Climate disclosures for the year ended 31 December 2025

MSD Pension Scheme

Prepared by: The Trustee of the MSD Pension Scheme
Date: March 2026

Introduction

Climate change is causing extreme weather, affecting crops, and threatening ecosystems. Understanding its impact and the MSD Pension Scheme's vulnerability to climate risks helps mitigate these risks and seize opportunities. UK regulations require pension schemes with over £1bn in assets to meet climate governance standards and publish annual reports on climate risks. Improved climate reporting enhances decision-making and transparency, increasing accountability and providing valuable information to investors and beneficiaries.

This report is the annual climate disclosure for the Scheme for the year ended 31 December 2025, prepared by the Trustee in accordance with The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 and aligned with the TCFD framework.

We hope you enjoy reading this report and understanding more about how we are managing climate-related risks and opportunities within the Scheme.

Signature: .....

[Original signed by Jan Burke on 27/03/2026 on behalf of the Trustee of the MSD Pension Scheme.]

Contents

Executive summary 3

Strategy 4

Metrics & targets 10

Appendices 14

Appendix 01 – Climate governance and risk management framework 15
Appendix 02 – Climate risk categories 19
Appendix 03 – Climate-related risk assessment in detail 20
Appendix 04 – Climate metrics calculation methodology 25
Appendix 05 – GHG emissions 26

Executive summary

This report explains what we, the Trustee, have done to understand how climate change might affect the Scheme. We collaborated with our investment adviser to find the climate-related risks and opportunities for the Scheme and to learn how we can manage and reduce those risks.

Governance and Risk Management for Climate Resilience

We, the Trustee, are responsible for overseeing all strategic matters related to the Scheme, including climate-related risks and opportunities. We have established a process to identify, assess, and manage the climate-related risks and opportunities the Scheme faces, integrating it into the broader risk management framework. Please see the Appendix for our climate governance and risk management framework.

Strategy update

Our qualitative risk analysis found that the asset classes the Scheme invests in are somewhat affected by climate-related risks, and these risks are expected to grow over time. We also found several investment opportunities across different asset classes.

We conducted climate scenario analysis, which showed that the Scheme exhibits reasonable resilience under some of the climate change scenarios, mainly due to deficit contributions payable, diversified assets and a high level of hedging.

Metrics & Target update

Metrics

Emissions changes since last year

	Equities	Bulk annuity	LDI
Scopes 1&2	↓	↓	↓
Scope 3	↑	↓	n/a

Coverage changes since last year

	Equities	Bulk annuity	LDI
Scopes 1&2	-	↓	-
Scope 3	-	↓	n/a

Overall, the metrics show reductions in both absolute emissions and carbon intensity across most asset classes. The data coverage remains robust.

Target

We set a goal to lower the carbon footprint of our equity investments by 7% each year, starting from December 31, 2021. Since then, the carbon footprint has dropped by 22% per year, which is ahead of our target.

To address climate risks and meet our target, we monitor the carbon footprint of our equities on an annual basis and will engage with our equity manager if progress against the target slows or falls behind.

Strategy

Identifying climate-related risks and opportunities

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

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 is exposed to.

Our investments

The Scheme's investment portfolio is diversified across a range of different asset classes including equities, liability driven investment ("LDI") and annuities.

	Equities	LDI	Bulk Annuity
Allocation	31%	47%	22%

Asset allocations as at 31 Dec 2025. LDI consists of UK government bonds.

How the risk assessment works

Risk categories

The analysis divides climate-related risks into two types:
Transition risks related to the transition to a low-carbon economy.

Physical risks associated with the physical impacts of climate change on companies' operations.

More details can be found in the *Appendix*.

Ratings

The analysis uses RAG ratings where:

Red denotes a higher level of financial exposure to a risk.

Amber denotes a medium level of financial exposure to a risk.

Green denotes a lower level of financial exposure to a risk.

Time horizons

We assessed the climate-related risks and opportunities over different time horizons considering the liabilities of the Scheme and its obligations to pay benefits. We decided the most appropriate time horizons for the Scheme are:

Short-term: 1-3 years

Medium-term: 4-10 years

Long-term: 10+ years

Climate-related risk assessment

Key conclusions

LDI

The Scheme's LDI manager classified the risks as low for all time horizons.

Equities

In the short-term, equities are broadly rated low risk for transition risks due to the current pace of global policy change. The risk rating rises to medium in the medium-term for both physical and transition risks. In the long-term, transition risks are expected to be high. Markets risks will be high due to a mismatch of

demand and supply for key raw materials. Regulatory risks will be high as carbon prices are expected to rise impacting equity valuations.

Bulk annuities

The insurer identifies physical risks such as flooding and uninsurable regions and mitigates these by thorough due diligence.

Transition risks include stricter energy standards for properties which the insurer addresses by funding EPC ratings, offering discounted rates for energy efficient homes, and factoring energy performance into lending decisions.

Long-term risks stem from evolving climate regulations and potential inaccuracies in actuarial assumptions which the insurer manages through engaging with industry bodies and monitoring behavioural and health trends to adjust the modelling as required.

RAG ratings for each asset class can be found in the *Appendix*.

Climate-related opportunities

The Scheme's managers identified some climate-related opportunities which may be suitable for the asset classes we invest in. These opportunities are valid over the short-, medium- and long-term time horizons:

Equity	**The Scheme's manager recognises numerous climate-related investment opportunities, with the following areas identified:** **Short-term** **Expanding mature clean technologies and monitoring of policy changes with incentive schemes or reductions in red tape changing investment considerations, with the most potential in scenarios where government action supports the energy transition.** **Medium-term** **Supporting early-stage technological development and staying alert to regulatory shifts that could favour early movers.** **Long-term** **Early investment and strategic positioning in next-generation climate solutions and adaptation services. The upside is greatest in transition scenarios, but adaptation services offer some opportunities even in less favourable climate outcomes.**
Gilts	The Scheme's LDI manager has identified climate-related opportunities including investments in carbon capture and storage technologies, such as zero-carbon hydrogen and ammonia production, offering innovative solutions for emissions reduction. The Scheme's LDI manager also identified green gilts as a climate-related opportunity, specifically, provide funding for environmentally beneficial projects.
Bulk annuities	The insurer has identified climate-related opportunities through investing in emerging technologies and new climate-focused products.

Source: Managers

Assessing our managers' climate risk management

We evaluated our managers' skills in handling climate-related risks by asking them 10 questions from the Pensions Climate Risk Industry Group. These questions address their climate management strategies, net zero goals, TCFD reporting, climate scenario analysis, engagement policies, and ability to provide carbon emissions data.

Key conclusions

- All the managers complete TCFD-aligned reporting.
- All managers participate in industry initiatives such as the Climate Action 100+, Institutional Investors Group on Climate Change, United Nations Principles for Responsible Investment, and the Association of British Insurers.
- Two managers have made net zero-aligned commitments. The Scheme's equity manager aims for 70% of its assets to be net zero aligned by 2030. The insurer aims to reduce its investment emissions by 50% by 2030 and to have net zero investments by 2050.

Assessing the Scheme's resilience to climate change

We analysed climate change scenarios to understand the impact climate change could have on the Scheme's assets and liabilities.

We compared three climate scenarios to a base case, which reflects market expectations. We chose these scenarios because we believe that they provide a reasonable range of possible climate change outcomes. Each scenario explores the Scheme's transition to a low-carbon economy under various environmental conditions. The climate scenarios illustrate the climate-related risks the Scheme faces, highlighting areas where changing the investment portfolio could reduce the risks.

Climate scenarios

	Orderly transition	**Disorderly transition**	**No transition**
	Immediate and coordinated action to tackle climate change is taken using carbon taxes and environmental regulation	Limited action is taken and insufficient consideration is given to sustainable long-term policies to manage global warming effectively	No further action is taken to reduce GHG emissions leading to significant global warming
Temperature rise by 2100	**1.3°C - 2°C**	**<3°C**	**+4°C**
Reach net-zero by	2050	After 2050	After 2050
Carbon price (2030/2050)	$100 $215	$65 $340	$40 $50
Environmental regulation rollout	Coordinated	Late and aggressive	None

Source: Aon. **The scenarios were developed by Aon and are based on many assumptions. They are only illustrative and subject to considerable uncertainty.** Please see the *Appendix* for more details. **Analysis excludes the Scheme's insured assets.**

Trustee update

Under the Regulations, climate scenario analysis must be carried out at least every 3 years, with yearly reviews to ensure it's still relevant. Given it has been 3 years since the Scheme last conducted climate scenario analysis, during the production of the Scheme's first TCFD report, we have updated the scenario analysis this year. As the Scheme is currently undergoing strategy changes, the analysis has been based on assumptions aligned with the long-term strategic target asset allocation.

Impact on the DB funding level

Key conclusions

The Scheme's investment portfolio exhibits reasonable resilience under some of the climate change scenarios. This is due to deficit contributions payable, the diversification of the assets and high levels of hedging against changes in interest rates and inflation.

In the long-term the worst-case scenario for the Scheme is the disorderly transition. Although initially the funding level improves, after 10 years the funding level deteriorates sharply and does not recover by the end of the modelling period. This leaves the Scheme materially worse off relative to the base case.

Another key risk is volatility of the funding level. Under the orderly transition, the Scheme experiences a significant fall in the funding level of around 7% before recovering.

Deterioration of the funding level will place a strain on the Sponsor covenant as the Sponsor may have to make up a bigger shortfall through deficit contributions. It may also require the Scheme to re-risk in order to stay on track to achieve the funding target or extend the timeframe for achieving this.

The scenario analysis in this report shows similar results to the analysis carried out in 2021. Over the long-term, the orderly transition is still the most favourable scenario for the Scheme, and the disorderly transition is the least favourable. The long-term outcome of the disorderly transition is now worse for the Scheme than it was in the previous analysis. This is primarily due to changes in the assumptions underlying Aon's scenarios which have been updated to reflect industry developments and to reflect a more conservative outlook.

The Scheme invests in a factor-based equity fund with an ESG focus. While this ESG focus is not explicitly reflected in the climate change scenario analysis, we believe the Scheme's allocation to this fund is likely to strengthen its resilience to climate-related risks.

Based on the analysis, we do not plan to take any immediate actions. We will continue to monitor investment risk in the Scheme's assets as the funding level improves and as the liabilities mature, as well as considering climate-related opportunities for the Scheme when they are brought to our attention by our investment adviser.

Considering the impact of climate change on the sponsoring employer

A key risk identified from the scenario analysis is the volatility of the funding level. Deterioration of the funding level will place a strain on the financial strength ("covenant") of the sponsoring employer if it must make up a bigger shortfall through deficit contributions. It may also require the Scheme to re-risk its portfolio or extend the timeframe for achieving full funding or other long-term goals.

The Scheme's sponsoring employer, Merck, Sharp & Dohme (UK) Limited, adheres to the climate policies and goals of its parental organisation Merck & Co. The parental organisation's climate strategy includes a commitment to integrating sustainability at every level of its business operations.[1] The sponsoring employer produces its own TCFD report, demonstrating a strong commitment to assessing and managing climate-related risks and opportunities across its business, and the latest report can be accessed here: *https://www.msd.com/wp-content/uploads/sites/9/2025/11/MSD-TCFD-CA-261Final-2025.pdf .*

Recent accomplishments include:

[1] See page 7 of https://www.msd.com/wp-content/uploads/sites/9/2025/08/PurposeforProgressMSDImpactReport2024-2025.pdf

- The organisation committed to achieving net zero target (Scopes 1, 2, and 3) by 2045 for its greenhouse gas (GHG) emissions across its global operations [2]
- It has reduced average UK fleet vehicle emissions by 63% since 2019, and new vehicles ordered in 2024 emit 99% less CO2e than those in 2019.[3]
- In 2024, the organisation conducted over 400 partnership engagements with suppliers focused on GHG emissions reduction and secured four Virtual Power Purchase Agreements to advance its renewable energy goal.[2]

We monitor the covenant on a regular basis with support from our covenant adviser and maintain a regular dialogue with the sponsoring employer.

[2] See page 5 of https://www.msd.com/wp-content/uploads/sites/9/2025/08/PurposeforProgressMSDImpactReport2024-2025.pdf
[3] See page 3 of https://www.msd-uk.com/wp-content/uploads/sites/43/2025/08/MSD-Carbon-Reduction-Plan-2025.pdf

Metrics & targets

Our climate metrics

In our first year of TCFD reporting, we decided to report on the metrics 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 Scheme's investments and is measured in tonnes of carbon dioxide equivalent (tCO2e).

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 (tCO2e/£m).

Data Coverage

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

Binary target measurement

A metric which shows how much of the Scheme'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 portfolio investments with a declared net-zero or Paris-aligned target, or are already net-zero or Paris-aligned.

			Scopes 1 and 2			Scope 3		
Asset class	**Allocation**	**Year**	**Data Coverage**	**Total GHG emissions** tCO_2e	**Carbon footprint** $tCO_2e/£m$	**Data Coverage**	**Total GHG emissions** tCO_2e	**Carbon footprint** $tCO_2e/£m$
Equities	33%	2024	96%	5,800	24	96%	228,800	942
	26%	*2023*	*97%*	*6,500*	*32*	*97%*	*170,300*	*826*
Bulk Annuity	23%	2024	89%	14,100	89	69%	27,700	225
	25%	*2023*	*96%*	*21,100*	*108*	*77%*	*55,100*	*349*
LDI	42%	2024	100%	Physical 49,400 Synthetic 37,800	136	*n/a*		
	47%	*2023*	*100%*	*Physical 55,000 Synthetic 41,100*	*141*	*n/a*		

Source: Investment managers / Aon. Excludes cash. Figures may not sum due to rounding.
2024 data as at 31 December 2024 (Equities) and 30 June 2024 (Bulk Annuity).
2023 data as at 31 December 2023 (Equities) and 30 June 2023 (Bulk Annuity).
We have not aggregated metrics across the whole portfolio because the methodologies used for some asset classes are significantly different and therefore it is not appropriate to combine them.
Scope 3 emissions are not available for LDI due to the lack of industry agreed methodology to calculate them.
Emissions associated with LDI includes both physical emissions (emissions associated with physical assets that are held within the portfolio) and synthetic emissions (emissions associated with the notional exposure to sovereign bonds gained through derivatives).

Commentary

Overall, the metrics show reductions in both absolute emissions and carbon intensity across most asset classes suggesting real decarbonisation within the portfolio. The data coverage for both Scopes 1 and 2, and Scope 3 emissions remains robust.

Equities
Scopes 1 and 2 emissions have decreased compared to last year, alongside a modest reduction in carbon footprint.
Scope 3 emissions and carbon footprint have increased compared to last year.
Data coverage remains similar to last year.

Bulk Annuity
Emissions and carbon footprints for Scopes 1 and 2, and Scope 3 all decreased. This may partly reflect the slightly lower data coverage, but could suggest genuine progress in decarbonising the portfolio.

LDI
Scopes 1 and 2 emissions have decreased compared to last year. This is due to small reductions to both the carbon footprint and the values of the physical and synthetic exposures.

Binary Target Measurement

Asset class	Allocation	Year	BTM
Equities	33%	2024	52.8%
	26%	*2023*	*52.4%*

Source: Investment manager

Commentary

The binary target measurement for equities has remained broadly the same as last year. The Scheme's binary target measurement only represents the portion of the portfolio for which there is data.

Currently, there is no standard approach for calculating binary target measurement for government bonds. Hence there is no binary target measurement for LDI. Although governments have made a commitment to net-zero emissions, in our view this cannot be reasonably extended to apply to its bonds.

The insurer did not provide binary target measurement data.

Notes on the data

In general, we relied on information provided by the Scheme's investment managers about their greenhouse gas emissions. Our adviser, Aon aggregated this information to calculate the metrics for the Scheme's portfolio of assets.

The exception to this is the metrics for the LDI; please see the *Appendix* for more information.

Availability of data:

- The data for the Scheme's insurer relates to investments in credit and lifetime mortgages. Data has been provided as at 30 June 2024.

Aon did not make estimates for missing data.

The reported emissions metrics may not fully capture the Scheme's GHG emissions due to some missing data. We expect that future reports will benefit from improved information from managers.

How we collected the carbon data

Our investment adviser, Aon, collected the carbon emissions data from our managers who provided their own bespoke ESG reports to complete the request.

Broadly, the information provided aligns with the industry standard Carbon Emissions Template ("CET"). The CET was developed by a joint industry initiative of the Pensions UK, the Association of British Insurers and Investment Association Working Group. The CET seeks to provides a standardised set of data to help pension schemes meet their climate reporting obligations.

Targets

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

We recognise that we have limited ability to influence the emissions of the LDI and bulk annuity assets held by the Scheme. As such, we set a target to reduce the carbon footprint of our equity investments, where we can focus on having a greater influence.

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

Since 31 December 2021, the equity carbon footprint has decreased by 22% p.a. exceeding our target. This is largely due to divesting from more carbon intensive Emerging Markets and World Equity Index funds. The remaining equity fund, which incorporates an ESG tilt, continues to reduce the footprint. As a result, the Scheme is ahead of target. However, we expect future improvements to slow as further reductions become harder to achieve. The graph below shows the Scheme's equity carbon footprint (solid line), versus to the target decarbonisation pathway (dashed line). The gap between the two lines indicates the extent to which the Scheme has surpassed its target.

Target	Reduction in carbon footprint since 2021
7% pa reduction of the equity carbon footprint	▼ 22% pa

Source: Investment Manager/Aon. Target measured on an annualised basis using 31 December 2021 as the starting point for measurement.

Steps we are taking to reach the target

We will endeavour to meet the target, being mindful of it when considering the Scheme's investment strategy and the funding objectives. To keep reaching our target, we plan to:

- Monitor the carbon footprint of our equities. If progress against the target slows or falls behind, we will engage with the Scheme's equity manager to encourage the equity manager to consider underlying investments within lower emitting companies and/or encourage its underlying companies to decrease their carbon footprint.

Should the carbon footprint not improve over time, we will consider, as a last resort, the ongoing suitability of our investment in the fund. We may consider other investments with lower emissions or the use of carbon offsets to compensate for emissions.

Appendices

Appendix 01 – Climate governance and risk management framework

Climate governance

As the Trustee of the Scheme, we are responsible for overseeing all strategic matters related to the Scheme. This includes the governance and risk management frameworks relating to climate-related risks and opportunities.

Our climate beliefs

We believe that the risk of environmental, social and governance factors, including climate change, can negatively impact the value of investments held if not understood and evaluated properly. In particular, rising global temperatures, in aggregate, represent severe societal and ecological threats. The mitigation of these risks, where they are relevant to the Scheme, is important to preserving and enhancing retirement outcomes for the Scheme's members.

Climate-related factors may create investment opportunities. We will seek to selectively capture such opportunities through our investment portfolio where it is appropriately aligned with our strategic objectives and fiduciary duty.

We will consider climate-related commitments made by Merck, Sharp and Dohme (UK) Limited (the "Company") in setting targets for the Scheme.

We will keep members informed of the Scheme's activities and the impact on the Scheme's investments.

If climate-related factors are not being incorporated to our satisfaction, we may consider selecting an alternative asset manager.

We agreed our climate-related beliefs and our approach to managing climate change risk. These are set out in the Scheme's Statement of Investment Principles ("SIP"), which is reviewed at least triennially by the Trustee. The latest SIP can be found online here.

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 Scheme.

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.

We delegate oversight of the Scheme's climate change risk management approach to the Funding and Investment Sub-Committee ("FISC") where it relates to funding and investment matters. The FISC is a sub-committee of the Trustee and keeps the Trustee updated on material climate-related developments on a regular basis (at least annually).

Role of the FISC

The key activities undertaken by the FISC, 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 Scheme's portfolio
- engage with the Scheme's investment managers to understand how climate-related risks are considered in their investment approach, whilst recognising that the investment managers have delegated powers to invest in a manner consistent with their own strategy's investment objectives
- work with the investment managers to disclose, actively monitor and set 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 Scheme's behalf

- ensure that funding and covenant advice adequately incorporate climate-related risk factors where they are relevant and material
- monitor and review progress against the Scheme's risk management framework once a year

The FISC meet regularly to carry out the above activities. The FISC is supported by the Scheme's investment adviser, Aon, in carrying these out, through Aon's wider engagement with the investment management industry on behalf of all its clients. The FISC keep the Trustee updated on any material climate-related developments through regular (at least annual) updates.

How we work with our advisers

We expect our advisers and investment managers to bring important climate-related issues and developments to our attention in a timely manner. We expect our advisers and investment managers to have the appropriate knowledge on climate-related matters.

We regularly review the quality of our advisers' provision of advice and support on climate-related issues. For our investment adviser this is part of the annual review of investment consultant objectives.

Investment adviser – our investment adviser, Aon, provides investment-related strategic and practical support to the FISC and the Trustee in respect of the management of climate-related risks and opportunities. We have noted Aon's qualifications and expertise in this area through their participation in cross-industry initiatives such as the Investment Consultants' Sustainability Working Group (ICSWG) and Cambridge Institute for Sustainability Leadership (CISL).

Aon's support includes provision of regular training and updates on climate-related issues, climate change scenario modelling, and ESG ratings for the Scheme's investments.

Scheme Actuary - the Scheme Actuary, Mr R Moring, FIA, helps the Trustee assess the potential impact of climate-related risks on the Scheme's funding assumptions where appropriate.

Covenant adviser – the Trustee's covenant adviser, Cardano, helps the Trustee understand the potential impact of climate-related risk on the sponsor covenant.

Trustee update

Over the year, the FISC received training from our investment adviser Aon regarding climate change scenario analysis covering their limitations, key assumptions and role in making climate related decisions for the Scheme.

Over the year, we worked closely with our investment adviser to publish our fourth TCFD report. We recently assessed our investment consultant, Aon, against its climate-related objectives and concluded that Aon met our expectations.

Climate risk management framework

The climate risk management framework is set out in the tables below. It is part of the Scheme's wider risk management and is how we monitor the most significant risks to the Scheme.

Governance

Activity	Adviser / supplier support	Frequency of review
Maintain a climate change governance framework *(i.e. the Governance section of the TCFD report and this table)*	Aon	Annual
Publish TCFD report and implementation statement	Aon	Annual
Add / review climate risks and activity on key Scheme documents	Aon	Ongoing
Set / review our ESG beliefs (including climate change)	Aon	Triennial
Undertaking Trustee training on climate change and climate-related risks	Aon	Ongoing
Ensure investment proposals explicitly consider the impact of climate risks and opportunities, and seek investment opportunities	Aon	Ongoing
Ensure that actuarial and covenant advice adequately incorporate climate-related risk factors where they are relevant and material	Aon / Cardano	Triennial
Review adviser objectives to ensure advisers have appropriate climate capability, and bring important, relevant and timely climate-related issues to the Trustee Board's attention.	Aon / Cardano	Annual

Trustee update

The FISC monitors the above activities as part of the Scheme's ongoing management of the climate-related risks and opportunities, which includes the monitoring and reviewing of progress against the Scheme's climate risk management framework. A summary of the training we have received is set out in the Climate Governance section within this report above.

Strategy

Activity	Adviser / supplier support	Frequency of review
Identify climate-related risks and opportunities over agreed time periods for investment and funding strategy	Aon / Investment Managers	Annual
Climate scenario analysis - annual review for the continuing suitability of the results	Aon	Annual
Climate scenario analysis - refresh modelling	Aon	Triennial
Actuarial valuation	Aon / Cardano	Triennial

Trustee update

The FISC spent time during the year to analyse climate-related risks and opportunities for the Scheme's asset classes. The FISC, with support from Aon, surveyed the investment managers and insurer asking them to rate the climate-related risks and opportunities they believe their investments are exposed to.

Under the Regulations, climate change scenario analysis must be carried out at least every 3 years. Given this is the fourth reporting year, we updated the climate scenario analysis.

Risk management

Activity	Adviser / supplier support	Frequency of review
Identify, assess and manage key climate-related risks	Aon / Investment Managers	Ongoing
Consider the prioritisation of those climate-related risks, and the management of the most significant in terms of potential loss and likelihood	Aon	Annual

Trustee update

We have processes in place for identifying and assessing climate-related risks. Climate risk management is integrated into the ongoing risk management activities of the Scheme through the risk register and this climate risk management plan.

We carried out a qualitative assessment of climate risks and quantitative climate scenario analysis, which combined help us to focus on the risks that pose the most significant impact. Based on our analysis for this year's TCFD report, we do not need to make any changes to the Scheme's investment strategy.

Metrics and Targets

Activity	Adviser / supplier support	Frequency of review
Agree/review approach for metrics	Aon	Annual
Agree/review target	Aon	Annual
Obtain data for agree metrics	Aon / Investment Managers / Insurers	Annual

Trustee update

For this report, we collected and reported the carbon metrics associated with the Scheme's assets. We reviewed the target set by the Scheme and we believe it remains suitable.

Appendix 02 – 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 relate to how well an organisation can adjust to reducing greenhouse gas emissions and switching to renewable energy. These risks include four main areas: policy and legal issues, technological changes, market shifts, and reputation concerns.

Policy and legal

Examples
Increased pricing of GHG emissions
Enhanced emissions-reporting obligations
Regulation of existing products and services

Potential financial impacts
Increased operating costs (e.g. higher compliance costs, increased insurance premiums)
Write-offs, asset impairment and early retirement of existing assets due to policy changes

Technology

Examples
Cost to transition to lower emissions technology
Unsuccessful investments in new technologies

Potential financial impacts
Write-offs and early retirement of existing assets
Capital investments in technology development
Costs to adopt new practices and processes

Market

Examples
Changing customer behaviour
Uncertainty in market signals
Increased cost of raw materials

Potential financial impacts
Reduced demand for goods and services due to shift in consumer preferences.
Abrupt and unexpected increases in energy costs.
Re-pricing of assets (e.g., fossil fuel reserves, land valuations, securities valuations).

Reputational

Examples
Stigmatisation of sector
Increased stakeholder concern or negative stakeholder feedback

Potential financial impacts
Reduced revenue from decreased demand for goods and services.
Reduced revenue from decreased production capacity

Physical Risks

Physical risks are the physical effects of climate change on a company's operations. They impact how well a company can function due to climate disruptions. These risks are divided into acute risks, which are sudden extreme climate events, and chronic risks, which are long-term climate trends.

Acute

Examples
Extreme heat
Extreme rainfall
Floods
Droughts

Chronic

Examples
Water stress
Sea level rises
Land degradation
Variability in temperature

Appendix 03 – Climate-related risk assessment in detail

The following tables summarise the transition and physical risks for each asset class the Scheme is invested in. Each table is based on ratings and commentary provided by the manager(s).

Equities – 31% of portfolio as at 31 December 2025

Physical Risks

	Acute	Chronic
Short	G	G
Medium	A	G
Long	A	A

Over the long-term, the manager believes that as extreme weather events become more frequent and severe the impact of these physical risks is likely to become more significant and cause business interruptions. With the global interconnected supply chains such physical risks can have potentially large financial impacts at the global equity portfolio level.

Transitional Risks

	Regulatory	Technology	Market	Reputation
Short	A	G	G	G
Medium	R	A	A	A
Long	R	A	R	A

The manager believes that the medium-term is a crucial period for the climate transition as time is running out for limiting global warming to well-below 2°C. As a result, the manager believes that policies will further accelerate putting at risk equity values and profit margins.
In the long-term, the manager rated the regulatory risk exposure as high. It believes that for emissions to stay within global budgets, carbon prices will continue to rise, considerably impacting equity valuations. The manager also believes that there will be market risks in the long term due to a mismatch of demand and supply for key raw materials. For example, critical minerals feeding into low-carbon technologies, such as renewables and electric vehicle batteries, need to scale up supply to meet the potentially explosive growth in demand.

Source: Manager

LDI – 47% of portfolio as at 31 December 2025

Physical Risks

	Acute	Chronic
Short	G	G
Medium	G	G
Long	G	G

The Scheme's LDI manager rated the risks for the LDI mandate to be low over all periods based on its climate-change scenario analysis.

Transitional Risks

	Regulatory	Technology	Market	Reputation
Short	G	G	G	N/A
Medium	G	G	G	N/A
Long	G	G	G	N/A

The Scheme's LDI manager rated the risks for the LDI mandate to be low over all periods based on its climate-change scenario analysis. Reputation risk is currently not modelled as part of the manager's climate-change scenario analysis.

Source: Manager

Bulk annuities – 22% of portfolio as at 31 December 2025

The insurer does not report on a red/amber/green classification and therefore has not provided this level of detail. This is an industry-wide issue as insurers tend to assess climate risks differently to investment managers. However, the Sustainability Principles Charter for the bulk annuity process have developed an annual survey for signatories to complete, the Bulk Annuity Sustainability Survey ("BASS"). This survey is structured around the four principles of the Charter and aims to set the bar high on how bulk purchase annuity provides are considering sustainability in their strategic and investment decisions. A summary of the insurer's responses to this survey have been provided below.

Climate-related risks and mitigation

In terms of physical risks, the insurer believes that increased threats from flooding and uninsurable regions pose risks to the bulk annuities. The insurer is mitigating these risks by conducting in depth reviews on due diligence reports to avoid vulnerable assets and regions.

In terms of transition risks, the insurer believes that stricter energy standards for properties can present risks to the bulk annuities. The insurer is mitigating this risk by funding EPC ratings for lifetime mortgages to improve energy performance data and help borrowers improve energy efficiency. The insurer is also offering discounted mortgage rates on more energy efficient homes and considering energy performance ratings when lending on lifetime mortgages.

Over the longer-term, the insurer believes that evolving climate regulations and inaccuracies in actuarial assumptions such as mortality and longevity assumptions can present financial risks if climate change impacts are not appropriately factored into modelling practices. The insurer is mitigating these risks by engaging with industry bodies and tracking both behavioural and health trends to appropriately modify assumptions and adjust reinsurance percentages where needed.

Source: Insurer

Appendix 04 – Climate scenarios in detail

The table below describes each climate scenarios and the impact on the Scheme over the short-term, medium-term and long-term time horizons. The effective date of the impact assessment is 30 June 2025.

Base case	**Summary of the Scenario**	**Impact to the Scheme**
Temperature rise +1.5°C- 2.4°C Reach net-zero 2050 Uncoordinated environmental regulation	The base case is based on Aon's Capital Market Assumptions which consider what is currently priced into the market. This includes climate-related impacts. In the base case, action is taken to tackle climate change, but the approach is fragmented. The transition to a low-carbon economy is expected to happen in a slow yet orderly manner.	The funding level gently increases, accelerating over time.
No Transition Scenario	**Summary of the Scenario**	**Impact to the Scheme**
Temperature rise +4°C Reach net-zero after 2050 No environmental regulation	**In the short term:** No action is taken to combat climate change. **In the medium term:** No action is taken to combat climate change. Impacts from physical risks gradually become more severe over time leading to a drag on economic growth and asset returns. **In the long term:** Climate change headwinds grow and act as a drag on economic growth and asset returns. Impacts from physical risks become more severe and irreversible.	**In the short term:** There is no initial impact on the Scheme as the performance of the assets, and the funding level is expected to follow a similar path to the base case. **In the medium term:** The funding level stays relatively stable and gently increasing over time, slightly below the base case path. **In the long term:** The funding level improvement slows down before beginning to deteriorate falling below 100% funded by the end of the modelling period.
Disorderly Scenario	**Summary of the Scenario**	**Impact to the Scheme**
Temperature rise <3°C Reach net-zero after 2050 Late and aggressive environmental regulation	**In the short term:** Insufficient consideration is given to long-term policies and there is no action taken to combat climate change. **In the medium term:** Late but coordinated action is taken to tackle climate change. The late timing means it is less effective and more costly to implement. Adverse impacts	**In the short term:** There is no initial impact on the Scheme as the performance of the assets, and the funding level is expected to follow a similar path to the base case. **In the medium term:** Although initially, the funding level improves in line with the base case and peaks, after 9 years, the funding level deteriorates sharply as a result of late and aggressive action to tackle climate

	from climate change leads to a drag on risk assets returns. **In the long term:** 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.	change. This may place a strain on the sponsoring employer should it be required to make up any funding shortfalls with additional contributions. **In the long term:** The funding level continues to deteriorate, falling c. 30% from its peak. The funding level does not recover by the end of the modelling period, leaving the Scheme materially worse off relative to the base case. This is the worst case scenario for the Scheme.
Orderly Scenario Temperature rise 1.3°C - 2°C Reach net-zero 2050 Coordinated environmental regulation	**Summary of the Scenario** **In the short term:** Immediate coordinated global action is taken to tackle climate change. Risky assets perform poorly. **In the medium term:** The rapid transition to clean technologies and green regulation begins to boost economic growth. **In the long term:** The rapid shift to clean technologies and green regulation drives strong economic growth, marking the fastest green economy transition with minimal physical impacts from climate change despite high initial costs.	**Impact to the Scheme** **In the short term:** The Scheme experiences a sudden fall, c.7%, in the funding level before stating to recover. **In the medium term:** The funding level continues to recover and then follows a similar trajectory as the base case. **In the long term:** The funding level gently increases accelerating over time and it is expected to outpace the base case near the end of the modelling period. This is the best case scenario for the Scheme.

Source: Aon. Effective date of the impact assessment is 30 June 2025. Analysis excludes the Scheme's insured assets.

Modelling limitations

The scenarios were developed by Aon and are based 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 covenant risk and longevity risk.

When changing the investment strategy, it is important to consider other relevant issues such as governance, costs, and implementation, including choosing managers and conducting due diligence.

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.

Modelling assumptions

The climate scenarios 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 Scheme to climate-related risks and the approximate impact on asset/liability values over the long-term.

The purpose of the model is to consider the long-term exposure of the Scheme to climate-related risks and the pattern of asset returns over the long term.

In particular, the model considers different climate change scenarios and the approximate impact on asset/liability values over the long-term.

Our model assumes a deterministic projection of assets and Long term funding target (LTFT) 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 Scheme 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.

Climate-related risks are considered on an asset class level, and do not consider the specific geographical locations which will have a strong influence on the climate-related risk the Scheme is exposed to.

Investment risk is only captured in the deviance from the Base Case, but this is not the only risk that the Scheme 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.

This report, and the work relating to it, complies with 'Technical Actuarial Standard 100: General Actuarial Standards' ('TAS 100') (updated July 2023). The model complies with TAS 100.

The model projects using the following inputs as at 30 June 2025:

- Market value of assets (excluding insureds): £581m
- Present value of the LTFT (Gilts+0.25%) liability (excluding insureds): £635M
- Duration of the liabilities of 17 years excluding insureds.
- Real proportion of the liabilities of 59%
- Deficit contributions have been considered in the modelling as follows:
    - £15M payable by 31 March 2026
    - £15M payable by 31 March 2027
- Asset allocations modelled are assumed to be annually rebalanced.

Buy and Maintain Credit has been modelled as follows with a total duration of 6.6 yrs

- 5yr A rated UK zero coupon corporate bonds – 68%
- 10yr A rated UK zero coupon corporate bonds – 32%

LDI has been modelled to hedge 95% of LTFT liability on rates and inflation.

Appendix 05 – Climate metrics calculation methodology

The material provided herein is grounded in part from publicly available information and information from third-party sources (e.g. the investment managers) with whom the Trustee has contractual relationship and the Trustee believes to be reliable, but which has not been independently verified by the Trustee, and Trustee does not represent that the information is accurate or complete.

Additional information on the metrics calculations

Carbon metrics for non-LDI asset classes

Scopes 1, 2 and 3 emissions data was collected from the managers using reporting in line with the CET[4]. Managers provided carbon footprint and data coverage for their fund(s).

Aon calculated the total GHG emissions for each fund as follows:

£M invested in the fund x *Carbon footprint* x *Data coverage*

Aon does not make estimates for data which was unavailable

The carbon metrics for LDI

Scopes 1 and 2 emissions associated with LDI includes both physical emissions (emissions associated with physical assets) and synthetic emissions (emissions associated with the notional exposure to government bonds gained through derivatives). The Scheme's LDI manager provided the value of the physical and synthetic government bond exposures.

The carbon footprint was calculated by Aon as follows:

$$\frac{\textit{UK national emissions scopes 1 and 2}}{\textit{PPP-adjusted GDP}}$$

Where UK national emissions scopes 1 and 2 as at 31 December 2024 as reported by the Emissions Database for Global Atmospheric Research; and PPP (Purchasing Power Parity)-adjusted GDP as at 31 December 2024 as reported by the World Banking Group.

Total GHG emissions for LDI was estimated for physical and synthetic exposures as follows:

£M physical exposure x *Carbon footprint* x *Data coverage*

£M synthetic exposure x *Carbon footprint* x *Data coverage*

Where data coverage is assumed to be 100% estimated.

There is no standard method for calculating scope 3 emissions for government bonds, so LDI lacks this measurement.

Binary target measurement

Aon asked the Scheme's investment managers for binary target measurements of each fund.

Aon does not estimate missing data, so the Scheme's measurement only covers the part of the portfolio with available data.

There is no standard method for calculating binary target measurements for government bonds, so LDI lacks this measurement.

Industry-wide issues

There is no standard method for calculating metrics for some asset classes, for example scope 3 emissions for LDI, leading to varied approaches by managers. These industry-wide issues underscore the need for climate reporting to enhance transparency. We anticipate improved information from managers as the industry adopts best practices.

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

Appendix 06 – GHG emissions

Greenhouse gases trap heat in the atmosphere, keep the Earth's surface and atmosphere warm. They warm the Earth by absorbing sunlight and re-emitting it as heat. Human activities, like burning fossil fuels and deforestation, increase greenhouse gases, making the atmosphere more effective at trapping heat.

Since the Industrial Revolution, greenhouse gas levels have risen significantly. The Kyoto Protocol[5] identifies six major greenhouse gases, with human-made carbon dioxide being the largest contributor to global warming. Each gas has different global warming potential and atmospheric persistence, so emissions are measured as carbon dioxide equivalent (CO2e) for comparison.

Greenhouse gases are categorised into three '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

Main greenhouse gases identified by the Kyoto Protocol

CO_2
Carbon dioxide

CH_4
Methane

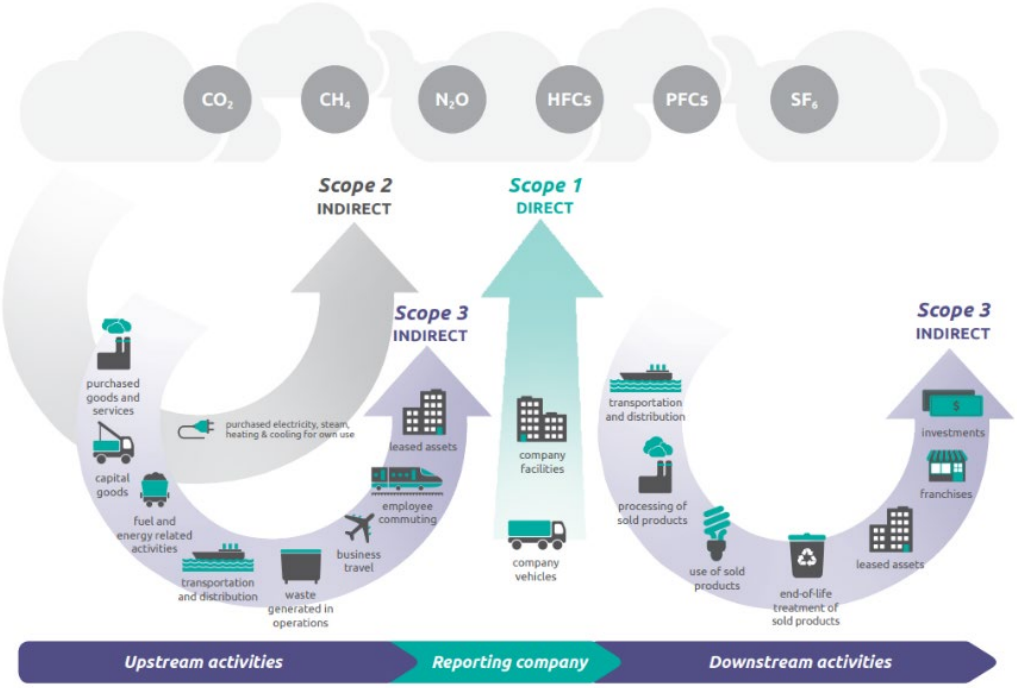
N_2O
Nitrous oxide

HFCs
Hydrofluorocarbons

PFCs
Perfluorocarbons

SF_6
Sulphur hexafluoride

Overview of GHG Protocol scopes and emissions across the value chain



Source: Greenhouse Gas Protocol, https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporing-Standard_041613_2.pdf, 2011

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