

New Airways Pension Scheme

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

Scheme year to 31 March 2023

1 Summary

Executive Summary

This report has been prepared in line with the recommendations of the Taskforce on Climate-Related Financial Disclosure (TCFD), as required by regulation. The TCFD developed a framework to help public companies and other organisations disclose climate-related risks and opportunities.

This report covers the Scheme year dating from 1 April 2022 to 31 March 2023 and describes the activities and approach taken by the Trustee to understand the climate-related opportunities and reduce the risks to the Scheme related to climate change across the investments, the liabilities and the sponsor (British Airways) covenant. The following points are a summary of the detailed report that follows:

- Note, the Trustee has updated its effective date for reporting on its chosen metrics and targets to be calendar year rather than the Scheme year end. Last year's TCFD report was based on the Scheme year end date. This updated approach enables the Trustee to review the data within the Scheme year. We have not included 31 March 2022 metrics data in this year's report.
- The Trustee works closely with, monitors, and challenges our investment manager, BlackRock, to ensure Environmental, Social and Governance (ESG) considerations, including climate change, are fully integrated into all investment decision making and evidenced back to the Trustee.
- Our governance structure includes specific roles, responsibilities and oversight regarding climate risks.
- The Scheme's overall risk management process includes consideration of climate change risk.
- We strongly believe in the role of engagement and working with invested companies, via the investment manager, as a way to facilitate real world decarbonisation.
- Last year we carried out scenario analysis to consider how the climate-related risks and opportunities might affect the funding and investment strategy and the British Airways' covenant. The scenario analysis from last year's report has been reproduced for this year's report. It will be updated for next year's report.
- We acknowledge that modelling such scenarios is challenging and the outcomes uncertain, so we are committed to reflecting latest industry views whenever we revisit climate scenario analysis.
- We updated our Responsible Investment (RI) Policy in Q4 2022 noting the priority theme of climate change that the Trustee has agreed.
- As part of the 2021 actuarial valuation, the Trustee considered the impact of climate risk on the investment and funding strategy.
- We have chosen four climate-related metrics to monitor through time, namely carbon footprint, carbon intensity, data quality and portfolio alignment. The latter metric is new for this year's report. We have also included scope 3 emissions in the metrics data this year, where relevant.
- As shown in the report, based on available and estimated data, the absolute emissions for the portfolio reduced over the year to 31 December 2022, whereas the emissions intensity increased over the same period. For the gilts held, the carbon financed was broadly flat over the year but the reduction in value of the gilts (due to gilt yield increases) drove an increase in emissions intensity. The portfolio alignment for the listed equity and corporate bond mandates increased over the year to 31 December 2022. This latter metric is the proportion of investments with verified Paris-aligned or declared net-zero targets. This represents significant progress over the year to December 2022.
- We have set a new climate-related target on the Buy & Maintain corporate bond mandate based on portfolio alignment.
- Following the achievement of last year's climate target we have rebased the existing public equity target.
- We changed the Scheme's investment advisors and considered the climate-change credentials of the advisors as part of the decision-making process. New climate-related objectives have been set.

Finally, this is a developing area of financial and risk analysis; the Trustee will continuously review its approach and take appropriate advice from its professional external advisors.

Executive Summary



Emissions Data

Based on available or estimated data, the total absolute emissions for the portfolio reduced over the year. For the gilts held, the carbon financed was broadly flat over the year but the reduction in value of the gilts drove an increase in emissions intensity.

Absolute Carbon emissions¹ (tons CO₂ and equivalents)

	31/12/2021	31/12/2022
Gilts/Index-linked Gilts (scope 1 and 2)	1,400,373	1,439,900
Rest of portfolio (scope 1 and 2)	502,188	296,387
Rest of portfolio (scope 3)	2,566,019	1,541,165

Carbon Footprint/Emissions Intensity¹ (tCO₂e/£m)

	31/12/2021	31/12/2022
Gilts/Index-linked Gilts (scope 1 and 2)	114.1	171.2
Rest of portfolio (scope 1 and 2)	54.3	49.1
Rest of portfolio (scope 3)	353.5	391.9



Portfolio Alignment

Proportion of investments with verified Paris-aligned or declared net-zero targets - based on being SBTi³ verified

Binary Targets	31/12/2021	31/12/2022
Listed Equity portfolio	26.7%	40.4%
Corporate Bond portfolio	31.2%	45.9%



Focus on data

For Absolute Carbon Emissions and Carbon Footprint there is reported data for 76%* of the Scheme's assets.

Including estimated data, this reaches 79%*

*As at 31 December 2022 for Scope 1 and 2 emissions only.

Next Steps

For scenario analysis, targets and metrics²:

- Monitor progress against the targets and continue oversight of BlackRock's stewardship and engagement; and
- For the next TCFD report, review and update the scenario analysis (including covenant analysis) considering the circumstances of the Scheme and modelling available.



Climate-Related Targets and progress

Target 1 Baseline date 31/12/2021	<i>The Trustee aims to reduce the carbon intensity of the passive listed equity allocation by at least 45% from 31 December 2021 baseline levels by 2030</i>	
	Change over the year to 31 December 2022 (Scope 1,2 and 3 emissions)	-27%
Target 2 Baseline date 31/12/2022	<i>To increase the percentage of the issuers in the Buy & Maintain Credit portfolio (weighted by market value) that have an SBTi-approved target to 75% by 2030</i>	
	Verified Target: % of the market value invested in issuers with verified SBTi targets	45.9%

¹Total portfolio emissions are split out between the Gilts and index-linked gilts within the Liability Matching Portfolio (i.e. sovereign bonds) and the remainder of the portfolio due to a difference in calculation methodology

²These lists are not intended to be exhaustive.

³Refers to Science Based Targets initiative

2 Introduction

Introduction

Dear Members

The Trustee of NAPS believes that climate change represents a long-term systemic risk to the Scheme. It recognises that climate risks are financially material and need to be managed as the Scheme has a long-term payment horizon.

Identifying, assessing and managing climate-related risks and opportunities for the Scheme are strategic priorities carried out by the Trustee, with support from the British Airways Pensions team, the Trustee's investment manager and the Trustee's external advisors:

- Investment manager – BlackRock
- Actuarial advisor – LCP
- Investment advisor – LCP (changed from Mercer in May 2023)
- De-risking advisor - LCP
- Covenant advisor – PwC
- Legal advisor – CMS

The Trustee implements its investment strategy using an Outsourced Chief Investment Officer (OCIO) model, in which the investment manager, BlackRock, is also the stewardship provider. The Trustee believes it is important to ensure that the investment manager promotes the TCFD's recommendations and considers climate-related risks and opportunities within its investment decision-making process.

The Scheme's partnership with BlackRock is key in this process. We are reassured that BlackRock supports the low carbon transition in the way it invests and in the way it votes and engages with the underlying companies and issuers.

We have set out this report according to the framework suggested by the TCFD, covering the following key areas:

- **Governance**

This section outlines the Scheme's governance structure regarding climate-related risks and opportunities, including a breakdown of roles and responsibilities, implementation and oversight.

- **Risk management**

This section summarises the processes used by the Trustee to identify, assess, and manage climate-related risks.

- **Strategy**

This section covers the potential impacts of climate-related risks and opportunities on the Scheme's funding and investment strategy.

Introduction

- **Metrics**

This section summarises the climate-related metrics which the Trustee has chosen to report for the Scheme and provides data for the investments held as at 31 December 2022.

- **Targets**

The climate-related target chosen by the Trustee, and progress over the reporting period, is provided in this section of the report.

- **Technical Section and Additional Information**

There is a great deal of technical information required for climate analysis and reporting, and in order to keep the report accessible and relevant, we have included the more granular detail in the technical section of the report.

The NAPS Trustee believes the approach outlined in this report is consistent with its fiduciary duty to the beneficiaries of the Scheme. Further, this report fulfils the requirements of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, which are themselves designed to align with the recommendations of the Taskforce on Climate-Related Financial Disclosure.

Further information about the Scheme, including the Statement of Investment Principles (SIP) and Responsible Investment Policy, can be found on the Scheme's publicly accessible website: www.mybapension.com/naps

A list of acronyms used in this report can also be found on the same website: www.mybapension.com/naps/documents/responsible-investment

Wayne Phelan

Chair of the Trustee

New Airways Pension Scheme

3 Governance

Governance

Trustee Board

The Trustee Board has ultimate responsibility for all aspects of the management and strategy of the Scheme including climate change governance and reporting. No party other than the Trustee undertakes scheme governance activities in identifying, assessing and managing climate-related risks and opportunities.

Climate change is not just an investment-related issue; there are wider implications covering both risks to the covenant of the sponsor and risks around the liabilities. The Trustee maintains a Statement of Investment Principles (SIP), which details the key objectives, risks and approach to considering ESG factors, such as climate change, as part of its investment decision making. The document is reviewed on at least an annual basis.

The Trustee also periodically reviews its investment beliefs, including those related to climate change, and ensures these are reflected in the investment and governance approach taken.

Investment Committee (IC)

The Trustee Board has delegated the regular monitoring of climate risks and opportunities, to the IC. The IC also annually reviews the Scheme's Responsible Investment (RI) Policy including the approach to managing climate-related risks, with advice from the Scheme's investment advisor to ensure it remains aligned with best practice.

To ensure that the IC is fulfilling its duties adequately, the Trustee maintains a 'Terms of Reference' setting out the IC's responsibilities and delegations, including ESG and RI issues. The Terms of Reference are subject to annual review by the Trustee Board.

Ongoing Governance Activity

Climate change has and will continue to form an agenda item at Trustee Board meetings at least annually and is covered as an ad-hoc agenda item at IC meetings. It will also be discussed within other agenda items as part of wider discussions on funding or investment strategy, or as part of the investment manager appointment and review discussions.

The Trustee is satisfied that the amount of governance time spent is reasonable and will allocate more time at future meetings if any analysis or wider industry research requires additional Trustee review and consideration. The Trustee and IC questioned the information provided to them and, where appropriate, challenged BlackRock or advisors in the course of conducting its governance activities.

Investment Advisor

The Trustee's investment advisor, LCP, provides ongoing advice on the investment strategy for the Scheme. This includes advice on managing and monitoring investment-related risks, including climate change. LCP works closely with the Scheme's appointed investment manager, BlackRock, to understand the impact of any strategic asset allocation changes on the Scheme's exposure to climate-related risks and opportunities, questioning and challenging where required. LCP representatives attend IC meetings (held at least quarterly) and Trustee Board meetings when necessary.

The previous investment advisor provided the Trustee with training on climate change and the various components of TCFD during the Scheme year. The Trustee reviewed its investment advisor over the year and as part of the decision-making process, it checked and interrogated the climate credentials of potential advisors. New objectives have been put in place for LCP, the investment advisor (and Scheme Actuary), explicitly including ESG and climate change into these.

Governance

Investment Manager

The investment manager, BlackRock, is responsible for the day-to-day implementation of the Scheme's investment strategy and RI Policy.

The investment manager provides quarterly and annual reporting to the internal BA Pensions Executive team, investment advisor, and the IC, detailing the stewardship, engagement and voting activity conducted on behalf of the Trustee.

The Trustee has mandated that the investment manager must include consideration of ESG factors, including climate-related risks and opportunities, when making investment decisions. The IC receives updates that include consideration of ESG factors in the investment process.

BlackRock provides the Trustee with climate scenario analysis for the investments and liabilities of the Scheme when required by the Scheme or its advisors. BlackRock also provides climate-related metric data at least annually.

Independent Investment Expert (IIE)

An IIE attends IC meetings to provide support, expertise and input to the discussions of the IC, including in relation to climate change matters.

Scheme Actuary

The Scheme Actuary analyses and monitors the risk of climate change on the Scheme's funding strategy, including in respect to any potential effects on the mortality assumptions underlying the calculation of the Scheme's liabilities.

Covenant Advisor

The Trustee incorporates the effect of climate change on the Scheme's sponsor, British Airways, within its review and analysis of overall climate risk. The Trustee has appointed PwC as its covenant advisor. PwC provides covenant advice during the triennial valuation process, as well as quarterly covenant monitoring and incorporates climate risk into its analysis.

BA Pensions Executive

On behalf of the Trustee, the internal BA Pensions Executive team performs the day-to-day oversight function, challenging advisors and BlackRock and raising issues to the IC and Trustee Board, where appropriate.

Advisor Review

In order to ensure that its advisors, including the investment, actuarial and covenant advisors, are taking adequate steps to identify and assess climate risks, the Trustee sets objectives for its advisors, including ESG-related objectives where appropriate, and reviews these annually.

With regard to the investment manager, the BA Pensions Executive team and investment advisor conducts a quarterly service review meeting with BlackRock, and the Trustee performs an annual performance review.

Governance

Implementation

Day-to-day implementation of the Scheme's investments including climate risk management, and the wider NAPS RI Policy, is delegated by the Trustee to the investment manager, BlackRock. BlackRock is responsible for:

- Portfolio management, including individual decisions on the purchase, retention and/or sale of investments;
- The integration of climate change and other ESG risks when making investment decisions as required by the RI Policy, including conducting specific climate-related analysis where appropriate;
- Stewardship, including engagement with held or prospective companies intended to protect and/or enhance the value of the Scheme's assets. Where appropriate this will include working to ensure that investee companies have appropriate climate-related policies and strategies in place;
- Climate-related scenario analysis where it has the potential to inform strategic decisions taken by the Trustee; and
- Production of annual ESG and climate specific reporting for the Trustee including portfolio metrics and analytics (such as emissions data) for monitoring and regulatory purposes.

Oversight

Oversight of the implementation of the Scheme's RI Policy is carried out, on behalf of the Trustee, by the BA Pensions Executive team and investment advisor. Tasks include:

- Regular liaison with the BlackRock Strategic Client Delivery Team and the various BlackRock Investment Stewardship and Responsible Investment teams;
- Reviewing data/analysis/reporting outside of the regular quarterly reporting cycle;
- Ensuring sufficient reports and analysis are available to meet the Trustee's climate-related obligations and objectives, as discussed in their quarterly meeting cycle; and
- Reviewing any developments in industry practice, and changes in legislation and regulation.

Governance

Training

Over the past two years, the Trustee has received a number of training sessions from Mercer and BlackRock on various topics, including:

- Climate-related risks and opportunities;
- The recommendations and requirements of TCFD reporting; and
- Climate-related metrics, scenario analysis and setting climate targets.

Several of these sessions included advisor recommendations, discussion, debate and ultimately resulted in key decisions being made, which feature in this report. The in-house team attending the meetings received the same training, in addition to joining industry events and with relevant staff keeping up to date with Continuing Professional Development (CPD) requirements.

ESG beliefs

During the previous Scheme year, an interactive Trustee session on ESG beliefs was conducted by the Scheme's investment advisor. The outcome of the discussion was to review the Scheme's RI Policy to ensure the policies remain consistent with the Trustee's ESG beliefs.

The session included a survey of the full Trustee Board, including questions around ESG themes and priorities, the sponsor's policies on sustainability, member views, and voting and engagement.

The Trustee has recently considered its Stewardship Priorities in light of the latest Stewardship guidance. The Trustee mapped its previously agreed RI priorities against the latest BlackRock's Investment Stewardship (BIS) priority framework, finding a close and good mapping. The Trustee agreed to regularly monitor the BIS priority framework noting it was key to regularly re-confirm how the Trustee's priorities are aligned with BlackRock's. More information on the Scheme's stewardship activities is included in the Implementation Statement which can be found on the Scheme's publicly accessible website: <https://www.mybapension.com/naps/documents/index>

Responsible Investment Policy

A number of changes were adopted by the Trustee as part of a revision of the Scheme's RI Policy. These changes included reference to climate change as a Trustee priority theme that came out from the last RI beliefs exercise.

“Environmental (including climate change), social and governance (“ESG”) issues are multifaceted and represent long-term systemic risks.

We recognise that ESG risks are financially material and need to be managed as we have a long-term payment horizon. We therefore seek to integrate ESG considerations into our decision-making and reporting processes across all asset classes.

Where consistent with our fiduciary duties, and applicable to our investment strategy, we will require our investment managers to actively engage and utilise their voting rights/engagement to drive up ESG standards in the organisations in which we invest.

”

Trustee RI policy

4 Risk Management

Risk Management

Processes for identifying, assessing and managing climate-related risks and integration within the Trustee’s overall risk management of the Scheme

A key part of the Trustee’s role is to understand and manage risks that could have a financially material impact on both the Scheme’s investments and the wider funding position and strategy. Climate change is one of the factors that the Trustee considers alongside other financially material risks that may impact the pension outcomes for members. This section summarises the primary climate-related risk management processes and activities of the Trustee Board and its sub-committees. These help the Trustee understand the materiality of climate-related risks, both in absolute terms and relative to other risks that the Scheme is exposed to.

The Trustee Board and its sub-committees prioritise the management of risks primarily based on the potential impact to the security of members’ benefits.

The Trustee also ensures that it is kept up to date with the latest developments regarding climate-related risks and opportunities, and undertook multiple training sessions during the Scheme year to 31 March 2023 that included climate change.

BlackRock uses its risk tools and provides outputs and outcomes of using those tools to the Trustee, as required. This helps the Trustee to identify existing and emerging climate-related risks. BlackRock has a key role in the management of climate-related risks and opportunities. The Trustee has mandated that the investment manager must include consideration of ESG factors, including climate-related risks and opportunities, when making investment decisions.

Governance

The Trustee has documented its approach to ESG, including climate risk, into Scheme documents such as the **Statement of Investment Principles (SIP)** and the **Responsible Investment (RI) Policy**, both of which are reviewed at least annually and set out how investment climate-related risks are managed and monitored.

The Trustee maintains a **risk register** to monitor and mitigate financially material risks to the Scheme. A specific RI risk is included: *“Identification, assessment and management of environmental (including climate-related), social and governance factors on the Scheme’s assets, liabilities and investment strategy and regulatory compliance.”* The Trustee Board has delegated ongoing monitoring of the risk register to the Governance and Operations Committee, which meets at least quarterly.

In addition to the risk register, the Scheme will soon be updating its **Integrated Risk Management (IRM)** framework, which will look at funding, investment and covenant risks holistically, including climate risk.

The risk register and IRM framework ensure climate-related risks are integrated into the Trustee’s overall risk management approach and considered in the context of all risks faced by the Scheme, prioritised accordingly.

Strategy

The Trustee’s advisors are required to take climate-related risks and opportunities into account as part of the wider strategic advice provided to the Trustee. This includes highlighting the expected change in climate-risk exposure through proposed asset allocation changes. BlackRock will be required to carry out climate scenario analysis and monitor the progress of the investment strategy against climate related metrics. The Trustee’s actuarial advisor will feed into this analysis views on potential impacts on funding elements such as mortality trends and the covenant advisor is expected to comment on the climate risk exposures of the employer covenant.

Climate scenario analysis for the Scheme will be reviewed at least triennially or if there has been a material change to the strategic asset allocation, funding strategy or the scenario modelling approach. A summary of the Trustee’s latest climate scenario analysis is included in the next section of this report and is the primary tool to help the Trustee understand the materiality of climate-related risks and opportunities that could impact the Scheme over time.

Risk Management

Reporting

In order to better understand climate exposures, the Trustee has worked with BlackRock to obtain a regular delivery of a suite of climate-related reporting which is considered each quarter by the Investment Committee.

Following the Trustee's choice of metrics, BlackRock obtains climate-related data on the portfolio and delivers a report to the Trustee on an annual basis.

As the Trustee has established two targets based on a specific metric, BlackRock will provide regular detail on how the portfolio is progressing towards those targets.

The Trustee monitors BlackRock's stewardship (voting and engagement) programme for the Scheme's assets. On a quarterly basis, the BA Pensions Executive team and investment advisor meet with BlackRock to discuss the voting and engagement activity for the period in question and provide challenge where necessary. On a semi-annual basis, the stewardship reporting is also presented to the IC, considered and challenged where necessary.

BlackRock provides the Trustee with its **Stewardship Annual Report**.

Under the *Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019*, the Trustee is required to produce an Annual Implementation Statement, setting out how the voting and engagement policies described in the Scheme's Statement of Investment Principles have been followed. These statements include detailed example case studies of BlackRock's engagement activity.

Current and previous implementation statements are included on the Scheme's public website: www.mybapension.com/naps/home/index

Risk Management: Asset Manager Review

Asset Manager Review

BlackRock's conviction is that sustainability risk – and climate risk in particular – is investment risk. As such it has identified a **Climate Focus Universe** of companies which are potentially exposed to climate-related risks.

The BlackRock Investment Stewardship team engages with companies to assess how material sustainability-related factors impact a company's ability to generate long-term shareholder returns.

In 2021, BlackRock expanded its focus universe to over 1,000 carbon-intensive public companies that represent 90% of the global scope 1 and 2 GHG emissions of their clients' public equity holdings with BlackRock.

Where BlackRock does not see enough progress, and in particular where there is a lack of alignment combined with a lack of engagement, BlackRock may use its vote against management and will flag holdings for targeted review and engagement where they believe they may represent a risk to performance.

Conversely, BlackRock believes companies that distinguish themselves in terms of their emissions trajectory, transition preparedness and governance will often represent opportunities.

Just over 41% of the Scheme's public equity portfolio as at 31 March 2023 was invested in companies that are part of the Climate Focus Universe. Between 31 March 2022 and 31 March 2023 BlackRock engaged with 324 individual companies from the Climate Focus Universe held by NAPS. Management of climate-related risk was raised and discussed with those companies on 342 separate occasions.

The integration of ESG factors and specifically climate risk is fundamental to how the Trustee perceives risk within the investment portfolio.

To support the implementation of this risk management, BlackRock provides examples of ESG integration to the Investment Committee.

Identified Risks example

The Trustee considered the top 10 carbon-intensive bonds in the credit portfolio, identifying these account for just over 50% of the mandate's emission intensity (by sales). The Trustee and BlackRock noted that 8 of the 10 most carbon intensive holdings were issued by companies that have verified SBTi targets that were 2 degree warming aligned (or lower), and considered the manager's reason for the holdings. This discussion and analysis formed part of the climate related target setting for the Trustee.

Risk Management: Transition Risks and Physical Risks

Climate Risks and Opportunities

The effects of climate change will be felt over many decades. The Trustee has considered two types of climate-related risks and opportunities in its climate scenario analysis:



Transition risks and opportunities

This covers the potential financial and economic risks and opportunities from the transition to a low-carbon economy (i.e. one that has a low or no reliance on fossil fuels), in areas such as:

- Policy and legislation
- Market
- Technology
- Reputation

Risks include the possibility of future restrictions, or increased costs, associated with high carbon activities and products. There are also opportunities, which may come from the development of low-carbon technologies. In order to make a meaningful impact on reducing the extent of global warming, most transition activities need to take place over the next decade and certainly in the first half of this century.



Physical risks and opportunities

The higher the future level of global warming, the greater physical risks will be in frequency and magnitude. Physical risks cover:

- Physical damage (storms; wildfires; droughts; floods)
- Resource scarcity (water; food; materials; biodiversity loss)

Physical risks are expected to be felt more as the century progresses, though the extent of the risks is highly dependent on whether global net zero greenhouse gas emissions are achieved by 2050.

There are investment opportunities, for example in newly constructed infrastructure and real estate, that are designed to be resilient to the physical impacts of climate change, as well as being constructed and operated in a way that have low or no net carbon emissions. There are also opportunities for investment in those companies or industries that focus on energy conservation and resource efficiency.

5 Strategy

Strategy: Time Horizons

Strategy

ESG issues, including climate change, are multifaceted and represent long-term systemic risks. The Trustee recognises that ESG risks are financially material and need to be managed as the Scheme has a long-term payment horizon. The Trustee therefore seeks to integrate ESG considerations into its decision-making and reporting processes across all asset classes. ESG considerations are integral to the development of the Scheme’s investment strategy. As a core part of this the Trustee has reviewed scenarios for future development in climate change and their potential impact on the Scheme’s assets and liabilities. We recognise this is a first iteration of the scenario analysis, it is useful data for the Trustee and it will be developed further through time.

Time Horizons

The Trustee has set its time horizons as follows:

Short-term: 2024
In line with the next actuarial valuation

Medium-term: 2030
In line with the previous Long-Term Funding Target (LTFT);
In three actuarial valuations’ time; and
Close to the projected peak level of liabilities.

Long-term: 2050
When liabilities are projected to have significantly run-off.

Short Term (Now to 2024)

- **Transition risks are greater than physical risks with moderate asset re-pricing risk** driven by:
 - Increases in private sector net zero commitments and clearer decarbonisation plans; and
 - Perceived or real increased pricing of greenhouse gas emissions/carbon.

Medium Term (2024 to 2030)

- **Transition risks continue to dominate with heightened asset re-pricing risk** driven by:
 - Future warming pathways become clearer;
 - Growth in market awareness and better pricing into asset valuations;
 - Unexpected policy changes that surprise markets; and
 - Exposure to developing economies which have longer time horizons for country level phase down of fossil fuel usage.

Long Term (2030 to 2050)

- **Physical risks become increasingly important:**
 - Development of technology and low carbon solutions; and
 - Policy, legislation and regulation likely to also play a key role at the international, national and subnational level.

Strategy: Impacts and Opportunities

Short Term (Now to 2024)

The Scheme is exposed to climate-related risks through its allocation to public equity, although this reduced over the year to 31 March 2023. To this extent this drives funding level volatility, the reliance on the employer covenant could be increased.

Medium Term (2024 to 2030)

The climate-related focus over the medium-term will turn towards risk-reducing assets, such as credit, as the Scheme continues its de-risking journey. Over this time period, bond investments where the issuer of the debt has made minimal effort to support the low carbon transition may lead to a potential default or downgrade.

Market surprises due to unexpected policy changes related to climate change could lead to asset price volatility and therefore funding level volatility. Exposure to this market volatility is expected to reduce over time and the resilience of the funding strategy to climate-related risks is subsequently expected to improve.

While the Scheme's allocation to BlackRock's Strategic Alternative Income Fund (SAIF) does not have a direct climate-related mandate, the Fund's managers leverage the expertise of BlackRock's Renewable Power Team and currently has significant investments in renewable energy including on- and off-shore wind and solar.

Long Term (2030 to 2050)

As the Scheme matures, the Trustee aims to reduce investment risk with a view to providing the greatest security possible for members' benefits. A typical low-risk investment strategy would invest in high quality corporate bonds, government bonds and cash, all of which the Trustee sees as suited to a transition to a low carbon economy due to being more resilient to climate-related risk.

Physical risks are also expected to increase over the long-term without sufficient actions being taken, which may lead to investment opportunities in industries supporting the transition to a low-carbon economy. However, physical and transition risks could impact mortality and the Trustee will need to be aware of any potential impact on its ability to transfer risk to the insurance market.

Resilience of the Scheme's investment and funding strategy under different scenarios considered

At the time of the analysis, the Scheme could be more resilient to different climate outcomes, particularly those driven by transitional risks which may feature in the near-term. However, around the end of the relevant Scheme Year the funding position had improved, and the Trustee reduced risk in the investment strategy, increasing resilience. This is primarily because of reduced equity allocation and increased liability hedging

Strategy: Climate Scenarios

The Trustee decided not to undertake new scenario analysis this Scheme year. The modelling capabilities have not progressed enough, changes in industry trends on scenario analysis not changed enough, and circumstances of the Scheme not changed enough to warrant updating the scenario analysis this time. What follows in this section are the results of the most recent scenario analysis as at 31 March 2022. New scenario analysis including covenant analysis will be conducted in the Scheme year to 31 March 2024.

Given the uncertainty around the timing and impact of climate-related transition and physical risks, the Trustee has considered a range of possible climate scenarios modelling different risks to test the resilience of the Scheme’s investment strategy and funding strategy. The purpose of scenario analysis is to better understand the risks and opportunities posed by climate change to the Scheme and to inform the Trustee’s strategy and investment decisions accordingly. They are hypothetical constructs, not forecasts, predictions or sensitivity analyses. The scenarios model the investment strategy in place as at 31 March 2022 and assume this is static over all time horizons. Longevity changes have not currently been built in quantitatively to the analysis.

This report summarises two of these scenarios which present different trajectories:

1. **“Orderly Transition”** – this models **transition risk only** and the global average temperature increase is 1.5°C above pre-industrial levels. The Trustee has chosen this as it:
 - Meets the requirement of modelling a scenario of a temperature increase within the range of 1.5°C - 2°C above pre-industrial levels;
 - Is in line with the Paris Agreement, a global government pact signed in 2015, designed to keep global warming below 2°C; and
 - Is based on a Network for Greening the Financial System (NGFS) representative scenario.

2. **“High Emissions”** – this models **physical risk only** and the global average temperature increase is 3.2°C - 5.4°C above pre-industrial levels (i.e. likely warming above 4°C).
 - The Trustee has chosen this as it represents a scenario that breaches the 2°C global average temperature increase;
 - It is based on a scenario from the Intergovernmental Panel on Climate Change (IPCC), which is the United Nations body for assessing the science related to climate change; and
 - This scenario assumes that some corrective actions are taken in line with current policies. The impact of physical risk increases over time as emissions accumulate in the atmosphere.

31 March 2022	Change in Surplus	Change in Funding Ratio*
Orderly Transition	-£918m	-4.6%
High Emissions	-£374m	-1.9%

*The present value of the estimated impact on the 2018 LTFT funding ratio

Based on the data available, the **Orderly Transition** scenario has a **moderate expected impact** on the Scheme’s funding position. It reflects the world taking aggressive but orderly actions towards reaching Net Zero by 2050 and high-carbon emitting sectors seeing an immediate decline in company profitability.

The **High Emissions** scenario has a **modest expected impact** on the Scheme’s funding position. In the near term, it is likely that physical risks are concentrated in certain geographies, particularly impacting assets in Asia Pacific and Emerging Markets. Over the longer term, more countries face significant damage to their economies from higher temperatures and extreme weather events.

The modelling may understate or overstate the true level of risk due to uncertainty around future economic impacts of climate change. In particular, it would not be appropriate to add together the impacts of a transition risk scenario and a physical risk scenario due to these being different models. Although the Trustee has evaluated the impact of transition and physical risk separately, it is conscious that it should take both into account. Analysis is developing in this area and the Trustee will review its scenarios in future reporting periods. The Technical Section of this report provides more detail on the modelling approach, along with the assumptions and limitations of the scenario analysis. The intricacies of climate systems present considerable difficulties in modelling the impacts on the Scheme’s assets and liabilities. This is particularly true in the High Emissions scenario where greater than 4°C of warming is observed by the end of the century. Due to the unprecedented nature of such warming, it is challenging to encompass all potential consequences within the modelling process. Simplifications in the modelling, such as not allowing for tipping points, mean the actual impact on the Scheme is likely to be more significant than is currently being modelled. As long as these limitations are understood, the scenarios still provide valuable insights to inform climate risk assessment and management. Source: BlackRock, March 2022. Readers are directed to the Disclaimers related to the scenario analysis in the Appendix.

Strategy: Climate Scenario 1 – Orderly Transition

Overview: BlackRock’s “Orderly Transition” scenario is based on the “Net Zero by 2050” pathway developed by the NGFS. Global warming is limited to c.1.5°C through stringent climate policies and innovation, with CO₂ emissions reaching “net zero” relative to pre-industrial levels in c.2050.

Risk Factors: Transition risk factors are the focus.

Narrative: The main features of this scenario are higher carbon prices and taxes, higher end user energy prices and a changing energy mix (out to 2050). Those companies which rely heavily on energy, utility and basic materials are most severely affected. The financial model also incorporates changing consumer behaviour, which impacts demand for goods and services.

The impact of the Orderly Transition on the Scheme’s funding level has been considered over a single timespan over the lifetime of the scenario modelled. The model considers the impact of transition risk factors to 2050, covering the Scheme’s short, medium and long-term time horizons.

Outcome: There is a large estimated change in the Scheme’s liabilities that occurs under this scenario, where higher carbon prices and an increase in government investment drives higher inflation (UK inflation is around 1.9% higher, peaking in 2026). The Scheme’s index and active equity portfolios are less exposed to transition risk than the standard MSCI global all country index. This is predominantly due to differences in their exposure to energy and materials stocks versus the index. This analysis has been conducted on listed assets only. Unlisted, private market assets, other than private equity via a proxy, have been excluded, therefore the summary below will be underestimating the impacts on the overall strategy. The table below shows the estimated impact on the Scheme of the Orderly Transition scenario. A driver of the increase in assets is the LDI portfolio whereas the growth assets are expected to fall under this scenario. In this scenario the funding strategy would remain appropriate.

Since this modelling, at the end of the latest Scheme Year, the allocation to public equity and private equity has reduced and the interest rate and inflation hedge ratios have increased meaning that the change in funding ratio from this scenario would be less than shown below if it were updated.

	Assets*	Liabilities**	Surplus (Deficit)	Funding Ratio	Change in Surplus	Change in Funding Ratio
Base, 31/03/2022	£19,646m	£19,298m	£349m	101.8%		
Orderly Transition	£20,008m	£20,577m	(£569m)	97.2%	-£918m	-4.6%

* Includes a negative adjustment of £160m for the value of the Scheme’s AVCs.

** The Scheme’s liabilities have not been adjusted for changes in longevity. The liabilities are based on the 2018 LTFT basis.

Source: BlackRock, March 2022. The Technical Section contains more information about the scenario modelled as well as the assumptions and limitations.

Strategy: Climate Scenario 2 – High Emissions

Overview: BlackRock’s “High Emissions” scenario is based on the IPCC’s RCP 8.5 pathway which assumes that some corrective actions are taken, but that CO₂ emissions only stabilise at around 940 ppm by 2100, i.e. temperatures rise by 3.2 - 5.4°C in 2100 relative to pre-industrial levels.

Risk Factors: Physical risk factors are the focus.

Narrative: All sectors of the economy are impacted by higher average temperatures. Most impacted however are agriculture, mining and transportation as well as those which rely heavily on physical labour or physical capital. Although some geographies see a material increase in physical risk before 2030, over the longer term, more countries face significant damage to their economies from higher temperatures and extreme weather events. The most important driver of financial impact is the expected change in each countries’ gross domestic product (GDP).

The impact of the High Emissions scenario on the Scheme’s funding level has been considered over a single timespan over the lifetime of the scenario modelled. The model considers the impact of physical risk factors to 2050, covering the Scheme’s short, medium and long-term time horizons.

Outcome: The Scheme’s index and active equity portfolios are more impacted by physical risk than transition risk, which generally has a higher impact across all sectors of the economy. The impact on UK macro-economics from physical risks is fairly modest over most timeframes. The impact is felt most severely in geographies vulnerable to extreme temperatures, precipitation and sea-level rise, as well as companies with operations in those areas. This analysis has been conducted on listed assets only. Unlisted, private market assets have been excluded therefore the summary below will be underestimating the impacts on the overall strategy. The table below shows the estimated impact on the Scheme of the High Emissions scenario. The assets are expected to fall under this scenario. This is driven by the public and private equity holdings which are expected to fall significantly plus the corporate bonds and LDI holdings which are expected to reduce by a smaller amount. The Scheme’s funding strategy would remain appropriate under this scenario.

Since this modelling, at the end of the latest Scheme Year, the allocation to public equity and private equity has reduced meaning that the change in funding ratio of this scenario would be less than shown below if it were updated.

	Assets*	Liabilities**	Surplus (Deficit)	Funding Ratio	Change in Surplus	Change in Funding Ratio
Base, 31/03/2022	£19,646m	£19,298m	£349m	101.8%		
High Emissions	£19,158m	£19,184m	(£26m)	99.9%	-£374m	-1.9%

* Includes a negative adjustment of £160m for the value of the Scheme’s AVCs.

** The Scheme’s liabilities have not been adjusted for changes in longevity. The liabilities are based on the 2018 LTFT basis.

PPM is defined as part per million

Source: BlackRock, March 2022. The Technical Section contains more information about the scenario modelled as well as the assumptions and limitations.

Note: Totals may not sum due to rounding

Funding Strategy - Covenant

Impact of Climate-Related Risks for the Covenant of British Airways (BA)

Climate change risks are an increasingly important consideration in assessing the sponsor covenant strength and longer-term outlook for BA.

The impact of climate change will be significant to BA and is complex. The aviation industry is heavily reliant on fossil fuels to maintain operations and therefore more exposed to climate risk than other industries. Current forecasts expect fundamental changes to aircraft and carbon capture technology from 2035, which may require significant capital expenditure investment with unknown cost implications. This aviation industry expectation aligns with the Trustee’s long-term time horizon of 2030-2050, when the Trustee expects the Scheme to have reduced its reliance on the employer substantially and to have moved to a lower risk investment strategy.

BA, and its parent IAG, have taken significant steps towards understanding its climate risks and setting a climate strategy known as “BA Better World”. The strategy aims to achieve Net Zero by 2050 and consists of three pillars:

Sustainable Aviation Fuel (SAF)

- BA has partnered with Velocys to build a commercial plant to convert household waste into jet fuel by 2025.
- BA has partnered with LanzaJet to secure SAF supply signing an agreement in late 2022.
- BA has committed to powering 10% of all flights with SAF from 2030.

Carbon Offsets / Removal

- BA’s domestic flights have been carbon neutral since January 2020.
- For international flights, BA has partnered with Pure Leapfrog to allow all customers to make their flight carbon neutral. 10% of customers are expected to pay the carbon neutral offset by 2025.
- BA expects more sophisticated carbon removal technologies will be available from 2035.

New Hydrogen Aircraft

- BA expects hydrogen powered aircraft to support short haul operations from 2035 without significant aircraft engineering changes.
- The technology required for long haul hydrogen aircraft is not expected until 2050 onwards.

In considering the long-term strategy of the Scheme, the Trustee considers the impact of climate risk on both the strength and visibility of the covenant. As per earlier sections, the risks of climate change have been broken into two categories; transition risks and physical risks.

Funding Strategy - Covenant

Transition Risks

Transition risks arise from the transition to a decarbonised global economy to limit warming. For BA the following are relevant considerations:

- **Business travel** could decrease as businesses seek to meet their own Net Zero and ESG targets. In the **short-term** this is more likely to be dominated by post-pandemic behaviour changes, with climate-driven changes over the **medium-term**.
 - **Consumer demand** and changing behaviour to reduce carbon footprint could result in the loss of market share, especially if BA is not at the forefront of adopting new technologies as it targets Net Zero. In the **short-term** demand is expected to be driven by pent-up post-pandemic demand, with climate-driven changes and uncertainty more of a factor over the **medium-term** as consumer consciousness of individual carbon footprints rises.
 - **Regulatory pressure** could increase, particularly over the **medium-term**:
 - The speed at which airlines need to transition to Net Zero and regulation on non-CO₂ impacts;
 - Requirements to comply with CORSIA (market-based emission offset program) on all international flights; and
 - Certain airports could adopt greenhouse gas emission or climate-related goals and requirements.
 - **Innovation requirements** will drive opportunities over the **medium to long-term**, but the costs to develop and roll out new low/negative carbon technologies, electrification and hydrogen fuel technologies will be a significant financial burden.
 - **Investor pressure** could negatively impact share price over the **medium-term** if institutional investors increase their focus on ESG metrics and challenge performance.
 - **Technology** to deliver Net Zero is not yet commercially developed or widely available. Uncertainty remains as to what technologies will be delivered to supply sustainable, affordable fuel and/or carbon reducing fleet and supporting assets. BA will need to make strategic decisions regarding future technology and energy sources in the medium-term to ensure it is well-placed to deliver longer term.
- There are also **Transition Opportunities**, which BA is well positioned to take advantage of given it is part of a world-leading airline group.
- **Short and Medium-Term:**
 - Carbon offsets and pricing.
 - Strong position at London Heathrow.
 - Strong brand, broad customer base and valued loyalty programme.
 - **Long-Term:** Ability to become a market leader in new technologies:
 - Commercial hydrogen technologies – aircraft and supporting infrastructure.
 - Sustainable Aviation Fuel to replace kerosene.
 - Carbon capture and storage.
 - Electrification and improving efficiency.

Funding Strategy - Covenant

Physical Risks

Physical risks stem from how changing climate could impact the business, and for BA could lead to the increased severity and frequency of extreme weather impacting operations and fuel production.

Monitoring Climate-Related Covenant Risks and Opportunities

The Trustee’s covenant advisor, PwC, has modelled various scenarios, including changes in the mix of business/leisure travel and wider impacts on the economy. The Trustee continues to keep this under review and will:

- Engage with BA and IAG Sustainability teams to request updates on the progress of the Net Zero strategy.
- Monitor key climate-related risks and metrics, such as:
 - CO₂/km fuel efficiency against sustainability targets;
 - Group access to new technologies and the capital to enable this change;
 - Where ESG assets go in the Group; and
 - Results of consumer and customer surveys related to sustainability sentiment on air travel.

Conclusion

The Trustee understands that climate change risks could be material for the sponsor, and this is considered, along with other factors, in the assessment of the strength of the sponsor covenant by the covenant advisor and the potential impact on the funding strategy.

Funding Strategy - Actuarial

Impact of Climate-Related Risks on the Liabilities of the Scheme

The modelling carried out by BlackRock under the Scenario Analysis considers the impacts on the liabilities* by applying consistent stresses to those applied to the assets. However, BlackRock's model currently makes no allowance for the potential impact of climate change on life expectancy and so the Trustee has worked with its actuarial advisor, LCP, to further consider this risk.

Longevity Assumptions

The Trustee makes an assumption about how long Scheme members will live, and therefore how long pensions will be paid for, when assessing the amount of assets the Trustee requires to meet future benefit obligations. If a member lives longer, the Scheme pays the member's pension for longer and therefore needs more assets to make the payments. Typically, the Trustee will review its assumption for future life expectancy every three years as part of the formal actuarial valuation.

Climate-Related Impact

The impact of climate change on life expectancy is highly uncertain. The Trustee has considered at a high-level what the potential impacts of climate change might be on members' life expectancies under its two chosen scenarios over the three timescales described in this report. This identified drivers that could result in either an increase or decrease in future life expectancies.

For example, in the High Emissions scenario, the continued use of fossil fuels should lead to higher temperatures, reducing cold-related deaths in winter and potentially increasing life expectancies. However, this effect could be offset by less prosperous economic conditions, which may limit the funding available for healthcare and therefore reduce life expectancies. The extent to which these (and many other) factors outweigh each other will determine whether life expectancies increase or decrease.

As part of the 2021 actuarial valuation, the Trustee considered the impact of climate risk when making assumptions about future investment returns. As described above, the impact of climate change on longevity assumptions is highly uncertain and so no explicit impact was built into the longevity assumptions agreed for the 2021 actuarial valuation. The Trustee had previously concluded that impacts on longevity arising from climate-related factors were within the range of impacts already considered. The Trustee will keep this area under review and consider it further as part of its strategic planning, risk management frameworks and at the next actuarial valuation as at 31 March 2024.

** The liabilities modelled by BlackRock will differ slightly from those modelled by the Scheme Actuary due to differing model approaches and assumptions. The modelling shown in this report is based on the 2018 LTFT liabilities.*

6 Metrics

Metrics: Introduction

This report presents data analysis for the Scheme's assets as at 31 December 2021 and 31 December 2022, where available. The reporting date for the Scheme's metrics and climate-related Targets (in the next section) has been rebased to a calendar year end so it is within the Scheme year. Last year's report used an effective date of 31 March 2022.

The Trustee has chosen to present four climate-related metrics in this report. These climate-related metrics help the Trustee to:

- Understand the climate-related risk exposures and opportunities within the Scheme's investment strategy; and
- Identify areas for further risk management, which may include additional due diligence of the investment manager and its voting and engagement activity and priorities.

Following advice and training from Mercer on the range of metrics that are available, the Trustee chose the following metrics at its Main Board meeting in Q4 2022. The first three metrics were retained from the first year's report along with the portfolio alignment metric which is a new metric requirement for the 2023 TCFD report.



Absolute Emission Metric: Total Greenhouse Gas (GHG) Emissions



Additional Metric: Data Quality



Emissions Intensity Metric: Carbon Footprint



Portfolio Alignment Metric: Binary Target

The Trustee recognises the challenges associated with the various metrics, tools and modelling techniques used to assess climate risk. The Trustee will work with BlackRock to continuously improve the approach to assessing and managing risks over time as more data becomes available. The Technical Section of this report sets out the data limitations and assumptions used in collating these metrics.

Comment on data: The Trustee is taking steps to address data gaps that are present, where possible. The Trustee seeks improvements from the industry, its investment manager and entities it has exposure to. The Scheme's investment manager engages with companies and sovereigns to improve their data reporting in this area. The Trustee noted, on the back of discussions over the year, one of BlackRock's engagement priorities is to encourage disclosures aligned with the TCFD reporting framework. From an asset class coverage perspective, inflation-linked property (held within the Scheme's DII portfolio) now has emissions data included in this year's report, representing an improvement in data from last year. Overall, despite more asset class data coverage, the figures remain similar to last year due to gilt yield increases driving a change to the allocation between different asset classes with different data coverage. The Trustee notes to readers that emissions figures shown may increase as more data becomes available.

Comment on asset allocation: Over the year the Scheme has de-risked and rebalanced assets, in addition to gilt yield changes on the size of assets in the portfolio. The active equity mandates shown in last year's report are no longer in place and the overall allocation to equities is significantly lower. As data was available for the active and passive public equity mandates this changes the emission figures for the portfolio. The Trustee notes emissions figures may decrease as investment de-risking takes place and asset classes where emissions data was available are disinvested from.

Metrics: Absolute Emissions Metric – Total GHG Emissions

“Total GHG Emissions” measures the total Green House Gas (GHG) emissions associated with a portfolio. It attempts to calculate the amount of carbon emissions the Scheme “owns” (or finances) as a consequence of its holdings. Total GHG Emissions are measured in tonnes of CO₂ equivalent (“tCO₂e”) based on the Kyoto Protocol covering seven main GHGs^{1,2}.

Scope 1 and 2 carbon emissions data has been calculated for all asset classes where data is available. Proxies have been used for asset classes where data is not available, where BlackRock believes that to be an appropriate approach. **Data is reported for 76% of the portfolio, and allowing for estimated data the Trustee is reporting on 79.3% of the portfolio (Scope 1 and 2 only). Estimated scope 3 data is available for 26.2% of the portfolio. Figures at 31 December 2022.**

Scope 3 emissions are included for this year’s report for the Scheme’s equity and corporate bonds portfolios. Due to low availability of company reported Scope 3 data, this has been estimated across the 15 GHG Protocol stated categories based on MSCI’s internally vetted model.

The emissions data helps the Trustee to see the breakdown of where the emissions come from, to understand the exposures to climate-related risk within the investment strategy. The largest allocation for the Scheme is to the Liability Matching Portfolio and therefore this makes up the largest proportion of the Scheme’s total carbon emissions (based on available data). This portfolio provides good protection against changes in interest rates and inflation and therefore the Trustee expects the allocations to these assets to increase over time as the funding level improves. The majority of this portfolio is invested in UK Government bonds and so will be aligned with the UK Government’s climate-related targets. Currently, the UK is targeting emissions reductions of 78% by 2035 relative to 1990 levels. The Trustee has very limited ability to influence these carbon reduction targets set by the UK Government. The methodology for the Gilts, Index-linked Gilts and Gilt TRS emissions within the Liability Matching Portfolio and the remainder of the portfolio is different. Based on the data available or estimated the total absolute emissions for the portfolio reduced over the year.

Total Absolute Emissions - GHG Emissions (tCO ₂ e) ²	31/12/2021	31/12/2022
Liability Matching Portfolio (scope 1 and 2)	1,400,373	1,439,900
Rest of portfolio, where available (scope 1 and 2)	502,188	296,387
Rest of portfolio, where available (scope 3)	2,566,019	1,541,165

Note: For the emissions of gilts this has been calculated as the Scheme’s share of UK emissions using the face value of the gilts owned.

31/12/2022	Allocation (%)	Scope 1 and 2 GHG Emissions (tCO ₂ e) ²	Scope 3 GHG Emissions (tCO ₂ e) ²	Comments
Equities - Global Passive	5.3	25,759	185,053	
Private Equity	9.1	79,114	452,891	Proxied using listed equities
Property including DII inflation linked property	14.0	8,988	-	Last year this was only growth property. This year includes DII property. Data/proxies not available for Scope 3 emissions. Development properties are NA
Alternatives	4.6	-	-	Data/proxies not available
DII (excluding property)³	7.0	-	-	Data/proxies not available
Corporate Bonds	11.8	182,527	903,220	
Liability Matching Portfolio – Gilts, Repo, TRS	46.1	1,439,900	-	Appendix has further details. Data/proxies not available for Scope 3 emissions
Cash⁴	2.0	-	-	Data/proxies not available

1) Seven main GHGs: carbon dioxide, methane, nitrous oxide, nitrogen trifluoride, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

2) Total GHG Emissions assumes securities for which there is no reported or estimated carbon emissions data have portfolio-average Carbon Footprint. Total GHG Emissions are higher (more conservative) than they would be if we assumed the contribution from these securities was zero.

3) DII definition includes: ABS, CLO, SAIF, Legacy Floating Rate Funds, Secure Income property and Real Assets

4) All FX forwards are included in Cash

Source: BlackRock, MSCI, Bloomberg. All data is as at 31 December 2022.

Metrics: Emissions Intensity Metric – Carbon Footprint

“Carbon Footprint” calculates the carbon intensity of each asset class by dividing the total GHG emissions of each portfolio by the size of the portfolio in pounds sterling. Carbon Footprint is measured in tonnes of CO₂ equivalent per £ million invested.

Scope 1 and 2 carbon emissions data has been calculated for all asset classes where data is available. Proxies have been used for asset classes where data is not available where we believe that to be an appropriate approach. **Data is reported for 76% of the portfolio, and allowing for estimated data the Trustee is reporting on 79.3% of the portfolio (Scope 1 and 2 only). Estimated scope 3 data is available for 26.2% of the portfolio. Figures at 31 December 2022.**

Scope 3 emissions data are included for this year’s report for the Scheme’s equity and corporate bonds portfolios. Due to low availability of company reported Scope 3 data, this has been estimated across the 15 GHG Protocol stated categories based on MSCI’s internally vetted model.

The Liability Matching Portfolio and the Corporate Bond holdings show the highest emissions intensity of the data available (based on scope 1 and 2 emissions data). However, these assets are included within the strategic asset allocation as they provide liability matching income streams and good protection against changes in interest rates and inflation. The Trustee expects the allocations to these assets to increase over time as the funding level improves. There are limited levers available to influence the intensity figure for government bonds within the Liability Matching Portfolio.

31/12/2022	Allocation (%)	Scope 1 and 2 Carbon Footprint (tCO ₂ e/£m) ¹	Scope 3 Carbon Footprint (tCO ₂ e/£m) ¹	Comments
Equities - Global Passive	5.3	32.5	233.1	
Private Equity	9.1	58.0	331.8	Proxied using listed equities
Property including DII inflation linked property	14.0	4.3	-	Last year this was only growth property. This year includes DII property. Data/proxies not available for Scope 3 emissions. Development properties are NA
Alternatives	4.6	-	-	Data/proxies not available
DII (excluding property)³	7.0	-	-	Data/proxies not available
Corporate Bonds	11.8	102.9	509.2	
Liability Matching Portfolio – Gilts, Repo, TRS	46.1	171.2	-	Technical Section has further details. Data/proxies not available for Scope 3 emissions
Cash⁴	2.0	-	-	Data/proxies not available

1) Carbon Footprint is calculated only for securities where BlackRock has either reported or estimated carbon emissions data. Carbon intensity is higher than it would otherwise be.

2) DII includes: ABS, CLO, SAIF, Legacy Floating Rate Funds, Secure Income property and Real Assets

3) Enterprise value data is not available for c.21.3% of the corporate bond portfolio. Where that’s the case, securities are excluded from both Total GHG Emissions and Carbon Footprint.

4) All FX forwards are included in Cash

Source: BlackRock, MSCI, Bloomberg. All data is as at 31 December 2022 unless otherwise noted.

Carbon Footprint - (tCO ₂ e/£m) ¹	31/12/2021	31/12/2022
Liability Matching Portfolio (scope 1 and 2)	114.1	171.2
Rest of portfolio, where available (scope 1 and 2)	54.3	49.1
Rest of portfolio, where available (scope 3)	353.5	391.9

Metrics: Additional Metric – Data Quality across the portfolio

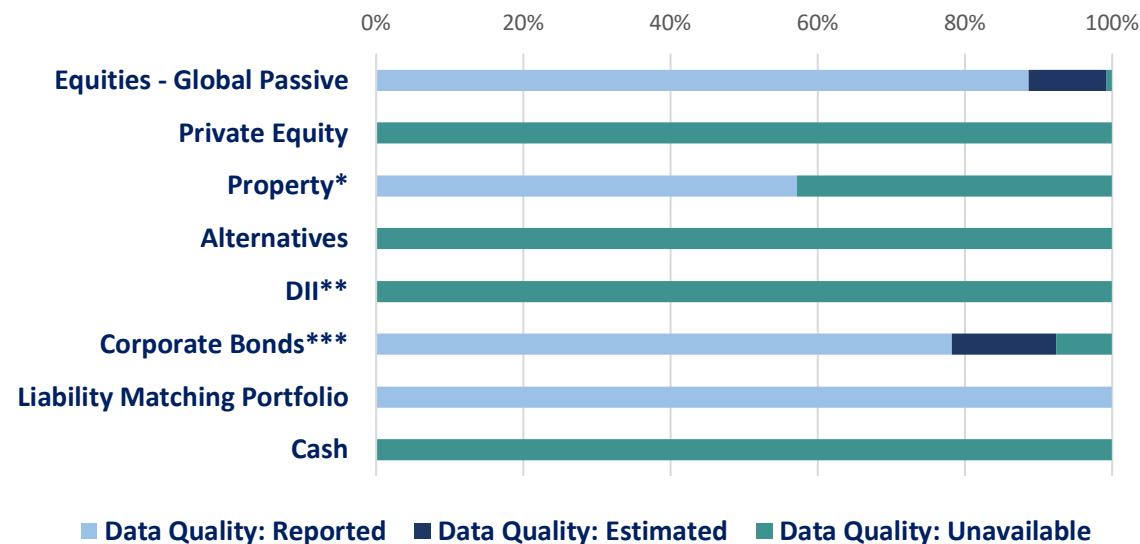
“Data Quality” will – over time – help the Trustee evaluate the reliability of the information collected. The measure aims to represent the proportions of the portfolio for which the Trustee has high quality data. This is based on four factors which consider what proportion of the data is verified, reported, estimated or unavailable. Note that BlackRock have been unable to source a breakdown between reported data that is verified or unverified. Therefore, the carbon emissions data shown is classified as “reported”, “estimated” or “unavailable”. Where it is unavailable, as noted in the previous two pages, a proxy has been used if relevant.

Comment on Scope 1 and 2 data: For the equity and corporate bond mandates the level of reported data is reasonably high with only a small proportion unavailable or estimated. For property, the data quality is good for non-developmental projects, but data is unavailable for developmental. The largest mandate, the Liability Matching Portfolio has 100% reported carbon emissions data.

Where reported, the data quality is generally high giving the Trustee comfort in the figures and the ability to use the data to assess climate-related risks and opportunities. However, there is still some way to go to improve overall data quality in the portfolio and across the industry particularly in unlisted assets.

Scope 3 emissions data are included for this year’s report for the Scheme’s equity and corporate bonds portfolios. Due to low availability of company reported Scope 3 data, this has been estimated across the 15 GHG Protocol stated categories based on MSCI’s internally vetted model. Scope 3 data is 100% estimated for public equities and corporate bonds. For other asset classes this is unavailable.

Scope 1 and 2 data quality across the portfolio as at 31 December 2022



Note that even where carbon emissions data may be available, other data points essential for certain calculations may not be available. The data quality figures shown reflect the availability of emissions data only.

*Property includes DII inflation-linked property

**DII definition includes: ABS, CLO, SAIF, Legacy Floating Rate Funds, Secure Income property assets and Real Assets. Data shown excludes DII inflation linked property

***Enterprise value data is not available for c.21.3% of the corporate bond portfolio. These securities are excluded from both Total GHG Emissions and Carbon Footprint

Private Equity has been proxied using a listed benchmark. Data or proxies are not available for Alternatives, DII (excl property) TAA and Cash. All FX forwards are included in Cash.

Source: BlackRock, MSCI, Bloomberg. All data is as at 31 December 2022 unless otherwise noted.

Metrics: Portfolio Alignment – Binary Target

A "**portfolio alignment**" metric means a metric which indicates the alignment of the Scheme's assets with the climate change goal of limiting the increase in the global average temperature to 1.5 degrees Celsius above pre-industrial levels (i.e. In line with the goals of the Paris agreement).

This "**binary target**" measurement measures the alignment of the portfolio with a given climate outcome, based on the proportion of investment in the portfolio with declared net zero or Paris-aligned targets.

Science Based Targets initiative (SBTi)'s Portfolio Coverage Tool for Financial Institutions is an open source example of a tool that tracks the percentage of companies in a portfolio that have declared net zero/Paris aligned targets.

This metric is the proportion of the portfolio measured by market value invested in issuers that have SBTi verification status or not.

Just over 40% of the Scheme's index equity mandate and just over 45% of the Scheme's corporate bond portfolio is invested in issuers who have verified science-based carbon reduction targets. Another c.20% and 12% respectively are believed to be committed to working towards having verified targets. This represents significant progress over the year to December 2022.

The data is only available for corporate bonds and public equities. This was the preferred metric in terms of data coverage and reporting ability from the investment manager.

The positives of this metric are its simplicity, allowing a straightforward assessment of the extent to which a portfolio is committed to net zero. It is also the only forward-looking metric that could tie directly to real-world changes, whereas other metrics are more backwards looking. It is useful for challenging the investment manager if investing in new companies with no net zero target. However, it does not tell you where in the journey a company (or the portfolio) is in achieving the net zero target.

		31/12/2021 Comparator	31/12/2022	31/12/2022
	Allocation 31/12/2022 (%)	Verified Target % of market value invested in issuers with verified SBTi targets	Verified Target % of market value invested in issuers with verified SBTi targets	Committed % of market value invested in issuers committed to adopting SBTi
Equities - Global Passive (for 31/12/2022) and blended active/passive (for 31/12/2021)	5.3	26.7%	40.4%	20.4%
Private Equity	9.1	-	-	-
Property including DII inflation linked property	14.0	-	-	-
Alternatives	4.6	-	-	-
DII (excluding property)¹	7.0	-	-	-
Corporate Bonds	11.8	31.2%	45.9%	12.3%
Liability Matching Portfolio – Gilts, Repo, TRS	46.1	-	-	-
Cash²	2.0	-	-	-

1) DII includes: ABS, CLO, SAIF, Legacy Floating Rate Funds, Secure Income property and Real Assets

2) All FX forwards are included in Cash

Source: BlackRock, MSCI. All data is as at 31 December 2022 unless otherwise noted.

The calculation "looks up" to issuers' parent entities where appropriate

7 Targets

Targets: Trustee's Previous Climate-Related Target

Last year, the Trustee initially decided to set a climate-related target for the listed equity mandate only, relating to the Carbon Footprint metric. The Trustee's target was "to reduce the carbon intensity of the listed equity allocation by at least 45% from 31 March 2021 baseline levels by 2030"*.

The targeted reduction in carbon intensity of the equity portfolio was achieved in the last year, eight years ahead of schedule (68% reduction versus the 45% in the target).

In light of the Trustee restructuring its equity portfolio and having reached its target already, the Trustee has considered the appropriateness of the previous target and decided to:

- Rebase the baseline start date of the previous climate-related target to 31 December 2021 and to base this on the passive public equity mandate. This updated version of the target is shown on the following slide.
- Adopt a second climate-related target based on the corporate bond mandate and the Binary Target metric, given the allocation to public market equity has reduced over 2022 and the expected size of the public equity allocation in the Trustee's long-term portfolio.

Detail on both new climate-related targets follows.

**As measured by the carbon footprint and Scope 1, 2 and 3 emissions, where available. Due to low availability of company reported Scope 3 data, MSCI estimates Scope 3 across the 15 GHG Protocol stated categories based on its internally vetted model. There is no distinction made between reported and estimated data for Scope 3 assets.
Source: BlackRock, March 2022 and MSCI*

Targets: Trustee’s Previous Climate-Related Target

The Trustee has decided to set a climate-related target for the listed equity mandate only, relating to the Carbon Footprint metric. As at 31 December 2022, the overall Scheme listed equity mandate consisted of one segregated passive portfolio having disinvested from the two segregated actively managed portfolios over 2022. The passive listed equity portfolio only will be used for measuring the target.

The Trustee’s target is:

*To reduce the carbon intensity of the passive equity allocation by at least 45% from 31 December 2021 baseline levels by 2030**

In June 2021 the Trustee selected a new ESG Enhanced Focus MSCI All Country World benchmark for the passively managed equity portfolio which currently makes up 100% of the total listed equity portfolio. In February 2022 the Scheme opted into an updated index construction methodology which includes a decarbonisation target embedded in it. For the This metric selection aligns with the Trustee's plan to reduce risk, in this case climate-change risk exposure.

index, there is a minimum 7% p.a. reduction in carbon footprint** (Scope 1,2 and 3) relative to weighted average carbon emissions at the base date (measured in USD). Therefore, the Trustee’s target as stated above is aligned with the passive equity index objectives. The 45% figure assumes around 7% p.a. reduction over c.9 years, which is consistent with underlying objective for the passive equity index. The Trustee has decided to use 31 December 2021 as a baseline. This is consistent with the requirement to calculate metric data within the Scheme year.

The Trustee recognises scope 3 data can be limited and less reliable, but the passive equity index aims to decarbonise based on all three scopes.

Progress: The Scope 1,2 and 3 carbon footprint for the passive equity index fell by 27% over the year to 31 December 2022. This is more than is budgeted for in MSCI’s methodology of the passive equity index, thus far. Some of the reduction in the carbon footprint is due to currency movements, with sterling depreciating against the dollar over the period. Given the carbon footprint is reported in GBP, it will be distorted by currency movements relative to USD. In addition, the reported metric relies on estimated data for scope 3 carbon footprint.

Date	Passive Listed Equity Portfolio	
	31 December 2021	31 December 2022
Data Coverage	98%	99%
Carbon Footprint (tonnes of CO ₂ e per £m invested) Scope 1,2 and 3	363.4	265.6
Change		-27%

**As measured by the carbon footprint and Scope 1, 2 and 3 emissions, where available. Due to low availability of company reported Scope 3 data, MSCI estimates Scope 3 across the 15 GHG Protocol stated categories based on its internally vetted model. There is no distinction made between reported and estimated data for Scope 3 assets.*

***Uses carbon footprint (intensity measure based on Enterprise Value including cash).*

Source: BlackRock, December 2022 and MSCI

Targets: Trustee’s Climate-Related Target 2

The Trustee has decided to set a climate-related target for the corporate bond mandate only relating to the Portfolio Alignment, Binary Target metric. The corporate bond mandate consists of one segregated Buy and Maintain high-quality credit mandate.

The Trustee’s target is:

To increase the percentage of the issuers in the Buy & Maintain Credit portfolio (weighted by market value) that have an SBTi-approved target to 75% by 2030

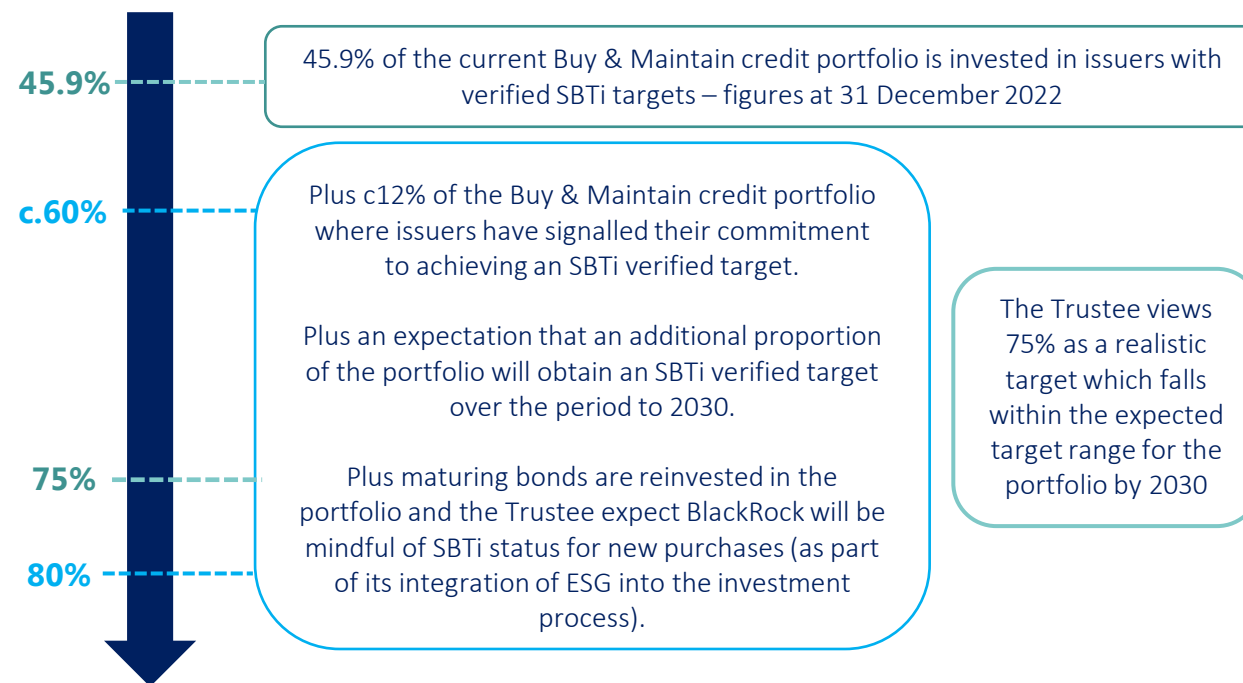
The chart on the right explains why the Trustee chose this particular level for the target. Corporate bonds were chosen as the target portfolio given their expected future prominence in the Scheme’s long-term investment strategy within a low-risk investment portfolio.

A summary of the progress to date against this target is shown opposite. It can be seen that 45.9% of the corporate bond portfolio has a SBTi-verified target as at 31 December 2022. A further 12.3% of the portfolio holdings have committed to adopting SBTi in future. The remainder of the target will need to come from the proportion of the portfolio that is neither committed nor verified but which may commit in the future.

The Trustee considered the challenges around how to implement a climate-related target without requiring portfolio turnover. Use of engagement and stewardship are key to driving climate-positive outcomes. The target has the opportunity for real world impact through active engagement. Active stewardship should play a vital role over simply divesting in moving to a low carbon economy. The Trustee expects BlackRock to be mindful of SBTi status when reinvesting proceeds from the bonds held and have formally instructed this.

This target was adopted from 31 December 2022 and this is the base date of the calculation. Year on year progress included in this year’s report is for information only.

Why 75% by 2030?



	Corporate Bond Portfolio	
	31 December 2021 (historical comparator)	31 December 2022 (Target adoption date)
Verified Target: % of market value invested in issuers with verified SBTi targets	31.2%	45.9%

Targets: Rationale for Setting the Targets

- 1) *To reduce the carbon intensity of the equity allocation by at least 45% from 31 December 2021 baseline levels by 2030**
- 2) *To increase the percentage of the issuers in the Buy & Maintain Credit portfolio (weighted by market value) that have an SBTi-approved target to 75% by 2030*

In setting its targets, the Trustee worked closely with its investment manager and investment advisor to establish what data was available for each of its asset classes, what the quality of that data was, and how practical it would be to set a target around that data. Highlights of the various asset-level considerations are shown opposite.

The 2030 date is aligned with the IPCC's target date for global emissions to half and meets the TCFD requirement to set a target within the next 10 years and is aligned with the Scheme's medium-term time horizon.



Property, Alternatives and Diversified Illiquid Income: The data availability is currently poor.



Private Equity: Metric data has been proxied with a listed equity index and therefore is not representative of the actual exposures in the portfolio. It is also challenging to drive climate-related targets for legacy private equity investments reaching maturity.



Liability Matching Portfolio: Metric data coverage is excellent, however, any targets set against this portfolio will be aligned predominantly with the UK Government's climate-related targets. Currently, the UK is targeting emissions reductions of 78% by 2035 relative to 1990 levels. In addition, levers to control progress against target are very limited.



Equity: Metric data coverage is good. The passive equity mandate has an index with a decarbonisation objective embedded. The allocation to public market equity has reduced significantly over 2022 through disinvestment of the active equity portfolios and the requirement to sell the passive equity in order to maintain the high-level asset allocation and to help support the LDI collateral position. For the long-term investment strategy the allocation to public equity is expected to be moderate in size. The allocation to public equity may vary in future to maintain a total portfolio target return as so the carbon footprint metric ensures consistency in comparison year on year.



Credit: Metric data coverage is good. Challenges centre around how to implement a climate-related target without requiring unnecessary portfolio turnover. Use of engagement and stewardship are key to driving climate-positive outcomes. Credit will remain a reasonable proportion of the long-term investment strategy. The carbon footprint of the credit portfolio is higher than other asset classes in the portfolio.

**As measured by the carbon footprint and Scope 1, 2 and 3 emissions, where available, noting that Scope 3 data is limited and less reliable.*

8 Technical Section

Technical Section – Supporting Information for Scenario Analysis

Gilt Factors	Rationale	Catalysts	Calibration
Orderly Transition	<ul style="list-style-type: none"> A transition to Global Net Zero by 2050 is achieved via immediate and smooth policy responses Carbon taxes are channelled back to the economy via government investment 	<ul style="list-style-type: none"> UK sees up to 2% p.a. GDP gains peaking in 2027 (50% of carbon tax assumed to be reinvested into the economy) UK inflation around 1.9% higher peaking in 2026, largely driven by repricing of carbon prices Price of carbon rises to over 800 \$/ton by 2050. 	<ul style="list-style-type: none"> The UK yield curve falls modestly as growth accelerates and the UK risk premia falls. Higher inflation drives most of the impact on UK LDI assets and pension liabilities Assumed no central bank response to higher inflation.
High Emissions	<ul style="list-style-type: none"> Some corrective action to reduce emissions is taken but temperatures rise by 3.2°C to 5.4°C in 2100 relative to pre-industrial levels 	<ul style="list-style-type: none"> Physical changes such as higher temperatures, sea-level rises and hurricanes impact GDP. The impacts are largely felt from 2050 onwards 	<ul style="list-style-type: none"> The UK yield curve is relatively unchanged with high degree of uncertainty given expected higher risk premia could be offset by central bank response

BlackRock: Scenario Analysis Limitations

Modelling	<ul style="list-style-type: none"> The climate models used focus separately on transition risk or physical risk. A holistic view of climate-related financial risks should take both into account The climate models used do not predict the abrupt or irreversible changes that may result from reaching critical climate thresholds or “tipping points” The economic models used may not adequately predict feedback loops and will therefore underestimate the chance of systemic failure in parts of the global economy Models also do not include the social or political impact of mass migration The current framework incorporates first order impacts on companies’ revenues and costs. It does not capture second order effects such as supply chain disruption Based on prior economic and financial crises, it can be hard to predict the scale of monetary and fiscal policy responses. The models’ assumptions about changes in financial valuations may therefore be incorrect. They also do not include the impact of other shocks that might occur such as recessions, conflicts or pandemics.
Data	<ul style="list-style-type: none"> BlackRock have been able to provide scenario analysis for assets equalling nearly 80% of the total There are a number of portfolios for which there is not adequate information on the underlying holdings to provide quantitative scenario analysis. These are: Private Equity, Property, Alternatives, and DII. Where BlackRock have a benchmark that they can use as a proxy for the asset class, they have done so Where BlackRock believe this could be misleading they have marked the estimated impact as N/A Tactical asset allocation positions and cash are not included in this analysis

Note on Liabilities

- The Liabilities shown are on the Trustee’s 2018 Long Term Funding Target (LTFT) basis, the LTFT basis available when the original scenario analysis was conducted, before the 2021 actuarial valuation concluded.
- The liabilities modelled by BlackRock will differ slightly from those modelled by the Scheme Actuary due to differing model approaches, assumptions, and due to the cashflows provided to BlackRock being primarily for the purpose of maintaining the liability hedging portfolio.

Technical Section – Supporting Information for Scenario Analysis

Source: BlackRock, March 2022

Description	Type	Climate Scenario ¹	Economic Model ¹	Financial Model ¹	Temperature Rise	Climate Policy Assumptions
Orderly Transition	Transition risk only	NGFS Net Zero by 2050	BlackRock Climate Change	BlackRock Discounted Cash Flow Model	1.5°C	Immediate and co-ordinated
High Emissions	Physical risk only	IPCC RCP 8.5	Climate peril damage functions		3.2 – 5.4°C	Current policies only

Data Coverage	Equities	Corporate Bonds	Liability Hedging Assets	Total
Orderly Transition	94%	71%	100%	69%
High Emissions	97%	78%	100%	70%

Estimated Impact on Assets	Equities	Private Equity ²	Alternatives	Property	Corporate Bonds	DII	Liability Hedging Portfolio	TOTAL ³
AUM at 31/03/2022	£2,869m	£1,409m	£701m	£1,809m	£2,020m	£1,247m	£9,502m	£19,797m
Orderly Transition	-2.6%	-4.3%	n/a	n/a	-1.2%	n/a	5.5%	1.8%
High Emissions	-8.9%	-9.1%	n/a	n/a	-0.8%	n/a	-0.9%	-2.5%

BlackRock’s climate models are intended to highlight the potential impact of climate policies and outcomes on the economy and on financial markets. Although they provide some insight into where the Scheme may face risks or have opportunities, modelling financial risks requires making a number of assumptions which may not be correct.

The scenario assessments BlackRock has considered should be taken independently. Physical risks and transition risks are however linked. Scenarios with increased transition risk in the short to medium term are likely to have lower physical risks in the long term (and vice versa). The DWP’s guidance for Occupational Pension Schemes does however note that considering transition and physical risk separately may be helpful.

BlackRock’s transition models use the Network for Greening the Financial System’s scenarios as a starting point. The implications of each scenario are modelled at an economy-wide, sector, issuer and asset level by BlackRock. The models focus on the most likely direct impact of climate policy measures, evolving consumer trends, and technological innovation on corporate prospects. BlackRock’s transition risk models are used to calculate the impact on corporate equity and corporate credit portfolios. The impact of transition risk on sovereign bond portfolios and UK pension scheme liabilities has been modelled separately in Aladdin through calibration of user specified stress tests intended to be consistent with the climate scenarios shown.

BlackRock’s physical models use the Intergovernmental Panel on Climate Change’s scenarios as a starting point. The implications of each scenario are modelled by BlackRock at an economy-wide, sector and company level. The models focus on forecasting the impact of climate perils on the economy and on individual corporates. The impact of physical risk on sovereign bond portfolios and UK pension scheme liabilities has been modelled separately in Aladdin through calibration of user specified stress tests intended to be consistent with the climate scenarios shown.

This analysis has been conducted mainly on listed assets. Unlisted, private market assets, other than private equity via a proxy, have been excluded, therefore the impact figures will be understated.

The analysis has an effective date of 31 March 2022.

1) BlackRock’s equity and corporate bond models forecast the impact of the various scenarios and look forward 30 years, or for corporate bonds a shorter time period relevant to their individual maturities. The climate and economics models look further out, for example the physical models currently run to 2090, but there is a limit of what is relevant to the current valuation of financial securities.

2) Estimates for private equity use the Scheme’s performance benchmark as a proxy for the actual assets held, this is a customised benchmark of 80% US Equity S&P 500 (Gross TR) and 20% FTSE World Eurobloc (Gross TR).

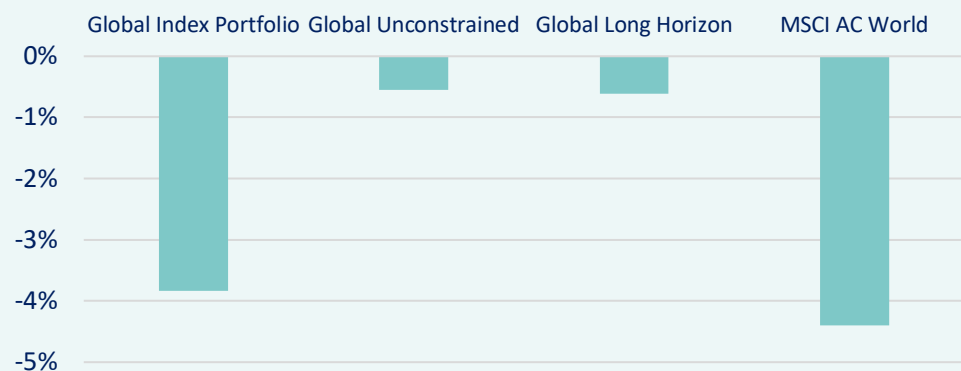
3) Includes £240m of cash and other

Technical Section – Supporting Information for Scenario Analysis

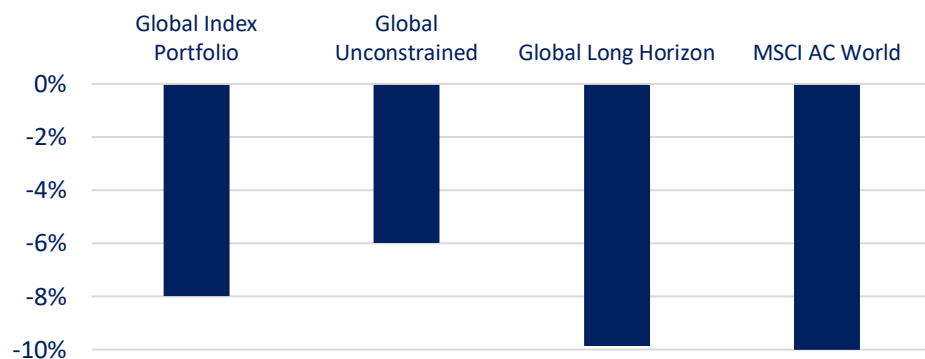
Climate Related Risks: Equities as at 31 March 2022

The Scheme’s index and active equity portfolios are estimated to be less exposed to transition risk than the standard MSCI global all country index. This is predominantly due to differences in their exposure to energy and materials stocks versus the index. All three mandates are more impacted by physical risk than transition risk, which generally has a higher impact across all sectors of the economy.

Transition risk: Orderly Transition



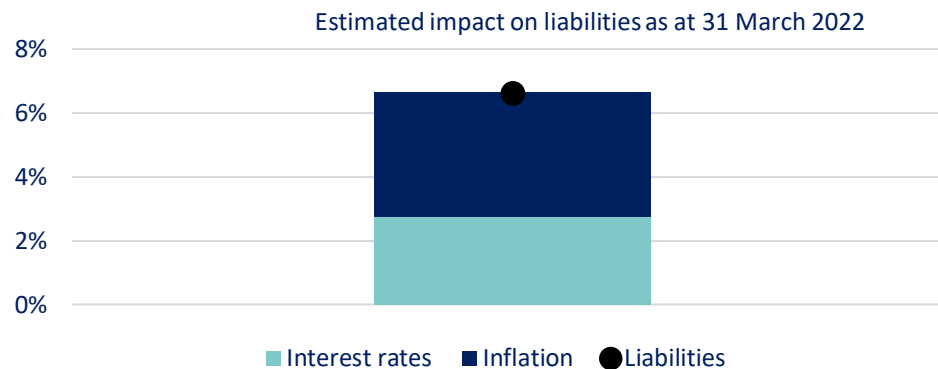
Physical risk: High Emissions



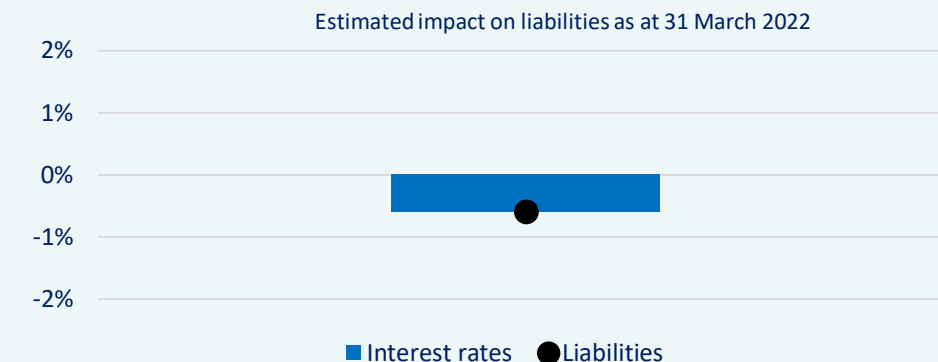
Climate Related Risks: Liabilities as at 31 March 2022

The largest estimated change in the Scheme’s liabilities occurs under the orderly transition scenario, where higher carbon prices and an increase in government investment drives higher inflation.

Transition risk: Orderly Transition



Physical risk: High Emissions



Technical Section – Supporting Information for Metrics

Benchmark proxies

Estimates for the Absolute Emission Metric: Total Greenhouse Gas (GHG) Emissions and Emissions Intensity Metric: Carbon Footprint for the actual assets held in the Private Equity holdings have been proxied using a customised benchmark of 80% US Equity S&P 500 (Gross TR) and 20% FTSE World Eurobloc (Gross TR). The Trustee felt this was an appropriate proxy as it was previously used to measure the performance of the private equity holdings.

Liability Matching Portfolio approach

Physical gilts, gilt repo and gilt Total Return Swaps (TRS) have been included. Interest rate and inflation swaps have been excluded from the calculation.

Total emissions is calculated as follows:

- Metrics tonnes of CO₂ and equivalents per country multiplied by (face value of gilts in the portfolio / public debt). This is based on MSCI data, Bloomberg data and the value of the gilts held. The components below can be added together.

Total emissions tCO ₂ e	For physical gilts: 1,430,112 tons CO ₂ and equivalents
	For green gilts: 9,778 tons CO ₂ and equivalents
	For gilts TRS: 0 tons CO ₂ and equivalents (the Scheme was not holding any gilts TRS at the effective date)

The Emissions footprint figure is arrived at by dividing the above through by the portfolio NAV.

	Total in Liability Matching Portfolio at 31/12/2022
Physical gilts excluding green gilts	£8.376bn
Green Gilts	£35m
Gilt TRS	£0m
Cash, Repo, other	-£1.500bn
Portfolio NAV	£6.912bn

Note: the avoided, or removed, emissions resulting from investing in green gilts will be included in next year's report.

Portfolio Alignment – Binary Target

This is the percentage of investments that have declared net zero/Paris-alignment targets and are already net zero/Paris-aligned. Science Based Targets initiative (SBTi)'s Portfolio Coverage Tool for Financial Institutions is an open source example of a tool that tracks the percentage of companies in a portfolio that have declared net zero/Paris aligned targets. SBTi validation is not currently available for companies in certain sectors. The measurement of the binary target metric will include securities where an SBTi target has been set at the issuer or parent issuer level. The calculations shown are weighted by market value of each security to target coverage across the whole portfolio.

Technical Section – Supporting Information for Metrics

Definition of Scope 1, 2 and 3 emissions

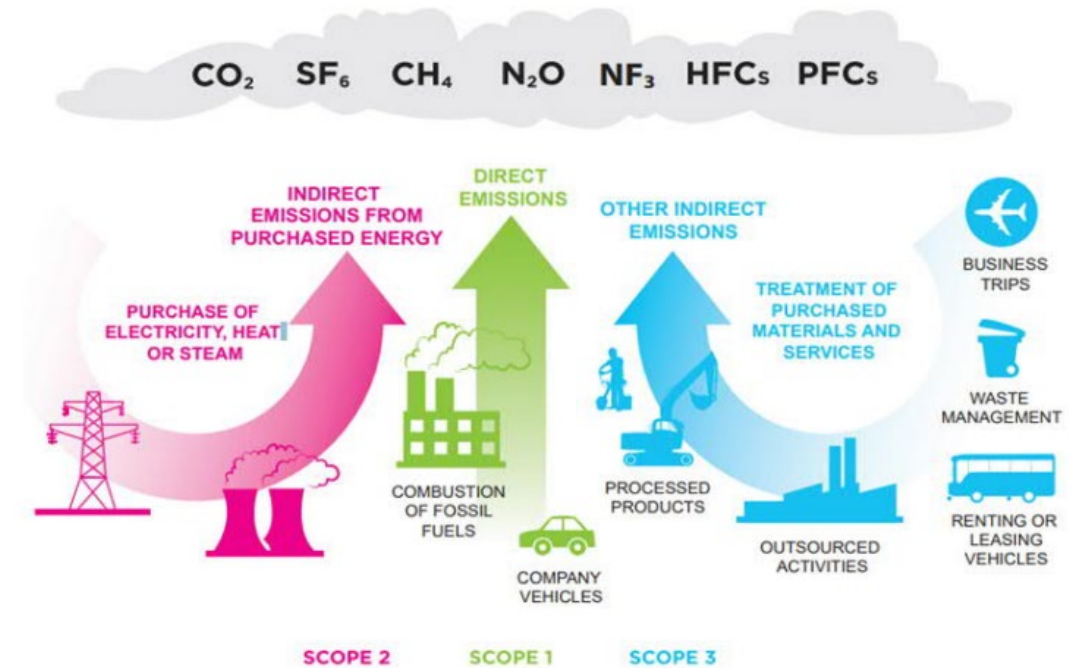
Scope 1,2 and 3 emissions are as defined by the GHG protocol. The GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'.

- Scope 1 emissions are direct emissions from owned or controlled sources.
- Scope 2 emissions are indirect emissions from the generation of purchased energy.
- Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Definition of Greenhouse Gases (GHGs)

The Kyoto Protocol sets out the seven main GHGs as follows:

- Carbon dioxide, CO₂
- Sulphur hexafluoride, SF₆
- Methane, CH₄
- Nitrous oxide, N₂O
- Nitrogen trifluoride, NF₃
- Hydrofluorocarbons, HFCs
- Perfluorocarbons, PFCs



9 Additional information

Scheme Information

Scheme overview

NAPS is a predominantly Defined Benefit (DB) arrangement which opened in 1984 and since closed to new entrants in 2003 and closed to future accrual in 2018.

Access to key documents for the Scheme is available using the following website: www.mybapension.com including a copy of the Member's Handbook which succinctly explains the key features of the Scheme rules and options available to members. The full details can be found in the Trust Deed and Rules also available via the website.

NAPS contains several sub-schemes most notably the British Caledonian pension scheme (BCal) which merged with NAPS in 1988; and the Dan Air pension scheme (DADN) which merged with NAPS in 1994. DADN is made up of two distinct sub-sections Dan Air and Davies and Newman.

All analysis has been carried out at Scheme-level. The analysis has not considered the AVC/Cash Balance holdings for proportionate reasons.

Asset Allocation

Assets as at 31 December 2022	Value (£m)	Allocation (%)
Return Seeking Assets	4,524.90	30.60%
Total Equity	874.6	5.90%
Passive Equity	793.7	5.40%
Equity FX Hedge	33.4	0.20%
Equity (Futures)	47.5	0.30%
Total Illiquid Assets	3,650.30	24.70%
Property	1,599.20	10.80%
Private Equity	1,364.70	9.20%
Alternatives	686.3	4.60%
Liability Matching Assets	10,265.40	69.40%
Total Bonds	8,666.60	58.60%
UK Corporate Bonds	1,774.20	12.00%
Liability Hedging Portfolio	6,918.20	46.80%
Overseas Govt Bond (Futures)	-25.8	-0.20%
Diversified Illiquid Income	1,398.30	9.50%
Total Floating Rate	502	3.40%
Floating Rate (Legacy)	404.7	2.70%
ABS Portfolio	49.7	0.30%
CLO Portfolio	48.9	0.30%
DII FX	-1.3	0.00%
Total Index Linked	896.2	6.10%
Inflation-linked property (legacy)	343.3	2.30%
Strategic Alternative Income Fund (SAIF)	58.5	0.40%
Real Assets (legacy)	494.4	3.30%
Cash & FX	200.5	1.40%
Total Assets	14,790.30	100.0%

Note: values shown above sourced from BlackRock as at 31 December 2022, taken from the 31 December 2022 Quarterly Investment Report. Figures may differ to elsewhere in this report at the same date as the above table captures post month end adjustments whereas those used in the report used a static Net Asset Value.

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- The BlackRock data, models and methodologies rely on comparatively new analysis and there is limited peer review or comparable data available.
- To the extent that the BlackRock's scenario analysis includes third party-data, BlackRock uses the data as provided by such third-party and is not liable for inaccuracies or omissions therein.

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