Taskforce on Climate-related Financial Disclosures Report

Imperial Tobacco Pension Fund (the "Fund")

Year ending 31 March 2024

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Overview

Trustee statement on climate risks and opportunities

Statement from the Chair

The Trustee believes Environmental, Social and Governance ("ESG") factors can be financially material; identifying and mitigating these risks where possible forms part of their fiduciary duty. Within ESG, the Trustee recognises that climate change risk is one area that presents significant investment risk that could become more severe over time.

In our TCFD Report last year, we set out the steps taken to ensure that ESG considerations, including but not limited to climate-related factors, are integrated within our processes, procedures and decision-making. This year's report summarises key actions taken across the TCFD pillars and highlights progress against the targets set.

In recent years, we have formalised our ESG beliefs, considering the current position and what may be achievable in the future, alongside strategic investment changes. Currently we are reviewing the Fund's platform provider and investment arrangements for the Defined Contribution Section. As part of this, ESG integration including climate-related factors will be considered as part of the decision-making process. The Trustee is also reviewing the credit allocation within the Defined Benefit Section, which aims to embed ESG-aligned investment guidelines over the long-term.

The scenario analysis conducted during the year ending 31 March 2023, and the climate metrics disclosed, were useful for considering the anticipated impact upon our investment strategy and long-term objective, for both the Defined Benefit and Defined Contribution Sections. This analysis aimed to illustrate the resilience of the Fund under different climate scenarios, including considering potential impacts on the covenant. The results from this analysis are included in this report because they remain appropriate. In practice, the Trustee's options are limited by the allocation to illiquids.

The Fund's Defined Benefit Section has a relatively strong funding position and may be able to withstand the financial impact of climate change over the short to medium term, which is expected to be relatively modest under most scenarios, given its low-risk investment strategy. For the Defined Contribution Section, the financial impact of climate change may vary depending on each member's situation and retirement decisions, although members further from retirement are generally expected to be affected to a greater extent as impacts emerge over time.

Climate change and the related impacts on the tobacco industry (and UK regulation) could impact the sponsoring employer. The impact on the employer and the long-term funding strategy are monitored by the Trustee as well as the Fund's advisors.

We will continue to engage with our investment managers around the improvement of data quality and availability, and further build the Fund's climate action plan.

Helen Clatworthy, Chair of the Trustee of the Imperial Tobacco Pension Fund

The Taskforce on Climate-related Financial Disclosures ("TCFD") Framework encompasses four key pillars:

Governance: Governance around climate-related risks and opportunities.

Strategy: Actual and potential impacts of climate-related risks and opportunities.

Risk Management: The identification, assessment and management of climate-related risks.

Metrics and Targets: Disclosure of key metrics and targets.

Why is climate change so important?

Recognising the potential impact upon our members

The ongoing risks associated with climate change are under increasing focus across the world and financial markets. As a result, we reflect climate considerations within our investment thinking and governing decisions.

To mitigate climate change, global decarbonisation is likely to be required: this presents both risks and opportunities for the Fund. There are transition costs that are expected to be incurred from decarbonisation action, and physical damages are a potential result should global temperatures continue to rise. This means that we will likely face climate-related risks which we need to manage appropriately across both sections of the Fund.

In order to better understand the Fund's risks, impact upon, and contribution to greenhouse gas production, we require better data coverage and quality. The Fund's Investment Committee, on behalf of the Trustee, has therefore set a target relating to data coverage, with the aim of improving the emissions-related data that is available to the Trustee. Progress against this target will be monitored annually, with progress over the first 12 months reviewed later in this report. Global decarbonisation efforts could also offer opportunities for the Fund. The Fund's Investment Committee, on behalf of the Trustee, will assess the appropriateness of any opportunities in conjunction with other financially material considerations.

Climate science

Greenhouse gas ("GHG") emissions can arise from human activities, including the burning of fossil fuels for purposes such as transport or power. Emissions released into the atmosphere can cause warming due to a blanketing effect.

Current state

Governments have signed up to the Paris Agreement to limit global average temperature rises to well below 2°C, with ambitions towards 1.5°C, above pre-industrial levels.

The transition to a low-carbon economy

To decarbonise the global economy, policies, technologies and market preferences are expected to shift in favour of low-carbon solutions.

Physical risks from climate change

Physical risks may arise from the physical impacts of climate change, including both sudden onset natural disasters and slower shifts in weather patterns. They are expected to scale up in the long term due to rising emissions and global average temperatures.

More information on the risks of climate change can be found within the Intergovernmental Panel on Climate Change's ("IPCC's") report.

Actions taken to date

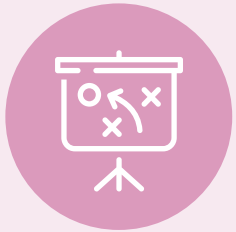
Governance

ESG Policy – Trustee maintains an ESG Policy which sets out Trustee ESG beliefs & implementation framework.

Meetings – Trustee Board meets regularly and receives advisor support.

Training – Trustee has received training on relevant climate risks and opportunities from its Investment Consultant.

Climate Delegation Framework – Established by Trustee. Defines roles and responsibilities in relation to climate-related risk.



Strategy

Time horizons – Trustee has defined key time horizons and considered how the strategy may develop over these periods.

Scenario analysis – Trustee has conducted scenario analysis to assess the impact of increased global average temperature.

Covenant impact – Trustee has considered how climate-related risks and opportunities could affect covenant strength.

Risks & opportunities – Trustee has identified climate-related risks and opportunities over the chosen time horizons.

Risk Management

Risk register – Trustee has included climate-related risks to better identify and assess risks.

Manager assessments – Investment Consultant conducts annual review of the investment managers to identify improvement areas and aid Trustee decisions.

Dashboard – Trustee, with advice from its Investment Consultant, has developed a climate risk and opportunity dashboard.

Stewardship activity – Trustee has delegated stewardship responsibilities to its investment managers.

Metrics & Targets

Metrics – Trustee has selected four metrics to report on and collated data against these from the Fund's investment managers over two years.

Targets – Trustee has set an appropriate target for each Section with a defined time period for meeting the target.

Targets – Trustee has set a data quality improvement target for the DB and DC Section to improve data coverage, with the aim to set more meaningful carbon reduction targets in the future and aid decision making.

TCFD Summary

Governance

Governance around climate-related risks and opportunities

Trustee – We, the Trustee, hold ultimate responsibility for managing the Fund. This includes setting the Fund's ESG policy to ensure Fund-level climate-related risks and opportunities are well governed. The policy was updated in June 2023.

Investment Committee – Although overall responsibility lies with the Trustee, some investment decisions are delegated to the Investment Committee ("IC"), along with the responsibility of assessing the impact of climate considerations on Fund assets. The IC, working with the Fund's advisors, provides oversight and manages ESG-related risks as they pertain to the Fund's assets, to help the Trustee to execute its strategy and enhance long-term, sustainable financial stability.

Investment Consultant - The Fund's Investment Consultant provides climate-related advice to the IC at least annually, covering the inclusion of climate considerations in the governance arrangements, climate risks and opportunities, the analysis of climate metrics, and provides training.

Actuary – The Fund's Actuary provides scenario analysis and advice to help the IC consider the potential financial impact of climate-related risks for the Fund.

Other Advisors - The Fund's Covenant Advisor and Legal Advisor provide advice to the Trustee and the IC on climate-related regulation, risks and opportunities.

Investment Managers (including DC Provider) - The Trustee has delegated responsibility to the Fund's investment managers for managing the Fund's assets in line with the agreed mandates. This includes identifying, assessing and managing climate-related risks and opportunities in relation to the Fund's investments as well as engaging with portfolio companies in the best interest of the Fund's members.

Risk Management

The identification, assessment and management of climate-related risks

Whilst overall responsibility lies with the Trustee, some investment decisions are delegated to the IC, along with the responsibility of assessing the risks relating to climate considerations.

The Trustee has a framework to ensure risks are managed holistically. This includes analysis of climate risks at the overall Fund level and ensuring the Fund's investment managers are considering ESG risks and opportunities in line with the Trustee's ESG beliefs. The Trustee conducted gap analysis on its Effective System of Governance (ESOG) against the Code of Practice during the reporting year, which included stewardship and climate change policies.

The Trustee and IC periodically review the risk register and have received advice on potential issues and potential mitigating actions relating to:

- Sponsor Covenant
- Investment strategy
- Asset and investment manager allocations
- Funding

In addition to the risk register, the Trustee and IC receive regular advice from their advisors on climate considerations.

Underlying investment mandates

The IC regularly reviews the Fund's investment managers' ESG capabilities. On an annual basis, the Investment Consultant provides an ESG assessment of each of the Fund's mandates. This results in mandate- and Fund-level ESG and climate scores. Our Investment Consultant, on behalf of the Trustee, uses the results of these assessments to engage with our investment managers on any areas to improve.

TCFD Summary

Strategy

Actual and potential impacts of climate risks and opportunities

Defined Benefit Section

Over 2023, the IC, on behalf of the Trustee, considered how the investment strategy for the DB Section could evolve over time as the Section's liquidity improves. This could include re-investment in a corporate bond mandate with ESG-aligned guidelines, which was previously terminated for liquidity needs during the UK gilt crisis. The Trustee is considering how they can further integrate ESG and climate-related opportunities in the future but recognises that there are limited options given the illiquid assets.

Short Term: 3 years

Medium Term: 7 years

Long Term: 16 years

Defined Contribution Section

The Trustee use a 'lifestyle' approach for the DC section which manages the assets in which a member invests over their time in the Fund. As a result of the annual investment strategy review, the Trustee is reviewing its provider. The IC, on behalf of the Trustee, will consider climate risks and opportunities as part of this process.

Short Term: 3 years

Medium Term: 10 years

Long Term: 30 years

In order to quantify the potential impacts on the Fund's investment and funding strategy, the IC, on behalf of the Trustee, has identified key relevant time horizons (as shown above). These have been determined by a blended view of the climate outlook and the relevant section's membership demographics.

The IC has evaluated the potential risks and opportunities over these timeframes, including analysis of the relevant section's position under four climate scenarios, two of which are shown below. This analysis was conducted during the year to 31 March 2023 and remains appropriate given the Fund's strategies. A colour coded rating summarises the results of the modelled impact upon the climate-related risks and opportunities across the different time horizons. As part of the DB strategy, the IC also considered the potential impact on covenant.

Risk (Long Term, 16Y)	DB Assets	DB Liabilities	Sponsor
Transition risk (disorderly transition)			
Physical risk (current policies)			

Note: impact of physical risks on assets would be higher if looking over a longer period or if risks materialise earlier than assumed. They are mitigated to a large degree by the assumed changes in investment strategy.

Risk (Long Term, 30Y)	DC Assets
Transition risk (disorderly transition)	
Physical risk (current policies)	

Note: impacts will vary depending on individual member circumstances, such as term to retirement

Key (risk level):

- Low
- Average
- High

TCFD Summary

Metrics and Targets

Disclosure of key metrics and targets

The IC, on behalf of the Trustee, has selected, gathered and assessed the four climate metrics in the table below to assess climate related risks and opportunities within the current investment portfolios. Due to the nature of the Defined Benefit Section's investment strategy, which has a material allocation to illiquid assets, coverage of climate metrics remains limited. Therefore the Trustee has continued to monitor the Section against a data coverage target to further encourage the investment managers to improve future disclosures and better inform the Trustee's decision-making.

For consistency, the IC has decided to monitor the same set of metrics and set a data coverage target for the Defined Contribution Section also. The DC Section captures the default strategy only, as the self-select funds are not captured by regulation. The IC will monitor the Fund's progress against the DB and DC target annually. Further details on the metrics and target for both Sections, and reporting of Scope 3 emissions where available, can be found on pages 33-36.

Defined Benefit Section

Metrics	Total GHG emissions (scope 1 & 2)		Carbon footprint (scope 1 & 2)		Implied temperature rise	
	Metric tCO2e	Coverage	Metric tCO2e/$m	Coverage	Metric °C	Coverage
Total Portfolio	91,023	55%	57	55%	2.0	45%

Metrics	Carbon Footprint Data quality* % of scope 1 & 2 emissions that are:			
	Verified	Reported	Estimated	Unavailable
Total Portfolio	11%	24%	20%	45%

Carbon footprint coverage	Baseline 30/09/2022	Current 30/09/2023 (versus baseline)	2025 Target (versus current)
Total Portfolio	48%	55% (+7%)	66% (+11%)

**Figures may not sum to 100% due to rounding.*

Defined Contribution Section

Metrics	Total GHG emissions (scope 1 & 2)		Carbon footprint (scope 1 & 2)		Implied temperature rise	
	Metric tCO2e	Coverage	Metric tCO2e/$m	Coverage	Metric °C	Coverage
Total Portfolio**	3,109	76%	49	76%	-	0%

Metrics	Carbon Footprint Data quality* % of scope 1 & 2 emissions that are:			
	Verified	Reported	Estimated	Unavailable
Total Portfolio**	0%	63%	14%	24%

Carbon footprint coverage	Baseline 30/09/2022	Current 30/09/2023 (versus baseline)	2025 Target (versus current)
Total Portfolio**	64%	76% (+12%)	80% (+4%)

***Total portfolio represents the default strategy only.*

Where next?

Consider further opportunities

We will continue to consider ESG opportunities that can be integrated within our investment strategies. While recognising the limitations of the illiquid mandates invested in by the DB Section, there may be room for improved integration of climate considerations as the strategy develops and the illiquid mandates run off. We will implement this via engaging with existing investment managers as well as considering new suitable opportunities. We will also monitor the evolving beliefs of the Trustee, DC members and the wider market to ensure that the Fund's default strategy remains appropriate and evolves when necessary.

Focus on improving data

We continue to recognise that high-quality data relating to climate metrics is important for feeding into our decision-making and the current data coverage, whilst improved over the year for the DB Section, is still low. In recognition of this, we have maintained a data quality improvement target for both the DB and DC Sections. The Trustee, via its investment consultant, is engaging with our investment managers to seek improvement in the quality and availability of carbon emissions intensity data.

Evolving our target

As the quality of our climate metrics data improves, we may seek to adopt a different target, such as a carbon footprint reduction target. We seek to have a long-term, forward-looking view on target setting that can feed into our strategic thinking. As part of this, we will also monitor how best practice evolves across the industry to ensure we adopt a target that is both ambitious as well as practical. This will be a topic for discussion in future years as we approach the timescales associated with the current data quality improvement target.

Understanding the risk to our sponsor

We will seek to further understand the risk to our sponsor and its role in the transition to a low-carbon economy. We will work with our sponsoring employer and Advisors to better understand potential risks and opportunities and what these might mean for the Fund.

Further detail

The following sections set out further detail in each area:

- **Governance**
- **Strategy**
- **Risk Management**
- **Metrics & Targets**

Governance

Governance

Describe the Trustee Board's oversight of climate-related risks and opportunities

Climate-related beliefs

The Trustee maintains an ESG Policy that sets out the Trustee's ESG beliefs and how these are implemented. Over the year, we completed an annual review of the ESG Policy to assess whether it remained appropriate for the Fund.

The Trustee has also agreed a Climate Delegation framework, with further detail provided overleaf.

Oversight responsibilities of the Trustee Board

Whilst overall responsibility lies with the Trustee, some investment decisions are delegated to the IC, including the identification, assessment, and management of ESG-related risks. The Trustee meets at least four times a year and receives updates from the IC on ESG and climate change topics, as well as from our various advisors. The IC challenges the information provided where appropriate, such as querying material changes in the TCFD metrics reported by investment managers.

The Trustee measures the Investment Consultant against agreed objectives annually. Following advice from its Investment Consultant, it includes a specific objective relating to assisting the Trustee in meeting the TCFD requirements.

Climate-related training

Over the past few years, the Fund's Investment Consultant has provided TCFD training to the IC. This focused on the impacts of climate risks, key climate-related metrics and climate scenario modelling. In 2023, the IC engaged in a thorough ESG discussion with its Investment Consultant which included consideration of: climate-adjusted macroeconomic return forecasts, UK regulation on EPC ratings for the property portfolio, insurance, carbon reporting and the DC lifestyle. The Trustee considers these discussions important and worthwhile to appropriately assess potential ESG risks and opportunities.

As part of our ESG Policy we have considered how our ESG beliefs are implemented. Our ESG implementation considerations are set out below:

- Continue to develop our climate-related knowledge via regular training and keeping ourselves up to date on the latest sustainable investment opportunities
- Review our ESG policies and beliefs approximately annually, including our Climate Delegation framework
- Incorporate ESG criteria into new manager (and platform) selection exercises, with explicit consideration of ESG factors for any segregated mandates
- Undertake annual reviews of our investment managers' integration of ESG factors, with support from our investment consultant
- Monitor our investment managers' stewardship and engagement activities and seek to improve the effectiveness of these activities

Governance

Describe the Trustee Board's role in assessing and managing climate-related risks and opportunities

Climate Delegation Framework

The Trustee has agreed a Climate Delegation Framework which sets out the roles and responsibilities of various stakeholders for managing climate-related risks and opportunities. The Trustee has the ultimate responsibility for ensuring Fund-level climate-related risks and opportunities are governed well, and the Trustee reviews the performance of the stakeholders, usually on an annual basis, to ensure delegated responsibilities are being fulfilled. Our Climate Delegation Framework sets out the governance process we have agreed to ensure we have oversight of the climate-related risks and opportunities that are relevant to Fund.

Roles and Responsibilities

Trustee	– Maintaining sufficient knowledge and understanding relating to climate-related risks and opportunities through self-evaluation and with support from its advisors. – Setting and implementing a Climate Delegation Framework. – Incorporating climate-related considerations into the ESG Policy, ongoing risk management and monitoring, and strategic decisions. – Allowing for climate-related considerations when assessing and monitoring the strength of the sponsoring employer's covenant. – Setting clearly defined responsibilities for external advisors in respect of climate risk, and assessing advisors against their climate responsibilities.
Investment Committee	– Receiving regular training on climate-related risks and opportunities. – Factoring in climate-related risk management capabilities into the selection, review and monitoring of investment managers. – Identifying climate-related risks and opportunities for the Fund and setting and monitoring metrics and targets. – Considering climate-related risks and opportunities when reviewing the investment strategy by undertaking analysis of various climate scenarios. – Receiving updates on the Fund's investments from the Fund's Investment Consultant, including data on ESG metrics and progress against any targets set in relation to these metrics. – Overseeing delivery of TCFD reporting. – Providing regular updates to the Trustee on the particular climate-related risks the Fund is exposed to.
Pensions Team	– Allowing sufficient time for TCFD and ESG-related items on meeting agendas. – Corresponding with the Trustee, IC and advisors outside of meetings.
Investment Consultant	– Advising on the inclusion of climate considerations in the Fund's governance arrangements, investment strategy or risk management. – Advising how climate-related risks and opportunities might affect the Fund's exposure to different asset classes. – Assisting the Trustee in the selection and monitoring of appropriate climate-related metrics and targets. – Providing training on relevant climate-related matters.
Scheme Actuary	– Assessing climate-related risks and opportunities in relation to the Fund's funding position and the implications for the Fund's funding and long-term objective, including using climate scenario analysis.
Covenant Advisor	– Undertaking periodic reviews of the extent to which climate-related risks and opportunities might affect the Fund's sponsoring employer.
Legal Advisor	– Providing training to the Trustee on climate-related legal matters. – Assist with the preparation of the Trustee's annual TCFD report.
Investment Managers (including DC Provider)	– Identifying, assessing and managing climate-related risks and opportunities in relation to the Fund's investments. – Exercising voting rights and engaging with portfolio companies in relation to climate-related risks and opportunities. – Providing climate-related metrics in relation to the Fund's investments with a focus on increasing quality and availability.

Strategy:
Defined Benefit Section

Strategy

Describe the resilience of the Fund's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Climate scenarios are hypothetical futures, which can apply different levels of climate action and produce a unique combination of physical and transition risk.

Transition risks - risks arising from the transition to a low-carbon economy, which are expected to be strongest in the short term given climate-related regulatory developments, market trends and decarbonisation action. The timing and the speed of the transition are important in determining the extent of costs.

Physical risks - risks arising from the physical impacts of climate change (including both acute risks, e.g. sudden natural disasters, and chronic risks, e.g. slower shifts in weather patterns), which are expected to scale up in the long term as global average temperatures increase.

During the year to 31 March 2023, the IC assessed the potential impact on the Fund's assets and liabilities, and the Sponsor Company, under four climate scenarios defined and modelled by our Actuary, Towers Watson Limited (WTW). The IC, in conjunction with its Investment Consultant, chose these climate scenarios to provide a balanced set of hypothetical constructs to assess climate risks and opportunities. Although it is difficult to put concrete numbers against these impacts, the scenarios help to examine different possible outcomes in terms of emissions, global average temperatures, and associated transition and physical risks. The IC concluded this analysis remained appropriate given the static nature of the investment strategy through exposure to private market investments.

Climate Emergency

- Paris aligned scenario with temperatures kept to a 1.5°C rise.
- Aggressive policy is pursued and more extensive technology shifts are achieved, in particular the deployment of Negative Emissions Technologies at scale, resulting in moderated transition costs.
- Physical damages are avoided.

Global Co-ordinated Action

- Most actions available to reduce emissions are taken, resulting in 2.0°C of warming this century.
- Policies are implemented immediately to reduce emissions in a co-ordinated manner, resulting in some transition costs.
- Physical damages are limited.

Disorderly Transition

- Delays in policy action result in rapid shift in mid/late 2020s, resulting in 2.0°C of warming this century.
- Policies are implemented in a somewhat co-ordinated manner resulting in a more disorderly transition to a low carbon economy, resulting in high transition costs.
- Physical damages are limited.

Current Policies

- World largely fails to meet the ambition set out in the Paris Agreement, resulting in 3.5°C of warming this century.
- Current policies continue, but no attempt to incentivise further emissions reductions, resulting in lower transition costs.
- Higher physical risks arise as a result of rising global temperatures.

Strategy

Describe the climate-related risks and opportunities the Trustee has identified over the short, medium and long term

Agreed timeframes

Climate considerations differ depending on the timeframe in question. We have identified timeframes that are relevant to the Fund and considered material climate-related risks and opportunities under each of these. We have identified the following timeframes via a blended view of the climate outlook, membership demographics, the funding position, the lifetime profile of the current assets and the ability to pay benefits.

In the shorter term, we expect transition risks to be greatest. However, in the longer-term, we expect physical risks to increasingly manifest and become more important.

<table>
<tr><th>Timeframe</th><th>Investment Horizon</th><th colspan="4">Climate Horizon</th><th>Risks to Assets</th><th>Risks to Liabilities</th><th>Risks to Sponsor</th></tr>
<tr><td>Short term
3 years</td><td>Actuarial review cycle</td><td>Company target setting</td><td>Improvement in data quality</td><td>Government responses to COP26</td><td>UN PRI Inevitable Policy Response</td><td rowspan="2">Transitional risks such as the costs associated with global decarbonisation anticipated, carbon pricing and regulation</td><td rowspan="3">Changes to yields (as for assets), inflation and longevity expectations due to expected transition costs or rising physical risks</td><td rowspan="3">The need to adapt to an economy in a global transition</td></tr>
<tr><td>Medium term
7 years</td><td>Illiquids expected to return majority of cash</td><td colspan="2">Companies hitting interim 2030 targets</td><td colspan="2">Alignment with SDGs</td></tr>
<tr><td>Long term
16 years</td><td>Duration of the Fund's liabilities</td><td colspan="4">Introduction of carbon removal techniques aimed to contribute towards Net Zero target</td><td>Physical risks such as damage to assets caused by extreme weather events anticipated</td></tr>
</table>

Inevitable Policy Response: The United Nations Principles for Responsible Investment (PRI) is an international body furthering ESG considerations by investors. As part of their Inevitable Policy Response, they predict low-carbon policies will accelerate in 2023–2025, in order to close the gap towards the Paris Agreement goals.

SDGs: The Sustainable Development Goals ("SDGs") are a set of 15 goals adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

Strategy

Describe the climate-related risks and opportunities the Trustee has identified over the short, medium and long term

Impact on investment strategy

Over 2023, the IC considered how the investment strategy for the DB Section could evolve over time as the Section's liquidity improves. This could include re-investment in a corporate bond mandate with ESG-aligned investment guidelines, which was previously terminated for liquidity needs during the gilt crisis. The IC will consider how to further integrate ESG and climate-related opportunities in the future, recognising that there are limited options for the Fund's illiquid assets, which also constrains the portion of liquid assets .

The IC, along with its Investment Consultant, will continue to work with existing investment managers on improving their ESG capabilities and climate-related metric reporting. However, the Trustee acknowledges that illiquid asset managers may have limited scope for improvements.

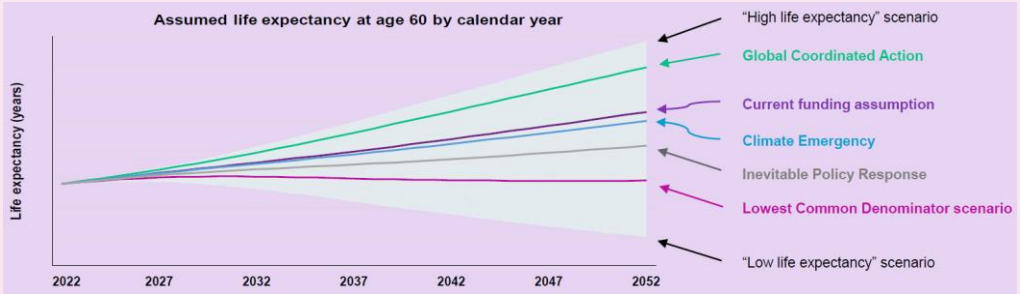
Impact on liabilities

The Fund hedges a proportion of the liabilities' exposure to longevity risk, as well as interest rate and inflation movements, to help manage any potential impact on liabilities. Therefore some of the effect on liabilities is expected to be mitigated. One area that the Fund's Actuary has identified as having the potential to impact the financial position of the Fund is the impact of climate change on how long members are expected to live and draw their pensions from the Fund (longevity risk), despite a proportion of the liabilities' exposure to this risk being hedged.

The chart below illustrates how life expectancies might develop under the different climate scenarios. These projections are subjective and mortality outcomes will depend on multiple complicated interactions between various factors. The key expected influences under a high and low life expectancy scenario are summarised below:

High life expectancy scenario: Milder winters, investment in renewables and more active lifestyles limits the impact of additional deaths from some aspects of climate change.

Low life expectancy scenario: More severe weather conditions, a fall in health services and a lack of pursuit of an active lifestyle leads to additional deaths from adverse effects of climate change.



Strategy

Key (risk level):
Low
Average
High

Describe the climate-related risks and opportunities the Trustee has identified over the short, medium and long term

Impact on the sponsor

During the year to 31 March 2023, we engaged with our Covenant Adviser to assess and monitor the potential impact of climate risks and opportunities on covenant strength over the short, medium and long term. The Fund currently has limited covenant exposure due to having a strong funding position, but it does continue to run some investment risk. Whilst the Fund's principal covenant exposure is to its employer, Imperial Tobacco Ltd, it is also exposed to wider intergroup relationships as a result of material intercompany balances and trading. The Group has different time periods from the Fund. The IC were comfortable that the analysis remained appropriate.

The key risk that the Group is exposed to is physical risks, such as drought and soil degradation, impacting tobacco leaf crop quality and quantity, along with business disruption risk. The Group is also potentially exposed to regulations (e.g. carbon taxes) which could be material. Most of the key risks fall within the Fund's medium/long term horizon, which can be mitigated by reducing covenant reliance in the near term (e.g. through de-risking).

The table below considers the risk to the Fund's covenant, looking at the Group as a whole, in each of the climate scenarios:

Scenarios	Current Policies	Disorderly Transition	Global Co-ordinated Action	Climate Emergency
Expected impact	Lower cost of transition (less pressure to meet 2040 target). Risk of decreased revenue / increased costs through extreme weather impacting tobacco growing sites.	Lower transition costs in the short term than more ambitious scenarios, but investment has already been committed, and this could increase significantly as sustainability targets approach/regulation tighten.	Continued transition costs as Imperial invests in renewable energy sources to remain on target to be Net Zero by 2040. Significant opportunities to save costs. Physical risks minimised.	
Transition risks	Commitments may still be delivered but flexible	Committed to be net zero in direct operations (Scope 1&2) by 2030		
		Scope 3 emissions to reach net zero by 2040 – potential cost and impact on suppliers		
Physical risks	Potential reduction in tobacco leaf crop quality and quantity over the medium term, financial impact not expected to be material	Some medium-term risks to tobacco leaf crop quality and quantity but physical risk minimised		

All climate scenarios are expected to result in covenant risks in the medium to long term either through the impact of physical risks on operations or the transition costs of moving to a low carbon economy. In the transition scenarios, the potential transition costs are not clear and the Company is taking steps to mitigate these risks, e.g. energy transition, however there remains uncertainty for the covenant which could lead to funding constraints if combined with a material adverse impact to the Fund.

Strategy

Key (risk level):
Low
Average
High

Describe the impact of climate-related risks and opportunities on the Fund's strategy and planning

Materiality matrix of climate-related risks and opportunities

The IC, in conjunction with its advisors, has used a colour-coded rating to summarise the results of the modelled impact upon the Fund of climate- related risks and opportunities across the different time horizons agreed (analysis shown on next few pages). Whilst we have not undertaken updated climate scenario analysis this year as we are comfortable that it remains appropriate, we consider climate-related risks and opportunities as part of our discussions with our Investment Consultant.

Assets – The Fund's assets are diversified and are expected to react differently to various climate scenarios.

Liabilities – The liabilities are well hedged and protected from movements in yields and inflation.

Covenant – Due to the nature of the sponsor's business area, it is expected to be highly exposed to climate risks and opportunities over the longer term.

Risk	Time frame	Assets: Government Bonds	Assets: Corporate Bonds	Assets: Secured Finance/ Private Debt	Assets: Property	Assets: Ground Leases	Liabilities	Sponsor
Transitional (disorderly transition scenario)	Short term (3 years)							
	Medium term (7 years)							
	Long term (16 years)			n/a				
Physical (current policies scenario)	Short term (3 years)							
	Medium term (7 years)							
	Long term (16 years)			n/a				
Expected allocation change		↑	↑	↓	↓	↓		

Expected allocation change reflects the expected change in asset mix as the Fund's funding position improves, and membership matures. The directional impacts under the scenarios are likely to be similar, albeit the magnitude and timing is expected to differ. Asset ratings are based on the underlying asset assumptions for transitional and physical risk modelled in the climate scenario analysis.

Strategy

Describe the resilience of the Fund's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Climate scenario analysis

During the year to 31 March 2023, the IC, in conjunction with its Advisors, carried out climate scenario analysis to model the potential impact on the Fund's assets and liabilities relative to a baseline scenario. Under each climate scenario, the Fund's assets are expected to underperform relative to the Base scenario, which makes no allowance for additional physical or transitional costs from climate change above those already reflected in market pricing. It is important to note that these are intended to illustrate some of the potential pathways and impacts but do not re represent all possible outcomes. Factors related to climate change may have an impact on future life expectancies which would impact the Fund liabilities. For example, a positive societal change may lead to healthier lifestyles and higher life expectancies which would increase liabilities. Alternatively, the physical and economic costs of climate change could mean longevity improvements are slower than anticipated, reducing liabilities. The IC concluded this analysis remained appropriate given the static nature of the investment strategy through exposure to private market investments.

The table below illustrates the impact on the projected winding-up position under the four climate scenarios, relative to the Base case, allowing for both the asset return drags and possible impact on future longevity. Under the "current policies" scenario, the lack of further policy response is assumed to result in slower longevity improvements and a positive impact on the funding level overall in comparison to the Base case. In comparison, the "global co-ordinated action" scenario has a positive impact on lifestyles and lower physical impact from climate change, resulting in a positive impact on life expectancy and higher liabilities. The small negative impact on life expectancies under the "climate emergency" scenario is outweighed by the assumed drag on asset returns.

Projected winding up funding level vs base case	3 years	7 years	16 years
Current Policies	1.0%	2.8%	8.0%
Disorderly Transition	0.5%	0.0%	-1.3%
Global Co-ordinated Action	-1.0%	-2.5%	-7.0%
Climate Emergency	-0.6%	-1.5%	-3.2%

Strategy

Describe the resilience of the Fund's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Climate scenario analysis (continued)

As well as assessing the potential impacts at the investment and funding strategy level, the IC, with support from its Investment Consultant, also isolated the potential impacts upon different asset classes to understand which allocations might contribute to the Fund's climate risk and how this might evolve over time. This feeds into the materiality matrix.

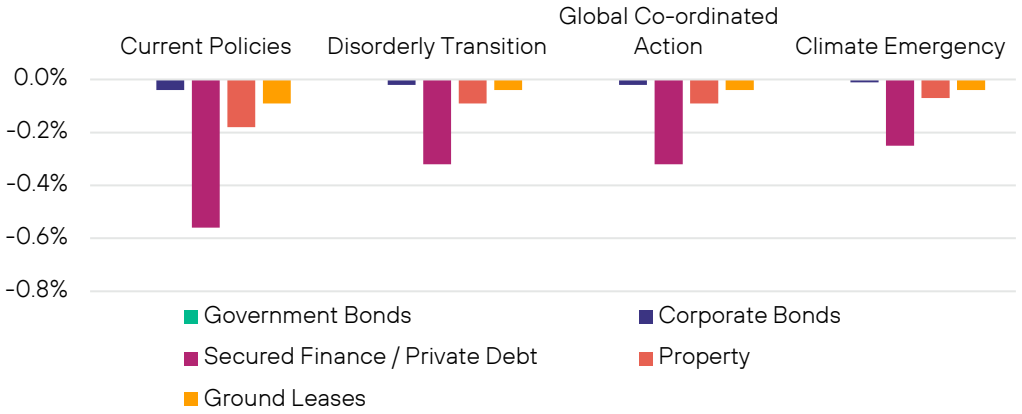
The Fund's secured finance and private debt assets are modelled to have the greatest exposure to climate risk and to be the most sensitive to potential impacts from climate change. However, the IC notes that the allocations to these asset classes will reduce over time as income is distributed back to the Fund.

There is the opportunity for the Fund to reinvest in a climate-tilted public credit portfolio when there is sufficient liquidity and the Fund is fully hedged on interest rates and inflation.

These risks at asset class level will be considered as the Fund progresses along its de-risking journey.

It is assumed that gilts will not be materially impacted by climate risk over the time horizons typically considered. Such an assumption would not necessarily apply to other sovereign bonds, particularly where the issuer was more directly exposed to climate change risk.

The assumed return drag for the asset classes that feature in the Fund's investment strategy under different climate scenarios relative to the Base scenario (ann. %) at 16 years



Source: Scheme Actuary
Note: Additional detail on scenario analysis can be found in the appendix

Limitations

The Trustee and IC recognise that there are limitations of climate scenario modelling given the inherent uncertainty around the future impact of climate change and the need to use subjective assumptions. For example, the projections do not make any allowance for future changes in insurer pricing as a result of climate change. The Trustee and IC therefore use the scenario analysis for comparative purposes rather than analysing the absolute magnitude, to help understand some of the possible impacts of climate-related risks. Further details are in the Appendix.

Strategy:
Defined Contribution Section

Strategy

Describe the climate-related risks and opportunities the Trustee has identified over the short, medium and long term

Agreed timeframes

Climate considerations differ depending on the timeframe in question. We have identified timeframes that are relevant to the Fund and considered material climate-related risks and opportunities under each of these. We have identified the following timeframes via a blended view of the climate outlook and DC membership demographics.

In the shorter term (for members close to retirement), we expect the costs of transition risks to be greatest. However, in the longer-term (for younger members), there is more time for the physical effects of climate change to manifest and we expect the potential costs associated with these risks could have a more material impact on outcomes for members.

<table>
<tr><th>Timeframe</th><th>Investment Horizon</th><th colspan="4">Climate Horizon</th><th>Risks to Assets</th></tr>
<tr><td>Short term
3 years</td><td>Members approaching retirement age</td><td>Company target setting</td><td>Improvement in data quality</td><td>Government responses to COP26</td><td>UN PRI Inevitable Policy Response</td><td rowspan="2">Transitional risks such as the costs associated with global decarbonisation anticipated, carbon pricing and regulation</td></tr>
<tr><td>Medium term
10 years</td><td>Members already with some retirement saving in place and a modest amount of time to invest further in their pension pot, looking to de-risk as they move from their growth phase into pre-retirement phase.</td><td colspan="2">Companies hitting interim 2030 targets</td><td colspan="2">Alignment with SDGs</td></tr>
<tr><td>Long term
30 years</td><td>Members who are early on in their journey to saving for retirement with significant time to invest in their pension pot.</td><td colspan="2">Introduction of carbon removal techniques aimed to contribute towards Net Zero target</td><td colspan="2">Companies hitting Net Zero 2050 targets</td><td>As well as transitional risks, physical risks such as damage to assets caused by extreme weather events anticipated</td></tr>
</table>

Inevitable Policy Response: The United Nations Principles for Responsible Investment (PRI) is an international body furthering ESG considerations by investors. As part of their Inevitable Policy Response, they predict low-carbon policies will accelerate in 2023–2025, in order to close the gap towards the Paris Agreement goals.

SDGs: The Sustainable Development Goals ("SDGs") are a set of 15 goals adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

Strategy

Describe the climate-related risks and opportunities the Trustee has identified over the short, medium and long term

Impact on investment strategy

As noted on the previous slide, the Trustee has identified the risks to DC member assets in two broad categories; transitional risks in the shorter-term, and physical risks over the longer term. There is a timing element to the impact of climate risks on a DC member – the sudden pricing in of climate-related costs in the shorter term is potentially less likely to impact younger members (who have less in the way of built up funds to lose) or those very near to retirement (who will have de-risked their portfolio) but may be quite meaningful to older members who haven't yet fully de-risked.

The Trustee uses a lifestyle approach to manage risk across the members lifestyle, reducing their allocation to the growth phase as the member approaches retirement. This is illustrated by the forward-looking risk chart on the right.

The strategic asset allocation to multiple equity and diversified growth funds (DGFs) is well-diversified across asset classes, sectors and geographies in order to manage risks, including climate-related risks. Whilst the DGFs contribute to higher emissions and lower data quality, there is still an investment case for including these funds within the strategic asset allocation due to their diversification benefits across many market risks. In an attempt to reduce the Fund's climate-related risks, the IC have included a sustainable global equity fund within the Fund's self-select offering. However, the IC recognises that more climate opportunities could be taken to increase integration further.

As a result of the annual investment strategy review, the Trustee is conducting a review of the platform provider and default investment solution. The IC, on behalf of the Trustee, will consider climate risks and opportunities as part of this process.

In line with the Regulator's guidance, the IC has conducted scenario analysis on the default arrangement, the variable income lifestyle strategy, which is invested in by the majority of DC members. The Fund does not have any other DC funds in scope. Whilst we have not undertaken updated climate scenario analysis this year, we consider climate-related risks and opportunities as part of our strategic discussions with our Investment Consultant.

Strategy

Key (risk level):
Low
Average
High

Describe the impact of climate-related risks and opportunities on the Fund's strategy and planning

Materiality matrix of climate-related risks and opportunities

The IC, in conjunction with its advisors, has used a colour-coded rating to summarise the results of the modelled impact upon the Fund of climate-related risks and opportunities across the different time horizons agreed (analysis shown on next few pages). Whilst we have not undertaken updated climate scenario analysis this year, we consider climate-related risks and opportunities as part of our strategic discussions with our Investment Consultant.

Assets – A lifestyle approach is used to manage risk across the member's lifestyle, reducing their allocation to the growth phase as the member approaches retirement.

Risk	Time frame	Assets			
		Government Bonds	Corporate Bonds	Equity	Cash
Transitional (disorderly transition scenario)	Short term (3 years)				
	Medium term (10 years)				
	Long term (30 years)				
Physical (current policies scenario)	Short term (3 years)				
	Medium term (10 years)				
	Long term (30 years)				
Expected allocation change		↑	↑	↓	↑

Expected allocation change reflects the expected change in asset mix as members approach retirement and move along the glidepath. The directional impacts under the scenarios are likely to be similar, albeit the magnitude and timing is expected to differ. Asset ratings are based on the underlying asset assumptions for transitional and physical risk modelled in the climate scenario analysis.

Strategy

Describe the resilience of the Fund's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Climate scenario analysis

Details on the climate scenarios can be found on page 15.

During the year to 31 March 2023, the IC, in conjunction with its Advisors, carried out climate scenario analysis on the Fund's variable income lifestyle strategy to model some potential impacts on the fund values at retirement for example members, relative to the baseline scenario. Under each climate scenario, the assets are expected to underperform relative to the Base scenario, which makes no allowance for additional physical or transitional costs from climate change above those already reflected in market pricing. It is important to note that these are intended to illustrate some of the potential pathways and impacts but do not represent all possible outcomes or all members. Individual members bear their own investment and longevity risks, and climate change is likely to have different impacts for different members depending on their circumstances and retirement saving decisions and choices at retirement. The IC concluded this analysis remained appropriate in 2023 given there was no material change to the lifestyle approach or the member profile over the year.

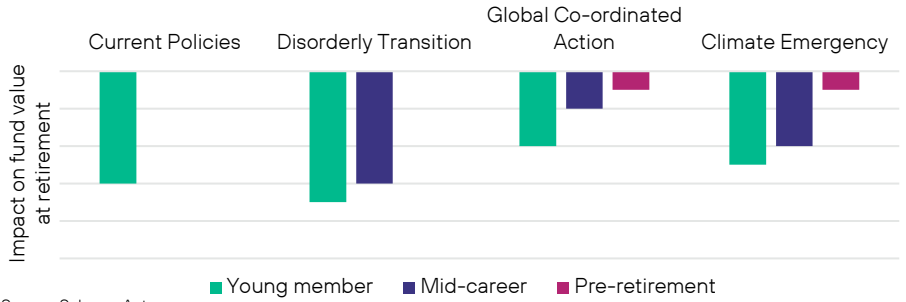
Pre-retirement member

The projected impacts on a member close to retirement is small under all of the climate scenarios given there is a short investment time horizon (3 years).

Mid-career member

For a member 10 years from retirement, the projected impacts on fund value are mainly driven by the assumed transition costs as the member is expected to retire before the impacts of physical costs begin to materialise. Given the disorderly transition and climate emergency scenarios have higher assumed transition costs, the fund value is most impacted under these scenarios. There is no assumed impact under the current policies scenario as it assumes there is no transition costs, similarly to the base case.

The impact on fund value at retirement vs the base case under different climate scenarios, based on the variable income lifestyle strategy (the default).



Source: Scheme Actuary

Young member

The projected impacts for this member are the most significant overall due to the longer time period until the member retires, c. 30 years. As the young member has relatively little funds built up over the first 10 years, they are less impacted by the initial transition costs and more impacted by the physical costs resulting in an overall impact only marginally worse than for the mid-career member in some scenarios.

Strategy

Describe the resilience of the Fund's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Climate scenario analysis (continued)

As well as assessing the potential impacts at the investment and funding strategy level, the IC, with support from its Investment Consultant, also isolated the potential impacts upon different asset classes to understand which allocations might contribute to the Fund's climate risk and how this might evolve over time. This feeds into the materiality matrix.

The Fund's equity assets are modelled to have the greatest exposure to climate risk and to be the most sensitive to potential impacts from climate change. However, the IC notes that a members allocation to equity under the default strategy will reduce as they approach retirement.

The Fund has a sustainable ESG equity fund available to members via the self-select options. As part of the project to consider a new DC platform and investment solution, ESG integration is being considered within the ongoing decision-making process. The Trustee prefers a default with strong ESG integration.

Importantly, these risks at asset class level will be considered as the Fund progresses along its de-risking journey.

It is assumed that gilts will not be materially impacted by climate risk over the time horizons typically considered. Such an assumption would not necessarily apply to other sovereign bonds, particularly where the issuer was more directly exposed to climate change risk.

The assumed return drag for the asset classes that feature in the fund projection investment strategy under different climate scenarios relative to the Baseline scenario (ann. %) at 30 years.

	Current Policies	Disorderly Transition	Global Co-ordinated Action	Climate Emergency
Government Bonds	0.00%	0.00%	0.00%	0.00%
Corporate Bonds	-0.04%	-0.02%	-0.02%	-0.01%
Equity	-0.71%	-0.43%	-0.43%	-0.34%
Cash	0.00%	0.00%	0.00%	0.00%

Source: Scheme Actuary
Note: Additional detail on scenario analysis can be found in the appendix

Limitations

The Trustee and IC recognise that there are limitations of climate scenario modelling given the inherent uncertainty around the future impact of climate change and the need to use subjective assumptions. For example, the scenario impacts are derived based on all other things being equal, which is unlikely to be the case in practice.
The Trustee and IC therefore use the scenario analysis for comparative purposes rather than analysing the absolute magnitude, to help understand some of the possible impacts of climate-related risks. Further details are in the Appendix.

Risk Management

Risk Management

Describe the Trustee's processes for identifying, assessing and managing climate-related risks

Climate-related risk management process

We depict below the Trustee's climate-related risk management process. This is designed to allow identification of the most material risks for the Fund and the development of controls and processes to manage these.

Risk identification and prioritisation

Risk register: The Trustee reviews the climate-related considerations annually.

Roles & responsibilities: The Trustee has agreed with the Fund's Advisors their various roles and responsibilities for advice covering the identification, assessment and management of climate-related risks across investment, actuarial, legal and covenant matters.

Training: The Trustee and IC receive climate change training to understand potential impacts of climate-related risks.

Investment strategy impact

Climate scenario analysis: The IC seeks to quantify the potential impact of climate change on the Fund's investment and funding strategy (as discussed on pages 20-21 and 26-27).

ESG integration: Where possible, the IC ensures ESG considerations are integrated within each mandate. For example, offering a sustainable global equity fund within the DC Section's self-select options.

Climate risk monitoring

Assessing investment managers: The IC assesses the ESG capabilities of our investment managers on an annual basis (further detail provided on page 31).

Assessing climate metrics: The IC monitors a set of climate-related metrics on an annual basis, in line with TCFD recommendations.

Stewardship

Assessing investment managers: The IC assesses the stewardship activities and capabilities of our investment managers on an annual basis to ensure these align with our ESG beliefs and policy through the Implementation Statement and regular reviews by its investment consultant.

Risk Management

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the Trustee's overall risk management

Risk register

In 2022, the Trustee's Investment Consultant proposed the following additions to the risk register to ensure climate considerations are embedded into the Fund's ongoing governance and risk management processes. The risk management framework is being reviewed to ensure it supports the risk management requirements under the Code.

	Potential issues:	Potential mitigating actions:
Sponsor Company Covenant	• Worsening covenant position associated with the impacts of climate change (transitional and physical). • Damage to reputation and/or legal challenge due to poor or inconsistent climate practices.	• Covenant formally considered by the Covenant Advisor. • Regular review with Sponsor Company.
Investment Strategy	• Asset mispricing due to the impacts of climate change and the transition to low-carbon economy and/or physical impacts of climate change.	• Professional advice from Investment Consultant. • Continued monitoring of investments against the Trustee's ESG policy and climate target and regular climate scenario modelling. • Ongoing Trustee training.
Asset and Investment Manager Allocations	• Investment managers do not adequately integrate financially material ESG factors (including climate risks) into their risk management framework. • Investment managers do not adopt effective stewardship or do not collaborate to encourage best practice in addressing systemic climate risks. • Investment managers do not consider potential investment opportunities or individual asset classes.	• Investment Consultant monitors managers and reports to the Trustee. This may include but is not limited to monitoring managers and asset classes on the risks and opportunities that arise from climate change and how these are managed on an ongoing basis.
Funding	• Funding target is increased at future actuarial valuations due to higher expected costs / greater uncertainty / weaker Principal Employer due to climate-related reasons. • Cost of longevity insurance increases due to climate change.	• Actuary, Sponsor Company, Investment Consultant and Covenant Advisor all involved in ongoing funding level assessment and IRM. • Training and advice on potential funding impact using climate scenario analysis.

Risk Management

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the Trustee's overall risk management

Investment managers

Whilst the Trustee retains overall responsibility, the Trustee delegates day-to-day management of the investments to investment managers, and the Trustee expects the managers to be identifying, assessing and managing climate-related risks on an ongoing basis on the Trustee's behalf.

The Trustee's Investment Consultant undertakes an annual review of each of our manager's ESG capabilities. This results in an annual report, which is presented to the Trustee, with each mandate allocated an ESG score of between 0 and 5 as well as an explicit climate score to aid investment decision making. The managers are assessed across five key areas (which are aligned with the Trustee's ESG beliefs):

1. Investment approach
2. Risk management
3. Stewardship
4. Reporting
5. Collaboration

Example criteria for this assessment under each area are shown on the right.

In the most recent review in February 2024, the DB Section had relatively mixed results at the mandate-level with the majority of the illiquid investments requiring improvements. The DC Section faired better as its investments are more liquid and the managers can better engage with portfolio companies.

The Trustee's Investment Consultant engages with the investment managers on areas of improvement identified as part of this assessment, for example establishing mandate-level ESG objectives, in order to increase the alignment with our ESG beliefs. We monitor our Fund-level ESG score to ensure it improves over time as our managers' ESG capabilities improve.

Assessment category	Example evaluation criteria
Investment approach	Are the fund's climate objectives quantifiable with interim targets set?
Risk management	Does the manager have a dedicated individual within the ESG team with responsibility for oversight of the climate change policy?
Stewardship	Can the manager provide a case study example demonstrating effective engagement on climate-related issues?
Reporting	Does the manager undertake forward-looking climate scenario modelling and is this published in quarterly reports?
Collaboration	Is the manager a member of the UN Net Zero Asset Owner Alliance? If not, is there a valid reason why?

Stewardship Activity

The Trustee recognises the importance of stewardship in driving change both across investee companies as well as across the wider pensions industry. During the reporting year, the Trustee conducted gap analysis on its alignment with the Code of Practice, which included a range of stewardship considerations.

The Trustee delegates stewardship responsibilities to its investment managers, and the managers should engage and vote on all issues, including climate, in the best interests of the Fund's members. Notable stewardship activity is published in the Fund's annual Implementation Statement. The IC, via its Investment Consultant, has recently engaged with LGIM to include ESG-aligned guidelines within its credit portfolio, which will be available for future investment.

Metrics and Targets

Metrics and Targets

Disclose the metrics used by the Trustee to assess climate-related risks and opportunities in line with its strategy and risk management process

Climate metrics selection

The IC agreed to annually measure, monitor and publish four climate metrics. In line with new requirements, the IC has also captured Scope 3 emissions this year:

1. **Absolute emissions metric:** Total greenhouse gas emissions (scope 1 & 2 and scope 3)
2. **Emissions intensity-based metric:** Carbon footprint (scope 1 & 2 and scope 3)
3. **Portfolio alignment metric:** Implied temperature rise ("ITR")
4. **Additional climate change metric:** Data quality

The process of selecting these metrics for monitoring focussed on two key aspects 1) **level of impact** and 2) **availability of data**.

Level of impact

The metrics were chosen based on their potential to add value to the IC and Trustee's decision making.

Emissions based metrics (metrics 1 & 2): Greenhouse gas ("GHG") emissions are a key driver of climate change. These result from a number of economic activities, primarily due to the burning of fossil fuels. The gases contribute to increased retention of the sun's energy, resulting in a "greenhouse effect" where the Earth is warmed. Slowing and reducing the release of GHGs into the atmosphere is therefore important. The Trustee has reported on scope 1 and 2 i.e. direct emissions from company-owned or -controlled sources and indirect emissions from purchased energy. In addition, over the year the Trustee expanded its reporting to Scope 3 emissions (indirect emissions associated with the value chain), where available.

Forward looking metric (metric 3): Whilst it's important to consider emissions to date, it's also important to assess how these could evolve into the future. We have chosen the ITR, expressed in degrees Celsius (°C), in order to estimate the global implied temperature rise if the whole economy was invested according to our strategy. This ensures we have a longer term focus for our climate-related decision making.

Availability of data

The metrics were also selected based on the availability of data from the Investment Managers. Other metrics based on climate-related risks associated with water, energy, land use and waste management do not have sufficient data quality currently.

The Investment Consultant gathered the selected metrics data from the Investment Managers on behalf of the Trustee. The quality of this information is important to allow robust decision making and target setting.

Data quality (metric 4): We have chosen to monitor data quality as our fourth metric given the above.

Monitoring

The Trustee will assess these metrics, at least annually, to monitor climate-related risks and as a tool to engage with the Investment Managers.

More detail on how the metrics are defined can be found in the Appendix.

Metrics and Targets

Defined Benefit Section

Disclose Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions, and the related risks

The Trustee gathered climate metrics for the Fund's investment strategy as at 30 September 2023 (or the data at the best-available proximate date) and the results are set out below. This helps to set a baseline against which future action can be measured, so that trends over time and problem areas within the portfolio can be understood.

Mandates	Total GHG emissions (scope 1 & 2)		Carbon footprint (scope 1 & 2)		Data quality % of scope 1 & 2 emissions intensity that are:				Total GHG emissions (scope 3)		Carbon footprint (scope 3)		Implied Temperature Rise	
	Metric, tCO_2e	Coverage	Metric, tCO_2e/ $1m of EVIC	Coverage	Verified	Reported	Estimated	Unavailable	Metric, tCO_2e	Coverage	Metric, tCO_2e/ $1m of EVIC	Coverage	Metric	Coverage
Government Bonds	33,468	135%*	59	135%*	0%	0%	135%*	0%	-	-	-	-	1.9°C	100%
Secured Finance – Mandate 1	6,397	54%	46	54%	0%	28%	27%	47%	47,107	52%	182	52%	1.7°C	32%
Secured Finance – Mandate 2	1,053	15%	39	15%	0%	8%	7%	85%	1,711	7%	136	7%	2.6°C	6%
Private Markets – Mandate 1	-	-	-	-	0%	0%	0%	100%	-	-	-	-	-	-
Private Markets – Mandate 2	4,181	30%	17	30%	17%	13%	0%	70%	17,850	30%	75	30%	-	-
Balanced Property	220	100%	1	100%	100%	0%	0%	0%	4,398	100%	14	100%	1.5°C	100%
Ground Lease Property	-	-	-	-	0%	0%	0%	100%	-	-	-	-	-	-
Buy-in	45,704	49%	80	49%	0%	48%	1%	51%	185,822	49%	294	49%	2.1°C	36%
Total Portfolio	**91,023**	**55%**	**57**	**55%**	**11%**	**24%**	**20%**	**45%**	**256,889**	**37%**	**211**	**37%**	**2.0°C**	**45%**

Source: Investment Managers, Investment Consultant calculations.
*Coverage for the Government Bonds mandate exceeds 100% as it represents the leveraged position from the LDI portfolio.
Further notes and detail can be found in the Appendix.

Metrics and Targets

Defined Contribution Section

Disclose Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions, and the related risks

The Trustee gathered climate metrics for the Fund's investment strategy as at 30 September 2023 (or the data at the best-available proximate date) and the results are set out below. This helps to set a baseline against which future action can be measured, so that trends over time and problem areas within the portfolio can be understood. Scope 3 emissions are currently not reported on by the DC investment managers.

Mandates	Total GHG emissions (scope 1 & 2)		Carbon footprint (scope 1 & 2)		Data quality % of scope 1 & 2 emissions intensity that are:				Implied Temperature Rise	
	Metric, tCO_2e	Coverage	Metric, tCO_2e/ $1m of EVIC	Coverage	Verified	Reported	Estimated	Unavailable	Metric	Coverage
Equities – Mandate 1	918	99%	46	99%	0%	80%	19%	1%	-	-
Equities – Mandate 2	946	102%*	46	102%*	0%	83%	19%	-2%	-	-
Equities – Mandate 3	659	99%	148	99%	0%	81%	18%	1%	-	-
DGF – Mandate 1	582	78%	38	78%	0%	66%	12%	22%	-	-
DGF – Mandate 2	-	-	-	-	0%	0%	0%	100%	-	-
Annuity Protection	4	40%	23	40%	0%	25%	15%	60%	-	-
Cash	0	95%	0	95%	0%	85%	10%	5%	-	-
Total Portfolio	**3,109**	**76%**	**49**	**76%**	**0%**	**63%**	**14%**	**24%**	**-**	**-**

Source: Investment Managers, Investment Consultant calculations.
*Coverage for Equities – Mandate 2 exceeds 100% due to the limited use of derivates (e.g. currency hedging and cash management).
Further notes and detail can be found in the Appendix.

Metrics and Targets

Describe the targets used by the Trustee to manage climate-related risks and opportunities and performance against targets

Target setting

The Trustee has set a target to increase carbon footprint data coverage to 66% for the DB Section and 80% for the DC Section over 3 years (i.e. by 30 September 2025).

The Trustee views the current information on emissions that is available as too low to allow the setting of meaningful decarbonisation targets. We therefore seek an improvement in the quality of emissions information before exploring the adoption of impactful longer-term targets. An improvement in data quality will also assist the Trustee in considering climate risks during decision making.

The Trustee will calculate annually the proportion of the portfolio for which emissions are verified, reported, estimated or unavailable. This will also assist with encouraging industry-wide efforts in improving emissions data quality over time. The Fund's Investment Consultant led a project with the UK Investment Consultants Sustainability Working Group ("ICSWG") to help focus investment managers' efforts on a list of essential ESG metrics.

The coverage and data quality in the Fund's mandates have generally shown improvements. To achieve the target on data quality that we have set by continuing to improve coverage, the Trustee intends to engage with the underlying investment managers via its Investment Consultant. As part of the feedback following the annual review of managers' ESG capabilities, the Investment Consultant contacted the Fund's managers with the lowest coverage levels and suggested that they should look to improve their metric reporting.

Further, it is expected that future changes in asset allocation may lead to an improvement in data coverage due to the nature of the Fund's journey plan and the associated appropriate asset classes.

As coverage and data quality improve, the Trustee will consider whether to adopt a more meaningful and impactful long-term decarbonisation target.

Carbon footprint data coverage	Baseline 30/09/2022	Current 30/09/2023	2025 Target (versus current)
DB Section	48%	55%	66% (+11%)
DC Section	64%	76%	80% (+4%)

Appendix

Strategy

Scenario analysis appendix

Approach to scenario analysis conducted as at 30 September 2022

The impacts of climate change can be visualised as future return drags

The scenario analysis models the impact of climate-related risks as drags on asset (and liability) returns that are felt each year. As such, these drags will increase or decrease the returns and move the expected impacts away from the base case scenario.

Looking at the impact of these return drags can help to illustrate the sensitivity to the timing of climate impacts as it is unknown when markets could start to price in climate related costs. For the DC Section, members invest their contributions in different ways, most notably the asset allocation for members in lifestyle strategies depends upon their term to retirement. To understand the range of impacts across the membership the analysis considers example members at different stages of their careers that are invested in the Fund's lifestyle arrangements.

The potential financial impacts of climate change have been categorised into physical risk and transition risk

The scenario analysis models the potential impacts of climate change on assets for each climate scenario by considering the return drags in relation to two categories of climate risk:

Physical Risk – direct impacts arising as a result of chronic and/or acute changes in climate and extreme weather events, such as flooded property (asset side) or deaths arising from extreme weather (liability side).

Transition Risk – the indirect impacts arising as a result of changes in society to combat or adapt to climate change, such as costs for businesses from meeting regulations (asset side) or improvements in mortality from healthier lifestyles (liability side).

Transition costs are assumed to be incurred earlier than physical costs, as society moves to attempt to avoid the long-term physical damage of climate change. We expect that the **higher the transition costs**, due to a greater effort to transition to a low carbon economy, the **lower the eventual physical costs** as the physical consequences are reduced. The scenarios represent a range of plausible outcomes for physical and transition risk and the trade-off between the two.

The analysis assumes **transition costs** associated with the **current policies scenario**, at a minimum, are **already priced into markets**. This means that whilst there will be costs associated with transition in that scenario, they would not lead to lower investment returns than those used in the "base case" modelling. Conversely, the costs associated with physical risks are assumed not to be priced in to markets, on the basis that these risks are more uncertain and more difficult to quantify, so the current policies scenario does deviate from the base case as the effects of physical risks begin to emerge.

Strategy

Scenario analysis appendix

Assumed return drags

The table below outlines the assumed return drags, as at 30 September 2022, in each scenario for some of the key asset classes modelled.

Assumed return drags (p.a.)	Current Policies			Disorderly Transition			Global Co-ordinated Action			Climate Emergency		
	1-5 yrs	6-10 yrs	11+ yrs	1-5 yrs	6-10 yrs	11+ yrs	1-5 yrs	6-10 yrs	11+ yrs	1-5 yrs	6-10 yrs	11+ yrs
Global Equity	0%	0%	-0.71%	0%	-2.21%	-0.43%	-0.36%	-0.36%	-0.43%	-0.83%	-0.83%	-0.34%
Global IG credit (DC Section)	0%	0%	-0.03%	0%	-1.17%	-0.01%	-0.15%	-0.15%	-0.01%	-0.46%	-0.46%	-0.01%
UK B&M credit (DB Section)	0%	0%	-0.04%	0%	-1.80%	-0.02%	-0.20%	-0.20%	-0.02%	-0.54%	-0.54%	-0.01%
Secured finance / private debt	0%	0%	-0.56%	0%	-1.82%	-0.32%	-0.30%	-0.30%	-0.32%	-0.70%	-0.70%	-0.25%
Property	0%	0%	-0.18%	0%	-1.06%	-0.09%	-0.13%	-0.13%	-0.09%	-0.30%	-0.30%	-0.07%
Ground Leases	0%	0%	-0.09%	0%	-0.53%	-0.04%	-0.6%	-0.6%	-0.04%	-0.15%	-0.15%	-0.04%
Gov Bonds	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Strategy

Scenario analysis appendix

DC Section scenario analysis methodology

Individual members in a DC Section bear their own investment and longevity risks and climate change is likely to have different impacts for different members across the DC Section.

The DC Section analysis considers the impact on three example members to highlight the potential difference in climate impacts for different members. The assumptions used for each example member are set out in the table below. For each example member the value of their DC pension pot is projected to retirement age on the different climate scenarios assuming they follow the (default) Variable Income Lifecycle strategy.

Example member	Current age	Retirement age	Current Fund value	Contribution rate
Young member	35	65	£0	20% of salary
Mid-career member	55	65	£75,000	23% of salary
Pre-retirement	62	65	£150,000	25% of salary

These examples are intended to illustrate a range of potential outcomes for members at different stages in their career. However the characteristics and retirement saving decisions will vary from member to member and the strawmen examples are not expected (or intended) to cover every member of the DC Section. Using a different set of assumptions may result in a different set of projected outcomes though the choice of contribution rate has only limited impact on the projections for these example members, particularly for the young member and pre-retirement member.

As member choices at retirement will vary depending on the member, the analysis does not consider the potential impact on the member's retirement options, such as changes in annuity rates due to changes in life expectancy or the potential impact on investment returns after retirement which may affect the retirement income a member is able to draw.

Strategy

Scenario analysis appendix

Scenario analysis – further limitations

Asset returns	The scenario impacts are derived on the basis of all other things being equal, which is unlikely to be the case in practice. For example, the climate transition could lead to higher levels of investment, employment and productivity-enhancing innovation. These effects are more challenging to estimate with any degree of certainty. While there is some uncertainty around the future expected asset allocation for the DB Section, modest differences in allocation would generally be expected to have a broadly proportional impact on the different projected outcomes which would limit the impact on the relative outcomes and on this basis would not change the ordering of the outcomes for the different climate scenarios.
Life expectancy	The projections are intended to illustrate the potential variability in future mortality rates due to climate change, however they are subjective and arguments could be made for different outcomes. For example, the analysis assumes that any life expectancy changes emerge gradually over time whereas in practice trends may be less gradual.
Future insurer pricing	The projections for the DB Section are based on the cost of securing the Fund's liabilities with an insurer. Aside from making allowances for future possible changes in life expectancy, the projections do not make any allowance for future changes in insurer pricing as a result of climate change.
General	The assumptions used inevitably contain an element of subjective judgement. Any opinions or return forecasts contained in this material are not intended to imply, nor should they be interpreted as conveying, any form of guarantee or assurance of the future performance of the asset classes in question. The scenarios considered are designed to illustrate the possible future range of long-term returns from different asset classes and their inter-relationship. No economic model can be expected to capture perfectly future uncertainty, particularly the risk of extreme events. The analysis is intended for illustrative purposes.

Metrics and Targets

Metrics appendix

Climate metrics definitions

The IC selected and monitored four climate metrics during 2023:

1. **Absolute emissions metric:** Total greenhouse gas emissions (scope 1, 2 & 3)
   Total amount of greenhouse gas emissions emitted by the underlying portfolio companies and total indirect emissions that occur in the value chain, attributed to the investor based on the total investment in each company.

2. **Emissions intensity-based metric:** Carbon footprint (scope 1, 2 & 3)
   An intensity measure of direct and indirect emissions that assesses the level of greenhouse gas emissions arising from a $1 million investment in a company.

3. **Portfolio alignment metric:** Implied temperature rise ("ITR")
   The temperature pathway the mandate aligns to, expressed as a projected increase in global average temperatures by the end of the century.
   A Paris-aligned strategy should have an ITR of 1.5°C.

4. **Additional climate change metric:** Data quality
   Exposure to emissions data that is verified, reported, estimated and unavailable:
   Verified: Data that has been independently verified.
   Reported: Data directly reported by the company.
   Estimated: Data that has been estimated by the investment manager or an ESG data provider.
   Unavailable: Data that is not available under any of the other categories.

Climate metrics supporting information

The following notes support the tables on pages 34 and 35.

tCO2e: Tonnes of carbon dioxide equivalent, where CO2e expresses the impact of each different greenhouse gas in terms of the amount of CO2 that would create the same degree of warming.

EVIC: Enterprise value including cash.

Coverage: Denotes the percentage of each fund where data is available.

All data is reported as at 30 September 2023, except for Balanced Property which is as at 31 December 2022.

Government Bond Mandate's data quality is unavailable therefore coverage is assumed to be estimated, its subsequent ITR metric does not consolidate impacts of its derivative investment.

Secured Finance Mandates 1 & 2, Private Market Mandate 2 and the Buy-in have been converted to USD using the exchange rate as at 30 September 2023 to allow comparison. These mandates also calculate total emissions on an absolute basis (they are not scaled to 100%) and make no assumption for data not covered.

Balanced Property reports carbon footprint as tonnes of CO2e per £1M GAV, of which has been converted to USD using exchange rate as at 30 December 2022. The ITR is based on their net-zero target, not via a calculation of current holdings, and all data has been verified via third party assurance.

No data is currently available for Ground Lease Property or Private Market Mandate 1.

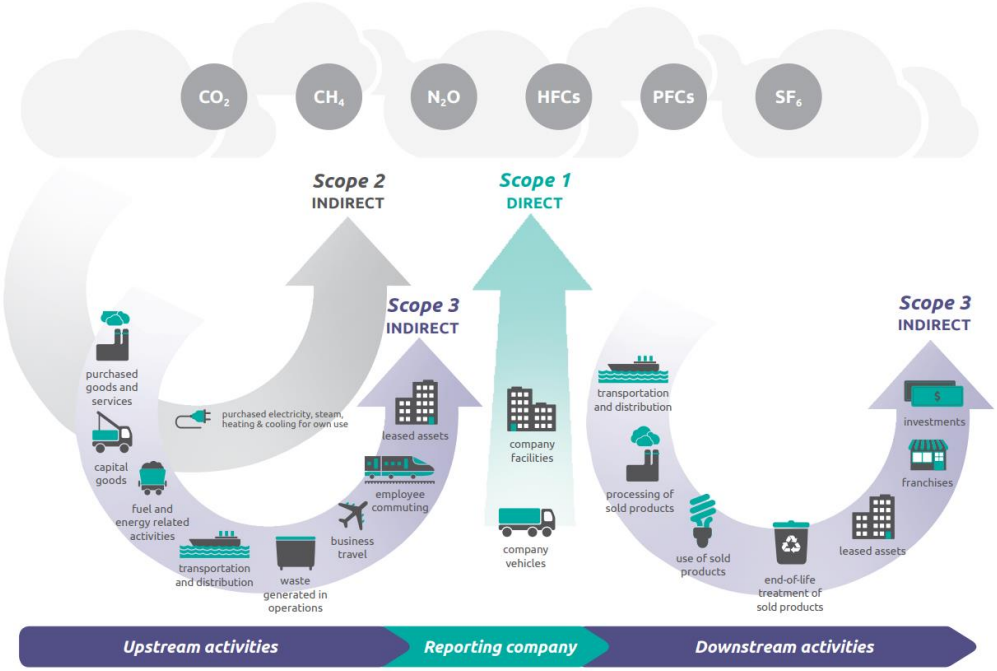
For each Section, cash and mandates with immaterial asset values have been excluded from the coverage calculations, with the remaining assets scaled to 100% using asset values as at 30 September 2023.

Metrics and Targets

Metrics appendix

GHG emissions from a particular company can be split across three levels, as shown in the diagram.

- **Scope 1** are direct emissions from company owned or controlled sources – this includes heating/cooling of offices/factories and fleet vehicles.
- **Scope 2** are indirect emissions from purchased energy – emissions are created during the production of the energy which is eventually used by the company.
- **Scope 3** are all indirect emissions that occur in the value chain – this includes emissions from the production of purchased goods and services and the use of sold products. There are currently industry-wide issues with reporting scope 3 emissions.



Source: WRI/WBCSD Corporate Value Chain (Scope 3) Accounting and Reporting Standard (PDF)

This report has been prepared for the sole benefit of the Trustee of the Imperial Tobacco Pension Fund and based on their specific facts and circumstances and pursuant to the terms of Isio Group Limited's services contract. It should not be relied upon by any other person. Any person who chooses to rely on this report does so at their own risk. To the fullest extent permitted by law, Isio Group Limited accepts no responsibility or liability to that party in connection with the Services.

Information used in this document in relation to scenario analysis and covenant impacts has been taken from reports provided by Towers Watson Limited (WTW) in their roles as scheme actuary and covenant advisor to the Fund. Please refer to the specific limitations and terms of service set out in those reports:

- TCFD covenant report, dated 21 February 2023
- Scenario modelling and analysis: Climate change, dated 8 March 2023

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