Your Workplace Pension

Full Report in line with Taskforce for Climate-Related Financial Disclosures (TCFD)

Year Ending 31 March 2023

options™ for your tomorrow

PART OF STM GROUP PLC

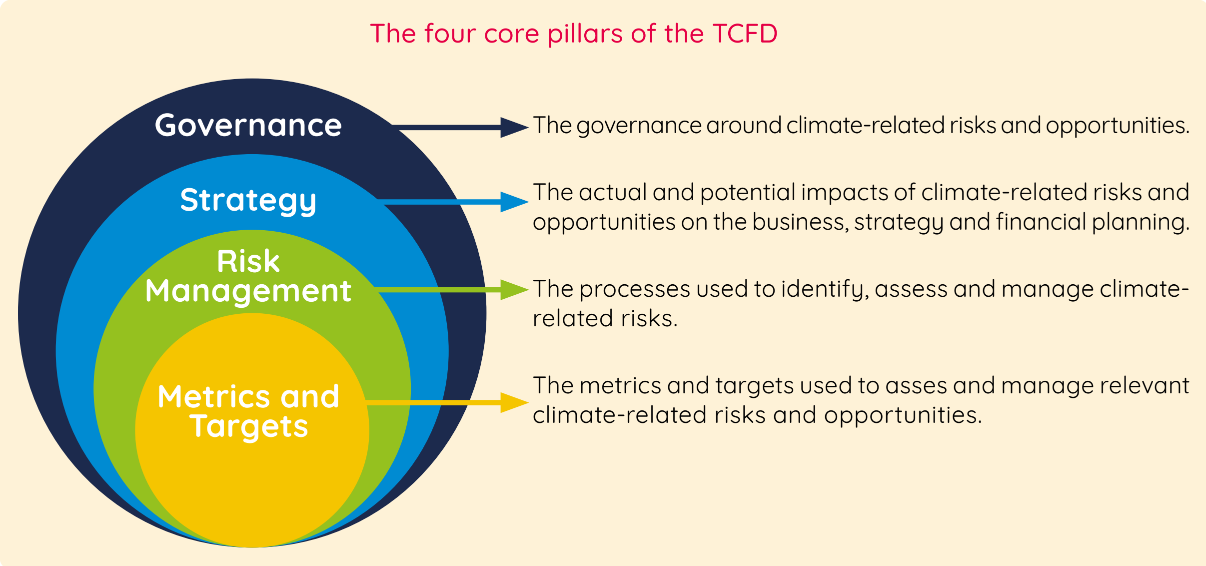
Contents

1. Introduction

1.1 Background to the TCFD

The Taskforce on Climate-Related Financial Disclosures ("TCFD") is an international body which promotes more effective climate-related disclosures to enable a better understanding of the financial system's exposures to climate-related risks. The Taskforce has set out a list of recommendations for how best to consider their impact on climate; these are structured around four core pillars.

Figure 1: The four core pillars of the TCFD



1.2 Scope of the report

The Occupational Pension Schemes Regulations introduced new reporting requirements in line with the TCFD recommendations.

The Options Workplace Pension Trust ("Options") falls within these guidelines and published our first regulatory report for the scheme for the year ending 31 March 2022. This 2023 report covers the scheme year from 1 April 2022 - 31 March 2023.

As required by the Department for Work and Pensions ("DWP"), analysis of climate-related risks and opportunities ("CRRO") needs to cover each of Options' popular arrangements which account for 10% or more of the Scheme's assets. This includes the following as at 31 March 2023:

Figure 2: Option's popular default arrangements

Default Fund	Investment Manager	Size of Fund
Target Date Fund (TDF)	Alliance Bernstein ("AB")	£78,749,610.24
Quilter Carey Lifestyle	Quilter Cheviot ("Quilter")	£43,019,974.79
Lifepath	Blackrock	£178,039,486.48
Balanced Fund	TAM Asset Management ("TAM")	£128,111,854.80

1. Introduction (continued)

1.3 Net Zero target

The Trustee set a target of achieving Net Zero by 2050, with a 50% reduction in greenhouse gas ("GHG") emissions by 2030 across the Scheme's investments. We continue to measure progress towards these targets and, while there have been challenges with inconsistent data across Investment Managers, we believe that, from the data available, the targets set are realistic Despite a year on year increase in WACI in 2023, there has been a small overall reduction in emissions since the 2019 base year. Carbon Footprint has seen a more significant emissions reduction than WACI, showing much greater progress towards the target. It is the Trustee's view that Investment Managers are making progress towards achieving the Scheme's Net Zero targets. A comprehensive table of metrics is shown in Figure 17.

1.4 Scenario analysis

The DWP regulations require scenario analysis to be performed in order to test our investment strategy and compare the effect each scenario has on the expected returns and risk profile of each default strategy. As this is only required every three years, the next scenario analysis will be included in the 2025 report. The Scheme's Investment Consultant has provided an extension of the analysis performed last year that assesses the effect each scenario has on the expected returns and risk profile of each default strategy. We acknowledge that this is a complex and relatively new area with many uncertainties, but we remain confident the models and data will improve each year.

1.5 Scope 3 emissions

This year's report sees the introduction of Scope 3 GHG emissions, which include other indirect emissions in the value chain (upstream and downstream). The Investment Managers were requested to provide Scope 3 emissions data separate to Scope 1 and 2 and these have been incorporated into the metrics results where possible.

There have been challenges with base-year data, resulting in progress towards targets being tracked on Scope 1 and 2 emissions data for the time being.

1.6 Additional metric

For this report, the DWP requires the inclusion of a fourth metric: ideally, a portfolio-alignment metric to Net Zero. We have already incorporated the Science Based Target initiative (SBTi) metric into last year's TCFD report and have introduced Green Revenues as a target, therefore the Trustee is pleased to be compliant with this requirement.

1.7 Climate beliefs

In our first two TCFD reports, the Trustee set out our commitment to recognising the importance of climate change on Options by formulating a set of climate-related beliefs. These beliefs have been incorporated into the Statement of Investment Principles (SIP) and we will continue to uphold these beliefs and be guided by them when considering operational and strategic decisions on behalf of Options and its members.

1.8 Feedback from TPR

In April 2023, we received feedback from the TPR on our first regulatory TCFD report. We were pleased to see predominantly positive comments and have addressed issues raised by TPR within this report.

1.9 Limitations and data gaps

Despite best efforts, there are a number of limitations and data gaps that impact the analysis done in this report. These include:

- The analysis is currently limited to Scope 1 and 2 emissions. Scope 3 data was requested from Investment Managers but availability is limited. In addition, data coverage by asset class is fairly limited, with Investment Managers being unable to provide much detail on sovereign-issued bonds. We expect coverage to improve over time, however, this will likely require adjustments to be made to base-year figures.
- Due to BlackRock's inability to provide the metric Weighted Average Carbon Intensity ("WACI") data in the base year, an estimate of their WACI has been derived by combining the provided Carbon Footprint figures with information obtained from other Investment Managers to identify a reasonable relative intensity. Although this estimation may not be exact, we consider it to be generally appropriate and believe this is mitigated by the planned consolidation of the BlackRock funds into the AB Target Date funds, which the Trustee will continue to monitor.
- In this report, we have limited our analysis to the four relevant default strategies which collectively account for approximately 93% of assets. We believe this selection provides a representative sample of the Scheme, although some degree of variation is expected to exist.
- While consideration has been given to how investment strategies are likely to change over time, it is impossible to predict Investment Manager behaviour. As such, projections could change meaningfully if underlying investments change.

2. Governance

Climate-change is one of our highest priorities as Trustees. We have oversight of all CRRO activities and delegate certain responsibilities to the Scheme's committees as detailed in Figures 3 and 4. .

Figure 3: Options Organisational Chart

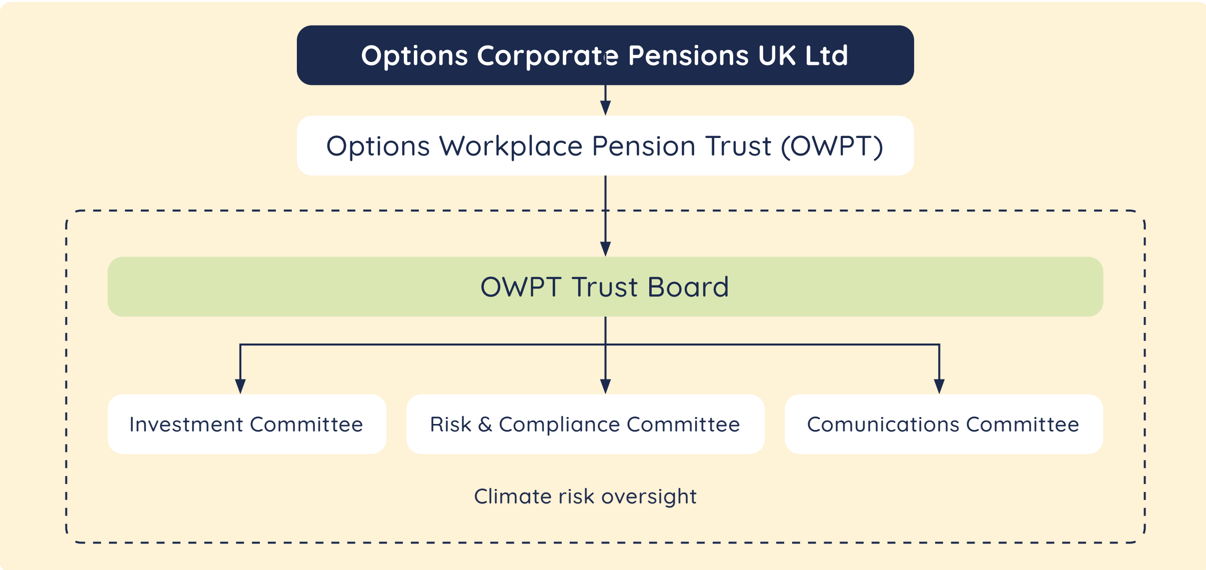


Figure 4: Log of climate related responsibilities and activity

Governance	Roles & Responsibilities	Activity in 2021 - 22
Options Corporate Pensions UK Ltd ("OCPUK")	OCPUK are the main funders of the Scheme and have the authority to appoint the OWPT Trustee Board.	Activity undertaken by OCPUK: • Received TCFD training from DWA in Q1 2023
Trustee Board	The Master Trust Trustee Board is responsible for overseeing the governance, regulatory requirements and investment performance of funds held within the Master Trust, and to act in the best interest of all members to determine good member outcomes with regard to retirement benefits. The Trustee Board has ultimate responsibility for ensuring effective governance of climate-related risks and opportunities at the Scheme. The Board meets every quarter and has included climate-related training, best practice, risks and opportunities as a dedicated item at board meetings. Scenario Analysis is expected to be undertaken at least every 3 years with continuing reviews of reports conducted by Investment Managers and Consultants. Any new trustees appointed will be required to complete training on an initial and an ongoing basis.	Activity undertaken by the Trustee Board: • Receives regular updates from the Pensions Climate Risk Industry Group (PCRIG) and is willing to participate in any research and consultations with them or the DWP directly. • Approved and published the first regulatory TCFD in October 2023 and constantly review TCFD so risk is monitored by both ISC and RCC but is not deemed a high risk at present. • Assessed feedback from TPR with all recommendations incorporated in the 2023 TCFD report. • Satisfied themselves that the Investment Consultant demonstrated the 5 key themes of the Investment Consultants Sustainability Working Group and their guidelines as part of their competency assessment. • Considered the implications of increases in WACI compared to 2022 on the Lifepath & TAM defaults and its impact on the Scheme's interim Net Zero target; concluded that the consolidation into the TDFs should mitigate this impact and TAM engagement will be required. Agreed to include in risk register as an emerging risk. • Reviewed and approved the final version of the scenario analysis across the four applicable defaults. • Implemented an additional metric, namely Green Revenues. • Updated the Risk Register with the latest CRROs, attached as Appendix 1

2. Governance (continued)

Figure 4: Log of climate related responsibilities and activity (continued)

Governance	Roles & Responsibilities	Activity in 2021 - 22

Investment Committee	The purpose of the Investment sub-committee is to facilitate the investment requirements of the members and regularly review the performance of the Scheme's chosen default and self-select funds.
	The objectives are to:
	• Ensure the main Scheme default fund remains the appropriate default for the Scheme's members;
	• Ensure that the section default funds remain the appropriate default for the Section's members
	• Set out the aims and objectives in relation to the investments held in both the default strategy for the main Scheme and its sections and also any available self-select funds;
	• Ensure the Statement of Investment Principles is up-to-date and relevant with all details of current investments;
	• Perform a quarterly review of fund performance reports to ensure continual suitability of the default strategies and self-select funds; and
	• Undertake an annual review of all investment options and the Statement of Investment Principles. Ensure that the ESG and Climate principles and policies of the Board are embedded into Investment Management actions and activities.
		Activity undertaken by the Investment Committee:
		• Confirmed the conclusions of the 2022 TCFD Report suggesting that the Scheme was likely to meet the interim net-zero target of halving emissions based on WACI by 2030 without further adjustments to the investment strategy being required at this stage.
		• Reviewed, together with DWA, further research into real estate investments as provided by the Investment Managers. A response was received from AB & Quilter which concluded that the report was in line with index-tracked investments (AB) and low-risk ESG holdings (Quilter); no immediate action was required.
		• Has received SBTi and Green Revenue data and included this in metrics and targets.
		• Escalated to the Trustee regarding the relatively small overall decrease in WACI, driven by TAM and Quilter - largely due to TAM growth and change in Quilter strategic asset allocation. Concluded there may be extra risk due to the actively-managed element meaning more potential for carbon volatility, but not a top 6 climate risk.
		• No further review of exposure to emerging debt for Lifepath due to planned consolidation into the TDFs.
		• Emerging debt exposure was raised as an action last year. In the TAM default this is in the JPM Global Bond Fund which has seen a asset reduction from 30% to 25% since the last TCFD report, with a c.10% allocation made to an ESG Global Corporate Bond Fund to help manage this risk.
		• Engaged Investment Managers on asset allocations as follows:
		  • Quilter – agreed a revised globally weighted strategic asset allocation to provide greater asset allocation flexibility;
		  • TAM – working towards lifestyling to give greater control of risk, including climate risks, for different member ages.

Communications Committee	The purpose of the Communications Committee is to oversee the development of the communications roadmap. The objectives are to: • build and maintain the communication plan and roadmap; and • ensure that all communication and engagement activities are delivered in line with the communication plan.	Activity undertaken by the Communications Committee • Published the 2022 TCFD report. • Coordinated TPR feedback on the 2022 TCFD report. • Sent an updated request in June 2023 for further information from service providers on their climate-risk disclosures and steps being taken to reduce emissions.

2. Governance (continued)

Figure 4: Log of climate related responsibilities and activity (continued)

Governance	Roles & Responsibilities	Activity in 2021 - 22
Risk & Compliance Committee	The purpose of the Risk & Compliance sub-committee is to ensure that risks, including CRRO, are updated and that appropriate parties are made aware of recommendations, whilst maintaining compliance with regulations. The objectives are to: • consider any aspect of the Trustee's Risk Management Policy, and review the Risk Register at least annually making recommendations to the Trustee Board as appropriate; • commission, receive and consider reports on any key financial, operational and other risk issues; • review any points of substance on the adequacy of internal controls raised by the auditors or other professional advisers and make recommendations to the Trustee Board as appropriate; • monitor complaints and trends and report findings to the Trustee Board; • review all Trustee policies at least annually and make recommendations to the Trustee Board; • review and ensure, on behalf of the Trustees, compliance with current data protection legislation; • keep a record of and review annually the various policies and processes operated by the Trustees in relation to current data protection legislation and to recommend any necessary changes to the Trustees, and to report on the outcome of the annual reviews to the Trustees; • notify the Trustees in the event of any data protection breach, to facilitate, as necessary, the issuing of relevant notices to the Information Commissioners Office and / or members	Activity undertaken by the Risk & Compliance Committee • with the publication of the first regulatory TCFD report, the risk of not producing a report has been removed as a top risk.
Dean Wetton Advisory ("DWA")	The Trustee has appointed DWA as the scheme's independent investment consultant. DWA provides strategic advice on funds used in the scheme's default and self-select arrangements, including Section 36 advice. DWA considers ESG and climate-related factors when advising and selecting strategies. The Trustee sets objectives for DWA and the review process is run by the Investment Committee on behalf of the Trustee. Included in this review are climate-related objectives.	DWA has: • set out its principles as a service provider for the Financial Reporting Council (FRC) UK Stewardship Code 2022 in its effort to promote transparency and integrity; • demonstrated adherence to the Investment Consultants Sustainability Working Group guidelines as part of their competency assessment; • undertaken TCFD training for all core DWA staff during the period provided by www.tcfdtraining.com; • core members of the DWA team have earned the CFA Institute's certificates in Climate Finance and ESG Investing.

Note: Actions in bold italics are to be included as agenda items at the next meeting of the relevant governing body.

2. Governance (continued)

2.1 Data and information

The Trustee is working with the Scheme's Investment Consultant and Investment Managers to reach a position where they are able to provide reports detailing:

- Quarterly Scope 1 and 2 emission metrics for the portfolio, with previous period change (Scope 3 emissions from year 2 where possible);
- Quarterly carbon intensity metrics for the portfolio, with previous period change;
- A stewardship report produced at least annually detailing the Investment Manager's record for voting and engagement within the portfolio, including information on significant votes made on each equity fund which will include issues such as climate;
- Annual report detailing the portfolio's performance against agreed targets.

The current and expected ability to provide this information varies between Investment Managers. When reviewing and retaining Investment Managers, the Trustee considers their ability to support their disclosures as being a significant factor.

2.2 Commitments to wider initiatives

Together with our Investment Consultant, the Trustee receives regular updates from the Pensions Climate Risk Industry Group (PCRIG) and is willing to participate in any research and consultations with them or the DWP directly.

With our Investment Consultant, we are engaging with our default Investment Managers on climate reporting and best practice. BlackRock and AB are members of Climate Action 100+. BlackRock and AB are also signatories of the Net Zero Asset Managers Initiative. TAM is one of our default Investment Managers and they are participants of Carbon Neutral Plus.

[1]A definition of Scope 1, 2, 3 emissions and other terms are available in the Glossary

3. Strategy

3.1 Introduction

The Trustee acknowledges and supports the notion that the regulatory, physical and transitional effects of climate change will significantly affect our members' investments over time.

Based on our climate beliefs, Options' investment strategy aims to maintain an appropriate risk level and seek suitable returns for each default fund, ensuring members' financial goals are met throughout their journey to retirement and beyond.

In light of this, we consistently assess the impact of CRRO on our strategy across short-, medium- and long-term horizons. These timeframes were selected after careful evaluation to strike a balance between making meaningful progress and minimising any adverse effects on our members. By dividing our goals into these distinct periods, we can effectively manage any potential harm, particularly for those near retirement who may face challenges in recovering transaction costs incurred during asset transitions.

Our preference is to engage rather than divest, and we avoid premature disinvestment from funds that still align with our objectives.

3. Strategy (continued)

3.1 Introduction (continued)

Figure 5: Consideration of CRRO across short, medium, long term time horizons

	Roles & Responsibilities	Governance	Activity in 2021 - 22
Expected time horizon	1- 5 years	5 – 15 years	15 – 30 years
Strategic considerations	Set targets and establish a roadmap to Net Zero. Annually review the investment strategy and asset allocations against Net-Zero targets. Establish a scenario analysis process with focus on the initial two scenarios: Current Policies and Below 2°C, both orderly transitions. Increase scope of scenario analysis to include disorderly transitions and new pathways. Consider further integration of more sustainable funds.	Continually assess progress towards 2030 interim Net Zero target against actual results. Consider suitability of investment strategy against 2030 target achievements, including the introduction of potential asset re-allocation for holdings that do not support SBTi, aligned to at least 2°C warming. Intensify scenario analysis based on outcomes of the IPCC assessment reports. Consider global progress towards tackling climate change and potential strategic responses.	Continually assess progress towards 2050 Net Zero target against actual results. Consider suitability of investment strategy against 2050 target achievements. Ramp up asset reallocation, if required.
Operational issues	Establish regulatory understanding and training. Embed CRRO into governance structures. Set up and identify CRRO with an emphasis on transition risks		

3.2 Suitability of the current investment strategy

During the selection of Investment Managers, the Scheme's Investment Consultants employ a process that includes evaluating ESG indicators for monitoring and appointing Investment Managers. DWA, our Investment Consultants, has devised its own ESG rating system which assesses the level at which Investment Managers incorporate ESG and climate factors into their strategies. DWA actively collaborates with Investment Managers, recognising that this field is relatively new for the industry and that all businesses must embrace necessary transformations.

The Scheme has four default strategies that are covered by the requirements of the regulations: those that form over 10% of the total assets within the regulatory period. The table at Figure 6 shows the percentage in each of those defaults as at 31st March 2023. Each default is well diversified with a range of both active and passive strategies and a broad spectrum of asset classes and geographies.

The 2022 TCFD report identified several potential risks to the investment strategy, leading to the following activity and adjustments:

- In the previous report an action was raised to monitor emerging debt exposure within the defaults as this was deemed a particularly high-risk asset. The emerging debt exposure in the TAM default fund sits within the JP Morgan Global Bond Opportunity Fund. Following publication of the 2022 TCFD report, allocation to this fund has dropped from c. 30% to c. 25% over the year. Furthermore, an allocation of c. 10% has been made to an ESG Global Corporate Bond Fund in order to manage this risk more effectively. There is also exposure to Emerging Debt within the Lifepath funds however this would be resolved by the consolidation of these funds into the AB Target Date Funds which has been approved by Trustees.
- Discussions were held with Quilter regarding the strategic asset allocation and the UK-focused risk it held, resulting in the revision of this to a more globally weighted version. This change has been implemented to provide greater flexibility in asset allocation, however, since its implementation there has been an increase in carbon intensity primarily as a result of two new investments, NextEra Energy and Linde. While Quilter recognise that these two additions significantly alter the carbon intensity of the strategy they believe that the ESG credentials of these stocks outweigh this as NextEra has the world's largest portfolio of wind and solar assets, whilst Linde's products and services form a critical component of enabling Carbon Capture and Storage as well as Blue (produced from natural gas) and Green Hydrogen (produced by electrolysis) power generation. Linde's 2035 absolute emissions targets (reduce absolute scope 1 & 2 GHG 35% by 2035 - aligned with Paris Accord) have been approved by the Science Based Targets initiative. As part of the efforts to reduce emissions, over a third of Linde's own energy needs are already met by renewable energy power generation with an ambition to double that by 2028. The higher active share of Quilter will likely make emissions intensity more volatile.

3. Strategy (continued)

3.2 Suitability of the current investment strategy (continued)

- Progress is being made within the TAM default towards implementing a 'lifestyling' solution by including both a higher-risk and lower-risk fund alongside the balanced fund. By moving members between these funds based on their age, TAM will be able to control risk better across different member age groups. We believe this will allow TAM to better control many risks, including climate risks, and allow for improved response to risks and opportunities which may be more significant for particular age cohorts. An example of this is reduced risk for older members who may be less able to recover from any significant drawdowns in their portfolios, something that may become more likely as climate change intensifies. In addition the change in strategy presents an opportunity to better align the investments with the Trustees' climate goals.

These adjustments have been made in response to the risks identified in the previous TCFD reports and aim to strengthen the investment strategy while managing potential climate-related vulnerabilities.

Over the past few years, the Scheme has experienced significant growth in assets, more than doubling in size since 2019. When setting our Net Zero targets, it is crucial to take into account the perspective of emissions intensity because, as the scheme expands and acquires more assets, the absolute carbon emissions are likely to increase purely as a result of its expansion in size.

We have collected emissions data from our Investment Managers and supplemented it with data from asset class indices where information was insufficient. This method allows us to approximate the Scheme's metrics as of December 2019 which serves as our base year. Back then, emissions reporting was not as thorough or accurate as it is today, and data quality still requires improvement. By partially estimating the 2019 position, we have established a benchmark to assess our progress. However, we will continuously update this baseline as more reliable data becomes available.

Overall, our Investment Managers have made progress in reducing the emission intensity within the Scheme's default funds and have actively taken measures and announced targets to minimise their own business impact. As mentioned above, Quilter is the only Investment Manager currently experiencing an increase in emissions intensity. Figure 6 provides a summary of the progress made:

Figure 6: Suitability of Investment Managers

Default Name - Investment Manager	Default % of overall scheme at Q1/2023 (based on AUM)	TCFD report published	Net Zero Asset Manager Initiative/ Global Investor Statement on Climate Crisis	Institutional Engagement - Climate Action 100+ member?	Net Zero Target as a Firm?	Climate Transition Plan for Fund range?	Change in WACI since 2019	Change in Carbon Footprint since 2019
TDF Fund Range - Alliance Bernstein	17%	Yes	Yes	Yes	Net Zero Target by 2050	Yes - with details of TDF route to Net Zero	-42%	-69%
Life Path - Black Rock	39%	Yes	Yes	Yes	Net Zero Target by 2050 but expects to reach it by 2030	Pledge for 75% of all equity/bond investments to be in SBTi companies by 2030	-20%	-12%
Quilter Carey Lifestyle - Quilter Cheviot	9%	Yes	No	No	Net Zero Target plus reduce GHG emissions by 80% by 2030	Climate Action Plan for investments in development	+88%	+65%
TAM Focused Balanced - TAM	28%	No	No	No	Carbon neutral status announced in May 2022 post independent audit	Not as yet, though members can purchase verified carbon-offset credits via TAM	-3%	-53%

3.3 Progress towards our Net Zero targets

Following last year's TCFD report, the 2019 base year figures have been revised as Investment Managers have enhanced their reporting processes to gather more accurate data. The calculations for both current and historical positions involve several estimations and assumptions, which are further detailed in this report. We consider the final figures to provide a reasonable approximation of the Scheme's position and trajectory. As data quality improves, we will update these numbers in future reports.

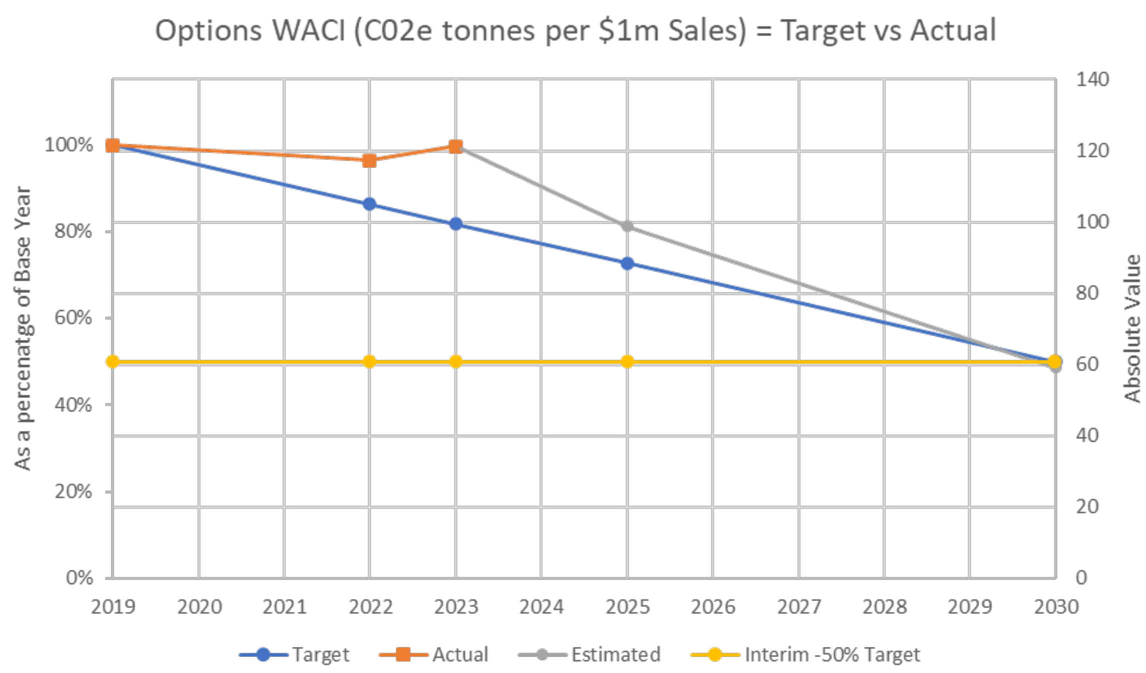
The progress towards attaining a 50% reduction in WACI by 2030 is depicted in Figure 7 below. Reductions in WACI have been accomplished across each individual default with the exception of Quilter, which transitioned its strategic asset allocation from a UK-focus to a more globally-focus. Following this change there was an increase in carbon emissions intensity for the Quilter default, primarily as a result of two new investments in the energy sector, NextEra Energy and Linde, which were discussed earlier in the document. Quilter ultimately believes their ESG credentials and future prospects outweigh their current high emissions intensity.

3. Strategy (continued)

3.3 Progress towards our Net Zero targets (continued)

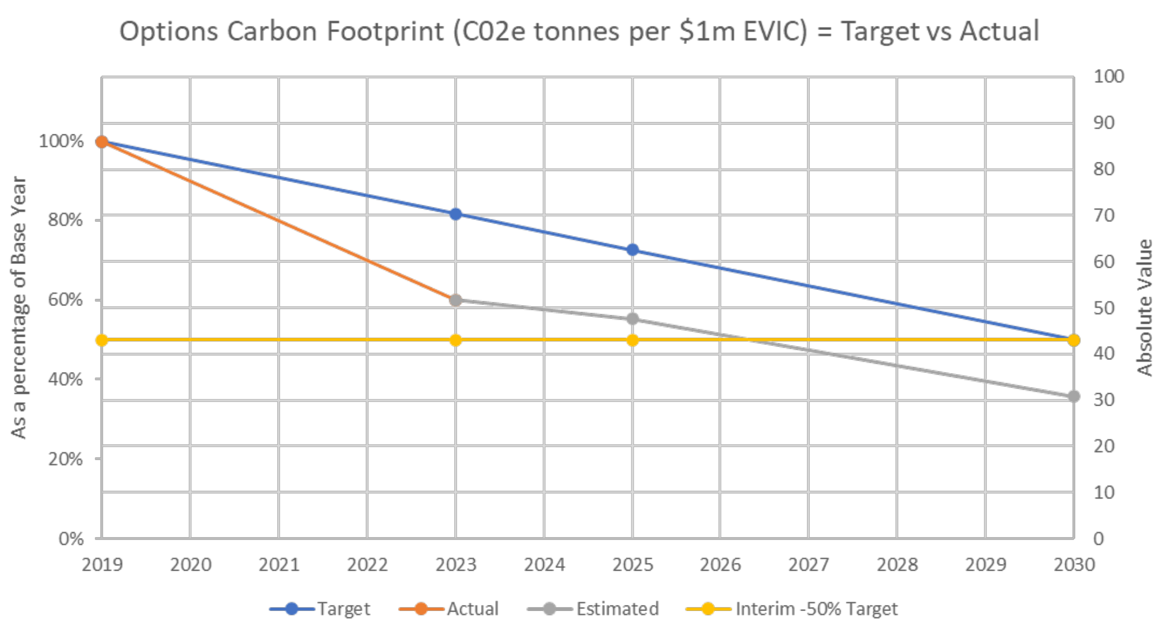
Furthermore, TAM has experienced substantial asset growth compared with the other Options defaults. However, due to the TAM default's slightly higher carbon intensity (compared with other Investment Managers), overall WACI has reduced marginally. Nevertheless, the Trustee maintains confidence that the target is both reasonable and attainable, as assets are due to be consolidated from the Life Path funds to the primary default TDF Fund range, which has lower carbon intensity. In addition, the Investment Managers are aware of our Net Zero targets and have made their own pledges to address climate issues.

Figure 7: Progress towards Options' Net Zero target: WACI



We also consider a secondary metric, Carbon Footprint, that looks at intensity relative to the amount invested. This metric can be more volatile during periods of stock market volatility but provides a valuable second perspective. Carbon Footprint is estimated to have reduced far more dramatically, with a 40% reduction in base year value and significant progress made towards a 50% reduction by 2030.

Figure 8: Progress towards Options' Net Zero target: Carbon Footprint



3. Strategy (continued)

3.4 Top 6 climate-related risks

The top six material risks and opportunities have been identified through a combination of in-depth scenario analysis performed in the 2022 TCFD report and the ongoing assessment of the CRROs faced by the Scheme. The full list of risks and opportunities is available in an extract from the Scheme's risk register in Appendix 1.

Figure 9: The top 6 climate-related investment risks and opportunities

Risk Type	Description	Possible Effect	Short-Term Impact	Medium-Term Impact	Long-Term Impact	Management/Policy Action
Transition opportunity	The Trustee continues oversight of the investment strategy and its suitability and alignment with the objective of achieving Net Zero.	Reduced risk of a disruptive transition and a positive culture based on a set of strong climate beliefs.	2	2	2	Encourage SBTi progression in equities and corporate bonds – 50% target set by 2025 measurable currently in equities but, over time, across the Scheme. The Scheme has also set its overall decarbonisation targets to reach Net Zero by 2050 which will reduce exposure to high carbon investments.
Transition opportunity	Investment allocation towards sustainable energy infrastructure, companies, bonds and debt offers prospects for investment opportunities, access to new markets and enhanced energy diversification.	Expected to stimulate technological advancements and generate fresh investment opportunities, particularly within the DC pensions market.	2	3	3	The Trustee is encouraging an increase in exposure to decarbonisation solutions/ green revenues across the Scheme by starting to request this data from Investment Managers.
Transition/ physical risk	Increased Emerging Debt risk from dual possibility of increased cumulative climate hazard damage in economies more dependent on physical assets than in G7, as well as countries (China, South Africa, Mexico, Brazil and India) with high fossil-fuel reliance under pressure to decarbonise and thus be censured by investors if progress is not made.	Increased risk potentially contained within the Lifepath and TAM defaults that have current exposure to emerging debt. The medium-term time period could potentially suffer from both issues at the same time.	1	1	1	Emerging debt exposure in the TAM default is in the JPM Global Bond Fund which has seen a reduction from 30% to 25% since the 2022 TCFD report, with a c.10% allocation made to an ESG Global Corporate Bond Fund to help manage this risk.
Transition/ physical Risk	Lower GDP forecasts from mega trends identified, e.g., lower consumption patterns and adaptation requirements.	Combination of climate factors could reduce equity returns across all defaults as an overall depressant to economic activity which may become more negative over time.	1	2	3	Lower levels of GDP have been factored into Scheme modelling assumptions, particularly in the long term, though with the understanding that adaptation progress is accelerating which may drive growth and limit negative effects.
Physical Risk	Damage to property and infrastructure, particularly in locations of chronic risks, e.g., heat stress or sea-level rise within the Scheme's investments.	The TDF, Lifepath and QC have direct property investments ranging from 3% to 8%. Loss of value, market illiquidity and asset obsolescence are risks that are likely to increase over time.	1	2	3	The Trustee reviewed results obtained from the real estate mapping exercise with AB and Quilter and does not deem it necessary to make any alterations to the asset allocation but will monitor and implement modifications as necessary in the medium-to-long term.
Physical Risk	Increased market volatility from acute extreme weather events in G7, e.g., a superstorm in the USA	Short-term market weakness from acute events causing interruptions in portfolio activity across all defaults which could happen more often over the medium-to-long term.	1	3	3	Higher levels of equity volatility have been incorporated into risk models for Options to assess the resilience of the scheme's strategy to climate risks

Note: Impact Levels 1-3 where 3 is highest.

3. Strategy (continued)

3.5 Risk and returns modelling

While scenario analysis is not mandatory for this report, the Trustee has requested the Investment Consultant continue conducting risk and return expectation analysis. This analysis assesses the potential impact of two distinct climate scenarios on a pension pot across various member age groups. The climate scenarios utilised in this analysis remain consistent with the ones employed in the previous year's TCFD report and are as follows:

Figure 10: Summary of the two scenarios selected by Options

Below 2°C Scenario Summary	Current Policies Scenario Summary
Governments gradually increase the stringency of climate policies, giving a 67% chance of limiting global warming to Below 2°C. This scenario assumes climate policies are introduced immediately and become gradually more stringent, though not as tough as in Net-Zero 2050. Carbon dioxide removal (CDR) measures are relatively low. Net-Zero CO_2 emissions are achieved after 2070. Physical and transition risks are both relatively low.	While many countries have started to introduce climate policies, they are not yet sufficient to achieve official commitments and targets. If no further measures are introduced, 2.7°C to 3°C or more of warming could occur by 2100. This would likely result in deteriorating living conditions in many parts of the world and lead to some irreversible impacts like sea-level rise. Physical risks to the economy could result from disruption to ecosystems, health, infrastructure and supply chains.

3.6 Below 2°C Scenario: Expected returns results

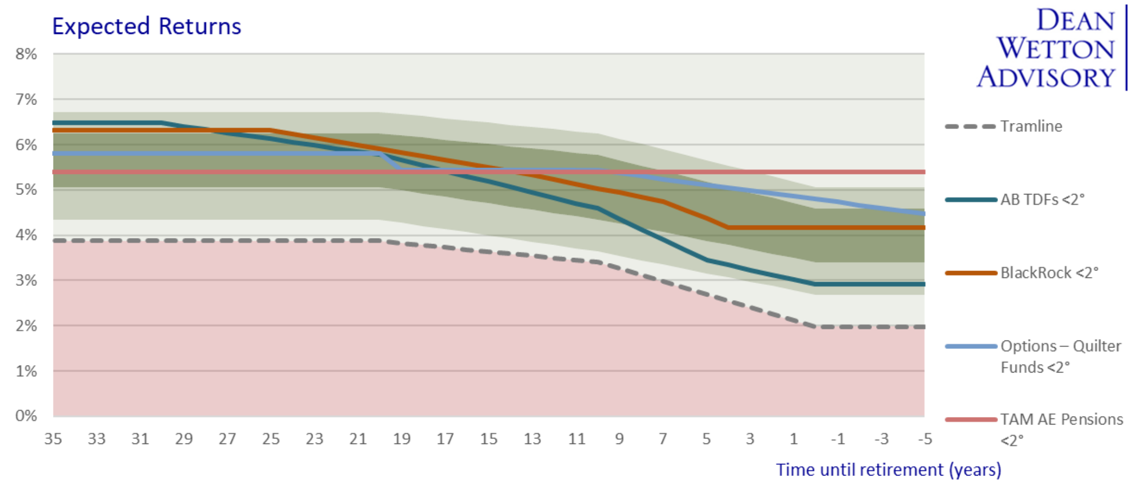
The model referred to as the "Fairway" model, presented below, takes into account a dynamic economic landscape across different climate scenarios. It incorporates adjustments to the anticipated risk and return for each asset class, considering DWA's comprehension of the asset classes and the extent of ESG and climate-change integration within the underlying funds of each default strategy.

Expected investment returns are considered for each asset class and aggregated into an expected return for each year over the life stages of members. Historic investment returns are used to consider the historic risk of the strategy at each point in time. Standard deviation, which indicates volatility, is used as a measure of risk. Historic standard deviation is considered a fair proxy for risk looking forward.

While newer and more recent risk and return data was added to the models, no significant changes were made to the assumptions compared with last year. This is to be expected, as the assumptions made last year were long-term assumptions that would not be likely to change over short time periods. Expected return adjustments are based on expected changes in GDP under different scenarios. Baseline risk is adjusted, as expected, on a proportionate basis.

The Fairway charts below look at these metrics across all stages of a default strategy with the x axis showing how far a member is from retirement age and the y axis quantifying the measure at that stage. This allows us to see how older and younger members will be relatively affected.

Figure 11: Below 2°C Expected Returns Impact

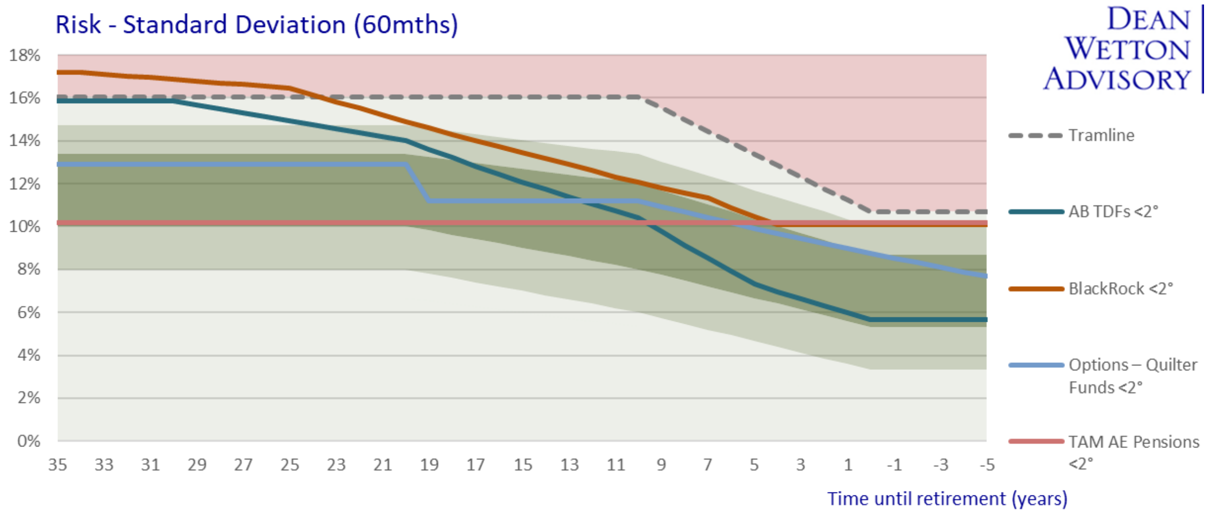


The Below 2° C scenario sees a relatively minor reduction in expected returns across all defaults over the long term. It is possible in the short- to medium-term periods that returns may be slightly weaker than we are used to in a Below 2°C scenario. Significant steps will soon be required to limit temperature rises and these will likely have a negative effect on investment returns, as the increased costs and risks involved in adapting businesses to a low-carbon economy will likely result in lower profits and increased business failure. Once these initial transition steps are taken, however, we expect a recovery period as businesses adapt and are able to find climate-related opportunities. This is expected to be followed by a return to levels that are more in line with historic averages. Figure 11 only shows the average impact over the 30-year period, however this includes the initial transition period, the recovery period and the return to "more normal" market conditions.

3. Strategy (continued)

3.6 Below 2°C Scenario: Expected returns results (continued)

Figure 12: Below 2°C Risk Impact



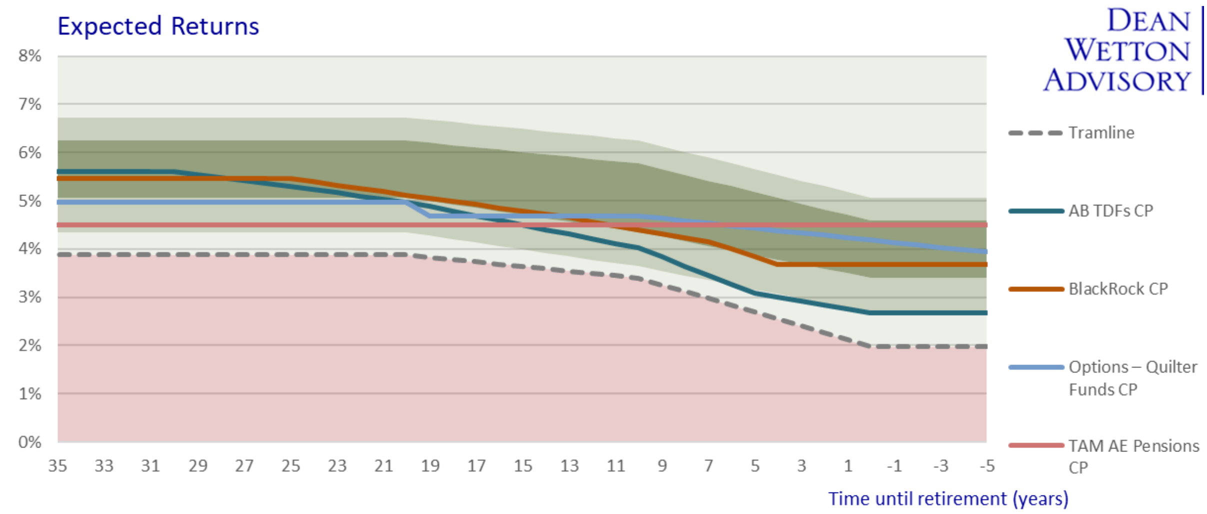
In the Below 2°C scenario, we see a relatively benign increase in risk as measured by standard deviation across the board, though this remains within an acceptable range. The standard deviation for the BlackRock funds that are far from retirement has been pushed into the red area of the Fairway chart. This shows that volatility is likely to reach levels that would have been concerning on a historical basis. In practice, there is little that members will be able to do to avoid these risks which may be necessary to take on in order to pursue sufficient returns. We will monitor these risks going forward.

The above charts together note that younger members are more likely to be significantly affected by climate factors than older members, particularly as it is likely that equity markets will see the brunt of any market impacts resulting from climate change. They further emphasise the possibility of increased volatility in the value of the portfolio which can only be partially mitigated by diversification.

3.7 Current Policies Scenario: Expected Returns results

As before, the Scheme's default investment strategies have been analysed against the Current Policies scenario using the Fairway and making adjustments to expectation of risk and return for each of the asset classes.

Figure 13: Current Policies - Expected Returns Impact

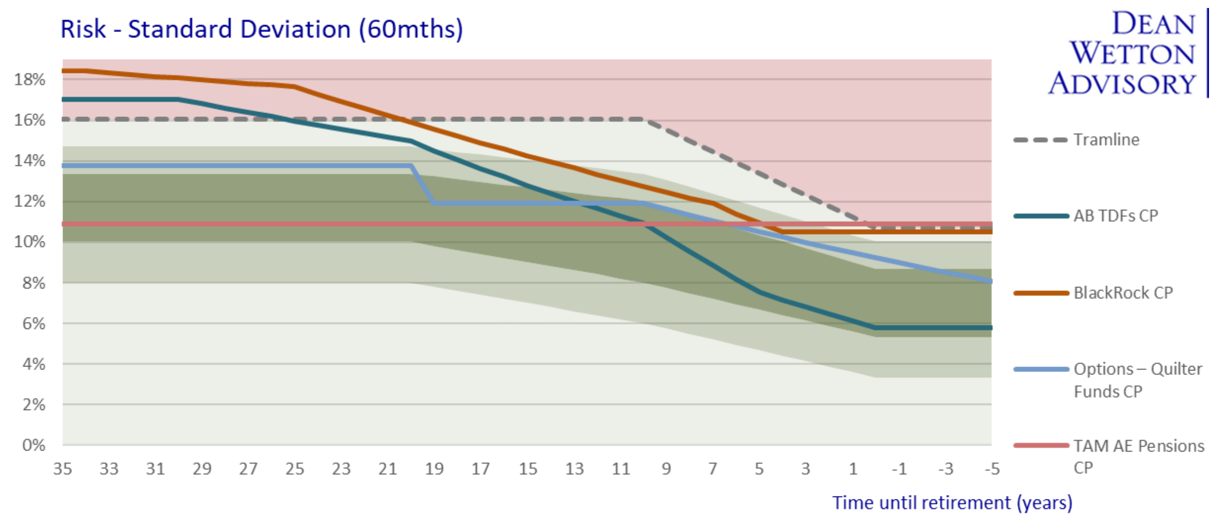


In the Current Policies scenario, we expect returns to continue at normal levels in the short-to-medium term. The increased damage done by climate change as a result of little to no significant action being taken against climate change, will negatively affect growth potential over the long term and beyond. This will have a greater overall negative effect compared with the Below 2°C scenario over the 30-year period considered. Figure 13 shows the average impact over the 30 years, including the initial benign period with worsening conditions as the impact becomes more extreme, though we expect some adaptation.

3. Strategy (continued)

3.7 Current Policies Scenario: Expected Returns results (continued)

Figure 14: Current Policies - Risk Impact



By looking at these charts together, we note that younger members are still more likely to experience the negative effects of climate change on their investments than older members. This is especially true considering the likelihood of equity markets being primarily impacted by climate-change-related market repercussions. They further emphasise that there is a risk of large decreases in the value of the portfolio which can only be partially mitigated by diversification.

In the Current Policies scenario, the rise in risk is notably more pronounced, especially when the equity allocation is highest. Younger cohorts, with their longer investment horizons, may be better equipped to tolerate short-term value declines. However, the increased potential for risk is significant, as it extends into the red zone for two of the defaults. Considering that portfolios are already well diversified and members still need returns without sacrificing them significantly before retirement, this heightened risk poses a considerable concern.

3.8 Comparing impact

The following graphs in Figure 15 show the impact of each scenario on a typical 25-year-old member over the next 30 years. We assume in each case they are earning £25,000, are contributing 8% of their salary and start with £1,000 already in their pot. The model simulates 10,001 projections of the potential impact of each scenario and then identifies the median projection in terms of final pot size. We do not make adjustments for inflation in either inputs or final outcomes.

Figure 15: Impact on pension pots

3. Strategy (continued)

3.8 Comparing impact (continued)

The analysis reveals that the discrepancies between each scenario are significantly more substantial than the differences resulting from the asset allocations of each strategy. Across all scenarios, the median value shows that, while the Current Policies scenario may initially have a slight advantage due to businesses incurring lower transition costs, the long-term detrimental physical climate effects of such a scenario severely hamper the potential retirement savings of median members.

The analysis also highlights that, although the median value consistently fares better in a Below 2°C scenario, the Current Policies scenario has the potential for higher returns in certain simulations. This outcome stems from the higher risk environment which, despite being detrimental for most, may present opportunities for a few individuals leading to higher returns in more favourable scenarios. However, on balance, it is more prudent to focus on the median outcome rather than the outliers when considering the overall assessment.

4. Risk Management

The Trustee has embedded CRRO into the Scheme's overall governance and risk management processes, making necessary updates to ensure comprehensive oversight.

4.1 Climate Risk Processes

The Investment Committee, assisted by the Scheme's Investment Managers and Investment Consultant, has been delegated the responsibility of continuously reviewing CRRO.

To prepare the previous 2022 TCFD report, the Trustee engaged its Investment Consultant to perform scenario analysis. The objective was to identify investment risks and opportunities and evaluate their potential effects on the Scheme. This process involved close cooperation between the Trustee, Investment Consultant and Investment Managers.

A new round of scenario analysis is mandated by the DWP every three years and will be included again for the 2025 TCFD report. The selection of suitable scenarios will be based on the most recent information from the Intergovernmental Panel on Climate Change (IPCC), which encompasses the latest scientific, technical and socio-economic insights on climate change, its impacts and associated risks.

Given that scenario analysis is not mandatory for this 2023 report, the emphasis has been placed on preserving the CRROs outlined in Options' Risk Register, available in Appendix 1. These risks have been allocated ongoing management responsibilities and are fully integrated into the Risk Register, utilising impact and likelihood assessments to generate a risk score.

The Risk and Compliance Committee, under the oversight of the Trustee, is responsible for the continuous maintenance and updating of the complete Risk Register. An overall assessment of all risks is conducted at least once a year to ensure ongoing monitoring. Additionally, Risk Register reviews are included in the agenda of each Committee, and scenario analysis included every three years. The climate risk scoring system, ranging from 1 to 3, obtained from the scenario analysis sections, has been integrated into a list of top 6 climate risks and assigned specific responsibilities and corresponding actions.

The Trustee has established targets to reduce the emissions of the Options investments, and progress towards these targets will be reviewed by the Investment Committee on at least an annual basis. The Trustee will provide oversight in this monitoring process.

4.2 The role of engagement in managing climate risks

The Trustee does not have direct control over voting rights nor engage directly with issuers since all investments are held through pooled funds. However, to ensure alignment with the Trustee's beliefs, including those related to CRRO, the Trustee takes into account the stewardship practices of its Investment Managers during the selection and retention process. Recognising the importance of engagement in managing CRRO, the Trustee believes that effective engagement is crucial.

The Trustee conducts annual reviews of the stewardship policies of our default Investment Managers in collaboration with the Investment Consultant. Additionally, information on voting behaviour, including significant votes, is collected on an annual basis. These reviews are conducted to ensure that voting practices are generally aligned with the Trustee's investment principles. The Trustee emphasises that good stewardship practices are fundamental and always considered when selecting and retaining Investment Managers.

Examples of climate engagements by some of our Investment Managers have been provided and are detailed in Figure 16 on the next page.

4. Risk Management (continued)

4.2 The role of engagement in managing climate risks (continued)

Figure 16: Engagement examples from AB, Quilter and TAM

AB Engagement Examples	
Heathrow	Meituan
Heathrow is the UK's biggest airport and the busiest in Europe, based on passenger traffic. It operates five terminals—one for cargo and four for passenger traffic—and has two runways, making it one of the world's largest aviation hubs. We started engaging this issuer in 2021 and met with the issuer again in 2022 after it announced its Heathrow 2.0 strategy. In September 2022, we met with its head of strategy, an ESG analyst and members of its investor relations (IR) team to gain more insight on Heathrow 2.0. AB's Director of Environmental Research and Engagement was joined by a number of our AB Fixed-Income Research Analysts and Portfolio Managers. We were particularly interested in Heathrow's strategic goals that focused on the airport's Scope 3 emissions, which account for almost its entire emissions footprint. In this context, we discussed Heathrow's strategic focus on advancing the use of sustainable aviation fuel and hydrogen fuel options, as well as driving improvements in airplane emissions efficiency. We also aimed to provide feedback on its plan, which we felt was lacking quantifiable data. The conversation also concentrated on the factors upon which we believe success will be contingent, such as regulatory developments and aircraft fleet turnover across airlines, as well as the spending required to advance its net-zero ambition. In terms of financing the plan, we learned that £200 million will be invested during the next regulatory period (2022–2026) toward the airport's net-zero plan, specifically for goals related to the decarbonisation of its own operations. Its spending plans remained, however, unclear regarding its efforts to reduce Scope 3 emissions. AB will continue the dialogue to further understand whether Heathrow is engaging the Civil Aviation Authority on the funding required to advance its Scope 3 decarbonisation goals. We will also continue to discuss how it is planning to finance any funding gaps in the 2.0 sustainability strategy and if there is any potential for the airport to issue any green or sustainability-linked bonds.	Meituan is a Chinese internet-based commerce platform that provides products and services, such as entertainment, dining and delivery. The firm currently measures Scope 1 emissions, which are relatively low given that it is an internet platform. Meituan also measures Scope 2 emissions and has a low per-capita emissions level compared with other listed companies in China. Though the company has yet to specify Scope 2 emissions-reduction targets, it expects to comply with China's stated goals of carbon: peaking by 2030 and carbon neutrality by 2060. In our engagement with a member of Meituan's IR team, we found that the firm is working on a methodology to measure Scope 3 emissions over the next one to two years. After that, the company plans to collect emissions statistics from all regions, which may take up to another year. We've noted Meituan's progress in developing a measurement methodology for Scope 3 emissions, and we shall follow up annually to monitor.

Quilter Engagement Examples	
HSBC Group	CDP Non-Disclosure Campaign
Objective: To receive an update on the sustainability approach through a small shareholder group meeting. We engaged with HSBC Group's Chief Sustainability Officer and Global Head of Sustainable Finance on developing transition plan strategies and the announcement of sustainable finance investment pledges. HSBC Group has made several high-level commitments over the past couple of years as it brings together a more cohesive group-level transition plan. This includes a commitment to publish and implement a policy to phase out the financing of coal-fired power and thermal coal mining in the EU and the OECD by 2030, and other regions by 2040. The company has also committed itself to implementing a strategy to align its provision of finance across all sectors with the goals and timelines of the Paris Agreement. This will start with two of the most high-carbon sectors, the oil and gas and power and utility sectors. The final strategy will be published in H2 2023. **Outcome:** This was an engagement for information. Many of the aspects detailed above are encouraging, but the proof will be in the final published strategy. Engagement with existing clients will be key as HSBC remains a significant financier of fossil fuels, particular thermal coal. It is unclear how escalation will work in practice. There is more work to do and we will monitor developments.	**Objective:** To join 263 investors from nearly 29 countries in urging companies with a significant environmental impact to disclose data through CDP, the global non-profit that runs the world's leading environmental disclosure system. Over 1,400 of the world's highest impact companies will be engaged in this campaign. These companies cover over US$24 trillion (as of 22 June 2022) in global market capitalisation and are estimated to emit more than 4,800 mega tonnes (Mt) of carbon dioxide equivalent (CO2e) collectively annually. The campaign aims to increase environmental disclosure among companies that have either never disclosed, or stopped disclosing, through CDP. Transparent corporate disclosure is crucial to directing capital towards the transition to a net-zero, nature-positive future. For us, the focus is on the companies that we hold within our centrally-monitored equity universe. **Outcome:** Climate change, deforestation and water security have become material issues to many industries, and consistent, comparable data is key to addressing the associated risks and opportunities. We believe that increased corporate transparency on environmental impact is a key enabler to improve company performance and create a more resilient economy. The campaign in 2021 (to which we were not party) saw 25% of companies engaged via the campaign responding to at least one CDP questionnaire.

4. Risk Management (continued)

4.2 The role of engagement in managing climate risks (continued)

Figure 16: Engagement examples from AB, Quilter and TAM (continued)

TAM Engagement Example	
NAM	
Engagement: As part of our Science Based Targets initiative engagement project, we pushed a US utility company to commit to validate their GHG emission-reduction targets and collaborated with both CDP and the company to support their decision-making. Directly as a result of our engagement, the company hired a consultant to further assess their ability to commit to setting targets. Later on in the process, we were pleased to learn that the company has committed to setting near-term SBTi targets.	Engagement: NAM leads an ongoing engagement with a European Consumer Staples business on behalf of a larger investor group on the company's zero-deforestation efforts. As part of the engagement, we flagged potential deforestation events linked to palm-oil sourcing in Malaysia and Indonesia. The company investigated those cases flagged by the investor group through Satelligence risk reports and informed us that the suppliers have been suspended. We have two further calls scheduled with the company to continue monitoring their activities and the dialogue.

The Trustee has decided to engage with Investment Managers, predominantly through our Investment Consultant, to encourage better disclosure and practices related to CRRO. The Trustee recognises engagement is often far more effective than divestment when dealing with issuers with poor climate practices. As such, while limited in their ability to take direct action with issuers, the Trustee selects and retains Investment Managers who value engagement and stewardship.

5. Metrics and Targets

To align the Scheme's investment strategy and beliefs with the Trustee's objectives to manage climate risk, the Trustee has set a number of metrics that measure, monitor and manage our climate commitments to Net Zero.

5.1 Metrics and targets related to our investments

We use the same metrics to set and measure our targets and have chosen the end of Q4 2019 as our base year for measurement. The Trustee set a target of Net Zero by 2050 with an interim target of halving GHG emissions by 2030. Progress towards this target is being measured using Weighted Average Carbon Intensity (WACI).

Figure 17: Snapshot of Options emissions metrics broken down per default

		Base year - Q4 2019				Current year				
Default Name	% of Total Scheme Assets	WACI	Carbon Foot-print	Absolute Carbon Emissions	Absolute Carbon Emissions (Scope 3)	% of Total Scheme Assets	WACI	Carbon Foot-print	Absolute Carbon Emissions	Absolute Carbon Emissions (Scope 3)
AB TDFs	21.3%	171	218	8,110	34,382	17.1%	100	68	5,351	51,035
Lifepath	50.2%	140	65	5,687	N/A	38.7%	114	57	9,548	72,693
TAM	5.0%	129	55	483	3,233	27.8%	125	25	3,202	16,611
Quilter	15.7%	54	26	709	10,625	9.3%	101	43	1,835	21,375
Scheme Total	**92.3%**	**122**	**86**	**16,238**	**114,674**	**93.0%**	**121**	**52**	**21,447**	**173,970**

Note: Scope 3 coverage remains low, numbers may appear inconsistent due to lack of data.

Metrics formulae:

$$\text{WACI (Scope 1+2)} = \frac{tCO_2}{\$m \text{ sales}}$$

$$\text{Carbon Footprint (Scope 1+2)} = \frac{tCO_2}{£m \text{ invested}}$$

Absolute Carbon Emissions = tCO_2

5. Metrics and Targets (continued)

5.1 Metrics and targets related to our investments (continued)

Most default strategies have seen a decrease in intensity metrics with Carbon Footprint seeing the largest improvement. However, the primary metrics of WACI has improved marginally since the base year and Absolute Carbon Emissions have increased. The small change in WACI is driven primarily by two reasons:

- The first reason is that WACI for the Quilter default has risen, this can be partly attributed to the change in strategic asset allocation from a UK-focus to a more globally weighted strategic asset allocation. Following this change there was an increase in carbon emissions intensity for the Quilter default, primarily as a result of two new investments in the energy sector, NextEra Energy and Linde, which were discussed earlier in the document. Quilter ultimately believes their ESG credentials and future prospects outweigh their current high emissions intensity.
- The second cause of the increase in intensity metrics comes from the huge increase in assets within the TAM default which has the highest WACI metric of the four default strategies, this may be in part due to its heavier UK focus.

Absolute Emissions are linked to asset size and will therefore increase in any situation where Scheme assets grow faster than carbon intensity declines.

Figure 18: Snapshot of Options' non-emission metrics as at Q1 2023

Default Name	% of Total Scheme Assets	% Invested in Green Solutions	% Invested with SBTI Goals	% Invested in Thermal Coal
AB TDFs	17%	5%	25%	1%
Lifepath	39%	5%	24%	3%
TAM	28%	5%	13%	3%
Quilter	9%	6%	80%	6%
Scheme Average	**93%**	**5%**	**26%**	**3%**

Our Investment Managers have provided the metrics for their respective funds, however, there are a number of caveats attached to the metrics provided. The metrics to be provided in future reports are likely to change as these become more standardised across the financial services industry. However, the metrics in this report represent our best estimate of the situation at this time.

Data coverage has generally improved since last year, with all Investment Managers now able to provide at least some data for our 2019 base year. This has also come alongside improved quality of data from Investment Managers, particularly TAM who are now using Clarity AI to significantly improve their climate-related reporting.

BlackRock have been unable to provide WACI numbers for 2019 and, as such, we have derived these from the Carbon Footprint metrics provided and benchmarked against the other Investment Managers.

A number of our Investment Managers were able to provide substantially more detailed information for 2023 compared with 2022, which has led to revisions of both the base year figures and more precise metrics for the current year. The consequence of this is that some figures previously reported in 2022 may be quite different from those in this report as we have not revised our best estimates for 2022.

In addition, Quilter was only able to provide data for the Balanced Fund, however the asset weighting for the Balanced Fund is broadly similar to the overall asset weighting of all Options' Quilter funds. We therefore believe this is broadly representative. Quilter has a high active share and is liable to change significantly as individual stocks change.

Coverage of sovereign bond issuers remains weak across all Investment Managers and, as such, target-year numbers are likely to be adjusted as data on sovereign bonds improves.

The assets covered by this report constitute c.92.3% of the total assets as at Q4 2019 and c.93.2% of assets as at Q1 2023. The remaining assets are spread amongst the other smaller defaults and a small self-select range. We believe that, as this report covers the majority of assets and on a broadly increasing basis, this is representative of the full Scheme impact.

The metrics in future reports are likely to change as data becomes more standardised across the financial services industry, however, the metrics in this report represent our best estimate of the situation at this time.

5. Metrics and Targets (continued)

5.1 Metrics and targets related to our investments (continued)

Figure 19: Metrics and targets with progress to date

Default Name	% of Total Scheme Assets	% Invested with SBTI Goals	% Invested in Thermal Coal
Primary Metric – Weighted Average Carbon Intensity (WACI)	A climate metric that measures the amount of carbon emitted per unit of measure. In the case of this report, Carbon Intensity is measured by calculating the carbon intensity (Scope 1 + 2 Emissions / $1M Sales) for each portfolio company. WACI will be used as the primary metric to measure and track Options' progress towards achieving its net-zero target.	The carbon intensity metric will complement the measurement of the Scheme's overall emission target of Net Zero by 2050 and a 50% reduction by 2030.	The Portfolio-Weighted Average Carbon Intensity (WACI) measured in tonnes of CO2e/$1m of revenues was estimated to be 121.6 as of 31 December 2019 and has reduced to 121.2 as of 31 March 2023. While it is disappointing to see an increase since last year and relatively small overall improvement, we remain confident that our targets are reasonable and achievable.
Primary Metric - Absolute Carbon Emissions	We measure Scope 1 and 2 emission metrics for the default strategies in tonnes of CO2e. Scope 1 is all direct emissions from the activities under an organisation's control, and Scope 2 is indirect emissions from electricity or energy used by an organisation. We have attempted to collect Scope 3 emissions data where possible. Coverage is generally weaker for Scope 3 emissions.	While it is a regulatory requirement to provide the Absolute Carbon Emission metric for each default as well as the overall Scheme, it will not be used to measure against our targets. This is because of the continuous change in the size of our Assets Under Management (AUM), for example, an increase in assets may increase the total emissions of the portfolio despite a reduction in the intensity of carbon emissions across the portfolio.	Options' total Scope 1 and 2 GHG emissions for our investments in our base year of 31 December 2019 were an estimated 16,238.5 metric tonnes of CO2e; this absolute figure has increased to an estimated 21,447.4 metric tonnes as at 31 March 2023, though it should be noted that AUM has increased from £174.1m to £436.8m for the Scheme. Total Scope 3 GHG emissions were estimated to be 114,674.0 metric tonnes CO2e in our base year of 2019, rising to 173,969.8 metric tonnes CO2e as at 31 March 2023.
Other Metric - SBTi	The Science Based Targets initiative drives ambitious climate action in the private sector by enabling companies to set science-based emissions reduction targets.	We aim for 50% of equity investments in companies with externally verified net-zero targets (with the SBTi or another external verifier) by 2025.	As of 2023, the portion of Scheme-wide investments in companies with SBTi objectives is approximately 26%
Other Metric – Green Revenues	Expressed as a percentage, this metric measures the green revenue exposure of a company's revenue aggregated for the portfolio. The measure is based on a comprehensive taxonomy for green products and services.	As the default Investment Managers improve their coverage of Green Revenue reporting, the Trustee will consider a target for this in Options' overall targets.	As of 2023, the portion of Scheme-wide investments producing Green Revenues progression is approximately 4%.
Future Primary Metric – Carbon Footprint	A portfolio's Carbon Footprint is the sum of a proportional amount of each portfolio company's Scope 1 and 2 emissions (proportional to the amount of stock held in the portfolio) in tonnes of CO2e per $1m invested based on Enterprise Value Including Cash (EVIC).	Although WACI is being used to measure our target towards Net Zero, we believe Carbon Footprint would be a better metric to use at some time in the future as the data improves.	Options' average Carbon Footprint for our investments using our base year as at Q4 2019 was an estimated 86.1 CO2e/£1m of EVIC, by 31 March 2023, this had increased to an estimated 51.6 CO2e/£1m. We are awaiting further details from the Investment Managers on methodology used and coverage and so, at present, these numbers are provisional and indicative.

5. Metrics and Targets (continued)

5.2 Steps to manage pension Scheme's own operational impact

The Trustee has begun a number of initiatives to assess and reduce the Scheme's operational impact and ensure climate resilience within operations:

- The Trustee has requested an update from our suppliers on operational reduction information and risk assessment data. Future engagement will be planned for additional information including Scope 1, 2 and 3 emissions data. The Trustee travel policy has been finalised and includes a provision that Trustee meetings will, by default, be held using Microsoft Teams with. Face-to-face meetings will be held in order to preserve important relationships.
- The Options Trustee Board encourages operations to be paperless.
- The Trustee has committed to include climate-related factors into any review of our Business Continuity Plan.

Signature of chair

This report was approved by the Trustee on Day ____ Month ____ Year ____ and signed on its behalf by:

Chairperson:

Represented by: Anthony Filbin

Appendices

Appendix 1: Risk Register - extract of climate-related risks
(updated Jan 2023)

	Gross Risk Score				Current Status Risk Score				
Ref	Risk	Prob-ability	Im-pact	Gross Risk Score	Current Controls	Robust-ness Score	Residual Risk Score	Additional Mitigation Plans	Responsi-bility
TCFD 01	Ensure transition and physical risks affecting Scheme investments are managed	3	3	9	TCFD process aims to ensure that transition and physical risks are embedded into the processes of the Trustee, consultants and Investment Managers. Specific transition and physical risks added in their own right to the risk register, as seen in this table. The Scheme SIP amended to include climate risks. The ISC will constantly review with DWA.	4	5	Ongoing monitoring of process by managers and consultants to utilise information about climate risks	Investment
TCFD 02	Increased volatility from extreme events in G7	3	3	9	Higher drawdown risk: acceptance of additional risk.	2	7	Formally adopting a flexible drawdown policy for all fund managers	Investment
TCFD 03	Lower GDP forecasts reducing overall equity returns	3	3	9	Little mitigation possible; acceptance of risk.	1	8		Investment
TCFD 04	Damage to property portfolio, particularly in location of severe rainfall or sea-level rise leading to loss of value, market illiquidity, asset obsolescence	3	3	9	Portfolio diversification	4	5	Mitigation action: mapping/ review of real estate investments	Investment
TCFD 05	Exposure to sectors with transition and physical risks in equities	3	3	9	Monitoring static and scenario-related exposures	4	5	Regular reviews expected	Investment
TCFD 06	Further opportunity to invest in low carbon energy supplies	3	3	9	Monitor solutions figures across Scheme	4	5	Consider additional targets	Investment
TCFD 07	Regulations introducing TCFD need to be complied with by October 2022. Failure to do so will result in breach of regulations	2	3	6	TCFD project has been undertaken by DWA. A delivery timeline has been drawn up and we are currently on schedule	4	2	Progress reviewed at all Board and ISC meetings	Trustee / Investment Manager
TCFD 08	Risk of loss of trust and confidence in Scheme if Net Zero not addressed	4	2	8	Net-zero scheme targets set – see metrics & targets section	4	2		Investment
TCFD 09	Ensuring resilience to severe weather on an operational level including sponsor	2	1	2	As the Trustee is a virtual entity, the risks are diversified, but sponsor office remains a risk and BCP should be in place	4	0		Trustee
TCFD 10	Improving transition resilience in supply chain	1	2	2	Options will request information about their steps to reduce emissions from professional advisors	4	0		Trustee
TCFD 11	Increased regulation and disclosure of investment activities	2	3	6	Early adoption of TCFD for Scheme and regular commissioning of scenario analysis	4	2	Progress reviewed at all Board and ISC meetings	Investment

Acknowledgements

The Options Trust TCFD Report has been prepared by Dean Wetton Advisory UK Limited.

Cooperation and input has been received from:

- Administration service providers of Options
- Alliance Bernstein. BlackRock, Quilter Cheviot and TAM

Glossary of terms

Glossary	Explanation
BCP	Business continuity planning (BCP) is the process involved in creating a system of prevention and recovery from potential threats to a company.
BES	Describes the Bank of England's Climate Biennial Exploratory Scenario that stress tests the resilience of the current business models of the largest banks and insurers in the UK.
Capital goods	This is a sector which includes buildings, machinery, equipment, vehicles and tools. Capital goods are not finished goods; instead, they are used to make finished goods.
Carbon footprint	Is the total amount of greenhouse gases (including carbon dioxide and methane) that are generated by human actions.
Climate-related opportunity	Refers to the positive impacts related to climate change on an organisation. Efforts to mitigate and adapt to climate change can produce opportunities for organisations, such as the development of new technology, products and saving of resources.
Climate-related risk	Refers to the potential negative impacts of climate change on an organisation, being physical and transition risk factors.
CRRO	Climate-related Risks and Opportunities
CVaR – Climate Value at Risk	CVaR from MSCI is designed to provide a forward-looking and return-based valuation assessment to measure climate-related risks and opportunities in an investment portfolio. The fully quantitative model offers deep insights into how climate change could affect company valuations.
Decarbonisation	Refers to all measures through which a business sector or an entity – a government, an organisation – reduces its carbon footprint, primarily its greenhouse gas emissions, carbon dioxide (CO2) and methane (CH4), in order to reduce its impact on the climate.
DWA Fairway Model	A model created by our investment consultant which measures various risk-and-return metrics compared with a member's distance from retirement. The model also includes red and green boundaries to give a general idea of what values would be appropriate for a DC pension scheme. The model allows us to assess the appropriateness of an investment strategy across the member's whole journey and identify areas of concern and an overview of the long-term expected returns of an investment strategy.
Emission Intensity	A climate metric that measures the amount of carbon emitted per unit of measure. In the case of this report, Carbon Intensity is measured by calculating the carbon intensity (Scope 1 + 2 Emissions / $M Sales) for each portfolio company.
Energy sector	Refers to the generation of power from oil, gas, nuclear and renewable resources such as wind and solar.
Equities	These are typically investments made into companies whose shares are traded on a stock exchange.
ESG	Refers to Environmental, Social and Governance. Investors are increasingly applying these non-financial factors as part of their analysis process to identify material risks and growth opportunities.
Financial Stability Board	The Financial Stability Board (FSB) is an international body that monitors and makes recommendations about the global financial system. It was established after the G20 London summit in April 2009. The FSB includes, amongst others, all G20 major economies and the European Commission.
G20	The G20, or Group of Twenty, is an intergovernmental forum comprising 19 countries and the European Union (EU). It works to address major issues related to the global economy, such as international financial stability, climate change mitigation and sustainable development.
GDP	Gross domestic product or GDP is a measure of the size and health of a country's economy over a period of time (usually one quarter or one year). It is also used to compare the size of different economies at a different point in time.
GHG	There are six types of Greenhouse Gas - listed in the Kyoto Protocol: carbon dioxide (CO2); methane (CH4); nitrous oxide (N2O); hydrofluorocarbons (HFCs); perfluorocarbons (PFCs); and sulphur hexafluoride (SF6).
GHG – Greenhouse Gas Emissions	GHG is a gas that absorbs and emits radiant energy within the thermal infrared range, causing the greenhouse effect and leading to global warming. GHG emissions are often measured in carbon dioxide (CO2) equivalent.
Gilt	Gilts are government-issued bonds.
Greenhouse gas emissions	Relate to the total quantity of greenhouse gases being emitted

Glossary of terms (continued)

Glossary	Explanation
Green revenues	Weighted average of fund constituents' percentage of revenue derived from alternative energy, energy efficiency, green building, pollution prevention, sustainable water or sustainable agriculture.
Impact assessment tools	Describes methods used to measure the impact an organisation has on different sectors and economies.
IPCC	The Intergovernmental Panel on Climate Change is a body of the United Nations.
Materials sector	Includes companies engaged in the discovery, development and processing of raw materials which are used across a broad range of sectors and industries.
Maximum drawdown (and its use in measuring downside risk related to climate)	Refers to the maximum observed loss from a peak to a trough of a portfolio, before a new peak is attained. Maximum drawdown is an indicator of downside risk over a specified time period. It helps us quantify how much loss an unfortunate investor may see in the value of their portfolio.
MSCI	Morgan Stanley Capital International is an investment research firm.
MSCI ACWI	The MSCI ACWI Index, MSCI's flagship global equity index, is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 25 emerging markets.
NDC commitments	Nationally determined contributions (NDCs) are at the heart of the Paris Agreement and the achievement of its long-term goals. NDCs embody efforts by each country to reduce national emissions and adapt to the impacts of climate change.
Net Zero	Refers to achieving a balance between the amount of greenhouse gas emissions produced and the amount removed from the atmosphere. There are two different routes to achieving Net Zero, which work in tandem: reducing existing emissions and actively removing greenhouse gases.
NGFS	The Network for Greening the Financial System (NGFS) is a group of international central banks and regulators formed to develop an analytical framework for assessing climate-related risks.
PAII	The Paris Aligned Investment Initiative (PAII) was established in May 2019 by the Institutional Investors Group on Climate Change (IIGCC) at the request of asset owner members. il now involves over 110 investors representing $33 trillion in assets.
PCRIG	The Pensions Climate Risk Industry Group has produced guidance for pension trustees on improving their schemes' approach to climate issues.
Physical risk	Refer to the risks coming from climate change that can be event-driven, such as increased severity of extreme weather events (e.g., cyclones, droughts, floods and fires). They can also relate to longer-term shifts in precipitation and temperature and increased variability in weather patterns (e.g., sea-level rise).
Real estate sector	An industry grouping including all types of property.
SBTi	The Science Based Targets initiative drives ambitious climate action in the private sector by enabling companies to set science-based emissions reduction targets.
Scenario analysis	Refers to the process used to identify and assess potential range outcomes of future events under conditions of uncertainty. In the case of climate change, scenarios allow an organisation to explore and develop an understanding of how the physical and transition risks of climate change may impact its businesses, strategies and investments over time.
Scope 1, 2 and 3 emissions.	Scope 1 – all direct emissions from the activities under an organisation's control. Scope 2 – indirect emissions from electricity used by an organisation. Scope 3 – other indirect emissions from sources not directly controlled, including supply chain operations and end-product usage by customers.

Glossary of terms (continued)

Glossary	Explanation
Sovereign bonds	Refers to a debt security issued by a national government to raise money for financing government programmes.
SSPs - Shared Socio-Economic Pathways	SSPs are projections of socioeconomic global changes up to 2100. They are used to derive greenhouse gas emissions scenarios with different climate policies. The projections are: SSP1: Sustainability (Taking the Green Road) SSP2: Middle of the Road SSP3: Regional Rivalry (A Rocky Road) SSP4: Inequality (A Road divided) SSP5: Fossil-fuelled Development (Taking the Highway)
Standard deviation	A standard deviation is a measure of how dispersed the data is in relation to the mean. Low standard deviation means data are clustered around the mean, and high standard deviation indicates data are more spread out.
Stewardship	Refers to the responsible oversight of capital that scheme trustees and Investment Managers allocate on behalf of their clients, in order to generate sustainable benefits for the economy, the environment and society.
Transition risk	Refers to risks associated with the transition to a lower-carbon global economy, the most common of which are policy and legal actions, technology changes, market responses and reputational factors.
Utilities sector	Refers to a category of companies that provide basic amenities, such as water, sewage services, electricity, dams and natural gas.
Voting rights	These are rights attached to shares at the general meetings of a company.

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