Wincanton plc Pension Scheme

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 31 March 2023

October 2023

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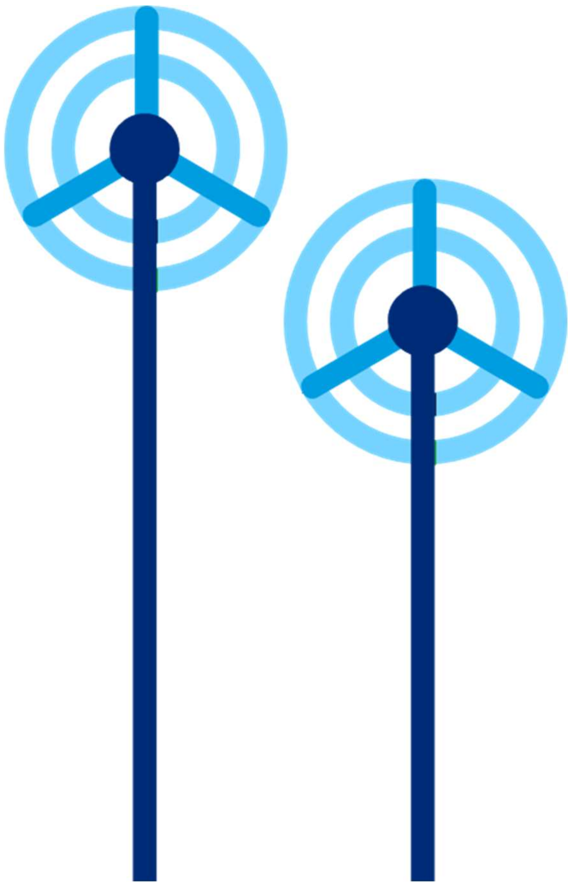


Executive Summary – Defined Benefit Section

Climate-related targets

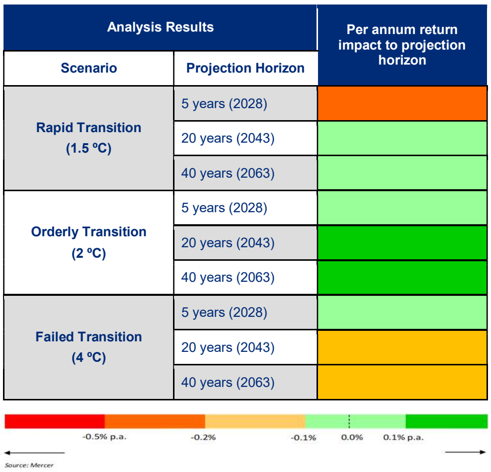
The Trustee has set a target of reducing the Weighted Average Carbon Intensity (Scope 1 and 2 emissions) score for the aggregate credit portfolio (comprising the Insight and PGIM buy and maintain credit portfolios) by 35% by 2030 relative to a 2020 base year.

How the current portfolio would respond under different warming pathway scenarios

Failed Transition (4°C)
Orderly Transition (2°C)
Rapid Transition (1.5°C)

We have analysed the investment strategy for the DB Section on three climate scenarios for the time periods shown below.

*warming relative to pre-industrial levels



Now to 2026 (4 years)	2026 to 2030 (4 to 8 years)	2030 to 2050 (8 to 28 years)
Short term	**Medium term**	**Long term**
A full actuarial cycle, in addition to the remaining time in the current cycle	Approximate timeframe to transition to a low risk portfolio	In line with the expected net zero target timeframe

What does this tell us?

The DB Section is relatively well positioned from a climate risk perspective due to the de-risking to fixed income type asset classes undertaken to date. Muted exposure to short-term transition risk has been noted by the Trustee. However, the expected impact on the funding level is low and the Trustee is not planning to take specific action to mitigate this risk. The DB Section is also exposed to value erosion in a Failed Transition scenario, primarily through the Private Debt holdings. As these holdings are expected to have reached the end of their lifetime by the time physical risks are expected to have a material impact, the Trustee has no immediate plans to adjust the investment strategy or funding approach, but will keep this under ongoing review. The Trustee is mindful that certain sectors, primarily Oil & gas, Fossil Fuels and Renewables, are most impacted by climate transition. The Trustee intends to engage with the credit managers to better understand the portfolio holdings in these sectors, and their transition pathways, before deciding on any portfolio restrictions or exclusions.

Executive Summary – Defined Contribution Section

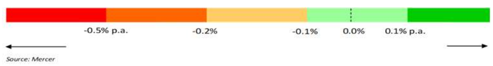
Climate-related targets

The Trustee has set a target of reducing the Weighted Average Carbon Intensity (Scope 1 and 2 emissions) score for the popular arrangement by 30% by 2030 relative to a 2022 base year.

How the current portfolio would respond under different warming pathway scenarios

We have analysed the investment strategy for the DC Section popular arrangement on three climate scenarios for the time periods shown below.

Analysis Results		Per annum return impact to projection horizon
Scenario	Projection Horizon	
Rapid Transition (1.5 ºC)	5 years (2028)	
	20 years (2043)	
	40 years (2063)	
Orderly Transition (2 ºC)	5 years (2028)	
	20 years (2043)	
	40 years (2063)	
Failed Transition (4 ºC)	5 years (2028)	
	20 years (2043)	
	40 years (2063)	



*warming relative to pre-industrial levels

Now to 2027 (5 years)	2027 to 2042 (5 to 20 years)	2042 to 2062 (20 to 40 years)
Short term	**Medium term**	**Long term**

Timeframes are set to capture potential impact on as broad a range of membership as possible. The long-term timeframe reflects a member joining at a young age and staying invested in the strategy for their working life. The medium-term timeframe reflects the period until the average member, based on the current membership profile, is deep into the de-risking period in the run-up to expected retirement. The short-term timeframe captures imminent risks.

What does this tell us?

The DC Section will have long-term exposure to equities, directly and possibly via the diversified growth fund ('DGF') managers, as well as other growth type assets, which will cause member outcomes to be materially affected under a Failed Transition over the long-term.

The Trustee does not anticipate changing the overall strategy and asset allocation as the broader needs of members are best met through investment in asset classes that are expected to provide long-term growth. Instead, the Trustee will focus on engaging with the managers to gain a deeper understanding of the portfolios, and how risk within the current portfolios can be mitigated.

The Trustee will also continue to monitor the market for viable investment options that have a greater emphasis on carbon emission reduction, or other approaches that can further help to mitigate climate-related risk.

Section 1

Introduction

Dear Members,

Welcome to our first 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 Wincanton plc Pension Scheme ("the Scheme") has a legal fiduciary responsibility to invest the Scheme's assets in the best way possible for its members. 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 opportunities, 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 Scheme invests, and in consideration of the different global warming scenarios we have analysed. This data is subject to change as climate change reporting improves.

This report covers both the Defined Benefit ('DB') and Defined Contribution ('DC') Sections of the Scheme. The DC Section focuses on the one strategy that meets the criteria to be described as a popular arrangement – the Cash at Retirement Lifestyle Option.

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

[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

where the asset manager believes there is an opportunity to engage and influence change in the behaviour and actions of a company.

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

Governance: How the Trustee incorporates climate change into its decision making;

Strategy: How potential future climate warming scenarios could impact the Scheme;

Risk Management: How the Trustee incorporates 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 final section 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 at wincantonpensions@capita.com.

Dinesh Visavadia, Independent Governance Group,

Chair, Wincanton plc Pension Scheme

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 an annual basis, or following a significant change in investment policy.

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

- ESG factors can have a material impact on investment risks and returns, and contribute to the Scheme's ability to meeting its investment objectives;
- Stewardship, exercised through voting and engagement, can help to create and preserve long-term value;
- Long-term sustainability issues, particularly climate change, present risks and opportunities that require explicit consideration.

Roles of those undertaking scheme governance activities

The Investment Sub-Committee ('ISC') has oversight and decision making responsibility for setting and implementing the investment strategy for the DB and DC Sections of the Scheme, as prescribed in the Terms of Reference for the sub-committee. This includes the appointment and ongoing review of investment managers, including the delegated investment manager (see page 7). ESG and climate related considerations are incorporated into the ISC's decision making, and ongoing oversight and reporting of these are also the ISC's responsibility. The ISC meets at least quarterly, but will convene additionally on an ad hoc basis as required.

The key activities and decisions of the ISC are reported to the Trustee board on a quarterly basis. Any decisions requiring Trustee approval will be reviewed and ratified at the quarterly Trustee board meetings.

The Investment Sub-Committee

The ISC is responsible for the following activities in relation to the oversight of climate-related risks and opportunities:

- Understanding the climate-related risks and opportunities at the strategic asset allocation level and at the investment manager level;
- Providing challenge to advisor recommendations to ensure the advice provided facilitates effective and efficient decision-making;
- Monitoring, managing and challenging the performance of the investment managers and the advisers;
- Undertaking Scheme governance activities on behalf of the Trustee, such as coordinating required public disclosures;
- Reviewing quarterly investment performance reports and the annual manager deep dive report and highlighting key information for noting or action.

Roles of advisers

The Trustee has appointed advisers to carry out the following climate-related roles as part of their wider duties:

Investment consultant to the Defined Benefit Section (Mercer)

- 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 and how managers account for climate change in their investment processes;
- Monitors investment manager performance against relevant climate-related targets;
- Alongside the delegated manager, supports the Trustee with stewardship activities, which may be related to climate change, such as monitoring and reporting on voting and engagement activities in respect of the invested assets;
- Provides training to the Trustee on climate change, including involving investment managers and other professional advisers in the delivery, where appropriate; and
- Assists the Trustee in producing the Scheme's TCFD report on an annual basis.

Investment consultant to the Defined Contribution Section (Mercer)

- Advises on investment arrangements, including the default investment strategy, 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 and how managers account for climate change in their investment processes;
- Supports the Trustee with stewardship activities, which may be related to climate change, such as monitoring and reporting on voting and engagement activities in respect of the invested assets, including significant vote considerations.
- Monitors investment manager performance and progress against relevant climate-related targets;
- Provides training to the Trustee on climate change, including involving investment managers and other professional advisers in the delivery, where appropriate; and
- Assists the Trustee in producing the Scheme's TCFD report on an annual basis.

Funding Adviser (Hymans Robertson)

- Advises on the funding position, including an understanding of the potential funding impact of changes to financial or demographic assumptions driven by climate change;
- On at least a triennial basis, advises on funding strategy robustness to climate risk.

Covenant Adviser (Penfida)

- Assesses the Sponsor's approach and commitment to climate change, and the potential impact of climate-related exposures on the Sponsor's ability and willingness to continue to support the Scheme.

Assessment of Advisors:

The Trustee expects its advisers to act with integrity and diligence in fulfilling their roles, and uses 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 approaches of the DB and DC investment consultants to climate change, and how it is integrated into their advice and services, is assessed as part of the adviser selection and monitoring process. The Trustee sets its investment consultants objectives, including ones related to ESG and climate change competency. The investment consultants are formally assessed against these objectives annually.

The Trustee also reviews the performance of the Scheme Actuary and Covenant Advisor on an annual basis, including how climate-related risks and opportunities were incorporated into their advice, and how beneficial that advice was in helping the Trustee understand the resilience of the funding strategy and covenant to climate-related risks.

The ISC and Trustee apply an appropriate level of scrutiny, challenge and discussion to advice relating to climate related risks.

Role of Delegated Manager

The majority of the DB Section assets are invested in Mercer Investment Fund 4 ('MIF4'), a bespoke pooled fund which is managed by Mercer Global Investments Europe Limited ('MGIE'). The Trustee also invests in private debt funds managed by Mercer Investments LLC and Mercer Alternatives (Luxemburg) S.à r.l. Collectively with MIF4, these investments are referred to as the 'Mercer Funds'.

MGIE has overall responsibility for the appointment and monitoring of specialist third party managers for each Mercer Fund's assets. For MIF4, the appointment and termination of managers is agreed in conjunction with the Trustee.

As part of the third party manager selection and monitoring process, MGIE consider the level and extent to which the investment managers take into account ESG factors, including climate change, in their investment process and stewardship activities (such as voting and engagement with the underlying companies or issuers they invest in).

The delegated manager has been appointed based on their credentials, which includes, in part, the integration of sustainability into the management of the Mercer Funds. The Trustee monitors the delegated manager on an ongoing basis, and formally reviews the activity undertaken by them in relation to ESG and climate change on an annual basis.

Time and resources spent on climate change-related matters

The Chair of the Trustee is responsible for ensuring that sufficient time is allocated for consideration and discussion of climate matters by the Trustee and its advisers. The Trustee delegates responsibility for some actions in relation to the oversight of climate-related risks and opportunities to the ISC. The ISC, as part of its regular meeting schedule, allocates agenda time to climate change topics, amongst other ESG topics, to cover the various workstreams listed below. The advisers responsible for each workstream will make sure any documents or information is distributed in advance of the meeting to allow the ISC time to digest the advice. The ISC reports back to the Trustee board on its activities on a quarterly basis.

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 Scheme may be facing. The workstreams are listed below, with each task carried out at least annually, unless otherwise noted:

- Scenario analysis modelling the investment strategy and funding strategy (first year and every 3 years thereafter)
- Review appropriateness of undertaking scenario analysis in light of a) data availability changes b) material changes in investment strategy / funding position
- Metrics data collection
- Target setting / target appropriateness review
- Progress against target assessment
- ESG beliefs (including climate change) update / review (triennially)
- Review of manager ESG ratings, climate policies
- Stewardship, including the Trustee’s annual implementation statement
- Drafting annual TCFD report

All of the items above are presented during meaningful timeslots at quarterly ISC meetings, allowing sufficient time for the ISC to raise questions, debate the topic under consideration and ultimately reach a decision where one is required. The discussions are minuted, and the minutes made available to the Trustee, alongside quarterly updates provided by the ISC to the Trustee board.

Responsibility for the following workstreams lies directly with the Trustee board, and each task will be carried out at least annually:

- Risk frameworks update/review e.g. risk registry

- Climate covenant assessment
- Review and approval of the TCFD report

The Trustee is satisfied that the amount of governance time spent is reasonable and will allocate more time at future meetings if any analysis or wider industry research requires additional Trustee review and consideration.

Training

Given the breadth of the subject matter, the ISC undertook climate-related training over two years to 31 March 2023. During this period, the Trustee received training from the Trustee's Investment Consultants, covering climate-related investment risks and reporting requirements in line with the TCFD recommendations. This included training on:

- Understanding the TCFD framework and regulatory requirements
- MGIE's approach to stewardship and engagement, and the integration of climate-related risks
- The investment managers' approach to stewardship and engagement, and the integration of climate-related risks
- Climate metrics – understanding the key metrics
- Integrating ESG risk within the risk register
- Integration of ESG factors within Mercer's manager research and ratings process
- Introduction to the Taskforce for Nature-Related Financial disclosures
- Climate Scenario analysis
- Climate metrics – results and progress, including how the quality and relevance of data will differ between the DB and DC Sections, due to the nature of the respective asset classes
- Setting climate-related targets

The Trustee acknowledges that the reporting of climate-related risk is relatively new and the collective experience of the Trustee will grow over time. The Trustee will continue to receive refresher training on climate-related risk as appropriate.

Section 3
Strategy

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 Scheme'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 Scheme.

To help with this assessment, the Trustee has defined short-, medium- and long-term time horizons for the DB and DC Sections of the Scheme (from the date of analysis as at 30 June 2022).

Defined Benefit Section

Short-Term	Medium-Term	Long-Term
4 years (to 2026)	8 years (to 2030)	28 years (to 2050)
A full actuarial valuation cycle, in addition to the remaining time in the current cycle	Approximate timeframe to transition to a low risk portfolio	In line with the expected net zero target timeframe

Defined Contribution Section

Short-Term	Medium-Term	Long-Term
5 years (to 2027)	20 years (to 2042)	40 years (to 2062)
Timeframes are set to capture potential impact on as broad a range of membership as possible, noting that the lifetime of the DC Section is expected to be longer than the DB Section. The long-term timeframe reflects a member joining at a young age and staying in the strategy for the majority of their working life. The medium-term timeframe reflects the period until the average member, based on the current membership profile, will be deep into the de-risking period in the run-up to expected retirement. The short-term timeframe captures imminent risks.		

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

- Over the short-term, 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, or via investment in strategies that seek to mitigate carbon emissions in the future.

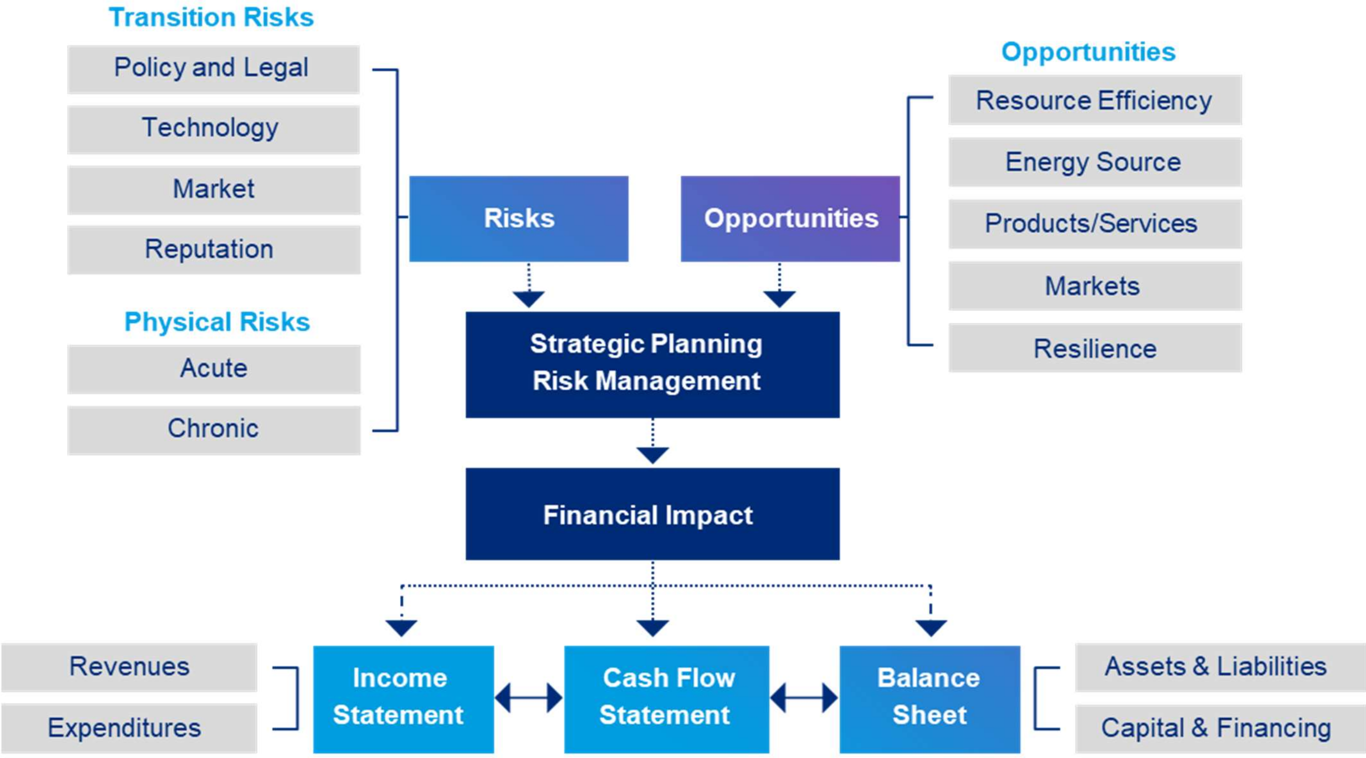
  The Trustee’s ability to understand these short-term changes can position the Scheme favourably, for example taking advantage of the climate transition by avoiding and reducing investment in high-emitting carbon sensitive businesses/assets that do not have a business plan that supports the transition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

- Over the medium-term, 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. Policy, legislation and regulation are likely to also play a key role at the international, national and subnational level. Technology and policy changes are likely to produce winners and losers both between and within sectors. 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 to understand these changes and evolve the portfolio as the pathway develops should help to control risk and potentially enhance returns. The Trustee, and the delegated manager where relevant, may seek 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, physical risks are expected to come to the fore and will be more relevant for the DC Section, given both the anticipated asset allocation and the expectation that the lifetime of the DC Section will be longer than that of the DB Section. 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. The scenario analysis undertaken by the Trustee attempts to encapsulate the variability here.

Chart 1



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

Climate-related risks and opportunities relevant to the Scheme

Having taken into account the DB Section's strategic asset allocation and the DC Section popular arrangements (which is the Cash at Retirement Lifestyle Option), 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 Scheme. 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.

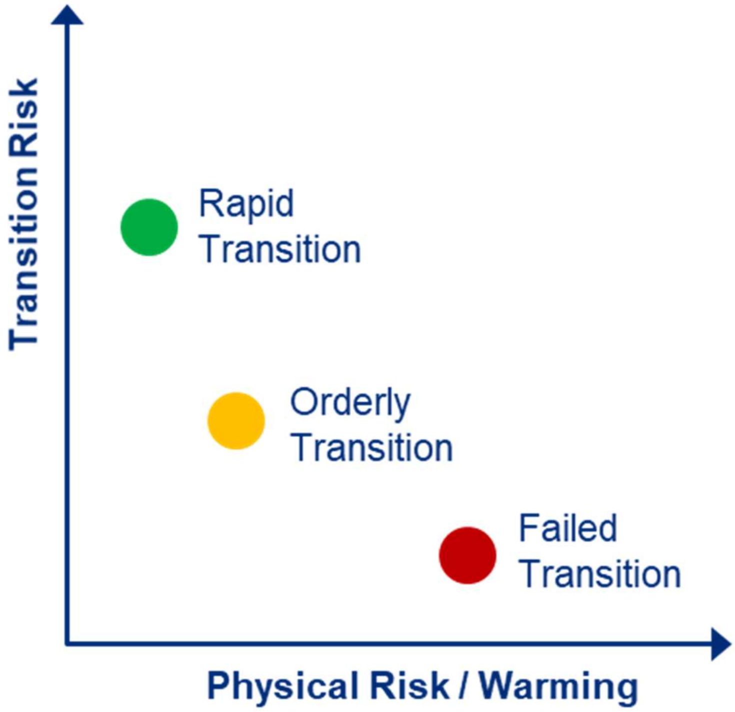
The Trustee has investigated the potential impacts of these risks and opportunities in the scenario analysis that follows. The Trustee notes that the impacts will differ across the DB and DC Sections and that the DC Section is likely to be impacted to a greater extent over the medium- and long-term, given the expected investment strategy needed to generate good member outcomes.

Testing the resilience of the investment strategy

Scenario analysis

The Trustee has undertaken climate scenario analysis to the test the resilience of the investment strategy adopted by the Trustee. Quantitative climate change scenario analysis has been undertaken on the Trustee's strategic asset allocation (DB Section) and popular arrangements (DC Section) 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 Scheme's exposure to both transition and physical risks.

- **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.



Source: Mercer

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[2]; 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 Technical Appendix of this report.

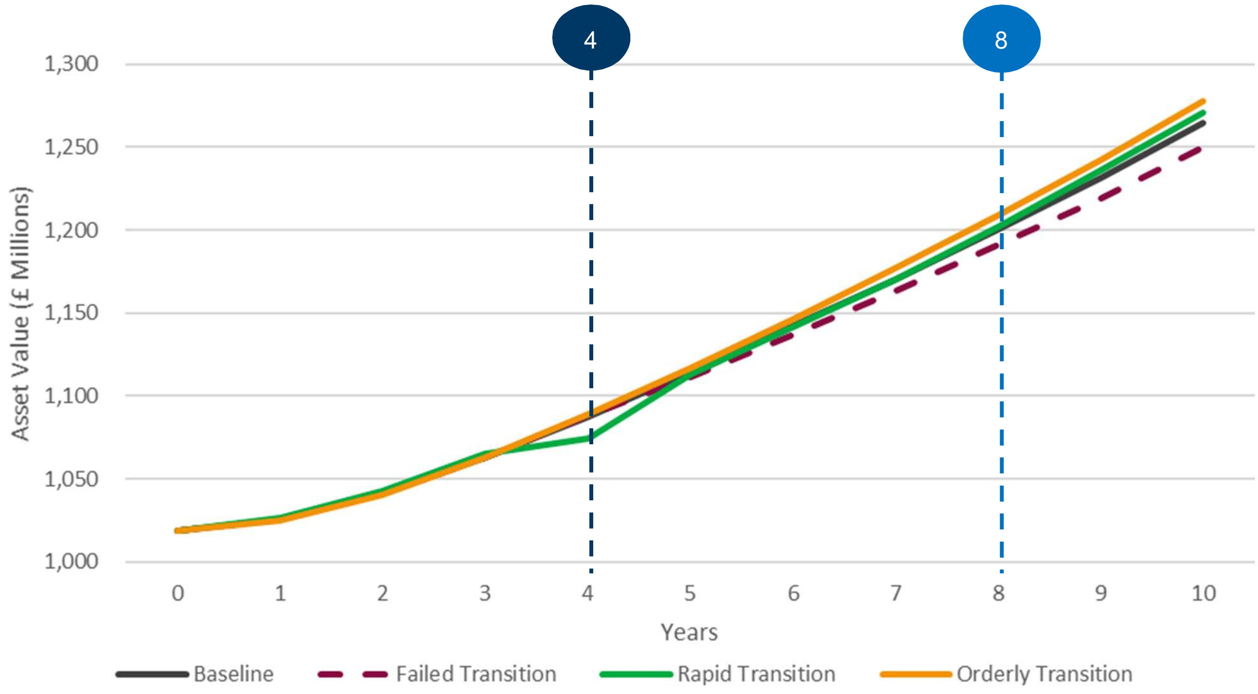
Scenario Analysis Results

Defined Benefit Section

The charts overleaf represent the output of the Trustee's quantitative analysis of the investment strategy. The charts represent projections of asset value from an analysis date of 30 June 2022 over a period of 28 years. Projections ignore the impact of any future contributions. Projections assume a linear phased progression from the current asset allocation to the strawman long-term asset allocation (see Technical Appendix for further details) between 2022 and 2030, and then assumes the strategy remains static for the rest of the analysis period. Further detail on the underlying asset allocations and limitations associated with climate scenario analysis are set out in the Technical Appendix.

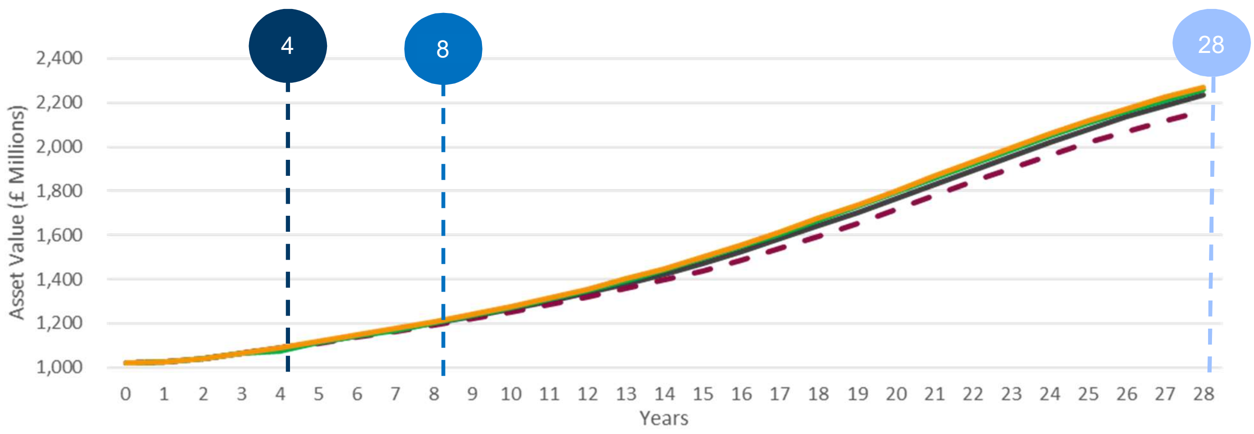
[2] The baseline represents what we are assuming the market is currently pricing in. The baseline includes a 10% weight to a **Failed Transition**, 40% weight to an **Orderly Transition**, 10% to a **Rapid Transition** and 40% to a range of **low impact scenarios**.

Chart 2 – Portfolio Allocation – 4yr and 8yr projection



Source: Mercer

Chart 3 – Portfolio Allocation – 28yr projection



Source: Mercer

Table 1: The table below sets out the expected impact on annual investment return for the periods to 2026, 2030 and 2050 across the three scenarios, on the same basis as set out above.

Analysis Results		Per annum return impact to projection horizon
Scenario	**Projection Horizon**	
Rapid Transition (1.5ºC)	2026 (4yrs)	
	2030 (8yrs)	
	2050 (28yrs)	
Orderly Transition (2.0ºC)	2026 (4yrs)	
	2030 (8yrs)	
	2050 (28yrs)	
Failed Transition (4.0ºC)	2026 (4yrs)	
	2030 (8yrs)	
	2050 (28yrs)	

Source: Mercer

Impact on mortality

The Trustee has separately considered, qualitatively, the impact of climate change upon DB Section mortality, and thus on the funding level. In the UK, mortality changes directly due to climate change are not expected to be material in the context of general uncertainty about life expectancy. However, the Trustee notes that, based on input from the Funding Advisor, the indicative impact on life expectancy could be positive for the Rapid Transition scenario, but negative for the Orderly and Failed Transition Scenarios. Negative impact to mortality would, to some extent, offset the negative impact on funding level caused by weaker asset performance under the Orderly and Failed Transition scenarios.

Climate change in respect of the Sponsoring Employer

The Trustee has considered the Sponsor's climate disclosures and taken advice from its Covenant Adviser and concluded that climate change related risks from a covenant perspective are moderate. This is based on an assessment of the risks identified by Wincanton plc, the overall potential impact of these risks (towards the higher end of other Group risks), and the actions being taken to mitigate climate risk (albeit c70% of Wincanton's planned carbon reduction is not expected to be achieved until after 2030 and relies on future technologies).

Wincanton plc has not yet committed to a formal science-based target (SBTi), however they have set out a number of climate related targets in their annual report, including to be net-zero by 2040 for scope 1, 2 and some scope 3 emissions.

Overview of analysis

In light of the above analysis for the DB Section, the Trustee noted the following findings:

Short-Term (4 years)	Over the short term, transition risk dominates, with the Rapid Transition having the biggest impact. An initial fall in asset values in year 4 (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. All asset classes experience losses except LDI and Secured Finance. This shock under a Rapid Transition translates into a potential c.£13m loss for the portfolio vs baseline, and, all else equal, a relatively minor negative impact on the funding level. For the 4 year time period shown there is very little difference between the baseline scenario and the Failed Transition as physical risks are not yet having a material impact on returns.
Medium-Term (8 years)	By year 8 physical risks are increasingly priced in, however, the impact on the DB Section is quite muted. The impact of the Failed Transition are losses of c.£9m relative to the baseline, and thus a minor negative impact on the funding level, all else equal. The Rapid Transition recovers from the initial pricing shock to broadly track the baseline and the Orderly Transition has a marginally positive impact, with gains of around £8m relative to the baseline.
Long-Term (28 years)	Over the long term, physical impacts become significant, with the Failed Transition resulting in significant falls in asset value relative to the baseline. Over the full 28 years, physical impacts come to the fore, with the Failed Transition reducing annual returns by c.0.1% p.a., equivalent to a cumulative loss of c.£75m relative to the baseline.
Summary and Conclusion	Fixed income asset classes are generally less exposed to transition and physical risks compared to other assets classes such as equities. Hence, the DB Section is already relatively well positioned from a climate risk perspective due to the de-risking undertaken to date. The exposure to a short-term transition risk shock has been noted by the Trustee. However, as the expected impact is relatively muted and the portfolio would be expected to recover from such a shock within a couple of years, the likelihood of achieving full funding in the planned timeframe remains high. Hence, the Trustee is not planning any investment strategy or funding changes to protect against this risk. The DB Section is exposed to value erosion from a Failed Transition if the Scheme remains in existence long-term. Private Debt is the asset class most exposed to this scenario. However, the current holdings are expected to have already run-off before physical risks start to have a material impact. Given the timescales involved before any material impact is expected from physical risks, the Trustee has no

immediate plans to adjust the investment strategy or funding approach in light of the risks of a Failed Transition. This will be kept under review as the long-term future of the DB Section becomes clearer and if a broader range of sustainable investment opportunities within fixed income becomes available. The Trustee is also mindful that the potential negative impact on life expectancy of a Failed Transition could offset, to some extent, the impact of weaker asset performance on the funding level.

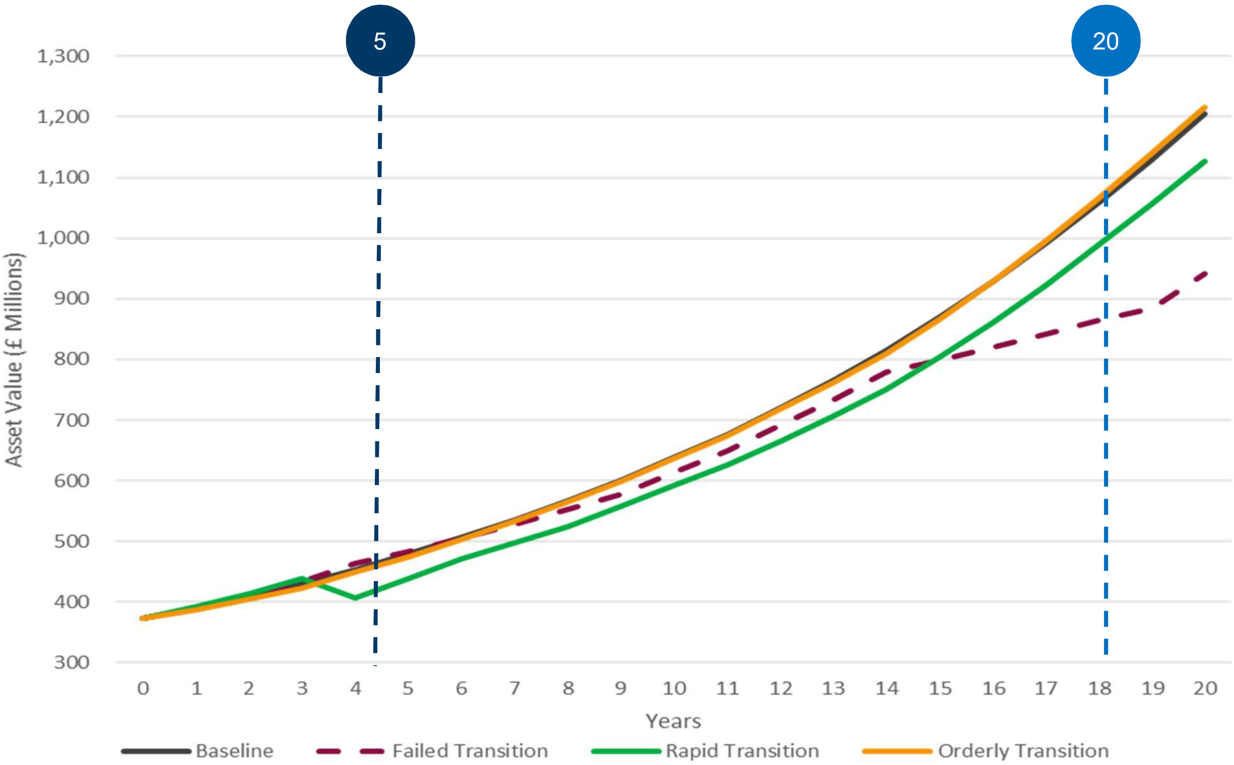
The asset only quantitative analysis above does not take into account the impact of interest rates and inflation expectations upon the value of the liabilities. Considering the risks qualitatively, realised inflation is expected to be elevated under the Rapid Transition, resulting from damages to agriculture and change in food prices, increasing the value of benefits with inflation-linked increases. However, the impact on the funding level is not expected to be significant in the context of the climate-related risks inherent in the wider investment strategy and the high inflation hedge ratio of the DB Section. Thus the Trustee has no immediate plans to adjust the investment strategy or funding approach in light of these risks, but this will be reviewed in conjunction with the next actuarial valuation.

Climate impacts are naturally sector specific. Sector level analysis has highlighted that differences in return impact are most visible at an industry-sector level, with significant divergence between scenarios. Oil & gas, fossil fuel based utilities and renewables are the sectors most impacted by the transition, with the outcome for those sectors depending on the type of transition. The Trustee is mindful of the need for investors to support industries which are critical to the real world economy on their transition journey. Hence, the Trustee intends to engage with the credit managers to gain a deeper understanding of the portfolio holdings in these industries and the expected transition pathways of those businesses, before considering any portfolio restrictions or exclusions.

Defined Contribution Section

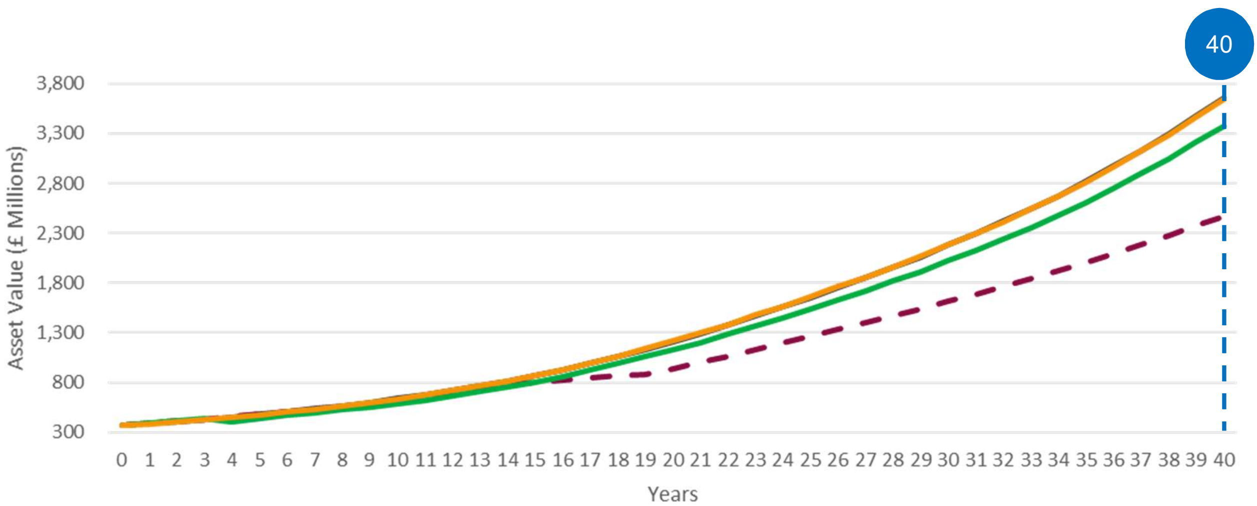
The chart below represents the output of the Trustee's quantitative analysis of the DC Section's popular arrangement – the Cash at Retirement Lifestyle Option. The charts represent projections of asset value from an analysis date of 30 June 2022 over a period of 20 years. Projections include the impact of future contributions. Further detail on the underlying asset allocations and limitations associated with climate scenario analysis are set out in the Technical Appendix.

Chart 4 – Portfolio Allocation – 5yr and 20yr projection



Source: Mercer

Chart 5 – Portfolio Allocation – 40 yr projection



Source: Mercer

Table 2: The table below sets out the expected impact on annual investment return to 2028, 2043 and 2063 across the three scenarios, on the same basis as set out above.

Analysis Results		Per annum return impact to projection horizon
Scenario	**Projection Horizon**	
Rapid Transition (1.5ºC)	5 years (2028)	
	20 years (2043)	
	40 years (2063)	
Orderly Transition (2.0ºC)	5 years (2028)	
	20 years (2043)	
	40 years (2063)	
Failed Transition (4.0ºC)	5 years (2028)	
	20 years (2043)	
	40 years (2063)	

Source: Mercer

Overview of analysis

The drivers for the changes in projected asset values, and the associated impacts over the short-, medium- and long-term are similar to those shown for the DB Section above. The table below focuses on quantifying the impacts for the DC Section.

Short-Term (5 years)	Over the short term, equities are expected to benefit under a Failed Transition as there will be investment opportunities created. Other asset classes, such as bonds, cash and property, are expected to see little impact. Under a Rapid Transition, equity returns are expected to fall materially, due to the uncertainty created by timing and speed of changes causing an uncertain economic environment. This shock under a Rapid Transition translates into a reduction of 1.9% p.a. in return for the portfolio versus baseline. The impact under the other scenarios is broadly neutral or there is less of an impact compared to the Rapid Transition
Medium-Term (20 years)	By year 20, physical risks are increasingly priced in and will have a greater impact on the DC Section, reflecting the long-term investment in equities and other assets that are required to provide long-term real growth for DC. The projected impact of the Failed Transition is a fall of 1.3% p.a. in returns relative to the baseline. An Orderly Transition is expected to have a positive impact, with gains of 0.1% p.a. in return relative to the baseline.

Long-Term (40 years)	Over the long term, physical impacts become significant and very material for the DC Section, with the Failed Transition resulting in a 1.1% p.a. reduction in return relative to the baseline. Over the full 40 years an Orderly Transition is critical to preserving as much value as possible, with a projected fall in return of 0.2% p.a. compared to the baseline under this scenario. The main driver for these changes is the exposure to equities, and other growth assets, that are still expected to provide long-term real growth but are the most exposed to the outcomes from the physical impacts. Not all of the impacts will be negative as there will be opportunities that will benefit investors as part of the transition. The projections reflect the net effect.
Summary and Conclusion	The DC Section is more exposed to the failure of achieving an Orderly Transition over the short- and longer- term, compared to the DB Section, although a Failed Transition may result in some immediate benefits to members. The DC Section will have long-term exposure to equities, directly and possibly via the diversified growth fund ('DGF') managers, as well as other growth type assets, which will cause member outcomes to be materially affected under a Failed Transition over the long-term. The Trustee does not anticipate changing the overall strategy and asset allocation as the broader needs of members are best met through investment in asset classes that are expected to provide long-term growth. Instead, the Trustee will focus on engaging with the managers to gain a deeper understanding of the portfolios, and how risk within the current portfolios can be mitigated. The Trustee will also continue to monitor the market for viable investment options that have a greater emphasis on carbon emission reduction, or other approaches that can further help to mitigate climate-related risk .

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 Scheme'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 Scheme 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 reviewed on an annual basis and sets out how investment climate-related risks are managed and monitored.
- The Trustee maintains a risk register which includes explicit climate risks (covering all of the Scheme) to monitor and mitigate financially material risks to the Scheme. The climate-related risks (defined as physical risks and transition risks) are reviewed annually to ensure the assessment of the likelihood and impact continue to remain appropriate for the Scheme, given the developing research and understanding on this subject, as well as new and emerging risks related to climate change.
- 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.

- The Trustee maintains an ESG Implementation Plan, which is reviewed on a quarterly basis. This document forms part of the Trustee's wider business plan and summarises the progress, actions and outcomes of scheduled ESG investment integration projects, including climate-related activities.
- Mercer's Responsible Investment Total Evaluation (RITE) assesses and benchmarks the extent to which pension schemes integrate ESG factors on an annual basis. The Trustee incorporates recommendations from the RITE assessment framework into its ESG Implementation Plan, and will monitor the Scheme's score over time, seeking to follow best practice.

Strategy

- The Trustee recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that require explicit consideration.
- The Scheme's advisors will take climate-related risks and opportunities into account as part of the wider strategic investment advice provided to the 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).
- Climate scenario analysis is the primary tool to help the Trustee understand the materiality of climate-related risks that could impact the Scheme over time. It will be reviewed at least triennially, or more frequently if there has been a material change to the strategic asset allocation and/or the popular arrangements. Key findings from the Trustee's latest climate scenario analysis are set out in the previous section.
- The impact of climate-related risks and opportunities is an input into regular employer covenant updates.

Stewardship and Reporting

- The Trustee will receive annual reports of climate-related metrics and progress against targets in respect of the assets held in the Scheme. The Trustee may use the information to engage with the investment managers, including the delegated investment manager.
- The Trustee believes that good stewardship and ESG issues can have a material impact on investment risk and return outcomes, so they are a key area of focus.
- Climate change is one of the delegated investment manager's engagement priorities, and within the Mercer Funds, the third party managers' engagement activities are expected to reflect this. Additionally, the third party investment managers are expected to strongly encourage holding companies to improve on material ESG issues and provide better disclosures.
- Within MIF4, the third party managers are required to partake in an annual engagement survey from the delegated investment manager, which includes a specific section covering how the manager is assessing and addressing climate risks and opportunities. Inputs from this survey are used to populate the delegated investment manager's engagement trackers, which are in turn used to identify goal-orientated engagement priorities and to monitor engagement activities and outcomes to identify where escalations may be required. The delegated investment manager's portfolio management team meet regularly with the third party managers and any material ESG issues, including climate change, that have been identified, and the delegated manager's expectations in respect of those, are discussed.
- Appointed investment managers are expected to use active ownership to protect long-term shareholder value.
- The Trustee receives voting and engagement activity summaries on an annual basis as part of the preparation of the Implementation Statement ('IS') from the directly appointed managers and the

delegated investment manager. The IS summarises how the investment managers have voted and engaged on climate-related issues (among other key engagement priorities). The IS is available on the Scheme's website. The Trustee may also use the information to engage with the investment managers, including the delegated investment manager.

- Where the managers are signatories to the UK Stewardship Code, the ISC reviews their stewardship reports on an annual basis.

Manager Selection and Retention

- For DC Section assets, and for DB Section assets held outside of Mercer Funds, 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.
- The delegated investment manager is ultimately responsible for the selection, appointment, removal and monitoring of third party investment managers in the Mercer Funds. The expectation is that climate-related risk assessment and risk reduction is integrated into each manager's approach to investment decision making and stewardship activities. The delegated investment manager works closely with the appointed third party managers to improve their ESG and climate change integration practices where required.
- 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 for all DC and DB Section assets are presented in quarterly investment performance reports and are reviewed by the ISC. A downgraded ESG rating will lead to the investment manager being the subject of closer scrutiny. The delegated investment manager also utilises these ratings and associated analysis to evaluate manager capabilities and practices.
- A more detailed review of asset manager integration of ESG factors (including climate change) is carried out annually by the ISC.

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 Scheme's investment portfolio and identify areas for further risk management, including investment manager portfolio monitoring, voting and engagement activity and priorities. The metrics in this report relate to the Scheme's financed emissions only and exclude emissions associated with the operation of the Scheme. Where metrics relate to emissions, these cover scope 1 and 2 (see below for explanation) only. The Trustee will begin reporting on scope 3 emissions from its next report.

Metric category	Selected metric	Further detail
Absolute emissions	Total Greenhouse Gas Emissions	Tonnes of carbon dioxide and equivalents (tCO2e) that the Scheme is responsible for financing.
Emissions intensity	Carbon Footprint	The amount of carbon dioxide and equivalents (tCO2e) emitted per million dollars of the Scheme's investments.
	Weighted Average Carbon Intensity (WACI)	The exposure of the Scheme to carbon-intensive companies, measuring the amount of carbon dioxide and equivalents (tCO2e) emitted per million dollars of holding company / issuer revenue[3] on average.
Portfolio Alignment	Implied Temperature Rise ITR)	A forward-looking assessment of how aligned the Scheme's portfolios are relative to the Paris Agreement's 1.5°C target. This is estimated based on

[3] 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).

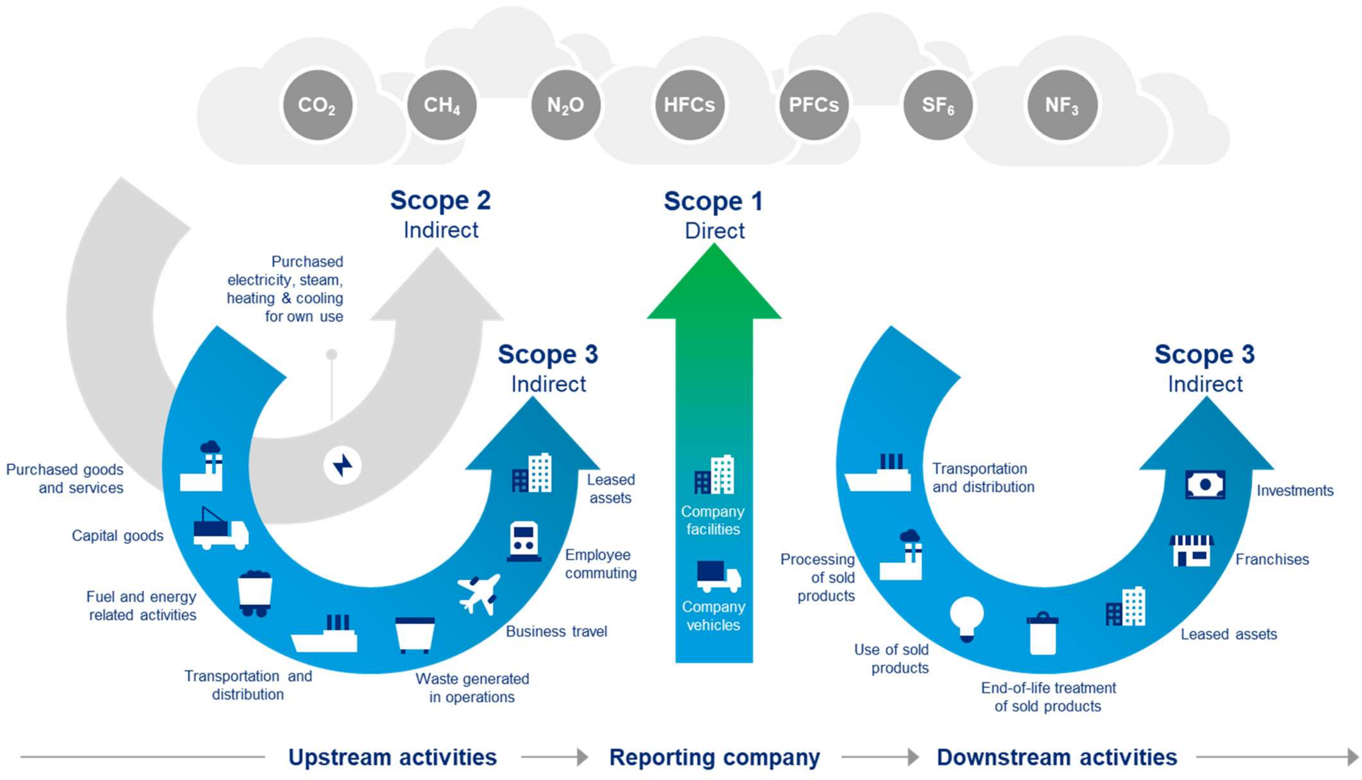
Metric category	Selected metric	Further detail
		the activities and decarbonisation targets of portfolio companies / issuers, relative to what global decarbonisation needs to be to achieve 1.5°C.
Additional	Data Quality	Represents the proportions of the portfolio for which the Trustee has high quality data.

The metrics presented in this report are as at 31 December 2022 and are based on the actual asset allocation at that date.

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 consultant 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[4]), across the three scopes of emissions, as summarised below. Note that this report excludes scope 3 emissions, which will be included from the Trustee's next report.



Source: GHG Protocol

[4] https://unfccc.int/kyoto_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.

Recognising the different methodologies used to calculate absolute emissions for sovereigns and corporates, the Trustee reports sub totals at the corporate and sovereign levels.

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

Carbon Footprint

Carbon Footprint is an intensity measure of emissions that takes the Scheme'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 Scheme'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).

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 identify the proportion of the underlying portfolios for which the Trustee has high quality emissions data. The Trustee has categorised the underlying emissions data by whether it has been verified by a third party, reported by the company, estimated by the data provider, or is unavailable, to determine the how representative the analysis is of the Scheme'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 Scheme'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

Defined Benefit Section

The regulations require trustees to calculate and report metrics for all DB assets 'as far as they are able'.

This report presents direct analysis of:

- The aggregate credit portfolio comprising the Scheme's two buy & maintain credit funds managed by Insight and PGIM, respectively.
- One of the Scheme's two secured finance funds, managed by Insight.
- The Scheme's LDI mandate, managed by BlackRock.

The above assets comprise c. 85% of the Scheme's total DB assets by strategic asset allocation (93.5% as at the date of analysis).

The report does not present analysis of the Scheme's secured finance fund investment managed by Schroders nor the Scheme's illiquid debt (private debt and real estate debt) mandates managed by Mercer, Aviva and M&G, which together comprise the residual c. 15% of the strategic asset allocation, due to issues with data quality and coverage. The Trustee expects to be able to include the Schroders secured finance fund in the analysis from next year as data coverage levels and quality are expected to improve. It is very challenging to calculate metrics for illiquid debt mandates and it is not expected they will be included in the analysis in the foreseeable future.

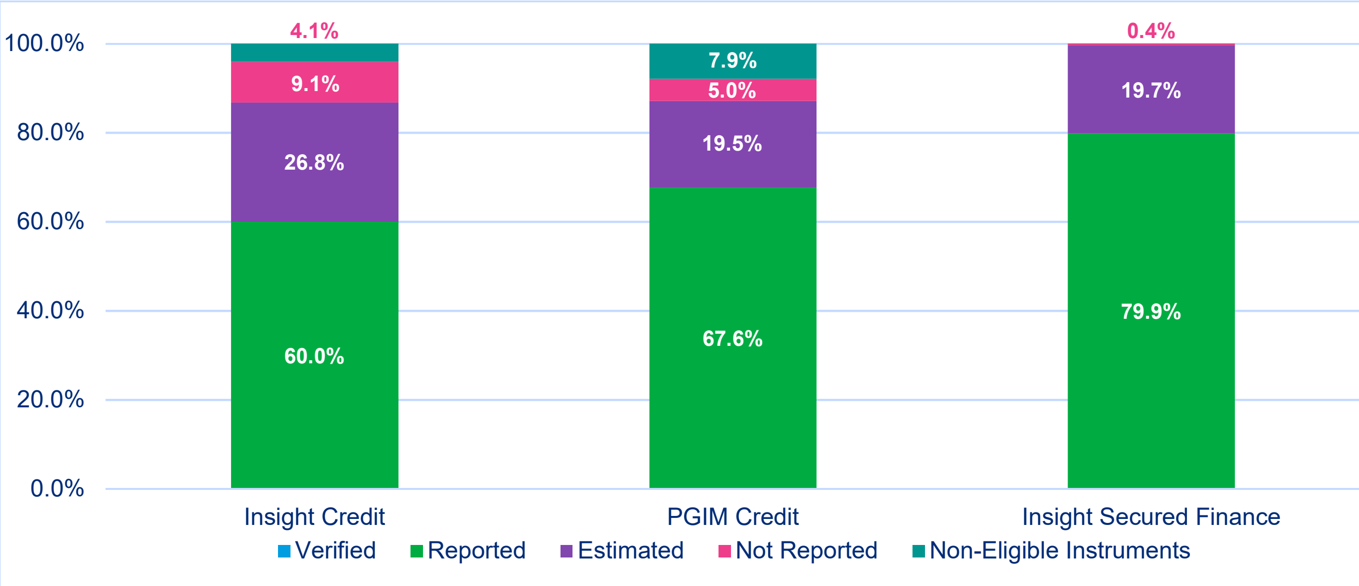
Climate-related metrics for the funds analysed, with the exception of BlackRock Liability Driven Investment ('LDI') portfolio have been provided by the delegated investment manager. The metrics have been sourced from MSCI using stock list data provided by the underlying investment managers. For the LDI mandate, metrics have been provided by BlackRock.

Table 4: This table below summarises the emissions and ITR climate metrics for the funds selected for analysis:

Manager/ Mandate	Total assets ($m)	% of DB Assets	WACI		Carbon Footprint		Absolute Emissions	ITR
			(tons CO2e / $m revenue)	(tons CO2e / $m PPP GDP)	(tons CO2e / $m invested)	(tons CO2e / public debt GBP£m)	(tons CO2e)	(ºC)
Total Portfolio (Non-Sovereign Component)	287.4	27.4	122.2		48.2		13,851	
Total Portfolio (Sovereign Component)	693.4	66.1		120.0		160.0	119,000	
Underlying Asset Classes								
Insight Buy & Maintain Credit	108.0	10.3	98.6		35.6		3,844	1.9
PGIM Buy & Maintain Credit	109.1	10.4	215.0		51.5		5,618	2.2
Total Buy & Maintain Credit	217.1	20.7	157.1		43.6		9,462	
Insight Secured Finance	70.3	6.7	166.0		62.5		4,389	2.8
BlackRock LDI	693.4	66.1		120.0		160.0	119,000	2.8

Source: MSCI, Mercer Calculations and BlackRock (for LDI)
The figures in this analysis have been pro-rated at individual manager level (where reasonable data is available) to present coverage as if full data were available, with the exception of the LDI portfolio.
Scope 1 & 2 emissions data
For assumptions and notes relating to the LDI metrics, please refer to the Technical Appendix – Liability Hedging Portfolio section.

Chart 6: The Data Quality metric for the funds analysed

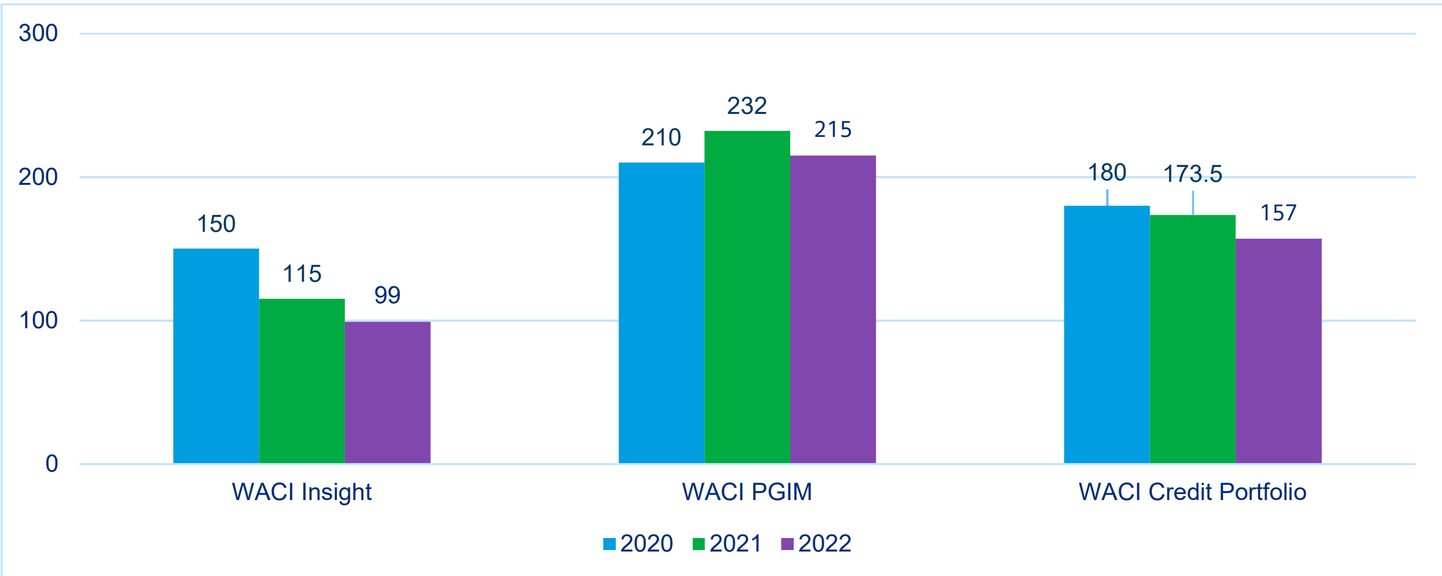


Source: MSCI, Mercer Calculations.

The chart below shows the evolution over time of the carbon intensity (WACI) for the aggregate buy and maintain credit portfolio (and underlying managers). This portfolio is subject to a target for monitoring purposes, as outlined later in this report.

Chart 7: WACI (tons CO2e / $m revenue) progression

WACI (tons of C02e /$M revenue)



The Trustee makes the following observations:

- The largest asset allocation in the DB Section is the LDI mandate and this is also the materially largest contributor to the DB Section’s total carbon emissions. These hedging assets provide protection against changes in interest rates and inflation and therefore the Trustee expects the allocation to these assets to be maintained over time.

- Focusing on the WACI intensity measure, the highest intensity fund is the PGIM buy & maintain credit fund, which is approximately twice as carbon intense as the Insight buy & maintain credit fund currently. All else equal, this implies that the businesses, in aggregate, issuing the bonds held in the PGIM portfolio are relatively less carbon efficient as at the date of analysis. This is primarily driven by PGIM's higher allocation to utilities, which are traditionally high carbon emitters.
- The 2015 Paris Agreement objectives reflect a collective goal to hold the increase in the climate's average global surface temperature to well below 2ºC above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 ºC. None of the portfolios are currently aligned with a 1.5ºC pathway. The Trustee acknowledges that such alignment is very difficult to achieve currently within credit portfolios without compromising wider investment considerations such as diversification and credit quality. Hence, the alignment of the Insight buy and maintain credit portfolio with a 2ºC rise is viewed positively by the Trustee.
- The LDI mandate consists mainly of UK government debt and the 2.8ºC ITR of that portfolio reflects the UK Government's progress towards its net zero commitments and global temperature goals.
- Insight's positioning is indicative of the significant steps the manager has taken over the past two years to decarbonise the portfolio, with WACI reducing c34% over the period. However, future progress is expected to be slower given the limited investment opportunities in firms with lower carbon intensity than the current holdings. While PGIM haven't made progress with reducing WACI in the period under observation, the highest emitters are concentrated in a small portion of the portfolio, and thus improvements could be achieved with targeted sales, if desired. The Trustee wishes to further explore the transition pathways of these businesses with PGIM before deciding on any exclusions or targeted disinvestments.
- In terms of the data quality metric, the Insight secured finance fund ranks highest with the bulk of its constituent firms reporting emissions data and approximately 20% requiring estimation by the data provider. Data quality is relatively weaker for the buy & maintain credit funds where the proportions of emissions data that is estimated or not reported is generally higher. Both managers are working with issuers to improve this.

Defined Contribution Section

The regulations require trustees to calculate and report metrics for all assets 'as far as they are able'.

This report presents direct analysis of:

- The equity and diversified growth fund mandates managed by BlackRock. BlackRock also manages the allocation to cash through its Sterling Liquidity Fund.

The above assets comprised c. 94% of the Scheme's total DC assets as at the analysis date (of which 84% is eligible data and is reportable). The other 6% of total assets are held in a range of self-select funds. These have been excluded from the analysis as they do not constitute a popular arrangement and are not material in the context of overall risk for the DC Section.

Table 5: Summary of the emissions and ITR climate metrics for the funds analysed

Manager / Mandate	Total assets (£m) [(a)]	% of DC Assets [(a)]	Carbon Footprint	WACI [(b)]		Absolute Emissions [(c)]	ITR
			(tons CO2e / $m invested)	(tons CO2e / $m revenue)	(tons CO2e / $m PPP GDP)	(tons CO2e)	(ºC)
BlackRock 30/70 Global Equity	215.8	61%	60.0	132.4	-	17,215	2.1
BlackRock Aquila Life Market Advantage (Non Sovereign)	39.6	11%	24.7	100.4	-	1,177	2.4
BlackRock Cash	16.2	5%	0.6	3.7	-	9	-
Total (Non Sovereign Component)	**271.7**	**76%**	**51.3**	**120.1**	**-**	**18,401**	**-**
BlackRock Aquila Life Market Advantage (Sovereign Exposure)	37.4	11%	-	-	289.4	- [(d)]	-
Total [(e)]	**309.1**	**87%**	**-**	**-**	**-**	**-**	**-**

***Source**: Metrics data provided by BlackRock as at 31 December 2022 . Asset value data provided by Aegon as at 31 December 2022. Mercer calculations. Totals may not sum due to rounding*

Coverage represents Scope 1 & 2 emissions data.

*(a) The figures represent the amount and proportion of DC assets for which **eligible data is reportable.***

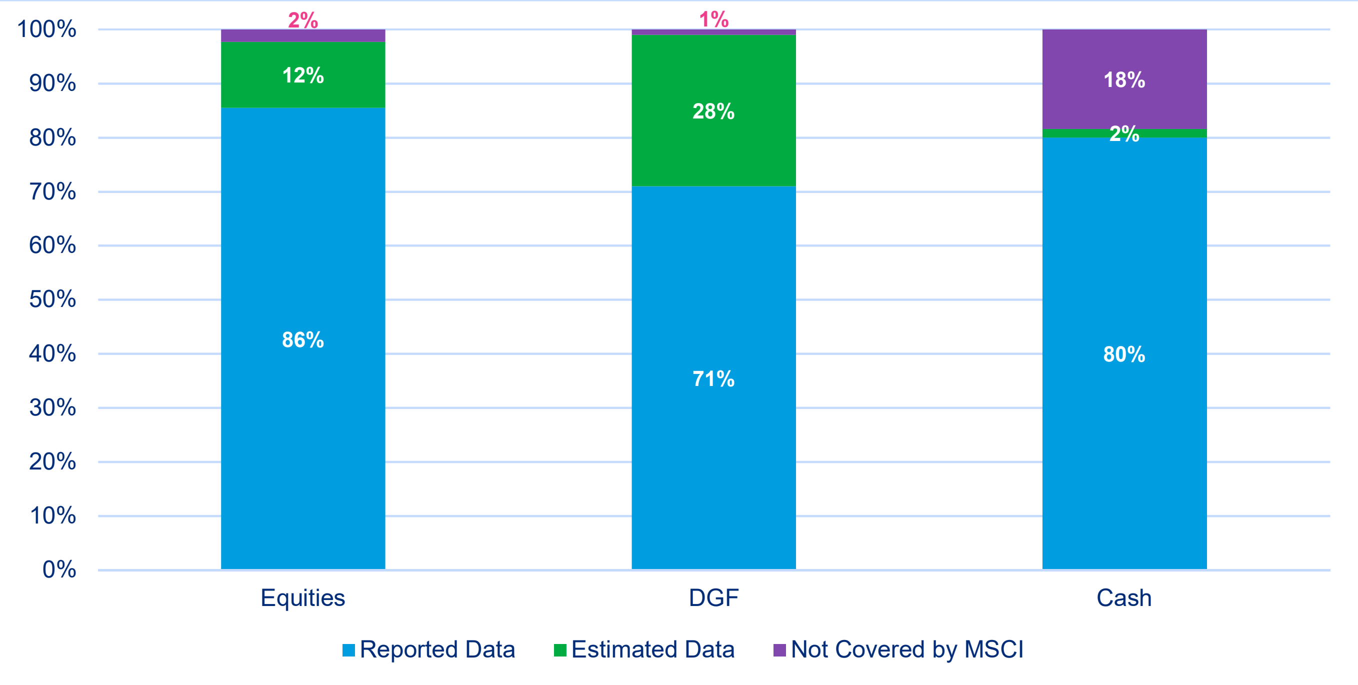
(b) Weighted Average Carbon Intensity is an emissions intensity metric utilising MSCI sources sales and Scope 1 and 2 emissions values. BlackRock market value and Net Asset Value figures are integrated to normalise to the portfolio level.

(c) Absolute Emissions is calculated using MSCI sourced Enterprise Value Including Cash and Scope 1 and 2 emissions. This is an absolute emissions figure that is normalised using Market Value from BlackRock on the portfolio level.

(d) BlackRock were unable to provide sovereign absolute emissions data at time of writing.

(e) Corporate and sovereign data cannot be aggregated due to differences in calculation methodologies.

Chart 8: Data Quality for the popular arrangement components analysed.



Source: BlackRock, Mercer Calculations.

For the DC Section assets, the WACI analysis as at 31 December 2022 has meaningful data coverage. This has been considered when setting the target later in this statement.

- The largest asset allocation in the DC Section is to equities, and equities are also the materially largest contributor to the DC Section's absolute carbon emissions. It is very likely that equities will continue to be the dominant exposure and contributor over time.
- Focusing on the WACI intensity measure, the highest intensity fund is also the BlackRock 30:70 Global Equity Fund.
- None of the DC Section portfolios are currently aligned with a 1.5ºC pathway, thus highlighting the need for engagement and support from managers of the assets to engage with the companies within the indices. BlackRock is one of the largest asset manager in the world and the Trustee expects them to be at the forefront of this engagement.

Targets

Defined Benefit Section

The Trustee has set a target of **reducing the WACI (Scope 1 and 2 emissions) score for the aggregate credit portfolio (comprising the Insight and PGIM buy & maintain credit portfolios) by 35% by 2030 relative to a 2020 base year**.

The Trustee notes that whilst Carbon Footprint is the recommended intensity metric set out in the TCFD guidance, WACI has been selected due to better data availability for prior years.

In setting targets for the DB Section, the Trustee considered various factors feeding into overall feasibility (including data availability, quality and the nature of the investments themselves), outlined below.

Within the DB Section's large defensive asset portfolio:

- The LDI mandate is the largest allocation and the exposure within it is mainly to UK government gilts. The Trustee has no control over the carbon intensity of the UK or related UK government policy, and thus it would be very difficult for the Trustee to exert influence and drive the change required to reach any target set for the mandate. The Trustee notes that the UK Government is targeting being net zero by 2050.
- The credit portfolio represents the remainder of the defensive portfolio. Since these credit mandates are held on a segregated basis within MIF4, the Trustee does have the ability to influence the management of the mandates, via the delegated investment manager.

Within the DB Section's smaller return-seeking portfolio, comprising the secured finance and illiquid debt (private debt and real estate debt) mandates:

- These are all pooled investment vehicles and therefore the Trustee has very limited ability to exert control over the policies of the investment managers, portfolio holdings and thus the resulting carbon emissions. The Trustee can only seek to engage with the investment managers on climate matters. As noted above, it is also currently very challenging to calculate metrics on illiquid debt mandates for tracking purposes.

For the reasons outlined above, the Trustee has concluded it is feasible to set a target for the aggregate credit portfolio only, and not for the other assets. The target therefore covers 15% of the strategic asset allocation for the DB Section.

The Trustee will review its progress against the target at least annually and will consider setting specific targets for other asset classes if and when the available data improves and if there are suitable calculation methodologies available. Reporting on Scope 3 emissions will be included in the Scheme's second statutory report.

Over the two years to 31 December 2022, the investment managers underlying the aggregate credit portfolio made the following progress against the emissions target:

- 13% reduction for the aggregate credit portfolio (driven by Insight).

A wide range of factors will affect whether the Trustee achieves its target and the Trustee has varying degrees of control over these factors. 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 target, and it has engaged with the delegated investment manager and the third party managers to make clear its position. Going forward, the Trustee will be working closely with these parties to identify and manage a staged emissions reduction plan and steward an increase in transition capacity.

The Trustee will keep its targets under review to ensure they remain appropriate and relevant, taking into account any changes to the investment strategy of the Scheme, the availability of data, the balance between portfolio and real-world decarbonisation, as well as wider market developments. With this in mind, the Trustee may change its target in the future.

Defined Contribution Section

The Trustee has set a target of **reducing the WACI (Scope 1 and 2 emissions) score for the popular arrangement by 30% by 2030 relative to a 2022 base year.** The basis for using WACI as the metric within the target is again due to the quality and availability of data.

In setting this target, the Trustee considered the following:

- The lifetime of the DC Section is expected to be longer than the DB section

- The popular arrangement is expected to remain fairly consistent in terms of asset exposure to equities and other growth assets over time. The Trustee notes that the objective of targeting cash at retirement will remain under regular review
- Given the nature of the DC Section assets, the Trustee expects data coverage and quality to continue to improve over time and support monitoring of the metrics and targets. If the strategy evolves to include exposure to illiquid assets over time, there may be similar challenges to those stated above for the DB Section and the metrics may need to be adapted.
- It is likely that these investments will remain within pooled investment vehicles and therefore the Trustee has very limited ability to exert control over the policies of the investment managers, portfolio holdings and thus the resulting carbon emissions. The Trustee can only seek to engage with the investment managers on climate matters.
- The Trustee will review its progress against the target at least annually and will consider setting specific targets for the other asset classes, if and when the available data has improved and there are suitable methodologies. Reporting on Scope 3 emissions will be included in the Scheme's second statutory report.

Appendix A
Technical Appendix

Asset Allocations Modelled

DB Section Strategic Asset Allocations modelled

The DB Section strategic asset allocation (SAA) as set out in the Statement of Investment Principles is shown in the table below. For the purposes of climate scenario analysis, the allocations assume a linear phased progression from the current allocation to the Strawman Long-Term Asset Allocation between now and 2030, and then assumes the strategy remains static for the remainder of the analysis period.

Current SAA	%	Modelling Asset Class	Current Asset Allocation (%)	Strawman Long-Term Asset Allocation (%)
Multi Asset	-	Multi-Asset Credit	-	7.0%
Corporate Bonds	15.0%	Global Investment Grade Credit	15.0%	15.0%
Private Debt	11.0%	Global Senior Private Debt	7.0%	-
		Global Private Debt	4.0%	-
Liability Driven Investments	66.0%	LDI/Cash	66.0%	70.0%
Secured Finance	8.0%	UK Floating Rate Note	4.0%	4.0%
		US Floating Rate Note	4.0%	4.0%

DC Section - Popular Arrangements Modelled

A popular arrangement is defined in the statutory guidance as a fund or lifestyle strategy which £100m or more of the Scheme's assets are invested, or which accounts for 10% or more of the assets used to provide money purchase benefits (excluding assets which are solely attributable to Additional Voluntary Contributions).

The Cash at Retirement Lifestyle strategy is the only arrangement that meets these criteria - the first three funds listed are combined into a single lifestyle option that is the popular arrangement. The other funds listed do not meet the popular arrangement criteria and thus are not analysed in the report.

Current SAA	Modelling Asset Class	Current Asset Allocation (%)
BlackRock - 30/70 Global Equity	Global Equity	61.4
BlackRock - Market Advantage	Diversified Growth Fund	27.5
BlackRock - Cash	Cash	5.1
BlackRock - LGIM Future World Annuity Aware	Bonds	4.6
BlackRock - UK Equity	Equity	0.9
BlackRock - Corporate Bonds (Over 15 Years)	Bonds	0.2
BlackRock - Index-Linked Gilts (Over 5 Years)	UK Gilts	0.1
BlackRock - Fixed Interest Gilts (Over 15 Years)	UK Gilts	0.1
BlackRock World ESG Equity	Global Equity	0.0
HSBC - Islamic Global Equity Index Fund	Global Equity	0.0

Climate scenario modelling approach

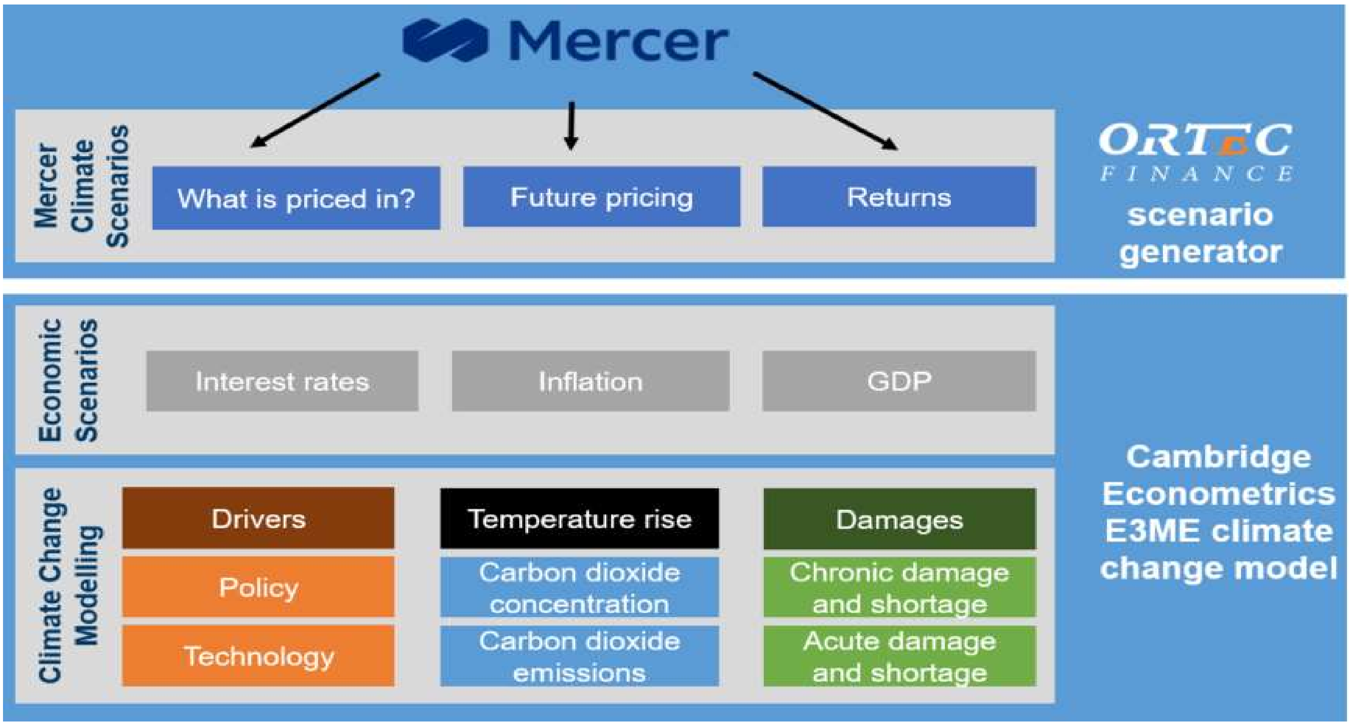
Climate scenario narratives

Mercer has partnered with Ortec Finance and Cambridge Econometrics to develop climate scenarios that are grounded in the latest climate and economic research and give practical insights.

Mercer's climate scenarios are developed by building the investment modelling on top of the economic impacts of different climate change scenarios within the E3ME climate model.

Each climate scenario covers a specific level of warming driven by levels of carbon dioxide (CO_2) and other greenhouse gases. These levels are determined by the policies enacted and the technological developments. The impacts of the warming are shown in the physical damages. E3ME maps this to economic impacts and Ortec's scenario generator maps the economic impacts to investment return impacts by making assumptions on what is priced in currently and how future pricing shocks will occur.

Mercer's scenarios include Mercer's own views on what is priced in and are built on Mercer's climate aware capital market assumptions.



The Mercer/Ortec scenarios are built upon the Network for Greening the Financial System (NGFS) scenarios, with the key differentiating factor being the forward pricing-in stress tests.

i) Scenario stress testing is imbedded into the Mercer/Ortec scenarios, while the NGFS scenarios do not incorporate this

ii) The pricing-in shocks are captured before the actual risk event, e.g. the physical damages risk is now assumed to be priced in within current investor timeframes, rather than say in 2100.

iii) The baseline is based on what is priced in today and reflecting current policies.

Investment and Funding Climate Scenario Analysis Assumptions:

<table>
<tr><th></th><th>Rapid Transition</th><th>Orderly Transition</th><th>Failed Transition</th></tr>
<tr><td>Summary</td><td>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.</td><td>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.</td><td>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.</td></tr>
<tr><td>Cumulative emissions to 2100</td><td>416 GtCO2e</td><td>810 GtCO2e</td><td>5,127 GtCO2e</td></tr>
<tr><td>Temperature change</td><td>Average temperature increase of 1.5°C by 2100.</td><td>Average temperature increase of <2°C by 2100</td><td>Average temperature increase of >4°C by 2100.</td></tr>
<tr><td>Key policy and technology assumptions</td><td colspan="2">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.</td><td>Existing policy regimes are continued with the same level of ambition.</td></tr>
<tr><td>Financial climate modelling</td><td>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.</td><td>Pricing in of transition and physical risks until 2050 takes place over the first 4 years.</td><td>Physical risks are priced in two different periods: 2026-2030 (risks of first 40 years) and 2036-2040 (risks of 40-80 years).</td></tr>
<tr><td>Physical risk impact on GDP</td><td colspan="3">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).</td></tr>
<tr><td>Physical risk impact on inflation</td><td>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.</td><td>No explicit modelling of physical risk impact on inflation (supply-side shocks). Impact on inflation follows historical relationship between GDP and CPI.</td><td>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.</td></tr>
</table>

Source: Mercer and Ortec. Climate scenarios as at June 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

Defined Benefit Section

Climate-related metrics provided by Mercer (all except LDI) have been sourced from MSCI using stocklist data provided by State Street as custodian of Mercer Investment Fund 4. LDI metrics have been provided by BlackRock. Asset value data provided by Mercer.

Defined Contribution Section

Climate-related metrics provided by BlackRock and have been sourced from their own licensing agreement with MSCI. The Scheme asset values have been provided by Aegon, who provide the platform on which the BlackRock funds are accessed. BlackRock has provided the total pooled fund sizes in order to calculate the % of holdings attributable to the Scheme.

Proxy data

For some asset classes, data coverage is too low (or no data is available) to be able to take a pro rata approach. Use of proxy data (data of other asset classes or funds that broadly represent a given fund) can help provide climate-related data where coverage for an asset class/fund is limited.

Defined Benefit Section

The Trustee considered the use of proxy metric data for private debt, real estate debt and secured finance. However, the characteristics of the proxy fund would be too different from the invested assets to be able to make any informed investment decisions with the information, and be of limited use from an engagement standpoint. For now, no data on these asset classes has been presented. These assets represent 15% of the total actual asset allocation.

Scope of emissions

Only Scope 1 and 2 emissions data has been included in this report. This means that for some companies the assessment of their carbon footprint could be considered an understatement. Scope 1, 2 and 3 emissions are as defined by the GHG protocol.

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. Obtaining data for emerging market equity and debt can also be challenging due to general disclosure and transparency challenges.
- Many private companies do not currently produce climate-related data and coverage for private markets, such as private equity and private debt, will be low, or zero for mature funds.
- 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.
- Short-term instruments, such as in the DB Section’s secured finance portfolios, have limited data available due to the short-term nature of the individual assets.

In this report, the Trustee has predominantly used a pro rata approach to scale up each climate metric for DB and DC assets 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.

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

Asset class assumptions

Liability Hedging Portfolio

The following assumptions have been made and methodologies followed 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 30 December 2022, sourced from MSCI, of 401m tonnes of CO_2e.
- Total market value of gilts in issuance at 30 December 2022, published by the ONS of £2,504bn (including green gilts).
- UK GDP for 2021 sourced from MSCI of $2,708bn.
- UK Purchase Power Parity-adjusted GDP for 2021, published by the World Bank, of $3,344bn.
- Scheme's asset position at 31 December 2022.
- Figures cannot sensibly be aggregated with emissions data for non-gilt assets due to risk of double counting as UK emissions include corporate and household emissions.
- The metrics cover the full economic exposure to UK gilts which will be from the physical gilt holdings and any exposure to repo.
- 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.
- The temperature alignment metric reflects the UK's alignment temperature with reference to the UK's National Determined Contribution ('NDC').

Category	Market value of exposure (£m)	Absolute emissions tCO_2e
Funded gilts only	548.6	88,000
Gilts on repo	194.5	31,000
Combined gilt exposure	743.1	119,000

Source: BlackRock, MSCI Data, ONS. As at 31 December 2022

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Ortec Finance

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Penfida

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