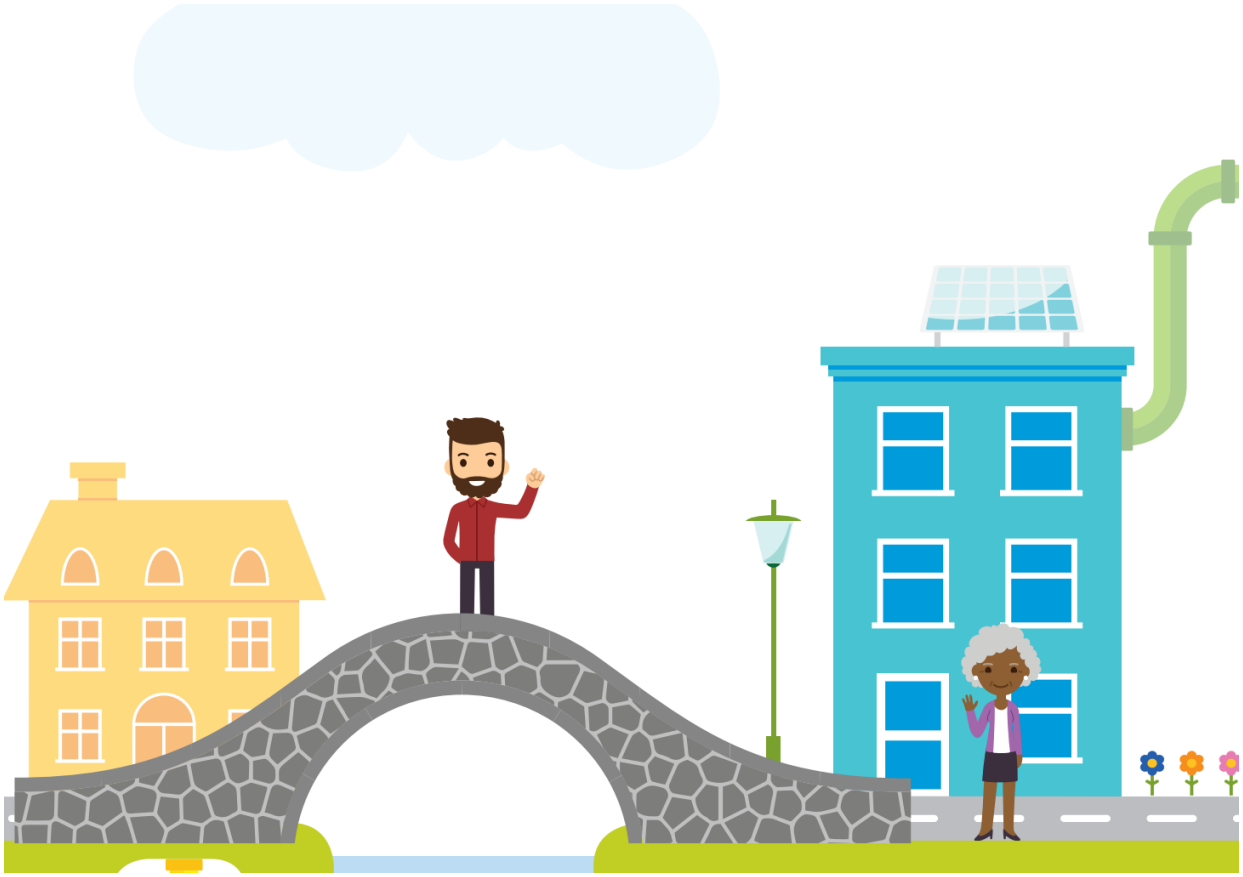
National Grid UK Pension Scheme (NGUKPS)

Climate Disclosure Report in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) - Edition 4

For Scheme year ending 31 March 2025



This is the Trustee's fourth mandatory report under the DWP's Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the DWP TCFD Regulations). The purpose of the report is to explain how the Trustee has identified, assessed and managed climate-related risks and opportunities, in line with the framework set out by the Taskforce on Climate-related Financial Disclosures (TCFD). It has been prepared for the Trustee of the National Grid UK Pension Scheme by the Master Manager, Russell Investments and the LCP Trustee Executive Team.

Contents

Introduction

Background

This is the Board of Trustee's (the "**Trustee Directors**" or "**Trustee**") fourth climate disclosure report and covers the National Grid UK Pension Scheme (NGUKPS) over the year to 31 March 2025.

NGUKPS experienced a few notable changes in structure over the Scheme year.

- **Between March 2024 and September 2024:** NGUKPS consisted of two "Sections": (i) Section A, which is sponsored by National Grid UK with look through to the wider National Grid group; (ii) Section B, which is sponsored by National Gas Transmission plc. These sections were ring-fenced from each other, with separate assets and liabilities.
- **From October 2024 to March 2025:** With effect from 1 October 2024, the assets and liabilities of Section B, which related to the gas transmission business, were transferred to the National Gas Transmission Pension Scheme (NGTPS), meaning that only Section A remained within NGUKPS.

As Section B was part of the Scheme over the year to 31 March 2025, this report covers both Sections but with a focus on Section A.

Section A remains well-funded on the Trustee's Long-Term Objective (LTO) basis, as was Section B prior to the transfer to NGTPS, with low-risk investment strategies. This includes holding insurance contracts ("buy-ins") to cover a proportion of each Sections' pensioner liabilities and high levels of hedging to interest rate and inflation movements.

This report is provided in compliance with requirements under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 which are based on the 'best practice' climate-risk reporting recommendations of the Taskforce on Climate related Financial Disclosures (TCFD). The aim of the regulation is to both increase transparency around climate-related risks, better inform decision making and ultimately lead to more accountability for the benefit of investors and beneficiaries. The TCFD recommendations provide a framework organised around four pillars: governance, strategy, risk management, and metrics & targets. This report has been structured to provide disclosures across each of these pillars under the main headings:

- Governance
- Strategy
- Identification and Assessment of Climate-Related Risks and Opportunities
- Management of Climate-Related Risk
- Metrics and Targets

The report describes the key climate-related risks and opportunities identified and assessed using climate-related metrics and scenario analysis. The governance and investment arrangements for both Sections are broadly similar, as such, reporting for both Sections is grouped where possible – notable exceptions include scenario analysis (Section 3) and the metrics and targets (Section 5).

The Trustee maintains a set of climate-related processes through its provider of executive services, the **LCP Executive**[1] with implementation carried out by the Scheme's Master Manager, Russell Investments. In addition, the LCP Executive coordinates and oversees the input and contribution of the following advisors and providers to the Scheme:

1. **Master Manager:** whilst the Trustee is ultimately accountable, Russell Investments are responsible for the identification and assessment of climate-related risks and opportunities in the Sections' investment portfolios.
2. **Covenant Advisor**: Cardano Advisory (Cardano) are engaged to assess and monitor the Sponsor covenant on behalf of the Trustee. This includes periodic in-depth covenant assessments which feed into the setting of strategy together with on-going monitoring reporting covering sustainability, amongst other risks. Cardano also plays an integral part in assessing the resilience of the Sponsor covenant of the Sections of the Scheme to climate-related risks and opportunities.
3. **LCP Actuarial Team**: LCP in their role as actuarial advisors provide the Trustee with advice with regards to longevity assumptions and, as a natural extension of this, play an important role in assessing the impact that climate change risk could have on longevity and the Scheme's liabilities.
4. **Third-party investment managers (the "investment managers"):** external investment manager funds that the Scheme invest in.
5. **Other third-party advisors**: for example, Sackers, the Scheme's legal advisor, works with the LCP Executive to ensure compliance with regulatory requirements regarding climate change governance and reporting.

[1] Formerly TEL. In September 2024, the services provided by TEL transitioned to LCP

Executive summary

The focus of the Trustee

Over the last 12 months, the Trustee has continued to strengthen its approach to identifying, assessing, and managing climate-related risks and opportunities. The Trustee strongly believes in being part of the real-world net zero transition which it considers to be a key part of how it manages risk to ensure the best financial outcome for the Scheme and the protection of members' benefits.

The Trustee applied its climate-related oversight consistently across both Section A and Section B (up until the point of transfer), in line with its fiduciary responsibilities. Section B reporting captures data to the transfer date (30 September 2024), while Section A reporting is to 31 December 2024. The Trustee considers its approach to be proportionate, risk-aligned, and appropriate given the timing of the transition.

In 2024-25, both Section A and Section B continued to progress ahead of selected climate-related and net zero targets up to the relevant period end date.

Developments & activity over the year

Over the last 12 months, the Trustee has maintained its climate oversight while advancing selected aspects of its strategy, data, and engagement approach. Some activities reflect the ongoing application of established governance and reporting processes, while others mark meaningful enhancements that support the Scheme's broader net zero ambition. Open dialogue between the LCP Executive and Russell Investments remained robust, supporting reporting improvements, tool development and more informed discussions on climate progress. Together, these developments have helped ensure the Scheme continues to manage climate-related risks and opportunities effectively, in line with its fiduciary responsibilities and long-term financial objectives.

The following summary outlines key activity aligned with each of the TCFD pillars:

- **Governance** (see Section 2): *continued application of robust governance processes*
    - The Trustee continues to have a clear governance process in place for managing climate risks and opportunities and evaluates its suppliers and third parties to ensure their climate proficiency. Climate change considerations are integrated into the Trustee's broader risk management process to ensure it forms an integral part of the Scheme management. The Scheme has continued its support of wider industry initiatives (e.g. the Paris Aligned Net Zero Asset Owner Initiative, the Institutional Investors Group on Climate Change) to support the Paris Agreement ambition and advocate best practices across the wider asset owner industry.
- **Strategy & risk management** (see Section 3 & Section 4): *engagement topic updates and retention of scenario analysis*
    - **Stewardship and enhanced oversight** (see Section 4): The Trustee views active ownership as a key lever for driving real-world emissions reductions and broader ESG outcomes. In Q4 2024, it reviewed its key engagement themes, resulting in a previously focused cybersecurity theme being broadened to digitisation theme. This allows for engagement on emerging issues such as AI governance and digital transformation. The Trustee also continued to apply its stewardship operating model, implemented by Russell Investments, which includes ongoing monitoring of investment managers and the identification, escalation and follow-up of ESG risks across the portfolio. The Scheme also inherits Russell Investments' engagement activity where stocks are mutually held by both parties.
    - **Scenario analysis**: The Trustee is required to undertake climate scenario analysis at least once every three years. A comprehensive analysis was completed for both Sections in the 2024 disclosure (as at December 2023), incorporating the latest available model updates and reflecting recent strategic changes at the time. This resets the three-year cycle, with the next assessment due by the 2027 report. The Trustee concluded that there were not sufficiently material changes to warrant re-running the scenario analysis at this stage.
- **Metrics & Targets (Section A) (see Section 5)**: *continued evolution of ESG data, reporting and monitoring*
    - **Re-baselining & enhanced attribution model**: in Q1 2025, the Trustee reviewed Russell Investments' analysis of Q4 2024 climate data and approved a re-baselining of the Financed Emissions Intensity[2] (FEI) target, in line with the Scheme's Net Zero commitment. This decision was informed by Russell Investments' attribution model, which quantified significant data coverage improvements and a reduction in the index linked credit allocation, both of which materially impacted the FEI metric. The Trustee noted that the TCFD Weighted Average Carbon Intensity (WACI)[1] metric's target did not need to be re-baselined, given it excludes the index linked credit mandate and wasn't affected in the same way as the FEI metric.
    - **Continued progress versus targets:** in 2024, the portfolio achieved further decarbonisation, driven by changes in portfolio composition, improved data coverage, and real-world emissions reductions. FEI is 20% ahead of target. TCFD WACI is 18% ahead of target. In terms of net zero alignment tracking was 42% ahead of the target trajectory whilst the engagement threshold metric reached 94%, already exceeding the 90% 2030 target. Further details are in Section 5.

[2] The Financed Emissions Intensity (FEI) and Weighted Average Carbon Intensity (WACI) are the Scheme's two main carbon footprinting metrics. Further details can be found in Section 5 "Metrics & Targets" and the Appendix.

Looking forward

Finally, the Trustee has continued to make progress against its adopted climate-related targets (at both Scheme and investment manager level), as outlined in Section 5. The Trustee remains committed to its climate strategy even as the Scheme matures and continues to de-risk and prioritise long-term cashflow stability. In this context, the opportunity to allocate capital to new climate solution investments becomes more limited. As a result, the Trustee is focused on working with its investment managers to act as effective stewards and drive real-world climate progress across the assets already held.

Maintaining a high level of net zero alignment across the portfolio remains a key objective. Stewardship activity, including enhanced oversight and corporate engagements on key ESG themes, is the primary lever for influencing climate outcomes. This approach aligns with the Trustee's broader climate ambition, underpinned by its membership of the Paris Aligned Asset Owners initiative and its commitment to achieving net zero greenhouse gas emissions by 2050. Interim targets, such as a 50% reduction in WACI and FEI by 2030 (against a 30 June 2020 baseline), remain in focus.

Chris Martin

Chair of the Trustee Board, Independent Trustee Services Limited

Section 1. Summary disclosure against TCFD recommendations

The TCFD's 11 recommended disclosures are organised according to the four pillars of: 1. Governance, 2. Strategy, 3. Risk Management and 4. Metrics & Targets. Exhibit 1 below provides a summary of the Scheme's disclosures against the 11 TCFD disclosures, as well as the more detailed disclosures mandated by the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021. This year's disclosure takes into account the Pensions Regulator's latest climate expectations, as set out in its Climate adaptation report 2025, including the continued emphasis on demonstrating real-world impact, as highlighted in Section 4.

Exhibit 1: TCFD disclosure summary

TCFD Pillars	Recommended Disclosure	Summary Disclosure	Page
Governance	Describe the board's oversight of climate-related risks and opportunities	The Trustee maintains a set of climate-related processes through its provision of executive services, conducted by the LCP Executive, with implementation carried by the Scheme's Master Manager, Russell Investments.	7-10
	Describe management's role in assessing and managing climate- related risks and opportunities.	The Trustee governance structure includes a strategy-focused sub-committee, the Integrated Risk Management Committee (IRMC), whose role includes oversight of responsible investment matters as part of its wider IRM oversight function.	7-10
Strategy	Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Climate-related investment risks and opportunities include identified transition and physical risks & opportunities in the Sections' portfolios and are detailed in Exhibit 3 along with relevant time horizons.	11-15
	Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	The Trustee has developed the appropriate governance arrangements to support the identification, assessment and management of climate-related risks and opportunities and feed into how the scheme operates While progressing on its de-risking journey, the Scheme has remained committed to effective stewardship and contributing to real-world climate outcomes.	25-28
	Describe the resilience of the organisation's strategy, taking into consideration different climate- related scenarios, including a 2°C or lower scenario.	Scenario analysis of investment portfolios, funding and Sponsor covenant is detailed in Section 3.	11-24
Risk management	Describe the organisation's processes for identifying and assessing climate-related risks.	The Scheme assesses climate-related risk in two ways, top-down scenario analysis or bottom-up measurement.	11-14
	Describe the organisation's processes for managing climate- related risks.	Once identification and assessment of sustainability risks and opportunities have been achieved, those risks need to be managed. The Trustee manages sustainability risk through: • Scheme level strategic initiatives • Manager monitoring, engagement and assessment • Defining climate-related metrics and targets • Active ownership and collaboration	23-26
	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Detailed in Section 3.	25-28
Metrics and targets	Disclose the metrics used by the organisation to assess climate- related risks and opportunities in line with its strategy and risk management process.	The Trustee uses a range of metrics to assess climate-related risks as follows: • Financed Emissions (Absolute), • Weighted Average Carbon Intensity - WACI (Intensity), • Implied Temperature Rise (Portfolio Temperature Alignment), • % Alignment to net zero pathways (Additional metric)	29-31
	Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	The Scheme has disclosed Scope 1, 2 and 3 emissions for the Financed Emissions and WACI metric as of December 2024.	32-33
	Describe the targets used by the organisation to manage climate- related risks and opportunities and performance against targets.	The Scheme has set the following targets: • WACI: 50% reduction by 2030 • Financed Emissions / £m invested: 50% reduction by 2030 • Net-zero targets, based on the Net Zero Investment Framework 2.0 Further details on the mandates covered by each of these targets can be found in this section of the report.	34-43

Section 2: Governance of climate-related risks and opportunities

Introduction

This section covers how the NGUKPS Trustee oversees, assess and manages climate-related risks and opportunities.

The Trustee applied its climate-related oversight consistently across both Section A and Section B (up until the point of transfer), in line with its fiduciary responsibilities. Section B reporting captures data to the transfer date (30 September 2024), while Section A reporting is to 31 December 2024. The Trustee considers its approach to be proportionate, risk-aligned, and appropriate given the timing of the transfer.

For more detail on the Trustee's current responsible investment approach in relation to Section A, including proxy voting, engagement activity, and policy implementation, please refer to the Section A Statement of Investment Principles, Responsible Investment Policy and Implementation Statement.

The Journey

Since publishing its first climate disclosures in 2021–22, the Trustee has made significant progress in embedding climate considerations into the management of the Scheme. The appointment of Russell Investments as Master Manager in 2021 marked a step change in implementation, supported by regular ESG-focused oversight from the Trustee and the LCP Executive. The Trustee maintains a Responsible Investment Policy, which is regularly reviewed, and continues to strengthen its stewardship through robust monitoring of investment managers and an enhanced oversight process.

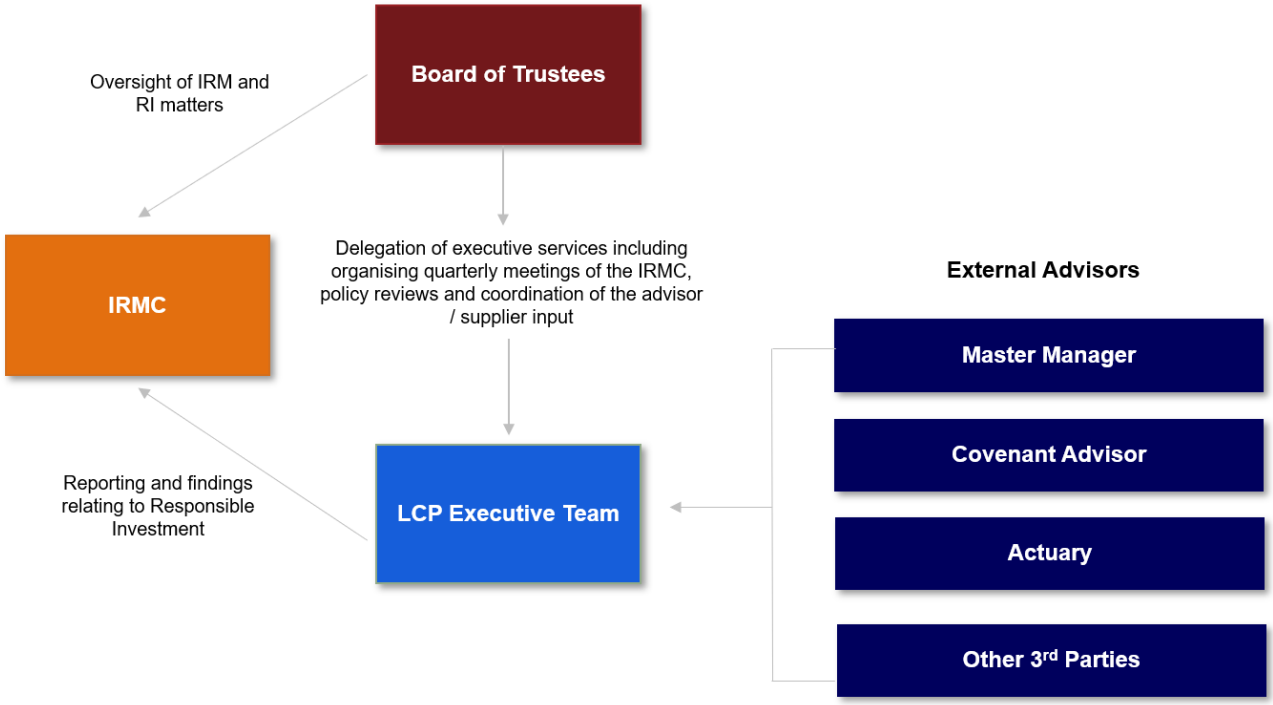
Over the course of the 2024-25 Scheme year, the Trustee has continued its engagement with industry initiatives via the LCP Executive and Russell Investments, including the Paris Aligned Asset Owner Initiative (joined in 2021) and the Institutional Investors Group on Climate Change (IIGCC), contributing to the development of best practice on climate attributions and target setting. These actions reflect the Trustee's ongoing commitment to managing climate-related risks and opportunities and supporting a real-world transition to net zero.

Developments & activity over the course of the 2024-25 Scheme year are summarised in the executive summary and described in detail within the report.

2.1 Management's role in assessing and managing climate-related risks and opportunities

The Trustee retains ultimate responsibility for compliance with governance requirements that underpin the TCFD recommendations and associated reporting. As part of its sub-committee structure, it has delegated oversight of Responsible Investment (RI) matters to the Integrated Risk Management Committee (IRMC) as part of its broader IRM oversight function.

Exhibit 2: NGUKPS Governance Structure



Source: National Grid UK Pension Scheme / LCP Executive as of 31 December 2024. For illustration purposes only.

While the LCP Executive does not hold a decision-making role, it is responsible for supporting the Trustee and the IRMC to ensure effective governance and oversight of climate-related matters, including organising quarterly meetings of the IRMC, policy reviews and coordination of the advisor / supplier input. The IRMC receives output from the activities carried out by the advisors / suppliers supporting the implementation of the Responsible Investment Policy as part of the quarterly IRM Dashboard and IRM Report.

On behalf of the Trustee, the LCP Executive coordinate and oversees the input and contribution of the following advisors and providers to the Scheme:

1. **Master Manager:** whilst the Trustee is ultimately accountable, Russell Investments are responsible for the identification and assessment of climate-related risks and opportunities in the Sections' investment portfolios. This involves:
    a. Working with the underlying third-party advisors to do so.
    b. Assessing the resilience of the Sections' assets and liabilities (excluding longevity changes) to climate-related risks and opportunities and advising on the setting of appropriate targets to manage climate risks at both a Section and investment manager level.
    c. Collaborating with the investment managers to implement targets and requirements.
    d. Ensuring the investment managers are compliant with the Trustee's Responsible Investment Policy.
    e. From a strategy perspective, report progress against Scheme targets and against other relevant ESG metrics and assess the investment managers' integration of ESG considerations (including climate) into their investment processes.
2. **Covenant Advisor**: Cardano Advisory (Cardano) are engaged to assess and monitor the Sponsor covenant on behalf of the Trustee. This includes periodic in-depth covenant assessments which feed into the setting of strategy together with on-going monitoring and reporting covering sustainability, amongst other risks. Cardano plays an integral part in assessing the resilience of the Sponsor covenant to climate-related risks and opportunities.

3. **LCP Actuarial Team**: LCP in their role as actuarial advisors provides the Trustee with advice with regards to longevity assumptions and, as a natural extension of this, plays an important role in assessing the impact that climate change risk could have on longevity and the Scheme's liabilities.
4. **Other third-party advisors**: for example, Sackers, the Scheme's legal advisor, works with the LCP Executive to ensure compliance with regulatory requirements regarding climate change governance and reporting.

The LCP Executive's supplier monitoring process

The LCP Executive's supplier monitoring process:

- Ensures that the external advisors involved in the governance structure have the skills to assist the Trustee in identifying and assessing climate-related risks and opportunities that are relevant to the Scheme. Suppliers are reviewed on a regular basis.
- Focuses on monitoring the Master Manager's (Russell Investments') risk management process for both current and emerging climate-related risks and opportunities given Russell Investments' integral role in the governance process. The includes regular meetings to discuss progress vs targets, process enhancements, updates on underlying external manager ESG-related activity and updates on regulatory changes and developments. The LCP Executive also expects Russell Investments to incorporate ESG considerations into its own supplier management processes.
- Any new appointments for third-party providers also consider climate risk management practices. More generally, climate change is considered as part of the annual review of all advisors, as well as periodic reviews of the in-house team.

Oversight of the LCP Executive is through the Chair of Trustees who maintains a direct relationship with the senior lead of the LCP Executive openly sharing feedback on service delivery.

2.2. The Board's oversight of climate-related risks and opportunities

The Trustee oversees the climate-related activities set out in the Responsible Investment Policy and discuss these items at IRMC and Trustee Board meetings through the following regular reporting:

- **On a quarterly basis:** the IRM Dashboard and Report incorporate the content of the quarterly ESG report and quarterly manager report provided by the Russell Investments to the LCP Executive. The IRMC discusses the progress against climate-related targets and Russell Investments' assessment of external investment managers' responsible investment capabilities. The IRMC has, in the last 12 months, discussed metrics, target-setting, re-baselining and progress achieved versus targets.

- **On an annual basis:**
    - Regulatory reporting (this TCFD-aligned Climate Disclosure Report and the annual Implementation Statement).
    - Russell Investments provides an annual report to the LCP Executive covering its adherence to the NGUKPS Responsible Investment Policy.
    - Net Zero commitment: as part of the Scheme's commitment to the Paris Aligned Net Zero Asset Owner Initiative (PAAO) the Trustee discloses its objectives and targets and publish a clear climate action plan (this Climate Disclosure report) for achieving the goals - Russell Investments completes an annual progress survey with oversight of the LCP Executive on behalf of the Trustee.

Where the LCP Executive receives input from Russell Investments and other providers, it regularly questions and challenges the information received and approach taken. Over the past 12 months, the LCP Executive has in particular challenged Russell Investments on:

- It's updated attribution model methodology and how to further enhance it for NGUKPS' use beyond those set out in the Net-Zero Asset Owner Alliance (NZAOA) and its paper, "Understanding the Drivers of Investment Portfolio Decarbonisation".
- Approach to re-baselining participating in discussion with the IIGCC.
- Quarterly assessment of elevated ESG risk or high WACI security-level positions.

Further details can be found in Section 4 and Section 5.

Training

The Trustee has continued to build on its knowledge and understanding of climate risk through its work on the annual climate report and receives appropriate responsible investment training from both the LCP Executive and external advisors. Over the course of the 2024-25 Scheme year, the Trustee dedicated proportionate time to climate governance and received training, including on Russell Investments' new climate attribution modelling (further details can be found in Section 5) and refresher training on re-baselining.

The LCP Executive has access to responsible investment training available at LCP. While the LCP Executive does not hold a decision-making role it plays a key supporting function by helping the Trustee articulate its expectations and priorities on responsible investment and hence it is essential that they stay abreast of developments in this area.

Section 3: Strategy, identification and assessment of climate-related risks and opportunities

Introduction
Identification and assessment of risks and opportunities for subsequent management is something that is well anchored in the Trustee's approach to strategic decision making and investment beliefs. This also applies to climate-related risks. The Trustee believes that climate risks need to be considered across all three pillars of the IRM framework. Therefore, the Trustee works in conjunction with Russell Investments, Cardano and the LCP Actuarial Team to identify and assess the impact of climate-related risks and opportunities in the IRM context focusing on investment, covenant and longevity. The Trustee is required to undertake climate scenario analysis at least once every three years.

A comprehensive scenario analysis was completed for both Sections in 2024 with the output included in the 2024 Climate Disclosure Report[3], and as there have been no material changes to the Scheme's strategy or climate modelling, the Trustee considers the analysis to remain appropriate.

Portfolio changes over 2024

In Q4 2024, Section A reduced its exposure to the Inflation-Linked Credit (ILC) mandate, reallocating proceeds to the LDI portfolio in line with its ongoing de-risking strategy. This resulted in a lower allocation to credit and an increased allocation to sovereign assets. The changes were reviewed through the Integrated Risk Management (IRM) lens and were not deemed material in the context of climate scenario outcomes and therefore did not trigger a re-run of the climate analysis.

The reduction in credit exposure has modestly decreased the Scheme's sensitivity to transition risks, while the increased sovereign allocation has preserved its strong funding and low-volatility profile. Thus consistent with last year's conclusions, the Trustee has concluded that Section A continues to demonstrate resilience across all three climate scenarios and time horizons, supported by its full funding position and limited reliance on the sponsor covenant.

Section B was transferred out of the NGUKPS on 30 September 2024. Up to that date, the Trustee applied climate-related oversight to Section B on a basis consistent with Section A, aligned with its fiduciary duties and Integrated Risk Management (IRM) framework. To the point of transfer, portfolio changes since the scenario analysis was last run have been limited. As such consistent with last year's conclusions, the Trustee has concluded that Section B remained resilient to the climate-related risks modelled and that no update to the prior scenario analysis conclusions was warranted prior to the transfer.

Climate scenario analytics

The scenario analysis in this section are primarily a reprint and compares the 2024 Climate Disclosures Report (analysis as of 31 December 2023) to the 2022 Climate Disclosures Report (analysis as of 31 December 2021). In Section 3.4, we have provided some updates on how the climate scenario model has evolved since the analysis was last run.

Time horizon of climate-related analysis

In 2019 the Trustee formalised a Long-Term Objective (LTO) to reach self-sufficiency by 2030 and an LTO liability basis was set corresponding to this. Given the strategic importance of 2030, the Trustee has defined 2030 as the medium-term time horizon; identifying and understanding risks that could materialise and impact the time of full funding in this period is very relevant. To complement the medium-term horizon, the Trustee has determined short- and long-term horizons of climate-related analysis as follows:

- Short term: Current impacts within the next 2 to 3 years.
- Medium term: 2030.
- Long term: Beyond 2030.

Given the link between long-term strategy and the time horizons, the time horizon definitions are revisited following any significant revision to the long-term strategy.

[3] The scenario analysis completed in the 2024 climate disclosures report reset the three-year cycle, with the next mandated assessment due by the 2027 report. However, the Trustee reviews this annually and may bring the next assessment forward due to changes in circumstances.

3.1 Process for identifying and assessing climate-related risks and opportunities

Introduction
Identification of climate risks is the first step which enables the management of these risks and is an ongoing process which factors in emerging risks. The assessment of climate risks is done through an IRM lens, considering climate risk impacts on: (i) the investment portfolio; (ii) the Scheme liabilities (including longevity) and; (iii) the strength of the covenant. The Trustee maintains a risk register which is reviewed at least quarterly. A high, medium or low rating is maintained for each risk, factoring in current mitigation. This risk register assists with the prioritisation and management of risks. Relevant risks, including climate-related risks, are then considered during the design and monitoring of the Sections' investment strategies.

In line with the recommendations of the TCFD, the Trustee identified two distinct categories of climate-related risks: (i) **transition risks**, arising from a shift to a low carbon economy, and (ii) **physical risks**, arising from rising temperature and weather events. Outlined in Exhibit 3, the Trustee recognise that different risks are likely to manifest over different time horizons and that they require different tools for assessment.

Exhibit 3: Snapshot of the climate risk identification and assessment process

Risk or Opportunity Identified	Description	Examples of Assessment Tools	Most Relevant Time Horizon
Transition risks & opportunities	Risks arising from the shift to a low carbon economy	Scenario analysis (esp. transition scenarios), metrics	Medium-term
• Changes in cost	Price on carbon, costs of abatement	Carbon foot printing metrics	Short and medium-term
• Changes in demand	Demand destruction and creation arising from shifts in demand	Scenario analysis (esp. transition scenarios), metrics on green revenues or climate solutions, exposure to potentially stranded assets	Short and medium-term
Physical risks	Physical risks can be event driven (acute) or longer-term shifts (chronic) in climate patterns	Scenario analysis, (esp. hot house world scenarios)	Long-term
• Acute	Increased severity of extreme weather events	Scenario analysis (esp. hot house world scenarios), asset-level risk mapping	All but increasing severity long-term
• Chronic	Changes in weather patterns, rising temperatures, rising sea levels	Scenario analysis (esp. hot house world scenarios), estimated sensitivity to productivity impacts, heating/cooling days	Medium and long-term

Climate risk is characterised by a longer time horizon than many traditionally managed risks. To make this more explicit, the short-term time horizon refers to the period within the next 2-3 years, medium-term refers to the period to 2030 and long-term refers to the period out to 2050. To help identify new and emerging risks, Russell Investments provides the LCP Executive with regular updates on broader market and regulatory ESG developments as part of its quarterly reporting process.

The Trustee considers climate solutions for Section A on an ongoing basis, with Section B oversight ending upon transfer to NGTPS. Given the Scheme's de-risked position, the focus is on bottom-up assessment and challenge of investment managers rather than top-down strategic changes. Russell Investments engages with the underlying investment managers to identify gaps and evaluate their approach to climate opportunities, ensuring alignment with the Scheme's climate objectives.

3.1.1 Top-down scenario analysis process

Scenario analysis is a useful tool to assess the impact on the Sections' funding levels and the Sponsor covenant, not only in a traditional financial risk management sense, but also to assess the impact of climate-related risks and opportunities. The scenarios are designed to cover a range of possible climate outcomes including warming of more than 3°C and less than 2°C. The Network for Greening the Financial System (NGFS) scenarios are widely used in the industry and explore a range of lower and higher risk outcomes, which cover a range of physical and transition risks. This is driven by the level of policy ambition, policy timing, coordination, and technology levers.

As outlined in the introduction, a comprehensive scenario analysis was completed for both Sections in last year's report and has been retained for this year's disclosure. The analysis utilised Phase 3 NGFS scenarios. The Scheme's three *selected* climate scenarios are described in Exhibit 4 below:

Exhibit 4: Selected NGFS Climate Scenarios

Description	Rationale	Median 2100 warming	Net Zero year	Tech Change
Scenario 1: Net Zero 2050 (Orderly 2°C)				
Net Zero 2050 limits global warming to 1.5°C (the median temperature returns to below 1.5°C in 2100, after a limited temporary overshoot), through stringent climate policies and innovation, reaching global net zero CO_2 emissions by around 2050. Some jurisdictions such as the US, EU, UK, Canada, Australia and Japan reach net zero for all GHGs. Transition risks dominate and begin immediately. This leads to inflationary pressure in both the short term and the medium, with inflation easing off towards the long term. As a response to this, interest rates start to rise in the short to medium term to ease inflationary pressure.	Aligned to the portfolio target of net zero by 2050. Representative of the class of scenarios where transition is immediate and orderly. Meets regulatory requirement of a scenario in the range of 1.5°C to 2°C increase.	1.4°C	2050	Fast Change
Scenario 2: Delayed Transitions (Disorderly 2°C)				
Imposes the 2°C target in 2100 and allows for temporary overshoot of the expected temperature rise by 2100 vs. the target. Annual emissions do not decrease until 2030. Strong policies are then needed to limit warming to below 2°C and transition risks dominate especially from 2030 onwards. This scenario includes regional carbon price variation. Regional net zero targets for countries with clear commitments at end 2021 are applied from 2030 onwards but not imposed for other countries. This leads to longer-term inflationary pressure, and a resulting upwards pressure on interest rates. The physical impacts of climate change begin to affect markets, resulting in more volatility and risk, in the shorter-term and medium-term time periods.	Representative of the class of scenarios where climate action is delayed and therefore aggressive policies are needed thereafter, and physical risks begin to manifest Captures the timing element and therefore relevant to each Section's journey plan.	1.6°C	2055	Slow until 2030; fast thereafter
Scenario 3: Hot House World (Current Policies 2°C)				
Existing climate policies remain in place, but there is no strengthening of ambition level. Thus, there is limited transition risk. Heightened physical risks dominate and are assumed through high climate sensitivity, especially 90th percentile temperature increases (4.1°C by 2100). This leads to high icesheet melt and increasing tropical cyclone risks. These extreme physical risks have strong economic repercussions, with markets and economies collapsing, against a backdrop of broader political and societal instability.	Representative of failure to transition Not reliant on delivery of policy commitments and therefore more extreme scenario, where physical risks dominate.	3°C+	n/a	Slow change

Source: Russell Investments, NGFS

Scenario impacts in an Integrated Risk Management (IRM) context

The impact on investment, covenant and liabilities (including longevity) has been assessed in relation to these scenarios to allow a full IRM picture to be built:

- **Investment Impact:** Russell Investments has modelled the climate risk impact on the Sections' assets and liabilities (excluding longevity), drawing on selected data provided by their chosen climate risk vendor. The NGFS scenarios described above are the first step in a four-step modelling framework which translates climate scenarios into economic shocks, then asset value streams based on company- and industry-level data and finally determines the expected financial impact at a security level. For further detail on methodology, please see Section 6.3 of this report. The scenario outputs are incorporated into the funding projections thus enabling the Trustee to assess the resilience of each Section's investment and funding strategies to different climate-related scenarios.
- **Longevity Impact:** the LCP Actuarial Team has considered recent mortality trends to explore how climate change could affect life expectancy in the UK. Their analysis estimates the potential impact of different climate scenarios on future mortality, compared to a baseline assumption that already allows for a mix of possible climate outcomes. This baseline sits somewhere between a best-case Net Zero 2050 scenario and a more moderate 'Current Policies' scenario. The figures provided by LCP represent potential changes in life expectancy if it becomes clear which scenario is playing out over the short, medium, or long term. In reality, any impact would emerge gradually, as changes in life expectancy depend on both observed experience and updated expectations for the future.
- **Impact on Covenant Strength:** to assess the risk to the Sponsor covenant, in February 2024 prior to the transfer of Section B out of the NGUKPS, Cardano used its proprietary assessment framework which looks at the physical and transition risks to the entire value chain of the business supporting the covenant under the selected scenarios. The result is separate Section-specific relative risk assessments comparing the status quo with three outcomes with comparable / lower, medium and higher levels of additional risk. As the ratings are not absolute, they are not directly comparable between the two

Sections. As a result of the different covenant structures supporting Section A and Section B, Cardano tailored its covenant impact assessment for each Section as follows:

- Section A: Cardano focused on the climate exposure of the whole National Grid group given the covenant support structure in place (including a guarantee from NG plc)
- Section B: Cardano focused on the climate exposure of National Gas Transmission plc, which supports c.98% of members and pays all Deficit Recovery Contributions (DRCs).
- In practice, the exposure of Section A is more diversified (including UK electricity transmission and distribution, and US regulated operations) whereas Section B's exposure is predominantly to the UK gas transmission business.

3.1.2 Bottom-up metrics process

The bottom-up analysis relies on a mapping of identified climate-related risks to representative metrics (i.e. carbon intensity as an indication of the impact of the price of carbon), allowing measurement of these metrics at a holdings level and then aggregation to the mandate and Section levels as a means of assessing risk. The mapping is therefore dependent on the availability of suitable metrics and is regularly reviewed as metrics and data quality improves.

The Trustee's principles for selecting are as follows:

- *Understandable* – aid understanding for the Trustee and provide context in setting targets.
- *Verifiable* – capable of supporting effective internal controls for the purposes of data verification and assurance.
- *Actionable* – assist the Trustee in reaching a conclusion.
- *Objective* – free from bias and value judgement.
- *Trackable* – metrics are consistent, providing clear progression against targets.

The climate-related metrics are one way to gauge historical, current and forward-looking climate-related risks and opportunities.

The Trustee is aware that climate-related data and methodologies around climate scenario analysis are expanding rapidly. Whilst not all investment portfolio holdings currently have data available, the Trustee expects the coverage to expand as data and methodologies for the more non-standard asset classes improve.

The bottom-up metrics used by the Trustee and enhancements to coverage and methodology are described in Section 5 of this report.

3.2 Climate-related risks and opportunities identified over the short, medium, and long term

The Trustee has identified that transition risks (i.e. changes in cost and demand) start to impact the Scheme's assets in the short and medium term with physical risk manifesting in the longer term, although financial markets may react early to emerging trends in physical risk.

Assets & Liability assessment

In addition to the Trustee qualitatively identifying broad climate-related risks, Russell Investments used the climate change scenario analysis to quantitatively assess how these are manifested within the overall portfolio and specific segments of it. With a diversified asset portfolio, it was expected – and confirmed – that there would not be a specific part of the portfolio dominating risk at section level. However, at the more granular level, the analysis revealed relative differences. For example, the output showed a higher level of transition risk in carbon intensive industries which therefore is identified as a specific risk at the granular level. This was particularly evident in the Net Zero 2050 and Delayed transition scenarios. Despite this, when these scenarios were aggregated to the section level, their impact was diluted given the diversified nature of the portfolio.

Physical risk manifestation is limited across the scenarios. The Trustee believes this is partly due to the diversified nature of the portfolio with limited exposure to geographical areas (e.g. developing countries in equatorial regions) and sectors (e.g. agriculture and other outdoor labour-intensive sectors) with high physical risk but also likely due to the modelling challenges with respect to physical risk, see Section 3.4. In addition, there is a risk that physical risk manifests itself sooner than assumed in the scenario analysis thus potentially impacting resilience with the Trustee seeing a key element to managing this is risk being their Net Zero commitment, see Section 4.

Longevity assessment

Longevity is expected to be primarily impacted by indirect impacts of climate change, such as poor economic conditions leading to lower NHS funding. To a lesser extent over the short-medium term, it will also be impacted by physical risks. The LCP Actuarial Team do not expect these to have a material impact on life expectancies until the medium-long term. While the exact impact on longevity in each scenario is not precisely forecastable, potential key factors are shown in exhibit 5 below.

Exhibit 5: Longevity Impact - Potential impact of climate scenarios on UK life expectancy

Net zero 2050 and Delayed transition		Hot House World	
Life expectancy in the UK affected favourably		**Life expectancy in the UK affected adversely**	
↑	High investment in low carbon technology, reducing the use of fossil fuels, so carbon emissions reduce, and air quality improves.	↓	Carbon emissions continue to rise, with more air pollution-related deaths.
↑	Average temperature rises are more modest, with no significant change in extreme events.	↓	Average temperatures become more extreme, with greater frequency and severity of adverse events, particularly heatwaves and harsh winters.
↑	Population adequately adapts to the changing circumstances (e.g. installation of air conditioning, insulation, flood defences)	↓	The UK population does not adequately adapt to the changing circumstances.
↑	UK economy adapts to low carbon technology and grows more in the medium term, resulting in no adverse impact on availability of public resources for healthcare.	↓	Lower UK GDP growth, leading to less public resource available for healthcare and lower household incomes.
↑	Improvements to general diets, such as reduced consumption of meat.	↓	Trade barriers affect both UK exports and imports. Restricted food supplies lead to less healthy diets.
↑	Improvements in lifestyles, e.g. more cycling and general exercise.	↓	Fuel costs increase, affecting people's lifestyles and health.

Source: LCP Actuarial Team

Sponsor covenant assessment

Taking the two covenant structures supporting Section A and Section B into account, the Trustee identified key risks to the strength of the sponsor covenants over the different time horizons:

- For Section A, the Net Zero 2050 scenario includes more material transition risks such as rapid changes to electricity (UK and US) and gas networks; there is also more risk of expensive carbon pricing policies and regulations. Over the long-term, the Hot House World is most likely to manifest in physical risks and broader macroeconomic impacts.
- For Section B, the Net Zero 2050 scenario highlights more risks due to reduced forecasted demand for natural gas and uncertainty surrounding the feasibility and adaptation to the hydrogen economy. Over the medium- to long-term periods, physical risks, particular flood risk, may hamper some of the sponsor's assets and this may result in an adverse impact on supply chain costs. The long-term outlook will also be tied to the UK's net zero commitments and that may cause regulatory ramifications.

Within exhibit 6 below, the analysis which has been performed on a relative risk basis for each Section is outlined, determining a RAG indicator of the relative risk versus the baseline for that Section across the scenarios. Changes in 2024 vs. 2022 are in brackets.

Exhibit 6: Sponsor Covenant – impact of different climate scenarios on strength of the covenant

Section A	Short term (to 2027)	Medium term (to 2030)	Long term (to 2050)
Net Zero 2050	Medium risk (-)	Higher risk (-)	Higher risk (-)
Delayed Transition	Lower risk (-)	Medium risk (↑Lower)	Higher risk (-)
Current Policies	Lower risk (-)	Lower risk (-)	Higher risk (↑Medium)
Section B	Short term (to 2027)	Medium term (to 2030)	Long term (to 2050)
Net Zero 2050	Medium risk (-)	Higher risk (-)	Higher risk (-)
Delayed Transition	Lower risk (-)	Medium risk (↑Lower)	Higher risk (-)
Current Policies	Lower risk (-)	Lower risk (-)	Higher risk (↑Medium)

Source: Cardano (Covenant advisor)

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

The Trustee is required to undertake climate scenario analysis at least once every three years.

A comprehensive scenario analysis was completed for both Sections in 2024 with the output included in the 2024 Climate Disclosure Report, and as there have been no material changes to the Scheme's strategy or climate modelling, the Trustee considers the analysis to remain appropriate.

Portfolio changes over 2024

In Q4 2024, Section A reduced its exposure to the Inflation-Linked Credit (ILC) mandate, reallocating proceeds to the LDI portfolio in line with its ongoing de-risking strategy. This resulted in a lower allocation to credit and an increased allocation to sovereign assets. The changes were reviewed through the Integrated Risk Management (IRM) lens and were not deemed material in the context of climate scenario outcomes, and therefore did not trigger a re-run of the climate analysis.

The reduction in credit exposure has modestly decreased the Scheme's sensitivity to transition risks, while the increased sovereign allocation has preserved its strong funding and low-volatility profile. Thus consistent with last year's conclusions, the Trustee has concluded that Section A continues to demonstrate resilience across all three climate scenarios and time horizons, supported by its full funding position and limited reliance on the sponsor covenant.

Section B was transferred out of the NGUKPS on 30 September 2024. Up to that date, the Trustee applied climate-related oversight to Section B on a basis consistent with Section A, aligned with its fiduciary duties and Integrated Risk Management (IRM) framework. To the point of transfer, portfolio changes since the scenario analysis was last run have been limited. As such consistent with last year's conclusions, the Trustee has concluded that Section B remained resilient to the climate-related risks modelled and that no update to the prior scenario analysis conclusions was warranted prior to the transfer.

The scenario analysis in this section are primarily a reprint from the 2024 Climate Disclosure Report and compares output of the scenario analysis run in 2024 (as of 31 December 2023) to that run in 2022 (as of 31 December 2021). In Section 3.4, we have provided some updates on how the climate scenario model has evolved since the analysis was last run in 2024.

IRM scenario analysis (as of December 2023)

Assessing the scenario resilience from an IRM perspective involves examining the impact on the funding position, factoring in the assets and liabilities (including longevity) to arrive at a potential covenant reliance position at the short-, medium- and long-term horizons. This was done by effectively comparing progress to full funding versus the ability of the Section to seek support from the covenant.

The inputs, assumptions and modelling outcomes provided in this section were based on the analysis conducted in Q1 2024, using the Sections' positioning as of 31 December 2023:

- Both Sections can be considered mature and well-funded on the Trustee's Long-Term Objective (LTO) basis, resulting in low-risk investment strategies being followed by both Sections. As part of the de-risking strategy, both Sections have entered insurance contracts (buy-ins) to cover a proportion of their pensioner liabilities and both Sections are well hedged to interest rate and inflation expectation movements. These features help to mitigate any exposure of the sponsor covenant to climate scenarios.
- Since the analysis run in 2022 (using December 2021 positions), the Sections' funding positions improved with further investment de-risking taking place with an expectation that this would reduce the impact on the projected time of full funding in the scenarios and hence further improve the resilience of the strategy. How the Trustee further manages climate-related risk including the Scheme's commitment to net zero is discussed further in Section 4.

- Excluding the buy-ins, the composition of the remaining assets is similar between the Sections, with c. 84% and c. 80% invested in UK Government bonds, high quality corporate bonds and secure income assets for Section A and B respectively. The only significant differences in allocations are Section B's allocation to public equity, c.9%, and Section B's slightly lower hedging to interest rates and inflation compared to Section A. Beyond this, both Sections invest in illiquid assets such as property and private equity.

Moving onto the scope of assets:

- **In-scope assets**: as of December 2023, c. 76% of assets (excluding buy-in) held by Section A and c. 82% of Section B are covered by the vendor model and thus exposed to climate risk shocks. The climate vendor model does not have coverage for the index-linked credit portfolio thus Russell Investments addressed this in two steps: (i) to replicate the rate / inflation impact, they identified a basket of sovereign bond securities with a similar maturity and coupon; (ii) for the credit impact, they identified a basket of vanilla bonds from the same issuer with similar maturity/coupon – the combined process enabled them to replicate the rate and credit impact of the index-linked credit portfolio. In addition, careful consideration was given to the LDI portfolio (given the use of repos within the mandate) as well as the real estate portfolio (to ensure they accurately allocate the climate risk/ESG metrics to the respective Sections).
- **Out-of-scope assets**: as of December 2023, c. 24% of Section A and c. 18% of Section B are exposed to climate risk but not yet covered by the analysis This include Illiquid alternative assets such as secure income assets, illiquid credit, and private equity with an expectation that modelling coverage will improve over time. In Section 3.4 Russell Investments have added some commentary on the expected impact of illiquid assets being included.
- **Buy-in**: the Sections' liabilities that have been covered by the buy-in policies are not included in the analysis and therefore the buy-in policy were also excluded from the assets[4]. The buy-in figures were also excluded from the percentages listed above.

The Trustee acknowledges the modelling limitations of the scenario analysis and will continue to work with the LCP Executive and Russell Investments on how to best evolve the scenario modelling. In this year's report, on behalf of the Trustee, the LCP Executive and Russell Investments have updated last year's qualitative analysis of modelling challenges in Section 3.4. While the Trustee acknowledges the modelling limitations as well as the data limitations in the scenario modelling, the Trustee finds scenario analysis a useful lens with respect to analysing the impact of more complex risks occurring over a longer timeframe.

[4] This approach is grounded in a belief that the insurance regime will remain robust under the modelled scenarios. Since the purchase of the buy-in policies, the LCP Executive maintains a dialogue with the respective insurance companies regarding their approaches to climate-related risks and opportunities. The insurers' climate-related metrics are included in Section 5 of this report.

Section A Results

Exhibit 7 below presents the output of the climate-related scenario analysis for Section A which was conducted in Q1 2024 based on data as of December 2023, versus the previously produced scenario outputs. The TCFD 2024 scenario results below are colour-coded to denote the change in resilience versus the TCFD 2022: (i) improvement; (ii) deterioration; (iii) no change.

Exhibit 7: Impact of climate scenarios on Section A's strategic position[5]

			TCFD 2024 (data as of Dec '23)			*TCFD 2022 (data as of Dec '21)*		
Scenario	**Risk Category**	**Metric**	**Short term**	**Medium term**	**Long term**	*Short term*	*Medium term*	*Long term*
Baseline	**Asset & Liabilities ex Longevity**	Full funding Date	2024	-	-	*2024*	*-*	*-*
Net Zero 2050	**Asset & Liabilities ex Longevity**	Change in Full Funding Date	0 Years (2024)	Funding remains above 100%	Funding remains above 100%	*1 Year (2025)*	*Funding remains above 100%*	*Funding remains above 100%*
	Longevity Risk	Impact on Full Funding date	No impact	No Impact	Negative Impact but funding remains above 100%	*No impact*	*Negative impact, but funding remains above 100%*	*Negative impact, but funding remains above 100%*
	Covenant Risk	Covenant Risk	Medium	Higher	Higher	*Medium*	*Higher*	*Higher*
Delayed Transition	**Asset & Liabilities ex Longevity**	Change in Full Funding Date	0 Years (2024)	Funding remains above 100%	Funding remains above 100%	*0 Years (2024)*	*Funding remains above 100%*	*Funding remains above 100%*
	Longevity Risk	Impact on Full Funding date	No impact	No Impact	Negative Impact but funding remains above 100%	*No impact*	*No impact*	*Negative impact, but funding remains above 100%*
	Covenant Risk	Covenant Risk	Lower	Medium	Higher	*Lower*	*Lower*	*Higher*
Hot House World	**Asset & Liabilities ex Longevity**	Change in Full Funding Date	0 Years (2024)	Funding remains above 100%	Funding remains above 100%	*0 Years (2024)*	*Funding remains above 100%*	*Funding remains above 100%*
	Longevity Risk	Impact on Full Funding date	No impact	Positive impact with funding above 100%	Positive impact with funding above 100%	*No impact*	*Positive impact with funding above 100%*	*Positive impact with funding above 100%*
	Covenant Risk	Covenant Risk	Lower	Lower	Higher	*Lower*	*Lower*	*Medium*

Source: Russell Investments[6], LCP Actuarial Team (actuarial), Cardano as of 31st December 2023

Key observations from the analysis

For Section A, whilst the absolute outputs changed, when consolidated to an IRM summary, there were no major changes to the scenario conclusions resulting from the December 2023 rerun:

- **Baseline:** full funding was still expected in the short-term, i.e. in 2024. In reality, full-funding had been achieved in 2024 prior to Scheme year-end.
- **Asset and Liability side (ex. longevity):** Russell Investments' analysis showed that the impacts are muted across all three timeframes due to the de-risked nature of the investment strategy with full funding reached in the short term (in 2024, for all three scenarios).
- **Longevity:** The LCP Actuarial Team's analysis shows that longevity changes only materialised in the medium and long term and generally were not sufficiently large to move the Scheme out of surplus. For the net zero scenario, the longevity risk improved to "no impact" in the medium-term as the UK economy adapts to low carbon technology and grows more in the medium term, resulting in minimal adverse impact on the availability of public resources for healthcare. Under the Hot House World scenario, life expectancy is expected to fall in the medium and long term, resulting in lower liabilities and so an improvement in the Scheme's funding position.

[5] The table compared the funding position factoring in the assets and liabilities (including longevity) to arrive at potential covenant reliance position over the short-, medium- and long-term horizons. This position was then contrasted to the potential risk from a covenant point of view, effectively comparing progress to full funding (and limited covenant reliance) vs the potential of risk materialising from a covenant point of view and impacting the ability of the section to seek support from the covenant.

[6] Parts of this table have been created by Russell Investments drawing on selected data provided by Russell Investments' third-party climate risk partner (which does not include investment advice). This report represents Russell Investments' and the Trustee's own selection of applicable scenarios and the Sections' portfolio data. The third-party climate risk vendor is not an investment advisor and has not provided any investment advice.

- **Covenant:** Cardano's 2024 analysis showed that the increased covenant risk exists in the short term in the Net Zero 2050 scenario with higher risk in the medium to long term for the same scenario. In the Delayed Transition and Hot House World scenarios increased risk also exists but only in the medium-long term. There is however limited covenant reliance as funding remains above 100% in these scenarios in the medium-long-term.

Combining these results into an IRM perspective, the Trustee concluded there was limited impact due to the Section A's advanced funding position i.e. it is projected to reach full funding and limited covenant reliance in the short-term and then remain there in all three scenarios. The analysis supports the conclusion that Section A's position is resilient in all three scenarios across all three-time horizons.

More in-depth commentary of the IRM outputs per scenario can be seen in Appendix 6.4.

Section B Results

Exhibit 8 below presents the output of the climate-related scenario analysis for Section B which was conducted in Q1 2024 based on data as of December 2023. The TCFD 2024 results below are colour coded in comparison to the TCFD 2022 scenario analysis: (i) improvement; (ii) deterioration; (iii) no change.

Exhibit 8: Impact of climate scenarios on Section B's strategic position[6]

			TCFD 2024 (data as of Dec '23)			*TCFD 2022 (data as of Dec '21)*		
Scenario	**Risk Category**	**Metric**	**Short term**	**Medium term**	**Long term**	*Short term*	*Medium term*	*Long term*
Baseline	**Asset & Liabilities ex Longevity**	Full funding Date		Early 2032			*2028*	
Net Zero 2050	**Asset & Liabilities ex Longevity**	Change in Full Funding Date	n/a	0 Years (Late 2032)	Funding remains above 100%	*n/a*	*3 Years (2031)*	*Funding remains above 100%*
	Longevity Risk	Impact on Full Funding date	No Impact	No Impact	Negative Impact and funding remains above 100%	*No impact*	*2 Years (2033)*	*Negative impact, but funding remains above 100%*
	Covenant Risk	Covenant Risk	Medium	Higher	Higher	*Medium*	*Higher*	*Higher*
Delayed Transition	**Asset & Liabilities ex Longevity**	Change in Full Funding Date	n/a	0 Years (Mid 2032)	Funding remains above 100%	*n/a*	*0 Years (2028)*	*Funding remains above 100%*
	Longevity Risk	Impact on Full Funding date	No Impact	No impact	Negative Impact and funding remains above 100%	*No impact*	*No impact*	*Negative impact, but funding remains above 100%*
	Covenant Risk	Covenant Risk	Lower	Medium	Higher	*Lower*	*Lower*	*Higher*
Hot House World	**Asset & Liabilities ex Longevity**	Change in Full Funding Date	n/a	0 Years (Early 2032)	Funding remains above 100%	*n/a*	*0 Years (2028)*	*Funding remains above 100%*
	Longevity Risk	Impact on Full Funding date	No impact	Positive impact with funding above 100%	Positive impact with funding above 100%	*No impact*	*Positive impact with funding above 100%*	*Positive impact with funding above 100%*
	Covenant Risk	Covenant Risk	Lower	Lower	Higher	*Lower*	*Lower*	*Medium*

Source: Russell Investments[7], LCP Actuarial Team, Cardano, LCP Executive as of 31st December 2023

Key observations from the analysis

For Section B, the scenario analysis changes since the previous 2022 run were more significant:

- **Baseline**: an extension in baseline projection for Section B to reach full funding (and limit covenant reliance) due to investment de-risking carried out since 2022.
- **Asset and Liability side (excluding longevity)**: Russell Investments' analysis showed a reduction in the impact of the net zero 2050 scenario, from 3 years to < 1 year, mainly driven by the increase in liability hedge ratio and other investment de-risking. The impact was muted across all three timeframes due to the de-risked nature of the investment strategy with full funding reached. The hot house world scenario continued to have the least impact on the Section's funding level.
- **Longevity**: The LCP Actuarial Team's analysis shows that longevity changes only materialised in the medium and long term and generally were not sufficiently large to move the Scheme out of surplus. For the net zero scenario, the longevity risk improved to "no impact" in the medium-term as the UK economy adapts to low carbon technology and grows more in the medium term, resulting in minimal adverse impact on the availability of public resources for healthcare. Under the Hot House World scenario, life expectancy is expected to fall in the medium and long term, resulting in lower liabilities and so an improvement in the Scheme's funding position
- **Covenant**: Cardano's analysis showed that in the net zero 2050 scenario, as in 2022, the increased covenant risk existed in the short term in the net zero 2050 scenario with higher risk in the medium to long term for the same scenario. In the Delayed Transition and Hot House World scenarios increased risk also exists but only in the medium-long term. There is however limited covenant reliance as funding reaches / remains above 100% in these scenarios in the medium-long-term.

For Section B, the combined IRM conclusion suggested the net zero 2050 scenario continues to be the most impactful for the Scheme as full funding is reached in the medium term where this is combined with higher covenant risk. Under the specific Hot House World scenario, this was the least impactful for the Scheme's overall financial position, as there was: (i) no impact on the full-funding date; (ii) longevity reduces which has a positive impact on the funding level; (iii) and covenant risk remains low until the long-term as no policy action is taken to moderate climate change until much later. However, the Trustee considers that in this scenario wider adverse systemic risks are significantly increased, even though they are not explicitly modelled in the financial modelling.

Across all three scenarios, the LCP Executive previously assessed the strategy as resilient based on two key reasons:

- The main risk facing Section B relates to the sponsor Covenant, specifically, the demand for natural gas. Cardano and the Trustee monitor this risk on an ongoing basis and believed there is reasonable visibility for changes in future gas demand. Therefore, if there were signs that this risk was materialising, mitigating action could be taken.
- With regards to scenario analysis, the timing of when climate risks materialised was not clear – both in terms of policy changes and physical risks. If climate risk impacts materialised later than expected, Section B may be fully funded and thus have limited covenant reliance.

These views were formed prior to the transfer of Section B out of the NGUKPS, and the Trustee was comfortable with Section B's climate resilience at the point of transfer.

More in-depth commentary of the IRM outputs per scenario can be seen in Appendix 6.4.

3.4 A discussion on scenario outputs

This section is largely based on the 2024 Climate Disclosure Report, with targeted updates to reflect how the scenario model has evolved in response to the challenges identified during the previous analysis. The updates refer to developments occurring in 2025 but after the scheme year-end and as such, they did not factor into the decision not to rerun the analysis for this report. However, they will be taken into account when the Truste decides whether a re-run of the climate scenario analysis is appropriate for the following reporting cycle.

Scenario output observations

Despite updates to the underlying NGFS scenarios and Russell Investments' climate risk vendor model last year, aspects of the latest scenario analysis outputs continued to be counterintuitive. While some structural issues persist, this section builds on last year's assessment by incorporating vendor model updates and the continued debate around the underestimation of physical risk. Several industry challenges remain unresolved, particularly the difficulty of capturing extreme events and systemic feedback loops, but model improvements are now underway. The key challenges and expected future changes are summarised below. More details on the climate risk vendor model assumptions can be found in Section 6.3.

An industry challenge – the underestimation of physical risk
The challenges of modelling physical risks is a well-publicised industry challenge[7]. Current climate risk models are likely underestimating how much physical risk damage will affect investment portfolios. Climate risk models often fail to incorporate non-linear feedback loops and tipping points that may be triggered by climate change, resulting in an underestimation of the severity and rapidity of potential physical impacts. The interconnected nature of the global economy also means that effects can cascade, and most models rely on either first order effects or a simplistic extrapolation of past correlations between climate variables and financial metrics. This will further exacerbate the potential for discrepancy between projected and actual outcomes.

The key challenges driving the model's underestimation of physical risk are outlined below, as well as how the current climate risk model tries to overcome the associated challenge:

Challenge	Current Model Approach & Future Updates
1: Time horizon: Physical risks tend to materialise in the long run as they become more severe as time progresses. This temporal dynamic contrasts with transition risk which can be addressed by putting stringent climate policies in place immediately (for example, governments can increase carbon taxes tomorrow). The immediate policy action however may not capture physical risks which materialize further in the future. The time mismatch between physical and transition risks is often described as the 'tragedy of the horizon' - the timeframe emerges as a critical factor warranting thorough consideration. This is particularly evident in the context of employing discounted cash flow (DCF) models to evaluate potential impacts on asset value. Many climate risk models estimate shocks to cash flows out to 2050, and a terminal value for value beyond that. The terminal value is a key assumption as it is common to assume perpetual and constant growth. However, this assumption can be problematic, overlooking the dynamic and evolving nature of future climate-related effects.	**31 December 2023:** The previous model captured long-term physical climate risks beyond 2050 using a one-off adjustment at the end of the forecast period. While this was an improvement over earlier models, it still risked underestimating the potential severity of long-term climate impacts. **2025 model update:** The old adjustment has been replaced with a more dynamic approach that reduces long-term economic growth in regions most exposed to physical climate risks. This provides a broader view of how risks beyond 2050 may affect asset values. The model also now highlights hard-to-quantify risks such as tipping points, lack of insurability, and major climate-related disruptions.

[7] The paper published in July 2023 by the Institute and Faculty of Actuaries (IFoA) and the University of Exeter called "The Emperor's New Climate Scenarios" is a frequently cited paper which asserts that the climate scenarios used within the financial sector significantly underestimate climate risk.

Challenge	Current Model Approach & Future Updates
2: The average damage compared to tail risks: While the current climate risk models focus on the modelling of physical risk using the expected average annual damages (AAD), individual tail events are currently left out of the model. As a result, the estimated average physical impacts could underestimate the aggregate impact of a sequence of years with severe acute physical risks. For example, a string of consecutive years with severe weather impacts is likely to cause more disruption than that implied by the average annual damage estimates. Focusing on average annual damage estimates can obscure the true potential for catastrophic impacts. Recognising and incorporating the possibility of these tail risks into climate models is essential for a more comprehensive understanding of potential future scenarios.	**31 December 2023:** Previous models focused on average expected damage from physical risks, which helped with long-term planning but did not capture the effect of rare but severe climate events. **2025 model update**: While tail events are still not modelled individually, the updated approach now reflects how severe physical risks may build up over time. It allows for stronger impacts in more vulnerable sectors and regions, helping to better understand the potential financial effects of extreme weather patterns.
3: Modelling challenges - second order impacts, feedback loops and tipping points: Second order impacts of physical climate change such as physical climate driven (indirect) macroeconomic impacts on security values, such as changes in GDP / inflation and disruptions in the supply chain stemming from physical vulnerabilities are not included. Additionally, non-linear feedback loops are mechanisms which can accelerate or slow climate change, e.g. ice-melt reduces the Earth's surface reflectivity causing more absorption of solar radiation and more warming and it is difficult to pinpoint the threshold at which time it becomes irreversible i.e. a tipping point. The feedback mechanism and tipping points are extremely difficult to model.	**31 December 2023**: The model previously did not account for how physical risks could affect the broader economy, such as through reduced productivity or supply chain disruption. These indirect risks were not reflected in asset valuations. **2025 model update:** As alluded to earlier, two significant enhancements have been introduced to address these gaps: • The model now adjusts economic growth in affected regions to reflect wider climate-related disruption. • It also includes a new tool to assess the impact of climate-related supply chain pressures, such as higher costs and earnings disruption passed through from suppliers. Together, these changes help build a more complete picture of how physical risks could affect companies and markets over time.

Looking Ahead: Evolving the Trustee's Approach to Climate Risk

This section builds on the results of the 2023 climate scenario analysis and highlights key areas of model development and Trustee oversight. It is intended to inform the Trustee's decision-making around whether a re-run of the climate scenario analysis is warranted for the next reporting cycle.

Summary of 2023 analysis and key challenges

The 2023 analysis concluded that both Sections were resilient across the three NGFS climate scenarios and over all time horizons. However, a number of modelling limitations were identified:

- The model assumed that most physical climate risks would emerge after 2050. This raised concerns about the potential for earlier impacts or tipping points to test the Scheme's resilience sooner than expected.
- Scenario coverage excluded buy-in liabilities, based on the assumption that the insurance regime remains robust. Insurer metrics continue to be monitored and are included in Section 5 of this report.
- Illiquid assets were not included in the scenario run due to data limitations. While still exposed to climate risk, these assets were not expected to materially alter the analysis conclusions.

Updates to the modelling framework - 2025 and beyond

As alluded to earlier, climate scenario analysis is a developing field. The Trustee recognises that no single model can fully capture the complexity of future climate risk. That said, enhancements made by Russell Investments and its climate risk vendor have strengthened the modelling framework in several ways:

- A new macroeconomic overlay for physical risk has replaced the former one-off terminal value adjustment, offering a more robust view of how long-term climate damage may affect asset values.
- Tail risks, while still not modelled as discrete events, are better represented through GDP-level sensitivity to extreme physical hazards.
- New tools now capture indirect impacts such as macroeconomic drag and supply chain disruption, giving a more realistic view of how physical and transition risks could impact companies over time.

Russell Investments' Climate Risk Working Group (CRWG) continues to engage with the vendor to shape future model development. This includes exploring the recently released NGFS short-term scenarios, which provide improved insight into near-term transition and physical risks.

Next steps for the Trustee

The Trustee will take these model developments into account when considering whether to re-run the climate scenario analysis in the next reporting cycle. This decision will balance:

- The materiality of changes in portfolio structure or strategy
- The relevance of updated modelling features to the Scheme's specific risk profile
- The regulatory and governance expectations for ongoing climate risk assessment

The Trustee will continue to work with its advisors to ensure its approach to climate scenario analysis remains proportionate, risk-informed, and decision-useful.

Section 4: Management of climate-related risk

4.1 Process for managing climate-related risks

Following the transfer of Section B in September 2024, the Trustee's climate-related risk management activities now apply solely to Section A. Once identification and assessment of climate-related risks and opportunities have been achieved, those risks need to be managed. The Trustee manages risk through:

- Scheme level strategic initiatives
- Manager monitoring, engagement and assessment
- Defining climate-related metrics and targets
- Active ownership and collaboration

Scheme level strategic initiatives

The Trustee intends to achieve a portfolio with net zero greenhouse gas emissions by 2050 in line with the Paris Agreement. Some of the key strategic initiatives adopted by the Scheme are:

- Continued signatory of the Paris Aligned Net Zero Asset Owner Initiative (PAAO): in Q1 2021, the Scheme joined the Paris Aligned Investment PAAO Initiative, committing to transition the Scheme to net zero greenhouse gas emissions by 2050 or sooner[8]. In 2022 the Scheme disclosed its initial targets alongside other PAAO signatories; the Scheme also contributed to its "2023 Progress Report", published in May 2024.
- Outside of UK government debt held within the LDI portfolio (described in the fourth bullet point here), the Trustee has the ability to focus on the delivery of the long-term net zero objective and near-term risk management is at the mandate level. At a Scheme and mandate level, short-term targets are established to assist and monitor the Sections' progress against the long-term objective. Details of progress versus these targets is in Section 5.3.
- As detailed earlier (Section 3), climate scenario analysis is used to resilience test the Scheme's investment strategy and assess the impact on longevity assumptions while factoring in the impact of climate risks and opportunities on the Sponsor's covenant.
- In the context of reaching the net zero greenhouse gas objective, it is important to note that Section A is constrained to the extent that climate awareness can be incorporated into asset allocation due to its mature profile and significant allocation to UK government bonds. As a result, progress towards net zero alignment is largely dependent on the UK government achieving its own climate-related objective of becoming net zero by 2050.

  In a similar context while the Scheme's maturity and de-risked position limit the suitability of large-scale allocations to new climate-specific solution strategies, Russell Investments continues to monitor climate-related opportunities within existing manager allocations. These are considered on an ongoing basis through active engagement with the investment managers, to ensure alignment with broader sustainability goals without compromising portfolio objectives or liquidity needs. Several managers have also developed frameworks to assess sustainable or green investments relative to traditional positions. The Sections' specific allocations to climate-related investments are summarised in Section 5.3.

Manager monitoring, assessment and engagement

The Trustee views engagement and stewardship as key to managing climate risks and opportunities. The Trustee expects its investment managers to consider climate-related implications in their investment processes and to engage with companies on the Trustee's behalf to manage climate-related risks and opportunities in a way that supports a real-world transition to net zero, ultimately contributing to the ambitions of the Paris Agreement.

Responsible Investment (RI) considerations are therefore included in any manager selection exercise as part of the due diligence processes and in on-going manager monitoring. While the Scheme is highly de-risked and major changes to manager appointments are considered unlikely, the Trustee retains the ability to make such changes if needed.

The objective is to assess the extent to which RI considerations, such as climate risks and opportunities, are integrated into the manager's philosophy and process. Even though expectations will vary according to asset class and investment style, RI is always an integral component of manager assessment. RI is integrated into external manager's Investment Management Agreements (IMA) or similar legal documentation where appropriate objectives, exclusions/restrictions, engagement plans and required reporting are specified.

[8] The PAAO commitment is aligned with the ambitions of the Paris Agreement to limit the average global temperature increase to 1.5°C above pre-industrial levels.

Manager assessment

Russell Investments evaluates the Sections' investment managers on behalf of the Trustee using quantitative and qualitative inputs to assess a manager's ESG integration. These inputs are then used to assign a rank, which contributes to the manager's overall rank. The ESG integration of investment managers are graded across the below four criteria:

- **ESG commitment**: the investment managers' ESG resources are robust and aligned with the investment process. Individuals responsible for ESG have relevant experience and are skilled. There are a variety of high-quality data sources and tools available to investment decision makers.
- **ESG considerations**: the investment managers have strong awareness of the risk and return impact of ESG. Insights are derived from primary research and are differentiated.
- **ESG implementation:** the investment managers' ESG insights are effectively and consistently translated into portfolio positioning. The investment manager can clearly demonstrate how portfolio positioning reflects the management of relevant ESG risk and return drivers.
- **Active ownership**: the investment managers' transparency, quality, and duration of their ESG-related investee company engagements are deemed consistently superior versus their peer managers. Success measures are clearly stated and appropriate. Where applicable, effort is made to make informed use of proxies.

At the end of 2024, all liquid managers and most illiquid managers were rated green under Russell Investments' ESG RAG framework as part of its quarterly manager assessments. This reflects a strong alignment with the Trustee's expectations around ESG integration, stewardship, and sustainability risk management.

Manager engagement and examples

Responsible Investment remains a key focus of the Trustee's oversight of the Scheme's third-party investment managers. For each mandate, ongoing monitoring is led by a dedicated Russell Investments portfolio manager, with ESG and climate-related risks forming a standing agenda item at the quarterly manager review and ESG meetings. Russell Investments calculates key climate metrics on a quarterly basis, which are reviewed jointly with the LCP Executive and used to identify risks, opportunities, and areas of underperformance against the Scheme's climate-related targets. Where significant changes in a metric or high-risk positions are identified, these are discussed directly with the relevant investment manager. Any material concerns are escalated to the IRM Committee and, if necessary, to the full Trustee Board.

Examples of this process in action during the year include engagements triggered by Russell Investments' enhanced oversight framework. In one instance, a large utilities and infrastructure company with elevated WACI was flagged to the relevant investment manager, who noted its reliance on fossil fuels was expected to decline, supported by a credible net zero strategy and a science-based temperature alignment pathway. In another case, a finance company within a developed market credit portfolio was flagged due to a high ESG risk score. The manager confirmed that the issuer had committed to comprehensive decarbonisation targets across its operations and product lifecycle and was actively engaged on progress. In both cases, Russell Investments was satisfied with the responses provided.

Defining climate-related metrics and targets

The Trustee has identified a handful of climate-related metrics to monitor and has also established targets against some of these metrics. The Trustee views this as a mechanism to achieve its climate ambition, fulfilling its obligations under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 as well as meeting its commitment to the Paris Aligned Net Zero Asset Owner Initiative (PAAO); it also feeds into the Scheme's climate risk reduction. Details of the metrics and targets are included in Section 5.

Active ownership and collaboration

Stewardship and engagement are essential pillars to the Sections' approaches to managing sustainability risks including climate-related risks. The Trustee believes that active ownership, in either equity or debt instruments, is the most appropriate channel to promote positive RI practices. Any risks identified as part of the top-down and bottom-up assessments will inform the Sections' active ownership approaches:

- **Engagement** can include direct engagement with companies by external investment managers or engagements via collaborative groups. The Trustee believes that investor collaboration can help enable the achievement of its ambitions and aims to collaborate on initiatives that support the achievement of the Paris Agreement, such as the PAII. Furthermore, the Trustee supports industry-wide initiatives and will leverage organisations such as the Institutional Investor Group on Climate Change (IIGCC), of which the Trustee is a member, to enhance its climate-related practices. In Q1 2025, Russell Investments and the LCP Executive, on behalf of the Trustee, have had multiple discussions with the IIGCC to share best practice development around climate metric performance attribution and baselining principles of climate targets.
- **Proxy voting**, where applicable, is also an important mechanism to influence company behaviour. As all of each Section's assets are managed externally, the Trustee delegates voting to these external investment managers and expects each to vote on its portfolio holdings in line with its internal voting policies (reviewed by Russell Investments) and relevant recognised standards, such as the UK Stewardship Code. Any material exceptions are reported back to the LCP Executive – there were no breaches during the Scheme year.
- **Stewardship operating model**: NGUKPS' stewardship operating model for the Scheme assets is based on two pillars:

- Active ownership activities of the third-party investment managers that are responsible for the day-to-day management of the Sections' portfolios. Activities include direct engagement, collaborative engagement and proxy voting.
- Active ownership activities of Russell Investments which include direct engagements, collaborative engagement, active participation in industry consultations and collaborations as well as third-party manager monitoring.

Further details on, and examples of, voting and engagement activities for the year can be found in the Scheme's Stewardship and Engagement **Implementation Statement**. Below are a few examples:

Engagement example - Corporate Credit Manager

UK Water Company	
Engagement Topic	Climate Change, Natural Capital and Ecosystems
NGUKPS Key Engagement Theme	Climate Change Resilience
Rationale	The manager initiated an engagement with the company to assess its progress towards achieving operational net zero, to understand how it plans to integrate nature considerations into its transition plans, and to encourage mitigation of nature-related impacts. This engagement aligns with the manager's stewardship and Scheme priorities on natural capital and managing environmental risks associated with utilities.
Actions	The manager held a meeting with the company's investor relations and sustainability teams to discuss the company's climate strategy, particularly on Scope 1 and 2 emissions, and its approach to mitigating nature-related pollution.
Outcome and next steps: The company acknowledged that there is still significant work to be done on Scope 1 and 2 emissions, especially as process emissions remain a major challenge across the sector. The company is investigating ways to reduce nitrous oxide through changes to biological processes, although reducing methane emissions is proving more difficult and requires improved control of fugitive emissions and greater biomethane generation. On Scope 3 emissions, the company is engaging with suppliers and promoting smart metering and customer education to influence demand. The manager raised concerns around the company's pollution performance and the associated litigation risks, particularly in light of recent UK legal rulings. The company acknowledged the issue and indicated that regulatory scrutiny is expected to intensify. In June 2025, the manager re-engaged with the company to review climate progress and pollution management. The company reported reductions in Scope 1 and 2 emissions, rising Scope 3 due to capital projects, and outlined plans to cut storm overflow spills and improve river health. The manager expects to reassess after Ofwat's late-2025 report but may re-engage sooner if performance deteriorates.	

Proxy voting - Global Equity Manager (Section B only)

Global Consumer Goods Company	
Voting topic	Climate
NGUKPS engagement theme	Climate Change Resilience
Summary of the Resolution	Resolution 4: Approve Climate Transition Action Plan
Date	01/05/2024
Management Recommendation	For
How the vote was cast	For
Communication to company ahead of vote	Yes
Vote Outcome	Pass
Reason for being a significant vote	The manager is publicly supportive of the so-called "Say on Climate" votes. They expect transition plans put forward by the company to be both ambitious and credibly aligned to a 1.5 °C scenario. Given the high-profile nature of such votes, the manager deemed this to be significant.
Size of holding (in % of equity allocation)	0.18%
Rationale: A vote for the Climate Transition Action Plan (CTAP) is applied as we understand it to meet the manager's minimum expectations. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short, medium and long-term greenhouse gas (GHG) emissions reduction targets consistent with a 1.5°C Paris goal. Despite the SBTi recently removing their approval of the company's long-term scope 3 target, they note that the company has recently submitted near-term 1.5°C aligned scope 3 targets to the SBTi for validation and at this stage believe the company's ambition level to be adequate. The manager remains supportive of the net zero trajectory of the company at this stage.	
Next steps: The manager will continue to engage with their investee companies, and publicly advocate their position on this issue and monitor company and market-level progress.	

4.2 Integration of climate-related risk into Scheme's overall risk management

Climate-related risks are integrated into the Trustee's overall risk management framework. As described in the prior section on identification and assessment of climate-related risks, the Trustee considers the impact of climate-related risks on the IRM position. The risk of climate change impacting the ability to reach the long-term objective is included within the risk register and management of this risk is done through the levers outlined in Section 4.1. The covenant monitoring includes a specific "sustainability" risk to future covenant that is monitored on a quarterly basis. Review of the risk register occurs at least quarterly with reporting regarding the risk register provided to the Trustee Board quarterly. This is supported by selected climate-related metrics that are reported through the quarterly IRM Dashboard and IRM report as described in Section 2.

4.3 Impact of climate-related risks and opportunities on Scheme's businesses, strategy, and financial plannings.

As described in this document, the Trustee has developed the appropriate governance arrangements to support the identification, assessment and management of climate-related risks and opportunities and feed into how the scheme operates. Whilst there remain data gaps in its assessment, the Trustee believes that its current body of work around climate-related risks and opportunities is informative. Performing the scenario analysis has provided the Trustee with a more holistic view of the interactions between assets, liabilities and covenant. The Trustee continues to endeavour to improve its disclosure reporting over time as it anticipates that there will be enhancements in both methodology and coverage of data in the near term. Enhancements introduced over the last year are detailed in Section 5.2. In addition, the Trustee will keep its approach to climate risk management under review as developments in the market take place and as the Scheme circumstances change.

Section 5: Metrics & Targets

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

The Trustee uses a range of metrics to assess climate-related risks and opportunities. As mentioned in Section 3.1, the bottom-up analysis relies on a mapping of identified climate-related risks to representative metrics, allowing measurement at a holdings level and then aggregation to the mandate and Section level. The mapping is therefore dependent on the availability of suitable metrics and is regularly reviewed as metrics and data quality improve.

DWP requirements are for trustees to select and report a minimum of four metrics. The metrics have been chosen following careful consideration of options available, methodology and availability of data and coverage. The Trustee is currently reporting upon five metrics as shown in Exhibit 9.

Exhibit 9: Metrics used to assess climate-related risk and opportunities

DWP regulatory guidance	Chosen Metric	Rationale
Absolute emissions metric	**Financed Emissions** *Measured in tCO_2e*	• Financed emissions are designed to capture the absolute emissions that a portfolio is responsible for, or 'owns'. • This approach is recommended by the Partnership for Carbon Accounting Financials (PCAF), the leading industry standard for measuring financed emissions. • It is calculated by the ownership share in the company factoring the emissions that the company produces.
Emissions intensity metric	**Weighted Average Carbon Intensity (WACI)** *Measured in tCO_2e/£m revenue*	• Attribution of emissions is calculated by portfolio weight rather than direct ownership in that company. • WACI measures carbon intensity by using a company's revenue to standardise. • WACI has been endorsed by the TCFD.
Portfolio Alignment Metric	**Implied Temperature Rise (ITR)** *Measured in °C*	• ITR measures how aligned a company/portfolio is with the goal of limiting global warming to below 2 degrees Celsius. • It is the weighted average of temperature alignment score in the portfolio using sector intensity and AUM. • Easy-to-understand and helps express the portfolio alignment relative to global temperature targets. • Can be compared across a range of benchmarks, portfolio and asset classes.
Alternative additional climate change metric 1	**Asset alignment & engagement targets**	• Forward looking metrics which provides an assessment of: (1) % material Scheme assets aligned or aligning to net zero; (2) % material Scheme financed emissions aligned to net zero or subject to engagements • Can be used to inform active ownership program • This metric is also used to track the Scheme's progress against its net zero commitment.
Alternative additional climate change metric 2	**Carbon Data Quality**	• This measure aims to represent the proportions of the portfolio for which the trustees have high quality carbon data. • Carbon data quality is divided into reported, unreported and estimated. • This allows for a better understanding of carbon data accuracy and more transparency into the carbon data quality.

The Trustee monitors the appropriateness of the chosen metrics periodically. In this year's review, the Trustee agreed to retain the above metrics. Each of the chosen metrics is described in detail in the Appendix.

5.2 Metrics Disclosure

In Section 5.2.1, Exhibits 11a and 11b, the disclosure of the five chosen metrics at asset class level is provided where available. Below we have introduced enhancements over the course of the 2024-25 Scheme year, disclaimers around the disclosures and data sources used:

Enhancements over the Scheme year

Over the last year the following improvements have been made with respect to climate data:

- **Enhancements to the WACI & Financed Emissions attributions**: during 2024, the Trustee benefited from an enhanced attribution model for the WACI & Financed Emissions, aligned with NZIF 2.0 guidance. These developments provided insight into the drivers of change in the Scheme's climate metrics, allowing for a clearer understanding of both real-world and portfolio-level impacts. The updated attribution framework separates drivers into portfolio-level and investee-level factors, as well as improvements in data coverage. The key elements of the attribution model are explored in the appendix Section 6.3.
- **Using the new attribution model to build a more robust annual re-baselining approach**: leveraging the enhanced FE, FEI and WACI attribution model, Russell Investments and the LCP Executive (in consultation with IIGCC) developed a consistent methodology for re-baselining emissions intensity targets. This ensured target integrity was maintained despite structural data changes, aligning with NZIF 2.0 guidance.
- **Enhancements to net zero alignment calculations**: In line with NZIF 2.0 guidance, the Trustee implemented enhancements to its net zero alignment tracking during the year. Following methodology updates in Q4 2023, Russell Investments incorporated engagement threshold target tracking, which accounts for both financed emissions already aligned to net zero and those subject to active engagement. By 31 December 2024, 94% of the Scheme's financed emissions from high-emitting sectors were either from companies already taking credible steps towards net zero, or from those being actively engaged to do so. This exceeds the Scheme's 2030 target of 90%. However, this progress should be considered alongside ongoing challenges such as data quality, differences in company-level disclosures, and the varying pace of climate action across sectors. This development reflects a more comprehensive and forward-looking approach to assessing progress towards the Scheme's net zero ambition.
- **Data coverage and real-world impact:**
  - The Trustee also acknowledges challenges related to ESG and climate data coverage, particularly in private markets and GICS-ineligible securities. In contrast, public markets offer greater potential for data coverage improvements. Russell Investments has continued to enhance public market coverage through internal system upgrades, and improvements to its in-house security mapping model.
  - ESG data from private market managers is sourced directly and, while still evolving, is improving gradually. Notably, older vintage private equity funds typically do not provide ESG reporting, whereas newer vintages have begun to offer more structured ESG disclosures as standard practice. Since no new illiquid investments are being made and existing one within the Scheme are winding down, priority is placed on building reliable climate data within public markets.
  - To support a more holistic view of sustainability, Russell Investments also collects and reports on real-world impact initiatives across the investment managers which can be found in Section 5.4. These qualitative insights complement the quantitative data and remain a key part of the Trustee's climate disclosures. Overall, climate metrics and stewardship activities continue to play an increasingly integral role in risk management, engagement, and tracking progress against the Scheme's net zero commitments, given the maturity of the Scheme.
- **Continued improved qualitative analysis of "real-world impact":** In 2025, the Trustee has engaged with the Sections' underlying investment managers to assess ESG data and where there is a shortage of ESG data assess real-world impact from both a quantitative and qualitative perspective. Section 5.4 explores the concept of "real-world impact" in more detail.

Metrics Disclosure Disclaimers

- **For Section A:** metrics calculated as of 31 December 2024.
- **For Section B:** metrics were calculated as of 30 September 2024, the date immediately preceding the planned transition of Section B to a newly established pension arrangement under NGTPS. This approach ensures that reporting reflects the final position of Section B while it remained within NGUKPS.
- While the listed asset data was captured for both sections, private market climate metrics were only procured for Section A. Given the timing of Section B's transition and the anticipated transfer of trustee responsibility, it was considered disproportionate to commission bespoke private market data for Section B at this late stage. This decision reflects a balance between fiduciary effectiveness and reporting materiality, while still ensuring overall transparency and alignment with regulatory expectations. Attribution analysis was conducted for Section B at the time of transfer to NGTPS and the conclusion was re-baselining wasn't required (unlike Section A, there were no major changes to the portfolio or data coverage).
- The Trustee remains committed to evolving climate reporting in line with best practice.
- Metrics for the buy-in policies are included for Section A.

Sources of external vendor data

- **Carbon data:** including Financed Emissions & WACI & Carbon Data Quality metrics are sourced from MSCI ESG Manager. The MSCI outputs utilise a mixture of actual reported and estimated data from a variety of sources.

- **Climate risk:** including the Implied Temperature Score metric is sourced from the master's manager's chosen climate risk solution (which does not include investment advice). Given the system extrapolates data into the future, the modelling relies on proprietary methodologies and proxy data. Note, this is the same system that drives the scenario analysis in Section 3.
- **Net zero targets**: Russell Investments has built an in-house model based upon the industry-wide NZIF 2.0 framework.

In-scope assets within each metric

- **Climate metrics:**
  - **Financed Emissions, carbon data quality & temperature alignment:** Corporate Credit of Sections A and B and Equity for Section B
  - **WACI**: same as above but excludes the index linked credit portfolio for Section A and Section B.
- **Net zero alignment metrics:** Corporate Credit of Sections A and B and Equity for Section B (the index linked credit portfolio does not have data).

On the following pages, Section 5.2.1 contains Section-specific climate disclosure metrics. Section 5.3 provides a recap on the Scheme targets and the progress against the targets since the baseline period.

5.2.1. Climate Metrics Disclosure

Disclosure of Metrics: Section A

Exhibit 10a: Section A Metrics as of 31/12/2024 unless otherwise noted

	AUM (£m)	% Scheme Weight ex. buy-in	Financed Emissions (Absolute and /£m invested)						WACI (/$m revenue)				Carbon Data Quality			Implied Temperature Score		Net Zero Targets	
			Scope 1 & 2			Scope 3			Scope 1 & 2		Scope 3							NZT1: Asset Alignment (by MV)	NZT2: Engagement Alignment (by FE)
			tCO_2e	tCO_2e/ £m inv	Coverage	tCO_2e	tCO_2e/ £m inv	Coverage	tCO_2e/ $m revenue (TCFD equivalent excl. IL credit)	Coverage (TCFD equivalent excl. IL credit)	tCO_2e/ $m revenue (TCFD equivalent excl. IL credit)	Coverage (TCFD equivalent excl. IL credit)	Reported	Estimated	No data	°C	Coverage	% Sector coverage / % in material sectors / % material sectors aligned/aligning	% Sector coverage / % in material sectors / % aligned, aligning or under engagements
Sovereign	1,107	52%	134,387	140	100%	-	-	-	114	100%	-	-	-	-	-	-	-	-	-
Corporate Credit	577	27%	19,926	40	86%	101,389	204	86%	88 (80)	89% (92%)	402 (456)	89% (92%)	77%	12%	11%	2.46	92%	45% / 89% / 61%	35% / 99% / 94%
Other Assets	430	20%	11,538	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buy-in as at 31 Dec 2024	2,171	-	N/A	86	87%	-	-	-	123	92%	-	-	See footnote	See footnote	See footnote	1.8	87%	See footnote	See footnote

Disclosure of Metrics: Section B (prior to NGTPS transition)

Exhibit 10b: Section B Metrics as of 30/09/2024 unless otherwise noted

	AUM (£m)	% Scheme Weight ex. buy-in	Financed Emissions (Absolute and /£m invested)						WACI (/$m revenue)				Carbon Data Quality			Implied Temperature Score		Net Zero Targets	
			Scope 1 & 2			Scope 3			Scope 1 & 2		Scope 3							NZT1: Asset Alignment (by MV)	NZT2: Engagement Alignment (by FE)
			tCO_2e	tCO_2e/ £m inv	Coverage	tCO_2e	tCO_2e/ £m inv	Coverage	tCO_2e/ $m revenue (TCFD equivalent excl. IL credit)	Coverage (TCFD equivalent excl. IL credit)	tCO_2e/ $m revenue (TCFD equivalent excl. IL credit)	Coverage (TCFD equivalent excl. IL credit)	Reported	Estimated	No data	°C	Coverage	% Sector coverage / % in material sectors / % material sectors aligned/aligning	% Sector coverage / % in material sectors / % aligned, aligning or under engagements
Sovereign as at 31 Dec 2023	1,093	38%	199,374	174	100%	-	-	-	139	100%	-	-	-	-	-	-	-	-	-
Corporate Credit	871	30%	14,549	46	37%	111,554	350	37%	110 (87)	91% (92%)	461 (508)	75% (90%)	81%	10%	9%	2.54	90%	43% / 88% / 62%	54% / 99% / 77%
Equity	305	11%	12,319	42	98%	105,073	355	98%	78	98%	564	98%	86%	12%	2%	3.00	97%	98% / 94% / 56%	100% / 98% / 72%
Buy-in as at 31 Dec 2023	1,139	-	N/A	57	100%	-	-	-	128	100%	-	-	N/A	N/A	N/A	2.5	41%	N/A	N/A

Source: Russell Investments, MSCI, climate risk vendor, private market managers, HSBC as of 31st December 2024 (Section A) and as of 30th September 2024 (Section B) unless otherwise specified. Buy in provider (Rothesay Life for Section A as at 31 December 2024; L&G for Section B as at 31 December 2023) and represents their overall asset portfolio. Backward looking climate metrics (WACI and Financed Emissions) data are sourced from MSCI. Security level information are required at the mandate level, and these are loaded into MSCI's database (which contain a mixture of company reported and estimated data from a variety of sources – with underlying data sometimes reported at different dates i.e. the most recent dates). Forward looking metric (temperature alignment) is sourced from Russell Investments' third-party climate risk partner (which does not include investment advice).

Notes:

- Financed emissions (as measured by amount invested divided by EVIC, multiplied by Scope 1+2 emissions) for each company in the portfolio. For Sovereign, financed emissions is expressed as "share of sovereign GHG emissions attributable to the investor's share of total public debt" and derived from the Gilt portion of the portfolio with no emission contribution from derivatives/cash positions (£904m for Section A as of 31 December 2024 and £1,377m for Section B as of 31 December 2023). Note there is no adjustment for coverage.
- Financed Emissions (Scope 3): Sum of Scope 3 owned emissions (as measured by amount invested divided by EVIC, multiplied by Scope 3 emissions) for each company in the portfolio. Note there is no adjustment for coverage.
- The absolute financed emissions (FE) data for 'Other Assets' are sourced directly from the managers: (i) Section A reflects c. 64% of "Other Assets", comprised of: 1. a UK Real Estate Debt manager (estimated data); **2.** a Private Debt manager (estimated data); **3.** a UK Property manager (FE sourced from 2023 landlord emissions); **4.** an opportunistic credit manager (estimated data)
- WACI shows the weighted average carbon intensity of the companies in the portfolio in terms of Scope 1+2 tonnes CO_2e/$1M revenue (USD). Sovereign WACI expressed as "tonnes CO2e/$m GDP Nominal" and calculated on the Gilt portion of the portfolio with 100% coverage. This represents the GHG intensity of the economy including the 6 GHGs considered under the Kyoto protocol. Note WACI is coverage-adjusted.
- WACI (Scope 3): Weighted average carbon intensity of the companies in the portfolio in terms of Scope 3 tonnes CO_2e/$1M revenue (USD). Note WACI is coverage-adjusted.
- Scope 1, 2, 3 terminology is not relevant to Sovereigns - Sovereign climate data considers the total carbon emissions of an economy.
- Sovereign climate metric calculation methodology is subject to change.
- Implied Temperature Alignment is explained by the weighted average of temperature alignment score of companies in the portfolio using sector intensity and AUM weighting.
- % Material Sector Assets Aligned/Aligning: Calculated using the PAII NZIF framework. Covers listed equities and corporate fixed income in material sectors only. Based on company-level alignment status from third-party data.
- % Financed Emissions Aligned or Under Engagement: Based on NZIF 2.0 guidance. Reflects emissions either aligned/aligning or subject to active engagement. Focused on listed and corporate fixed income assets with emissions data coverage.
- Buy-in Sec A: for WACI, Notional Value was used in the numerator because the portfolio is composed of debt. Notional value is used to compute EVIC. For ITR, temperature alignment figures are weighted by financed emissions and covers the publicly trade corporate debt portfolio only.
- Buy-in Sec A (Carbon Data Quality): Rothesay's total portfolio data coverage is 92%, and uses PCAF quality scores, which assess the standard of climate data on a scale of 1 to 5. A score of 1 indicates that an entity has reported emissions data that has been verified by a third party, while a score of 5 indicates that estimates have been made using limited available data. Rothesay's portfolio has a PCAF score of 2.3.
- Buy-in Sec A (Asset Alignment Target): Rothesay reports alignment with SBTi (Commitment and/or approved target) of 50% of the publicly trade corporate debt portfolio and alignment with SBTi (Approved target) of 44% of the publicly trade corporate debt portfolio
- Buy-in Sec B: Sovereign normaliser used consistent with choice of EVIC/revenues for corporates and equities. For financed emission /£m, the value used to normalize sovereign emissions is Total Stock. For WACI, GDP is used as the sovereign normaliser.

Scope 3 Emissions Reporting

Scope 3 emissions on an absolute basis continues to be up to 10 times bigger than their scope 1 & 2 equivalents, which is due to a multitude of reasons such as data quality, data coverage and double counting. As such, there are limited conclusions that can be drawn from the scope 3 data itself, although one can conclude that, given the size of scope 3 emissions, they will play an important role in the transition to a net zero economy. Although there are limits on how to utilise reported scope 3 emissions, the Trustee note though that the act of collecting this data is important, as it means that companies are required to consider and engage with their own supply chains and address the climate risk within these.

NZIF 2.0 echoed these challenges, stating: *"a fundamental challenge for the investment industry in scope 3 emissions of assets is that current emissions accounting and reporting standards lead to fragmented approaches in calculation by different companies (or other assets), different data providers, and different investors. Whilst this is in part due to the nature of value chain information, it means that investors who typically do not have oversight of granular, asset-by-asset climate information, such as most asset owners or large asset managers, are unable to aggregate reporting from their funds or asset managers… Some investors, for example universal asset owners or managers, also tend to be highly resource-constrained and therefore face challenges in conducting the extensive data procurement and analysis required to gather information on scope 3."* Russell Investments are keeping apprised of NZIF/IIGCC guidance and evolve the Trustee Scope 3 reporting accordingly.

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

The Trustee strongly believes in being part of the real-world Net Zero transition which it considers to be a key part of how it manages risk and ensures the best financial outcome for the Scheme. Therefore, the Trustee has set targets to enable climate risk management within the Scheme whilst also having an impact on the real-world economy to benefit all investors generally. Each target along with the mechanism for delivery are detailed in exhibit 12. Please note that whilst the Trustee have chosen 5 metrics (exhibit 9), only 3 of them have been assigned targets.

Exhibit 11: NGUKPS climate risk targets

	(1) Financed Emissions (FE) (tonnes CO_2e * EVIC/£m Invested)	(2) Weighted Average Carbon Intensity (WACI) (tonnes CO_2e/$m revenue)	(3) Alignment to Net Zero
Target	50% reduction in financed emissions per £m invested by 2030 versus a baseline date of 30 June 2020.	50% reduction in WACI by 2030 versus a baseline date of 30 June 2020. Please note the re-baselining analysis was conducted in 2025 and applied in the December 2024 period where there were significant changes in the portfolios.	**Target 1:** % Scheme climate assets in material sectors that are aligned or aligning to net zero. Target % is: • 20% by 2025 • 100% by 2040 **Target 2:** % Scheme financed emissions in material sectors that are net zero, aligned to net zero or subject to direct or collective engagement and stewardship actions: • 70% in the near term • 90% by 2030
Applicable to	The targets apply to Corporate Credit and Equity of Sec A and B	The targets apply to Corporate Credit and Equity of Sec A and B with the exclusion of an index linked credit portfolio	The targets apply to Corporate Credit and Equity of Sec A and B
Rationale	NGUKPS made a commitment to be net zero by 2050 and have done so by joining the Paris Aligned Investment Initiative Net Zero Asset Owner Initiative (PAAO). With the focus on driving down real-world emissions the NGUKPS have set an additional emissions reduction portfolio reference target based on the absolute emissions reductions needed to achieve global net zero emissions by 2050. Measuring absolute emissions provides a necessary baseline for Paris Alignment.	Applicable to multiple asset classes, enabling comparison across varying sized portfolios and can be relatively easy to incorporate in the mandate guidelines to enable implementation.	In order to drive real world change NGUKPS believes that it is necessary to assess portfolio level alignment to net zero and to channel engagement activities accordingly. The tools and data to track portfolio alignment is still at its infancy and development and evolution is expected. NGUKPS along with its advisors will continue to refine its approach and, in the meantime, will monitor and track performance versus this indicator on a best endeavours basis.
Mechanism to implement/ achieve targets[9]	The Trustee expect there to be a positive correlation between WACI and Financed Emissions. With that in mind the Trustee currently aim to achieve the Financed Emissions targets by the WACI reduction targets discussed in the WACI section earlier. The Trustee will continue to review this approach and will work alongside the underlying managers to further progress.	The target will be achieved by adding these WACI reduction targets to the mandate guidelines. Based on initial conversations with managers, the Trustee believe this target is achievable and will continue to work alongside the underlying manages to further progress.	The target will be achieved by monitoring progress against the targets, refining the alignment tool to improve coverage and by linking up engagement activity to the required portfolio positions/sectors.

Source: LCP Executive, Russell Investments

[9] The Trustee has also defined a coal policy which was to be fully divested from thermal coal companies by 2022 or earlier, where thermal coal companies are currently defined as: (i) any company with revenues of 20% or more coming from thermal coal (generation or mining) or any company where 20% or more of their share of power production comes from thermal coal. The majority of divestment was achieved by the end of 2022 in line with the Trustee's definition of what constitutes coal exposure. A final adjustment to Section B's equity portfolios was implemented in March 2023 (so are now also completely aligned). Hence, ahead of Scheme year end 2022-2023, divestment from thermal coal-related investments as per the definition has been accomplished.

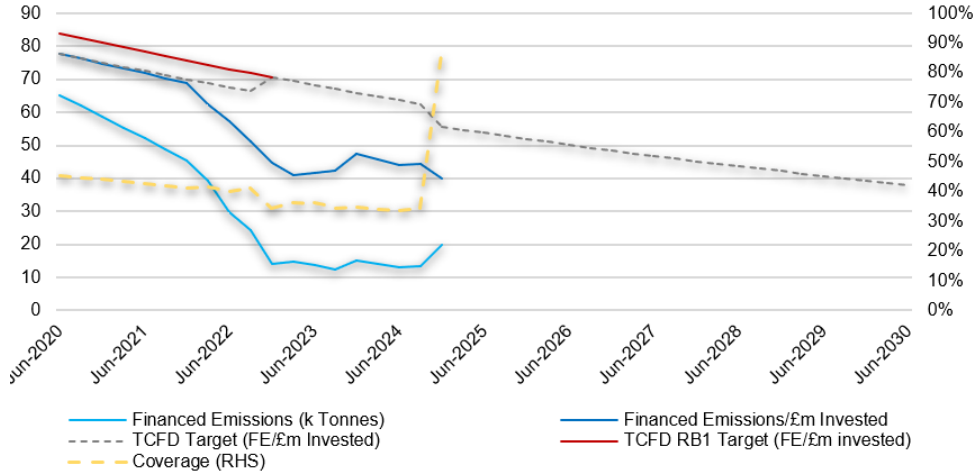
5.3.1 Progress of metrics and comparison to targets (where adopted)

The following section explores the progress of climate metrics and associated metrics through time for Section A (full Scheme year) and Section B (prior to NGTPS transition).

Section A: Trustee progress vs. climate-related metrics & targets as of 31 December 2024

(1) Financed Emissions (FE)
(Tonnes CO2e * EVIC/£m Invested)

Exhibit 12a: Financed Emissions (tonnes CO2e/£m Invested) - Deep Dive



Figures and Progress as of 31/12/2024

FE - Absolute (k tonnes)	19.9
FE Intensity (FE/£m Invested)	40.1
Coverage	86%
Changes Since 2020 Re-baseline	
FE Intensity	-47%
FE Intensity - Target	-27%
FE Intensity vs. Target	-20%

Source: Russell Investments, MSCI, as of 31 December 2024

Real-world emissions are falling

- As of December 2024, absolute Financed Emissions (FE) stand at 19.9k tonnes CO_2e, down from a June 2020 baseline of approximately 65.3k tonnes. This reduction reflects real decarbonisation progress across the portfolio and the impact of strategic mandate changes, including redemptions and reallocation within corporate credit, particularly evident in Q4 2022.
- Over 2024, we can see the most significant impact in 2024 occurred in the fourth quarter, specifically, the significant increase in FE data coverage that resulted from system/mapping enhancements at Russell Investments, coupled with the large reduction in the index-linked credit mandate.

Emissions intensity remains ahead of target

- Complementing this, the Financed Emissions Intensity (FEI); which normalises emissions per £m invested, fell from 76.2 to 40.1 tCO_2e/£m over the same period. This represents a 47% decline, leaving the portfolio 20% ahead of its re-baselined target as of December 2024, and showing a 4% year-on-year improvement.
- The FEI reduction captures the emissions efficiency gains from both lower-emitting investments and growing asset values, even while some emissions increase from improved data granularity were absorbed.
- Prior to any target re-baselining due to changes between December 2023 and December 2024, the FE intensity (FEI) has fallen 52% since re-baseline and is 25% ahead of its target.
- After target re-baselining (covered below), the FE intensity (FEI) has fallen 47% since the latest re-baseline and remains 20% ahead of its target.

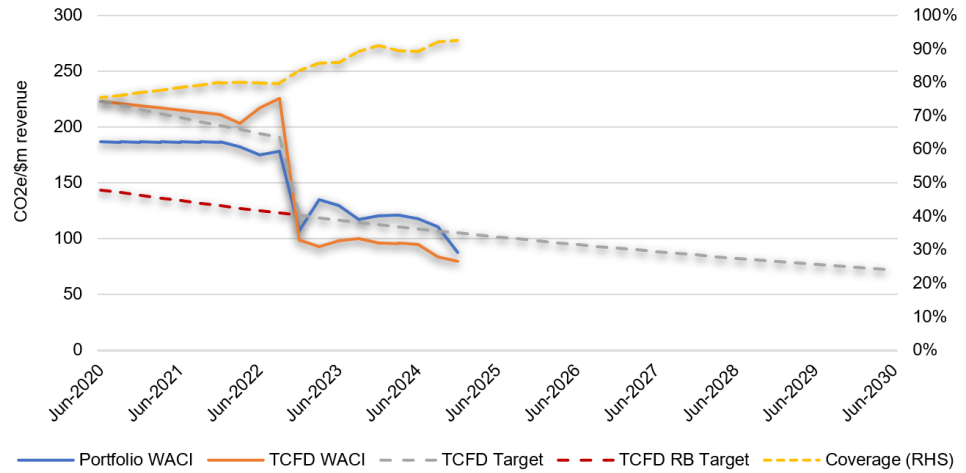
Target re-baselining for integrity

- In December 2024, the Trustee re-evaluated its climate targets, given two structural developments: the managed reduction in index-linked credit exposure and substantial improvements in emissions data coverage. Using Russell Investments' NZIF 2.0-aligned attribution model, a re-baselining was conducted to maintain the integrity and comparability of emissions targets. This ensured that future performance could continue to be assessed on a meaningful, like-for-like basis, even as portfolio composition and data availability evolved.
- Further details on the attribution factors and results can be found in the appendix Section 6.3.2.

Note: ongoing progress against the targets are being monitored by the Trustee on a quarterly basis.

(2) Weighted Average Carbon Intensity (WACI)
(tonnes CO_2e/$m revenue)

Exhibit 12b: Weighted Average Carbon Intensity (tonnes CO2e/$m revenue) - Deep Dive



Figures and Progress as of 31/12/2024

Portfolio WACI	87.6
TCFD WACI	79.7
Portfolio WACI Coverage	89%
TCFD WACI Coverage	92%
Changes since 2020 Re-baseline	
TCFD WACI	-45%
TCFD Reduction Target	-27%
TCFD WACI vs. TCFD Target	-18%

Source: Russell Investments, MSCI, as of 31 December 2024

Distinguishing between the TCFD WACI and Portfolio WACI

- TCFD WACI excludes the index-linked credit mandate and is the basis that the target is set.
- Portfolio WACI includes all investments, offering a full picture of emissions intensity across the portfolio. As a result, its baseline and movement differ in magnitude and attribution from the TCFD equivalent.

Annual WACI evolution (2024 calendar year)

- **TCFD WACI:** fell from 96 to 80 over 2024. This reduction was primarily driven by improved carbon performance of investee companies and rising revenues, which helped dilute emissions intensity. Modest increases from expanded data coverage and marginal new investments were not enough to offset these positive effects.
- **PORTFOLIO WACI:** which started the year higher at 120, experienced a sharper drop to 88. The divestment of the index-linked credit mandate was the dominant driver, accounting for a 25-point reduction. Additional progress came from the same underlying emissions and revenue dynamics observed in the TCFD metric.

Since inception WACI evolution - continued reduction (June 2020 - December 2024)

From the June 2020 baseline:

- TCFD WACI: fell from 223 to 80, a 64% reduction. Again, divestments were the dominant driver (-153), but significant improvements in investee emissions (-13) and revenue uplift (-8) played reinforcing roles.
- Portfolio WACI declined from 187 to 88, a 45% reduction since the June 2020 baseline. Over the same period the target WACI reduction is -27% meaning the TCFD WACI is 18% ahead of target. The largest contribution came from divestments (-156), with supplementary gains from investee carbon performance improvements and revenue growth (-9 and -6), respectively. Small increases from investments and data adjustments had limited impact.

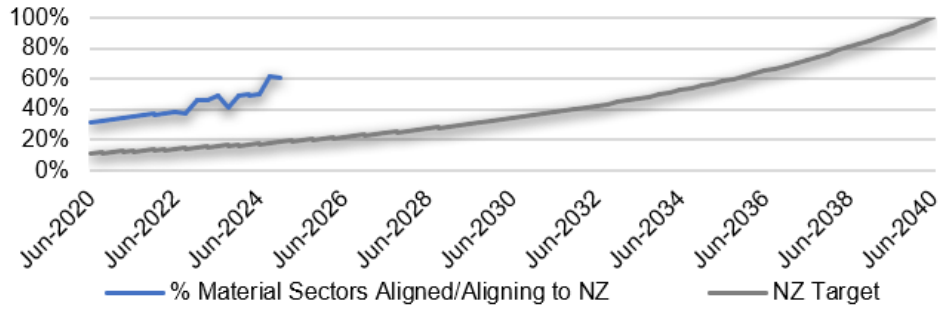
No target re-baselining required

- A WACI attribution analysis was conducted using the updated model to assess whether a re-baselining was warranted and to better understand the drivers of change in 2024. The analysis concluded that no re-baseline was necessary, as the reduction in TCFD WACI was primarily the result of organic decarbonisation within the portfolio rather than structural or methodological shifts.

Note: ongoing progress against the targets are being monitored by the Trustee on a quarterly basis.

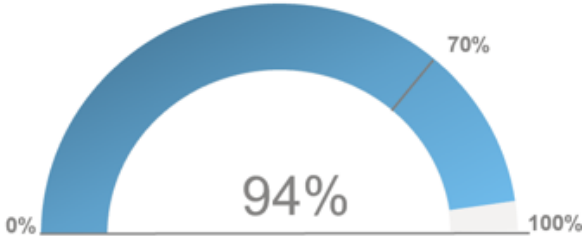
(3) Additional Climate Change Metric 1: Net Zero Alignment
(1) NZT1: Asset Alignment & (2) NZT2: Engagement Target Progress

Exhibit 12c: NZT1: Evolution of Material sectors MV Aligned/Aligning to Net Zero



% Portfolio GICS sector identified (Material Sector Proportion)	45% (89%)	% Material Sector Assets with Aligned/Aligning to Net Zero	61%

Exhibit 12d: NZT2: FE Aligned to Net Zero or Subject to Engagements



Source: Russell Investments, MSCI, as of 31 December 2024

Distinguishing between alignment and engagement thresholds

- The asset alignment metric (NZT1) measures the share of material sector assets (by market value) that are either aligned or aligning to net zero pathways based on Russell Investments' internal methodology (inspired by NZIF 2.0).
- The engagement threshold metric (NZT2) complements this by including securities that are not yet aligned but are subject to direct or collaborative engagement, providing a broader view of portfolio transition potential.

Annual alignment evolution (2024 calendar year)

- As of December 2024, 61% of the Scheme's material sector assets (by market value) were considered aligned or aligning to net zero. This marks a 12% increase from 2023 and positions the Scheme 42% ahead of its alignment trajectory.
- The improvement reflects both organic issuer progress (e.g. strengthened targets and disclosures) and enhancements in Russell Investments' modelling, including better engagement tagging and company classification.

Engagement-adjusted alignment: ahead of 2030 trajectory

- Following the Q4 2023 enhancements to ESG reporting, Russell Investments introduced a secondary target based on material sector financed emissions aligned or under engagement.
- On this basis, 94% of the Scheme's material sector financed emissions are either aligned to net zero or actively under engagement, outperforming the 90% target set for 2030.

Current model coverage limitations

- The Net Zero Alignment metric currently covers 45% of the total portfolio (currently 2 B&M credit mandates), due to GICS mapping constraints. Securities lacking a GICS classification cannot be linked to material sector frameworks and are therefore excluded from the alignment assessment.
- While this limits full-portfolio visibility, the alignment metrics remain directionally valuable and will become more representative over time as:
  - Corporate disclosures improve
  - GICS coverage gaps are addressed
  - Model methodologies are refined

No change to target trajectory or methodology

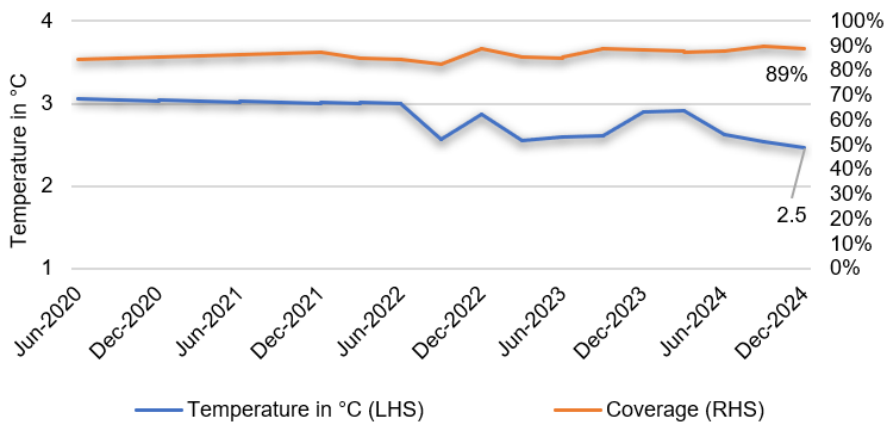
- Despite significant progress, no re-baselining or adjustment to the Scheme's net zero trajectory is proposed at this stage.
- The Trustee continues to monitor alignment and engagement progress against interim milestones quarterly, with Russell Investments providing ongoing updates via its net zero dashboard.

Note: ongoing progress against the targets are being monitored by the Trustee on a quarterly basis.

Exhibit 12e: Other Climate Metrics (with no formal target)

Temperature Alignment
As measured by implied temperature Rise in °C

Evolution

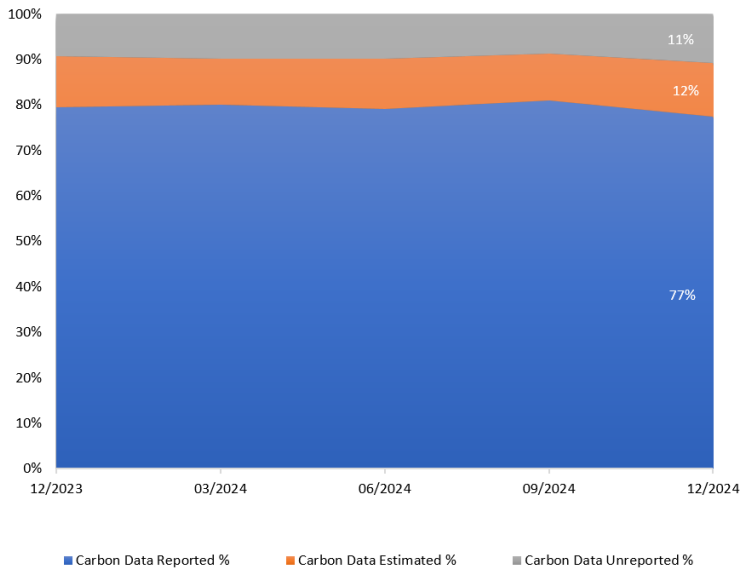


Source: Russell Investments, Russell's chosen climate risk vendor, as of 31 December 2024

- The portfolio temperature alignment metric estimates the implied global warming potential of the Scheme's assets based on underlying issuer emissions and climate targets. It reflects alignment with the Paris Agreement goal of limiting warming to 1.5°C
- The score has improved from 3.1°C to 2.5°C since the baseline, and from 2.9°C to 2.5°C in 2024. The annual reduction is largely attributed to the corporate credit mandates, which have collectively achieved a 12% reduction in their temperature scores.
- Temperature alignment scores may fluctuate over time due to changes in data, methodology, and company targets. By tracking and improving this metric, the Scheme demonstrates its commitment to aligning its investments with global climate objectives, thereby contributing to the transition towards a low-carbon economy.

Carbon Data Quality

Evolution



Source: Russell Investments, MSCI, as of 31 December 2024

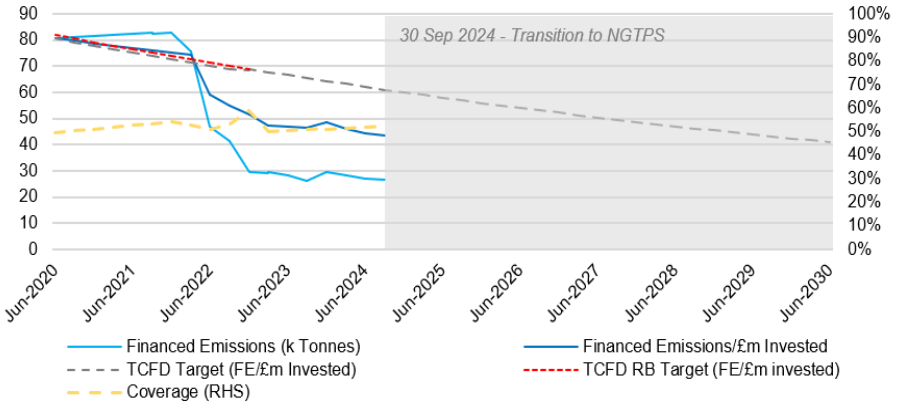
- From December 2023 onwards, we started to include the data quality metric in TCFD reporting, which is in relation to Scope 1 and 2 carbon emissions sourced from MSCI.
- The purpose of this metric is to track changes in the overall quality of the reported carbon metric coverage over time. This has a direct correlation to the quality of the WACI metric. Note however that the data quality metric does not provide any quality insights for the Financed Emissions metric, which is instead influenced by EVIC coverage.
- This metric categorises the quality of carbon data as directly reported by the company (high quality), estimated (calculated using MSCI's proprietary estimation model) and unreported carbon data.
- The baseline for this metric is December 2023 and in 2024, the portfolio has undergone several allocation changes, particularly divestments from the index linked credit mandate in Q4 2024. The portfolio has maintained a healthy proportion of total and reported carbon data (89% and 77%, respectively).
- This chart assesses carbon data quality by examining coverage across the in-scope climate mandates. For metrics that use carbon data as an input, coverage levels vary: WACI depends on both carbon and revenue data (excluding the index-linked credit mandate), while Financed Emissions relies on carbon and EVIC data.

Ongoing progress of these metrics are being monitored by the Trustee on a quarterly basis.

Section B: Trustee progress vs. climate-related metrics & targets as of 30 September 2024

(1) Financed Emissions (FE)
(Tonnes CO_2e * EVIC/£m Invested)

Exhibit 13a: Financed Emissions (tonnes CO2e/£m Invested) - Evolution



Figures and Progress as of 30/09/2024

FE - Absolute (k tonnes)	26.9
FE Intensity (FE/£m Invested)	43.7
Coverage	52%
Changes Since 2020 Re-baseline	
FE Intensity	-47%
FE Intensity - Target	-22%
FE Intensity vs. Target	-25%

Source: Russell Investments, MSCI, as of 30 September 2024

Final metrics prior to transition
This chart presents the final set of Financed Emissions (FE) metrics for Section B, capturing performance up to 30 September 2024, immediately before the portfolio's transition to NGTPS. At that point:

- Absolute FE stood at 26.9k tCO_2e
- FE Intensity (FEI) measured 43.7 tCO_2e/£m invested
- Coverage remained steady at 52%, unchanged over 2024 year-to-date
- The portfolio concluded ahead of its target, with a reliable and stable emissions profile. Maintaining a shared methodology with Section A ensures integrity and comparability in disclosures across both Sections, supporting a smooth transition to the successor scheme.

Continued decarbonisation progress

- Since the June 2020 baseline, FEI has fallen 47%, placing the portfolio 25% ahead of its TCFD-aligned target. This reflects a 6% improvement versus last year's performance, reinforcing the consistency of the portfolio's decarbonisation trajectory even in the absence of major structural changes during 2024.

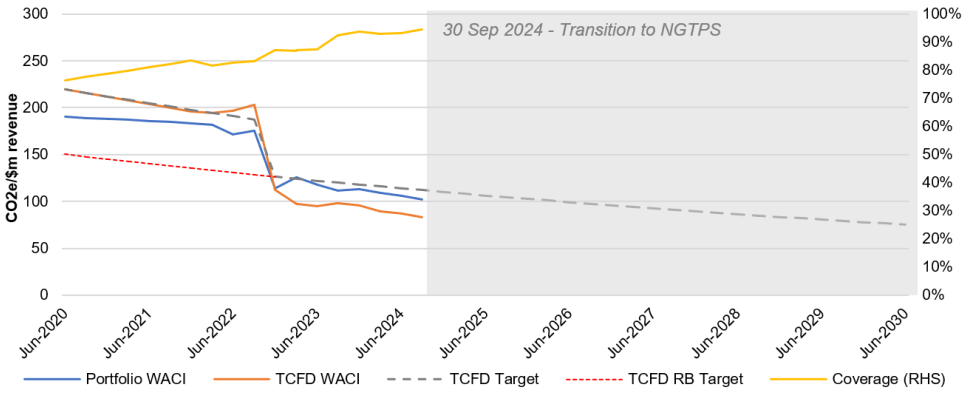
No target re-baselining required

- While the new absolute FE attribution model (used in Section A) was applied for consistency, no re-baselining of targets or metrics was deemed necessary. The Trustee reviewed this during the reporting cycle and concluded that the portfolio composition had remained stable.
- The most recent re-baseline conducted in December 2022 following a mix of mandate redemptions and decarbonisation remains valid. This recalibration is visible in the modest upward adjustment of the target trajectory from 2023 onwards.

Note: progress against the targets were monitored by the Trustee on a quarterly basis until 30 September 2024 prior to the transition to NGTPS.

(2) Weighted Average Carbon Intensity (WACI)
(tonnes CO_2e/$m revenue)

Exhibit 13b: Weighted Average Carbon Intensity (tonnes CO2e/$m revenue) - Evolution



Figures and Progress as of 30/09/2024

Portfolio WACI	101.9
TCFD WACI	83.3
Portfolio WACI Coverage	93%
TCFD WACI Coverage	94%
Changes since 2020 Re-baseline	
TCFD WACI	-45%
TCFD Reduction Target	-26%
TCFD WACI vs. TCFD Target	-19%

Source: Russell Investments, MSCI, as of 30 September 2024

Distinguishing between the TCFD WACI and Portfolio WACI
- TCFD WACI excludes the index-linked credit mandate and is the basis that the target is set.
- Portfolio WACI includes all investments, offering a full picture of emissions intensity across the portfolio. As a result, its baseline and movement differ in magnitude and attribution from the TCFD equivalent.

Annual WACI evolution (2024 calendar year)
- As of 30 September 2024, the TCFD WACI for Section B stood at 83.3 tCO_2e/$m revenue, representing a 45% reduction from the 2020 baseline. This places the portfolio 19% ahead of its TCFD-aligned target.
- In parallel, the Portfolio WACI (which includes all mandates) was reported at 101.9 tCO_2e/$m, capturing the full breadth of emissions intensity across holdings.
- Compared to last year, the portfolio improved by an additional 4% versus target, underscoring the durability of emissions reductions. The year-on-year fall in TCFD WACI (from 95 to 83) was largely driven by organic decarbonisation in the global equity mandate, as well as stable performance within the B&M credit mandates.

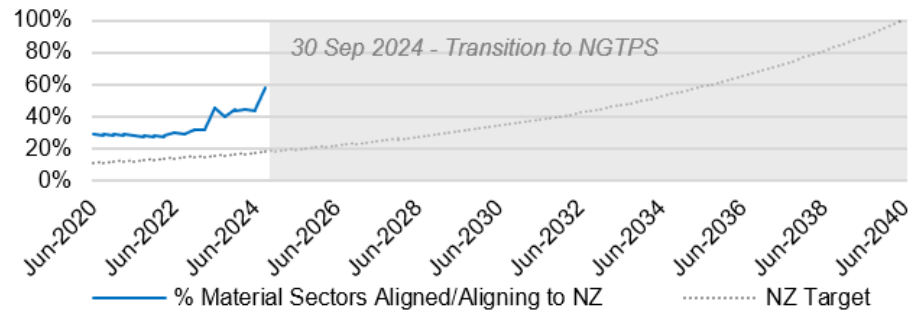
Since inception WACI evolution – continued reduction (Jun 2020 - Dec 2024)
- Since the baseline period, we can observe other notable portfolio activity, including a reduction in emissions in Q4 2022. This was driven by a mixture of full mandate redemptions and genuine decarbonisation within the B&M UK mandate. This resulted in a re-baseline on December 2022, where we see a shift downwards in the TCFD target curve.

No target re-baselining required
- The updated attribution model was applied to WACI in 2024, but no structural changes were identified that would warrant further re-baselining. The prior re-baseline in December 2022, which followed large-scale redemptions and investee decarbonisation, remains the most recent point of recalibration. This is visibly reflected in the sharp inflection in the target curve in early 2023.

Note: progress against the targets were monitored by the Trustee on a quarterly basis until 30 September 2024 prior to the transition to NGTPS.

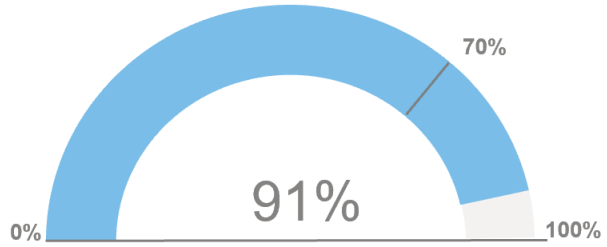
(3) Additional Climate Change Metric 1: Net Zero Alignment
(1) NZT1: Asset Alignment & (2) NZT2: Engagement Target Progress

Exhibit 13c: NZT1: Evolution of Material sectors MV Aligned/Aligning to Net Zero



% Portfolio GICS sector identified (Material Sector Proportion)	65% (91%)	% Material Sector Assets with Aligned/Aligning to Net Zero	59%

Exhibit 13d: NZT2: FE Aligned to Net Zero or Subject to Engagements



Source: Russell Investments, MSCI, as of 30 September 2024

Distinguishing between alignment and engagement thresholds

- The asset alignment metric (NZT1) measures the share of material sector assets (by market value) that are either aligned or aligning to net zero pathways based on Russell Investments' internal methodology (inspired by NZIF 2.0).
- The engagement threshold metric (NZT2) expands on this by including securities that are not yet aligned but are subject to direct or collaborative engagement, providing a broader picture of transition progress.

NZT1: annual alignment evolution (YTD to 30 September 2024)

- As of 30 September 2024, 59% of the Scheme's material sector assets were considered aligned or aligning to net zero.
- This represents a 14 percentage point increase over the prior year and places the Scheme 40% ahead of its target trajectory.
- The increase reflects a combination of issuer-level decarbonisation progress and modelling enhancements made by Russell Investments, particularly around company classification and alignment maturity scoring.

NZT2: engagement-adjusted alignment (YTD to 30 September 2024)

- Following Q4 2023 enhancements to ESG reporting, Russell Investments began tracking material sector financed emissions that are either aligned or subject to engagement.
- As of 30 September 2024, 91% of such emissions met this criterion, exceeding both the 70% near-term target and the 90% 2030 target.

Current model coverage limitations

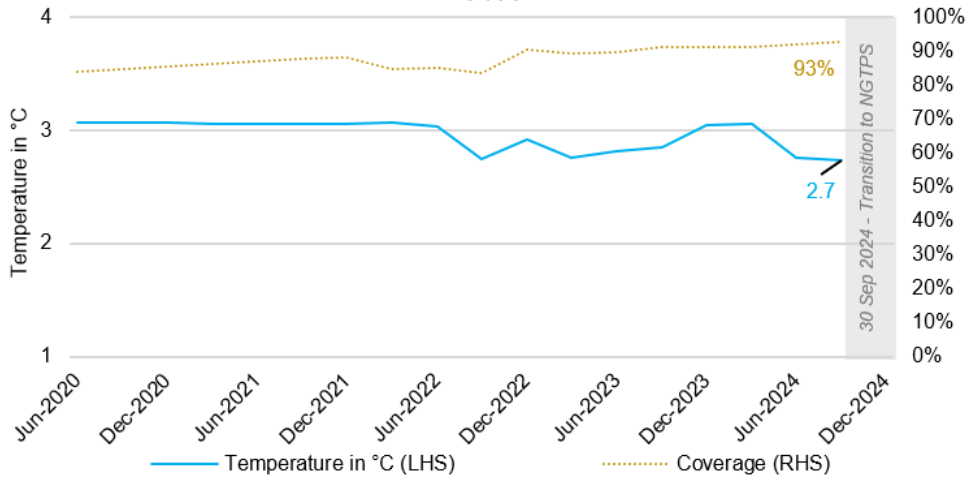
- As of the same date, the alignment model covers 65% of the total portfolio.
- This partial coverage is due to GICS mapping constraints — securities without a GICS classification cannot be linked to material sector frameworks and are excluded from the net zero alignment assessment.
- While this limits visibility across the full portfolio, the results remain directionally meaningful, and coverage is expected to improve as:
  - Corporate disclosure quality increases
  - GICS mapping expands
  - Methodological refinements are adopted

Note: progress against the targets were monitored by the Trustee on a quarterly basis until 30 September 2024 prior to the transition to NGTPS.

Exhibit 13e: Section B (Other Climate Metrics)

Temperature Alignment
As measured by implied temperature Rise in °C

Evolution

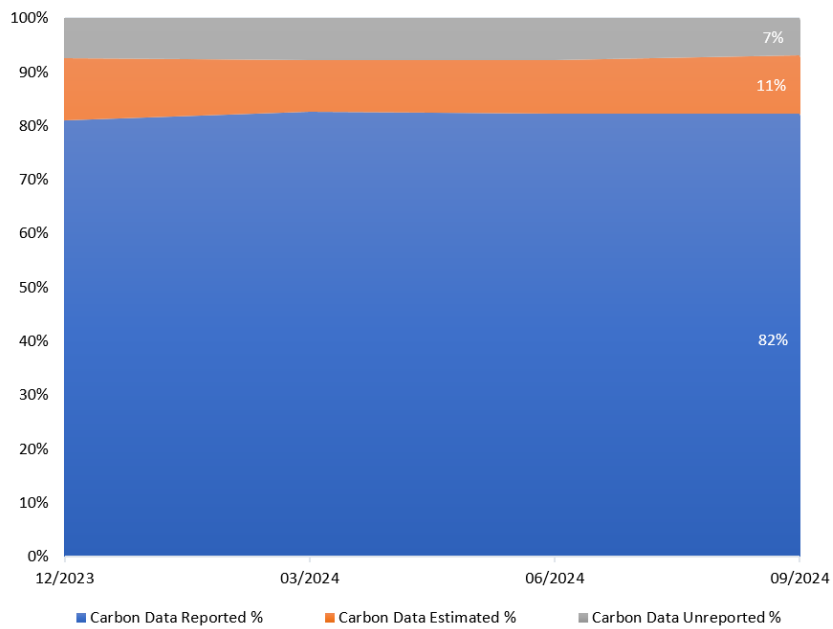


Source: Russell Investments, Russell's chosen climate risk vendor, as of 30 September 2024

- The portfolio temperature alignment metric estimates the implied global warming potential of the Scheme's assets based on underlying issuer emissions and climate targets. It reflects alignment with the Paris Agreement goal of limiting warming to 1.5°C
- The score has improved from 3.1°C to 2.7°C since the baseline, and from 3.1°C to 2.7°C over the YTD. The annual reduction is largely attributed to both the Buy & Maintain credit mandates which both achieved a 12% reduction in their temperature scores, though this was partially offset by the higher score achieved by the global equity mandate.
- Temperature alignment scores may fluctuate over time due to changes in data, methodology, and company targets. By tracking and improving this metric, the Scheme demonstrates its commitment to aligning its investments with global climate objectives, thereby contributing to the transition towards a low-carbon economy.

Carbon Data Quality

Evolution



Source: Russell Investments, MSCI, as of 30 September 2024

- From December 2023 onwards, we started to include the data quality metric in TCFD reporting, which is in relation to Scope 1 and 2 carbon emissions sourced from MSCI.
- The purpose of this metric is to provide a gauge of how the overall quality of the reported carbon metric coverage evolves over time. This has a direct correlation to the quality of the WACI metric. Note however that the data quality metric does not provide any quality insights for the Financed Emissions metric, which is influenced by EVIC coverage.
- This metric attributes the quality of carbon data, i.e. directly reported by the company (high quality), estimated (calculated using MSCI's proprietary estimation model) and unreported carbon data.
- As of 30 September 2024, the portfolio has maintained a healthy proportion of total and reported carbon data (93% and 82%, respectively).
- This chart assesses carbon data quality by examining coverage across the in-scope climate mandates. For metrics that use carbon data as an input, coverage levels vary: WACI depends on both carbon and revenue data (excluding the index-linked credit mandate), while Financed Emissions relies on carbon and EVIC data.

Progress against the targets were monitored by the Trustee on a quarterly basis until 30 September 2024 prior to the transition to NGTPS

5.4 Qualitative real-world observations

In its Climate adaptation report 2025, the Pensions Regulator (tPR) noted that climate-related data and modelling continue to evolve, and that trustees may, in some cases, consider using qualitative narrative, particularly where quantitative analysis is limited or less decision-useful. While this point was made specifically in the context of scenario analysis, the Trustee considers that qualitative insights also play a valuable role in understanding climate metrics, especially across illiquid asset classes, where consistent quantitative data is often lacking. As such on behalf of the Trustee, Russell Investments reached out directly to the underlying Scheme investment managers to supplement the quantitative data with the qualitative feedback focussing on the illiquid assets with less quantitative data in Section 5.2.1, exhibits 10 and 11. While this exercise focused on Section A mandates, it is noted that several of the strategies are held across both Sections, and insights may be relevant to Section B up to the point of transfer.

Real-world impact efforts by investment managers

Section A - Illiquid portion

Section A holds approximately 20% of its assets in illiquid asset classes, in illiquid strategies, including property, private debt, infrastructure, and real estate debt. ESG data availability in these asset classes remains limited and often qualitative in nature, but several managers have taken meaningful steps to reduce emissions, manage physical and transition risks, and contribute to broader climate objectives. We have also included some comments on the liquid credit mandates, particularly from a policy advocacy perspective.

One property manager reported a 72% reduction in emissions over the past year, primarily driven by improved data granularity and expanded tenant-level metering. Emissions are tracked monthly through a third-party utility platform, and physical climate risk is assessed across short-, medium-, and long-term horizons using climate models aligned with both high- and low-emissions scenarios. The manager also engages annually with tenants to share environmental data, identify energy efficiency opportunities, and implement improvement plans. Refurbishment projects have targeted EPC rating improvements, supported by internal analytics to address underperforming assets.

A private debt manager has embedded climate scenario analysis into its risk framework, identifying mandatory emissions reductions, circular economy shifts, and sector-specific demand changes as material transition risks. This is particularly relevant for borrowers in commercial real estate and industrial sectors. The portfolio's implied temperature rating (ITR) is currently estimated at 3.1°C, based on CDP (formerly the Carbon Disclosure Project - a global environmental disclosure system) data. In response, the manager is incorporating ESG-linked loan terms into new transactions and is actively engaging with sponsors to incentivise real-world decarbonisation actions, such as energy upgrades and improved disclosure practices.

The real estate debt manager integrates environmental risk screening into its origination and credit processes. Borrowers are assessed based on their ability to improve energy performance and respond to tightening emissions regulations. Where appropriate, the manager engages borrowers in identifying opportunities for asset refurbishment, EPC uplift, and long-term risk mitigation related to inefficient building stock. While carbon footprinting remains at an early stage, the manager is developing internal frameworks to improve emissions tracking over time.

An infrastructure manager within the portfolio is focused on building exposure to climate-aligned infrastructure, including offshore wind, energy storage, clean fuels, and transmission assets. The manager supports GHG baselining and emissions reduction planning across all portfolio companies and conducts TCFD-aligned scenario analysis to assess both physical and transition risks. Where gaps are identified, the manager works closely with portfolio companies to strengthen reporting, set emissions targets, and align asset-level strategies to net zero pathways. Sectoral engagement is also a priority, particularly in hard-to-abate industries, where the manager is helping to shape climate transparency standards and support industry benchmarking.

Section A - Liquid portion

Two credit managers within Section A are contributing meaningfully to climate and sustainability outcomes, each in distinct but complementary ways. **One of the credit managers** integrates issuer-level climate data into its proprietary ESG scoring system and applies scenario analysis tools to monitor the emissions intensity of portfolio holdings. Their strategy includes dedicated exposure to green and sustainable bonds, and investment decisions are informed by issuer-level engagement on decarbonisation plans and broader ESG risk management.

The other credit manager has demonstrated strong leadership in market-wide climate and stewardship advocacy. In 2024, they were an active participant in the IIGCC Proxy Voting Working Group, contributing to the development of net-zero voting guidelines and participating in multi-stakeholder webinars. They also engaged directly with major proxy advisors to help shape voting policies on shareholder rights, climate-related resolutions, and director accountability. The manager hosted several stakeholder roundtables in the UK and US, covering themes such as nature-related financial risks, investor approaches to stewardship, and the effectiveness of shareholder resolutions. Their annual Non-Executive Director (NED) forum, attended by over 100 directors globally, further supported knowledge-sharing on ESG issues including climate, nature, human rights, and governance.

Together, both credit managers contribute to real-world outcomes by financing transition-aligned issuers, embedding climate risk into credit analysis, and helping raise industry standards through active engagement with regulators, proxy advisors, and company boards.

Appendix

6.1 Glossary of Terms & Acronyms

Term	Definitions
ESG Risk Score	The ESG Risk Score is the proprietary sustainable risk score of Sustainalytics for E, S and G considerations. The Sustainalytics Risk Score focuses on ESG issues that are financially material to the company. A risk score less than 10 is classified as Negligible, 10-20 as Low, 20-30 as Moderate, 30-40 as High, and >40 as Severe.
Scope Emissions	Scope 1 covers emissions from sources that an organisation owns or controls directly. Scope 2 are emissions that a company causes indirectly when the energy it purchases and uses is produced. Scope 3 encompasses emissions that are not produced by the company itself, and not the result of activities from assets owned or controlled by them, but by those that it's indirectly responsible for, up and down its value chain.
Weighted Average Carbon Intensity (WACI)	WACI measures the portfolio's exposure to carbon-intensive companies, expressed in tons CO_2e / $M revenue. Metric recommended by the Task Force on Climate-Related Financial Disclosures (TCFD). Scope 1 and scope 2 GHG emissions are allocated based on portfolio weights (the current value of the investment relative to the current portfolio value), rather than the ownership approach (defined under "Financed Emissions").
Financed Emissions	The absolute Financed Emissions associated with a portfolio (expressed in tons CO_2e) is a metric recommended by the Partnership for Carbon Accounting Financials (PCAF). It measures the share of emissions attributable to the investor's holding in the company. If an investor holds an investment worth 5 percent of the company's total financing (enterprise value incl. cash), then 5 percent of the company's emissions are attributable to that investor. Attributable emissions in each company are summed across the portfolio. By using EVIC instead of market cap as the attribution factor, the method can be used for both equity and fixed income.
Temperature Alignment	The portfolio temperature alignment metric provides the alignment of the Scheme's assets with climate change goal of limiting the increase in the global average temperature to 1.5°C above pre-industrial the levels. This is provided by Russell Investments' chosen climate risk vendor.
Institutional Investors Group on Climate Change (IIGCC)	A leading European membership body for investor collaboration on climate change. IIGCC provides research, tools and guidance to help asset owners and managers align portfolios with the goals of the Paris Agreement.
Net-Zero Asset Owner Alliance (NZAOA)	A UN-convened group of institutional investors committed to transitioning their investment portfolios to net-zero greenhouse gas emissions by 2050. The Alliance provides practical guidance, technical frameworks, and reporting standards to support credible, science-based action.
Paris Aligned Asset Owners (PAAO)	An initiative coordinated by the IIGCC for asset owners who commit to aligning their portfolios with net-zero emissions by 2050 or sooner. Members commit to setting interim targets, engaging with managers and companies, and disclosing progress against those targets.
Net Zero Investment Framework 2.0 (NZIF 2.0)	A framework developed by the IIGCC and its global partners to help institutional investors align their portfolios with net zero emissions by 2050. NZIF 2.0 builds on the original framework, providing updated guidance on portfolio alignment metrics, target-setting, asset-class methodologies, and engagement expectations. It is widely used by asset owners and managers to structure credible net zero strategies and track progress over time.
Net Zero Targets	A set of goals investors adopt to align portfolios with net zero emissions by 2050. Under NZIF 2.0, this includes targets for portfolio decarbonisation, asset alignment, engagement coverage, and investing in climate solutions.

6.2 Carbon Metrics & Methodology

METRIC		SUPPORTING INFORMATION
Weighted average carbon intensity **Also known as:** **WACI**	*Description*	Portfolio's exposure to carbon-intensive companies, expressed in tons CO_2e / $M revenue. *Metric recommended by the Task Force on Climate-Related Financial Disclosures (TCFD).*
	Formula	$\sum_i^n (\frac{current\ value\ of\ investment_i}{current\ portfolio\ value}\ X\ \frac{issuer's\ scope\ 1\ and\ scope\ 2\ GHG\ emissions_i}{issuer's\ \$M\ revenue_i})$
	Methodology	Scope 1 and scope 2 GHG emissions are allocated based on portfolio weights (the current value of the investment relative to the current portfolio value).
	Sovereign Equivalent	"GHG Intensity (t/USDM GDP Nominal)": The higher value, the more carbon-intense the economy is. $\sum_i^n (\frac{Exposure\ to\ Sovereign\ Bond(USD)_i}{current\ portfolio\ value}\ X\ \frac{Country\ GHG\ emissions_i}{Country\ GDP\ Nominal\ (m\ USD)_i})$
	Key points *+/-*	+ Metric can be more easily applied across asset classes since it does not rely on equity ownership approach + Generally interpreted as a more risk-oriented approach versus the later metrics, which are more related to aggregate real-world emissions and hence considered more "impact" related. + Metric allows for portfolio decomposition and attribution analysis - Metric is sensitive to outliers
Financed emissions **Also known as:** **Total Carbon Emissions (EVIC method)**	*Description*	The absolute greenhouse gas emissions associated with a portfolio, expressed in tons CO_2e. *Metric recommended by the Partnership for Carbon Accounting Financials (PCAF).*
	Formula	$\sum_i^n (\frac{current\ value\ of\ investment_i}{issuer's\ EVIC_i}\ X\ issuer's\ scope\ 1\ and\ scope\ 2\ GHG\ emissions_i)$
	Methodology	Share of emissions attributable to the investor's holding in the company. If an investor holds an investment worth 5 percent of the company's total financing (enterprise value incl. cash), then 5 percent of the company's emissions are attributable to that investor. Attributable emissions in each company are summed across the portfolio. By using EVIC instead of market cap as the attribution factor, the method can be used for both equity and fixed income.
	*Sovereign Equivalent**	"GHG emissions": Share of sovereign GHG emissions attributable to the investor's share of total debt outstanding. $\sum_i^n (\frac{Exposure\ to\ Sovereign\ Bond(USD)_i}{Public\ Debt\ Outstanding\ (USD)_i}\ X\ Country\ GHG\ Emissions_i)$
	Key points *+/-*	+ Metric may be used to communicate the carbon footprint of a portfolio consistent with the GHG protocol, generally interpreted as more impact-oriented as opposed to risk-oriented and hence is frequently used in target setting - Metric is generally not used to compare portfolios because the data is not normalised, increases in portfolio value (or AUM) will lead to increases in portfolio emissions - Changes in underlying companies' EVIC can be misinterpreted as reductions in real world emissions
Financed emissions intensity	*Description*	Total carbon emissions for a portfolio normalised by the market value of the portfolio, expressed in tons CO_2e / £M invested.
	Formula	$\frac{\sum_i^n (\frac{current\ value\ of\ investment_i}{issuer's\ EVIC_i}\ X\ issuer's\ scope\ 1\ and\ scope\ 2\ GHG\ emissions_i)}{current\ portfolio\ value\ (£M)}$
	Methodology	Financed emissions above, standardised by portfolio value.
	Key points *+/-*	+ Metric may be used to compare portfolios to one another and/or to a benchmark - Metric does not take into account differences in the size of companies (e.g. does not consider the carbon efficiency of companies) - Changes in underlying companies' EVIC can be misinterpreted as reductions in real world emissions

Notes: the term 'portfolio' can be defined as "fund or investment strategy" for asset owners and "product or investment strategy" for asset managers. Total carbon emissions and carbon footprint can also be calculated using a company's market capitalisation instead of Enterprise Value including cash though Russell Investments do not use this because it cannot be used across asset classes. PCAF has recently released new guidance on sovereign emission financed emissions and after review Russell Investments may elect to change this attribution factor in the future. Sovereign "GHG Emissions per capita" are also displayed at Russell Investments for completeness, but this measure does not translate to the above standard industry uses.

Supplemental metrics

Following the UKs Department for Work and Pensions mandating TCFD-related disclosures for institutional pension schemes, a standard set of climate-related metrics are increasingly being expected by UK clients and consultants. The following metrics are part of this core template:

METRIC		SUPPORTING INFORMATION
Carbon Data Quality	*Description*	Proportion of a portfolio where there is high quality data. *Additional climate change metric recommended by the Task Force on Climate-Related Financial Disclosures (TCFD).*
	Methodology	Calculates the proportion of Scope 1-2 emissions that are verified, reported, estimated or unavailable.
	Key points +/-	+ Metric allows for a better understanding of ESG data accuracy. + More transparency into the breakdown of carbon data quality. - Does not look into climate change analysis directly. - Estimated data coverage is subject to model risk.
Portfolio Temperature Alignment (Implied Temperature Rise)	*Description*	Metric which estimates a global temperature rise associated with the greenhouse gas emissions of a portfolio. It is a forward-looking metric that incorporates current GHG emissions, alongside other assumptions, to estimate expected future emissions. Expressed as a temperature score (e.g., 5 degrees Celsius). *Portfolio Alignment climate change metric recommended by the Task Force on Climate-Related Financial Disclosures (TCFD).*
	Formula	$Temperature\ Score_F = \frac{\sum_{i \in F} Temperature\ Score_i \times GHG\ intensity_S \times Current\ value\ of\ investment\ in\ entity_i}{\sum_{i \in F} GHG\ intensity_S \times Current\ value\ of\ investment\ in\ entity_i}$
	Methodology	Total portfolio temperature alignment is calculated as a weighted average of underlying security temperature scores using sector intensity and AUM weighting. These scores are sourced from Russell Investments' third-party climate risk partner.
	Key points +/-	+ Forward looking and accounts for inherent differences in carbon emissions across industries and regions. + Can be compared across different benchmarks, portfolios, and asset classes. - Methodology constantly developing, and is likely to change significantly as quantitative methods are researched further - Complex and opaque regarding the influence of key assumptions.
Net zero alignment target 1: % material sector assets aligned or aligning to net zero	*Description*	The percentage of material sectors aligned or aligning to Net Zero provides a useful forward-looking indicator and can be used to inform the Scheme's active ownership program. This metric is also used to monitor the Scheme's Net Zero Commitment. This is a newer metric and methodologies are still being developed for certain asset classes. Thus, the focus has been on assessing the listed equities and corporate fixed income portions of the portfolio. One challenge to this metric is that data coverage can be particularly low in portfolios where the underlying firms are not covered by any of the major datasets used in the alignment tool. Coverage is expected to increase meaningfully over time as more companies commit to their own Net Zero ambitions.
	Methodology	The Scheme will leverage the Paris Aligned Investment Initiative's Net Zero Investment Framework. This framework has been developed in conjunction with the IIGCC and its partner networks. For listed equities and corporate fixed income in scope, the Framework provides a set of 10 current and forward-looking criteria against which investors should assess the alignment of companies. Six of these are core criteria. These criteria are key to identifying that a company has a credible, science-based Net Zero Transition Plan. The PAII has determined that higher impact companies should be assessed against all six core criteria. High impact companies are defined as those companies on the Climate Action 100+ focus list, companies in high sectors consistent with Transition Pathway Initiative sectors, plus banks and real estate. All other companies are deemed 'lower impact' by PAII. To assist with this mapping exercise an asset alignment tool has been utilised where securities are mapped to an alignment status by utilising data from MSCI, Climate Action 100+, Transition Pathway Initiative, and the Science-Based Targets Initiative. The percentage aligned or aligning is calculated exclusively on the portion of the portfolio that is invested in material sectors. Once the alignment metric at a mandate-level has been calculated the next step is to aggregate the total up to the Section level using a weighted approach that considers the weight of the mandate in the Section and the percent of the mandate that is invested in material sectors. This allows Russell Investments to produce a Section level total for the percent of material sectors aligned or aligning.

Net zero alignment target 2:	*Description*	The percentage of financed emissions that are either aligned to Net Zero or subject to engagement represents a key indicator under the Net Zero Investment Framework (NZIF 2.0). This target provides a financed emissions-based perspective on progress and prioritisation, and serves to guide the Scheme's stewardship and engagement strategy. It complements other climate metrics by focusing not only on alignment status but also on the portion of portfolio emissions being actively addressed through engagement. This measure is also used to monitor the Scheme's progress toward its Net Zero commitment. As this is a relatively new metric, methodologies continue to develop, especially for illiquid and non-corporate asset classes. To date, the focus has been on listed equities and corporate fixed income, where emissions data is more readily available. One current limitation is incomplete data coverage, particularly where companies are not captured by the major alignment and engagement datasets. However, coverage is expected to improve over time as more issuers adopt formal Net Zero targets or become subject to targeted engagement efforts.
% material sectors FE aligned to net zero or subject to engagements	*Methodology*	The Scheme adopts the methodology defined in the Paris Aligned Investment Initiative's Net Zero Investment Framework (NZIF 2.0), developed by the IIGCC and its global partners. For listed equities and corporate fixed income, the framework identifies the portion of financed emissions that is either: • Aligned or Aligning with Net Zero based on a set of core criteria (e.g. formal targets, disclosure, decarbonisation performance), or • Subject to engagement through active stewardship strategies, particularly where the issuer is not yet aligned but is a high-emitting entity or considered a priority for action. To determine this, an asset alignment tool is used, which maps issuers to Net Zero status using data from MSCI, Climate Action 100+, the Transition Pathway Initiative (TPI), and the Science-Based Targets Initiative (SBTi). Engagement status is overlaid using known stewardship activities and institutional priorities. The final metric is calculated as the percentage of total financed emissions within material sectors that are either aligned/aligning or under engagement. This emissions-based focus ensures alignment and stewardship efforts are targeted toward the most significant contributors to portfolio emissions. Metrics are first calculated at the mandate level and then aggregated to the Section level using a weighted average of each mandate's financed emissions contribution.

6.3 Metrics & Targets Supplement

6.3.1. New Attribution Model – Factor Descriptions

As noted in Section 5.2, the Trustee adopted an enhanced attribution model during 2024 to improve understanding of the drivers behind changes in WACI and Financed Emissions metrics. This revamped model distinguishes between portfolio-level changes (e.g. investment activity, divestments, and market movements) and investee-company-level changes (e.g. carbon emissions reductions and revenue growth), providing a more transparent and decision-useful view of climate performance.

For clarity, a detailed description of the attribution factors applied across WACI and Financed Emissions has been provided below where each category and its directional impact is outlined.

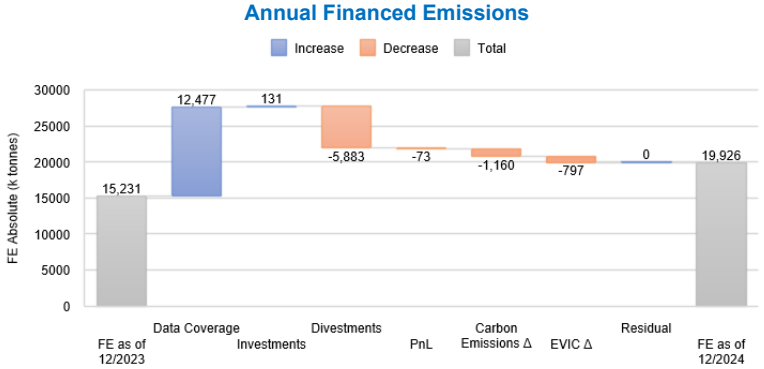
WACI Attribution	Financed Emissions Attribution
Data Coverage: captures the impact on WACI from improvements in emissions data availability for securities already held in the portfolio, independent of investment activity (e.g. due to enhanced disclosures or third-party data model updates).	**Data Coverage**: Captures the impact of improvements in emissions data availability (e.g. mapping, systems updates) for securities already held in the portfolio. • FE Impact: Increase in total financed emissions as more emissions data becomes available. • FEI Impact: Can decrease FEI if the asset base grows faster than absolute emissions.
Portfolio Level Drivers	
Investments: measures the WACI impact of new purchases and capital inflows into the portfolio. Reflects the emissions intensity of newly added holdings.	**Investments**: Measures the impact of new purchases and capital inflows on emissions. • FE Impact: Reflects emissions added by new holdings. • FEI Impact: Can decrease if newly added assets have lower emissions intensity than the existing portfolio.
Divestments: measures the WACI impact of full exits or partial redemptions from existing holdings. Reflects the emissions profile of removed assets.	**Divestments**: Captures the effect of full or partial disposals of assets. • FE Impact: Reduction in financed emissions from removing existing exposures. • FEI Impact: May increase if low-intensity assets are removed, shrinking the asset base more than the emissions.
Profit & Loss (PnL): captures changes in WACI due to gains or losses in market value for securities held over the period. Changes in weightings from price movements influence the portfolio's overall emissions intensity	**Profit & Loss (PnL):** Reflects market value movements of held securities. • FE Impact: Change in FE due to market performance of underlying assets. • FEI Impact: Typically neutral unless emissions or valuations change disproportionately.
Investee-Company Level Drivers	
Carbon Emissions Δ: reflects changes in Scope 1 and 2 emissions of investee companies that were held and covered throughout the period. Indicates real-world decarbonisation progress.	**Carbon Emissions Δ**: Captures real-world changes in Scope 1 and 2 emissions of investee companies held throughout the period. • FE Impact: Reflects reductions (or increases) in company-reported emissions. • FEI Impact: Moves accordingly based on absolute emissions changes
Revenue Δ: captures the effect of changes in investee company revenues, which form the denominator in the WACI calculation. Rising revenues (with stable emissions) reduce WACI	**EVIC Δ (Enterprise Value Including Cash): m**easures the effect of changes in the denominator of the FEI metric. • FE Impact: reflects changes in portfolio emissions via weighting shifts due to EVIC updates. • FEI Impact: affects intensity by adjusting the emissions per unit of capital exposure.
Other factors	
Residual: a balancing item used when necessary to capture attribution effects not explained by the above categories (e.g. data anomalies or rounding).	**Residual:** a balancing item used to capture any unexplained or rounding differences in the attribution model.

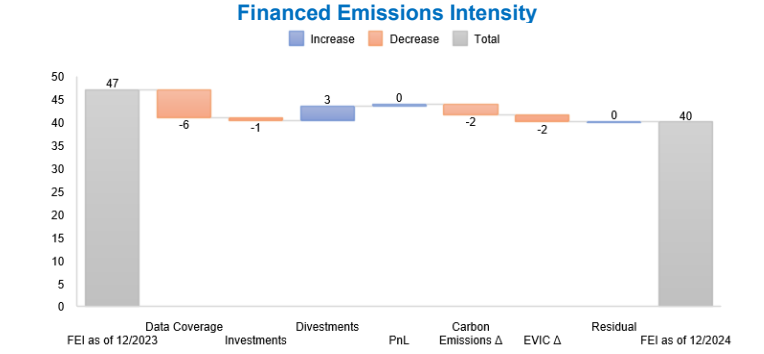
6.3.2. Applications of the new attribution models

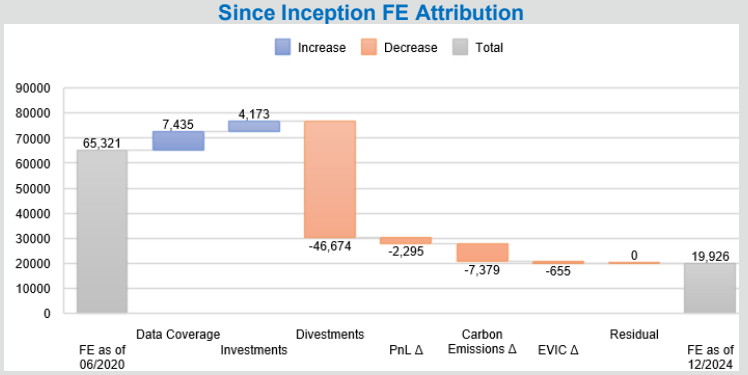
The following section explores the progress of climate metrics and associated metrics through time for Section A (full Scheme year) and Section B (prior to NGTPS transition).

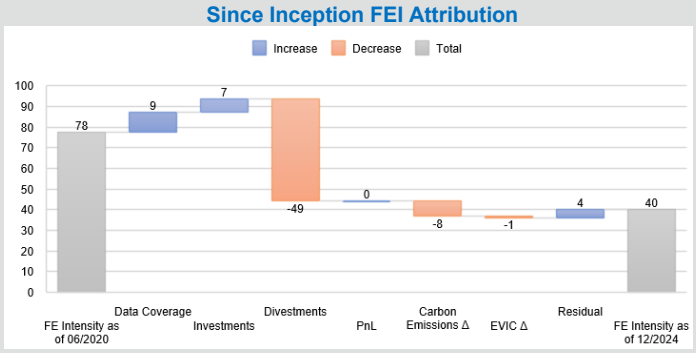
Exhibit 14a: Section A – Financed Emissions Attributions as of 31 December 2024

(1) Financed Emissions (FE)
(Tonnes CO_2e * EVIC/£m Invested)









The annual analysis reveals key year-on-year shifts in both absolute and intensity-based emissions:

- Absolute Financed Emissions (FE) rose from 15.2k to 19.9k tCO_2e, with the primary increase driven by enhanced data coverage (+12.5k), capturing more complete emissions across previously under-reported segments. However, divestments (-5.9k) and real-world emissions improvements (-1.2k) provided partial offset.
- Financed Emissions Intensity (FEI) decreased slightly from 47 to 40 tCO_2e/£m invested, despite the rise in absolute emissions. This reflects a denominator effect, where overall asset growth, along with targeted allocation changes, helped reduce emissions per £m invested. Coverage and portfolio reweighting also diluted emissions intensity.

Together, these charts highlight how emissions increases from data improvements can coexist with falling emissions intensity, thanks to structural portfolio changes and capital efficiency.

The attribution since the June 2020 baseline underscores the portfolio's decarbonisation journey:

- FE declined from 65.3k to 19.9k tCO_2e, a net reduction of over 45k. The bulk of this decrease stems from divestments (-46.7k), particularly the unwind of high-emitting mandates. Data coverage improvements (+7.4k) and new investments (+4.2k) added emissions, but were far outweighed by structural removals and emission reductions from investee companies (-7.4k total from emissions and EVIC deltas).
- FEI fell from 78 to 40 tCO_2e/£m invested, with a major drop due to divestments (-49). Portfolio rebalancing into lower-emitting and more capital-efficient assets, paired with modest improvements in investee emissions and EVIC valuations, further supported the downward trend.

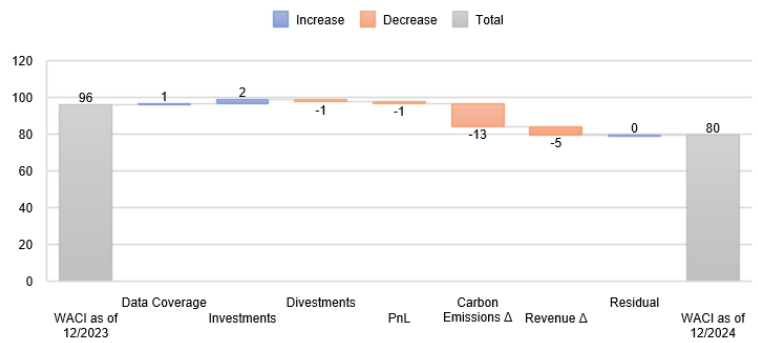
These long-term shifts illustrate how intensity and absolute metrics are shaped by both emissions directionality and underlying investment structure.

Source: Russell Investments, MSCI, as of 31 December 2024

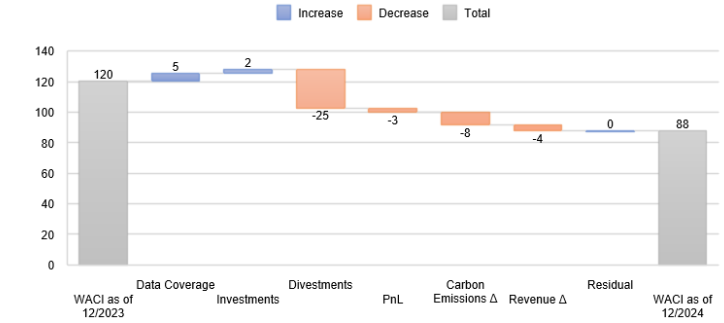
Exhibit 14b: Section A – Financed Emissions Attributions as of 31 December 2024

(2) Weighted Average Carbon Intensity (WACI)
(tonnes CO_2e/$m revenue)

Annual TCFD WACI Attribution



Annual Portfolio WACI Attribution

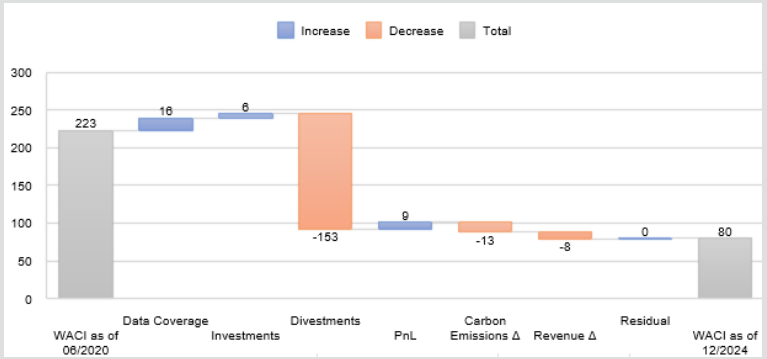


The WACI attribution highlights consistent decarbonisation in both headline (portfolio) and disclosure-aligned (TCFD) measures:

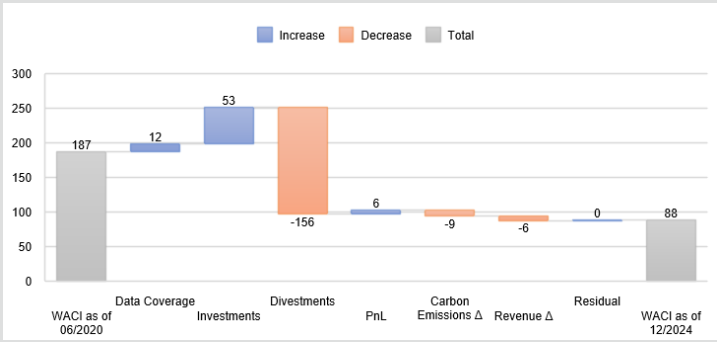
- **TCFD WACI** dropped from 96 to 80 tCO_2e/$m revenue in 2024, led by:
  - Improved carbon performance of investee companies (-13)
  - Divestments (-1),
  - Revenue growth (-5).
  Data and investment changes had a modest upward effect (+1 to +2), but not enough to offset the broader decline.
- **Portfolio WACI** fell from 120 to 88, with divestments (-25) and investee revenue and carbon performance (combined -13) being the core drivers. Despite modest increases from new data (+5) and investments (+2), decarbonisation trends dominated.

Importantly, the index-linked credit mandate (excluded from TCFD WACI) did not require re-baselining in 2024, reaffirming the metric's stability.

Since Inception TCFD WACI Attribution



Since Inception Portfolio WACI Attribution



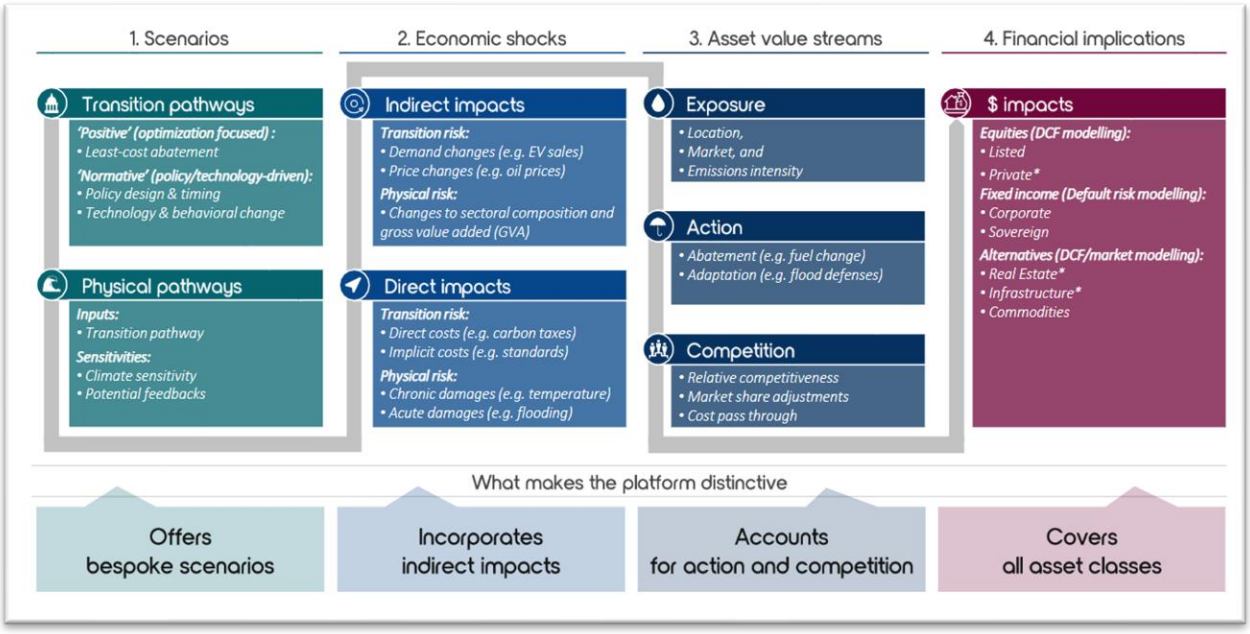
Long-term WACI reductions since June 2020 reflect consistent decarbonisation across the portfolio:

- **TCFD WACI** fell from 223 to 80, with divestments (-153) again the biggest driver. Underlying improvements in carbon data (-13), revenue growth (-8), and modest increases in coverage (+16) round out the picture.
- **Portfolio WACI** fell from 187 to 88 tCO_2e/$m revenue, a 45% reduction. The largest change came from divestments (-156), particularly within corporate credit. Gains from investee improvements and revenue changes (-9 and -6) added to the decline.

Both charts show that while one-time structural changes (like mandate redemptions) played a foundational role early on, continued decarbonisation and revenue expansion among holdings have sustained progress.

6.4.1 Climate Scenario Modelling Assumptions

The Trustee via its Master Manager (Russell Investments) has determined the climate impact on the assets held in the portfolio under different climate scenarios. This analysis draws on selected data provided by Russell Investments' third-party climate risk partner (which does not include investment advice).[10] More details on the climate risk vendor model limitations can be found in Section 3.4. The climate risk vendor's methodology is summarised by the diagram below:



Source: Russell Investments' third-party climate risk partner

Step 1: Scenarios

The model captures a transition pathway and a physical pathway for each of the six NGFS climate scenarios. The transition pathway defines the pathway for transition risk under that specific scenario. For example, how a particular government might react to the climate crisis and transition to a Net Zero economy e.g. establishing new policies, taxes etc. The physical pathway defines a pathway for physical risk (i.e., extreme climate events) under that specific scenario. For example, how probable is an extreme climate event under a specific scenario.

Step 2: Economic shocks

Each climate scenario creates an economic shock. These shocks are expanded from the NGFS scenarios by the climate risk vendor's model. There are two types of economic impacts namely direct and indirect. Direct impact to the economy can be related to transition risk (e.g. direct or indirect cost arising from carbon taxes and change in standards respectively) or be physical in nature (i.e. damage caused by flooding). Likewise, indirect impacts relate to transition risk (e.g. demand change as a result of electric vehicle sales) and physical risk (e.g. changes to sectoral composition) are also specified.

Step 3: Asset Value Streams

This step involves the climate risk vendor assessing and understanding the structure of each individual company to correctly apply the economic shocks based on the company's specific characteristics. There are three elements to this asset-level valuation assessment:

- Exposure: involves understanding the exposure of a certain company such as location, markets in which it operates, and its emission intensity
- Action: involves understanding the company's ability to taking any action to limit its exposure by adapting to the physical impacts of climate change or reducing its own emissions
- Competition: involves analysing the company's ability to pass additional costs on to consumers and gain or lose market share due to climate impacts.

[10] This report represents Russell Investments' and the Trustee's own selection of applicable scenarios selection and/or and its own portfolio data.

Step 4: Financial Implications

This fourth and final step involves calculating the financial impact of climate risk by using different pricing methodologies. Each asset class has a specific methodology to calculate the financial impacts. For example, future valuation of equity and the impact of climate risk is assessed with a discounted cash flow model.

Two different types of outputs are generated during the climate scenario analysis:

- Aggregated portfolio-level financial impacts of climate risk with an attribution by mandate and asset class to allow assessment of risks and opportunities and risk management
- Portfolio temperature alignment to the Paris agreement target

The output shows expected loss or gain relative to a baseline. The climate risk vendor's baseline scenario is based on the current policies and current climate (today's temperature and physical risks) and is slightly different from Hot House World scenario which assumes current policies but changing and heightened physical risks based on a high climate sensitivity (90th percentile warming effects from scenario emissions), high ice sheet-level melt and increasing tropical cyclone risk among other impacts.

Key scenario assumptions

Each climate scenario used contains important assumptions about how the world and global economy will be affected. These modelling inputs include key climate-related variables such as global mean temperature, carbon prices, commodity demand, GHG emissions, and oil prices.

6.4.2 Expanded Scenario Analysis Commentary (as of 31 December 2023)

Section A

Net Zero 2050	Delayed Transition	Hot House World
Investment: the full funding date is not impacted in this scenario as the Scheme has an advanced funding position and remains fully funded in the scenario	**Investment:** the full funding date is not impacted in this scenario as the Scheme has an advanced funding position and remains fully funded in the scenario	**Investment:** the full funding date is not impacted in this scenario as the Scheme has an advanced funding position and remains fully funded in the scenario
Longevity: for a number of reasons such as improved air quality, improved lifestyles or actions taken to adapt to the changing circumstances, longevity improves in the long term, increasing the liability value and having a negative impact on the funding ratio in the long term.	**Longevity:** due to the delay in the implementation of climate actions, improvements in life expectancies due to factors similar to the ones in the Net Zero 2050 scenario are only expected to have a negative impact on the funding level over the long term.	**Longevity**: a gradual decline in life expectancies given the impact of pollution, greater frequency and severity of extreme weather events and the consequences for healthcare and lifestyles results in a negative impact on longevity over the medium and long term, thereby reducing the liability value and boosting the funding ratio over the long-term.
Covenant: Covenant risk is assessed to be medium over the short term as the risk of more extensive carbon pricing policies (and higher prices) introduces financial risks related to the sponsor's GHG emissions, whilst significant investment in electricity networks would be needed to meet its net zero targets. In addition, over the medium and long term the significant investment required in electricity networks combined with a continued increase in the price of carbon results in a further increase of covenant risk. However, due to the projected funding position beyond the short term there are no concerns to be raised as a result of longevity or covenant risks.	**Covenant**: as there is no material change in policy response until 2030, covenant risk sees no significant change in the short term. Over the medium term, there was a rise in covenant risk to "medium level" due to emerging regulations impacting supply chain costs and concerns on funding of transition costs. Similar risks as identified for the short and medium term of the Net Zero 2050 scenario are expected to develop and crystallise in a short period after 2030, resulting in an increased covenant risk over the long term. However, due to the projected funding level over the long-term horizon no concerns are raised from an IRM perspective.	**Covenant**: as no policy action to moderate climate change is taken, the sponsor's business experiences no transition risks. In addition, in the scenario increased physical risks are not expected to materialise until the long term, where there was a rise in covenant risk to a "higher level". This is across multiple transmission channels e.g. end-market (US gas demand), macro-economic (cost of physical risk), supply chain (emerging regulations impacting supply chain costs). Given the expected full funding date (2024) the projected impacts on longevity and covenant over the medium and long term do not result in concerns from an IRM perspective.
Summary of IRM impacts (compared to baseline): Full Funding Date: 2024 (in line with baseline) Longevity impact: negative impact on funding ratio in the medium- and long-term. Covenant impact: higher covenant risks in all periods	**Summary of IRM impacts (compared to baseline):** Full Funding Date: 2024 (in line with baseline) Longevity impact: negative impact on funding ratio in the long term. Covenant Impact: short-term covenant risk is lower, medium-term is medium-grade and long-term covenant risks are higher.	**Summary of IRM impacts (compared to baseline):** Full Funding Date: 2024 (in line with baseline) Longevity impact: positive impact on funding ratio in the long term Covenant Impact: short- and medium-term covenant risks are lower. Long-term covenant risks are higher.

Section B

Net Zero 2050	Delayed Transition	Hot House World
Investment: this scenario has the largest impact (though it is a modest impact) on Sections' funding projections, pushing the full funding date marginally from early 2032 to late 2032.	**Investment:** the full funding date is not impacted by this scenario due to the investment environment not changing compared to the Baseline until post 2030, when action to limit the climate impact is taken	**Investment**: in this scenario no action is taken to limit climate change, resulting in the projection following the same pathway as the Baseline analysis with an expected full funding date in early 2032.
Longevity: for a number of reasons such as improved air quality, improved lifestyles or actions taken to adapt to the changing circumstances, longevity improves in the long term, increasing the liability value and having a negative impact on the funding ratio in the long term.	**Longevity:** due to the delay in the implementation of climate actions, improvements in life expectancies due to factors similar to the ones in the Net Zero 2050 scenario are only expected to have a negative impact on the funding level over the long term.	**Longevity**: a gradual decline in life expectancies given the impact of pollution, greater frequency and severity of extreme weather events and the consequences for healthcare and lifestyles results in a negative impact on longevity over the medium and long term, thereby reducing the liability value and boosting the funding ratio over the long-term.
Covenant: as the energy transition starts immediately and demand for gas in the UK is expected to fall by c. 30% by 2025 the covenant risk over the short term is set to medium. Over the medium term this is increased to higher as demand for gas continues to decline significantly, falling by c. 50% to 60% compared to current demand levels. Over the long term the risks for the covenant remain higher as gas demand continues to fall, impacting network viability. In addition, certain terminals, such as Teesside, are exposed to flooding risk by 2030 in all scenarios. However, given the projected funding position the dependency on the sponsor over the long term is minimal.	**Covenant**: due to no material change in policy response until 2030, covenant risk sees no material change over the short term. There was a rise in covenant risk to "medium level" due to emerging regulations impacting supply chain costs and concerns on funding of transition costs. Over the long-term risks to the covenant increase as the transition to a lower reliance on gas is expected to occur quickly and demand to fall rapidly. However, due to the projected funding level over the long-term horizon no concerns are raised from an IRM perspective.	**Covenant**: as no policy action to moderate climate change is taken, the sponsor's business experiences no transitional risks. In addition, increased physical risks are not expected to materialise until the medium- to long-term, where they result in a covenant risk assessment of "medium" and/or "higher". Given the expected full funding date (2032) the projected impacts on longevity and covenant over the long-term do not result in concerns from an IRM perspective.
Summary of IRM impacts (compared to baseline): Full Funding Date: late-2032 (slowest versus baseline) Longevity impact: negative impact on funding ratio in the long term Covenant impact: higher covenant risks in all periods	**Summary of IRM impacts (compared to baseline):** Full Funding Date: mid-2032 (slower than baseline) Longevity impact: negative impact on funding ratio in the long term Covenant Impact: medium-term is medium-grade and long-term covenant risks are higher	**Summary of IRM impacts (compared to baseline):** Full Funding Date: early-2032 (in line with baseline) Longevity impact: positive impact on funding ratio in the long term Covenant Impact: short- and medium-term covenant risks are lower. Long-term covenant risks are higher.

Source: Russell Investments, LCP Actuarial Team, Cardano, LCP Executive as of 31st December 2023