

Taskforce for Climate-related Financial Disclosures (TCFD) Report

1 April 2024 – 31 March 2025

now:pensions



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Introduction

1.1 Chair's commentary

Welcome to our fourth Task Force on Climate-related Financial Disclosures (TCFD) report, covering the period 1 April 2024 to 31 March 2025.

A year of continued climate extremes

After the hottest year on record in 2023, 2024 was even hotter. The European Copernicus Climate Change Service estimated that global average temperatures in 2024 were 1.6°C higher than before the industrial revolution, making it the first year to exceed the 1.5°C threshold.¹ While climate is measured over longer periods, and one year above 1.5°C does not mean the threshold is permanently breached, the recent trend is very worrying. Each of the past 10 years have been the warmest decade on record since record-keeping began in 1880.

Fires in Los Angeles caused unprecedented property damage in the US and flash floods in Valencia claimed over 220 lives in Spain. While it's not possible to claim each individual disaster is directly attributable to climate change, it is clear these sorts of events are happening more often and with greater severity.

In 2015 almost every country in the world signed the Paris Agreement, committing to limit global warming to 'well below 2°C' and to aim for '1.5°C with limited or no overshoot'. When global temperature increases exceed 1.5°C, we face greater risk of 'tipping points' – disruptions to natural systems, for example, the thawing of arctic-permafrost, which may release further green-house-gasses (GHG). This could dramatically accelerate the pace of climate change. Because such tipping points are inherently hard to predict, scientists are conservative and these potential tipping points are not fully allowed for in the global warming projections – so it's possible the projections of global warming impacts may be understated in many climate models.

There are glimmers of hope, particularly in China, the world's largest emitter of greenhouse gases, where the role-out of electric vehicles and renewable energy has accelerated dramatically in recent years. Unfortunately, the possibility of coordinated climate action by governments now seems more remote, particularly after the results of the US elections in 2024, which we flagged in our scenario analysis last year, would be a significant driver of future climate outcomes. As the International Energy Agency states 'the door to 1.5 degrees is closing fast' and we must face the reality that 2°C or even 3°C scenarios are now more likely.

Closer to home, the Labour Government is moving forward with its plans to meet the UK's legally binding net zero targets, passing the Great British Energy Bill. This aims to accelerate investment in both renewable and nuclear power. The scale of the task should not be underestimated, particularly as Britain struggles with high energy costs and adapting an aging grid infrastructure the needs to allow for greater variation in energy production from renewables. But this also creates opportunities for long term investors like **now:pensions** to help contribute to the transition.

¹ Copernicus Global Climate Highlights 2024 - National Centre for Earth Observation

1.1 Chair's commentary

now:pensions year in review

In June 2024, Mercer, a business of Marsh McLennan, announced that it reached an agreement to acquire the Cardano Group, which includes **now:pensions** Trust Limited (the 'Trust') and the transaction completed in November 2024. With this acquisition, Mercer positions itself as one of the largest pension providers in the UK and the Netherlands and a leader in advisory and investment solutions for a wide range of institutional investors including pensions, master trusts, insurers, endowments and not-for-profits, and family offices globally. NOW: Pension Trustee Limited remains the Trustee to the **now:pensions** master trust.

This TCFD report is made on behalf the Trustee as an asset owner. There has been no change in the investment strategy or beliefs of the Trustee as a result of the acquisition by Mercer of **now:pensions** Trust Limited. We believe that the Mercer acquisition will be positive for members as the capabilities and scale of the new combined Mercer-Cardano entity is better able to deliver investment solutions to our members.

The Trustee believes that incorporating environmental, social and governance (ESG) factors, as well as real-world sustainability impact, into the investment approach helps mitigate risks, enhance returns and is in its members' best long-term interests. Climate change is one of the key ESG factors to incorporate into the strategy.



1.1 Chair's commentary

As we detailed in our previous report, during 2023 the Trustee conducted a review of our default investment strategy. Our Climate Change Risk and Opportunities governance is working well. Our net zero commitments remain the same, though we recognise that the pace of the climate transition in the real world is increasingly not aligned with the decarbonisation targets that we have set. Our emphasis is on achieving real world decarbonisation which is in the best long term financial interest of our members. This means we want to engage with the companies we own to encourage them to develop transition plans aligned with net zero. We would prefer to do this than to 'decarbonise' our portfolio by simply selling high emissions assets to another investor who may not care as much about driving real world change. This will require ongoing assessment of our targets and metrics in the coming years to ensure that we stay true to these principles.

The 2023 strategy review resulted in several significant changes to the strategy at the start of 2024 to better align with our responsible investment principles and sustainable investment priorities. This involved implementing new equity and corporate bond strategies managed directly by our in-house investment manager, Cardano with a greater emphasis on stewardship and engagement. We increased the minimum for investments in the default strategy with a responsible investment objective from 50% to 75% of assets, which further supports our net zero commitments.

These changes were almost fully implemented over the first quarter of 2024 and this TCFD report is the first report following the full implementation of this new strategy. Our climate change metrics remain the same as in previous years, allowing us to compare progress between each reporting period.

In last year's report we shared our new qualitative approach to climate scenario analysis. This approach has led to more understandable analysis of climate risks and opportunities. This has already proved useful to our decision making, flagging up the key dependency of climate change outcomes on political developments across the world. We concluded on four priority actions from last year's scenario analysis which remain unchanged: collaborative stewardship of our assets towards achieving net zero by 2050, engagement with policymakers, incorporating transition and physical risks into the strategies and identifying climate opportunities.

In this year's TCFD report, we'll report on the progress we've made so far. The new strategy is off to a pleasing start, aligning with the priority actions to improved support of our net zero goal. Our investment manager, Cardano, is involved in a wide range of collaborative engagements that cover climate change, biodiversity loss, water use and pollution. They will typically lead in these collaborations on engagements with several portfolio companies. Engagement with policy makers by both **now:pensions** and Cardano staff has also made progress, and the new strategy incorporates transition risks into the equity and credit portfolios.

1.1 Chair's commentary

Next steps

Given the alarming evidence of ever warmer global temperatures and the challenging global policy landscape, we must face the reality that 2°C or even 3°C are now more likely outcomes. By focusing on the stewardship of our assets towards a net zero outcome and engaging policy makers on the importance of achieving this objective, we hope to play our role in reducing the long-term systematic risk that climate change poses to the global economy, and hence our members' outcomes. But in the meantime, we must continue to build a portfolio that is robust to a range of potential scenario outcomes. Physical risk and climate resilience will be areas of increased focus going forward alongside identifying climate opportunities. Climate change therefore remains top of our agenda and forms an instrumental part of our strategy.

Communicating with members

Alongside the publication of our report, we've summarised its contents for members on the **website**.

We welcome your comments and questions, and we thank you for reading.

Joanne Segars,
Chair of the Trustee Board
NOW: Pension Trustee Limited



1.2 What is climate change?

Climate change refers to global warming caused by the GHG emissions of human activity. This leads to the increased frequency and severity of weather events, such as droughts, sea-level rise, floods, heatwaves, hurricanes and wildfires.

Globally, we emit around 54 billion tons of GHGs a year². Most of these emissions come from transport, industry (cement, steel and plastic), energy (including electricity, heating and cooling) and agriculture.

The GHGs that we collectively emit trap energy from the sun in the Earth's atmosphere, warming the planet. These gases include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O) and fluorinated gases. We've already warmed the Earth to at least 1.1°C³ above the pre-industrial era. To stop climate change, we need to reduce GHG emissions to a level that nature can absorb within its normal capacity, referred to as net zero.

Temperature change is not uniform across the globe. The Earth is warming more rapidly at the North and South Poles, by as much as 3°C⁴. As the Poles warm, the ice melts and is replaced with water. Whilst ice reflects the sun's rays, water absorbs them. This causes further warming.

As the Earth warms, permafrost (ground that remains frozen) begins to thaw. Permafrost stores methane from hundreds of thousands of years of decayed animal and plant matter, a particularly potent GHG (the contribution to climate change is multiples that of carbon dioxide). As the permafrost thaws, this methane is released, causing further warming.

As the Arctic warms, there is less of a difference between polar air temperature and warmer equatorial air. This weakens the jet stream, which typically acts as a barrier between the cold and warm air, potentially causing further warming at the Poles. It also leads to extreme weather events.

To avoid these and other 'tipping points' from accelerating climate change in unpredictable ways, science tells us that we need to do everything we can to limit global warming 'to 1.5°C with limited or no overshoot'. To do this we need to reach net zero by 2050.

² Our World in Data, [Greenhouse Gas Emissions](#)

³ IPCC, [Climate change widespread, rapid, and intensifying](#)

⁴ Carbon Brief: [Why does the Arctic warm faster than the rest of the planet?](#)

1.2 What is climate change?

What's the solution?

A very large portion of GHG emissions (both from nature and human emissions) are absorbed by the natural carbon cycle, the majority in the oceans (through photosynthesis of phytoplankton or dissolving into the water), with the remainder being sequestered on land, approximately 75% in organic matter in the soils and the remainder in the vegetation, such as trees. The fact that GHG concentrations are increasing in the atmosphere so rapidly means we are overwhelming nature's ability to absorb these emissions.

The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 195 Parties at the UN Climate Change Conference (COP21) in December 2015. Its overarching goal is to hold 'the increase in the global average temperature to well below 2°C above pre-industrial levels' and pursue efforts 'to limit the temperature increase to 1.5°C above pre-industrial levels.'

This requires a massive change to our current global economic system which is highly reliant on fossil fuels. To date, attempts to remove and store carbon through industrial process at scale have been unsuccessful. There are some nascent technologies that can suck carbon out of the atmosphere, but it takes significant energy to do so. We could (and should) plant trees, but this too will not solve climate change.

Our best and only course of action is to rapidly decarbonise the energy, industrial, transportation and agricultural sectors and to limit deforestation which is leading to the release of much of nature's stored carbon. In the meantime, we need to prepare for climate adaptation as global temperatures will inevitably increase towards 1.5°C and likely overshoot. This is what informs our approach to climate change-related risk management and stewardship.



1.3 What are our climate change-related commitments and beliefs?

Climate change is now a widely established and socialised concept within financial markets – both as a financial risk, due to transition and climate-related transition and physical risks, and of vital importance in investments, because the way in which we direct capital will support (or hinder) climate targets.

As the Trustee, we believe:

- A speedy, fair, and just transition to a low-carbon economy is the only way to address this crisis and will likely constitute the biggest change to the current global economic system in our lifetimes.
- Our investment portfolio should aim to align with net zero GHG emissions by 2050, with 50% emissions reduction by 2030, against 2019 levels. This is consistent with the Paris Climate Agreement goals to hold ‘the increase in the global average temperature to well below 2°C above pre-industrial levels’ and pursue efforts ‘to limit the temperature increase to 1.5°C above pre-industrial levels.’

To have a real-world impact, our starting point is to engage where possible rather than disinvest. As investors, we have a critical role to play, and we can use our influence to drive change. We believe in collective action and therefore more is to be gained from collaborating with other like-minded investors and supporting joint initiatives to tackle climate change.

Through our investment manager Cardano, we seek to influence on the companies in which we invest, both through active engagement (dialogue) and exercising our voting rights as shareholders. We engage companies, governments, and other stakeholders to address climate change-related risks. However, we are prepared to disinvest where we believe companies represent unacceptable financial risks because they are not committed to transition quickly enough, or are judged to have too harmful an effect on the environment and society. The Trustee believes that **now:pensions** should aim to contribute towards the real-world transition as it is our view that systematic issues like climate change represent a long-term financial risk to our investment portfolio.

In 2022, we published a stewardship policy, which sets out the principles we’ve adopted that underpin our approach to stewardship and our annual UK Stewardship Code report, available on our website, details the progress we are making.

We are members of several industry organisations that support and inform our climate change approach, including the United Nations-supported Principles for Responsible Investment (PRI), the Institutional Investors Group on Climate Change (IIGCC), Pensions for Purpose, and the Asset Owners Council. We support several collaborative initiatives that aim to engage with companies on environmental action, including Climate Action 100+, and the PRI Spring Initiative, focused on tackling deforestation.



1.3 What are our climate change-related commitments and beliefs?



Box 1: Our Statement of Investment Principles

Our Statement of Investment Principles (SIP) sets out the principles, beliefs and policies adopted by **now:pensions** Trustee in investing the assets of **now:pensions** Trust (the 'Trust'). The SIP is reviewed at least once every three years, and when there's a significant change in investment policy. The SIP was most recently updated in May 2025. Our last triennial investment strategy review finished in September 2023 and has been in effect since the start of 2024.

The Trustee has set the following goals as part of its Responsible Investment objectives:

- Net zero greenhouse gas emissions by 2050, with 50% emissions reduction by 2030 based on 2019 levels, consistent with the Paris Climate Agreement goals of limiting global warming to 1.5°C, compared to pre-industrial levels.
- At least 75% of the portfolio's net asset value in investments which support the Trustee's Responsible Investment beliefs by having an explicit responsible investment objective.

In addition, the Trustee has set sustainability priorities focussed on:

- **climate action** – a speedy and fair transition to a low-carbon economy is the only way to address the climate crisis.
- **gender equality** – everyone should have equal rights, responsibilities, and opportunities.
- **living wages** – all companies should pay their employees a living wage.

Our Statement of Investment Principles is available on our website⁵.

⁵ [Statement of Investment Principles \(SIP\) and Implementation Statement](#)

1.4 What is TCFD?

The Taskforce for Climate-related Financial Disclosures (TCFD) was established in 2015 by the Financial Stability Board (FSB) as a global industry-led reporting framework that sets out recommendations for companies and investors to organise and standardise climate disclosures. The TCFD has since been adopted by regulators, including by the UK government.

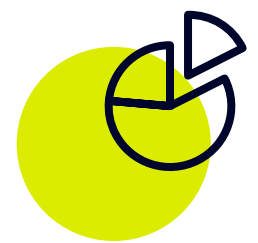
It was set up because:



The financial risks and opportunities posed by climate change are not fully understood and not fully priced by financial markets.



Corporate and financial institutions are not prepared for the transition to a low carbon economy.



This can lead to the misallocation of assets, the risk of asset stranding, and market volatility, which will ultimately lead to costs to long-term members.



1.4 What is TCFD?

Box 2: What do the regulations require and how are we applying them?

The UK government has enacted law⁶ to require large pensions schemes and master trusts, like **now:pensions** Trust, to publish a TCFD report. We support this initiative. The regulations set out the following requirements, across four themes, which we cover in our report:

Governance, including how we:

- Oversee financially-material climate change-related risks and opportunities (CCRO).
- Apply processes to stay informed about climate change.
- Disclose our role with respect to climate change-related risks and opportunities.
- Disclose the role of third parties with respect to climate change-related risks and opportunities.

Strategy, including:

- The impact of climate change on our investment strategy.
- At least two scenarios, including a Paris-aligned (1.5°C) scenario, to measure the financial risk of a certain degree of warming. We use scenarios due to the difficulties of predicting the impacts of climate change on our portfolios. For the purposes of our reporting, we have decided to use three scenarios, 1.5°C, 2°C and 3°C.

Risk management, including:

- How we identify, manage, and incorporate climate change-related risks and opportunities in our investment beliefs, policies, and decision-making.
- The risk management tools and the outcomes of using these tools.
- How we prioritise risks.
- How we've used stewardship to manage climate change-related risks and opportunities.

Metrics and target setting:

- Absolute emissions-based metric (which we'll explain later in the report). The emissions metrics must cover Scopes 1, 2 and 3.⁷
- Intensity emissions-based metric (we'll explain this too).
- One other climate change-related metric. We chose to show the percentage of assets under management of our portfolios where the investment has an explicit responsible investment objective.

- We also track and disclose the proportion of the portfolio on which we have good climate data (a data quality metric).
- An alignment metric. We show the percentage of assets under management of our corporate investments that have set Science Based Targets to align with the Paris agreement (SBTi alignment).
- An emissions reduction target. As mentioned above, our target is net zero greenhouse gas emissions by 2050, with 50% emissions reduction by 2030, against 2019 levels. We track this based on Scope 1 and 2 emissions.

The regulations require the Trustee of now:pensions Trust to:

- Implement climate change governance measures and prepare a TCFD report containing associated disclosures; and
- Publish our TCFD report on a publicly available website, which will be the **now:pensions** website, including a summary for members.

⁶ DWP, [Governance and reporting of climate change risk: guidance for trustees of occupational schemes](#)

⁷ We published our [Scope 3 emissions last year on a voluntary basis](#).



Governance

The organisation's governance around climate change-related risks and opportunities.

2.1 Statement of Trustee's Climate Change-related Risks and Opportunities (CCRO) Governance Policy

As the Trustee, we are ultimately responsible for identifying, assessing and managing climate change-related risks and opportunities the pension scheme is exposed to.

Through external events, our own training sessions, and our own research, we build the knowledge, skills, and understanding to identify climate change-related risks and opportunities. We monitor our service providers, including our investment manager, Cardano Risk Management Limited (Cardano), our investment adviser, and third-party managers, and interpret climate change-related risks and opportunities, acting where necessary.

In 2021, we adopted a Climate Change-related Risks and Opportunities (CCRO) governance policy. Our Investment Committee (IC), a committee responsible to the Trustee, oversees and monitors the day-to-day decision-making and stewardship activities of CCRO actions undertaken by Cardano.

The IC ensure that the day-to-day decision-making by Cardano reflects the Trustee's investment beliefs, policies, and objectives with respect to climate change. The IC reports the outcome of the assessment to the Trustee.

Our governance is working well and remains unchanged from last year's TCFD report. We receive regular reporting on climate change-related risks and opportunities from our investment manager, which we discuss at our IC meetings.

We successfully applied to become a signatory of the UK Stewardship Code as of July 2024 and have submitted an updated 2025 submission. Our annual Stewardship Code submission includes detail of how we engage with companies and policy makers around climate and other sustainability risks. As Trustee, we continue to complete regular training sessions, discussing a range of sustainability issues, including sessions on stewardship, climate change and the qualitative approach to scenario analysis discussed later in the report.

Our CCRO policy describes:

- How we oversee climate change-related risks and opportunities.
- The role of parties other than the Trustee, such as the Trust Manager (**now:pensions**).
- The role of Cardano, our investment manager and third-party managers.
- The timelines associated with TCFD.

We have set out the main aspects of the policy in the sections that follow.

2.1 Statement of Trustee's Climate Change-related Risks and Opportunities (CCRO) Governance Policy

Box 3: Inputs to our policy

Our policy sets out where responsibility lies and how the framework is implemented on an ongoing basis. It has been prepared in line with:

- The requirements of the Pension Schemes Act 2021.
- The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the Regulations) and the 2022 amendments.
- Statutory guidance for climate governance and reporting of climate risks issued by the Department for Work and Pensions (DWP).
- The guidance prepared by The Pensions Regulator (TPR).
- The non-statutory guidance prepared by the Pensions Climate Risk Industry Group (PCRIG).
- Recommendations set out in the Taskforce for Climate-related Financial Disclosures (TCFD).

2.1.1 Trustee oversight

We have established processes to assess, oversee, review, and effectively manage CCRO relevant to the pension scheme. This includes ensuring those persons who assist the Trustee with governance activities take steps to identify and assess any relevant risks and opportunities, and where necessary, take investment decisions to address these.

The relevant committees responsible to the Trustee are:

Investment Committee (IC)

- Identify, assess, and manage the ongoing impact of CCRO over the short-, medium- and long-term on the pension scheme’s investment strategies, for review and agreement by the Trustee.
- Oversee climate change scenario analysis to assess the impact on the pension scheme’s assets and investment strategy, for review and agreement by the Trustee, including selection of appropriate scenarios.
- Select an absolute emissions metric, an emissions intensity metric, alignment metric, and at least one additional climate change-related metric. Establish clear reporting lines to obtain climate change-related data for the pension scheme’s investments and calculate the selected metrics.
- Set at least one target for the pension scheme in relation to the metrics and assess performance against it, for review and agreement by the Trustee.
- Prepare the pension scheme’s TCFD report in line with legislative requirements and statutory guidance, for review, agreement, and publication by the Trustee.

⁸ We use various ESG metrics to assess a company’s exposure to and management of environment, social and governance factors, including climate change

The Trustee retains all strategic investment decisions and assessment, including setting of climate change-related investment beliefs, policies, and objectives, and where appropriate, the Trustee has delegated certain functional responsibilities to its committees, our investment adviser, and our investment manager, Cardano.

Audit Risk and Compliance Committee (ARCC)

- Establish and maintain processes to assess and effectively manage CCRO which are relevant to the pension scheme, for review and agreement by the Trustee, including integration of CCRO into the overall risk management of the pension scheme.

The IC meets at least quarterly, and reports to the Trustee on sustainability topics, including where necessary input from sustainability and investment staff at **now:pensions**, Cardano and the investment adviser. The IC commits to assess CCRO on an ‘as required’ basis, and at least annually, reporting to the Trustee on material issues. As part of its reporting, Cardano will provide GHG emissions metrics and ESG metrics for our investment portfolios, ESG metrics⁸ for the largest investments in our portfolios, and details of stewardship and engagement activities for our review.

The ARCC commits to assess CCRO at least annually, reporting to the Trustee on material issues.

This allows the Trustee to assess whether the investment processes are consistent with CCRO.



2.1.2 Trustee knowledge and understanding

To ensure that we are sufficiently informed on climate change-related topics to be able to challenge assumptions, external advice, and information received, we undertake a range of activities:

- Identifying regulatory developments that are relevant to the pension scheme, including guidance from The Pensions Regulator (TPR)⁹ and the Department for Work and Pensions (DWP).
- Engaging with peer groups, industry bodies and advisers to compare the pension scheme's position to peers or competitors.
- Identifying relationships between events and news, and business and financial impacts, to manage reputational risks.
- Identifying and assessing physical and transitional risks, including operational risks, over different time horizons.
- Asking Cardano, the investment adviser and other advisers to provide us with training on climate change-related topics.

⁹ TPR, [Governance and reporting of climate-related risks and opportunities](#)

We consider climate change scenarios, risk management, metrics, and targets, which we explain throughout this report.

We also expect **now:pensions** staff to undertake training on climate change-related risks and opportunities. **now:pensions** staff participated in a range of activities, including attending events on climate change (and other sustainability issues) organised by the Institutional Investors Group on Climate Change (IIGCC), Pensions for Purpose and the PRI on climate change-related issues. They also reviewed guidance published by the IIGCC.

2.1.3 Investment manager delegations

The Trustee oversees Cardano’s investment decision-making as set out in the Investment Management Agreement (IMA) and Statement of Investment Principles (SIP). The Investment Management Agreement sets out Trustee requirements in respect of CCRO, which include targeting net zero by 2050; taking account of the Trustee’s priority sustainability themes, including climate action, in investment decision-making; and managing the portfolio in line with the responsible investment objective of having at least 75% of the scheme invested in responsible assets.

The Trustee reviews on, at least an annual basis, the climate change-related metrics, scenarios and targets relevant to the pension scheme, taking into account climate-related information (including Scope 1, 2 and 3 GHG emissions).

Cardano will flag any gaps in data on an annual basis and prioritise, on our behalf, engagement on gaps throughout the year that are likely to make the most material difference to the pension scheme’s CCRO. We explain limitations in data and methodologies in the scenarios and metrics later in this report.



2.2 Management role: Cardano

As Trustees, we are satisfied that Cardano has the skills and resources to integrate our CCRO policy into their investment decision-making.

Cardano has published its sustainable investment beliefs, sustainable investment policy, stewardship policy, voting policy and its climate strategy¹⁰, which we have reviewed.

In January 2022, Cardano acquired ACTIAM, an asset manager with 30 years' sustainability experience. This has subsequently been integrated into the broader group and rebranded as Cardano Asset Management. This acquisition allowed Cardano to take on the in-house management of the equity portfolio in early 2024 and implementing several credit portfolios for the Trust over the course of the last year. The new mandates allow substantially increased alignment between the Trustee beliefs and the investment strategy being executed (including the stewardship of assets). The new mandates now covers a wide range of systematic sustainability challenges including climate change, biodiversity loss and deforestation, water use, materials use and pollution, and social issues like human rights, living wage and gender equality. Stewardship is emphasised with engagement, voting and escalation pursued as part of the process consistent with these priorities.

The Trustee is satisfied that Cardano's investment and stewardship policies reflect the way in which we expect our portfolios to be invested.

Cardano is a signatory to the UN Principles for Responsible Investment (PRI), a member of the Institutional Investors Group on Climate Change (IIGCC), and a signatory of the UK Stewardship Code. Cardano's engagement policy sets out how they promote and monitor the shareholder engagement activity of their investment and third-party managers that are included in the portfolios which they manage.

As our manager, Cardano has publicly stated they will measure the GHG emissions of their investments and set portfolio targets for clients, such as ourselves, operating under their Sustainable Investment Framework consistent with achieving net zero GHG emissions by 2050, with a target to cut emissions by 50% by 2030, against 2019 levels. This is the same target that we have set.

Cardano are responsible for delegating to any third-party asset managers. As of March 2025, this is limited to a very small position in a third-party Shariah-compliant fund (less than 1% of scheme assets) and some cash funds used to manage cash balances. As there is no third-party management in the schemes default strategy, the remainder of this report does not emphasise third party managers. The Trustee expects Cardano to facilitate information flows where relevant from any third-party managers to obtain the climate change-related data required, in order to calculate selected metrics and assess the CCRO relevant to the pension scheme.

The Cardano Group, which includes **now:pensions**, monitors and manages its own operational carbon emissions and offsets any residual operational emissions on an annual basis, and has done so since 2021. With the 2024 acquisition of the Cardano Group by Mercer, we are now part of the broader Marsh McLennan group. We will seek to align our operational policies with Marsh McLennan over the coming year.

Cardano has integrated sustainability throughout its business, with activities overseen by the Sustainability Policy Committee, chaired by Kerrin Rosenberg, the CEO of Cardano Risk Management Limited. More details on Cardano's approach to sustainability is available on their website, including explanations of their participation in stakeholder groups¹¹.

Cardano contracts with various data providers, including MSCI and Sustainalytics. This data is used to assist with climate change-related monitoring and reporting, including GHG emissions and other ESG metrics.

The data covers 100% of the equities in our portfolio (see our section on metrics for more details), though coverage in the credit space is less complete. Cardano uses the MSCI tool to provide the Investment Committee (IC), and in turn the Trustee, with the ESG and climate change-related reporting necessary to understand, assess, and scrutinise the CCRO relevant to the pension scheme. We explain the role of GHG emissions data in more detail later.

2.3 Advisers: investment adviser, legal adviser and **now:pensions** staff

The Trustee is supported by investment, sustainability, compliance, and communications staff at **now:pensions** Limited (Trust Manager). This includes a head of sustainability with experience in both investment and sustainability issues including climate change, and a head of investment with extensive experience of defined contribution investments. The Trustee is satisfied that **now:pensions**' staff have the skills and experience necessary to support the Trustee's implementation of the CCRO policy.

The Trustee is advised by an investment adviser and a legal advisor. The investment adviser is a member of a range of responsible investment-related industry groups, supporting the Trustee with climate change-related expertise. The Trustee is satisfied that the investment adviser and legal adviser staff also have the skills and experience necessary to support the Trustee's implementation of CCRO policy.

The time and resources involved in the governance of CCRO include IC, ARCC, and Trustee meeting time, training on climate change-related issues, and the costs of our external providers, including Cardano (and in turn, their data provider, MSCI), investment adviser and legal adviser.

Given the importance and urgency of climate change, we consider the resources spent on understanding and taking action to address CCRO to be appropriate to the materiality of climate risk to the pension scheme.

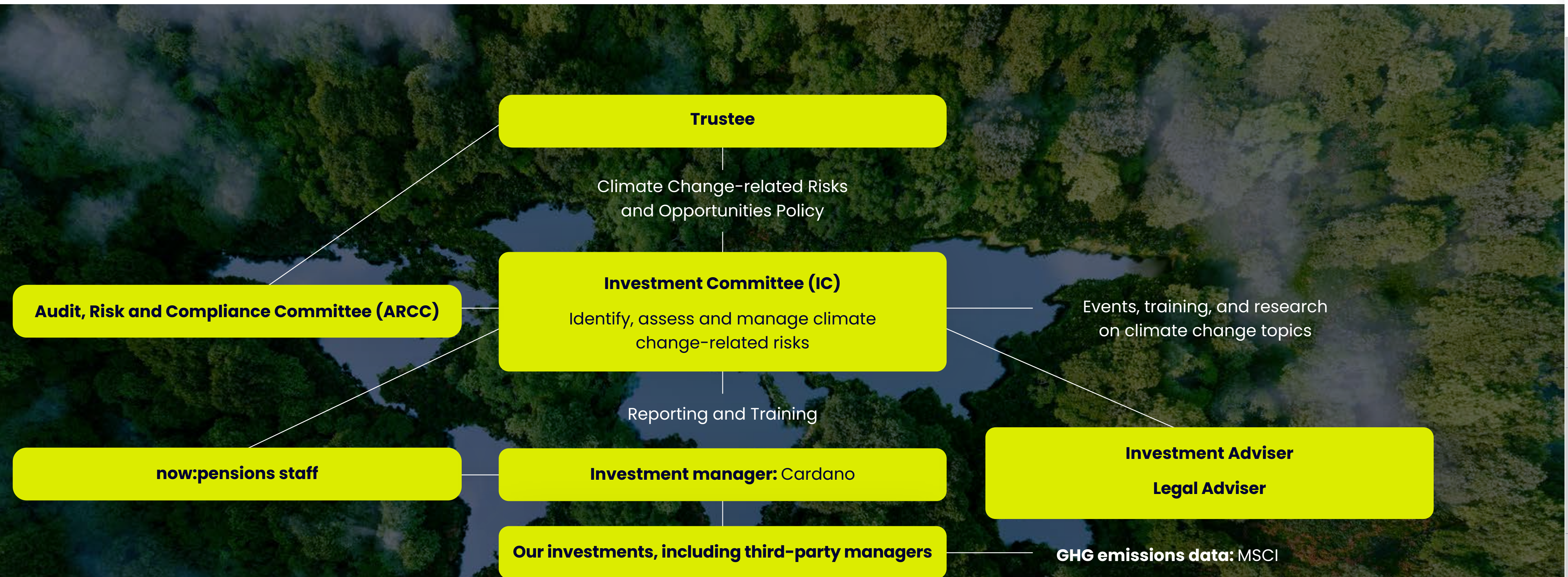
At quarterly IC meetings, the Trustee regularly challenges its staff, investment manager and advisers on climate change-related issues, requesting training on new and emerging topics, such as alignment metrics, emerging disclosure frameworks such as International Sustainability Standards Board (ISSB) and Task Force for Nature-related Financial Disclosures (TNFD), and evolving UK and EU regulation, such as the proposed new FRC Stewardship Code, as well as progress on stewardship topics. The Trustee regularly questions and challenges the investment manager on investment decisions, especially how they impact the scheme's progress against sustainability priorities, including climate change-related issues.



2.3 Advisers: investment adviser, legal adviser and **now:pensions** staff

Diagram 1:

This diagram illustrates our governance on climate change-related risks and opportunities.



2.4 Understanding members' views

We published our first TCFD report in 2022. As part of that report's next steps, we committed to run focus groups with members and employers, to better understand their views on sustainability topics, including climate change. In Q1 2023, we met with several members and employers for a series of responsible investment focus group sessions, facilitated by an external research provider. Prior to the sessions, all respondents completed a questionnaire. The respondents answered questions about their attitudes to finance broadly, before answering specific questions about their pension.

75-minute focus group sessions were structured to systematically explore members and employer's attitudes to finance, investment, sustainability, and climate change. Discussions involved assessing both members' and employers' perceptions around responsible investment, as well as members' understanding and attitudes towards pensions.

Findings:

- Members need help to understand pensions and their investment strategies, including responsible investing.
 - Older members closer to retirement understand pensions better than younger members – but knowledge is still inconsistent.
 - Among members and employers, risk profiles are understood, but there is little sense of what makes a good investment versus a bad investment.
 - Members and employers currently have little sense that they can, or should, influence pension investment decisions.
- The 2022 TCFD report had the potential to shape perceptions, but members found it very difficult to understand.
 - Some members feel that some investments are morally wrong, for example specific products like weapons and tobacco.
 - There is an increasing awareness of corporate social responsibility and ESG, however, there is also a scepticism surrounding these and often suspicions of greenwashing.
 - Members understand issues are not always straightforward, such as divesting from fossil fuels.

2.4 Understanding members' views

How we have responded

These findings fed into the investment strategy review completed in September 2023 and contributed to the new investment strategy implemented in Q1 2024.

In particular, the Trustee has focused on the benefits to members of adopting a more sustainable investment strategy. The emphasis on a larger allocation to responsible investment strategies, the new transition-focused equity strategy and the emphasis on stewardship and policy engagement explained in more detail later in the report have all formed part of that strategy review. The Trustees' conviction that climate change poses a systematic risk that will affect member outcomes in the long-term has reinforced the need to steward assets and engage policy makers in line with a net zero scenario.

Our TCFD report is further refined with our member-friendly summary which can be found at nowpensions.com/tcfid. We hope that this brings even further clarity, particularly with the new qualitative approach adopted to explain climate scenario analysis which we believe members will find more understandable.





Strategy and scenarios

Strategy: The actual and potential impacts of climate change-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

3.1 The short, medium, and long-term time periods identified for our pension scheme

Given the profile of our membership, and the time periods over which their monies are invested up to and through retirement, across our single default investment strategy, we consider:

- short-term to be 3 to 5 years.
- medium-term to be 5 to 15 years.
- long-term to be 15 to 25 years (to 2050).

Our assessment of time horizons is consistent with the pension scheme journey path, which includes a growth phase savings while working, a de-risking phase as the saver approaches retirement, and destination phase in retirement, and is market standard for defined contribution master trusts, as set out in The Pensions Regulator's (TPR) guidance.



We expect that our short and medium-term time periods will remain the same, whilst our long-term will remain as 2050 (in other words, it will decrease each year as we approach 2050), as net zero by 2050 is consistent with UK government legislation and the aims of the Paris Climate Agreement.

We use our assessment of time horizons to understand the climate change-related risks and opportunities in our portfolios, and how we address these. When we do scenario analysis we think of the pathway over the timeframe, not just an estimate of conditions at the end point of the timeframe. So, for example, our medium-term scenario analysis describes a path over the medium-term rather than only the end point.



3.2 The climate change-related risks and opportunities that will affect our pension scheme's investment strategy over the short, medium, and long-term

The table below explains how we think about short, medium, and long-term risks associated with climate change. We have adapted the table below from The Bank of England's Prudential Regulation Authority (PRA) guidance, adding in additional categories or risk including systematic risk and risk of biodiversity loss. It is a useful summary of the climate change-related risks likely to materialise over different timeframes.

¹² Systematic risk is not separated in the original Bank of England taxonomy of climate risks. We find it useful to separate out systematic risk that affects the whole economy from the bottom-up risks that affect individual assets so have added it in as another section.

Box 5: An adapted Bank of England climate-related risk matrix:

Climate-related risk		Short/medium/long term	Main causes of financial impact on members
Physical (bottom-up)	Acute	Medium/Long	Increased frequency and/or severity of extreme weather events
	Chronic	Medium/Long	Steady increase in global sea levels and changes in precipitation patterns
		Medium/Long	Impact of climate change on biodiversity and related risk to food security
		Medium/Long	Rising temperatures
Transitional (bottom-up)	Policy and legal changes	Short/Medium	Regulations of existing products and services
		Medium/Long	Sectors facing penalty incentives could harm current business models
	Market demand	Short/Medium	Changing consumer behaviour
	Technology	Medium	Existing products replaced with lower emission technology
	Reputational	Short/Medium	Increased scrutiny following changes in stakeholders' perceptions of climate-related action or inaction
Systematic ¹² (top-down)	Market level outcomes	Short/Medium	Expectations of future economic growth, inflation, interest rates and the risk appetite of investors in specific countries and regions driven by geopolitics, changes in policy and legislation, as well as consumer behaviour
	Global economic system	Medium/Long	Impact on productivity, migration, government policies, consumer behaviour, food supply, insurance availability, financial system functioning and many other complex interactions

3.2 The climate change-related risks and opportunities that will affect our pension scheme's investment strategy over the short, medium, and long-term

We find it useful to think in terms of 'bottom-up risks', which can be assessed based on the characteristics of a specific investment, and 'top-down risks', which are a function of market level outcomes and the global economic system. Bottom-up risks can be modelled by understanding specific assets such as company shares in detail, and we use data providers like MSCI to help us assess these risks. Top-down risks depend on global economic outcomes and are often much more difficult to model but may be the most important risks in the longer term. As most investors do, we split climate risks into physical risks and transition risks, but to encompass top-down risks, we found it helpful and prudent to include systematic risks as a third category.

We break climate-related risks into three broad categories:

Physical risks (bottom-up):

The impact of weather and climate on physical assets. For example, the damage to a factory due to coastal flooding and storm damage, or exposure to wildfire risks (hazards). This depends on the frequency and severity of hazards, the location of physical assets, and their resilience. This is a 'bottom-up' risk applied to each specific asset.

Transition risks (bottom-up):

The impact of implementing climate policies on individual companies, usually modelled by focusing on the 'bottom-up' effect on each specific asset:

- The financial risk exposure of a business to the increase in either direct or indirect financial costs of GHG emissions through its own activities or its supply chain. In 1.5°C scenarios, this potential cost is high for high emitters in the short to medium-term. In the 3°C scenario, transition risks are still relevant but the timing is more uncertain. As such costs are likely to be lower to begin with but possibly more severe over the medium and long term.
- Financial opportunities - the potential for technological progress and changing policy driven by climate change to create new opportunities for green revenue for certain companies. This opportunity is accelerated by supportive policy that increases demand in the 1.5°C scenario (which may offset some

of the negative transition risks in this scenario) scenario. In a 3°C scenario these opportunities may be delayed and by less supportive policy.

Systematic risks (top-down):

The impact of climate change on broad economic activity and financial markets. We believe broad financial market returns are a function of several key variables: expectations of future economic growth, inflation, interest rates and the risk appetite of investors. The systematic risk of climate change refers to the linkage between climate change and these key financial market drivers through the many complex mechanisms that drive our global economies: for example, its impact on productivity, migration, government policies, consumer behaviour, food supply, insurance availability and many other complex interactions. All of these will collectively drive pricing in bond, equity and credit markets, as well as exchange rates.

3.3 The climate scenarios we consider

We use scenario analysis due to the complexities involved in forecasting the degree of warming that will result from climate change. These may include policy uncertainty, multiple environmental tipping points, and potential technology advances.

We have chosen to disclose three scenarios (rather than the mandatory two), because we believe this best equips us with analysis to inform our investment decisions. These scenarios highlight the impact of physical risks (these are asset specific bottom-up risks), transition risks (these are company or asset specific bottom-up risks), and systematic risks (top-down economy wide risks), enabling

us to draw conclusions about the different components of climate change-related risks and opportunities relevant to the pension scheme.

Note that when scientists talk about a temperature scenario, they refer to the level of global warming by the end of the century, 2100, compared to pre-industrial era temperatures (1850 to 1910). If the world can get to net zero by 2050, there is a chance of limiting climate change to 1.5 degrees by the end of the century. If it takes longer to get to net zero, we will end up in warmer scenarios. When we discuss our scenario analysis over different time horizons, we are referring to a trajectory of GHG emissions over time that results in the different global warming end points at 2100.

Box 6: Our three scenarios are:



1.5°C

1.5°C Paris-aligned transition scenario – this is our goal. We hope through our stewardship, engagement with policy makers, collaboration with other investors and investment activity to help accelerate the transition to achieve this outcome. For this scenario we reference the NGFS¹³ net zero 2050 climate scenario model which assumes measures are taken that will keep the rise in temperature limited to 1.5°C.



2.0°C

2.0°C late transition scenario – this is what we think is most likely to happen given the current pace of policy change that we observe. The NGFS Delayed Transition assumes new measures are introduced to tackle climate change, but are introduced too late limit warming to 1.5°C. We also use the work of the ‘inevitable policy response’ commissioned by the PRI to inform this scenario.



3.0°C

3.0°C slow transition scenario – this is our hothouse scenario which could happen if policy action stalls. This scenario could also happen because climate tipping points accelerate climate change faster than anticipated in current climate models despite mitigating efforts. We use the NGFS current policies scenario which assumes current policies continue as is and there is not further progress. But we assume much more severe economic impacts from climate change than the NGFS scenario currently projects.

¹³ NGFS Scenarios are developed by the Network of Central Bankers and Supervisors for Greening the Financial System. Note that while we reference these scenarios in our scenario analysis, we do not rely on their economic predictions as a primary guide to our conclusions because we believe they underestimate the potential impacts of climate risks.

3.3 The climate scenarios we consider

To assess the bottom-up asset specific risk (physical and transitional) we can use Climate Value-At-Risk metrics from our data provider MSCI (which we use specifically for equity and corporate credit risks, but not other asset classes). However, we believe these metrics when aggregated severely underestimate both the systematic risks and the long-term physical risks. As these risks may be very large and are not adequately captured, we have decided not publish the results of quantitative scenario analysis, as we believe they may be misleading to our members. Instead, we have developed a more qualitative approach described below together with our **now:pensions** staff and the help of the Investment Manager. In addition, by adopting a more qualitative approach to scenario analysis, we can incorporate asset classes that are currently excluded or poorly represented in quantitative models due to methodological limitations, ensuring they are properly reflected and incorporated in the overall analysis.



3.4 The resilience of our investment strategy in these scenarios (in other words, the results of the scenario analysis)

The impact on our portfolio is a function of the specific assets held and the combined effect of the top-down and bottom-up risks on the value of our members' assets. New scenario analysis has been included in this report, reflecting the evolution of the scheme's assets following the 2023 strategy review. That review resulted in several significant changes to the strategy at the start of 2024, aimed at better aligning with our responsible investment principles and sustainable investment priorities.

The tables 1 and 2 on the following pages represent the 'directional' outcomes for our portfolio based on our qualitative scenario risk assessment. The following analysis has been undertaken in respect of the scheme's default strategy as a whole. This consists of the now: growth fund (previously known as the Diversified Growth Fund, or 'DGF' during the reporting period) and the now: retirement countdown fund (previously known as the Retirement Countdown Fund, or 'RCF' during the reporting period). Combined, these represent 99% of the scheme's total assets under management. We believe the scenario conclusions below are broadly applicable across the different asset classes in our portfolio. Importantly, we don't think that systematic risk from climate change can be diversified away. This means that regardless of what asset allocation we choose, we'll still be exposed to climate risks because they affect the whole economy.

Scenario outcomes: The short-term

Over the short-term time horizon (3-5 years) we don't think there is much value to climate scenario analysis. Climate refers to long-term trends in the global system, whereas weather is the short-term outcome from year to year. Weather can be highly unpredictable from year to year, as can the economic outcomes that affect markets. Even though each year in the last 10 years have been amongst the warmest on record, that does not mean we may not experience temporarily cooler years. It's the medium to long-term outcomes that are important, and these are the time horizons that the Trustee focuses on. Over those time horizons the inevitability of global warming is more relevant.

What is of critical importance over the short-term are the policy choices and actions we take globally as a society. These will determine which of the three trajectories we are on. If we fail collectively to take the necessary actions in the short-term, the chance of limiting warming to 1.5°C in the long-term will become increasingly unlikely.

3.4 The resilience of our investment strategy in these scenarios (in other words, the results of the scenario analysis)

Scenario outcomes: The medium-term

Over the medium-term, regardless of which long-term climate trajectory we are on (1.5, 2.0 or 3.0°C), further global warming towards at least 1.5°C is inevitable. Under all scenarios we expect to experience more severe weather over the medium-term. Over the medium-term time horizon of our scenarios, the systematic risk component of climate scenario analysis is driven not by extreme variations in climate change itself, but by the macro-economic impact of changing consumer activity and government policies in anticipation of climate change.

If coordinated policy action is taken (an increasingly unlikely scenario), this is likely to support economic growth driven by both the investment required, and decreased risks for investors that come with consistent, supportive policy. We therefore think the 1.5°C scenario will be positive for the portfolio over the medium-term time horizon. On the other hand, a 3°C scenario would be negative both through less supportive investment and greater policy uncertainty.

From a bottom-up perspective, it is important to include the impacts of transition risks and physical risks and opportunities on stock selection. These are likely to become more important over time. We expect that physical risks will start to be more heavily priced into markets if it becomes clear over the medium-term that we are indeed on a hotter scenario trajectory.

During 2024 we had identified that that geopolitics, policy actions and consumer behaviour over the period between now and 2030 would likely play a very significant role in determining the longer-term trajectory for climate change. These changes can have large effects on overall economic growth and inflation and can drive big variations in broad equity and bond market outcomes over this medium-term time horizon. This is the 'top down' effect on markets and economies.

On the positive side, China's rollout of renewable energy has accelerated, with China, the world's largest emitter meeting its 2030 renewable energy goals in 2024. However, the geopolitical and policy development particularly in the US over the last year has made it clear that global coordinated policy action will be much less likely over the next few years. Unfortunately, these developments make the 1.5°C scenario much less likely and both the 2°C and 3°C scenarios more probable. This may mean less short-term transition risk for some assets, but higher physical and systematic risks, and greater uncertainty and transition costs in later years. These are all captured in our framework.

The table below summarises our qualitative sense of the size and direction of risk for our portfolio.

Table 1. Risk impacts: medium-term time horizons

Scenario	1.5°C	2.0°C	3.0°C
Physical risk impact	Moderately negative	Moderately negative	Highly negative
Transitional risk impact	Negative	Initially moderate but accelerating in time	Initially moderate but accelerating in time
Systematic risk impact	Positive	Moderate	Negative
Portfolio impact	Positive	Moderately negative	Negative

3.4 The resilience of our investment strategy in these scenarios (in other words, the results of the scenario analysis)

Scenario outcomes: The longer-term out to 2050

Over the longer-term time horizon, variations in climate change increasingly contribute to the systematic outcomes and will compound and accelerate the policy and consumer responses, and hence macro-economic outcomes. It will affect inflation and productivity and drive government policy, consumer behaviour and human activity.

In the longer-term, systematic risks of climate change in hotter scenarios are compounded by the risk of crossing climate tipping points: irreversible climate affects that could accelerate global warming. The effects of climate change will include impacts on agriculture, biodiversity and human activity, such as making certain agricultural activity infeasible in some areas, or sea level changes and desertification, forcing relocation of human activity.

Investors will need to increasingly allow for these potential uncertainties as the medium-term unfolds and it becomes clearer which of the long-term pathways we are likely to be on. The longer we leave making a change, the more the change will ultimately cost both in terms of mitigation, and in terms of the imperative of more drastic policy reactions required in the 3°C scenario. Because of this, in the long-term we believe that the transition risks will be high in all three scenarios as the realities of climate change will increasingly impact policy.

In the long-term we believe the 1.5°C scenario is unequivocally the best economic and environmental outcome for most portfolios and 3°C will be unambiguously negative.

The table below summarises our sense of directional impact on our portfolio in these scenarios over the long-term.

Table 2. Risk impacts: long-term time horizons

Scenario	1.5°C	2.0°C	3.0°C
Physical risk impact	Moderately negative	Highly negative	Very negative
Transition risk impact	Negative	Negative	Very negative
Systematic risk impact	Positive	Moderately negative	Very negative
Portfolio impact	Positive	Negative	Very negative

3.5 The key conclusions and implications from the scenario analysis

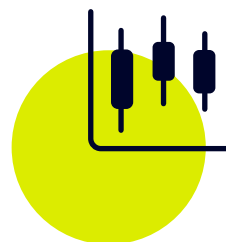
From this analysis it's clear that:

- **The systematic risks of climate change affecting the global economy are the most important medium and long-term effects our portfolios are exposed to.** These risks are severely negative in the medium and long-term in hotter scenarios, such as the 3°C scenario. On the positive side, the global policy and investments that will be required to limit global warming to 1.5°C represent an opportunity and potentially a long-term positive outcome for members.
- **These systematic risks cannot be diversified away through careful stock selection or asset allocation changes.** We can aim to contribute to mitigating these risks by encouraging policy makers and the companies we invest in to transition as rapidly as possible to a net zero world in order to limit global warming to as close to the 1.5°C scenario as possible, and to invest in solutions that may accelerate that transition.
- **Both physical and transition risks of the individual assets we own will be important.**
 - The transition risks will become important if legislation does move rapidly to support a 1.5°C world. This will likely vary substantially from region to region and will be particularly impactful for high emissions sectors, such as the energy sector. Transition risk impacts may be delayed but will inevitably increase over time if the world fails to transition in the shorter-term. We expect that to result in more policy uncertainty, and hence investment risks.
 - For our portfolios, our largest transition risks are in the following sectors: energy, transport, automobiles and components, materials, and food and beverage production.
 - Physical risks will become increasingly important as the world continues to warm and will become much more acute in hotter scenarios. Physical risks are very specific to the location and nature of individual assets.
 - Our largest physical risks are in the following sectors: food and staples retail, insurance, food and beverage production, and real estate.



3.5 The key conclusions and implications from the scenario analysis

As a result of this analysis, we prioritise four actions to help manage climate change-related risks and opportunities.



Stewardship of investments that focuses on increasing the likelihood of achieving net zero, and the resilience of individual assets to transition and physical risks.



Engagement with policy makers, regulators and other stakeholders to increase the likelihood of achieving net zero by 2050 (sometimes referred to as ecosystem stewardship).



Incorporating the assessment of Transition Risk and Physical Risks and opportunities (such as companies adapting to the transition) into security selection, exclusions and portfolio construction.



Identifying climate opportunities which offer both financial returns and a positive contribution to a faster transition to a low-carbon economy.

Because of this it is important that our Investment Manager (and any third-party managers who manage our assets) demonstrate strong alignment with our investment beliefs. We will particularly focus on their stewardship activities, including consistency between their engagements, voting and escalation activities and their portfolio actions in support of the goal of net zero.

3.6 The impact of climate risks and opportunities on the pension scheme's investment strategy

It is our expectation, based on the evidence we've reviewed, that the severity and frequency of weather events relating to climate change (physical risk) will increase in all plausible scenarios (1.5, 2 and 3°C) in the coming decade. Without globally coordinated action across public and private sectors, we are in danger of much more severe scenarios (2 and 3°C) where those risks increase exponentially in the medium- and long-term.

We're increasingly seeing weather events such as extreme heat and cold, wildfires, and floods, which are having profound social and economic implications. This is likely to mean that the materiality of climate change-related risks and opportunities will increase both at the asset-level, but also for the economy as a whole, and hence drive portfolio-level outcomes.

Climate change-related risks and opportunities therefore need to be considered in relation to all aspects of the pension scheme's investment strategy.

We are very concerned about the systematic risks of climate change. We believe that either a 2°C to 3°C climate scenario outcome would negatively impact global economic growth and potentially lead to higher inflation. In terms of strategic asset allocation, the top-down systematic risks of climate change will therefore impact all asset classes and geographies through its impact on the broad economy and financial markets.

- A diversified portfolio such as we implement is a good starting point. This includes exposure to a range of asset classes that includes assets that can participate in economic growth (like equities) but also assets that can diversify in scenarios of lower economic growth and higher inflation which could result from climate change. For this reason, for example, the portfolio has exposure to green bonds which, because of their high credit quality, should do well in a scenario of declining growth, and commodities that may benefit in a more inflationary scenario.
- However, it's also plausible that the systematic risks could impact multiple parts of the portfolio negatively at the same time, particularly over the medium to long-term. We conclude that, despite diversification providing some benefits, the systematic impacts are highly unpredictable and cannot be significantly diversified away through asset allocation.

3.6 The impact of climate risks and opportunities on the pension scheme's investment strategy

To mitigate this risk, we need to attempt to do our part to influence the outcome, to progress towards a 1.5°C scenario and avoid a 3°C scenario. We can contribute as an individual scheme of course, but our influence is much more powerful in collaboration with others, by focusing on:

- Stewardship: Engaging with companies to develop transition plans consistent with a net zero outcome.
- Engaging with policy makers to implement supportive policy.
- Investing in solutions that will accelerate the transition. For example, our investments in green bonds that finance renewable energy build-out.

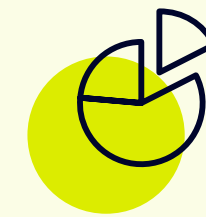
To mitigate the risks at the asset class level, the choice of investment strategy is important. When assessing and monitoring strategies we consider the investment manager's approach to:

- identifying and managing transition risk and physical risks (and other sustainability risks) in the investments in the portfolio.
- stewardship with regards to these assets, engaging with businesses, and with policy makers on systematic issues.
- sectoral and geographic exposures of the assets.

There may also be opportunities to allocate to solutions such as impact investments that may accelerate the transition.

We are confident that our new equity strategy managed by Cardano incorporates an assessment of these risks and an approach to stewardship that helps manage and mitigate them.

Climate change systematic risk may also impact the financial system through:



The creditworthiness of the government and supranational bonds in which we invest and the counterparties of derivative contracts.



The prospects for banks and other financial institutions we place cash with and therefore the integrity of the financial system.



The exchange rates between currencies.

Our investment manager has a framework for managing currency and collateral risks and will monitor counterparty credit risk, and credit risk of assets in the portfolio.

In the sections that follow, we detail the decisions we've taken in implementing this strategy.

3.7 Limitations of the modelling

There are many fundamental uncertainties in modelling climate change, including¹⁴:

Uncertainties in climate modelling itself, including:

- The Future GHG emissions trajectories under different scenarios.
- Expected warming and other environmental impacts for a given amount of GHG emissions.
- Estimates of the strength of different feedback loops (also known as ‘tipping points’) in the climate system.
- Uncertainties surrounding regional projections of climate change.

Uncertainties around government policies which will drive transition risks, including legislation and regulation, monetary policy, and fiscal policy.

Uncertainties around the economic impacts on future growth and inflation of both climate change and governments’ responses to climate change.

Uncertainties around the market reactions to changes in policy, growth, and inflation.

Uncertainties around the exact exposures and sensitivities of the assets we own to either transition or physical risks.

Uncertainty around data and methodologies across asset classes in which we invest.

With all of these compounding uncertainties, we don’t think quantitative models are hugely helpful, particularly when it comes to systematic risks. They can be more useful in quantifying bottom-up risks.

The purpose of scenario analysis is to consider a plausible range of outcomes. Any scenario analysis depends heavily on the underlying assumptions. We do not claim that the scenarios we use are the most likely scenarios. We appreciate that there could be other more negative scenarios consistent with 1.5°C, or different scenarios consistent with 2°C or 3°C. The purpose of scenario analysis is to create robustness against a range of potential outcomes.

The narrative approach we have adopted to scenario analysis helps us identify and focus on what’s important when analysing climate change-related risks and opportunities (CCRO). We use this to ensure our portfolio is made more robust when it comes to CCRO, regardless of which trajectory we ultimately end up following. In other words, this is a starting point for our investment decision-making which will need to evolve as climate-change realities unfold. We use scenario analysis alongside other analysis and metrics to create more robust portfolios.

¹⁴ Climate scenarios: [What we need to know and how to generate them](#)

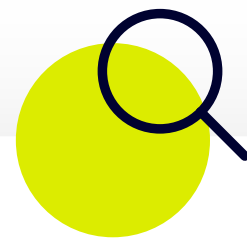


Risk management

Risk management: The processes used by the organisation to identify, assess, and manage climate change-related risks and opportunities (CCRO).

4.1 How we manage climate change-related risks

We have identified the following risks as the most likely to occur, therefore posing the greatest potential loss:



Risk 1

Insufficient action at a global level to limit global warming to 1.5°C, increasing the risk of environmental tipping points and the systematic risks of climate change affecting portfolio outcomes negatively.



Risk 2

Incorrectly identifying bottom-up portfolio risks from climate change. Changing legislation and technology will drive the transition risks our investments are exposed to. Shifts in policy from governments could increase or decrease transition risks over time creating uncertainty. Physical risks are still poorly understood and more data is needed. New risks are likely to emerge, both physical and transition.

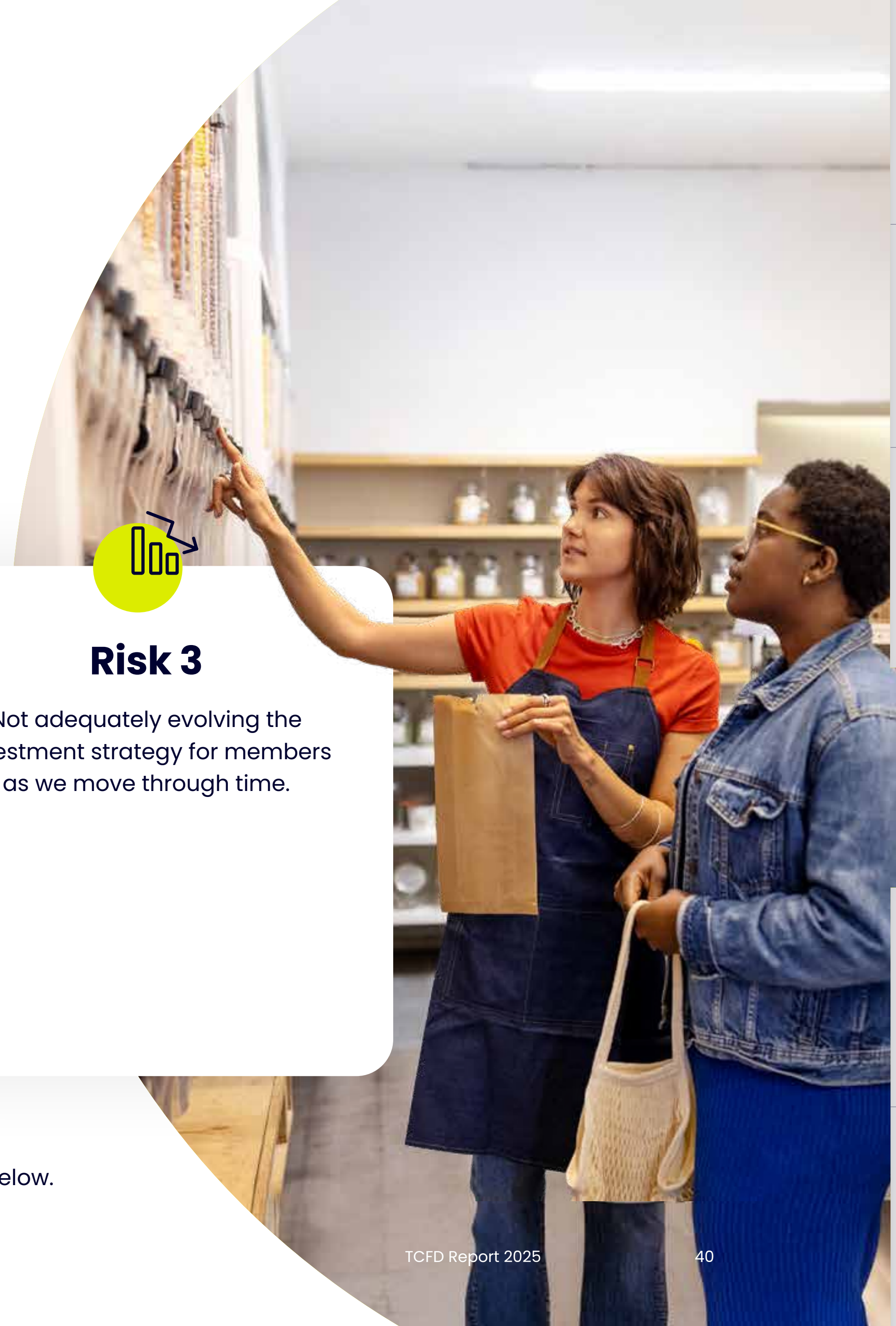


Risk 3

Not adequately evolving the investment strategy for members as we move through time.



Climate change remains an ongoing and important part of our risk register. We have made changes to our portfolio to address the risks that we've identified, and we explain this further below.



4.2 The risk management tools we (and our investment manager and adviser) have used, and the outcomes of using those tools

Adopting investment strategies that incorporate climate change and other systematic sustainability risks

At least 75% of our investments in our default strategy must incorporate a responsible investment objective that includes specific assessments of a wide range of systematic sustainability risks, including climate change.

To be clear, the remaining portion of our portfolio will also be part of our assessment of climate risk management but includes investment strategies that at this time may not be particularly impactful in terms of our ability to influence climate outcomes. This includes cash holdings, index exposures through derivatives in credit and equity markets used for efficient portfolio management, and exposure to commodities, which we discuss in more detail later in this report. We still measure and monitor our climate risk in respect of these strategies.

Stewardship

To mitigate the systematic risks, we expect our investment manager, Cardano, to engage with underlying company holdings to set science-based targets and develop transition plans to support a speedy and just transition to net zero, in line with the Paris agreement. We expect to see voting consistent with this and escalation where companies are failing to transition quickly enough, ultimately leading to positive portfolio outcomes.

We also expect to see collaborative engagement with like-minded investors, and engagement with policy makers to support these objectives.

We will also support this engagement directly where **now:pensions** can effectively add its voice to drive change.

4.2 The risk management tools we (and our investment manager and adviser) have used, and the outcomes of using those tools

Data providers and service providers

The assessment of transition and physical risks (bottom-up risks) depends on the identification of those risks at an asset-level. Cardano, our investment manager, uses a range of data providers to do such assessments.

Cardano appointed MSCI as one of its core external sustainability data providers. The appointment followed a formal process, in which the service offerings of different providers were reviewed. Cardano selected MSCI for several reasons, including the extent of its coverage, its research process (and as such, data reliability), and portfolio scenario analysis (based on degrees of warming), following the acquisition of Carbon Delta in 2019¹⁵. Cardano engages with MSCI to regularly discuss tool developments and we as Trustees believe MSCI's services remain appropriate for climate monitoring and TCFD reporting purposes.

In 2023, Cardano appointed Glass Lewis as its proxy voting provider. Glass Lewis apply Cardano's voting policies, and Cardano regularly monitors that this voting is in line with its policies. In specific cases, Cardano's stewardship team will direct specific voting, including on shareholder resolutions that it may co-file with other investors.

Cardano has also appointed Sustainalytics as an engagement overlay service provider. This allows the Cardano Stewardship team and **now:pensions** staff to engage with a broader range of companies on systematically important sustainability themes, as well as respond to individual incidents or controversies that may arise at companies in the portfolio.

The appointment (and subsequent reappointment) of these service providers is overseen by the Cardano Group's Sustainability Policy Committee and reported to us on an annual basis. It is also reviewed by the Investment Committee (IC) annually.

¹⁵ [MSCI to strengthen climate risk capability with acquisition of carbon delta](#)



4.2 The risk management tools we (and our investment manager and adviser) have used, and the outcomes of using those tools

Participation in industry working groups working

There are a range of methodologies available when assessing climate change exposures, including assessing the GHG emissions of companies, and therefore portfolios.

Cardano participates in multiple industry initiatives to develop and evolve metrics and reporting on climate change, feeding back to us on a regular basis. Cardano has developed its own climate strategy based on industry standard metrics, such as those developed by PCAF, and takes input from the IIGCC Net Zero Investment Framework. **now:pensions** is also a member of the IIGCC. We have assessed, and are satisfied with Cardano's chosen methodologies, and believe the approach is not only market-leading, but equips us to assess the climate change-related risks and opportunities relevant to the pension scheme.

When considering a company's GHG emissions, we use the EVIC (enterprise value including cash) calculation. This is also known as 'financed emissions' and is used to determine an investor's ownership of a company's GHG emissions, or in other words, the emissions the investor is financing. Enterprise value includes a company's market capitalisation (or equity) and a company's issued debt. This aligns with data provided by MSCI.

One of the most important metrics we use is an alignment metric showing the extent to which our portfolio is aligned to the Paris Climate Agreement. Cardano presented a range of approaches to calculating alignment, setting out the

strengths and weaknesses of each approach. Following our review, the metric we selected is the percentage of assets under management of our portfolio (the number of companies, by weight) that have science-based targets in place, as reviewed by the Science Based Targets initiative (SBTi). This allows us to measure progress over time as more companies commit to Science Based Targets.

Internal controls

Cardano has implemented internal controls in the preparation of TCFD metrics and scenarios, which we have reviewed to ensure they are appropriate. **now:pensions** staff have undertaken an internal audit of our report, and we've also sought external legal advice.

Finally, we note that there are gaps, estimations and assumptions in the data. In some markets, GHG emissions disclosures are not regulated, and not subject to audit. Scope 3 emissions remain subject to wide variation and are often most consistently derived using estimation methodologies, rather than relying on reported emissions. However, the quality of the data is constantly improving. We believe that the processes we have implemented are consistent with market-leading practice and mitigate (as far we are able) for known limitations in data quality and coverage. We continue to engage with standard-setters, policymakers, data providers and other companies to improve data quality.

4.3 Investment decisions that help address climate change-related risks and opportunities

Over the past three years, we have made several investment decisions that relate to our assessment of climate change-related risks and opportunities.

In 2023, the Trustee completed a formal tri-annual investment review, which resulted in several significant changes to our investment strategy and were implemented by Cardano in the first quarter of 2024. As part of that review, we increased the minimum for investments in the default strategy with a responsible investment objective from 50% to 75% of assets.

We expect to see continued evolution in future, enhanced by ongoing scenario analysis and metrics as set out in this report.



4.3 Investment decisions that help address climate change-related risks and opportunities

Transition focused equity with stewardship

One of the more substantial changes arising from the investment review was a considerable change in the equity investment strategy that was implemented in Q1 2024. The allocation to directly held equities was increased from c30% to c65% of the default strategy. This will allow much greater direct engagement and influence on the companies we own.

This strategy is managed in-house by Cardano, our investment manager. It will more closely align with our Trustee sustainability priorities focused, on climate action, gender equality and living wages.

This strategy is managed using Cardano's sustainable investment framework, which determines the classification of every direct investment from a forward-looking sustainability perspective. The classification determines whether a direct investment is eligible for our portfolio and what our stewardship and engagement priorities for that investment will be.

The strategy includes explicit commitments around not only science based targets to get to net zero emissions on climate change by 2050 with interim objectives by 2030, but also commitments to support net zero deforestation and water neutrality by 2030. Water neutrality is ensuring that companies operating in water scarce areas do not extract more water than nature is able to replenish. Both water usage and deforestation are systematically important sustainability issues closely linked to climate change. It also recognises and tackles the social aspects of the transition, such as human rights, and the trustees' priority issues of gender equality and living wages.

The portfolio excludes stocks on various grounds. This includes exclusions based on failure to comply with a range of international standards, on the grounds of the harms they do to either society or the environment or because they do not have sufficient commitment towards managing the risks the transition to a sustainable society. On the environmental side, this means exclusion of companies involved in the production or the extensive use of thermal coal (except in cases where this is small exposure and there are plans to phase it out by 2030).

In addition, an assessment is made about the contribution a company makes to the transition to a more sustainable society including climate, and the risks it is exposed to. Where companies are not adapting quickly enough (and have not responded to engagement), they may be assessed as non-adapting and therefore be excluded. As a result, a substantial number of energy companies in the oil and gas sector are now excluded, though our asset manager Cardano continues to own and engage with others where we think there is more potential to support the transition.

Cardano's stewardship team (supported by Sustainalytics) will actively engage with companies about their plans to transition to net zero in line with the Paris Agreement alongside other sustainability concerns. Cardano is involved in a range of collaborative engagement initiatives that support engagement on climate and other environmental objectives, listed in Table 3 on the next page. In each of these they will lead on several companies held in our portfolio.

4.3 Investment decisions that help address climate change-related risks and opportunities

Table 3.

Collaborative initiatives	Initiative	Sector/Topic
Climate	Dutch Climate Coalition Sustainalytics Net Zero program IIGCC net zero Engagement Initiative (NZEI) ShareAction: Chemicals decarbonisation program ShareAction: EU banking program Climate Action 100+ FAIRR Protein Diversification	Oil & Gas, Chemicals: Climate transition Metals, Utilities, Airlines, Oil & Gas: Climate transition Utilities: Climate transition Chemicals: Climate transition Banks: Climate transition Agriculture: net zero and climate transition Food & agriculture supply chain: Climate transition strategies
Biodiversity	Satellite-based deforestation program (Cardano-led) PRI Spring Nature Action 100 Sustainalytics Biodiversity & Natural Capital program Share Action Pesticides initiative FAIRR Waste & Pollution	Consumer Goods: Deforestation in the supply chain Agriculture, Mining: Lobbying related to public policy to prevent deforestation and biodiversity loss Specialty Chemicals: Biodiversity Banks: Biodiversity oversight and transition Chemicals: Pesticide production and biodiversity loss Packaged Foods & Meats: Biodiversity risks from waste
Water	Valuing Water Finance Initiative	Restaurants: Water scarcity and water quality
Materials use	Nature Action 100 Investor Initiative on Hazardous Chemicals (IIHC) Plastic Solutions Investor Alliance (PSIA) VBDO plastics initiative	Specialty Chemicals: Biodiversity Chemicals: Phase-out of hazardous chemicals Consumer Goods: Plastic reduction Consumer Goods: Plastic reduction

Where companies are failing to act, Cardano may use various tools to escalate our concerns: voting against directors or management, voting in support of climate resolutions where these appropriately target net zero, and co-file shareholder resolutions which for example may request a company to make a science based net zero commitment, publish a transition plan or improve policies on management of deforestation risks.

4.3 Investment decisions that help address climate change-related risks and opportunities

Transition focused investment grade corporate bonds

In Q1 and Q3 2024, we also introduced two Cardano internally-managed investment grade credit portfolios in the now: retirement countdown fund and the now: growth fund respectively. These portfolios are likewise managed using Cardano's sustainable investment framework, focused on supporting the transition to a sustainable society. They therefore apply the same exclusions as the equity portfolio. Stewardship in this portfolio will also be focused on supporting the transition and systematically important sustainability issues like climate change.

Green, social, and sustainable government bonds

We have invested in green, social, and sustainable bonds since 2017 and continue to do so, though in the revised strategy this has become a slightly smaller portion of the portfolio because a proportion was replaced by an allocation to investment grade corporate bonds.

As at 31 March 2025, we had a total of 19 green, social, or sustainable bonds, which constituted 7.4% exposure of our now: growth fund.

Sustainable bonds are the same as conventional bonds in terms of financial characteristics - they have a fixed term, fixed notional and a fixed coupon. The main difference is that the proceeds of sustainable bonds must be used for green, social, or sustainable purposes. Our bonds finance a range of projects, from solar and wind energy production to low-carbon transport and residential buildings.

We would expect our investment in new issuance green, social, and sustainable bonds to contribute to the transition to a net zero and more sustainable world through the activities they finance.



As at 31 March 2025, we had a total of **19** green, social, or sustainable bonds, which constituted **7.4%** exposure of our now: growth fund.

4.3 Investment decisions that help address climate change-related risks and opportunities

Our exposure to commodities that support the transition

A commodity investment does not allow us to exert our influence through stewardship, and we therefore do not include it in the minimum 75% responsible investment total. Nonetheless, we believe the investments can contribute to portfolio outcomes and are aligned with the transition.

We took the decision in 2020 to end our direct commodity exposure to fossil fuels. Fossil fuels tend to perform well in periods of high inflation. To manage our inflation risks, the strategy was updated in early 2024 to invest in a basket of commodities that we believe diversifies the portfolio, hedges inflation risks and may also contribute to the transition to net zero.

This includes exposure to base metals, such as copper and aluminium, which will be needed as we electrify our energy systems. We expect base metals to help us manage inflation-related risks, in addition to performing well as part of the transition.

We have also made an allocation to EU Allowances. These are regulated carbon credits issued by European Union member states that must be purchased by regulated industries when they emit GHGs. This effectively levies a cost on companies for such emissions, and we expect the cost of these emissions to increase over time as the EU tightens its controls to limit further emissions in line with its net zero by 2050 commitments. Please note that these contracts are not included as 'offsets' in our metrics and therefore do not reduce the reported carbon footprint of our investments.

Third party asset manager engagement

Where Cardano invests via a third-party manager, we expect Cardano to review the sustainability characteristics of the fund manager and the portfolio, which we assess to ensure it is consistent with our investment strategy, our CCRO policy, our Statement of Investment Principles, and the Investment Management Agreement (IMA). We will place particular emphasis on the approach third-party managers take to stewardship and engagement in line with our priorities and driving real world transition. As at 31 March 2025, aside from cash holdings, only 0.1% of assets were invested in a third-party manager (a Shariah compliant fund).

4.3 Investment decisions that help address climate change-related risks and opportunities

Corporate engagement

The Trustee has prioritised three sustainability priorities for our corporate engagement: climate action, gender equality and living wages.

The updated strategy allows for stronger alignment between the Trustee and corporate engagement as the vast majority of assets are managed directly by the investment manager, Cardano. Previously engagement was conducted by third party asset managers, where it was more challenging to incorporate the Trustee’s sustainability priorities and monitor stewardship activity. The in-house portfolio will allow us to ensure more consistency. In addition to the Investment Manager’s own

engagement resources, the Investment Manager and now:pensions work closely with Sustainalytics’ engagement team to engage on a broader range of topics across the portfolio.

We believe we have a responsibility to use our influence to improve the quality of corporate GHG disclosures, target setting (in line with Science Based Targets) and transition plans. Examples of outcomes of the Investment Manager’s recent and ongoing engagement with direct investments in relation to climate change, overseen by the Trustee, are below:

Investee sector	Priority sustainability theme	Engagement activity
Chemicals	Climate action	<p>The chemical sector is responsible for about 6% of the global greenhouse gas emissions. The sector therefore plays a critical role in enabling the low-carbon transition. To accelerate decarbonising the sector and to make the portfolio more robust across the different climate scenarios, the Investment Manager has been taking part in a ShareAction coordinated collaborative engagement since early 2023. The goal of this initiative is to encourage European chemical companies to implement a 1.5°C aligned climate transition plan with short-, medium- and long-term goals.</p> <p>During 2024, several engagement meetings were held with these companies, including dialogues with the CEOs or senior management at three companies. One company has made notable progress on the coalition’s key objectives and proactively offered the investor coalition a meeting with the company’s new CEO. Discussions centered on the company’s transition plan, specifically strategies for transitioning its asset base over the next decade and moving away from fossil fuel feedstocks.</p> <p>We have seen slower progress at two of the other companies, but the coalition still has had open communications with them and continues to push for progress.</p> <ul style="list-style-type: none"> • One of the world’s largest nitrogen fertilizer producers has shown limited progress on key objectives, particularly in setting a Scope 3 emissions target. Following the filing of a shareholder resolution earlier this year, the investor coalition sent two letters to the company’s CEO addressing the company’s refusal to adopt the resolution and requesting a meeting. During the CEO-level meeting, the coalition discussed the three core asks and emphasized their expectations for progress. • Similar concerns were raised with one of the largest industrial gases providers globally. Discussions mirrored those described above, focusing on the company’s lagging efforts in aligning with the coalition’s expectations. <p>Follow up letters were sent to all three companies, and the engagements will continue through 2025.</p>

4.3 Investment decisions that help address climate change-related risks and opportunities

Investee sector	Priority sustainability theme	Engagement activity
Chemicals	Deforestation	<p>Nature loss causes negative economic repercussions globally. Depleting natural capital creates significant near-term operational costs for companies, threatens the supply of critical resources, and by some estimates, puts more than half of global GDP at risk of some negative impact¹⁶. The theme is directly linked to climate action, a priority theme for now:pensions. To address these issues, the Investment Manager participates in Nature Action 100, a global investor-led initiative working to drive the necessary corporate action to reverse nature loss.</p> <p>The Investment Manager participates in the Nature Action 100 initiative to engage companies in key sectors deemed systematically important to reversing nature and biodiversity loss by 2030. Investor participants in Nature Action 100 signed initial letters to companies in September 2023, outlining six investor expectations around the companies' ambition, assessment, targets, implementation plan, governance and value chain engagement related to nature.</p> <p>The Investment Manager has taken on the co-lead role for two companies in the chemical sector. Calls with the investor group to strategize and develop the engagement plans for both companies have taken place. The engagement objectives align with the six investor expectations. Key topics include the assessment and disclosure of impacts, dependencies, risks and opportunities on nature, the management of hazardous chemicals, waste and water and product innovation. An initial call with company A took place where the investor group discussed the company's ambition, risk assessment, product innovation and governance around nature related impacts and dependencies. The dialogue was constructive, and the group followed up with questions and recommendations. A new meeting will attempted to be scheduled in late 2025. Company B's investor group has reached out to the company several times over 2025 and although the company has responded a few times, the group has not yet been able to schedule an introductory call with the company. The group will continue its efforts in 2026.</p>

¹⁶ Nature Risk Rising: [Why the crisis engulfing nature matters for business and the economy](#)

4.3 Investment decisions that help address climate change-related risks and opportunities

Policy engagement

We also engage policy makers both directly, and through Cardano, on sustainability topics. We participate in public policy consultations and engage policy makers to improve corporate disclosure obligations and support policies that will accelerate the transition to a 1.5°C scenario.

Examples of **now:pensions'** participation in industry initiatives are shown on the right.

Initiative	About	Rationale and participation
Pensions for Purpose – now:pensions is a member	Pensions for Purpose is an initiative focused on promoting the flow of capital towards impact investments to generate positive social and environmental outcomes, leveraging a collaborative online platform to share best practices, case studies, and innovative solutions within the investment community.	now:pensions collaborate on initiatives that aim to influence policy and market standards, such as advocating for transparency in how pension funds address climate risks, to amplify impact and drive systematic change in the industry. now:pensions can align investment strategies and priority sustainability themes with broader social and environmental objectives, benefiting from shared knowledge on impactful investing. The Trustee believes that as a member of Pensions for Purpose, now:pensions can better address the priority sustainability themes and drive systematic change in the industry.
IIGCC – now:pensions is a member	The Institutional Investor Group on Climate Change (IIGCC) is a leading European investor membership organisation dedicated to promoting investor action on climate change, with a focus on creating a net-zero and climate-resilient future. IIGCC pushes for transparency and better corporate disclosure on ESG, engages with policymakers and regulators to advocate for long-term stability of financial markets (e.g. through mitigation of the systematic risk of climate change), and promotes investor collaboration and best practice.	Through engagement with IIGCC, now:pensions can amplify policy engagement activities, address the priority sustainability theme of climate action, and have European influence. The collaboration with IIGCC is one way now:pensions can promote the well-functioning of financial markets and address long-term systematic risks like climate change.
PRI – now:pensions is a signatory	The Principles for Responsible Investing (PRI) is a UN-supported initiative that encourages investors to incorporate ESG factors into investment decision-making and ownership to foster a sustainable global financial system.	Through collaboration with PRI, now:pensions can address the key issues of climate action, gender equality and living wages at a global level of influence. Additionally, the Investment Manager participates in PRI's stewardship initiative for nature: Spring, focused on deforestation, an action that supports our priority sustainability theme of climate action.
Asset Owners Council – now:pensions is a member	The Asset Owners Council (previously the Occupational Pensions Stewardship Council) is a UK council of pension schemes focused on promoting and facilitating high standards of asset stewardship to support thoughtful and responsible investment practices.	Participation facilitates the Trustee's engagement in industry-wide sustainability and stewardship activities related to our priority sustainability themes. For example, now:pensions conducted focus groups whereby now:pensions interviewed pension scheme members to learn their views on sustainability and responsible investment topics and shared the results with DWP's Occupational Pensions Stewardship Council. Participation includes regular discussions with policymakers and regulators, including the DWP, TPR, FCA and FRC.

4.3 Investment decisions that help address climate change-related risks and opportunities

Additionally, **now:pensions** are engaged and involved in policy, submitting and responding to policy submissions relevant to mitigating market and system-wide risks; responses include:

Submission	About	Explanation
TCFD	The aim of Taskforce for Climate related Financial Disclosures (TCFD) is to standardise climate disclosures and help financial markets understand and price the financial risks and opportunities posed by climate change.	The Trustee submitted reports following TCFD disclosure requirements in line with the Trustee's regulatory obligations.
TNFD	The aim of Taskforce for Nature Related Financial Disclosures (TNFD) is to integrate nature into business decision-making processes, providing science-based recommendations consistent with global policy goals and sustainability reporting standards to guide organisations in disclosing their nature-related dependencies, impacts, risks, and strategic planning.	The Trustee expects the engagements and voting decisions conducted on its behalf by the Investment Manager to reference and follow TNFD where relevant, in addition to other international codes and standards. Addressing and identifying nature-related risks and opportunities is in line with the priority sustainability theme of climate action, as nature and climate-related risks are interrelated and reinforcing.
Social Factors Taskforce	The Social Factors Taskforce, established by the UK's Department for Work and Pensions, aims to guide pension schemes on incorporating social factors, such as workforce conditions, community engagement, and consumer protection, into their investment decisions and stewardship policies.	Both the Trustee and the Investment Manager responded to the recommendations for asset owners, asset managers and investment consultants. The aim was to help facilitate effective practice of stewardship on social factors across the industry and promote the well-functioning of markets. The Trustee welcomed the draft guidance, which supports its priority themes of living wage and gender equality.
Transition Plan Taskforce Disclosure	The Transition Plan Taskforce Disclosure Framework is a set of guidelines for companies to develop credible and robust climate transition plans, with the aim of reaching net zero emissions and supporting the UK's goal for a net zero economy by 2050.	The Trustee responded to the Transition Plan Taskforce consultation to maximise its usability for pension funds and ensure its applicability to the UK's decarbonisation objectives. The Trustee welcomed the taskforce recommendations that recognised the interconnections of climate with other environmental issues like biodiversity and social factors.
FRC Stewardship Code consultation	The Financial Reporting Council Stewardship Code is the leading world standard defining good stewardship by asset managers and asset owners.	The Trustee has taken an active interest in responding to the consultation for a further update to the code. The Trustee believes that the definition of stewardship in the code, particularly with its emphasis on benefits for the economy, the environment and society is world leading and wishes to avoid seeing this diluted. At the same time, we welcomed recommendations to streamline reporting to allow more time to focus on executing stewardship activities.



Metrics and targets

Metrics and targets: The metrics and targets used to assess and manage relevant climate change-related risks and opportunities and progress of the underlying investments on aligning with net zero.

5.1 Our investment strategy and the metrics we report

Our strategy consists of:

- Exposures to companies around the world through both equity and debt including:
 - A core allocation to a transition focused equity strategy, supplemented by limited exposure to equity derivatives in the now: growth fund.
 - Exposure to transition focused investment grade corporate credit in our now: growth fund and now: retirement countdown fund.
 - Exposure to high yield corporate bonds via index derivatives in the now: growth fund.
 - Exposure to a Shariah compliant third-party equity fund for some members.
- Exposure to Green, Social and Sustainable Bonds in the now: growth fund.
- Exposure to direct commodities via derivatives in the now: growth fund.
- Exposure to government bonds and cash across the now: growth fund and the now: retirement countdown fund.
- Cash holdings that usually support exposure to derivatives.

The new default strategy implemented in quarter 1, 2024 has resulted in substantially lower government bond exposures and derivative exposures compared to the previous strategy which means some of the metrics reported in previous TCFD reports are no longer relevant and hence not reported.

Our TCFD report includes metrics associated with the following investments within the default strategy:

- **Physical** – equity, sustainable bonds, government bonds and investment grade corporate bonds
- **Derivatives** – equity and credit derivatives

We don't include metrics for:

- **Cash holdings**, even where cash is held in sustainable cash funds. There is currently no established industry methodology for calculating the carbon metrics of cash positions. This omission is not expected to materially affect climate metrics, as cash itself does not contribute to emissions.
 - In previous years cash counted towards our minimum investment target in responsible strategies, but under the new strategy these no longer count towards the 75% minimum investment target in responsible investment strategies.
- **Commodity exposures**. There is no established industry standard for emissions associated with derivative exposure to commodity prices, for example the price of copper or EU Allowances. Exposures to producers of commodities, for example mining or energy companies via equities and credit are included in our corporate exposure metrics.

In the tables that follow we explain which investments contribute to which metrics.

5.1 Our investment strategy and the metrics we report

Corporate emissions

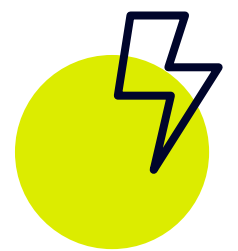
Box 7: Scopes of emissions

The GHG Protocol Corporate Standard¹⁷ classifies a company's GHG emissions into three 'scopes'.



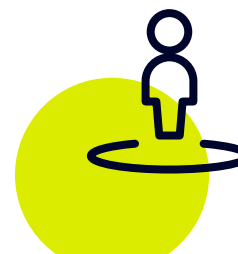
Scope 1 emissions

These are direct emissions from owned or controlled sources.



Scope 2 emissions

These are indirect emissions from the generation of purchased energy.



Scope 3 emissions

These are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including upstream emissions for example, suppliers and downstream emissions, for example customer emissions.

When measuring GHG emissions across our portfolio, we aggregate the emissions of companies, disclosing Scopes 1 and 2 emissions. These are the emissions against which we measure our progress.

Scope 3 emissions help us better understand a company's sensitivity to climate change-related risks and opportunities, and its ability to transition. It can therefore help to understand relative performance of different companies within industries. Scope 3 disclosures are required as part of the regulations.

We report Scope 3 separately (see box 7) but do not include them in our emissions targets because they are not yet reliable enough to target. We recognise that there are still gaps in data availability, particularly regarding Scope 3 emissions and we rely on the estimations and methodologies of our data providers, particularly MSCI.

Metrics 1 and 2: Absolute emissions and carbon footprint

We report the metrics recommended in TCFD regulation and in-line with guidance from the Portfolio Cardano Accounting Financials initiative (PCAF) which sets intentionally recognised standards for emissions reporting. This includes **Metric 1**, the **absolute emissions** financed by our portfolio, and **Metric 2**, the **carbon footprint**, a carbon intensity metric. To measure metric 1, we calculate the percentage of enterprise value including cash (EVIC), representing our share of the total financing of the company across both equity and debt. **Metric 2**, the **carbon footprint** is then calculated as the he financed emissions per £1m of capital invested in corporates in the portfolio. This scales for the size of our assets, which varies over time.

¹⁷ Greenhouse gas protocol

5.1 Our investment strategy and the metrics we report

Derivatives

Our investment strategy makes limited use of derivatives alongside traditionally funded investments. This enables us to manage portions of the portfolio more efficiently, aiming for attractive long-term returns and managing risk at the same time.

When exposure is obtained through a derivative, we do not directly own the underlying securities and therefore do not have the same voting or ownership rights associated with physical securities. This means we are less able to engage with the underlying issuers. This is one of the reasons we have substantially increased the direct exposures in the revised investment strategy implemented in quarter 1 2024, allowing us to increase our influence.

There is, however, no established methodology on how to consider the GHG emissions of derivative investments. We have worked together with the IIGCC on how to incorporate derivative exposures. The financial risks of climate change on the financial performance of a derivative investment will be similar to that of a physical investment, because the derivative derives its price from its physical equivalent. Because the TCFD report sets out how we measure and manage climate change-related risks and opportunities, derivative exposure is still relevant to our assessment of risk exposures.

We report on the emissions associated with these derivative positions as part of our total emissions exposure, even though we have not directly financed these emissions ourselves. We do not have any 'short' derivative exposures (exposures that would benefit if market values decreased).

Sustainable bonds

Our Sustainable bond exposures consist of exposures to high credit quality bonds issued by governments, development banks or government agencies used to specifically finance green, social, or other sustainable objectives. Such bonds must meet both industry quality standards as well as passing Cardano's own framework for the use of proceeds. The carbon footprint of the issuers of these bonds is not added to other parts of the portfolio, neither are any emissions avoided subtracted from other parts of the portfolio.

5.1 Our investment strategy and the metrics we report

Government bonds

There are typically three ways investors measure the GHG emissions of a country:



Share of absolute emissions: the percentage we own of a country's debt multiplied by that country's emissions (emissions produced by the country across public and private sectors). This metric favours countries with large debts (for example, Japan).



Emissions per GDP: this measures GHG emissions produced per \$m of Purchasing Power Parity adjusted GDP. Emissions are the total emissions produced in a country across public and private sectors. These are production-based emissions. GDP is adjusted to allow for purchasing power differences between countries. This metric favours countries with a large GDP and a services industry (for example, the US) but ignores imported emissions caused by their consumption of goods imported.



Emissions per person: a weighted average of the GHG emissions per person (also referred to as 'per capita') in that country, for each country we invest in. We use the emissions produced in a country adjusted for the country's net imports (these are consumption-based emissions). This is because we consume many goods that have high carbon footprint, but that are produced in other countries. Our imports therefore contribute to the GHG emissions we are responsible for. We consider this the fairest way to compare sovereign GHG emissions across developed and emerging markets because a ton of GHG emissions has the same contribution to climate change, regardless of where it is emitted, or by who.

Country GHG emissions include the companies, the government, other public and private entities (like charities) and individuals. To avoid double counting, it does not make sense to combine the GHG emissions of government bonds and corporate exposures, and so we report these separately.

We believe that Consumption Per Capita is the fairest way to compare GHG emissions across countries.



5.1 Our investment strategy and the metrics we report

Metric 3: our exposure to strategies with a responsible investment objective

This includes exposure to the sustainable global equity strategy, sustainable investment grade debt in the short-term bond fund, and green, social and sustainable bonds. These are strategies that we believe support the transition to a more sustainable society in the way they are managed and stewarded.

This excludes cash holdings, government bonds, equity and credit derivatives and commodity derivative exposure. The nature of these investments means they we are less able to influence their impact through our stewardship activities, though we none-the-less endeavour to do so where we can, for example engaging with governments or counterparties.

Metric 4: our alignment metric

With the support of our advisers, we reviewed the range of alignment metrics, assessing their strengths and weaknesses, including implied temperature metrics and a binary alignment metrics. Binary metrics measure what portion of the portfolio have made commitments to aligning with net zero. We believe this is more decision useful as we can track progress on commitments made to real world decarbonisation, and it is less reliant on the range of assumptions involved in implied temperature metrics.

We have chosen to use a binary alignment metric, SBTi Alignment. The Science Based Targets initiative (SBTi) has developed sector-specific methodologies and frameworks to assess the extent to which a company is aligned with 1.5°C, below 2°C or 2°C scenarios. Companies commit and articulate their target, which they submit to SBTi for assessment. SBTi undertakes an independent assessment of the alignment of those commitments to the Paris Agreement either as in line with 2°C, well below 2°C or aligned with 1.5°C, publishing the results on its website. Our metric measures the proportion of the total portfolio in corporate equity and credit investments that have an approved science based target.

We note this applies to commitments by the companies and does not necessarily reflect actual actions, so it will be important in future to build out assessments of the progress of companies against these commitments.

Coverage metric

We also track and disclose the proportion on which we have good climate data (a data quality metric). We include this coverage metric in our reporting below.

Internal controls

Finally, to ensure our confidence in the preparation of TCFD metrics and scenarios, our own internal audit assesses Cardano's processes, preparing a report for IC review. Cardano provides comments and addresses our internal audit's findings.

5.2 The metrics we calculate

We calculate and disclose the following metrics:

Metric 1

Total or absolute GHG emissions

Our 2025 absolute emissions for GHG Scope 1 and 2 are 203,828 tCO₂e for investments in corporate equity and credit.

This is the total GHG emission, in tons of carbon dioxide equivalent, of Scope 1 and 2 emissions. There has been an uplift from our reported emissions last year of 194,322 tCO₂e due to an increase in **now:pensions'** total assets under management over the year. This is due to both investment performance and member contributions.

To give a sense of scale, on average, this is equivalent to the typical GHG emissions of 26,610 UK residents, emissions of 345,500 people flying from London to New York, or 2.8 million car journeys from London to Edinburgh.

Our 2025 absolute emissions for GHG Scope 3 are 1,858,610 tCO₂e including both upstream emissions and downstream emissions.

This has increased from last year where our total scope 3 emissions were 1,460,970 tCO₂e for the same reasons as above.

Metric 2

Carbon footprint or emissions intensity

Our emissions intensity for GHG Scope 1 and 2 is 42.1 tCO₂e per £1m invested in corporate equity and credit.

This is the emissions intensity metric and is represented by the total GHG emissions in CO₂ equivalent per million pounds invested, of Scope 1 and 2 emissions. Last year our emissions intensity for scope 1 and 2 was 52.0 tCO₂e per £1m invested. **now:pensions'** emissions intensity has fallen over the year. There are several reasons for this change which we explain in more detail later in this report.

Our 2025 emissions intensity for GHG Scope 3 is 384.0 tCO₂e per £1m invested for both upstream and downstream emissions.

This is lower compared to our previous year scope 3 emissions intensity of 390.8 tCO₂e per £1m invested for similar reasons to those described above.

Metric 3

Investments with an explicit responsible investment objective (as a % of the DGF).

83.1%. This is the percentage of the total assets (**84.9% of the now: growth fund** strategy, which is the largest strategy within the scheme) where the investment has an explicit responsible investment objective. This includes green, social, and sustainable bonds, transition focused equity and investment grade credit strategies.

5.2 The metrics we calculate

Metric 4

Corporate equity and credit investments that are SBTi aligned.

37.0%. This is the percentage of the total portfolio that has targets in place reviewed by the Science-Based Targets initiative that are in line with the Paris Agreement. This compares to 30.2% in the previous year, which demonstrates and increased commitment of portfolio companies setting decarbonisation targets.

Coverage metric

98%. This is the percentage of the total portfolio that is supported by good climate data.

Please note, physical invested values and carbon data as at the best available date of 31/03/2025. Derivative invested values as at 31/03/25 using MSCI proxy carbon data at 31/12/2024.

5.2 The metrics we calculate

Table 4: Investments with an explicit responsible investment objective

This table shows our physical investments, highlighting those with an explicit responsible investment objective. Please note, the illustration is based on the average asset exposure for a member with a £70,000 pension pot. Members at different stages of their journey will have different asset exposures.

Investments	% of portfolio exposure	£70,000 pension pot	Incorporated in our Metrics 1 and 2	Explicit responsible investment objective (Our Metric 3)
Transition focused equity	64.9%	45,430	Yes	Yes
Transition focused Investment Grade Bonds	10.9%	7,630	Yes	Yes
Sustainable bonds	7.4%	5,180	No	Yes
Total with an explicit responsible investment objective	83.1%	58,240	-	-
Physical government bonds	9.8%	6,860	Yes (as a separate metric)	No

Table 5: Emissions associated with our corporate exposure

For the purposes of our TCFD report, we report the emissions of both physical exposures to corporate equity and credit (financed emission), and derivative exposures to equity and credit (associated emissions), for the total scheme. Therefore, the total exposure financed (covered by Metrics 1 and 2) is 85.2% of the total portfolio.

Asset class	% exposure financed*	% coverage	Absolute financed emissions tCO2e		Carbon footprint: Emissions intensity tCO2e per £1m invested	
			Scope 1+2	Scope 3	Scope 1+2	Scope 3
Equity	69.6%	100%	135,493	1,339,329	34.3	338.7
Credit	15.6%	88%	68,334	519,282	77.1	586.2
Total	85.2%	98%	203,828	1,858,610	42.1	384.0

*as a % of total scheme assets

Note: Shariah compliant fund has only provided scope 3 upstream emissions

Metric 2 - our emissions intensity metric for scope 1 and 2 is 52.0 tons of carbon dioxide equivalent per million pounds invested in corporates (for physical and derivative corporate exposure).

The corporate carbon intensity per million pounds invested of the total portfolio assets (both corporate assets and other assets) is 40.7 tons of carbon dioxide equivalent, because the portfolio is 78.3% invested in corporates, across both physical and derivative equities and credit (52.0 x 78.3% = 40.7).

5.2 The metrics we calculate

Table 6: Government bonds – GHG emissions

This table shows the GHG emissions associated with our UK government bond exposure.

UK government bond exposure	Absolute Financed Emissions (tCO ₂ e)		Carbon Footprint (tCO ₂ e)	
	Production based emissions	Consumption based emissions	Emissions per GDP (Production based)	Emissions per person (Consumption based)
9.8%	87,368	121,251	97.6	7.7

Source: ONS, MSCI and ASCOR (latest data available as of 2024)

5.2 The metrics we calculate

Changes from previous TCFD report

Changes to the investment strategy over the last few years have been substantial. This requires care when interpreting and comparing results to previous year's TCFD reports. Below we highlight some of the factors driving changes in this year's metrics.

Over the year corporate exposure increased through the introduction of a new investment grade credit mandate in the now: growth fund. In general, credit strategies tend to have higher carbon footprints compared to equity strategies due to the sector composition of the underlying issuers, with many more industrial and materials sector issuers compared to equity markets. The inclusion of new credit strategies will lead to an increase in the headline carbon intensity and footprint of the portfolios, all else being equal. We note that carbon in the credit investments is still not as good as in equities though it is improving year over year. Our investment manager continues to work with data providers to improve this over time.

We also note a substantial decrease in the carbon footprint of our equity exposure with carbon intensity dropping from 43.9 tCO₂e to 34.2 tCO₂e. While a portion of this change is due to decarbonisation by underlying companies, note that a substantial portion is also due to changes in the denominator used to calculate this metric. The metric is calculated using the absolute carbon emissions of each company divided by the enterprise value of the companies including cash (EVIC). The enterprise value of a company is the total value of its debt and equity. As this increases across the market the carbon footprint metric will decrease all else equal. The value of equity in particular can be quite volatile this can have an impact on the calculation which has nothing to do with a decrease in actual carbon output. Across the global equity market we have seen increases in company valuations in recent years, and in particular we have seen

a concentrated increase in the valuation of technology stocks which tend to have low carbon emissions. We believe this has contributed substantially to the decrease in the carbon footprint of the portfolio in recent years. We would not be surprised to see this trend of recent years reverse if for example there is some sort of market correction. As we have highlighted our focus is on engaging with companies to drive real world decarbonisation rather than focusing overly on this headline carbon intensity metric.

We continue to note substantial changes in Scope 3 estimates of company emissions and at this stage, we remain unconvinced of the reliability of Scope 3 emissions, due to lack of reporting and the use of proxies and estimates. With the introduction of initiatives such as the International Sustainability Standards Board IFRS climate-related disclosures, we expect the quality of Scope 3 disclosures to improve. Unfortunately, the US Securities and Exchange Commission decided not to include Scope 3 disclosures in its reporting requirements, so this will remain a problem for some US companies.

For our portfolio alignment metric, metric 4, we use SBTi which does require companies to consider scope 3 emissions when setting science-based targets to reduce emissions in line with international goals. It's pleasing to see the increase in the metric year on year, which indicates more companies are setting decarbonisation targets, helping manage our long-term climate risk in line with the CCRO policy.

Whilst scope 3 is a metric we will continue to monitor as part of our CCRO policy, at this stage, we do not believe the quality or extent of the Scope 3 data should inform any changes to our investment strategy.

5.3 The target we have set in relation to the metrics we have calculated, and performance against our target

Having set out our metrics, we turn to the target that we have set, and how we use our metrics to determine progress towards this.

In 2021, we set the following principal target with respect to the pension scheme:

- We committed to net zero GHG emissions by 2050. This means that the investments we make will not add to the amount of GHG in the atmosphere.
- We also set a mid-term target, committing our investments to 50% emissions reduction by 2030, against 2019 levels by monitoring metric 2.

We review the progress against our target every year, and review the target itself at least every three years, to ensure it remains consistent with the latest scientific thinking and is incentivising the necessary economic transition.

To assess the performance of our pension scheme against the target, we consider:

- the Scope 1 and 2 GHG emissions intensity of our corporate physical and derivative investments.
- the GHG emissions per person of the government bonds in which we invest. These are report separately. The UK government has legislated for net zero production related GHG emissions by 2050.

To meet our target, both absolute emissions and emissions intensity will need to trend to zero by 2050. However, absolute emissions are a function of the size of assets that we manage. As our portfolio grows due to member contributions, we will own large portions of the underlying companies and therefore be responsible for financing more of their emissions. For this reason, we target emissions intensity (which stays the same all else equal regardless of the size of the portfolio).

5.3 The target we have set in relation to the metrics we have calculated, and performance against our target

We have developed a net zero GHG emissions decarbonisation framework with our investment manager, Cardano, which helps the Trustee achieve its decarbonisation targets.

The framework involves a four-stage process:

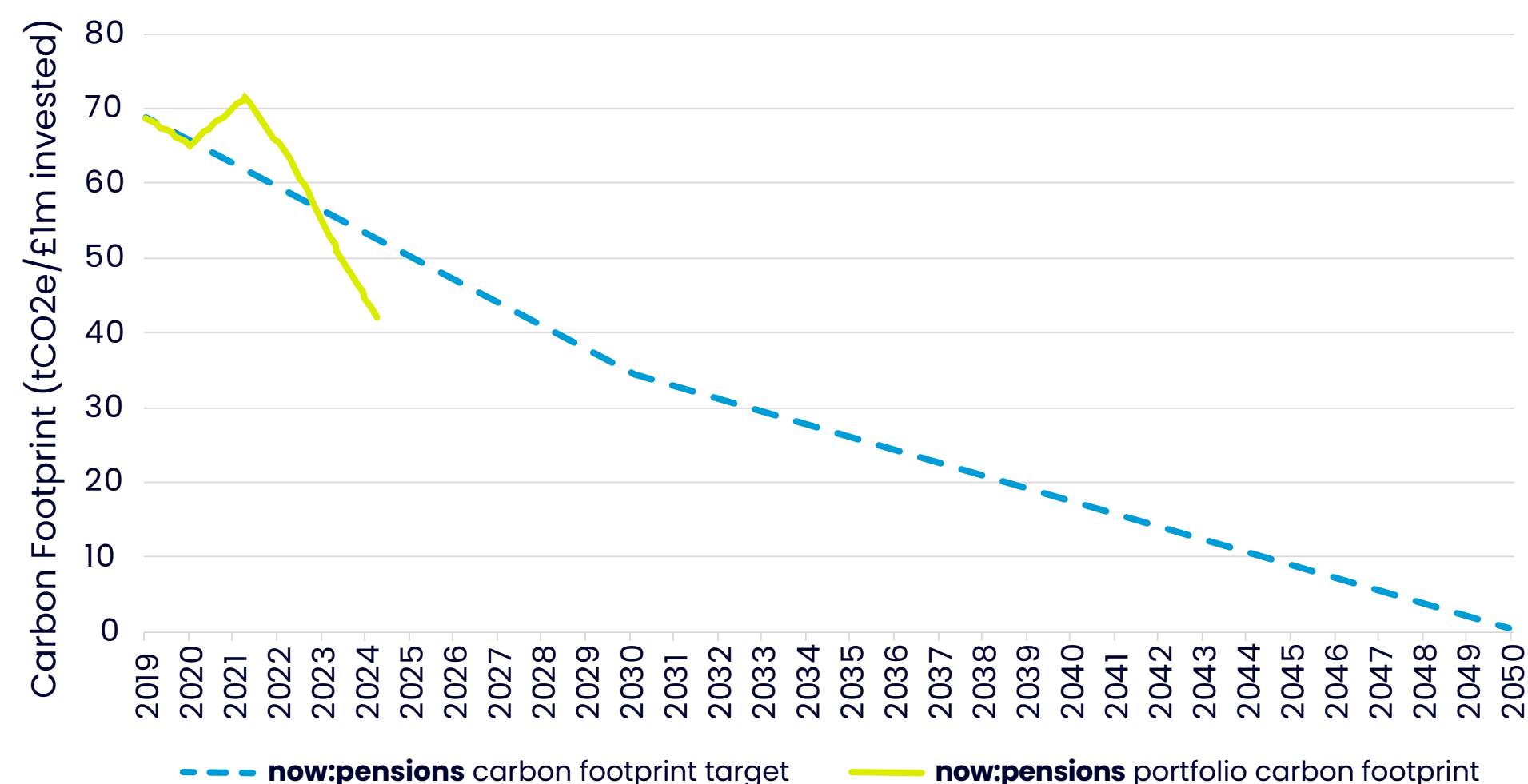


We have illustrated our approach in diagram 3 on the next page.

5.3 The target we have set in relation to the metrics we have calculated, and performance against our target

Diagram 3: Our net zero pathway

now:pensions net zero Pathway



To monitor our progress, we will use our emissions intensity metric, which is the total GHG emissions per £1m invested for Scope 1 and 2 GHG emissions. Whilst subject to market fluctuations, emissions intensity metrics allow us to compare our emissions year-on-year and help us check we're moving in the direction of achieving our targets.

Fully assessing the progress of the portfolio towards net zero GHG emissions will take some time. Data is limited in some asset classes, so we will continue to focus first on our corporate equity and credit exposure, where we believe we can have most influence.

2019 is the baseline year because we have confidence in the carbon emissions data from this year and it is prior to the Covid 19 pandemic, which due to lockdowns, saw fluctuations in fossil fuel use. We were not able to measure the actual GHG emissions of our current portfolios as of 2019, since our investment strategy has changed considerably since then. We are therefore using the previous strategic asset allocation benchmarks as our starting point for historic 2019 and 2020 emissions.

Diagram 3 shows 2 lines. The first, '**now:pensions** carbon footprint target', sets out our target, which is 50% Scope 1 and 2 GHG emissions reduction by 2030, and 100% Scope 1 and 2 GHG emissions reduction by 2050.

The second line shows our actual figures. We will add to this each year, as part of the preparation of our TCFD report. If economies and markets decarbonise, both lines should track to 50% of 2019 emissions by 2030, and 0 emissions by 2050. If, however, global GHG emissions continue to rise, the lines will diverge. This will inform the investment decisions we take going forward.

As illustrated in diagram 2, the investment decisions we have made so far, including our allocations to sustainable bonds, and transition focused equity, have helped us make progress towards our target, consistent with our CCRO policy.

To help us track progress against our target of net zero GHG emissions by 2050, Cardano will update the metrics presented above for the Investment Committee (IC) to review at least annually.

5.3 The target we have set in relation to the metrics we have calculated, and performance against our target

Re-assessing our targets in future

A 2019 baseline year, and a rapid decarbonisation (50%) by 2030, is consistent with the Paris Agreement to limit warming to 1.5°C, the best long-term financial outcome for our members. However, we note that recent global progress towards this target has been slower than desired, and the recent geopolitical developments means it is likely to even slower going forward.

Our objective is to contribute towards decarbonisation through encouraging the transformation of underlying businesses and government activities, where possible, rather than divestment, because it is in our members' interests to decarbonise the economy as a whole. By remaining invested where we can we retain our influence on the companies that must transition. We believe it is important to continue to engage with companies and governments, and, where consistent with our return, risk, and responsible investment objectives, to supply enabling capital to achieve transition to net zero GHG emissions globally.

For example, most future GHG emissions will come from emerging markets. Emerging markets tend to have higher carbon footprints, in large part because they produce carbon intensive goods consumed by developed markets. The developed world has simply transferred dirty industry to the emerging world. Emerging markets require capital to transition their economies. Decarbonising the portfolio by withdrawing capital from emerging markets will not lead to the achievement of our climate goals.

We will resist pressure to modify portfolios to meet headline portfolio level decarbonisation targets at the expense of incentivising the necessary real-world transition. Our goal is net zero GHG emissions globally, and we seek to maximise our influence to achieve this. For this reason, we are emphasising our alignment

metric as more important than the headline carbon targets. If we can get more companies to commit to decarbonising the world is more likely to achieve net zero.

For now we continue to believe that focusing on a 50% reduction by 2030 and net zero by 2050 remains appropriate. However, it may become apparent that the timing of these targets, particularly the interim target, is found to be unrealistic in the coming years. This will mean that the goal of the Paris Agreement to keep temperature increases limited to 1.5°C may itself become unrealistic. Ahead of COP28 in 2023 the International Energy Agency highlighted that 'the door to 1.5°C warming is closing rapidly'.

Does this mean we should give up? Not at all: a 1.7°C outcome would still be much better than 2°C. Achieving a 50% reduction by 2035 instead of 2030 will be better than failing to decarbonise at all. We will need to limit the temperature overshoot as much as possible. The basic objective will not change: getting to net zero as quickly as possible is in the best long-term interests of our members.

Therefore, we will continue to review portfolio decarbonisation target dates at least every three years to ensure they remain appropriate. In the meantime, all our engagement efforts with companies and policy makers will focus on aligning with net zero as quickly as possible.



What's next?

We continue to monitor the GHG emissions of our investments and their pathway towards a Paris aligned transition to net zero. Global GHG emissions are still rising, and so it's possible that the GHG emissions of our investments will increase in the short-term despite engaging with our investee companies to achieve net zero by 2050. Our CCRO policy will inform the steps that we will take. We endeavour to:

- Engage with companies, prioritising those firms that present climate change-related risks in our portfolios alongside other systematic sustainability risks, but that are willing and able to adapt to the transition. We expect further attention to stewardship in the months ahead.
- Engage regulators, to enhance the disclosure of GHG emissions of the companies in which we invest and their supply chains, and to legislate for companies to set science-based targets and publish transition plans.
- Consider potential investments in climate solutions. We already do this in the green bond investments we make but we will consider if this can be expanded in future including in private market opportunities
- Continue to participate in industry initiatives, such as the Principles for Responsible Investment (PRI), Institutional Investor Group on Climate Change (IIGCC) and Pensions for Purpose, to develop methodologies for investments not covered in our report.
- Assess methodologies and metrics to ensure our approach reflects best practice.
- Undertake training on emerging climate change-related topics, as well as associated topics, such as biodiversity.
- Allocate to investments that help us meet our decarbonisation targets.
- Continue to engage our employers and members on the approach we're taking.

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