Cummins UK Pension Plan

Climate change report

A report for members by the Trustee

Year ending 31 December 2024

Welcome

Welcome to our latest Climate change report. It tells you about the work we're doing on climate change in relation to the Plan.

As the Plan's Trustee, we take our responsibility as a long-term investor seriously. We believe that climate change is a financially material factor for the Plan, over both the short and longer term. We recognise that climate change represents a risk to our society, economy and the financial system, although the transition to a low-carbon economy also presents investors with opportunities. Together, these risks and opportunities have the potential to impact:

- the Plan's investments
- the financial health of Cummins
- the Plan's funding position.

We're monitoring the potential impact and taking steps to reduce climate-related risks on behalf of our members.

During 2022, the Trustee set an aspiration for the Plan's assets to have net-zero emissions by 2050. This will help us manage the risks associated with climate change, as we consider the work that's needed to achieve our aspiration. Please note that when we refer to 'the Trustee'/'we' in this report, this includes actions that we've taken or that have been carried out on our behalf by our sub-committees or advisers.

We hope you find our report interesting. If you have any questions or comments, please **get in touch**.

Nichola Moore
Chair of the Trustee

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Our Climate change report is published alongside the **Plan's annual report and accounts** for the year to 31 December 2024.

Executive summary

About this report

This report describes how the Trustee has identified, assessed and managed the Plan's climate-related risks and opportunities during the year to 31 December 2024.

We've produced our report in line with the legal requirements for pension schemes under The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (as amended). We've also used the Principles of Effective Disclosure that have been produced by the Taskforce on Climate-related Financial Disclosures (TCFD) to help us prepare our report.

The Plan is made up of various sections, which we've grouped and refer to as the DB Section and the DC Section. If you'd like to know the names of the individual sections within these groups, please see **Appendix 6**.

Governance

Climate change is a key focus for the Trustee. We have a robust framework for managing the Plan and have set clear expectations and responsibilities in relation to climate change.

- We've set out clearly defined roles and responsibilities in our **Climate governance statement**.
- We're supported by our advisers on climate-related matters.
- Climate change is a particular focus for the investment sub-committee (ISC), committing appropriate Trustee time and resources to meet our objectives.

Strategy and risk management

The Trustee has been working to identify and assess climate-related risks and opportunities for the Plan and has considered the potential impact on the Plan's investment and funding strategy.

- We recognise that there are risks and opportunities from both the physical effects of a changing climate and from the effects of transitioning to a lower-carbon economy; and therefore, we've considered both physical and transition risks for the Plan.
- In October 2023, we carried out detailed analysis to assess how the Plan may be affected under different climate scenarios from an investment, funding and covenant perspective; and we regularly review the Plan's investment managers' climate practices.
- Our monitoring of climate-related risks and opportunities is integrated into the Plan's wider risk management framework, from an investment, funding and covenant perspective.
- We're monitoring and managing the climate-related risks and opportunities for the Plan that we've identified, including using stewardship and engagement to improve outcomes, where possible.

Metrics and targets

The Trustee is committed to monitoring and managing the Plan's climate-related risks and opportunities, and we've set specific climate-related targets for the Plan's assets.

- We've collected and reviewed information about greenhouse gas emissions, carbon footprint and the alignment of the Plan's assets to help understand the Plan's exposure to climate risks.
- We've reviewed the quality of the data provided – at the time of writing, some of the data requested by the Plan's managers was unavailable, so we've included details on the missing data and how we're addressing this issue, with no data being treated as unobtainable.
- We've set a target for our buy and maintain credit portfolio in the DB Section that aims to reduce emissions over time. Our target is to increase the proportion of companies that have science-based targets (SBT) to 80% of the portfolio by 2025. We'll monitor progress against this annually.
- In January 2024, we set a DC-specific climate target. For listed equities used in the default strategy, there is now a target of 70% SBTi alignment in the funds by 31 December 2030. The baseline using data as at 30 September 2023 was at 37%, based on approved SBTi only. We'll monitor progress against this annually.
- We've set an aspiration for the Plan's assets to have net-zero greenhouse gas emissions by 2050 to help manage the risks associated with climate change.

Governance

Governance activities are reported on at the whole Plan level.

1.1: Managing climate-related risks and opportunities which are relevant to the Plan

Climate change is a key focus for the Trustee. We understand that we have ultimate responsibility for ensuring the effective governance of climate-change risks and opportunities in relation to the Plan.

We've chosen to take an approach to the oversight and management of climate-related risks and opportunities that largely replicates the process for how we consider other risks and opportunities. In practice, this means we consider climate-related risks and opportunities within the Plan's existing risk management frameworks (such as the Plan's risk register and integrated risk monitoring framework) as well as introducing a number of separate processes to ensure we maintain oversight of climate-related risks and opportunities which are relevant to the Plan.

For example:

- The Trustee regularly reviews and (where appropriate) revises its governance arrangements, investment beliefs and policies in relation to climate change, such as:
  - the **Climate governance statement** – this is prepared so that we may maintain appropriate oversight of the climate-related risks and opportunities relevant to the Plan and be confident that we're meeting our statutory and fiduciary obligations
  - the ISC's investment beliefs – these reflect the Trustee's belief that considering the risks and opportunities posed by environmental, social and governance (ESG) and climate factors can improve outcomes for the Plan and its members
  - the associated roles and responsibilities of the Trustee and the various other parties involved in management of the Plan were documented in the Plan's **Climate governance statement** in February 2025.

- During the Plan year, to help the Trustee meet its TCFD obligations, we considered various climate metrics collected for the Plan and used those metrics to identify and assess climate-related risks and opportunities for the Plan. Our investment adviser, LCP, will continue to collate this information annually and share it with the ISC and the Trustee. On an annual basis, the Trustee will review its choice of metrics to inform the identification, assessment and management of climate-related risks and opportunities.
- The ISC uses information and advice provided by LCP to consider the climate-related risks and opportunities faced by the Plan including, for example, the relevance for the Trustee's risk register, at least annually. The findings are ultimately reported to the Trustee. This framework ensures that the Trustee is regularly informed about climate-related risks and opportunities and is able to take steps to assess and manage them.
- At least once every three years, the Trustee will review the results of scenario analysis that illustrates how the Plan's assets and liabilities might be affected under various climate-change scenarios, along with commentary on the potential impacts for the sponsoring employer and the implications for the resilience of the Plan's funding and investment strategies.
- Whenever we review our agreements with external consultants or appoint new consultants, the Trustee and ISC also consider and document the extent to which the consultants' climate-related responsibilities are included in the agreements and/or any consultant objectives are set.
- The Trustee works collaboratively with the Plan's sponsoring employers (and will continue to do so on an ongoing basis) to seek to understand how they are addressing climate-related issues relevant to their business and how the sponsor's ability to support the Plan might be affected by climate-related issues in the future.
- Over the year, the Trustee and ISC at their regular meetings undertook a series of discussions covering responsible investment (RI) and climate-related risks and opportunities. As part of its oversight, the ISC reviewed the results of the annual RI survey conducted by its investment adviser, which assessed the RI performance and practices of the Plan's investment managers. The Trustee also received an update on progress against the Plan's net-zero-by-2050 aspiration.
- The Trustee seeks input from its advisers to ensure that it can identify, assess and manage climate risks and opportunities. The advisers provide information as outlined in the next section (see 1.2: Roles and responsibilities).
- The Trustee has received advice from its advisers on how the investment strategy, funding position and sponsor may be affected by climate-related factors.
- With appropriate advisers in place, the Trustee ensures that climate-related risks and opportunities are considered as part of any relevant advice, such as the actuarial valuation process, investment strategy review and assessment of the sponsoring employer's covenant.

The Trustee will continue to periodically review its approach and the adequacy and relevance of the governance processes and reporting around climate-related risks and opportunities.

1.2: Roles and responsibilities

The Trustee understands that it must set out the role of any person who undertakes Plan governance activities or who advises or assists the Trustee with Plan governance activities (apart from its legal advisers). The ISC also undertakes governance activities for the Plan.

The following all advise and assist on governance activities for the Plan:

- LCP is the Trustee's investment adviser
- Cardano provides advice in relation to the sponsoring employer's covenant
- WTW is the Trustee's actuarial adviser.

The **Climate governance statement** sets out:

- the roles and responsibilities of the ISC, LCP, Cardano and WTW
- how the Trustee and the relevant sub-committees are informed about, assess and manage climate-related risks and opportunities and the frequency at which these discussions take place.

All the advisers provide information for the Trustee's consideration of climate-related risks and opportunities, including RI assessments, climate-risk management assessments and data on climate metrics (sourced originally from the managers or estimated by the advisers).

This information is provided at least annually in each case, and summary information on investment managers' RI assessments is included in the Plan's quarterly investment monitoring report, where possible.

The ISC has been focused on supporting the Trustee in a range of activities associated with identifying, assessing, monitoring and managing climate-related risks and opportunities. The ISC has used a detailed 'gap analysis' framework and the Trustee calendar to support progress across a range of climate-focused activities and to ensure that its objectives, including all reporting requirements, have been met.

The Trustee is required to set out the processes it has put into place by which it satisfies itself that each of those entities is taking adequate steps to identify, assess and manage relevant climate-related risks and opportunities. We expect all parties to comply with the **Climate governance statement**, which includes details of the nature and frequency of monitoring activities. In addition, the Trustee, with the support of the ISC, ensures its advisers:

- are given clearly defined responsibilities in respect of climate change
- have documented their responsibilities in relevant agreements, such as investment consultants' strategic objectives and service agreements
- have adequate expertise and resources, including time and staff, to carry these out
- are adequately prioritising climate-related risk.

From time to time, the Trustee will review the climate competency of its advisers and take appropriate action if any concerns are identified. When appointing new advisers in future, the Trustee would consider whether the advisers have suitable climate credentials.

1.3: Time and resources

The Trustee has committed appropriate time and resources during the year to meet our climate-change objectives. This has been driven by our belief regarding the potential impact of climate-related risks and opportunities on the Plan, as well as the need to ensure we comply with our legal obligations in relation to climate change.

The Trustee's primary role in respect of climate-related risks and opportunities is to oversee the identification, assessment and management of those risks and opportunities that are relevant to the Plan. It does this by reviewing, discussing and, where appropriate, challenging the information and advice it receives. The Trustee discusses climate-change risk at its quarterly meetings as part of the monitoring of existing managers. It also considers climate-change risk before appointing any new managers. In addition, climate risk was discussed as part of the climate scenario analysis that was carried out during the Plan year.

Regular monitoring and training sessions were carried out by LCP, and these will continue. Where any knowledge gaps were identified, these were addressed in the training. The Trustee also regularly discusses, questions and challenges the information it receives from its advisers. Over the year, as part of the ongoing DB Section investment strategy review, the Trustee explored options for an allocation to equities and incorporating further ESG integration into the DC Section investment strategy. This process involved evaluating various approaches to RI used by active or passive equity funds in the marketplace, ranging from traditional market-cap passive funds to active impact funds. To gain a deeper understanding of the differences in these approaches, the Trustee met with five equity managers across this spectrum to receive training on their approaches and to assess whether the Plan should consider an investment. Post year-end, the Trustee has agreed to invest in two climate-tilted passive equity funds within the DB Section and decided not to make further changes to the DC Section investment strategy at this time.

In November 2024, the Trustee reviewed the performance of its investment managers in an annual RI survey conducted by its investment adviser. The Trustee also received an update on progress against the Plan's net-zero-by-2050 aspiration.

Strategy

The Trustee has implemented a number of processes and tools for identifying, assessing, monitoring and managing climate-related risks and opportunities. The Trustee also ensures its advisers have processes in place to help it research and evaluate its investment managers' climate-related practices. We've taken positive steps during the year to address climate-related risks in specific mandates.

2.1: Identifying climate-related risks and opportunities

The Plan faces risks and opportunities from both the physical effects of short-term and long-term changes in the climate itself – such as rising temperatures and more frequent storms or flooding – and from the effects of transitioning to a lower-carbon economy to limit the extent of climate change, such as government policies to restrict or discourage the use of fossil fuels, technological advances in renewable energy and shifts in consumer demand towards 'greener' products.

Many of these climate-related risks and opportunities could affect the value of the Plan's assets. Others could affect the sponsor and its ability to provide financial support to the Plan. Some may also affect the Plan's liabilities within the DB Section, for example, through affecting members' life expectancy or the inflationary increases made to pensions each year. Climate change could therefore impact the Trustee's aim for the Plan to reach full funding on the (103%) self-sufficiency target basis. This was considered in detail within the climate scenario analysis undertaken by the Trustee.

Time horizons relating to the Plan

The time periods that the Trustee has chosen as short, medium and long term for considering the climate-related risks and opportunities faced by the Plan are set out below. These remain unchanged from 2023, for the reasons set out below.

We considered time horizons specifically for the DB and DC Sections of the Plan, noting that the time periods for the DC Section are longer, given that it remains open to new members and the membership is generally younger than that of the DB Section.

The time horizons were set with reference to the asset classes held by the Plan. For the DB Section, the long-term horizon reflects the duration of the Plan's liabilities (and correspondingly, the holdings in the unleveraged gilt mandates that aim to hedge these liabilities). The short-term horizon reflects the period over which the Plan is expected to receive the proceeds from many of its illiquid mandates (and indeed, under the existing strategy, to have the greatest exposure to growth assets). The duration of the Plan's buy and maintain credit assets forms the basis for the medium-term horizon (noting that the Trustee expects to reach a largely de-risked position by the end of the medium-term horizon).

These time horizons have informed the Trustee's climate-related considerations and decisions during the year.

DB Section

Time horizon	Date	Rationale
Short	2025	3-year time horizon, from when the first climate change report was produced for the Plan in 2022, which aligns with valuation cycles so helps ensure climate considerations are included.
Medium	2030	8-year time horizon, from when the first climate change report was produced for the Plan in 2022, covering the period over which the Trustee expects to reach a de-risked position.
Long	2037	15-year time horizon, from when the first climate change report was produced for the Plan in 2022, which ensures the Trustee considers the possible climate impacts over a longer period.

DC Section

Time horizon	Date	Rationale
Short	2028	5-year time horizon, noting major improvements in climate data quality are expected over this period.
Medium	2033	10-year time horizon, which is a key period over which policy action will determine if the Paris Agreement goals are met.
Long	2053	30-year time horizon, broadly aligning with when many economies are targeting to be net zero, and the Plan's net-zero aspiration.

Summary of climate-related risks and opportunities to the Plan

The Trustee identified a range of climate risks and opportunities to the Plan within the Plan's time horizons, as summarised below. They include both transition and physical climate-related risks. We've considered the expected impact of these on the Plan's investment strategy, funding strategy and sponsor, as relevant, and continue to consider them in ongoing strategy discussions.

DB Section

Time period	Key risks	Key opportunities
Short term (next 3 years)	Exposure to climate-related investment risks may be highest while the Plan retains a significant allocation to growth assets.	Equity funds used by the Plan should aim to protect against transition and physical risks and provide exposure to transition opportunities.
Medium term (next 8 years)	Market volatility could cause investment losses and increase the time to reach full funding on a buyout basis.	Climate-aware credit mandates should increase the resilience of assets to climate risks.
Long term (next 15 years)	Cost of buyout may increase as insurers allow for climate-related risks in their pricing and reserving bases.	Buyout is expected to provide greater protection from climate risks for members' benefits.

DC Section

Time period	Key risks	Key opportunities
Short term (next 5 years)	Older members within five years of retirement will be most exposed to transition risks in the short term in the event of a Paris disorderly transition. Members closer to their retirement date are or will shortly be invested in cash, short-dated fixed income, a multi-asset fund and a small allocation to equities. As such, members at this stage are less likely to be impacted by physical risks.	Low-carbon investments can mitigate the impact of market shocks due to a market repricing event.
Medium term (next 10 years)	Transition risks may still be heightened over the medium term, creating volatility. Market returns may be lower if disorderly transition harms economic performance. Members at this stage of the lifestyle are invested in short-dated fixed income, a multi-asset fund and equities. As such, they will be more exposed to physical risks than members with shorter savings time horizons	Impact investments can take advantage of the shift to a low-carbon economy and may provide an enhanced source of return over this period.
Long term (next 30 years)	Physical risks are most severe in the Paris failed-transition pathway, impacting those members 30 years or more from retirement. Members further from their retirement date are invested in equities for longer, and equities are expected to be most severely impacted by physical risks.	Engagement with investment managers to ensure they are exercising stewardship in support of net-zero pathways is key to avoiding a Paris failed transition.

Funding and covenant risks

The Trustee has identified specific risks which include:

- a potential financial and demographic impact on cashflows. For example, potential shocks to gilt yields and inflation (which could have a positive or negative impact on the Plan's funding position) and direct or indirect impacts on life expectancy (which could also be positive or negative).
- a potential impact on journey planning. For example, market shocks caused by climate change could throw the Plan's de-risking journey plan off-track or climate impacts and regulatory requirements could affect the cost of any insurance options that the Trustee may want to consider.
- significant changes in covenant security. For example, climate risks or opportunities could impact Cummins Inc. and its ability to fund the Plan. Supply chain issues caused by climate change could also impact Cummins Inc. and its ability to fund the Plan.

The Trustee is of the view that no changes to the funding strategy were needed to improve its resilience with respect to climate-related risks and opportunities at this stage, though it will continue to review the resilience of the funding strategy on an ongoing (and at least annual) basis.

Consideration of climate-related risks within the Plan's investment strategy

DB Section

The investment manager agreement for the DB Section's buy and maintain credit portfolio explicitly addresses climate risk within this portfolio, as well as broader ESG risks. The mandate has restrictions on certain types of investments with significant ESG issues, including nuclear weapons, tobacco, thermal coal, tar sands, UN Global Compact (UNGC) violators and companies with an MSCI ESG rating of CCC or below.

The mandate also has a specific emissions-reduction target, whereby overall portfolio emissions must fall by 7% year- on-year, which is consistent with the progress required to achieve the 1.5°C temperature goal of the Paris Agreement.

The Trustee believes these characteristics of the mandate improve the resilience of the Plan's investment strategy to climate risks (both physical and transition risks); and we believe that it now has greater resilience to the impact of climate-related risks as well as being better prepared for opportunities as a result.

Over the year, the Trustee reviewed the Plan's investment strategy and agreed to invest in a leveraged LDI mandate, moving away from the previous approach of holding unleveraged gilts. It was further agreed that the buy and maintain credit portfolio would be managed by the same manager appointed to oversee the LDI mandate, to ensure greater integration and operational efficiency.

As part of the selection process for these mandates, the Trustee met with a range of prospective managers and considered their climate-related and broader RI practices. The Trustee held meetings with both the incumbent manager and an alternative provider post year-end, in January 2025, and subsequently agreed to appoint the alternative manager.

While the transition of assets is expected to take place over the course of 2025, the Trustee has been actively engaging with the new manager, through the investment adviser, to ensure that the new credit mandate explicitly addresses climate risk and remains aligned with the Plan's long-term net-zero ambition.

In parallel, the Trustee has also been considering the introduction of an equity allocation as part of the investment strategy changes. This assessment involved reviewing various equity strategies with differing approaches to RI and climate, ranging from traditional market-cap passive approaches to more targeted climate-focused impact options. The Trustee met with a number of equity managers to better understand their approaches and assess their suitability within the overall strategy. As previously noted, the Trustee has agreed post-year end to invest in passive climate-tilted equities.

The Trustee will continue to consider developments to help manage climate-related risks and incorporate climate-related opportunities within future investment strategy reviews.

DC Section

In February 2023, Plan assets were transferred to introduce a low-carbon equity fund and a sustainable fixed-income fund into the DC Section's lifestyle strategies. Both new funds have exclusions in place for companies deriving revenues from coal extraction, coal power and oil sands (20%+ revenue), UNGC violators and controversial weapons.

The low-carbon equity allocation also targets a carbon emissions intensity reduction of 70% compared to that of the parent index with commitment to target net-zero emissions by 2050. The sustainable fixed-income fund has an internal ESG rating system, which rates bond issuers based on their ESG initiatives. The framework tilts towards companies which produce positive externalities and has a hard screen to exclude 10% of the investible universe.

The Trustee believes that, following these changes, the Plan's default investment strategies have greater resilience to the impact of climate-related risks as well as being better prepared for opportunities. In addition, some of the developed market and ethical equities funds have a positive rating due to their Paris-aligned decarbonisation targets and ESG exclusions.

2.2: Assessing climate-related risks and opportunities

Climate scenario analysis

Scenario analysis is a tool for examining and evaluating different ways in which the future may unfold. In November 2023, the Trustee used scenario analysis to consider how climate change might affect the Plan's assets and liabilities, funding strategy, investment strategy and the sponsoring employer's covenant.

We've used the climate scenario analysis as a key tool for identifying, assessing and managing climate-related risks and opportunities. In particular, we've used the analysis to identify the time horizons over which the physical risks and transition risks could materialise. We've then considered what the possible impacts of climate change could be over each of these time horizons and whether the current DB funding and the investment strategies for both the DB and DC Sections are likely to be robust against these risks (or able to take advantage of any opportunities).

The Trustee will carry out scenario analysis at least every three years and consider annually if the review should be carried out sooner due to investment strategy developments.

During 2023, a small number of changes were made to the scenarios considered by the Trustee. The 'failed-transition' scenario was renamed 'high warming', the 'Paris disorderly-transition' scenario was renamed 'net-zero financial crisis' and the 'Paris orderly-transition' scenario was removed. A new 'limited-action' scenario was introduced, where some action is taken to mitigate climate change but not as much as under the net-zero financial crisis scenario. Each scenario is explained in **Appendix 2**.

The results of the climate scenario analysis are fed into the integrated risk management of the DB Section through specific covenant, investment and DB funding-focused considerations and the interaction of these. The results for the DC Section are fed into the Trustee discussions and decisions on the default investment option and how members could be impacted at different ages over different time periods.

For further information on the results and modelling approach, please see the **Climate scenario analysis**.

Assessment of the managers' practices

In November 2024, the ISC, with the support of its investment adviser, carried out its annual high-level review of the Plan's managers' climate credentials to identify where the Plan could have the greatest impact on managing climate risks.

While the scenario analysis considered how the Plan might be affected by macro-level climate impacts, the manager assessment considered the portfolio exposures at asset class level.

Key manager risks identified in the analysis were:

- failure to understand macro trends
- making decisions through a 'business-as-usual' lens, without considering how climate risk can affect their models and predictions
- having inadequate data or performing poor analysis on holdings
- making flawed decisions on investee holdings due to lack of data, insufficient climate expertise, poor models or poor analysis
- undertaking insufficient portfolio-level analysis
- a bottom-up focus to analysis or a lack of consistent metrics, which could lead to managers losing sight of the overall portfolio risk or relying on misleading aggregate metrics
- a lack of robust stewardship practices in place
- a failure to use influence effectively to protect and enhance the value of assets that could be affected by market-wide and systemic climate risks.

Managers with strong climate expertise and sound climate processes may be able to outperform through taking advantage of market mispricing or investing in companies that are well placed for the climate transition.

Further details on the results of the manager assessment and the process are included in the **Assessment of the managers' practices**.

Risk management

The Trustee has established various processes to identify, assess and manage climate-related risks and opportunities in relation to the Plan and has integrated these within the overall risk management of the Plan. The risk management activities are carried out for the Plan as a whole.

How the Trustee identifies and assesses climate-related risks and opportunities

The Trustee regularly identifies, assesses and monitors its climate-related risks and opportunities. The processes for doing this are set out in more detail below, including how this is integrated within the Trustee's overall risk management of the Plan.

- **Monitoring within the Plan's wider risk management framework**
  Climate-related risk is specified within the Trustee's risk register to ensure risks are considered on a regular basis and in the context of wider risks to the Plan. Risks are regularly assessed according to impact and likelihood, and an overall risk score is assigned, with mitigating actions and next steps then identified, to ensure risks are managed and controlled, based on this score. This allows the Trustee to prioritise the management of the most impactful and/or likely risks facing the Plan, including climate-related risks. We also consider climate risk within our integrated risk framework and, as part of this, consider risks to the Plan's funding and covenant, supported by our advisers.

- **Monitoring covenant risk**
  In addition to the climate scenario analysis we carry out to inform this report, the Trustee's covenant adviser monitors covenant risk through its triennial assessment (most recently completed in March 2024), which includes a high-level review of ESG risks, including climate change. The covenant adviser will continue to review its scenario analysis for future climate change reports and update as necessary.

- **Monitoring climate-related metrics and Plan-specific targets**
  The metrics and targets that we use to monitor climate-related risks and opportunities for the Plan are set out in the section of this report on **Metrics and targets**.

- **Monitoring managers' investment practices**
  The Trustee and ISC regularly monitor investment managers' sustainability practices – supported by responsible investment assessments from our investment adviser – and engage with them on any matters of concern. When the ISC meets with the Plan's investment managers, we request updates on climate-related risks as well as wider ESG risks relevant to the Plan. The processes for assessing climate-related risks and opportunities are applied at the asset-class level. The ISC met with two of its managers, LGIM and BlackRock, to discuss sustainability risks, including climate, in January 2024. The ISC engaged with these two managers during the Plan year to re-emphasise its stewardship priorities and to further understand the engagement efforts being made by these managers. The ISC also reviewed the outcomes of the annual RI survey conducted by the Plan's investment adviser, which evaluated the RI performance and practices of the Plan's investment managers.

- **Review of monitoring and governance framework**
  The Trustee will consider the processes and governance framework it has in place for identifying, assessing and monitoring climate-related risks and opportunities on a regular basis to ensure they remain appropriate and useful.

The Trustee then uses a variety of tools to assess the factors we identify, which include:

- climate scenario analysis – to consider how the Plan may be affected under a range of different climate scenarios and the implications for the Plan's funding strategy, investment strategy and journey plan. We've also considered how the sponsor might be affected by climate-related factors and any resulting implications for the Plan (see **next page** and **Appendix 2** for more details).

- assessing investments – with support from our advisers, we periodically consider (including during the Plan year) the investment mandates we've set in the context of climate-related risks and opportunities. LCP carries out assessments of both the current and prospective investments and managers and reports findings to the ISC. The manager assessments include consideration of climate practices, incorporation of climate-related factors into the investment process and the effectiveness of the management of climate-related risks (see below for more details).

- monitoring a range of climate-related metrics in relation to the Plan's assets (for more details, please see the section on **Metrics and targets**).

The tools are used to identify the key risks that the Trustee should focus on. We then ensure that these risks are fed into our investment decision processes for both the DB and DC Sections as well as feeding into the covenant and DB funding processes. This also feeds into the Trustee's risk registers to ensure all risks are being monitored and managed consistently and proportionately. We regularly question and, where appropriate, challenge the information provided by our advisers.

How the Trustee manages climate-related risks and opportunities

Once the Trustee has identified and assessed the climate-related risks and opportunities for the Plan, we take a number of different steps to manage these and use a number of tools and metrics to assess these. This includes:

- maintaining strong governance processes and reviewing them regularly
- regularly reviewing risks as part of the Plan's integrated risk management approach
- ensuring that the Plan's managers incorporate climate risks as part of their investment process
- considering whether the Plan's investment managers support relevant climate initiatives
- considering climate-related risks as part of investment strategy discussions and investment manager appointments (when relevant)
- considering both physical and transition risks facing the Plan, through scenario analysis (which was carried out in 2023 for the Plan's assets following a change to the investment strategy) and reporting on the Plan's investment managers provided by the Plan's advisers
- monitoring metrics for measuring and assessing climate risk and monitoring progress of them over time
- setting a specific target for one of the Plan's climate metrics and monitoring progress over time
- exercising effective stewardship to encourage improved outcomes (by meeting regularly with the Plan's investment managers to discuss stewardship and including engagement reporting from the Plan's buy and maintain credit manager in the ISC's quarterly meeting packs)
- receiving regular updates from Cummins Inc. at Trustee meetings that are solely focused on covenant.

The **Governance section** of this report provides details of some of the tools used by the Trustee for the management of climate-related risks and opportunities. In December 2022, the Trustee also set an aspiration to achieve net-zero emissions by no later than 2050. The Trustee is taking steps to achieve this aspiration, which will include engaging with the Plan's investment managers to support the transition to a net-zero economy.

For the Plan's buy and maintain credit fund for the DB Section, the Trustee has already incorporated specific guidelines into the fund, including a 7% reduction in greenhouse gas emissions year-on-year, which is consistent with a path to achieving net-zero emissions by 2050. We've also set a specific alignment **target** for the portfolio.

As part of the planned transition to the new manager, the ISC is working with the appointed manager to establish a set of portfolio guidelines that reflect the Plan's ambition to achieve net-zero greenhouse gas emissions by 2050. The ISC will also review the appropriateness of maintaining this alignment target for the buy and maintain credit portfolio following the transition.

In addition, in January 2024, the Trustee set a DC-specific climate target. For listed equities used in the default strategy, there is now a target of 70% SBTi alignment in the funds by 31 December 2030. The ISC will periodically monitor progress against the guidelines and targets and review them as appropriate.

3.1: Engagement and stewardship

The Trustee recognises that investment managers' climate competence and practices are crucial for managing the climate-related risks to the Plan's assets, so we assess and monitor these on an ongoing basis. Our stewardship continues to evolve (for example, engagement activity), and one of the aims is to help manage climate-related risks to the Plan. As part of this evolution, the Trustee now receives quarterly updates on engagements carried out by the Plan's investment managers, in line with the stewardship priorities agreed by the Trustee. The Trustee invited two of its managers to present on their engagement efforts and to explore ways to enhance their reporting in January 2024. As part of the selection process for the LDI and credit manager, the Trustee also evaluated the proposed managers' engagement and stewardship efforts concerning climate-related risks and opportunities.

The Trustee seeks to be a responsible steward of the Plan's assets. As part of this, using information provided by LCP, we consider both the impact of ESG factors, including climate change, on the Plan's investments. Also, where it is consistent with our legal obligations, we consider the impact of our investment practices on the economy, society and the environment to achieve the best long-term return on the Plan's assets whilst managing investment risks and taking account of financially relevant factors.

In particular, the Trustee has identified climate change as one of our stewardship priorities, and we've communicated this to our investment managers, as well as our aspiration to achieve net-zero emissions by 2050.

Voting and engagement activities are delegated to the individual investment managers. Each manager has its own ESG policy, which includes assessment of climate-related risks and policies on voting on climate-related resolutions.

In order to monitor how the individual investment managers are exercising their voting rights and undertaking engagement on behalf of the Trustee, the ISC periodically meets with the Plan's investment managers to engage with them on how they have considered ESG issues (including climate change) within their stewardship activities and will seek to challenge the investment managers on these matters where this is in the best interests of members. There is more information on the Trustee's stewardship activities in the **Implementation statement**.

Metrics and targets

4.1: Climate-related metrics

The Trustee has chosen four climate-related metrics to help monitor climate-related risks and opportunities for the Plan. These are listed on the right and reported for the DB and DC Sections (as far as the Trustee was able to obtain the data). The data has been calculated using portfolio holdings as at 30 September 2024, with the most recent data available from the Plan's investment managers. We have not aggregated fund-level portfolio-alignment data nor any other metric data (as aggregation of asset classes or individual mandates is not meaningful due to differing calculation methodologies).

The Trustee uses the metrics to identify and assess climate-related risks and opportunities and receives advice from LCP on this. This includes setting a target for the Plan's assets to increase the proportion of companies we invest with that have set a science-based target (SBT) to reduce greenhouse gas emissions over time.

Metric	High-level methodology
Absolute emissions: total greenhouse gas emissions	The sum of each company's most recently reported or estimated greenhouse gas emissions attributable to the Plan's investment in the company, where data is available. Emissions are attributed evenly across equity and debt investors and reported in tonnes of CO_2 equivalent. This methodology was chosen because it is in line with the statutory guidance.
Emissions intensity: carbon footprint	The total greenhouse gas emissions described above, divided by the value of the invested portfolio in £m, adjusted for data availability. Emissions are attributed evenly across equity and debt investors and reported in tonnes of CO_2 equivalent per £1m invested. This methodology was chosen because it is in line with the statutory guidance.
Portfolio alignment: science-based targets (SBT)	The proportion of the portfolio by weight of holdings with science-based targets to reduce their greenhouse gas emissions, demonstrated by a target validated by the Science-Based Targets initiative (SBTi) or equivalent. This measures the extent to which the Plan's investments are aligned to the Paris Agreement goal of limiting global average temperature rises to 1.5°C, reported in percentage terms. The Trustee chose this 'binary target' measure because it is the simplest and most robust of the various portfolio alignment metrics available.
Additional climate change metric: data quality	The proportion of the portfolio for which greenhouse gas emissions data is verified, reported, estimated or unavailable. 'Verified' emissions refers to data reported by the emitting company and verified by a third party. 'Reported' emissions are reported by the emitting company but not verified. This approach was chosen because it is in line with the statutory guidance.

DB Section

For further details about the DB Section's investments, please see the **Statement of Investment Principles**.

DB Section asset allocation as at 30 September 2024

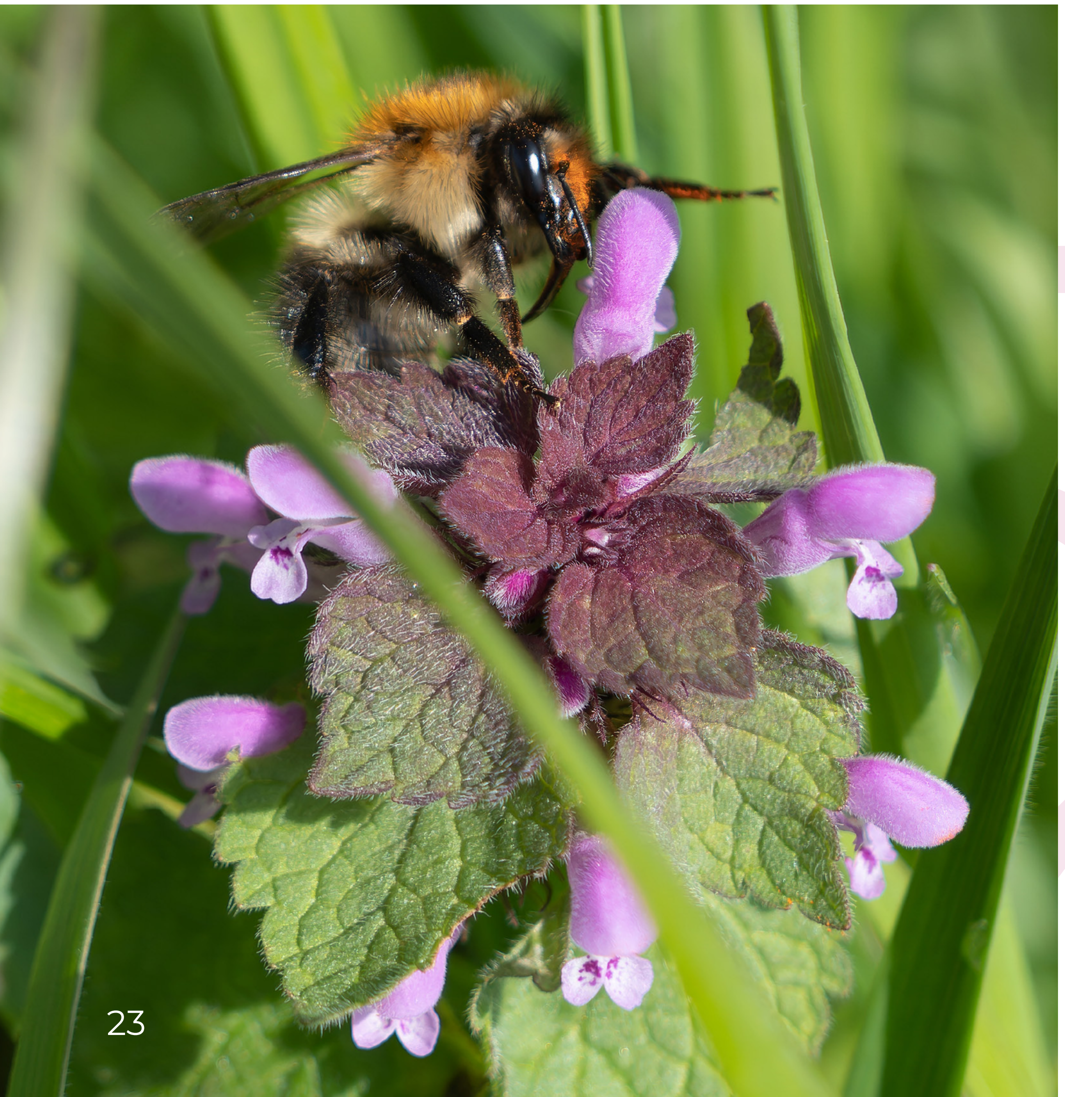
Total DB Section coverage of 92% for Scope 1 and 2 emissions (58% for Scope 3)

Asset class (% DB Section assets)	Details of missing data or estimations
Government bonds and LDI (43%)	Calculated by LCP*
Buy and maintain credit (12%)	Metric information provided directly by BlackRock.
Buy-in (25%)	Metric information provided by LGAS.
Cash (2%)	N/A
Private markets (10%)	Metric information provided by Cabot Square, Nuveen, Axiom Asia, CDH Investments and RECAP. CDH and RECAP fund-level data estimated from overall portfolio-level emissions. Cabot Square and RECAP fund data was reviewed by the ISC but is not available for public reporting.
Diversifying strategies (<1%)	Credit Suisse did not provide data.
Secure income (7%)	Metric information provided directly by WTW.

*Government bond metrics are calculated on a different basis from other mandates so can't be compared with them. The emissions intensity has been calculated as 'total GHG emissions produced in the UK' divided by 'UK GDP using PPP methodology' using publicly available data sources, consistent with guidance from the Partnership for Carbon Accounting Financials (PCAF). The GDP figure for the UK, sourced in US dollars, has previously been converted to Sterling using spot exchange rates. However, as part of a change in methodology, we now convert this figure using long-run purchasing power parity rates (consistent with the Global GHG Accounting and Reporting Standard for the Financial Industry). Total GHG emissions have been calculated as 'value of your investment in gilts' multiplied by 'emissions intensity'. Note that there can be double counting across the portfolio where UK country emissions include UK company emissions already accounted for within the Scheme's other portfolios.

The Trustee, via the investment adviser, requested information from the investment managers regarding any assumptions made (for modelling or estimations) that could impact significantly on the results. The investment managers confirmed that there is, in many cases, a lag between the reporting date and the carbon emissions date. This is because companies typically report carbon emissions over a fiscal year, but there may be differences in the reporting dates between companies. We have not included in this report any further details on the modelling assumptions or estimation methodologies used by the investment managers for the sake of brevity.

In addition, the Trustee asked the investment managers why data gaps remain and what steps they are taking to address these gaps. They were not able to provide all the requested information at the current time, although many indicated that they intend to provide the data in future. The missing data has impacted the Trustee's ability to perform analysis for the investments, where data is unavailable, and has therefore also impacted the results for the DB Section overall. We will continue to follow up with the investment managers to obtain missing information for next year's report. We have not sought to populate these data gaps with estimated data given the lack of a reliable means to arrive at meaningful estimates for the missing data at the current time. No data has been treated as unobtainable by the Trustee.



Carbon emissions data and company fundamental data is sourced from third-party data vendors. Coverage for eligible assets will not always be 100%. Reasons for this include a particular company not publishing its carbon emissions data or the correct mapping not being found between a bond and its parent company to apply the correct carbon data to the correct company. The Trustee has reported coverage of metrics where the investment managers disclose this information, and we continue to liaise with them to address limitations in coverage of different asset classes.

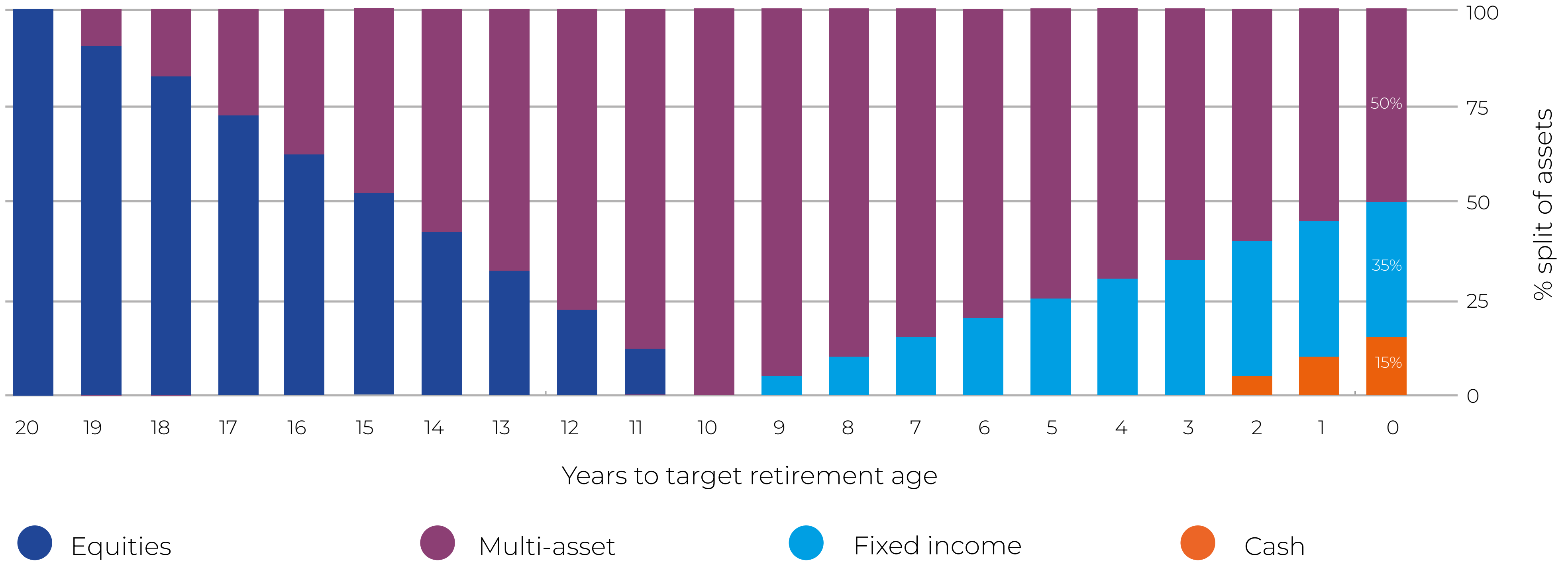
The Trustee has no reason to believe that any of the data provided by the investment managers relating to greenhouse gas emissions or carbon footprint is of uncertain quality.

DC Section

The majority of DC assets are invested in the default lifestyle strategy, with the assets allocated depending on members' expected retirement dates, as shown in the chart. At 30 September 2024, more than 97% of DC assets were invested in the funds used in this strategy.

The other assets are invested in two other lifestyle strategies and a range of self-select funds with the largest allocation being c.1% (£3.2m). The Trustee has not collected metrics for these other assets as we're not required to do so. This is in line with the guidance issued by the Department for Work and Pensions.

Continued growth chart



Total DC Section coverage of 90% for Scope 1 and 2 emissions (55% for Scope 3)

Asset class (% DC Section assets)	Coverage – proportion of holdings for which Scope 1 and 2 emissions data was available	
	2024	2023
Equities (71%)	98%	96%
Multi-asset (22%)	81%	75%
Fixed income (3%)	84%	82%
Cash (1%)	Currently, there's no industry consensus on calculating emissions for cash.	

The Trustee has reported on the metrics described earlier in this section for the popular arrangements, namely the default strategy set out above. Some of the funds used in the default strategy provided incomplete data and no modelling or estimations have been used to add to this data. However, modelling and estimations may have been included in the data provided by the investment provider.

The Trustee asked the investment provider why data gaps remain and what steps they're taking to address these gaps. The Trustee hasn't populated any data gaps with estimated data given the lack of a reliable means to arrive at meaningful estimates for the missing data at the current time. No data has been treated as unobtainable by the Trustee.

Carbon emissions data and company fundamental data is sourced from third-party data vendors. Coverage for eligible assets will not always be 100%. Reasons for this include a particular company not publishing its carbon emissions data or the correct mapping not being found between a bond and its parent company to apply the correct carbon data to the correct company. The Trustee has reported coverage of metrics where the investment manager discloses this information, and we continue to liaise with the investment provider to address limitations in coverage of different asset classes.

Carbon data was available for 98% of holdings of equity funds and 81% of holdings of the multi-asset exposure. Fixed income coverage was 84% but represents a relatively small proportion of Plan assets. The multi-asset fund also has an allocation to government bonds as well as private markets. Given the current limitations on carbon reporting relating to sovereigns and private market assets during the reporting period, it’s likely that the DC Section’s actual emissions are greater than reported. Where there are gaps in metrics reporting, the Trustee is working with the investment provider to improve data reporting.

The Trustee has no reason to believe that any of the data provided by the investment managers relating to greenhouse gas emissions or carbon footprint is of uncertain quality.

4.2: Climate-related metrics collected for the DB Section

Last year's information is shown in pink.

Portfolio	Manager	Assets at 30 Sept 2024 (£m)	Emissions (tonnes CO^{2}e)		Carbon footprint (tonnes CO^{2}e per £m invested)		Data quality (% reported/ estimated /unavailable)		Science-based targets
			Scope 1 & 2	Scope 3	Scope 1 & 2	Scope 3	Scope 1 & 2	Scope 3	
Gilts	BlackRock	387.4	65,710 49,610	52,578 31,218	170 136	136 85	100/0/0 100/0/0	100/0/0 100/0/0	100%[1] 100%[1]
Buy-in	LGAS[2]	223.2	12,722 19,785	- -	57 75	- -	100/0/0 100/0/0	- -	-[3] 19%
B&M credit	BlackRock	108.9	6,579 6,181	27,489 33,849	80 84	365 455	88/8/4 80/15/5	- -	56% 51%
Secure income	WTW	63.1	3,293 6,904	- -	52 99	- -	63/27/10 31/52/17	- -	48%[4] 24%[4]
Diversifying strategies	Credit Suisse	3.3	Couldn't provide TCFD metrics and has no plans to do so.						
Private markets	Cabot Square	25.5	Data was provided by Cabot Square and reviewed by the ISC, but we weren't permitted to disclose this publicly.						
	Nuveen	17.7	119 107	1,453 1,706	7 6	82 90	0/100/0 0/100/0	0/100/0 0/100/0	No data No data
	Axiom Asia	2.1	Axiom Asia hasn't provided TCFD metrics and has no plans to do so.						
	CDH Investments (Fund II)	16.1	206,896 140,491	- -	12,236 7,973	- -	2/98/0 2/98/0	- -	No data No data
	CDH Investments (Fund III)	11.6	Couldn't provide data due to assets being close to realisation.						
	RECAP	4.1	Data was provided by RECAP and reviewed by the ISC, but we weren't permitted to disclose this publicly.						
Cash		17.8	Not applicable						

[1] The UK has a target of net zero by 2050 written into law, with carbon budgets based on advice from the Independent Committee on Climate Change (ICCC), so UK government bond exposure has been treated as having a credible science-based target.

[2] Legal and General has provided data for its annuity portfolio excluding cash and derivatives. It uses proxies where complete data isn't available. The Plan's total emissions have been estimated as the carbon footprint per £m invested, multiplied by the value of the Plan's policy. For sovereign bonds, a normaliser has been used consistent with EVIC for corporate bonds and equities. The policy value has been sourced from Northern Trust as at 30 September 2024. The science-based targets metric is the proportion of companies whose targets had been validated by the SBT initiative using the latest data available in July 2022, for portfolio holdings at 31 December 2021.

[3] LGAS have confirmed that they no longer publish SBTi data for their annuity portfolio.

[4] Data based on IIGCC methodology for real assets. WTW secure income fund-level data has been estimated from overall portfolio-level emissions.

Changes over the Plan year

The Plan's investment strategy remained broadly unchanged over 2024, except for disinvestments from the BlackRock fixed-interest gilts mandate to meet the Plan's cashflow requirements and the distributions and capital calls from the private market managers.

Compared with last year, the availability of data has improved for the Plan, along with the quality of data for emissions reported by the managers. As a result, the Plan's overall data coverage has increased significantly.

While some of the managers were unable to provide data this year, the majority did provide the requested data, and the Trustee will compare this year's data with that provided next year when preparing next year's report.

This year, for mandates where data has been available for both this year and last, the Trustee considers the changes in the emissions metrics reported by the buy and maintain credit mandate and the secure income fund to be materially positive.

Overall, the credit portfolio's climate metrics remain broadly similar to last year. While the total Scope 1 and 2 emissions have increased, the carbon footprint has reduced over the past year, which is a positive sign; and Scope 3 emissions have also reduced materially.

Data quality has improved across Scopes 1, 2 and 3. The coverage and data quality for the secure income fund has improved over the period, which is encouraging. WTW is still unable to provide Scope 3 metrics data, which represents approximately 63% of the portfolio. Given that the Plan has submitted a full disinvestment request from this fund, the Trustee has not considered any further actions.

4.3: Climate-related metrics collected for the DC Section

Last year's information is shown in pink.

Portfolio	Manager	Assets at 30 Sept 2024 (£m)	Emissions (tonnes CO_2e)		Carbon footprint (tonnes CO_2e per £m invested)		Data quality (% reported/estimated/ unavailable)		Science-based targets[3] %
			Scope 1 & 2	Scope 3	Scope 1 & 2	Scope 3	Scope 1 & 2	Scope 3[1]	
Equities	LGIM RAFI Global Reduced Carbon Pathway Index	62.4 (14.3%)	8,712 7,375	82,093 54,063	140 152	1,321 1,118	96/3/1 96/2/2	66/33/1	42 35
	LGIM ACWI Adaptive Capped ESG Index	124.8 (28.5%)	9,075 8,601	133,146 85,345	73 85	1,078 839	94/4/3 90/6/4	57/41/3	42 35
	LGIM Low Carbon Transition Global Equity Index	124.8 (28.5%)	2,011 2,227	74,220 45,886	16 21	595 440	96/3/2 92/4/4	69/29/1	47 41
Multi-asset	LGIM Diversified Fund	97.6 (22.3%)	10,053 9,175	64,944 41,237	93 106	858 689	77/4/19 68/7/25	39/27/35	27 23
Fixed income	BlackRock Sustainable Short Duration Credit Fund	13.3 (3.0%)	359 314	3,301 2,435	49 49	403 395	75/8/16 66/16/18	0/83/17	35 28

[1] As this is the first year we're reporting Scope 3 data quality figures, there's no equivalent comparator for the previous year.

Changes over the Plan year

Equities

A material proportion of companies in the LGIM RAFI Global Reduced Carbon Pathway Index (c42%), the LGIM MSCI ACWI Adaptive Capped ESG Index (c42%) and the LGIM Low Carbon Transition Global Equity Index (c47%) have made commitments to align with SBT. Therefore, while current emissions are high, companies are integrating strategies to reduce these. Compared with reporting in the previous Plan year, the coverage of these funds has increased by c0.7%, c1.5% and c2.3% respectively.

Multi-asset

Since the previous Plan year, there's been an increase in emissions but a reduction in carbon footprint of the LGIM Diversified Fund, and an increase in coverage. The coverage of the LGIM Diversified Fund remains better than the coverage of similar multi-asset funds, and LCP continues to have a positive view of the responsible investment practices of the manager.

4.4: Target

The Trustee has set the following target for the DB Section:

Target	DB Section coverage	Reference data
80% of the DB Section's buy and maintain credit mandate to have set SBT by 2025	Corporate bonds (around 12% of total DB assets at 30 September 2024)	30 September 2022

In January 2024, the Trustee also set a DC-specific climate target:

Target	DC Section coverage	Reference data
70% of the listed equities in the DC default strategy to have set SBT by 2030	Listed equities (around 71% of total DC assets at 30 September 2024)	30 September 2023

These targets were chosen as the metric is forward-looking and focused on the transition that needs to occur in the future in order to achieve net-zero aims globally. It is also consistent with the Trustee's aspiration to achieve net-zero emissions by no later than 2050.

Achieving these targets will improve the relevant assets' alignment with a 1.5°C pathway, which is expected to help manage climate-related risks to the Plan by:

- reducing exposure to climate transition risks in the shorter-term by keeping up with a general market trend
- supporting collective action to meet the Paris Agreement goals, hence reducing longer-term systemic risks from the physical effects of climate change.

Performance against the targets as at 30 September 2024

The climate reporting carried out for the Plan during the year included an assessment of the current alignment with the targets shown in the tables, based on information provided by the investment managers. Of the DB Section's corporate bond investments, 56% had set SBTs by 30 September 2024 (compared to 51% in September 2023). Of the DC Section's listed equities, 44% had set SBTs by 30 September 2024 (compared to 37% in September 2023).

The Trustee was disappointed that material progress against the target was not achieved for the DB Section over this Plan year. The Trustee discussed this with the Plan's corporate bond manager, who confirmed that a majority of the issuers within the portfolio that have not yet adopted an SBTi alignment target are in the financial and energy sectors. The manager attributes this to:

- the absence of SBTi standards or guidance in the energy sector
- disagreements regarding KPIs that could affect financing activities within the banking sector.

Despite these challenges, the manager has assured that 'it will continue to be part of our discussions when we do engage with them.'

The Trustee was disappointed with this response. However, since the buy and maintain credit portfolio will be transitioned to a new manager in 2025, the Trustee will aim to work with the new manager to encourage progress towards achieving the target. Additionally, the Trustee will review the target next year to confirm whether it remains appropriate.

The Trustee was pleased with strong progress against the target for the DC section, which was ahead of the annual progress required to achieve the target. The DC section is currently on track to achieve the target.

The following steps are being taken to achieve the target

The ISC expects the targets to be achieved via engagement with investment managers, and by the investment managers with security issuers within their portfolios on the Trustee's behalf. The ISC, with help from its investment adviser, has communicated the targets to the relevant investment managers for the Plan and receives information on how the target is considered in the buy and maintain credit fund's investment process. The ISC monitors progress against the target using reporting provided by the investment manager.

Investment managers are routinely invited to present at ISC meetings as part of the existing monitoring process. When meeting with the Plan's investment managers, the Trustee will ask the manager how they expect the proportion of portfolio companies with SBTi-validated targets to change over time and encourage the manager to engage with portfolio companies about setting SBTs, prioritising those with the highest carbon footprint.

Where relevant, the ISC will ask the manager about equivalent methods of assessing whether emissions reduction targets are science-based, for example, for holdings for which SBTi validation is not available or not well suited, with a view to extending the coverage of the SBT metric.

The Trustee will review progress towards the targets each year and consider whether additional steps are needed to increase their chance of meeting the targets, or whether the targets should be revised. The Trustee considers that the targets for the DB and DC sections remain appropriate and hasn't made any changes to the DB target during the Plan year.

Net-zero aspiration

In December 2022, the Trustee also set an aspiration to achieve net-zero emissions by no later than 2050. We're considering the steps to take to work towards this aspiration, which will include engaging with the Plan's investment managers to support the transition to a net-zero economy. The Trustee received an update on progress towards this aspiration in November 2024, with evidence provided by investment managers on engagements made with investee companies to work towards net zero.

Appendix 1:

Greenhouse gas emissions

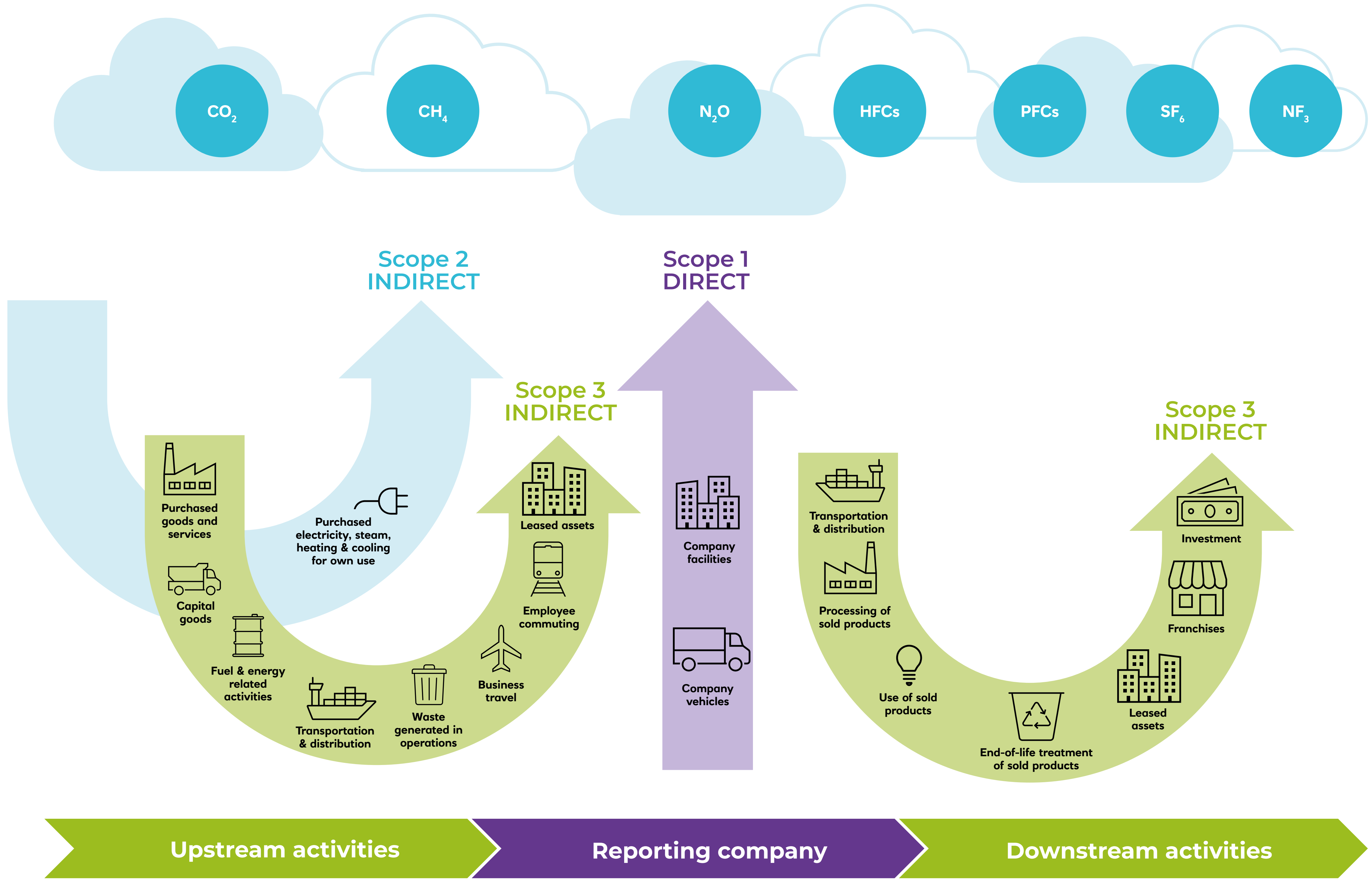
Within the **Metrics and targets** section of this report, the emissions metrics relate to seven greenhouse gases – carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6) and nitrogen trifluoride (NF_3). The figures are shown as 'CO_2 equivalent' (CO_2e), which is the amount of carbon dioxide that would be equivalent to the excess energy being stored by, and heating, the earth due to the presence in the atmosphere of these seven greenhouse gases.

The metrics related to greenhouse gas emissions are split into three categories: Scope 1, Scope 2 and Scope 3. These categories describe how directly the emissions are related to an entity's operations, with Scope 1 emissions being most directly related to an entity's everyday activities and Scope 3 referring to indirect emissions in an entity's value chain. Scope 3 emissions often form the largest share of an entity's total emissions but are also the ones that the entity has least control over.

Scope 1 greenhouse gas emissions are all direct emissions from the activities of an entity or activities under its control.

Scope 2 greenhouse gas emissions are indirect emissions from electricity purchased and used by an entity which are created during the production of energy which the entity uses.

Scope 3 greenhouse gas emissions are all indirect emissions from activities of the entity, other than Scope 2 emissions, which occur from sources that the entity does not directly control.



Source: GHG Protocol

Appendix 2:

Climate scenario analysis

Overview of the scenario modelling approach

The scenario analysis is based on a model developed by Ortec Finance and Cambridge Econometrics. Three climate scenarios were projected year by year, over the next 40 years, with the model outputs applied to the Plan's assets and liabilities by our investment adviser, taking into account the Plan's de-risking strategy.
The results are intended to help the Trustee consider how resilient the DB funding strategy, DB investment strategy and the DC default strategy are to climate-related risks.

The three climate scenarios chosen are intended to be plausible, not worst case. These are only three scenarios out of countless others which have been considered; other scenarios could give better or worse outcomes for the Plan.

The results discussed in this report are based on macroeconomic data at 31 December 2022, calibrated to market conditions at 30 June 2023.

The Trustee was able to obtain all the necessary data required to identify potential impacts of the scenarios on all asset classes.

Overview of the scenarios considered

The three climate scenarios considered were as follows:

- **High warming (previously named 'failed transition'):** Paris Agreement goal to limit temperature rises to well below 2°C is not met; only existing climate policies are implemented.

- **Net-zero financial crisis (previously named 'Paris disorderly transition'):** temperature rises limited to between 1.5°C and 2°C; rapid and effective climate action to reduce greenhouse gas emissions; financial markets are initially slow to react and then over-react.

- **Limited action (replaces the Paris orderly transition as an orderly transition is now less plausible):** middle ground scenario between the above. Some effective climate action to reduce greenhouse gas emissions but net zero is ultimately not achieved by 2050.

Scenarios:	High warming	Limited action	Net-zero financial crisis
Low-carbon policies	Continuation of current low-carbon policies and technology trends (e.g. significant falls in renewable energy prices)	Moderate steps taken by policymakers to increase climate action including working towards the 2030 targets and net-zero commitments. Carbon capture and storage also used	Ambitious low-carbon policies, high investment in low-carbon technologies and substitution away from fossil fuels to cleaner energy sources and biofuel. Carbon capture and storage also used to achieve global net zero by 2050
Paris Agreement outcome	Paris Agreement goals not met	Paris Agreement goals not met	Global net zero achieved by 2050; Paris Agreement goals met
Global warming	Average global warming is about 2°C by 2050 and 4°C by 2100, compared to pre-industrial levels	Average global warming stabilises at around 1.8°C by 2050 and 2.8°C by 2100, compared to pre-industrial levels	Average global warming stabilises at around 1.5°C above pre-industrial levels
Physical impacts	Severe physical impacts	High physical impacts	Moderate physical impacts
Impact on GDP	Global GDP is significantly lower than the climate-uninformed scenario in 2100 (e.g. UK GDP in 2100 predicted to be almost 50% lower than in the climate uninformed scenario)	Global GDP is lower than the climate-uninformed scenario in 2100 (e.g. UK GDP in 2100 predicted to be about 30% lower than in the climate uninformed scenario)	In the long term, global GDP is slightly worse than in the Paris orderly scenario due to sentiment shock
Financial market impacts	Physical risks priced in over the period 2026-2030. A second repricing occurs in the period 2036-2040 as investors factor in the severe physical risks	Physical risks priced in over the period 2026-2030. A second repricing occurs in the period 2036-2040 as investors factor in high physical risks	Abrupt repricing of assets and a sentiment shock to the financial system in 2025

Source: Ortec Finance.

Reasons for the Trustee's choice of scenarios

The Trustee considered the high-warming scenario to explore what could happen to the Plan's assets, liabilities, funding and investment strategies if carbon emissions continue at current levels and this results in significant physical risks from changes in the global climate that disrupt economic activity.

The Trustee considered the limited-action scenario to see how the Plan's finances could play out if limited climate action is taken, meaning that temperature rises exceed 2°C by 2100 – resulting in significant physical risks – and policy changes result in some transition risks as financial markets adjust.

The Trustee considered the net-zero-financial-crisis scenario to look at the risks and opportunities for the Plan if the Paris Agreement goals are met, but financial markets are volatile as they adjust to a low-carbon economy.

Overall, the Trustee believes the scenarios span a spectrum of potential outcomes and thereby satisfy the Trustee's obligations under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (updated 2022).

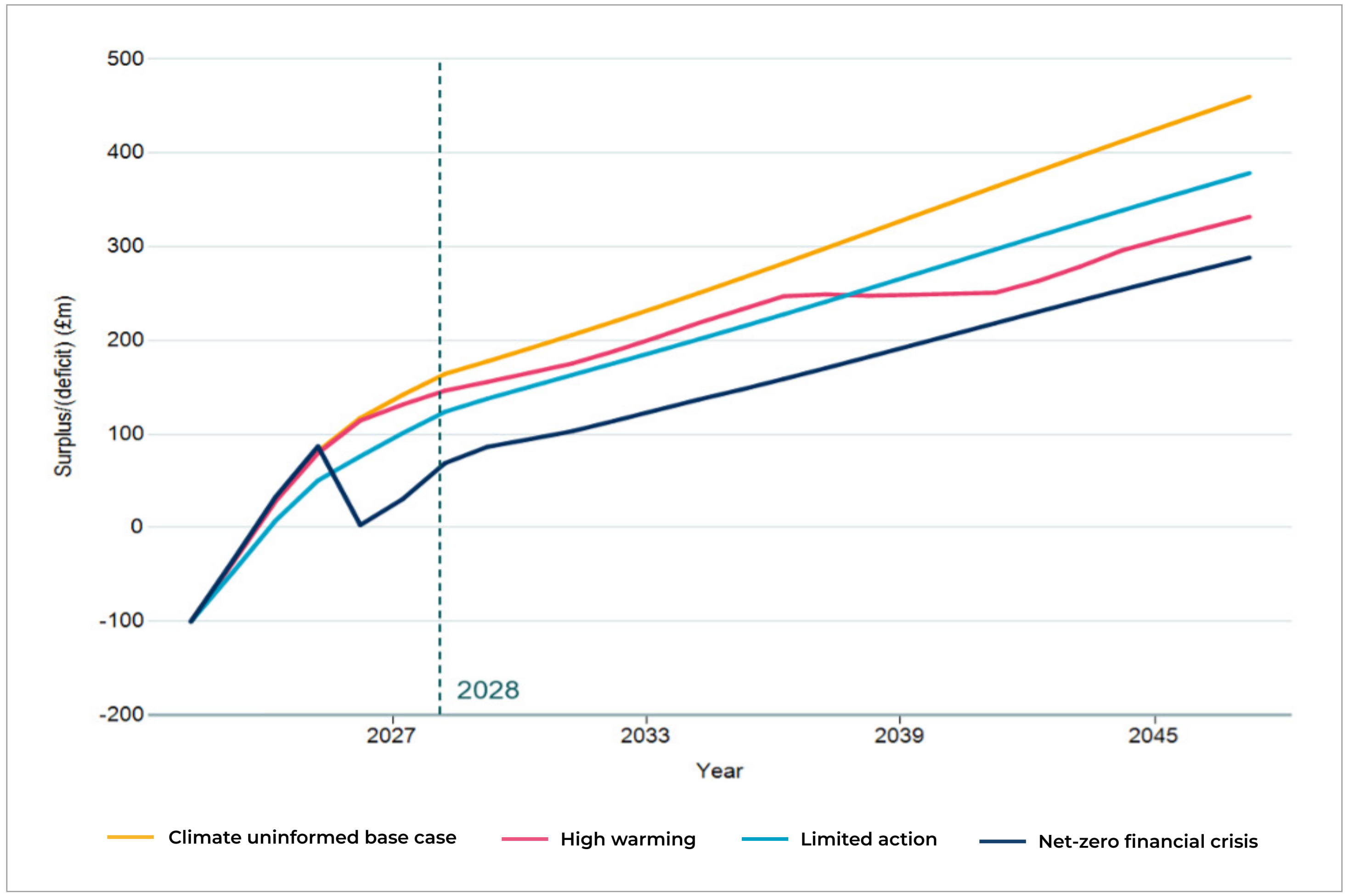
Potential impacts on the Plan under the scenarios

The Trustee considered the different climate scenarios and the expected impact of each on the DB and DC Sections of the Plan.

DB Section

For the DB Section, the Trustee used this analysis to consider the combined funding impact on the Plan and the impact on achieving the Plan's 103% self-sufficiency funding target.
The Trustee noted that:

- Under the current recovery plan, the Plan is expected to be fully funded against the long-term objective, **but all scenarios** result in the Plan no longer achieving full funding in the target window (shown in the chart opposite).
- In each scenario, the financial market impact is a worsening of the position (from what it might otherwise be) in the region of about £100m to £150m.
- In the high-warming scenario, the position would then become materially worse over subsequent decades.
- **De-risking will need to be managed carefully** if there are market shocks in the next eight years but will reduce the significance of longer-term climate impacts.
- The longer that return-seeking assets are held, **the more likely it is that physical consequences of climate change could impact the funding level**.



The Trustee also considered climate risk in relation to the Plan's buy-in assets. While the Plan's insured liabilities are likely to be subject to similar financial risks to those illustrated for the non-insured liabilities, the protection afforded by the buy-in assets means that any financial impacts will not affect the net funding position, as modelled under any of the three climate scenarios considered for the Plan.

However, climate change is a systemic risk that will undoubtedly have profound impacts on the insurance sector over the coming years. To the extent that insurers are unprepared for these changes, climate risk increases the chance that the insurer will be unable to meet the benefit payments promised.

Based on the results of the scenario analysis shown on the previous page, the Trustee believes the Plan's investment strategy could be more resilient with respect to the impact of climate-related risks and opportunities. As a result, the Trustee is currently exploring other climate solutions as part of a wider investment strategy and liquidity review.

Impact of climate change on life expectancy for the DB Section

The longer a member lives, the longer the Plan pays that member's DB pension and therefore needs more assets to make the payments. Like the economic impacts, the impact of climate change on life expectancy is highly uncertain. As part of the discussions on the climate scenario analysis, the Trustee considered the various possible drivers for changes in mortality rates with both positive and negative impacts expected in each of the scenarios considered. The Plan's mortality risk is hedged for pensioners covered by the buy-in, therefore the modelling applies the mortality adjustments to only the part of the membership not covered by the buy-in.

For example, in the net-zero-financial-crisis scenario, the reduced use of fossil fuels should lead to lower air pollution, increasing life expectancy. But this effect could be countered by economic prosperity being lower in this scenario, and this may limit the funding available for healthcare.

These percentages assume the changes in future mortality improvements occur by 2030; although in practice, they would emerge over time through a combination of the Plan's actual mortality experience and changes in future mortality projections as trends begin to emerge.

DB Section funding risk

The Trustee has considered the DB funding strategy of the Plan in light of the scenario analysis and discussions around covenant and investment. In particular, the current DB funding strategy is considered to be somewhat resilient to climate change, as it is targeting full funding on a (103%) self-sufficiency basis over the medium term.

The DB funding position will still be susceptible to climate-change pricing-in shocks over the short term. If the Plan is negatively impacted by such market shocks, the journey to full funding over the medium term may be affected and mean that medium-term risks will need further consideration.

The Trustee will continue to monitor progress towards this more de-risked position to ensure that climate risks (and other risks) continue to be managed and, where possible, mitigated along the journey. This monitoring is carried out through regular DB funding updates and investment performance reviews, together with any ad hoc updates from the Trustee's actuarial and investment advisers.

The Trustee has considered the impact of climate change on mortality, noting that there is a significant level of uncertainty on the impact of climate change. There are both positive and negative factors that could impact the Plan under the scenarios considered.

Ongoing engagement with the Plan's sponsor will also be key to understand how climate risk develops at the sponsor level.

DC Section asset risk

For the DC Section, members are expected to be impacted in different ways depending on the investments held, contribution rate, fund value and proximity to retirement.

The climate scenario analysis used by the Trustee considered how different example members would be impacted by different climate scenarios. For simplicity, all members were assumed to be invested in the continued growth lifestyle (the default strategy), with an expected retirement age of State pension age.

The analysis highlighted that the outcomes for all DC members are projected to be negatively impacted in each scenario compared with the climate-uninformed scenario. The high warming is the least favourable scenario for younger members and those in the de-risking phase, as these members will remain invested over a long enough time frame to be impacted by the equity and credit market shocks.

Whereas the net-zero-financial-crisis is the least favourable scenario for members nearer to retirement, as the equity market shocks are suffered in the short term and members will not have sufficient time to recover before retirement.

In general, the default strategy has been designed in a way which reduces investment risk as members approach retirement. Climate risks are generally expected to have the greatest impact on return-seeking assets such as equities. In the default strategy, exposure to these assets is reduced as members approach retirement, which should help to reduce their exposure to climate risks.

Potential impact on member funds at retirement with different scenarios and starting ages

	Member 1 (age 35)	Member 2 (age 45)	Member 3 (age 55)
Starting pot	£39,000	£78,000	£156,000
Change relative to climate-uninformed outcome in brackets			
Climate-uninformed outcome	£534,500	£455,400	£389,800
Limited-action outcome	£462,500 (-13.5%)	£403,700 (-11.3%)	£358,800 (-8.0%)
Net-zero-financial-crisis	£421,200 (-21.2%)	£397,200 (-12.8%)	£373,100 (-4.3%)
High-warming outcome	£362,300 (-32.2%)	£364,300 (-20.2%)	£373,900 (-4.1%)

Modelling limitations

As this is a top-down approach, investment market impacts were modelled as the average projected impacts for each asset class. This contrasts with a bottom-up approach that would model the impact on each individual investment held by the Plan's DB investment portfolio and DC default strategy. As such, the modelling does not require extensive Plan-specific data and so the Trustee was able to consider the potential impacts of the three climate scenarios for all the Plan's DB and DC Section assets in the default strategy.

In practice, the Plan's investments may not experience climate impacts in line with the market average. However, the Trustee believes that the scenario analysis provides sufficiently useful information about the potential impact of climate-related risks and opportunities on the investment strategy of the Plan and that more complex modelling involving the specific investments of the Plan would not be cost-effective or materially more helpful in understanding the potential impact of climate-related risks and opportunities.

The asset and liability projections shown reflect the Plan's current strategic journey plan. No allowance is made for changes that might be made to the funding or investment strategy as the climate pathways unfold, nor for action to be taken in response to the Plan achieving its long-term funding target.

Like most modelling of this type, it does not allow for all potential climate-related impacts and therefore is quite likely to underestimate some climate-related risks. For example, tipping points (which could cause runaway physical climate impacts) are not modelled, and no allowance is made for knock-on effects, such as climate-related migration and conflicts.

The Plan currently has an insurance contract covering a significant proportion of the DB benefits payable to pensioners. As this contract exactly matches the DB benefits payable to members, it has been excluded from the analysis. The Trustee considered qualitatively how insurance contracts might be affected by climate risk.

The Trustee recognises that there are many reasons why the outcome might differ from those modelled, including:

- There is a wide funnel of doubt around the median outcome under each scenario due to the usual investment market uncertainties and additional uncertainties arising from climate-related variables.
- A net-zero financial crisis could play out differently to the scenario modelled (there could be a series of mini shocks and/or different timing).
- Other scenarios are possible, for example, delayed and/or disorderly policy action to limit climate change.

Modelling approach – more details

The scenario analysis is based on the ClimateMAPS model developed by Ortec Finance and Cambridge Econometrics, which was then applied to the Plan's assets and liabilities by LCP. The three climate scenarios were projected year by year, over the next 40 years.

ClimateMAPS uses a top-down approach that consistently models climate impacts on both assets and liabilities, enabling the resilience of the DB Section's funding strategy to be considered. The model output is supported by in-depth narratives that bring the scenarios to life to help the Trustee's understanding of climate-related risks and opportunities.

ClimateMAPS uses Cambridge Econometrics' macroeconomic model which integrates a range of social and environmental processes, including carbon emissions and the energy transition. It is one of the most comprehensive models of the global economy and is widely used for policy assessment, forecasting and research purposes. The outputs from this macroeconomic modelling – primarily the impacts on country/regional GDP – are then translated into impacts on financial markets by Ortec Finance using assumed relationships between the macroeconomic and financial parameters.

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Ortec Finance runs the projections many times using stochastic modelling to illustrate the wide range of climate impacts that may be possible, under each scenario's climate pathway. LCP takes the median (middle outcome) of this range of impacts for each relevant financial parameter and adjusts it to improve its alignment with LCP's standard financial assumptions.

LCP then uses these adjusted median impacts to project the assets and liabilities of the Plan to illustrate how the different scenarios could affect its funding level. The modelling summarised in this report used scenarios based on the latest scientific and macroeconomic data at 31 December 2022, calibrated to market conditions at 30 June 2023.

The modelling included contributions assumed to be paid in line with the current Schedule of Contributions, and the Trustee discussed how future planned changes to the investment strategies for both sections (see appendix 6) would change the analysis.
For the DC Section, members will be impacted in different ways depending on their investments held, contribution rate, fund value and proximity to retirement. As such, a broad range of starting pot values and salaries were used for members at different ages, while member and employer contributions were assumed to be paid in line with the current contribution structure. In addition, members were assumed to be invested in the default lifestyle strategy, given that most members are invested in this strategy. No allowance was made for changes to the investment strategy or contributions in response to the climate impacts modelled.

As this is a top-down approach, investment market impacts were modelled as the average projected impacts for each asset class, namely, assuming that the Plan's investments are affected by climate risk in line with the market-average portfolio for the asset class. This contrasts with a bottom-up approach that would model the impact on each individual investment held in the Plan's investment portfolio. As such, it does not require extensive Plan-specific data and so the Trustee was able to consider the potential impacts of the three climate scenarios for all of the Plan's assets.

In practice, the Plan's investment portfolio may not experience climate impacts in line with the market average. The Trustee considers, on an ongoing basis, how the Plan's climate risk exposure differs from the market average using climate metrics (which are compared with an appropriate market benchmark) and its annual responsible investment review which considers the investment managers' climate approaches **(see Appendix 3)**.

The Trustee notes that the three climate scenarios chosen are intended to be plausible, not 'worst case', and the modelling is based on median outcomes. It therefore illustrates how the centre of the 'funnel of doubt' surrounding DB funding and DC asset projections might be affected by climate change. It does not consider tail risks within that funnel, nor does it consider how the funnel might be widened by the additional uncertainties arising from climate change. In addition, only three scenarios out of infinitely many have been considered. Other scenarios could give better or worse outcomes for the Plan.

Uncertainty in climate modelling is inevitable. In this case, key areas of uncertainty relating to the financial impacts include how climate change might affect interest rates and inflation, and the timing of market responses to climate change. ClimateMAPS, like most modelling of this type, does not allow for all climate-related impacts and therefore, in aggregate, is quite likely to underestimate the potential impacts of climate-related risks, especially for the Paris failed-transition scenario. For example, tipping points (which could cause runaway physical climate impacts) are not modelled and no allowance is made for knock-on effects, such as climate-related migration and conflicts.

Appendix 3:

Assessment of the managers' practices

The assessment of the funds in the portfolio was based on LCP's ongoing investment research and monitoring process, with each fund being awarded a climate rating:

- Green – strong
- Amber – moderate
- Red – weak.

In addition to the above, each asset class was assigned a climate risk tier based on the following scoring criteria:

- Availability of data
- Overall carbon intensity
- Presence of climate opportunities.

Tier 5: Climate investment opportunities

Tier 4: Climate risks moderate
Equivalent to portfolio CO_2 intensity above 40T/$m sales

Tier 3: Climate risks likely
Equivalent to portfolio CO_2 intensity above 130T/$m sales

Tier 2: Climate risks high
Equivalent to portfolio CO_2 intensity above 180T/$m sales

Tier 1: No data or data not good enough today

DB Section

Asset class	Climate risk tier
Developed market equities	3 (4 for a climate-aware fund) (5 for a climate opportunities fund)
Emerging market equities	2 (4 for a climate-aware fund)
Multi-asset funds	1
Investment grade corporate bonds	2 (5 for a climate opportunities fund)
Property	1
Multi-asset credit	2
Private debt	1
Gilts, LDI and annuities	4

Particular emphasis was placed on the longer-term investments in the buy and maintain corporate bond mandate, where climate risk is particularly pertinent. There is also greater scope to mitigate climate risk within this asset class, as the Plan has a segregated buy and maintain credit portfolio (and thus greater scope to dictate to the investment manager how this portfolio is managed).

Buy and maintain corporate bonds

The buy and maintain corporate bond mandate was assigned a 'moderate' rating in respect of climate-risk management. The ISC has agreed on certain guidelines in the investment manager agreement for the buy and maintain credit portfolio to address climate risk within this portfolio, in addition to broader ESG risks.

The mandate has restrictions on certain types of investments with significant ESG issues, including nuclear weapons, tobacco, thermal coal, tar sands, UNGC violators and companies with an MSCI ESG rating of CCC or below. A specific emissions reduction target was also implemented for the mandate, whereby overall portfolio emissions must fall by 7% year-on-year, which is consistent with progress required to achieve the 1.5°C temperature goal of the Paris Agreement.

Progress against the 7% year-on-year decarbonisation formal objective is broadly on track, albeit over a short 12-month period. According to the manager's preferred methodology, over the past year, Scope 1 and 2 emissions normalised by sales have fallen by 9% over 2024 (and by 25% since 2022).

Progress towards the alignment target that the portfolio should achieve 80% SBTi alignment by 2025 has been slower, increasing by 1% to c64% (including both those with targets set and committed to setting targets in future) over the last 12 months to 30 September 2024. This target is not formally part of the corporate bond manager's investment management agreement, unlike the decarbonisation objective on the previous page.

Investment grade corporate bonds as an asset class (without mitigations like those described on the previous page) were categorised as Tier 2 indicating high climate risks.

Property and secure income

The Secure Income Fund was awarded a 'moderate' climate-risk management rating. Managing climate risks is an increasing area of focus for property managers. Engagement with the manager was recommended to improve climate-risk management practices for the underlying assets over time.

Other mandates

Climate-related risks were also considered for the other mandates within the portfolio, but no actions were agreed due to challenges associated with the asset classes from a climate-risk perspective, or due to upcoming investment strategy changes:

- **Gilt mandate:** awarded a 'moderate' climate-risk management rating. However, given the passive index-tracking nature of the asset class, there is no integrated climate-risk management within the investment process. Gilts are a difficult area for managers to integrate climate-risk management.

- **Private markets:** the majority of the funds were awarded a 'weak' climate-risk management rating, while some received a 'moderate' rating. This was as expected as generally amongst private asset funds, the level of climate risk integration is lower than for listed assets. Due to the closed-ended nature of the investments, with the funds no longer making new investments, no further action was agreed.

DC Section

Asset class	Climate rating
Equities	2 (4 for LGIM low carbon and 3 for LGIM RAFI Fundamental)
Ethical equities	2
Multi-asset	4
Fixed income	2 (4 for short duration credit fund and 3 for annuity-tracking fund)
Property	3

There is a reasonably high degree of climate-related risk associated with the funds in the DC Section. There is scope for improvement in the equity allocation, as equities are the asset class where the greatest level of ESG integration has occurred.

The funds in the DC Section were also allocated a red, amber or green climate rating as detailed above. Overall, the funds available to members in the DC Section have mixed ratings for their climate considerations.

Equities

The LGIM RAFI Fundamental has a moderate rating due to its scenario-aligned decarbonisation targets and ESG exclusions on some of the equity allocations. However, at the time of reporting, they did not have to mitigate climate-related risks specifically or seek climate-related opportunities within the fund. The passively managed ethical equity fund has a red rating, given the index that the fund tracks doesn't have specific climate objectives.

Fixed income

The fixed income fund available to members was given a red rating, noting that ESG integration is challenging for passive corporate bond funds, unless the Trustee chooses to track an index that excludes companies with significant ESG issues. However, the annuity-tracking fund has an amber rating, given the changes to this fund over the year, which include incorporating ESG tilts as well as ESG exclusions. The short duration credit fund has a green rating.

Property

There is one property fund available to members. There is a good level of ESG incorporation within the fund's decision-making processes with explicit ESG steps within the due diligence and portfolio monitoring procedures. The fund has a net-zero operational carbon target for its property business and the team has set net-zero pathways for underlying properties within the fund. Overall, the manager is making progress on ESG issues, although as with most property managers, further ongoing and meaningful progress is needed in the years ahead.

Appendix 4:

Climate governance statement

The Trustee's statement on the governance of climate-change risks and opportunities was finalised in May 2022 and updated in February 2025.

The Trustee of the Cummins UK Pension Plan (the Trustee) has ultimate responsibility for ensuring effective governance of climate-change risks and opportunities in relation to the Cummins UK Pension Plan (the Plan). This statement documents the governance processes the Trustee has put in place to ensure that it has oversight of the climate-related risks and opportunities relevant to the Plan, and that it can be confident that its statutory and fiduciary obligations are being met.

Overview of approach

Climate change is a financially material factor for the Plan. It represents a systemic risk to society, the economy and the financial system, although the transition to a low-carbon economy also presents opportunities. These risks and opportunities have the potential to impact the Plan's investments, sponsoring employer and funding position. The ISC, on behalf of the Trustee board, identifies, assesses and manages them and does so with support from the Trustee secretary and the Trustee's external advisers.

Trustee knowledge and understanding

It is essential that the Trustee directors have sufficient knowledge and understanding of climate change, and related risks and opportunities, to fulfil their statutory and fiduciary obligations. The Trustee will consider what climate-change training is likely to be required over the coming year when setting its annual business plan, incorporating training sessions as appropriate. These sessions typically include an annual update on recent developments, with interim training on any time-critical developments. They may also include training in support of specific agenda items at Trustee or ISC meetings. A list of the training undertaken is documented in the Trustee's training log.

Roles and responsibilities

Trustee chair

It is the Trustee chair's responsibility, with support from the Trustee secretary and ISC chair, to ensure that sufficient time is allocated for consideration and discussion of climate matters by the Trustee, the ISC and its advisers.

Trustee

In broad terms, the Trustee is responsible for:

- ensuring the Trustee directors have sufficient knowledge and understanding of climate change to fulfil their statutory and fiduciary obligations and are keeping this knowledge and understanding up to date. This includes knowledge and understanding of the principles relating to the identification, assessment and management of climate-related risks and opportunities for the Plan
- putting effective climate governance arrangements in place
- determining the short, medium and long-term periods to be used when identifying climate-related risks and opportunities for the Plan
- identifying and assessing the main climate-related risks and opportunities for the Plan over these time periods and documenting the management of them
- incorporating climate-related considerations into strategic decisions relating to the Plan's funding arrangements
- incorporating climate-related considerations into the Plan's risk register and integrated risk management (IRM) framework
- allowing for climate-related considerations when assessing and monitoring the strength of the sponsoring employer's covenant
- ensuring that the Plan's actuarial, investment, covenant and legal advisers have clearly defined responsibilities in respect of climate change, that they have adequate expertise and resources, including time and staff, to carry these out, that they are taking adequate steps to identify and assess any climate-related risks and opportunities which are relevant to the matters on which they are advising, and that they are adequately prioritising climate-related risks
- considering and documenting the extent to which responsibilities are included in the investment consultants' strategic objectives
- communicating with Plan members and other stakeholders on climate change where appropriate, including public reporting in accordance with The Occupational Pension Plans (Climate Change Governance and Reporting) Regulations 2021, The Occupational and Personal Pension Plans (Disclosure of Information) Regulations 2013 (together TCFD reporting[1]) when required.

The Trustee has delegated consideration of some climate-related matters to the ISC, as outlined on the next page.

ISC
In broad terms, the ISC is responsible for:

- incorporating climate-related considerations into strategic decisions relating to the Plan's investments
- ensuring that the Plan's investment managers are managing climate-related risks and opportunities in relation to the Plan's investments, and have appropriate processes, expertise and resources to do this effectively
- selecting and regularly reviewing metrics to inform the Trustee's identification, assessment and management of climate-related risks and opportunities and setting and monitoring targets to improve these metrics over time where appropriate
- progressing work associated with climate-change duties in the Pension Plans Act 2021
- considering implications of the Pension Plans Act 2021 for governance of the Plan, for example updates to the SIP
- considering wider workstreams associated with RI and ESG matters as appropriate.

In addition, the ISC assists the Trustee where appropriate concerning the fulfilment of its responsibilities outlined above, including but not limited to the investment aspects of:

- identifying and assessing the main climate-related risks and opportunities for the Plan over the short, medium and long term, and documenting the management of them
- incorporating climate-related considerations into the Plan's risk register and IRM framework
- considering and documenting the extent to which responsibilities are included in the investment consultants' strategic objectives
- communicating with Plan members and other stakeholders on climate change where appropriate, including TCFD reporting.

Actuarial adviser
In broad terms, the Plan's actuarial adviser is responsible, as requested by the Trustee or ISC, for:

- advising how climate-related risks and opportunities might affect the Plan's funding position over the short, medium and long term, and the implications for the Plan's funding strategy, long-term objective and journey plan
- working with the Trustee's other advisers to assist the Trustee in incorporating climate change in its governance arrangements, risk register, IRM framework and communication with stakeholders (including, but not limited to, its TCFD reporting) as appropriate.

[1] Note that, for convenience, this governance statement refers to the reporting requirements under the climate regulations (which are based on the recommendations of the Taskforce on Climate-related Financial Disclosures) as 'TCFD reporting'; although in practice, it is recognised that the recommendations of the TCFD may change over time and may not always be aligned with the statutory requirements applying to the Plan.

Investment adviser

In broad terms, the Plan's investment adviser is responsible, as requested by the Trustee or ISC, for:

- providing training and other updates to the Trustee and ISC on relevant climate-related matters
- helping the ISC to formulate its investment beliefs in relation to climate change and reflecting these in the Plan's investment policies and strategy
- advising how climate-related risks and opportunities might affect the different asset classes in which the Plan might invest over the short, medium and long term, and the implications for the Plan's investment strategy and journey plan
- advising the ISC on the appropriateness and effectiveness of the Plan's investment managers' processes, expertise and resources for managing climate-related risks and opportunities, given the Trustee's investment objectives and beliefs, and engaging with the managers to improve the Plan's climate-related integration over time
- assisting the Trustee and ISC in incorporating climate change in the Plan's investment monitoring
- advising on the inclusion of climate change in the Plan's governance arrangements, risk register and IRM framework, working with the Trustee, the ISC and the other advisers as appropriate
- assisting the ISC in identifying, monitoring and using suitable climate-related metrics and targets in relation to the Plan's investments, including liaising with the Plan's investment manager regarding provision of the metrics
- leading on the preparation of the Trustee's TCFD reporting and assisting with other communication with stakeholders in relation to climate change, working with the Trustee, the ISC and the other advisers as appropriate.

Covenant adviser

In broad terms, the Plan's covenant adviser is responsible, as requested by the Trustee, for:

- considering in periodic covenant reviews how climate-related risks and opportunities might affect the Plan's sponsoring employer over the short, medium and long term and the implications for the Plan's journey plan
- noting in the Plan's covenant monitoring any changes in the policies and practices of the sponsoring employer relating to climate change, and the employer's progress against any climate-related targets it has set, working with the Trustee and the other advisers as appropriate
- working with the Trustee's other advisers to assist the Trustee in incorporating climate change in its governance arrangements, risk register, contingency planning and monitoring framework and communication with stakeholders (including, but not limited to, its TCFD reporting) as appropriate.

Legal adviser

In broad terms, the Plan's legal adviser will be approached, as appropriate, for assistance with:

- providing training and other updates to the Trustee and ISC on relevant climate-related legal matters
- working with the Trustee's other advisers to assist the Trustee in incorporating climate change in its governance arrangements, risk register, IRM framework and communication with stakeholders (including, but not limited to, its TCFD reporting) as appropriate
- where requested, assisting in the documentation of any contractual requirements to be included in the arrangements with the Plan's investment manager with respect to the governance, management and reporting of climate-related matters, as appropriate.

Investment managers

In broad terms, the Plan's investment managers are responsible for:

- identifying, assessing and managing climate-related risks and opportunities in relation to the Plan's investments, in line with the investment management arrangements agreed with the ISC
- exercising rights (including voting rights) attaching to the Plan's investments and undertaking engagement activities in respect of those investments in relation to climate-related risks and opportunities in a way that seeks to improve long-term financial outcomes for Plan members
- reporting on stewardship activities and outcomes in relation to the Plan's investments on an annual basis, wherever feasible
- providing information to the Plan's investment adviser on climate-related metrics in relation to the Plan's investments, as agreed from time to time, and using their influence with investee companies and other parties to improve the quality and availability of these metrics over time.

Nature and frequency of monitoring

The Trustee and ISC consider a range of different information about the climate-change risks and opportunities faced by the Plan to enable them to fulfil their responsibilities set out on the previous pages.

The governance sub-committee (GSC) will receive and review the Plan's risk register periodically, following review and updates from its advisers. This document will incorporate climate-related risks and opportunities as appropriate, in accordance with the roles and responsibilities set out on the previous pages.

Annual review

At one or more meetings each year, the ISC will review, revise (where appropriate) and approve:

- its governance arrangements in relation to climate change
- its draft TCFD reporting
- data on ESG metrics for the Plan's investments from its investment advisers, including at least three climate-related metrics, and performance against any targets set in relation to these metrics
- whether to retain or replace any targets set in relation to these metrics
- whether it is appropriate to carry out scenario analysis that illustrates how the Plan's assets and liabilities might be affected under various climate-change scenarios in years when this is not required because it has been carried out within the previous two years
- an update on the metrics in the Plan's IRM framework, following review by its advisers
- the advisers' climate competency and assess how they have performed against their climate responsibilities
- the Plan's risk register, following review and updates from the GSC and/or advisers.

Less frequent reviews

The Trustee, with help from the ISC where appropriate, will consider climate-related risks and opportunities whenever the following activities are undertaken:

- actuarial valuation of the Plan
- review of the Plan's investment strategy
- assessment of the sponsoring employer's covenant.

The Trustee, with help from the ISC where appropriate, will also at least every three years, and following any major changes in the Plan's position, review:

- its choice of short, medium and long-term time periods to be used when identifying climate-related risks and opportunities to the Plan
- the results of scenario analysis that illustrates how the Plan's assets and liabilities might be affected under various climate-change scenarios, along with commentary on the potential impacts for the sponsoring employer and the implications for the resilience of the Plan's funding and investment strategies
- its choice of metrics to inform the Trustee's identification, assessment and management of climate-related risks and opportunities.

Whenever reviewing agreements with external advisers or appointing new advisers, the Trustee will consider and document the extent to which the advisers' climate-related responsibilities are included in the agreements and/or any adviser objectives set.

Appendix 5:

Glossary

Actuarial valuation	An accounting exercise to estimate future liabilities arising out of benefits that are payable to members of a DB pension scheme, typically once every three years.
Alignment	In a climate-change context, the process of bringing greenhouse gas emissions in line with 1.5°C temperature rise targets. It can be applied to individual companies, investment portfolios and the global economy.
Asset class	A group of securities which exhibit broadly similar characteristics, for example equities.
Avoided emissions	Reductions in greenhouse gas emissions that occur outside of a product's lifecycle of value chain, but as a result of the use of that product. For example, emissions avoided through use of a wind turbine or building insulation.
Bond	Essentially a loan, a bond is security issued to investors by companies, governments and other organisations. An investor normally expects to receive a series of regular interest payments plus, at maturity, a final lump sum payment, typically equal to or higher than the amount invested originally.
Buy-in	A bulk annuity contract with an insurance company, covering a proportion of a DB pension scheme's expected future benefit payments. Held as an asset by the scheme, it allows trustees to reduce investment risk.
Buyout	When a DB pension scheme's liabilities are entirely covered by bulk annuity contracts, and the insurer becomes responsible for meeting pension benefits where individual policies are allocated to each member. Following a full buyout (covering all the scheme's members) and having discharged all of the trustees' liabilities, the scheme would normally be wound up.
Carbon emissions	The release of carbon dioxide, or greenhouse gases more generally, into the atmosphere, for example from the burning of fossil fuels for power or transport purposes.
Carbon footprint	In an investment context, the total carbon dioxide or greenhouse gas emissions generated per amount invested by an investment fund.
Climate-change adaptation	Steps taken to adjust to the physical effects of climate change such as improving flood defences and installing air conditioning.
Climate-change mitigation	Steps taken to limit climate change by reducing greenhouse gas emissions, for example by shifting to renewable sources of energy, such as solar and wind, and by using less energy and using it more efficiently.

Covenant	The ability and willingness of the sponsor to make up any shortfall between a DB scheme's assets and the agreed funding target.
Credit	Long-term debt issued by a company, also known as corporate bonds.
Defined benefit (DB)	A type of pension scheme where benefits are based on a defined formula, linked to salary. The sponsor bears the risk that the value of the investments held under the scheme fall short of the amount needed to meet the benefits.
Defined contribution (DC)	A type of pension scheme where benefits are based on the contributions paid in and investment returns achieved. In contrast to a DB scheme, the individual member bears the risk that the savings held are insufficient to meet the desired benefits.
Debt	Money borrowed by a company or government which normally must be repaid at some specified point in the future.
Default strategy	The fund or mix of funds in which a DC member's contributions are invested if the member doesn't make a specific choice.
Environmental, social and governance (ESG)	An umbrella term that encompasses a wide range of factors that may have been overlooked in traditional investment approaches. Environmental considerations might include physical resource management, pollution prevention and greenhouse gas emissions. Social factors are likely to include workplace diversity, health and safety, and the company's impact on its local community. Governance-related matters include executive compensation, board accountability and shareholder rights.
Equities	Shares in a company, giving the purchaser part-ownership and entitled to dividend payments, after other obligations are first paid.
Ethical investment	An approach that selects investments on the basis of an agreed set of ESG criteria, motivated by ethical considerations.
Fiduciary obligations	A legal obligation of one party (a fiduciary) to act in the best interest of others. Fiduciaries are entrusted with the care of money or property on behalf of others. They include pension scheme trustees.
Fossil fuels	Fuels made from decomposing plants and animals, which are found in the Earth's crust. They contain carbon and hydrogen, which can be burned for energy. Coal, oil and natural gas are examples of fossil fuels.
Funding position	A comparison of the value of assets with the value of liabilities of a DB pension scheme.
Gilts	Bonds issued by the UK government. They are called gilts as the bond certificates originally had a gilt edge to indicate their high quality and thus very low probability of default.
Greenhouse gas (GHG) emissions (Scope 1, 2 and 3)	Gases that have been and continue to be released into the Earth's atmosphere. They trap radiation from the sun which subsequently heats the planet's surface (giving rise to the 'greenhouse effect'). Carbon dioxide and methane are two of the most important greenhouse gases.
Investment mandate	See pooled mandate and segregated mandate.

Integrated risk management	An approach used by DB pension scheme trustees to identify, manage and monitor the wide range of risks (relating to investment, funding and covenant) which might impact the chances of meeting their scheme's overall objectives.
Liabilities	Obligations to make a payment in the future, for example pensions promised to DB scheme members.
LDI (liability driven investment)	An investment approach which focuses on matching the sensitivities of a DB pension scheme's assets to those of its underlying liabilities in response to changes in factors such as interest rate and inflation expectations.
Net zero	The situation in which total greenhouse gas emissions released into the atmosphere are equal to those removed.
Offsetting	The process of paying someone else to avoid emitting or to remove from the atmosphere a specified quantity of greenhouse gases, for example through planting trees or installing wind turbines.
Paris Agreement	An international treaty on climate change, adopted in 2015. Its primary goal is to limit global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels.
Physical risk	Climate-related risks that arise from changes in the climate itself. They include risks from storms and flooding, as well as rising temperatures and changing rainfall patterns.
Pooled mandate	A feature of a collective investment vehicle whereby an investor's money is grouped (pooled) with that of other investors to purchase assets. Investors are allotted 'units' – a share of those assets in proportion to their contribution. Pooled funds offer smaller investors an easy way to gain exposure to a wide range of investments.
Portfolio alignment metric	Measures how aligned a portfolio is with a transition to a world targeting a particular climate outcome, such as limiting temperature rises to well below 2°C, preferably to 1.5°C, as per the Paris Agreement. Assessments using these metrics consider companies' and governments' greenhouse gas (GHG) emissions reduction plans and likelihood of meeting them, rather than current, or the latest reported, GHG emissions.
Responsible investment (RI)	The process by which environmental, social and governance (ESG) issues are incorporated into the investment analysis and decision-making process, and into the oversight of investments companies through stewardship activities.
Science-based targets	Targets to reduce greenhouse gas emissions that are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement.
Science-Based Targets initiative (SBTi)	An organisation that sets standards and provides validation for science-based targets set by companies and investors.
Scenario analysis	A tool for evaluating different ways in which the future may unfold.
Scope 1, 2 and 3	A classification of greenhouse gas emissions.

Segregated mandate	An investment approach that ensures an investor's investments are held separately from those of other investors. This approach offers flexibility to the investor who can stipulate the precise investment objective to be followed and dictate which securities may be held.
Self-select	In contrast with a default strategy in a DC pension scheme, a range of funds from which members can choose to invest in.
Stakeholder	An individual or group who has an interest in any decision or activity of an organisation. The stakeholders of a company include its employees, customers, suppliers and shareholders.
Statutory obligations	Those obligations not governed by a contract but imposed by law.
Stewardship	The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. It is often implemented via engagement with investee companies and exercising voting rights.
Stranded assets	Assets that have suffered an unanticipated loss of value before the end of their expected useful economic life. The term is most often applied to fossil fuel investments in the context of climate policy, where legislative and market developments may result in assets being worth less than the value recorded on company balance sheets.
Sustainable investing	An approach in which an assessment of the environmental and social sustainability of a company's products and practices is a key driver in the investment decision. ESG analysis therefore forms a cornerstone of the investment selection process.
Taskforce on Climate-related Financial Disclosures (TCFD)	A group of senior preparers and users of financial disclosures from G20 countries, established by the international Financial Stability Board in 2015. The TCFD has developed a set of recommendations for climate-related financial risk disclosures for use by companies, financial institutions and other organisations to inform investors and other parties about the climate-related risks they face.
Transition risk	Climate-related risks that arise from the transition to a low-carbon economy which may include changes in regulation, technology and consumer demand.

Appendix 6:

Sections of the Plan

The Plan is made up of various sections, which we've grouped into the DB Section and the DC Section. The individual sections within these groups are listed below:

DC Section

The DC Section is made up of one section, with members building up defined contribution (money purchase) retirement savings. It is the only section of the Plan open to new members.

DB Section

The DB Section is made up of six smaller defined benefit sections, which include:

- CECL Section
- CECL Supplementary Section
- CUKL Executive Section
- Cummins Diesel Section
- Newage International Section
- PGI Section.

All of the DB sections are now closed to new members.