The C&J Clark Pension Fund

Climate Change Report 2024

For the year ending 31 December 2023

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Introduction

The Trustee of the C&J Clark Pension Fund (hereinafter referred to as the “Trustee” and the “Fund,” respectively) presents its annual report under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the “Regulations”) for the year ended 31 December 2023. The principal employer of the Fund is C&J Clark (No.1) Limited (Company no. 3342369).

The Fund is now subject to the requirement to produce disclosures in line with the recommendations of the Task Force on Climate Related Disclosures (TCFD), as transposed into UK law in 2021. The aim is to improve and increase reporting of climate-related financial risks and opportunities. The first report was conducted and published for C&J Clark Pension Fund in 2023 and can be found here.

The Fund is comprised of two separate Sections: the first being the Fund's original assets and liabilities in the "CJC Section", comprising of Plan 35, Plan E and Plan 18. The second section is the former Clarks Flexible Pension Scheme merged into a newly created Section of the Fund which is called the "Flexible Section". Because the merger was implemented on a legally segregated basis, the assets and liabilities of each Section must be ring-fenced from the other Section, with no cross-subsidisation permitted between the Sections. The Flexible Section assets are invested in matching assets (predominantly UK Gilts, Index Linked Gilts and Corporate Bonds), which are similar in nature to a significant proportion of the CJC Section assets. Both the Flexible Section and DC Section represent a small proportion of overall Fund assets. Due to relative materiality, some of the analysis in the report focusses on Plan 35 and Plan E (which together represent the vast majority of assets).The TCFD framework requires disclosures in four broad categories:

- **Governance:** Activities around climate-related risks and opportunities.
- **Strategy:** the actual and potential impact of climate-related risks and opportunities on the strategy and financial plans of the Fund.
- **Risk management:** how the scheme identifies, assesses, and manages climate-related risks
- **Metrics and targets:** the metrics and targets used to assess and manage climate-related risks and opportunities

This report sets out the Fund’s approach to compliance in each of these four areas

Figure 1. TCFD Framework

Section 1: Governance

The Trustee Board have identified climate change, alongside other Environmental, Social and Governance (ESG) factors, as important risks and opportunities which require sustained, long-term oversight and management. The Trustee Board has ultimate responsibility for setting the Fund's strategy, policies, and actions in this area.

The Trustee has delegated the day-to-day responsibility of ensuring that the established policy for monitoring climate-related risk and opportunities is integrated in the Trustee's investment strategy, risk management and decision making to the Investment Committee (IC). The Investment Committee is made up of a diverse board selected for their appropriate knowledge and skill. The IC's role is to oversee ongoing investment matters and between Trustee Board meetings, they operate to develop the Fund's investment and funding strategy on behalf of the Trustee. During this time, they also liaise with the Company on matters relating to the investment strategy, funding, and covenant. The Trustee Board supervises the Fund's risk management framework while the Operations Committee reviews the Fund's Report and Financial Statement Accounts and other regulatory disclosures. Meetings with the IC must happen no less than four times in a business year or more frequently as required. The Terms of Reference for the Investment Committee was last reviewed in September 2022. Any changes to the Terms of Reference will be agreed by the full Trustee Board.

For more in depth details of the IC's duties see below:

- To propose and monitor the strategic investment objective.
- To propose and monitor individual managers' mandates in accordance with the strategic objective.
- To propose and monitor an appropriate default strategy and self-select funds for DC members.
- To consult with the Company (as required) on proposed updates and changes to the investment and funding strategy.
- To investigate and develop proposals and make recommendations to the full Trustee Board on strategic investment opportunities.
- To hold discussions with the Company on matters relating to funding and the covenant including discussions on the triennial valuation and Statutory Funding Objective and report back to the full Trustee Board.
- To act in extreme circumstances if and when necessary

The main parties that support the Trustee in implementing its policies in relation to climate change, sustainable investment and risk management more widely, are:

- **Investment consultant (WTW)** – Who helps the Trustee to formulate investment beliefs and to reflect these in the Fund's investment policies and strategy. The investment consultant also helps the Trustee with conducting scenario analysis, advises on how climate-related risks and opportunities might affect the Fund over the short, medium and long term and provides ad hoc specialist advice on a variety of pension matters, including risk management.
- **Investment managers –** Responsible for managing climate change risks and opportunities within their mandates as per their guidelines. This includes the selection of assets as well as the managers' stewardship activities. The Trustee receives reporting on an annual basis to assess the underlying managers' competencies. This provides an assessment of the managers' approach to ESG integration and stewardship activities as well as consideration of a balanced scorecard of climate metrics which provide insight into the managers' underlying exposures to climate change risks and opportunities. Additionally, the investment managers provide a range of climate specific

data, such as greenhouse gas ("GHG") emissions, for the Fund and implement the policies related to climate-related financial disclosure as outlined in the Statement of Investment Principles (SIP).

- **The Fund Actuary (Hymans Robertson LLP) –** The Trustee also takes advice from the Fund's Actuary Hymans Robertson LLP, who performs valuations of the Fund and who advises on how climate-related risks and opportunities might affect the Fund's funding position over the short, medium and long-term and the implications for the Fund's funding strategy.
- **The Covenant adviser (Penfida Limited London) -** The Covenant Adviser, who provides advice to the Trustee on the ability of the Sponsor to support the Fund assessing the financials of the business.

The key overarching investment policies are detailed in our Statement of Investment Principles (SIP) which can be found online at the following link: https://www.clarkspensions.co.uk/resources/c-j-clark-pension-fund-statement-of-investment-principles-june-2024/. The Trustee has considered how sustainability and ESG factors should be taken into account in the selection, retention and realisation of long-term investments. This includes climate change which the Trustee recognises can present potentially material risks to the portfolio but could also potentially present new investment opportunities. The SIP also sets out the Trustee beliefs with regards to Sustainable Investments. The Trustee reviews the SIP at least annually and without delay after any significant change in investment policy.

As part of the day-to-day management of the assets, the Trustee has largely delegated to the investment managers to consider climate risk as part of its overall management process. As a result, the Trustee expects the Fund's investment managers, where appropriate, to have integrated ESG factors as part of its investment analysis and decision-making process and will review managers with respect to relevant matters including performance and risk as well as ESG factors. The IC meet with the managers on an annual basis and ask them to present on the managers' policies on ESG, approach, stewardship, and engagement policies. In 2023, the IC updated the policies in the SIP and the IC have also shared a copy of the latest SIP with the investment managers to inform them of the Fund's Stewardship policy and priorities (with Climate Risk being identified as a key priority) and asked them to provide detail on how they have performed in light of the policy. When considering its policy in relation to stewardship including engagement and voting, the Trustee expects investment managers to address broad ESG considerations but has identified climate change and human and labour rights as stewardship priorities for the Trustee. The policies contained within the SIP are reviewed annually to ensure they remain appropriate and aligned with the Trustee's wider objectives. The IC keep records of manager presentations and meeting minutes. The IC and Trustee receive performance monitoring updates on a semi-annual basis with performance updates provided quarterly.

Since the last report, the Trustee received further training in May 2023 on regulatory updates relating to Stewardship, Voting and Engagement that require documenting in the Fund's Implementation Statement and Statement of Investment Principles. A further session on discussing the Funds plan and preparation for their second year of reporting on TCFD was then conducted in February 2024, topics covered included metrics and targets and further training. The IC have a specific objective for WTW as Investment Advisers relating to supporting the Fund when it comes to climate risk. The IC undertake a review of the Investment Consultant against this objective on an annual basis, with the last review carried out in November 2023. The IC was satisfied with the Investment Consultant's abilities, advice and training provisions against this objective. These training sessions and the quarterly IC and Trustee Board meetings provide an opportunity for the Trustee to receive updates on climate-related risks and opportunities and discuss output from the processes with relevant advisers. The sessions also provide a forum for open dialogue between the Trustee and its advisers and provide the opportunity to question or challenge information provided to the Trustee. The Trustee seeks to ensure an appropriate amount of time and resource is allocated to overseeing all risks and opportunities relevant to the Fund, including climate-related risk and opportunities.

Context for investment strategy

Plan 35, Plan E and the Flexible Section have low-risk portfolios, with most assets invested in Liability Driven Investment (largely UK Government Bonds), high quality credit and bulk annuities (contracts with Insurers to cover certain benefits). As at 31 March 2024, over 95% of the assets held in the Main Section were invested in bulk annuities, high quality credit, LDI and cash with 100% of the Flex Section invested in high quality credit, LDI and cash.

The Fund has a relatively short-term time horizon to increase the number of bulk annuities held, to further protect the promised member benefits. The Trustee currently has the means and the intention to fully insure the Fund over the mentioned timeframe. Whilst the Trustee continues to place a high-level of priority on further engaging with, monitoring, and seeking to manage climate change risks and opportunities, this broader context does mean the Trustee is starting from a relatively low risk position and has less tools at its disposal than other pension schemes. This does not suggest complacency, the Trustee still believes long-term sustainability to be an important and relevant issue to consider throughout the investment process. In particular, the Trustee recognises that: an investment's financial success can be influenced by a wide range of factors including environmental, social and governance (ESG) issues (including climate change) and stewardship (including voting and engagement) activities. Therefore, as part of selecting any future partner for further bulk annuities, Hymans Roberston will be reviewing the ESG credentials of the Insurers as part of the selection process.

Plan 18 is a Defined Contribution (DC) arrangement offering members a range of lifestyle and self-select fund options covering a range of asset classes, including equities, bonds and property. The governance arrangements for Plan 18 are as described above.

Section 2: Strategy

The Trustee believes that part of its fiduciary duty is to manage climate change and associated risks and opportunities within the Fund's investment portfolio. Climate change is a financially material consideration, and the Trustee has determined that climate change could have a negative or a positive impact on the Fund from the point of view of the returns available on its investments, its funding position, the potential impact on members retirement outcomes and the support made available by the Sponsor. Scenario analysis is intended to be conducted every three years. In the intervening years between full reviews the Trustee considers if it is appropriate to bring forward the next review (which then also resets the three-year cycle). Whilst the investment strategy has changed since 30 September 2022, the Trustee is conscious that there are still some ongoing changes to the investment strategy given the objective to target purchasing more bulk annuities by the end of 2024, hence the Trustee's view is that a refresh of the scenario analysis would be more appropriate at the completion of the strategy review / changes. The changes made to the investment strategy were all aimed to reduce overall risk but there were limited changes to the Fund's membership, sponsoring employer's covenants and the underlying climate scenarios available to test the robustness of the funding strategy. Therefore, there has been no change made to the below scenario analysis.

The Trustee has looked at the potential effects of climate change over a range of identified time horizons for the Fund using 31 December 2022 as the baseline for the climate metrics analysis, which is updated and reviewed annually. More detail is provided in Section 4.

During the year, the Fund completed some de-risking for the Main Section which involved disinvesting 100% from Alpha Real. During Q4 2023-Q1 2024, the Trustee have also looked to disinvest from Greencoat and Equitix respectively as part of continued exploratory discussions regarding purchasing further bulk annuities.

The scenario analysis and metric analysis focuses on Plan 35, Plan E and excludes Plan 18 and the Flexible Section as they represent a materially smaller portion of the Fund's assets and therefore the Trustee has taken a proportionate approach. The investment portfolio of the Flexible Section is largely invested in matching assets (Gilts, Index Linked Gilts and Corporate bonds) and, as a result, is very similar in nature to the vast majority of assets of the Main Section, so comfort can be taken that the review of the Main Section can largely be seen as relevant to the Flexible Section too. For both Plan 18 and the Flexible Section, climate risk is instead considered as part of the governance arrangements on an ongoing basis.

To appropriately assess the impact of the climate change scenario analysis, the Trustee have agreed the suitable time horizons over which climate risks and opportunities should be considered. Given the Fund's target of full buy-out within the next five years, the short-term time horizon is most relevant and applicable. These timeframes considered are explained below:

- **Short Term** – to 2024. The period to 2024 was selected as a short-term objective as this is when the strategy will be reviewed as part of preparing to approach the market to consider further bulk annuities.

- **Medium Term** – to 2027: The expected date by which the overwhelming majority of benefits are expected to be insured (2027).

- **Long Term** – to 2030: The period to 2030 and beyond, when the Fund is expected to have wound-up and beyond the expected timeframe to buyout.

The Trustee has identified the following climate-related risks and opportunities:

- **Physical risks.** This relates to the direct effects of climate change on the Fund and its members. These risks are expected to be longer-term in nature, but they are also expected to be limited in scope to the effects of climate change-related weather and other natural events on the businesses of invested companies, and the effect of changing temperatures on the mortality of Fund members. These could have varying effects on the funding and investment strategy of the Fund, but the direction and size of the effects are unlikely to be clear for a considerable period of time. This is therefore considered between the medium-long term time horizon identified above.

- **Transition risks and opportunities.** This relates to the risks and opportunities arising from efforts made to transition towards a net-zero economy (both domestically and globally) to limit climate change. These risks and opportunities are generally expected to occur in the short-medium term time horizon identified above, with some perhaps occurring in the short term. Risks arising could include regulatory or societal changes rendering parts of the business of invested companies worthless – for example, fossil fuels 'in the ground' which become economically unviable to extract due to a lack of a suitable market or due to regulations preventing its extraction. Opportunities include early investment in assets, which are likely to benefit from climate change adaptations, such as green energy providers. The Trustee are actively looking to mitigate the risks and take advantage of the opportunities which occur in order to improve the likelihood of meeting our short- and medium-term funding and investment goals.

- **Regulatory risks.** Regulators are increasing pressure on pension schemes to explicitly consider climate change. Examples of regulatory updates being; Implementation Statements, the DWP Pensions bill and mandatory climate change reporting.

- **Reputational risks.** The increasing spotlight on pension schemes and climate change increases the risk of being "named and shamed.

The Trustee understands the short term relates to the period to the end of 2024 where the Fund plans to invest in a full bulk annuity for the Plan 35, Plan E and the Flexible Section. This period is likely to be defined primarily by transition risk and therefore market risk (in this context the risk of a sudden repricing of assets in response to changing views on climate transition), although there is some exposure to physical risk. The impact of climate change on the Fund in this time will depend heavily on regulations and the improvement in understanding emissions data. Over this period the risk management tool for the Trustee will be the ability of the Fund's investment managers to identify those companies which are likely to be most affected by climate transition, both positively and negatively, and to position the Fund's investments accordingly. For the Plan 18 Section and the Flexible Section, where the majority of assets are managed passively and represent a significantly smaller portion of assets, the Trustee will look to engage with managers as part of ongoing governance.

Medium-term risks are those that will be present in the timeframe to 2027, namely longer-term market risk and the increasing early signs of physical risks. The Trustee plans to manage these risks by assessing any potential insurers on their climate risks.

In the long-term (2030 and beyond) the physical risks resulting from climate change will become material. The precise impact of these is very difficult to ascertain at this point, limiting the ability of the Trustee to manage these risks. The Trustee expects the Fund's managers to work over the coming years to improve the quality of data and the resources available to better understand the risks and opportunities and to position the Fund's investments accordingly.

Climate Scenario Analysis

The Trustee has carried out climate change scenario analysis in partnership with its investment and actuarial advisers for Plan 35, Plan E. Although separate analysis has not been conducted specifically on the Flexible Section, the Trustee believe the conclusions are still relevant given the similarities in the underlying investments – the majority of assets held in the Flexible Section are LDI and credit, similar to the Plan 35, Plan E. The aim of this analysis was to help the Trustee to quantify the potential effects of climate change on the Fund's assets, liabilities and covenant. The Trustee considered four separate scenarios which are in part defined through its success, or otherwise, in meeting the Paris Agreement target of a sub-2.0ºC temperature rise.

These scenarios have been considered as the Trustee believes that they cover a plausible and comprehensive range of climate outcomes over the long-term:

1. A clear transition narrative that describes the socioeconomic pathway, both globally and regionally, from climate policies implemented and resulting in technological and societal shifts that occur.

2. Modelled emissions pathways, (typically communicated using the Representative Concentration Pathways developed by the IPCC) resulting from the implementation of public policies and technologies resulting in the level of temperature rise.

3. A set of economic costs and benefits resulting from physical and transition risks and opportunities.

4. The impact on financial returns at the asset class level.

The Trustee understand that WTW made a series of simplifying assumptions to shield the analysis from being obscured by other factors. All the analysis was conducted as at 30 September 2022.

The key assumptions were as follows:

- No change to the level of prudence in the discount rate relative to the yield on government bonds

- The impact of the climate scenarios is experienced in a linear way over the projection period

- The impact of climate change is time dependant, with transition risk being front-loaded over the first 10 years, and physical risk following over the remainder of the projection period (up to 20 years)

- Investment return assumptions are calibrated from the long-term historical experience across a wide range of countries, but then further calibrated to reflect future returns being lower than suggested by the historical track record reflecting WTW's belief that markets are more expensively priced than they have been and a number of the historic tailwinds for markets (debt, demographics, globalisation) are likely to turn into headwinds in the immediate future and new headwinds such as climate change will emerge

- Gilts will not be materially impacted by climate risk over the short term.

While each of the scenarios selected reflect pathways, it is broadly acknowledged that there is material uncertainty in all aspects of climate scenario modelling. It is not yet known which energy transition pathway will transpire and it could look quite different to those modelled. The projections served to illustrate the possible future range of long-term returns from different asset classes and their inter-relationship, but it is recognised that no economic model can be expected to capture perfectly future uncertainty, particularly the risk of extreme events. The projections also served to illustrate the potential variability, but it is recognised that these are subjective, and arguments could be made for different outcomes. The scenario analysis takes no account of developments after the date of its presentation to the Trustee. The impact and potential impact of these risks and opportunities is explored through the climate change scenario modelling in the pages below.

The following scenarios were used in the analysis:

Table 1. Climate Scenarios Definitions

	Lowest Common Denominator	Inevitable Policy Response	Global Coordinated Action	Climate Emergency
Description	A 'business as usual' scenario where current policies continue with no further attempt to incentivise further emission reductions.	A delay in meaningful action but a rapid shift in policy in the mid/late 2020s. Policies are implemented but not in a completely co-ordinated manner.	Policy makers agree on and immediately implement policies to reduce emissions in a globally co-ordinated manner.	An immediate, ambitious and coordinated response in which aggressive policy is pursued and more extensive technology shifts are achieved.
Temperature rise vs pre-industrial levels	3.5ºC	2.0ºC	2.0ºC	1.5ºC
Renewable energy by 2050	30-40%	80-85%	65-70%	80-85%
Transition risk level (shorter term)	Low	High	Low – Medium	Medium – High
Physical risk level (longer term)	High	Low – Medium	Low	Low

Impact of Climate of the Fund's Funding Level

The analysis examined the effect the climate scenarios had on both assets and liabilities over the next 20 years and how that impacts overall funding. The results are outlined below. The numbers illustrate that transition risks (which are assumed to occur in the first 10 years of the modelling) are likely to be larger than physical costs due to the relatively short time horizon of the Fund. There are potentially sizeable drags on returns from transition in both the Climate Emergency scenario and the Inevitable Policy Response scenario, with the physical costs from 10 years onwards less significant. From a financial perspective, the most harmful scenario to assets is therefore the Inevitable Policy Response scenario. The impact on the Fund's liabilities has been calculated by modelling four different mortality outcomes, a large and moderate increase and decrease in life-expectancy before assigning a probability of each outcome in the scenarios above. The impacts on the Fund's liabilities are net of the pensioner bulk annuity.

The results below are not forecasts of the Fund's funding position but are instead used to quantify potential outcomes under the specific illustrative scenarios.

The Least Common Denominator scenario results in a better evolution of funding versus the base case over the period considered, as some of the worst physical effects on asset prices tend to be in the 2040s, whilst mortality effects impact more quickly.

The table below shows the results of an alternative method of analysis which projects the long term (10 and 20 year) average drag on asset and liability returns, and then considers the cumulative drags on net return.

N.B.: this analysis is less relevant to the Fund as it considers a term that extends beyond the Fund's time to buy-out. The Trustee have shown the result of the analysis for completeness.

Table 2. Impact of Climate Drags on the Fund's Funding Level

Scenario	Avg. annual drag on asset expected returns	Avg. drag on liability expected return	Combined cumulative drag at 10 years	Combined cumulative drag at 20 years
Lowest Common Denominator	-0.05%	-0.26%	+3.48%	+4.27%
Inevitable Policy Response	-0.14%	-0.10%	-0.84%	-0.68%
Global Co-ordinated Action	-0.02%	+0.17%	-2.11%	-3.72%
Climate Emergency	-0.09%	-0.03%	-1.04%	-1.28%

The timing of the impact from climate change is uncertain. Therefore, as part of the analysis the Trustee has assessed the impact by looking at different time horizons. The below table shows the asset and liability impacts by assuming they occur as an instantaneous shock (if the Trustee were to allow for the entire climate change impact to be capitalized instantaneously).

Table 3. Impact of Climate Shocks on the Fund's Funding Level

Scenario	Asset Shock (£m)	Liability Shock (£m)	Change in Deficit (£m)	New Funding Level	Change in Funding Level
Lowest Common Denominator	-20.1	-32.8	12.7	98%	1.8%
Inevitable Policy Response	-32.6	-13.1	-19.5	93%	-3.2%
Global Co-ordinated Action	-9.1	22.9	-32.0	91%	-4.6%
Climate Emergency	23.7	-3.3	-20.4	93%	-3.2%

As part of the above analysis, the Trustee has also engaged with the Sponsor and reviewed publicly available information to determine how the Sponsor could be impacted under the above climate scenarios considered. As part of these discussions, the Trustee has reviewed the May 2024 non-financial and sustainability information statement. Since the first TCFD report published by the Trustee, the Sponsor has put in place a new sustainability strategy that aligns with the companies Objectives, Goals, Strategy, Plans strategic approach.

The Sponsor recognizes the importance of establishing targets and appropriate TCFD metrics and noted the desire to identify further metrics and targets that can be used to assess climate threats and opportunities contingent on materiality. The current report provide scope 1,2 and 3 information on tonnes of carbon dioxide equivalent. This year, the Sponsor will also set a Net Zero target and continue to develop environmental targets in 2024, with more detailed disclosures to be included in future TCFD reports.

In 2024, the Sponsor conducted qualitative climate change scenario analysis, categorizing identified risks into physical risks, transition risks, and opportunities. These risks were then mapped against short-term (0-3 years), medium-term (3-5 years), and long-term (over 5 years) timeframes. Three scenarios were developed, tailored to Clarks but based on credible, publicly available frameworks:

1. **Scenario 1 (1.5°C):** Rapid global action by governments, businesses, and individuals to limit climate change to below 1.5°C above pre-industrial levels, aligning with the Paris Agreement. Significant policy shifts, operational costs, and changes in consumer behaviour occur.

2. **Scenario 2 (2°C):** Minimal change in global response to greenhouse gas (GHG) emissions. Emissions plateau but remain insufficient to meet the Paris Agreement target, leading to increased uncertainty and climate impacts, especially in vulnerable regions.

3. **Scenario 3 (3°C):** Continued reliance on fossil fuels leads to a global crisis with accelerated climate change. Nations focus on protecting their own resources, and severe or catastrophic impacts become evident.

The full scenario analysis can be found in the C & J Clark (No.1) Limited Annual Report and Financial Statements for the Year ended 31 December 2023, available via the Companies House search webpage https://www.gov.uk/get-information-about-a-company

The climate scenario analysis conducted by C&J Clark (No.1) Limited in 2024 showed that by the year 2030, one of the risks they would be facing is increased volatility in the supply chain by increased risks from water shortage and rising climate-related migration.

The Trustee has reviewed the reports and has been reassured that the Sponsor is considering climate risk and has assessed the scenario analysis, noting that specific targets and more work will be conducted in 2024.

Given the very strong funding position of the Fund, the Trustee also has a relatively low likelihood of reliance on the Sponsor in the future. The Trustee will continue to hold discussions with the Sponsor to provide further detail on how the Sponsor is working to appropriately manage and monitor climate changes risks and opportunities.

Summary

The Trustee understands that the scenario analysis is just indicative and is used to support wider discussions on climate risk. Based on the analysis, the Trustee's assessment is that the investment and funding strategy of the Fund is relatively resilient against climate risk, and that the Fund is expected to be relatively well protected against the impact of climate change both as a gradual impact and a sudden shock. This was driven by three key factors:

- The Fund's strong funding position – The funding level remains above 90% on a gilts + 0% basis across all scenarios.

- The Fund's low-risk asset portfolio – The Fund has c.80% of assets invested in bulk annuities, high quality corporate bonds and UK Government bonds.

- The Fund has already insured some member benefits – The Trustee has already mitigated some of the life expectancy risk within the Fund, with c.25% of assets invested in bulk annuities.

Additionally, the Trustee recognises that scenario analysis alone cannot be the sole basis for assessing climate risk, and that appropriately assessing climate risk requires a multi-faceted approach. Having climate risk embedded into beliefs and monitoring on an on-going basis is an essential requirement to success in this area, and the Trustee does so through regular sustainable investment reviews, beliefs reviews, and having climate risk documented and assessed routinely on its risk register.

Section 3: Risk Management

Although the analysis showed the Fund's funding strategy to be relatively resilient, the Trustee will continue to engage with the Sponsor to understand its climate risk strategy.

Risk management is also of fundamental importance to pension management as all pension plans are exposed to multiple risks. Climate change is a key risk and opportunity and therefore receives particular attention as part of our ongoing risk management processes.

The Trustee seeks to identify, assess and mitigate relevant risks, including those related to climate change, through its established governance structure detailed in Section 1. The risk register, which is maintained by the sub-committees, includes climate change as a specific risk. This clearly details the size and likelihood of the risk, the controls in place and the actions the Trustee takes to manage, mitigate, and exploit both this risk and opportunity. Although the Trustee retains ultimate ownership, the risk register clearly sets out the parties that assist the Trustee and Trustee responsibilities. The risk register is monitored on a quarterly basis and reviewed in-depth of relevant sections on a quarterly basis by the relevant sub-committees.

The climate change scenario analysis presented to the Trustee, mentioned in Section 2, provides a holistic overview of the potential impacts of climate change and how they may affect the Fund's funding strategy (across assets, liabilities, and covenant). This is an important risk management tool for a top-down risk and opportunity assessment.

The Trustee conducts an annual review of the Investment Managers and underlying investment manager policies, processes, and actions in the area of Sustainable Investment, which includes a focus on climate change. The Trustee's policy is to delegate to the investment managers' stewardship activities such as the exercising of rights attaching to investments, including voting rights, and engagement with relevant persons about matters including ESG considerations. Whilst the Trustee's policy is to delegate a number of stewardship activities to the investment managers, the Trustee recognises that the responsibility for these activities remains with the Trustee. The Trustee has also identified the following stewardship priorities; climate change and human and labour rights, and expects the investment managers cast votes on its behalf in a manner that is consistent with the agreements of the relationship and the Fund's SIP. These votes and engagements are documented on an annual basis as part of the Fund's Implementation Statement.

The Trustee also receives quarterly updates from its covenant advisers as to the ability of the Sponsor to meet its obligations to the Fund. The Trustee looks to invite the Sponsor to at least one meeting a year, to discuss the Sponsor's business plans and can use this opportunity to gain further information from the sponsor regarding its resilience to climate change, as required.

The Fund Actuary, Hymans Robertson LLP, who performs actuarial valuations of the Fund and who advises on how variations in future experience compared with the assumptions adopted, will support the Trustee in factoring in climate risk as part of the 2023 valuation of the Fund liabilities.

The below case study provides an example of an impact investment (investing in assets such as green energy) that is currently in the Fund's portfolio.

Case Study

GREENCOAT SOLAR II LP

Greencoat's solar business acquires and manages ground mount solar assets in the UK. Each solar farm has a life span of over 25 years and preserves natural habitats through hedgerow and tree planting, placement of bat and bird boxes, and animal grazing from neighbours. The Trustees no longer had exposure to Greencoat from September 2023.

- In 2020, Greencoat acquired 28 operating solar PV assets adding a further 224MW to its renewable power generation capacity.
- As at 31 December 2021, Greencoat owned 123 solar farms, managing 912GWh of net generation capacity.
- In 2021 alone, Greencoat's solar farms saved 365,000 tonnes of CO_2 from entering the atmosphere, and generated energy equivalent to powering 315,000 homes.

Section 4: Metrics and Targets

Introduction and overview

A key facet of our ongoing monitoring and management of climate change is having good data on the Fund's exposure in this area. Although there are limitations with some of the metrics presented and the completeness of data, the Trustee believes that these can helpfully inform the Trustee of ongoing monitoring and management of the Fund. The Trustee considers metrics across the Sustainable Investment spectrum, but the focus within this statement is those in climate change. The metrics disclosed have been selected from the following categories:

- An absolute emissions metric
- An emissions intensity metric
- An alignment metric
- One additional climate change metric

It is also important to be clear which emissions are captured within the above metrics and therefore the Trustee has referred to the categories of emissions identified within the Kyoto Protocol. These are as follows:

- Scope 1 emissions: all direct emissions from the activities of an entity or the activities under its control
- Scope 2 emissions: indirect emissions from electricity purchased and used by an entity which are created during the production of energy which the entity uses
- Scope 3 emissions: all indirect emissions from the activities of the entity, other than scope 2 emissions, which occur from sources that the entity does not directly control.

Due to the nature of the emissions, scope 3 emissions are significantly more difficult to calculate than scope 1 or scope 2 emissions for any given entity. It is also the case that, for some assets, even scope 1 and scope 2 emissions are difficult to calculate. Scope 3 emissions are all indirect emissions (excluding emissions from the generation of purchased energy) that occur in the value chain of the reporting company, including both upstream and downstream emissions. There are significant challenges at present regarding the availability and consistency of Scope 3 emissions from corporates, where data is available this has largely been estimated. As this is a continuously evolving area, it is not expected that these would be incorporated into the Fund's target. The Fund has included Scope 3 emissions where data allows, in the below table.

Overview of analysis

The below analysis relates to the Main Section Plan 35, Plan E Fund, data for the Flexible Section, Plan 18 and AVC's has not been included due to their immateriality within the portfolio.

The following table details the rationale for choosing these metrics.

Table 4. Trustee Selected Climate Metrics

Metric	Definition	Rationale
Total Carbon Emissions ("tC02e")	An 'absolute emissions' metrics which gives a measure of carbon emissions attributable to the Fund. This is calculated in line with the Greenhouse Gas (GHG) protocol methodology and currently includes only Scope 1 and 2 emissions. The underlying emissions data has been sourced from MSCI and, in line with the protocol, includes all the major GHG gases with a conversion into carbon emissions equivalent quantities. The Trustee has used each entity's enterprise value, including cash (EVIC) to attribute carbon emissions.	Determined by the regulator.
Carbon Footprint (tCO2e / $ invested)	An 'emissions intensity' metric which gives a measure of how many equivalent tonnes of carbon emissions each million invested causes. This uses a comparable methodology as the total carbon emissions referenced above for underlying data and emissions attribution for companies.	It provides a direct measure of absolute emissions, which ultimately impact global outcomes and provides a simple comparable measure across portfolios of different sizes.
Percentage of assets with approved Science based targets ("SBTi")	A 'portfolio alignment' metric which is a forward-looking measure of the percentage of assets with targets validated by the Science-Based Targets Initiative.	It provides a consistent verification of a company's alignment to the Paris agreement.

Climate Engagements (number of and % of overall engagements)	A non-emissions based 'additional metric' which allows the Trustee to assess the extent to which an asset manager is engaging and/or voting on the topic of climate change.	This metric will enable the Trustee to monitor improvement in engagement levels over time and is an area of focus for the Trustee.

Output of the analysis

The below analysis is based on the assets held with the Plan 35, Plan E Fund. After December 2023, the client agreed to sell the Secure Income Assets, however, the below table assumes they are held on a continual basis – the portfolio change will be reflected in next year's report.

In reviewing the analysis, the Trustee considered the results in respect of each asset class within the Fund. This enables comparison of the contribution of each asset class to the overall emissions, and footprint for the Fund. The below table shows the 'invested assets' which are assets where the emissions from these holdings can be directly affected by the Trustee's investments decisions, however some of the assets have required the use of proxies to analyse the exposure due to availability of data.

Table 5. Climate Metrics Analysis of Invested Assets

As at 31 December 2023	Portfolio Asset Allocation		Carbon Data					Alignment	Other
Asset Class	Weight	Weight excl. LDI & Bulk Annuity	Absolute emissions (tCO2e)		% of total emissions (ex LDI and Bulk Annuity)	Footprint (tCO2e / $M invested)		Alignment with SBTs	Climate Engagements*
			Scope 1 & 2	Scope 3		Scope 1 & 2	Scope 3		
High Quality Credit	20.4%	49.1%	7,288	66,405	21.0%	35	320	34%	23
Secure Income Assets	7.9%	19.0%	4,837	11,327	13.9%	60	139	0%	61
Alternative Credit	13.3%	31.8%	22,600	37,165	65.1%	167	275	2%	2
LDI	33.2%	-	-	-	-	-	-	-	-
Bulk Annuity	25.1%	-	-	-	-	-	-	-	-
Total Portfolio***	**100%**	**100%**	**34,725**	**114,896**	**100%**	**82**	**271**	**17%**	**N/A**

* Climate engagements data sourced directly from investment managers where available. SIA data reflects Equitix's engagements only.

The breakdown of emissions for the Fund's bulk annuity and sovereign bond asset classes have not been included in the above table because emissions from these holdings cannot be directly affected by the Trustee's investment decisions (for example, through engagement or divestment). The Trustee has worked alongside its investment adviser, as well as the Fund's LDI manager and Bulk Annuity provider to obtain data for the Fund's government bond holdings, and bulk annuity assets.

Table 6. Blackrock Emissions Data

As at 31 December 2023	Carbon Data*	
Asset Class	Absolute emissions (tCO2e)	Footprint (tCO2e / £M invested)
LDI portfolio	40,921	116.6

Table 7. PIC Emissions Data

As at 31 December 2023	Carbon Data				Alignment	Other
Asset Class	Absolute emissions (tCO_2e)		Footprint (tCO_2e / £M invested)		Alignment with SBTs	Climate engagements*
	Scope 1 & 2	Scope 3	Scope 1 & 2	Scope 3		
Bulk annuity portfolio	24,078	94,976	85.5	352.2	25%	74

*Climate engagements figures in brackets represent the % of total engagements that were climate related

Table 8. Climate Metrics Analysis change from December 2022 to December 2023 of Invested Assets

	Carbon Data					Alignment	Other
Asset Class	Absolute emissions (tCO_2e)		% of total emissions (ex LDI and Bulk Annuity)	Footprint (tCO_2e / $M invested)		Alignment with SBTs	Climate Engagements*
	Scope 1 & 2	Scope 3		Scope 1 & 2	Scope 3		
High Quality Credit	-25	-5,350	8%	-4	-59	1%	23
Secure Income Assets	-8,170	-63,352	-10%	-12	-273	0%	37
Alternative Credit	-12,060	-3,932	2%	-106	-48	-6%	2
LDI	-	-	-	-	-	-	-
Bulk annuity	-	-	-	-	-	-	-
Total Portfolio***	**-20,255**	**-72,633**	**0**	**-29**	**-106**	**+3%**	**n/a**

Data Quality

Whilst the Trustee has aimed to carry out the analysis as far as they are able, the availability of data is dependent on external factors which are largely outside the Trustee's control such as certain companies not disclosing its carbon emissions. In calculating absolute emissions and carbon footprint, the Trustee was able to obtain direct holdings data on 50.5% on the portfolio, an increase from last year (47.2%), excluding liability driven investments (LDI) and the Fund's bulk annuity portfolio. Where direct manager data was not available, the Trustee has proxied the exposure by using appropriate geographic and sector weights for the underlying holdings. This represents c.31.9% of the total "Invested Assets" portfolio. All of the underlying carbon emissions data for the Fund's "Invested Assets" portfolio has been sourced from MSCI. CO_2e represents a single unit of measurement for total greenhouse gas emissions (often referred to as CO_2 and equivalents) and includes the seven gases mandated under the Kyoto protocol. CO_2e represents a single unit of measurement for total greenhouse gas emissions (often referred to as CO2 and equivalents) and includes the seven gases mandated under the Kyoto protocol.

Whilst the Trustee aims for 100% data quality for its underlying investments, it understands that there are limitations with data availability, particularly for private assets. The Trustee notes that the Investment Managers have provided a mix of qualitative and quantitative for the ‘Other metric’ on number and % of climate engagements. The Trustee has reviewed the information and plan to engage with the managers to understand their ability to provide this data going forward.

The Fund’s Bulk Annuity provider, PIC, provided the data for the Fund’s bulk annuity assets. The scope 1 & 2 carbon footprint and carbon emissions data provided covers c.55% of the portfolio and has been scaled up in order to provide final figures for 100% coverage of the footprint and emissions attributable to the Fund. Similarly, the scope 3 carbon footprint and carbon emissions data covered c.28% of the portfolio and has been scaled in the same way.

The Trustee will monitor how these metrics evolve over time on an annual basis and understand the drivers for change.

Trustee observations on the analysis

- The Trustee recognises the limitations associated with the climate metrics given the underlying data quality and the ‘proxying’ of assets required. That said the Trustee reflects positively on being able to assess the portfolio through this new lens and provide an assessment of the exposure to climate change risks and opportunities.

- The Trustee reflected positively that the Carbon Footprint of the majority of the Fund’s assets is lower than last year, as is Absolute Emissions. The Carbon Footprint reduction is especially positive to see as this is aligned to the target set by the Trustees and saw a 26% decrease mainly driven by a reduction in carbon intensity from the alternative credit.

- The Trustee recognises that the definitions and calculation methods for various metrics will evolve over time.

<u>Targets</u>

The Trustee has identified carbon footprint as the metric on which to set a target for the Plan 35, Plan E Fund. This target is to reduce the Fund’s carbon footprint (scope 1 and 2 emissions) over the 8-year period to 2030 by 30%, which is the period by which the Trustee has the aim to purchase further Bulk Annuities. This will be measured from a baseline of 31 December 2022, Table 8 shows a comparison between December 2022 and December 2023 and as noted above, positive progress has been made against this target this year.

In relation to the data that has been provided it can be seen to be largely positive, with some managers having reduced their Carbon footprint and an improvement for absolute emissions. As the Trustee continues to report on Clarks TCFD metrics, a more in-depth year on year review will be done. The Trustee intends that this goal will be achieved through engagement (with the Fund’s underlying managers and companies invested in), strategic changes (investing in assets with lower climate risk) and because of the ‘free-rider’ effect. The Trustee is unlikely to make any impact investments given the short-term target to approach full buy-in. The Trustee’s methodology for measuring progress against the target is limited due to the short-term target for an insurance transaction This recognises that although the Trustee has and will take positive actions, the Trustee won’t be able to achieve this goal alone and will require the continued collaboration of the global community to combat climate change.

Steps taken over the year to achieve targets

The Trustee has taken the following steps to help achieve the target outlined. These are in addition to the various other points referred to throughout this statement.

- Where relevant, the Trustee reviewed the voting and engagement activities of the Investment Managers (via the annual Implementation Statement) over the year and was comfortable with the activity being undertaken

- The underlying managers continue to have strong policies and processes in these areas which are reviewed annually by the Trustee

- The Trustee has undertaken significant de-risking of the investment portfolio to ready the portfolio for the short-term buy-in objective, including the sale of all secure income assets, which has seen a reduction in the allocation to higher climate risk investments

- The Trustee has identified climate related factors as being a material factor to consider in the assessment of bulk annuities providers as part of the on-going short-term buy-in objective due to be completed by the end of 2024.

Going forward

The Trustee is continuing to monitor the evolving climate measurement landscape with the expectation that the robustness of the metrics will improve over time. The Trustee looks forward to sharing updates on our progress in monitoring and managing climate risks and opportunities over time.