Devonport Royal Dockyard Pension Scheme

Climate change governance and reporting disclosures

Reporting period: 12 months to 31 March 2026

August 2026

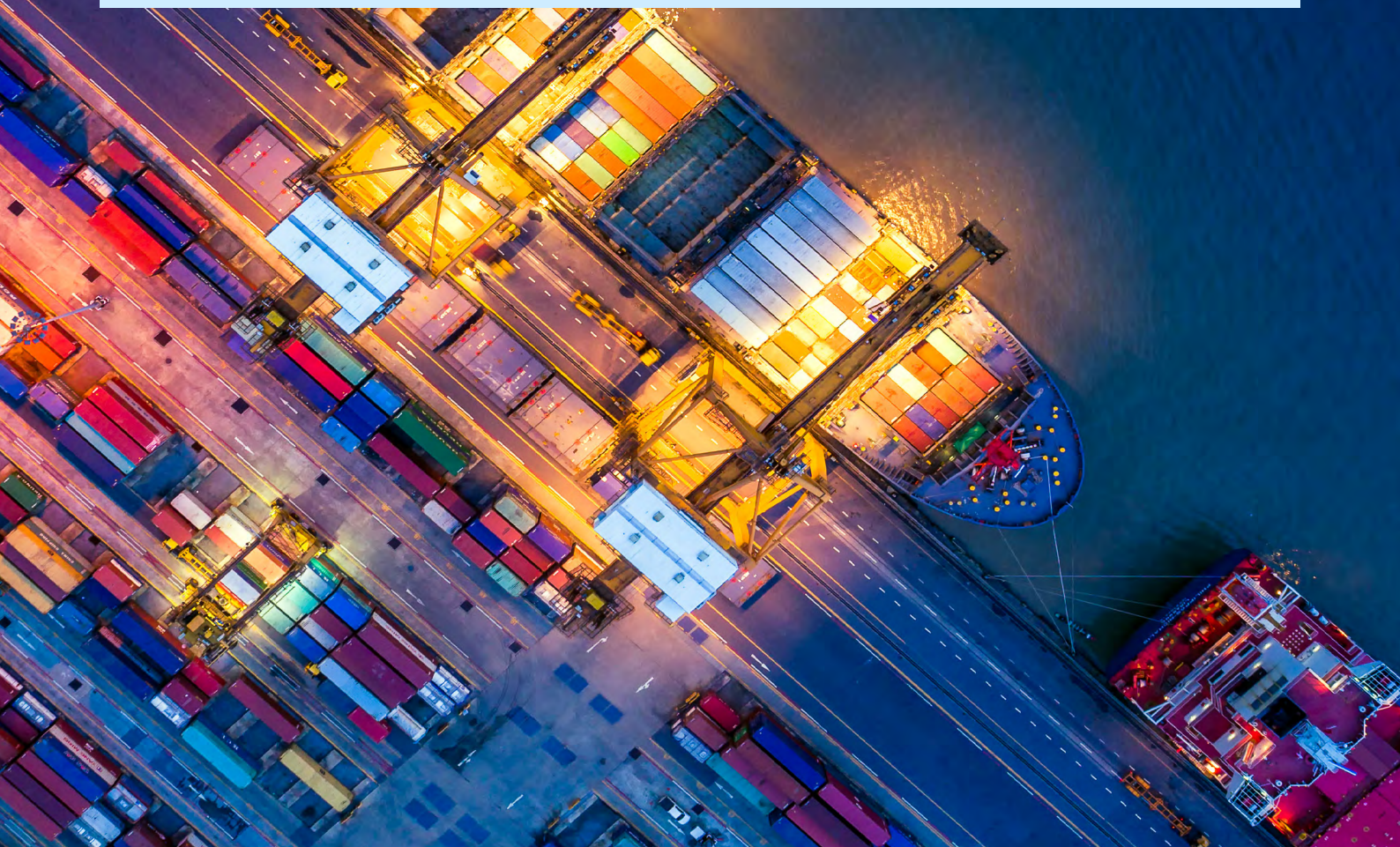
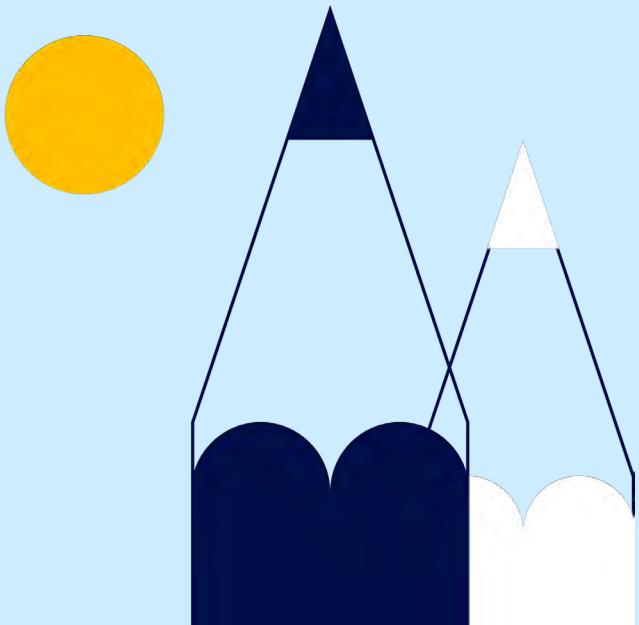


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Chair's introduction

The Trustee of the Devonport Royal Dockyard Pension Scheme ("the Scheme") presents its fourth climate change report, which has been prepared in line with the statutory requirements on climate change governance and reporting prescribed by the Department of Work and Pensions[1].

Climate change is one of the most relevant issues of our time. The Trustee recognises that climate change presents both risks and opportunities, and therefore the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate outcomes need to be analysed.

Ultimately, the Trustee aims to invest the Scheme's assets in the best interests of the members and beneficiaries. Climate change is one of the risks that the Trustee measures, monitors and manages. As such, this needs to be considered alongside other risks affecting the Scheme in a balanced and proportionate way. The climate challenge may also present future opportunities for investment in projects aligned to the low carbon economy; these will be considered using the same governance framework as other potential investments. The Trustee has inevitably focused more on climate-related risks as opposed to opportunities in this report given the Scheme's funding status and investment strategy.

We are pleased to report the continued progress in respect of the Trustee's emission intensity reduction targets. Further details are provided in the 'Metrics and Targets' Section of the report.

The Trustee's reporting is expected to continue to evolve as data availability improves, and as best practice continues to develop.

Steps taken over the period to 31 March 2026

In preparation for the production of this report, the Trustee and the Investment Committee have taken the following key steps:

- Receiving training on climate related risks and opportunities and the climate change governance.
- Carrying out updated climate-scenario analysis that quantifies the risk to the Scheme's funding level over multiple time periods under different climate scenarios, arising from the impacts of climate change on financial markets and demographics.
- Carrying out updated climate metrics analysis which provides an assessment of the Scheme's greenhouse gas emissions exposure and monitoring any changes from the previous year.
- Reviewing progress against the targets to reduce greenhouse gas emissions, covering the Scheme's buy and maintain credit portfolio, as well as the ongoing suitability of these targets.
- Updating the Scheme's climate target to take account of changes to the investment strategy
- Assessing the investment advisers against their respective objectives in respect of climate-related recommendations, and more generally monitoring the performance of the covenant and actuarial advisers.
- Reviewing the ongoing appropriateness of the Trustee's Climate Governance Policy, which clearly sets out the responsibilities of the Trustee and its advisers in relation to climate risks and opportunities.

[1] The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, as amended.

- Producing an Engagement Policy Implementation Statement (which can be found at http://www.myoneday.co.uk/) which outlines the considerations of climate change-related voting and engagement practices of the Scheme's investment managers.

Members are encouraged to contact the Trustee if there are comments they wish to raise and they can contact the Trustee at:

Secretary to the Trustee

Devonport Royal Dockyard Pension Scheme
Babcock International Group
33 Wigmore Street
London
W1U 1QX

We hope you enjoy reading this report.

Susan Jee
Chair of the Trustee



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Areas covered in this report

This report sets out the disclosures of the Trustee of the Devonport Royal Dockyard Pension Scheme (the "Scheme") and covers the Scheme year ending 31 March 2026. This report has been prepared in line with the statutory requirements prescribed by the Department of Work and Pensions[2].

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



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

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

Risk Management: How the Trustee incorporates climate-related risk in its risk management processes; and

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

In summary, this report details:

- Key aspects of the Trustee's Climate Governance Policy, which outlines the roles and responsibilities of the Trustee, the Investment Committee (the "IC") and professional advisers with respect to climate-related activities.
- The Trustee's beliefs with respect to environmental, social and corporate governance ("ESG") considerations, including in the area of climate change.
- The training received by the IC and Trustee at multiple meetings over the year from its investment advisers and investment managers, particularly in relation to climate change-related regulation and setting climate-related targets.
- The steps taken by the Trustee in response to the risk posed by climate change and its impact on the long-term funding objective for the Scheme.
- The key findings from the Trustee's climate change scenario analysis and climate metric analysis.
- The Trustee's processes to identify, assess and mitigate climate change risk.

[2] The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, as amended.

- The five climate metrics that the Trustee has selected to better inform its understanding of climate-related risks and opportunities and monitor progress against the targets set:
  1. total greenhouse gas emissions,
  2. carbon footprint,
  3. weighted average carbon intensity ("WACI"),
  4. implied temperature rise and
  5. data quality.
- An update on progress against the targets set by the Trustee to reduce greenhouse gas emissions. The Trustee set the following emissions target as part of the first Climate Change report submission, covering the Scheme's buy and maintain credit portfolios:
  - Reducing greenhouse gas emissions intensity (Scope 1 and 2) for the aggregate buy and maintain credit portfolio by 45% or more by the end of 2030, as measured by WACI, with a 30 September 2021 baseline.
- The Trustee's updated climate target, which was amended to take account investment strategy changes over the year.



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Investment arrangements

Summary of scheme's assets

This section sets out the Scheme's invested assets and highlights parts of the portfolio which are within the scope of climate-change related reporting requirements and therefore considered as part of the scenario analysis and metrics (where available) in this report.

The Scheme provides defined benefit ("DB") pension benefits with a total asset size of c. £1.2bn as at 31 March 2026. In March 2025, the Trustee undertook a review of the Scheme's investment strategy and agreed an update to the Strategic Asset Allocation ("SAA"), which is shown in Figure 1. The SAA remained in effect over the year to 31 March 2026.

Figure 1: Strategic Asset Allocation as at 31 March 2026

	Strategic asset allocation
Equities	8%
Growth Fixed Income	20%
Growth	**28%**
HLV Property	9%
Liquid Debt	8%
Semi-Liquid Debt	2%
Illiquid Debt	14%
Defensive	**33%**
Matching	**39%**
Total	**100%**



The Trustee also reviewed how the SAA is expected to evolve over time as the Illiquid debt mandates run-off and agreed to invest the proceeds in Semi-liquid debt and Liquid debt whilst broadly maintaining the Scheme's expected return and time to full funding (on a gilts +0.5% p.a. basis).

The climate scenario analysis set out in this report was based on the SAA as at 30 June 2025 and allows for expected changes to the investment strategy over time. The Trustee has considered metrics for the Scheme's actual holdings as at 30 September 2025.

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Governance

The Trustee's approach to climate-related risks and opportunities

The Trustee has ultimate responsibility for ensuring effective governance of climate-related risks and opportunities. The IC is responsible for supporting and guiding the Trustee's work on compliance with the regulatory requirements and recommendations, and this ongoing reporting is integrated into the business plan of the Trustee Board and the IC. The Trustee's approach to the oversight and management of climate-related risks and opportunities is consistent with its approach to considering other financially material risks and opportunities facing the Scheme. The Trustee's Statement of Investment Principles ("SIP") details the key objectives, risks and approach to considering environmental, social and corporate governance ("ESG") factors, including climate change, and stewardship, as part of its investment decision making. The SIP is reviewed at least triennially or more frequently as required.

The Trustee holds the following responsible investment beliefs, which are documented in the SIP. The SIP was updated in October 2025 and remained in effect over the remainder of the year to 31 March 2026. The Scheme's responsible investment beliefs remained aligned with those set out in the previous version of the SIP and, accordingly, no changes were made during the Scheme year.

- **ESG integration:** ESG factors may have a material impact on long-term investment risk and return outcomes. These factors should be integrated into the investment process.
- **Climate change risk:** Climate change may have a substantive impact on the global returns and subsequently on investment returns and aims to minimise the risk to the Scheme.
- **Stewardship (or active ownership):** Good stewardship can create and preserve value for companies and markets as a whole, hence having the potential to benefit Scheme members in the long term. Engagement and voting are influential and can be effective in changing behaviour and increasing returns. The Scheme's investment managers are best placed to manage risks related to ESG, to engage with companies and to effect change on the Trustee's behalf on a day-to-day basis.

The Trustee has reviewed in detail the roles and responsibilities of those undertaking or advising the Trustee on the Scheme's governance activities and produced a Climate Governance Policy, which outlines the roles of the Trustee, IC, in-house pensions team, and professional advisers in respect of climate-related risks and opportunities, and the governance processes around this; please see the Technical Appendix for further details of the roles and responsibilities of those parties advising or assisting the Trustee. Ongoing actions are embedded into the Trustee's business plan, and climate-related risks are included in the Trustee's risk register. Climate change training and related actions are tabled at IC, as well as at full Trustee Board meetings, as required.

The Trustee expects all advisers and the Babcock in-house pensions team to act with integrity and diligence in fulfilling the set objectives (see Technical Appendix for details) and uses meetings with the advisers to assess and challenge them. Where relevant, this includes discussion of the steps taken by advisers to identify and assess any climate-related risks and opportunities.

The investment adviser's approach to climate change and how it is integrated into their advice and services is assessed as part of the adviser selection and monitoring process. The Trustee sets its investment adviser objectives, including ones related to ESG and climate change competency. The investment adviser is formally assessed against these objectives annually.

The IC also annually reviews input from the Scheme Actuary and Covenant Advisor for the annual Climate Change report, to help the Trustee continue to understand the wider resilience of the funding strategy to climate-related risks. The IC also assesses the continued appropriateness of the advice provided by the Scheme Actuary and Covenant Advisor regarding climate-related risk.

Key Trustee responsibilities and oversight of climate change risks

The Trustee has ultimate responsibility for ensuring effective governance of climate change risks and opportunities in relation to the Scheme. In doing so, the Trustee is supported and guided by the IC, its professional advisers and input from its investment managers in order to help assess and manage climate risks and opportunities. The Trustee considers, discusses and challenges the advice provided to ensure that any decisions continue to be integrated into a coherent investment strategy that supports the Scheme's ability to provide pensions.

The Trustee has agreed the Scheme's strategic asset allocation and funding strategy taking into consideration various risks that may impact the Scheme, including climate risk. The Trustee has also agreed a greenhouse gas emissions target, which would involve changes to investment mandates, to ensure that the Scheme's portfolio is better aligned for the transition to a low-carbon economy.

The Trustee has also considered the short-, medium- and long-term impacts of climate change on the Scheme's assets, funding level and covenant.

More detail on the results is provided in the 'Strategy' section.

Overall, resources and time committed have been significant since the Scheme began reporting under the climate change framework. The Trustee and IC meet regularly to discuss climate-related risks and opportunities. The Trustee ensures that sufficient agenda time is allocated in these meetings to discuss climate governance and reporting. The Trustee Board and IC will regularly identify the training needs of its members, and the wider Trust Board, and make training recommendations to the Trustee as appropriate to help them achieve an appropriate degree of knowledge and understanding relating to climate change and the requirements of the International Sustainability Standards Board ('ISSB').



Regular monitoring

The Trustee has commissioned an annual Climate Change dashboard report from its investment adviser covering climate metric analysis (see 'Metrics' section for more detail), progress against targets (see 'Targets' section for more detail), ESG integration and stewardship. The Trustee engages with its investment managers on the key findings as necessary and monitors progress on at least an annual basis.

In addition, the Trustee and IC receive and regularly review quarterly performance reports which include manager ratings which take consideration of the investment managers' approaches to financially material ESG factors such as climate change and stewardship.

The Trustee published its annual Engagement Policy Implementation Statement during the year, which contains information on key votes relating to climate change.

The climate scenario analysis was also updated over the year, based on the Scheme's updated investment strategy outlined in the 'Investment Arrangements' section (see 'Strategy' section for further detail).

Training and climate competency

Research into how climate-related risks and opportunities impact financial markets is constantly evolving and expanding. Responsible Investment topics may also form stand-alone agenda items at meetings. The Trustee's investment managers are also asked to explicitly cover ESG and climate issues when presenting. The Trustee will continue to dedicate time at its annual investment strategy day to climate related risk and opportunities when relevant, and will receive ad-hoc training from its investment advisers and investment managers.

During the year to 31 March 2026, the Trustee received training from the investment adviser covering climate-related investment risks and reporting requirements in line with the climate change recommendations. This included updated training and refresher sessions on governance requirements, review of metrics and scenario analysis. The Trustee will continue to receive training on climate-related risks and opportunities as appropriate.

The Trustee also required investment managers to comment on their ESG integration, including climate change and outline any related stewardship actions when they presented at the relevant IC meetings. Over the year, this included meetings with Insight in respect of the LDI mandate, M&G in respect of the Secured Finance mandate, Mercer in respect of the Multi Asset Credit mandate and L&G in respect of the Buy and Maintain Credit and Equity mandates.

Day-to-day implementation

The implementation of the management of climate change-related risk with respect to specific securities is delegated to third party portfolio managers. Each manager's approach to ESG issues and how these are integrated into their investment process is assessed as part of the manager selection and monitoring process.

The Trustee has given its investment managers discretion in evaluating ESG factors, including climate change considerations, exercising voting rights and stewardship obligations attached to the Scheme's investments in accordance with their own corporate governance policies, and current best practice, including the UK Corporate Governance Code and the UK Stewardship Code. However, it is recognised that ultimate responsibility for the setting of policy and the management of ESG factors remains with the Trustee.

5

Strategy

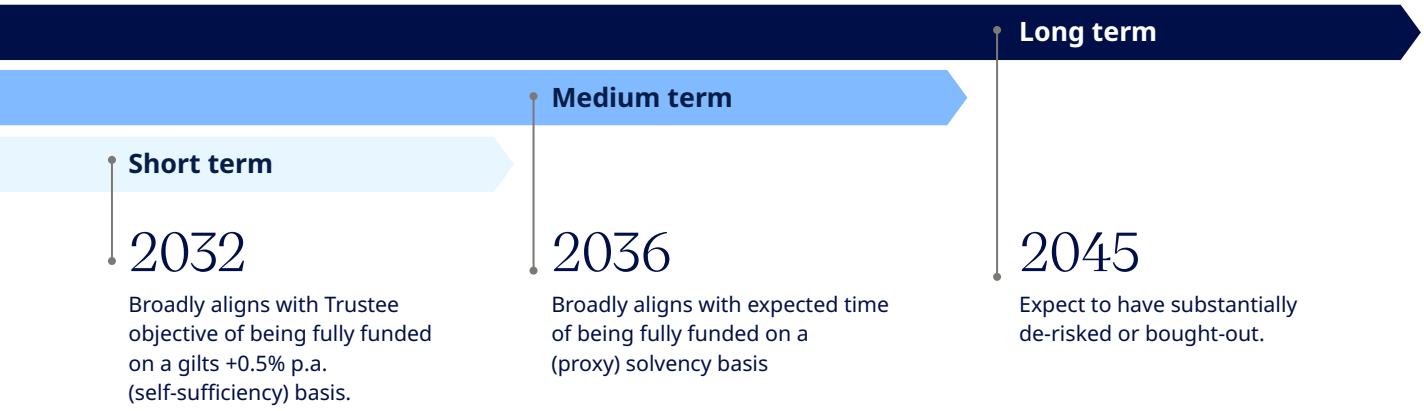
The Trustee's approach to managing strategic climate change risks and opportunities

Climate change timescales

The Trustee believes that sustainability issues, including climate change, present risks and opportunities, which increasingly require explicit consideration. Climate change is identified and described as a systemic risk, which may materially affect the financial performance of the Scheme's investments.

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

Figure 2: Timeframes of short, medium and long-term horizons to identify relevant climate-related risks and opportunities



- Over the short term (by 2032), risks may present themselves through rapid market re-pricing relating to climate transition as:
  - Scenario pathways become clearer. For example a change in the likelihood of a well below 2°C scenario occurring (i.e. an increase in probability would be expected to drive additional transition risk).
  - Market awareness grows. For example, the cost and impacts of the transition suddenly influence market pricing.
  - Policy changes unexpectedly surprise markets. For example, if a carbon price or significant regulatory requirement was introduced across key markets to which the portfolio is exposed, at a sufficiently high price to impact behaviour.
  - Market sentiment is shocked. For example, falls in markets could create a downward spiral where economic sentiment worsens and asset values fall.
  - Perceived or real increased pricing of greenhouse gas emissions/carbon.

- Substitution of existing products and services with lower emission alternatives may impact part of the portfolio.
- Litigation risk relating to dangerous warming becoming more prevalent.
- Increases in the energy/heat efficiency of buildings and infrastructure.

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

- Over the medium term (by 2036), risks are likely to be more balanced reflecting both transition and physical risk. Over this time period the transition pathway will unfold and the level of anticipated physical damage will become much clearer. While the full extent of the physical damage is unlikely to have occurred, markets are likely to be allowing for it to a large degree in asset pricing.
- Over the long term (by 2045), physical risks are expected to come to the fore. This includes the impact of natural catastrophes leading to physical damages through extreme weather events. Availability of resources is expected to become more important if changes in weather patterns (e.g. temperature or precipitation) affect the availability of natural resources such as water. The impact of global heating on productivity, particularly in areas closer to the equator, will also be a key driver.

Climate-related risks and opportunities relevant to the Scheme

Having taken into account the Scheme's strategic asset allocation, the following risks and opportunities have been identified:

- Over the short term, the Trustee has identified the inter-related risk of climate transition risk and asset repricing risk as being most relevant. Over this time period opportunities are most likely to occur in transition related investment such as climate solutions.
- The Trustee's ability to understand these short-term changes can position the Scheme favourably, for example taking advantage of the climate transition by avoiding and reducing investment in high-emitting carbon sensitive businesses/assets that do not have a business plan that supports the transition to a low carbon economy.
- Over the medium term, the Trustee has concluded that both transition risk and physical risk (particularly in the form of asset repricing to allow for future physical damage) could be material.

  The Trustee's ability to understand these changes and evolve the portfolio as the pathway develops should help to control risk and potentially enhance returns. The Trustee seeks to select managers and choose indices that can identify potential emergence of low carbon opportunities and the decline of some traditional sectors.
- Over the long term, the Trustee has identified physical risk as the key driver of climate-related risk. This includes the impact of natural catastrophes leading to physical damage through extreme weather events. Availability of resources is expected to become more important if changes in weather patterns (e.g. temperature or precipitation) affect the availability of natural resources such as water.

In summary, having considered the implications of the scenario analysis, the Trustee has deemed the current strategy to be suitably robust across the range of scenarios considered and did not believe the results of the scenario analysis warrants a change to the investment strategy at the time of the analysis.

Testing the resilience of the investment and funding strategy

The Trustee undertook climate scenario analysis as at 30 June 2025 to test the resilience of the investment strategy adopted by the Trustee. Quantitative climate change scenario analysis was undertaken on the Trustee's strategic asset allocation to assess the potential implications of climate change under multiple scenarios.

- **Rapid Transition (1.6°C)** – Average temperature increase stabilises at 1.6°C from 2050 onwards (relative to pre-industrial average). This scenario assumes sudden downward re-pricing across assets in 2026. This could be driven by a change in policy, consideration of stranded assets or expected costs. The shock is partially sentiment driven and so is followed by a partial recovery. Physical damages are most limited under this scenario.
- **Delayed Transition (1.9°C)** – Average temperature increase of 1.9°C by 2100. This scenario assumes a sudden step-up in action by governments and wider society act in 2030 to decarbonise and to limit global warming to well below 2°C. This sudden action is reflected in a re-pricing in financial markets in 2030. Physical impacts are also priced in 2030 but are relatively muted (compared to the Limited and Failed Transition scenarios).
- **Limited Transition (2.9°C)** – Average temperature of around 2.9ºC by 2100. This scenario assumes that policymakers implement limited action and fall short of meeting the Paris Agreement goals. The associated physical risks are reflected in re-pricing events in 2030 and late 2030s.
- **Failed Transition (3.7°C)** – Average temperature increase of 3.7°C by 2100. The world fails to co-ordinate a transition to a low carbon economy. Physical climate impacts significantly reduce economic productivity and have increasingly negative impacts including from extreme weather events. These are reflected in re-pricing events in 2030 and late 2030s. Physical damages are most significant under this scenario.

In summary, the Trustee finds that there would be a negative impact on the funding level under certain scenarios and timeframes, primarily due to the impact of climate change on financial markets. However, the impact is expected to be relatively limited, and the Scheme's investment and funding strategy remains resilient to the impact of climate change under the scenarios modelled.



Climate change scenarios analysis results: Financial markets

This section summarises the analysis of four climate scenarios in addition to a base case[3]. These are defined as 'warming pathways': the expected degrees of warming of the atmosphere by the end of the century relative to pre-industrial levels.

Running analysis against lower and higher warming pathways allows the Trustee to explore the potential impact of both transition risks and physical risks.

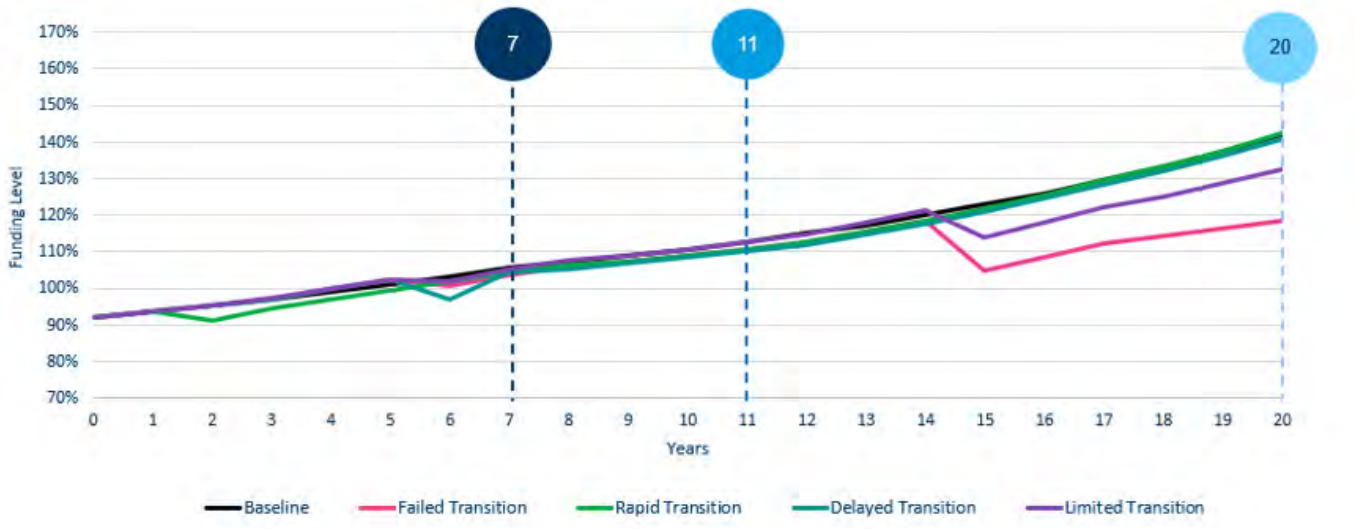
Climate scenario analysis is an evolving space and, as such, the scenarios modelled and reported may be subject to review in future periods. It is important to note that the modelling may understate the true level of risk due to the uncertainty around the future economic impacts of climate change.

Results

The scenario analysis presented is based on the Scheme's funding position (on a low risk, or "self-sufficiency" (gilts+0.5% p.a.) actuarial basis) as at 30 June 2025.

Mercer devised the financial assumptions to stress test the Scheme's assets and gilts +0.5% p.a. liabilities under different temperature increase scenarios.

Figure 3: Summary results of climate change scenario analysis – financial aspects



Source: Mercer estimates

[3] The return impacts of the climate scenarios represented in this report are relative to the 'baseline'. The baseline represents what we are assuming the market is currently pricing in climate-related risks and opportunities. The baseline includes a 10% weight to a Failed Transition, 15% weight to a Limited Transition, 35% weight to a Delayed Transition, 5% to a Rapid Transition and 35% to a range of low impact scenario.

Shorter term: Transition risk dominates. At the 2-year timepoint the funding level drops by 4.1% under the Rapid Transition and at the 6-year timepoint the funding level drops by 6.2% under the Delayed Transition. Both of these make a quick recovery and as such the Failed Transition is the most impactful scenario at the 7-year timepoint, resulting in a negative 2.0% impact on the funding level by 2032.

Medium term: Transition risks are still the main concern at this timepoint and the Delayed Transition becomes the most impactful scenario, with a -2.7% impact on the funding position by 2036.

Long term: Physical damages are the dominant driver and the Failed Transition is the worst scenario, reducing the funding level by 23.5% by 2045. However, this ignores any action taken by the Trustees in future (e.g. to further de-risk or share surplus with members/the sponsor).

The Scheme's **funding level is broadly robust to the modelled impact of climate change** across the scenarios over the short and medium term (excluding the impact of mortality stresses), because of the high allocations to investment grade corporate bonds and gilts which are at the lower end of the risk spectrum.

A failed transition could significantly impact the Scheme over the longer term and worsen the funding level by more than 20% over the 20 year period. However, we consider this climate scenario to be less likely. In addition, we note that under all scenarios, the Scheme is expected to remain in a strong funding position after 7 years, with the funding level remaining above 100% after this point.

Figure 4 sets out the potential impact of the four climate scenarios on annualised investment returns and the gilts +0.5% p.a. funding position (caused by financial factors).

Figure 4: Summary results of climate change scenario analysis – financial conditions.

Time horizon	Cumulative funding level impact (relative to the baseline) driven by financial factors (%)			
	Rapid transition	Delayed transition	Limited transition	Failed transition
Short term (7 years)	-1.4%	-1.5%	-0.7%	-2.1%
Medium term (11 years)	-2.1%	-2.7%	-0.1%	-2.1%
Long term (20 years)	0.2%	-1.2%	-9.7%	-23.5%

Source: Mercer estimates

Crucially, under all scenarios the financial position of the Scheme is expected to be strong. Under all scenarios, the funding level is shown as remaining above 100% after 7 years. **As such, the modelling implies that the Scheme would be able to pay pensions as they fall due under each of the scenarios, and the Scheme's investment strategy is sufficiently robust with regards to climate risk over the medium term.**

Climate change scenarios analysis results: Mortality

Figure 5 sets out the potential impact on the gilts +0.5% p.a. liabilities, caused by changes in mortality.

Figure 5: Summary results of climate change scenario analysis – mortality aspects.

Scenario	Aon Scenario	Aon assumed longevity improvement parameters		Ultimate liability impact from mortality (age 60)
		Long-term rate	Initial Addition ("A")	
N/A	Base case	1.50% p.a.	0.50%	-
Failed transition	No transition	0.00% p.a.	1.00%	-3.00%
Limited transition	Disorderly transition	1.00% p.a.	0.75%	-1.00%
Delayed transition	Abrupt transition	1.25% p.a.	0.50%	-0.50%
Rapid transition	Abrupt transition	1.25% p.a.	0.50%	-0.50%

Source: Aon
The ultimate liability impact is the adjustment to be made to the Mercer scenario to allow for mortality effects.
Figures are based on the impact on male life expectancy but each scenario impacts females to the same extent.
The figures are approximate in that they have been calculated to reflect the impact on life expectancy for a member age 60 rather than being calculated based on full membership data but we consider them to be appropriate for the Scheme.

Further details of the analysis completed, including modelling assumptions and limitations, are included in the Technical Appendix.



Climate change in respect of the sponsoring employer

The ongoing financial strength of the sponsoring employer is important for the Scheme as it ultimately underwrites the Scheme, by paying contributions to support/improve the funding position over time, and underwriting the investment risk being taken by the Scheme. The Scheme also relies on the employer's operational capabilities in terms of certain administrative and governance activities. As such, the impact of climate change on the employer is important for the Trustee to keep under review.

In 2026, for the first time, the employer prepared some limited quantitative disclosures in relation to climate change.

The employer has assessed climate related risks and opportunities across all business operations, against two climate scenarios (noting that these are different to the Trustee's scenarios noted above):

- Lower warming scenario - strong global policy and successful implementation of Net Zero commitments limits warming to a 1.5°C increase; and
- Higher warming scenario – No new policies added and policy action is limited to current commitments leading to warming of 3°C.

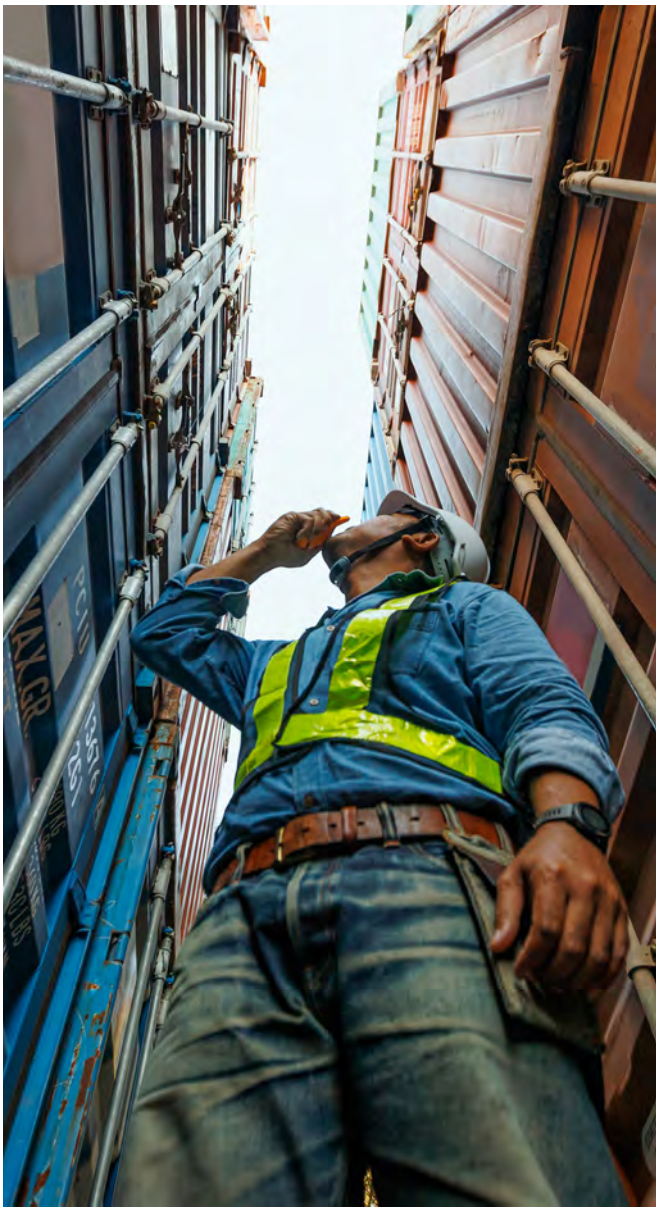
This analysis was carried out over three time horizons (again different to the Trustee's time horizons noted above):

- Short term (now until 2030);
- Medium term (2030 to 2040); and
- Long term (2040 to 2055).

In addition, for coastal flooding, the employer carried out analysis for a very high warming scenario (warming exceeds 4°C) and assessed the impact of coastal flooding over a very long term (2055 to 2100) time horizon.

Finally, the employer evaluated the potential financial impacts both pre and post controls (where controls are implemented to mitigate the threats and proactive actions taken to unlock opportunities.

The employer's analysis showed that the employer is exposed to a range of climate related risks which could, over the medium to long term result in a moderate (10% to 25% reduction in operating profit) to high (greater than 25% reduction in operating profit) threat. However, with appropriate control of risks and unlocking of opportunities, this could result in a net moderate to high opportunity for the employer over the medium to long term.



6

Risk management

The Trustee recognises that climate-related risks can be financially material and that due consideration of climate risk falls within the scope of the Trustee's fiduciary duty. Given the long-term nature of the Scheme's investments and the timeframe in which climate risks could materialise, a total portfolio approach to risk management covering all sectors and all relevant asset classes has been taken, coupled with funding and covenant analysis.

This section summarises the primary climate-related risk management processes and activities of the Trustee. These help the Trustee understand the materiality of climate-related risks, both in absolute terms and relative to other risks to which the Scheme is exposed.

Governance

The Trustee reviews climate change developments to identify risks and opportunities for the Scheme at least annually. In particular, over the 2026 Scheme year the Trustee reviewed Mercer's ratings for the investment managers, which include consideration of the extent to which financially material ESG factors are incorporated into the managers' investment processes. Following advice from the investment adviser, the Trustee may engage with the investment manager should there be any concerns on ESG integration for a particular fund/portfolio.

Annually, a Climate Change dashboard report covering carbon metric analysis, ESG integration and stewardship is reviewed. This report allows the Trustee to consider the extent to which the Scheme is exposed to climate risk and identify steps to mitigate this where relevant. Further details can be found in the Metrics and Target Section of this report.

Climate-related risks are also referenced in the Trustee's risk register. The risk register includes a wide range of risks that may affect the Scheme, and the Trustee aims to quantify the likelihood and impact of these risks. This enables the Trustee to apportion its governance budget appropriately to mitigate or minimise risk to the Scheme. Climate risk is therefore considered in accordance with the same wider risk management processes that apply to other types of risks.

In addition, the Trustee reviews the Statement of Investment Principles on a regular basis.

The Trustee reviews the advice and services provided by its advisers as part of the selection and monitoring process.

Strategy

Over the year, the Trustee carried out climate change scenario modelling which provides a strategic assessment of climate change risks and opportunities at the total Scheme level. This focused on the Scheme's potential exposure to both transition and physical risks.

This analysis assessed the impact these risks could have on the funding level of the Scheme.

The Trustee has consulted with its covenant adviser, Interpath, regarding the impact of climate change on the employer.

The employer's risk assessment in 2026 with respect to climate risks and opportunities was extended to include quantifying the impact of climate change in financial terms across 9 physical risks and 11 key transition risk areas.

The employer has identified that, if uncontrolled, climate related risks present a moderate to high threat over the medium to long term under both the lower and higher warming scenarios. The greatest financial threats come from extreme weather, energy prices, carbon pricing and market expectations on decarbonisation.

Individually, the risk threats are generally classified as low, though the aggregate impacts rise to moderate to high. In both scenarios, transition risks are dominant. However, in the very long term (2055 – 2100) there is an increased risk and high threat associated with coastal flooding.

The employer considers that control measures will enable it to reduce the negative impacts and realise opportunities to grow products and services and the employer notes that, over the coming year, it will further develop its approach to climate risk management to assess, plan and deliver mitigation activities to reduce risks and unlock opportunities.

Interpath considers the overall risk exposure to remain low, noting that the employer has assessed the majority of risks to fall within the medium (2030-2040) and longer term (2040-2055), by which time, the Scheme's reliance on the employer covenant is expected to be low (e.g. the Trustee's current target is to reach a low dependency funding level by the early years of the employer's medium term timeframe). Further, the employer is looking to implement strategies to mitigate the risks identified and to take advantage of the opportunities that may arise.

The Trustee takes into account climate change considerations when reviewing the overall investment strategy review, which includes highlighting the expected change in climate-risk exposure through proposed asset allocation changes, both from the top-down level (via climate scenario analysis) and bottom-up (via climate-related metrics).

Metrics and targets

As set out later in this report, the Trustee has assessed the Scheme using a number of climate-related metrics to identify potential areas of risk.

Reflecting the relative importance of climate risk compared to the other risks that the Scheme faces, the Trustee has set targets to reduce greenhouse gas emissions. The Trustee will monitor progress annually and challenge managers should they not meet the agreed targets. The Trustee believes that this will reduce climate-related risk over time.

The Trustee recognises the challenges with various metrics, tools and modelling techniques used to assess climate change risks. The Trustee aims to work with its investment adviser and investment managers to improve its approach to assessing and managing risks over time.



Manager selection, monitoring and retention

As the Trustee relies on third party investment managers to manage its assets, the day-to-day assessment of climate change related risks on specific assets has been delegated to them. They in turn are regularly assessed using the investment adviser's ESG investment manager research framework and as part of the annual Climate Change dashboard report framework and Implementation Statement.

Where relevant, managers are invited to present to the Trustee to explain their approach to climate change risk management, amongst other topics. The Trustee will engage with managers where they are perceived to be lagging their peers in terms of ESG integration or active ownership, including where this relates to climate change risks.

Mercer's ratings for investment managers include consideration of the extent of integration of ESG factors (including climate change) into the managers' processes. The ratings were presented at the quarterly investment performance reports and are reviewed by the Trustee.

Active stewardship

The Trustee recognises that active ownership by the investment managers will continue to be a very important part of the Scheme's approach to managing these risks. The Trustee has agreed to assess investment managers' approaches to stewardship and engagement on an annual basis and summarises its findings in the Engagement Policy and annual Climate Change dashboard report. The Trustee expects companies in its portfolio to manage climate change risks. Stewardship activities can help hold companies to account and ensure they are taking a meaningful approach in this area.

The Trustee delegates stewardship engagement activity to the underlying investment managers, however the IC monitors engagement activity and reviews key examples of engagements based on the Trustee's engagement priorities. This exercise is carried out both as part of the Engagement Policy Implementation Statement, and the annual Climate Change dashboard.

The Scheme also engages directly with its investment managers. One example of this was engagement with L&G over the year to discuss the ongoing appropriateness of their existing climate target.



Metrics

Key metrics for climate change related risks

Climate risk metrics aid the assessment of potential climate-related risks to which the Scheme is exposed, and help to identify areas for further risk management, including engagement and fund manager monitoring.

The Trustee recognises that the availability of accurate data for some asset classes or methodology is an industry-wide issue and will continue to engage with the investment managers to improve their climate reporting.

The Trustee presents climate-related metrics across four different categories in this report. The climate-related metrics help the Trustee to understand the climate-related risk exposures and opportunities associated with the Scheme's investment portfolio and identify areas for further risk management, including investment manager portfolio monitoring, voting and engagement activity and priorities. The Trustee has reviewed the continued appropriateness of the selected metrics and agreed that these should continue to be monitored for this year:

Figure 6: Metrics description

Metric category	Selected metric	Further detail
Absolute emissions	Total greenhouse gas emissions	Tonnes of carbon dioxide and equivalents (tCO2e) that the Scheme is responsible for financing.
Emissions intensity	Carbon footprint	The amount of carbon dioxide and equivalents (tCO2e) emitted per million dollars of the Scheme's investments.
	Weighted average carbon intensity (WACI)	The exposure of the Scheme to carbon-intensive companies, measuring the amount of carbon dioxide and equivalents (tCO2e) emitted per million dollars of holding company / issuer revenue[4] on average.
Portfolio alignment	Implied temperature rise (ITR)	A forward-looking assessment of how aligned the Scheme's portfolios are relative to the Paris Agreement's 1.5°C target. This is estimated based on the activities and decarbonisation targets of portfolio companies / issuers, relative to what global decarbonisation needs to be to achieve 1.5°C.
Additional	Data quality	Represents the proportions of the portfolio for which the Trustee has high quality data.

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

The metrics in this report relate to the Scheme's financed emissions only and exclude emissions associated with the operation of the Scheme. Where metrics relate to emissions, these cover Scope 1, 2 & 3. Scope 1, 2 & 3 corporate emissions are defined as follows:

- **Scope 1 "direct" emissions:** those from sources owned or controlled by the Company (e.g. direct combustion of fuel from vehicles)
- **Scope 2 "indirect" emissions:** those caused by the generation of energy (e.g. electricity) purchased by the Company.
- **Scope 3 "indirect" emissions:** All emissions that occur in the value chain of the Company (not the Company itself).

The metrics presented in this report are as at 30 September 2025 unless otherwise stated, and are based on the actual asset allocation at that date. Further details are included in the Technical Appendix.

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

In addition to the emissions intensity metric preferred by the Department for Work and Pensions (carbon footprint), the Trustee also reports on WACI. Following discussions with the Scheme's buy and maintain credit managers, the Trustee agreed this would be the primary metric to monitor progress against the decarbonisation target (see Targets section below for further details) as this metric has higher levels of data coverage (compared to carbon footprint)

For portfolio alignment, the Trustee has chosen the ITR because of its simplicity in presentation and as it is a useful way to see, at a glance, the alignment of the Scheme towards a low carbon economy. Investments with high ITR metrics are expected, in most cases, to have a greater transition risk.

The Trustee has chosen data quality as an additional metric as it quantifies the overall quality of the data available and helps identify mandates where the Trustee should work further with its investment managers to increase the quality of data reported.

The Trustee recognises the challenges with various metrics, tools and modelling techniques used to assess climate change risks. The Trustee aims to work with its investment advisers and investment managers to continuously improve the approach to assessing and managing risks over time, particularly as data availability improves.

Results

Data assumptions and limitations

The greenhouse gas emissions analysis includes Scope 1, 2 & 3 emissions. The summary presented overleaf shows metrics data as at 30 September 2025 unless otherwise stated, across most of the investment managers, but excludes the following:

- Legacy mandates that are close to winding down or represent a negligible proportion of total Scheme assets;
- Insight High Grade Asset Backed Securities, ICG-Longbow Real Estate Debt V and M&G Secured Finance, as data coverage / quality remained limited.

- Due to changes in calculation methodology, Aviva's Weighted Average Carbon Intensity ("WACI") data is indicated as not available throughout the paper, as it is now calculated using property value as the weighting basis (previously weighted by revenue). Data coverage reflects WACI as property value.

Some of the investment managers have provided total greenhouse gas (GHG) emissions at the total pooled fund level rather than at the Scheme holding level. Mercer has estimated the emissions at the Scheme level by applying the Scheme's proportion of the funds' total assets under management.

Over the year, the Trustee replaced the scheme's synthetic equity exposure with an allocation to physical equities managed by L&G. L&G was not able to provide data for the benchmark of the Equity fund. However, given the passive nature of the mandate, it is expected that the fund metrics would be similar to the underlying index.

Where managers have provided carbon footprint normalised by invested value per £million, Mercer has converted this metric to US dollars (given this is the general industry standard, and to ensure consistency across all investment managers), based on the exchange rate as at 30 September 2025 (source: LSEG Datastream).

In some cases, managers have provided the split between reported data and estimated data (see Technical Appendix for further detail). The Trustee understands that missing or estimated data can have an impact upon investment decision making. The Trustee expects its investment managers to improve quality and coverage over time and will be reactive to such changes. The Trustee is also working with its investment advisers to stay abreast of emerging methodologies.



Figure 7: Metrics summary for GHG and Carbon footprint

Asset Class	Manager	Overall Assessment (Allocation, %)	Benchmark / Comparator Index	Climate-related metrics					
				Total GHG Emissions[1] (tCO2e)		Carbon Footprint (tCO2e/$M invested)			
				Scope 1&2	Scope 3	Scope 1&2		Scope 3	
				Fund	Fund	Fund	B'mark	Fund	B'mark
Equity	**L&G**	**8.6%**	n/a[5]	**6,450**	**74,178**	**49**	**-**	**562**	**-**
Multi-Asset Credit	**Mercer[2]**	**20.9%**	50% ML High Yield Constrained / 50% S&P Leveraged Loan 100 Index hedged GBP	**17,660**	**53,045**	**60**	**128**	**458**	**702**
HLV Property	**Aviva[3]**	**9.4%**	n/a	**11**	**1,474**	**0.1**	**-**	**11**	**-**
Global B&M Credit	**L&G**	**9.1%**	Markit iBoxx Non-Gilts Index	**4,486**	**40,892**	**34**	**31**	**307**	**576**
Private Debt	**Cambridge Associates[4]**	**3.8%**	MSCI ACWI IMI Index	**1,017**	**11,765**	**20**	**39**	**233**	**280**
LDI	**Insight**	**38.9%**	n/a	**140,287**	**-**	**118**	**-**	**-**	**-**
Total		**91% of assets analysed**							

Source: Investment Managers (climate metrics figures); Mercer calculations.

1. Based on actual allocation as at 30 September 2025 unless otherwise stated.
2. Mercer MAC split out Scope 3 into downstream and upstream: Carbon Footprint: 133 upstream, 325 downstream; WACI: 229 Upstream, 439 downstream.
3. Aviva data as at 31 December 2025.
4. Cambridge Associates split out Scope 3 into downstream and upstream: Carbon Footprint: 80 upstream, 153 downstream; WACI: 238 Upstream, 400 downstream.
5. L&G was not able to provide data for the benchmark. However, given the passive nature of the mandate, it is expected that the fund will be close to the underlying index

Figure 8: Metrics summary for WACI, ITR and Data Coverage

Asset Class	Manager	Overall Assessment (Allocation, %)[1]	Benchmark / Comparator Index	Climate-related metrics							
				WACI (tCO2e/$M revenue)				Implied Temperature Rise (°C)		Data Coverage[8]	
				Scope 1&2		Scope 3		Fund	B'mark	Fund	B'mark
				Fund	B'mark	Fund	B'mark				
Equity	**L&G**	**8.6%**	n/a[5]	**114**	**-**	**1,124**	**-**	**2.9**	**-**	**99%**	**-**
Multi-asset credit	**Mercer[2]**	**20.9%**	50% ML High Yield Constrained / 50% S&P Leveraged Loan 100 Index hedged GBP	**101**	**210**	**668**	**1,023**	**3.8**	**3.9**	**34%**	**50%**
HLV property	**Aviva[3]**	**9.4%**	n/a	**n/a[3]**	**-**	**n/a[3]**	**-**	**3.2**	**-**	**93%**	**-**
Global B&M credit	**L&G**	**9.1%**	Markit iBoxx Non-Gilts Index	**107**	**62**	**993**	**1,157**	**2.3**	**2.3**	**80%**	**80%**
Private debt	**Cambridge Associates[4]**	**3.8%**	MSCI ACWI IMI Index	**53**	**111**	**638**	**713**	**-**	**-**	**94%**	**100%**
LDI	**Insight**	**38.9%**	n/a	**87[6]**	**-**	**-**	**-**	**1.5/ 2.0[7]**	**-**	**100%**	**-**
Total		**91% of assets analysed**		**81% (coverage of analysed assets) 74% (coverage of total assets)**							

Source: Investment Managers (climate metrics figures); Mercer calculations.

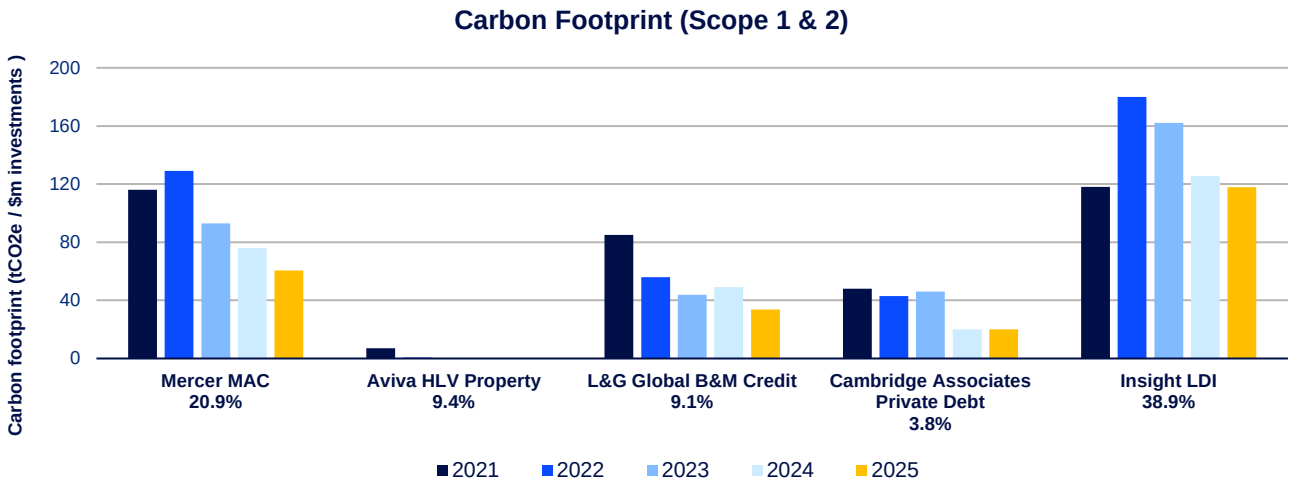
1. Based on actual allocation as at 30 September 2025 unless otherwise stated.
2. Mercer MAC split out Scope 3 into downstream and upstream: Carbon Footprint: 133 upstream, 325 downstream; WACI: 229 Upstream, 439 downstream.
3. Aviva data as at 31 December 2025. Aviva could not provide WACI based on revenue and therefore is not available. Data coverage reflects WACI as property value.
4. Cambridge Associates split out Scope 3 into downstream and upstream: Carbon Footprint: 80 upstream, 153 downstream; WACI: 238 Upstream, 400 downstream.
5. L&G was not able to provide data for the benchmark. However, given the passive nature of the mandate, it is expected that the fund will be close to the underlying index.
6. Insight LDI Weighted average carbon intensity is expressed in tCO2e per GK$M GDP. GK$ being the international dollar, the unit of PPP-adjusted GDP.
7. Insight provided two ITR figures computed using two different methodologies. The Trustee expects there to be greater consensus on methodologies over time.
8. The Trustee reports on data quality based on data coverage for WACI Scope 1 and Scope 2 emissions. Data coverage summary shown in the table is based on reported and estimated data.

Emissions intensity metric

The Trustee monitors Scope 1 & 2 carbon metrics against a benchmark or comparator index, which helps in identifying areas for further risk management, including company engagement and investment manager monitoring.

The Trustee also monitors the year-on-year change in the carbon footprint (scope 1 & 2 emissions, at 30 September), as can be seen below. Compared to last year, the carbon footprint has decreased for all mandates, with the exception of the Cambridge Associates Private Debt mandate where it has remained broadly stable. We note the Insight LDI portfolio remains the largest contributor to overall GHG emissions.

Figure 9: Year on year change in carbon footprint.

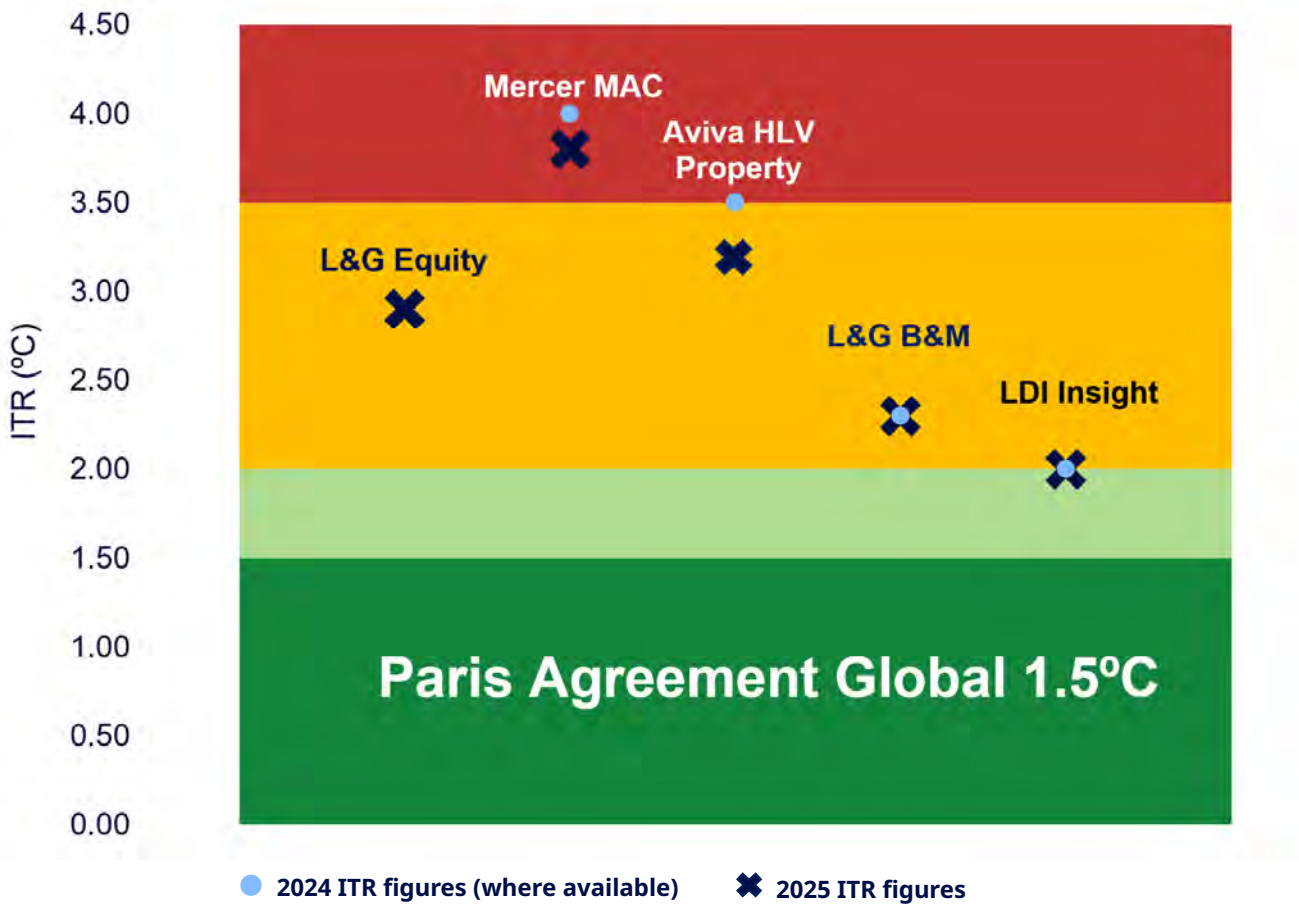


Source: Investment managers. Actual asset allocations shown as at 30 September 2025 for reference. Aviva data is yearly as at 31 December.



Implied temperature rise

Figure 10: Implied Temperature Rise (ITR).



Source: Investment managers, as at 30 September 2024 and 30 September 2025. Aviva is shown as at 31 December 2024 and 31 December 2025. ITR figure for Cambridge Associates not available at the time of writing.

Where data is available, the Scheme's portfolios have an **Implied Temperature Rise (ITR) of between 2.0°C and 3.8°C** reflecting a range of methodologies for computing ITR and underlying companies at different stages of transitioning towards a low carbon future.

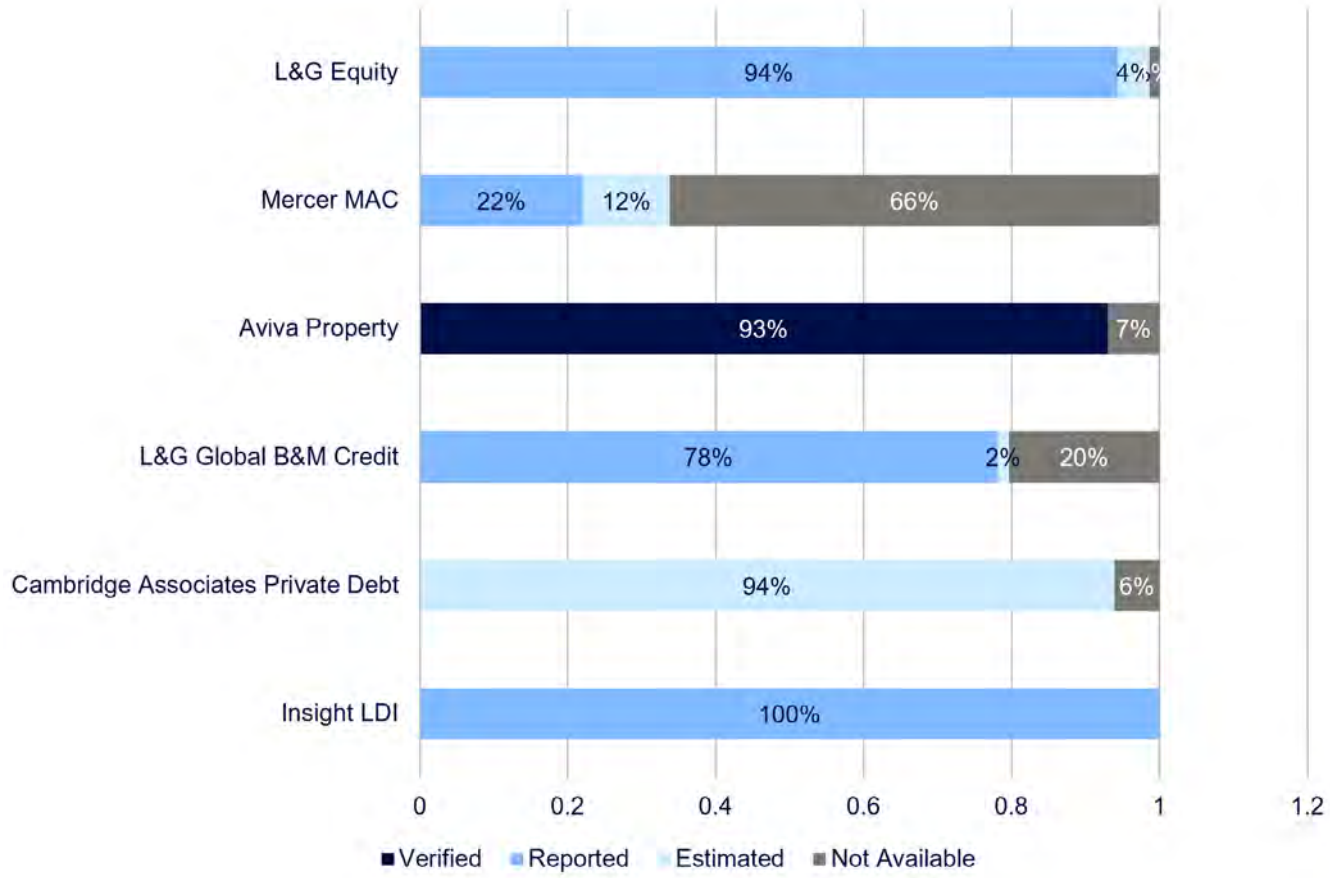
None of the Scheme's ITR scores are currently compatible with the Paris agreement that sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C.

There remain multiple methodologies for computing ITR and these can have varying results. As an example, Insight has provided two ITR figures for the LDI mandate using two different methodologies. While greater consensus on methodologies over time is still expected, it is important to be aware that the results can be materially different based on the methodology chosen. Where multiple temperatures are provided by the manager, the highest figure has been plotted.

Data quality

The chart below provides the data quality metric as at 30 September 2025 for Scope 1 & 2 emissions based on WACI.

Figure 11: Data quality for Scope 1 & 2 (based on WACI)



Source: Investment managers. Excludes legacy assets. Figures shown for Aviva are based on 31 December 2025 data.

Insight LDI data is based on emissions data and PPP-adjusted GDP from the UK Government as at 31 December 2024 and approximated by Insight based on the Scheme's share of the gilt market as at 30 September 2025.

For the rest of the Scheme's assets, data quality remains mixed, with Aviva having the highest portion of verified data, and the Cambridge Associates private debt mandate having minimal reported data (but the largest proportion of estimated data).

Due to gaps in data coverage, some investment managers scale the climate metrics for their portfolios in order to represent the data as if full coverage was available (applying the average metric for the proportion of the portfolio for which they have data across the entire portfolio). The approach taken by each of the investment managers is set out below.

- **Mercer MAC, L&G:** figures are scaled up to represent 100% assets by assigning the average of the known metrics to the missing assets.
- **Aviva, Cambridge Associates:** No scaling applied.
- **Insight:** Insight provides both actual and scaled carbon metrics. The scaled figures are quoted in this report.



Targets

In previous years, the Trustee has set the following emissions target, covering the Scheme's aggregate buy and maintain ("B&M") credit portfolio:

- Reduce greenhouse gas emissions intensity (Scope 1 and 2) for the aggregate B&M credit portfolio by 45% or more by the end of 2030, as measured by Weighted Average Carbon Intensity ("WACI"), with a 30 September 2021 baseline.

Over the year, the Trustee reviewed the Scheme's investment strategy and agreed a number of changes, including full disinvestment from the Insight B&M credit portfolio. Given this change, the Trustee agreed to update the emissions target to:

- Reduce greenhouse gas emissions intensity (Scope 1 and 2) for the B&M credit portfolio by 35% or more by the end of 2030, as measured by Weighted Average Carbon Intensity, with a 30 September 2021 baseline.

The previous year's combined B&M credit target WACI for 2030 was 109 tCO2e/$m. Since the Insight B&M Credit portfolio has been terminated, the Trustee agreed to adopt the L&G WACI target of 125 tCO2e/$m for the Scheme's aggregate B&M credit portfolio going forwards, which corresponds to the 35% figure above. Further details are shown in Figure 12.

While this appears to show a reduction in Scope 1 and 2 WACI target, it is mathematically consistent: the Insight mandate which was terminated had a lower baseline and target WACI and a 35% reduction in WACI is the equivalent target for the updated B&M portfolio.

Over the year, the Trustee also engaged with L&G and agreed that the current L&G target remains appropriate.

Figure 12 demonstrates the progress against target since the baseline year.

Figure 12: Progress against targets

B&M credit managers / WACI	30-Sep-21 (baseline)	30-Sep-22	30-Sep-23	30-Sep-24	30-Sep-25	Previous target WACI by 2030[1]	New target WACI by 2030
L&G	267	129	127	121	107	125	125
Insight	131	91	80	82	-[2]	80	-
Aggregate[3]	**198**	**113**	**104**	**102**	**107**	**109**	**125**

Source: Investment managers

[1]The equivalent target WACI reduction by 2030 relative to the baseline was assumed to be 55% for L&G, 37% for Insight and 48% for the aggregate Buy & Maintain credit portfolio.

[2] Insight B&M credit mandate was terminated over the Scheme year.

[3] The WACI targets for the aggregate buy and maintain credit mandate was based on an equal split between L&G and Insight.

The estimated WACI (Scope 1 & 2) for the aggregate buy and maintain credit portfolio was 107 as at 30 September 2025; a reduction of 46% since 30 September 2021.

A large factor leading to this drop was from 2022, due to significant disinvestments over the period to meet collateral requirements, as well as industry-wide (denominator) effects and turnover within the portfolios. In addition, the Trustee has implemented specific WACI targets into the investment guidelines with L&G (and Insight prior to termination) to help the Scheme achieve its climate targets.

More specifically, following turmoil in the gilt market in September and October 2022, the L&G portfolio's US exposure was sold to replenish LDI collateral. As the US holdings were relatively more carbon intensive than the UK holdings, this led to a material fall in WACI, bringing the portfolio ahead of its 2030 target.

The LDI portfolio is excluded from this target since this portfolio predominantly holds UK Government bonds which are an integral part of the Trustee's wider risk management approach. The Trustee notes that the UK Government is targeting being net zero by 2050.

The B&M Credit portfolio was selected as the asset class to set climate targets against as it is implemented on a segregated basis, with a good level of data coverage, where the Trustee has more influence over the assets held compared to some other pooled arrangements. The Trustee has decided not to set targets for the real estate debt, asset backed securities, secured finance and private debt mandates due to lack of data availability. The Trustee may engage with the multi-asset credit, HLV property and equity managers to consider the feasibility/suitability of setting emissions targets in future. The Trustee recognises that due to the pooled fund nature of these mandates, it cannot directly influence portfolio holdings, but instead will seek to engage with the investment managers.

The Trustee reviews its progress against the above targets at least annually and will consider setting specific targets for other asset classes and include Scope 3 emissions, when the available data has improved and there are suitable methodologies.



Technical Appendix



Technical Appendix

Appendix 1: Roles of those undertaking scheme governance activities

It is the responsibility of the IC to support and guide the Trustee's work on compliance with the regulatory requirements and climate change recommendations, including:

- Liaising with professional advisers on the Trustee's proposed objectives;
- Ensuring appropriate time and resource is allocated to climate change governance and reporting; and
- Facilitating information sharing between the Trustee, professional advisers and investment managers as appropriate.
- Over the reporting period, the Trustee's relevant **professional advisers** were:

- **Mercer, as the investment adviser for the Scheme**, who:
  - Advises on strategic asset allocation taking into account climate risk, advises on greenhouse gas emissions targets, advises on changes to investment mandates and monitors investment managers;
  - Provides climate related scenario analysis, advice and training on the selection of climate-related metrics for the Scheme;
  - Produces the annual Climate Change dashboard report for the Trustee which includes various climate metrics, outlines climate related risks or opportunities on an ongoing basis and monitors progress against climate related targets; and
  - Liaises with investment managers and other professional advisers to provide training to the Trustee and IC on climate change, as appropriate.





- **Interpath, as the covenant adviser,** who:
  - Assesses the Sponsor's ability and willingness to continue to support the Scheme. Climate-related exposures are considered alongside other factors that could have a positive or negative impact on the strength of the Sponsor's covenant; and
  - Provides input into scenario analysis and advises on covenant implications.
- **Aon, as the Scheme Actuary,** who:
  - Advises on the funding position including an understanding of the potential funding impact resulting from changes to financial or demographic assumptions driven by climate change;
  - Advises on funding strategy robustness to climate risk. Provides input to enable strategic asset allocation decisions to be made considering impact of climate risks on funding strategy; and
  - Provides input into scenario analysis and advises on funding implications.
- Over the reporting period, the Trustee was also supported by the **Babcock in-house pensions team and Muse Advisory, an external pension management team**, who:
  - Assist with the organisation of meetings;
  - Facilitate reporting to the Trustee Board;
  - Facilitate appropriate communications to members; and
  - Assist the Trustee in the general running of the Scheme.

Appendix 2: Climate related risks and opportunities

We are already experiencing climate change and its associated physical impacts today – the past eleven years (2015-2025) have been the eleven warmest on record. The average global temperature in 2025 was about 1.44°C above pre-industrial levels[5] (the 1850-1900 average). The past three years, 2023-2025, are the three warmest years in all eight datasets. The consolidated three-year average 2023-2025 temperature is 1.48°C (with a margin of uncertainty of ± 0.13°C) above the pre-industrial era. The overwhelming scientific consensus is that the observed climatic changes are primarily the result of human activities including electricity and heat production, agriculture and land use change, industry and transport.

In order to mitigate the worst economic impacts of climate change, there must be a large, swift, and globally co-ordinated policy response. Despite this, the majority of climate scientists anticipate that given the current level of climate action, by 2100 the world is estimated to be between 2°C and 4°C warmer than pre-industrial levels, with significant regional variations. This is substantially higher than the 2015 Paris Climate Change Agreement objectives, which reflects a collective goal to hold the increase in the climate's average global surface temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

There is considerable uncertainty regarding the future warming pathway, which is highly dependent on the actions of global geopolitics, governments, industries, businesses and individuals.

The effects of climate change will be felt over many decades. There are two broad types of climate-related risks and opportunities that have been considered by the Trustee in its climate scenario analysis: transition risk (and opportunities) and physical risks (and opportunities).

Transition risks and opportunities

These cover the potential financial and economic risks and opportunities from the transition to a low-carbon economy (i.e. one that has a low or no reliance on fossil fuels), such as:

- Policy and legal
- Market
- Technology
- Reputation

These risks cover the possibility of future bans, or high costs, associated with high carbon activities or products as well as opportunities that may come from the development of low-carbon technologies.

In order to make a meaningful impact on reducing the extent of global warming, most transition activities need to take place over the next decade and certainly in the first half of this century.



[5] https://wmo.int/news/media-centre/wmo-confirms-2025-was-one-of-warmest-years-record

Physical risks and opportunities

The higher the future level of global warming, the greater physical risks will be in frequency and magnitude. Physical risks cover:

- Physical damage (storms, wildfires, droughts, floods)
- Resource scarcity (water, food, materials, biodiversity loss)

The Trustee expects physical risks to be felt more as the century progresses though the extent of the risks is highly dependent on whether global net zero greenhouse gas emissions are achieved by 2050.

There are investment opportunities in newly constructed infrastructure and real estate that are designed to be resilient to the physical impacts of climate change, as well as being constructed and operated in a way that has low or no net carbon emissions. There are also opportunities for investment in those companies or industries that focus on energy conservation and resource efficiency.

Appendix 3: Climate scenario modelling approach

Impact on financial markets (Mercer)

Figure 13: Scenario analysis transition

	1.6°C Scenario – Rapid Transition	1.9°C Scenario – Delayed Transition	2.9°C Scenario – Limited Transition	3.7°C Scenario – Failed Transition
Summary	Highly ambitious low-carbon policy and rapid technology transition. Sudden divestments in 2026 to align with the Paris Agreement goals have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock.	Limited additional action until 2030, at which point a highly ambitious set of low-carbon policies is introduced. Financial markets price in transition and physical risk in 2030 to align with the ambitious policy change, associated with stranded assets and a sentiment shock.	Emissions targets and commitments are not fully met. Financial markets price in climate-related risks in 2030 and 2039 as the scale of future risks become more widely accepted and understood.	No new climate policies are enacted, but transition progresses on economic grounds. Financial markets price in climate-related risks in 2030 and 2039 as the scale of future risks become more widely accepted and understood.

	1.6°C Scenario – Rapid Transition	1.9°C Scenario – Delayed Transition	2.9°C Scenario – Limited Transition	3.7°C Scenario – Failed Transition
Temperature change	Average temperature increase stabilises at 1.6°C from 2050 onwards.	Expected increase of 1.9°C by 2100.	Expected increase of 2.9°C by 2100.	Expected increase of 3.7°C by 2100.
Expected Emission and energy production	Net Zero by 2056. Cumulative emissions of c. 500GtCO2 by 2064. 92% of energy production from various renewable sources (excluding nuclear) by 2060.	Cumulative emissions of c. 940GtCO2 by 2064. 91% of energy production from various renewable sources (excluding nuclear) by 2060.	Cumulative emissions of c. 1,490GtCO2 by 2064 54% and 82% of energy production from various renewable sources (excluding nuclear) by 2040 and 2060 respectively.	Cumulative emissions of c. 1,750GtCO2 by 2064 51% and 75% of energy production from various renewable sources (excluding nuclear) by 2040 and 2060 respectively.
Key policy & tech assumptions	A highly ambitious low-carbon policy and rapid technology transition. Higher carbon prices, larger investment in energy efficiency and faster phase out of coal-fired power generation	Limited additional action until 2030, when a highly ambitious set of low-carbon policies is introduced. The world is faced with moderate impacts from extreme weather events and temperature change.	Moderate policy steps taken to increase climate action including working towards 2030 targets but commitments are not fully met because policy actions are too weak and not urgent enough.	Existing policy regimes are continued with the same level of ambition, with no new policies enacted.
Financial climate modelling	Pricing in of transition and physical risks of the coming 40 years occurs within one year in 2026. As a result of this aggressive market correction, a confidence shock to the financial system takes place in the same year.	Pricing in of transition and physical risks occurs in 2030. As a result of this aggressive market correction, a confidence shock to the financial system takes place in the same year	Pricing in of transition and physical risks occurs at two different timepoints: 2030 (risks of first 40 years) and 2039 (risks of 40-80 years).	Physical risks are priced in two different timepoints: 2030 (risks of first 40 years) and 2039 (risks of 40-80 years).

	1.6°C Scenario – Rapid Transition	1.9°C Scenario – Delayed Transition	2.9°C Scenario – Limited Transition	3.7°C Scenario – Failed Transition
Impacts on Inflation	Transition risk is associated with inflationary pressures over the short-term. Transition costs, including policy costs (e.g. carbon pricing) and costs associated with deployment of new low-carbon technologies, modestly increase short-term inflation under the Rapid and Delayed Transition scenarios.		Chronic physical risk is associated with inflationary pressures over the medium- to long-term. Higher projected temperatures reduce agricultural yields and drive up food prices, increasing medium- to long term inflation under the Limited and Failed Transition scenarios (Kotz et al., 2024)	
Physical risks considered	Physical risks are regionally differentiated and increase dramatically with rising global temperature. Physical risks are built up from: Gradual physical impacts associated with rising temperature (agricultural, labour, and industrial productivity losses) Economic impacts from climate-related extreme weather events The Failed Transition incorporates the adverse effects of hitting multiple climate tipping points (e.g. collapse of the Greenland and West Antarctic ice sheets, the collapse of East Antarctic subglacial basins, loss of mountain glaciers, Amazon rainforest dieback, and boreal permafrost collapse). Risks such as climate-related migration and conflict are not captured			

Source: Mercer and Ortec

The key assumptions used in carrying out the analysis shown in this report are assumptions for the returns on assets under the base case. The climate scenarios are defined by assumed impacts on asset returns, yield curves and inflation experience relative to the base case.

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

1. The further into the future you go, the less reliable any quantitative modelling will be.
2. There is a reasonable likelihood that physical impacts are grossly underestimated. Feedback loops or 'tipping points', like permafrost melting, are challenging to model particularly around the timing of such an event and the speed at which it could accelerate.
3. Financial stability and insurance 'breakdown' is not modelled. A systemic failure may be caused by either an 'uninsurable' 4oC physical environment, or due to the scale of mitigation and adaption required to avoid material warming of the planet.
4. Most adaptation costs and social factors are not priced into the models. These include population health and climate related migration.

Impact on mortality (Aon)

Mercer scenario	1.6°C and 1.9°C scenarios – Rapid and delayed transitions	2.9°C Scenario – disorderly transition	3.7°C Scenario – Failed transition
Closest matching Aon scenario	Abrupt transition	Disorderly transition	No transition
Summary	Short to medium term mortality improvements are in line with the base scenario but longer-term improvements are slightly lower.	Disruption to health and social care services, and damage to related infrastructure, due to extreme weather (potentially coinciding with increased demand) may increase mortality. In the longer term, a prolonged recession may lead to issues with the provision of healthcare and ultimately to falls in life expectancy, with overall improvements at 1% p.a. over the long term.	In the short term more money may be spent on health services, perhaps reducing mortality slightly. There is growing awareness of a changing environment and the damaging effects a lack of action is having, over the intermediate term. There is a higher incidence of damaging storms, water shortages, higher pollution levels and reduced agricultural yields (leading to higher food prices). Markets become more volatile and climate change begins to have a growing drag on economic growth and asset returns. In such an environment, there may be no long-term future improvements in mortality (consistent with what was seen between 2014 and 2018). In terms of the direct climate impacts, fewer deaths from warmer winters may more than offset any impact of heatwaves but the impact is likely to be marginal.

Aon's mortality impact analysis is based on ONS deaths and population data from 1960 to 2024, consistent with the CMI_2024 mortality projections model. Mortality rates have been standardised using the European Standard Population 2013 for ages 50 to 90.

The Initial Addition (A) parameter captures near-term changes, while the long-term rate reflects longer-term trends. A consistent starting point has been used across all scenarios.

These scenarios provide an indication as to what might be expected in particular scenarios, to provide an impact of mortality on liabilities to place alongside the impact from financial variables on the liabilities and the impact on assets from investment returns of the given scenario. The scenarios are not intended to provide the highest or lowest possible outcomes, and are not intended to show what will happen, rather they give a reasonable range of impacts against which to consider the possible impact of climate change.



Appendix 4: Key metrics for climate change related risks

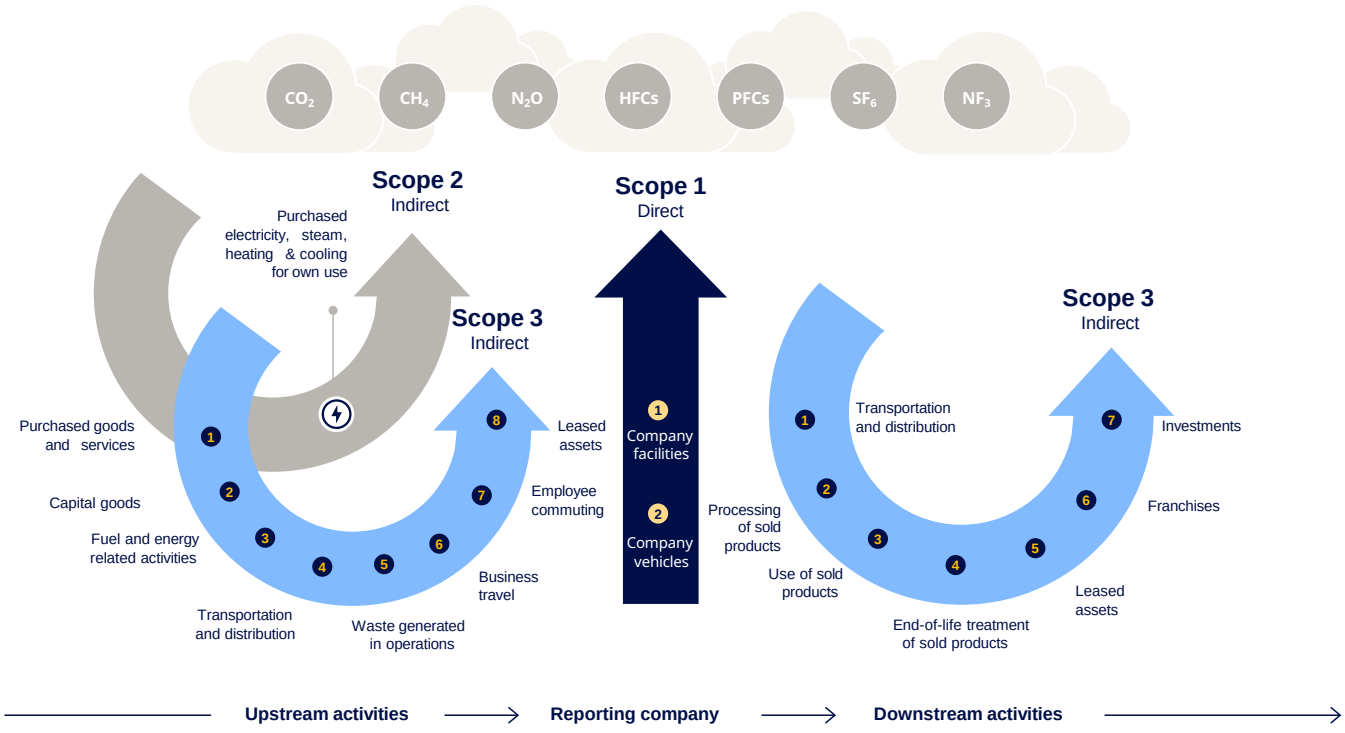
Total greenhouse gas emissions

This metric measures the total absolute greenhouse gas emissions attributable to a portfolio. This metric represents the underlying investee company's or issuer's reported or estimated greenhouse gas emissions, where available.

There are seven recognised greenhouse gases, as defined by the GHG Protocol. In order to simplify reporting, each greenhouse gas is calibrated relative to carbon dioxide and is reported as 'carbon dioxide equivalent' emissions (CO_2e).

To determine total exposure for this metric: The share of a given company that the Scheme holds (the weight) is multiplied by the company's emissions (by Scope), effectively measuring the Scheme's share of the company's emissions.

Figure 14: Summary of Total greenhouse gas emissions



Carbon footprint

This metric measures the carbon emissions (in Metric tonnes) divided by size of investment made (per $ invested). It seeks to answer how carbon intensive the portfolio is. This means that for the Scheme, for example, a company with a very high carbon intensity but a low Scheme weighting might contribute to the carbon footprint measure to a lesser extent than a company with a lower carbon intensity but a higher weighting in the Scheme.

Weighted average carbon intensity (WACI)

This is also an emissions related metric that measures the carbon emissions (in Metric tonnes) divided by revenue (per $million of revenue) for each underlying company. This involves multiplying percentage holding or exposure to a company by the carbon intensity (the company's total emissions per $million revenue).

The Trustee has selected to report the WACI as an alternative emissions metric to the carbon footprint metric. The Trustee has also selected this metric as the primary metric to monitor the short-term decarbonisation target set for the buy and maintain credit portfolio (see the 'Target' section for further details).

Implied temperature rise (ITR)

A forward-looking assessment of how aligned the Scheme's portfolios are relative to the Paris Agreement's 1.5°C target. This is estimated based on the activities and decarbonisation targets of portfolio companies / issuers, relative to what global decarbonisation needs to be to achieve 1.5°C. It provides a prediction of the potential temperature rise over the rest of the century based on the activities of those companies and issuers.

The Trustee has chosen this metric to include in this report because of its simplicity in presentation and a useful way to see, at a glance, the positioning of a fund towards a low carbon economy. High Implied Temperature Rise metrics at the Scheme level would imply it is invested in companies or issuers that are not transforming their businesses or activities quickly enough in order to reduce their reliance on fossil fuels. This is also a measure of climate transition risk with greater transition risk highlighted in funds with higher Implied Temperature Rises.

The Trustee notes that there are currently multiple methodologies used by its investment managers for computing this metric and these can have variable results. The Trustee will work with its investment managers to improve the scope and consistency of the implied temperature rise metric.

Data quality

This is an alternative metric that aims to represent the proportions of the portfolio for which the Trustee has verified, reported, estimated or unavailable carbon emissions data.

The Trustee has chosen this metric to include in this report as it quantifies the overall quality of the carbon data available and helps identify mandates the Trustee should work further on with its investment managers to increase the quality of data reported. The Trustee does not have access to the verified component of the carbon emissions data provided by managers which becomes a data limitation.

Appendix 5: Metrics as at 30 September 2024

Figure 15: Metrics summary

Asset Class	Manager	Overall Assessment (Allocation, %)	B'mark / Comparator	Total GHG Emissions[1] (tCO2e)		Carbon Footprint (tCO2e/$M invested)			
				Scope 1&2	Scope 3	Scope 1&2		Scope 3	
						Fund	B'mark	Fund	B'mark
Multi-Asset Credit	Mercer[2]	14.9%	50% ML High Yield Constrained / 50% S&P Leveraged Loan 100 Index hedged GBP	16,343	95,926	76	154	396	572
HLV property	Aviva[3]	9.4%	n/a	6	1,861	<0.1	-	15	-
Global B&M	L&G	8.3%	Markit iBoxx Non-Gilts Index	4,608	33,691	49	53	357	645
	Insight	8.3%	Global IG Corporates	5,474	30,305	40	63	226	352
Private debt	Cambridge Associates[4]	4.5%	MSCI ACWI IMI Index	1,240	14,776	20	49	236	336
LDI	Insight	30.9%	n/a	148,300[5]	-	126	-	-	-
Total		76% of assets analysed	63% (coverage of total assets)						

Source: Investment Managers (climate metrics figures); Mercer calculations.

1. Based on actual allocation as at 30 September 2024.
2. Mercer MAC split out Scope 3 into downstream and upstream: Carbon Footprint: 139 upstream, 257 downstream; WACI: 228 Upstream, 387 downstream.
3. Aviva data as at 31 December 2024 (climate related data only provided at year-end) and were restated due to an update to the calculations.
4. Cambridge Associates split out Scope 3 into downstream and upstream: Carbon Footprint: 79 upstream, 156 downstream; WACI: 230 Upstream, 371 downstream.
5. Insight provided two calculation methodologies for total GHG emissions. PCAF (WACI*Market Value) is reported in the table. The method used in previous years (Footprint * Market Value) yields a total GHG emissions figure of 173,128.

Appendix 5: Metrics as at 30 September 2024

Figure 15: Metrics summary

Asset Class	Manager	Overall Assessment (Allocation, %)	B'mark / Comparator	WACI (tCo2e/$M revenue)				Implied Temperature Rise (°C)		Data Coverage[8]	
				Scope 1&2		Scope 3					
				Fund	B'mark	Fund	B'mark	Fund	B'mark	Fund	B'mark
Multi-Asset Credit	**Mercer[2]**	**14.9%**	50% ML High Yield Constrained / 50% S&P Leveraged Loan 100 Index hedged GBP	**121**	**273**	**615**	**946**	**4.0**	**4.8**	**32%**	**55%**
HLV property	**Aviva[3]**	**9.4%**	n/a	**1**	**-**	**259**	**-**	**3.5**	**-**	**90%**	**-**
Global B&M	**L&G**	**8.3%**	Markit iBoxx Non-Gilts Index	**121**	**74**	**978**	**1,397**	**2.3**	**2.3**	**68%**	**-**
	Insight	**8.3%**	Global IG Corporates	**82**	**201**	**385**	**690**	**2.2**	**2.5**	**94%**	**97%**
Private debt	**Cambridge Associates[4]**	**4.5%**	MSCI ACWI IMI Index	**54**	**128**	**600**	**750**	**-**	**-**	**94%**	**100%**
LDI	**Insight**	**30.9%**	n/a	**98[6]**	**n/a**	**-**	**-**	**1.5 / 2.0[7]**	**-**	**100%**	
Total		**76% of assets analysed**	**63% (coverage of total assets)**								

Source: Investment Managers (climate metrics figures); Mercer calculations.

6. Insight LDI Weighted average carbon intensity is expressed in tCO2e per GK$M GDP. GK$ being the international dollar, the unit of PPP-adjusted GDP.
7. Insight provided two ITR figures computed using two different methodologies. The Trustee expects there to be greater consensus on methodologies over time.
8. The Trustee reports on data quality. Data coverage summary shown in the table is based on reported and estimated data.

Appendix 6: Climate change glossary

Carbon footprint: The amount of carbon dioxide (and other greenhouse gasses) released into the atmosphere as a result of the activities of a particular individual, organization or community. Carbon footprint is calculated for each company as (Scope 1 and 2 carbon emissions / $m investments). See also Scope 1, 2, 3 emissions and Weighted Average Carbon Intensity (WACI).

Carbon intensity: The amount of emissions of carbon dioxide (and other greenhouse gasses) released per unit of another variable such as revenue, gross domestic product (GDP), per $1million invested etc. See also Weighted Average Carbon Intensity (WACI).

Carbon price: The price for avoided or released carbon dioxide (CO_2) or CO_2-equivalent emissions. This may refer to the rate of a carbon tax, or the price of emission permits. In many models that are used to assess the economic costs of mitigation, carbon prices are used as a proxy to represent the level of effort in mitigation policies.

Carbon neutrality: Achieved by offsetting emissions by paying for credits (usually certified via new forestry equivalents that provide carbon removal). Carbon neutrality is similar to net zero targeting – though the latter requires actual emissions reductions to meet targets (rather than purchasing offsets). See also Net Zero CO_2 emissions.

Decarbonisation: The process by which countries, individuals or other entities aim to achieve zero fossil carbon existence. Typically refers to a reduction of the carbon emissions associated with energy, industry and transport.

Global warming: The estimated increase in global mean surface temperature expressed relative to pre-industrial levels unless otherwise specified. See also Pre-industrial.

Greenhouse gases: Gases in the planet's atmosphere which trap heat. They let sunlight pass through the atmosphere but prevent heat from leaving the atmosphere. Greenhouse gases include: Carbon Dioxide (CO_2), Methane (CH_4), Nitrous Oxide (N_2O), Hydrofluorocarbons (HFCs), Perfluorocarbons (PFCs), Sulphur Hexafluoride (SF_6), Nitrogen Trifluoride (NF_3).

Inevitable policy response: A scenario that expects an acceleration of climate-related policy announcements in 2023–2025, which has been supported by the Principles for Responsible Investment (PRI).

Mitigation (of climate change): A human intervention to reduce emissions or enhance the sinks of greenhouse gases.

Mitigation strategies: In climate policy, mitigation strategies are technologies, processes or practices that contribute to mitigation, for example, renewable energy technologies, waste minimization processes and public transport commuting practices.

Net zero greenhouse gas emissions: Net zero greenhouse gas emissions (represented as a CO_2 equivalent, or CO_2e) are achieved when emissions are balanced globally by removals over a specified period. The term "net zero" is also typically associated with the 2050 date or earlier, as this is aligned with the scientific recommendations to achieve a 1.5°C scenario. See also Carbon neutrality (which differs slightly).

Paris agreement: The Paris Agreement under the United Nations Framework Convention on Climate Change (UNFCCC) was adopted on December 2015 in Paris, at the 21st session of the Conference of the Parties (COP) to the UNFCCC. The agreement, adopted by 196 Parties to the UNFCCC, entered into

force on 4 November 2016 and as of May 2018 had 195 Signatories and was ratified by 177 Parties. One of the goals of the Paris Agreement is "Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels", recognising that this would significantly reduce the risks and impacts of climate change. Additionally, the Agreement aims to strengthen the ability of countries to deal with the impacts of climate change.

Physical risks: Dangers or perils related to the physical or natural environment that pose a threat to physical assets e.g. buildings, equipment and people. These are typically grouped into the impact of natural catastrophes (for instance sea level rise, flooding, wildfires, and hurricanes) and resource availability (particularly water). See also Transition risks.

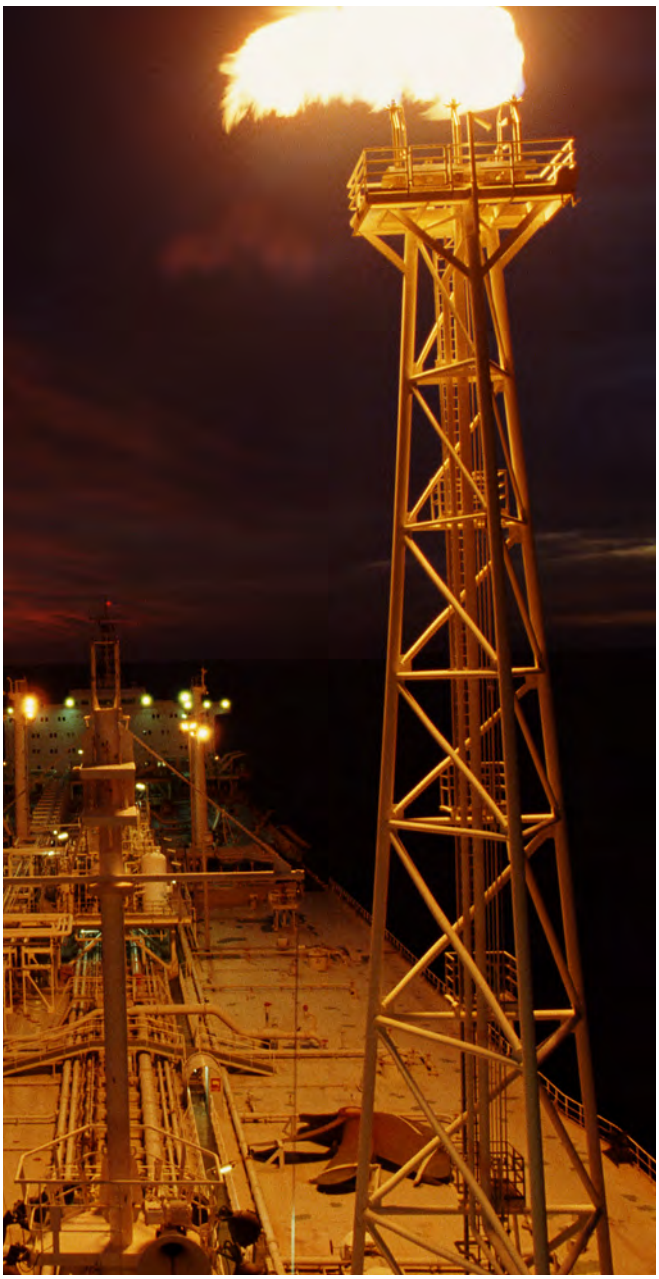
Pre-industrial: The multi-century period prior to the onset of large-scale industrial activity around 1750. The reference period 1850–1900 is used to approximate pre-industrial global mean surface temperature.

Principles for responsible investment (PRI): Non-profit organisation, which encourages investors to use responsible investment to enhance returns and better manage risks. It engages with global policymakers and is supported by, not but part of, the United Nations. It has six Principles for Responsible Investment that offer a menu of possible actions for incorporating ESG issues into investment practice.

Scope 1, 2, 3 emissions: Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Transition risks: Risks from policy changes, reputational impacts and shifts in market preferences, norms and technology as the economy moves to a low carbon approach. See also Physical risks.

Weighted average carbon intensity (WACI): The carbon intensity of a portfolio, weighted by the proportion of each constituent in the portfolio. Carbon intensity is calculated for each company as (Scope 1 and 2 carbon emissions / $m revenue). See also Carbon footprint.



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