Northumbrian Water Pension Scheme

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

Reporting period: 12 months to 31 December 2025

Contents

Section 1

Introduction

Welcome to our 2025 climate change report, which has been prepared in line with the statutory requirements prescribed by the Department of Work and Pensions[1].

This is our fourth climate change governance report, produced in line with recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

Climate change remains a significant global challenge, with increasing scientific evidence that global temperatures are likely to climb above the targeted maximum increase of 1.5 ºC above pre-industrial levels without increasingly urgent action. The responses to this global challenge will determine the health and prosperity of the world now and for future generations.

We recognise that climate change presents a risk that could impact member outcomes. The impact of climate change is already being felt across the globe, and, left unchecked, could lead to substantial financial, environmental and social consequences. We therefore consider a thorough assessment and understanding of climate related risks and impacts to be an integral part of performing our fiduciary duty to protect member benefits. This objective can be aligned, rather than at odds with, the desire to protect and preserve the natural environment.

The Trustee's assessment of climate-related risks and opportunities has been carried out based on information that is currently available. This data is subject to change as climate change reporting improves.

Our commitments and beliefs

We have committed to support the objectives of the Paris Agreement to limit the increase in the global average temperature to well below 2°C above pre-industrial levels.

To achieve the objectives of the Paris Agreement, the global economy needs to progress towards net-zero greenhouse gas emissions by 2050 with a 50% reduction by 2030. Net zero means not adding to the amount of greenhouse gases in the atmosphere through human activity. We have committed to aligning our investments to the progression towards net-zero greenhouse gas emissions in the global economy by 2050 at the latest.

To achieve this, we seek to drive real world change and align our portfolios by encouraging (via the asset managers we employ) underlying investment issuers to target net-zero greenhouse gas emissions by 2050 by setting science-based targets (including interim targets for reductions by 2030) for emissions reductions appropriate to their sector and geography and developing and executing on realistic transition plans to achieve this.

We exert influence on companies via our Outsourced Chief Investment Officer ("OCIO") and investment managers. We engage companies, governments and stakeholders to address climate change-related risks, and to implement transition plans consistent with the Paris Climate Agreement.

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

Our starting point is to stay invested and have influence rather than disinvest. That said, in the same manner that some investments are judged to be too risky irrespective of returns, some investments will be judged to have too negative a real-world impact, in particular, with regard to systemic issues, such as climate change.

As investors, we have a critical role to play, and we can use our influence to drive change. We believe in collective action. More is to be gained from collaborating with other like-minded investors and supporting joint initiatives to tackle climate change.

Section 2

Executive Summary

This report covers the Northumbrian Water Pension Scheme (the "Scheme") and was prepared by the Trustee of the Scheme (the "Trustee", "we" or "our").

The report has been split into several sections:

Governance: How the Trustee incorporates climate change into its decision making;

Strategy: How potential future climate warming scenarios could impact the Scheme;

Risk Management: How the Trustee incorporates climate-related risk in its risk management processes; and

Metrics and Targets: How the Trustee measures and monitors progress against different climate-related indicators known as metrics.

The key messages from this report are:

- Climate change risk can have an impact on the long-term outcomes of the Scheme
- The Trustee has processes in place to identify, assess and mitigate climate change risks and take climate opportunities
- The Trustee has undertaken climate scenario analysis to test the resilience of the investment strategy adopted by the Trustee
- Both absolute emissions and carbon footprint decreased over the year. We reserve drawing significant conclusions from this change as it was driven primarily by methodological improvements in how the data is calculated, allowing more consistent and comparable results across the portfolio. We expect this to facilitate more insightful comparisons in future years.
- The proportion of assets aligned with, or committed to, Science Based Targets (SBTi) has increased. This reflects broader asset coverage in this year's analysis, the addition of new investments which improved overall SBTi alignment and a wider industry trend of growing adoption of science-based climate targets across global portfolios.
- The Scheme continues to make progress towards its Net-Zero target by 2050, as well as its interim target of a 50% reduction in emissions by 2030. The Net Zero Emissions Intensity Tracker shows a reduction in the portfolio's carbon footprint, representing improvement against the 2022 baseline. Whilst some of this is attributable to methodological changes, a number of our investments have explicit Net-Zero targets so we are pleased with the direction of travel.

Section 3

Overview of TCFD

What is TCFD?

In July 2023, the FSB announced that the work of the TCFD had been completed. Having fulfilled its remit, the TCFD disbanded in October 2023, and the IFRS (International Financial Reporting Standards) Foundation, through the ISSB, has now taken over monitoring the progress on climate-related disclosures. This report continues to report in line with the recommendations of the TCFD.

The TCFD created an industry-led reporting framework that sets out recommendations for issuers and financial market participants to organise and standardise climate disclosures.

It was set up because the FSB considered that:

- The financial risks and opportunities posed by climate change are not fully understood and not fully priced by financial markets
- Corporate and financial institutions are not prepared for the transition to a low carbon economy
- This will lead to the misallocation of assets, the risk of asset stranding, and market volatility and dislocation

The TCFD recommendations were adopted by regulators, including by the UK government.

What are the regulations?

The UK government introduced regulations[2] in 2021 (amended in 2022) that require large pensions schemes and Master Trusts, to publish a 'TCFD' report, covering climate change governance.

The regulations include the following requirements, across four themes, which we will cover in this report:

- Governance, including how we:
  - Oversee financially-material climate change risks and opportunities
  - Apply processes to stay informed on climate change
  - Disclose our role with respect to climate change risks and opportunities
  - Disclose third parties' role with respect to climate change risks and opportunities
- Strategy:
  - Consider climate-related risks and opportunities of our investment and funding strategy using at least two scenarios of which one is Paris-aligned
    - A scenario assesses the financial risk of a certain degree of warming, and is used due to the unpredictability of climate change

[2] Governance and reporting of climate change risk: guidance for trustees of occupational schemes

    - We have selected four scenarios, 1.6°C, 1.9°C, 2.9°C and 3.7 °C
  - We assess the resilience of investment and funding strategies under each of these scenarios, which includes consideration of impact on asset value
- Risk management, including how we:
  - Identify and assess climate-related risks and opportunities and manage their impact on our investment and funding strategies
  - Integrate these processes into our overall risk management framework
  - Use different risk management tools alongside our advisors
- Metrics and target setting:
  - Absolute emissions-based metric (explained later in the report)
  - Intensity emissions-based metric (explained later in the report)
  - Alignment emissions-based metric (explained later in the report)
  - One other non-emissions-based metric. We've decided to disclose data quality due to the importance of climate data in TCFD reporting
  - A non-binding emissions reduction target to be set against one of the metrics. Our target is net zero greenhouse gas emissions by 2050, with an interim 50% emissions reduction based on 2022 (base year) levels by 2030

Section 4

Governance

Trustee's governance approach

The Trustee has ultimate responsibility for ensuring effective governance of climate-related risks and opportunities. The Trustee maintains a Statement of Investment Principles (SIP), which details the key objectives, risks and approach to considering Environmental, Social and Corporate Governance ("ESG") factors, such as climate change, as part of its investment decision making. The document is reviewed on at least a triennial basis or following a significant change in investment strategy. The latest SIP was updated in April 2026.

The Trustee's key beliefs on ESG and climate change (which are consistent with those set out in the SIP in force during the 2025 Scheme year as well) are:

> *"The Trustee recognises that an investment's long-term financial success is influenced by a range of financially material factors including environmental, social and governance ("ESG") issues. The Trustee considers itself to be a long-term investor."*
>
> *"With the assistance of the Trustee's Fiduciary Manager, ESG Factors are therefore taken into account where appropriate both in the selection and the ongoing monitoring of the Scheme's managers. Where an Investment Manager's processes with regard to ESG considerations are deemed insufficient by the Scheme's Fiduciary Manager, and the Investment Manager does not take steps to improve their approach, the Investment Manager's position in the portfolio may be reviewed."*

Roles of those undertaking scheme governance activities

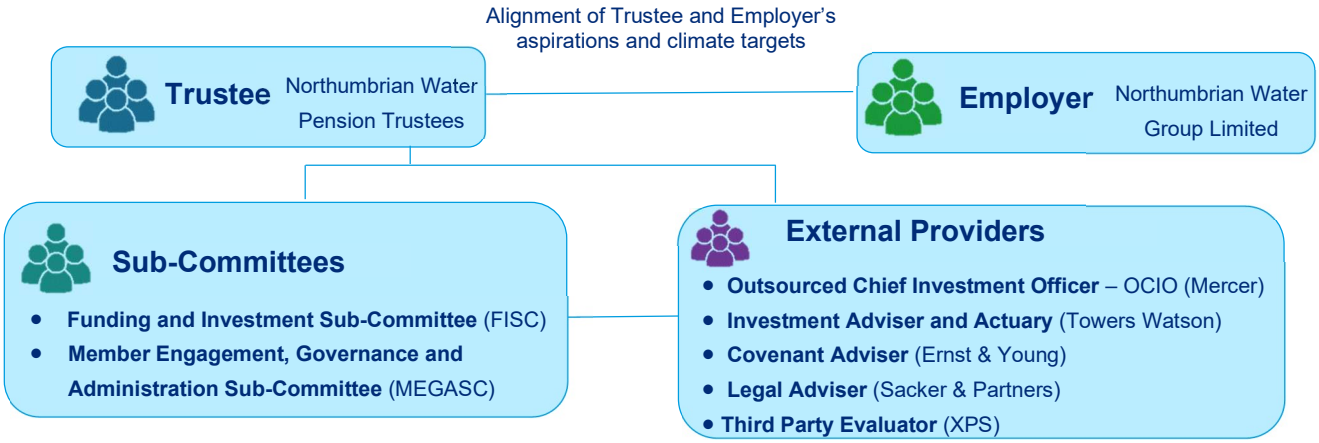
The Trustee is ultimately responsible for the oversight of climate-related risks and opportunities (CRRO) as they relate to the Scheme. The Trustee has delegated responsibility for considering and assessing these to the Trustee's Funding and Investment Committee (FISC).

Through the FISC, the Trustee maintains oversight of climate related risks and opportunities by:

- Agreeing the types of CRRO which it considers will have an effect over the short, medium and long terms on the Scheme's investment and funding strategies
- Agreeing climate related metrics (which will include at least one absolute emissions metric, one emissions intensity metric, one alignment metric, and one additional climate change metric), targets and the approach to scenario analysis for the Scheme, and using these to monitor and manage CRRO over the short, medium and long term
- Reviewing climate-related metrics, targets and scenario analysis on at least an annual basis
- Ensuring the Scheme's risk management processes incorporate the identification, assessment and effective management of relevant climate-related risks
- Receiving regular quarterly reporting as part of the quarterly reporting and meeting cycle, where climate-related risks and opportunities are considered

The Trustee has also reviewed the roles of others undertaking scheme governance activities, in particular the sub-committees that have been established and their respective decision-making powers. The Trustee will consider the recommendations of these sub-committees and will ratify any decisions that require its approval**.** The Scheme's governance structure is set out in Figure 1.

Figure 1: Governance Structure



The roles of the relevant Sub-Committees and External Providers in relation to the oversight of climate-related risks and opportunities, are summarised in the Technical Appendix.

The Trustee initially appointed Cardano Risk Management Limited as the Scheme's OCIO. Following Mercer's acquisition of Cardano Risk Management Limited, completed on 1 January 2026, the role is now carried out by Mercer Risk Management Limited. The OCIO is responsible for implementing the investment strategy agreed by the Trustee and allocates the Scheme's assets to both Mercer managed strategies and externally managed mandates. Where external managers are appointed, the OCIO is responsible for their oversight and ongoing monitoring. As part of the external manager selection and ongoing monitoring process, the OCIO assesses the level and extent to which managers integrate ESG considerations (including climate change) within their investment processes and stewardship activities.

The Trustee's Investment Adviser, working in conjunction with the OCIO, provides advice on the Scheme's investment strategy and, where relevant, on investment manager appointments. The Investment Adviser also supports the Trustee in formulating and applying its investment and sustainability beliefs, ensuring these are appropriately reflected in strategic decisions.

The Scheme's Actuary advises on the funding position (including an understanding of the potential funding impact resulting from changes to financial or demographic assumptions driven by climate change) and on funding strategy robustness to climate risk. It also provides input to enable strategic decisions to be made considering impact of climate risks on funding strategy, as well as input into scenario analysis and advises on funding implications.

The Covenant Adviser assesses the Employer's ability to continue to support the Scheme. It has also been engaged to assist the Trustee in understanding the TCFD considerations and potential impacts of climate related risk on the Employer.

The Third-Party Evaluator provides independent consulting support to the Trustee to assist with the selection, appointment and review of advisers. This includes providing independent assessment, market insight and challenge to ensure that appointments are robust, transparent and aligned with the Trustee's needs.

Assessment of External Providers: Through the FISC, the Trustee reviews its External Providers on a regular basis to ensure all stated processes for those managing / advising the Scheme on climate governance remain appropriate.

The Trustee expects its External Providers to act with integrity and diligence in fulfilling the set objectives, and uses meetings with the advisers to assess and challenge them. Where relevant, this includes discussion of the steps taken by advisers to identify and assess any climate-related risks and opportunities.

When selecting External Providers, we require each provider to demonstrate sufficient credentials in relation to the assessment of climate-related matters. This is done by assessing the providers in terms of their:

- Level of understanding on climate change and climate risks and opportunities
- Whether they have commitments to decarbonisation targets
- Corporate policies focusing on reaching stated decarbonisation targets
- Resources in place to deliver to climate related objectives
- Ability to report to us
- Associations with and involvement in relevant industry bodies
- The Trustee applies the appropriate amount of scrutiny, challenge and discussion to advice relating to climate related risks.

Time and resources spent on climate change-related matters

The Trustee Chair, with support from the FISC, is responsible for ensuring that sufficient time is allocated for consideration and discussion of climate matters by the Trustee and its External Providers. The Trustee, as part of its regular meeting schedule, will allocate agenda time to climate change topics, amongst other ESG topics. Climate change will form an explicit agenda item at least annually for the Trustee and its sub-committees when the Trustee's annual climate-related financial disclosures report is updated. It will also be covered as part of other agenda items as part of a wider discussion of funding or investment strategy, or as part of the third-party manager appointments and review discussions.

Training

During the year to 31 December 2025, the Trustee received training from the OCIO, covering climate-related investment risks and reporting requirements in line with the TCFD recommendations.

The Trustee acknowledges that the reporting of climate-related risk is relatively new and the collective experience of the Trustee will grow over time. The Trustee will continue to receive refresher training on climate-related risk as appropriate.

Section 5

Strategy

The Trustee believes it is important to understand how the Scheme's exposure to climate-related risks may change over time, when the risk exposure may be greatest and what actions can be taken now, or in the future, to avoid those risks becoming financially material to the Scheme.

To help with this assessment, the Trustee has defined short-, medium- and long-term time horizons for the Scheme.

Short Term	Medium Term	Long Term
Up to 5 years	Up to 10 years	Up to 15 years
The short-term refers to the period over which we focus on those risks that have been delegated to external investment pools and managers; these mandates are typically judged over time horizons of up to five years. It also broadly aligns to the timeframe between actuarial valuations plus the time allowed to agree any changes to funding strategy.	The medium-term refers to the period over which we focus on those risks that currently fall outside the scope of the external investment management mandates but which are not considered to be long-term in nature, for example risks relating to broad market conditions or to identifiable anomalies or trends in the investing environment that fall across multiple asset classes. It also covers the period where a large portion of liabilities become due and the Scheme is expected to continue to make progress along its de-risking pathway.	The long-term refers to the period over which the majority of the benefit payments are expected to be made by the Scheme with respect to the current membership. Whilst the Scheme could exist for longer than the 15 years, it is understood that by that stage the Scheme will be mostly invested in government and corporate bonds or potentially insurance contracts where the Trustee will have less influence.

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

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

    - Increases in the energy/heat efficiency of buildings and infrastructure.
    - As well as risks associated with these drivers, there could also be opportunities. For example, investing in climate solutions as policy support strengthens.
- Over the medium term (up to 10 years), risks are likely to be more balanced reflecting both transition and physical risk. Over this time period the transition pathway will unfold and the level of anticipated physical damage will become much clearer. While the full extent of the physical damage is unlikely to have occurred markets are likely to be allowing for it to a large degree in asset pricing.
- Over the long term (up to 15 years), physical risks are expected to come to the fore. This includes the impact of natural catastrophes leading to physical damages through extreme weather events. Availability of resources is expected to become more important if changes in weather patterns (e.g. temperature or precipitation) affect the availability of natural resources such as water. The impact of global heating on productivity, particularly in areas closer to the equator, will also be a key driver.
    - For this year's report, the long-term horizon was reduced from 20 to 15 years to better reflect the timeframe over which climate risks and transition impacts are most likely to significantly affect the Scheme. This is also consistent with the quantitative scenario analysis, which indicates that the most material impacts on the Scheme are expected to emerge within this period. This approach provides a more relevant and decision-useful assessment of forward-looking climate risk.

Climate-related risks and opportunities relevant to the Scheme

We consider climate change-related risks and opportunities in relation to the Scheme's investment strategy, including the asset allocations and asset management structure. Climate change-related risks and opportunities could, for example, affect:

- The dividend paying capability and the share prices of companies which we own (either directly or indirectly);
- The prospects and prices of portfolios that we invest in via derivatives;
- The creditworthiness of the issuers of the fixed income assets in which we invest;
- The prospects for banks and other financial institutions that we place cash with;
- Systemically, impacting multiple parts of the portfolio at the same time, and in the same direction.

We consider climate change-related risks and opportunities in a number of ways:

- Our investment policy, and how climate change may affect the different asset classes we are invested in over time;
- Asset class selection and their susceptibility to climate risk;
- Allocation within an asset class;
- Selection of instruments.

Testing the resilience of the investment and funding strategy

Scenarios analysis

The Trustee has undertaken climate scenario analysis to test the resilience of the investment and funding strategy adopted by the Trustee. Both quantitative and qualitative climate change scenario

analysis has been undertaken on the Trustee's asset allocation as at 31st December 2025 to assess the potential implications of climate change under four modelled scenarios:

Scenario	Detail
Rapid Transition (1.6°C)	Average temperature increase of 1.6°C by 2100 (relative to pre-industrial average). A rapid decarbonisation of the economy where high transition risk feeds into financial markets creating both risks and opportunities. The transition would require a material change in policy, leading to stranded asset risks and short-term costs. The transition-related shock is partially sentiment driven and so is followed by a partial recovery. Physical damages are most limited under this scenario.
Delayed Transition (1.9°C)	Average temperature increase of less than 2.0°C by 2100. Governments and wider society act in a coordinated way to decarbonise and to limit global warming to well below 2°C. Transition impacts do occur but are relatively muted.
Limited Transition (2.9°C)	Average temperature of around 2.9ºC by 2100. This scenario assumes that policymakers implement limited action and fall short of meeting the Paris Agreement goals. The attempted transition translates in a slight market re-pricing in the late 2020s and slightly mitigates physical damage (relative to a failed transition).
Failed Transition (3.7°C)	Average temperature increase of 3.7°C by 2100. The world fails to co-ordinate a transition to a low carbon economy. Physical climate impacts significantly reduce economic productivity and have increasingly negative impacts including from extreme weather events. These are reflected in re-pricing events in the late 2020s and late 2030s.

The analysis is based on scenarios developed by the OCIO working with Ortec Finance. These scenarios were selected by the Trustee to test a broad range of feasible outcomes and the Scheme's exposure to both transition and physical risks.

In designing scenario analysis, a fundamental decision is whether to assume that any climate impacts are priced in today. The analysis in this report is expressed relative to a 'climate-informed' baseline[3]; the implication is that all return impacts are presented in terms of how they are different to what we are assuming is priced in today.

[3] The baseline represents what we are assuming the market is currently pricing in. The baseline includes a 5% weight to Rapid Transition, 35% to Delayed Transition, 15% Limited Transition, 10% to Failed Transition and 35% to No/Low Impact

Further detail on climate scenario narratives, including modelling assumptions and limitations, is included in the Technical Appendix of this report.

Scenario Analysis Results

The chart below represents the output of the Trustee's quantitative analysis of the investment strategy. The chart shows projections of cumulative returns, expressed in real terms relative to the climate-informed baseline, from an analysis date of 31 December 2025 over a period of 15 years. Projections assume a static asset allocation that does not allow for future expected Scheme de-risking.

Further detail on climate scenario narratives, including modelling and policy assumptions, is included in the Appendix of this report.

Cumulative real return projections

Source: Mercer

The above illustrates the estimated impact on the Scheme's assets in different climate scenarios and it is noted that in funding level terms, the impacts could be somewhat more negative (in accordance with the estimated impacts on the Scheme liabilities outlined later in this section).

Time Horizon	Scenario Analysis	Key Takeaways	Portfolio Impact
Short Term (5 years)	Quantitative	**Rapid Transition** represents the most impactful scenario, with transition risk leading to a negative impact upon returns. There is a shock to returns of about -0.4% by year 5 as shown in the chart	**Neutral to mildly positive overall** Strong investment in tech, infrastructure & green energy supports equity markets and growth assets which help offset early transition risk impact.
	Qualitative	Physical risks: Increasing frequency of extreme weather events (storms, floods, heatwaves) causing localised infrastructure damage and supply	

Time Horizon	Scenario Analysis	Key Takeaways	Portfolio Impact
		chain disruption. Insurance losses rise but most regions remain insurable.	
		Transitional risks: Climate policy uneven globally due to geopolitical fragmentation and energy security concerns. Carbon pricing and regulation expand mainly in Europe and parts of Asia. Some early stranded asset risk emerging in high-emitting sectors.	
		Systemic risks: Economic growth supported by technology investment and industrial policy. Inflation volatility driven by food and energy price shocks but financial markets remain broadly resilient	
Medium Term (10 years)	Quantitative	Biggest variability in risk arises from the **Delayed Transition** (due to transition impacts upon growth allocations), but the **Failed Transition** becomes the most impactful scenario, with a cumulative return impacts of -2.4% by year 10 (as shown in the chart).	**Moderately negative** Greater dispersion emerges between climate "winners" and "losers". Carbon-intensive industries face higher costs, regulation and stranded asset risks. Diversification within the portfolio helps to remain relatively resilient but likely to experience increased volatility.
	Qualitative	Physical risks: Increasing severity and frequency of extreme weather events affecting infrastructure, agriculture and water availability. Growing insurance withdrawal in exposed areas and rising adaptation costs.	
		Transitional risks: Climate policy strengthens as public and investor pressure increases. Carbon pricing rises and border adjustment mechanisms expand. Stranded asset risk grows in fossil fuel sectors and carbon-intensive industries.	
		Systemic risks: Periods of inflation volatility driven by climate damage and transition investment. Supply chain disruption and commodity price shocks weigh on productivity and economic growth	

Time Horizon	Scenario Analysis	Key Takeaways	Portfolio Impact
Long-term (15 years)	Quantitative	Biggest risks arise from **Failed Transition**, leading to cumulative returns impacts of -13.5% by year 15 (as shown in the chart).	**Negative overall** High physical damage and systemic disruption weigh heavily on economic growth and asset valuations. Growth assets struggle to deliver due to low productivity and supply chain instability. It's likely the strategy would need to be revisited to focus on assets and countries which are more resilient to climate change and which benefit from the increased demand of natural resources and need for renewable technology
	Qualitative	Physical risks: Severe and persistent physical climate impacts including widespread flooding, droughts, crop failures and infrastructure damage. Insurance withdrawal becomes widespread in high-risk areas, reducing property values and increasing economic disruption.	
		Transitional risks: Lack of sustained global climate policy results in continued reliance on fossil fuels and limited coordinated decarbonisation. Transition risks emerge sporadically through abrupt, uncoordinated policy responses or emergency interventions following extreme events.	
		Systemic risks: High risk driven by physical climate damage. Economic productivity declines due to repeated climate shocks, resource scarcity and infrastructure losses. Persistent food and energy volatility drives inflation and financial instability. Geopolitical tensions and economic inequality increase as countries compete for scarce resources	

Over the short term, climate-related impacts on assets and liabilities are expected to be limited, with the Scheme's 100% hedge ratio designed to substantially protect against movements in inflation and interest rates, helping to maintain relative stability in funding levels.

Over the medium term, assets may begin to experience increasing exposure to both transition risks (for example policy changes, carbon pricing and technological shifts) and physical risks, which could place downward pressure on investment returns. While the liability hedge should continue to mitigate inflation and interest-rate volatility, weaker asset performance could lead to some modest funding level variability.

Over the longer term, the potential financial effects of transition, physical and systemic climate risks may become more pronounced, increasing the likelihood of adverse impacts on asset returns. The Scheme's full liability hedge is expected to continue providing protection against inflation and interest rate shocks, supporting a degree of stability in liabilities and helping to manage the extent to which climate-related asset risks affect the funding level.

Definition of risk types:

Physical Risks: The impacts of climate change on physical assets owned by a company or in its supply chain, from climate change. For example, the damage to a factory due to coastal flooding and storm damage

Transition Risks: The impacts of climate change on the individual assets due to changing climate policies, legal risks, market and reputational risks faced by companies, particularly as reflected in the increase of either direct or indirect costs of greenhouse gas emissions of the company or its supply chain

Systemic Risks: The macro effects of the consumer and government policy responses to climate change which affect overall economic growth, inflation and broad market outcomes.

Portfolio Impact: The combined effect of the scenario on both assets and liabilities.

Understanding Covenant Risks

The Trustee has engaged its covenant advisor, EY, to assist the Trustee in understanding the potential impacts of climate-risks and opportunities on Northumbrian Water Group Limited ("NWGL" or "the Group") and the employer covenant, in context of the Scheme's covenant reliance. Climate risks facing the covenant have not materially changed since the Trustee's last TCFD report and the importance of addressing these risks must remain a key focus for the Group.

The covenant climate risks identified previously remain – with both physical and transitional risks present. Some of the key physical risks identified by the Group in its statutory accounts for the year ending 31 March 2025 and climate adaptation reports (2021 and 2024), include:

- Increased frequency and severity of storm events intensifying pressure on the Group's network and resilience planning;
- Drought/ water supply deficit forecast across all water resource zones from 2025;
- Rising temperatures impacting asset performance with certain treatment chemicals (like sodium hypochlorite) and filtration system becoming less effective;
- Reduced availability of freshwater for abstraction following increased saltwater intrusion (River Waveney);
- Heightened emphasis on the interdependencies between risks, such as storm events affecting both power and water simultaneously. Funding has not been provided by Ofwat in the final determination to cover increasing resilience of power supply; and
- Increased performance challenges during extreme weather events and long-term maintenance associated with scaling of nature-based solutions (such as wetland restoration, green roofing) over engineering approaches.

Transition risks comprise capital and financial risks in shifting to a low carbon-economy, and include:

- A need for increased capex investment to implement the climate change mitigation policies;
- Deployment of new technologies for carbon reduction;
- Policy and regulatory change, including an increasing focus from Ofwat

The Group has climate change mitigation and adaptation strategies (as noted in our previous assessments) which could mitigate the financial impacts of physical climate risks. To assist the Trustee to better understand the potential financial impacts of risks and the benefits of the mitigation plans, EY will consider Management's covenant climate scenario analysis later this year alongside work on the business plan as part of the triennial valuation.

Understanding Liability Risks

The Trustee has carried out climate change scenario analysis in partnership with its actuarial adviser. The aim of this analysis was to help the Trustee to quantify the potential effects of climate change on the Scheme's liabilities. The Trustee recognises that this analysis relies on a large number of assumptions and is a new area of modelling that will develop over time; the Trustee therefore believes the results should be treated carefully and should only be one of a number of factors considered when considering the Trustee's action in relation to climate risk and also the Trustee's decisions around investment strategy.

The Trustee investigated three scenarios in relation to understanding funding risks:

- Climate Emergency – This assumes an immediate, ambitious and coordinated response in which aggressive policy is pursued. In this scenario we expect a temperature rise of approximately 1.5ºC relative to pre-industrial levels. Physical risks are expected to be very low while transition risks are likely to be moderate.
- Inevitable Policy Response – This assumes a delay in meaningful action but a rapid shift in policy in the mid/late 2020s. In this scenario we expect a temperature rise of approximately 2.0ºC relative to pre-industrial levels. Physical risks are expected to be relatively low while transition risks are likely to be high.
- Lowest Common Denominator – This assumes a 'business as usual' scenario in which temperatures rise approximately 3.5ºC relative to pre-industrial levels. Physical risks are expected to be high while transition risk is likely to be low.

The key findings from the scenario analysis are outlined below. We also recognise that the shocks outlined below could be larger and may well be priced in during a shorter time horizon.

Liability approximate % change	**Climate Emergency** 1.5 Degrees	**Inevitable Policy Response** 2 Degrees	**Lowest Common Denominator** 3.5 Degrees
Liability impact	-0.5%	-1.9%	-4.0%

Notes: Liabilities shown on Technical Provisions (TP) basis as at 31 December 2025. Scenarios used by WTW aligned with those used by Mercer

Section 6

Risk Management

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

This section summarises the primary climate-related risk management processes and activities of the Trustee. These help the Trustee understand the materiality of climate-related risks, both in absolute terms and relative to other risks that the Scheme is exposed to. The Trustee prioritises the management of risks primarily based on its potential impact on the security of members' benefits/prospective investment returns.

Governance

- The Trustee's Statement of Investment Principles is reviewed on at least a triennial basis and sets out how investment climate-related risks are managed and monitored.
- The Trustee has processes in place for identifying and assessing climate-related risks as part of the annual climate change governance and reporting process. The climate-related risks (defined as physical risks and transition risks) are reviewed annually by the Trustee to ensure the assessment of the likelihood and impact continue to remain appropriate for the Scheme given the developing research and understanding on this subject as well as new and emerging risks related to climate change.
- The Trustee will receive training from time-to-time on climate-related issues. The training allows the Trustee to challenge whether the risks and opportunities are effectively allowed for in its governance processes and wider activities, and to be able to challenge its advisers to ensure the governance support and advice adequately covers the consideration of climate-related risks and opportunities. This process also affords the Trustee an opportunity to identify new and emerging risks related to climate change. The training completed over the Scheme year is summarised in Section 4 of the report.

Strategy

- The Trustee believes that good stewardship and ESG issues may have a material impact on investment risk and return outcomes and will therefore be considered as part of the Scheme's investment process. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that require explicit consideration. When setting investment strategy, ESG factors, including climate change, will be considered alongside a number of other factors that can influence investment strategy.
- Climate scenario analysis for the investment and funding strategy of the Scheme will be reviewed at least triennially, or more frequently if there has been a material change to the strategic asset allocation or improvements in the methodology. Key findings from the Trustee's latest climate scenario analysis, completed as at 31st December 2025, was set out in the previous section. The impact of climate-related risks and opportunities is an input into the annual climate governance report. Climate scenario analysis is the primary tool to help the Trustee understand the materiality of climate-related risks that could impact the Scheme over time.

Reporting

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

Stewardship

When selecting third-party providers, we require each provider to demonstrate sufficient credentials in relation to the assessment of climate-related matters. This is done by assessing the providers in terms of their:

- Level of understanding on climate change and climate risks and opportunities
- Whether they have commitments to decarbonisation targets, including the Paris Climate Agreement of global warming to +1.5°C
- Corporate policies focusing on reaching stated decarbonisation targets
- Resources in place to deliver to climate related objectives
- Ability to report to us
- Associations with and involvement in relevant industry bodies

Our OCIO assesses our third-party fund managers' climate change competency. This forms part of their overall assessment when selecting a manager and part of the ongoing monitoring of the managers through an annual ESG questionnaire and regular monitoring calls.

The Trustee expects:

- UK-regulated asset managers to be signatories of the Stewardship Code;
- Non-UK regulated managers to exercise their voting rights in a manner consistent with a focus on medium and longer term investment performance.

As part of their responsibilities, where applicable, the Trustee expect the Scheme's asset managers to:

- Engage with investee companies with the aim to protect and enhance the value of assets; and
- Exercise the Trustee's voting rights in relation to the Scheme's assets;
- Incorporate the Trustee's views on climate change risk and opportunities.

With the assistance of our OCIO, the FISC undertakes an in depth review of the investment managers' ESG credentials, including their stewardship and voting activity and policies every year. Our OCIO monitors the stewardship activity of our investment managers on an ongoing basis and alerts the FISC of any material concerns between this review period.

Section 7

Metrics and Targets

Metrics

The Trustee has chosen to present climate-related metrics across four different categories in this report. The climate-related metrics help the Trustee understand the climate-related risk exposures and opportunities associated with the Scheme's investment portfolio and identify areas for further risk management, including investment manager portfolio monitoring, voting and engagement activity and priorities. The following metrics are provided in this report:

Metric category	Selected metric	Further detail
Absolute emissions	Total Greenhouse Gas Emissions	Tonnes of carbon dioxide and equivalents (tCO2e) that the Scheme is responsible for financing.
Emissions intensity	Carbon Footprint	The amount of carbon dioxide and equivalents (tCO2e) emitted per £m of the Scheme's investments.
Portfolio Alignment	% of portfolio companies with targets approved by the Science Based Targets initiative (SBTi)	Assessment of the proportion of portfolio companies/issuers that have set net-zero targets that have been validated by SBTi.
Additional non-emissions metric	Data Quality	Represents the proportions of the portfolio for which the Trustee has high quality data.

During the Scheme Year, the data provider used to calculate climate-related metrics was changed. As a result, the current year metrics are not directly comparable to the prior year disclosures, and changes over time may reflect differences in data sources and methodology as well as underlying portfolio movements.

The metrics in this report relate to the Scheme's financed emissions only and exclude emissions associated with the operation of the Scheme. Where metrics relate to emissions, these report Scope 1 and 2, with Scope 3 reported separately. Scope 1, 2 and 3 corporate emissions are defined as follows:

- **Scope 1 "direct" emissions**: those from sources owned or controlled by the Company (e.g. direct combustion of fuel from vehicles); and
- **Scope 2 "indirect" emissions**: those caused by the generation of energy (e.g. electricity) purchased by the Company.
- **Scope 3 "indirect" emissions**: In this category go all the emissions associated, not with the company itself, but that occur in the value chain of the reporting company.

For sovereign emissions, the emissions are defined as those that relate to production (scope 1) and consumption (scope 1, 2 and 3 minus exported emissions) in line with the Partnership for Carbon Accounting of Financials ("PCAF") guidance. Emissions in this report are showing including those from land use, land use change and forestry (LULUCF).

- **Production emissions:** those attributable to emissions produced domestically and include domestic consumption and exports; and

- **Consumption emissions:** these include production emissions, minus exported emissions, plus imported emissions (emissions related to energy and non-energy imports from goods or services from outside the country territory as a result of activities taken place in the country territory).

The metrics presented in this report are as at 31st December 2025 and are based on the actual asset allocation at that date. Further details are included in the Technical Appendix.

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

The metrics we have calculated in relation to corporate emissions

We calculate and disclose the following metrics:

Metric	Detail
Total Greenhouse Gas Emissions	Our absolute emissions for GHG Scope 1 and 2 are **13,073 tCO2e**. This is the total greenhouse gas (GHG) emissions, in CO2 equivalent, of the portfolio. This is based on public market proxies where the manager does not provide data.
Carbon Footprint	Our emissions intensity for GHG Scope 1 and 2 is **37 tCO2e per £1m invested**. This is based on public market proxies where the manager does not provide data.
SBTi Alignment	Our estimated alignment is **18.7%** of the portfolio. This is the percentage of the portfolio invested in companies that have set Science Based Targets to align with either a 1.5 degree or 2 degree climate scenario. We use the Science-Based Targets Initiative (SBTi) framework which assesses the ambition of a company's Scope 1 and 2 targets. This is based on public market proxies where the manager does not provide data.
Data Quality	The proportion of the corporate assets for which there is high quality emissions data (backed by verified and reported data) is **76%**. We will work with our OCIO and the asset managers to engage companies, policy makers and data providers to improve data quality and coverage.

Emissions associated with our direct financed exposure

Asset class	% portfolio exposure	% coverage* Scope 1 + 2	% coverage* Scope 3	Absolute Financed Emissions tCO2e		Carbon Footprint: Emissions intensity tCO2e/£m invested	
				Scope 1+2	Scope 3	Scope 1+2	Scope 3
Equity	17%	95%	96%	3,613	30,408	30	253
Credit	22%	85%	87%	6,607	40,821	44	272
Multi-Strategy (Equity & Credit exposure)	1%	80%	85%	961	4,257	129	572

Asset class	% portfolio exposure	% coverage* Scope 1 + 2	% coverage* Scope 3	Absolute Financed Emissions tCO2e		Carbon Footprint: Emissions intensity tCO2e/£m invested	
Private Markets	11%	95%	97%	1,892	18,932	25	251
Total	**51%**	**91%**	**92%**	**13,073**	**94,417**	**37**	**267**

Source: Mercer, using data from MSCI. Analysis is based on manager stocklists as at 31 December 2025, using latest available data feeds as at 03 Feb 2026. Managers captured: Cardano, Barings, Blackrock, Dorsal, Kadensa, Polar, Sunriver, Wellington, Westfield and WTW (Secure Income Fund).

*Coverage for Private Markets. Due to a lack of directly reported data, private investments are entirely covered by public market proxies. We have no data on the direct carbon footprint or SBTi alignment of the underlying private market portfolios.

A full breakdown of the data quality of the 51% exposure analysed has been provided below:

	Verified	Reported	Estimated	Unavailable
Total Scheme	51%	25%	8%	15%

- A total of 51% of Scheme assets are included in the analysis. Of this, around 76% of the corporate assets captured are supported by verified and reported carbon data (high quality)
- Assets excluded from the corporate emissions analysis include LDI (reported separately due to methodological limitations in attributing financed emissions to sovereign exposures) and certain alternative strategies, such as hedge funds (where derivative-based and dynamic exposures limit the availability of reliable company-level carbon data)

Emissions associated with our sovereign financed exposure

Asset class	Physical exposure	Derivative exposure	Total Carbon Emissions (tCO2e)		Sovereign intensity	
			Production (inc. LULUCF)	Consumption	Production emissions (tCO2e/£m PPP adjusted GDP)	Consumption emissions (tCO2e/capita)
LDI	47%	53%	55,521	84,161	90.9	8
Credit*	100%	0%	2,104	1,924	265.2	6.2
Private Markets	100%	0%	721	867	140.3	7.8
Total			58,346	86,952	93.5	8.0

Notes: *represents sovereign bond exposure within third-party credit managers

- Derivative exposure represents the market value of exposure as a % of total net asset value. For the LDI portfolio, emissions from total long exposure to gilts (£610.8m) are shown in the table above. Gilts posted out as collateral are included in gilt valuations; gilts received as collateral are excluded. Cash and other derivative contracts (including short gilt TRS contracts) have been excluded.

- Absolute production emissions (including LULUCF) from additional exposure achieved through funded gilt exposure (£257.9m) are 23,445 tCO2e and from long gilt TRS contracts (£352.9m) are 32,076 tCO2e.
- For consumption emissions, total emissions in respect of funded gilt exposure (£257.9m) are 35,539 tCO2e. Total emissions from additional exposure achieved through long gilt TRS contracts (£352.9m) are 48,622 tCO2e.

Commentary on the metrics

The changes in the corporate climate-related metrics year on year ("YoY") to 31 December 2025 are as follows:

Metric	31 Dec 2024	31 Dec 2025	YoY change	Comment
Total Greenhouse Gas Emissions	17,682 tCO2e	13,073 tCO2e	Decreased (improved) by c. 26% YoY	The portfolio's total absolute emissions and carbon footprint has fallen, driven largely by a significant reduction in reported emissions directly provided from managers across a majority of positions, particularly the credit allocations. However, we reserve drawing significant conclusions from this change, as it is primarily attributable to a methodology enhancement this year. All available manager holdings were processed through a centralised tool, enabling results to be produced consistently across the full portfolio and providing a more robust, like-for-like basis. We expect this improved methodology to support more meaningful comparisons in future years.
Carbon Footprint	52 tCO2e per £1m invested	37 tCO2e per £1m invested	Decreased (improved) by c. 28% YoY	
SBTi Alignment	15%	19%	Increased (improved) by c. 26% YoY	The share of assets aligned with, or committed to, Science Based Targets (SBTi) has increased in part as a result of increasing the proportion of assets captured within the analysis i.e. in this year's analysis, 51% of assets were captured vs 48% last year. New assets such as BlackRock Global Event Partners and BlueBay IG ABS were added to the portfolio over the year, enhancing the total % of portfolio with SBTi alignment. This improvement also reflects a wider industry trend of increasing corporate adoption of SBTi, as more companies embed more robust long-term decarbonisation objectives into their core business strategies.

For some metrics, comparability with previous years' disclosures is limited due to the refinements to existing definitions:

- Sovereign production and consumption emissions data have been introduced for the first time within the Scheme's climate governance report. In previous years, sovereign metrics were shown in relation to GDP and therefore makes any comparison to previous years challenging. Reporting of metrics is an evolving space.
- Comparison of Data Quality metric with previous years is also challenging due to a change in the metric reported this year. Previously, Data Quality was defined primarily as data coverage, representing the proportion of the portfolio for which emissions data was available. While informative, this approach did not distinguish between varying levels of data robustness. This year, Data Quality is shown based on the proportion of the portfolio for which the Trustee has high-quality emissions data, providing a clearer view of the reliability of the underlying metrics. As with other methodological enhancements, this change limits direct comparison with prior years' disclosures, but we believe it offers a more meaningful assessment of data strength and will support improved governance and decision-making as climate data continues to evolve.

Targets

The Trustee has set the following principal target with respect to the Scheme:

- To align our investments to support the goal of net zero greenhouse gas emissions by 2050 with an interim 50% reduction target by 2030, in line with global efforts to limit warming to 1.5°C. The target relates to the scope 1 & 2 carbon footprint metric for corporate assets.
- Specifically, we commit to:
- Work in partnership with other asset owners on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner.
- An interim target for 2030, consistent with a fair share of the 50% global reduction in greenhouse gases, identified as a requirement in the IPCC special report on global warming of 1.5°C[4], based on 2022 levels.
- Review the progress against our target every year, and to review the target itself at least every three years, to ensure it remains consistent with the latest scientific thinking and is appropriately incentivising the necessary economic transition.

The portfolio emissions intensity will be measured against these targets and relative to the appropriate market portfolio representative of the strategic asset allocation of the portfolio.

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

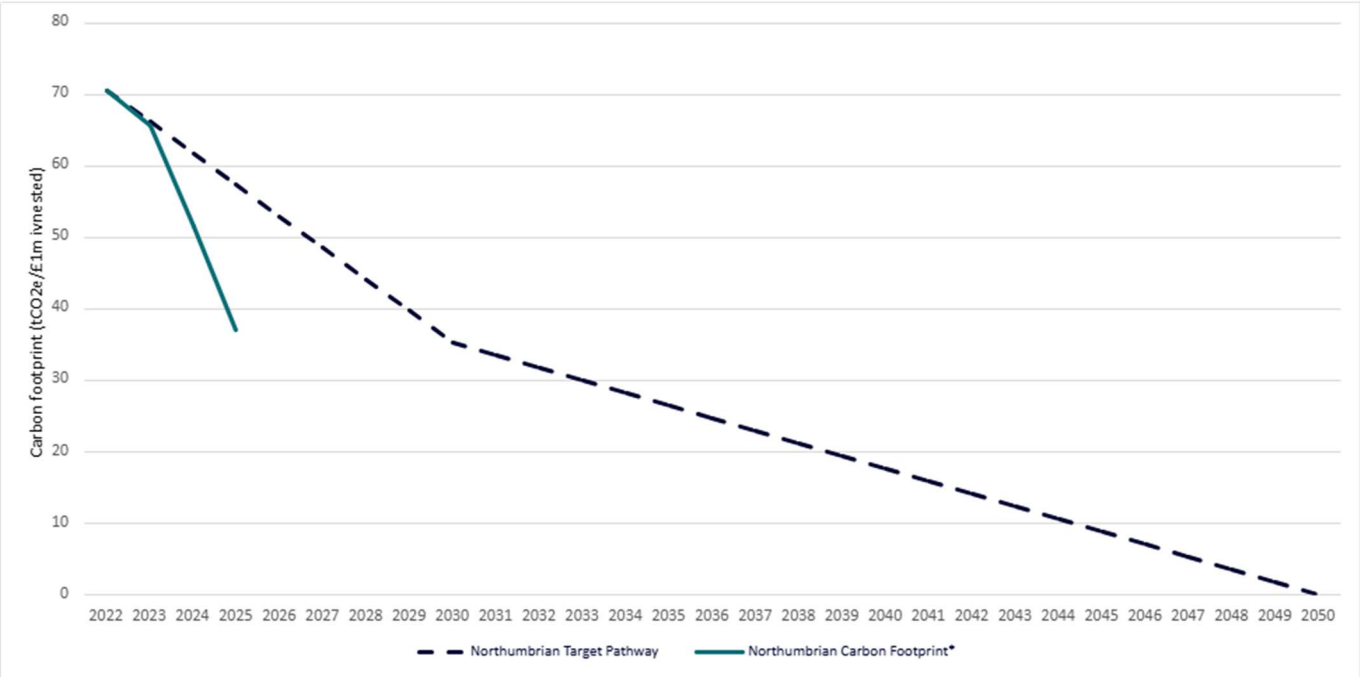
Ultimately achieving the desired level of decarbonisation will depend on global economies overall successfully decarbonising. Notwithstanding that there are factors outside of the Trustee's control, the Trustee's intention is to meet its targets and it engages with its investment managers to make clear its requirements.

[4] https://www.ipcc.ch/reports/

Net Zero Pathway analysis

The tracker has been updated to reflect the latest results, reflecting the scope 1 & 2 direct financed carbon footprint (i.e. not including emissions associated with our sovereign financed exposure).

Figure 3: Net Zero Pathway



Source: Mercer & WTW. Baseline carbon footprint sourced from Northumbrian's 2022 TCFD report and converted to GBP using USD to GBP conversion rate as at 30/06/2022

- As noted above, there has been a 28% YoY decrease in the portfolio's carbon footprint, resulting in continued improvement vs our net zero target relative to 2022 baseline levels
- While the reduction is largely driven by methodological improvements in this year's report, the use of a consistent framework across all relevant holdings provides a stronger basis for future comparison. The Trustee is encouraged by the direction of travel toward portfolio decarbonisation
- In addition, a number of the Scheme's underlying investments have explicit Net-Zero targets, which is expected to support ongoing progress over time
- As a new asset class (*Multi-Strategy*) has been introduced into the analysis this year, the Net Zero Investment Framework permits us to re-run the 2022 baseline when additional assets are brought into scope for the carbon footprint analysis. The Trustee's intention is to recalculate the 2022 baseline in next year's TCFD report (subject to data availability) to enable more robust conclusions to be drawn when comparing year on year progress.

Actions and next steps

Our OCIO has committed to:

- Provide us with information, metrics and analytics on net zero greenhouse emissions by 2050 investing and climate change-related risks and opportunities.

- Engage with those key to the investment system including data and service providers to ensure that products and services available to the Trustee are consistent with the aim of achieving global Net Zero emissions by 2050 or sooner.
- Ensure any relevant direct and indirect policy engagement is undertaken in support of achieving global net zero greenhouse gas emissions by 2050 or sooner.

We will:

- Take account of and report on progress against Scope 1 and 2 emissions and, to the extent possible, material portfolio Scope 3 emissions.
- Prioritise the achievement of real economy emissions reductions within the sectors and companies in which we invest.
- Recalculate the 2022 baseline in next year's TCFD report (subject to data availability) to enable more robust conclusions to be drawn when comparing year on year progress.

- Use the reporting provided by our Investment Adviser to help us assess progress towards our targets.

Whilst we expect our portfolio to trend towards our 50% emissions reduction target by 2030, we'll take the decisions necessary to align the portfolio consistent with our net zero emissions by 2050 goal.

Technical Appendix

Appendix A

Roles of External Providers

The Trustee has appointed External Providers to the following roles

Investment Adviser – WTW

- Advises on manager selection (where appropriate), taking into account the Trustee's sustainability beliefs and climate-related targets;
- Supporting periodic reviews of the Trustee's long-term mission and journey plan, incorporating climate-related considerations;
- Assisting in the development and monitoring of the Scheme's dynamic de-risking strategy;
- Advising on updates to the Trustee's investment and sustainability beliefs, ensuring they reflect evolving climate-related risks and opportunities.

Scheme Actuary - WTW

- Advises on the funding position including an understanding of the potential funding impact resulting from changes to financial or demographic assumptions driven by climate change;
- Advises on funding strategy robustness to climate risk. Provides input to enable strategic asset allocation decisions to be made considering impact of climate risks on funding strategy; and
- Provides input into scenario analysis and advises on funding implications.

Covenant Adviser - EY

- Advises on how climate-related risks and opportunities might affect the employer covenant in the context of the Scheme's covenant reliance.
- Provides input to assist the Trustee in incorporating climate-related risks in its covenant monitoring framework.

OCIO - Mercer

- Advises on the choice of climate-related metrics and targets as well as changes to investment mandates;
- Monitors investment manager performance against relevant climate-related targets;
- Advises on appropriate time horizons and scenarios for scenario analysis;
- Supports the Trustee with drafting the annual climate change governance report.

Regular monitoring and governance activities

- Climate change training sessions as required
- Scenario analysis modelling the investment strategy and funding strategy (minimum frequency = first year and every 3 years thereafter)
- Review appropriateness of undertaking scenario analysis in light of a) data availability changes b) material changes in investment strategy / funding position (minimum frequency = annual)
- Metrics data collection (minimum frequency = annual)
- Target setting / target appropriateness review (minimum frequency = annual)
- Progress against target assessment (minimum frequency = annual)
- Review of manager ESG ratings, climate policies (minimum frequency = annual)
- Stewardship, covered as part of the Trustee's annual Implementation statement (minimum frequency = annual)
- Climate covenant assessment (minimum frequency = annual)
- Drafting annual climate-related financial disclosures report (minimum frequency = annual)

Appendix B

Climate scenario modelling approach

	Rapid Transition	Delayed Transition	Limited Transition	Failed Transition
Summary	**Highly ambitious low-carbon policy and rapid technology transition**. Sudden divestments in 2026 to align with the Paris Agreement goals have disruptive effects on financial markets with **sudden repricing** followed by **stranded assets** and a **sentiment shock**.	**Limited additional action until 2030**, at which point a highly ambitious set of low-carbon policies is introduced. Financial markets price in transition and physical risk in 2030 to align with the ambitious policy change, associated with **stranded assets** and a **sentiment shock**.	**Emissions targets and commitments are not fully met**. Financial markets **price in climate-related risks in 2030 and 2039** as the scale of future risks become more widely accepted and understood.	**No new climate policies are enacted**, but transition progresses on economic grounds. Financial markets **price in** climate-related risks in 2030 and 2039 as the **scale of future risks** become more widely accepted and understood.
Temperature change	Average temperature increase stabilises at **1.6°C** from 2050 onwards.	Expected increase of **1.9ºC** by 2100.	Expected increase of **2.9ºC** by 2100.	Expected increase of **3.7ºC** by 2100.
Expected Emission and energy production	Net Zero by 2056. Cumulative emissions of c. 500GtCO2 by 2064. 92% of energy production from various renewable sources (excluding nuclear) by 2060.	Cumulative emissions of c. 940GtCO2 by 2064. 91% of energy production from various renewable sources (excluding nuclear) by 2060.	Cumulative emissions of c. 1,490GtCO2 by 2064 54% and 82% of energy production from various renewable sources (excluding nuclear) by 2040 and 2060 respectively.	Cumulative emissions of c. 1,750GtCO2 by 2064 51% and 75% of energy production from various renewable sources (excluding nuclear) by 2040 and 2060 respectively.
Key policy & tech assumptions	A highly ambitious low-carbon policy and rapid technology transition. Higher carbon prices, larger investment in energy efficiency and faster phase out of coal-fired power generation	Limited additional action until 2030, when a highly ambitious set of low-carbon policies is introduced. The world is faced with moderate impacts from extreme weather events and temperature change.	Moderate policy steps taken to increase climate action including working towards 2030 targets but commitments are not fully met because policy actions are too weak and not urgent enough.	Existing policy regimes are continued with the same level of ambition, with no new policies enacted.
Financial climate modelling	Pricing in of transition and physical risks over the coming 40 years occurs within one year in 2026. 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 occurs in 2030. 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 occurs at two different timepoints: 2030 (risks of first 40 years) and 2039 (risks of 40-80 years).	Physical risks are priced in two different timepoints: 2030 (risks of first 40 years) and 2039 (risks of 40-80 years).
Impacts on inflation	Transition risk is associated with inflationary pressures over the short-term. Transition costs, including policy costs (e.g. carbon pricing) and costs associated with deployment of new low-carbon technologies, modestly increase short-term inflation under the Rapid and Delayed Transition scenarios.		Chronic physical risk is associated with inflationary pressures over the medium- to long-term. Higher projected temperatures reduce agricultural yields and drive up food prices, increasing medium- to long-term inflation under the Limited and Failed Transition scenarios (Kotz et al., 2024).	

	Rapid Transition	Delayed Transition	Limited Transition	Failed Transition
Physical risks considered	Physical risks are regionally differentiated and increase dramatically with rising global temperature. Physical risks are built up from: Gradual physical impacts associated with rising temperature (agricultural, labour, and industrial productivity losses) Economic impacts from climate-related extreme weather events The Failed Transition incorporates the adverse effects of hitting multiple climate tipping points (e.g. collapse of the Greenland and West Antarctic ice sheets, the collapse of East Antarctic subglacial basins, loss of mountain glaciers, Amazon rainforest dieback, and boreal permafrost collapse). Risks such as climate-related migration and conflict are not captured.			

Source: Mercer and Ortec. Climate scenarios as at December 2025

The return impacts of the climate scenarios represented in this report are relative to the 'baseline'. The baseline represents what we are assuming the market is currently pricing in. The baseline includes a 5% weight to Rapid Transition, 35% to Delayed Transition, 15% Limited Transition, 10% to Failed Transition and 35% to No/Low Impact

Mercer's Modelling Assumptions – Cumulative Climate Return Impacts

Asset class	Rapid Transition			Delayed Transition			Limited Transition			Failed Transition		
	5 years	10 years	15 years	5 years	10 years	15 years	5 years	10 years	15 years	5 years	10 years	15 years
Inflation	0.7%	0.8%	0.0%	0.5%	0.8%	0.6%	-0.3%	-0.2%	0.2%	0.1%	0.5%	1.5%
US Equity	-2.9%	-0.7%	3.8%	3.4%	-7.3%	-3.8%	3.3%	-4.0%	-24.4%	2.0%	-8.9%	-42.9%
MSCI ACWI ESG Equity	-1.0%	1.6%	5.9%	3.0%	-5.2%	-2.0%	2.9%	-3.6%	-21.5%	1.6%	-9.0%	-38.8%
UK Investment Grade Credit	-0.2%	-0.2%	0.1%	0.4%	-0.7%	-0.4%	0.4%	0.1%	-4.8%	0.2%	-0.1%	-7.6%
Global Investment Grade Credit	-0.1%	-0.4%	0.0%	0.4%	-0.8%	-0.3%	0.6%	0.3%	-3.9%	0.6%	0.3%	-7.5%
US Sovereign Bonds	-0.3%	0.0%	-0.1%	-0.2%	0.0%	-0.1%	-0.2%	0.1%	0.0%	-0.2%	0.1%	0.3%
Canada Sovereign Bonds	-0.3%	-0.1%	-0.1%	-0.2%	-0.1%	-0.1%	-0.2%	0.2%	0.1%	-0.2%	0.2%	0.0%
Germany Sovereign Bonds	0.0%	-0.4%	-0.4%	0.0%	-0.3%	-0.4%	0.0%	0.1%	-0.1%	-0.1%	0.3%	0.3%
UK ILG Bonds	1.5%	-1.2%	-2.2%	1.2%	0.2%	-1.0%	-0.7%	0.7%	1.2%	0.1%	1.8%	3.1%
EMD Local Currency	0.0%	0.3%	0.4%	-0.1%	-0.1%	0.0%	0.0%	0.0%	-0.4%	-0.4%	-0.6%	-1.0%
Cash	-0.3%	-0.1%	0.0%	-0.3%	-0.3%	0.1%	0.2%	0.6%	1.1%	0.5%	1.0%	1.2%
Private Equity	-3.7%	-0.6%	5.1%	4.7%	-10.3%	-5.9%	4.8%	-6.0%	-30.6%	3.2%	-12.7%	-52.5%
Commodities – Gold	-0.7%	-0.5%	-0.9%	-0.3%	0.5%	0.8%	-0.5%	0.2%	0.9%	0.2%	1.7%	3.3%
Hedge Funds	-0.3%	-0.1%	0.0%	-0.3%	-0.3%	0.1%	0.2%	0.6%	1.1%	0.5%	1.0%	1.2%

Mercer's Capital Market Assumptions (as at 31/12/2025)

Asset class	Capital Market Assumptions		
	5 years	10 years	15 years
Inflation	2.2%	2.2%	2.3%
US Equity	3.5%	5.4%	6.4%
MSCI ACWI ESG Equity	4.3%	5.9%	6.7%
UK Investment Grade Credit	5.3%	5.7%	5.8%
Global Investment Grade Credit	4.2%	4.7%	4.9%
US Sovereign Bonds	4.7%	4.9%	4.9%
Canada Sovereign Bonds	4.1%	4.3%	4.4%
Germany Sovereign Bonds	4.1%	4.4%	4.5%
UK ILG Bonds	4.9%	4.8%	4.6%
EMD Local Currency	6.0%	5.9%	5.9%
Cash	3.5%	3.5%	3.5%
Private Equity	7.8%	9.9%	11.0%
Commodities – Gold	4.8%	4.9%	4.9%
Hedge Funds	6.2%	6.8%	7.0%

Limitations associated with climate modelling

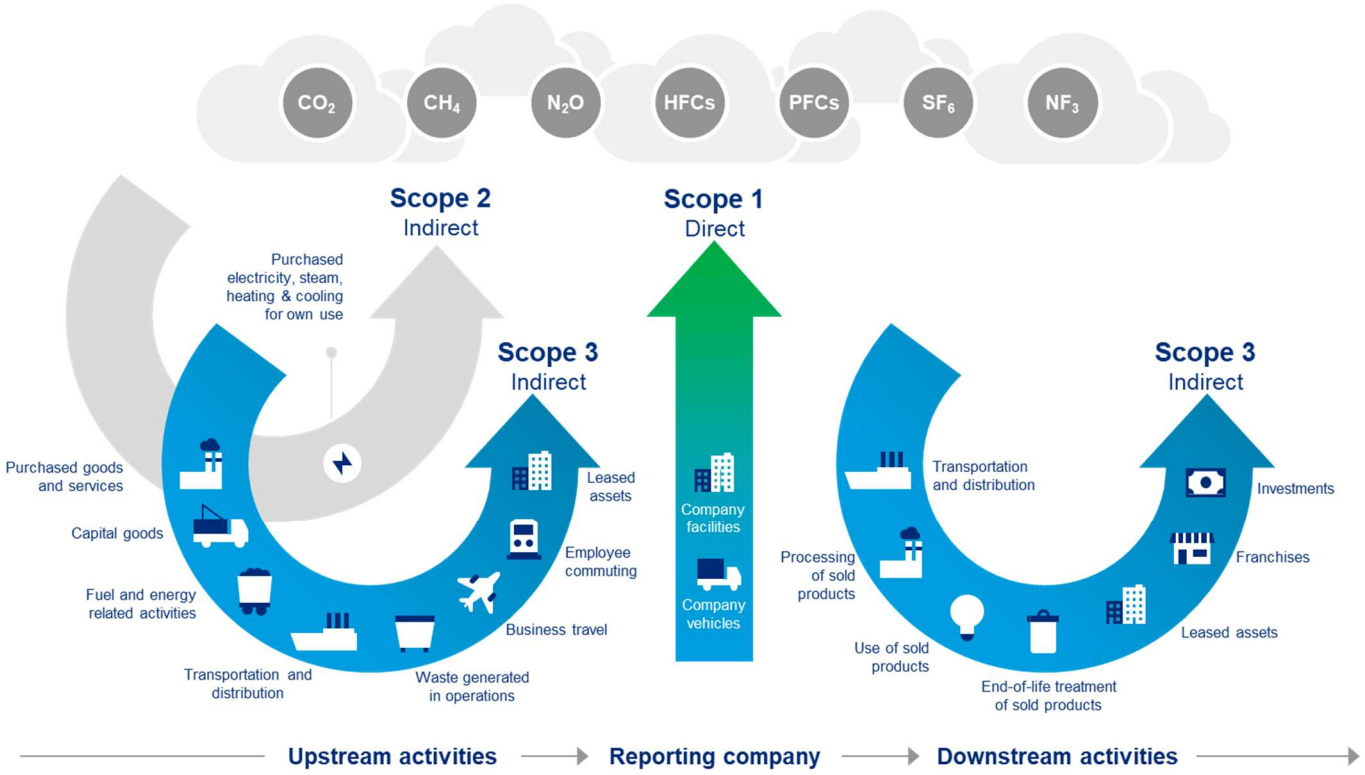
Climate scenario modelling is a complex process. The Trustee is aware of the modelling limitations. In particular:

1. The further into the future you go, the less reliable any quantitative modelling will be.
2. 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.
3. Financial stability and insurance 'breakdown' is 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.
4. Most adaptation costs and social factors are not priced into the models. These include population health and climate-related migration.
5. New and emerging risks, such as the impact of climate change on biodiversity loss, and vice versa, is expected to be integrated into climate scenario modelling over time once the supporting science and impact on econometrics and finance is better understood.

Climate metric analysis approach

Total Greenhouse Gas Emissions

This metric takes an ownership approach to answer what proportion of a company's or asset's emissions an investor owns and is therefore responsible for financing. It includes the seven types of greenhouse gas ("GHG") (as defined in the Kyoto Protocol[5]), across the three scopes of emissions, as summarised below.



Source: GHG Protocol

Emissions of the seven greenhouse gases have different impacts on climate change. In order to simplify reporting, each greenhouse gas is calibrated relative to carbon dioxide and is reported as 'carbon dioxide equivalent' emissions (CO_2e). In this way the Trustee can compare companies that emit different amounts of different gases on a consistent basis. Recognising the different methodologies used to calculate absolute emissions for sovereigns and corporates, the Trustee reports sub totals at the corporate and sovereign levels as well as a grand Total Greenhouse Gas Emissions figures.

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

In respect of sovereign debt investments, the Trustee follows the Partnership for Carbon Accounting of Financials ('PCAF') to derive absolute emissions.

Carbon Footprint

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

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

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

Proxies used within Carbon Footprint analysis:

Asset class	Proxies
Investment Grade Asset-Backed Credit	Bloomberg Global Aggregate Corporate index
Private Equity (Secure Income Fund)	Iboxx Sterling Non-Gilt
Global Equity Feeder Fund	MSCI All Countries World Index

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

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

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

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

Data Quality

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

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

Important notices from data providers

Mercer

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MSCI

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