

**PRIVATE & CONFIDENTIAL**

# **Coats UK Pension Scheme Climate Disclosure Report**

31 March 2025

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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 (the "Climate Change Regulations") .

This report relates to the year ending 31<sup>st</sup> March 2025 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 third Climate Change Governance report.

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).

## 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. As part of the Climate Change 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 2024 to 31 March 2025.

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.

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:

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

During the reporting period, the Trustee completed a bulk annuity transaction with Pension Insurance Corporation ("PIC"). Following that transaction, all of the Scheme's defined benefits are covered by bulk annuity policies, including the new PIC policy and older policies with Aviva. As a result of, the Scheme's investment and longevity risks have been very largely mitigated. Given this, the Trustee has taken a proportionate approach to this year's report. The transaction resulted in significant changes to the investment strategy – these are detailed further in the strategy section of the report.

It is expected that this TCFD report may be the last such report for the Scheme as the “relevant assets” will be below the threshold for publishing a TCFD report in future years. The term “relevant assets” does not include “relevant contract of insurance” (including annuity contracts).

## **1. 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 discussed and agreed climate-related beliefs and an overarching approach to managing climate change risk. The details of these are set out in the Statement of Investment Principles (“SIP”) (see Appendix A), which is reviewed on an ongoing basis.

Prior to the bulk annuity contract entered with PIC, the Trustee had established an Investment and Funding Committee (“IFC”) to whom it delegated: the review of the Scheme’s investment strategy, recommendations of long-term strategic asset allocations, the monitoring of Scheme’s funding position and performance and the appointment and removal of Asset Managers. This was done in conjunction with the Scheme’s Investment Adviser and reported to the Trustee Board as required.

Following the entrance into the bulk annuity contract the Scheme’s governance structure was amended. The Trustee no longer delegates investment-related matters to a separate

Investment Funding Committee (“IFC”). All previous delegated authorities and responsibilities of the IFC have been assumed by the Trustee.

The Trustee takes independent investment advice to help assess climate-related risks and opportunities. The role of the investment consultant is to provide investment-related strategic and practical support to the Trustee, including relating to climate-related risks and opportunities. This includes updates on climate-related issues, climate change scenario modelling and climate metrics. The Trustee receives advice from Cardano Advisory Limited (“Cardano”) in relation to the Sponsor covenant, including its potential exposure to climate risks. The Trustee reviews the climate competency of its advisors and those who support the Trustee in relation to climate risk management to ensure adequate processes are in place.

The Trustee expects its advisors to bring important and relevant climate-related issues and developments to the Trustee in a timely manner; however, the Trustee believes time spent on this needs to be proportionate and reflective of the Scheme’s other strategic priorities – as noted in the introduction, the Scheme’s priority during the period was completing a buy-in transaction with an insurer.

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

The Trustee receives annual 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.

## **2. Strategy**

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. However, during the reporting period, the Scheme’s strategy underwent a significant shift due to the buy-in with PIC, which was deemed in the best long-term financial interests of members. Following the substantial de-risking process and the transfer of assets to PIC, the context in which the original time horizons and the climate target were set, and the composition of relevant climate-related risks

has fundamentally changed. The Trustee recognises that new circumstances of the Scheme limit their ability to progress against its set target. As there was no formal opportunity to review this target, it remained in place as at the end of March 2025. The following section outlines the Trustee’s approach to climate-related risks and opportunities as it stood before the Scheme buy-in.

Prior to the buy-in, the Trustee considered climate-related risks and opportunities and their potential implications for the Scheme’s investment and funding strategy over the short, medium, and long term. These considerations were incorporated into all aspects of the Trustee’s investment process, including mandate and manager selection and ongoing monitoring of the portfolio.

The Trustee was cognisant of the fact that the Scheme’s portfolio was 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 had noted that the assessment of climate-related risks and opportunities may vary depending on the time horizon being considered. As such, the Trustee had defined climate-related risks and opportunities over the short, medium and long term, which the Trustee considered appropriate based on the rationale in the table below.

Time Horizon		Rationale	Risks and Opportunities
<b>Short term</b>	<b>0-3 years</b>	Aligned with the Scheme’s actuarial valuation process.	This shorter-term focus allowed the Trustee to consider the transition risks (such as changes in corporate behaviour driven by regulatory and technological change), that the Scheme would have predominantly be exposed to over the short and medium term. There was lower exposure to physical risk on these time frames.
<b>Medium term</b>	<b>5-10 years</b>	This was in line with the Scheme’s target of reducing carbon emissions by 50% by 2030.	

<b>Long term</b>	<b>10-15 years</b>	This was broadly in line with the Scheme's liability duration.	<p>The Scheme would have been exposed to both transitional and physical risks associated with climate change, over the longer-term. Physical risks were expected to intensify further into the future, which may have had pronounced effects on real assets such as property. Meanwhile, deteriorating resource availability may have negatively affected the covenant's position in the long-term.</p> <p>Asset and liability scenario analysis was produced as at 31<sup>st</sup> March 2023, which have not been updated for this year's report for the reasons set out below under "Asset and Liability Scenario Analysis" (please see Appendix B for further detail).</p>
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### **Update on the Scheme's investment strategy**

The Scheme's investment allocation was altered significantly during the period to complete the bulk annuity transaction.

At 31 March 2024, the Scheme held a significant allocation to assets in government bonds and cash, with the remainder of the portfolio in several liquid return-seeking funds and several illiquid funds.

At the start of the period, the remaining liquid credit funds were fully disinvested with the proceeds invested into the government bond and cash portfolio. These assets, alongside a combination of in-specie assets were subsequently transferred to PIC in September 2024. This bulk annuity contract is a Scheme asset.

The remaining assets retained in the Scheme as at 31 March 2025 are a number of illiquid holdings which the Scheme was not able to redeem prior to the end of the reporting period or the transaction date with PIC. These funds are all in the later stages of their life and are in the process of returning capital to the Scheme or the Trustee has submitted redemption forms to fully redeem from them. The intention is to use the proceeds from these illiquid investments, as they are gradually received, to pay a deferred premium which is due to PIC as part of the bulk annuity transaction.

### **Asset and Liability Scenario Analysis**

In the last edition of the Scheme's TCFD report, the Trustee took the view that the scenario analysis as at 31<sup>st</sup> March 2023 was broadly representative of the position of the Scheme for the 2024 TCFD report and chose not to refresh the analysis.

Whilst there has been a significant change in the Scheme's investment strategy in 2024, the Trustee acknowledges that due to the bulk annuity transaction and the nature of the remaining illiquid assets, refreshing the scenario analysis is likely to have limited reliability and usefulness as a decision-making tool. The Trustee has therefore decided not to refresh the scenario analysis in this report.

Instead, the focus of the Trustee has shifted to the remaining illiquid assets within the portfolio, and to ensure the Scheme receives the relevant proceeds within a reasonable timeframe.

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.

### **Covenant Analysis**

The Scheme's bulk-annuity purchase with PIC materially reduced its exposure to the long-term covenant of the Sponsor. The Trustee's current assessment of climate-related risks has therefore focused on the Sponsor's ability to support the payment of the Scheme's deferred premium and any potential future costs associated with carrying out a full buy-out of the Scheme in the near to medium term. Given this limited exposure to the Sponsor covenant and advice from Cardano on the Sponsor's financial position, the Trustee considers exposure to climate-related covenant risks to remain low.

As a global textile manufacturer, Coats Group continues to face transition risks over the period to 2030, such as the potential for increased carbon offsetting costs and regulatory changes, or trading impacts if it fails to adapt its product portfolio to low-carbon alternatives or carbon border taxes. Physical climate risks, such as increased frequency and magnitude of extreme weather events or chronic temperature increases, remain a consideration, with the latest climate data suggesting that the impact from such events is also expected to increase in the near term. Whilst these risks remain relevant, the Group's ongoing investment in energy efficiency, renewable energy and new sustainable materials is expected to help mitigate them.

The Trustee is aware that climate risks are a relevant consideration in relation to the financial strength of PIC and Aviva both in the near-term and into the future and receive regular reporting from Cardano which includes consideration of the insurers' latest climate risk analysis.

## **3. Risk Management**

Climate-related risks and opportunities are considered in terms of the physical risks to assets that are expected to result from climate change, and in terms of the transition risks associated with the global shift to a low-carbon economy. Over the next few decades transition risk is expected to be of greater impact than physical risk, but as we approach the middle of the century physical risks are likely to become more significant.

The Trustee has also integrated climate change into the Scheme's wider risk management and receives additional climate-related reporting from the investment consultant on an annual 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"). The Trustee also receives regular updates from its Sponsor covenant advisor on the strength of the employer covenant and financial position. 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 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. The Trustee however recognises that given the bulk annuity contract with PIC, the Scheme is redeeming from its remaining illiquid funds and as such there might be limited opportunities for engagement. Nevertheless, the Trustee expects to follow the above guidelines when possible and appropriate.

## 4. Metrics and Targets

### Metrics:

With regards to quantitative metrics, the Trustee – on an annual basis – monitors the following climate metrics:

Metric	Explanation
<b>Absolute Emissions: Total Greenhouse Gas (GHG) Emissions<sup>1</sup></b>	<ul style="list-style-type: none"> <li>This metric measures the total emissions associated with the Scheme's investments across three scopes: scope 1, scope 2 and scope 3 emissions.</li> <li>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.</li> <li>To simplify accounting for emissions, rather than report on each individual gas separately, a common unit known as carbon dioxide equivalents (CO<sub>2</sub>e) is reported (whereby each gas is weighted in terms of the amount of carbon dioxide (CO<sub>2</sub>) that would create the same amount of warming).</li> </ul>
<b>Emissions Intensity: Carbon Footprint</b>	<ul style="list-style-type: none"> <li>Total GHG emissions for a portfolio, normalised by the market value of that portfolio.</li> <li>Carbon emissions are allocated based on equity and/or debt ownership, using Enterprise Value Including Cash (EVIC) as a proxy for market value.</li> <li>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.</li> </ul>
<b>Additional climate change metric: PCAF Data Quality Score</b>	<ul style="list-style-type: none"> <li>Monitors the reliability of companies' emissions data, scoring them one to five – with one representing the highest quality of independently verified emissions data.</li> <li>The Trustee will use the results of the analysis to prioritise engagement efforts with its investment managers.</li> </ul>
<b>Portfolio Alignment: Science-based Targets Initiative (SBTi)</b>	<ul style="list-style-type: none"> <li>This metric is focused on measuring the Scheme's alignment to the goals of the Paris Agreement.</li> <li>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</li> </ul>

<sup>1</sup> 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.



	<p>ambitions, making this a key metric to monitor to drive positive change.</p> <ul style="list-style-type: none"> <li>• SBTi is also aligned with the Scheme's emissions and net zero target.</li> </ul>
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The results of the analysis as of 31<sup>st</sup> March 2025 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 <sup>2</sup>	Science Based Targets Initiative Rating
	Scopes 1 & 2	Scope 3	Scopes 1 & 2	Scope 3		
<b>31/03/2025</b>	4,304	22,611	57.6	302.7	5	0.0%

The Trustee has engaged with PIC and Aviva Plc to understand emissions relating to the Scheme's bulk annuity transfers (buy-ins). PIC has confirmed to the Trustee that their proportionate share of the absolute carbon emissions is c.86,000t CO2e. Moreover, using published data from Aviva Life & Pensions UK Limited, the Trustee has estimated their proportionate share of the absolute carbon emissions to be c.14,000tCO2e<sup>3</sup>. The data provided by both PIC and Aviva and PIC covers Scope 1 & 2 data from 2024.

The Trustee also acknowledges that due to the illiquid nature of the remaining Scheme's assets, for which data availability is an inherent issue, the level of data coverage on these metrics may be constrained. Therefore, given all the remaining funds lack data coverage, these have been proxied to other assets in order to estimate their emissions profile.

### Target:

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 31<sup>st</sup> 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 Sponsor helps to mitigate against covenant climate-risk exposure, while also ensuring climate-related risks are appropriately addressed and reduced, as and when appropriate.

<sup>2</sup> 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.

<sup>3</sup> 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.

The Scheme remained ahead of its target as of 31<sup>st</sup> March 2025, achieving a c.35% reduction in carbon footprint emissions relative to the Scheme's position as at 31<sup>st</sup> March 2022 (88 tCO<sub>2</sub>e/ £m for Scope 1 and 2 emissions). This decrease was due to the majority of assets being transferred to PIC as part of the bulk-annuity transaction. One of the Scheme's largest holdings prior to the transaction, the BlackRock Buy & Maintain Credit Portfolio, had a relatively high carbon intensity; hence, removing this from the portfolio has brought down the carbon footprint relative to the previous year and subsequently the overall target. The Trustee acknowledges that the circumstances under which this target was originally set have changed following the Scheme's full buy-in with PIC, and their ability to progress towards it is now limited.

The Trustee continues to monitor progress against this target annually through this report. 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.

*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: Social, Environmental and Governance Issues (Extract from Statement of Investment Principles)**

## **Social, Environmental and Governance Issues:**

The Trustee has considered the extent to which financially material considerations such as ESG issues and climate change risks may impact the selection, retention and realisation of the Scheme's investments over the likely time horizon that they will be held by the Scheme.

Whilst the Trustee considers that financially material considerations such as ESG issues and climate change factors are likely to have financial impacts on pension investments, in the context of the Scheme's investment in bulk annuity contracts, the Trustee expects that these considerations and factors will be included in the insurers' investment processes, supported by current and future regulations and by improving industry standards.

The Trustee is required, under Regulation 2(3)(d) of The Occupational Pension Schemes (Investment) Regulations 2005, to include details of their manager alignment policies in this SIP or explain why they have not done so. The Trustee has not included details of its manager alignment policies in this SIP given the Scheme's investments only in bulk annuity contracts, the nature of the illiquid assets and the limited cash holdings. Further, The Trustee has considered the extent to which financially material considerations such as ESG issues and climate change risks may impact the selection, retention and realisation of the Scheme's investments over the likely time horizon that they will be held by the Scheme.

Whilst the Trustee considers that financially material considerations such as ESG issues and climate change factors are likely to have financial impacts on pension investments, in the context of the Scheme's investment in bulk annuity contracts, the Trustee expects that these considerations and factors will be included in the insurers' investment processes, supported by current and future regulations and by improving industry standards.

The Trustee's policy is generally to delegate responsibility for the stewardship activities (including voting rights and engagement activities) attaching to all investments to its investment managers, where appropriate. However, the Scheme no longer holds any investments with public equity voting rights. Therefore, no public equity votes are exercised on the Trustees' behalf and thus the Scheme has no significant votes which need to be commented on.

The regulatory environment regarding stewardship is also expected to continue developing and the Scheme's insurers will need to comply with current and future relevant regulations regarding stewardship. The Trustee considers this an appropriate policy given the Scheme's assets and in the context of the Scheme's bulk annuity contracts.

The Trustee does not take account of any non-financial factors (such as members' ethical views), and these are not currently taken into account in the selection, retention and realisation of the Scheme's investments.

## Appendix B: Scenario Analysis as at 31 March 2023 [2023 TCFD Report Extract]

The key results of these scenarios as at 31st March 2023 (on a gilts+0.40% discount 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 (%)
<b>Scenario A:</b> 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
<b>Scenario B:</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
<b>Scenario C:</b> 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.

<b>Transition scenario</b>	<b>Impact on life expectancy</b>
<b>Paris Transition</b>	+2%
<b>No Transition</b>	-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.

## Appendix C: Carbon Footprint Analysis

Climate reporting as at 31<sup>st</sup> March 2025 can be found in Appendix F. 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.

We calculate the carbon emissions for liquid funds using underlying holdings data, where available, in line with PCAF’s Global GHG Accounting and Reporting Standard for the Financial Industry. Aggregated metrics are calculated on the portion of holdings that has ESG data coverage, with the remaining holdings proxied using the covered portion of the fund. Proxying uncovered portions of a fund in this way enables us to provide a more complete strategic overview of the portfolio’s position.

Where underlying holdings data or ESG data is not available, ESG metrics are proxied using our centrally modelled, generic asset class universe, mapped in line with our risk and return modelling assumptions. The modelling of this generic universe is reviewed on an annually and approved centrally by our Investment Strategy Committee. Where the asset class proxy is unavailable, a judgement has been made based on the nature of the fund on a best endeavors basis.

Our data processing systems are reviewed centrally on a quarterly basis by our in-house developers and ESG Analytics team. Automated and manual checks on the calculation and aggregation of the ESG metrics are completed by the client team.

We appreciate that the largest companies are the most likely to publish ESG data, based on the way the regulations have been set out. Therefore, we expect that there may be some bias in the data available but believe that our approach remains in line with other market-leading approaches.

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 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. These are set out below:

- 1 - Reported emissions, based on the Greenhouse Gas Protocol, that have been verified by a third-party auditor.
- 2 - Unverified reported emissions or estimates based on the company's energy consumption, in line with the GHG Protocol.
- 3 - Estimated emissions based on the company's production data.
- 4 - Estimated emissions based on economic data – e.g. revenue, company value and amount lent/invested.
- 5 - Estimated emissions based on economic data – e.g. sectoral revenues and asset turnover ratios.

At present, MSCI does not distinguish between a score of 1 and 2. Therefore, the highest score currently achievable is a score of 2, although we expect this to change as these numbers start to be routinely audited.

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.

### What is an alignment metric?

Alignment metrics address the lack of wider context provided by carbon metrics. They are generally more subjective but give a greater indication of how "on course" a portfolio or company is with respect to global climate goals. There are two broad approaches to this. The first assesses company alignment with a target such as the Paris Agreement goal of limiting average global temperature rise to well below 2°C, ideally 1.5°C, above pre-industrial levels by the end of the century. This is the approach taken by the Science Based Targets initiative (SBTi). The other approach is to convert carbon emissions into a real-world impact. This is the approach taken by Implied Temperature Rise (ITR) methodologies. The scheme has decided to monitor SBTi Score.

### SBTi Score

The Science-Based Targets initiative (SBTi) sets out a framework through which companies can set out their decarbonisation pathways and have them assessed against the goals of the Paris Agreement. The SBTi Score is the proportion of assets invested in companies that are classified as being Paris-aligned, calculated for those holdings with SBTi data. As SBTi only assesses companies, this will automatically exclude sovereign bonds (including gilts).

The results of this metric as at 31<sup>st</sup> March 2025 is set out in Appendix F. The Trustee will continue to monitor this annually.



## Appendix F: SBTi and MSCI Climate Metrics Output

Fund	Fund Value (£m)	Science Based Targets Initiative Rating	PCAF Data Quality Score
		31/03/2025	31/03/2025
ICG Senior Debt Partners 3C Fund	12.3	-	5
Permira Credit Solutions III - Senior Fund	7.6	-	5
Standard Life Commercial Ground Rent Fund	54.8	-	5
<b>TOTAL PORTFOLIO</b>	<b>74.7</b>	<b>0.0%</b>	<b>5</b>

There are no SBTi ratings for any of the assets due to their illiquid nature, which means there is a lack of underlying holdings data required to assess alignment with science-based targets.

Fund	Fund Value (£m)	Absolute Carbon Emissions (tCO2e)		Carbon Intensity (tCO2e / £m)	
		31/03/2025		31/03/2025	
		Scope 1+2	Scope 3	Scope 1+2	Scope 3
ICG Senior Debt Partners 3C Fund	12.3	2,307	12,418	186.9	1,006.1
Permira Credit Solutions III - Senior Fund	7.6	1,414	7,613	186.9	1,006.1
Standard Life Commercial Ground Rent Fund	54.8	583	2,579	10.6	47.1
<b>TOTAL PORTFOLIO</b>	<b>74.7</b>	<b>4,304</b>	<b>22,611</b>	<b>57.6</b>	<b>302.7</b>

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 (tCO<sub>2</sub>e / EVIC £m):** Measurement of the estimated Scope 3 CO<sub>2</sub>e 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 (tCO<sub>2</sub>e / EVIC £m):** Measurement of the Scope 1 & 2 CO<sub>2</sub>e 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 (tCO<sub>2</sub>e / EVIC £m):** Measurement of the CO<sub>2</sub>e 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 (tCO<sub>2</sub>e / EVIC £m invested) is estimated by looking at the funds' respective holdings and emissions 12 months ago.

**Tonnes of Carbon Dioxide Equivalents (tCO<sub>2</sub>e):** 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.