

Morgan Stanley UK Group Pension Plan

Climate change governance and reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”)

Reporting period: 12 months to 31 December 2022

July 2023

Dear Members,

Welcome to our first climate change report, which has been prepared in line with the recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”) and the statutory requirements prescribed by the Department for Work and Pensions .

The Trustee of the Morgan Stanley UK Group Pension Plan (“Plan”) has a legal fiduciary responsibility to invest the Plan’s assets in the best way possible for its members. As part of this responsibility, the Trustee recognises climate change as a risk that could impact the financial security of members’ benefits if it is not properly measured and managed. The Trustee also recognises that climate change presents an opportunity, by investing in companies or assets that are expected to perform well in an economy that is positioned to address the challenges associated with climate change.

The Plan is primarily a Defined Contribution (“DC”) arrangement although it also contains liabilities and assets from a previous Defined Benefit (“DB”) arrangement. The Trustee’s assessment of climate-related risks and opportunities has been carried out across both arrangements. It is based on information that is currently available, both in terms of data from the companies and assets in which the Plan invests and in consideration of the different global warming scenarios that have been analysed. The inputs to this assessment are subject to change as climate data coverage, disclosure rates, granularity and accuracy improves and as the regulations evolve.

Climate change is one risk amongst many that the Trustee measures, monitors and manages. To this extent, climate change needs to be considered alongside these other risks in a balanced and proportionate way.

This report has been split into several sections to help members understand:

- Governance: How the Trustee incorporates climate change into its decision making;
- Strategy: How potential future climate warming scenarios could impact the Plan;
- Risk Management: How the Trustee incorporates climate-related risk in its risk management processes; and
- Metrics and Targets: How the Trustee measures and monitors progress against different climate-related indicators known as metrics.

The final section sets out the methodology and assumptions used to produce the information contained in this report.

As always, members are encouraged to contact the Trustee if there are comments you wish to raise. You can contact the Trustee here: emeabenefits_queries@morganstanley.com.

Alanna Lee
Chair of the Morgan Stanley UK Group Pension Plan

¹ The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 and the Occupational Pension Schemes (Climate Change Governance and Reporting) (Miscellaneous Provisions and Amendments) Regulations 2021.

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Governance

Trustee's governance approach

The Trustee has ultimate responsibility for ensuring effective governance of climate-related risks and opportunities. The Trustee maintains a Statement of Investment Principles ("SIP"), which details the key objectives, risks and approach to considering Environmental, Social and Corporate Governance ("ESG") factors, such as climate change, as part of its investment decision making. The document is reviewed on at least a triennial basis or following a significant change in investment policy. The Trustee also maintains a separate Climate Change policy with further detail on its beliefs.

The Trustee's key beliefs on ESG are:

- The Trustee believes that ESG factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.
- The Trustee expects the underlying managers of the Plan's pooled investments to evaluate ESG factors (including climate change considerations, the exercise of voting rights and stewardship obligations attached to investments) in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.
- The Trustee considers how ESG, climate change and stewardship are integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented at least annually.

Specifically in relation to climate change:

- The Trustee considers the risks of climate change within an integrated risk management framework, covering the investment, funding and covenant implications where applicable;
- The Trustee's appointed investment managers and advisers integrate financially relevant climate change risks (e.g. transition risk and physical risk) and opportunities within their investment and advice processes as applied to the Plan. The Trustee encourages the further development of asset classes, investment

products and member choices that support achieving the well below 2°C target, provided they are all consistent with the Trustee's fiduciary duties;

- The Trustee is supportive of the recommendations of the TCFD. It will report against and set climate change-related targets in line with this framework; and
- The Trustee is cognisant that climate change will be subject to much further analysis and subsequent policy changes in the coming years. The Trustee is supportive of adopting an evolving policy in order to ensure all relevant developments are captured.

Roles of those undertaking scheme governance activities

The Trustee maintains oversight of climate related risks and opportunities by:

- Ensuring the Trustee Directors have sufficient knowledge and understanding of climate change to fulfil their statutory and fiduciary obligations, and that they are keeping this knowledge and understanding up to date. This will include knowledge and understanding of the principles relating to the identification, assessment and management of climate-related risks and opportunities for the Plan;
- Putting in place effective climate governance arrangements;
- Determining short-, medium- and long-term time periods to be used when identifying climate-related risks and opportunities facing the Plan (with input from the TCFD Working Party, defined below);
- Identifying and assessing the main climate-related risks and opportunities for the Plan (including both physical and transitional risks) and documenting the management of these in the Plan's Risk Register;
- Incorporating climate-related considerations into strategic decisions relating to the Plan's investments and funding arrangements;
- Allowing for climate-related considerations (if relevant) when monitoring the strength of the sponsoring employer's covenant;
- Selecting and regularly reviewing (at least annually) metrics to inform its assessment and management of the Plan's climate-related risks and opportunities, and setting and monitoring (at least annually) targets to improve these metrics over time where appropriate – again, with input from the TCFD Working Party;

- Ensuring that the Plan's investment, actuarial and covenant advisers have clearly defined responsibilities in respect of climate change and that they have adequate expertise and resources, including time and staff, to carry these out;
- Ensuring that the Plan's advisers are taking adequate steps to identify and assess any climate-related risks and opportunities which are relevant to the matters on which they are advising, and that they are adequately prioritising climate-related risk;
- Considering and documenting the extent to which the advisers' responsibilities are included in any agreements, such as investment consultants' strategic objectives and service agreements; and
- Ensuring that the Plan's investment managers are managing climate-related risks and opportunities in relation to the Plan's investments (with input from the Investment Committee – see below), and have appropriate processes, expertise and resources to do this effectively.
- The Trustee has also reviewed the roles of others undertaking scheme governance activities, in particular the sub-committees that have been established and their respective decision-making powers. The Trustee will consider the recommendations of these sub-committees and will ratify any decisions that require its approval. Of relevance to the oversight of climate-related risks and opportunities are:

THE INVESTMENT COMMITTEE

- The Investment Committee is responsible for:
 - Receiving and reviewing periodic written reports prepared by the Plans' investment consultant covering the Plans' investment managers' investment performance, and their integration of environmental, social and corporate governance risks and opportunities (including climate risk) into their investment processes;
 - Meeting with the appointed and prospective investment managers to review investment performance, asset allocation and their engagement with investee companies (including in relation to climate risk); and
 - Reporting back to the Trustee on key issues raised at the Investment Committee, and the exercise of any delegated powers.

THE TCFD WORKING PARTY

- The TCFD Working Party is made up of a sub-group of the Trustee body with representatives of the Firm who are involved in the sponsoring employer's TCFD reporting. The TCFD Working Party is initially responsible for understanding the requirements of the TCFD on the Plan, and for supporting work towards ensuring the Plan complies with those requirements, and to undertake any other actions as delegated to the Working Party by the Trustee or its sub-committees. The Working Party's remit includes:
 - Arranging training as the Working Party believes is necessary to improve Trustee knowledge and understanding on climate risk;
 - Taking advice on and making recommendations to the Trustee on appropriate climate metrics to monitor;
 - Taking advice on and making recommendations to the Trustee on appropriate climate-related targets;
 - Providing input into (and agreeing the scope of) investment and funding (including covenant) climate-related scenario analysis to be provided by advisers; and
 - Understanding the position of Morgan Stanley, the sponsoring employer, with respect to TCFD reporting and, where relevant, integrating key findings and learnings into the Plan's reporting.

BENEFITS TEAM

- This team provides in-house support to the Trustee as well as acting as a liaison between the Trustee and the sponsoring employer. Specifically in relation to climate change considerations, the Benefits Team:
 - Ensures appropriate time and resource is allocated to climate-related governance and reporting;
 - Facilitates information sharing between the Trustee, professional advisors and investment managers as appropriate; and
 - Provides challenge to adviser recommendations to ensure advice provided to the Trustee and its sub-committees will facilitate effective and efficient decision-making.

Roles of advisers

The Trustee has appointed advisers to the following roles:

INVESTMENT CONSULTANT

- Mercer Limited (“Mercer”) as Investment Consultant to the Defined Contribution (“DC”) and Defined Benefit (“DB”) Sections. In broad terms, the Investment Consultant is responsible for:
 - providing training and other updates to the Trustee on relevant climate-related matters;
 - helping the Trustee to formulate its investment beliefs in relation to climate change and reflecting these in the Plan’s investment policies and strategy;
 - advising how climate-related risks and opportunities might affect the different asset classes in which the Plan might invest over the short-, medium- and long-term, and the implications for the Plan’s investment strategy;
 - advising the Trustee (directly or through the Investment Committee or TCFD Working Party) on the appropriateness and effectiveness of the Plan’s investment managers’ processes, expertise and resources for managing climate-related risks and opportunities, given the Trustee’s investment objectives and beliefs;
 - advising on the inclusion of climate change in the Plan’s governance arrangements and risk, working with the Trustee and its other advisers as appropriate;
 - leading on the preparation of the Trustee’s TCFD reporting, working with the TCFD Working Party, the Investment Committee and the Trustee, and its other advisers as appropriate; and
 - assisting the Trustee in identifying and monitoring suitable climate-related metrics and targets in relation to the Plan’s investments, including liaising with the Plan’s investment managers.

ACTUARIAL ADVISER

- Mercer as Actuarial Adviser. In broad terms, the Actuarial Adviser is responsible for:
 - providing training and other updates to the Trustee on relevant climate-related matters;
 - advising how climate-related risks and opportunities might affect the Plan’s funding position over the short-, medium- and long-term and the implications for the Plan’s funding strategy and long-term objectives; and
 - working with the Plan’s other advisers to assist the Trustee in incorporating climate change in its investment and covenant monitoring, and communication with stakeholders as appropriate.

COVENANT ADVISER

- Mercer as Covenant Advisor. In broad terms, the Covenant Adviser is responsible for:
 - supporting the Trustee in a proportionate way to understand as part of its covenant monitoring framework, how climate-related risks and opportunities might affect the Plan’s sponsoring employer over the short-, medium- and long-term; and
 - working with the Trustee’s other advisers, if and when requested, to assist the Trustee in incorporating climate change in its governance arrangements and monitoring framework as appropriate.

The Trustee expects advisers to act with expertise, integrity and diligence in fulfilling their responsibilities and uses meetings with the advisers to assess and challenge them. The approach of the advisers to climate change and how it is integrated into its advice and services is assessed as part of the adviser selection and monitoring process. Furthermore, the Trustee sets its Investment Consultant annual objectives, including ones related to ESG and climate change competency. The Investment Consultant is formally assessed against these objectives annually.

Time and resources spent on climate change-related matters

The Trustee Chair, with support from the Benefits Team, is responsible for ensuring that sufficient time is allocated for consideration and discussion of climate matters by the Trustee and its advisers. Climate change topics, amongst other ESG topics, form a standing annual agenda item on the Trustee's meeting schedule, covering the various workstreams listed below. Those responsible for each workstream will make sure any documents or information is distributed in advance of the meeting to allow the Trustee time to digest the advice.

There are a number of workstreams that are to be completed regularly in order for the Trustee to fulfill its responsibility for managing climate risks and opportunities. It is important to note that many of the workstreams will cover wider ESG risks other than just climate change risk, as the Trustee does not consider climate risks in isolation but holistically alongside the various other ESG risks the Plan may be facing. The workstreams are listed below as well as the frequency of which each task will be carried out:

- Climate change training session (minimum frequency = annual)
- Scenario analysis modelling the investment strategy and funding strategy (minimum frequency = first year and every 3 years thereafter)
- Review appropriateness of undertaking scenario analysis in light of a) data availability changes and b) material changes in investment strategy /funding position (minimum frequency = annual)

- Metrics data collection (minimum frequency = annual)
- Target setting/target appropriateness review (minimum frequency = annual)
- Progress against target assessment (minimum frequency = annual)
- ESG beliefs (including climate change) update/review (minimum frequency = annual)
- Review of manager ESG ratings, climate policies (minimum frequency = annual)
- Stewardship, covered as part of the Trustee's annual implementation statement (minimum frequency = annual)
- Risk frameworks update/review e.g. risk registry (minimum frequency = annual)
- Climate covenant assessment (minimum frequency = annual)
- Drafting annual TCFD report (minimum frequency = annual)

Training

During the year to 31 December 2022, the Trustee, TCFD Working Party and Benefits Team received training from the Trustee's Investment Consultant, covering climate-related investment risks and reporting requirements in line with the TCFD recommendations. This included training on climate metrics and climate scenario analysis that have fed into this report.

Strategy

As a long-term investor, the Trustee recognises the risks and opportunities arising from climate change are diverse and continuously evolving. In relation to climate-related risks, the Trustee believes it is important

to understand how the Plan's exposure to these risks may change over time, when the risk exposure may be greatest and what actions can be taken now, or in the future, to avoid those risks becoming financially material to the Plan.

To help with this assessment, the Trustee has defined short-, medium- and long-term time horizons for the DC and DB Sections of the Plan.

The Trustee has considered the following short-, medium- and long-term drivers of risk in relation to climate change:

- Over the short-term (out to 5 years), risks may present themselves through rapid market re-pricing relating to climate transition as:
 - Scenario pathways become clearer. For example a change in the likelihood of a well below 2°C scenario occurring (i.e. an increase in probability would be expected to drive additional transition risk).
 - Market awareness grows. For example, the cost and impacts of the transition suddenly influence market pricing.
 - Policy changes unexpectedly surprise markets. For example, if a carbon price or significant regulatory requirement was introduced across key markets to which the portfolio is exposed, at a sufficiently high price to impact behaviour.
 - Market sentiment is shocked. For example, falls in markets could create a downward spiral where economic sentiment worsens and asset values fall.
 - Perceived or real increased pricing of greenhouse gas emissions/carbon.
 - Substitution of existing products and services with lower emission alternatives may impact part of the portfolio.

- Litigation risk relating to dangerous warming becoming more prevalent.
- Increases in the energy/heat efficiency of buildings and infrastructure.

As well as risks associated with these drivers, there could also be opportunities. For example, investing in climate solutions as policy support strengthens.

The Trustee's ability to understand these short-term changes can position the Plan favourably, for example taking advantage of the climate transition by avoiding and reducing investment in high-emitting carbon sensitive businesses/assets that do not have a business plan that supports the transition to a low carbon economy.

- Over the medium-term (out to 10-15 years), risks are likely to be more balanced reflecting both transition and physical risk. Over this time period the transition pathway will unfold and the level of anticipated physical damage will become much clearer. While the full extent of the physical damage is unlikely to have occurred markets are likely to be allowing for it to a large degree in asset pricing.

The Trustee's ability to understand these changes and evolve the portfolio as the pathway develops should help to control risk and potentially enhance returns. The Trustee seeks to select managers and choose indices that can identify potential emergence of low carbon opportunities and the decline of some traditional sectors.

- Over the long-term (beyond 25 years), physical risks are expected to come to the fore. This includes the impact of natural catastrophes leading to physical damage through extreme weather events. Availability of resources is expected to become more important if changes in weather patterns (e.g. temperature or precipitation) affect the availability of natural resources such as water. The impact of global heating on productivity, particularly in areas closer to the equator, will also be a key driver.

DC SECTION TIME HORIZONS

Short Term	to 2027; 5y projection	This period aligns with members that are approaching retirement age (i.e., aged 60 and aiming to retire at 65)
Medium Term	to 2037, 15y projection	This period aligns with members that are starting the glide path de-risking journey of the default strategy, i.e. members aged 50
Long Term	to 2062, 40y projection	This period aligns with a member in the 'early career' stage.

DB SECTION TIME HORIZONS

Short Term	to 2027; 5y projection	This period broadly covers two actuarial valuation cycles
Medium Term	to 2032, 10y projection	This period broadly coincides with a majority of deferred members reaching retirement. Target date for achievement of long-term funding objective
Long Term	to 2047, 25y projection	This period broadly coincides with the date the last member is expected to retire and broadly coincides with the peak in expected benefit payments in the absence of an insurance buy-out of benefits.

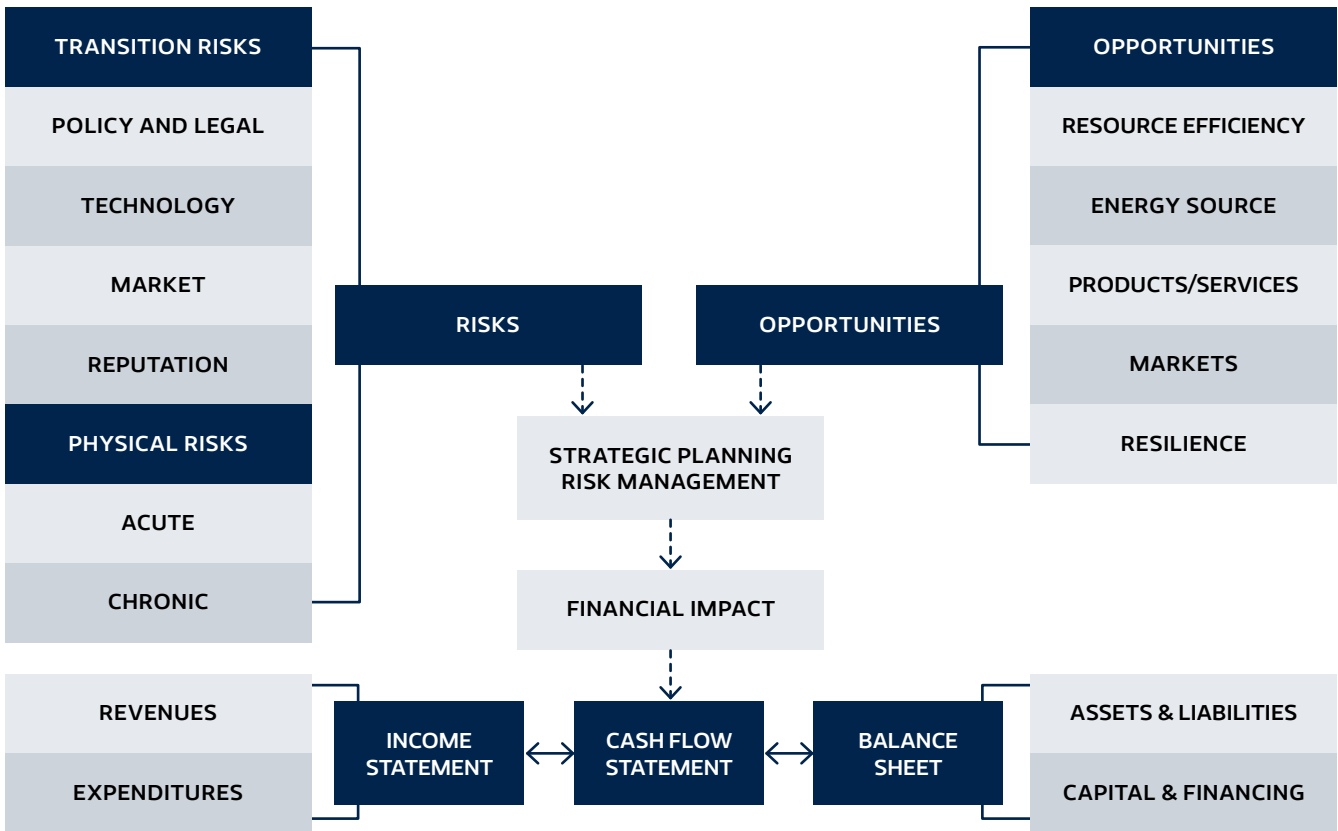


FIGURE 1: Risks and opportunities associated with climate change; Source: TCFD Annex Report.

Climate-related risks and opportunities relevant to the Plan

Having taken into account the Plan's investment strategy for the DC and DB Sections, as set out in the technical appendix, the following risks and opportunities have been identified:

- Over the short-term, the Trustee has identified the inter-related risk of climate transition risk and asset repricing risk as being most relevant to the investment strategy. Over this time period opportunities are most likely to occur in transition related investment such as climate solutions.
- Over the medium-term, the Trustee has concluded that both transition risk and physical risk (particularly in the form of asset repricing to allow for future physical damage) could be material.
- Over the long-term, the Trustee has identified physical risk as the key driver.

The Trustee has investigated the potential impacts of these risks and opportunities in the scenario analysis that follows.

Testing the resilience of the investment and funding strategy

SCENARIO ANALYSIS

The Trustee has undertaken climate scenario analysis to test the resilience of the investment and funding strategy adopted by the Trustee. A quantitative approach has been taken for 'popular arrangements'² within the DC Section, whilst a qualitative approach has been taken for the DB Section. In both cases, the investment and funding strategy has been tested under three modelled scenarios: a Rapid Transition (1.5°C), an Orderly Transition (less than 2°C) and a Failed Transition (greater than 4°C). The analysis is based on scenarios developed by Mercer working with Ortec Finance.

Rapid Transition – Average temperature increase of 1.5°C by 2100 (relative to pre-industrial average). This scenario assumes sudden downward re-pricing across assets in 2025. This could be driven by a change in policy, consideration of stranded assets or expected costs. The shock is partially sentiment driven and so is followed by a partial recovery. Physical damages are most limited under this scenario.

Orderly Transition – Average temperature increase of less than 2.0°C by 2100. Governments and wider society act in a co-ordinated way to decarbonise and to limit global warming to well below 2°C. Transition impacts do occur but are relatively muted.

Failed Transition – Average temperature increase above 4°C by 2100. The world fails to co-ordinate a transition to a low carbon economy. Physical climate impacts significantly reduce economic productivity and have increasingly negative impacts including from extreme weather events. These are reflected in re-pricing events in the late 2020s and late 2030s.

These scenarios have been selected to explore a range of plausible futures over which to test the resilience of the Plan's investment and funding strategy.

In designing scenario analysis a fundamental decision is whether to assume that any climate impacts are priced in today. The analysis in this report is expressed relative to a 'climate-informed' baseline; the implication is that all return impacts are presented in terms of how they are different to what is assumed to be priced in today. Further detail on climate scenario narratives, including modelling limitations, is included in the Technical Appendix of this report.

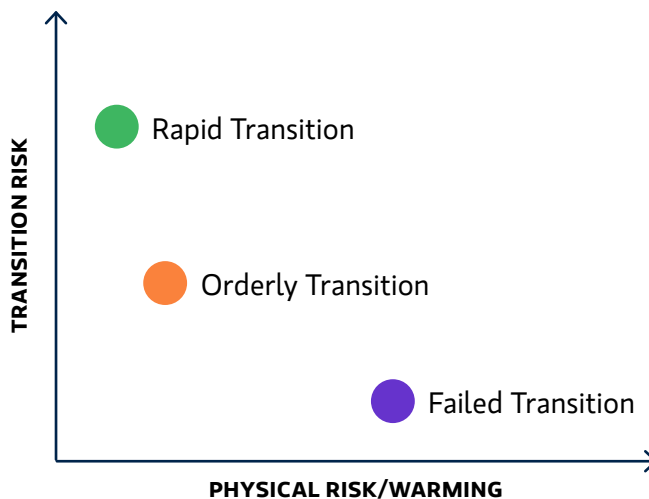


FIGURE 2: Illustrative representation of selected climate scenarios; Source: Mercer

² A popular arrangement is defined as an arrangement in which £100m or more of the Plan's assets are invested, or which accounts for 10% or more of the assets used to provide money purchase benefits (excluding assets which are solely attributable to Additional Voluntary Contributions).

Scenario Analysis Results – DC Section

The charts below represent the output of the Trustee’s quantitative analysis of the DC Section’s popular arrangements. The charts represent projections of asset value from an analysis date of 31 March 2022 over a period of 40 years and ignore the impact of future contributions. Further detail on the underlying asset allocations and limitations associated with climate scenario analysis are set out in the Technical Appendix.

DEFAULT ARRANGEMENT

The following charts project a starting asset value of £100 and are consistent with a member in his/her 20s investing in the default arrangement for a period of 40 years up to retirement. The projection allows for the glidepath followed by the default arrangement (i.e. the shift between the Active Diversified Growth Fund (presented separately), Active Diversified Retirement Fund and Cash Fund). The first chart is a ‘zoomed in’ version of the second chart to allow a more detailed understanding of climate impacts over the first 15 years.

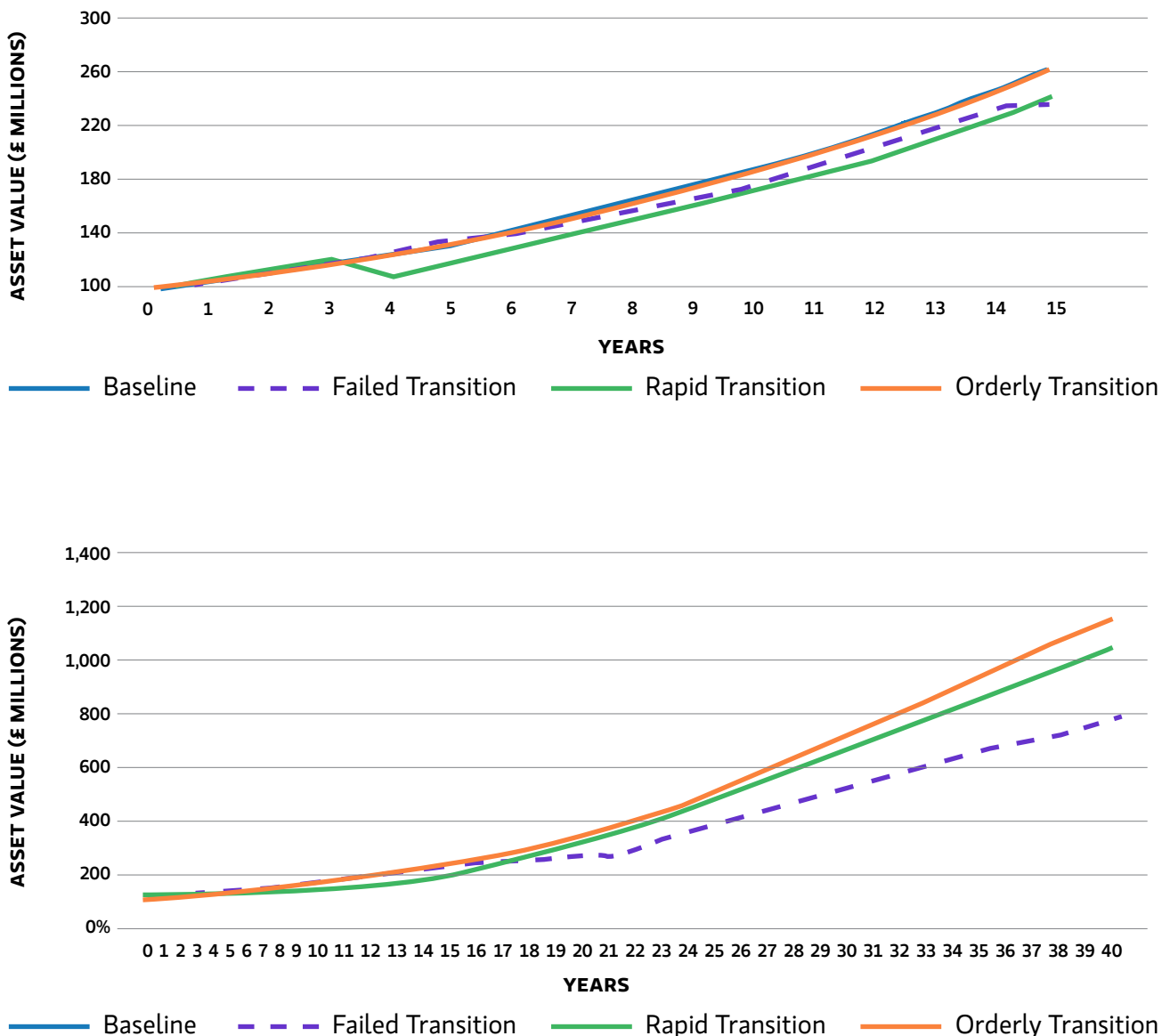


FIGURE 3: Projection of nominal asset value for default arrangement; Source: Mercer, Ortec Finance; Please note the Baseline is obscured behind the Orderly Transition line.

ACTIVE DIVERSIFIED GROWTH FUND

The following chart projects the starting fund value of the Active Diversified Growth Fund over 40 years.

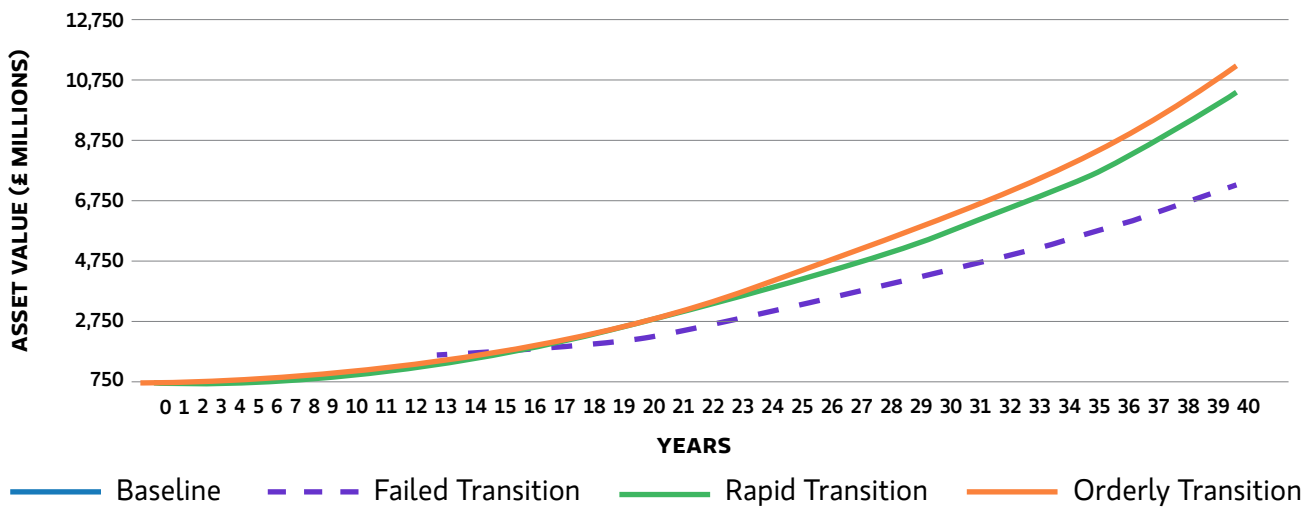


FIGURE 4: Projection of nominal asset value for Active Diversified Growth Fund; Source: Mercer, Ortec Finance; Please note the Baseline is obscured behind the Orderly Transition line.

PASSIVE GLOBAL EQUITY FUND (BLACKROCK)

The following chart projects the starting fund value of the Passive Global Equity Fund, managed by BlackRock, over 40 years.

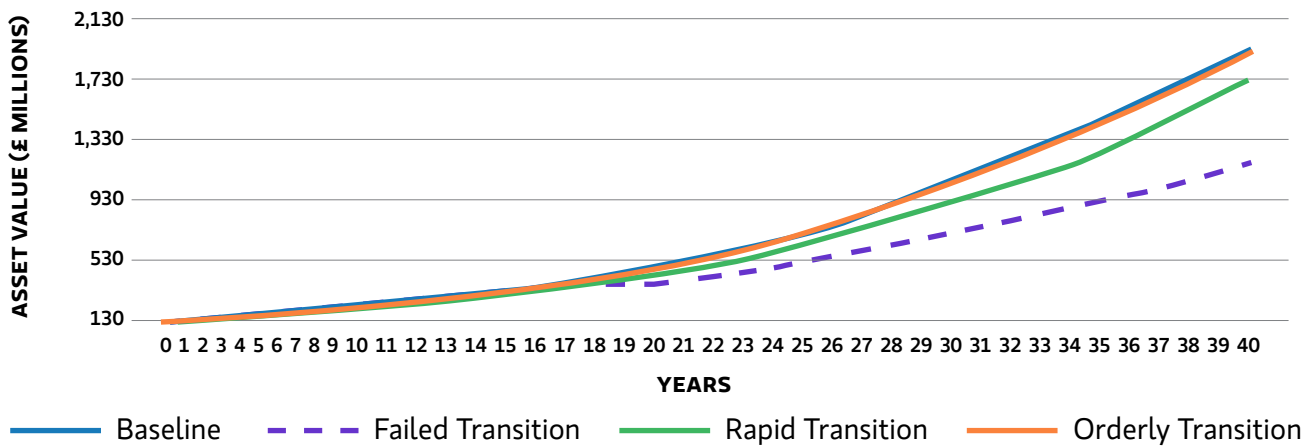


FIGURE 5: Projection of nominal asset value for Passive Global Equity Fund; Source: Mercer, Ortec Finance; Please note the Baseline is obscured behind the Orderly Transition line.

ACTIVE GLOBAL EQUITY FUND (BAILLIE GIFFORD)

The following chart projects the starting fund value of the Active Global Equity Fund, managed by Baillie Gifford, over 40 years.

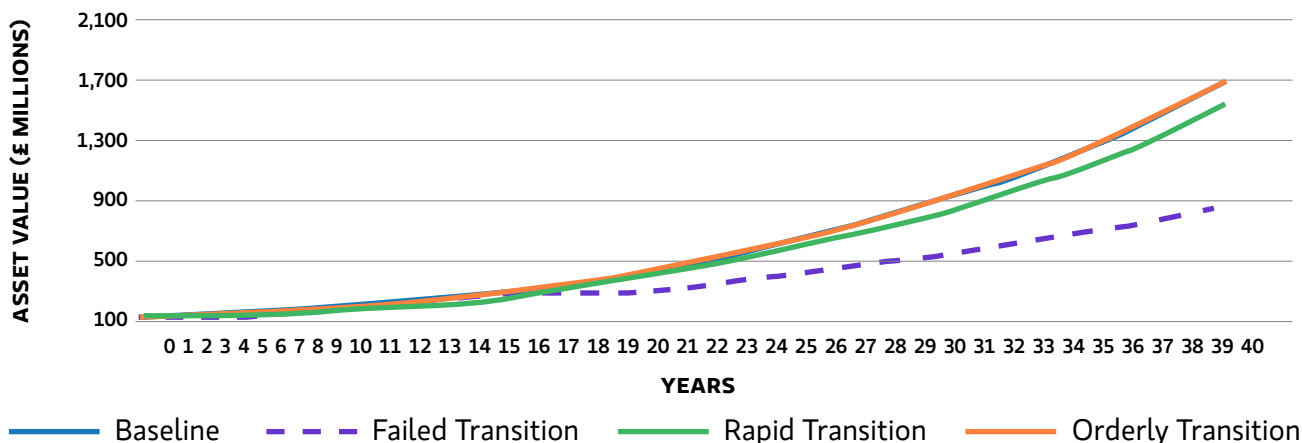


FIGURE 6: Projection of nominal asset value for Active Global Equity Fund; Source: Mercer, Ortec Finance; Please note the Baseline is obscured behind the Orderly Transition line.

Scenario Analysis Findings – DC Section

In light of the above quantitative analysis, the Trustee noted the following findings:

Short Term (5 years)	Over the short-term transition risk dominates with the Rapid Transition having the biggest impact across all DC popular arrangements. An initial fall in asset returns (relative to baseline) is driven by a transition shock impacting the economy and investment markets causing losses. This could be driven by unprecedented policy action, with markets initially overreacting before partially recovering. The actual timing of any shock or recovery is uncertain. The transition shock under the Rapid Transition is most significant across growth assets (e.g. equity), hence members with a higher allocation to growth assets are expected to be most negatively impacted. For members in the default arrangement, this will mean those members further away from retirement, with a higher allocation to equity, are expected to be most impacted by the shock.
Medium Term (10-15 years)	Over the medium-term, transition risk and physical risk are both factors. The impact of transition risks under the Rapid Transition and physical risks under the Failed Transition are broadly similar.
Long Term (25 years +)	Over the long-term, physical impacts become significant, with the Failed Transition resulting in significant falls in asset value relative to the baseline. Members in the default arrangement who are close to retirement will be least impacted by physical impacts.

Scenario Analysis Results – DB Section

The DB Section of the Plan is well funded on a prudent basis and therefore has minimal reliance on its employer covenant. Therefore, qualitative scenario analysis focuses upon how climate risks could impact upon the Section’s funding, rather than on the Plan’s sponsoring employer in the first instance.

At 31 March 2022, the DB Section of the Plan was invested in a low-risk portfolio comprising Liability Driven Investment (“LDI”) holdings (comprising UK government bonds, derivatives and cash) and corporate bonds.

The LDI holdings have been structured to match the interest rate and inflation sensitivity of the DB Section liabilities – targeting a 100% hedge on a prudent liability basis. Corporate bonds are held to approximately hedge a DC underpin shortfall that results from a proportion of DC members having an entitlement to a DB underpin if part of their former DB benefit exceeds their DC pots.

Under all tested scenarios and timeframes the pay-out on UK government bonds is not impacted as the strength of the UK government as an issuer is not affected. Physical damages under the Failed Transition are expected to lead to a drag on the UK economy and gilt yields are impacted; however, this is not expected to impact credit worthiness and so the impact on assets and liabilities would offset.

Counterparty risk associated with derivative holdings could conceivably result in financial losses under certain climate scenarios. However, this was ignored for the purposes of this analysis given uncollateralised exposure was expected to be small in the context of the wider investment strategy. Furthermore, as at 31 December 2022, the DB Section no longer held these derivative positions.

The DC underpin shortfall is hedged by corporate bonds. Whilst corporate bonds exhibit sensitivity to climate outcomes (especially as a result of a transition shock under the Rapid Transition), the impacts are relatively modest over the likely timeframe these holdings will be held. Climate risks and opportunities will be more evident across the performance of members’ DC pots, which have been considered above.

Scenario Analysis Findings – DB Section

In light of the above qualitative analysis and the DB Section’s strong funding position on a prudent liability basis, the Trustee finds that the overall level of climate risk and opportunity facing the DB Section is limited and that there are currently limited opportunities to further manage the associated risk. Climate change, therefore, is not expected to materially impact overall investment and funding strategy.

The Trustee has also considered the following additional areas:

<p>Longevity</p>	<p>Initial research commissioned by Mercer suggests that climate impacts, solely from temperature changes (e.g. hot/cold related deaths), are unlikely to significantly impact a typical UK DB scheme’s funding. This does not, however, take into account wider macro-economic and health related impacts of climate change, which remains an area of active investigation.</p>
<p>Interaction with future annuity pricing</p>	<p>Pensioner liabilities have historically been secured through insurance policies. This policy was reviewed in mid-2019 and pensioner liabilities are currently paid from the DB Section as they fall due. Should the policy of securing through insurance policies be reinstated, the DB Section would be exposed to climate-related changes in annuity pricing that are not hedged within the Plan.</p>
<p>Interaction with sponsoring employer</p>	<p>The strength of the DB Section’s funding position and low-risk investment strategy limits reliance on the employer covenant. Even after taking into account the impacts of climate change upon the investment strategy, noted above, the Trustee does not anticipate a significant increase in exposure to the covenant as a result of climate change. The impact of anticipated climate impacts upon Morgan Stanley’s overall business strategy is set out in its own TCFD report, which summarises its own plans to manage the transition and physical risks raised in this report.</p> <p>Climate change considerations are integrated into Morgan Stanley’s risk management and governance processes under the Chief Risk Officer and climate risks are overseen by the Risk Committee of the Board of Directors. Climate-related risk is identified across the areas of credit, market, operational, reputational, compliance and strategic. Morgan Stanley’s own net-zero financed emissions target is intended to help mitigate the firm’s climate risk, support client low-carbon innovation and improve the resilience of the firm’s strategy. Overall Morgan Stanley is expected to have sufficient resilience to climate risks and would be able to continue to support the DB Section of the Plan over the short to medium term, if required.</p>

Scenario Analysis – Overall Conclusions (covering DC and DB)

CONCLUSION 1 – A SUCCESSFUL TRANSITION IS IMPERATIVE

Over the long-term for nearly all investors a successful transition leads to enhanced projected returns when compared to scenarios associated with higher temperature outcomes, due to lower physical damages under a successful transition scenario.

The quantitative analysis in this report highlights the potential negative financial impact associated with the Failed Transition, which informs Trustee decision-making in a number of ways, including the selection of funds within the DC Section and setting an engagement and stewardship policy.

CONCLUSION 2 – SECTOR EXPOSURE IS KEY

Climate impacts are naturally sector specific.

Supporting the quantitative analysis in this report, sector level analysis highlighted that differences in return impact are most visible at an industry-sector level, with significant divergence between scenarios.

As return impacts in this modelling are expressed relative to a climate-informed baseline, sector-specific impacts are driven both by what happens under the scenarios, and also by what does not happen (but was priced in). For example, there is a positive impact on the low carbon electricity sector

under the Rapid Transition, which is an intuitive outcome. Alternatively, there is a positive impact on the oil & gas sector under the Failed Transition, which is a result of the sector performing better than expected in this scenario (i.e. more revenue than expected for underlying companies).

This finding will inform Trustee thinking when considering portfolio construction in a number of ways, including decisions to tilt assets or benchmarks to vary sector exposures, discussions with current or potential investment managers around the sector exposures and how they account for sector specific climate risk and to prioritise areas of focus for engagement or decarbonisation planning.

CONCLUSION 3 – INVESTORS SHOULD BE AWARE OF FUTURE PRICING SHOCKS

Investors, and therefore “the market”, look to predict future events / impacts and allow for them in asset prices. As particular events become more likely, market pricing will change before the events occur. This means that longer-term impacts, including transition impacts and particularly physical damages, could impact portfolios earlier than they occur.

The quantitative analysis in this report seeks to demonstrate the impacts of such shocks.

This finding informs Trustee thinking in relation to managing climate-related risks.

Risk Management

A key part of the Trustee's role is to understand and manage risks that could have a financially material impact on both the Plan's investments and the wider funding position. Climate change is one of the risks that the Trustee considers alongside other financially material risks that may impact outcomes for members.

This section summarises the primary climate-related risk management processes and activities of the Trustee. These help the Trustee understand the materiality of climate-related risks, both in absolute terms and relative to other risks that the Plan is exposed to. The Trustee prioritises the management of risks primarily based on their potential impact to members' retirement outcomes.

Integration of climate change into overall risk management approach

- The Trustee's Statement of Investment Principles is reviewed on an annual basis and sets out how investment risks, including in relation to ESG and climate change, are managed and monitored.
- The Trustee maintains a risk register which explicitly includes climate-related risk.
- The Trustee receives training from time-to-time on climate-related issues. The training allows the Trustee to challenge whether the risks and opportunities are effectively allowed for in its governance processes and wider activities, and to be able to challenge its advisers to ensure the governance support and advice adequately covers the consideration of climate-related risks and opportunities. This process also affords the Trustee an opportunity to identify new and emerging risks related to climate change.
- A benchmarking analysis of the extent to which ESG factors are integrated into investment decision making at the portfolio level is undertaken by Mercer on an annual basis. As at the latest date available (August 2022), Mercer's Responsible Investment Total Evaluation (RITE) rating for Morgan Stanley UK Group Pension Plan was A+, compared against an average rating of B+ for schemes of comparable size (and up from B+ which was the score when presented to the Investment Committee in February 2022).
- This shows that the portfolio is ahead of its peers in this area. RITE assesses the extent to which pension schemes integrate ESG factors. Plans are scored on a scale from 0-100, with those scores then mapped to a rating scale of C / C+ / B / B+ / A / A+ / A++, as set out on the right.

RATING	SCORE
A++	91%+
A+	76-90%
A	61-75%
B+	46-60%
B	31-45%
C+	16-30%
C	0-15%

- The analysis is carried out against schemes with a similar level of assets under management and by sector of the sponsoring employer. Any rating/score has been determined at the sole discretion of Mercer, as professional adviser to the Plan. Mercer does not accept any liability or responsibility to any third party in respect of these findings. RITE is an evaluation at a point in time, informed by Mercer's Sustainable Investment Pathway; more details on the Pathway can be found here: <https://www.mercer.com/our-thinking/wealth/pathway-to-responsible-investing.html>
- The Trustee established a Climate Change Policy Statement in 2023 to formally document the Trustee's beliefs and approach in this area.
- The Trustee established a Climate Governance Statement in 2022 as a standalone statement documenting the governance approach to climate change, including identification and management of risks, role and responsibilities and Trustee training.

Strategy

- The Trustee believes that good stewardship and ESG issues may have a material impact on investment risk and return outcomes and will therefore be considered as part of the Plan's investment process. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that require explicit consideration. When setting investment strategy, ESG factors, including climate change, will be considered alongside a number of other factors that can influence investment strategy.
- Climate scenario analysis for the investment and funding strategy of the Plan will be reviewed at least triennially, or more frequently if there has been a material change to the strategic asset allocation. Key findings from the Trustee's latest climate scenario analysis, which includes an assessment of the impacts associated with transition and physical risks, were set out in the previous section.

Reporting

- The Trustee will receive annual reports of climate-related metrics and progress against targets in respect of the assets held in the Plan. The Trustee may use the information to engage with the investment managers.
- The Trustee receives a voting and engagement activity summary on an annual basis as part of the preparation of the Implementation Statement. The statement summarises how the investment managers vote and engage on climate-related issues (among other key engagement priorities). The statement is available on the Plan's website.

Manager Selection and Retention

- The Trustee, with advice from Mercer in its role as Investment Consultant, will consider an investment manager's firm-wide and strategy-specific approach to managing climate-related risks and opportunities when either appointing a new manager, in the ongoing review of a manager's appointment, or as a factor when considering the termination of a manager's appointment.
- Mercer rates investment managers on the extent of integration of ESG factors (including climate change) into their processes. A manager's stewardship process forms part of the rating assessment. This is considered at the firm level and at the investment strategy/fund level. The ratings are presented in quarterly investment performance reports and are reviewed by the Trustee.

Metrics and Targets

Metrics

The Trustee has chosen to present climate-related metrics across four different categories in this report. The climate-related metrics help the Trustee to understand the climate-related risk exposures and opportunities associated with the Plan's investment portfolios and identify areas for further risk management, including investment manager portfolio monitoring, voting and engagement activity and priorities. The metrics used in this report are listed below and where metrics relate to emissions, they cover scope 1 and 2 only (see figure 7 for an explanation). The Trustee will begin reporting on scope 3 emissions from its next report.

The Trustee recognises the challenges associated with various climate data metrics, tools and modelling techniques used to assess climate change risks. The Trustee aims to work with its Investment Consultant and investment managers to continuously improve the approach to assessing and managing risks over time as more data becomes available. The Technical Appendix of this report sets out the data limitations and assumptions used in collating these metrics.

METRIC CATEGORY	SELECTED METRIC	FURTHER DETAIL
Absolute emissions	Total Greenhouse Gas (GHG) Emissions	Tonnes of carbon dioxide and equivalents (tCO ₂ e) that the Plan is responsible for financing.
Emissions intensity	Carbon Footprint	The amount of carbon dioxide and equivalents (tCO ₂ e) emitted per million dollars of the Plan's investments.
	Weighted Average Carbon Intensity (WACI)	The exposure of the Plan to carbon-intensive companies, measuring the amount of carbon dioxide and equivalents (tCO ₂ e) emitted per million dollars of holding company/issuer revenue on average.
Portfolio Alignment	% of portfolio companies with targets approved by the Science Based Targets initiative (SBTi)	Assessment of the proportion of portfolio companies/issuers that have set net-zero targets that have been validated by SBTi.
Additional	Data Quality	Represents the proportions of the portfolio for which the Trustee has high quality data.

Total Greenhouse Gas Emissions

This metric takes an ownership approach to answer what proportion of a company's or asset's emissions an investor owns and is therefore responsible for financing. It includes the seven types of greenhouse gas (GHG) as defined in the Kyoto Protocol, across the three scopes of emissions, as summarised in the diagram on the next page. Note that this report excludes scope 3 emissions, which will be included from the Trustee's next report.

Emissions of the seven GHGs have different impacts on climate change. In order to simplify reporting, each greenhouse gas is calibrated relative to carbon dioxide and is reported as 'carbon dioxide equivalent' emissions (CO₂e). In this way the Trustee can compare companies that emit different amounts of different GHGs on a consistent basis.

In respect of sovereign debt investments, the Trustee follows the Partnership for Carbon Accounting of Financials ("PCAF") approach to derive absolute emissions. Recognising the different methodologies

used to calculate absolute emissions for sovereigns and corporates, the Trustee reports sub totals at the corporate and sovereign levels as well as Total Greenhouse Gas Emissions figure.

The Trustee has chosen this metric to understand the absolute amount of emissions financed by the Plan's investments.

Carbon Footprint

Carbon Footprint is an intensity measure of emissions that takes the Plan's Total GHG Emissions figure and normalises it to take account of the size of the investment.

Analysing an investment fund's Carbon Footprint assists the Trustee in identifying carbon-intense sections of the Plan's portfolio. The Trustee has therefore chosen this metric to assist them in prioritising carbon intense parts of the investment strategy for potential re-allocation or engagement as a means of mitigating associated climate-related risks.

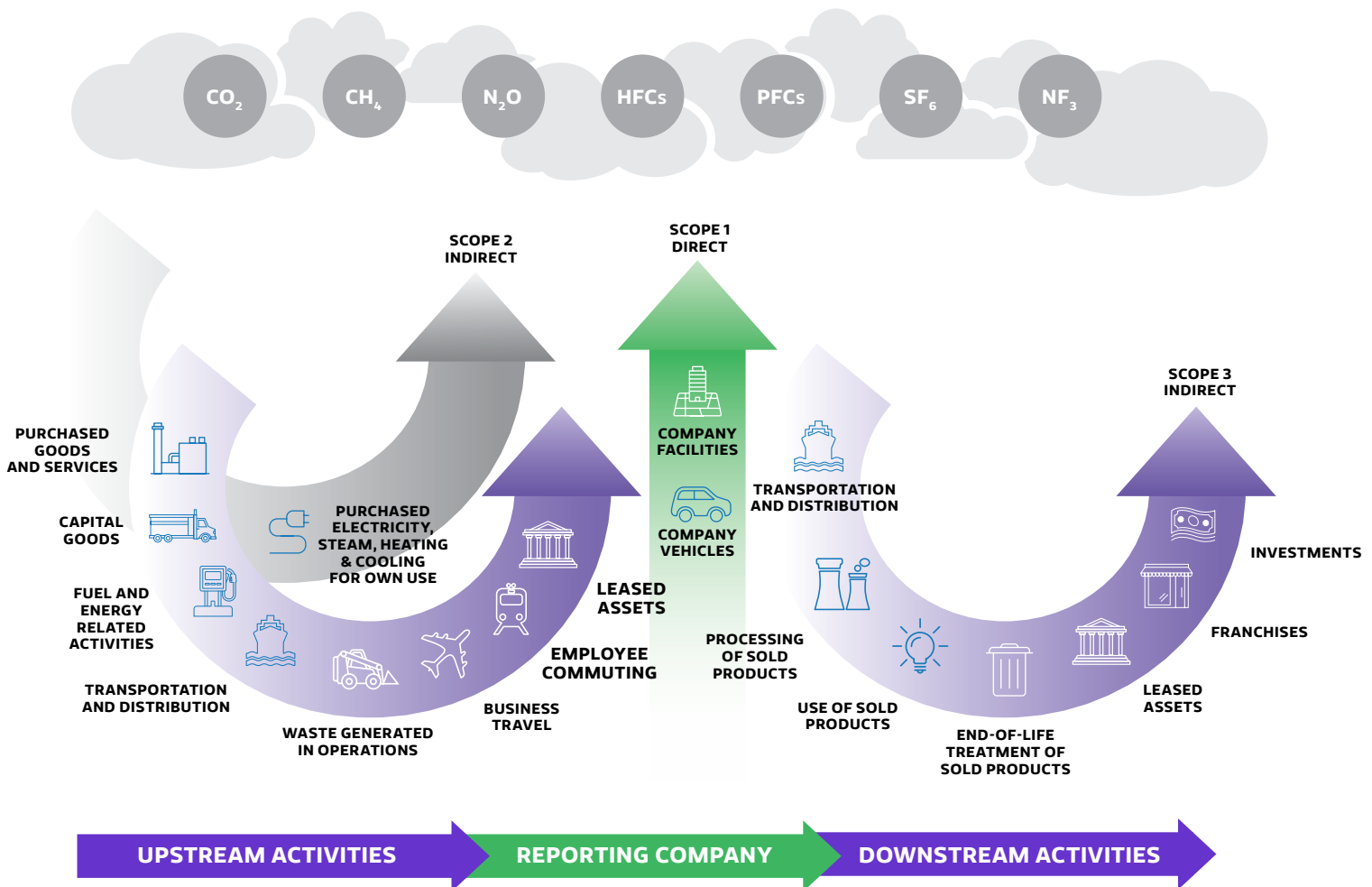


FIGURE 7: Understanding greenhouse gas emissions; Source: GHG Protocol

³ For sovereign bonds, Greenhouse Gas emissions are expressed relative to Purchasing Power Parity adjusted Gross Domestic Product (PPP-adjusted GDP).

Weighted Average Carbon Intensity

Weighted Average Carbon Intensity (WACI) is an alternative intensity measure of emissions that normalises a company's Total GHG Emissions figure by its revenue. This metric is calculated by taking the total carbon emissions of the investment and dividing by annual company revenue. A different approach is taken for sovereign bonds, where the specified sovereign GHG Emissions are normalised by Purchasing Power Parity adjusted Gross Domestic Product (PPP-adjusted GDP). A portfolio level intensity metric is calculated as the weighted average of the underlying holdings' intensity metrics.

Analysing an investment fund's WACI assists the Trustee in identifying how carbon efficient the business models of the companies held within a portfolio are. Alongside Carbon Footprint, the Trustee has chosen this metric to assist them in prioritising carbon intense parts of the investment strategy for potential re-allocation or engagement as a means of mitigating associated climate-related risks.

% of portfolio companies with net zero targets approved by the Science Based Targets initiative (SBTi)

The Science Based Target initiative (SBTi) has established an industry standard methodology for companies setting long-term carbon emission reduction targets that are in line with climate science. Companies submit their net zero plans to SBTi, who then act as an independent assessor of the validity of the plans.

SBTi uses a sector decarbonisation approach (SDA) or an absolute contraction approach (ACA). Under the SDA approach, SBTi allocates the 20C carbon budget to different sectors, taking into account differences between sectors today and mitigation potential going forwards (e.g. this takes into account the fact that power generation will likely be able to decarbonise faster than cement production). The ACA approach is a broad assumption that assumes that all companies should decarbonise at the same rate. The ACA approach is the most popular target that companies who submit their targets to the SBTi choose.

The Trustee has chosen this metric because it provides a measure of portfolio alignment with the goals of the Paris Agreement. Underlying funds with a low percentage of companies with SBTi-approved targets could indicate investment in companies or issuers that are not setting targets to align their businesses or activities with net zero, which is a forward-looking indication of climate transition risk.

The Trustee recognises that the SBTi does not currently cover every sector, but is cognisant that the Initiative's coverage across additional companies and sectors is expanding rapidly.

Data Quality

Data Quality aims to represent the proportions of the portfolio for which the Trustee has high quality climate data. The Trustee has considered whether the underlying emissions data has been verified by a third party, reported by the company, estimated by the data provider, or unavailable to determine how representative the analysis is of the Plan's actual portfolio.

Data Quality also assists the Trustee in monitoring quality of reporting over time, as companies are expected to continually improve their reporting on climate-related metrics. As the quality of data improves, the usefulness of the climate metrics reported on the Plan's portfolio increases. In addition, the Trustee is able to identify the companies in the portfolio that are not currently reporting emissions data and use this as the basis for engagement with the investment managers.

Data collection

The climate metrics analysis presented in this report is as at 31 March 2022, which falls within the scheme year that the Plan came in scope of the Climate Change Governance and Reporting Regulations. With the exception of property holdings within the DC Section assets and gilt holdings within the LDI portfolio of the DB Section assets, climate metrics have been calculated by Mercer using MSCI data, with portfolio stocklists sourced directly from the investment managers. Property metrics were sourced directly from the investment manager and gilt metrics were calculated by Mercer in line with PCAF recommendations. Further information in relation to the emission scopes and data coverage are included in the Technical Appendix.

Climate Metric Analysis – DC Section

The tables on the following pages set out the results of the Trustee's climate metric analysis for the popular arrangements of the DC Section across the categories of absolute emissions, emissions intensity and portfolio alignment. The results aid the Trustee in assessing the potential climate change-related risks to which the DC Section is exposed on both a point-in-time and forward-looking basis. The Technical Appendix contains information on limitations in relation to the reporting and collection of climate metric data.

DC SECTION – ACTIVE DIVERSIFIED GROWTH FUND

ASSET CLASS	MANAGER/ MANDATE	PORTFOLIO ALLOCATION AS % OF TOTAL AUM / (IN SCOPE ASSET CLASS – IF DIFFERENT – AS % OF TOTAL AUM)**	EVIC COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)	ABSOLUTE EMISSIONS (tCO ₂ e)	CARBON FOOTPRINT COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)
Composite – Active Diversified Growth (ex-Sovereign)	BlackRock AC Global Equity Blend	35.1%	98.6%	34,918	98.4%
	Nordea Alpha 15 MA Fund	5.5% (3.9%)	99.5%	1,224	99.5%
	Ruffer Diversified Return Fund	3.9% (2.8%)	99.4%	5,917	99.4%
	Western Asset Management MAC	4.9% (3.2%)	76.1%	9,663	76.1%
	Threadneedle Property Fund*	4.4%	100.0%	194	100.0%
Active Diversified Growth (ex-Sovereign)		53.8% (49.4%)	97.4%	51,916	97.2%
	MANAGER/ MANDATE	CARBON FOOTPRINT (tCO ₂ e / \$M INVESTED)	WACI COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)	WACI (tCO ₂ e / \$M REVENUE). (tCO ₂ e / \$M PPP-ADJUSTED GDP)	SBTI (%)
Active Diversified Growth (ex-Sovereign)	BlackRock AC Global Equity Blend	53.5	98.6%	133.3	29.8%
	Nordea Alpha 15 MA Fund	16.8	99.5%	57.9	54.7%
	Ruffer Diversified Return Fund	115.0	99.7%	158.2	27.5%
	Western Asset Management MAC	160.0	79.8%	410.7	6.5%
	Threadneedle Property Fund*	2.4	100.0%	29.7	–
Active Diversified Growth (ex-Sovereign)		56.5	97.6%	137.7	27.5%

DC SECTION – ACTIVE DIVERSIFIED GROWTH FUND

ASSET CLASS	MANAGER/ MANDATE	PORTFOLIO ALLOCATION AS % OF TOTAL AUM / (IN SCOPE ASSET CLASS – IF DIFFERENT – AS % OF TOTAL AUM)**	EVIC COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)	ABSOLUTE EMISSIONS (tCO ₂ e)	CARBON FOOTPRINT COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)
Composite – Active Diversified Growth (Sovereign)	Nordea Alpha 15 MA Fund	1.1%	51.4%	3,867	
	Ruffer Diversified Return Fund	2.7%	91.5%	9,055	–
	Western Asset Management MAC	1.0%	95.9%	4,941	
Active Diversified Growth (Sovereign)		4.7%	83.4%	17,863	–
Total Active Diversified Growth				69,779	
	MANAGER/ MANDATE	CARBON FOOTPRINT (tCO ₂ e / \$M INVESTED)	WACI COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)	WACI (tCO ₂ e / \$M REVENUE). (tCO ₂ e / \$M PPP-ADJUSTED GDP)	SBTI (%)
	Nordea Alpha 15 MA Fund		51.4%	195.7	
	Ruffer Diversified Return Fund	–	91.5%	179.2	–
	Western Asset Management MAC		95.9%	277.1	
Active Diversified Growth (Sovereign)		–	83.4%	202.7	–

Source: MSCI, Mercer calculations, investment managers. Data as at 31 March 2022. Notes: Sovereign analysis has been conducted in line with recommended PCAF methodology. Intensity formula: Production Emissions / PPP Adjusted GDP (\$M). Scope 1+2 only. % of fund directly analysed reflects coverage under the MSCI tool used in this analysis. *The Threadneedle Property Fund metrics have been provided directly by the manager. Caution is advised when comparing and aggregating these metrics with other funds due to the use of different data providers (Threadneedle data provider is Evora Global). ** For multi-asset funds, asset classes that are not currently amenable to climate metric analysis are considered out of scope and have been excluded.

DC SECTION – ACTIVE DIVERSIFIED RETIREMENT FUND

ASSET CLASS	MANAGER/ MANDATE	PORTFOLIO ALLOCATION AS % OF TOTAL AUM / (IN SCOPE ASSET CLASS – IF DIFFERENT – AS % OF TOTAL AUM)**	EVIC COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)	ABSOLUTE EMISSIONS (tCO ₂ e)	CARBON FOOTPRINT COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)
Composite – Active Diversified Retirement (ex-Sovereign)	BlackRock AC Global Equity Blend	2.1%	98.6%	2,054	98.4%
	Nordea Alpha 15 MA Fund	0.4% (0.3%)	99.5%	89	99.5%
	Ruffer Diversified Return Fund	0.3% (0.2%)	99.4%	431	99.4%
	M&G PP All Stock Corporate Bond	0.4% (0.4%)	53.5%	325	53.2%
	MSIM Global Credit Fund	0.5%	75.2%	317	75.2%
	Western Asset Management MAC	0.5% (0.3%)	76.1%	975	76.1%
	Threadneedle Property Fund*	0.2%	100.0%	10	100.0%
Active Diversified Retirement (ex-Sovereign)		4.4% (4.0%)	89.6%	4,201	89.5%
	MANAGER/ MANDATE	CARBON FOOTPRINT (tCO ₂ e / \$M INVESTED)	WACI COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)	WACI (tCO ₂ e / \$M REVENUE). (tCO ₂ e / \$M PPP-ADJUSTED GDP)	SBTI (%)
	BlackRock AC Global Equity Blend	53.5	98.6%	133.3	29.8%
	Nordea Alpha 15 MA Fund	16.8	99.5%	57.9	54.7%
	Ruffer Diversified Return Fund	115.0	99.7%	158.2	27.5%
	M&G PP All Stock Corporate Bond	46.1	86.8%	99.0	17.9%
	MSIM Global Credit Fund	33.0	84.4%	145.8	19.8%
	Western Asset Management MAC	160.0	79.8%	410.7	6.5%
	Threadneedle Property Fund*	2.4	100.0%	29.7	–
Active Diversified Retirement (ex-Sovereign)		56.5	94.3%	144.5	25.5%

DC SECTION – ACTIVE DIVERSIFIED RETIREMENT FUND

ASSET CLASS	MANAGER/ MANDATE	PORTFOLIO ALLOCATION AS % OF TOTAL AUM / (IN SCOPE ASSET CLASS – IF DIFFERENT – AS % OF TOTAL AUM)**	EVIC COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)	ABSOLUTE EMISSIONS (tCO ₂ e)	CARBON FOOTPRINT COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)
Composite – Active Diversified Retirement (Sovereign)	BlackRock AC Over 5 Year Index Linked Gilt	0.5%	100.0%	1,306	
	BlackRock AC All Stocks UK Gilt Fund	0.5%	96.3%	1,306	
	M&G PP All Stock Corporate Bond	0.1%	100.0%	265	–
	Nordea Alpha 15 MA Fund	0.1%	51.4%	282	
	Ruffer Diversified Return Fund	0.2%	91.5%	660	
	Western Asset Management MAC	0.1%	95.9%	498	
Active Diversified Retirement (Sovereign)		1.5%	83.4%	4,317	
Total Active Diversified Retirement				8,518	
	MANAGER/ MANDATE	CARBON FOOTPRINT (tCO ₂ e / \$M INVESTED)	WACI COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)	WACI (tCO ₂ e / \$M REVENUE). (tCO ₂ e / \$M PPP-ADJUSTED GDP)	SBTI (%)
	BlackRock AC Over 5 Year Index Linked Gilt		100.0%	135.8	
	BlackRock AC All Stocks UK Gilt Fund		96.3%	135.8	
	M&G PP All Stock Corporate Bond	–	100.0%	140.4	–
	Nordea Alpha 15 MA Fund		51.4%	195.7	
	Ruffer Diversified Return Fund		91.5%	179.2	
	Western Asset Management MAC		95.9%	277.1	
Active Diversified Retirement (Sovereign)		–	94.9%	154.0	–

Source: MSCI, Mercer calculations, investment managers. Data as at 31 March 2022. Notes: Sovereign analysis has been conducted in line with recommended PCAF methodology. Intensity formula: Production Emissions / PPP Adjusted GDP (\$M). Scope 1+2 only. % of fund directly analysed reflects coverage under the MSCI tool used in this analysis. *The Threadneedle Property Fund metrics have been provided directly by the manager. Caution is advised when comparing and aggregating these metrics with other funds due to the use of different data providers (Threadneedle data provider is Evora Global). ** For multi-asset funds, asset classes that are not currently amenable to climate metric analysis are considered out of scope and have been excluded.

DC SECTION – CASH

The DC default arrangement includes a cash fund, but this has been excluded from the climate metric analysis due to challenges associated with obtaining reliable metrics for such funds.

DC SECTION – LISTED EQUITY FUNDS

ASSET CLASS	MANAGER/ MANDATE	PORTFOLIO ALLOCATION AS % OF TOTAL AUM / (IN SCOPE ASSET CLASS – IF DIFFERENT – AS % OF TOTAL AUM)**	EVIC COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)	ABSOLUTE EMISSIONS (tCO ₂ e)	CARBON FOOTPRINT COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)
Listed Equity	Baillie Gifford Active Global Equity	8.4%	91.6%	261	91.6%
	BlackRock Passive Global Equity	9.3%	98.6%	9,252	98.4%
	MANAGER/ MANDATE	CARBON FOOTPRINT (tCO ₂ e / \$M INVESTED)	WACI COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)	WACI (tCO ₂ e / \$M REVENUE). (tCO ₂ e / \$M PPP-ADJUSTED GDP)	SBTI (%)
	Baillie Gifford Active Global Equity	1.7	91.9%	14.9	22.3%
	BlackRock Passive Global Equity	53.5	98.6%	133.3	29.8%

Source: MSCI, Mercer calculations. Data as at 31 March 2022.

Climate Metric Analysis – DB Section

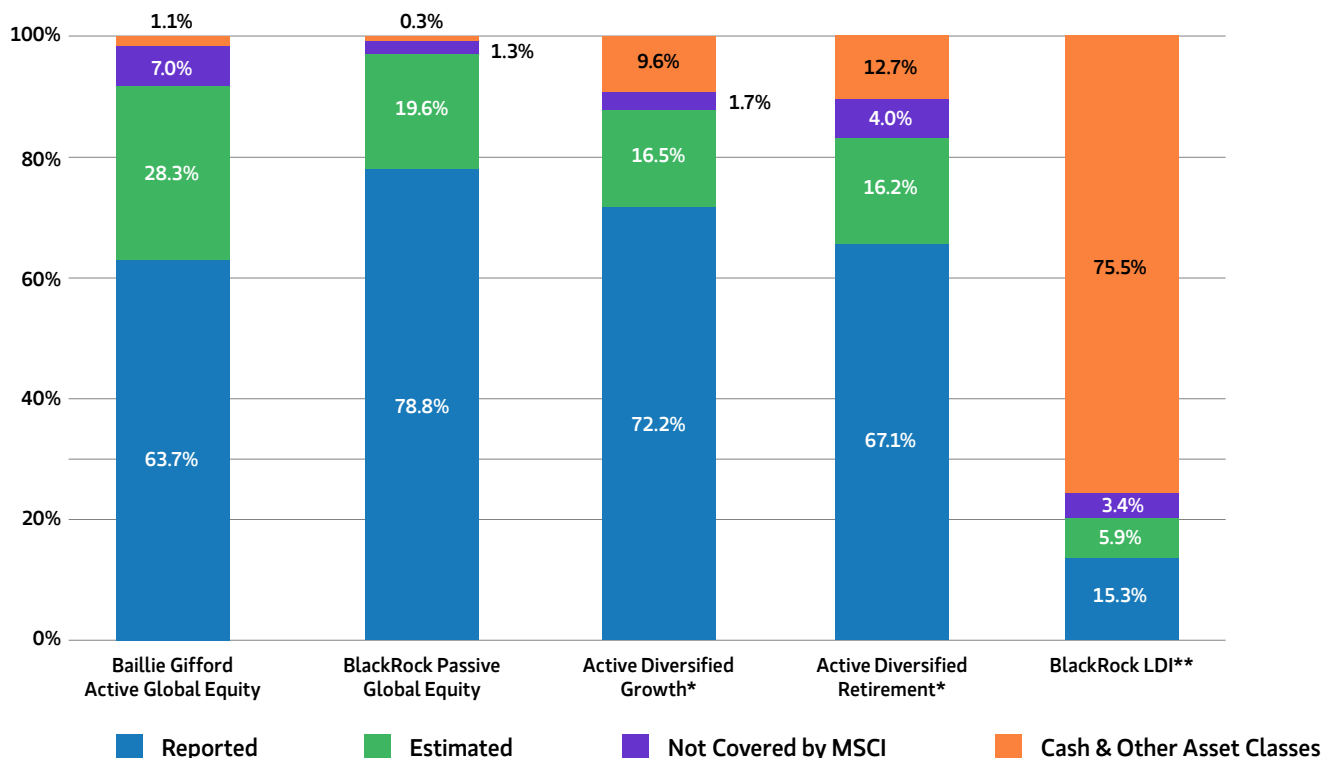
The table on this page sets out the results of the Trustee's climate metric analysis for the DB Section across the categories of absolute emissions, emissions intensity and portfolio alignment. The results aid the Trustee in assessing the potential climate change-related risks to which the DB Section is exposed on both a point-in-time and forward-looking basis.

ASSET CLASS	MANAGER/ MANDATE	PORTFOLIO ALLOCATION AS % OF TOTAL AUM / (IN SCOPE ASSET CLASS – IF DIFFERENT – AS % OF TOTAL AUM)**	EVIC COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)	ABSOLUTE EMISSIONS (tCO ₂ e)	CARBON FOOTPRINT COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)
Listed Equity	BlackRock LDI	63.5%	100.0%	48,278	–
	BlackRock Corporate Bonds	24.5%	45.0%	6,679	44.7%
	Total Portfolio			54,957	
	MANAGER/ MANDATE	CARBON FOOTPRINT (tCO ₂ e / \$M INVESTED)	WACI COVERAGE ACROSS IN SCOPE ASSET CLASSES (%)	WACI (tCO ₂ e / \$M REVENUE). (tCO ₂ e / \$M PPP-ADJUSTED GDP)	SBTI (%)
	BlackRock LDI	–	100.0%	135.8	–
BlackRock Corporate Bonds	77.2	86.2%	125.1	30.4%	

Source: MSCI, Mercer calculations. Data as at 31 March 2022. Notes: Sovereign analysis has been conducted in line with recommended PCAF methodology. Intensity formula: Production Emissions / PPP Adjusted GDP (\$M). Scope 1+2 only. % of fund directly analysed reflects coverage under the MSCI tool used in this analysis. *Analysis includes only the Corporate Bond and Sovereign Bond portions of the BlackRock LDI, excluding other asset classes, such as swaps, ABS and cash.

DATA QUALITY – DB AND DC SECTIONS

The chart on this page represents the proportions of the various holdings for which the Trustee has high quality data, split between reported, estimated and unavailable. No data was classed as verified as at the analysis date.



Notes: Values may not sum up due to rounding. *Includes the Threadneedle Property Fund, whose metrics have been provided directly by the manager. Threadneedle data provider is Evora Global. **Considers only the corporate bond portion of the mandate.

Source: MSCI, Mercer calculations, investment managers.

Targets

The Trustee aims to target net-zero carbon emissions by 2050, in line with the sponsoring employer's climate commitment. This target would apply across all the Plan's assets.

The Trustee has agreed shorter-term targets across the DC and DB Sections, which are consistent with the aim of reaching net-zero emissions by 2050.

DC SECTION

The Trustee has elected to set a target in relation to the Passive Global Equity Fund as it represents the most material component of the Active Diversified Growth and Active Diversified Retirement Funds and is also a material proportion of DC assets on a standalone basis (46% of DC Section assets at 31 March 2022). The Trustee has set a target to reduce the carbon intensity of the Fund by 45% by 2030 (relative to a 2021 baseline) measured on a Carbon Footprint basis (based on scope 1 and 2 emissions only). A 30% reduction has been achieved to date.

DB SECTION

The Trustee has elected to set a target in relation to the UK government bond holdings within the LDI portfolio given it is the principal holding within the DB Section and the allocation is expected to increase over time. This implies aligning with the UK government commitment of net-zero by 2050 and the interim target of a 68% reduction in absolute emissions by 2030 (relative to 1990 levels). The Trustee has mapped this target to a 68% reduction in the production emissions number used in the WACI calculation of the relevant holdings by 2030 (relative to a 1990 baseline). A 46% reduction has been achieved to date.

The Trustee will review its targets at least annually, taking into account ongoing progress against the targets. The Trustee intends to set specific targets for other asset classes (for instance, corporate bond holdings) and include Scope 3 emissions, when the available data has improved and there are suitable methodologies.

A wide range of factors will affect whether the Trustee achieves its targets and the Trustee has varying degrees of control over these factors. For example, the quality and availability of data means that the quoted greenhouse gas emissions are likely to change. For the LDI portfolio, the progress of the UK government will have a significant influence over the timing of reaching net zero.

Ultimately achieving the desired level of decarbonisation will depend on global economies overall successfully decarbonising. Notwithstanding that there are factors outside of the Trustee's control, the Trustee's intention is to meet its targets and it has already taken action across the DC Section to decarbonise the Passive Global Equity Fund through asset allocation changes. Furthermore, the Trustee is engaging with its investment managers to make clear its requirements, including its longer-term target of net-zero carbon emissions.

Technical Appendix

Climate scenario modelling approach

STRATEGIC ASSET ALLOCATIONS (SAA) MODELLED – DEFAULT ARRANGEMENT AND ACTIVE DIVERSIFIED GROWTH FUND

ASSET CLASS	SAA (%)		
	ACTIVE DIVERSIFIED GROWTH FUND	ACTIVE DIVERSIFIED RETIREMENT FUND	CASH
Equity	60.0	35.0	–
Multi-Asset Credit	10.0	10.0	–
UK Sovereign Bonds	-	17.5	–
Corporate Bonds	-	17.5	–
UK Real Estate	7.5	3.7	–
Diversified Growth Fund	22.5	16.3	–
Cash	–	–	100

Notes: The table above shows a breakdown of the allocations for the 3 strategies that comprise the default arrangement. The scenario analysis in this report also presents the results of the Active Diversified Growth Fund run as a standalone strategy.

CLIMATE SCENARIO NARRATIVES

	RAPID TRANSITION	ORDERLY TRANSITION	FAILED TRANSITION
Summary	Sudden divestments in 2025 to align portfolios to the Paris Agreement goals have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock.	Political and social organisations act quickly and predictably to implement the recommendations of the Paris Agreement to limit global warming to below 2°C above pre-industrial levels by 2100.	The world fails to meet the Paris Agreement goals and global warming reaches 4.3°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events.
Cumulative emissions to 2100	416 GtCO ₂ e	810 GtCO ₂ e	5,127 GtCO ₂ e
Key policy and technology assumptions	An ambitious policy regime is pursued to encourage greater decarbonisation of the electricity sector and to reduce emissions across all sectors of the economy. Higher carbon prices, larger investment in energy efficiency and faster phase out of coal-fired power generation under a 'Rapid' transition.		Existing policy regimes are continued with the same level of ambition.
Financial climate modelling	Pricing in of transition and physical risks of the coming 40 years occurs within one year in 2025. As a result of this aggressive market correction, a confidence shock to the financial system takes place in the same year.	Pricing in of transition and physical risks until 2050 takes place over the first 4 years.	Physical risks are priced in two different periods: 2026-2030 (risks of first 40 years) and 2036-2040 (risks of 40-80 years).
Physical risk impact on GDP	Physical risks are regionally differentiated, consider variation in expected temperature increase per region and increase dramatically with rising average global temperature. Physical risks are built up from: <ul style="list-style-type: none"> • Gradual physical impacts associated with rising temperature (agricultural, labour, and industrial productivity losses) • Economic impacts from climate-related extreme weather events. • Current modelling does not capture environmental tipping points or knock-on effects (e.g., migration and conflict). 		
Physical risk impact on inflation	Gradual physical impact (supply shocks) on inflation included through damages to agriculture and change in food prices. Total impact on a Global CPI Index is +2% in 2100.	No explicit modelling of physical risk impact on inflation (supply-side shocks). Impact on inflation follows historical relationship between GDP and CPI.	Severe gradual physical impact (supply shocks) on inflation included through damages to agriculture and change in food prices. Total impact on a Global CPI Index is +15% in 2100.

Limitations associated with climate modelling

Climate scenario modelling is a complex process. The Trustee is aware of the modelling limitations. In particular:

1. The further into the future you go, the less reliable any quantitative modelling will be.
2. Looking at average asset class returns over multi-decade timeframes leads to small impacts. The results are potentially significantly underestimated.
3. There is a reasonable likelihood that physical impacts are grossly underestimated. Feedback loops or 'tipping points', like permafrost melting, are challenging to model particularly around the timing of such an event and the speed at which it could accelerate.
4. Financial stability and insurance 'breakdown' are not modelled. A systemic failure may be caused by either an 'uninsurable' 4oC physical environment or due to the scale of mitigation and adaptation required to avoid material warming of the planet.
5. Most adaptation costs and social factors are not priced into the models. These include population health and climate-related migration.

Climate metric analysis approach

The reporting and collection of climate metric data is in its infancy. Limitations include the availability and quality of data (requiring the use of estimated data in some instances), anticipated improvements in measurement techniques and developments in the approaches used for calculating certain climate metrics.

Scope of emissions

Only Scope 1 and 2 emissions data has been included in this report. This means that the assessment of companies/assets/sovereigns carbon emissions could be considered an understatement. Scope 3 emissions will be included in the Trustee's next report, although the Trustee notes that there are currently a number of limitations associated with that the reliability and accuracy of this additional data.

Data coverage

Data coverage refers to the proportion of an asset in which the various climate-related metric data is available. There are gaps in the data as:

- Some public listed companies are not publishing climate-related data or are providing poor quality data. This is relevant to public equity and corporate bonds. Obtaining data for emerging market equity can also be challenging due to general disclosure and transparency challenges.
- For UK government debt, data is available but there is a delay in the data being published.

In this report, the Trustee has used a pro rata approach to scale up each climate metric in order to present the data as if full coverage was available for each asset. This assumes that the part of an investment fund that does not have data available has the same investment characteristics (for example, same sector or geography) as the part where there is data.

Liability Driven Investment ("LDI") portfolio

As at 31 March 2022, the LDI portfolio comprised UK government bonds, derivatives and cash. Derivative and cash holdings have been excluded from the climate metric analysis. As at 31 December 2022, the DB Section no longer held these derivative positions.

Climate metrics for UK government bonds based on PPP-adjusted GDP sourced from World Bank (\$3.1tn in 2021) and production emissions from EDGAR (419m tCO₂e in 2018).

Important notices from data providers

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