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Coats UK Pension Scheme
TCFD Climate Disclosure Report

31 March 2024

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Foreword

This report has been produced by the Trustee of the Coats UK Pension Scheme ("CUKPS" or "the Scheme") as required by regulation 6 of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

This report relates to the year ending 31st March 2024 to align with the Scheme's financial year-end and details the work conducted by the Trustee over the year in the assessment, monitoring and mitigation of climate-related risks. This is the Trustee's second Climate Change Governance report, the Trustee continues to develop and strengthen its reporting framework and expects to build on this in following years.

This report has been prepared to comply with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, taking into account Department for Work and Pensions' (DWP) statutory guidance. The report explains how the Trustee has established and maintained oversight and processes to satisfy themselves that the Scheme's relevant climate-related risks and the investment opportunities presented by the transition to a low carbon economy are considered appropriately by all stakeholders involved in the day-to-day management of the Scheme. The sub-headings in this report address the specific disclosure requirements in the statutory guidance and which are based on the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

Executive Summary

Governance

The Trustee has articulated a governance structure which specifies roles regarding climate change risks and opportunities within the Investment Funding Committee's (IFC) terms of reference. Climate beliefs have also been articulated within the Trustee's climate risk mitigation document, which underlines the responsible investment beliefs and approach to measuring and managing climate risks and opportunities. Further, the Trustee has received training on climate change risks and opportunities, carbon emissions and targets, climate change scenario analysis, and stewardship to help in its understanding of how climate change may impact the Scheme.

Strategy

In order to assess the potential impact of both physical and transition risk over the short-term, medium-term, and long-term, the Trustee performed scenario analysis on the Scheme's assets and liabilities under three different scenarios. This analysis was run using data as at 31 March 2023 and has not been updated for this year's report, further detail on this is set out in the main strategy section. In last year's analysis, under all scenarios the Scheme's funding level is projected to fall, with the largest expected impact occurring under a 'No Transition' scenario (temperature increase in excess of 4 degrees Celsius relative to pre-industrial levels) stemming from physical risks. However, the Scheme is expected to reduce its allocation to real assets, such as property, and therefore physical risks over time – this was the case over the period whereby the Scheme was able to reduce allocations in two of its real asset holdings.

Risk Management

The Trustee recognises that the Scheme is exposed to climate change-related risks and it has created processes to identify, assess and manage these risks, including the creation of a

climate-risk mitigation document and an environmental, social and governance (ESG) and stewardship policy in the Statement of Investment Principles (SIP). The Trustee receives climate reporting on a regular basis, which allows the Trustee to manage the climate-related risks which are relevant to the Scheme in a timely manner, as well as monitor the progress of the Scheme on these metrics. The Trustee has set an interim scope 1 and 2 emissions carbon footprint reduction target of 50% by 2030 against a 31 March 2022 baseline and have aspirations to become net zero by 2050. This target has been codified into the Scheme's Pensions Risk Management Framework (PRMF).

The Trustee has considered and implemented changes to the investment strategy to limit exposure to climate-related risk and take advantage of climate-related opportunities. For brevity where we refer in this report to the risks and opportunities relating to climate change, we mean this to cover both the risks arising from changes in the climate itself and the risks and opportunities presented by the anticipated transition of economies and society to a lower carbon future.

Over the period, the Trustee redeemed its holdings in the Abrdn Long Lease Property Fund. These proceeds were invested into Aegon European ABS Fund and the M&G Sustainable Total Return Credit Investment (STRCI) Fund in line with a re-investment framework agreed by the IFC. The decision to increase the allocation of M&G STRCI reflects the Trustee's objective of improving portfolio liquidity and is more closely aligned with their climate-related investment beliefs (the fund targets allocations to climate leaders and lower emitting issuers).

Beyond strategic changes within the Scheme's mandates, the Trustee periodically meets with its managers to ensure climate-related risks are integrated and managed, as well as to assess and challenge them on their ESG practices. Active engagement with the Scheme's managers is also supported by the Scheme's investment consultant, Redington. The Trustee utilises the manager research and monitoring capabilities of Redington to effectively assess climate-related risks and opportunities as part of the manager selection and portfolio construction process.

Metrics and Targets

To identify, assess and monitor climate-related risks, the Trustee measures the following metrics:

- Total greenhouse gas emissions of the Scheme's assets ("absolute emissions metric");
- Carbon footprint – i.e. total carbon dioxide emissions for the portfolio per million pounds invested ("emissions intensity metric");
- Monitor the Partnership for Carbon Accounting Financials (PCAF) Data Quality Score (i.e. "additional climate change metric"); and
- Science Based Target initiative "SBTi" portfolio alignment metric ("alignment metric").

The Trustee decided to change the "additional climate change metric" for this years and future reports. The previous "additional climate change metric" was to "Monitor climate risk in the investment strategy using the Prudential Regulation Authority (PRA) Slow Transition stress test". The primary reason for the change is to align with industry standards and best practices that have evolved over time. In particular, over the last year, reporting on data quality has been made more readily available. PCAF's Data Quality Score is a recently launched metric and is now increasingly being used in the industry. The Trustees will use the metric to provide insight into the reliability of the underlining climate data, thereby identifying areas of focus in the Scheme's other metrics. Additionally, there are known limitations in the current methodology used in the PRA Stress Tests.

As noted above, the Trustee has agreed a target to align the Scheme's investment strategy with the goals of the Paris Agreement, i.e. to aim to reduce the Scope 1 and 2 carbon footprint of the Scheme's assets by 50% by 2030 (compared to a baseline as of 31 March 2022), which is informed by a wider aspirational ambition to become net zero by 2050. As at 31 March 2024, the Scheme continues to be on-track to achieve this target.

The Trustee monitors these chosen metrics, and progress against the above target, on an annual basis.

Introduction

The objective of this report is to set out the actions taken by the Trustee in identifying, assessing and managing climate-related risks and opportunities under the purview of the Trustee's broader regulatory and fiduciary responsibility to its members. This report has been prepared in accordance with the regulations set out under "The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021". As part of these regulations, the Scheme is legally required to produce formal disclosures in line with the recommendations of the TCFD. This report covers the period from 1 April 2023 to 31 March 2024.

The Trustee supports the recommendations set out by the TCFD on the basis that they will allow the Trustee to identify, assess, monitor, and mitigate climate-related risks on behalf of its members. This is the Trustee's second disclosure under the framework and this report is expected to evolve over time.

The Trustee has a keen focus on investing responsibly and supports global action against climate change. The four elements covered in the report are detailed below:

- **Governance:** The Scheme's governance around climate-related risks and opportunities.
- **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the Scheme's strategy and financial planning.
- **Risk Management:** The processes used to identify, assess, and manage climate-related risks.
- **Metrics and Targets:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Governance

The Trustee Board is ultimately responsible for identifying, assessing, and monitoring climate-related risks and opportunities which are relevant to the Scheme, as outlined in the Trustee's SIP. The Trustee has also defined a climate-risk mitigation document. The document outlines the responsible investment beliefs and principles underpinning the Trustee's approach to climate change considerations, spanning both risks and opportunities, and this is covered in further depth later in this section.

In order to assist in the implementation of the Trustee's investment policies and climate-related investment objectives, certain delegations are made to a sub-committee of the board, the Investment and Funding Committee (IFC).

The roles and responsibilities for climate risk mitigation, as delegated by the IFC's Terms of Reference (which was updated in October 2023 to include responsibilities regarding climate-related risks and opportunities), are detailed below:

- **The Trustee board** sets the overall investment and funding strategy and objectives (having consulted with the Company) which includes the oversight of identification, assessment and management of climate-related risks and opportunities.

- **The IFC** informs and makes recommendations to the Trustee regarding climate-related risks and opportunities directly to support the Scheme's alignment with climate beliefs and goals. The IFC is also responsible for monitoring and engaging with the Scheme's managers on how they measure and manage climate-related risks (including engagement activities which are carried out on the Trustee's behalf) and identify related opportunities as appropriate, as well as reviewing the Scheme's climate-related metrics and scenario analysis on a periodic basis (discussed further under 2. Strategy and 4. Metrics and Targets).

  The Scheme's external advisors advise on climate-related risks and opportunities including the provision of climate-related scenario analysis and review the Scheme's investment managers to ensure ESG is appropriately integrated into portfolio management. To ensure they take adequate steps to identify climate-related risks and opportunities, climate-related considerations are included in the investment consultant's objectives – against which the Trustee assesses them annually. Specifically, under delivery of specialist services, the Scheme's investment consultant is expected to "help the Trustee implement an investment strategy that adds value through the integration of ESG (including climate change)". This includes an annual assessment of how the investment advisor monitors ESG and stewardship (including climate change) within the Scheme's investment strategy.
- Following advice from the Scheme's external advisors **the in-house team (Coats Pension Office)** assist in the implementation of any climate-related enhancements.

In keeping with this governance structure, this report has been reviewed by the IFC and approved by the Trustee Board.

The IFC report back to the Trustee on a quarterly basis regarding all key investment matters, including any relevant climate-related risks and/or opportunities. The Trustee also receives quarterly reporting from Redington, which contains information on the relevant metrics and targets selected for monitoring as outlined in "4. Metrics and Targets". The Trustee believes this time spent to be proportionate and reflective of the Scheme's other strategic priorities.

In addition to quarterly reporting, the Trustee discuss and agree strategic changes on how to integrate climate into asset allocation and manager selection as required. Over the year to 31st March 2024, this included investing proceeds from the Scheme's holdings in the Abrdn Long Lease Property Fund into both the Aegon European ABS Fund and the M&G STRCI Fund which are more closely aligned with their climate-related investment beliefs (see further below).

As above, a Climate Risk Mitigation document has also been produced and maintained by the Trustee, which sets out the Trustee's beliefs on climate risk. The key beliefs set out the document include:

- **Climate Change is a Financial Risk:** The Trustee understands climate change as a systemic, long-term financial risk to the value of the Scheme's investments and is therefore committed to developing a specific policy on climate change and will explicitly consider the risk it poses when making investment decisions.

- **Stewardship and engagement combined with risk-based disinvestment:** The Trustee believes stewardship, including effective engagement and voting activities, is an important tool for achieving more sustainable outcomes. The Trustee's preference is for its investment managers to engage with issuers in the first instance but retain the ability to disinvest where appropriate and where engagement has failed (subject to the constraints of the investment mandate).

- **Measuring climate risk is complex and may present ambiguous situations:** The Trustee recognises that best practices will continue to evolve and adapt in this area, and therefore it requires its investment consultant to provide updates on the most pertinent developments.

- **Consider investing in climate solutions:** The Trustee believes that there may be investment opportunities that can contribute towards solving sustainability challenges and provide compelling risk adjusted returns. It will consider such opportunities as appropriate and when consistent with its wider risk and return objectives.

The articulation of the above beliefs is intended to shape the manner in which the Trustee monitors and manages climate-related risks both quantitatively and qualitatively, including its impact on strategic decision making through both manager selection and portfolio construction. These beliefs have been mapped into underpinning principles for the Trustee's risk mitigation approach. This approach includes:

- making investment decisions on the basis of uncertain future scenarios rather than managing towards a particular scenario occurring,

- reviewing the Scheme's current holdings to identify areas of high carbon exposure,

- achieving risk mitigation through asset allocation and reduced investment in carbon intensive assets, and

- engaging with investment managers to integrate all ESG and climate-related considerations to better manage the financial risks of its portfolios in tandem with managing financial risks at the asset level.

These principles are used on an ongoing basis alongside the Trustee's responsible investment beliefs in the SIP to ensure wider ESG and stewardship considerations are captured within this approach. Being cognisant of the DWP's updated guidance emphasising the need for asset owners to be more 'active' in their approach to stewardship, the Trustee reviewed and updated its Stewardship Policy in September 2023 (see Appendix A for further details), noting climate change as the key theme upon which to engage with managers. As per the policy, the Trustee believes that the monitoring of stewardship activities and engagement with the Scheme's managers is one of the main ways in which the Trustee can manage climate-related risks and opportunities. Over the Scheme year, the Trustee has taken various steps to improve and build its approach to climate risk mitigation, which is set out in 3. Risk Management below.

Furthermore, motivated by the desire to align with evolving best practice and acknowledging the nascency of regulation within the space, the Trustee is committed to periodic training regarding responsible investment. As part of this, the Trustee and IFC undertake ongoing training around ESG and Stewardship topics to ensure their understanding and knowledge are up to date with regulatory requirements. Training conducted throughout the last Scheme year included detail on the latest stewardship regulations that affect CUKPS, setting a stewardship theme as well as monitoring and measurement of engagement practices. They also received further training on metrics and targets to be reported in this year's report which included an introduction to the data quality metric which was subsequently adopted for this year's and future reports.

The Trustee has set aside appropriate time for future review and discussion of the Trustee's approach to climate change in light of the fast pace of change in this space.

Strategy

The Trustee's primary objective is to reach full funding by 2030 on a low dependency basis. One of the most important objectives for the Trustee at the moment is to improve liquidity across the portfolio by realising the Scheme's illiquid mandates as quickly and efficiently as possible.

A core pillar of the investment strategy which is pivotal to achieving these objectives is prudent and effective risk management. The Trustee notes that while climate risk is a risk which must be mitigated, it may also present attractive investment opportunities that are complementary to achieving the Scheme's objectives.

The Trustee is cognisant of the fact that the Scheme's portfolio is subject to climate-related risks manifesting in one of two ways:

- **Physical Risks**: These risks relate to the physical impacts of climate change, such as damage and disruption from extreme climatic events and the subsequent effect of these on economies and society, including damage to physical assets and indirect impacts on supply chains.

- **Transition Risks:** These risks relate to the extent of policy, regulation, technology, and market changes that may result from the transition to a low carbon economy. These risks may materialise in the re-pricing or mark-down of investments due to the imposition of carbon taxes or other relevant climate-risk mitigations.

The Trustee notes that the assessment of climate-related risks and opportunities may vary depending on the time horizon being considered. As such, the Trustee has defined climate-related risks and opportunities over the short, medium and long term, which the Trustee considers appropriate based on the rationale in the table below.

Short term	**0-3 years**	This will align with the Scheme's actuarial valuation process.	Risks/opportunities are likely to be transition related: Opportunities: • Changes in consumer behaviour positively impacting sectors more advanced in relation to climate related issues. Risks: • Increases in carbon prices Increased regulation Changes in consumer behaviour negatively impacting sectors that are slower to react
Medium term	**5-10 years**	This is in line with the Scheme's target full funding date of 2030 (Gilts Flat "solvency" basis). It is also in line with the existing	Risks/opportunities include a mixture of physical and transition factors. Opportunities: • Changes in consumer behaviour positively impacting sectors more advanced in relation to climate related issues

		contribution agreement.	• Competitive pressures to react to changes in regulation and general economic environment Risks: • Increases in carbon prices • Increased regulation • Changes in consumer behaviour negatively impacting sectors that are slower to react. • Impact of extreme weather events
Long term	**10-15 years**	This is in line with the Scheme's liability duration.	This time horizon is broadly in line with the liability duration and helps the Trustee to better consider the potential impact of physical risks. Risks/opportunities include a mixture of transition and physical factors that are more prominent than in the medium term. Opportunities: • Changes in consumer behaviour positively impacting sectors more advanced in relation to climate related issues • Competitive pressures to react to changes in regulation and general economic environment Risks: • Increases in carbon prices • Increased regulation • Changes in consumer behaviour negatively impacting sectors that are slower to react • Impact of extreme weather events • Commodity scarcity and food price inflation Asset and liability scenario analysis, along with covenant analysis, were produced as at 31st March 2023, which have not been updated for this year's report (please see Appendix B for further detail).

Asset and Liability Scenario Analysis

In order to assess the impact on the Scheme's portfolio, the Trustee undertakes scenario analysis consistent with the PRA's Life Insurance Stress Tests (the PRA stress test scenarios),

as recommended by the Pensions Climate Risk Industry Group (PCRIG). The stresses are designed to show what the impact on the value of the Scheme's assets would be under the following scenarios:

- Scenario A (Fast Transition): Abrupt transition to the Paris-aligned goal occurring over a two-year period from the date of analysis (temperature increase kept below 2 degrees Celsius relative to pre-industrial levels).
- Scenario B (Slow Transition): Orderly transition to the Paris-aligned goal occurring by 2050 (temperature increase kept below 2 degrees Celsius relative to pre-industrial levels).
- Scenario C (No Transition): A no-transition scenario occurring in 2100 (temperature increase in excess of 4 degrees Celsius relative to pre-industrial levels).

Trustees are required to update climate scenario analysis following any changes that are expected to materially alter the results – for example, following material changes to the investment strategy or after significant improvements in data availability and climate scenario analysis methodologies. Since the completion of the most recent scenario analysis as at 31st March 2023, for the 2023 TCFD statement, there has been no material change to the Scheme's funding and investment strategy. The Trustee does not believe there has been material improvements in data availability and climate scenario methodology. It has been noted that scenario analysis results may not fully account for the short- and medium-term climate risks that schemes could face and may therefore have limited reliability and usefulness as a decision-making tool. As such, the Trustee considers the scenario analysis as at 31st March 2023 to be broadly representative of the position of the Scheme for the 2024 TCFD report and has chosen not to refresh the analysis. With input from the Scheme's advisors, the Trustee will review the suitability of the scenario analysis again and consider its limitations at the next Scheme year end. As such, a description of the climate risks facing the Scheme, time horizons, and results from the latest scenario analysis completed as at 31st March 2023 included in the 2023 report are presented in Appendix B.

Risk Management

As alluded to above, the Scheme is exposed to climate-related risks stemming from the transition to a lower-carbon economy, in tandem with the physical risks as a result of the impacts caused by climate change. The Trustee appropriately considers the impact of these climate-related risks through a holistic risk management approach. This approach includes the output of the scenario analyses, integrating climate considerations into asset allocation and manager selection decisions, and integrating climate considerations into engagements with its investment managers. On occasions where assets are significantly misaligned with the Trustee's climate target (e.g. carbon-intensive sectors), elements of exclusions have been introduced into some of their fund design, as outlined below.

The Trustee also receives additional climate-related reporting from the investment consultant on a regular basis. This reporting contains relevant climate metrics as set out under the DWP's adoption of the recommendations of the TCFD (and as further discussed under section "4. Metrics and Targets"). This allows the Trustee to better identify and manage the climate-related risks which are relevant to the Scheme in a timely manner, as well as monitor the progress of the Scheme on these metrics.

Integrating climate into engagement with managers

The Trustee requires its appointed fund managers to be cognisant of climate-related risks and opportunities within its investment processes as applied to the assets of the Scheme. Active engagement with underlying companies in which the Scheme is invested, specifically relating to climate-related risks and opportunities, is delegated to the Scheme's investment managers.

Key takeaways of manager engagements with investee companies are reported back to the Trustee by the investment consultant on an ad-hoc basis, during quarterly meetings, and through the annual Implementation Statement process.

The Trustee has provided its fund managers with full discretion to evaluate investments under the lens of ESG and climate change considerations. They are encouraged to exercise the relevant voting rights for assets where the Trustee has direct ownership. While the Trustee recognises that fund managers apply their own voting policy, formed by its own firm or strategy level governance policies and evolving best practice, the Trustee expects its fund managers to exercise rights attached to its investments in line with the principles set out in the Scheme's SIP.

Integrating climate into asset allocation and manager selection

The Trustee notes that risk mitigation can be achieved through changes to the strategic asset allocation and its investment managers, including reducing investment in carbon intensive assets, and where appropriate including restrictions in the Investment Management Agreements (IMA) of segregated mandates with high carbon exposure. Throughout the Scheme year, the Trustee assessed appropriate opportunities to implement incremental climate-related enhancements to the Scheme's portfolio, cognisant of the fact that the scope to undertake these enhancements is greater within its liquid mandates.

In order to improve the Scheme's liquidity profile and to move to mandates which put a greater emphasis on reducing climate risk, the Trustee agreed to invest proceeds from their illiquid mandates into the LDI portfolio and liquid credit assets. The Scheme was able to redeem its holdings from the Abrdn Long Lease Property and invest the proceeds into the M&G Sustainable Total Return Credit Index Fund ("STRCI"). Additionally, the Scheme reduced its allocation to the Abrdn Commercial Ground Rent Fund in January 2024 and transferred the proceeds into the Aegon European ABS Fund.

These investments are examples of how the Trustee has sought to improve both the liquidity and climate-related profile of the investment portfolio. The STRCI fund applies broadly similar exclusions to those in the LGIM Low Carbon Transition Fund and BlackRock Buy and Maintain Credit portfolio. Beyond these exclusions, M&G employ active tilts towards companies that they deem to be 'Climate Transition Leaders', in addition to companies that score best on their discretionary ESG scorecard. Importantly, this strategy goes above a simple negative screen, with stewardship and engagement being key pillars of the investment process.

In a similar vein, Aegon have developed their own proprietary ESG questionnaires, the answers to which they use to inform investment decisions and allocations within the fund. Moreover, they have also started measuring and reporting the carbon footprint and other climate metrics of their ABS holdings.

Furthermore, as per the engagement policy set out in the Appendix A, the Trustee recognises the importance of engaging with investment managers to integrate ESG and climate-related risks and opportunities into their portfolios to ensure financial risks are managed at an asset level. Active engagement with the Scheme's appointed fund managers is conducted in part by Redington, in conjunction with the Trustee during any meetings to which fund managers are invited. In 2023, the Trustee met with its credit managers as well as its joint LDI and B&M manager where the Trustee was able to directly engage with the fund managers, including thoughts concerning climate change and ESG policies. Throughout this engagement process, fund managers were asked to provide details of how climate-related risks and opportunities have been incorporated into the investment process. The Trustee aspires to continue increasing the level of engagement with its fund managers to ensure that adequate steps are being taken in this respect.

The Trustee also relies on the manager research and monitoring capabilities of Redington, to effectively assess climate-related risks and opportunities, both within individual mandates and across the overall investment strategies.

Metrics and Targets

Metrics

With regards to quantitative metrics, the Trustee – on a quarterly basis – monitors for climate metrics:

Metric	Explanation
Absolute Emissions: **Total Greenhouse Gas (GHG) Emissions**[1]	• This metric measures the total emissions associated with the Scheme's investments across three scopes: scope 1, scope 2 and scope 3 emissions. • The emissions under consideration within this metric are not only made up of carbon dioxide, but also includes all other measurable greenhouse gases such as methane and nitrous oxide, among others, to accurately represent total emissions. • To simplify accounting for emissions, rather than report on each individual gas separately, a common unit known as carbon dioxide equivalents (CO2e) is reported (whereby each gas is weighted in terms of the amount of carbon dioxide (CO2) that would create the same amount of warming).
Emissions Intensity: **Carbon Footprint**	• Total GHG emissions for a portfolio, normalised by the market value of that portfolio. • Carbon emissions are allocated based on equity and/or debt ownership, using Enterprise Value Including Cash (EVIC) as a proxy for market value. • Carbon footprint allows for benchmarking comparisons and portfolio decomposition and attribution analysis, which is useful for assessing whether investment decisions are in-line with decarbonisation goals.
Additional climate change metric: **PCAF Data Quality Score**	• Monitors the reliability of companies' emissions data, scoring them one to five – with one representing the highest quality of independently verified emissions data. • The Trustee will use the results of the analysis to prioritise engagement efforts with its investment managers.

[1] Calculation methodologies and reporting practices are most advanced for scope 1 and scope 2 emissions with scope 3 emissions scarcely reported by companies. For this reason, scope 3 emissions are based on estimates from the Trustee's data provider MSCI.

Portfolio Alignment: Science-based Targets Initiative (SBTi)	• This metric is focused on measuring the Scheme's alignment to the goals of the Paris Agreement. • This metric examines whether a voluntarily disclosed company decarbonisation target is aligned with a relevant science-based pathway. There is evidence that companies that have set science-based targets are delivering emissions reductions in line with their ambitions, making this a key metric to monitor to drive positive change. • SBTi is also aligned with the Scheme's emissions and net zero target.

In recognition of evolving industry standards, the Trustee has updated its non-emissions-based metric Whereas previously the Trustee monitored a measure of climate risk (the output of the PRA "Slow Transition" stress test) the Trustee now reports on data quality through the PCAF data quality score. The change in metric is reflective of progress made across the industry in terms of data provision and quality – the PCAF data quality score was not previously available and is now increasingly prominent. Furthermore, monitoring data quality as opposed to climate risk, provides the Trustee with greater insight into the reliability of its underlying emissions data. This in turn enhances the understanding of the reliability of the output from the Scheme's emissions-based metrics. Further detail on the PCAF data quality score can be found in Appendix D. The details of the methodologies behind these metrics can be found in the appendices. The Trustee's ability to report on these metrics is dependent on the data provided by the Scheme's managers and external data providers. The Trustee will continue to engage with these parties to improve coverage.

The results of the analysis as of 31st March 2024 using the Scheme's asset allocation at the time are displayed in the table below.

	Absolute Carbon Emissions (tCO2e)		**Carbon Footprint (tCO2e/ £m)**		**PCAF Data Quality Score[2]**	**Science Based Targets Initiative Rating**
	Scopes 1 & 2	**Scope 3**	**Scopes 1 & 2**	**Scope 3**		
31/03/2024	51,919	298,931	66.6	383.5	2.09	21.0%

The Trustee has engaged with Aviva Plc to understand emissions relating to the Scheme's bulk annuity transfer (buy-in). Using published data from Aviva Life & Pensions UK Limited, the Trustee has estimated their proportionate share of the absolute carbon emissions to be

[2] Please note that the disclosed PCAF Data Quality Score was calculated through a weighted average of the available funds which hold a data score. For more detail on the output please refer to Appendix F.

c.18,000tCO_2e[3]. The data provided by Aviva covers Scope 1 & 2 data from 2023. The Trustee will continue to engage with Aviva over the next year to improve this coverage.

Please note the metrics in the table above refer to non-LDI assets only. Metrics for LDI assets are disclosed separately in the table below due to their different calculation methodologies and there is currently no clear guidance on how these could be appropriately aligned.

	Liability-driven Investment ("LDI") portfolio only
Proportion of Total Scheme Assets	28.9%
GHG Intensity (t/USD million GDP nominal)[4]	138.92

The Trustee also acknowledges that due to the illiquid nature of a portion of the Scheme's assets, for which data availability is an inherent issue, the level of data coverage on these metrics may be constrained. As outlined in Appendix F, data is only available for the Scheme's three liquid mandates (BlackRock Buy & Maintain Credit, M&G STRCI and LGIM Low Carbon Transition Equity) which total c.30% of total Scheme assets. The emissions intensity of the LDI portfolio is reported separately to the rest of the portfolio, as above, and not included in the total portfolio carbon metrics outputs. For those funds without data coverage, these have been proxied to other assets in order to estimate their emissions profile. Should data availability improve over time, the Trustee will look to increase its level of coverage correspondingly. The Trustee is encouraged by the increase in data availability in comparison to last year and expects this to continue to improve following wider adoption of climate metrics and greater industry consensus on appropriate methodologies. As this develops, the Trustee will review its approach to calculating climate metrics to ensure that the Scheme is aligned with industry best-practice.

The Trustee considered these metrics when making decisions regarding the strategic asset allocation and will continue to include these considerations as part of future manager selection exercises. The Trustee will review these metrics annually to ensure they remain appropriate for the Scheme. The Trustee is also aware that regulatory guidance and data quality is expected to improve over time, which may lead to industry best practice evolving for each of the four metric types being considered. The Trustee will continue to keep abreast of these factors, along with the Scheme's strategic objectives and asset allocation, to ensure the chosen metrics are the best fit for the Scheme as part of the annual review.

Target

As mentioned, in September 2022, the Trustee agreed to target aligning the investment strategy with the goals of the Paris Agreement by setting a target of achieving a 50% reduction in Carbon Footprint of Scope 1 and 2 emissions of non-LDI assets by 2030, using the prevailing allocation and carbon footprint as of 31st March 2022 as a baseline. In March 2024, the Trustee reviewed this target and agreed that it continues to be appropriate and consistent with their climate beliefs. The target is aligned to the net zero target set by the Scheme's sponsor, Coats Plc, who have employed a long-term target to reach net zero emissions by 2050, setting science-based emissions reduction targets that are consistent with keeping global warming to 1.5°C above pre-industrial levels. Aligning the Scheme's target with the

[3] As per the DWP guidance relating to the calculation and attribution of emissions relating to buy-in contracts, in the absence of look through data, the Trustee has used emissions data relating to the insurer's total assets backing their UK pension bulk annuity book (Aviva Life & Pensions UK Limited) and taken a proportionate share for the Scheme.

[4] This is a Sovereign Metric and only captures emissions from Sovereign bond holdings. The metric only accounts for Scope 1 and Scope 2 emissions/

sponsor helps to mitigate against covenant climate-risk exposure, while also ensuring climate-related risks are appropriately addressed and reduced, as and when appropriate.

The Scheme currently remains ahead of its target as of 31st March 2024, achieving a c.24% reduction in carbon footprint emissions relative to the Scheme's position as at 31st March 2022 (88 tCO2e/ £m for Scope 1 and 2 emissions).

The Trustee has outlined above steps taken over the year to achieve this target, including transitioning the Scheme's holdings from the illiquid holdings with Abrdn (Long Lease Property and Commercial Ground Rents) to the liquid credit portfolio, Aegon European ABS and M&G STRCI. The Trustee continues to monitor progress against this target quarterly through the Scheme's PRMF. The Trustee agrees that any changes to the investment strategy, including selection or sell-down of new and existing mandates should, where possible, aim to keep the Scheme on track for its net zero target.

As per the regulatory guidance, the Trustee will continue to report on this target yearly, within this Climate Disclosure Report, as well as review this target on an annual basis and furthermore determine whether this should be retained or replaced.

As noted above, the target figure doesn't include LDI asset emissions due to the challenges in aggregating LDI and non-LDI asset emissions, as both have different calculation methodologies. For those funds invested in by the Scheme with no coverage, the Trustee will engage with these managers to encourage them to improve their reporting of emissions.

Note: All analysis is provided by the Scheme's Investment Consultant, Redington Ltd ("Redington"), and the data in the report is sourced from MSCI ©. Please refer to the data disclaimer in Appendix C, D and E.

Corah Defined Contribution Section

As outline in the SIP, the Scheme also has a legacy defined contribution sector for members of Corah (a company acquired by the Sponsor in the past). The members of the Defined Contribution (DC) section within the Corah benefits structure are all invested in with profits policies provided by Prudential. At present, emissions data relating to the investments pertaining to the members in the Corah investment structure are unavailable, and the Trustee will continue to monitor data availability in this area with the intention to report emissions as and when it becomes available. However, given the with profits structure of this section, the Trustee has limited scope to enact any changes to the fund, such that climate risks and opportunities can be actively managed and/or mitigated.

Appendix A: ESG and Stewardship Policy (Extract from Statement of Investment Principles)

Corporate Governance

The Trustee policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the Asset Managers on behalf of the Trustee having regard to the best financial interests of the beneficiaries. The Trustee has been made aware of each Asset Manager's corporate governance policy where appropriate and has delegated the exercise of such rights to the Asset Managers.

Social, Environmental and Governance Issues

The Trustee incorporates all financially material considerations into decisions on the selection, retention, and realisation of investments through strategic asset allocation decisions and the appointment of Asset Managers, so far as possible. The Trustee believes the investment time horizon to fund all future benefits is a long-term one and that it must therefore invest responsibly, targeting sustainable outcomes to ensure it is able to pay its members on time, and in full. Non-financial matters are not taken into account in the selection, retention and realisation of investments.

The Trustee believes that environmental, social and governance factors (including but not limited to climate risk) will be financially material over the time horizon of the Scheme, but will have varying levels of importance for different types of assets invested by the Scheme. As such, it will consider ESG-related factors when making decisions in relation to the Scheme's asset allocation and manager selections, including any future buy-in/out transactions.

The Trustee believes ESG considerations are one of a number of important inputs into decision making when setting the strategic asset allocation of the fund. The Trustee considers how the exposure to risk is managed when selecting asset classes, sub-sectors, and specific Asset Managers or strategies. The Trustee believes that there may be investment opportunities that can contribute towards solving sustainability challenges and provide compelling risk-adjusted returns. It will consider such opportunities as appropriate and when consistent with its wider risk and return objectives. The Trustee is also mindful of the societal impact of its investment decisions and is committed to a responsible investment approach which is at once responsive to this and consistent with its overarching fiduciary obligations.

When selecting new Asset Managers, the Trustee seeks to make itself comfortable that they can adequately manage ESG-related risks on its behalf and invest in line with its beliefs (where possible). Whilst the Trustee expects its Investment Consultant to monitor the ESG capabilities of its managers, it seeks to review all existing managers periodically to ensure they are held to account. If the Trustee is not satisfied that its managers are investing responsibly, it will express its concerns, retaining the ability to divest if adequate improvements are not made.

The Trustee expects the provider of the insurance agreement, Aviva, to operate similar standards in respect of managing ESG-related risks and stewardship as set out for the Scheme's asset managers above.

The Trustee understands climate change as a systemic, long-term financial risk to the value of its and will explicitly consider the risk it poses when making investment decisions.

The Trustee recognises that best practices will continue to evolve and adapt in this area, and therefore it requires its Investment Consultant to keep it updated on the most pertinent developments. The Trustee is committed to periodically reviewing its approach to responsible investment to ensure it remains appropriate.

Stewardship and Engagement Policy

The Trustee understands good stewardship to be the responsible allocation, management, and oversight of capital - with the aim of creating long-term value for members and sustainable benefits for the economy, environment, and society. The Trustee aims to use their influence as an owner of assets to ensure that good practices are reflected in terms of ESG factors and will hold investment managers to account for the effective use of their influence as owners of assets.

Resourcing stewardship

The Trustee's approach to stewardship reflects its broader investment approach: to hire investment managers and hold them to account for delivery, rather than to invest directly. In a similar way the Trustee undertakes stewardship through oversight and challenge its investment managers rather than operating as active stewards directly of the underlying assets in which it invests.

The role of the IFC – acting under delegated authority of the Trustee – is to provide oversight of the investment managers. The IFC hire appropriately skilled investment managers, set clear expectations, assess the quality of their performance, and will hold them to account where they identify deficiencies or areas for further improvement.

Key area of focus

To best channel its stewardship efforts, the Trustee believes it should focus on a key theme. The key theme has been chosen by assessing its relevance to the Scheme and its members, the financially material risks it poses, and the maturity and development of thinking within the industry that allows for ease of integration into the Trustee's approach. The Trustee's chosen theme is 'climate change'.

Significance of stewardship in appointment and monitoring of investment managers

It is the responsibility of the IFC to lead the Trustee's engagements with investment managers. The Trustee will not appoint investment managers that cannot demonstrate the standards to which it holds existing investment managers. These expectations can be summarised as:

- Effective processes for and delivery of stewardship activity, alignment with leading standards, and evidence of engagement related to our key themes, with the aim of positive change;
- Provision of tailored reporting on stewardship activities and outcomes; and
- Participation as appropriate in public policy debates and the development of best practices.

The Trustee expects its investment managers to provide specific evidence they have acted in accordance with these expectations which should provide the Trustee with enough insight to ascertain whether its investment managers are practicing effective stewardship that is best aligned with the Trustee's long-term interests. Where the IFC identifies deficiencies, they will be escalated accordingly, with the ultimate response being the removal of mandates where the Trustee believes it is in the interests of members to do so. The Trustee view incremental improvements by its investment managers as the key success measure of its own stewardship activities.

Engagement: expectations and process

The Trustee expects investment managers to engage with issues to maintain or enhance the long-term value of the Scheme's investments and limit negative externalities on the planet and society. This includes performance, strategy, risks, capital structure, conflicts of interest, and environmental, social or governance considerations.

The Trustee recognises that there is no 'one-size-fits-all' stewardship approach and instead encourages its investment managers to prioritise stewardship opportunities and apply the most suitable/influential engagement strategies based on their in-depth knowledge of a given asset class, sector, geography and/or specific company or other asset.

Investment managers are expected to have robust ESG, climate change, and stewardship policies and processes in place. These are used to define how underlying companies are monitored and engaged with, how progress is measured, and when escalation is required. The Trustee expects manager engagement with companies to be underpinned by engagement on public policy matters where relevant. The Trustee expects that these assessments and progress in stewardship activities are tracked over time, to maintain continuity of activity and to assess the effectiveness of stewardship delivery. The Trustee will challenge its investment managers when their engagements are deemed to be of deficient quality.

In order to drive corporate change, and where initial engagement has made little progress, the Trustee expects its investment managers to escalate engagement accordingly. The Trustee allows investment managers discretion over the appropriate tools to deploy; however, expects these to be communicated with issuers' management teams. Should there still be little progress made after escalation, the Trustee expects investment managers to consider disinvestment as a final course of action.

Voting: expectations and process

The exercise of voting rights for equity holdings within pooled funds has been delegated to the Trustee's investment managers. The Trustee therefore does not direct how votes are exercised within these mandates and does not have its own proxy voting provider. Nonetheless, the Trustee fully recognise and appreciate the value of voting as a signal or ultimate sanction in influencing company behaviour. As active owners, it is the Trustee's responsibility to hold investment managers to account for their voting activities to ensure they are exercising voting rights in the Scheme's best interests. As such, the Trustee considers investment managers' voting policies and records, and requires its investment managers to report significant votes to us as relevant.

Investment managers are expected to have their own voting policies, informed by leading global standards, and that fully integrate ESG considerations. Investment managers are expected to be informed by the views of proxy voting service providers, but retain ultimate ownership of the decision and are expected to apply judgement as to whether they follow the recommendation of their advisor. The exercise of voting rights should form part of a wider engagement dialogue and if investment managers wish to vote contrary to management recommendations, the Trustee expects this is communicated and its investment managers' views expressed to the company.

Whereas voting responsibilities are outsourced to investment managers, the Trustee recognises its fiduciary and regulatory responsibility to retain agency in the process. Investment manager oversight is the key mechanism for this, and the Trustee will therefore hold its investment managers accountable not only for voting activity as a whole, but also how they have voted in significant votes. Under DWP Guidance, it is the Trustee's responsibility to define the significance of votes placed on the Scheme's behalf, and to be transparent with stakeholders and beneficiaries regarding outcomes.

Significant votes have been defined as votes which meet one or more of the following criteria. Please note the more of these criteria a vote meets, then the more significant the vote is likely

to be deemed, with the most significant votes to be disclosed in the Implementation Statement (rather than all significant votes):

- Votes relating to the Trustee’s key stewardship theme;
- Votes relating to an issuer to which the Scheme has a large £ exposure;
- Votes identified due to potential controversy, driven by the size and public significance of a company, the nature of the resolution, and the weight of shareholder vote against management recommendation.

Appendix B: Scenario Analysis

The results of these scenarios as at 31st March 2023 (on the gilts + 0.40% basis) can be seen below and further details on the analysis, including key assumptions of the methodology, can be seen in this section.

Scenario	Impact on deficit (£m)	Impact on funding level (%)
Scenario A: Abrupt transition to the Paris-aligned goal occurring two years from date of analysis (temperature increase kept below 2 degrees Celsius relative to preindustrial levels).	-31.22	-1.81
Scenario B: Orderly transition to the Paris-aligned goal occurring by 2050 (temperature increase kept below 2 degrees Celsius relative to pre-industrial levels).	-38.60	-2.26
Scenario C: A no-transition scenario in 2100 (temperature increase in excess of 4 degrees Celsius relative to preindustrial levels.	-52.03	-3.15

The outcome of the scenario analysis provides the Trustee with insight on the resilience of the current asset allocation against the various climate change outcomes being measured. The expected funding level impact under each scenario is relatively muted, reflecting the diversified and low risk investment strategy. It is important to caution that the results above are static and based on the Scheme's asset allocation as at a point in time. As the Scheme continues to de-risk the portfolio, the results of the PRA scenario analysis are expected to improve. The investment consultant will calibrate the scenario analysis and report the results to the Trustee on an annual basis to allow it to appropriately monitor the Scheme's progress. While the expected funding level impact under the 'No Transition' scenario, which measures purely physical risk, is most negative, the Scheme is expected to lower real asset exposure over time, therefore lowering exposure to physical risk. Further, the Scheme's 95% funding-ratio-at-risk (FRaR) as at 31 March 2023 was 4.7%, some margin below the Scheme's FRaR budget of 7%. The expected funding level impact under both the fast and slow transition scenarios would not lead the Scheme to breach its FRaR budget, exemplifying the resilience of the Scheme's investment and funding strategy to climate risks. While the funding level impact under the no transition scenario would trigger a breach on this metric, as noted above, the magnitude of this impact is expected to taper as the Scheme's portfolio evolves through time.

The output from the climate scenarios reflects the impact to the Scheme's funding position as a result of expected changes to the value of the Scheme's assets and liabilities. Two of the three key liability-related risks (interest rates and inflation) are appropriately hedged using the Scheme's LDI portfolio with BlackRock. Therefore, the Scheme is not significantly exposed to fluctuations in these risks driven by climate. However, the Trustee recognises that the third (and possibly the largest) liability-related risk which the Scheme is exposed to is longevity / mortality risk, which is not integrated into the liability scenario stress conducted using the PRA stress tests. The Trustee has taken prudent steps to minimise the proportion of longevity risk, including transacting a bulk annuity transfer (buy-in) in November 2022 with Aviva Plc. This transaction hedges the longevity risk of the 3,500 pensioner members insured under the agreement, however the Scheme remains unhedged to the remaining variable life expectancy of non-insured members.

Liability (Mortality) Scenario Analysis

To further understand the effect of mortality in the context of climate change, in August 2022, the Trustee engaged the Scheme's actuary, LCP to assess the effect of climate on mortality, and thus longevity risk, of the Scheme's liabilities through a scenario analysis. The two scenarios considered as part of the analysis include the 'Paris Transition' and a 'Failed Transition', which is broadly equivalent to the 'Slow Transition' and 'No Transition' PRA scenarios. The results of the analysis are as follows.

Transition scenario	Impact on life expectancy
Paris Transition	+2%
No Transition	-2%

These findings have been informed by an assessment of a multitude of factors including the effects of climate change on air quality, air temperature, likelihood of extreme weather events, population adaptation, commodity prices, healthcare quality and food supplies among others under each scenario. As it applies to CUKPS, the increase in life expectancy under the Paris Transition scenario is expected to increase the value of the liabilities and subsequently create a negative expected funding level impact. Contrarily, under a Failed Transition scenario, due to falling life expectancy estimates, the funding level impact is expected to be positive due to a lower value of liabilities, although the Trustee notes that this is not a desired outcome as lower longevity risk as a result of decreased life expectancy is not in the interest of members. The Trustee is aware that the Scheme is more mature than typical UK Defined Benefit (DB) Schemes and therefore is exposed to these variable climate risks over a shorter period.

The Trustee is cognisant that the attractiveness of transacting a partial buy-in or buyout to mitigate longevity risk is uncertain under each of these scenarios. LCP note that under a Failed Transition, higher capital requirements reflecting greater tail risks prompted by greater regulatory climate guidance may worsen pricing relative to gilts. However, under a Paris Transition, higher credit spreads may be beneficial to insurer pricing. The Trustee will continue to monitor appropriate opportunities to transact further partial buy-ins or a buyout to manage longevity risks.

As part of its 2020 biennial stress tests, the Bank of England's Prudential Regulation Authority conducted an exploratory exercise to test the impact of future climate change scenarios on the assets and liabilities of (re)insurers, using predictions by the Intergovernmental Panel on Climate Change (IPCC) and academic literature as the basis for its modelling assumptions.

Using the same methodology, Redington have constructed similar tests that allow the Trustee to examine the impact on the funding position, via the effect on asset values, of the Group under three scenarios.

The magnitude of each of the physical and transition shocks varies across industries under each scenario, meaning some assets may fare better or worse under one scenario compared to another. For Scenario A (fast transition): the downside comes almost entirely from transition risk. For Scenario B (slow transition): the downside comes from a mix of transition risk and physical risk. For Scenario C (no transition): the risk is entirely physical risk.

In terms of the assumptions made under these scenarios, the PRA recognised that feedback loops between climatic shocks and structural economic change need to be incorporated when assessing the financial impacts on businesses of physical and transition risk under each emissions scenario. However, due to existing modelling and data constraints, this is a complexity that is purposely excluded from the modelling.

There is also an acceptance that the timing and sequence of financial impacts will be complex, as behavioural changes could result in physical risks preceding transition risks and vice versa. For the purpose of simplicity, where an asset is subject to both physical and transition risk, the shocks are applied consecutively, with the physical shock applied second.

Covenant Analysis

Similarly, in September 2022, the Trustee engaged the Scheme's covenant advisor, PwC, to gauge how the strength of the Sponsor may be impacted by various climate-related risks and opportunities through a scenario analysis. The Trustee acknowledged that the impacts to the sponsor may affect the long-term investment strategy adopted by the Scheme. The analysis concluded that the impact on the covenant over short term and long term is low to medium. As a manufacturer, the Company is exposed mostly to transitional risks over the short to midterm (up to 2030), including impacts to capital expenditures and profits. Specifically, PwC indicate the risks are that the sponsor may fail to transition to a low carbon model and therefore lose customers, affecting revenue, or face carbon taxes on the Group's emissions, affecting costs. As with the asset and liability scenario analysis, the Trustee's view was the covenant analysis did not need to be updated for the 2024 report. While the current deficit contribution schedule has been agreed up to 2028 (prior to the Scheme interim net zero target date of 2030), the Scheme may still be exposed to these covenant risks beyond 2028 as physical risks become more prevalent. The actions considered by Coats to mitigate these risks (such as implementing an effective climate strategy and transitioning to renewable energy) are expected to substantially reduce the likelihood of any restrictions on available cash flows over the long term. As such, these mitigations would also reduce the possible impact on Coats' ability to meet agreed contributions as a result of climate change.

PwC have also highlighted potential opportunities from climate change such as market share gains and expansion of product offerings through successfully implementing a net zero strategy, which will strengthen the sponsor's ability to pay in contributions to the Scheme.

Appendix C: Carbon Footprint Analysis

Climate reporting as of 31st March 2024 can be found in Appendix E. This reporting includes the chosen first and second metric as described under "4. Metrics and Targets". The outputs for the third (the result of the "PCAF Data Quality Score") and fourth metric (Science Based Targets initiative) are outlined in Appendix F. The expectation is that this output will evolve over time as data availability is likely to improve and increasing public disclosures should increase the speed at which the data becomes available.

Where possible and where there is reasonable data coverage, the Trustee monitors 'line-by-line' emissions reporting for funds. These tend to be more generic, long-only asset classes such as listed equity and corporate credit. However, for funds with less than 50% coverage and illiquid assets, the Trustee monitors 'asset class level' carbon estimates in the absence of reliable, reported line-by-line emissions data from MSCI. The Trustee notes using asset class modelling of emissions for assets where this data is not available enables a more holistic view of total portfolio emissions, albeit recognising that the modelled data is not perfect.

The asset class modelling of emissions has been provided by Redington and is based on asset class 'building blocks'. These are either calculated directly using a given index's underlying holdings emissions (such as using MSCI All Country World Index (MSCI ACWI) as a proxy for a broad equity fund) or in some cases these indices are used and extrapolated to other asset classes based on given assumptions (such as using the emissions of infrastructure firms within an index to proxy an infrastructure fund).

Emissions metrics are calculated in line with the GHG Protocol Methodology, the global standard for companies and organisations to measure and manage their GHG emissions. The GHG Protocol provides accounting and reporting standards, sector guidance and calculation tools. It has created a comprehensive, global, standardised framework for measuring and managing emissions from private and public sector operations, value chains, products, cities and policies to enable greenhouse gas reductions across the board.

This analysis contains estimates of the Scheme's scope 3 greenhouse gas emissions, i.e. the "financed emissions" associated with the Scheme's investments. The Trustee acknowledges the impact its own actions may have and does consider them, but the Scheme's scope 1 and scope 2 emissions (i.e., the use of fuel and electricity in office buildings) are nominal in comparison to scope 3 emissions (i.e., the emissions arising from investments). Definitions of scope 1, 2 and 3 emissions can be seen in the glossary of terms.

The Trustee recognises that there can be some degree of double counting in including scope 3 emissions for all investments in the same portfolio (due to the potential supply chain relationships between companies within the portfolio). For this reason, scope 3 emissions figures have been reported separately from scope 1&2 emissions.

Appendix D: Additional Climate Change Metric

In March 2024, the Trustee has agreed to adopt the Partnership for Carbon Accounting Financials ("PCAF") data quality score as its chosen third metric, which monitors the reliability of companies' emissions data. The scoring system ranges from one to five, with one representing the highest data quality, which involves independently verified emissions data, and five indicating the lowest quality, characterised by estimated emissions data derived from industry averages. For the purpose of TCFD reporting, the Scheme will report this score on an annual basis, monitoring progress over time (on a fund-by-fund basis).

Appendix E: Portfolio Alignment Metric

In September 2022, the Trustee has agreed to adopt the Science Based Targets Initiative (SBTi) as its chosen fourth metric, which measures whether a voluntarily disclosed company decarbonisation target is aligned with a relevant science-based pathway.

As part of SBTi, a company or issuer will sign a commitment to self-develop a single or multiple pathways to reduce GHG emissions, with 24 months to develop this pathway, submit it for SBTi validation and publish the approved target. The Company/Issuer's chosen decarbonisation target can be aimed at one or all of; the short term, long term or net zero, with each company being scored with a binary yes or no assessment on the following target categorisations: "SBTi Approved 1.5 C", "SBTi Approved Well Below 2 C" or "SBTi Approved 2 C", all of which denote the implied global temperature increases the target. Should a company/issuer's decarbonisation pathway not comply with either of the Paris-aligned targets, it will be assigned a 'Not Committed' rating.

Using line-by-line data, Redington can calculate the proportion of assets invested within each fund the Scheme is invested in, that correspond to each SBTi score classification, ignoring negative allocations. Where line-by-line data is not available, managers can also provide these proportions if they have access to the data. A scheme-level score is calculated as the value weighted average of the fund level scores (i.e., for an example Scheme XYZ, that is 40% invested in Fund X with an SBTi score of 20% and 60% invested in Fund Y, with an SBTi score is 30%, the Scheme-level aggregate SBTi score (26%) is calculated through a weighted average of these fund's weight within the portfolio and SBTi score)

The results of this metric as of 31st March 2023 is set out in Appendix E. The Trustee will continue to monitor this each quarter.

Appendix F: SBTi and MSCI Climate Metrics Output

Fund	Fund Value (£m)	Science Based Targets Initiative Rating	PCAF Data Quality Score
		31/03/2024	31/03/2024
LGIM Low Carbon Transition Global Equity Index Fund (90% Hedged)	88.8	42.8%	2.05
Aegon European Asset Backed Securities (ABS) Fund	152.9	-	-
M&G Sustainable Total Return Credit Investment Fund	88.8	21.1%	2.25
BlackRock Buy & Maintain Credit Portfolio	244.4	43.8%	2.04
ICG Senior Debt Partners 3C Fund	20.8	-	-
Permira Credit Solutions III - Senior Fund	10.6	-	-
Standard Life Commercial Ground Rent Fund	67.8	-	-
Standard Life Capital Infrastructure I Fund	105.4	-	-
TOTAL PORTFOLIO	**779.5**	**21.0%**	**-**

Fund	Fund Value (£m)	MSCI Climate Metrics Coverage %	Absolute Carbon Emissions (tCO2e) 31/03/2024		Carbon Intensity (tCO2e / £m) 31/03/2024	
			Scope 1+2	Scope 3	Scope 1+2	Scope 3
LGIM Low Carbon Transition Global Equity Index Fund (90% Hedged)	88.8	92.7%	1,201	23,285	13.5	262.2
Aegon European ABS Fund	152.9	-	6,089	40,600	39.8	265.6
M&G Sustainable Total Return Credit Investment Fund	88.8	85.8%	4,189	33,558	47.2	377.8
BlackRock Buy & Maintain Credit Portfolio	244.4	97.6%	25,865	137,291	105.8	561.7
ICG Senior Debt Partners 3C Fund	20.8	-	3,465	16,333	167.0	787.1
Permira Credit Solutions III - Senior Fund	10.6	-	1,776	8,375	167.0	787.1
Standard Life Commercial Ground Rent Fund	67.8	-	463	3,401	6.8	50.2
Standard Life Capital Infrastructure I Fund	105.4	-	8,870	36,090	84.2	343.5
TOTAL PORTFOLIO	**779.5**		**51,919**	**298,931**	**66.6**	**383.5**

All “Total Portfolio” figures in this table are weighted averages with the exception of “Fund Value” and “Absolute Carbon Emissions (tCO2e)”. “Absolute Carbon Emissions (tCO2e)” is calculated using the notional value of the fund. “Fund Value (£m)” shows the mark-to-market value. Carbon metrics are proxied where there is insufficient data for funds. In these instances, no figure is shown for MSCI Climate Metrics Coverage. ESG and MSCI Carbon Metrics meet the current minimum UK DWP's TCFD-aligned “Metrics and Targets” regulations. However, regulations are subject to change. Redington monitors developments closely.

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Emission metrics are calculated for return seeking assets only.

Glossary of Terms (ESG and Carbon Metrics)

Enterprise Value Including Cash (EVIC): Defined as the sum of market capitalisation of shares and book values of total debts and minority interests at fiscal year-end. No deductions of cash or cash equivalents are made to avoid potential negative enterprise values. This is the recommended denominator metric for carbon attribution according to the GHG Protocol, the global standard for carbon accounting endorsed by the European Union and the DWP.

Estimated Scope 3 Carbon Footprint (tCO2e / EVIC £m): Measurement of the estimated Scope 3 CO2e emissions of a fund per million pounds of EVIC. Scope 3 emissions refer to all those that are not in direct control of a company's productive activities. Namely, all those emissions from a company's upstream supply chains and downstream product use by the consumer.

Estimated Total Mandate Carbon Emissions (tonnes): Represents the total share of Scope 1, Scope 2, and Scope 3 carbon emissions a fund is responsible for. Please note the metric is sensitive to the investment holding size in the fund.

GHG Intensity (t/USD million GDP nominal): Represents GHG intensity of an economy (in tons per USD million GDP nominal). The higher the value the more carbon intensive the economy is. Six greenhouse gases, considered under Kyoto Protocol, are considered for this data point. These gases are carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride. GDP is in nominal terms. Utilizes MSCI data.

MSCI Climate Metrics Coverage: The proportion by value of a fund for which carbon metrics are available from MSCI. Climate metrics are proxied where coverage is low and in this case, the MSCI Climate Metrics Coverage will be assumed to be.

PCAF Data Quality Score: The Partnership for Carbon Accounting Financials (PCAF) data quality score monitors the reliability of companies' emissions data.

Scope 1 & 2 Carbon Footprint (tCO2e / EVIC £m): Measurement of the Scope 1 & 2 CO2e emissions of a fund per million pounds of EVIC. Scope 1 emissions refer to those which are directly connected to the production of a company's product or service. For example, the burning of fossil fuels to power the electricity grid. Scope 2 emissions refer to those from the electricity used to power the facilities and machinery of a company.

Total Carbon Footprint (tCO2e / EVIC £m): Measurement of the CO2e emissions of a fund per million pounds of EVIC using Scope 1, Scope 2, and Scope 3 emissions. Given a company's direct Scope 1 emissions will inevitably be another company's indirect Scope 3 emissions, aggregating the individual Scope emissions results in a higher number of emissions than exists. To mitigate double counting, we apply a scaling factor in accordance with MSCI's methodology. This metric may be used to assess a fund's contribution to global warming versus other funds. Previous Total Carbon Footprint (tCO2e / EVIC £m invested) is estimated by looking at the funds' respective holdings and emissions 12 months ago.

Tonnes of Carbon Dioxide Equivalents (tCO2e): Tonnes of greenhouse gases including methane, nitrous oxide, carbon dioxide, and fluorinated gases. Given the abundance and prominence of carbon as a greenhouse gas, all the other gasses are considered carbon equivalents.

SBTi Score: The Science-Based Targets initiative ("SBTi") sets out a framework through which companies can set out their decarbonisation pathway and have them assessed against the goals set out in the Paris Agreement – limiting global warming to 1.5°C above pre-industrial levels or well-below 2°C. The SBTi Score is the proportion of assets invested that are classified as being Paris-aligned.

PRA Slow Transition Climate Scenario Analysis: Redington's extrapolation of a stress test constructed by the Prudential Regulation Authority ("PRA") to explore the % impact of future climate change on assets. A slow transition assumes a long-term, orderly transition that is broadly in line with the Paris Agreement out to 2050.