areas closer to the equator, will also be a key driver.

Figure A



Source: TCFD Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, October 2021

Climate-related risks and opportunities relevant to the Plan

Having taken into account the Plan's DB strategic asset allocation, as set out in the technical appendix, the following risks and opportunities have been identified:

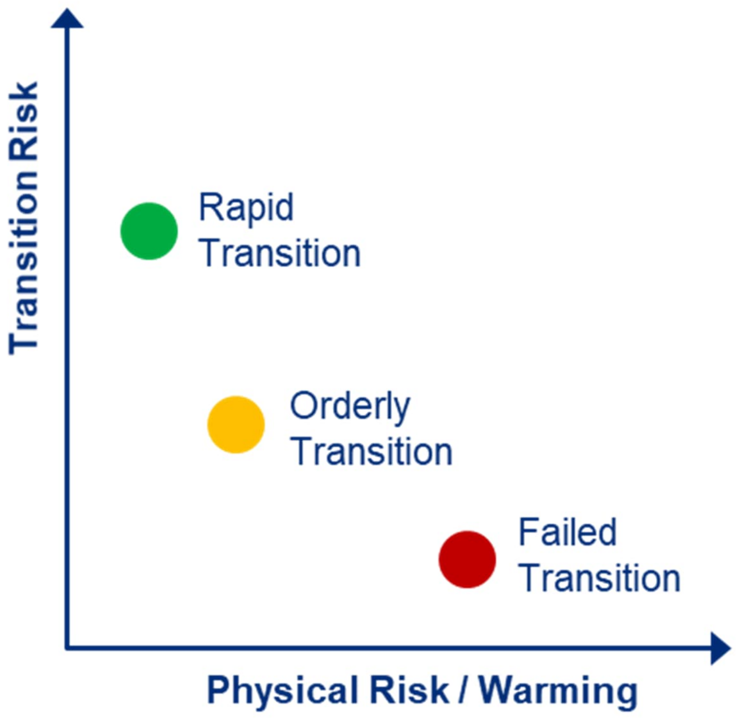
- Over the short term, the Trustee has identified the inter-related risk of climate transition risk and asset repricing risk as being most relevant to the investment strategy. Over this time period opportunities are most likely to occur in transition related investment such as climate solutions.
- Over the medium term, the Trustee has concluded that both transition risk and physical risk (particularly in the form of asset repricing to allow for future physical damage) could be material.
- Over the long term, the Trustee has identified physical risk as the key driver of climate-related risk.

The Trustee has investigated the potential impacts of these risks and opportunities in the scenario analysis that follows.

Testing the resilience of the investment and funding strategy

Scenarios analysis

The Trustee has undertaken climate scenario analysis to the test the resilience of the investment and funding strategy adopted by the Trustee. Quantitative climate change scenario analysis has been undertaken on the Trustee's strategic asset allocation to assess the potential implications of climate change under three modelled scenarios; a Rapid Transition (1.5°C), an Orderly Transition (less than 2°C) and a Failed Transition (greater than 4°C). The analysis is based on scenarios developed by Mercer working with Ortec Finance. These scenarios were selected by the Trustee to test a broad range of feasible outcomes and the Plan's exposure to both transition and physical risks.



Source: Mercer

- **Rapid Transition** – Average temperature increase of 1.5°C by 2100 (relative to pre-industrial average). This scenario assumes sudden downward re-pricing across assets in 2025. This could be driven by a change in policy, consideration of stranded assets or expected costs. The shock is partially sentiment driven and so is followed by a partial recovery. Physical damages are most limited under this scenario.
- **Orderly Transition** – Average temperature increase of less than 2.0°C by 2100. Governments and wider society act in a co-ordinated way to decarbonise and to limit global warming to well below 2°C. Transition impacts do occur but are relatively muted.
- **Failed Transition** – Average temperature increase above 4°C by 2100. The world fails to co-ordinate a transition to a low carbon economy. Physical climate impacts significantly reduce economic productivity and have increasingly negative impacts including from extreme weather events. These are reflected in re-pricing events in the late 2020s and late 2030s.

In designing scenario analysis, a fundamental decision is whether to assume that any climate impacts are priced in today. The analysis in this report is expressed relative to a 'climate-informed' baseline[7]; the implication is that all return impacts are presented in terms of how they are different to what we are assuming is priced in today.

Further detail on climate scenario narratives, including modelling limitations, is included in the appendix of this report.

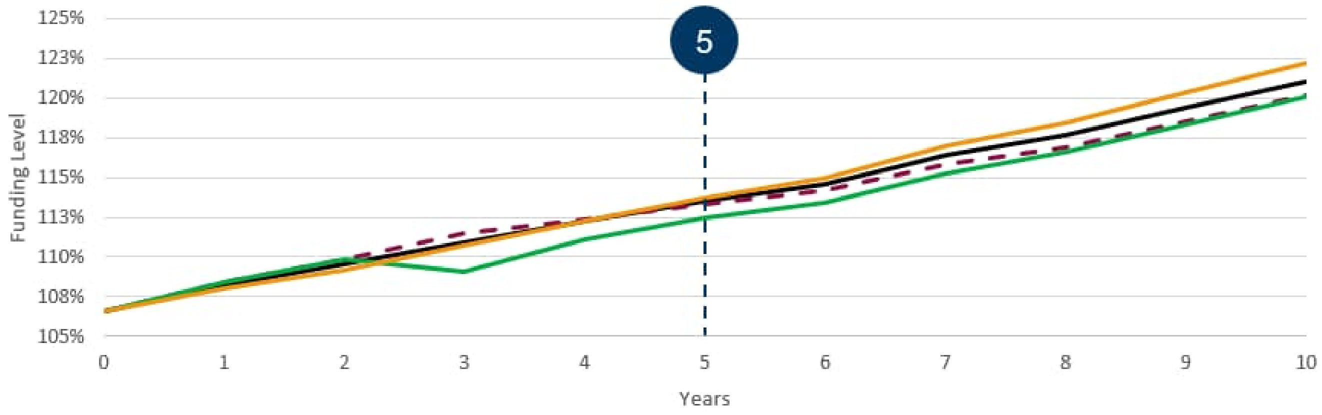
Scenario Analysis Results

The charts below represent the output of the Trustee's quantitative analysis of the investment and funding strategy. The charts represent projections of funding level (which is based on a prudent funding

[7] The baseline represents what we are assuming the market is currently pricing in. The baseline includes a 10% weight to a **Failed Transition**, 40% weight to an **Orderly Transition**, 10% to a **Rapid Transition** and 40% to a range of **low impact scenarios**.

basis of gilts-0.1%) and annualised asset returns from an analysis date of 31 March 2023 over a period of 40 years. Projections assume a static asset allocation that does not allow for any further future de-risking, given the low-risk nature of the Plan's investment strategy. Further detail on the underlying asset allocations and limitations associated with climate scenario analysis are set out in the Technical Appendix.

Figure B – Funding level projection analysis



Source: Mercer

Figure C – Asset return impact analysis

Expected impact on annual investment return to 2028, 2043 and 2063 based on the strategic asset allocation as at 31 March 2023								
Rapid Transition (1.5c)			Orderly Transition (2.0c)			Failed Transition (4.0c)		
2028	2043	2063	2028	2043	2063	2028	2043	2063

<-0.5% p.a. -0.5% p.a. -0.2% p.a. -0.1% p.a. +0.1% p.a. >0.1% p.a.

Figure C shows the annualised climate impacts on return relative to the baseline returns.

Scenario Analysis Findings

In light of the above quantitative analysis, the Trustee noted the following findings:

Short Term (5 years)	Over the short-term transition risk dominates with the Rapid Transition having the biggest impact. An initial fall in asset returns (relative to baseline) is driven by a transition shock impacting the economy and investment markets causing losses. This could be driven by unprecedented policy action, with markets initially overreacting before partially recovering. The actual timing of any shock or recovery is uncertain. For the Plan, the Rapid Transition has a market shock in year 3 that results in the widening of credit spreads (reducing the market value of the Plan's credit holdings). Under this scenario, the funding level at year 5 is 1.1% lower than the baseline scenario, mainly due to expected annualised asset returns falling by 0.2% over the period.
Medium Term (Up to 20 years)	Over the medium term, transition risk and physical risk are both factors. The impact of physical risks under the Failed Transition causes it to become the most impactful scenario.

	For the Plan, the Failed Transition results in a 5% fall in funding level relative to the baseline scenario, and a 0.1% fall in expected annualised asset returns.
Long Term (Up to 40 years)	Over the long term, physical impacts become significant, with the Failed Transition resulting in significant falls in asset value relative to the baseline. For the Plan, the Failed Transition negatively impacts the funding level, however over this timeframe the Plan is expected to be in significant surplus under the current investment strategy.

Source: Mercer

A key consideration of the Trustee is the impact the scenarios could have on market conditions at the point at which the Plan carries out further buy-in/buy-out activities.

The funding level analysis above takes into account the impact of interest rates and inflation expectations upon the value of the liabilities. Of note, realised inflation is expected to be elevated under the Rapid Transition, resulting from damages to agriculture and change in food prices, increasing the value of benefits with inflation-linked increases. These impacts are to a large extent hedged by the Plan's allocation to Liability Driven Investment holdings. It does not, however, explicitly take into account the impact of changes to mortality.

Given the funding position of the Plan, the low-risk investment strategy and the outcomes from the quantitative scenario analysis outlined above the Trustee have not considered the impact of climate change upon Plan mortality. In the UK, mortality changes directly due to climate change (over the Trustee's short term and medium-term projection periods used within this report) are not expected to be material in the context of general uncertainty about life expectancy. This position will be re-assessed at the next actuarial valuation as at 30 September 2025.

The Trustee have been provided with the Sponsor's sustainability policy and have considered this in their discussions on the wider impact of climate on the Plan. In addition, the Trustee engaged a covenant advisor (EY), and the covenant advisor will consider the Sponsor's climate disclosure and the impact on the Plan when advising the Trustee.

Climate scenario modelling approach

Climate scenario narratives

Investment and Funding Climate Scenario Analysis Assumptions:

	Rapid Transition	Orderly Transition	Failed Transition
Summary	Sudden divestments in 2025 to align portfolios to the Paris Agreement goals have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock.	Political and social organisations act quickly and predictably to implement the recommendations of the Paris Agreement to limit global warming to below 2°C above pre-industrial levels by 2100.	The world fails to meet the Paris Agreement goals and global warming reaches 4.3°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events.
Cumulative emissions to 2100	416 GtCO2e	810 GtCO2e	5,127 GtCO2e
Key policy and technology assumptions	An ambitious policy regime is pursued to encourage greater decarbonisation of the electricity sector and to reduce emissions across all sectors of the economy. Higher carbon prices, larger investment in energy efficiency and faster phase out of coal-fired power generation under a 'Rapid' transition.		Existing policy regimes are continued with the same level of ambition.
Financial climate modelling	Pricing in of transition and physical risks of the coming 40 years occurs within one year in 2025. As a result of this aggressive market correction, a confidence shock to the financial system takes place in the same year.	Pricing in of transition and physical risks until 2050 takes place over the first 4 years.	Physical risks are priced in two different periods: 2026-2030 (risks of first 40 years) and 2036-2040 (risks of 40-80 years).
Physical risk impact on GDP	Physical risks are regionally differentiated, consider variation in expected temperature increase per region and increase dramatically with rising average global temperature. Physical risks are built up from: Gradual physical impacts associated with rising temperature (agricultural, labour, and industrial productivity losses) Economic impacts from climate-related extreme weather events Current modelling does not capture environmental tipping points or knock-on effects (e.g., migration and conflict).		
Physical risk impact on inflation	Gradual physical impact (supply shocks) on inflation included through damages to agriculture and change in food prices. Total impact on a Global CPI Index is +2% in 2100.	No explicit modelling of physical risk impact on inflation (supply-side shocks). Impact on inflation follows historical relationship between GDP and CPI.	Severe gradual physical impact (supply shocks) on inflation included through damages to agriculture and change in food prices. Total impact on a Global CPI Index is +15% in 2100.

Source: Mercer and Ortec. Climate scenarios as at December 2022.

The return impacts of the climate scenarios represented in this report are relative to the 'baseline'. The baseline represents what we are assuming the market is currently pricing in. The baseline includes a 10% weight to a **Failed Transition**, 40% weight to an **Orderly Transition**, 10% to a **Rapid Transition** and 40% to a range of **low impact scenarios**.

Limitations associated with climate modelling

Climate scenario modelling is a complex process. The Trustee is aware of the modelling limitations. In particular:

1. The further into the future you go, the less reliable any quantitative modelling will be.
2. There is a reasonable likelihood that physical impacts are grossly underestimated. Feedback loops or 'tipping points', like permafrost melting, are challenging to model particularly around the timing of such an event and the speed at which it could accelerate.
3. Financial stability and insurance 'breakdown' is not modelled. A systemic failure may be caused by either an 'uninsurable' 4°C physical environment, or due to the scale of mitigation and adaption required to avoid material warming of the planet.
4. Most adaptation costs and social factors are not priced into the models. These include population health and climate-related migration.
5. New and emerging risks, such as the impact of climate change on biodiversity loss, and vice versa, is expected to be integrated into climate scenario modelling over time once the supporting science and impact on econometrics and finance is better understood.

Climate metric analysis approach

Data sources

Climate-related metrics provided by Mercer have been sourced from MSCI using issuer data provided by the investment managers.

Scope of emissions

Scope 1, 2 and 3 emissions data has been included in this report. Scope 1, 2 and 3 emissions are as defined by the GHG protocol.

For sovereign bonds, these scopes have been mapped to the following metrics:
- Production emissions = Scope 1
- Consumption emissions = Scope 1 + Scope 2 + Scope 3 – Exported emissions[8]

The definition of Production emissions follows the territorial emissions approach adopted by the United Nations Framework Convention on Climate Change (UNFCCC) for annual national inventories. Production emissions are presented including and excluding land use, land-use change and forestry (LULUCF) emissions. Consumption emissions reflect the emissions associated with the goods and services consumed by the population in an economy. Consumption emissions are presented excluding land use, land-use change and forestry (LULUCF) emissions.

Scope 3 emissions for corporate bonds are calculated using estimated data due to the lack of availability or poor quality of reported data. Even when reported data is available for scope 3 emissions, there is no guarantee of consistency between the reported figures across different companies, as companies often only report on a subset of the 15 categories of scope 3 emissions. MSCI estimates emissions across each of the 15 categories using a combination of revenue estimates and production data. Using MSCI estimated scope 3 data only ensures that data is consistent for all companies across similar sectors, providing a more robust understanding of where the risks lie and a better intertemporal understanding of how portfolios have evolved.

In respect of verified data as part of the data quality output, this is in line with the PCAF definition. It refers to reported emissions being calculated in line with the GHG Protocol and verified by a third-party auditor. Very limited verified data is currently available, which highlights the difficulty in obtaining data approved by independent third parties.

Data coverage

Data coverage refers to the proportion of an asset in which the various climate-related metric data is available. There are gaps in the data as:
- Some public listed companies are not publishing climate-related data or are providing poor quality data. This is relevant to public equity and corporate bonds.
- Sovereigns, or governments, may not publish climate-related data in the public domain. This is a particular challenge for emerging market debt. For UK government debt, data is available but there is a delay in the data being published.

In this report, the Trustee has used a pro-rata approach to scale up each climate metric in order to present the data as if full coverage was available for each asset. This assumes that the part of an investment fund that does not have data available has the same climate metrics as the part where there is data. This ensures that where we do not have data, we are not assuming those companies have zero emissions.

The Trustee is working with the investment advisor and asset managers to address the data gaps, as far as they are able.

[8] Equivalent to Consumption emissions = Production emissions – Exported emissions + Imported emissions

Climate metric analysis – Detailed results

Scope 1 & 2 Emissions – Corporate bonds (2024)

Asset Class	Mandate	WACI (tCO2e / $M sales)		Carbon Footprint (tCO2e / $M invested)		Absolute Emissions (tCO2e)		Implied Temperature Rise (ºC)		SBTi	Allocation Weight
		Metric	Coverage	**Metric**	Coverage	**Metric**	Coverage	**Metric**	Coverage		
Corporate bonds	**LGIM Buy & Maintain mandate**	**135.3**	86.4%	**38.5**	56.3%	**11,069**	56.3%	**1.9°C**	77.1%	**39.9%**	30.0%
	RLAM Active Credit	**60.0**	73.9%	**23.3**	43.4%	**4,456**	43.4%	**1.9°C**	67.7%	**18.4%**	20.0%
	iBoxx £ Non-Gilts	**63.0**	91.3%	**33.0**	48.4%	-		**1.9°C**	68.9%	**26.0%**	-
Total corporate bonds		**105.2**	**81.4%**	**32.4**	**51.1%**	**15,525**	**51.1%**	**1.9°C**	**73.3%**	**31.3%**	**50.0%**

Source: Mercer, using data from MSCI. All data is based on stocklists as at 31 March 2024, using metric calculations and data feeds as at 13 August 2024, or latest available. Allocation weights represent the strategic asset allocation for that mandate.

Scope 3 Emissions – Corporate bonds (2024)

Asset Class	Mandate	WACI (tCO2e / $M sales)				Carbon Footprint (tCO2e / $M invested)				Absolute Emissions (tCO2e)				Benchmark Allocation Weight
		Scope 3 Upstream		Scope 3 Downstream		Scope 3 Upstream		Scope 3 Downstream		Scope 3 Upstream		Scope 3 Downstream		
		Metric	Coverage	**Metric**	Coverage	**Metric**	Coverage	**Metric**	Coverage	**Metric**	Coverage	**Metric**	Coverage	
Corporate bonds	**LGIM Buy & Maintain mandate**	**223.0**	86.1%	**184.7**	86.1%	**85.9**	56.1%	**105.2**	56.1%	**24,042**	56.3%	**27,635**	56.3%	30.0%
	RLAM Active Credit	**169.2**	73.0%	**229.1**	73.0%	**76.8**	43.4%	**122.8**	43.4%	**14,068**	43.4%	**20,968**	43.4%	20.0%
Total corporate bonds		**201.5**	**80.9%**	**202.5**	**80.9%**	**82.3**	**51.0%**	**112.2**	**51.0%**	**38,110**	**51.1%**	**48,604**	**51.1%**	**50.0%**

Source: Mercer, using data from MSCI. All data is based on stocklists as at 31 March 2024, using metric calculations and data feeds as at 13 August 2024, or latest available. Allocation weights represent the strategic asset allocation for that mandate.

Production Emissions – Sovereign bonds (2024)

Mandate	Production Emissions Including LULUCF				Production Emissions Excluding LULUCF				Actual Allocation Weight
	Sovereign Carbon Intensity (tCO2e / $M PPP-Adjusted GDP)		Absolute Emissions (tCO2e)		Sovereign Carbon Intensity (tCO2e / $M PPP-Adjusted GDP)		Absolute Emissions (tCO2e)		
	Metric	Coverage	Metric	Coverage	Metric	Coverage	Metric	Coverage	
LGIM LDI	**120.6**	100.0%	**80,618**	100.0%	**120.2**	100.0%	**80,377**	100.0%	69.8%
Total sovereign bonds	**120.6**	**100.0%**	**80,618**	**100.0%**	**120.2**	**100.0%**	**80,377**	**100.0%**	**69.8%**

Source: Mercer, using data from MSCI. All data is based on stocklists as at 31 March 2024, using metric calculations and data feeds as at 13 August 2024, or latest available. Sovereign emissions data shown are consistent with the Partnership for Carbon Accounting Financials (PCAF) definition of Scope 1 sovereign emissions, aligning with the UNFCCC definition of domestic territorial emissions, including emissions from exported goods and services. Emissions data are presented including and excluding land use, land-use change and forestry (LULUCF). The methodology used for sovereign bonds has improved over the years, so comparison should not be made with any previous analyses. The allocation weight represents the market value of the LDI exposure.

Emissions from total long exposure to gilts including TRS (c. £529.4m) are shown in the table above. Cash and Liquidity Funds (c. £9.2m) have been excluded from the analysis.

Consumption Emissions – Sovereign bonds (2024)

Mandate	Sovereign Carbon Intensity (tCO2e / capita)		Sovereign Carbon Intensity (tCO2e / $M PPP-Adjusted GDP)		Absolute Emissions (tCO2e)		Actual Allocation Weight
	Metric	Coverage	Metric	Coverage	Metric	Coverage	
LGIM LDI	**9.1**	100.0%	**167.3**	100.0%	**111,888**	100.0%	69.8%
Total sovereign bonds	**9.1**	**100.0%**	**167.3**	**100.0%**	**111,888**	**100.0%**	**69.8%**

Source: Mercer, using data from MSCI. All data is based on stocklists as at 31 March 2024, using metric calculations and data feeds as at 13 August 2024, or latest available. Sovereign emissions data shown are consistent with the Partnership for Carbon Accounting Financials (PCAF) definition of consumption emissions, equivalent to production emissions, less exported emissions, plus imported emissions. Emissions data exclude land use, land-use change and forestry. The allocation weight represents the market value of the LDI exposure.

Emissions from total long exposure to gilts (c. £529.4m) are shown in the table above. Cash and Liquidity Funds (c. £9.2m) have been excluded from the analysis.

Climate metric analysis – Aviva Life & Pension UK Limited ("ALPUK")

The table right (and below) sets out the assets included in the climate metrics compared to the Assets Under Management (AUM) on the ALPUK IFRS statement of financial position.

	2023	2022
AUM for which emissions are calculated	£189.6bn	£171.9bn
AUM on IFRS statement of financial position	£255.4bn	£235.6bn
AUM coverage %	74%	73%

The tables below set out the breakdown of ALPUK's financed emissions by asset class (Scope 1 and 2, Scope 3 excluded):

Asset class	Invested amount (£'billion)	Emissions data coverage	Data quality score	Attributed absolute emissions (million tCO_2e)	
				2023	2022
Credit and equities	126.9	87%	2.1	7.5	6.7
Infrastructure debt	8.3	90%	3.6	0.3	0.3
Direct real estate	6.1	65%	3.5	0.1	0.1
Commercial real estate mortgages	6.2	100%	4.0	0.3	0.3
Equity release mortgages	9.8	99%	4.4	0.1	0.1
Total	**157.3**	**88%**	**2.4**	**8.3**	**7.5**
Sovereigns	32.4	99%	2.2	6.8	5.6

Asset class	Unit of measurement	Carbon intensity by asset class		Economic carbon intensity (tCO_2e/£m invested)	
		2023	2022	2023	2022
Credit and equities	tCO_2e/\$m revenue (WACI-R)	94	115	67	71
Infrastructure debt	tCO_2e/\$m revenue (WACI-R)	160	186	42	42
Direct real estate	$kgCO_2e/m^2$ (carbon intensity by square metres)	81	74	33	29
Commercial real estate mortgages	$kgCO_2e/m^2$ (carbon intensity by square metres)	97	99	46	46
Equity release mortgages				15	14
Total				**60**	**62**
Sovereigns				212	210

Source: Aviva Plc, Climate-related Financial Disclosures 2023.

Data quality score is a weighted average which is based on the proportional amount of holdings. 1 represents the best score, whilst 5 represents the lowest score. See the Aviva Plc's full report, Climate-related Financial Disclosure 2023, for further detail on the Data quality score calculation.

Infrastructure WACI-R coverage % is 81% and this is lower than emissions coverage due to the lower coverage on revenue data.

Results should be read in conjunction with Aviva Plc's full report, Climate-related Financial Disclosure 2023. In particular, data sources, methodology and assumptions will differ from the analysis carried out on the Plan's assets and care therefore needs to be taken when comparing results.

Asset class assumptions

Liability Hedging Programme

The following assumptions have been made in the calculation of the climate-related metrics for the Liability Hedging Programme:

- Latest annual data for emissions produced in the UK (i.e. production emissions) as at 31 December 2021, published by the UK government, of 420m tonnes of CO2e.
- Emissions associated with imports (energy and non-energy) have been excluded.
- Plan's asset position at 31 March 2024.
- The metrics cover the full economic exposure to UK gilts which will be from the physical gilt holdings and any exposure to Long Gilt TRS contracts.
- Gilts posted out as collateral by the Fund are included in the gilt valuations and gilts received as collateral are excluded.
- Interest rate swaps, inflation swaps, futures, cash and money market fund holdings have all been excluded.

Category	Market value of exposure (£m)	Absolute Production Emissions (tCO2e)
Funded gilts only	340	51,799
Long Gilt TRS	189	28,818
Combined gilt exposure	529	80,618

Source: LGIM, UK Government, DMO and IMF.

Production Emissions shown including LULUCF. Absolute Production Emissions excluding LULUCF in respect of funded gilt exposure are 51,645 tCO2e. Absolute Production Emissions excluding LULUCF from additional exposure from long gilt TRS contracts are 28,732 tCO2e.

Consumption Emissions in respect of funded gilt exposure are 71,892 tCO2e. Absolute Consumption Emissions from additional exposure achieved through long gilt TRS contracts are 39,997 tCO2e.

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