Cadent | Gas Pension Scheme.

1 April 2024 - 31 March 2025

Task Force on Climate-related Financial Disclosures

(TCFD) Report

Contents

Understanding Key Terms

Throughout this report, you'll notice **bolded words in blue** — these are key terms that are defined in the Glossary section.

To learn more about any of these terms, simply **click on the bolded word** to jump directly to its explanation in the **Glossary**.

You can use the red symbols below to navigate back and forth in the document or come back to this 'home' page.

Trustee statement

Statement from the Chair

Welcome to our fourth Task Force on Climate-related Financial Disclosures (TCFD) report.

As long-term stewards of our members' interests, we recognise sustainability considerations as a material and evolving source of both risk and opportunity. Climate change is expected to have wide-ranging implications for our members, financial markets, and the Scheme's investments.

In this context, managing climate-related risks and **opportunities** isn't just sensible – it is part of our responsibility to make decisions that protect and support our members' long-term interests. We continue to strengthen our **governance** and oversight frameworks to ensure climate factors are systematically integrated across our decision-making processes.

Over the past year, the **Trustee** enhanced its approach to climate-related strategic considerations, risk management and oversight across several key areas:

Updated scenario analysis: We updated our **climate scenario analysis** using the latest **Network for Greening the Financial System (NGFS)** 2023 framework, with a fourth scenario reflecting a >3°C scenario and more severe **physical risk** data incorporating different asset classes and time horizons. This helped us get a clearer picture of how the **portfolio** might hold up under different possible climate scenarios.

1. **Improved emissions data:** We expanded our emissions coverage to include more comprehensive reporting on Scope 1, 2, and 3 greenhouse gas emissions, enabling a deeper understanding of the Scheme's financed emissions footprint.
2. **Decarbonisation progress:** As of 30 September 2024, the Scheme's **liquid credit portfolios** had achieved a c.32% reduction in carbon intensity* relative to the 2021 baseline, placing **the Scheme** on track to meet its interim 2030 target of 38% reduction.
3. **Stewardship review:** A detailed review was conducted to assess how effectively our investment managers are supporting the Scheme's **stewardship** objectives, including climate. This included evaluating portfolio alignment with climate targets, the quality of the investment managers' climate-related engagements with the underlying investee companies, and the use of escalation where progress was insufficient. Insights from this review informed targeted engagement with managers to encourage improved climate integration.
4. **Retained renewable infrastructure exposure:** The Scheme maintained its investment in a renewable energy infrastructure fund, which supported the addition of approximately 1,140 MW of global renewable generation capacity across 56 projects. The Scheme holds a material ownership stake in the fund (c.12.6%**), reinforcing its exposure to long-term climate-aligned opportunities.

* Scope 1 & 2 only. More detail in the Metrics & Targets.

** Source: Manager, Isio calculations

We also remain attentive to climate-related risks affecting the Scheme's **sponsoring employer**, Cadent Gas Limited (the Company). Given the nature of the Company's business, developments in UK energy policy — particularly the future role of natural gas and hydrogen — may influence the employer **covenant**. However, due to the Scheme's strong funding position and relatively low-risk investment strategy, the potential **covenant** impact continues to be modest in line with previous years' reports.

Looking ahead, we will continue building on our sustainability framework. Our key priorities include deepening engagement with **investment managers** to improve the quality, consistency, and availability of climate data, and further integrating **Environmental, Social, and Governance (ESG)** and climate targets as our strategy continues to evolve.

Introduction

This report represents the fourth Task Force on Climate-related Financial Disclosures report prepared by the Trustee of the Cadent Gas Pension Scheme, covering the period from 1 April 2024 to 31 March 2025. It has been produced in accordance with the requirements of the Pension Schemes Act 2021 and is available online at **https://cadentgaspensions.com/helpful-resources**.

This report sets out how the Trustee integrates climate-related considerations into its investment **governance**, strategic decision-making, and risk management processes.

Why climate change matters to our members

Climate change refers to long-term shifts in temperature and weather patterns, primarily driven by greenhouse gas (GHG) emissions from human activities, particularly the combustion of fossil fuels. Rising global temperatures have systemic impacts across the climate system, including more frequent and severe physical events such as extreme weather and resource stress.

Under the **Paris Agreement**, governments committed to limiting global temperature increases to well below 2°C – and preferably to 1.5°C – above pre-industrial levels.

However, in 2024, global average temperatures reached 1.6°C above the pre-industrial baseline, exceeding the 1.5°C threshold for the first time. This shows why it's so important to act faster to tackle climate change. Climate change has significant implications for global economic stability and financial markets.

Addressing it requires widespread decarbonisation of the global economy, which is expected to drive ongoing changes in policy, technology, and market dynamics. These shifts create both risks and **opportunities** for long-term investors.

The Trustee actively considers these climate-related risks and opportunities within the context of the Scheme's long-term funding and investment strategy. In addition, climate change may affect **the Scheme** indirectly through its **sponsoring employer**.

Given that the Company is part of the UK energy sector, changes in energy policy or regulation – especially around natural gas and hydrogen – could affect its financial strength and ability to support the Pension Scheme. The Trustee, with support from its **Covenant** Adviser, monitors these developments regularly. While the overall financial exposure is considered modest due to the Scheme's low-risk investment strategy and strong funding position, the employer covenant remains a key area of climate-related risk assessment.

About the TCFD framework

The TCFD is an international initiative established to promote consistent, comparable, and transparent reporting of climate-related financial risks and opportunities. Its recommendations have been embedded into UK law via the Pension Schemes Act 2021, requiring large occupational pension schemes to report annually in line with the TCFD framework which is structured around four key pillars:

Governance: Oversight and responsibility of monitoring climate-related risks and opportunities.

Strategy: Actual and potential impacts of climate-related risks and **opportunities** on assets, **covenant** and **liabilities**.

Risk Management: The identification, assessment and management of climate-related risks.

Metrics and Targets: Disclosure of key climate metrics and progress against targets.

Climate-related factors are assessed as part of the Trustee's responsibility to make decisions in the best financial interests of members – alongside other investment and covenant risks – when they are considered likely to affect long-term outcomes. This reflects the Trustee's role in managing the Scheme prudently in a changing regulatory and investment environment related to climate change.

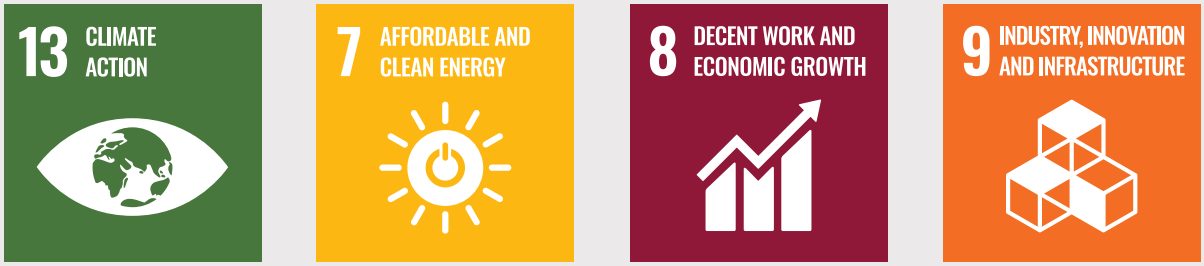
The key takeaways for each pillar of the TCFD framework are summarised in the following pages.

Executive summary

Governance

Governance around climate-related priorities, risks and opportunities

ESG priorities: The **Trustee** maintains its **ESG** priorities in line with the **United Nations Sustainable Development Goals (UN SDGs)**. Specifically, these include climate-related priorities such as UN SDGs 13 (Climate Action) and 7 (Affordable and Clean Energy).



Trustee oversight: The Trustee is ultimately responsible for the oversight of climate-related risks and **opportunities** as they relate to **the Scheme**, and sets the overall ESG policy, which is reviewed annually. To ensure the risks and opportunities presented by climate change are sufficiently identified, assessed and managed, the following climate **governance** framework has been implemented.

Governance ecosystem:

- **Integrated Risk Management Committee (IRMC):** A subset of the Trustee responsible for identifying, assessing, and managing climate-related risks. The **IRMC** meets quarterly, prioritising ESG and climate issues within a fully integrated framework.
- **Cadent Pensions Team (CPT) & Investment Consultant:** Provide climate-related advice to the IRMC, oversee day-to-day Scheme management, and liaise regularly with **investment managers**.
- **Other Advisers:** Legal, **covenant** and actuarial advisers support the Trustee and IRMC on climate risk and opportunities.
- **Investment Managers:** Manage Scheme assets in line with the Trustee's agreed mandate including climate considerations.

Additionally, the Trustee receives training that covers key topics such as **stewardship** developments — including climate, social, and nature issues — industry body updates, and ongoing discussions with the Investment Consultant about potentially setting further targets across other asset classes.

Strategy

Actual and potential impacts of climate risks and opportunities

Strategy highlights

- **Updated climate scenario analysis**
- **Asset managers' stewardship assessment**
- **Increasing ESG consideration in Asset-Backed Securities (ABS)**
- **Continued renewables investment**

Climate scenario analysis

The report features an updated scenario analysis, including a newly introduced fourth scenario and enhanced **physical risk** data, to assess the risks and **opportunities** that climate change may present to the assets, **liabilities**, and **sponsoring employer**. The overall stability of **the Scheme** indicates that diversification continues to mitigate climate-related risks, and the funding position remains robust. The four scenarios are:

Net Zero 2050
Based on the most ambitious **Paris Agreement** goal: keeping warming below 1.5°C this century (50% chance).

Delayed Transition
Based on the less ambitious Paris Agreement goal: keeping warming well below 2°C this century (67% chance).

Fragmented World
The world fails to meet Paris Agreement goals, leading to over 2°C of warming this century.

Current Policies
The world doesn't meet Paris Agreement targets, leading to over 3°C of warming this century.

Rethinking Our Climate Targets

In 2024, global temperatures rose to 1.6°C above pre-industrial levels, passing the 1.5°C limit for the first time. Staying below that threshold now seems unlikely without urgent global action. Our report shows progress on climate targets, but much of this reflects methodology rather than real-world emission cuts. In response, the Trustee will review our targets and policies.

Alignment of climate stewardship and ESG integration

The **Trustee** receives regular reporting on **ESG** integration by the **investment managers** and this year undertook an additional piece of research to assess alignment between the Scheme's ESG priorities and the managers' **stewardship** efforts.

Both pieces of work pointed to the fact that the Scheme is well-positioned and, where gaps were identified, managers were engaged.

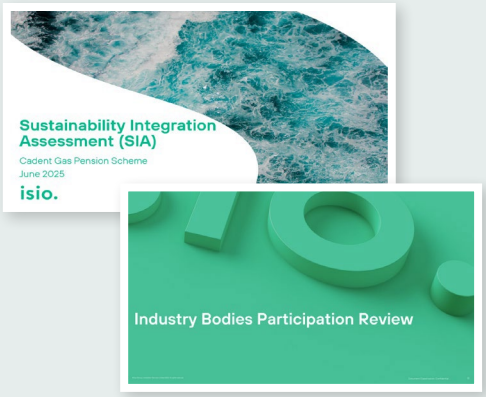
Risk Management

How the Trustee identifies, assesses, and manages climate-related risks

A framework for identifying and managing risks

The **Trustee** continues to identify key short, medium, and long-term climate-related risks and mitigating actions and these are documented in the risk register. This includes analysis of climate at **the Scheme** level and ensuring the Scheme's **investment managers** are carrying out their duty as fiduciary managers of the Scheme's assets.

The IRMC regularly reviews the Scheme's main investment **portfolios**, and the Investment Consultant provides an annual sustainability review – covering climate and other factors – for all portfolios. In addition, we also completed a review this year of the Scheme's participation in key **ESG industry bodies**.



Risk management implementation

The Scheme level: The Trustee and IRMC review at least annually their respective risk registers, which explicitly include climate risk across:

Covenant: Sponsoring employer

Investment Strategy: Asset and investment manager allocations

Funding: Funding level

Based on the recent pieces of work on sustainability integration, industry participation, and **climate scenario analysis**, no new material climate-related risks were identified over the past year. However, the Trustee noted that a shift away from collaborative action and the evolving political landscape in the US may increase longer-term **physical risk**.

Metrics & Targets

Disclosure of key climate metrics, targets and progress against target

Metrics

The **Trustee** continues to monitor the same four climate metrics as in previous reports to ensure consistency and alignment with TCFD recommendations:

- Total Greenhouse Gas emissions (Scope 1, 2 & 3)
- Carbon Footprint (Scope 1, 2 & 3)
- Implied Temperature Rise
- Data Quality (Scope 1 & 2)*

Targets

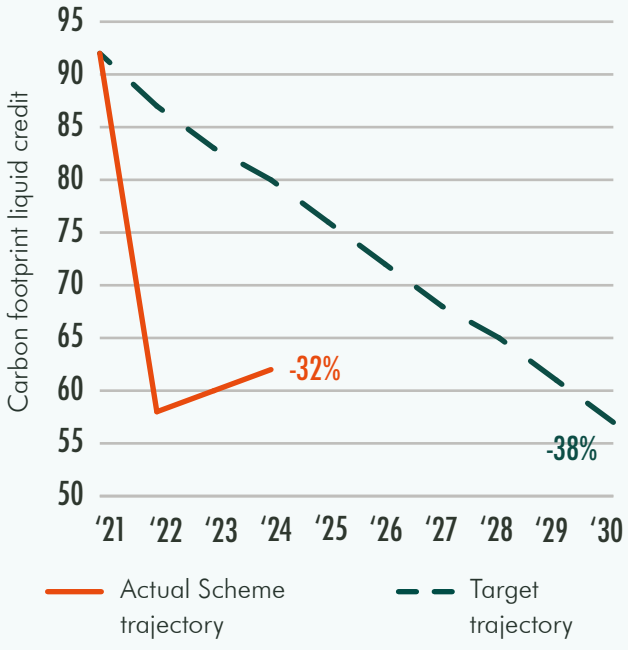
The IRMC maintains a target to achieve a 38% reduction in carbon emissions (measured by carbon footprint) relative to the 2021 baseline by 2030 for its **liquid credit portfolios**. These are in line with the **Science Based Targets initiative (SBTi)**, the **Paris Agreement** and the broader decarbonisation to Net Zero of the entire portfolio by 2050.

As data quality improves, the Trustee is in ongoing discussions with the Investment Consultant about potentially setting additional targets across other asset classes.

Progress against target

Over the past year, **the Scheme** experienced a slight increase in the carbon footprint of the liquid credit portion of the portfolio due to expected volatility from market changes.

However, the Scheme remains on track overall, with the liquid credit portfolios having already achieved a 32% reduction against the 38% target set for 2030.



* Definitions included in the Appendix

Governance

Trustee's oversight of climate risks and opportunities

Climate-related beliefs

The **Trustee** views climate considerations as an integral part of a risk management framework and has dedicated significant time and resources to ensure this framework effectively oversees climate-related risks and **opportunities**. These principles are outlined in the **ESG** Policy document, available upon request, which details the **governance** structure for ESG and climate matters, the Trustee's ESG beliefs (see example below), and **stewardship** priorities (see right).

Belief 3: Climate change poses significant investment risks which could become incrementally more severe over time. Management of climate change risks and opportunities will be considered, alongside other investment risks, at all stages of the investment journey.

- The Trustee has overall responsibility for climate-related matters and oversees the Scheme's governance. They meet at least quarterly, with ESG and climate change as regular items on the agenda.
- Day-to-day responsibility for identifying, assessing, and managing ESG risks is delegated to the IRMC.
- The IRMC also meets at least quarterly and is supported by **the Scheme** Actuary, Investment Consultant, Legal Adviser, and **Covenant** Adviser. The IRMC provides regular updates to the Trustee, including meeting minutes and any recommendations.

More detail on the specific roles and engagement frequency are provided in the **Appendix**.

The Trustee's ESG and stewardship priorities cover four key areas:

- **Climate action**
- **Affordable and clean energy**
- **Decent work and economic growth**
- **Industry, innovation and infrastructure**

Climate-related training

The Trustee stays up to date on climate-related issues affecting the Scheme's assets, **sponsoring employer**, and **liabilities** through a mix of regular and ad hoc training sessions provided by its advisers.

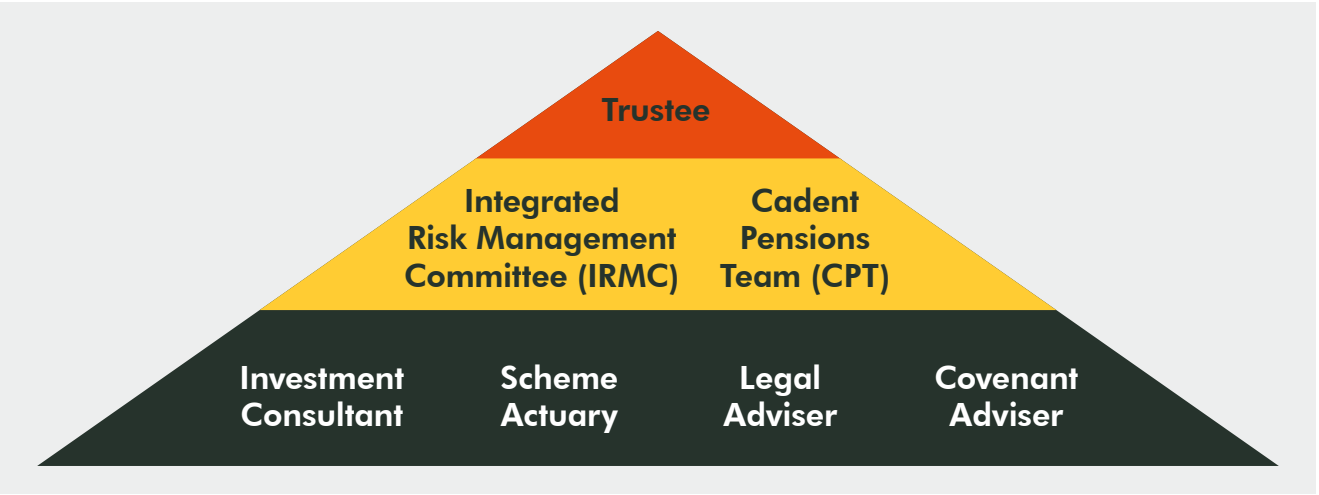
Over the past year, the Trustee received briefings on:

- the **Taskforce on Nature-related Financial Disclosures (TNFD)**,
- the **Taskforce on Social Factors (TSF)**, and
- key industry bodies promoting progress on nature, climate, and social issues.

The Trustee also received updates on the role of stewardship in addressing these areas.

Upcoming training: Further training from the investment and covenant advisers is planned for 2025, as the Trustee continues to explore deeper ESG integration and target setting across asset classes.

Roles and responsibilities



Trustee

Ultimately responsible for:

- Managing the Scheme's climate-related risks and **opportunities**.
- Incorporating climate-related considerations into strategic decisions.
- Assessing climate-related risks and opportunities and reviewing relevant matters as part of the TCFD reporting.
- At least quarterly, receives and reviews climate-related feedback from **Cadent Pensions Team (CPT)** and Investment Consultant.
- At least annually, communicate with members on how climate-related risks and opportunities are being managed.

Integrated Risk Management Committee (IRMC)

- Ongoing management of climate-related responsibilities, helping the **Trustee** to execute its strategy and enhance long-term sustainable financial stability.
- Assess climate impact on assets, **covenant**, funding, and members' financial security.
- Factor in climate-related risk management capabilities into the selection and monitoring of **investment managers**.

Cadent Pensions Team (CPT)

- Set and monitor climate metrics and progress against targets.
- Conduct **climate scenario analysis** at least once every three years.
- Ensure advisers and investment managers have defined responsibilities and identify and assess climate risks.

Investment Consultant, Scheme Actuary, Legal Adviser and Covenant Adviser

- Provide training on climate-related matters.
- Help the Trustee agree its investment beliefs in relation to climate change.
- Advise on the effectiveness of managers' climate risk management.
- Advise on inclusion of climate in the Scheme's risk management framework.
- Lead on TCFD reporting.
- Gather and report climate metrics to the IRMC.
- Conduct annual reviews to assess how climate-related risks and opportunities impact the Scheme's **sponsoring employer** across short, medium, and long-term horizons.
- Work with other advisers to assist the Trustee in incorporating climate considerations.
- Assist incorporating climate in **governance** arrangements.

Strategy

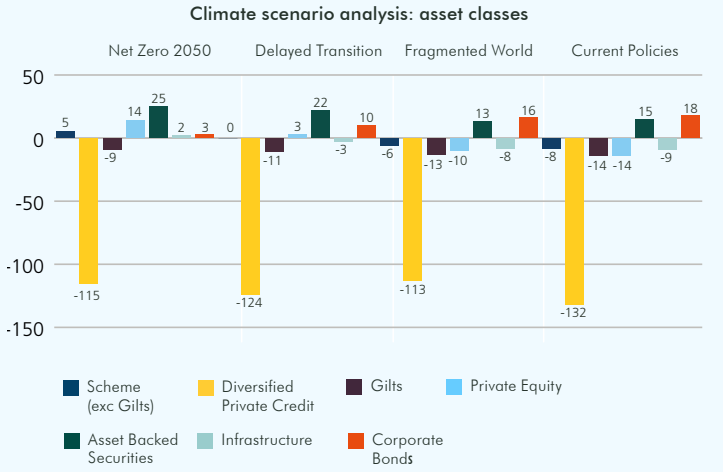
Strategy updates

Over the past year, the IRMC has undertaken several key actions to ensure improved alignment between the investment strategy and the Scheme's **ESG** priorities. These include:

Updated scenario analysis

We updated our **climate scenario analysis** using the **NGFS** 2023 framework, incorporating a fourth climate scenario, "Fragmented World", and more severe **physical risk** data, which incorporates different asset classes and time periods.

This helps us evaluate **portfolio**, **covenant** and **liabilities'** resilience under an increased range of plausible climate pathways.



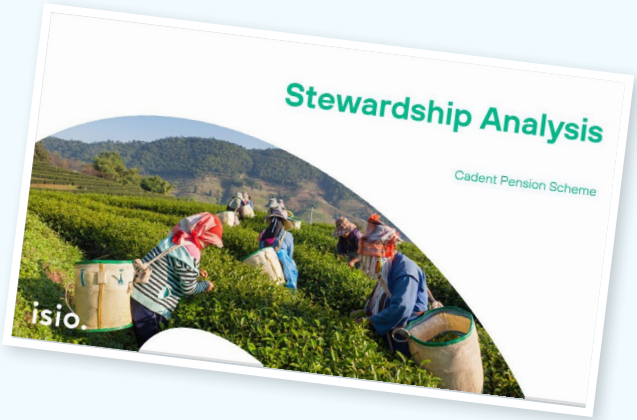
See chart on page 20.

Stewardship review

We carried out a detailed review to see how well our **investment managers** are helping **the Scheme** meet its climate goals through their engagement work.

This included evaluating:

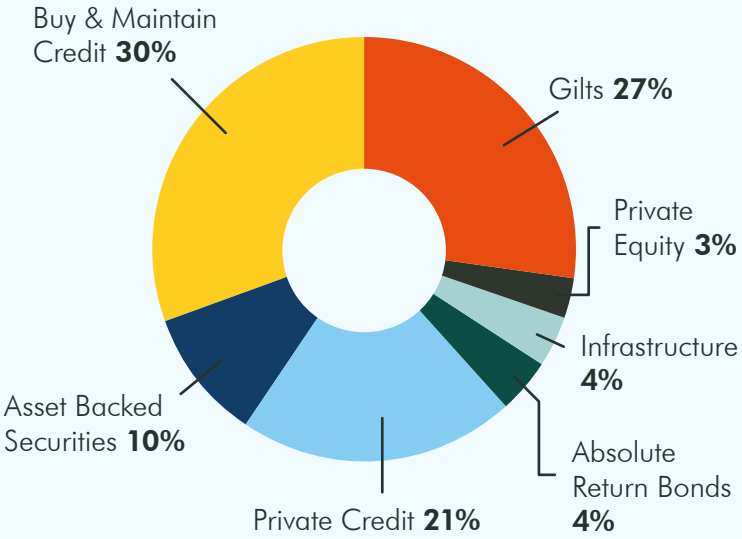
- how well our investments align with our UN SDG priorities
- how effectively investment managers are engaging with the companies we invest in
- the use of escalation when progress was lacking



Exploring climate metrics in Asset-Backed Securities

The **Trustee** reviewed the Scheme's journey plan as part of its broader strategic planning. Changes include an increased allocation to **Asset-Backed Securities (ABS)**.

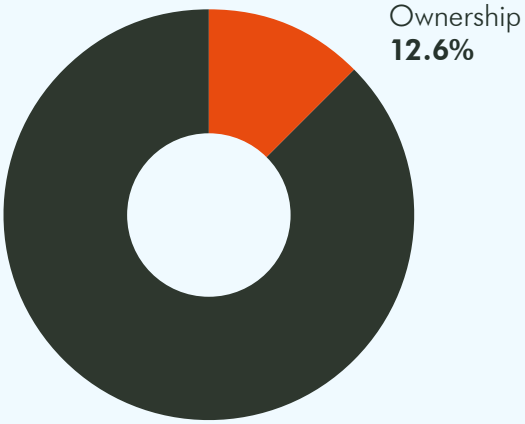
The Trustee understands investing in ABS brings challenges in terms of climate related metrics and is engaging with its advisers and the ABS managers to assess the impact on the **portfolio**.



Continued renewable infrastructure exposure

The Scheme maintained its investment in the renewable energy infrastructure fund, contributing to the addition of approximately 1,140 MW of global renewable generation capacity across 56 projects.

The Scheme holds a material ownership stake in the fund (c.12.6%), reinforcing its exposure to long-term climate-aligned **opportunities**.



Physical risks, transition risks and climate opportunities

The **Trustee** ensures that climate risks and **opportunities** feed into strategic decision making. This includes considering how these risks – both transition and physical – as well as the opportunities differ over various time periods and working to ensure **the Scheme** is resilient under various possible climate futures. For context:

Transition risks	Physical risks	Opportunities
Risks arising from the changes required to support a transition to a sustainable, lower-carbon economy. For example: • Market risks • Policy and legal risks • Technology risks • Member lifestyle changes **Transition risks** are expected to be considered and priced-in by financial markets over the short to medium term.	Risks arising from changes in weather systems attributable to climate change. For example: • Temperature changes • Severity of extreme weather events • Supply chain disruption • Impact on members' mortality rates from temperature changes **Physical risks** are expected to be experienced over the medium to long-term under extreme warming scenarios.	Opportunities will arise to support sustainable growth, development and investment across industries as part of a move towards net zero economies. For example, companies that proactively adapt to the above risks or develop solutions that work to address these risks are likely to outperform in the long-term relative to companies who are less able to adapt to these risks.

Both risk categories as well as opportunities are relevant to the Scheme, although the relative significance varies depending on the time horizon under consideration and the path of future developments. In all cases, the physical risks are assumed to grow over time whilst transition risk is relatively nearer-term and very sensitive to the path of change.

Describe the climate-related risks and opportunities the Trustee has identified over the short, medium and long term

The IRMC maintains the time periods established in previous TCFD reports to assess climate-related risks and **opportunities**.

Defining these time periods is essential for scenario analysis and for monitoring climate-related risk exposures and opportunities across the **portfolio**. The selected timeframes reflect a balanced assessment of factors, including evolving climate horizons (such as the expected timing of government responses) and investment horizons (such as review periods for different asset classes and illiquid investments)*.

The table below provides a high-level summary of the physical and **transition risks** identified by the IRMC across assets, **liabilities**, and **sponsoring employer**. These risks remain largely consistent with previous TCFD reports, with the addition of new considerations such as political shifts and rising anti-**ESG** sentiment in the USA. These factors may contribute to muted transition risks in the short term for assets with American exposure, while potentially increasing **physical risks** over the longer term.

Timeframe	Investment Horizon			Climate Horizon		
Short term 3 years	Actuarial review cycle	Strategy implementation	Review illiquid allocation	Government response to COP29 / Political shifts	Improvement in data quality	Target setting and measurement
Medium term 8 years	Scheme's Long-Term Objective			Interim 2030 targets		
Long term 16 years	Liability duration (the average length of time the Scheme is expected to keep paying benefits to members)			Measure against 2050 net zero target		
Very long term 25 years	Scheme run-off (gradual closure)			Investors and organisations' net zero targets impact		

* The Trustee reviews these timeframes at least every three years as part of ongoing climate risk oversight, with a particular focus on the Scheme's ability to maintain sufficient assets to meet projected liabilities throughout its journey plan. Further details on the rationale for timeframe selection are provided in the Appendix.

Timeframe	Risks to Assets	Risks to Liabilities	Risks to sponsoring employer
Short term 3 years	**Transition risks** such as carbon pricing and regulation	Changes to **yields** (as per assets) and longevity expectations due to rising physical risks or changing provision and quality of healthcare.	Transition risks, particularly in scenarios where reliance on natural gas is reduced.
Medium term 8 years	Measure outcome against UN SDGs and carbon targets		Physical risks to **sponsoring employer** assets and supply chain.
Long term 16 years	**Physical risks** such as extreme weather events and sea level rises		More extreme weather patterns may also impact consumer demand.
Very long term 25 years	Physical risks scale up		

Describe the resilience of the Scheme's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Updated scenario analysis has been carried out for this report by the Investment Consultant, Scheme Actuary, and **Covenant** Adviser. The purpose of scenario analysis is to better understand the risks and **opportunities** posed by climate change to **the Scheme**, and to inform the **Trustee's** funding and investment strategy accordingly. Scenarios are not forecasts or predictions but rather are intended to highlight central elements of possible futures and to draw attention to the key factors that will drive future developments*, and some of their limitations are outlined below. The scenarios selected are plausible and therefore it is important for the Trustee to understand the impact of these scenarios on the Scheme.

Main differences

The updated scenario analysis has been updated in two ways:

1. Physical risks are more severe, because it's become clear that older models didn't fully capture how serious these risks could be.
2. A new fourth scenario, called "Fragmented World," has been added. It sits between the current policy path and a full net zero path, helping us understand what might happen in a more middle-ground situation.

You can find more details in the **Appendix**.

*The Trustee considers scenario analysis as part of strategic decision-making on an ongoing basis. The Trustee must undertake scenario analysis no less than every three years and, in each of the two years following analysis, must review whether refreshed scenario analysis is required to adequately assess climate-related risks.

Net Zero 2050	Delayed Transition	Fragmented World	Current Policies
• Based on the most ambitious **Paris Agreement** goal: keeping warming below 1.5°C this century (50% chance). • Assumes immediate, global climate action starting now. • Net zero carbon emissions reached by 2050. • Some regions (e.g. EU, US) hit net zero for all greenhouse gases by 2050. • **Physical risks** (like extreme weather) are low. • **Transition risks** (e.g. rapid policy, tech, and economic shifts) are very high.	• Based on the less ambitious Paris Agreement goal: keeping warming well below 2°C this century (67% chance). • Emissions don't peak until 2030. • Strong climate policies are introduced after 2030 to meet targets. • Climate action varies by region, with different levels of ambition. • Physical risks are relatively low. • Transition risks appear later than in the Net Zero 2050 scenario.	• The world fails to meet Paris Agreement goals, leading to over 2°C of warming this century. • Climate policies are delayed and inconsistent across countries. • Some countries meet net zero targets, but many do not and continue as usual. • Transition risks are high in countries making major changes to achieve net zero. • Physical risks increase globally due to the ineffective overall response to climate change to achieve net zero.	• The world doesn't meet Paris Agreement targets, leading to over 3°C of warming this century. • No new climate policies are introduced – only current ones stay in place. • Low variation in climate ambition – most countries show little to no progress. • Physical risks are very high, with irreversible climate damage likely. • Transition risks are extremely low, since little action is taken.

Limitations: The **Trustee** accepts there are limitations involved within **climate scenario analysis**, including the potential underestimation of climate risk. The Trustee therefore uses the scenario analysis for comparative purposes rather than analysing the absolute magnitude of results. Further detail can be found in the **Appendix.**

Describe the impact of climate-related risks and opportunities on the Scheme's investment and funding strategies

The expected changes in how assets are allocated are similar across both transition risk scenarios (like Net Zero 2050 and Delayed Transition) and **physical risk** scenarios (such as Fragmented World and Current Policies). This suggests that demographic and funding factors have a bigger impact on the Scheme's lifecycle outcomes than the different climate policy paths. This aligns with what was shown in previous reports.

The Scheme's de-risking approach, characterised by a consistent shift towards stable, **liquid** assets as it matures, reflects a broader investment strategy focused on managing long-term risks rather than assumptions inherent in the climate scenarios themselves.

Transition risk (Net Zero 2050, Delayed Transition): The shift away from growth and alternative assets is consistent with a rapid transition to a low-carbon economy, where regulatory and market changes may increase volatility and uncertainty in higher-risk assets. The stable allocation to **Gilts** and increased focus on liquid, defensive assets (e.g. Gilts, Absolute Return Bonds, **Asset Backed Securities**) align with the need for resilience in the face of accelerated climate **transition risks**.

Physical risk (Fragmented World, Current Policies): The physical risk-driven scenarios continue to highlight that de-risking and **portfolio** maturity are the dominant drivers. The continued reduction in alternatives and **credit** assets reflects caution against potential market and policy uncertainties, even in a slower transition scenario.

		Gilts	Private Equity	Infrastructure	Absolute Return Bonds	Diversified Private Credit	Asset-Backed Securities	Corporate Bonds
Transition risk	Short term (3)	Low	Average	Average	Average	Average	Average	Average
	Medium term (8)	Low	High	Average	Average	Average	Low	Average
	Long term (16)	Low	High	Average	Low	Average	Low	Low
Physical risk	Short term (3)	Low	Average	Average	Average	Average	Average	Average
	Medium term (8)	Low	Average	Average	Average	Average	Average	Average
	Long term (16)	Low	High	Average	Average	Average	Average	Average
Expected allocation change		Stay the same ⟷	Decrease ↓	Decrease ↓	Decrease ↓	Decrease ↓	Increase ↑	Increase ↑

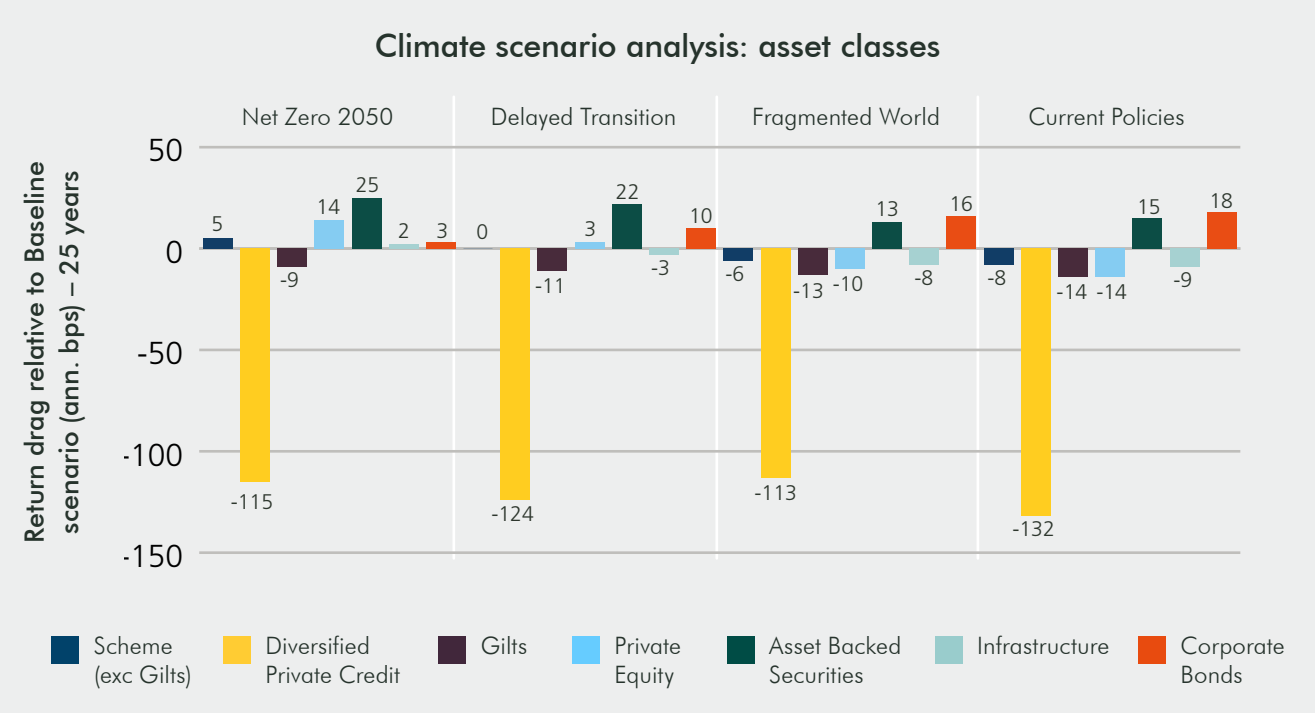
Expected allocation change reflects the expected change in asset mix as membership matures (i.e. portfolio de-risking) and wider strategic considerations. **Diversified Private Credit** includes Real Estate Debt, Infrastructure includes Infrastructure Equity and Infrastructure Debt.

Source: Investment Consultant

You can find explanations for many of these terms in the **Glossary**.

Describe the resilience of the Scheme's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

The overall Scheme remains resilient, suggesting the current level of diversification effectively mitigates climate-related risks. The IRMC will continue to monitor potential impacts across asset classes.



Source: Investment Consultant
Note: Additional detail on scenario analysis can be found in the **Appendix**.

Climate scenario – Assets analysis

The IRMC assessed the potential impact of climate risk on each asset class within the Scheme's **portfolio**, aiming to identify which allocations may contribute most to overall climate risk and how this risk could change over time:

+ **Gilts:** **Gilts** show consistent positive performance across all scenarios, with a positive return impact. This indicates Gilts can serve as a defensive asset in the face of climate-related economic disruptions.
+ **Asset Backed Securities:** ABS also generally show positive relative returns ranging from 0.13% p.a. (Fragmented World) to 0.25% p.a. (Net Zero 2050) better returns relative to baseline. These assets benefit the most from a rapid transition, proving resilient to **transition risks**. Short duration and exposure to resilient consumer **credit** in coordinated transitions are expected to drive this outcome.
+ − **Diversified Private Credit:** Shows a positive return (0.14% p.a. better return relative to baseline) under the Net Zero 2050 scenario, benefiting from a coordinated and ambitious climate transition, but experiences negative returns relative to baseline under the Fragmented World and Current Policies scenarios, reflecting vulnerability to slower or inconsistent climate action.
− **Private Equity:** PE experiences the largest negative impact across all scenarios. The worst outcome is under the Current Policies, while the new "Fragmented World" scenario is slightly less negative. This suggests PE is highly vulnerable to **physical risks**, particularly if policy action is insufficient.
− **Infrastructure and Corporate Bonds:** Both show small negative return drag in all scenarios, signalling moderate losses relative to baseline scenario. This may be driven by rising credit and regulatory risks, physical asset exposure, and uncertain revenue stability in transition.

As transitional and physical costs increase, **yields** are expected to decrease as investors switch to safer assets. This would be reflected in the derivation of the Scheme's funding measures and would have a positive effect for the Scheme's index-linked **Gilts**.

The **Trustee** has adopted a hedging strategy that targets a 95% hedge of interest and inflation rate exposure and therefore the Scheme's Liability Driven Investment ("LDI") **portfolio** is expected to largely mirror any potential changes in the Scheme's **liabilities**.

Describe the impact of climate-related risks and opportunities on the Scheme's investment and funding strategies

The IRMC also carried out an assessment of climate risk impact on liabilities and the **sponsoring employer**, extending beyond asset class analysis. This page summarises this evaluation, breaking down the exposure to transition and physical climate risks for both liabilities and sponsoring employer.

Liabilities

Transition risks may significantly impact the liabilities' profile as they may alter key financial assumptions such as discount rates and inflation expectations. Changes in regulations, policies, and market dynamics related to the shift to a low-carbon economy may also have significant impacts. This exposure persists across short, medium, and long-term horizons, making transition risk a critical factor in liability management. **Physical risks** have a lower direct effect on liabilities since these are not physical assets. **Page 23** offers a more detailed analysis of the potential impact of various climate scenarios on liabilities.

Sponsoring employer

Sponsoring employer outcomes are initially positive in both scenarios but deteriorate over time, especially under a physical risk-led scenario. This reflects increasing financial and operational pressures as climate risks crystallise.

The Trustee's **Covenant** Adviser continues to monitor climate-related risks and **opportunities** for the Scheme's sponsoring employer to inform the Scheme's investment and funding strategy. The timing of any impact from policy decisions is being considered relative to long-term funding targets such that reliance on covenant should continue to reduce as the covenant outlook becomes more uncertain.

The most material risk arises from a transition scenario and relates to Government policy decisions around the future of energy. If the UK transitions to significant use and distribution of hydrogen and biomethane, there is an upside opportunity for the sponsoring employer. However, a transition away from gas that doesn't favour hydrogen or biomethane is a material risk to the longer-term operations of the sponsoring employer. More information is available on **page 25**. However, due to low reliance on the sponsoring employer this risk is not expected to materially impact members' pensions.

		Liabilities	Sponsoring employer
Transition risk	Short term (3)	High	Low
	Medium term (8)	High	Average
	Long term (16)	High	High
Physical risk	Short term (3)	Low	Low
	Medium term (8)	Low	Average
	Long term (16)	Low	Average

Source: WTW, PWC

Note: Whilst these colour-coded ratings are based on scenario analysis results, there are also additional qualitative overlays that have resulted in the final matrix.

Describe the impact of climate-related risks and opportunities on the Scheme's investment and funding strategies

Climate scenario – Liabilities analysis: longevity impacts from changes in members' life expectancies

The **Trustee** recognises that potential changes to how long members are expected to live on average pose a material risk to the Scheme's funding level. The extent to which longevity may benefit or be detrimental to the funding level is expected to vary depending on the scenario. The Trustee receives advice from its Actuary and Investment Consultant when considering whether to accept or manage longevity risk.

The table to the right illustrates the potential impact of each scenario on the Scheme's **liabilities** and its funding level relative to a "climate neutral" baseline. The present value of the Scheme's liabilities is sensitive to projected changes in member longevity.

Even modest changes in life expectancy assumptions can have a material impact on long-term funding requirements.

Key insights: Overall, the findings remain broadly consistent with previous **climate scenario analysis**. The newly introduced "Fragmented World" scenario is largely aligned with the "Delayed Transition" one, i.e. it is expected to lead to lower average life expectancies, and therefore, reduced liabilities.

- Under the "Net Zero 2050" scenario, over the longer term, behavioural changes could lead to increases in life expectancies due to the effective mitigation of **physical risks**. This may marginally reduce the Scheme's funding level.
- In contrast, the "Delayed Transition" and "Fragmented World" scenarios are likely to result in lower average life expectancies, which means **the Scheme** would decrease liabilities. This is due to the disruption caused by delayed and uncoordinated climate action, combined with increasing physical risks over time, both of which can negatively affect health and longevity. This is more likely to improve the funding level.
- The "Current Policies" scenario is the most extreme. It could lead to the biggest long-term drop in members' life expectancies, due to a decline in health and public services, made worse by the long-term effects of climate change. This could lead to the greatest improvement in funding level but does not represent a positive outcome from the members' perspective.

	Liabilities	Funding level
Net Zero 2050	+0.6%	-0.6%
Delayed Transition	-0.8%	+0.8%
Fragmented World	-2.7%	+2.7%
Current policies	-3.8%	+3.8%

Source: Actuary

Note: Impact measured on the Scheme's Long Term Objective liability basis.

You can find the definitions of these climate-related scenarios on **page 18**.

Describe the resilience of the Scheme's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

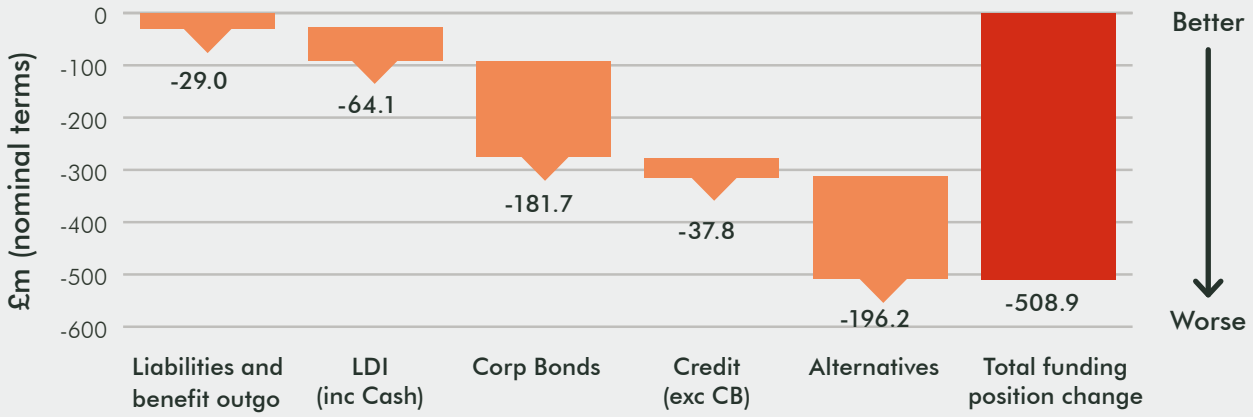
Climate scenario – Funding position analysis: Funding position across climate scenarios

The results are in line with previous findings and show that all climate scenarios lead to a decline in the Scheme's funding position over time if life expectancy isn't considered. However, the size of the impact and the reasons behind it vary, with the biggest long-term deterioration seen in scenarios where there is little or no climate action.

Continuing with current policies results in the most severe long-term impact, with a £147m decline in real funding position (expressed in today's money, adjusted for inflation) and a total nominal reduction (reflective of future monetary values without adjusting for inflation) of circa £509m after 25 years. Alternatives and **corporate bonds** are the largest contributors to this deterioration, reflecting heightened transition and **physical risks** in a world of weak climate policy. We are assessing these asset classes as more vulnerable to climate policy as market repricing, **credit** risk, and lower returns in a transition scenario are all expected impacts.

In contrast, the Net Zero 2050 scenario causes a short-term dip in returns, but leads to a less severe impact on funding over the long term. This highlights that early and well-planned climate action not only supports environmental goals but also helps protect financial outcomes. It reinforces the importance of integrating climate scenarios into long-term funding and investment strategies.

Reduction in median funding position for Current Policies relative to Baseline at year 25



	Expected annual asset return drag compared to Baseline returns (1 = 0.01%)			Expected change in real funding position (excluding longevity) compared to Baseline scenario		
	8 years	16 years	25 years	8 years	16 years	25 years
Net Zero 2050	-20	-1	5	-£82m	-£82m	-£98m
Delayed Transition	-4	-13	0	-£21m	-£100m	-£125m
Fragmented World	-4	-9	-6	-£18m	-£74m	-£139m
Current Policies	-5	-9	-8	-£24m	-£75m	-£147m

Sources: Actuary, Investment Consultant

Note: Impact measured on the Scheme's Long Term Objective liability basis additional detail on scenario analysis can be found in the Appendix.

Physical risks, transition risks and climate opportunities: Covenant

Covenant considerations: Qualitative deep dive

The table outlines climate-related risks and **opportunities** for the **sponsoring employer**, highlighting that transition and **physical risks** may pose operational and reputational risks. However, supportive government policy and regulatory cost pass-through mechanisms could offer an upside, particularly if investments align with long-term energy transitions.

Risk or opportunity	What it looks like	Covenant implications
Transition risks	• Political/regulatory policy away from gas to other energy sources (not hydrogen). • Cost of transition to net zero, including regulatory approach to funding and access to capital. • Delivery of transition strategy with reputational risk if targets aren't achieved. • Note under a delayed transition scenario there may be minimal action, and therefore impact, until at least 2030.	• In an extreme case, a move away from gas (and not towards hydrogen or biomethane) could materially impact operations, reducing usage of network assets and, in the long term, gives rise to the risk of assets losing values or being difficult to sell. It's worth noting that regulatory protections and policy to date suggests there would be a slow, managed transition to this scenario. • Although transition impacts are mostly expected after 2035, investor and lender decisions could be influenced by climate policies or regulations announced before then. • Transition costs may have a limited impact if they can be passed on through Ofgem's pricing rules. • Whilst risks would be similar in any transition scenario, the size of impact would likely be more significant in a more disorderly transition scenario, given the required speed to execute change.
Physical risks	• More severe winters and hotter summers leading to surges in energy demands. • Network damage from flooding, erosion, wildfires, etc. • More extreme weather impacting the supply chain.	• Reputational impact if operations cannot meet demand or if public safety is impacted. • Increased cost – though the cost could be passed through subject to Ofgem agreement and impact on network reliability.
Opportunities	• Government policy supports hydrogen, biomethane and/or gas as key future source of energy.	• There might be a lot of investment needed, but if costs are approved by Ofgem, there could be benefits like investment in the sponsoring employer, an increase in Regulatory Asset Value (RAV), and longer asset lifespans. • Improved long-term prospects for the sponsoring employer.

Describe the climate-related risks and opportunities the Trustee has identified over the short, medium and long term

Covenant considerations: Qualitative deep dive

Covenant strength and climate risk assessment

When assessing and monitoring the employer **covenant**, the Covenant Adviser performs a qualitative assessment. This looks at the possible impact of climate-related risks and **opportunities** – both physical and transition – on the strength of the covenant. The assessment covers the short, medium, and long term, using different climate scenarios (which are defined on **page 18**). This is used to inform views of the resilience of the Scheme's investment and funding strategy.

As the Scheme's funding level increases over time, its dependency on the covenant to underwrite risk decreases. The Scheme's funding level means its reliance on the covenant is currently low, but some reliance is expected to remain over the short to medium term.

Sponsoring employer risk exposure and energy transition scenarios

The **sponsoring employer's** exposure to risks and opportunities is likely to vary depending on what scenario we consider. Given the nature of the business, the most material risk identified, which the Scheme's Covenant Adviser will continue to monitor, is the role of carbon-based gas in the UK's future energy mix, particularly in relation to domestic heating.

Each year, the National Energy System Operator prepares pathways* that outline different credible ways to decarbonise UK energy systems to net zero by 2050. Under the 2024 pathways, natural gas demand is forecast to reduce by c.30% for consumer use and c.45% for industrial use by 2035 in each of the net zero compliant pathways. Whereas, under the counterfactual pathway, decline in gas demand is much slower.

Policy context and transition risks

If policy retains natural gas as a key source of energy for the UK and encourages the use of hydrogen and biomethane as an alternative energy source, there is some upside opportunity for the sponsoring employer in a transition scenario. Any transition away from gas that doesn't favour hydrogen is a material risk to the longer-term operations of the sponsoring employer.

Whilst there would be a delay before this directly impacted operations, it could also have shorter term impacts, for example, on regulatory frameworks and financing. Initial considerations regarding the transition away from natural gas are reflected in Ofgem's RIIO-3 Sector Specific Methodology Decision** and in the UK government's ban on new gas boilers by 2035, albeit noting plans on this are currently behind schedule and we haven't seen a material reduction in gas demand to date.

Risk monitoring and mitigation

A summary of climate-related risks and opportunities is set out on the following page. The risks are consistent with those identified by the sponsoring employer (per its latest annual report and climate change adaptation report) and the **Trustee** notes there are some sponsoring employer risk management procedures in place to mitigate the impact of these risks.

The Scheme's Covenant Adviser independently monitors these risks and reports formally at least annually with regular dialogue throughout the year with the Trustee and the sponsoring employer and carries out detailed reviews for each triennial valuation.

* Source - FES 2024: ESO Pathways to Net Zero

** Source - RIIO-3 Sector Specific Methodology Decision – Overview Document

Describe the climate-related risks and opportunities the Trustee has identified over the short, medium and long term

Stewardship analysis: Assessing managers' engagement practices

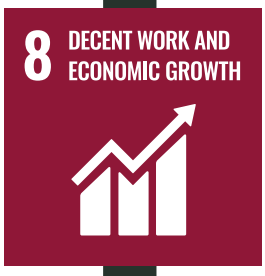
Our Investment Consultant carried out a review to independently check how well our **investment managers** follow our key **stewardship** priorities. These priorities are connected to four UN SDGs:

- SDG 13: Climate Action
- SDG 7: Affordable and Clean Energy
- SDG 8: Decent Work and Economic Growth
- SDG 9: Industry, Innovation and Infrastructure

The assessment considered the overall quality of managers' stewardship efforts, the degree of alignment with our SDG priorities and the extent of engagement activity on the selected SDGs.

- **Stewardship quality across the portfolio was rated as moderately strong.** This was broadly in line with expectations given the private market exposure and the ambitious SDG focus. Several managers demonstrated strong practices through firm-wide integration of **ESG** themes, structured engagement, and collaborative initiatives.
- **SDG alignment was generally indirect but present.** Although few managers explicitly mention the SDGs, most focus on related issues like clean energy, good jobs, and inclusive growth, so there's a strong connection between their work and the SDGs.
- **SDG-specific engagement was strong on SDG 13 (climate) and SDG 7 (clean energy).**

Overall, the Scheme's stewardship profile is sound. Challenges around the stewardship alignment and reporting against these goals are also recognised. As such, continued engagement with managers will focus on enhancing transparency and encouraging more explicit links to our SDGs, including SDGs 8 and 9.



Risk Management

Describe the Trustee's processes for identifying, assessing and managing climate-related risks

Identification, assessment and management of climate-related risks: This section outlines how the IRMC identifies, assesses and manages its most material climate-related risks. Our approach builds on previous years and remains relevant to the evolving risk landscape, scheme-level **governance** and oversight.

Scheme level risk governance and oversight

The IRMC formally reviews climate-related risks annually. Further detail on this is provided later in the section. Additionally, the IRMC draws on input from the Scheme's advisers – across investment, actuarial, legal and **covenant** perspectives – to ensure climate-related risks are assessed and managed in an integrated way. Where relevant, advice considers both transitional and physical climate risks, as well as potential **opportunities**.

No new material changes in climate risks were identified in the risk register during last year's assessment.

Climate risk analysis across covenant and liabilities

The **Trustee** takes climate-related risks into account in its oversight of both the **sponsoring employer** and the Scheme's long-term funding plans. Although the Scheme's strong funding position and low-risk investment approach help to mitigate covenant exposure, climate risks are routinely evaluated by the Covenant Adviser.

The Scheme Actuary also evaluates potential impacts on **liabilities**, including through scenario analysis.

No new material changes in climate risk exposure were identified as part of our liabilities and covenant analysis.

Assessing climate risk management by our managers

We regularly assess our managers' ability to identify, evaluate, and mitigate **ESG** risks. This year, we broadened our review beyond the annual Sustainability Integrated Assessment to include analysis of participation in **ESG industry bodies**.

Insights from the **stewardship** review (see Strategy section) were also incorporated in our risk exposure analysis.

Overall, the Scheme is in a sound position, with ESG risks being actively managed, particularly across the liquid credit portfolio.

Climate data and scenario analysis

To strengthen climate risk management, the Trustee combines improved climate data with forward-looking scenario analysis. Now in its fourth year of reporting, the Scheme has expanded Scope 3 emissions coverage and assessed data quality across Scope 1 and 2. These enhancements support a clearer view of climate risks and **portfolio** trends.

As mentioned above, scenario analysis, conducted every three years, explores potential impacts under a range of climate pathways.

Further detail is included in the Metrics & Targets and Strategy sections.

Describe the Trustee's processes for identifying, assessing and managing climate-related risks

The **Trustee** integrates climate risks into Scheme oversight, in line with the TCFD framework. Asset managers handle day-to-day climate risk management, with regular engagement from the IRMC, supported by the Trustee's Investment Consultant, who conducts a formal quarterly review with each manager.

Covenant-related climate risks

Climate risks are especially relevant to the **sponsoring employer's** medium and long term sustainability.

The Trustee prioritises oversight of employer-related risks and mitigates climate exposure through strong funding and a lower-risk investment strategy.

Supported by the Covenant Adviser, the Trustee monitors climate risks and evaluates their impact on the Scheme's journey plan.

Formal reporting occurs annually, with regular engagement between the Trustee, sponsoring employer, and the Advisers including tracking of regulatory changes and sector-specific indicators.

Industry bodies participation assessment

This year, the IRMC enhanced its assessment by reviewing managers' participation in key industry initiatives – including climate, nature and social examples – with support from the Investment Consultant. This focused on collaborative action and reporting, both central to effective **stewardship** and climate risk mitigation.

All managers met the Scheme's baseline ESG expectations. Liquid managers led through active involvement, while **illiquid** managers showed less participation in collaborative industry bodies and ESG data sharing.

Overall, the Scheme maintains a strong ESG position with no reputational risks related to **ESG industry bodies'** participation identified.

Manager Sustainability Integration

The IRMC receives an annual report from its Investment Consultant that evaluates each underlying manager based on the level of **ESG** integration within their **portfolios**, with a particular emphasis on climate-related risks.

The most recent analysis confirms that the Scheme continues to meet desired criteria for ESG and Climate, demonstrating a strong baseline performance.

The Scheme is well positioned, with 12 out of 15 tracked funds ranking in the top half of their respective asset class peer groups for integration of climate and broader ESG considerations. Given the portfolio's significant illiquid holdings, this outcome aligns with strong practice in the industry.

Liabilities-related climate risks assessment

Climate-related risks are increasingly relevant to the valuation and projection of the Scheme's **liabilities**. The Scheme's Actuary supports the Trustee by identifying, assessing, and advising on climate risks that could impact funding decisions.

To evaluate these potential impacts, the Trustee actively monitors future **yields** and inflation assumptions, longevity expectations and scenario analysis. This approach enables the Trustee to maintain a holistic view of how climate change could affect the Scheme's funding position.

All actions are aligned with a robust risk mitigation strategy, ensuring the Scheme remains resilient to evolving climate risks.

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the Trustee's overall risk management

Our risk register

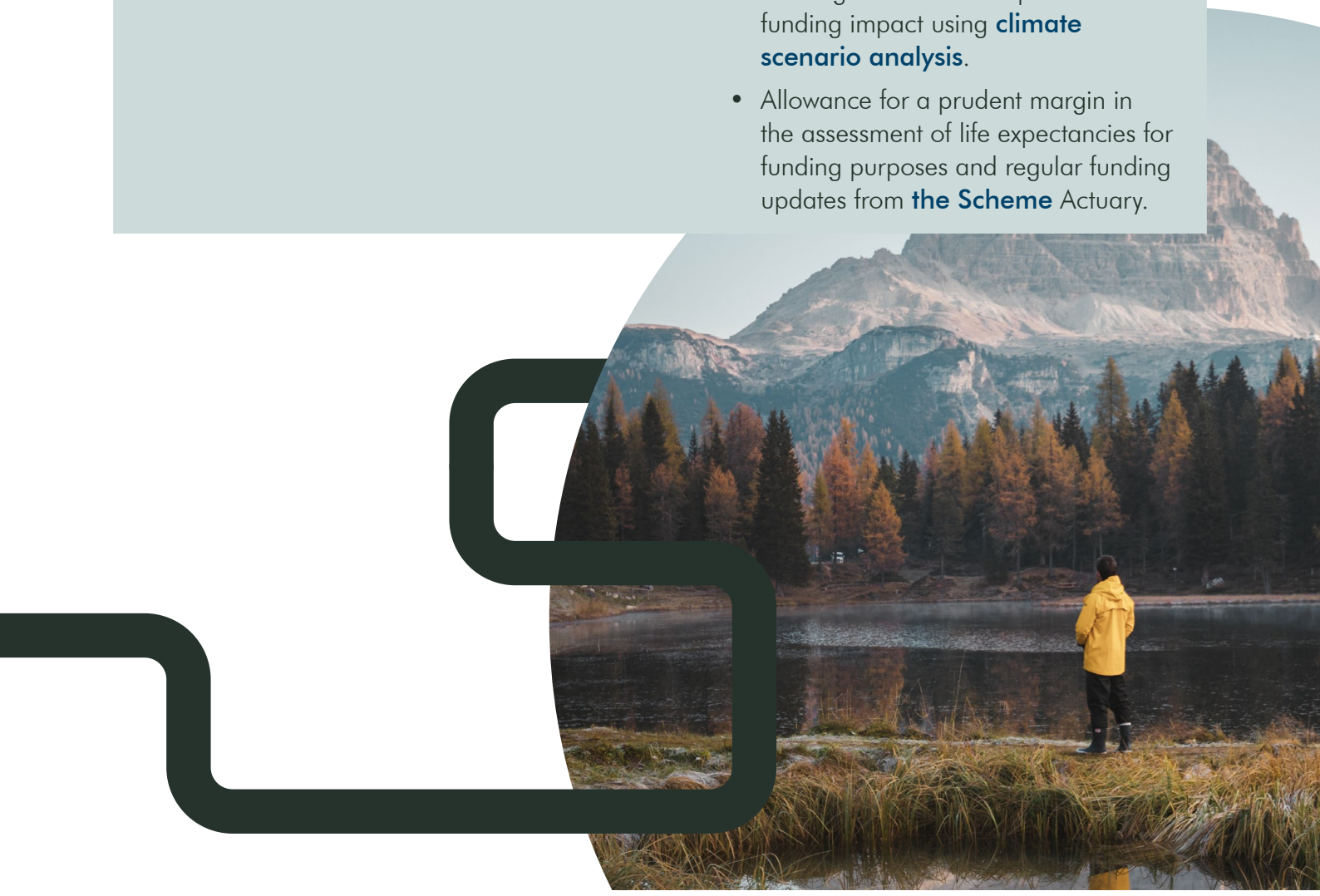
Climate-related risks and **opportunities** are fully considered and integrated into the investment process by the IRMC. Here we outline some of the material climate-related risks that the **Trustee** considers within the risk management framework.

Both the Trustee and IRMC have climate-related considerations included in their respective risk registers (see below). The risk registers include actions the Trustee has taken in mitigating climate-related risks, such as manager monitoring and regular reviews with the **sponsoring employer**.

The IRMC and the Scheme's advisers built a sophisticated IRM (Integrated Risk Management) dashboard to further enhance its risk management processes with a set of metrics and KPIs that are assessed regularly. This includes climate considerations (to the extent the Trustee considers climate a material risk versus other considerations) and, given the industry in which the sponsoring employer operates, will explicitly focus on the strength of the sponsoring employer.

	Potential Issues	Mitigating Actions
Covenant: sponsoring employer	• Worsening **covenant** position associated with the impacts of climate change (transition and **physical risks**). • Transition away from gas for future energy provision in the UK. • Damage to reputation and/or legal challenge due to poor or inconsistent climate practices.	• Covenant formally considered by Covenant Adviser on an ongoing basis. • Monitoring of Government energy consultations, regulatory environment and broader commentary around the future of energy. • Regular review with sponsoring employer. • Scheme protections would take effect in a downside scenario.
Investment Strategy	• Asset mispricing due to the impacts of climate change and the transition to low carbon economy and/or physical impacts of climate change.	• Professional advice from Investment Consultant. • Continued monitoring of investments against the Trustee's **ESG** policy and climate target(s), and regular (at least triennial) climate scenario modelling. • Ongoing Trustee training.

	Potential Issues	Mitigating Actions
Investment: Asset and investment manager allocations	• **Investment managers** do not adequately integrate financially material **ESG** factors (including climate risks) into their risk management framework. • Investment managers do not adopt effective **stewardship**: e.g. to improve management of climate factors. • Investment managers do not consider potential investment **opportunities**.	• Investment Consultant monitors investment managers and reports to the **Trustee**. This may include, but is not limited to, monitoring managers and asset classes on the risks and opportunities that arise from climate change and how these are managed on an ongoing basis.
Funding level	• Funding target is increased at future actuarial valuations due to climate-related reasons. • Cost of longevity insurance increases due to climate change.	• Scheme Actuary, **sponsoring employer**, Investment Consultant and **Covenant** Adviser all involved in ongoing funding level assessment and IRM. • Training and advice on potential funding impact using **climate scenario analysis**. • Allowance for a prudent margin in the assessment of life expectancies for funding purposes and regular funding updates from **the Scheme** Actuary.



Metrics and Targets

Disclose the metrics used by the Trustee to assess climate-related risks and opportunities in line with its strategy and risk management process

Assessing the impact of climate change on the Scheme's investments is important for managing related risks. The **Trustee** annually gathers and reviews climate metrics to evaluate these risks on the Scheme's **portfolios**.

The Trustee has decided to report on the following metrics for the Scheme's invested assets*:

Required Metric Type	What do these metrics mean?
1. Absolute Emissions	Total Greenhouse Gas Emissions: Total amount of greenhouse gas emissions emitted by the underlying portfolio companies, attributed to the investor based on the total investment in each company.
2. Emissions Intensity	Carbon footprint: An intensity measure of emissions that assesses the level of greenhouse gas emissions arising from a £1 million investment in a fund.
3. Portfolio Alignment Metric	Implied Temperature Alignment: Expresses the alignment of the portfolio relative to the goals of the **Paris Agreement**, limiting global temperature rises to 1.5°C.
4. Additional Climate Metric	Data Quality: Data Quality is split between reported, estimated, unavailable (there is no verified data at present).

The Trustee has a long-term ambition of net-zero carbon emissions, across all Scheme assets, by 2050. The Trustee has agreed an interim target consistent with this aim.

Target	Reduce Scope 1 and 2 emissions of the **liquid credit portfolio** by 38% by 2030 (versus a 2021 baseline) in line with the UK government's commitment.
Progress	**The Scheme** remains on track overall, having already achieved a 32% reduction against the 38% target.

Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks

Before diving into the 2024 metrics results in pages 32 to 34, this section gives an insight into the approach used to gather data as well as assumptions and limitations of data coverage.

Gathering the metrics

The **Trustee** has gathered climate metrics for its **portfolio** as of 31 December 2021 (the "Baseline") and 30 September 2024.

The Trustee reports, where available, on Scope 1 and Scope 2 emissions (the direct and indirect emissions from company owned or controlled sources and from purchased energy) and, separately, Scope 3 emissions (emissions associated with the value chain). However, the Trustee notes that the reporting of Scope 3 emissions is heavily reliant on estimates and is less confident in the accuracy of these figures.

The Trustee also measures, monitors and reports a data quality metric to provide additional information on the underlying carbon data sources, and implied temperature alignment to provide a forward- looking assessment of its mandates.

The Trustee, in conjunction with its Investment Consultant, has not made any additional assumptions beyond the data provided by managers and is investigating alternative sources (such as external data providers) to fill various data gaps.

Data coverage

Progress in Scope 3 reporting: **The Scheme** has increased Scope 3 emissions coverage to 53%, up from 27% as of 30 September 2023. This improvement is primarily due to three further mandates now reporting Scope 3 data, significantly enhancing the Scheme's ability to monitor and disclose financed emissions.

Data gaps: For some asset classes – such as private **credit** – data availability remains limited, translating to approximately 27% of the portfolio currently lacking emissions data.

Asset class limitations: An increase in exposure to **asset-backed securities (ABS)** and similar asset classes may reduce overall carbon visibility in the future, given their structural complexity and limited emissions transparency. The IRMC and Investment Consultant are actively engaging with managers – including ABS managers – to improve data quality and disclosure.

Ongoing challenges: Poor data coverage and low quality continue to be significant barriers to identifying and assessing climate-related risks. The IRMC and Investment Consultant have consistently pressed the Scheme's principal **investment managers** to enhance the availability and consistency of climate metrics.

Industry collaboration: To support broader market progress, the Scheme's Investment Consultant plays a leading role in the UK Investment Consultants Sustainability Working Group (ICSWG) initiative, aiming to standardise key **ESG** metrics and drive improved data quality across the industry.

Overview of 2024 metrics results

Key: ↑ Metric declined versus 2023 value ↓ Metric improved versus 2023 value

↑ **Absolute emissions (Scope 1 & 2 tCO_2e)**
2024 value : 319,267
Change vs last year: +34%

↑ **Carbon footprint (Scope 1 & 2 tCO_2e / £1m of EVIC)**
2024 value: 65
Change vs last year: +31%

↑ **Absolute emissions (Scope 3 tCO_2e)**
2024 value: 459,053
Change vs last year: +199%

↓ **Carbon footprint (Scope 3 tCO_2e / £1m of EVIC)**
2024 value: 363
Change vs last year: -12%

↑ **ITR alignment**
2024 value: 1.9
Change vs last year: -0.2

↓ **Data quality (Scope 1 & 2)**
2024 value (% reported): 26%
Change vs last year: +3%

These metrics acknowledge that while there have been improvements in some areas, progress in others remains mixed. **Although the increase in absolute emissions coverage from 2023 is a positive outcome, it may have adverse implications in the future if emissions overall fail to improve.**

Absolute emissions have increased across all scopes, but this is primarily due to improved data coverage, rather than deterioration in **portfolio** emissions. Scope 3 coverage increased from 16% to 21%, and Scope 1 & 2 from 24% to 28%, giving a more complete emissions picture this year.

Scope 1 & 2 carbon footprint has increased, driven by the higher intensity profile in LDI and **liquid credit**, partly due to reduced data coverage in LDI. In contrast, the footprint from illiquid assets improved, and overall changes remain within expected year-on-year variability.

The portfolio's Implied Temperature Rise (ITR) has improved, moving from 2.1°C to 1.9°C. ITR calculates the extent to which the Scheme's investments are aligned with the 2°C **Paris Agreement**, and thus is a positive indicator to suggest the portfolio is more aligned with global climate goals.

Scope 3 carbon footprint has improved, reflecting a significant reduction in emissions intensity across the illiquid portfolio. Note that absolute emissions have also risen, though this may be attributed to increased data coverage across scope 3.

Data quality has also improved, with a greater share of Scope 1 & 2 emissions now based on company-reported data – rising from 23% last year to 26%. This reflects better disclosure across our listed mandates.

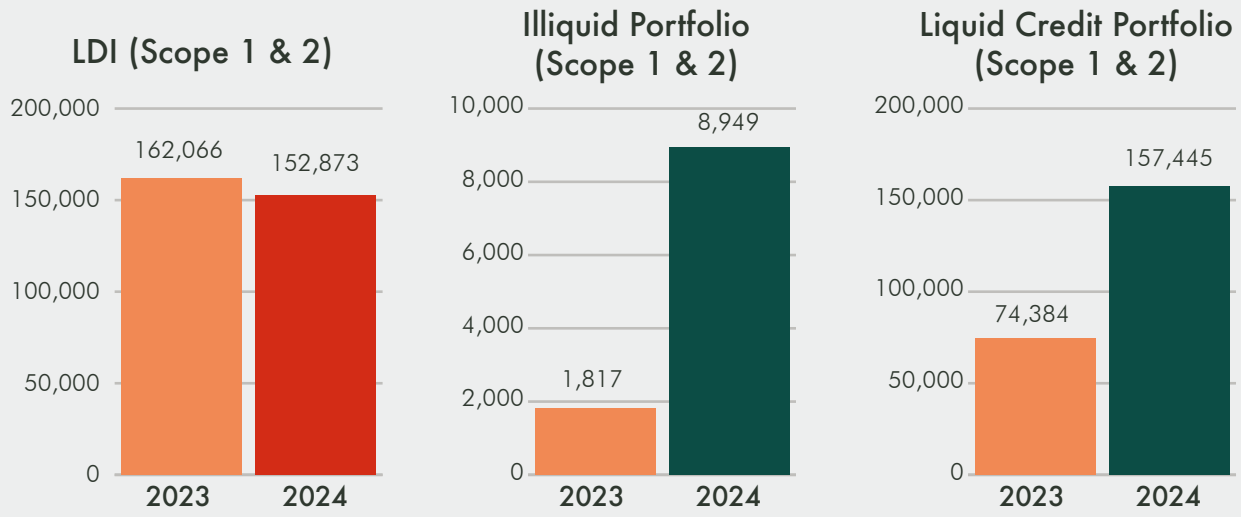
More detail on metrics can be found in the following pages and Appendix.

Disclosure of metrics – Total emissions and carbon footprint (Scope 1 & 2)

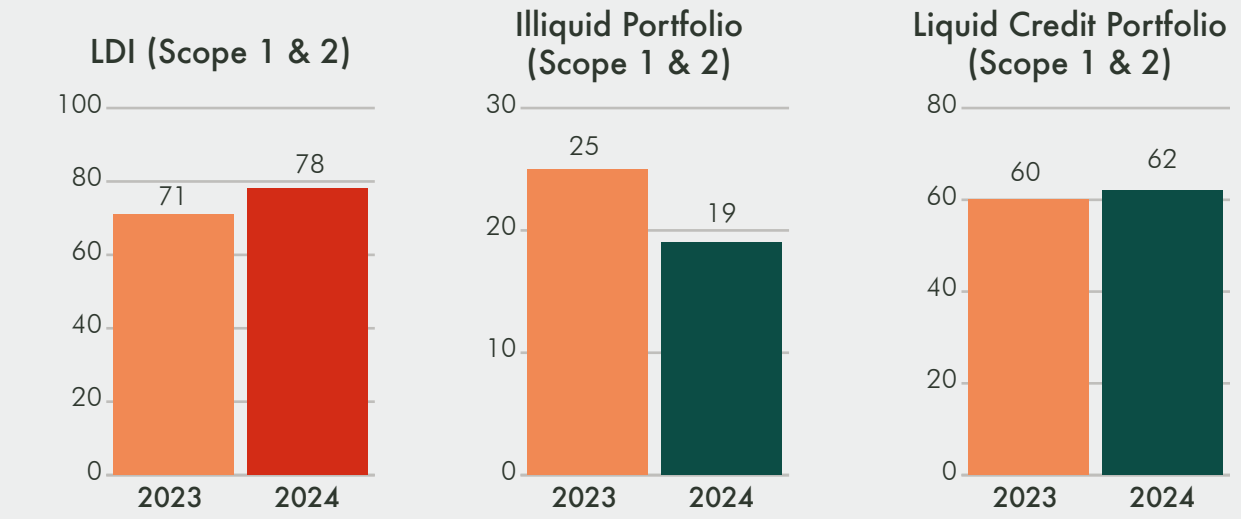
Absolute emissions and **carbon footprint** increased for most of the sub-portfolios; however, data coverage has increased since the previous year.

Key: Data coverage declined versus 2023 | Data coverage improved versus 2023 value

Total GHG emissions (tCO_2e)



Carbon footprint (tCO_2e) / £1m of EVIC)

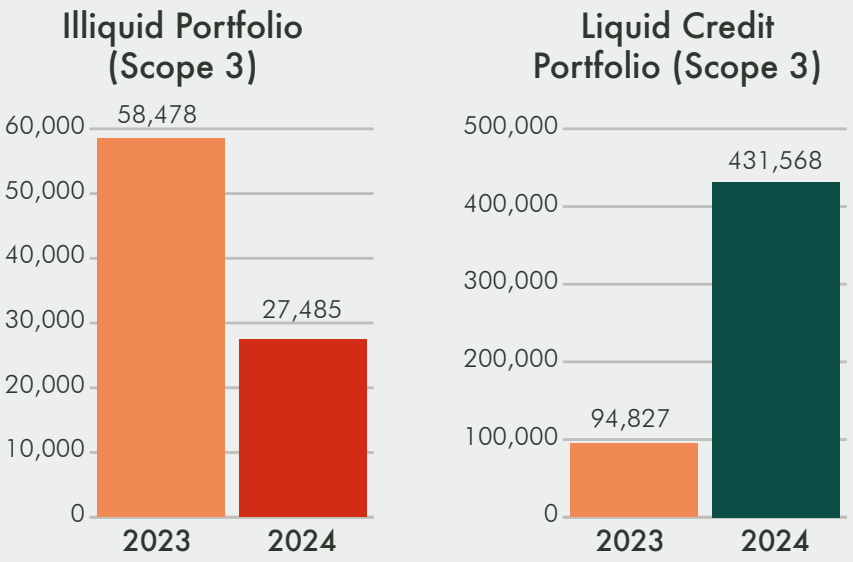


Disclosure of metrics – Total emissions and carbon footprint (Scope 3)

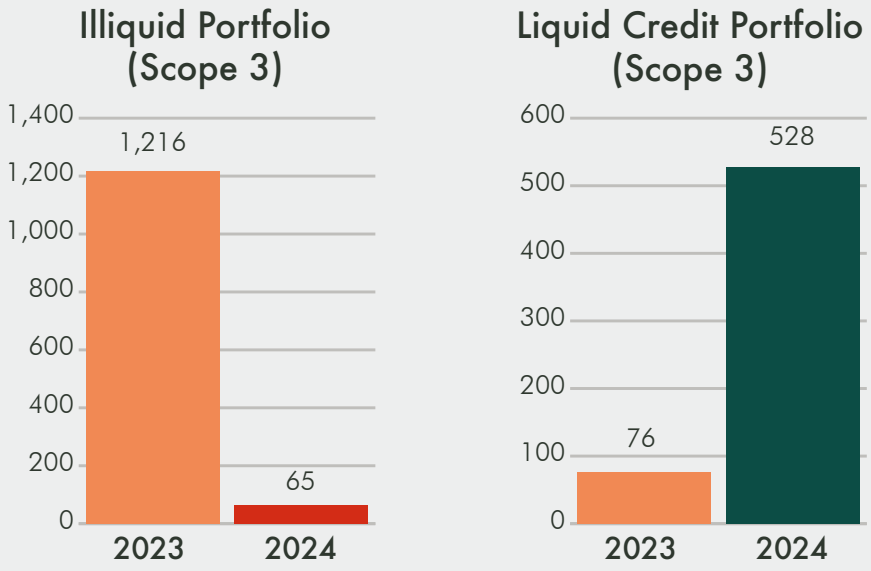
While **absolute emissions** and **carbon footprint** decreased for **illiquid** portfolio, these increased for the **liquid credit portfolio** since data coverage has increased considerably since the previous year **(from 37% to 53%)**.

Key: Data coverage declined versus 2023 Data coverage improved versus 2023 value

Total GHG emissions (tCO_2e)



Carbon footprint (tCO_2e) / £1m of EVIC)



Describe the targets used by the Trustee to manage climate-related risks and opportunities and performance against targets

	Baseline year	Decarbonisation target and year	Net zero
SBTi 1.5°C scenario	2021	38% (2030)	2050
Scheme	2021	38% (2030)	2050 Ambition

The Trustee has retained its target to achieve a 38% reduction in the Scheme's Scope 1 and Scope 2 carbon footprint by 2030. This is focused on the liquid credit portfolio and relative to a 2021 baseline.

This target is aligned with the Science Based Targets initiative (SBTi), which outlines that a 38% reduction in global emissions by 2030 (relative to a 2021 baseline) is consistent with a 1.5°C warming scenario.

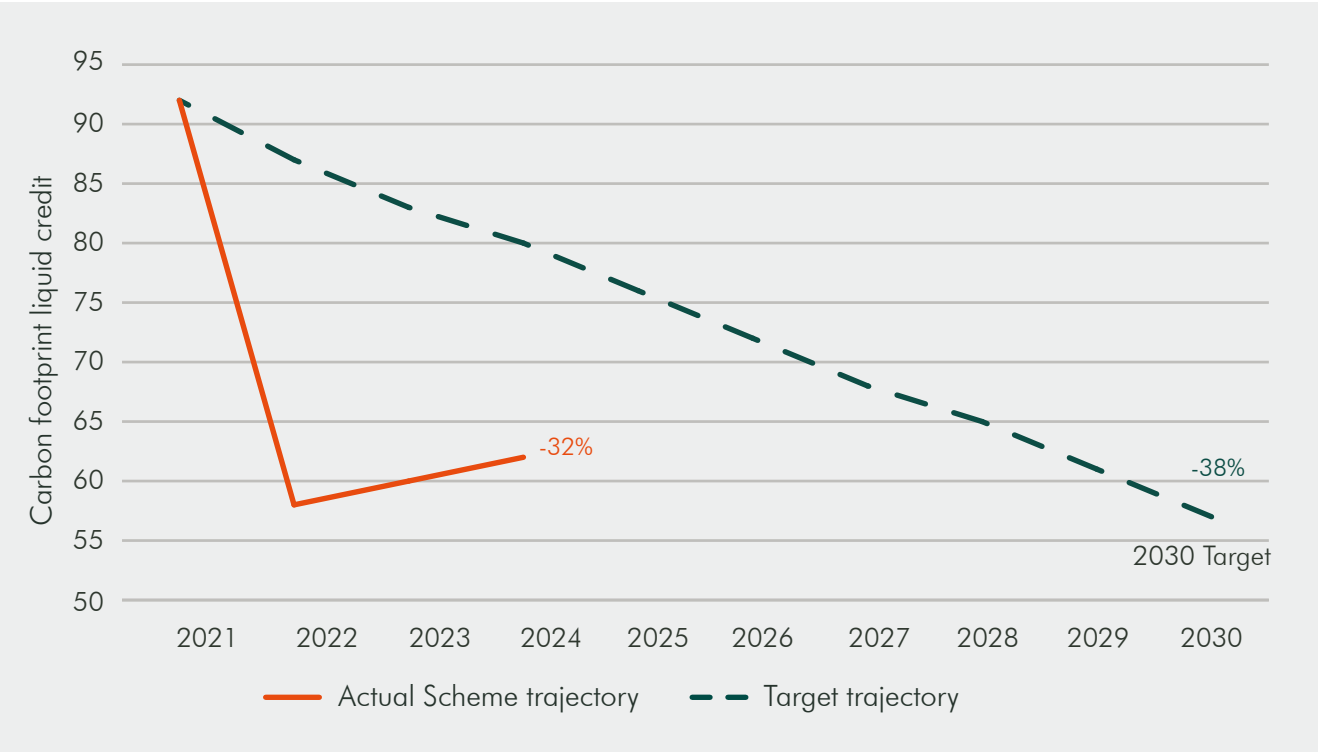
Net Zero Ambition: This 2030 target forms the Scheme's first formal climate milestone and is embedded within a longer-term net zero ambition by 2050 across all asset classes. Progress toward the 2030 target will be tracked on a pro-rata basis across the Scheme's liquid credit mandates, based solely on manager-reported emissions data. The Trustee has intentionally avoided the use of estimates to ensure methodological integrity.

Data quality: Recognising the limitations in current emissions data coverage, particularly across private markets and structured credit, the Trustee has focused its 2030 target exclusively on Scope 1 and 2 emissions within the liquid credit portfolio – where coverage is currently deemed sufficient. As data quality improves, the Trustee will consider expanding target-setting efforts to additional asset classes.

Manager engagement: To support delivery of the target, the Trustee has engaged directly with its liquid credit managers – facilitated by the Investment Consultant – and has formally embedded climate targets into manager agreements. The use of segregated portfolios enables more direct alignment between the Scheme's climate objectives and portfolio implementation.

Governance & target review: The 2030 target was reviewed in 2024 as part of the Scheme's wider climate metric review process. The Trustee concluded that the target remains appropriate and will reassess it again in 2025, in line with broader portfolio developments and governance cycles.

Forward-looking approach to target setting: As the Scheme's asset allocation continues to evolve, the Trustee is actively exploring opportunities to extend climate target-setting to other areas of the portfolio. This includes evaluating temperature alignment metrics for the liquid credit portfolio and identifying feasible approaches for incorporating targets in less developed segments such as asset-backed securities. This iterative approach reflects the Trustee's commitment to continuous improvement in climate risk management.



Interim and long-term goals

The **Trustee** has adopted a net zero ambition by 2050, consistent with supporting the UK Government's climate goals.

To help achieve this, **the Scheme** has established an interim decarbonisation target of a 38% reduction in Scope 1 and 2 emissions within the **liquid credit portfolio** by 2030, measured against the 31 December 2021 baseline.

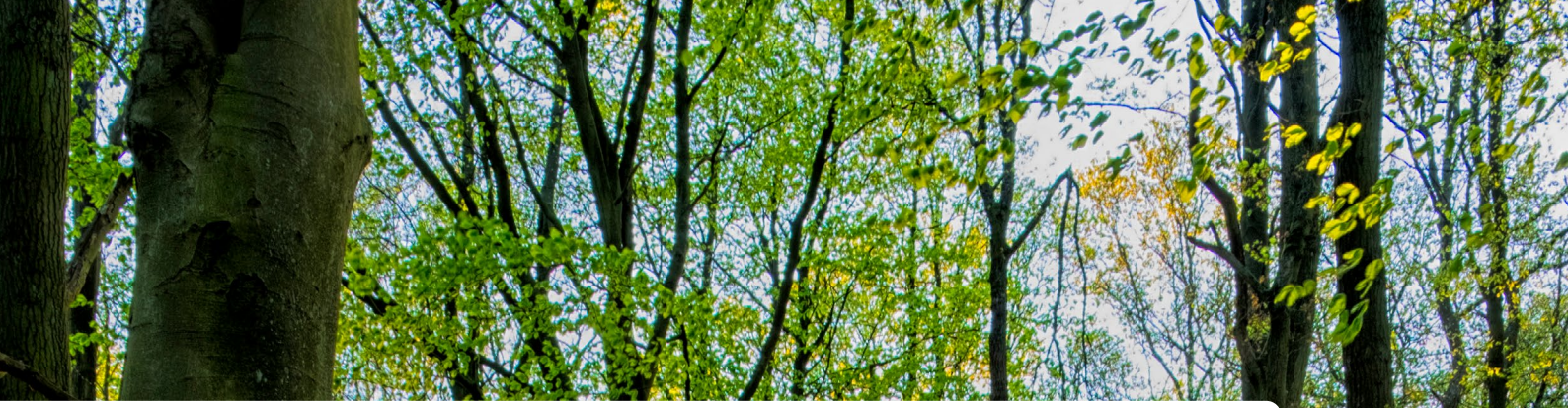
Progress against 2030 target

Since the 2021 baseline year, the Scheme has made meaningful progress toward its 2030 climate objective. As of the latest reporting period, the Scope 1 and Scope 2 carbon footprint of the liquid credit **portfolio** has been reduced by 32%, compared to a 38% reduction target by 2030.

While this represents a modest deterioration since the previous year, portfolio emissions remain significantly below the 2021 baseline.

Carbon footprint	Baseline 31/12/2021	30/09/2024	2030 Target (versus baseline)
Liquid credit portfolios	92	62 (-32%)	57 (-38%)

Note: Methodology of metrics can be found in the **Appendix**.



Concluding remarks

The **Trustee** continues to place significant emphasis on strengthening its approach to climate-related risks and **opportunities**. This commitment is reflected in a number of developments outlined throughout this report – including the annual Sustainability Integrated Assessment, the **Stewardship** Analysis, the exploration of further integration of **ESG** considerations across asset classes and the **ESG industry bodies** review. Together, these efforts underscore the Trustee's ongoing ambition to embed climate considerations across all aspects of investment **governance**.

At the heart of this work is a clear focus on member outcomes. Looking ahead, the Trustee will continue to refine its approach to climate strategy and risk management, deepening engagement with investment managers and working towards progress against its climate metrics and targets. Through these actions, the Trustee aims to build a resilient, well-governed investment framework that supports both long-term sustainability and financial outcomes for all members.

Thank you for reading.

Appendix

Appendix: Governance

Describe the Trustee Board's oversight of climate-related risks and opportunities

Governance Structure for ESG considerations

Oversight - Trustee Board Governance	
Approve Statement of Investment Principles, ESG policy (including ESG beliefs) and responsibilities.	Ultimate responsibility to ensure the identification, assessment and management of climate-related risks and **opportunities**.

Management – Integrated Risk Management Committee (IRMC) Strategy, Risk Management & Monitoring		
Assess climate impact on assets, **covenant**, funding, and members.	Monitor climate metrics and progress against target.	Consider strategy implications and scenario analysis.

Executive – Cadent Pensions Team & Trustee Advisers Delivery		
Oversee delivery of climate workstreams including liaising with other Advisers.	Gather and report climate metrics to the IRMC.	Provide strategy and risk related advice to IRMC.

Roles and responsibilities of Advisers	
Investment Consultant	Advising on the inclusion of climate considerations in the Scheme's **governance** arrangements, investment strategy, risk management and monitoring, working with the IRMC, **Trustee** and the other advisers, as appropriate; Providing training and advising on climate-related risks and opportunities over the short, medium and long term at least annually; Assisting the IRMC in the selection, calculation and monitoring of appropriate climate-related metrics and targets annually.
Scheme Actuary	Helping the Trustee to assess climate-related risks and opportunities in relation to the Scheme's funding position over the short, medium and long term and the implications for the Scheme's funding and long-term objective, including a review of the TCFD report.
Legal Adviser	Providing training to the Trustee on climate-related legal matters, including ensuring the Trustee is aware of its climate-related statutory and fiduciary obligations, and a review of the TCFD report.
Covenant Adviser	Undertaking periodic reviews, at least annually, of the extent to which climate-related risks and opportunities might affect the Scheme's **sponsoring employer** over the short, medium and long term, informed by sector and sustainability expertise. This analysis is reported to the Trustee Board and/or IRMC and is used to help inform the Scheme's longer-term strategy and complete the Trustee's annual TCFD report.

Describe management's role in assessing and managing climate-related risks and opportunities

Trustee: The Trustee and its Advisers have their responsibilities clearly defined in a Climate Delegation Proposal which was first adopted in year 2022 and is reviewed annually.

Cadent Pensions Team ("CPT") and external advisers: The day-to-day oversight of the underlying portfolio managers and the extent to which they manage climate risks and opportunities is undertaken by the CPT with support from the Scheme's Advisers. The CPT and the Investment Consultant provide extensive monitoring reports to the IRMC on a quarterly basis and attend the IRMC meetings. The CPT also attend training sessions provided to the Trustee.

The Scheme Actuary, Legal Adviser and Covenant Adviser all support the CPT. The advisers undertake regular training to provide the necessary advice. The Trustee and IRMC review its Investment Consultant against strategic consultant objectives annually, with explicit inclusion of ESG and Climate considerations. From 2024, the Trustee will also assess how its Actuarial and Covenant Advisers advise on climate-related risks and opportunities.

Investment managers: Given assets are managed by external investment managers, the ongoing assessment and management of climate-related risks and opportunities is largely delegated to them. This is through a combination of pooled investment vehicles and segregated portfolios. Where the Trustee invests in pooled vehicles, extensive due diligence is carried out prior to investment, with explicit consideration given to how managers approach climate risk. When investing via segregated portfolios, the Trustee has significantly higher ability to influence the management of ESG risks. This may be reflected in the investment management agreements (IMAs) where appropriate, for example the Trustee is implementing a decarbonisation objective within the IMAs of the liquid credit mandates.

The Investment Consultant reviews all portfolios with respect to ESG integration on a regular basis, typically annually. The Trustee recognises that one size may not fit all and that different approaches to climate considerations may be appropriate, particularly when across different classes and investment styles.

Appendix: Strategy

Scenario analysis

Modelling principles

Modelling was undertaken by the Scheme's Investment Consultant, Isio. SOFIA is Isio's proprietary investment model. SOFIA is a stochastic model that simulates a large number of possible future economic outcomes, in which financial conditions develop in a number of different ways, defined by assumptions for average outcomes, range of variability, and inter-dependency between different markets. The results shown in this report are based on the median results.

The high-level market scenarios are generated by a third-party Economic Scenario Generator (ESG) provided by Moody's Analytics. The ESG is an industry-standard tool that is widely used by financial institutions (e.g. insurers, asset managers, and investment banks). Both the climate scenarios and the underlying economic impacts are provided by Moody's Analytics.

Based on the scenarios generated by the ESG, SOFIA simulates asset class returns calibrated to the Isio's asset class assumptions.

SOFIA takes the initial starting position of the assets, and projects these values forward under the simulated scenarios, taking into account any relevant inflows and outflows.

Different investment strategies are modelled in order to illustrate the effects of different allocations. In each case, SOFIA assumes that the strategy remains constant over the full projection period, and assets are annually rebalanced back to the original allocations. We can model alternative future strategic asset allocations being explored.

The potential impact on life expectancy under each scenario was provided by the Scheme Actuary.

Modelling limitations

The models are based on assumptions and simplifications across both the climate-related impacts and the investment implications, they are not intended to be a perfect prediction of the future but rather provide the **Trustee** with hypothetical constructs.

No guarantee can be offered that actual outcomes will fall within the range of simulated results. Actual outcomes may be better than the simulated 95th percentile or worse than the simulated 5th percentile.

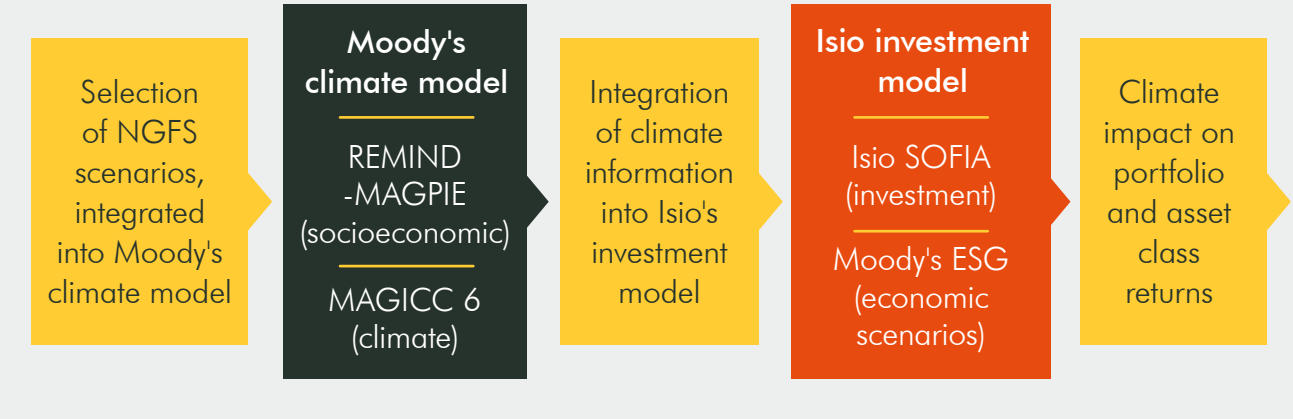
The only risk factors considered in the modelling are those that affect the values of pension schemes' assets. The modelling results should be viewed alongside other qualitative considerations including **portfolio** complexity, **governance** burden, and **liquidity** risk.

The model's projections are sensitive to the starting position and the econometric assumptions. Changes to the assumptions can have a material impact upon the output. There can be no guarantee that any particular asset class or investment manager will behave in accordance with the assumptions. Newer asset classes can be harder to calibrate due to the lack of a long-term history.

Climate scenario analysis

The Scheme's Investment Consultant, Isio, partnered with Moody's to deliver a climate change model. Please see an overview below.

- **Selection of climate scenarios from the Network for Greening the Financial System (NGFS):** The interpretation and implementation of these scenarios are detailed below, across these building blocks.
- **Inclusion of climate scenarios within Moody's climate model, composed of two building blocks:** a socioeconomic REMIND-MAGPIE general equilibrium model, modelling macroeconomic growth and energy systems. This assumes that markets are efficient and sets out traditional economic assumptions around the evolution of economic markets. This is combined with the MAGICC 6 climate model, modelling climate and weather. The model runs 600 climate scenario projections and takes the median outcome for each climate scenario: baseline, Net Zero 2050, Delayed Transition, Fragmented World, Current Policies. There is interplay between these models.
- **The investment model is Isio's SOFIA model:** This determines how different asset classes will react under the different climate change scenarios analysed, and across time. It is also composed of two building blocks: Moody's Economic Scenario Generator, modelling economic pathways. This is combined with the Isio proprietary investment model, which models the impact on investments.
- The output is an understanding of the potential impacts on investment strategy and asset class outcomes, as well as the funding position. In particular, the impacts of rising transitional and physical costs associated with climate change are assessed.



What has changed?

Socioeconomic data

- Baseline assumptions around growth have decreased, whilst assumptions around population growth have increased.
- All scenarios in the analysis are grounded in the Intergovernmental Panel on Climate Change (IPCC)'s Shared Socioeconomic Pathway 2 (SSP2) – the "Middle of the Road" pathway. SSP2 reflects a world with moderate economic growth, uneven development, and no major shift in climate policy ambition. It assumes some progress on sustainability, but not at the pace required for rapid decarbonisation.
- Using SSP2 provides a consistent socioeconomic baseline across all climate scenarios (e.g. 1.5°C orderly, 2°C delayed, fragmented and current policies). This allows comparison of physical and **transition risks** while holding macroeconomic and demographic trends constant.

Climate data

- Climate pathways: have been updated for countries' new Nationally Determined Contributions targets.
- There have been changes in the way that physical damages are modelled, assessing more channels (than just average temperature). This means the standard assumptions around **physical risks** are more aggressive.
- There is also a reduced reliance on Carbon Dioxide Removal (CDR) and Carbon Capture and Storage. For example, whilst biomass burning is assumed to be net negative, expectations around levels of biomass energy are scaled down.
- The revised data has scaled carbon taxation sensitivity upwards for low carbon scenarios, to 0.5 for Net Zero 2050 and 0.75 for Delayed Transition.
- The Current Policies physical damages data has been scaled to 95th percentile, whilst Fragmented World was scaled to 67% percentile.

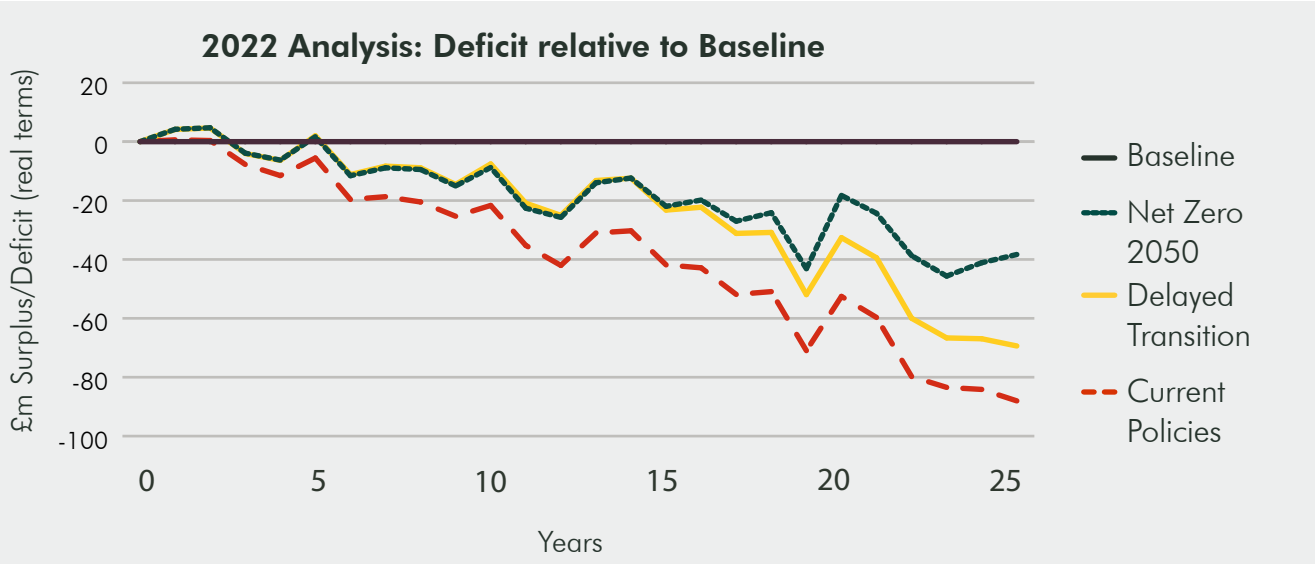
Transition risks

- Shifts in investment impacts are driven by underlying changes in the data, with CDR assumptions being made more conservative. This would place a stronger emphasis on upfront decarbonisation, increasing return drags.

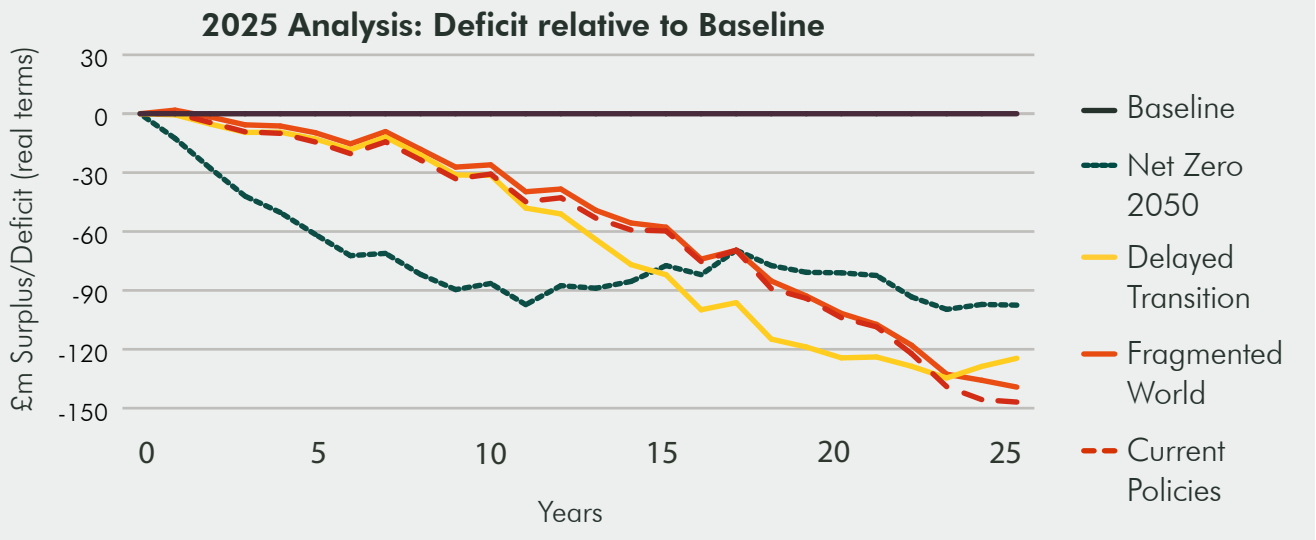
Physical damages

- In the previous modelling approach, Isio had adopted the Burke & Tanutama damages (2019), scaled up to the 67th percentile to compensate for the general under-estimation of physical damages in climate modelling, across the market.
- In the latest update, standard damages were scaled up using the Kotz et al. (2024) study, which analyses physical damages through various channels, including the average and standard deviation of temperature, and the average and standard deviation of precipitation (instead of just average temperature in prior damage functions).
- The end result is similar by the end of the century across these two approaches. However, the pathways look relatively different over time.
- **Anything to note?** The **NGFS** has some political grounding, in having e.g. central banks party to discussions. They are still saying a 1.5°C scenario is plausible, with an overshoot of 1.65°C, which is viewed by some as controversial.

Comparison with previous scenario analysis



Scenario	3 years	8 years	16 years	25 years
Orderly Transition (Net Zero 2050)	3.5%	-3.0%	-2.7%	-3.8%
Disorderly Transition	3.6%	-2.8%	-3.1%	-6.8%
Hot House (Current Policies)	7.0%	-6.4%	-5.9%	-8.7%



Scenario	3 years	8 years	16 years	25 years
Net Zero 2050	-28.70%	-19.90%	-10.30%	-8.10%
Delayed Transition	-6.50%	-5.10%	-12.50%	-10.40%
Fragmented World	-3.90%	-4.40%	-9.30%	-11.60%
Current Policies	-6.30%	-5.70%	-9.50%	-12.20%

Source: Isio, Moody's

Note: The Baseline scenario assumes no transition or physical impacts of climate change i.e. a climate neutral scenario. This is based on stochastic modelling, with the median outcome shown. **Liabilities** are modelled on an inflation +1.7% basis. Whilst we have modelled the potential physical and abatement costs over the next 3, 8, 16 and 25 years, in theory, markets may price these in sooner. The model's projections are sensitive to the underlying methodology and assumptions. No guarantee can be offered that actual outcomes will fall within the range of simulated results. Due to the long projection period, the model's outcomes are particularly reliant upon the underlying assumptions. Therefore, more attention should be paid to the relative comparisons between different projections than to the absolute magnitude of the results. Isio's climate model has been developed in partnership with Moody Analytics and based on **NGFS** scenarios. Commentary is Isio's interpretation of results.

Source: Isio, Moody's.

Appendix: Metrics & Targets

Disclose the metrics used by the Trustee to assess climate-related risks and opportunities in line with its strategy and risk management process

Metrics

The **Trustee** monitored four climate-related metrics over the year. The choice of metrics was determined by their potential to add value to the Trustee's decision-making processes and availability of data. The Investment Consultant gathered this data, as far as able*, from the **investment managers** on behalf of the IRMC. The **IRMC** assesses these metrics at least annually to monitor climate-related risks, and as a tool to engage with its underlying investment managers. The IRMC monitors a selection of the metrics quarterly through a risk dashboard.

Greenhouse gas ('GHG') emissions are a key factor to consider in the context of climate change. There are a number of economic activities that result in the release of GHGs into the atmosphere, primarily as a result of burning fossil fuels for energy, travel and manufacturing. These GHGs are heat-trapping in nature and result in a 'greenhouse effect' where the Sun's energy is trapped, causing the Earth to warm. Reducing the amount of GHGs within the atmosphere is important for controlling global warming and the corresponding physical impacts of climate change.

Absolute emissions metric: Total greenhouse gas emissions (scope 1 & 2 and scope 3)

Total amount of GHG emissions emitted by the underlying **portfolio** companies, attributed to the investor based on the total investment in each company.

Emissions intensity-based metric: Carbon footprint (scope 1 & 2 and scope 3)

Carbon footprint is an intensity measure of emissions that assesses the volume of GHG generated per £1 million investment in a company.

Portfolio alignment metric: Implied temperature alignment

Measures the temperature pathway the portfolio aligns to, expressed as a projected increase in global average temperatures this century (vs pre-industrial times) and reported in °C.

Additional climate change metric: Data quality

The proportion of the portfolio for which scope 1 & 2 emissions are verified, reported, estimated or unavailable.

* As far as able represents the extent to which the Trustee, with aid from its Investment Consultant, has been able to obtain these metrics within reasonable and proportionate time and cost.

You can find more on these metrics in the **glossary**.

Disclosure of Scope 1 and Scope 2 greenhouse gas (GHG) emissions (as at 30 September 2024)

Manager	Portfolio allocation %	Total GHG emissions Scope 1 & 2 (tGHG of CO_2e)		Carbon footprint Scope 1 & 2 (tGHwG/£1m)	
		Metric	Coverage	Metric	Coverage
Gilts and Index-linked Gilts	42%	152,861	100%	82	100%
Gilts and ILG funding	-18%	-	-	-	-
Cash	1%	12	47%	0	47%
Other	0%	-	-	-	-
LDI portfolio*	25%	152,873	173%	78	173%
Property Manager	4%	58	100%	0	100%
Diversified Private Credit Manager	7%	5,000	15%	113	15%
Renewable Infrastructure Manager	4%	2,133	100%	11	100%
Credit Mandate 1	2%	1,758	87%	25	87%
Illiquid portfolios	18%	8,949	63%	19	63%
Credit Mandate 2	11%	12,167	72%	39	72%
Credit Mandate 3	6%	13,807	74%	45	74%
Credit Mandate 4	11%	126,443	15%	270	15%
Credit Mandate 5	3%	4,909	77%	35	77%
Credit Mandate 6	0%	119	32%	11	32%
Liquid credit portfolios	31%	157,445	53%	62	53%
Remaining portfolios with no coverage	27%				

* LDI coverage is over 100% due to the derivatives exposure.

Manager	Portfolio allocation %	Data Quality (Scope 1 & 2)			
		Verified	Reported	Estimated	Unavailable
Gilts and Index-linked Gilts	42%	-	-	100%	-
Gilts and ILG funding	-18%	-	-	-	100%
Cash	1%	-	-	47%	53%
Other	0%	-	-	-	100%
LDI portfolio	25%	-	-	98%	2%
Property Manager	4%	-	100%	-	-
Diversified Private Credit Manager	7%	-	100%	-	-
Renewable Infrastructure Manager	4%	-	96%	4%	-
Credit Mandate 1	2%	-	29%	71%	-
Illiquid portfolios	18%	-	92%	8%	-
Credit Mandate 2	11%	38%	9%	10%	43%
Credit Mandate 3	6%	-	74%	-	26%
Credit Mandate 4	11%	-	15%	-	85%
Credit Mandate 5	3%	-	77%	-	23%
Credit Mandate 6	0%	-	32%	-	68%
Liquid credit portfolios	31%	13%	32%	3%	52%
Remaining portfolios with no coverage	27%				

Disclose Scope 3 greenhouse gas (GHG) emissions and other metrics (as at 30 September 2024)

Manager	Portfolio allocation %	Total GHG emissions Scope 3* (tGHG of CO_2e)		Carbon footprint Scope 3* (tGHG/£1m)		Implied temperature alignment (°C)	
		Metric	Coverage	Metric	Coverage	Metric	Coverage
Property Manager	4%	3,849	100%	14	100%	1.5	100%
Diversified Private Credit Manager	7%	2,775	9%	101	9%	-	-
Renewable Infrastructure Manager	4%	20,862	100%	106	100%	1.5	100%
Credit Mandate 1	2%	-	-	-	-	-	-
Illiquid portfolios	18%	27,485	52%	65	52%	1.5	53%
Credit Mandate 2	11%	221,896	72%	709	72%	2	71%
Credit Mandate 3	6%	76,251	74%	326	74%	1.9	74%
Credit Mandate 4	11%	52,879	15%	114	15%	2.6	21%
Credit Mandate 5	3%	67,183	77%	623	77%	2.8	54%
Credit Manager 6	0%	13,359	32%	579	32%	1.6	32%
Liquid credit portfolios	31%	431,568	53%	528	53%	2.1	52%
Remaining portfolios with no coverage	27%						

Source: Investment managers, Custodian, Investment Consultant calculations.

* Some Scope 3 emissions have been provided as at 31 December 2024 and adjusted to align with the 30 September 2024 data

Notes:

Metric & Coverage: denotes the % of each fund where emissions and carbon footprint data is available. Figures rounded to nearest whole number or percentage. Property Manager 1 uses tonnes of carbon per £m of GAV.

Carbon footprint is tonnes CO2e per £1 million of EVIC.

For credit mandates 2-5 all emissions data where available is assumed as reported.

Property Manager 1 classifies Scope 1 and Scope 2 emissions for the properties held as landlord data only. Any tenant data is provided under Scope 3 emissions.

Property Manager 1 considers the temperature pathway of properties as 1.5 degrees given assets are managed in line with the Net Zero pathway set by investors, to which the Cadent **portfolio** is aligned.

For the LDI mandate, carbon footprint coverage includes leverage whilst total GHG emissions and data quality exclude leverage. LDI coverage is over 100% due to the derivatives exposure.

For cash in the LDI mandate, carbon footprint is scaled up to reflect there isn't 100% coverage. For the LDI mandate, all coverage is assumed estimated.

Glossary

Investing and ESG terminology

Asset-Backed Securities (ABS)
An investment that's supported by a pool of underlying assets (like loans, leases, or credit card balances) that generate cash flow. These investments are split into different groups of risk, and the Scheme invests in the highest quality / lower risk (safer) parts.

Climate scenario analysis
A process for assessing the potential impacts of transitional and physical climate-related risks on, and opportunities for, the Scheme under possible future conditions.

Corporate bonds
A type of investment where investors lend money, typically to a large publicly listed company. In exchange, the bond issuer pays regular interest and promises to repay the original amount on a set date in the future.

Credit
Investments where money is lent out in return for interest, such as corporate bonds or structured credit products, like ABS.

Diversified Private Credit (DPC)
An investment strategy that focuses on loans that aren't traded on public markets. Money is lent to various borrowers, including those in commercial real estate, infrastructure projects, mid-sized businesses, and consumer loans.

Environmental, Social and Governance (ESG)
A set of factors used to assess how a company manages its impact on the environment (such as emissions and use of resources), social factors (such as its relationships with people and communities), and governance (such as the quality of its leadership and decision-making).

Gilts
UK Government bonds (or loans) issued to raise money. Investors receive regular interest payments and receive their original investment back on a predetermined future date.

Governance
The frameworks, rules and processes used to guide decision-making, manage risks, and ensure accountability within an organisation or system.

Illiquid
Investments or assets that are harder to sell and may take time to convert into cash.

Liquid
Investments or assets that can be quickly and easily sold for cash with little impact on their value.

Liquid credit portfolio
A part of the Scheme's investment that is invested in corporate bonds and tends to be traded easily.

Opportunities (climate-related)
Investment opportunities arising from the shift to net zero economies, for example in renewable energy or new low carbon technologies, where companies that adapt to or address climate risks are likely to benefit over the long-term.

Private equity
Equity investment in companies that aren't listed on the public market, or sometimes in public companies that are bought and taken private.

Physical risks
Risks arising from changes in weather systems attributable to climate change. For example, temperature changes, extreme weather events, and supply chain disruption.

Portfolios
A group or collection of these investments managed together.

Stewardship
Broadly refers to the responsible allocation, oversight, and management of assets, investments, or resources on behalf of beneficiaries; emphasising long-term value creation, sustainability, and accountability.

Transition risks
Risks arising from the changes required to support a transition to a sustainable, lower-carbon economy. For example, market risks, policy and legal risks, technology risks and member lifestyle changes.

Yields
The income an investor earns from an investment, shown as a percentage of its cost or current market value. For bonds, where the income is fixed, a low yield means a high price, and vice versa.

Climate-related organisations, initiatives and policies

2015 Paris Agreement
A global treaty in which nearly 200 countries agreed to limit global warming to "well below 2°C" (ideally 1.5°C) above pre-industrial levels. Each nation sets voluntary climate action plans to reduce emissions and adapt to climate impacts.

2030 United Nations Sustainable Development Goals (UN SDGs)
A universal call to action comprising 17 interconnected goals aimed at addressing global challenges by 2030. These goals integrate three core dimensions, including economic growth, social inclusion, and environmental sustainability.

ESG industry bodies
Organisations that provide voluntary principles, standards and frameworks for ESG principles in business and investment practices. Examples include the Principles for Responsible Investment (PRI) or the Global Reporting Initiative (GRI).

Network for Greening the Financial System (NGFS)
A set of guidelines to help central banks and financial supervisors integrate climate-related risks into financial stability monitoring, risk assessments, and policy decisions.

Science Based Target Initiative (SBTI)
A global framework that enables companies and organisations to set emissions reduction targets in line with climate science required to meet the goals of the Paris Agreement.

Task Force for Climate-Related Disclosures (TCFD)
A voluntary global framework that has been widely adopted by regulators including the Pensions Regulator in the UK. It requires companies and pension schemes to disclose climate-related financial risks and opportunities. Its recommendations focus on governance, strategy, risk management, and metrics/targets, helping investors and businesses assess the climate's impact on financial stability and decision-making.

Taskforce for Nature-Related Disclosures (TNFD)
A voluntary framework for companies and pension schemes to assess, manage, and disclose nature-related issues, with a focus on nature-related dependencies, impacts, risks, and opportunities.

Taskforce on Social Factors (TSF)
A UK initiative providing guidance to pension schemes on identifying and integrating social factors into investment decisions.

Terms related to the Pension Scheme

The Scheme
Cadent Gas Pension Scheme (CGPS)

Trustee
The Board of Trustees (the Trustee) is responsible for looking after the Scheme and making sure it is run in the best interests of its members.

Sponsoring employer
Cadent Gas Limited (the Company)

Cadent Pensions Team (CPT)
Acts as the Trustee Executive, assisting with the day-to-day running of the Scheme.

Integrated Risk Management Committee (IRMC)
A subset of the Trustee with responsibilities including identifying, assessing, and managing climate-related risks. The IRMC meets quarterly, prioritising ESG and climate issues within a fully integrated framework.

Investment Managers
Manage the Scheme assets in line with the Trustee's agreed mandate, including climate considerations.

Liabilities
The estimated costs of providing members' benefits now and in the future.

Covenant
The Company's ability to support the Scheme.

Glossary: Metrics

Metric	Description	Formula for corporate holdings
Absolute Emissions Metric: **Total GHG emissions (scope 1 & 2)**	Total amount of greenhouse gas emissions (as mandated by the Kyoto Protocol) emitted by the underlying portfolio companies, attributed to the investor based on the total investment in each company	$\sum_{n}^{i} \left(\frac{\text{Current value of investment}_i}{\text{Investee company enterprise value}_i} \right) x \text{ Investee company's scope 1 and 2 emissions}_i$
Emissions Intensity Metric: **Carbon footprint (scope 1 & 2)**	An intensity measure of emissions that assesses the level of greenhouse gas emissions (as mandated by the Kyoto Protocol) arising from £1 million investment (based on Enterprise Value Including Cash) in a company	$\frac{\sum_{n}^{i} \left(\frac{\text{Current value of investment}_i}{\text{Investee company enterprise value}_i} \right) x \text{ Investee company's scope 1 and 2 emissions}_i}{\text{Current value of all investment (£ millions)}}$
Implied temperature alignment	A forward-looking view of carbon exposure that can be translated into a projected increase in global average temperature (°C) above pre-industrial levels that would occur if all companies had the same carbon intensity	

Source: DWP - Governance and reporting of climate change risk: guidance for trustees of occupational schemes

All metrics were provided by the investment managers, who are closest to the underlying assets, and consolidated by the Scheme's Investment Consultant.

GHG emissions

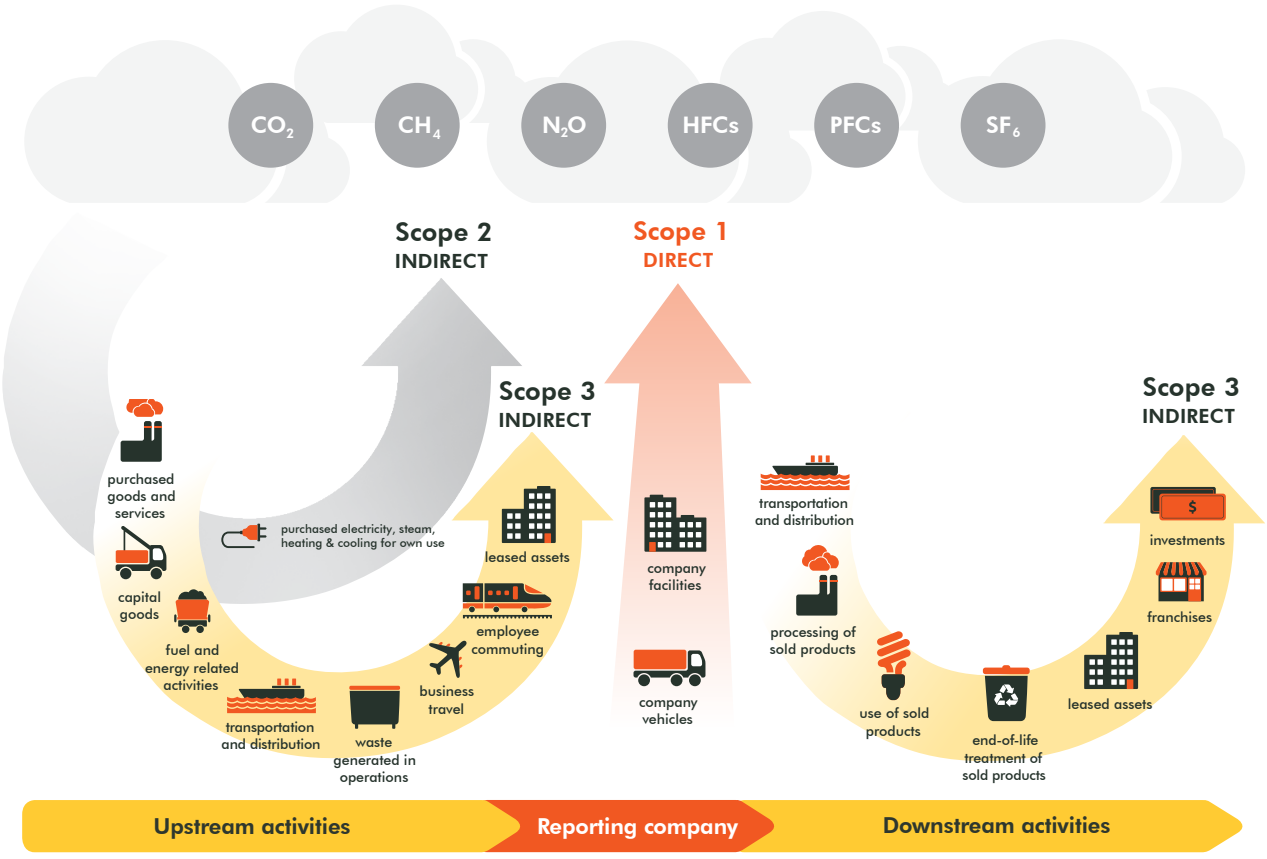
GHG emissions from a particular company can be split across three levels, as shown in the diagram.

Scope 1 are direct emissions from company owned or controlled sources – this includes heating/cooling of offices/factories and fleet vehicles.

Scope 2 are indirect emissions from purchased energy – emissions are created during the production of the energy which is eventually used by the company.

Scope 3 are all indirect emissions that occur in the value chain – this includes emissions from the production of purchased goods and services and the use of sold products. There are currently industry- wide issues with reporting scope 3 emissions.

Overview of GHG Protocol scopes and emissions across the value chain



Source: **https://ghgprotocol.org/corporate-value-chain-scope-3-standard** (page 31)

Cadent Gas Pension Scheme.

www.cadentgaspensions.com