NOKIA RETIREMENT PLAN FOR FORMER NSN AND ALU EMPLOYEES

CLIMATE CHANGE REPORT
2023

CONTENTS

INTRODUCTION

The Trustee considers It important to understand that all pension schemes are vulnerable to financial risks related to climate change, and trustees have a legal obligation to consider these risks when making investment decisions. However, assessing these risks over future time periods can be challenging due to the far-reaching impact of climate change.

To address these concerns, regulatory changes have been made in recent years, such as updates to Statements of Investment Principles and the requirement for most schemes to prepare an implementation statement. These changes have helped to ensure good governance and oversight, limiting the risk to members' retirement income.

As a key asset owner in the UK financial sector, pension schemes must take a leading role in mandated climate-related financial disclosures. The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 now require schemes to adopt and report against the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. Trustees must comply with the final Regulations and have regard to the final Statutory Guidance that has been published. This will help ensure that pension schemes are taking the necessary steps to address climate-related financial risks and safeguard the retirement income of their members.

The Trustee of the Plan is committed to supporting initiatives that it believes will serve the long-term financial interests of our members. The Taskforce on Climate-related Financial Disclosures (TCFD) is one such initiative, as the Trustee recognizes that greater disclosure of climate-related risks and opportunities can lead to better investment decisions.

Furthermore, where appropriate, the Trustee is committed to engaging with its appointed fund managers to support such initiatives. We believe that through collaboration and cooperation, we can drive positive change and make a meaningful contribution to the sustainable investment landscape.

Recommended Disclosure

The TCFD developed four recommendations on climate-related financial disclosures that are applicable to organisations across sectors and jurisdictions, structured around the following thematic areas

Governance: The organisation’s governance around climate- related risks and opportunities.

Strategy: The actual and potential impacts of climate-related risks and opportunities on the organisation’s business, strategy, and financial planning.

Risk management: The processes used by the organisation to identify, assess, and manage climate related risks.

Metrics and targets: The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

OUR APPROACH TO CLIMATE CHANGE

We believe it's our responsibility to consider the impact of climate change not only on our plan's assets, but also on society. We recognise that climate change is a systemic and long-term risk that has a material impact on our plan's financial risks. Therefore, we have a fiduciary duty to incorporate the consideration of climate-related risks and opportunities when making investment decisions, to ensure the security of our members' benefits.

The Paris Agreement, adopted during the 2015 United Nations Climate Change Conference, provides the framework for global climate action. Countries that ratified the agreement committed to limit global warming to "well below" 2°C compared to pre-industrial levels, with an aim to limit it to 1.5°C. These thresholds were chosen to minimize the risks and destruction associated with warming.

Investors have a crucial role to play in the global response to climate change, as outlined in the Paris Agreement. It calls for rapid and significant emissions reductions to achieve the low carbon transition target, which will have significant consequences for the real economy, investors, and insurers. We believe it's essential to develop a long-term risks and opportunities framework aligned with the Paris Agreement roadmap, which is the basis for our plan's climate action.

DISCLOSURE AND TRANSPARENCY

The Trustee, along with the Plan's sponsor, supports the increased disclosure and transparency brought about by the new climate regulations, which require us to disclose how we identify, assess, and manage climate risks and opportunities. This report represents our first public disclosure, and the Trustee views it as a starting point for future comparison.

We acknowledge that the analysis and evaluation of climate-related risks is an ongoing process, and we are committed to integrating and monitoring these risks within the plan. As we embark on this journey, we recognize that the understanding of these risks is constantly evolving, and we remain vigilant in our efforts to stay up-to-date with the latest developments and insights.

STRUCTURE OF THIS REPORT

The report, adhering to TCFD recommendations, encompasses four key areas:

- **Governance**: The development and ongoing assessment of a robust framework for managing climate-related risks and opportunities are emphasized, delegating various responsibilities to subcommittees, outsourcing partners, and sponsors while maintaining ultimate accountability with the Trustee.
- **Strategy**: Recognizing climate change as a medium to long-term risk, the strategy involves both adaptation and leveraging expertise to discover solutions that align with the Plan’s fiduciary duty to members, balancing risk and opportunity amidst the complexities of climate impact quantification.
- **Risk Management**: Steps have been implemented to integrate climate-related risk within the trustee's decision-making framework and communicate this to the Plan’s asset managers, demonstrating a conscientious approach toward ecological fiscal considerations.
- **Metrics & Targets**: With a keen understanding that climate metrics are continually evolving, the Trustee values both absolute metrics and their trajectories, establishing primary targets such as progressively improving the integrated environmental score, targeting net zero emissions and 1.5-degree C climate warming potential by 2050, and actively excluding controversial investments. The Trustee also aims to align green investment exposure with the UN PRI. Supporting targets, such as a 27% reduction in carbon footprint by 2031 from 2021, have also been defined, all while noting that target adaptability is crucial due to potential strategic portfolio changes and ongoing de-risking activities.


GOVERNANCE

The Trustee Board holds ultimate authority over all aspects of the management and strategy of the Plan and has established an overarching philosophy. Investment matters, to include those relating to climate risks are tabled for discussion at each quarterly Trustee Board meeting so as to ensure that advisors adhere to Trustee expectations and manage disclosure and to ensure climate risks are appropriately considered when providing advice related to the Plan.

The Trustee will continue to review the climate competency of its advisors and those who support the Trustee in relation to climate management, to ensure adequate processes are in place. Moreover, the Trustee utilizes a dedicated resource within the Sponsor to aggregate data, delegate day-to-day monitoring activity, conduct analysis, and provide insights on other climate-related opportunities that may be available. This ensures that we remain proactive and informed in our approach to managing climate-related risks and opportunities within the Plan

OVERARCHING PHILOSOPHY

The Trustee will be arranging annual ‘belief’ sessions whereby an independent player outside of the main Trustee board seeks to aggregate and challenge the views of the Trustee on responsible investing and climate.

The Trustee approach to responsible investment should target good practice while ensuring that regulatory requirements are met. However, climate risk and sustainability should not be considered distinct from the financial considerations involved in the construction of the investment strategy. It should be one of the factors that can impact the Plan’s investments.

In addition, the reputational risk that may occur because of the exposure to such assets should be incorporated in the overall analysis and this should be overlayed with the Sponsor view.

The Trustee acknowledges that climate change presents a material financial risk to the Plan and therefore merits attention and governance bandwidth. The Trustee believe that over the medium to long term managed environmental factors within a portfolio should produce higher risk-adjusted returns, however the market does not accurately price these impacts and therefore active engagement and stewardship is required.

The Trustee believes that integration of environmental metrics (and indeed inclusions in wider ESG calculations) is valuable to ensuring portfolio quality, this is through incorporation of such metrics in the portfolio optimisation process (at strategic and day-to-day portfolio construction) and embedded alongside other reporting metrics considered by the Trustee Board.

Active stewardship will seek to actively allocate capital to investment that can be considered to benefit from environmental tailwinds and should not be prevented from evaluating such opportunities due to governance limitation (time and expertise).

PILLAR 1: EDUCATE

To ensure the ongoing suitability of our climate related risks and opportunities the Trustee receives regular training on climate related topics. As part of the ongoing governance of the Plan, the current board comprises of professional trustee who undertake regular training outside of the regular trustee boards to ensure they are up to date with recent developments. In addition, the use of specialist resources within the Trustee firm further buster this position. The training targets education on:

- the appropriateness of climate related risks
- the science behind metrics relayed within the climate dashboard
- regulatory obligations of the trustee
- considerations of the sponsor's position
- stewardship and differing oversight models for asset owners
- updates of governmental discussion

It is recognised that ongoing training is essential for the Trustee to ensure that they are making an informed decision. Therefore, a climate related update is included at most quarterly Trustee board meetings. A skills gap analysis is taken annually/biennially for existing trustee directors as well as new directors. It is noted that the Trustee board comprises of professional trustees who are certified and sit on several boards, the Plan's trustee body relies on these individuals to provide peer analysis and comparators for discussion.

The Trustee considers the view of the plan sponsor when creating a climate change policy. The Trustee acknowledges that the sponsor is responsible for providing financial support to the plan and may have investments in industries or business lines that are vulnerable to climate change.

By considering the views of the sponsor, the trustee is better able to balance the interests of the sponsor with those of the plan's members and ensure that any policy adopted is practical and feasible to implement.

PILLAR 2: PHILOSOPHY CONSTRUCTION

The Trustee aggregates views through the education process to evaluate a belief structure that forms the framework of the climate change philosophy. We consider that the strategic setting process is iterative and, given the high reliance on input and data for the Plan's climate exposures, an ever-evolving concept.

We consider it important to record the Trustee's views, which are defined as part of the Responsible Investment policy as outlined in the Statement of Investment Principles as well as having a transparent view of the risks carried by the Plan. This is done though the regular updating of the Risk Register.

The Board remains responsible for the iteration and development of this philosophy.

PILLAR 3: DELEGATE

The Board delegate the investment concepts outlined in its climate philosophy to the Investment Consultant who has been granted the governance bandwidth to consider the implementation considerations associated with the agreed philosophy. The Investment Consultant is responsible for ensuring that the climate change risk policy is implemented in the Trustee's investment policy. To achieve this, the Investment Consultant selects climate related metrics that best align with the objectives of the Trustee Board and its philosophy. The climate related metrics are used to monitor the Plan's progress versus the Board's objectives. The Investment Consultant defines the annual engagement strategy to be used with the Plan's fund managers in a manner which is consistent with the philosophy set out by the Board.

RISK REGISTER

Climate risk is monitored as part of the regular review of the Risk Register. Controls include ongoing monitoring by the Investment Consultant of climate and carbon risk, an annual performance review of the Plan comparing outcomes against expectations and investment beliefs, and regular asset class deep dives that include coverage of responsible investment and climate risk. An assessment of the Plan's exposures to high and low carbon assets, transition and physical risks and scenario analysis is also conducted quarterly as part of the Trustee deep-dive though the climate dashboard.

PILLAR 4: RECORD

The Trustee monitors on an annual basis the overall portfolio's exposure to the key risk KPIs as set out and defined by the Investment Consultant. This is reported to the Board and forms part of the education process and iterative process in creating the climate change philosophy.

Further details of the KPIs and dashboard are provided later in this report. The Trustee has regular opportunity to challenge the information provided and any advice provided through its board meetings and regular interaction with the advisers and supporting parties.

PILLAR 5: IMPLEMENT

The day-to-day management of the Plan's investments is delegated to the Trustee's external investment managers and advisers. The fund managers are focused on delivering the investment requirements of the Plan and it may, if appropriate, allocate investment mandates to meet the overall climate change philosophy.

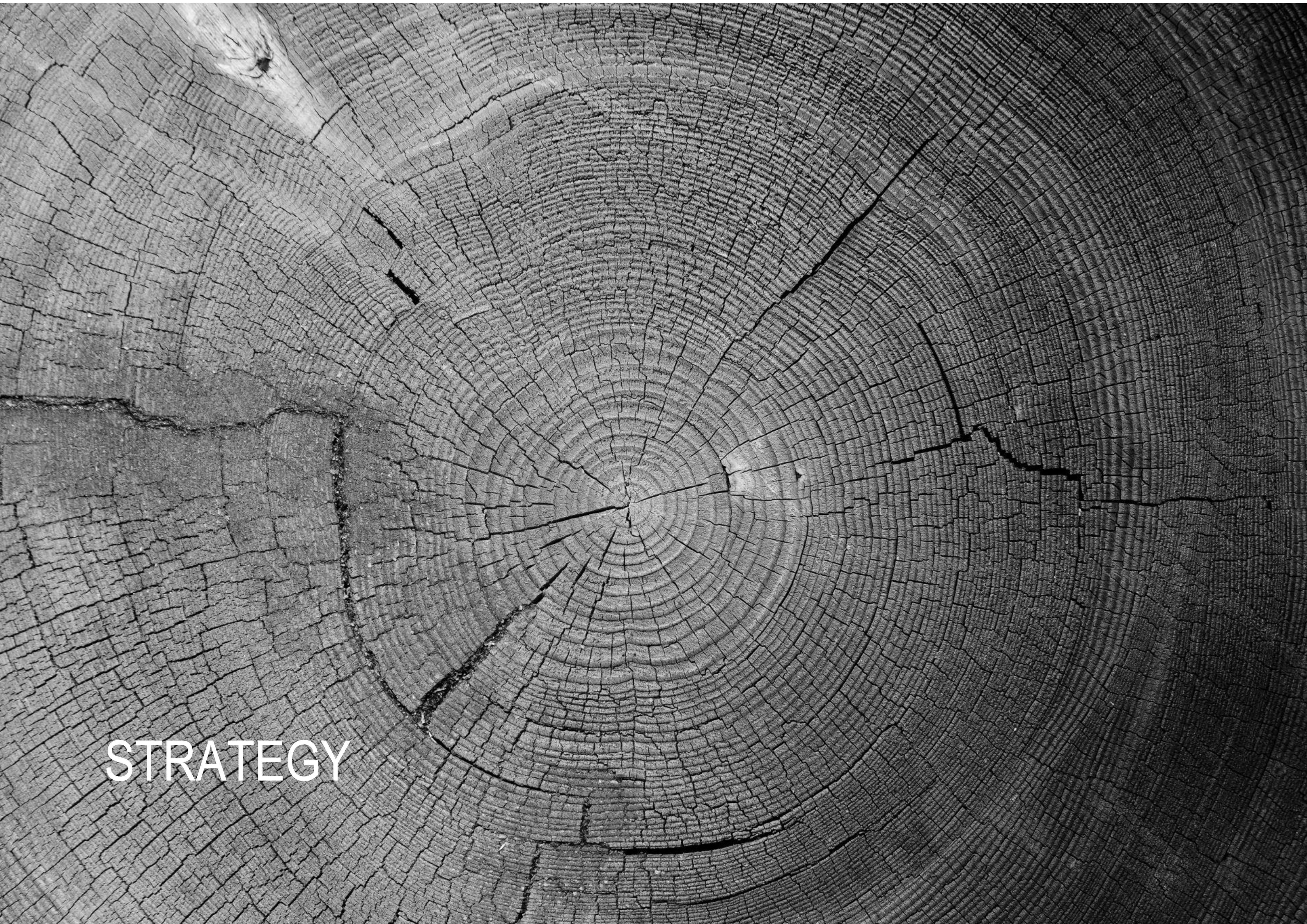
This includes both managing climate-related risks and identifying any investment opportunities that the transition to a low- carbon future presents, for example, increased investment in renewable energy or incorporating exclusions into portfolio construction.

The Plan's fund managers are required to report annually on their engagement activity and how these risks and opportunities have been incorporated into the investment process.

This approach is extended to the Plan's advisors whereby they are required to consider environmental considerations when providing the Trustee with advice on not only implementation of, but in construction of, the Trustee overall strategy and funding plan. This includes advice in relation to the Plan's investment strategy, financial and demographic assumptions used to determine funding plans.

As Trustee to the scheme, it is important to consider sustainability in the procurement process for third-party providers. This helps to protect the financial security of the pension scheme by mitigating risks associated with environmental and social issues. Engaging with sustainable providers can also enhance the scheme's reputation and contribute positively to society and the environment. By making sustainability a part of our day-to-day activities, we can ensure that we are selecting providers that align with our values and goals as a responsible investor.

Overall, integrating sustainability into the procurement process is a crucial aspect of our fiduciary duty.


STRATEGY

Climate related factors are fully integrated into our strategic funding and investment decision making framework. Set alongside our traditional investment and risk factors we recognise that financially material impacts from climate change are unlikely to manifest uniformly across time and we therefore considered the potential impacts of the Plan's investments over both the short, medium, and long term.

The Trustee receives regular advice in relation to the covenant strength of the sponsor as part of the triennial valuation process. The Trustee has requested that future advice includes reference to the climate risk exposure of the sponsor.

OVERVIEW OF THE SCHEME'S INVESTMENT STRATEGY

The Trustee takes an integrated approach to the management of the Plan's funding level and, in doing so, takes account of Investment, Funding, Covenant and Non-Investment Risk when setting the Plan's investment strategy.

The aim of the Trustee is to ensure that the Scheme can meet pension payments in full as they fall due as well as meet expenses of the fund and in doing so also minimise any potential shortfall. This can be described as full funding on a self-sufficiency basis; the Scheme is funded with enough assets to meet all future liabilities and can be regarded as self-sufficient. Assumptions used to calculate this measure are prudent and allow the self-sufficiency basis for measuring the funding level to be used for decision making.

The investment strategy is set by the Trustee cognisant of the funding objectives, the actuarial valuation, the Principal Employer Covenant, and the limited guarantee provided by the Principal Employer. The overall aim of the strategy is to allow the Scheme to achieve its investment objective while minimising the risk taken in doing so. The Trustee seek to invest most of the portfolio in low risk cashflow generative assets to match as much of the liability cashflows as is affordable.

CLIMATE RELATED RISKS THE SCHEME IS EXPOSED TO

Owing to the Plan's investment strategy, there is a material exposure to long dates assets within the portfolio as such these pose differing climate risks across different time horizons. In evaluating the implications of climate related change to the portfolio's financial position we evaluate the asset related climate risks through the lenses of:

- **Physical risks** stem from both acute and chronic climate shifts, potentially damaging assets and disrupting supply chains, thereby influencing financial performance and operational stability.
- **Transitional risks** involve the financial and reputational implications of adapting to a low-carbon economy, navigating through policy, legal, and market alterations.
- **Reputational risks** hinge on how well organizations meet community expectations—encompassing members, regulators, and activist groups—especially in the context of climate-related decision-making, with failures possibly tarnishing their public image and stakeholder trust
- **Longevity risk**, pertaining to members living longer than anticipated and thereby extending pension payment periods, is intricately tied to environmental factors affecting health and mortality rates. Effectively managing this risk, by considering environmental impacts on life expectancy, ensures the scheme's sustained financial stability and member security amidst variable climate and health contexts.

TIMELINE CONSIDERATIONS

The Trustee considers three timeframes when evaluating the strategy for the Plan's approach to climate change. By evaluating climate-related risks and opportunities over these three timelines, the Trustee are a better able to understand the potential impacts of climate change on their investments and make informed decisions to manage those risks and capitalise on opportunities if presented.

2 years | **5-10 years** | **20-30 years**

SHORT TERM

This refers to a period of up to 2 years and involves evaluating the potential risks and opportunities associated with climate change that may have an impact on the pension scheme's investments in the near future.

For example, this could include analysing how changes in weather patterns could affect the performance of certain assets.

MEDIUM TERM

This refers to a period of 5-10 years and involves evaluating the potential risks and opportunities associated with climate change that may have an impact on the pension scheme's investments over a longer time horizon.

For example, this could include analysing how regulatory changes related to climate change may affect the performance of certain assets.

LONG TERM

This refers to a period of 20-30 years or more and involves evaluating the potential risks and opportunities associated with climate change that may have an impact on the pension scheme's investments over the longest time horizon. For example, this could include analysing how physical risks associated with climate change, such as rising sea levels, may affect the performance of certain assets.

CLIMATE SCENARIO ANALYSIS

The Trustee has sort advice on the construction of the scenarios to ascertain the Plan's funding level volatility attributable to the climate change. Aon have developed in consultation with the Trustee three scenarios which seem to evaluate the transition risk of transition to an environment which aligns with the Paris agreement. Trustee translate scenario narrative and assumptions into impact ("shocks") on macroeconomic variables (e.g., GDP, interest rates, inflation) using mixture of econometric/economic models and historical analysis and expert judgment. These are detailed below:

	No Transition	**Disorderly Transition**	**Orderly transition**
Description	No further action is taken to reduce greenhouse gas ("GHG") emissions leading to significant global warming	Limited action is taken and insufficient consideration is given to sustainable long-term policies to manage global warming effectively	Immediate and coordinated action to tackle climate change is taken using carbon taxes and environmental regulation
Temperature rise by 2100	+4oC	<3oC	1.3oC - 2oC
Reach net xero by	After 2050	After 2050	2050
Carbon price (2030/2050)	$40 $50	$65 $340	$100 $215
Introduction of environmental regulation	None	Late and aggressive	Coordinated

The Paris Agreement

The Paris Agreement is a legally binding international treaty on climate change.

Its goal is to limit global warming to well below +2ºC, preferably to +1.5ºC, compared to pre-industrial levels, by 2100.

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OUTCOME OF SCENARIOS

The Plan's investment portfolio exhibits resilience under all of the climate scenarios modelled. This is due to high funding level at the start, high levels of hedging against changes in interest rates and inflation and a low risk strategy.

The worst-case scenario for the Plan is the disorderly transition. Although initially the funding level improves in line with the base case, after 10 years the funding level deteriorates sharply. This leaves the Plan worse off in terms of surplus relative to the base case, however it remains well over 100% funded on the gilts+0% basis.

There is a significant improvement under no transition scenario which leaves the Plan best off versus the other scenarios over the very long term. Falling real yields combined with a surplus, leads to asset outperformance relative to liabilities as the Plan is over-hedged relative to the liabilities. Further improvement is driven by a surplus which yields higher relative return under no transition scenario, benefiting from the relatively higher cash returns under the scenario.

	Base case	No transition	Disorderly transition	Orderly transition
Short-term return[1] (% p.a.)	0.9%	0.6%	0.6%	-0.6%
Medium-term return[1] (% p.a.)	0.7%	0.4%	-0.7%	1.3%
Long-term return[1] (% p.a.)	1.1%	1.9%	1.8%	1.4%

	Change in surplus over 30 years (£m)	Change in surplus over 30 years relative to base case (£m)
Base case	554	0
No transition	851	297
Disorderly transition	531	-23
Orderly transition	608	54

The table above shows the investment return of the Plan's portfolio under each climate change scenario over varying time periods.

The largest short-term risk faced by the Plan is reflected by the orderly transition scenario. This is due to high inflation in early years having a pronounced negative impact on asset returns; however this is followed by a material recovery in later years.

Longer-term risks are illustrated by the disorderly transition scenario, where a large shock to asset returns takes place in later years. This is following very limited action to reduce GHG emissions in earlier years, resulting in a low surplus relative to other scenarios.

SPONSOR COVENANT

We recognise that the Sponsor of the Plan is likely to be affected by climate change which, in turn may affect the resilience of the Plan's funding strategy over time. Therefore, the Trustee engages actively with the Sponsor to better understand its climate related risks and the opportunities to which it is exposed. The Trustee have sort a review of the sponsor covenant as part of its climate change assessment from its appointed Covenant advisor.

Nokia Group, inclusive of its member Nokia UK Limited, has embedded comprehensive ESG and climate strategies into its operational outlook, targeting a net zero emission status by 2050. Their multifaceted approach encompasses a strategic pivot towards 'Industrial Digitisation' and 'Environment,' underpinning a robust commitment towards sustainability, evident through initiatives like achieving 63% renewable electricity usage in 2022 and promoting a circular waste economy.

Notwithstanding, the Group has noted a 13% excess in its 2020-2022 GHG emissions relative to a linear reduction model, acknowledging the nonlinear nature of emission reductions. Meanwhile, a nuanced financial assessment reflects a net negative impact of €88m, derived from climate-related risks and opportunities, underscoring a crucial dimension of fiscal risk management.

Pertinently, the pension scheme trustees maintain active engagement with Nokia UK Limited, diligently navigating through the interconnected web of climate-related financial risks and opportunities and emphasizing the imperative of consistent progress tracking and strategic vigilance in fortifying the covenant's strength amidst a dynamically evolving climate-centric competitive landscape. This engagement is quintessential in safeguarding the scheme's financial stability, thereby ensuring a resilient funding strategy in a future moulded by sustainable transitions and potential climate adversities.

However, while the Trustee currently considers the overall investment strategy appropriate when considered in respect of the Plans current covenant, the above assessment noted risks regarding the trajectory of the Sponsors plans as well as wider sector vulnerabilities, the trustee continually monitor the financial stability of the sponsor ensuring the ongoing strength of the covenant.

RISK MANAGEMENT

We consider the management of risks through a holistic lens considering the Plan's overall objectives, while balancing this with the investment risk, the risk arising from the sponsors climate related business activity, as well as the overall funding level of the Scheme. To ensure climate related risks are assessed in an integrated manner, we have explicitly identified climate change as a risk on the Trustee risk register, which is overseen by the Governance Committee. This is reported to the Trustee Board on a quarterly basis and considered at every occurrence of the Governance Committee.

As identified in the governance section of this report the responsibility of monitoring and evaluating the existing and emerging risks of the Scheme is the responsibility of the Trustee, its subcommittees, and advisers. The continuously evolving risk management framework is broadly based on the following illustration:

We recognise that varying stakeholders have different opinions around the risk associated with the portfolio and while the Trustee considers a top-down risk identification assessment, a bottom-up assessment is undertaken from a metrics perspective. However, our investment managers are invited to share their opinions and environmental frameworks. When considered appropriate, a combination of the Trustee's policies and that of the investment manager's is implemented.

MITIGATING CLIMATE-RELATED RISK

It is in this context that the Trustee has mandated the development of a global approach to responsible investment issues which considers both controversial sectors on a reputational standpoint - such as the challenge posed by controversial weapons - and the more positive inclusion of environmental issues in investments processes, from a performance and risk management perspective. The development of this policy has concluded on a four-pillar approach:

PILLAR 1: ENVIRONMENTAL INTEGRATION AND STEWARDSHIP

The Plan's investment portfolio integrates environmental analysis into investment processes, using KPIs and qualitative research. The implementation of environmental "minimum standards" based on the environmental scores provided by each fund manager and the Sponsor are expected to give a rounded measure of the climate risk associated with the fund manager. The target impact of these scores is to exclude potentially underperforming issuers which should in turn reduce climate related risk.

The Trustee ambition is to score all asset classes. The Trustee expects all fund managers to use the rights that accrue to investors, including votes and the scope to influence investee companies (and other invested assets) through active engagement. This can be used to encourage companies and other assets to deliver better performance against all the categories of environmental assessment. The Trustee believes that this can help enhance environmental scores and more fundamentally it will help to reduce the negative climate risk exposure in its investment portfolios and take advantage of opportunities related to climate change.

PILLAR 2: CARBON FOOTPRINT AND CLIMATE-RELATED PORTFOLIO ALIGNMENT

While recognising that there are limits to the quality of data available at the moment, the Trustee will encourage fund managers to capture the carbon footprint of their investments and the Trustee will seek to assess the overall carbon footprint of its portfolio. As the quality of data improves, the Trustee will measure the reduction in the Plan's carbon footprint over time.

The Trustee targets to contain the 'warming potential' of the Plan's investment portfolio to 1.5°C above pre-industrial levels by 2050. Carbon metrics are integrated into investment decisions. Additional climate risk KPIs are being developed for measuring the climate-related impact. The existing methodologies and metrics will evolve and require improvements over time.

JOURNEY TO NET ZERO

The Trustee notes that in order to manage the Plan's climate risks, it will develop the structure for a 'Carbon Journey Plan', which the Trustee believes will act as a tool in helping the Plan to meet its ultimate net zero goals and lead to effective decision-making along the way.
The governance structure for the Carbon Journey Plan, will be ultimately owned by the Trustee but will be shared with the various parties who input into the Trustee decision making process (fund managers, sponsor, consultants, advisors). As covered previously, the Trustee has set a target of net zero by 2050, with a 27% reduction in carbon footprint1 by 2030, starting with a baseline of 31 March 2021

PILLAR 3: CARBON FOOTPRINT AND CLIMATE-RELATED PORTFOLIO ALIGNMENT

While recognising that there are limits to the quality of data available at the moment, the Trustee will encourage fund managers to capture the carbon footprint of their investments and the Trustee will seek to assess the overall carbon footprint of its portfolio. As the quality of data improves, the Trustee will measure the reduction in the Plan's carbon footprint over time.

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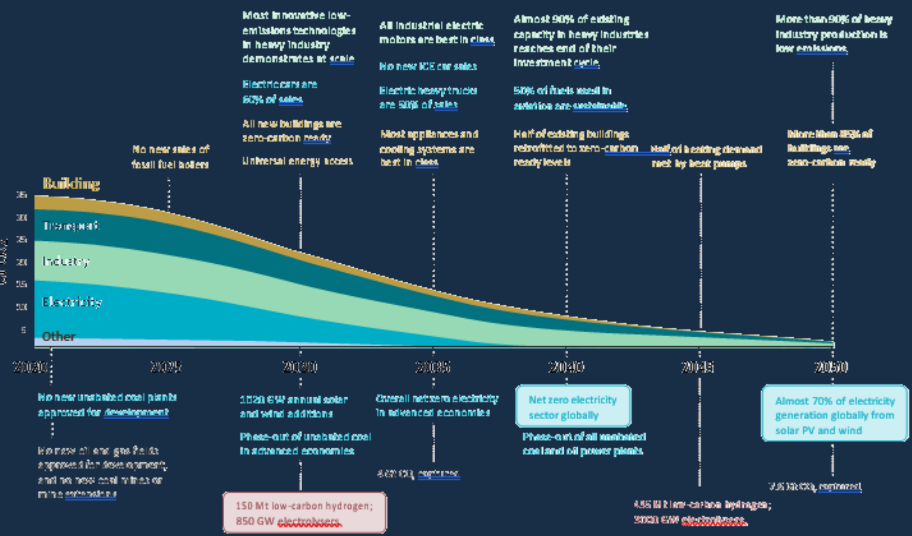
In addition to quantifying the impact of Plan's investment portfolio on climate change, the Trustee divests parts of the portfolio (coal, oil sands) or excludes unsustainable sectors (palm oil, deforestation, unconventional exploration and production energy) to effectively pursue climate- related objectives

Aligning to 1.5 degrees

The Trustee notes the link between reducing emissions and achieving the 1.5 degree warming potential. In order to achieve this global target, the world will be required to reduce its total emissions output by 15 Gt CO_2 emissions by 2030. This would achieve in many scenarios a sub 2 degree warming potential and therefore the Trustee have aligned their supporting targets to this.



PILLAR 4 – ENGAGEMENT, EXCLUSION & TARGETED INVESTMENT

The Trustee recognises that some social, societal, environmental, or more general ethical issues are particularly sensitive and require a cautious approach. Certain activities and products could be inconsistent with the goals of protecting people over the long term and may be detrimental to the Scheme or Sponsor's reputation. In this context, the Trustee consider the use of engagement, exclusion * targeting investment to be appropriate mechanism to demonstrate the Trustees philosophy. This is undertaken by the investment mangers on behalf of the Plan. To internal ESG policies of the investment managers forms part of the selection process and ongoing monitoring to ensure they are consistent with the Plan's approach,

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METRICS & TARGETS

The Trustee has selected key metrics that play a role throughout the pension scheme's investment decision-making process. These metrics are used to measure, manage, and disclose climate risk the Scheme is exposed to. These metrics are aligned to the existing strategy and goal of the Trustee.

However, they may change these metrics over time to reflect developments in industry best practice in what is a new and evolving area. The metrics below are a subset of a wider data set that is used by the Investment Consultant.

The information and data available in relation to monitoring the metrics below is not always available in the quantity or quality desired. For example, a lack of scope 3 emission information and gaps in the data available on some asset classes although this should become more readily available over time. In addition, the methodologies used to determine the metrics are still developing so there are limitations on the what the Trustee is able to calculate and the accuracy of these calculations.

The Trustee ambition is to score all asset classes.

The Trustee expects all fund managers to use the rights that accrue to investors, including votes and the scope to influence investee companies (and other invested assets) through active engagement. This can be used to encourage companies and other assets to deliver better performance against all the categories of environmental assessment. The Trustee believes that this can help enhance environmental scores and more fundamentally it will help to reduce the negative climate risk exposure in its investment portfolios and take advantage of opportunities related to climate change. The Trustee will expect reporting on stewardship activities by its fund managers and will encourage more effective delivery of stewardship over time.

Carbon footprint and climate-related portfolio alignment. While recognising that there are limits to the quality of data available at the moment, the Trustee will encourage fund managers to capture the carbon footprint of their investments and the Trustee will seek to assess the overall carbon footprint of its portfolio. As the quality of data improves, the Trustee will measure the reduction in the Plan's carbon footprint over time.

The Trustee targets to contain the 'warming potential' of the Plan's investment portfolio to 1.5°C above pre-industrial levels by 2050. Carbon metrics are integrated into investment decisions. Additional climate risk KPIs are being developed for measuring the climate-related impact. The existing methodologies and metrics will evolve and require improvements over time.

DEFINING TARGETS

The Trustee uses some quantitative measures to help it understand and monitor the Plan's exposure to climate-related risks.

The Trustee's investment adviser, Aon, collected information from the Plan's managers on their greenhouse gas emissions. Aon on behalf of the Plan has collated this information to calculate the following climate-related metrics for the Plan's portfolio.

Total Greenhouse Gas emissions	The total greenhouse gas ("GHG") emissions associated with the portfolio. It is an absolute measure of carbon output from the Plan's investments.
Data quality	The proportions of the portfolio, for which scope 1 & 2 emissions are verified, reported, estimated or unavailable.
Carbon footprint	Carbon footprint is an intensity measure of emissions that takes the total GHG emissions and weights it to take account of the size of the investment made.
Portfolio alignment	A metric which gives the alignment of the Plan's assets with the climate change goal of limiting the increase in the global average temperature to 1.5˚C above pre-industrial levels. It is measured as the percentage of underlying portfolio investments with declared net-zero or Paris- aligned targets that have been verified by the Science based Target.

Our climate-related target

The Trustee has set a target for improving the data quality metric. Without meaningful data from the investment managers, it is very hard for the Trustee to measure its climate-risk exposure. So, it is important to set a target to improve the quality of GHG emissions data from the managers.

2027 Data quality target	Current Data quality metric
80%	**62%**
Non-LDI assets data coverage (scopes 1 and 2 only) by 31 December 2027	Non-LDI assets data coverage (scopes 1 and 2 only) as at 31 December 2022

The Plan's performance against the target will be measured and reported on every year. Over time, this will show the Plan's progress against the target.

METRICS DASHBOARD

In the table below are the climate-related metrics for the Plan's assets. The metrics are shown separately for the Liability Driven Investments and the other investments because the methodology used for each are different so aggregating the metrics would not make sense.

	Total Greenhouse Gas emissions (Scopes 1 and 2)	Carbon footprint (Scopes 1 and 2)	Data quality	SBTI coverage (%)
LDI	**143,807** tCO2e	**195.3** tCO2e/£m	**99.1%**	**99.1%**
Other assets	**40,570** tCO2e	**113.0** tCO2e/£m	**61.8%**	**17.3%**

Source: Investment managers / Aon. Data is as at 31 December 2022 unless specified otherwise.

The LDI portfolio contains mainly UK government bonds. Carbon metrics for UK government bonds are based on the total GHG emissions for the whole of the UK, which are extremely high. By contrast, carbon emissions for equities, for example, are based on the emissions associated with the underlying companies invested in, which are smaller. Hence, the carbon metrics for LDI are much higher than other assets

Summary of Investment manager engagement.

To asset the opportunities available within the Plan's investment mandates the Trustee, thought their Investment Consultant creates qualitative questionnaires. These questions are designed to assist the Trustee with its assessment of each managers' capabilities and approach to climate management.

Manager

3

Three managers were asked to answer the climate related risks and opportunities questionnaires

Risks

3

Three managers identified physical and transition climate-related risks and opportunities over short, medium and long terms time horizons.

TCFD

2

Two managers (Insight and Mercer) completed their climate risk disclosures in line with TCFD guidance and made their reports publicly available

Initiative

100%

All of the managers are signatories to various inventor-led industry initiatives related to addressing climate change.

All the investment managers contacted displayed a good understanding of climate related risks The responses received will provide a base line for future TCFD reporting disclosures

Measuring greenhouse gas emissions

Measuring greenhouse gas emissions is a key way for pension schemes to assess their exposure to climate change. Greenhouse gases are produced by burning fossil fuels, meat and dairy farming, and some industrial processes. When greenhouse gases are released into the atmosphere, they trap heat in the atmosphere causing global warming and contributing to climate change.

Greenhouse gases are categorised into three types or 'scopes' by the Greenhouse Gas Protocol, the world's most used greenhouse gas accounting standard.

Scope 1	Scope 2	Scope 3
All direct emissions from the activities of an organisation which are under their control; these typically include emissions from their own buildings, facilities and vehicles	These are the indirect emissions from the generation of electricity purchased and used by an organisation	All other indirect emissions linked to the wider supply chain and activities of the organisation from outside its own operations – from the goods it purchases to the disposal of the products it sells

Scope 3 emissions are often the largest proportion of an organisation's emissions, but they are also the hardest to measure. The complexity and global nature of an organisation's value chain make it hard to collect accurate data. .

Diversity of climate-related metrics and providers

The trustee acknowledges a diverse range of climate related providers is required to provide transparency and coverage of the portfolio. The Trustee have worked with its advisers to find a combination of data as well relevant benchmarks to assist in the disclosure of these metrics.

While the data is provided on a quarterly basis the Trustee notes that this data continues to evolve. As such while the overall trajectory of the scores provides insights into the climate risks associated with the Scheme, a direct comparison of year-on-year metrics must take account of the improvements in coverage overtime.


LOOKING FORWARD

We see climate change as one of the most significant challenges facing our pension scheme and the wider world today. The impacts of climate change are already being felt across the globe, and the need for action has never been more urgent. As responsible trustees, we recognize our duty to manage the risks and opportunities presented by climate change and take action to ensure the long-term financial security of our members.

We believe that addressing climate change is not only a moral imperative but also an economic opportunity. By investing in sustainable industries and adopting responsible environmental, social, and governance practices, we can mitigate risks associated with climate change and position ourselves to benefit from the growth potential of these industries. We are committed to exploring the potential opportunities presented by climate change and leveraging them to deliver sustainable long-term returns for our members.

We also recognize that tackling climate change requires a collective effort. As trustees, we are committed to working with our investment managers, policymakers, and other stakeholders to promote responsible environmental, social, and governance practices and drive progress towards a more sustainable future. By working together, we can make a positive impact on society and the environment while delivering sustainable returns for our members.