

Taskforce on Climate-related Financial Disclosures Report

Scottish Borders Council
Pension Fund

2024 Report



Committee Statement on Climate Risks and Opportunities

Chair statement on behalf of the Committee

The Committee acknowledges that climate change poses a financial risk to the Fund in the long-term, but it can also present new opportunities. Climate change is anticipated to have significant impacts on our members, financial markets, and society as a whole over the coming years. Therefore, the Committee recognises that it is our fiduciary responsibility to manage these risks and seize the opportunities. To fulfil this duty, we have implemented measures to ensure that climate considerations are thoroughly incorporated and embedded into our processes, procedures, and decision-making.

The Task Force on Climate-related Financial Disclosures ("TCFD") is an international institution that has developed a framework to improve and increase reporting of climate-related financial information. This report sets out our response and key actions across the four TCFD pillars: Governance, Strategy, Risk Management, and Metrics and Targets. It has been produced with reference to the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 and addresses the specific disclosure requirements outlined which are based on the recommendations of the TCFD. We expect similar regulatory guidance specific to LGPS in Scotland however this has not yet been published. However, the Committee have an ambition to report in line with TCFD as far as possible ahead of confirmed regulatory guidance given its importance to the Fund and evolve this reporting going forward once guidance is confirmed.

In the past, we established policies and procedures to establish a framework for handling this risk and capitalising on opportunities as the Fund progresses towards its long-term objectives. The primary focus regarding climate-related matters was to gain a comprehensive understanding of the Fund's current position and determine what can be accomplished in the future. As part of this effort, we conducted an analysis of all the relevant asset classes invested in by the Fund.

The Committee has prioritised reviewing the investment strategy of the Fund. This included implementing several mandates with greater focus on ESG considerations,

Given the public sector and transparent nature of the Fund's employers, climate change and its associated effects are key considerations for the Fund. The potential impact of climate change on Fund's demographics, particularly life expectancy, and the resulting financial effects have also been considered by the Fund's Actuary, however the focus of this report is on investment and the assets the fund holds.

Post Fund year end

The Committee has continued to work hard on understanding and mitigating climate risks and considering opportunities since March 2024, and continues to progress the Fund's position in this respect. As part of our most recent investment strategy review carried out in September 2024, the Committee ratified a formal allocation to "impact assets" within the portfolio. This saw us increase our investments in renewable infrastructure and timberland over Q1 2025 and are currently in the process of selecting a suitable mandate for our remaining impact allocation, which will make up c. 2% of total assets. (5% in total). The Committee intend to update the climate scenario modelling contained in this report once the impact allocation is fully in place.

In summary – the Committee is committed to ensuring the best outcomes for Fund members by addressing both the risks and opportunities associated with climate change, and by further developing the Fund's strategy for taking action on climate-related matters.

Pension Committee Chair of the Scottish Borders Pension Fund

Overview



Executive Summary

This report sets out the Committee's response and key actions across the four Task Force on Climate-related Financial Disclosures ("TCFD") pillars below.

Governance

Governance around climate-related risks and opportunities

- **Responsible Investment Policy** – The Committee maintains a Sustainable Investment Policy which sets out the Committee's views and beliefs in respects to sustainable investing.
- **Climate Delegation Framework** – Established by the Committee. Defines roles and responsibilities in relation to climate-related risk.
- **Meetings** – The Committee meets regularly and receives advisor support.
- **Training** – The Committee has received training on relevant climate risks and opportunities from its advisors.

Strategy

Actual and potential impacts of climate risks and opportunities

- **Time horizons** – The Committee has defined key time horizons for the Fund and considered how the Fund may develop over these periods.
- **Risks & opportunities** – The Committee has identified relevant climate-related risks and opportunities for the Fund over the selected time horizons.
- **Scenario analysis** – The Committee has conducted scenario analysis to assess the impact of an increase in the global average temperature on assets and liabilities and therefore the funding position of the Fund.
- **Covenant impact** – The Committee has considered how climate-related risks and opportunities could affect the Employers' covenant as part of the Actuarial Valuation.

Risk Management

Identification, assessment and management of climate-related risks

- **Investment managers** – Investment advisor monitors managers and reports to the Committee. This includes monitoring the risks and opportunities arising from climate change and how these are managed on an ongoing basis.
- **Materiality of risks** – The Committee, with the support of their Investment Advisor, assess how material climate-related risks are to the Fund's investment strategy and consider relevant opportunities.

Metrics & Targets

Disclosure of key metrics and targets

- **Metrics** – The Committee have selected four metrics to report on and collated data against these from the Fund's investment managers.
- **Targets** – The Committee have set an appropriate target with an initial focus on a relative improvement target across the chosen metrics and will be reviewed over time in line with regulations and best practice guidance.

Importance of Climate Change

Why is climate change important for our members?

The ever-present risks linked to climate change are increasingly affecting the global economy and financial markets. Consequently, we acknowledge that the future will bring significant changes for the Fund and its beneficiaries. As a result, climate change must be a central focus in our investment strategies and governing decisions.

The impact of global decarbonisation, which is necessary to combat climate change, presents both risks and opportunities for the Fund. Transition costs associated with decarbonisation are expected to be substantial, and continued global temperature rises could lead to physical damages. Therefore, we must appropriately manage climate-related risks across the Fund.

Currently, the world is still grappling with rising emissions, and we recognise that global changes are essential to limit global average temperature increases within safe thresholds. If these thresholds are surpassed, it could result in unprecedented consequences for our global society, economy, members, financial markets, and the Scottish Borders Council.

The global decarbonisation efforts and the potential broader impacts of climate change also offer opportunities for the Fund. The demand for low carbon alternative investments is expected to rise, and there is scope for the fund to make additional investments in renewables and natural capital or other climate adaptation or mitigation opportunities. When making investment decisions, we will evaluate the suitability of these opportunities in conjunction with other financially significant considerations.

Climate science

Greenhouse gas ("GHG") emissions arise from the burning of fossil fuels for purposes such as transport or power. Emissions released into the atmosphere cause warming due to a blanketing effect, impacting the entire climate system.

Current policies in place

Governments have agreed to the Paris Agreement to limit global average temperature rises to well below 2 °C, with ambitions towards 1.5 °C (versus pre-industrial levels). Further action is required in order to achieve the Paris Agreement goals.

The transition to a low-carbon economy

To decarbonise the global economy, policies, technologies and market preferences are expected to shift in favour of low-carbon solutions.

Physical risks from climate change

Physical risks will arise due to the impacts of climate change, including both sudden onset of natural disasters and slower shifts in weather patterns. Such risks are expected to scale up in the long term due to rising global average temperatures.

TCFD Overview (1)

Governance

Governance around climate-related risks and opportunities

We, the Committee, have agreed a climate delegation framework outlining the responsibilities to ensure climate-related risks and opportunities are well governed. The responsibilities across the Fund's stakeholders are summarised below:

Council – In its capacity as administering authority, the Council has delegated strategic responsibility for administration of the Pension Fund to the Pensions Committee. The Council governs the actions of the Pensions Committee and its Officers.

Pensions Board ("the Board") – The Board has a role to assist the Council and the Committee in securing compliance with legislation to the governance and administration of the Fund. This translates into a scrutiny role of the Committee and the decisions they take.

Pensions Committee ("the Committee") – Strategic responsibility for the administration of the Pension Fund, including the ongoing management of its climate-related responsibilities, lies with the Committee. The Committee, working with the Board and the Investment Advisor, provides oversight and manages ESG related risks to help the Fund execute its strategy and enhance long-term, sustainable financial stability.

Investment Advisor – The Investment Advisor provides climate-related advice, as well as training and updates on relevant climate-related matters, to the Committee. This covers the inclusion of climate considerations in the governance arrangements, investment strategy, risk management and monitoring.

Legal advisors – Providing training to the Committee on climate-related legal matters and assisting in the documentation of the arrangements with the Committee's third parties with respect to climate-related matters. Furthermore, legal advisors will provide a legal review of the Fund's annual TCFD report.

Fund Actuary – Assessing climate-related risks and opportunities in relation to the Fund's funding position over the short, medium and long term.

Investment Managers – The Committee has delegated responsibility to the Fund's investment managers for managing the Fund's assets in line with the agreed mandates. This includes identifying, assessing and managing climate-related risks and opportunities in relation to the Fund's investments, as well as engaging with portfolio companies and providing the agreed climate-related metrics for the Fund.

TCFD Overview (2)

Key (risk level):

Low

Medium

High

Strategy

Actual and potential impacts of climate risks and opportunities

Over the previous reporting year, noting the analysis remains appropriate for the current year, the Committee assessed and quantified the actual and potential impacts of climate risks and opportunities on the Fund’s investment strategy by identifying key time horizons relevant to the Fund which are detailed later in this report. The Committee has evaluated the potential risks and opportunities over these timeframes, including an analysis of the Fund’s position under three climate scenarios. The estimated magnitude of the potential impacts are illustrated using a colour coded rating across each timeframe and climate scenario. Further details on the actual and potential impacts of risks and opportunities are found in later pages in the report. The analysis will be updated for future reporting to account for the strategy changes detailed below, in particular the implementation of the impact allocation, once fully implemented in the portfolio.

Climate-related opportunities

Post-reporting period, as part of a wider investment strategy review, the Committee agreed to introduce a formal impact allocation to the Fund, making investments in Timberland and Renewable Infrastructure. The initial investments were funded over the reporting year and make up a small allocation (c. 1% to each asset class respectively) of the portfolio. In Q1 2025, the Committee increased the allocations to both asset classes to c. 2% and are in the process of selecting a suitable mandate for the remaining strategic allocation to impact. The Committee have also invested in ESG-aligned equity and infrastructure mandates, and a Social Housing property mandate.

Risk (Long Term, 20Y)	Equities	Diversified Alternatives	Property	Diversified Credit	Index-Linked Gilts	Private Credit	Infrastructure Equity	Infrastructure Debt
Transition risk (net zero scenario)								
Physical risk (current policies)								

TCFD Overview (3)

Risk Management

The identification, assessment and management of climate-related risks

To ensure risks are managed holistically, the Committee has a framework in place which includes analysis of climate risks at the Fund level and ensuring the Fund's investment managers are taking into consideration ESG risks and opportunities in alignment with the Committee's ESG beliefs.

Fund

The Committee regularly reviews the risk register and have received advice from the Fund's Investment Advisors on potential issues and mitigating actions referring to:

- Investment strategy
- Asset and investment manager allocations
- Funding

Along with the risk register, the Committee receives regular advice from the Fund's advisors on climate considerations.

Underlying investment mandates

The Committee regularly reviews the investment managers' ESG capabilities. The Investment Advisor provides an ESG assessment of each of the Fund's mandates on an annual basis. This results in mandate- and Fund-level ESG and climate scores. The Investment Advisor, on behalf of the Committee, uses the results of these assessments to engage with the Fund's investment managers on any areas of improvement.

TCFD Overview (4)

Metrics & Targets

Disclosure of key metrics and targets

The Committee has selected, gathered and assessed the four climate metrics in the table below. The results are used to assess the Fund’s progress relative to the targets that have been determined by the Committee, guide decision making, and as an important consideration for future investment strategy discussion and considerations.

The Committee has adopted a “relative improvement” target for each metric as opposed to absolute or fixed targets. The Committee continue to monitor and review annually, via our investment advisor, the Fund’s progress in relation to the agreed climate metrics to assess whether the targets set are being met and assess the continued appropriateness of the metrics being monitored. Additionally, the Committee monitor the current targets to ensure these remain appropriate or if any changes are required. For example, consider adopting a formal science-backed decarbonisation target once data coverage is at a sufficient standard and if appropriate for the Fund.

Through our investment advisor, the Committee engage with the investment managers to continue to drive improvements in data availability and reporting quality and engage with the investment managers of the highest emitting mandates to assess their direction of travel and whether further action is needed.

Metrics Data as at 30 June 2024	Total GHG emissions (scope 1 & 2)		Total GHG emissions (scope 3)		Carbon Footprint (scope 1 & 2)		Carbon Footprint (scope 3)		Implied Temperature Rise		Climate Engagements	
	Metric tCO2e	Coverage	Metric tCO2e	Coverage	Metric tCO2e/\$m	Coverage	Metric tCO2e/\$m	Coverage	Metric	Coverage	Metric	Coverage

Total Portfolio	25,316.5	70%	133,084.8	72%	40.6	70%	229.3	72%	2.1°C	38%	1,552	59%
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Next Steps

Opportunities

We frequently review investment opportunities to better integrate climate considerations into the investment strategy for the Fund. In 2024, as part of the triennial strategy review, we ratified a formal allocation to impact assets. As part of this, we increased the existing investments in Renewable Infrastructure and Timberland and are in the process of selecting a suitable mandate for the remaining strategic impact allocation, expected to be funded in Q4 2025. We are also reviewing potential local, social impact investments opportunities which would further improve the Fund's ESG impact. We will continue to consider new opportunities in this space that can be integrated within our future investment strategy.

Data improvements

We recognise that high-quality data relating to climate metrics is important for feeding into our decision-making. We will continue engaging with the Fund's investment managers, via our Investment Advisors, to collaborate on improving the quality and availability of climate data.

Target evolution

The Committee has adopted "relative improvement" targets to monitor climate-related metrics against. The appropriateness of these targets will continue to be assessed, at least annually, to consider whether any changes are required. We seek to have a long-term, forward-looking view on target setting that can feed into our strategic thinking. As part of this, we will also monitor when LGPS regulatory guidance becomes clear and once data quality and coverage improves sufficiently will consider adopting a formal science-backed decarbonisation target if appropriate.

Risk and Opportunities

We recognise, in our position within Local Government, the importance of the Fund investing in opportunities which help drive a transition to a low carbon economy. We will continue working with the Committee and their Investment Advisors to better understand the potential risks and opportunities and the possible impact of these on the Fund's investment strategy. Further information on the Committee's actions and goals are provided later in the report.

TCFD Pillars



Governance

Governance (1)

Describe the Pension Fund's Committee oversight of climate-related risks and opportunities

The Committee maintains a Responsible Investment Policy which sets out our views and beliefs in respect of responsible investing and provides a framework to the Fund's advisors to ensure consistent implementation of our views for the Fund.

Key Beliefs of the Responsible Investment Policy

Risk Management ESG factors should be considered throughout the investment process as it is likely to lead to better risk-adjusted outcomes.	Approach/Framework The Committee seeks to understand how managers integrate ESG into their investment process, believing sectors that provide a positive impact will outperform over the longer term.	Stewardship The Committee believe engaging on ESG issues is more effective for initiating change than divesting and that investment managers have a responsibility to engage with companies on ESG factors,	Reporting and Monitoring The Committee will monitor key ESG metrics within the portfolio against our targets to understand the impact of our investments and will continue to develop our knowledge as ESG factors evolve.	Collaboration Investment managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices.
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Oversight responsibilities of the Fund's Pension Committee

The Scottish Borders Council, in its capacity as administering authority, has delegated strategic responsibility for administration of the Pension Fund to the Pensions Committee, therefore overall responsibility and the general ongoing management of the Fund's assets lies with the Fund's Pension Committee, along with the responsibility of ensuring Fund-level climate-related risks and opportunities are well governed. The Committee, working with the Investment Advisor, provides oversight and manage ESG and climate-related risks to help ensure regulatory requirements are satisfied. On a quarterly basis, the Committee receives updates on the Fund's investments from the Fund's Investment Managers, including data on ESG metrics and progress against any targets set in relation to these metrics. Regularly, with the assistance of the investment advisors, the Fund's Climate Governance Policy and Responsible Investment Policy will be reviewed. Climate related risk management capabilities will be factored into the selection, review and monitoring of investment managers including ensuring climate-related risks and opportunities associated with the Fund's investments are properly managed.

Climate-related training

The Fund's Investment Advisors provides climate-related training to the Committee annually. In 2024, training focused on one of the four pillars of TCFD: Metrics and Targets, and outlined the next steps on TCFD reporting and meeting TCFD regulations, including the impacts of climate risks and key climate-related metrics. The Committee also receives ongoing training on current ESG concerns and climate science developments. In 2024, the training provided an overview on impact investing and how to effectively assess the stewardship efforts of the Fund's investment managers, Utilising training and the experience of professionals also increases the Committee's ability to make informed decisions.

Governance (2)

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

Climate Delegation Framework

In 2022, the Committee agreed an initial Climate Delegation Framework which set out the roles and responsibilities of various stakeholders for managing climate-related risks and opportunities. This framework is reviewed on an ongoing basis, however ultimately the governance of Fund-level climate-related risks and opportunities lies with the Committee. The table below summarises the detail from the Climate Delegation Framework, which sets out how the Fund is governed by its various stakeholders and how these stakeholders collaborate in a comprehensive manner.

Roles and Responsibilities

Pensions Committee	- Receiving regular training on climate related risks and opportunities to ensure it has the level of understanding required to meet statutory and fiduciary obligations. - Incorporating climate-related considerations into the Fund's Responsible Investment policy, ongoing risk management and monitoring. - Identifying climate-related risks and opportunities for the Fund and setting monitoring metrics to conduct assessment and management.	Investment Advisors	- Advising on the inclusion of climate considerations in the Fund's governance arrangements, investment strategy, risk management and monitoring by working with the Committee and its other advisors. - Assisting the Committee in the selection and monitoring of appropriate climate-related metrics and targets in relation to the Fund's investments, including engaging with the Fund's investment managers regarding the provision of the agreed metrics.
Scottish Borders Council	The Council, in its capacity as administering authority, has delegated strategic responsibility for administration of the Pension Fund to the Pensions Committee. The Council governs the actions of the Pensions Committee and its Officers.	Legal Advisor	- Providing training to the Committee on climate-related legal matters, including, ensuring the Committee is aware of its climate-related statutory and fiduciary obligations. - Assisting in the documentation of the arrangements with the Committee's third parties with respect to climate-related matters. - Provide a legal review of the Fund's annual TCFD report.
Pensions Board	The Pensions Board has a role to assist the Council and the Committee in securing compliance with legislation relating to the governance and administration of the Fund.	Investment Managers	- Identifying, assessing and managing climate-related risks and opportunities in relation to the Fund's investments. - Exercising voting rights and engaging with portfolio companies in relation to climate-related risks and opportunities. - Providing climate-related metrics to the Fund's Investment Advisors in relation to the Fund's investments with a focus on quality.
Fund Actuary	Assessing climate-related risks and opportunities in relation to the Fund's funding position over the short, medium and long term and the implications for the Fund's funding and long-term objective.		

Strategy

Strategy (1)

Introduction to climate scenarios chosen – slides 19 and 20 describe the resilience of the Fund's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Climate scenarios are hypothetical futures, which can apply different levels of climate action and produce a unique combination of physical and transition risk.

Transition risks – risks arising from the transition to a low-carbon economy, which are expected to be strongest in the short term given climate-related regulatory developments, market trends and decarbonisation action. The timing and the speed of the transition are important in determining the extent of costs.

Physical risks – risks arising from the physical impacts of climate change (including both sudden natural disasters and slower shifts in weather patterns), which are expected to scale up in the long term as global average temperatures increase.

The Committee has assessed the potential impacts on the Fund's assets under three different climate scenarios defined by the Network for Greening the Financial System ("NGFS"), interpreted and modelled by Moody's Analytics, and explicitly referenced in the Department for Work and Pensions TCFD guidance. The Committee, in conjunction with its Investment Advisors, chose these scenarios to provide a balanced set of hypothetical constructs with which to analyse the potential risks and opportunities across the Fund's portfolio. Forward looking analysis always involves uncertainty, however these scenarios help to examine different possible outcomes in terms of emissions, global average temperatures, and associated transition and physical risks, for example. The appropriateness of these scenarios will be considered by the Investment Advisor annually, and the chosen scenarios updated over time if necessary.

Net Zero 2050

- Paris aligned scenario – temperatures kept to a 1.5°C rise this century.
- CO2 emissions reach net zero in 2050 globally, but only some regions achieve global GHG net zero by 2050.
- Immediate global action applied uniformly to decarbonise hence relative high transition costs incurred, particularly in the near term.
- Physical damages are minimised.

Divergent Net Zero

- Paris aligned scenario – temperatures kept to a 1.5°C rise this century.
- Divergence in decarbonisation policies across sectors results in higher transition costs e.g. the transport and building sectors instil more stringent climate policies than the energy and industrial sectors.
- Physical damages are minimised.

Current Policies

- World largely fails to meet the ambition set out in the Paris Agreement, resulting in 3.8°C of warming this century.
- Current global climate policies are implemented, but no further ramping up of climate policy ambition over time, resulting in lower transition costs.
- Higher physical risks arise due to rising global temperatures, with shifts in weather patterns and an increased incidence of natural disaster.

The Committee accepts there are limitations involved within investment strategy modelling given the potential uncertainty and assumptions underlying the modelling. The Committee therefore uses the scenario analysis for comparative and directional purposes rather than analysing the absolute magnitude of the results. The scenario analysis was carried out for the previous reporting period, with the analysis remaining appropriate for the current reporting year. Further detail can be found in the appendix.

Strategy (2)

Introduction to timeframe horizons chosen - slides 19 and 20 describe the climate-related risks and opportunities the Committee has identified over the short, medium and long term

Agreed timeframes

Climate considerations differ depending on the timeframe in question; we have identified timeframes that are relevant to the Fund and considered material climate-related risks and opportunities under each of these. We have identified the following timeframes via a blended view of the climate outlook, membership demographics, the funding position, the long-term objective, and the ability to pay benefits. Transition risks are expected to be greater in the shorter term, however in the longer term we would expect physical risks to become more apparent.

Timeframe	Investment Horizon			Climate Horizon			Risks to Assets
Short term <i>3 years</i>	Actuarial review cycle	Review of target asset allocation	Potential de-risking	Improvement in data quality	Government responses to COP27	Decarbonisation targets	Transitional risks such as the costs associated with global decarbonisation anticipated
Medium term <i>10 years</i>	Target for significant funding improvement and increased stability			Companies hitting interim 2030 targets		Monitor progress against 2050 net zero	
Long term <i>20 years</i>	Approximate duration of the Fund's liabilities			Physical damages starting to be incurred		Continue to monitor progress against 2050 net zero	Physical risks such as damage to assets caused by extreme weather events anticipated
Very Long-term <i>50 years</i>	Fund is open to new members and accrual	Longest term liabilities are 50yrs +		Long term physical damages incurred, most severe under current policies		Impact of Net Zero by 2050 targets	

Strategy (3)

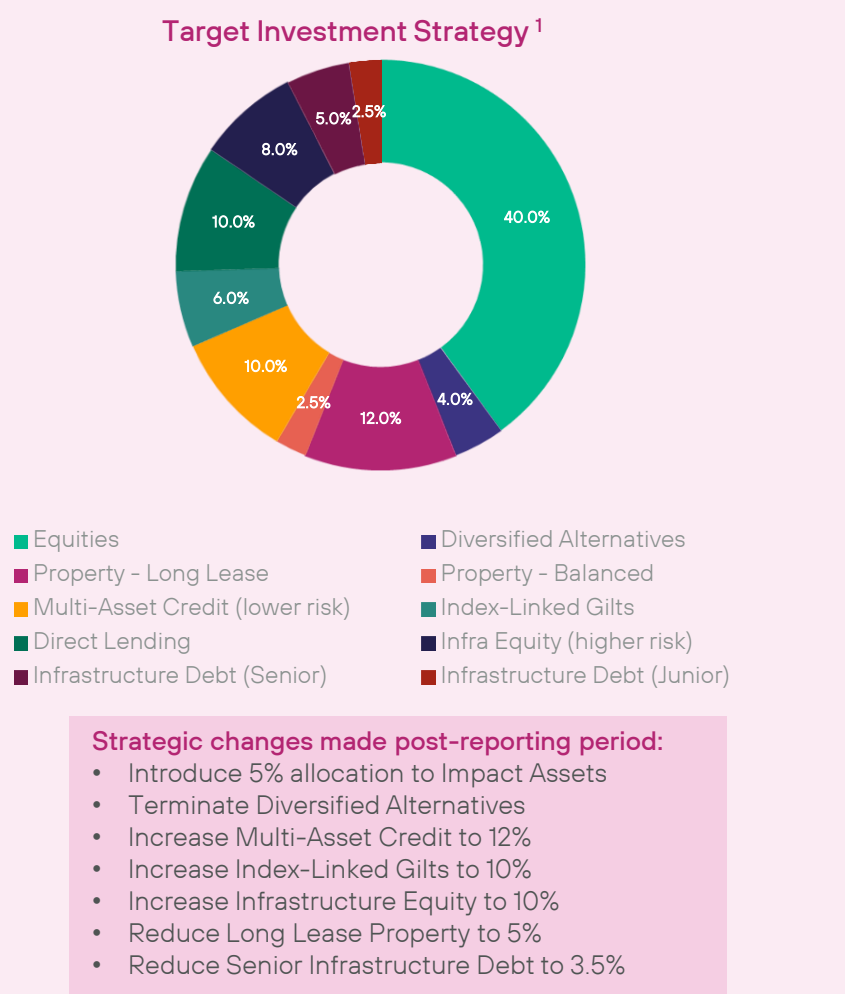
Describe the climate-related actions and opportunities the Committee has identified over the short, medium and long term

Investment Strategy

- Over the reporting period, the Fund implemented new pooled investments in Renewable Infrastructure and Natural Capital, specifically, Timberland, with the intention that these mandates would form the seed investment of a future strategic “impact” allocation. The Fund invested c.1% of Fund assets in each mandate in Q4 2023.
- The strategy shown to the right was used in the scenario modelling included in the report. Post-reporting period, the Committee agreed a revised strategy, detailed below. Scenario analysis based on the revised strategy will be shown as part of the next iteration of the report, once this has been fully implemented.

Opportunities Post Year End

- As part of the property portfolio restructure agreed as part of the 2021 investment strategy review, the Committee agreed to introduce a residential property mandate, committing to an affordable housing mandate. The Fund’s commitment was called in full post-reporting period in May 2024, for c.2.5% of Fund assets.
- Following the Fund’s triennial investment strategy review in September 2024, the Committee agreed to a formal 5% strategic allocation to impact assets. The Committee received formal ESG training in November 2024, and as part of this, considered potential structures for the new impact portfolio. It was agreed to scale the existing renewable infrastructure and timberland allocations to c.2% of assets each, with the top-up investments being made in Q1 2025.
- The Committee are in the process of selecting a suitable investment opportunity for the remaining strategic allocation to the impact portfolio, with the expectation that this will be via a diversified mandate which will provide the Fund with exposure to various impact sectors. This is expected to be selected and implemented over the coming months.



¹ The target investment strategy was revised post-reporting period following completion of the triennial investment strategy and asset allocation review. The revised strategy will be shown in the next iteration of the report.

Strategy (4)

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

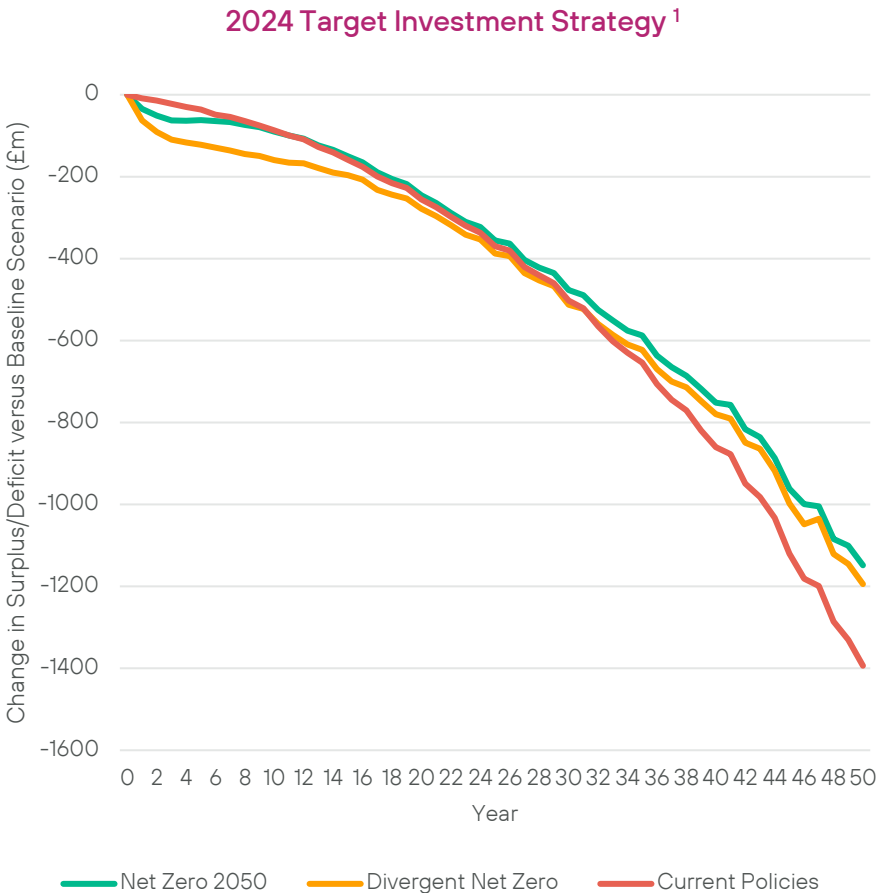
Climate scenario analysis: total portfolio – impact on funding position relative to baseline scenario

- Under all climate scenarios, the Fund’s funding position is expected to deteriorate relative to the baseline scenario which assumes there are significant physical or transitional costs from climate change. Over the 50-year time horizon, the surplus and asset portfolio values for the baseline scenario are expected to have increased significantly.
- Over the shorter and medium term, the costs associated with the transition to a lower carbon economy are pronounced within the Net Zero 2050 and Divergent Net Zero scenarios. This reinforces the focus on investing in companies that are prepared for the transition to Net Zero. If the world fails to transition to a low carbon economy, the Current Policies scenario depicts the start of significant physical impacts, with temperatures reaching a 2.4°C rise above pre-industrial levels by the end of 2050.

Scenario	3 years	10 years	20 years	50 years
	Expected change in funding position compared with the Baseline scenario			
Net Zero 2050	-£63m	-£90m	-£246m	-£1,149m
Divergent Net Zero	-£110m	-£159m	-£279m	-£1,195m
Current Policies	-£22m	-£87m	-£256m	-£1,394m
Scenario	Projected Surplus/Deficit (£m, median)			
Net Zero 2050	£206m	£363m	£636m	£2,067m
Divergent Net Zero	£159m	£294m	£603m	£2,021m
Current Policies	£247m	£366m	£626m	£1,822m

The Baseline scenario assumes no transition or physical impacts of climate change i.e. a climate neutral scenario.
Source: Isio, Moody’s. This is based on stochastic modelling, with the median outcome shown. Liabilities are modelled on a gilts +3.1% basis.
Whilst we have modelled the potential physical and abatement costs over the next 50 years, in theory, markets may price these in sooner.
The model’s projections are sensitive to the underlying methodology and assumptions. No guarantee can be offered that actual outcomes will fall within the range of simulated results. Due to the long projection period, the model’s outcomes are particularly reliant upon the underlying assumptions. Therefore, more attention should be paid to the relative comparisons between different projections than to the absolute magnitude of the results.

¹The target investment strategy was revised post-reporting period following completion of the triennial investment strategy and asset allocation review. Scenario analysis based on the revised strategy will be shown in the next iteration of the report.



Strategy (5)

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

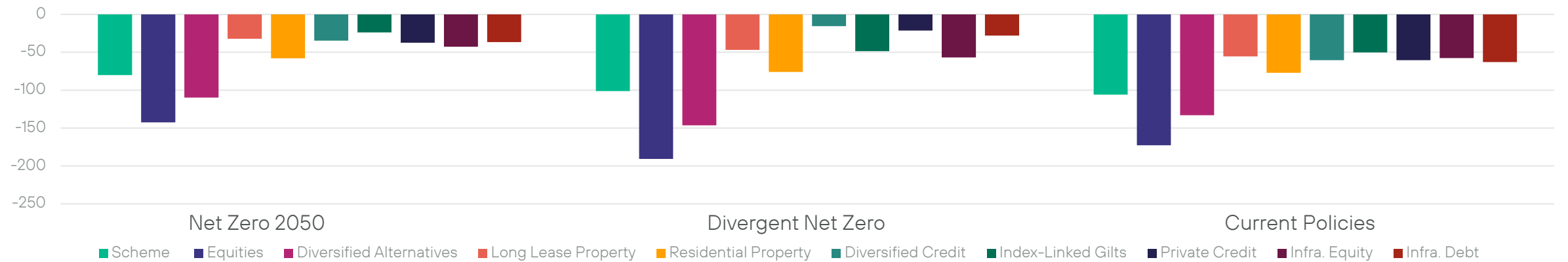
Climate scenario analysis: total portfolio – impact on asset classes

The long-term time horizon also shows the intersection of decelerating decarbonisation risks and accelerating physical risks. The Net Zero and Divergent Net Zero scenarios continue to show negative embedded investment drags from the world seeking to meet 2050 net zero commitments, with physical risks starting to become dominant.

The Fund’s equity allocation is significantly exposed to climate risks and is the most sensitive to potential impacts from climate change across all the climate scenarios while Index-Linked Gilts are expected to be the most resilient.

Whilst the significant impacts of the physical costs of rising global temperatures (with temperature rise reaching 2.4°C under the Current Policies scenario) can be seen over the very long-term (50 years), a Net Zero 2050 strategy will produce the lowest costs return drag across the vast majority of asset classes.

The return drag of the asset classes that feature in the Fund’s proposed investment strategy under different climate scenarios relative to the Baseline scenario (ann. bps) at year 20.



The Baseline scenario assumes no transition or physical impacts of climate change i.e. a climate neutral scenario.
Source: Investment Advisor, Moody's. This is based on stochastic modelling, with the median outcome shown.
Whilst we have modelled the potential physical and abatement costs over the next 20 years, in theory, markets may price these in sooner.
The model's projections are sensitive to the underlying methodology and assumptions. No guarantee can be offered that actual outcomes will fall within the range of simulated results. Due to the long projection period, the model's outcomes are particularly reliant upon the underlying assumptions. Therefore, more attention should be paid to the relative comparisons between different projections than to the absolute magnitude of the results.
The target investment strategy was revised post-reporting period following completion of the triennial investment strategy and asset allocation review. Scenario analysis based on the revised strategy will be shown in the next iteration of the report.
Document Classification: Confidential | 20

Strategy (6)

Low Impact

Average Impact

High Impact

Describe the impact of climate-related risks and opportunities on the Fund's assets

Materiality of climate-related risks and opportunities

The Committee, in conjunction with its Investment Advisor, has used a Red, Amber, Green rating scale to illustrate the likely magnitude of the potential impacts of climate-related risks and opportunities across the different time horizons agreed.

Assets – The Fund's assets are relatively well diversified and are expected to react differently to various climate scenarios. Equities are the stand-out risks over the longer-term horizons, particularly under current policies as physical risks have a strong impact, while diversified alternatives are also less well prepared for the transition. Index-Linked Gilts are the most resilient asset class when facing climate-related risks. The impact is expected to change over the longer term as the Committee revisits the climate considerations of the portfolio.

As shown in the table below, the initial focus has been on the impact on the Fund's assets given the nature of LGPS funds, but it is expected consideration will be given to the impact on mortality and covenant in due course.

Assets									
Risk	Time frame	Equities	Diversified Alternatives	Property	Diversified Credit	Index-Linked Gilts	Private Credit	Infrastructure Equity	Infrastructure Debt
Transitional (net zero scenario*)	Short term (3 years)								
	Medium term (10 years)								
	Long term (20 years)								
	Very Long term (50 years)								
Physical (current policies scenario)	Short term (3 years)								
	Medium term (10 years)								
	Long term (20 years)								
	Very Long term (50 years)								

Risk Management

Risk Management

Risk Management (1)

Describe the Committee’s processes for identifying, assessing and managing climate-related risks

Climate-related risk management process

The Committee’s climate-related risk management process is depicted below. The process is designed to allow identification of the most material/significant risks for the Fund and the development of controls and processes to manage these. This is an iterative process which is designed to be evolved over time.



Risk Management (2)

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

Risk Register

In August 2022, the Committee agreed the following additions to the Fund’s ongoing governance and risk management processes.

	Potential risk	Potential control measures
Investment managers	- Investment managers do not adequately integrate financially material ESG factors (including climate risks) in their risk management framework. - Investment managers do not adopt effective stewardship: e.g. using voting rights (if applicable) and engagement to improve management of climate factors by investee entities, or do not collaborate to encourage best practice in addressing systemic climate risks. - Investment managers do not consider potential investment opportunities, which may be expected to benefit from climate change and provide upside opportunity for the portfolio, or individual asset classes, such as exposure to decarbonising companies and investing in specific climate solutions (e.g. renewables) or physically resilient solutions (e.g. infrastructure).	- There should be a monitoring framework in place to review whether the investment managers are in-line with the Fund’s climate change policies - Investment Advisors monitor managers and reports to the Committee. This may include, but is not limited to, monitoring managers and asset classes on the risks and opportunities that arise from climate change and how these are managed on an ongoing basis.
Materiality of risks	- Investment managers not acting in a responsible and sustainable way where the investment activities have a material impact on the environment. - Lack of commitment to ESG principles from the managers. - Lack of clarity to determine risk materiality between different asset classes for investment strategies which involve several investment types. - Investment managers do not carry/provide sufficient assessment for risks listed by TCFD.	- Assessment of how material the identified risks are to the Fund’s strategy (this may vary by asset class/investment type) - Recommended that all risks listed by TCFD are assessed as well as any additional climate risk factors considered material.

Risk Management (3)

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

Assessing investment managers

Whilst the Committee retains overall responsibility, the Committee delegates day-to-day management of the investments to investment managers, and the Committee expects the managers to be identifying, assessing and managing climate-related risks on an ongoing basis on the Committee’s behalf.

The Investment Advisor provides the Committee with an annual assessment report that assesses each of the underlying managers with regard to the managers’ ESG capabilities, where each mandate is allocated an ESG score of between 0 and 5 as well as an explicit climate score. Example criteria for this assessment under each area are shown below. While the Committee relies on its Investment Advisor, it ensures alignment to their view through the annual advisor review process.

The Committee also monitors the investment managers’ approaches to climate-related risks, including voting and engagement activity, via the annual Implementation Statement.

Assessment category	Example evaluation criteria
Investment approach	Are the fund's climate objectives quantifiable with interim targets set?
Risk management	Does the manager have a dedicated individual within the ESG team with responsibility for oversight of the climate change policy?
Stewardship	Can the manager provide a case study example demonstrating effective engagement on climate-related issues?
Reporting	Does the manager undertake forward-looking climate scenario modelling and is this published in quarterly reports?
Collaboration	Is the manager a member of the UN Net Zero Asset Owner Alliance? If not, is there a valid reason why?

Stewardship Activity

The Committee recognises the importance of stewardship in driving change both across investee companies as well as across the wider pensions industry.

The Committee delegates stewardship responsibilities (including voting and engagement) to its investment managers, and the managers should engage and vote on all issues, including climate, in the best interests of the Fund’s members. Notable stewardship activity is published in the Fund’s annual Implementation Statement.

Risk Management (4)

Disclose latest ESG assessment results of the Fund’s mandates

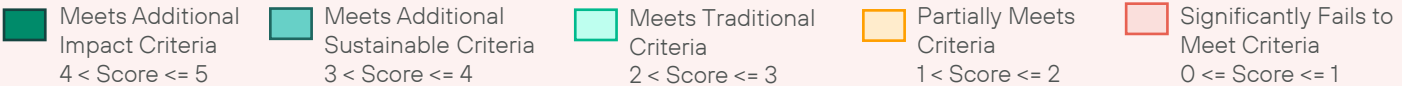
Assessing investment managers – Impact assessment

We completed our annual ESG assessment of the Fund’s mandates for the 2024 reporting year, with the results being reviewed at our Committee meeting in February 2025. In our most recent review, all the Fund’s mandates received at least satisfactory ratings, meaning that the mandates had a good baseline from a climate perspective. The Fund’s impact assets: timberland and renewable infrastructure, scored well from a climate perspective, positively contributing to the overall climate rating for the Fund. The following table summarises our latest climate scores for each of the Fund’s mandates.

Mandates	Climate Score 2024
UK Active Equity	
Global Active Equity (Paris-Aligned) – Manager 1	
Global Active Equity – Manager 2	
Global Passive Equity (ESG-aware) – Manager 1	
Long Lease Property	
Residential Property	
Infrastructure	
Renewable Infrastructure	
Timberland	

Mandates	Climate Score 2024
Multi Asset Credit	
Index Linked Gilts	
Direct Lending – Manager 1	
Direct Lending – Manager 2	
Infrastructure Debt	
Total Portfolio	

Notes: The Fund’s Multi Asset Manager and the legacy Balanced Property manager were not included as part of the 2024 ESG assessment, as the Fund is in the process of divesting from the mandates.



Metrics and Targets

Metrics and Targets

Metrics and Targets (1)

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

Climate metrics selection

The Committee selected and monitored four climate metrics during 2024/2025 for the Fund:

1. **Absolute emissions metric:** Total greenhouse gas emissions (scope 1-3)
2. **Emissions intensity-based metric:** Carbon footprint (scope 1-3)
3. **Portfolio alignment metric:** Implied temperature rise ("ITR")
4. **Additional climate change metric:** Climate-related engagements

The process of selecting these metrics for monitoring focused on two key aspects: 1) **level of impact** and 2) **availability of data**.

Level of impact

The metrics were chosen based on their potential value add to the Committee's decision making. Greenhouse gas ("GHG") emissions are a key driver of climate change. These result from a number of economic activities, primarily as a result of burning fossil fuels. The gases contribute to the increased retention of the sun's energy, resulting in a "greenhouse effect" where the Earth is warmed. Slowing and reducing the release of GHGs into the atmosphere is therefore important. Due to improved data availability and reporting, scope 3 emissions were also monitored over 2024/25.

Whilst it's important to consider emissions to date, it's also important to assess how these could evolve into the future. We have chosen ITR, expressed in degrees Celsius (°C), in order to estimate the global implied temperature rise if the whole economy was invested according to our strategy. This ensures we have a longer-term focus for our climate-related decision making.

Availability of data

The Investment Advisors gathered this data from the Investment Managers on behalf of the Committee. The quality of this information is important to allow robust decision making and target setting. Whilst data quality is broadly satisfactory, the Fund's investment strategy invests in a relatively high proportion of illiquid and alternative asset classes, which explains relatively low coverage as these asset classes tend to lag public market equivalents in terms of data coverage. The Investment Advisor will engage with Investment Managers to seek future improvements in data quality and coverage and we also expect natural improvement as illiquid investments roll off. The Committee acknowledges that data gathering is reliant on the Investment Managers' processes and reporting standards may vary. Therefore, any decisions taken should be based on directional movements rather than exact numbers.

Monitoring

The Committee will assess these metrics at least annually to monitor climate-related risks, and as a tool to engage with the Investment Managers.

More detail on how the metrics are defined can be found in the appendix.

Metrics and Targets (2)

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

The Committee last gathered climate metrics for the Fund as at 30 June 2024 (or the data at the best-available proximate date) and the results are set out on the following page. Results presented display reporting results for all four metrics as at 30 June 2024, compared to the position as at 30 June 2023.

This helps to set a baseline against which future action can be measured, so that trends over time and problem areas within the portfolio can be understood.

As the Fund transitions to a more climate-aware strategy, it would be helpful to use the following carbon emissions as a baseline to monitor progress against a decarbonisation target. Similarly, the Committee will measure the carbon efficiency of our portfolios using the Fund's carbon footprint metric.

We note the Fund is not currently Paris-aligned as the weighted Implied Temperature Rise is 2.1°C, however, noting that coverage remains limited. The Committee, via our Investment Advisor, will continue to engage with the Investment Managers to improve data coverage.

Metrics and Targets (3)

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

	Total GHG emissions (scope 1 & 2)				Total GHG emissions (scope 3)	
	30 June 2023		30 June 2024		30 June 2024	
	Metric, tCO ₂ e	Coverage	Metric, tCO ₂ e	Coverage	Metric, tCO ₂ e	Coverage
Total Portfolio	56,291.8	68%	25,316.5	70%	133,084.8	72%

	Carbon footprint (scope 1 & 2)				Carbon footprint (scope 3)	
	30 June 2023		30 June 2024		30 June 2024	
	Metric, tCO ₂ e/ \$1m of EVIC	Coverage	Metric, tCO ₂ e/ \$1m of EVIC	Coverage	Metric, tCO ₂ e/ \$1m of EVIC	Coverage
Total Portfolio	102.2	68%	40.6	70%	229.3	72%

	Implied Temperature Rise			
	30 June 2023		30 June 2024	
	Metric	Coverage	Metric	Coverage
Total Portfolio	2.1°C	55%	2.1°C	38%

	Climate-related Engagements			
	30 June 2023		30 June 2024	
	Metric	Coverage	Metric	Coverage
Total Portfolio	409	62%	1,552	59%

From the tables above, we can observe significant improvements in metrics and data coverage for carbon emissions as at 30 June 2024 compared to the previous reporting date. Notably, however, while the ITR (a forward-looking metric) remained consistent, the coverage of the metric significantly deteriorated. This is in part due to managers’ concerns around the current quality of data and calculation methodology for the metric. It is challenging to draw meaningful conclusions given the low coverage and different methodologies used. We are continuing to engage with the Fund’s investment managers to drive improvements in data availability and reporting quality to allow for more meaningful comparison in future.

Metrics and Targets (4)

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

Target setting

The Committee has set, with support from its investment advisor, an initial relative improvement target across the chosen metrics, with a focus on carbon footprint (given it is normalised, as opposed to absolute emissions) as well as an improvement in data coverage.

We believe the target can be achieved through:

- 1. Consideration of the implications for TCFD metrics, when selecting future investments.
- 2. Targeted engagement with the Fund's investment managers with the support of our investment advisor.
- 3. The natural roll-off of private assets with the subsequent investment into liquid or newer vintage private market investment opportunities.

As shown, both the Fund's carbon footprint and data coverage has improved compared to the baseline. The Committee will continue to monitor the Fund's progress against the target annually via our Investment Advisor.

As part of the targets evolution, we will monitor when LGPS regulatory guidance becomes clear and once data quality and coverage improves sufficiently, we will consider adopting a formal science-backed decarbonisation target if appropriate for the Fund.

	Baseline 30/06/2023 ¹	Current Year 30/06/2024	Target
Carbon Footprint (Scope 1 & 2)	102.2	40.6	Year on year improvement
Carbon Footprint (Scope 3)	N/A	229.3	Year on year improvement
Data coverage (Scope 1 & 2)	68%	70%	Year on year improvement
Data coverage (Scope 3)	N/A	72%	Year on year improvement

2024 reporting year was the first year the Fund reported on Scope 3 emissions. We do not have emissions data for 2023 to compare against.
¹Baseline figures have been restated to reflect additional information provided by investment managers.

Appendix

Strategy Modelling Principles and Limitations

Modelling principles

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

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

Based on the scenarios generated by the ESG, the model simulates asset class returns calibrated to the asset class assumptions.

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

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

Modelling limitations

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

No guarantee can be offered that actual outcomes will fall within the range of simulated results.

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

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

Strategy

Climate scenario analysis

The Fund's Investment Advisor partnered with Moody's to deliver a climate change model. Please see below an overview:

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

Metrics and Targets – GHG and Carbon Footprint (1)

Climate metrics for the Fund at 30 June 2024 (or the data at the best-available proximate date).

Mandates	Total GHG emissions (scope 1 & 2)		Total GHG emissions (scope 3)		Carbon footprint (scope 1 & 2)		Carbon footprint (scope 3)	
	Metric, tCO ₂ e	Coverage	Metric, tCO ₂ e	Coverage	Metric, tCO ₂ e/ \$1m of EVIC	Coverage	Metric, tCO ₂ e/ \$1m of EVIC	Coverage
Total Portfolio	25,316.5	70%	133,084.8	72%	40.6	70%	229.3	72%
UK Equity	2,822.9	99%	17,619.2	99%	22.9	99%	143.5	99%
Global Active Equity (Paris-Aligned) – Manager 1	1,278.6	100%	12,179.5	100%	36.5	100%	347.2	100%
Global Active Equity – Manager 2	369.3	98%	10,779.0	86%	3.6	98%	116.6	86%
Global Passive Equity (ESG-aware) – Manager 1	3,064.5	98%	58,241.1	98%	26.7	98%	510.6	98%
Diversified Alternatives	1,058.6	66%	3,927.2	37%	37.6	66%	248.1	37%
Long Lease Property	-	-	2,130.0	77%	-	-	22.9	77%
Residential Property	-	-	2,664.2	78%	-	-	277.4	78%
Multi Asset Credit	3,172.8	61%	12,951.1	52%	74.0	61%	540.0	52%
Index Linked Gilts	44.1	2%	148.2	2%	54.0	2%	180.0	2%
Infrastructure Debt – Mandate 1	4,752.3	100%	3,670.9	100%	135.9	100%	104.9	100%
Infrastructure Debt – Mandate 2	4,300.1	100%	3,884.1	73%	290.4	100%	262.3	73%
Infrastructure Equity	3,573.8	100%	-	-	84.3	100%	-	-

Source: Investment managers.
Notes: Totals may not sum due to rounding. UBS Property (due to the fund being in wind down), direct infrastructure investments (held in conjunction with the Lothian Pension Fund) and the cash allocation is not covered. The managers are not scaling up emissions where coverage is not 100%.

Metrics and Targets – GHG and Carbon Footprint (2)

Climate metrics for the Fund at 30 June 2024 (or the data at the best-available proximate date).

Mandates	Total GHG emissions (scope 1 & 2)		Total GHG emissions (scope 3)		Carbon footprint (scope 1 & 2)		Carbon footprint (scope 1 & 2)	
	Metric, tCO ₂ e	Coverage	Metric, tCO ₂ e	Coverage	Metric, tCO ₂ e/ \$1m of EVIC	Coverage	Metric, tCO ₂ e/ \$1m of EVIC	Coverage
Total Portfolio	25,316.5	70%	133,084.8	72%	40.6	70%	229.3	72%
Direct Lending – Mandate 1	2.0	3%	0.0	3%	1.2	3%	0.0	3%
Direct Lending – Mandate 2	3.5	6%	287.9	6%	0.2	6%	14.8	6%
Direct Lending – Mandate 3	1.5	1%	42.3	1%	1.0	1%	28.9	1%
Direct Lending – Mandate 4	183.3	100%	2,442.6	100%	22.9	100%	305.0	100%
Direct Lending – Mandate 5	111.1	100%	576.8	100%	4.5	100%	23.4	100%
Timberland	570.4	100%	241.2	100%	53.5	100%	22.6	100%
Renewable Infrastructure	7.5	100%	1,256.3	100%	0.9	100%	145.0	100%
Not covered	-	-	-	-	-	-	-	-

Source: Investment managers.
 Notes: Totals may not sum due to rounding. UBS Property (due to the fund being in wind down), direct infrastructure investments (held in conjunction with the Lothian Pension Fund) and the cash allocation is not covered. The managers are not scaling up emissions where coverage is not 100%.

Metrics and Targets – Additional Climate Metrics (3)

Climate metrics for the Fund at 30 June 2024 (or the data at the best-available proximate date).

Mandates	Implied Temperature Rise		Climate-related Engagements	
	Metric	Coverage	Metric	Coverage
UK Equity	-	-	24	100%
Global Active Equity (Paris-Aligned) – Manager 1	-	-	3	100%
Global Active Equity – Manager 2	1.9°C	100%	19	100%
Global Passive Equity (ESG-aware) – Manager 1	2.7°C	98%	1,490	100%
Diversified Alternatives	-	-	-	-
Long Lease Property	-	-	-	-
Residential Property	-	-	-	-
Multi Asset Credit	2.3°C	78%	11	100%
Index Linked Gilts	1.7°C	2%	-	-
Infrastructure Debt – Mandate 1	-	-	-	-
Infrastructure Debt – Mandate 2	-	-	-	-

Mandates	Implied Temperature Rise		Climate-related Engagements	
	Metric	Coverage	Metric	Coverage
Infrastructure Equity	1.5°C	100%	5	100%
Direct Lending – Mandate 1	-	-	-	-
Direct Lending – Mandate 2	-	-	-	-
Direct Lending – Mandate 3	-	-	-	-
Direct Lending – Mandate 4	-	-	-	-
Direct Lending – Mandate 5	-	-	-	-
Timberland	-	-	-	-
Renewable Infrastructure	-	-	-	-
Not covered	-	-	-	-
Total Portfolio	2.1°C	38%	1,552	59%

Source: Investment managers.
Notes: Totals may not sum due to rounding. UBS Property (due to the fund being in wind down), direct infrastructure investments (held in conjunction with the Lothian Pension Fund) and the cash allocation is not covered. The managers are not scaling up emissions where coverage is not 100%.

Metrics and Targets – Caveats

Mandate	Caveats
Long Lease Property	Given the nature of the property mandates and lease agreements in place, the managers are limited in their ability to directly collate environmental performance information across their respective funds. As such, the long lease and residential property mandates are unable to provide Scope 1 & 2 carbon emissions metrics, and only provide Scope 3 emissions.
Residential Property	
Index-Linked Gilts	Manager reports in line with the Carbon Emissions Template which currently does not require reporting of data on UK sovereigns, therefore the coverage of the UK Index-Linked Gilts fund is very low. ITR is based off the corporate part of the mandate, which makes up 1.51% as at 30 June 2024. The coverage therefore for corporates is 100% although, as this is only based on a limited number of issuers, the ITR is subject to high volatility.
UK Equity	Coverage for scope 3 carbon emissions is 100% estimated
Global Active Equity (Paris-Aligned) – Manager 1	
Infrastructure Debt Mandates	
Infrastructure Equity	Data is provided as at 31 December, given more illiquid nature of the mandate
Direct Lending Mandates	
Timberland	
UK Equity	Data reported based on USD and converted to GBP
Global Active Equity (Paris-Aligned) – Manager 1	
Infrastructure Equity	
Timberland	
Infrastructure Equity	Manager has undertaken decarbonisation pathway analysis across 100% of the portfolio, and confirmed that plans and targets in place are consistent with a 1.5°C (net zero) by 2050 scenario and have therefore reported this figure, however, there is currently no standard methodology for a temperature score or ITR applicable to infrastructure.
Not covered	Includes cash held in the Fund’s bank account, the balanced property mandate in the process of being wound down and the Fund’s direct infrastructure investment which is externally managed.

Climate metrics supporting information

The following caveats support the table on pages 35–37.

- tCO₂e: Tonnes of carbon dioxide equivalent, where CO₂e expresses the impact of each different greenhouse gas in terms of the amount of CO₂ that would create the same degree of warming.
- EVIC: Enterprise value including cash.
- Coverage: Denotes the percentage of each fund where data is available.

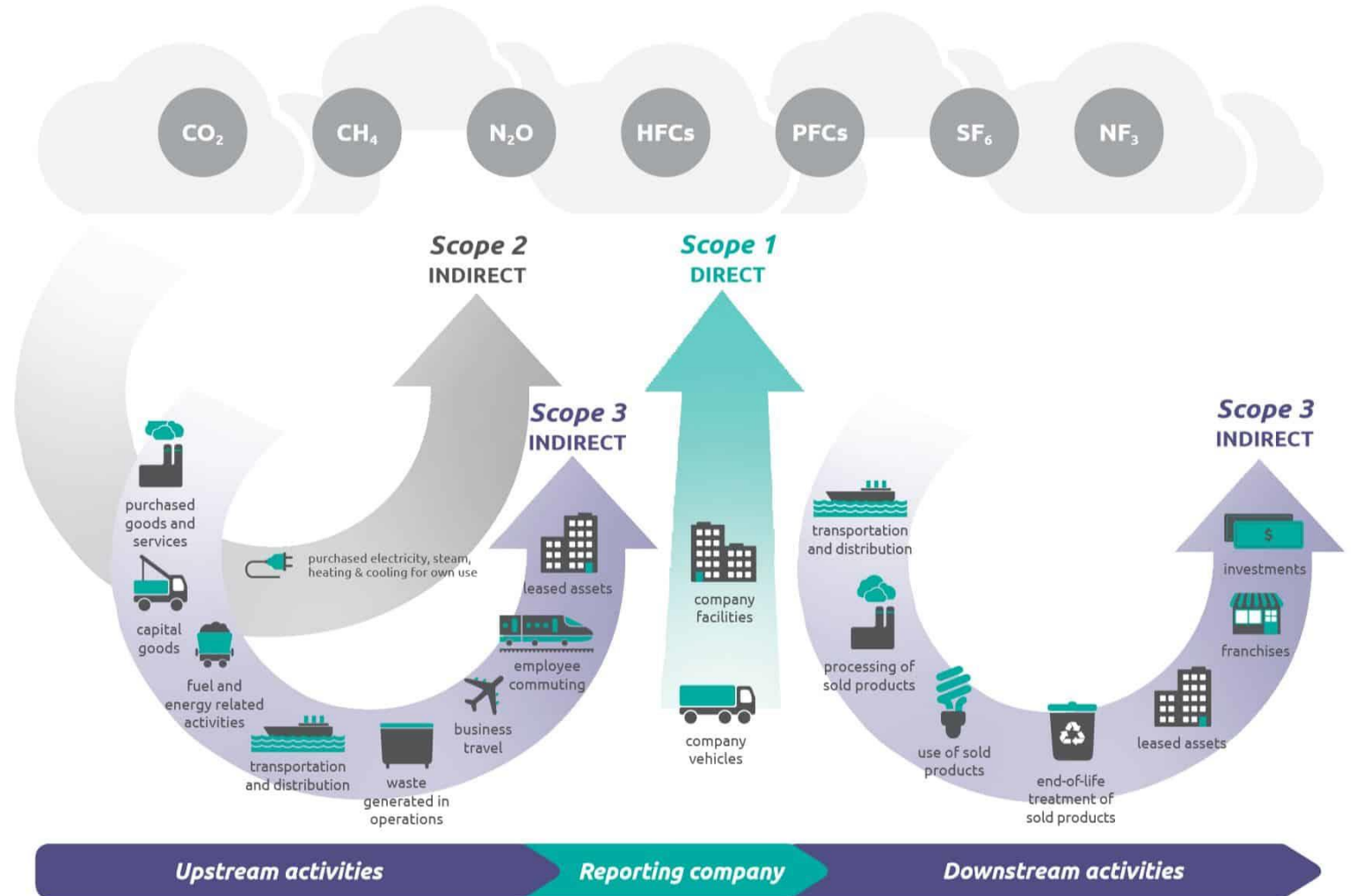
Glossary

Metric	Description	
Absolute Emissions Metric: Total GHG emissions	Total amount of greenhouse gas emissions (as mandated by the Kyoto Protocol) emitted by the underlying portfolio companies, attributed to the investor based on the total investment in each company	$\sum_n^i \left(\frac{\text{Current value of investment}_i}{\text{Investee company enterprise value}_i} \right) \times \text{investee company's scope 1 and 2 emissions}_i$
Emissions Intensity Metric: Carbon footprint	An intensity measure of emissions that assesses the level of greenhouse gas emissions (as mandated by the Kyoto Protocol) arising from £1 million investment (based on Enterprise Value Including Cash) in a company	$\frac{\sum_n^i \left(\frac{\text{Current value of investment}_i}{\text{Investee company enterprise value}_i} \times \text{investee company's scope 1 and 2 emissions}_i \right)}{\text{Current value of all investments (£ millions)}}$
Implied temperature alignment	A forward-looking view of carbon exposure that can be translated into a projected increase in global average temperature (°C) above pre-industrial levels that would occur if all companies had the same carbon intensity	
Climate Engagements	Exposure to portfolio companies for which engagement or voting on climate-related risk and opportunities has been a substantive topic over the course of the previous 12 months.	
Data quality	Verified	% of the emissions data that is verified (audited or independently verified)
	Reported	% of the emissions data that is sourced from actual company reported data
	Estimated	% of the emissions data that is estimated, either by the manager or a third-party data provider

Glossary

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

- **Scope 1** are direct emissions from company owned or controlled sources – this includes heating/cooling of offices/factories and fleet vehicles.
- **Scope 2** are indirect emissions from purchased energy – emissions are created during the production of the energy which is eventually used by the company.
- **Scope 3** are all indirect emissions that occur in the value chain – this includes emissions from the production of purchased goods and services and the use of sold products. There are currently industry-wide issues with reporting scope 3 emissions.



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- The output from our modelling is based on a large number of underlying assumptions. Changes to these assumptions can have a material impact on the results of the modelling.
- The outcomes shown above are not intended to be the best possible, or worst possible outcomes. The actual outcome could be worse than the 5th percentile, or better than the 95th percentile.
- The modelling analysis is based on portfolios containing a wide range of asset classes and different approaches to fund management. Clients should not make decisions to invest in these asset classes or approaches to fund management based solely on the modelling analysis.
- The only risk factors we have considered in our modelling are those that affect the values of pension Funds' assets and the financial assumptions used to value Funds' liabilities. Some of the risks we have not considered include demographic risks such as the life expectancy of pension Funds' members and future changes to members' benefits.

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