

COMPASS GROUP PENSION PLAN

Taskforce for Climate-Related Financial Disclosures

October 2024

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INTRODUCTION

Climate change is affecting the planet, causing extreme weather events, impacting crop production and threatening Earth’s ecosystems. Understanding the impact of climate change and the Compass Group Pension Plan’s vulnerability to climate-related risks will help us to mitigate the risks and take advantage of any opportunities.

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

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

This report is the annual climate disclosures for Plan for the year ended 5 April 2024. The four elements covered in the report are:

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

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

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

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

This report has been prepared by the Trustee of the Compass Group Pension Plan (the “Trustee”) in accordance with the regulations set out under The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the “Regulations”).

EXECUTIVE SUMMARY

This report sets out the actions that we, the Trustee, have taken to understand the potential impact climate change could have on the Plan.

We have worked closely with our investment adviser to identify the climate-related risks and opportunities faced by the Plan, and to understand ways we can manage and mitigate those risks.

Overview of the Plan

The Plan is set up as a hybrid Plan, which has three sections, a Defined Benefit (“DB”) Section and a Defined Contribution (“DC”) Section. On 1 January 2024, the Plan merged with the Compass Retirement Income Savings Plan (“CRISP”), a DC pension scheme, to create the new CRISP Section within the Plan.

The DB Section invests across a range of assets, and within this report we consider the impact of climate-related risks on those asset classes, the investment strategy and potential impact on the funding of the Plan.

For the DC Section, we have focused our attention on each ‘popular arrangement offered’. A ‘popular arrangement’ is defined as one in which £100m or more is invested, or which accounts for 10% or more of the assets used to provide money purchase benefits.

The Trustee has been supported by its investment consultant, Aon Investments Limited (“Aon”) in producing the TCFD report.

Governance

The Plan has a DB Section and a DC Section.

- The DB Section has an asset portfolio of c.£1.8bn as at 31 March 2024 which is invested in a range of asset classes including Property, Long Lease Property, Corporate Bonds and Liability Driven Investments (“LDI”).
- The DC Section consists of Gilts, Equities and Property funds.
- We, the Trustee, are ultimately responsible for the oversight of all strategic matters relating to the Plan, this includes climate-related risks and opportunities.
- We delegate the day-to-day oversight of the Plan’s climate change risk management to the Investment Committee (“IC”).

Strategy

- Our qualitative analysis of climate-related risks and opportunities showed that the asset classes in which the Plan invests are impacted to minor degree by climate-related risks. And over time, the risk exposure is expected to increase.
- We identified a limited amount of investment opportunities for the asset classes within the Plan.
- We assessed the appropriateness to last year’s climate change scenario analysis which showed the Plan having a reasonable degree of resilience relative to climate-related risks. We believe the scenario analysis is still appropriate for the Plan following no changes to the underlying investment strategy of the Plan since last year’s report.

Risk management

- We have enhanced the process to identify, assess and manage the climate-related risks and opportunities the Plan is exposed to developing on from last year’s climate risk management plan. This is integrated into the Plan’s wider risk management framework.
- Our Climate Risk Management framework is set out on pages 19-22, which assists with the ongoing management of climate-related risks and opportunities. Alongside this, the Trustee undertakes periodic training on responsible investment to understand how ESG factors, including climate change, may impact the Plan’s assets and liabilities. Details of training the

COMPASS GROUP PENSION PLAN TCFD REPORT 2024

Trustee has undertaken through the Plan's year are included in the Governance Section and Risk Management Section.

Metrics and targets

We have disclosed information on four climate-related metrics for each of the DB, DC and CRISP Sections of the Plan:

- Total Greenhouse Gas ("GHG") Emissions.
- Carbon Footprint.
- Data Quality.
- Portfolio Alignment.

We have also set the following targets for the DB and DC Sections of the Plan (the CRISP Section has been excluded on grounds of materiality):

- DB Section target
Improve data quality to 90.0% by 2026.
- DC Section target
Improve data quality to 95.0% by 2026.

We reviewed the metrics and the targets, and we believe they remain appropriate.

To tackle the Plan's climate-related risks, we have decided to take the following actions:

- Continue to engage with investment managers to ensure their reporting on climate-related risks allows the Trustee to ensure the Group is sufficiently resilient.
- Enhance analysis of climate-related opportunities to incorporate the time-horizons that are relevant to the Plan.

Following completion of the report, the Trustee was reassured that the various analysis showed that the potential financial impact of climate change on the Plan is not thought to be significant. The Trustee has spent considerable time and effort to monitor the TCFD framework and will continue to monitor the potential impacts of climate change on the Plan.

P N Whittome

3/10/2024

Signed on behalf of the Trustee

Date

GOVERNANCE

Governance is the way the Plan operates and the internal processes and controls in place to ensure appropriate oversight. Those undertaking governance activities are responsible for managing climate-related risks and opportunities.

Our Plan's governance

As the Trustee of the Plan, we are responsible for overseeing all strategic matters related to the Plan. This includes:

- the governance and management frameworks relating to;
- environmental, social and governance ("ESG") considerations; and
- climate-related risks and opportunities.

We agreed our climate-related beliefs and our approach to managing climate change risk. These are set out in the Plan's Statement of Investment Principles ("SIP"), which is reviewed annually.

Climate Mission Statement

The Trustee believes that the risks associated with climate change could impact investment returns within the timeframe that the Trustee is concerned about. Because of this risk, the Trustee seeks to integrate assessments of climate change risk into its investment risk management and strategy. Furthermore, the Trustee believes that climate-related factors are likely to create investment opportunities. Where possible, and where appropriately aligned with the Trustee's strategic objectives and fiduciary duty, the Trustee will seek to capture such opportunities through its investment portfolio.

Climate-related risks and opportunities are integrated into our risk management framework so we can maintain oversight of the climate-related risks and opportunities that are relevant to the Plan.

We receive training on an annual basis (or more frequently if required) on climate-related issues to ensure that we have the appropriate knowledge and understanding to support good decision-making.

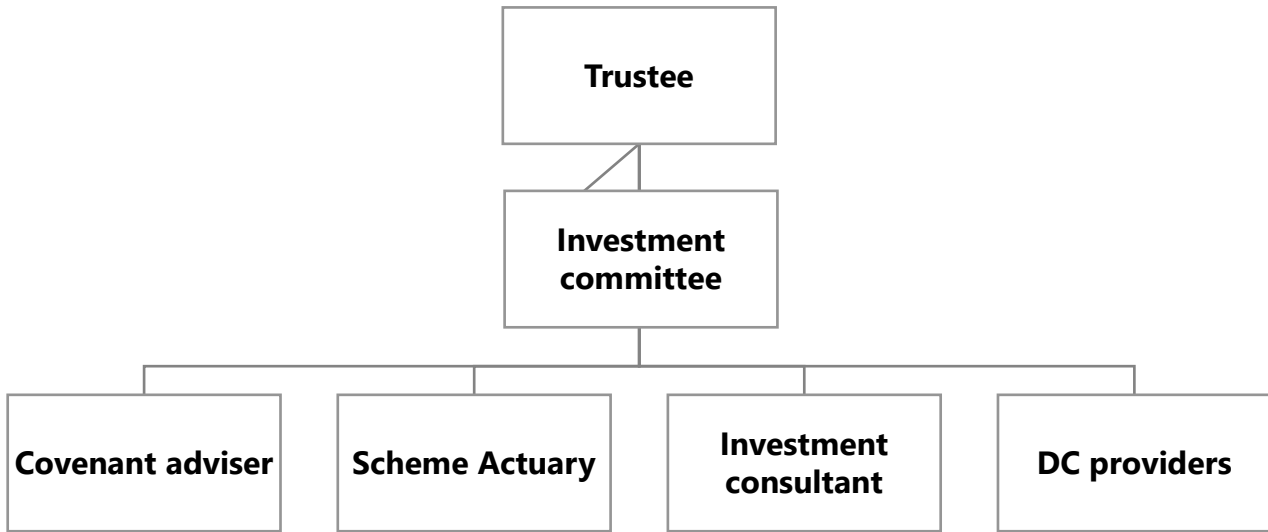
Trustee's update

During February 2024, the Trustee completed further training on the regulatory changes under Year 2 TCFD statutory guidance.

The Group Trustee received training and information from its Investment Adviser in relation to the key changes to the regulations. This included training on the climate metrics to be reported on, such as the inclusion of Scope 3 emissions.

Training also covered key lessons learnt from the industry's first wave of TCFD reporting from the Pensions Regulator ("TPR").

The Diagram below shows the structure of the Plan.



Role of the Trustee

The Trustee is collectively responsible for oversight of all strategic matters related to the Plan. This includes approval of the governance and management framework relating to ESG considerations and climate-related risks and opportunities. Given its importance, the Trustee has collective responsibility for setting the climate change risk framework, rather than naming one individual to be responsible for its response to climate risks and opportunities.

Climate-related risks and opportunities are integrated into the Trustee’s risk management framework so the Trustee can maintain oversight of the climate-related risks and opportunities that are relevant to the Plan.

In summary, the Trustee believes that:

- Climate change will impact the Plan over the long term. The Trustee therefore aims to generate better expected risk-adjusted returns by making decisions with a longer-term outlook, even though issues that manifest over longer horizons can be difficult to manage. Where appropriate, the Trustee considers transition and physical risks separately.
- The most appropriate time horizons for the Plan are as follows:
 - Short-term: 1 to 3 years
 - Medium-term: 4 to 10 years
 - Long-term: 11 to 20 years

Climate-related risks and opportunities are assessed over the above time horizons. Where appropriate, the Trustee considers transition and physical risks separately.

The Trustee receives training on an annual basis (or more frequently if required) on climate-related issues as part of its TCFD reporting process, to ensure that it has the appropriate degree of knowledge and understanding on these issues to support good decision-making.

The Trustee also annually monitors and reviews progress against the Plan’s climate change risk management approach.

Role of the Investment Committee

The key activities undertaken by the IC, with the support of our advisers, are:

- Ensure the investment strategy or any implementation proposals consider the impact of climate risks and opportunities.
- Seek investment opportunities which enhance the ESG and climate change focus of the Plan’s portfolio.

- Engage with the Plan's investment managers to understand how climate-related risks are considered in their investment approach.
- Work with the investment managers to disclose relevant climate-related metrics as set out in the TCFD recommendations.
- Ensure stewardship activities are being carried out appropriately by the investment managers on the Plan's behalf.
- Monitor and review progress against the Plan's risk management framework annually.

The IC meet regularly updates the wider Trustee board when required.

How we work with our advisers

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

The Trustee will review the support advisers provide on climate-related issues as part of its wider review of the quality of its advisers' provision of advice. This is performed on an annual basis for the investment adviser and on an ad hoc basis for the Plan Actuary and Covenant adviser (typically every 3 years).

Trustee's update

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

Investment consultant – The Trustee's investment consultant for the DB and DC Sections, Aon, provides investment-related strategic advice and support to the Trustee in respect of climate-related risks and opportunities and ensuring compliance with the recommendations set out by the TCFD. This includes regular training and updates on climate-related issues, climate change scenario modelling to enable the Trustee to assess the Plan's exposure to climate-related risks. Alongside this, Mercer is the investment consultant for the CRISP Section.

Scheme Actuary - The Scheme Actuary, Matt Farraker, helps the Trustee assess the potential impact of climate-related risks on the Plan's funding where relevant.

Covenant adviser – The Trustee's covenant adviser, RSM, will help the Trustee understand the potential impact of climate-related risk on the Sponsor covenant of the principal Employer of the Plan, Compass Group plc.

Role of DC providers – The Plan's DC providers, Legal & General Investment Management ("LGIM") and Scottish Widows, will be responsible for day-to-day management of the DC assets and will help the Trustee understand how they can support in providing the necessary information and data required to meet the requirements of TCFD. Alongside this, Mercer is responsible for the day-to-day management of the CRISP Section for the Plan.

STRATEGY

It is crucial to think strategically about the climate-related risks and opportunities that will impact the Plan if we are to stand a chance of mitigating the effects of climate change. Assessing the climate-related risks and opportunities the Plan is exposed to is key to understanding the impact climate change could have on the Plan in the future.

What climate-related risks are most likely to impact the Plan?

We carry out a qualitative risk assessment of the asset classes the Plan is invested in. From this we identify which climate-related risks could have a material impact on the Plan. We also identify suitable climate-related opportunities.

Given the number of asset classes used in the Plan, we completed this exercise to the best of our ability. To help us with our assessment, we surveyed our investment managers asking them to rate the climate-related risks and opportunities they believe their fund(s) is(are) exposed to.

Trustee’s update

In 2022, we asked our investment managers to assess their exposure to climate-related risks for the funds the Plan is invested in. This year, we asked our managers to review their risk assessments and update them if necessary.

Our investments

The Plan’s DB Section investment portfolio is diversified across a range of different asset classes including Property, Long Lease Property, Corporate Bonds and LDI. There is also a DC Section which invests into Equity and Property funds. The Plan’s asset allocation is as follows:

DB Section

Asset Class	Property	Long Lease Property	Corporate Bonds	LDI	Cash
Strategic Allocation	3.5%	3.0%	15.5%	77.7%	0.4%

Asset allocations as at 31 March 2024

DC Section

The assets of the DC Section are diversified across a range of assets classes i.e., Equities and Property. The Trustee has focused its analysis on the default investment strategy, which is invested in multi-asset arrangements split between a diversified and growth section.

The CRISP Section has been excluded on grounds of materiality.

How the risk assessment works

Risk categories	Ratings	Time horizons
<p>In the analysis, the climate-related risks have been categorised into physical and transition risks.</p> <p>Transition risks are associated with the transition towards a low-carbon economy.</p> <p>Physical risks are associated with the physical impacts of climate change on companies’ operations.</p>	<p>The analysis uses a RAG rating system where:</p> <p>Red denotes a high level of financial exposure to a risk.</p> <p>Amber denotes a medium level of financial exposure to a risk.</p> <p>Green denotes a low level of financial exposure to a risk.</p>	<p>We assessed the climate-related risks and opportunities over multiple time horizons considering the liabilities of the Plan and its obligations to pay benefits. We decided the most appropriate time horizons for the Plan are:</p> <ul style="list-style-type: none"> ▪ short term: 1-3 years ▪ medium term: 4-10 years ▪ long term: 11-20 years

More details about transition and physical risks can be found in Appendix 2.

Climate-related risk assessment

Key conclusions
<p>Diversification across asset classes, sectors and regions is important to manage climate-related physical and transition risks for the Plan.</p> <p>For the DB Section, Aviva and M&G did not provide the climate-related risks and opportunities in the requested format with the appropriate time horizons. For Aviva, we have used last year’s RAG analysis until we have a more updated version. For M&G, we have used the risks and opportunities paper they provided and put green RAG status for both transition and physical short to long term risks. We encourage the Trustee to engage further with these managers, with the support of Aon, to obtain the requested format in future years.</p> <p>There have been no other significant changes to the climate-related risks and opportunities since last year of reporting.</p>

The following tables summarise the transition and physical risks for each asset class the Plan is invested in.

DB Section

	Manager	Aviva – Long Lease Property	CBRE – Global Alpha Property	M&G – All stocks Corporate Bonds	LGIM - LDI
Physical risks	Short term	Green	Green - Amber	Green	Green
	Medium term	Green	Green - Amber	Green	Green
	Long term	Green - Amber	Green - Amber	Green	Green - Amber
Transition risks	Short term	Green - Amber	Green - Amber	Green	Green
	Medium term	Green - Amber	Amber	Green	Green
	Long term	Amber	Amber	Green	Green - Amber

DC Section

	Manager	LGIM – Corporate Bonds	LGIM – Multi-Asset Credit	LGIM – Equities
Physical risks	Short term	Green	Green	Green
	Medium term	Green	Green - Amber	Green - Amber
	Long term	Green - Amber	Amber	Amber
Transition risks	Short term	Green	Green	Green - Amber
	Medium term	Green - Amber	Green - Amber	Amber - Red
	Long term	Green - Amber	Amber - Red	Amber - Red

Climate-related opportunities

The Trustee relies on its investment managers to take into account climate-related risks and opportunities applicable for their mandates. Based on the qualitative assessment, the Plan’s managers identified the following opportunities.

Equities – The scale of the investment required to decarbonise the global economy over the next 40 years is colossal. This ranges from existing technologies such as renewable and nuclear power, electric vehicles, and green building materials, to others that remain in development today such as hydrogen and carbon capture and storage. Investment in all of these areas need to be at scale and pace, which will create a plethora of investment opportunities over the years ahead.

Property – An increasing demand from tenants and the wider market for low carbon and climate resilient buildings is creating opportunities for the asset class. Mitigation plans are being developed to address any risks present in portfolios, this means the underlying assets within the portfolio will remain attractive to occupiers and maximise building occupancy as well and increase reputations for firms.

Multi-asset – As electric vehicles, renewables and other alternative fuels become cheaper relative to conventional alternatives, companies will start to benefit from this growth. Some of this opportunity can also be recognised in the ‘hothouse world’ scenario, as technologies like solar and wind energy and electric vehicles are already cheaper than traditional alternatives, they are likely to continue growing even without supportive climate policy.

How resilient is the Plan to climate change?

Last year we carried out climate change scenario analysis to better understand the impact climate change could have on the Plan’s assets and liabilities.

Trustee update

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

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

We reviewed the scenario analysis completed as at 31 March 2022, for the DB Section, and we are comfortable that the analysis remains appropriate for this year’s report. There have been no significant changes to the investment strategy, the liability profile of the Plan, the modelling techniques, significant shift in policy implementation to tackle climate change or asset data availability.

This year, given there has been no material change to the investment strategy of the Plan, we are restating the same analysis from the first year’s report. The analysis looks at three climate change scenarios we believe provide a reasonable range of possible climate change outcomes that could have an impact on the DB Section of the Plan. The climate scenarios are compared to a “base case” scenario.

Additionally, this year, the Trustee has prepared a summary for both the DC and CRISP Sections. The Trustee was supported with this by the Plan’s DC Section investment consultant, Aon, and the CRISP Section investment consultant, Mercer.

Each climate scenario considers what may happen to the Plan’s DB, DC and CRISP Sections when transitioning to a low carbon economy under different temperature-related environmental conditions. These scenarios were developed by Aon and are based on detailed assumptions. They are only illustrative and are subject to considerable uncertainty.

The climate scenarios intend to illustrate the climate-related risks the Plan is currently exposed to, highlighting areas where risk mitigation could be achieved through changing the investment portfolio.

Other relevant issues such as governance, costs and implementation (including manager selection and due diligence) must be considered when making changes to the investment strategy.

Investment risk is captured in the deviance from the base case scenario, but this is not the only risk that members face. Other risks include covenant risk, longevity risk, timing of member options, basis risks and operational risks.

DB and DC Sections – Climate change scenario analysis

Details of the climate scenarios we chose to analyse for the DB and DC Sections are set out in the table below.

Scenario	Reach net zero by	Degree warming vs pre-industrial levels by 2100	Introduction of environmental regulation	Scenario description
Base Case	2050	~2°C – 2.5°C	-	Emission reductions start now and continue in a measured way in line with the objectives of the Paris Agreement and the UK government’s legally binding commitment to reduce emissions in the UK to net zero by 2050.
Disorderly Transition	After 2050	<4°C	Late and Aggressive	The world economy remains oriented towards improving near-term economic prospects, with companies and governments taking a "business as usual" approach. Eventually, market participants begin to fully grasp the implications of climate change and there is a growing realisation that current levels of action are inadequate. Market values price in high levels of economic damage and the irreversible loss.
Orderly Transition	2050	<2°C	Coordinated	Increased public awareness of climate change risks galvanises opinion and leads to

governments undertaking widespread action globally to aggressively mitigate and adapt to climate change. A high global greenhouse gas tax and carbon cap is introduced.

Source: Aon

DB Section – impact on the funding level

Funding surplus projections under each climate scenario

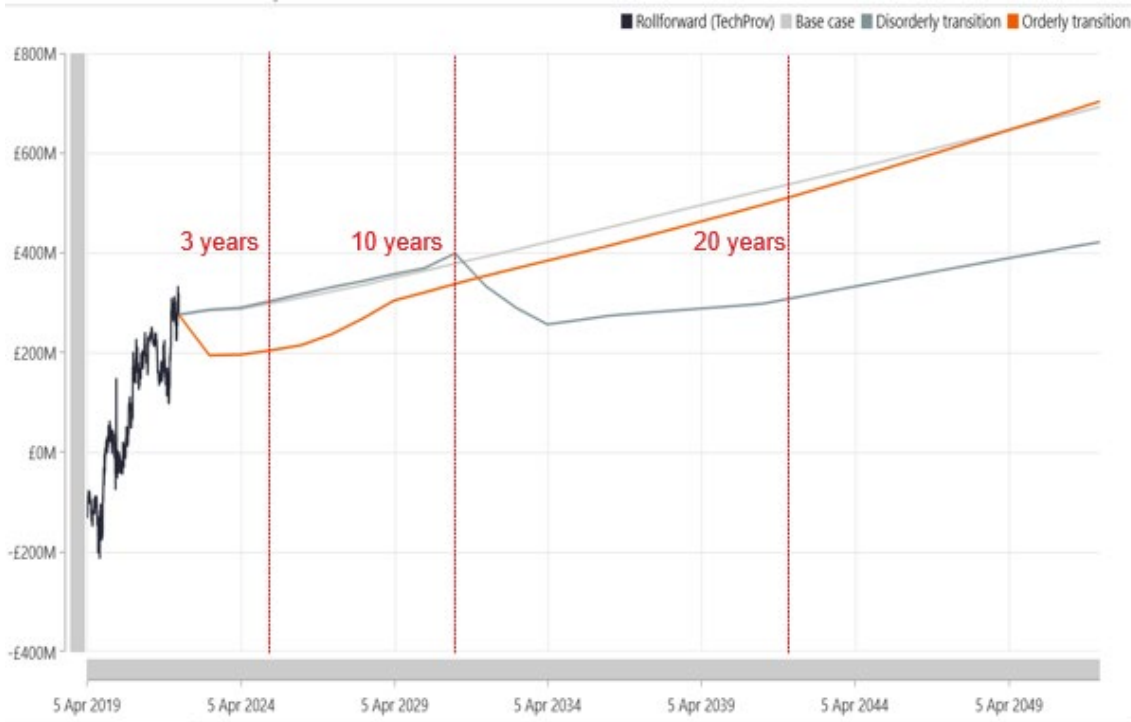
Key conclusions

The Plan’s DB Section investment portfolio exhibits reasonable resilience under the climate scenarios modelled. This is mainly due to the low-risk strategy and high levels of hedging against changes in interest rates and inflation.

The worst-case scenario for the Plan is the disorderly transition. This is following very limited action to reduce GHG emissions in earlier years, resulting in a much larger impact once action is belatedly taken. This results in very poor asset returns over the longer term, particularly when comparing against the other scenarios.

Under the disorderly transition scenario, although initially the funding surplus improves in line with the base case, after 10 years the surplus deteriorates sharply and slowly recovers by the end of the 30-year modelling period. This leaves the Plan materially worse off in terms of surplus relative to the base case, albeit still with a significant surplus.

The orderly transition scenario represents the biggest short-term risk for the Plan. This is due to high inflation and poor growth performance in early years having a pronounced negative impact on asset returns; however, this is followed by a material recovery in later years.



Source: Aon

The table below describes each climate scenario and the impact of each scenario on the DB Section of the Plan over the short-, medium- and long-term time horizons.

Disorderly Scenario	Summary of the Scenario	Summary of the impact to the Plan
<p>Temperature rise <4°C</p> <p>Reach net-zero After 2050</p> <p>Environmental regulation Late and Aggressive</p>	<p>In the short-term:</p> <p>Insufficient consideration given to long-term policies and there is no action taken to combat climate change</p> <p>In the medium-term:</p> <p>Late but coordinated action is taken to tackle climate change. The late timing means it is less effective and more costly to implement. Adverse impacts from climate change leads to a drag on risk assets</p> <p>In the long-term:</p> <p>After the costly implementation to tackle climate change and the resulting drag on risky assets, the transition to clean technologies and green regulation begins to boost economic growth when considering the very long term. However, the late and disorderly climate transition means that physical climate risks remain prominent over the very long term.</p>	<p>In the short-term:</p> <p>There is no initial risk to the Plan, the funding level is expected to broadly follow the base case.</p> <p>In the medium-term:</p> <p>There is a sudden, sharp decline in the funding level at 10 years.</p> <p>In the long-term:</p> <p>The funding level continues to fall, reaching its lowest point around 2034, however, remains in a funding surplus. After this, the funding level improves, however, by the end of the modelling period, remains considerably lower than the base case.</p>

Orderly Scenario	Summary of the Scenario	Summary of the impact to the Plan
Temperature rise <2°C Reach net-zero 2050 Environmental regulation Coordinated	<p>In the short-term: Immediate coordinated global action is taken to tackle climate change. Risky assets perform poorly.</p> <p>In the medium-term: The rapid transition to clean technologies and green regulation begins to boost economic growth.</p> <p>In the long-term: The rapid transition to clean technologies and green regulation begins to boost economic growth. This represents the fastest transition to a green economy, combined with limited physical impacts from climate change despite the large initial transition cost.</p>	<p>In the short-term: Initially, there is a sharp decline in the funding surplus to c.£200m, before beginning to recover.</p> <p>In the medium-term: The funding surplus improves rapidly in the medium-term and after 10 years has recovered much of the initial gap, relative to the base case.</p> <p>In the long-term: There is a steady improvement in the funding surplus under this scenario, eventually leading to a higher funding surplus than the base case, by the end of the modelling period.</p>

Source: Aon. Effective date of the impact assessment is 31 March 2022

DC Section – Impact on projected asset valuation

For the DC Section, the Trustee has carried out qualitative climate scenario analysis on the default arrangement, under the same climate change scenarios as the DB Section. The default arrangement is a lifestyle arrangement invested in a range of asset classes including Gilts, Equities and Property funds.

We considered the different impacts each scenario would have on two example members, one younger member and one older member. The example younger member has a higher allocation to growth assets. The example older member has a higher allocation to lower risk assets and is assumed to be accessing income drawdown.

Key conclusions

Young and mid-career members
 The financial impact for these members is likely to be driven by the long-term time horizon. Specifically, the climate-related risks associated with investing in equities is expected to be greatest over the long term. Nevertheless, it is important for these members for the assets to be invested in growth assets (primarily equities) to help members achieve good retirement outcomes. Allocating to assets such as government bonds, which offer lower exposure to climate-related risks, is unlikely to be in members’ best interests over the long-term.

Accordingly, the Trustee believes it is important to focus on managing the climate-related risks of the equity within the portfolio.

Older members (approaching and through retirement)
 The financial impact for these members is expected to be driven by the short- to medium-term time horizons. Specifically, the climate-related risks associated with investing in equities is expected to have an impact on these members during this time period. An increased level of diversification will help mitigate this risk, as members’ allocation to equities is reduced as they approach and are at-retirement.

Should members continue to invest after retirement, the impact they experience will be more like the long-term effects, albeit mitigated compared to younger members by their lower allocation to equities.

The timing of the impact of climate risks on assets may mean there is limited time (in terms of remaining working life) to make up any shortfall in expected retirement benefits.

The table below describes each climate scenario and the impact of each scenario on the DC Section fund values of the Plan over the short-, medium- and long-term time horizons.

Disorderly Scenario	Summary of the Scenario	Summary of the impact to the Plan
<p>Temperature rise <4°C</p> <p>Reach net-zero After 2050</p> <p>Environmental regulation Late and Aggressive</p>	<p>In the short-term:</p> <p>Insufficient consideration given to long-term policies and there is no action taken to combat climate change</p> <p>In the medium-term:</p> <p>Late but coordinated action is taken to tackle climate change. The late timing means it is less effective and more costly to implement. Adverse impacts from climate change leads to a drag on risk assets</p> <p>In the long-term:</p> <p>After the costly implementation to tackle climate change and the resulting drag on risky assets, the transition to clean technologies and green regulation begins to boost economic growth when considering the very long term. However, the late and disorderly climate transition means that physical climate risks remain prominent over the very long term.</p>	<p>In the short-term:</p> <p>There is not expected to be any initial impact on asset portfolios and performance is expected to follow the base case.</p> <p>In the medium-term:</p> <p>Asset portfolios deteriorate sharply as a result of delayed action required to tackle climate change.</p> <p>In the long-term:</p> <p>Asset portfolios start to recover from the medium-term shock.</p>

Orderly Scenario	Summary of the Scenario	Summary of the impact to the Plan
<p>Temperature rise <2°C</p> <p>Reach net-zero 2050</p> <p>Environmental regulation Coordinated</p>	<p>In the short-term:</p> <p>Immediate coordinated global action is taken to tackle climate change. Risky assets perform poorly.</p> <p>In the medium-term:</p> <p>The rapid transition to clean technologies and green regulation begins to boost economic growth.</p> <p>In the long-term:</p> <p>The rapid transition to clean technologies and green regulation begins to boost economic growth. This represents the fastest transition to a green economy, combined with</p>	<p>In the short-term:</p> <p>Asset portfolios are expected to suffer an initial fall in value as a result of the costs of immediate coordinated action to tackle climate change.</p> <p>In the medium-term:</p> <p>Asset portfolios are expected to recover from the initial shock of transition costs. Relative to the other scenarios, the lower impact from physical risks (given action to tackle climate change) is beneficial for portfolios.</p> <p>In the long-term:</p> <p>Members’ asset portfolios are likely to perform strongest relative the base case. This represents the fastest transition to a green economy, combined with limited physical risks.</p>

limited physical impacts from climate change despite the large initial transition cost.

Source: Aon. Effective date of the impact assessment is 31 March 2024

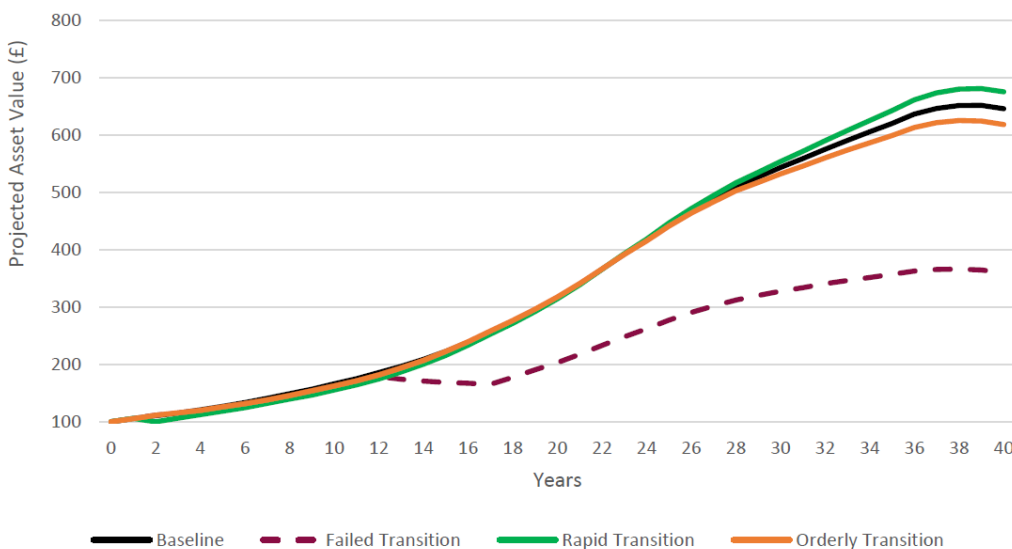
CRISP Section – Climate Change Scenario Analysis

The investment consultant for the CRISP Section, Mercer, conducted quantitative climate change scenario analysis, which was supplemented with qualitative commentary.

Details of the three climate change scenarios (Failed Transition, Rapid Transition and Orderly Transition) Mercer chose, to analyse the CRISP Section, are set out in Appendix 3. Whilst not exactly the same, the range of scenarios considered are broadly consistent with those considered within the DB and DC Sections.

CRISP Section – Impact on Projected Asset Valuation

The below chart shows the impact of the three climate change scenarios for members who are more than 40 years from retirement (i.e., further than the Trustee’s long-term time horizon, defined earlier in the Governance section of this report). Climate change is predicted to have a material impact on the annualised investment returns of the Plan’s popular arrangements.



Source: Mercer

Key conclusions

Under Mercer’s Rapid Transition scenario, in the short-term, a shock to the projected asset value is expected around the year 2025, having priced in (and overreacting, to a degree) to transition costs. The member’s projected asset value steadily recovers over the medium- to long-term time horizon. This scenario provides the best eventual outcome for the example member’s projected asset value.

Under Mercer’s Orderly Transition scenario, Mercer does not expect any shocks to the projected asset value in the short- or medium-term time horizons. The projected asset value over time follows a similar path as the Rapid Transition scenario, but never reaches the same high as the eventual projected asset value under the Rapid Transition scenario.

Under Mercer’s Failed Transition scenario, in the medium-term, shocks are expected to the projected asset value towards the end of the 2020s and 2030s pricing in future damage. Whilst the exact timing of such shocks is unknown, the consideration of such shocks is important to risk analysis. In this scenario, the projected asset value of the member makes a slight recovery but never reaches the same highs as the projected asset value under Mercer’s Rapid and Orderly Transitions, as well as the base case. This is the worst projected outcome for the Plan.

DB, DC and CRISP Sections – Scenario modelling limitations

Scenario modelling relies on many assumptions. They are only illustrative and subject to considerable uncertainty.

The climate scenarios modelling illustrates the potential impact climate change could have on the asset portfolios. It does not consider the impact climate change could have on other risks for our clients, such as timing of member options, operational risks, and – for the DB Section – covenant risk and longevity risk.

The scenario modelling reflects market conditions and market views at the effective date of the modelling. The model may produce different results for the same strategy under different market conditions.

Please refer to Appendix 3 for further details in relation to the assumptions used for the scenario analysis and its limitations.

Risk management

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

Reporting on our risk management processes provides context for how we think about and address the most significant risks to our efforts to achieve appropriate outcomes for members.

Our process for identifying and assessing climate-related risks

We have established a process to identify, assess and manage the climate-related risks that are relevant to the Plan. This is part of the Plan's wider risk management framework and is how we monitor the most significant risks to the Plan in our efforts to achieve appropriate outcomes for members.

Qualitative assessment

A qualitative assessment of climate-related risks and opportunities which is prepared by our investment adviser and reviewed by us.

Quantitative analysis

Climate scenario analysis, which is provided by our investment adviser and reviewed by us.

Together these give us a clear picture of the climate-related risks that the Plan is exposed to. Where appropriate, we distinguish between transition and physical risks. And all risks and opportunities are assessed with reference to the time horizons that are relevant to the Plan.

When prioritising the management of risks, we assess the materiality of climate-related risks relative to the impact and likelihood of other risks to the Plan. This helps us focus on the risks that pose the most significant impact.

Trustee update

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

Our climate risk management framework

We recognise the long-term risks posed by climate change and have taken steps to integrate climate-related risks into the Plan's risk management processes.

We have a climate risk management framework in place to manage climate-related risk and opportunities, which we have enhanced from the first year's reporting. The framework set out in the tables below clearly describes who is involved, what is done and how often. We delegate a number of key tasks to different committees but retain overall responsibility. Climate-related risks are included in the Plan's wider risk management framework, which is overseen by the IC on a regular basis.

Governance

Activity	Delegated responsibility	Adviser / supplier support	Frequency of review
Approve climate risk management framework	Trustee	Investment Committee	One off
Receive training on climate-related issues	Trustee	Advisers	Annual
Review adviser objectives to ensure advisers have appropriate climate capability, and bring important, relevant and timely climate-related issues to the Trustee's attention	Trustee	Advisers	Annual
Ensure investment proposals explicitly consider the impact of climate risks and opportunities and seek investment opportunities.	IC	Investment Consultant	Ongoing
Ensure that actuarial and covenant advice adequately incorporate climate-related risk factors where they are relevant and material.	Trustee	Scheme Actuary, Covenant Adviser	Triennial
Engage with the investment managers to understand how climate risks are considered in their investment approach, and stewardship activities are being undertaken appropriately	IC	Investment managers, Investment Consultant	Annual

Trustee update

We monitored the above activities as part of our climate-related risks and opportunities management. During the year we published our TCFD report and implementation statement and expect our advisers to bring appropriate and relevant climate-related matters to our attention.

Strategy

Activity	Delegated responsibility	Adviser / supplier support	Frequency of review
Undertake quantitative scenario analysis to understand the impact of climate-related risks	IC	Investment Consultant	Triennial
Identify the climate-related risks and opportunities for investment & funding strategy and assess their likelihood and impact.	IC	Advisers	Annual

Trustee update

We have spent time during the year analysing climate-related risks and opportunities within the Plan’s relevant sections.

As this is our second climate disclosures report, we reviewed the climate scenario analysis for the DB Section and believe that the analysis remains applicable to the climate-related risks the Plan is exposed to. This year, we also included climate change scenario analysis for the DC and CRISP Sections; this is explained in more detail within the Strategy Section of this report.

Risk management

Activity	Delegated responsibility	Adviser / supplier support	Frequency of review
Consider the prioritisation of those climate-related risks, and the management of the most significant in terms of potential loss and likelihood.	IC	Advisers	Annual
Include consideration of climate-related risks in the Plan’s other risk processes and documents, such as the risk register and the SIP, and regularly review these.	IC	Advisers	Ongoing
Seek to understand the climate-related risks to the employer over the short, medium and long term.	Trustee, IC	Covenant Adviser	Triennial

Trustee update

We reviewed processes for identifying and assessing climate-related risks as part of the annual TCFD process to evaluate its continued suitability. This is integrated into the ongoing activities of the Plan. Based on our analysis this year we see no reason for investment strategy changes and believe that the manager has the appropriate analysis in place to understand climate-related risk.

Metrics and Targets

Activity	Delegated responsibility	Adviser / supplier support	Frequency of review
Obtain data for agreed metrics	IC	Investment Consultant, Investment Managers	Annual
Review continued appropriateness of metrics	IC	Investment Consultant	Annual

Trustee update

We collected metrics data on to understand the greenhouse gas emissions associated with the Plan's investments, data quality and portfolio alignment.

This data has been evaluated against our climate-related target, set in the first year of reporting, of improving the data quality for the Plan. This is described in more detail later in the report, within the Metrics and Targets pillar.

Assessing our managers

To assess our managers' abilities to manage climate-related risks, we asked them 10 questions designed by the Pensions Climate Risk Industry Group¹ ("PCRIG") to help trustees do just that. The questions cover a range of topics including the manager's approach to climate management, whether they produce their own TCFD reports, their ability to conduct climate scenario analysis, their engagement policies, and their ability to provide GHG emissions data.

We asked the managers to confirm whether there have been any significant changes from last years' reporting and where that is the case, have updated accordingly to reflect this.

Key conclusions

We have seen improved climate risk disclosures from our investment managers. Some of the key highlights include:

DB Section

- All managers showed a willingness to engage in relation to the questions asked in relation to climate risks.
- CBRE have seen an improvement in their management to respond to climate-related risks for its Long Lease Property Funds. This includes CBRE now conducting climate-related risk analysis, managing carbon reporting and having a net zero commitment (net zero by 2050 or sooner) for the firm itself.
- Aviva, LGIM and M&G have had no material change and show a good preparedness and awareness to climate-related risks.

DC Section

LGIM is aware and acknowledges the impact of climate change and understand the importance of assessing climate-related risks. As such, it has been able to demonstrate that they have a strong resilience to climate-related risks via the tools it has in place via their climate-related risk management plan. This includes:

- LGIM release a public report that is in line with TCFD recommendations.
- LGIM play a leading role in progressive public initiatives on climate change such as; active members of the Transition Plan Taskforce and COP28 leaders' group.
- They are able to disclose a fund's exposure to fossil fuels. They consider three scenarios for the purposes of this assessment; below 2 degrees and delayed below 2 degrees.
- LGIM are able to provide all climate metric data. This includes Carbon footprint, Weighted average carbon intensity, Temperature alignment and Total carbon emissions.

LGIM has set an interim net-zero aligned assets under management ("AuM") target of 70% by 2030 for their funds.

The CRISP Section has been excluded on grounds of materiality.

¹ [Aligning your pension scheme with the Taskforce on Climate-Related Financial Disclosures recommendations - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

Metrics and targets

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

Our climate-related metrics

We use some quantitative measures to help us understand and monitor the Plan's exposure to climate-related risks.

Measuring the greenhouse gas emissions related to our assets is a key way for us to assess our exposure to climate change.

Greenhouse gases are produced by burning fossil fuels, meat and dairy farming, and some industrial processes. When greenhouse gases are released into the atmosphere, they trap heat in the atmosphere causing global warming, contributing to climate change.

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

Scope 1

All direct emissions from the activities of an organisation which are under their control; these typically include emissions from their own buildings, facilities and vehicles

Scope 2

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

Scope 3

All other indirect emissions linked to the wider supply chain and activities of the organisation from outside its own operations – from the goods it purchases to the disposal of the products it sells

Last year, we reported on Scopes 1 and 2 emissions only. This year we are required to report Scope 3 emissions as well. Scope 3 emissions are often the largest proportion of an organisation's emissions, but they are also the hardest to measure. The complexity and global nature of an organisation's value chain make it hard to collect accurate data. This year we asked our managers to provide carbon data and if there were any significant updates compared to last year.

For more explanation about GHG emissions, please see Appendix 4.

Our climate-related metrics

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

Total Greenhouse Gas emissions	The total greenhouse gas (“GHG”) emissions associated with the portfolio. It is an absolute measure of carbon output from the Plan’s investments and is measured in tonnes of carbon dioxide equivalent (“tCO ₂ e”).
Carbon footprint	Carbon footprint is an intensity measure of emissions that takes the total GHG emissions and weights it to take account of the size of the investment made. It is measured in tonnes of carbon dioxide equivalent per million pounds invested (“tCO ₂ e/£m”).
Data quality	A measure of the proportion of the portfolio that the Trustee has high quality data for (i.e., data which is based on verified, reported, or reasonably estimated emissions, versus that which is unavailable). This has been selected on the basis that it provides a consistent and comparable measure of the level of confidence in the data.
Binary target measurement	A metric which shows how much of the Plan’s assets are aligned with a climate change goal of limiting the increase in the global average temperature to 1.5°C above pre-industrial levels. It is measured as the percentage of underlying portfolio investments with a declared net-zero or Paris-aligned target or are already net-zero or Paris-aligned.

The carbon metrics

The tables below show the climate-related metrics for the Plan’s assets. The emissions are split into the growth and matching portfolios. The growth portfolio includes sovereign emissions associated with securities issued by public governments and corporate emissions associated with securities issued by private companies. The matching portfolio includes emissions associated with liability driven investment (“LDI”), namely sovereign emissions.

Sovereign and corporate emissions are split for two reasons. The aggregation of these two emission classes would result in double counting, and the mixing of different emissions calculation methodologies. The carbon emissions for UK sovereigns are based on the total GHG emissions for the whole of the UK, which are extremely high. By contrast, carbon emissions for equities, for example, are based on the emissions associated with the underlying companies invested in, which are smaller. Hence, the carbon emissions for sovereigns are higher than other assets.

Last year, the Climate-Value-at-Risk (“Climate VaR”) was recorded as £59m. Climate VaR is a measure of the sensitivity in the Plan’s investments to downside climate-related risks. This figure remains unchanged as the analysis was not re-run for this year’s reporting.

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DB Section

Asset Class	Year	Asset Allocation%	Data Coverage (%)		Total GHG emissions (tCO ₂ e)		Carbon footprint (tCO ₂ e/£m)		Binary Target Measurement (%)
			Scopes 1 & 2	Scope 3	Scopes 1 & 2	Scope 3	Scopes 1 & 2	Scope 3	Portion of portfolio net-zero or Paris aligned
Corporate Bonds	2023	70.30%	73.30%	65.90%	8,584	34,447	43.1	192.4	16.80%
	2022	13.00%	41.00%	N/A	19,214	N/A	59.7	N/A	9.30%
Property	2023	29.60%	85.30%	42.80%	3,431	126,875	35.1	2,585	37.10%
	2022	11.00%	68.10%	N/A	4,479	N/A	27.2	N/A	0%
Total Plan (excl. LDI)	2023	100.00%	76.80%	59.10%	12,016	161,323	40.5	707.1	22.80%
	2022	100.00%	60.50%	N/A	38,629	N/A	51.7	N/A	9.30%
LDI	2023	100.00%	100%	N/A	211,036	N/A	170.2	N/A	N/A
	2022	100.00%	100%	N/A	176,432	N/A	94.8	N/A	N/A

Source: Investment Adviser/Managers. Data as at 31 March 2023 unless specified otherwise. Figures may not sum due to rounding. 'N/A' stands for 'Not Applicable'.

- The 2023 LDI carbon footprint corresponds to tCO₂e/£m PPP-adjusted GDP as at 31 December 2022.
- Scope 3 is not applicable to LDI, as it contains primarily UK sovereign bonds and scope 3 emissions are not yet widely available for UK sovereign bonds.
- For the LDI calculations, Swaps and Credit Default Swaps ("CDS") were excluded from the calculation on grounds of materiality.
- The 10-year Climate Value-at-Risk (£m) was reported as £59m as 31 March 2022 in last year's reporting, this has not been updated for this year's reporting period. Therefore, this figure remains unchanged until refreshed at a later date.

DC Section

Asset Class	Year	Asset Allocation%	Data Coverage (%)		Total GHG emissions (tCO ₂ e)		Carbon footprint (tCO ₂ e/£m)		Binary Target Measurement (%)
			Scopes 1 & 2	Scope 3	Scopes 1 & 2	Scope 3	Scopes 1 & 2	Scope 3	Portion of portfolio net-zero or Paris aligned
Equities	2023	85.00%	93.60%	3.10%	166.1	61.2	73.9	836.5	49.40%
	2022	53.00%	91.00%	-	331	-	109.1	-	48.00%
Property	2023	15.00%	5.40%	2.20%	-	3	0.3	319	1.10%
	2022	-	-	-	-	-	-	-	-
Total Plan (excl. Sovereigns)	2023	100.00%	80.40%	3.00%	166.1	64.2	73.2	778	42.20%
	2022	100.00%	91.00%	-	331	-	109.1	-	48.00%
Sovereign Fixed Income	2023	100.00%	100.00%	-	188.9	-	170.2	-	-
	2022	100.00%	100.00%	-	95	-	168.4	-	-

Source: Investment Adviser/Managers. Data as at 31 March 2023 unless specified otherwise. Figures may not sum due to rounding.

- The 2023 LDI carbon footprint corresponds to tCO₂e/£m PPP-adjusted GDP as at 31 December 2022.
- Scope 3 emissions are not available for 2022 because 2023 is the first year of reporting for Scope 3 emissions.
- Scope 3 is not applicable to LDI, as it contains primarily UK sovereign bonds and scope 3 emissions are not yet widely available for UK sovereign bonds.

CRISP Section

Asset Class	Year	Asset Allocation%	Data Coverage		Total GHG emissions		Carbon footprint		Binary Target Measurement
			Scopes		(tCO ₂ e)		(tCO ₂ e/£m)		(%)
			1 & 2	3	1 & 2	3	1 & 2	3	Portion of portfolio net-zero or Paris aligned
Corporate Assets	2024	70.00%	94.00%	94.00%	5,917	20,905	83.6	295.3	34.60%
Sovereign Assets	2024	15.10%	100.00%	N/A	5,964	N/A	368.7	N/A	N/A

Source: Investment Adviser/Managers. Data as at 31 March 2024 unless specified otherwise. Figures may not sum due to rounding. Total asset allocation does not sum to 100.0% as the metrics exclude cash and derivatives. 'N/A' stands for 'Not Applicable'.

- Carbon data is not available for last year as this is the first year of reporting for the CRISP Section.
- Sovereign analysis has been conducted in line with the recommended methodology set out by PCAF, Sovereign Intensity formula: Product Emissions / PPP Adjusted GDP (£m). Data for Production Emissions ("GHG") for 2021 sourced from EDGARv7.0. This consists of global sovereigns.

Notes on the metrics data

Our investment adviser, Aon, collected information from the Plan’s investment managers about their greenhouse gas emissions. Aon collated this information to calculate the climate-related metrics for the Plan’s portfolio of assets.

Key observations – DB Section

- Given that the Plan disinvested its Equity holdings over the year, the 2022 data coverage figures in this report will not directly match those detailed in last year’s reporting. This is because Equity is not included in the Plan’s Year End leading to 31 March 2023.
- There has been a decrease in the total GHG emissions for Scope 1 & 2 in the DB Section for both Property and Corporate Bond asset classes.
- There has been an improvement in data coverage across all asset classes for the DB Section (excluding the LDI portfolio). This is driven by the M&G Corporate Bond Fund, which has an improvement from 60.5% in 2022 to 76.8% in 2023.
- The improvement in data coverage gives rationale for the increase in carbon footprint for the Corporate Bond asset class.
- The methodology for the calculation of emissions and data coverage in relation to gilts, held within the LDI mandates, has evolved and there is now a widely accept industry-standard methodology for the calculation of the carbon footprint of gilts. The data coverage of 100% is not based on the figures that were reported by the LDI manager; but calculated in line with the industry-standard methodology (set out below).
- The Aviva Lime Property fund (DB Section) disclosed that none of its portfolio constituents have net zero commitments, meaning there BTM was 0%. We will support the Trustee in engaging with Aviva to improve BTM in the future.
- For Corporate Bonds, there has been a reduction in Scope 1 & 2 emissions, this is mainly because in 2022 emissions were reported on a portfolio level, as methodology has changed and the Trustee now excludes LDI from the main portfolio, this year we have reported on an asset class level.
- For LDI, due to improvements in methodologies for reporting on carbon metrics, we expect to see changes in carbon emissions on a year-on-year basis. As a result, we have seen an increase in total carbon emissions for the LDI portfolio this year.
- There has been an overall improvement in BTM reporting since last year’s report. As BTM is a new metric that the Trustee is required to report on, a low coverage for BTM is somewhat expected across the industry. Given that this is a new metric required for TCFD reporting, we expect this to increase in future reporting with improvements in methodology.

Key observations – DC Section

- For the DC Section, there is a lower data coverage for Scope 1 & 2 this year. This is mainly driven by property and as this asset class was not included in last year’s reporting, we expect to see an adjustment to the figures. However, Scope 3 data coverage has been reported on this year, compared to 2022 where no manager provided Scope 3 carbon data. As methodology for Scope 3 data improves, we expect to see reporting for Scope 3 emissions progress year on year.
- For Scope 1 & 2 there is a lower GHG emissions reported compared to last year. This is driven by a lower data coverage, resulting in a lower emission. The lower data coverage is driven by the managed property fund which was not reported on in 2022. Due to this Property fund having a 15% asset allocation, it has lowered the overall data coverage. The Trustee, with the support of Aon, will continue to engage with this manager to improve data coverage in future years.

Key observations - CRISP Section

- This is the first year of reporting climate-related metrics for the CRISP Section, following its merger with the Plan.
- The DC provider for the CRISP Section provided climate-related metrics split by corporate and sovereign exposure.
- For corporate assets, which includes equity, corporate bonds and securitised assets, the data coverage is relatively high. The Trustee acknowledges that whilst there is no information from last year to compare the data coverage with, by comparing the results to the DB and DC Sections, it is clear that coverage is high for Scopes 1, 2 and 3.
- For sovereign assets, which are invested in global government bonds, the carbon footprint provided is comparatively higher than the carbon footprint for LDI (UK government bonds) of 170.2 tCO₂e/£m PPP-adjusted GDP, within the DB Section. This might suggest that there is a exposure to sovereigns (i.e., countries) that are more carbon intensive within the portfolio.
- The portion of the portfolio with net-zero or Paris-aligned targets, within the corporate assets, is relatively high, compared to the industry standard. This is a new metric that is becoming increasingly reported on.

Aon does not make any estimates for missing data.

Notes on the metrics calculations

There is no industry-wide standard for calculating some of these metrics yet and different managers may use different methods and assumptions. These issues are common across the industry and highlight the importance of climate reporting to improve transparency. We expect that in the future better information will be available from managers as the industry aligns to expectations and best practice standards.

The carbon metrics

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

$$G = A \times C \times F$$

G = Total GHG expressed as tCO₂e.

A = Assets expressed in £ Millions.

C = Data Coverage expressed as a decimal between 0 and 1.

F = Carbon Footprint expressed as tCO₂e/£M invested.

The methodology used follows the industry-standard best-practice established within the Carbon Emissions Template ("CET")².

The Carbon Emissions Template

Our investment adviser, Aon, collected the carbon emissions data from our managers on our behalf using the industry standard CET Template. The CET was developed by a joint industry initiative of the Pension and Life Savings Association, the Association of British Insurers and Investment Association Working Group. The CET provides a standardised set of data to help pension schemes meet their obligations under the Climate Change Governance and Reporting Regulations, and associated DWP Statutory Guidance.

LDI

Aon collected the physical and synthetic split from the Plan's LDI manager(s). The carbon footprint was calculated using UK GHG Emissions and PPP adjusted GDP and assumes data coverage to be 100%. There is currently no industry agreed standard for calculating LDI emissions. Aon therefore calculates to ensure consistency across managers and reporting.

Binary target measurement

Aon requested the binary target measurement of each fund from our investment managers and aggregated the results based on the portion of assets invested in each fund. Aon does not make any estimates for missing data. The Plan's binary target measurement only represents the portion of the portfolio for which we have data.

Currently, there is no standard approach for calculating binary target measurement for government bonds. Hence there is no binary target measurement for the LDI assets.

² <https://www.plsa.co.uk/Policy-and-Research/Document-library/Carbon-Emissions-Template>

Looking to the future

Our climate-related target

Climate-related targets help us track our efforts to manage the Plan's climate-change risk exposure.

In our first year of reporting, we set a target to improve data quality. Without meaningful data from the investment managers, it is very hard for us to measure our climate-risk exposure. So, it is important to set a target to improve the data quality of the GHG emissions data from the managers.

Trustee update

Each year we review the suitability of the target we have set. Based on the data collected and the metrics calculated this year, we believe the target continues to be suitable.

Our progress towards the target

The table below shows the data coverage progress against our target compared to the previous year.

Asset class	2022 Coverage	2023 Coverage	Future target	Target timescale
DB assets (excl. LDI)	60.5%	76.8%	90.0%	2026
DC assets (excl. sovereigns)	91.0%	80.4%	95.0%	2026

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

Since last year, good progress has been made with data coverage improving by 16.3% for the DB Section assets. This is mainly due to an improvement in data coverage for the M&G Corporate Bond fund since last year (41.0% in 2022 to 73.2% in 2023). Within Property, the Aviva Lime Fund now has a data coverage of 100%, due to a standardisation of reporting from the manager, which is the main reason for the increase in data coverage for the Property asset class.

For the DC Section, there has been an overall lower data coverage, resulting in a move away from the target set in 2022. Last year, within the DC Section, only one Equity fund and a with profit fund were reported on. This year, the DC Section has reported on multiple Equity funds and a Property fund. As mentioned above, the sizeable allocation to Property has resulted in a lower overall data coverage. However, we would expect this data coverage to improve in future years' reporting.

The CRISP Section has been excluded on grounds of materiality.

Steps we are taking to reach the target

To improve data coverage, we will engage with the Plan's investment managers to improve the availability and reporting of emissions data for each asset class in which the Plan is invested. Through ongoing pressure from asset owners collectively and new regulatory requirements for asset managers, we expect data coverage to improve over time and will engage further with the managers if progress does not meet our expectations.

To continue to progress towards our target, we plan to encourage engagement with investment managers, with the support of Aon, to improve data coverage for both the DB and DC Sections.

Appendix 1 – Glossary

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

³ A. Cadbury, [Report of the Committee on the Financial Aspects of Corporate Governance](#), London, 1992.

⁴ OECD, [G20/OECD Principles of Corporate Governance](#), OECD Publishing, Paris, 2015.

⁵ TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017

⁶ TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017

⁷ TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017

Climate-related opportunity	refers to the potential positive impacts related to climate change on an organisation. Efforts to mitigate and adapt to climate change can produce opportunities for organisations, such as through resource efficiency and cost savings, the adoption and utilization of low-emission energy sources, the development of new products and services, and building resilience along the supply chain. Climate-related opportunities will vary depending on the region, market, and industry in which an organisation operates. ⁸
Climate Value-at-Risk	A measure of the sensitivity in the Plan’s investments to downside climate-related risks.
Greenhouse gas emissions scope levels⁹	<p>Greenhouse gases are categorised into three types or ‘scopes’ by the Greenhouse Gas Protocol, the world’s most used greenhouse gas accounting standard.</p> <p>Scope 1 refers to all direct GHG emissions.</p> <p>Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam.</p> <p>Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include: the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g., transmission and distribution losses), outsourced activities, and waste disposal.¹⁰</p>
Value chain	refers to the upstream and downstream life cycle of a product, process, or service, including material sourcing, production, consumption, and disposal/recycling. Upstream activities include operations that relate to the initial stages of producing a good or service (e.g., material sourcing, material processing, supplier activities). Downstream activities include operations that relate to processing the materials into a finished product and delivering it to the end user (e.g., transportation, distribution, and consumption). ¹¹

⁸ TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017

⁹ World Resources Institute and World Business Council for Sustainable Development, [The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard \(Revised Edition\)](#), March 2004.

¹⁰ PCC, [Climate Change 2014 Mitigation of Climate Change](#), Cambridge University Press, 2014.

¹¹ TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017

Climate scenario analysis

is a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. In the case of climate change, for example, scenarios allow an organisation to explore and develop an understanding of how the physical and transition risks of climate change may impact its businesses, strategies, and financial performance over time.¹²

Net zero

means achieving a balance between the greenhouse gases emitted into the atmosphere, and those removed from it. This balance – or net zero – will happen when the amount of greenhouse gases add to the atmosphere is no more than the amount removed.¹³

¹² TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017

¹³ Energy Saving Trust, [What is net zero and how can we get there? - Energy Saving Trust](#), October 2021

Appendix 2 – An explanation of climate risk categories

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

Transition risks

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

<p style="text-align: center;">Policy and legal</p> <p>Examples</p> <ul style="list-style-type: none"> Increased pricing of GHG emissions Enhanced emissions-reporting obligations Regulation of existing products and services <p>Potential financial impacts</p> <ul style="list-style-type: none"> Increased operating costs (e.g. higher compliance costs, increased insurance premiums) Write-offs, asset impairment and early retirement of existing assets due to policy changes 	<p style="text-align: center;">Technology</p> <p>Examples</p> <ul style="list-style-type: none"> Cost to transition to lower emissions technology Unsuccessful investments in new technologies <p>Potential financial impacts</p> <ul style="list-style-type: none"> Write-offs and early retirement of existing assets Capital investments in technology development Costs to adopt new practices and processes
<p style="text-align: center;">Market</p> <p>Examples</p> <ul style="list-style-type: none"> Changing customer behaviour Uncertainty in market signals Increased cost of raw materials <p>Potential financial impacts</p> <ul style="list-style-type: none"> Reduced demand for goods and services due to shift in consumer preferences. Abrupt and unexpected increases in energy costs. Re-pricing of assets (e.g., fossil fuel reserves, land 	<p style="text-align: center;">Reputational</p> <p>Examples</p> <ul style="list-style-type: none"> Stigmatisation of sector Increased stakeholder concern or negative stakeholder feedback <p>Potential financial impacts</p> <ul style="list-style-type: none"> Reduced revenue from decreased demand for goods and services. Reduced revenue from decreased production capacity (e.g., delayed

valuations, securities valuations).

planning approvals, supply chain interruptions)
 Reduced revenue from negative impacts on workforce management and planning

Physical Risks

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

Acute

Examples

- Extreme heat
- Extreme rainfall
- Floods
- Droughts
- Storms (e.g., hurricanes)

Chronic

Examples

- Water stress
- Sea level rises
- Land degradation
- Variability in temperature
- Variability in precipitation

Appendix 3 – Climate scenario modelling assumptions

DB Section

The climate scenarios for the DB Section were developed by Aon and are based on detailed assumptions. They are only illustrative and are subject to considerable uncertainty. They consider the exposure of the Plan to climate-related risks and the approximate impact on asset/liability values over the long-term.

Aon's model uses a deterministic projection of assets and liabilities, using standard actuarial techniques to discount and project expected cashflows.

It models the full yield curve as this allows for an accurate treatment of the liabilities and realistic modelling of the future distribution of interest rates and inflation. It also allows us to truly assess the sensitivities of the assets and liabilities to changes in interest and inflation rates.

The parameters in the model vary deterministically with the different scenarios.

The liability update and projections are considered appropriate for the analysis. However, they are approximate, and a full actuarial valuation carried out at the same date may produce a materially different result. The liability update and projections are not formal actuarial advice and do not contain all the information you need to make a decision on the contributions payable or investment strategy.

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

Other relevant issues such as governance, costs and implementation (including manager selection and due diligence) must be considered when making changes to the investment strategy.

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

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

Data used

The model projects using the following inputs as at 31 March 2022 (as provided by Aon in their email dated 31 March 2022):

- Market value of assets: £2,616M
- Present value of liabilities: £2,341M
- Real proportion of the liabilities: 71.5%

CRISP Section

	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 organizations act quickly and predictably to implement the recommendations of the Paris Agreement to limit global warming to below 2°C.	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	416 GtCO2 (2020-2100)	810 GtCO2 (2019-2020)	5,127 GtCO2 (2020-2100)
Temperature change	Average temperature increase of 1.5°C by 2100.	Average temperature increase of <2°C by 2100.	Average temperature increase of >4°C by 2100.
Key policy & tech assumptions	An ambitious policy regime is pursued to encourage greater decarbonization 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.

Source: Mercer

Modelling Limitations

- The further into the future you go, the less reliable any quantitative modelling will be.
- Looking at average asset class returns over multi-decade timeframes leads to invariably small impacts. The results are potentially significantly underestimated.
- 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.
- Financial stability and insurance 'breakdown' are not modelled. A systemic failure may be caused by either an 'uninsurable' 4°C physical environment, or due to the scale of mitigation and adaption required to avoid material warming of the planet.
- Most adaptation costs and social factors are not priced into the models. These include population health and climate-related migration.
- Caution should be exercised in interpreting individual data points, as in reality, emissions may differ, given the data coverage in the analysis is less than 100%. Where companies do not have data points, companies are assumed to have the same carbon metrics as the average of companies that we do have data points for. This means that, where we do not have data, we are not assuming that those companies have zero emissions.

Appendix 4 – Greenhouse gas emissions in more detail

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

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

The amount of greenhouse gases in the atmosphere has significantly increased since the Industrial Revolution. The Kyoto Protocol¹⁴ identifies six greenhouse gases which human activity is largely responsible for emitting. Of these six gases, human-made carbon dioxide is the biggest contributor to global warming.

Each greenhouse gas has a different global warming potential and persists for a different length of time in the atmosphere. Therefore, emissions are expressed as a carbon dioxide equivalent (CO₂e). This enables the different gases to be compared on a like-for-like bases, relative to one unit of carbon dioxide.

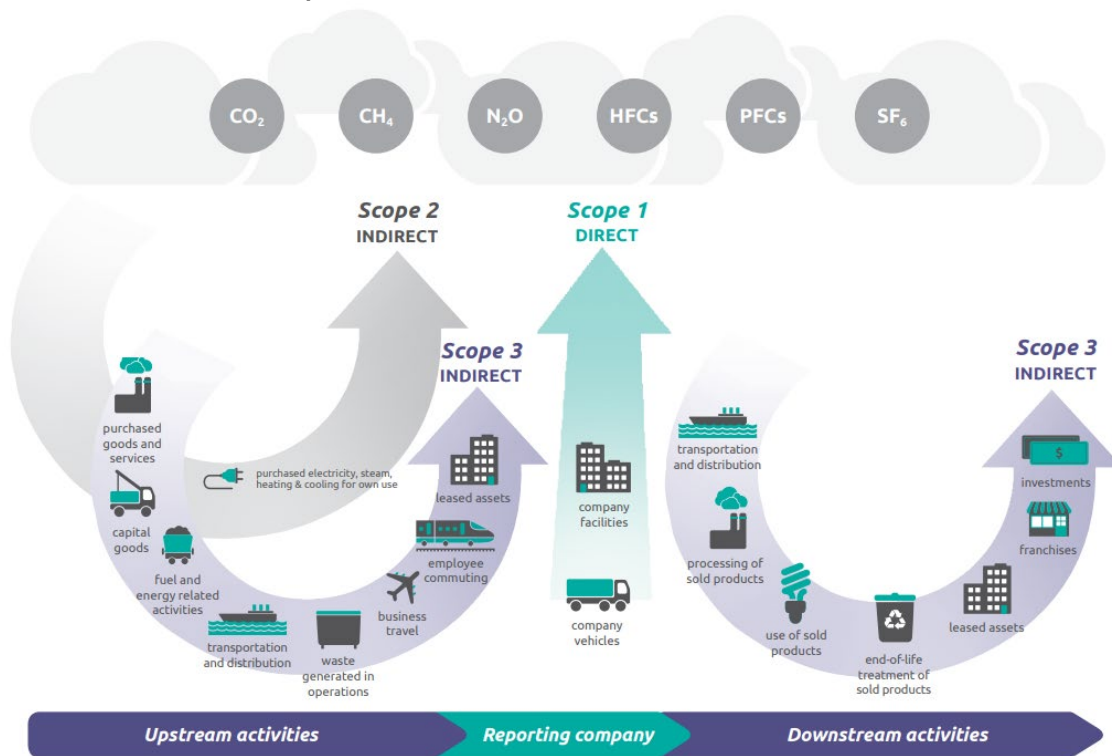
Six main greenhouse gases identified by the Kyoto Protocol

Carbon dioxide	Methane	Nitrous oxide	Hydro-fluorocarbons	Per-fluorocarbons	Sulphur hexafluoride
CO ₂	CH ₄	N ₂ O	HFCs	PFCs	SF ₆

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

¹⁴ https://unfccc.int/kyoto_protocol

Overview of GHG Protocol scopes and emissions across the value chain



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