Climate disclosures for year ended 31 March 2024

Produced by: The Trustee of the Abbott Laboratories Pension Fund (1966)

Date: September 2024

Introduction

Climate change is affecting the planet, causing extreme weather events, impacting crop production and threatening Earth's ecosystems. Understanding the impact of climate change and the Abbott Laboratories Pension Fund's (the "Fund") vulnerability to climate-related risks will help Abbott Laboratories Trustee Company Limited (the "Trustee") as sole trustee of the Fund to help mitigate the risks and take advantage of any opportunities.

UK regulations require trustees of pension schemes with more than £1bn in assets to meet certain climate governance requirements and publish an annual report on their scheme's climate-related risks.

Better climate reporting should lead to better-informed decision-making on climate-related risks. And on top of that, greater transparency around climate-related risks should increase accountability and provide decision-useful information to investors and beneficiaries.

This report is the annual climate disclosure for the Fund for the year ended 31 March 2024. This report has been prepared by the Trustee in accordance with the regulations set out under The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the "Regulations") and is aligned to the Taskforce for Climate-related Financial Disclosures ("TCFD") framework. The four elements covered in the report are:

1) **Governance:** The Fund's governance around climate-related risks and opportunities.

2) **Strategy:** The potential impacts of climate-related risks and opportunities on the Fund's strategy and financial planning.

3) **Risk Management:** The processes used to identify, assess and manage climate-related risks.

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

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Executive summary

This report sets out the actions that the Trustee has taken to understand the potential impact climate change could have on the Fund.

The Trustee has worked closely with the investment consultant, Aon Investments Limited ("Aon"), to identify the climate-related risks and opportunities faced by the Fund, and to understand ways the Trustee can manage and mitigate those risks.

Overview of the Fund

The Fund is a Defined Benefit ("DB") pension fund.

The Fund invests across a range of assets, and within this report the Trustee considers the impact of climate related risks on those asset classes, the investment strategy and potential impact on the funding of the Fund.

This report is aligned to the TCFD framework covering the four TCFD pillars, with the key conclusions related to each summarised below:

Governance

- The Fund has an asset portfolio of c.£1.1bn (as at 31 March 2024) which is invested in a range of asset classes including equities, multi-asset credit, property and fixed income.
- The Trustee is responsible for the oversight of all strategic matters relating to the Fund, this includes climate-related risks and opportunities.

Strategy

- The Trustee undertook climate scenario analysis in the first year of reporting which showed that the Fund had a reasonable degree of resilience relative to climate-related risks. The resilience was primarily driven by the high level of diversification in the assets and strong funding position.
- The Trustee reviewed the scenario analysis completed in the first year of reporting and is comfortable that the analysis remains appropriate for this year's report since there have been no significant changes to the investment strategy of the Fund in the 12-months to 31 March 2024.

Risk Management

- The Trustee has established a process to identify, assess and manage the climate-related risks and opportunities the Fund is exposed to. This is integrated into the Fund's wider risk management framework.
- The Climate Risk Management framework is set out on pages 18-20, which assists with the ongoing management of climate related risks and opportunities. Alongside this, the Trustee

undertakes periodic training on responsible investment to understand how ESG factors, including climate change, may impact the Fund's assets and liabilities. Details of training the Trustee has undertaken throughout the year are included in the Governance Section of this report.

Metrics and Targets

The Trustee has disclosed information on four climate-related metrics for the Fund:

- Total Greenhouse Gas (GHG) Emissions.
- Carbon Footprint.
- Data Coverage
- Portfolio Alignment (Portion of portfolio Science Based Targets Initiative ("SBTi") aligned).

The Trustee has also set the following targets for the Fund:

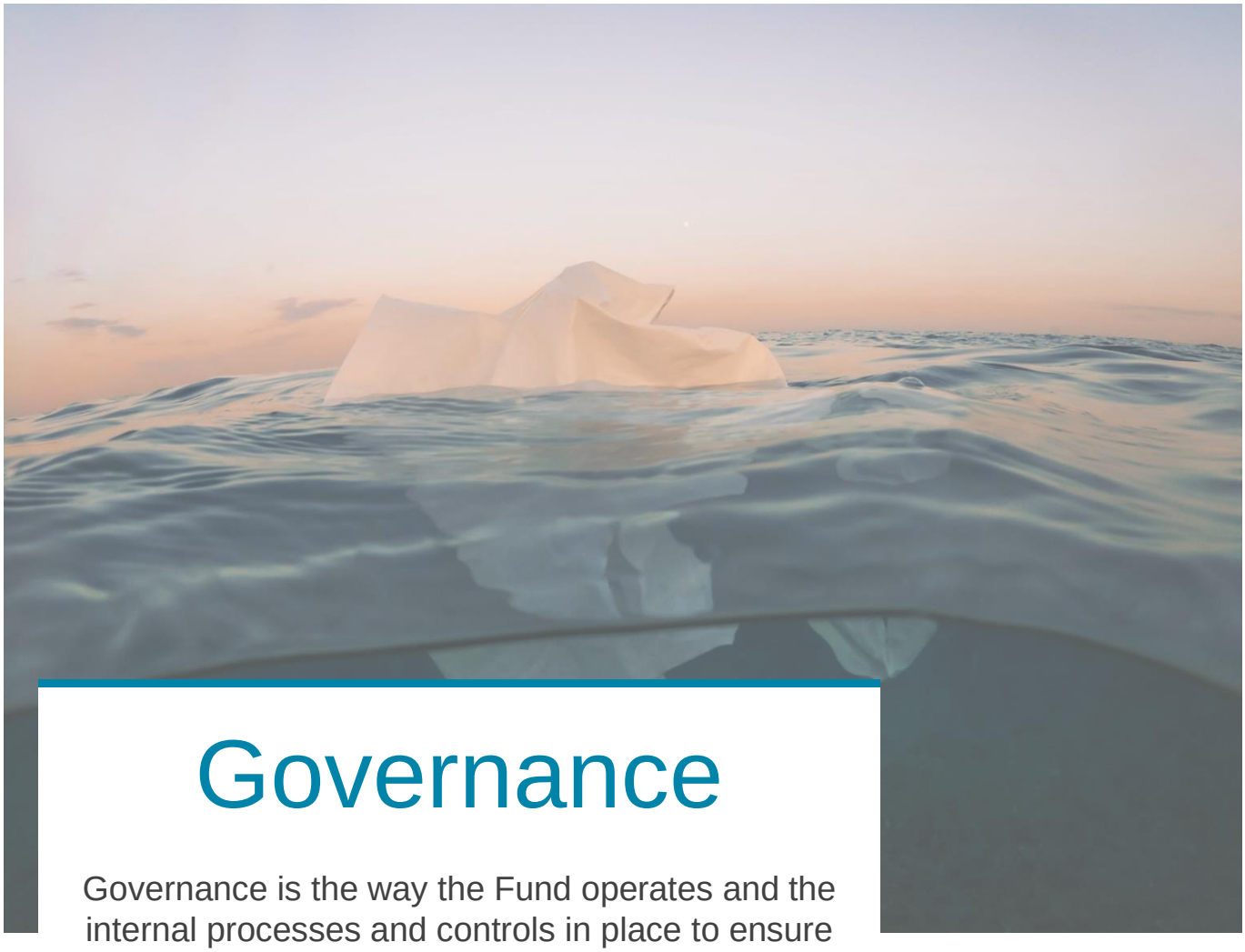
- Improve data coverage to at least 90% (Scopes 1 and 2, at an aggregate Fund level, excluding fixed income) by 2025.

- Improve data coverage to at least 88% (Scope 3, at an aggregate Fund level, excluding fixed income) by 2026.

Following completion of the report, the Trustee is reassured that the various analyses showed the potential financial impact of climate change on the Fund is not thought to be significant. The Trustee has spent considerable time and effort to monitor the TCFD framework and will continue to monitor the potential impacts of climate change on the Fund. The Trustee hopes you enjoy reading this report and understanding more about how it is managing climate-related risks and opportunities within the Fund.

Jonathan Wood

on behalf of the Trustee of the Abbott Laboratories Pension Fund (1966).



Governance

Governance is the way the Fund operates and the internal processes and controls in place to ensure appropriate oversight. Those undertaking governance activities are responsible for managing climate-related risks and opportunities. This includes the Trustee, and others making Fund-wide decisions, such as those relating to the investment strategy or how it is implemented, funding and the ability of the sponsoring employer to support the Fund and its liabilities.

The Fund's governance

The Trustee is responsible for oversight of all strategic matters related to the Fund. This includes approval of the governance and management framework relating to environmental, social and governance ("ESG") considerations and climate-related risks and opportunities.

Role of the Trustee

The Trustee has discussed and agreed its climate-related beliefs and overarching approach to managing climate change risk. These are set out in the Fund's Statement of Investment Principles ("SIP"), which are reviewed and (re)approved periodically by the Board.

The Trustee's climate beliefs

The Trustee understands the risks associated with climate change and that these can have a potential impact on the Fund's investment returns within the varied time horizons discussed below.

Where practicable, and appropriately aligned with its strategic objectives and fiduciary duty, the Trustee may seek to capture such opportunities through its investment portfolio.

The most appropriate time horizons for the Fund are as follows:

- short term: 1-3 years
- medium term: 4-10 years
- long term: 11-20 years

Climate-related risks and opportunities are integrated into the Trustee's risk management framework so it can maintain oversight of the climate-related risks and opportunities that are relevant to the Fund. The Trustee assesses these over the above time horizons. Where appropriate, it considers transition and physical risks separately.

The Trustee receives periodic training on climate-related issues to ensure that it has the appropriate knowledge and understanding to support good decision-making.

The Trustee is responsible for the implementation and day-to-day oversight of the Fund's climate-related risk management approach.

Trustee's update

Over the year, the Trustee completed further training on the TCFD statutory guidance.

The Trustee received training and information from its investment consultant in relation to the key changes made to the regulations. This included training on the climate metrics to be reported on, and the change to the regulations from 1 October 2022 to include a Portfolio Alignment metric.

The purpose of this training session was to better equip the Trustee ahead of the preparation of its second TCFD report and to consider further actions to help protect the Fund against potential climate-related risks.

The Trustee has responsibility for the monitoring and implementation of the Fund's climate change risk management framework.

The key activities it undertakes (supported by its advisers) include:

- Engaging with the Fund's investment managers to understand how climate risks are considered in their investment approach;
- Working with the investment managers to disclose relevant climate-related metrics as set out in the TCFD recommendations;
- Ensuring investment proposals consider the impact of climate risks and opportunities;
- Working with the investment consultant to ensure that stewardship activities are being undertaken appropriately on the Fund's behalf;
- Working with the investment consultant to consider potential investment opportunities which enhance the ESG and climate change focus of the Fund's portfolio.

Trustee's update

For its first report, the Trustee set up a TCFD sub-committee. Following publication of its first report, it was decided that the TCFD sub-committee would be discontinued, and responsibilities would revert to the Trustee.

Role of advisers or other stakeholders deemed relevant

The Trustee expects its advisers and investment managers to bring important climate-related issues and developments to its attention in a timely manner. The Trustee expects its advisers and investment managers to have the appropriate knowledge on climate-related matters.

Investment consultant

The Trustee's investment consultant, Aon, provides strategic and operational support to the Trustee in respect of the management of climate-related risks and opportunities and ensuring compliance with the recommendations set out by the TCFD.

This includes provision of training and updates on climate-related issues and climate change scenario modelling to enable the Trustee to assess the Fund's exposure to climate-related risks.

Scheme Actuary

The Scheme Actuary, Stephen Newbould of Mercer, will help the Trustee assess the potential impact of climate change risk on the Fund's funding assumptions where it is appropriate to do so.

The Trustee will seek to understand how climate-related factors affect the assumptions used, and which sources of expertise the Scheme Actuary has used in determining the appropriate assumptions to use.

Covenant adviser

The Trustee's covenant adviser, Cardano Group, will help the Trustee understand the potential impact of climate change risk on the sponsor covenant.

Trustee's update

The Trustee sets clear expectations to its investment consultant around the need to bring important and relevant climate-related issues and developments to its attention in a timely manner.

As a result of the training from the Trustee's investment consultant in relation to the regulatory changes, the Trustee was able to agree on its chosen portfolio alignment metric, portion of portfolio Science Based Targets Initiative ("SBTi") aligned. Further details are included in the metrics and targets section.

Strategy

It is crucial to think strategically about the climate-related risks and opportunities that will impact the Fund in order to identify potential mitigations against the effects of climate change.

Assessing the climate-related risks and opportunities the Fund is exposed to is key to understanding the impact climate change could have on the Fund in the future.

How resilient is the Fund to climate change?

The Trustee acknowledges the physical and transitional risks associated with climate change. In the previous reporting year, the Trustee carried out a qualitative climate change scenario analysis to better understand the impact climate change could have on the Fund's assets and liabilities.

This year, the Trustee reviewed the qualitative climate change scenario analysis conducted in the previous reporting year and has concluded that it remains appropriate for the Fund because the investment strategy and the invested funds have not materially changed in the 12-months to 31 March 2024.

Last year's analysis considered a range of climate change scenarios. Each scenario considered what may happen to the Fund when transitioning to a low carbon economy under different temperature-related environmental conditions. These scenarios were developed by Aon and are based on detailed assumptions. They are only illustrative and are subject to considerable uncertainty.

The climate scenarios intend to illustrate the climate-related risks the Fund is currently exposed to, highlighting areas where risk mitigation could be achieved through changing the investment portfolio. Other relevant issues such as governance, costs and implementation (including manager selection and due diligence) must be considered when making changes to the investment strategy.

Investment risk is captured in the impact the various scenarios will have on each asset class, but this is not the only risk that the Fund faces. Other risks include covenant risk, longevity risk, timing of member options, basis risks and operational risks.

The Trustee also acknowledges that in the transition to a low carbon economy, the Fund's assets will naturally become subject to climate related risks and opportunities. The potential risks and opportunities are summarised in the Appendix.

Trustee's update

Under the Regulations, climate scenario analysis must be carried out at least every 3 years, with an annual review in interim years. Circumstances which may require the climate scenario analysis to be re-done may be as a result of, but not limited to:

- a significant/material change to the investment and/or funding strategy; or
- the availability of new or improved scenarios or modelling capabilities or events that might reasonably be thought to impact key assumptions underlying scenarios.

The Trustee reviewed the scenario analysis completed in the previous reporting year and it is comfortable that the analysis remains appropriate for this year's report.

The Fund's investments

The Fund's investment portfolio is diversified across a range of different asset classes including equities, multi-asset credit, property and fixed income.

The Fund's strategic asset allocation as at 31 March 2024 is as follows:

Asset Class	Equities	Multi-Asset Credit	Property	Fixed Income
Strategic Allocation	50%	20%	5%	25%

Impact Assessment

The table below describes the impact of each scenario on the asset classes held by the Plan over the short, medium and long-term time horizons.

Key conclusions

The qualitative impact assessment shows that the Fund's investment strategy may exhibit some resilience against the climate scenarios assessed. Even when facing increasing levels of risk within the climate scenarios modelled, the near-term asset performance is expected to be positive in most scenarios looked at, whilst in those where the short-term impact may be negative, the long-term outlook is more positive.

While there are steps the Trustee could take to reduce climate risk going forward, the current strong funding position gives the Trustee the ability to retain the current investment strategy with only marginal risk of the funding position deteriorating to a level of concern. The Trustee regularly reviews the investment strategy and the potential impact of climate related risks and opportunities.

No Transition Scenario

Temperature rise
+4ºC

Reach net-zero
After 2050

Environmental regulation
None

Summary of the Scenario

In the short term:

No agreed global action is taken to combat climate change.

In the medium term:

The world economy remains oriented towards improving near-term economic prospects, with companies and governments taking a "business as usual" approach.

In the long term:

While some climate change policies are implemented, global efforts are insufficient to halt significant global warming. The physical effects of

Summary of the impact to the Fund

Fund Impact:

Equities: Adverse effects from climate change become progressively worse, acting as an increasing drag on returns.

Credit: Average spot rates are expected to increase and expected nominal returns on credit instruments are forecasted to fall.

Gilts: Yields remain at low levels as worsening effects from climate change act as a drag on growth long term. Return on gilts will move in the opposite direction to yields.

	climate change become more severe. The headwinds facing the economy and markets grow.	*Funding level*: Increasing effects from climate change and greater uncertainty over the future outlook lead to a growing drag on growth. This is expected to negatively affect the funding level of the Fund over the long term.
Disorderly Scenario Temperature rise <3°C Reach net-zero After 2050 Environmental regulation Late and Aggressive	Summary of the Scenario **In the short term:** The world economy remains oriented towards improving near-term economic prospects, with companies and governments taking a "business as usual" approach. **In the medium term:** Late but coordinated action is taken to tackle climate change. The late timing means it is less effective and more costly to implement. **In the long term:** Adverse effects from climate change become progressively worse. There are high levels of economic damage and the irreversible loss of natural capital.	Summary of the impact to the Fund **Fund Impact:** *Equities:* Market participants eventually price in high levels of adverse effects resulting from climate change, causing equity returns to drop substantially. *Credit:* Expected nominal returns on credit instruments will fluctuate but is expected to increase over time, suggesting higher associated risk attached to the Disorderly transition. *Gilts:* Yields gradually decrease due to the weak economic backdrop. Return on gilts will move in the opposite direction to yields. *Funding level*: Disorderly transition is anticipated to have the worst outcome for the Fund's funding level over the long term. Due to the nature of the economic impact, a large shock to asset returns will take place in later years which will negatively impact the Fund's funding.
Orderly Scenario Temperature rise 1.3°C – 2°C Reach net-zero By 2050 Environmental regulation Coordinated	Summary of the Scenario **In the short term:** Immediate coordinated action is taken to tackle climate change. Risky assets perform poorly. **In the medium term:** The rapid transition to clean technologies and green regulation begins to boost economic growth. **In the long term:** The rapid transition to clean technologies and green regulation continues to boost economic growth.	Summary of the impact to the Fund **Fund Impact:** *Equities:* suffer from higher costs of regulation initially, but higher growth prospects boost returns longer term. *Credit:* is expected to suffer from initial costs in the short term, but to a lesser extent than equities. The returns are expected to pick up in later years. *Gilts*: Nominal yields pushed higher in the short-term as central banks hike rates in order to constrain inflation. Returns on gilts will move in the opposite direction to yields. *Funding level*: Expected to reduce initially followed by a period of recovery. The short-term risk faced by the Fund is as a result of poor growth asset performance in early years having a pronounced negative impact on asset returns. However, this is expected to be the best outcome over the long term.

Source: Aon. *Effective date of the impact assessment is October 2022.*

Modelling limitations

Please refer to the Appendix for further details in relation to the assumptions used for the scenario analysis and its limitations.

Covenant Assessment

Potential deteriorations of the funding level as a result of climate change can place a strain on the financial strength ("covenant") of the participating employers, if they must make up a bigger shortfall through deficit contributions. They may also require the Fund to re-risk its asset portfolio or extend the time frame for achieving full funding or other long-term goals. The Trustee considers that given the strong funding position of the Fund the likelihood of the participating employers having to make any such contributions to the Fund in future is extremely unlikely. As such, the Trustee has taken a proportionate response in relation to the covenant assessment.

The Trustee has worked with the principal employer of the Fund, Abbott Laboratories Limited (the "Company") and the wider group of all Companies ultimately owned by Abbott Laboratories ("Abbott"), to identify the climate-related risks & opportunities Abbott faces. The wording below has been provided by the Company.

Abbott has determined that climate-related risks, both physical and transition, exist at site and country/regional levels but are limited at a global scale. There are no climate-related risks that Abbott believes have the potential to have significant business impact on it. A description of the greatest climate-related risks posed to Abbott, its analysis of its potential impact, and any necessary management measures it has put in place are outlined below.

Climate-related physical risks

Acute physical risks associated with climate change include unforeseen extreme weather events. Abbott has developed strategies for mitigating and responding to them. Its global Business Continuity and Crisis Management organisation works with its Global Environment, Health and Safety (EHS), Global Engineering, and Supply Chain groups to strengthen business resiliency against weather events and other forms of extreme disruption.

Abbott's Engineering and EHS policies and management standards consider chronic physical risks, such as water scarcity, and require sites to conduct regular risk and opportunity evaluations and implement mitigation strategies.

Abbott is a global organisation with 90 manufacturing facilities in more than 25 countries, a diverse geographical supply chain and distribution network, and site-level business continuity planning. These factors lessen the potential for a significant business impact, at the level of an individual entity, from climate-related physical risks, such as the effects of severe weather.

Abbott has undertaken an assessment of the Company's UK operational facilities and does not believe there is potential for significant impact from climate-related physical risks over various climate scenarios and time horizons. The potential impact is low. The potential, but remediable, disruption to operations relates to the transportation of products to and from storage facilities. In the event of prolonged disruption, Abbott could leverage its diverse geographical supply chain and distribution network to avoid impacted sites. Its physical climate risk assessments, including that for the UK, considered seven climate hazards (wildfire, heatwave, cold wave, water stress, flood, sea level rise, and hurricane) and three climate-related scenarios (RCP 8.5, RCP 4.5 and RCP 2.6). These scenarios broadly align, in terms of temperature rise, with the Fund's three temperature scenarios; No transition, Disorderly transition, and Orderly transition scenarios.

Climate-related transition risks and opportunities

Abbott's climate-related transition risks relate to emerging expectations and regulations around greenhouse gas (GHG) emission management. These include carbon limits and taxes, enhanced reporting obligations, costs to transition to lower-emissions technologies, and increased costs of goods and services. Abbott has identified the need to manage and reduce environmental impacts as a potential enterprise risk. In response to this, its business strategy includes reducing its operational energy and carbon footprint, and engaging its value chain in strategic sourcing categories.

Utilising 2020 and 2021 data, global EHS and Economics teams at Abbott undertook risk modelling to consider the implications of potential environmental regulations and found that Abbott's emissions per employee, profit, and market cap ratios are lower than its peer sector average, which may suggest that new policies restricting use of fossil fuels and carbon emissions may not be an immediate threat to its competitive position globally. This analysis helps support its belief that Abbott is resilient to existing and emerging carbon tax regulations under various scenarios. While this analysis did not explicitly consider the Fund's three scenarios, the conclusion regarding Abbott's expected resilience can be expected to apply across them based on its comparative methodology.

In the UK specifically, the government's Climate Change Act 2008 led to the introduction of an NHS England net zero roadmap for suppliers. There is a risk that if the Company failed to comply with the roadmap requirements, its ability to compete for new NHS business could be impacted over the medium term.

The Company is taking steps to understand and address the objectives of the NHS. Additionally, the local Government Affairs team maintains close contact with the NHS, trade associations, and other relevant bodies to help ensure that potential changes to requirements continue to be identified at an early stage. As customers such as the NHS increasingly integrate ESG considerations into procurement decisions, there is an opportunity for the Company to increase market share through outperforming peers. There is a corresponding risk from competitors outperforming the Company Abbott's global 2030 Sustainability Plan and supporting initiatives, coupled with UK commercial and functional led activities and proposals, work to position the Company as a leader in ESG. To date the impact from this opportunity, and risk, has been limited.

The Trustee will continue to monitor the covenant on a regular basis with the support from its covenant adviser and it will maintain regular dialogue with participating employers.

Risk management

The Trustee must have processes to identify, assess and manage the climate-related risks that are relevant to the Fund and these must be integrated into the overall risk management of the Fund.

Reporting on the climate-related risk management processes provides context for how the Trustee thinks about and addresses the most significant climate-related risks to its efforts to achieve appropriate outcomes for members.

Trustee's process for identifying and assessing climate-related risks

The Trustee has established a process to identify, assess and manage the climate-related risks that are relevant to the Fund. This is part of the Fund's wider risk management framework and is how the Trustee monitors the most significant risks to the Fund in its efforts to achieve appropriate outcomes for members.

Qualitative assessment

The first element is a qualitative assessment of climate change scenarios on the broad direction of travel for the Fund's asset classes, which is provided by the Trustee's investment consultant and reviewed by the Trustee.

Quantitative analysis

The second element is quantitative in nature and is delivered by means of considering the climate metrics and establishing the overall carbon intensity associated with the Fund's investments.

When prioritising the management of risks, the Trustee assesses the materiality of the climate-related risks relative to the impact and likelihood of other risks to the Fund. This helps the Trustee to focus on the risks that pose the most significant impact.

Trustee's update

This process of identifying and assessing climate related risks has been reviewed in the process of producing this TCFD report and the Trustee believes it is still suitable.

Over the course of the year, the Trustee has reviewed its Statement of Investment Principle's ("SIP") stewardship section, in line with the latest guidance from the Department for Work and Pensions ("DWP").

The Trustee has also engaged with managers who have previously been unable to provide all of the required information for its Engagement Policy Implementation Statement, in order to promote improved disclosures in the future.

Trustee's climate risk management framework

The Trustee recognises the long-term risks posed by climate change and has taken steps to integrate climate-related risks into the Fund's risk management processes.

The Trustee has developed a climate risk management framework to manage climate-related risk and opportunities. The climate risk management framework set out in the tables below clearly describes who is involved, what is done and how often. The processes for managing climate related risks and opportunities are also summarised in the tables below.

Governance

Activity	Delegated responsibility	Adviser / supplier support	Frequency of review
Climate change governance framework (this document)	Trustee	Investment Consultant	Annual
Publish TCFD report and implementation statement	Trustee	Investment Consultant	Annual
Add / review climate risks and activity on key Fund documentation (risk register, work plan)	Trustee	Investment Consultant	Ongoing
Trustee training	Trustee	Investment Consultant	Ongoing
Review SIP	Trustee	Investment Consultant	Ongoing

Trustee's update

The Trustee monitors the above activities as part of its ongoing management of the Fund's climate-related risks and opportunities, which includes the monitoring and reviewing of progress against the Fund's climate change risk management plan. A summary of the training it has received is set out in the Governance section within this report.

Strategy

Activity	Delegated responsibility	Adviser / supplier support	Frequency of review
Identify climate-related risks and opportunities (over agreed time periods) for investment & funding strategy	Trustee	Investment Consultant, other Advisers	Annual
Climate scenario analysis - annual review for the continuing suitability of the results	Trustee	Investment Consultant, other Advisers	Annual
Actuarial Valuation and review of Fund's investment strategy in relation to climate related risks	Trustee	Scheme Actuary, Investment Consultant, Advisers	Triennial
Identify and understand the climate-related risks to the employer over the short, medium and long-term	Trustee	Investment Consultant, Principal Employer	Annual

Trustee's update

The Trustee reviewed the appropriateness of the climate change scenario analysis carried out within the Fund's initial TCFD disclosures and is comfortable that the analysis remains relevant for the current reporting year.

The Trustee also worked with the principal employer to identify the climate-related risks & opportunities it faces and the impact these risks have under the scenarios modelled.

The conclusions of this analysis have been included in the Strategy Section of this report.

Risk management

Activity	Delegated responsibility	Adviser / supplier support	Frequency of review
Review the processes and stakeholder responsibilities in assessing and managing key climate related risks	Trustee	Investment Consultant, Investment Managers	Triennial

Trustee's update

Climate risk management is integrated into the ongoing risk management activities of the Fund via the Fund's climate risk management plan.

The Trustee seeks to ensure that any investment decisions it makes appropriately consider climate-related risks and opportunities within the context of the Fund's wider risk & returns requirements and are consistent with the climate change policy as set out in the SIP.

The Trustee carries out a qualitative climate scenario analysis which helps to focus on the risks that pose the most significant impact. Based on this year's analysis, no changes need to be made to the Fund's investment strategy.

Metrics and Targets

Activity	Delegated responsibility	Adviser / supplier support	Frequency of review
Agree/review approach for metrics	Trustee	Investment Consultant, Investment Managers	Annual
Obtain data for agreed metrics	Trustee	Investment Consultant, Investment Managers	Annual
Agree/review target	Trustee	Investment Consultant, Investment Managers	Annual

Trustee's update

The Trustee collects data on an annual basis supported by Aon and the Fund's investment managers, to understand the Fund's current portfolio emissions, data coverage and portfolio alignment metrics. This data is evaluated to produce a metrics related target.

Metrics have been collected in line with industry practice. The Trustee has reviewed its target around data coverage, which was set previously, and has considered whether this remains appropriate for the Fund. More details can be found in the Metrics and Targets Section of this report.

Assessing the Fund's managers

As part of the assessment of the managers' policies and processes to assess climate related risks, the Trustee has identified the managers' capabilities and approach to climate management. This focused on areas such as TCFD reporting, participation in industry initiatives and availability of climate related targets such as a net zero emissions commitments. The table below summarises these capabilities and targets.

The Trustee views this as a suitable starting position to understand what its investment managers are doing more broadly in relation to climate risk.

Assets	TCFD report	Net zero target	Industry initiatives
Equities			
Arrowstreet – Global Equity Fund	-	-	-
Baillie Gifford - Long Term Global Growth Fund	✓	✓	✓
Dodge & Cox - Global Stock Fund	-	-	-
Multi-asset Credit			
M&G Investments - Alpha Opportunities Fund	✓	✓	✓
Property			
Lothbury - UK Property Trust	-	✓	✓
Fixed Income			
Legal & General Investments - Index-linked Gilts	✓	✓	✓

Source: Managers.

Key Conclusions

Last year, the Trustee received some responses from its investment managers on climate risk disclosures. This year, these responses were reviewed and there have been no updates/changes.

- All six of the managers provided responses.
- Only three managers are producing TCFD reports. The Trustee expects more managers to produce TCFD reports in the future.
- Four managers currently have a Net Zero target and one manager has near term plans to discuss this topic to assess how this interacts with its broader goals and objectives.
- Four managers are involved in industry initiatives.

The Trustee will monitor the managers' integration of climate-related risk analysis, improvements in GHG emissions reporting and temperature alignment and the associated timescales involved.

Metrics & Targets

Metrics help to inform the Trustee's understanding and monitoring of the Fund's climate-related risks. Quantitative measures of the Fund's climate-related risks, in the form of both greenhouse gas emissions and non-emissions-based metrics, help the Trustee to identify, manage and track the Fund's exposure to the financial risks and opportunities climate change will bring.

The Fund's climate-related metrics

The Trustee uses some quantitative measures to help understand and monitor the Fund's exposure to climate-related risks. Measuring the greenhouse gas emissions related to the Fund's assets is a key way for the Trustee to assess its 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, 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

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

Scope 2

These are the indirect emissions from the generation of electricity purchased and used by an organisation

Scope 3

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

Last year, the Trustee reported on Scopes 1 and 2 emissions only. This year the Trustee is required to report Scope 3 emissions as well. 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.

For more explanation about GHG emissions, please see the Appendix.

The Fund's climate-related metrics

In the first year of TCFD reporting, the Trustee decided what metrics to annually report on. These are described below. This year the Trustee reviewed the metrics and believe they continue to be suitable to report against.

Total Greenhouse Gas emissions

The total greenhouse gas (GHG) emissions associated with the portfolio. It is an absolute measure of carbon output from the Fund's investments and is measured in tonnes of carbon dioxide equivalent (tCO_2e).

This year the Trustee was able to obtain scopes 1&2 and scope 3 emissions separately for some of the Fund's asset classes.

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. It is measured in tonnes of carbon dioxide equivalent per million pounds invested (tCO_2e/£m).

This year the Trustee was able to obtain scopes 1&2 and scope 3 emissions separately for some of the Fund's asset classes.

Data coverage

A measure of the proportion of the portfolio that we have high quality data for (i.e., data which is based on verified, reported, or reasonably estimated emissions, versus that which is unavailable).

This metric has been selected on the basis that it provides a consistent and comparable measure of the level of confidence in the data.

The Trustee does not need to make any estimations as the data was directly provided by the investment managers.

Portion of portfolio SBTi aligned

A metric which shows how much of the Fund's assets are aligned with a 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 a declared net-zero or Paris-aligned target which has been validated by the Science Based Target initiative ("SBTi") or are already net-zero or Paris-aligned.

In the table below are the climate-related metrics for the Fund's assets. These climate-related metrics represent a snapshot in time (as at 31 December) and, therefore, cannot be considered a completely accurate reflection of the actual carbon emissions associated with the Fund. The metrics are shown separately for each asset class because the methodology used for each is different so aggregating the metrics would not make sense.

The carbon metrics

Asset class	%		Data coverage (%) Scopes 1 & 2	Data coverage (%) Scope 3	Total GHG emissions (tCO_2e) Scopes 1 & 2	Total GHG emissions (tCO_2e) Scope 3	Carbon footprint (tCO_2e/£m) Scopes 1 & 2	Carbon footprint (tCO_2e/£m) Scope 3	Portion of portfolio SBTi aligned (%)
Equities	**50.1**	**2023**	**98.7**	**98.0**	**71,566**	**262,360**	**135.1**	**498.9**	**40.5**
	52.3	*2022*	*98.3*	*-*	*85,080*	*-*	*166.9*	*-*	*50.4*
Fixed Income[1]	**25.7**	**2023**	**100.0**	**-**	**20,864**	**-**	**75.7**	**-**	**n/a**
	20.4	*2022*	*100.0*	*-*	*21,287*	*-*	*107.2*	*-*	*n/a*
Property[2]	**3.1**	**2023**	***Not available***						
	3.7	*2022*	*78.0*	*-*	*329*	*-*	*9.0*	*-*	*0.0*
Multi - Asset Credit	**20.8**	**2023**	**66.2**	**59.6**	**8,759**	**53,959**	**59.5**	**407.0**	**25.3**
	23.5	*2022*	*59.3*	*-*	*35,513*	*-*	*155.2*	*-*	*20.4*
Liquidity funds	**0.2**	**2023**	**75.3**	**74.7**	**1**	**93**	**0.9**	**92.9**	**5.8** [3]
	0.1	*2022*	*Not requested in first year of reporting.*						

Source: Underlying managers and Aon. Data as at 31/12/2023. Figures may not sum due to rounding. Please note that scope 3 data was not a mandatory requirement for the year 1 report, hence why it is not included above in the 2022 data. Analysis excludes emissions associated with the Trustee Bank Account.

1. *Within the Fixed Income, scope 3 carbon data is not available as there is currently no available methodology to calculate scope 3 emissions for sovereigns.*
2. *Lothbury Investment Management has been unable to provide data for 2023 as the Lothbury Property Trust has received more than 95% redemptions.*
3. *Represents corporate issuers of short-dated corporate bonds within the LGIM Sterling Liquidity Fund.*

Commentary

Carbon emissions for equities are based on the emissions associated with the underlying companies invested in. Hence, the equity funds can be heavily invested in companies which produce significant GHG emissions, such as those within the energy or transport sectors. Additionally, the equity portfolio accounts for the majority of the Fund's assets. As a result, the carbon metrics for equities are higher than other asset classes.

There has been a significant reduction in the Multi-Asset Credit carbon footprint. The Fund's Multi-Asset Credit manager has noted that this is due to updated methodologies, alongside a reduction in the portfolio's exposure to "Industrials" and "Utilities", which were previously the two highest emitting sectors.

Most managers were able to provide scope 3 emissions, which is a new addition in this year's report. However, the Trustee recognises that the scope 3 emissions reporting must continue to be monitored given the disparity in the investment manager's ability to report scope 1&2 emissions compared to the lower level of scope 3 coverage.

The Trustee recognises that the equity funds' SBTi-validated figure has decreased since last year, this is largely to do with the Fund's investment managers enhancing their methodologies and making the figures more accurate by relying less on estimates.

Aon obtained this information from the Fund's investment managers and aggregated the results based on the value of assets invested in each fund.

Aon does not make any estimates for missing data.

Notes on the metrics data

The investment consultant, Aon, collected information from the Fund's investment managers about their greenhouse gas emissions. Aon collated this information to calculate the climate-related metrics for the Fund's portfolio of assets.

Availability of data

- 5 managers provided scopes 1, 2 and 3 GHG emissions.
- 1 manager did not provide any information due to being in liquidation.
- 5 managers provided portfolio alignment data.

Aon does not make any estimates for missing data.

Because not all the Fund's managers were able to provide all the requested data, the reported emissions metrics do not include all the Fund's GHG emissions. And so, the metrics show the Fund's GHG emissions to be lower than they really are.

The Trustee expects that in the future better information will be available from managers and this improvement will be reflected in the coming years' reporting.

How the data was collected

The Trustee's investment consultant, Aon, collected the carbon emissions data from the Fund's managers on the Trustee's behalf using the industry standard Carbon Emissions Template ("CET")[3]. The CET was developed by a joint industry initiative of the Pension and Life Savings Association, the Association of British Insurers and Investment Association Working Group. The CET provides a standardised set of data to help pension schemes meet their obligations under the Climate Change Governance and Reporting Regulations, and associated DWP Statutory Guidance.

Notes on the metrics calculations

At present, there is not an industry-wide standard for calculating some of these metrics and different managers may use different methods and assumptions. These issues are common across the industry and highlight the importance of aligned standards when it comes to climate reporting to improve transparency. The Trustee expects that in the future better information will be available from managers as the industry aligns to expectations and best practice standards.

The carbon metrics

Aon calculated the carbon metrics for the Fund based on information provided by the managers. The table below shows for each asset class the broad approach used to calculate each metric.

Aon collected carbon metrics from managers before aggregating by asset class. The methodology used for this aggregation does not make any assumptions about the carbon emissions for assets for which data was unavailable. The aggregation methodology is as set out below:

$G = A \times C \times F$

G = Total GHG expressed as (tCO_2e).
A = Assets expressed in £ Millions (at period end date).
C = Data Coverage expressed as a decimal between 0 and 1.
F = Carbon Footprint expressed as (tCO_2e/£M invested).

[3] https://www.plsa.co.uk/Policy-and-Research/Document-library/Carbon-Emissions-Template

The methodology used follows the industry-standard best-practice established within the Carbon Emissions Template ("CET").

Portion of portfolio SBTi aligned

Aon calculated the portion of the portfolio which is SBTi aligned based on the information provided by the managers. Aon requested the SBTi alignment metric of each fund from the investment managers and aggregated the results based on the portion of assets invested in each fund.

For the Fixed Income Portfolio, which invests in UK Index-Linked Gilts, there is no standard approach for calculating this climate data for government bonds. Hence there is no data shown for these assets.

Aon does not make any estimates for missing data. The Fund's metric only represents the portion of the portfolio for which the data is available.

The Fund's climate-related target

Climate-related targets help the Trustee track its efforts to manage the Fund's climate-change risk exposure.

In the first year of reporting, the Trustee set a target to improve data coverage. 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 data coverage of the GHG emissions data from the managers.

The Fixed Income assets of the Fund, which represent investments in UK government bonds, have been excluded from the targets set. This is because carbon emissions associated with UK government bonds are calculated using different methodologies to other asset classes, so aggregating these metrics together does not provide a comparable set of data points. Carbon emissions associated with UK government bonds are calculated using total UK national emissions and so a 100% data coverage is assumed, where no further improvement to data coverage can be made. Scope 3 carbon data is not available for UK government bonds as the UK government does not currently have an agreed methodology to calculate scope 3 emissions for government bonds.

Trustee's update

As required by the regulations, the Trustee reviews the suitability of the target it has set. Based on the data collected and the metrics calculated this year, the Trustee believes the target continues to be suitable.

As the Trustee is in the second year of reporting, it has now reported on Scope 3 data. Therefore, the Trustee has outlined a new target specific to the Fund's Scope 3 carbon data.

Data Coverage targets

At least **90%**

by 2025 (Scopes 1 & 2)

(At an aggregate Fund level, excluding fixed income)

At least **88%**

by 2026 (Scope 3) (At an aggregate Fund level, excluding fixed income)

The Fund's progress towards the target

The table below shows the data coverage metrics through time, showing progress made.

Asset class	2022 Data Coverage (Scopes 1 & 2)	2023 Data Coverage (Scopes 1 & 2)	2023 Data Coverage (Scope 3)
Equities	98.3%	98.7%	98.0%
Property	78.0%	0.0%	0.0%
Cash	0.0%	75.3%	74.7%
Multi-Asset Credit	59.3%	66.2%	59.6%
Total	**85.8%**	**85.5%**	**83.1%**

Please note that scope 3 data was not a mandatory requirement for the year 1 report, hence why there is no scope 3 data coverage figure for 2022 above.

Since last year, progress has been made by the Fund's equity and multi-asset credit managers in their Scope 1&2 data coverage. However, the inability of the Fund's property manager to provide any data for the Property fund for the current reporting period, due to the fund being in liquidation, has offset the data coverage improvements seen across the equity and multi-asset credit managers.

The carbon emissions associated with cash were not collected last year. This year, they have been collected which has caused the data coverage for cash to increase significantly, with a marginal uplift to the Fund's overall data coverage due to the limited allocation to cash.

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

Steps the Trustee is taking to reach the target

To continue to progress towards its target, the Trustee plans to take the following steps:

- The Trustee will engage with managers who were unable to provide the required level of data, with support from its investment consultant.
- The Trustee will attempt to ensure managers are providing consistent data, with support from its investment consultant.

Appendices

Glossary

Governance	refers to the system by which an organisation is directed and controlled in the interests of shareholders and other stakeholders.[2] Governance involves a set of relationships between an organisation's management, its board, its shareholders, and other stakeholders. Governance provides the structure and processes through which the objectives of the organisation are set, progress against performance is monitored, and results are evaluated.[3]
Strategy	refers to an organisation's desired future state. An organisation's strategy establishes a foundation against which it can monitor and measure its progress in reaching that desired state. Strategy formulation generally involves establishing the purpose and scope of the organisation's activities and the nature of its businesses, taking into account the risks and opportunities it faces and the environment in which it operates.[4]
Risk management	refers to a set of processes that are carried out by an organisation's board and management to support the achievement of the organisation's objectives by addressing its risks and managing the combined potential impact of those risks.[5]
Climate-related risk	refers to the potential negative impacts of climate change on an organisation. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise). Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations.[6]
Climate-related opportunity	refers to the potential positive impacts related to climate change on an organisation. Efforts to mitigate and adapt to climate change can produce opportunities for organisations, such as through resource efficiency and cost savings, the adoption and utilization of low-emission energy sources, the development of new products and services, and building resilience along the supply chain. Climate-related opportunities will vary depending on the region, market, and industry in which an organisation operates.[7]

[2] A. Cadbury, Report of the Committee on the Financial Aspects of Corporate Governance, London, 1992.
[3] OECD, G20/OECD Principles of Corporate Governance, OECD Publishing, Paris, 2015.
[4] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017
[5] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017
[6] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017
[7] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017

Greenhouse gas emissions scope levels[8]	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 refers to all direct GHG emissions. Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam. Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include: the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g., transmission and distribution losses), outsourced activities, and waste disposal.[9]
Value chain	refers to the upstream and downstream life cycle of a product, process, or service, including material sourcing, production, consumption, and disposal/recycling. Upstream activities include operations that relate to the initial stages of producing a good or service (e.g., material sourcing, material processing, supplier activities). Downstream activities include operations that relate to processing the materials into a finished product and delivering it to the end user (e.g., transportation, distribution, and consumption).[10]
Climate scenario analysis	is a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. In the case of climate change, for example, scenarios allow an organisation to explore and develop an understanding of how the physical and transition risks of climate change may impact its businesses, strategies, and financial performance over time.[11]
Net zero	means achieving a balance between the greenhouse gases emitted into the atmosphere, and those removed from it. This balance – or net zero – will happen when the amount of greenhouse gases add to the atmosphere is no more than the amount removed.[12]

[8] World Resources Institute and World Business Council for Sustainable Development, The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition), March 2004.
[9] PCC, Climate Change 2014 Mitigation of Climate Change, Cambridge University Press, 2014.
[10] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017
[11] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017
[12] Energy Saving Trust, What is net zero and how can we get there? - Energy Saving Trust, October 2021

Appendix – An explanation of climate risk categories

Climate-related risks are categorised into physical and transition risks. Below are examples of transition and physical risks.

Transition risks

Transition risks are those related to the ability of an organisation to adapt to the changes required to reduce greenhouse gas emissions and transition to renewable energy. Within transition risks, there are four key areas: policy and legal, technological innovation, market changes, and reputational risk.

Policy and legal

Examples

Increased pricing of GHG emissions

Enhanced emissions-reporting obligations

Regulation of existing products and services

Potential financial impacts

Increased operating costs (e.g. higher compliance costs, increased insurance premiums)

Write-offs, asset impairment and early retirement of existing assets due to policy changes

Technology

Examples

Cost to transition to lower emissions technology

Unsuccessful investments in new technologies

Potential financial impacts

Write-offs and early retirement of existing assets

Capital investments in technology development

Costs to adopt new practices and processes

Market

Examples

Changing customer behaviour

Uncertainty in market signals

Increased cost of raw materials

Potential financial impacts

Reduced demand for goods and services due to shift in consumer preferences.

Abrupt and unexpected increases in energy costs.

Re-pricing of assets (e.g., fossil fuel reserves, land valuations, securities valuations).

Reputational

Examples

Stigmatisation of sector

Increased stakeholder concern or negative stakeholder feedback

Potential financial impacts

Reduced revenue from decreased demand for goods and services.

Reduced revenue from decreased production capacity (e.g., delayed planning approvals, supply chain interruptions)

Reduced revenue from negative impacts on workforce management and planning

Physical Risks

Physical risks refer to the physical impacts of climate change on a firm's operations. They directly impact a firm's ability to perform its function due to climate disruption. They fall into two subcategories: acute and chronic. Acute risks are extreme climate events such as flooding and wildfires, and chronic risks are trends over time such as an increase in temperature or ocean acidification.

Acute	Chronic
Examples	**Examples**
Extreme heat	Water stress
Extreme rainfall	Sea level rises
Floods	Land degradation
Droughts	Variability in temperature
Storms (e.g., hurricanes)	Variability in precipitation

Climate related Opportunities

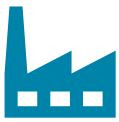
There are climate related opportunities which aid investors in transition to a low carbon economy.

Cleaner energy

Green power generation,
clean technology innovation,
sustainable biofuels

Environmental resources

Water,
agriculture,
waste management



Energy and materials efficiency

Advanced materials,
building efficiency,
power grid efficiency

Environmental services

Environmental protection,
business services

Appendix – Climate scenario modelling assumptions

Please note that the summary of the impact to the Fund above has been assessed based on Aon's risk and return assumptions as at 31 October 2022. The assessment was qualitative in nature and considered the long-term exposure of the Fund to climate-related risks and the pattern of asset returns over the long-term. No liability was modelled during this assessment.

The qualitative analysis intends to illustrate the climate-related risks the Fund is currently exposed to, highlighting areas where risk mitigation could be achieved through changing the portfolio allocation.

i. Other relevant issues such as governance, costs, and implementation (including manager selection and due diligence) must be considered when making changes to the investment strategy.
ii. Climate-related risks are considered on an asset class level, and do not consider the specific geographical locations which will have a strong influence on the climate-related risk the Fund is exposed to.

Investment risk is only captured in the deviance from the Base Case, but this is not the only risk that the Fund faces; other risks include covenant risk, longevity risk, timing of member options, basis risks and operational risks.

The analysis has been set up to capture recent market conditions and views; the analysis may propose different solutions for the same strategy under different market conditions.

Appendix – Greenhouse gas emissions in more detail

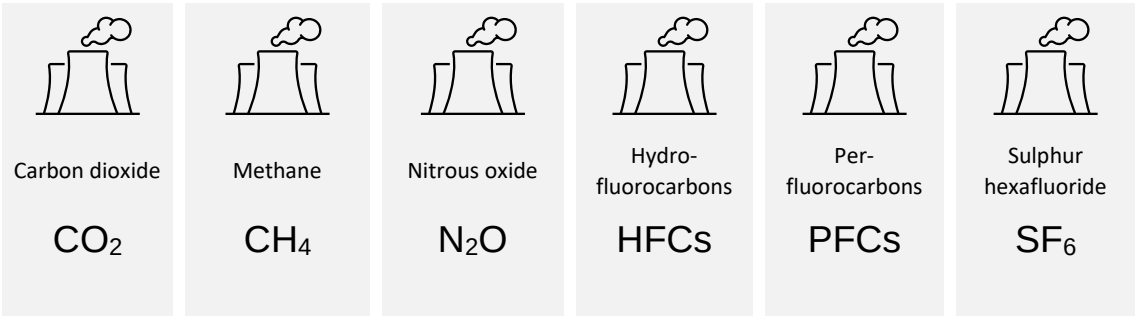
Greenhouse gases in the atmosphere, including water vapour, carbon dioxide, methane, and nitrous oxide, keep the Earth's surface and atmosphere warm because they absorb sunlight and re-emit it as heat in all directions including back down to Earth. Adding more greenhouse gases to the atmosphere makes it even more effective at preventing heat from leaving the Earth's atmosphere.

Greenhouse gases are vital because they act like a blanket around the Earth making it the climate habitable. The problem is that human activity is making the blanket "thicker". For example, when we burn coal, oil, and natural gas we send huge amounts of carbon dioxide into the air. When we destroy forests, the carbon stored in the trees escapes to the atmosphere. Other basic activities, such as raising cattle and planting rice, emit methane, nitrous oxide, and other greenhouse gases.

The amount of greenhouse gases in the atmosphere has significantly increased since the Industrial Revolution. The Kyoto Protocol[13] identifies six greenhouse gases which human activity is largely responsible for emitting. Of these six gases, human-made carbon dioxide is the biggest contributor to global warming.

Each greenhouse gas has a different global warming potential and persists for a different length of time in the atmosphere. Therefore, emissions are expressed as a carbon dioxide equivalent (CO_2e). This enables the different gases to be compared on a like-for-like bases, relative to one unit of carbon dioxide.

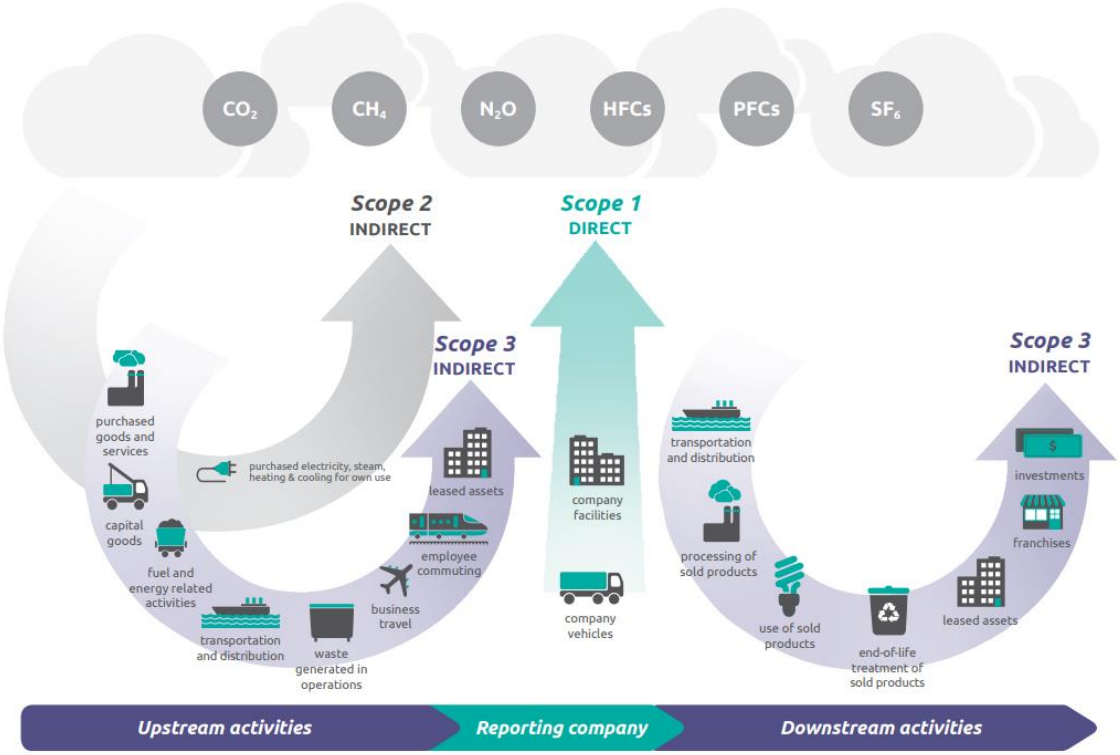
Six main greenhouse gases identified by the Kyoto Protocol



[13] https://unfccc.int/kyoto_protocol

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

Overview of GHG Protocol scopes and emissions across the value chain



Source: Greenhouse Gas Protocol, Corporate value chain (scope 3) Accounting and Reporting Standard, 2011